

Research Update:

# Ratings On Acer Inc. Affirmed At 'twA/twA-1'; Outlook Stable

February 19, 2024

## Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twA' long-term and 'twA-1' short-term issuer credit ratings on Taiwan-based **Acer Inc.** The outlook on the long-term rating remains stable. The ratings on Acer reflect the company's established brand name, extensive distribution network, and good position in the niche gaming PC and Chromebook™ markets. The ratings also embed our view that Acer is likely to maintain its net cash position despite larger capital expenditure and volatile working-capital movements in 2024. However, Acer's limited market share as well as high business concentration in the weakening global PC market could continue to constrain its profitability over the next two years.

## Outlook

The stable rating outlook reflects our forecast that Acer should be able to gradually restore its profitability amid mildly recovering PC market over the next one to two years. We believe the company could sustain its market share through product mix changes and increasing PC shipments in emerging markets. Meanwhile, the performance of Acer's non-PC businesses is likely to remain relatively stable in our view, given its relationship with commercial demand for software and services. Acer can maintain its sufficient net cash position over the next two years despite a one-off surge in capex in 2024, mainly for the acquisition of office buildings.

### Downside scenario

We could lower the long-term rating on Acer if:

- The company's PC business deteriorates with significant market share losses or if the company mismanages its supply chain, inventory or distribution network, thereby weakening its profitability or cash flow that results in persistent weakening in profitability. This would be reflected in return on capital materially below 8%; or
- The company's financial leverage increases and remains above 1.0x sustainably due to aggressive debt-funded investments, including mergers and acquisitions, sustained growth in working capital needs, or aggressive shareholder returns.

### Upside scenario

We see the likelihood of an upgrade as low over the next 24 months due to Acer's limited global market position and business concentration in the highly competitive PC market. However, we could raise the rating if:

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- Acer significantly expands its scale particularly through faster growth in non-PC business such as cyber security and IT services or integration businesses, and materially improves its EBITDA margin to close to 5% on a sustainable basis, and
- At the same time, the company would need to maintain the ratio of debt to EBITDA materially below 1x.

## 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 – Nov. 11, 2021

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## Ratings List

### Ratings Affirmed

#### Acer Inc.

Issuer Credit Rating	twA/Stable/twA-1
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