

Media Release:

Pegatron Corp. Ratings Affirmed At 'twAA-/twA-1+'; Liquidity Revised Upward To Strong From Adequate; Outlook Stable

January 24, 2024

Rating Action Overview

- We assess **Pegatron Corp.'s** liquidity buffer has strengthened, given its abundant cash on hand and our view that the company could generate positive free operating cash flow over the next one to two years. We have therefore revised our liquidity assessment for Pegatron to strong from adequate.
- We have affirmed our 'twAA-/twA-1+' issuer credit ratings on the company.
- The stable rating outlook reflects our view that Pegatron could maintain its return on capital ratio at 10%-11% in 2024-2025, given the company's good capacity management and improving product mix. Meanwhile, we believe Pegatron will maintain low debt leverage over the same period.

Rating Action Rationale

Pegatron's liquidity buffer has strengthened given its abundant cash on hand and its capability to generate positive operating cash flow. This is despite the company's ongoing capital expenditure needs to support its overseas capacity expansion over the next two years. We expect Pegatron's ratio of liquidity sources to uses to be 1.5x over the 12 months ending September 2024 and 2.51x for the subsequent 12 months.

The ratings continue to reflect Pegatron's satisfactory market position with low debt leverage over the next one to two years. In our view, the company will maintain its market position as one of the largest global electronics manufacturing service providers. We believe Pegatron's technology and management capability will enable the company to continue to provide very large volume and time-to-market services for its clients. However, heightening industry risk amid rising competition, along with Pegatron's still-high customer and product concentration could pressure the company's margin persistently and temper the company's credit strengths. We forecast Pegatron could maintain its debt-to-EBITDA ratio below 1.0x over the next two years, underpinned by the company's cash on hand and positive free operating cash flow.

Principal liquidity sources:

- Cash and short-term investment of about new Taiwan dollar (NT\$) 107.5 billion at the end of September 2023.
- Fund from operations of NT\$20 billion-NT\$25 billion in 2024-2025.

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Principal liquidity uses:

- Long-term debt due in one year plus short-term debt of about NT\$62.5 billion at the end of September 2023.
- Capital expenditure plus investment of NT\$20 billion-NT\$25 billion annually in 2024-2025.
- Cash dividend payout of about 60%-65% of the previous year's net income in 2024-2025.

Related Criteria & Research

Related Criteria

- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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Ratings Score Snapshot

Issuer credit rating	twAA-/Stable/twA-1+
Business risk	Satisfactory
Country risk	Moderately high
Industry risk	Moderately high
Competitive position	Satisfactory
Financial risk	Modest
Cash flow/leverage	Modest
Anchor	twaa
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Strong (no impact)
Management and governance	Neutral (no impact)
Comparable rating analysis	Negative (-1 notch)
Stand-alone credit profile	twaa-

Ratings List

Ratings Affirmed

Pegatron Corp.

Issuer Credit Rating	twAA-/Stable/twA-1+
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