Media Release:

Unimicron Technology Corp. Ratings Affirmed At 'twA+/twA-1' On Low Debt Leverage; Outlook Stable

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Rating Action Overview

– Taiwan-based **Unimicron Technology Corp.** is one of the world's largest printed circuit board (PCB) and IC carrier manufacturers, generating EBITDA of new Taiwan dollar (NT$) 22.4 billion in 2024.
– Unimicron's profitability is likely to improve moderately in 2025-2026, supported by its accelerated production of advanced IC substrates for AI applications. However, high business volatility could persist over the next one to two years.
– We believe Unimicron can sustain its very strong balance sheet to absorb business uncertainty over the same period. We also forecast the company's capital expenditure (capex) could moderate over the period, following heavy spending in 2022-2024.
– We have affirmed our 'twA+' long-term and 'twA-1' short-term issuer credit ratings on Unimicron.
– The stable rating outlook reflects our view that Unimicron's improving profitability and moderating capex could support positive discretionary cash flow and sustain very low debt leverage over 2025-2026.

Rating Action Rationale

The affirmation reflects our view that Unimicron could sustain very low debt leverage to weather business uncertainty. We forecast Unimicron's capex will decline in 2025-2026 following the company's high investment for capacity expansion in ABF carriers and production site diversification over the past three to four years. Abundant capacity in the sector and an uncertain business outlook under growing trade tension could also prevent Unimicron from aggressively adding its own over the next two years. In our view, Unimicron is likely to base any further capacity additions on the long-term commitments from its key customers. This reduced investment level together with strengthening cash flows should enable the company to turn its discretionary cash flow positive and lower its debt during 2025-2027. We forecast Unimicron will return to a net cash position in 2026. We therefore uplifted our financial risk profile assessment on Unimicron to modest from intermediate.

Profitability could post a moderate recovery in 2025-2026 from a relatively weak level in 2024. Demand for AI servers is likely to remain resilient supported by robust investment by hyper-scalers. That's despite the impact on the overall trade environment following the U.S. administration's implementation of additional import tariffs. Sustained demand, along with

Unimicron's additions in advanced ABF substrate capacity for AI chips and its position as one of few suppliers for the application, should underpin the company's growing IC substrate sales in 2025-2026. We believe this, coupled with Unimicron's improving production of advanced substrates and high-density interconnect (HDI) devices for AI applications, will likely increase its revenue over the same period.

Nonetheless, we believe Unimicron will still need more time to fully ramp up its production yield and output of IC substrates and AI-related HDI products. This is because of their technological complexity and clients' rapid product transition. In addition, an increasingly uncertain outlook for consumer and corporate spending could weaken demand for other traditional applications such as consumer electronics and auto applications in 2025. Accordingly, we forecast a mild improvement in Unimicron's EBITDA margin in 2025, followed by faster growth in 2026.

The profit recovery will be from a low base in 2024. Weak growth in consumer and corporate spending has also led to low utilization and product pricing for Unimicron's IC substrate capacity following a considerable buildup of new capacity in the sector. Moreover, the company is in the process of shifting the focus of its HDI production to AI from smartphones, resulting in weak production yield and output. High initial costs for the company's new advanced IC substrate fab for AI chips, commissioned in 2024, also weakened Unimicron's margin. These factors weighed on the company's EBITDA margin and return on capital at 19.5% and 8.1%, respectively, in 2024, down from 23.2% and 17.1%, respectively, in 2023.

High business volatility to persist with rising dependence on highly capital-intensive IC substrate production. We project the company's IC carrier segment will generate 55%-65% of its total revenue in 2025-2026, following aggressive capacity investments over the past two to three years. While these investments primarily targeted more advanced applications, consumer-focused products, including PCs, still represent a significant portion of Unimicron's revenue. Intense competition, strong buyer power, high cyclicality, and rapid technology transitions could still result in volatile profitability over the next one to two years. This volatility is demonstrated by the high fluctuation in the company's profitability during 2020-2024. We therefore revised our comparative rating analysis for Unimicron to neutral from positive, reflecting the persistent volatility in profitability.

Outlook

The stable rating outlook reflects our view that Unimicron could generate positive discretionary cash flow in 2025-2026 and sustain very low debt leverage over the same period. Under our base-case forecast for the company, Unimicron could gradually improve its EBITDA margin over the period, mainly underpinned by the growing contribution from advanced IC carriers and HDI boards destined for AI applications. This is despite pressured downstream demand in consumer-focused products amid economic uncertainty that could partly drag the company’s operating performance.

Meanwhile, we believe the company will remain prudent in its investments over the next two years, given low capacity utilization and high market uncertainty over the period.

Downward scenario

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

- The company's ratio of debt to EBITDA rises consistently above 2x. Such an increase in debt leverage could result from more aggressive debt-funded capex beyond our base case assumption without measures such as prepayments and long-term contracts from clients to mitigate the cash flow impact. This could also happen due to weaker cash flow than we forecast, possibly led by prolonged weak end-market demand or a relatively low return on new investments; or

- The company's EBITDA margin weakens to below 12% for an extended period. Potential factors resulting in such a downside scenario include a slowdown in demand, low production yield rate or utilization, or heightened pricing pressure from its top customers amid intensifying competition.

Upward scenario

We could raise the long-term issuer credit rating on Unimicron if:

- The company could continue to enhance its technological competitiveness and increase penetration into more advanced end applications, including AI-related products, and at the same time increase end application and customer diversity, such that it generates higher and more stable profitability. Material and sustainable improvement in Unimicron's return on capital well above 12% through business cycles would demonstrate such an improvement; and
- At the same time, the company maintain a prudent financial policy and keeps the debt-to-EBITDA ratio below 1.5x through business cycles.

Unimicron Technology Corp.—Taiwan Ratings Forecast Summary

Industry sector: Technology-hardware & semiconductor

(Mil. NT$)	2023a	2024a	2025e	2026f	2027f
Revenue	104,036	115,373	128,833	137,014	149,365
EBITDA (reported)	24,017	22,347	25,691	32,118	35,461
Plus/(less): Other	127	97	100	100	100
EBITDA	24,144	22,445	25,791	32,218	35,561
Less: Cash interest paid	(698)	(838)	(769)	(717)	(559)
Less: Cash taxes paid	(5,387)	(3,051)	(2,089)	(3,368)	(3,777)
Funds from operations (FFO)	18,059	18,556	22,932	28,133	31,226
Cash flow from operations (CFO)	30,814	10,243	24,027	27,036	31,765
Capital expenditure (capex)	22,852	26,077	18,549	17,449	17,449
Free operating cash flow (FOCF)	7,962	(15,834)	5,477	9,587	14,315
Discretionary cash flow (DCF)	(4,228)	(20,409)	3,183	6,298	9,014
Debt (reported)	31,285	44,116	44,522	33,524	21,475
Plus: Lease liabilities debt	2,080	2,873	2,873	2,873	2,873
Less: Accessible cash and liquid Investments	(50,470)	(41,949)	(45,706)	(41,189)	(38,271)
Debt	--	5,040	1,689	--	--
Cash and short-term investments (reported)	52,904	43,972	47,560	42,860	39,824
Adjusted ratios					
Debt/EBITDA (x)	--	0.2	0.1	--	--
Annual revenue growth (%)	(25.9)	10.9	11.7	6.4	9.0
EBITDA margin (%)	23.2	19.5	20.0	23.5	23.8
Return on capital (%)	17.1	8.1	8.9	13.5	14.1

All figures are adjusted by Taiwan Ratings Corp., unless stated as reported. Figures for the forecast period are based on Taiwan Ratings Corp.'s base-case scenario. a--Actual. e--Estimate. f--Forecast. NT$--new Taiwan dollar. N.M.--Not meaningful.

Our Base-Case Scenario

Assumptions

- S&P Global's forecast for world GDP growth of 2.7% in 2025, 2.6% in 2026 and 3.3% in 2027.
- S&P Global's forecast is for global IT spending to grow by 5%-7% in 2025, after factoring a global average effective tariff rate of 10%-20% for all technology imports to the U.S. PC and smartphone sectors will be most affected by these tariffs, given these products still have a high reliance on Chinese manufacturing. Meanwhile, AI-related demand will remain intact because hyper-scalers are likely to sustain their robust investments in cloud infrastructure in 2025.
- IC carrier's revenue to increase by 5%-10% in 2025-2026 after growing by 5.7% in 2024, mainly driven by the booming AI-related applications.
- Revenue from the PCB segment to decline by 5%-10% in 2025 following 6.2% decline in 2024, because the weakening macroeconomy could dampen demand for PCs, smartphones, and game consoles. Revenue for this segment could rebound by 5%-10% in 2026.
- HDI segment will continue to grow by 25%-30% in 2025 and 5%-10% in 2026, following 33.1% growth in 2024. The rising adoption of HDI boards in the assembly of graphics processing unit modules in AI servers and Unimicron's continued shift of its HDI products from smartphones to high performance computing applications will underpin this growth.
- Gross margin to improve only marginally in 2025 before a more meaningful improvement to 32%-34% in 2026 from 29.4% in 2024. This is attributable to growing sales of advanced substrates and HDI products. Relatively weak demand from non-AI applications and the appreciation of the Taiwanese dollar could somewhat weigh on the company's margin in 2025.
- Cash conversion cycle to improve with shorter receivable and inventory days in 2025, underpinned by smoother shipment in advanced ABF carrier.
- Capex to decline to NT$15 billion-NT$20 billion in 2025-2026 from NT$26 billion in 2024, mainly to support capacity additions for advanced ABF carriers, debottlenecking in PCB/HDI production, and capacity expansion in Thailand.
- Dividend payout at 40%-50% in 2025-2026.

Liquidity

The short-term rating on Unimicron is 'twA-1'. We believe the company has exceptional liquidity which reflects a ratio of liquidity sources to liquidity uses at 2.6x for the 12 months ending March 2026 and 2.1x for the subsequent 12 months. We also believe Unimicron will have positive liquidity sources minus uses, even if forecast EBITDA declined by 50%.

In our view, Unimicron has sufficient headroom without breaching covenant limits due to relatively lower interest rates in Taiwan. The company is also likely to absorb high-impact and low-probability events without refinancing considering its high cash balance and sustainable operating cash flow generation. Furthermore, we believe Unimicron has sound bank relationships supported by its generally satisfactory standing in credit markets.

Principal liquidity sources:

- Cash and short-term investments of nearly NT$44 billion as of March 31, 2025.
- Funds from operations of NT$20 billion-NT$25 billion in 2025 and NT$25 billion-NT$30 billion in 2026.

Principal liquidity uses:

- Debt maturity of NT$5 billion-NT$6 billion over the 12 months ending March 31, 2026 and NT$11 billion-NT$12 billion over the subsequent 12 months.
- Capex of NT$15 billion-NT$20 billion in 2025-2026.
- Cash dividend payout ratio at 40%-50% of net income for the previous year in 2025-2026.

Rating Score Snapshot

Unimicron Technology Corp.		
	To	From
Issuer Credit Rating	twA+/Stable/twA-1	twA+/Stable/twA-1
Business risk	Fair	Fair
Country risk	Intermediate	Intermediate
Industry risk	Moderately high	Moderately high
Competitive position	Fair	Fair
Financial risk	Modest	Intermediate
Cash flow/Leverage	Modest	Intermediate
Anchor	twa+	twa
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)	Exceptional (no impact)
Management and governance	Neutral (no impact)	Neutral (no impact)
Comparable ratings analysis	Neutral (no impact)	Positive (+1 notch)
Stand-alone credit profile (SACP)	twa+	twa+
Note: All scores above are in comparison with global obligors.		

Related Criteria & Research

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, Apr 04 2024
- Criteria | Corporates | General: Corporate Methodology, Jan 07 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan 07 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology, Jun 08 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct 10 2021
- General Criteria: Group Rating Methodology, Jul 01 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, Apr 01 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec 16 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov 19 2013
- General Criteria: Methodology: Industry Risk, Nov 19 2013
- General Criteria: Principles Of Credit Ratings, Feb 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

Unimicron Technology Corp.	
Issuer Credit Rating	twA+/Stable/twA-1

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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