

Research Update:

Taiwan Cement Corp. Ratings Affirmed At 'twA+/twA-1'; Outlook Stable

April 29, 2020

Rating Action Overview

Taiwan Ratings Corp. today affirmed its 'twA+' long-term and 'twA-1' short-term issuer credit ratings on **Taiwan Cement Corp.** The outlook on the long-term rating is stable. The ratings reflect the company's leading position in Taiwan and Southern China's cement markets, business diversity into non-cement industries, and satisfactory operating efficiency.

The rating affirmation also reflects our view that Taiwan Cement's EBITDA is likely to decline moderately in 2020, due to the closedown of construction sites in China in the first quarter to contain the spread of COVID-19. Nonetheless, we believe the company will be able to recover its EBITDA in 2021, underpinned by an expected surge in infrastructure investment by the Chinese government to stabilize the local economy. In addition, disciplined cement output by local producers, and a declining coal price should underpin the company's sales price and product margin in 2020 and 2021.

We believe Taiwan Cement will capably weather the effects of the COVID-19 pandemic, underpinned by the company's diversified operating regions in China and business diversity into non-cement businesses. The stable dividend contribution from the company's power generation business and its stable and growing green energy and waste management business could add to its buffer against market volatility. Overall, we view Taiwan Cement has demonstrated its capability to withstand market volatility in par with those of its peers.

However, Taiwan Cement's high capital expenditure, strong appetite for scale expansion, and aggressive dividend payouts may further increase its debt level. In addition, the company's strong operating cash flow generation over the past two years largely reflected the cement industry upcycle and disciplined output in China. Taiwan Cement's EBITDA could contract sharply if China's cement industry enters a downturn with substantial shrinkage in demand or if the output discipline among cement producers loosens, possibly due to weaker demand. Therefore, the company's credit metrics are subject to a high degree of volatility, in our view.

Outlook

The stable rating outlook reflects our view that Taiwan Cement will sustain its satisfactory position in Taiwan and China's cement markets over the next two years, underpinned by the company's brand recognition, good operating and technical capability that can fully meet China's increasingly stringent environmental requirements, and established distribution network. We expect Taiwan Cement's debt to EBITDA ratio will temporarily rise to between 2.5x-3x in 2020, due to the adverse impact of COVID-19 on its cement business in China, but to recover to 2x-2.5x in 2021, supported by growing infrastructure investment in China. This is despite likely high capital expenditure and cash dividend payout over the period.

PRIMARY CREDIT ANALYST

Jin Dong, CFA

Taipei

+886-2-8722-5821

jin.dong

@spglobal.com

jin.dong

@taiwanratings.com.tw

SECONDARY CONTACT

Susan Chen

Taipei

+886-2-8722-5817

susan.chen

@spglobal.com

susan.chen

@taiwanratings.com.tw

Downside Scenario

We may lower the long-term issuer credit rating if:

- the company's ratio of debt to EBITDA deteriorates to above 3.5x for a prolonged period. This could occur if Taiwan Cement adopts a more aggressive business expansion strategy or dividend policy, leading to a substantial increase in debt, or its operating environment deteriorates possibly due to sluggish demand, weakening production discipline, or a substantial increase in key operating costs without a corresponding price reflection.
- its market position in Taiwan or China deteriorates substantially, evidenced by a slide in market share and capacity utilization for a prolonged period

Upside Scenario

We may raise the rating if:

- Taiwan Cement can demonstrate higher stability in profitability and cash flow throughout industry cycles, possibly achieved by further business diversification, while maintaining its ratio of debt to EBITDA close to 2x.
- The company adopts a more conservative financial policy and lowers its debt level to improve the ratio of debt to EBITDA close to 1.5x on a sustainable basis. A substantial reduction in its cash dividend payout and controlled capital expenditure could lead to such a result.

Ratings Score Snapshot

Issuer Credit Rating: twA+/Stable/twA-1

Note: The descriptors below are on a global scale.

Business risk: Satisfactory

- Country risk: Moderately high
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: twa

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Positive (+1 notch)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Satisfactory (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: twa+

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Understanding Taiwan Ratings' Rating Definitions - June 26, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Building Materials Industry - December 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- Criteria | Corporates | General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities - November 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed; Outlook

Taiwan Cement Corp.

Issuer Credit Rating	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 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.

Copyright © by Taiwan Ratings Corp. All rights reserved.

Copyright © 2020 by Taiwan Ratings Corporation (TRC). All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of TRC. The Content shall not be used for any unlawful or unauthorized purposes. TRC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively TRC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. TRC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. TRC DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall TRC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. TRC's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. TRC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. TRC does not act as a fiduciary or an investment advisor except where registered as such. While TRC has obtained information from sources it believes to be reliable, TRC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, TRC reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. TRC disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

TRC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of TRC may have information that is not available to other TRC business units. TRC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

TRC receives compensation for its solicited ratings and certain analyses, normally from issuers, originators, arrangers, or underwriters of securities or from obligors. TRC reserves the right to disseminate its opinions and analyses. TRC's public ratings and analyses are made available on its Web sites, www.taiwanratings.com (free of charge), and rs.taiwanratings.com.tw (subscription), and may be distributed through other means, including via TRC publications and third-party redistributors. Please click [here](#) for any other conflict of interests that may affect the credit rating as requested by the regulator.