

Media Release:

# Formosa Taffeta Co. Ltd. Outlook Revised To Positive On Meaningful Deleveraging; 'twA/twA-1' Ratings Affirmed

October 20, 2026

## Rating Action Overview

- We believe **Formosa Taffeta Co. Ltd.** will materially reduce its debt and enhance the liquidity buffer in 2026-2028 supported by abundant cash inflows from stock divestments and dividends from group members. This is despite continuing pressure on the profitability of the company's core businesses.
- Heightening industry competition, structural shifts in demand, and highly volatile raw material costs could weigh on the market position and profitability of Formosa Taffeta's woven fabric, tire cord, and gas station segments. These headwinds could continue to challenge the company's performance over the next two years despite its focus on higher-end, differentiated products.
- The positive rating outlook reflects our view that Formosa Taffeta's meaningful cash inflows could drive a rapid improvement in its debt leverage over the next two years.
- At the same time, we affirmed our 'twA' long-term and 'twA-1' short-term issuer credit ratings on Formosa Taffeta.

## Rating Action Rationale

**The positive outlook revision reflects our view that accelerating deleveraging will enhance the financial risk profile over 2026-2028.** We forecast a meaningful improvement in Formosa Taffeta's debt leverage over the next two years, supported by the company's planned divestment of its stake in Nanya Technology Corp. before the end of 2026. We project this disposal could generate new Taiwan dollar (NT\$) 3 billion-NT\$4 billion of cash inflow in 2026, given the ongoing upcycle in the global memory market.

In addition, we project a substantial spike in cash dividends from Formosa Petrochemical Corp., rising to nearly NT\$2 billion in 2027 from NT\$0.4 billion-NT\$0.5 billion in 2026. Strong upstream oil refining margins under the Middle East conflict will drive this growth. This cash inflow will also meaningfully support Formosa Taffeta's debt reduction over the period. Meanwhile, we forecast the company could maintain modest capital expenditure (capex) of NT\$0.5 billion-NT\$1.0 billion in 2026-2028, compared to around NT\$0.7 billion in 2025.

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**Competitive pressures and high input costs could constrain profitability in the woven fabric segment in 2026-2028.** Intensifying competition, softened apparel demand under an inflationary environment, and volatile input costs will act as the main headwinds facing Formosa Taffeta's woven fabric business over the next one to two years.

Aggressive capacity expansion by Chinese peers in low-differentiation woven fabrics threatens Formosa Taffeta's supply share among top-tier clients. Weakening downstream demand will likely accelerate this erosion as clients prioritize cost-competitiveness. Additionally, the expansion of knitted fabrics amid e-commerce and fast-fashion trends creates a structural challenge due to faster production cycles inherent in knitwear.

Meanwhile, rising raw material and energy costs fueled by escalating geopolitical tensions in the Middle East could weigh on the company's profitability. Sluggish downstream demand and aggressive pricing from Chinese competitors continues to constrain Formosa Taffeta's ability to pass these incremental costs on to customers. The EBITDA margin for the company's woven fabric segments could rebound to 7%-8% in 2027-2028 from 5%-6% in 2026, given its expertise in premium product development. However, persistent cost pressure and intense competition will likely keep its margins below historical averages.

**Stagnant performance of tire cord and gas station segments could test its competitive position.**

Fierce regional competition in the lower-end polyester car tire segment has pushed Formosa Taffeta to materially scale down its tire cord capacity over the past three to five years. We believe the company will pivot towards premium nylon and recycled tire cord for bicycle tires, with a focus on profitability over volume expansion. This transition underpins our forecast of a gradual profit turnaround for Formosa Taffeta's tire cord segment in 2026-2028 following operating losses in 2024-2025. Nevertheless, a full recovery for this segment still hinges on a rebound in the global bicycle industry, which is highly correlated to economic conditions. Additionally, highly competitive Chinese players and volatile raw material prices remain key factors that could constrain profitability over the next one to two years.

The growth of new energy vehicles in domestic market continues to drive down sales volume for Formosa Taffeta's gas station business though this segment remains a stable profit contributor. We therefore revised our comparable rating analysis score to negative from neutral to reflect the heightening operational risks facing these two key business lines.

**Our base case projects a material debt reduction in 2026-2028.** We forecast Formosa Taffeta could meaningfully lower its debt-to-EBITDA ratio to around 1.0x in 2026 from 2.7x in 2025 and eventually reaching a net cash position in 2027-2028. That's despite persistent profit pressure on the company's core businesses over the same period. Nevertheless, this deleveraging hinges on the company's prudent financial policy without large-scale capital outlays or shareholder returns funded by substantial debt raising. We anticipate Formosa Taffeta will use the proceeds from stock divestment to invest in potential business transition amid challenging environment in its key operating business lines. This could lead to debt levels deviating from our base case assumptions.

**Sustainable operating cash flow generation, stock divestment proceeds, and prudent capex have strengthened the liquidity buffer.** The abundant cash inflows from the stock disposals and cash dividends would materially enhance Formosa Taffeta's liquidity buffer, in our view. We believe these amounts will comfortably cover the company's liquidity needs, including debt maturities of NT\$2.1 billion over the next 12 months and NT\$4 billion-NT\$4.5 billion over the subsequent 12 months ending June 2028, together with capex and cash dividend payments. Accordingly, we have revised our liquidity assessment for Formosa Taffeta to exceptional from adequate with no rating impact.

## Outlook

The positive rating outlook reflects our expectation that Formosa Taffeta could meaningfully improve its debt-to-EBITDA ratio to around 1.0x in 2026 from 2.7x in 2025, and reaching a net cash position in 2027-2028. Substantial cash inflows from the disposal of shareholdings in Nanya Technology and cash dividends from Formosa Petrochemical will support this deleveraging. This is despite constraints on the profitability of the company's core businesses due to intensifying competition, softening demand, and rising input costs over the next one to two years.

### Upward scenario

We may raise the rating on Formosa Taffeta if the company could sustain its debt-to-EBITDA ratio meaningfully below 1.5x over the next 12-24 months. This could result from:

- Cash inflows from stock disposals and cash dividends from Formosa Petrochemical meaningfully reduce Formosa Taffeta's debt, while the company maintains prudent financial policies without aggressive shareholder friendly action or larger capex or equity investments that we expected; and
- At the same time, the operating performance of the company's key business lines remains in line with our base case projections.

### Downward scenario

We could revise the outlook back to stable if Formosa Taffeta fails to maintain its debt-to-EBITDA ratio meaningfully below 1.5x over the next 12-24 months. This could result from:

- Materially lower cash flow from operations or cash dividends from Formosa Petrochemical than our expectation; or
- The company takes on a more aggressive capex plan or shareholder-friendly policy, or engages in a more aggressive investment than we expected, such that the company's debt rises materially; or
- There is substantial deterioration in the profitability of its tire cord and fabric businesses due to dampened downstream demand, volatile raw material prices, rapidly changing market trends, or intensifying competition.

## Formosa Taffeta Co. Ltd. – Taiwan Ratings Corp. Forecast Summary

| (Mil. NT\$)                                  | 2024a   | 2025a   | 2026e   | 2027f   | 2028f   |
|----------------------------------------------|---------|---------|---------|---------|---------|
| Revenue                                      | 28,716  | 27,544  | 26,717  | 27,460  | 28,116  |
| EBITDA (reported)                            | 2,062   | 2,070   | 1,654   | 1,848   | 1,920   |
| Plus/(less): Other                           | 223     | 270     | 181     | 399     | 396     |
| EBITDA                                       | 2,286   | 2,340   | 1,835   | 2,248   | 2,316   |
| Less: Cash interest paid                     | (330)   | (261)   | (267)   | (230)   | (124)   |
| Less: Cash taxes paid                        | (141)   | (192)   | (191)   | (238)   | (230)   |
| Funds from operations (FFO)                  | 1,814   | 1,887   | 1,378   | 1,779   | 1,962   |
| Cash flow from operations (CFO)              | 3,305   | 2,555   | 2,948   | 4,592   | 3,109   |
| Capital expenditure (capex)                  | 589     | 763     | 829     | 498     | 498     |
| Free operating cash flow (FOCF)              | 2,716   | 1,791   | 2,119   | 4,094   | 2,611   |
| Discretionary cash flow (DCF)                | 1,872   | 347     | 1,276   | 3,280   | 1,596   |
| Debt (reported)                              | 10,418  | 10,179  | 10,179  | 7,379   | 1,979   |
| Plus: Lease liabilities debt                 | 919     | 880     | 842     | 806     | 772     |
| Plus: Pension and other postretirement debt  | 47      | --      | --      | --      | --      |
| Less: Accessible cash and liquid Investments | (4,861) | (4,645) | (9,175) | (9,611) | (6,161) |
| Debt                                         | 6,524   | 6,413   | 1,846   | --      | --      |
| Cash and short-term investments (reported)   | 5,401   | 4,990   | 10,116  | 10,596  | 6,792   |
| <b>Adjusted ratios</b>                       |         |         |         |         |         |
| Debt/EBITDA (x)                              | 2.9     | 2.7     | 1.0     | --      | --      |
| Annual revenue growth (%)                    | 0.8     | (4.1)   | (3.0)   | 2.8     | 2.4     |
| EBITDA margin (%)                            | 8.0     | 8.5     | 6.9     | 8.2     | 8.2     |
| Return on capital (%)                        | 3.8     | 2.9     | 2.7     | 3.2     | 2.9     |

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 real GDP growth at 3.2% in 2026 and 2027, and 3.3% in 2028.
- Formosa Taffeta's overall revenue could decline by 2%-5% in 2026 reflecting lower sales volume across its three major business segments, while the uplift in average selling price can only partly offset the decline. We forecast a moderate rebound in revenue of 2%-5% in 2027-2028.
- Gross profit margin to weaken to 14%-15% in 2026 from 16% in 2025, pressured by increasing raw material and energy costs amid escalation of the Middle East conflict. Profitability could gradually recover in 2027-2028, supported by a rising contribution from high value-added products across the woven fabric and tire cord sectors.
- Cash dividends received from equity investments will increase to NT\$300 million-NT\$400 million in 2027-2028 from NT\$150 million-NT\$200 million in 2026, primarily driven by Formosa Advanced Technologies Co. Ltd amid the booming memory market.

- We assume a stable cash conversion cycle because the company closely manages its working capital.
- Stable capex of NT\$0.5 billion-NT\$1.0 billion in 2026-2028, mainly for capacity expansion of its fabric segment in Vietnam and for equipment maintenance, upgrades, and replacement with energy-saving models.
- Cash dividends payout of NT\$842 million in 2026.
- Potential cash inflow of NT\$3 billion-NT\$4 billion following the disposal of its shareholdings in Nan Ya Technology before the end of 2026.
- We factor in the cash dividends from Formosa Petrochemical into our operating cash flow calculation, at the amount of NT\$400 million-NT\$450 million in 2026 and NT\$1.5 billion-NT\$2.0 billion in 2027.

## Liquidity

The short-term issuer credit rating is 'twA-1'. We believe Formosa Taffeta has exceptional liquidity to meet its needs over the 24 months ending June 2028, which reflects a ratio of liquidity sources to liquidity uses of 3.8x over the 12 months ending June 2027 and 2.5x over the subsequent 12 months. In addition, we believe the company's liquidity sources will continue to exceed uses, even if EBITDA was to decline by 50%. Formosa Taffeta should be able to absorb high-impact and low-probability events without financing, given our projection for a net cash position in 2027 and 2028.

We believe Formosa Taffeta has sound relationship with banks, supported by the company's satisfactory standing in credit markets as a subsidiary of the Formosa Plastics group. There are some covenants to the company's bank loan, but we believe the company is unlikely to breach these even if forecast EBITDA was to decline by 50%.

### Principal liquidity sources:

- Cash and short-term investments of nearly NT\$6 billion as of June 30, 2026.
- Funds from operations of NT\$1 billion-NT\$2 billion annually in 2026-2027.
- Cash dividends from Formosa Petrochemical of NT\$400 million-NT\$450 million in 2026 and NT\$1.5 billion-NT\$2.0 billion in 2027.
- Cash inflow from the disposal of shareholdings in Nan Ya Technology of NT\$3 billion-NT\$4 billion in 2026.

### Principal liquidity uses:

- Debt maturity of NT\$2.1 billion over the 12 months ending June 2027 and NT\$4.0 billion-NT\$4.5 billion over the subsequent 12 months.
- Capex of NT\$0.5 billion-NT\$1.0 billion annually in 2026-2027.
- Cash dividend payout of NT\$842.3 million in 2026.

## Rating Score Snapshot

| Formosa Taffeta Co. Ltd.                                                                                                                      |                                           |                      |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|----------------------|
|                                                                                                                                               | To                                        | From                 |
| Issuer Credit Rating                                                                                                                          | twA/Positive/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                                    | Significant          |
| Cash flow/Leverage                                                                                                                            | Modest                                    | Significant          |
| Anchor                                                                                                                                        | twa                                       | twbbb+               |
| Modifiers                                                                                                                                     |                                           |                      |
| Diversification/Portfolio effect                                                                                                              | Neutral (no impact)                       | Neutral (no impact)  |
| Capital structure                                                                                                                             | Neutral (no impact)                       | Neutral (no impact)  |
| Financial policy                                                                                                                              | Negative (-1 notch)                       | Neutral (no impact)  |
| Liquidity                                                                                                                                     | Exceptional (no impact)                   | Adequate (no impact) |
| Management and governance                                                                                                                     | Neutral (no impact)                       | Neutral (no impact)  |
| Comparable ratings analysis                                                                                                                   | Negative (-1 notch)                       | Neutral (no impact)  |
| Stand-alone credit profile (SACP)                                                                                                             | twbbb+                                    | twbbb+               |
| Group credit profile                                                                                                                          | twaa+                                     | twaa+                |
| Entity status within group*                                                                                                                   | Moderately strategic (+2 notch from SACP) |                      |
| *Therefore, the issuer credit rating equates to the group credit profile. Note: The above descriptors are in comparison with global obligors. |                                           |                      |

## Related Criteria

- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- Criteria | Corporates | General: Sector-Specific Corporate Methodology - July 07, 2025
- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019

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## Ratings List

Ratings Affirmed; Outlook Action

| Formosa Taffeta Co. Ltd. | To                 | From             |
|--------------------------|--------------------|------------------|
| Issuer Credit Rating     | twA/Positive/twA-1 | 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](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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