

Bulletin:

Vanguard's Equity Issue Reduces Financial Risk

August 5, 2024

This report does not constitute a rating action.

Taiwan Ratings Corp. said today that **Vanguard International Semiconductor Corp.'s** planned equity issue and improving operating performance will temper the financial risk associated with its construction of a 12-inch fabrication plant in Singapore.

On July 29, 2024, Vanguard (twA+/Stable/twA-1) announced an equity issue plan to support the construction of this foundry. Total proceeds could reach new Taiwan dollar (NT\$) 20 billion based on the current share price of the Taiwan-based chipmaker. We believe the equity issue, and equity injections and prepayments from its joint venture partner, NXP Semiconductors N.V. (BBB+/Stable/--), will enable Vanguard to cap its ratio of debt to EBITDA at about 1.5x in 2026. Vanguard's recovering operating performance provides further support for its investment plans in 2024-2025, in our view. Vanguard had a net cash position as of March 31, 2024.

Vanguard will form a 60:40 joint venture with NXP to build the foundry. The company's total investment could reach about US\$7.8 billion. The foundry will begin with capacity for 10,000 wafers per month in 2027, rising to 55,000 wafers per month by 2029. Vanguard and NXP will inject US\$2.4 billion and US\$1.6 billion of respective equity capital into the joint venture, with an additional US\$1.9 billion from the two companies in the form of prepayments for future production capacity. We expect Vanguard to remain prudent in capacity management and to take necessary action to limit the financial impact of the incremental capacity additions.

The foundry will increase Vanguard's technology offerings and allow it to meet the changing technological needs of its clients. It will also expand the company's revenue scale and geographical diversity. We believe that the use of process technology licensed from Taiwan Semiconductor Manufacturing Co. Ltd. will significantly reduce the foundry project's technology risk. Sizable long-term commitments to the fab's initial capacity from Vanguard's key clients also reduces demand risk.

Nonetheless, Vanguard will need to build a track record operating the 12-inch foundry with a high production yield. In contrast to a stable market structure for 8-inch foundry services, Vanguard will face more intense competition from its bigger peers such as United Microelectronics Corp. in 12-inch wafer foundry services. Significant additions to capacity in this node in Asia, particularly in China, could significantly increase competition. Accordingly, we do not expect the project to immediately lift Vanguard's business risk profile.

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