

Bulletin:

Taiwan High Speed Rail Could Soon See The Light At The End Of Tunnel For COVID-19

July 13, 2020

Taiwan Ratings Corp. said today that the second half of 2020 could see gradual improvement in the impact of COVID-19 on **Taiwan High Speed Rail Corp.** (THSRC; twAA+/Stable/twA-1+). Despite the negative impact from the pandemic on domestic travel in the first half of 2020, we believe THSRC has sufficient buffer for the current rating. Demand for THSRC's services has rebounded as a result of government's loosened measures on transportation services as the pandemic has been brought well under control.

Passenger volume on THSRC's services dipped in the first five months of the year but has shown signs of a rebound since May. Year on year single month passenger volume was down by 21% in June 2020, albeit an improvement from the 48% year on year dip in April. Passenger volume is likely to fully recover by the end of 2020 or early 2021, assuming the Taiwan government continues to control the pandemic.

Given the economic stimulation from growing domestic trips, we expect passenger volume on THSRC's services to pick up notably in the coming months. We now expect the company's revenue to decline by 15%-20% in 2020 but recover by 16.5%-18.5% in 2021. We also expect the revenue drop to result in a 5-7 percentage point decline in its EBITDA margin, which reflects the high fixed-cost structure of THSRC's business. Accordingly, the ratio of FFO to debt is likely to decline to 7%-9% in 2020 from 11.5% in 2019, albeit still above our rating trigger of 6%. We expect the ratio to improve to 11%-13% in 2021. Our updated key assumptions for THSRC are in the table below:

	2019	2020f	2021f
Revenue (Mil. NT\$)	47,507.4	39,000-41,000	46,000-48,000
EBITDA (Mil. NT\$)	34,513.1	25,500-27,500	32,500-34,500
EBITDA margin (%)	72.6	65.5-67.5	70-72
FFO/Debt (%)	11.5	7.5-9.5	11.5-13.5

f--Taiwan Ratings Corp. forecast.

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