

Technology

An uneven recovery comes with challenges

This report does not constitute a rating action.

What do we expect over the next 12 months?

Uneven recovery across sub-sectors. An AI super cycle could continue, propelling sales of product categories such as high-bandwidth memory and AI servers. The recovery in consumer electronics could be lukewarm. Demand from industrials and auto end markets could stay subdued.

Higher capital expenditure (capex) among certain tech firms, due to production diversification or new business development. Firms more dependent on non-AI end markets could face rising profitability pressure from competition or growth in new capacity.

Most rated tech issuers have sufficient rating buffer. Yet the rating headroom could narrow for selected Japanese firms. Refinancing remains a challenge for lower-rated issuers.

What are the key risks around the baseline?

Macro strains. This could derail a likely recovery of the export-oriented Asia-Pacific tech sector, as both corporate and consumer demand--particularly in the U.S. and the eurozone--could be dampened.

Rising geopolitical tensions and a further tightening of U.S. tech export controls. The risk is compounded by the proposed tariff hike by the U.S. on China's semiconductor exports. The development could hit global tech trade, create supply bottlenecks, and prompt duplicated capacity buildout across geographies.

Overcapacity of mature semiconductors. Sizable new capacity using mature process nodes at 28 nanometers or above will be added in 2024, outpacing IT spending growth. Most of the addition will come from China. Asia-Pacific foundries specializing in mature chips face low utilization and profitability.

What do they mean for the sector?

Margin pressure diverges by sub-sectors. Profitability upside expected for memory producers supplying high-bandwidth memory for AI applications and firms debuting other AI-enabled new products. Yet margin pressure is high for players dependent on other end markets.

Cash flow volatility remains high. This is due to a confluence of factors: working capital swings; investment in capacity; new technology and relocation of production facilities; and macro and geopolitical uncertainties.

Sufficient rating buffers for most Asia-Pacific tech issuers. Most rated tech firms can maintain market position and financial metrics commensurate with current ratings, despite working capital swings and other investments. Rating headroom of some Japanese firms could narrow on soft customer demand, M&A or investment in new business. High funding costs and weak capital structures weigh on lower-rated issuers.

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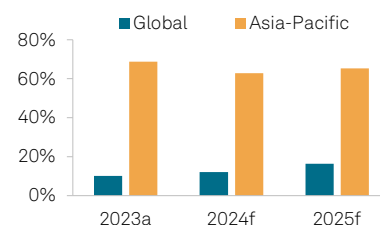
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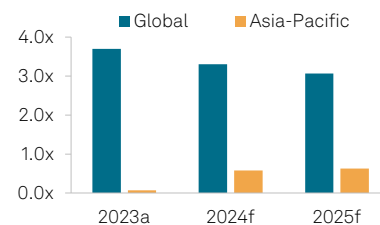


Rating Metrics

FFO to debt (median, adjusted)



Debt to EBITDA (median, adjusted)



Source: S&P Global Ratings.

All figures are converted into U.S. dollars using historical exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO--Funds from operations. a--Actual. f--Forecast.