

Bulletin:

Prolonged Market Downturn To Weigh On Vanguard's Performance

November 10, 2023

This report does not constitute a rating action.

Intense competition will strain utilization and profitability for **Vanguard International Semiconductor Corp.** A prolonged downturn in demand for the power management integrated circuits (IC) sector could add to the pressure facing the Taiwan-based chipmaker (twA+/Stable/twA-1), given Vanguard's heavy revenue concentration on this sector.

Clients for Vanguard's industrial and auto applications have started to adjust their orders in response to weaker demand and piling inventory levels. These late adjustments (relative to most other downstream applications) could continue for a few quarters and delay a recovery in Vanguard's performance in 2023 and 2024. Power management IC accounted for 63% of the company's revenue in the third quarter of 2023.

Meanwhile, inventory correction for most consumer electronics such as televisions, personal computers, and smartphones has come to an end. This could offer some additional shipments for Vanguard's related products such as driver ICs over the next few quarters. However, the recovery is more likely to be L-shaped because of the still highly uncertain global economic outlook.

Lower shipments and utilization, weakening average selling price, and higher operating costs (such as increased utility costs) could keep Vanguard's revenue, profitability, and cash flow at levels weaker than our previous expectation. We now anticipate the company's revenue will decline by about 27% in 2023 before recovering by 20% in 2024. Vanguard's EBITDA margin could stay low at 35%-38% in the period. At the same time, the company's likely delays in expansion amid the slack demand could moderately slow down its cash outflow. We therefore expect Vanguard's net cash buffer to diminish, but the company will likely retain minimal debt leverage over the next one to two years.

We maintain our view that Vanguard will take a prudent approach on investments in 12-inch wafer foundry services to minimize potential leverage and business risk. We believe the company will consider several requirements when making this decision, including its readiness in technology, client orders, and financing. The management has confirmed it has no concrete schedule and target at this point in time.

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