

## Research Update

# Pegatron Corp. Ratings Affirmed At 'twAA-/twA-1+'; Liquidity Revised To Strong From Exceptional; Outlook Stable

April 27, 2018

## Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on **Pegatron Corp.** The outlook on the long-term rating is stable. The ratings on Pegatron reflect the company's good position as a one of the leading global electronics manufacturing service providers, as well as the company's above-average technology and management capability to provide very large volume and time to market services. Pegatron's strong cash flow generation, relatively high cash balance, and relatively conservative investment plan also support the ratings. Counterbalancing factors include the company's high business concentration and industry risk in terms of competition and persistent margin pressure over the next two years.

We have revised our assessment of Pegatron's liquidity to strong from exceptional, which has no impact on the ratings. The strong assessment mainly reflects Pegatron's higher refinancing needs for its consolidated short-term borrowing as well as our expectation of the company's higher capital expenditures over the next two years. This is despite Pegatron's still strong funds from operations of New Taiwan dollar (NT\$) 34 billion-NT\$40 billion per year in 2018-2019 and relatively high cash balance as of the end of 2017. As a result, we expect the ratio of liquidity sources to liquidity uses to be 1.6x-1.7 over the next 12 months, and above 2.0x for the subsequent 12 months.

Nevertheless, we still believe Pegatron has strong banking relationships, a high credit standing, and can absorb high-impact, low-probability events without refinancing. Pegatron's good reputation in domestic financial markets and capability to access overseas financing are evidence of this. In addition, the company has sufficient headroom on its financial covenants under our forward-looking analysis.

## Related Criteria

- Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- Criteria - Corporates - Industrials: Key Credit Factors For The Technology Hardware And Semiconductors Industry - November 19, 2013
- Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013

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- Criteria - Corporates - General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Group Rating Methodology - November 19, 2013
- Understanding Taiwan Ratings' Rating Definitions, [www.taiwanratings.com](http://www.taiwanratings.com) - November 18, 2014
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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## Ratings List

Ratings Affirmed

### **Pegatron Corp.**

Issuer Credit Ratings

twAA-/Stable/twA-1+

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