

Bulletin:

Cheng Shin Rubber's Prudent Cash Flow Management Gives Breathing Room For A Slow Recovery In The Global Tire Market

July 14, 2020

Taiwan Ratings said today that Taiwan-based tire maker **Cheng Shin Rubber Ind. Co. Ltd.'s** (Cheng Shin Tire, CST's) improved cash flow generation in 2019 and reduced debt could help CST absorb material weak global tire demand, particularly in China, amid COVID-19's effect on auto demand.

Our current base case indicates CST's revenue is likely to decline by about 20% in 2020, followed by rebound of 15% in 2021. This compares with a 24.6% decline in the company's revenue in the first six months of 2020. Our base case assumptions reflect our view that sales volume for CST's tires used on passenger cars, trucks, and buses in China, as well as for motorcycle tires in China and South East Asia will remain weak for the rest of 2020, despite a gradual recovery from the first half of the year. However, we expect CST to sustain its EBITDA margin at 16%-17% based on still low material prices and the company's efforts to cut costs amid a global industry downturn. Together with a likely reduction in CST's capital expenditure and lower cash dividend payout, the company should be able to keep its debt to EBITDA ratio slightly below 3x in 2020-2021; a level that we believe to be adequate for the current ratings.

CST's stronger operating cash flow mainly comes from better working capital management despite weak demand, particularly in China. This enabled the company to sustain its ratio of debt to EBITDA at 2x in 2019, which is better than our previous expectation of about 2.3x. Nonetheless, we still view the auto industry in which CST operates, as one of the last sectors that will recover from the COVID-19 pandemic. That's because the auto industry's products and services are less able to meet the stay-at-home needs of consumers and therefore demand suffered materially from the recent economic slowdown. We therefore believe it could take two to three years for CST to restore its EBITDA to the pre COVID-19 level under our current base case assumptions.

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.

PRIMARY CREDIT ANALYST

David Hsu
Taipei
+886-2-8722-5828
david.hsu
@spglobal.com
david.hsu
@taiwanratings.com.tw

SECONDARY CONTACT

Jing Dong, CFA
Taipei
+886-2-8722-5821
jin.dong
@spglobal.com
jin.dong
@taiwanratings.com.tw

Bulletin: Cheng Shin Rubber's Prudent Cash Flow Management Gives Breathing Room For A Slow Recovery In The Global Tire Market

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 rrs.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.