

Research Update:

Vanguard International Semiconductor Corp. 'twA+/twA-1' Ratings Affirmed; Outlook Stable

April 23, 2024

Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twA+' long-term and 'twA-1' short-term issuer credit ratings on **Vanguard International Semiconductor Corp.** The outlook on the long-term rating is stable. The ratings on Vanguard reflect the company's strong capital structure and good position and competitive technology capability providing mature process foundry services. We forecast Vanguard can maintain a net cash position over the next two years, with improving profitability and limited capital expenditure (capex). However, several factors temper these rating strengths. This includes the company's product and client concentration with smaller operating scale, and weaker pricing power and absolute profitability than global leading peers. In addition, technology transition and intense market competition among mature node foundries induce some downside risks to Vanguard's stable performance over the longer-term.

Outlook

The stable rating outlook reflects our view that Vanguard will maintain a net cash position over the next two years. We base this on our view of the company's limited expansionary capex needs and sizeable cash on hand over the period. Our base case does not factor in Vanguard's likely investments in a 12-inch wafer fabrication plant. However, the stable outlook reflects our expectation that the company will take appropriate action to minimize the related business risk and the financial impact of this investment. We also expect Vanguard to gradually improve its margins with a recovering utilization rate and a shift in its product mix toward power management chips for industrial and auto applications.

Downward scenario

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

- Debt leverage increases significantly and keeps the ratio of debt to EBITDA above 1.5x for a prolonged period. This could happen if: (1) a prolonged market downturn causes much weaker cash flow generation than our forecast; (2) Vanguard significantly raises shareholder distributions or materially increases investments such as construction of a 12-inch fab without balancing measures; or (3) the company faces persistently insufficient cash flow to support investment in new technologies to maintain competitiveness; or
- The EBITDA margin dips and stays persistently below 20. This could happen if: (1) aggressive capacity additions for mature technology nodes leads to sustained overcapacity and intensifies price competition in the market that Vanguard cannot cope with properly; or (2) Vanguard fails to develop competitive technologies, leading to a loss of customers and

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business opportunities.

Upward scenario

Upside potential is low over the next two years; however, we may upgrade Vanguard if the company delivers above-average revenue growth and maintains its profitability through industry cycles while transitioning to newer technology nodes. This would require Vanguard to improve its performance and stability through a larger operating scale and more diversified product portfolio, such as a successful offering of 12-inch wafer foundry services, while at the same time maintaining the debt-to-EBITDA ratio below 1.5x.

Related Criteria & Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- Criteria | Corporates | General: Sector-Specific Corporate Methodology - April 04, 2024
- 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: 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

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed

Vanguard International Semiconductor Corp.

Issuer Credit Rating	twA+/Stable/twA-1
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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