

Bulletin:

YAGEO's Proposed Acquisition Would Enhance Product Diversification

February 7, 2025

This report does not constitute a rating action.

Taiwan Ratings Corp. said today that **YAGEO Corp.**'s planned acquisition of Shibaura Electronics Co. Ltd. could moderately strengthen YAGEO's portfolio range. That's if YAGEO can successfully integrate the new business into its operations.

On Feb. 5, 2025, YAGEO (twA+/Stable/twA-1) announced the launch of a tender offer to fully acquire Japan-based Shibaura Electronics, which is a leading supplier of thermistors and temperature sensors. The acquisition would be for a total consideration of up to JPY 65.6 billion (approximately new Taiwan dollar (NT\$) 14 billion). The public tender offer is set to begin on May 7th with YAGEO expecting to finalize the deal in the third quarter of 2025, subject to regulatory approvals. Shibaura reported revenue of JPY 32.4 billion in 2023, which is about 7% of YAGEO's in the same period.

Shibaura Electronics' good position in the measurement and control thermistors segment could slightly enhance the diversity of YAGEO's product range, given it has at most minimal exposure to this segment. The acquisition could also expand YAGEO's revenue streams across automotive, industrial, and medical sectors, which aligns with its long-term strategy to focus on more stable end-applications. However, we do not anticipate the acquisition will significantly alter YAGEO's competitive position, given the limited revenue and EBITDA contributions from the acquisition and uncertainty regarding post-acquisition integration.

We believe YAGEO's relatively strong capital structure and cash flow can absorb the impact of the acquisition, supported by YAGEO's EBITDA of NT\$32 billion-NT\$33 billion in 2024 and a high cash balance of NT\$105 billion as of Sept. 30, 2024. After factoring in the acquisition, we forecast YAGEO's ratio of debt to EBITDA will increase to 2.0x-2.5x in 2025 from 1.7x of Sept. 30, 2024. In addition, our base case continues to assume that YAGEO will pursue small to medium-sized acquisitions to strengthen its portfolio of specialty products and that such acquisitions will largely be within its discretionary cash flow over the next two to three years.

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