

Research Update:

# Chung Hung Steel Corp. Ratings Affirmed At 'twA/twA-1'; Liquidity Raised To Adequate; Outlook Remains Negative

September 3, 2020

## Rating Action Overview

Taiwan Ratings Corp. today affirmed its 'twA' long-term and 'twA-1' short-term issuer credit ratings on **Chung Hung Steel Corp.** (CHSC). The outlook on the long-term rating remains negative. The ratings on CHSC reflect the company's highly strategic status within the **China Steel Corp.** group. CHSC's stand-alone credit profile (SACP) reflects the company's relatively small operating scale, less vertically integrated operations, narrow product lines, and higher operational volatility compared with integrated still mills. The company's SACP also reflects our view that CHSC's ratio of funds from operations (FFO) to debt is likely to remain below 12% over the next two years, due to tepid demand and high raw material costs. Counterbalancing factors include CHSC's stable domestic market share backed by the strong market position of the China Steel group and persistently positive free operating cash flow.

The negative outlook reflects the negative rating outlook on its parent, China Steel, which reflects our view that the COVID-19 pandemic is likely to cause a plunge in global steel demand, leading to further escalation in price competition and margin pressure. These unfavorable market conditions are likely to result in a substantial decline in China Steel's operating cash flow generation, leading to a deterioration in its ratio of FFO to debt to 9%-12% in 2020, down from 13.6% in 2019.

We have revised our assessment of CHSC's liquidity to adequate from less than adequate, which has no impact on the ratings or its SACP. The improvement in the assessment mainly reflects CHSC's increase in available long-term bank facilities, despite likely weakening operating cash flow. Therefore, we expect CHSC's ratio of liquidity sources to liquidity uses to be 1.2x-1.3x over the coming 12 months ending June 2021.

## Related Criteria & Research

### Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019

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- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- 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

### Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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## Ratings List

### Ratings Affirmed

#### Chung Hung Steel Corp.

Issuer Credit Rating	twA/Negative/twA-1
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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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