Media Release:

Pegatron Corp. 'twAA-/twA-1+' Ratings Affirmed On Strengthened Liquidity; Outlook Stable

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Rating Action Overview

- We assess **Pegatron Corp.'s** liquidity buffer has strengthened, supported by the company's improving profitability, abundant cash on hand, and prudent investment plans. We therefore revised our liquidity assessment for Pegatron to exceptional from strong.
- We affirmed our 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on Pegatron.
- The stable rating outlook reflects our view that Pegatron could continue to improve its margin and maintain return on capital ratio at 11%-12% in 2025-2026. This will be underpinned by the company's good capacity management, better product mix, and increasing profitability at its key subsidiary, Kinsus. At the same time, we believe Pegatron will maintain low debt leverage over the same period.

Rating Action Rationale

The rating affirmation reflects our expectation that Pegatron will keep a satisfactory market position with low debt leverage over the next one to two years. We expect the company to maintain its market position as one of the largest global electronics manufacturing services (EMS) and original design manufacturing (ODM) service providers by revenue. We believe Pegatron's technology and management capability will enable it to continue providing very large volume and time-to-market services for its clients. However, heightening industry risk under rising competition, along with Pegatron's still-high customer and product concentration in cyclical consumer electronics products could persistently pressure the company's margin. In addition, Pegatron's relatively slow development in emerging applications, such as AI servers, compared to its EMS/ODM service provider peers, also tempers the company's credit strengths.

At the same time, we forecast Pegatron will maintain its debt-to-EBITDA ratio below 1.0x over the next two years, underpinned by expansion in the company's absolute EBITDA as well as abundant cash on hand.

Pegatron's liquidity buffer has strengthened on rising funds from operations and a high cash balance. This is despite the company's potential working capital outflow to support revenue growth, as well as ongoing capital expenditure (capex) needs to fund its overseas capacity expansion over the next two years. We forecast Pegatron's ratio of liquidity sources to uses will be 2.4x over the 12 months ending September 2025, and 2.3x for the subsequent 12 months. The company's liquidity sources will still exceed liquidity uses even if its EBITDA drops by 50%.

In our view, Pegatron can absorb high-impact and low-probability events without refinancing, given its low debt leverage. In addition, we assess the company has well-established banking relationships and a generally high credit standing domestically. The company also has sufficient headroom on its financial covenants over the next two years.

Outlook

The stable rating outlook reflects our view that Pegatron could continue improving its profitability and maintain the return on capital ratio at 11%-12% in 2025-2026. This is underpinned by the company's good capacity management, better product mix, and increasing profitability at the Pegatron's key subsidiary, Kinsus Interconnect Technology Corp. We also believe that Pegatron will maintain its ratio of debt to EBITDA below 1.0x over the same period, underpinned by expansion in the company's EBITDA, abundant cash on hand, and prudent investment plans. This is despite ongoing capex for overseas expansion and potential working capital needs to support revenue growth.

Downside scenario

We could lower the long-term issuer credit rating if:

- Pegatron's profitability in terms of return on capital, falls consistently below 10%, or if growth in the company's revenue or EBITDA materially lags that of its EMS/ODM peers. This could be led by Pegatron's (1) slower expansion into emerging products, such as AI related applications; (2) persistently low economies of scale possibly due to the loss of key customers or market share in the EMS/ODM industry; or (3) a rising cost structure or weakening technology advantages due to increasing competition; or
- The company takes on a more aggressive financial policy such that the debt-to-EBITDA ratio rises above 1.0x for an extended period. This could result from (1) Pegatron taking on more debt due to overly aggressive capex for the diversification of its overseas production bases; (2) more significant working capital outflow to support revenue growth than we had originally forecast; or (3) a weakened competitive advantage that erodes the company's margin.

Upside scenario

The likelihood of an upgrade is limited over the next two years, given Pegatron's still-high revenue contribution from its key client. However, we could upgrade Pegatron if:

- It can make material gains in its market share in the EMS/ODM industry, while meaningfully lowering its business and customer concentration, and at the same time,
- Pegatron's capex or investment plans remain prudent and the company maintains the debt-to-EBITDA ratio comfortably and sustainably below 1.5x.

Ratings Score Snapshot

Pegatron Corp.		
	To	**From**
Issuer Credit Rating	twAA-/Stable/twA-1+	twAA-/Stable/twA-1+
Business risk	Satisfactory	Satisfactory
Country risk	Intermediate	Moderately high
Industry risk	Moderately high	Moderately high
Competitive position	Satisfactory	Satisfactory
Financial risk	Modest	Modest
Cash flow/Leverage	Modest	Modest
Anchor	twaa	twaa
Modifiers		

Diversification/Portfolio effect	Neutral (no impact)	Neutral (no impact)
Capital structure	Neutral (no impact)	Neutral (no impact)
Financial policy	Neutral (no impact)	Neutral (no impact)
Liquidity	Exceptional (no impact)	Strong (no impact)
Management and governance	Neutral (no impact)	Neutral (no impact)
Comparable ratings analysis	Negative (-1 notch)	Negative (-1 notch)
Stand-alone credit profile (SACP)	twaa-	twaa-
Note: The descriptors are on a global scale.		

Related Criteria & Research

Related Criteria

- 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: 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

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

Ratings List

Ratings Affirmed

Pegatron Corp.	
Issuer Credit Rating	twAA-/Stable/twA-1+