PhilRatings PHILIPPINE RATING SERVICES CORPORATION *The Pioneer Domestic Credit Rating Agency*	**RATING NEWS** **February 4, 2022**

Cirtek Holdings Philippines Corporation Assigned a PRS A (corp.) Issuer Credit Rating

Philippine Rating Services Corporation (PhilRatings) assigned an Issuer Credit Rating of **PRS A (corp.)**, with a **Stable Outlook**, for Cirtek Holdings Philippines Corporation (CHPC). This is in relation to the Company's plan to continue issuing Commercial Papers (CPs) of up to P2.0 billion.

A company rated **PRS A (corp.)** has an above average capacity to meet its financial commitments relative to that of other Philippine corporates. The company, however, is somewhat more susceptible to adverse changes in circumstances and economic conditions than higher-rated corporates.

On the other hand, an Outlook is an indication as to the possible direction of any rating change within a one-year period and serves as a further refinement to the assigned credit rating for the guidance of investors, regulators, and the general public. A **Stable Outlook** is defined as: "The rating is likely to be maintained or to remain unchanged in the next twelve months."

The rating and Outlook were assigned given the following key considerations: (1) improving leverage levels; (2) the Cirtek Group's established track record in the industry, supported by a strong and experienced management team that has navigated the Group through economic cycles, crises, and industry challenges; (3) CHPC's strong customer base of well-established global companies, and which is diversified in terms of regions and industries; (4) improved profitability in the first nine months of 2021 (9M2021), following the pandemic-induced decline in 2020; and (5) although the outlook is positive at present, the industry is highly competitive, cyclical, and is susceptible to adverse changes in various economies, and is characterized by the presence of larger international players.

PhilRatings' ratings are based on available information and projections at the time that the rating review was performed. PhilRatings shall continuously monitor developments relating to CHPC and may change the rating at any time, should circumstances warrant a change.

CHPC is a fully integrated global technology company focused on wireless communication. It is an independent, complete solutions provider for subcontract manufacturing of semiconductor devices and provides a broad range of assembly and testing services for various product applications and industries. CHPC is primarily engaged into the following related businesses: (1) the design, development and delivery of the wireless industry's antenna solutions, (2) the manufacture of valued-added, highly integrated technology products, (3) the manufacture and sales of semiconductor packages as an independent subcontractor for outsourced semiconductor assembly, test and packaging services. CHPC is also the Parent Company of Cirtek Electronics Corporation (CEC), Cirtek Advanced Technologies and Solutions, Inc. (CATSI) and Quintel USA, Inc. (Quintel).

Members of CHPC's senior management team have been around for over 35 years. Through this time, the Company was able to grow its operations amidst a highly competitive and cyclical industry with larger international players. CHPC's management has likewise shown a deep understanding of the business and operations, and has kept abreast with industry and technological changes.

CHPC has been offering its products and services to several customers in the U.S., Asia and Europe, with 46%, 33% and 21% revenue contribution as of 9M2021, respectively. Such exposes CHPC to diversified risks relating to the performance of the economies where these customers are based, particularly with the impact on economies brought about by the COVID-19 pandemic.

The semiconductor industry is highly competitive and cyclical in nature, with the Company operating in a market with larger international players. It is likewise affected by various factors in international trade and the performance of several large economies. On a positive note, the telecommunications (telecom) sector, which comprises a huge portion of Quintel's customers, currently has a positive industry outlook which serves as an opportunity for the Company. According to a report by Research and Markets, increased spending on next-generation wireless communication infrastructure due

to the shift in customer preferences for the 5G network and cloud-based technology is primarily driving the demand for telecommunications services.

In 2020, CHPC's consolidated revenue fell by 14% to $68.9 million, as the pandemic-induced widespread slowdown in the global markets and slow 5G rollout in the U.S. market hampered the growth of the Company's operating units. Net income consequently declined by 22% to $6.6 million. Net profit margin also slipped from 11% in 2019 to 10% in 2020. Return on average assets (ROAA) and return on average equity (ROAE) were similarly lower at 2% and 5%, respectively.

The Company subsequently experienced a pickup in its profitability, with its consolidated revenue registering an increase of 6% year-on-year (YoY) to $62.8 million in 9M2021. Revenue growth was on account of the improved demand for the semiconductor business, as well as for the radio frequency/microwave/millimeterwave and antenna manufacturing business. With cost of sales only increasing by 4% YoY and operating expenses decreasing by 24% YoY, the Company's bottom-line jumped from $3.6 million in 9M2020 to $8.1 million in 9M2021. Net profit margin likewise went up from 6% in 9M2020 to 13% in 9M2021. Returns for the period were also better.

CHPC ended 2020 with a slightly improved debt to equity ratio of 1.0x. As of end-September 2021, the Company's debt to equity ratio had further improved to 0.6x, underpinned by the decline in its debt balance and growth in stockholders' equity.