Bulletin:

China Steel Corp.'s Rating Buffer Narrows On Sluggish Performance

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Taiwan Ratings Corp. said today that the substantial decline in **China Steel Corp.'s** operating cash flow in the first three quarters of 2019 does not affect our ratings or outlook on the steel maker (twAA-/Stable/twA-1+). China Steel began the year with substantial rating headroom after paying down considerable debt in 2018; however, challenging operating conditions for the global steel industry this year have weakened China Steel's operating cash flow and narrowed the rating headroom compared with our previous forecast.

We now believe China Steel's EBITDA could decline by 18%-25% in full-year 2019 compared with 2018. This could also result in negative discretionary cash flow and an increase in debt level in 2019, given the steel maker's higher planned capital expenditure this year. We forecast China Steel's ratio of funds from operations to debt will weaken to 13%-17% in full-year 2019, which is much lower than our previous expectation of 20%-25% as of April 2019, but remains above our downside trigger of 12% for the ratings. Our current projection incorporates our view that China Steel's fourth quarter revenue will see a double digit decline, due to still-tepid demand in Asia and the company's higher selling price compared with some Asian competitors'. However, China Steel's EBITDA margin could recover moderately over the next few quarters, reflecting a stabilizing steel price and material price correction for iron ore and coking coal.

This report does not constitute a rating action.

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.