Research Update:

Taipei Financial Center Corp. Ratings Affirmed At 'twAA-/twA-1+'; Outlook Remains Negative

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Rationale Action

Taiwan Ratings Corp. today affirmed its 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on **Taipei Financial Center Corp.** The outlook on the long-term rating is negative. The ratings reflect the company's strong capability to attract high-quality office and retail tenants as well as international tourists, underpinned by the well-established reputation and excellent asset quality of the company's asset, Taipei 101 building. The ratings also reflect Taipei Financial Center's conservative financial policy, as evidenced by the ongoing deleveraging with no intention for further portfolio expansion. These strengths are tempered by Taipei Financial Center's high asset concentration risk and exposure to the volatile tourism market, which could result in considerable volatility in the company's revenue and operating cash flow generation.

Outlook

The negative outlook reflects the material adverse impact of COVID-19 on Taipei Financial Center's revenue and EBITDA generation in 2020 and 2021. We project the company's EBITDA to decline by 23%-28% in 2020 and 2021 compared with 2019. This is due to a significant decline in ticket revenue at the tower's observation deck and a modest decline in sales turnover for the 101 shopping center.

The negative outlook also reflects the uncertainty regarding the sustainability of a strong domestic consumption surge observed in the third quarter of 2020. This increase in domestic consumer spending would need to be sufficient to largely offset the diminished sales contribution from foreign tourists in the shopping center. In addition, the ongoing pandemic could further postpone a restoration in international tourism and lead to a prolonged period of weakness in the company's observation deck business. These factors could curb Taipei Financial Center's ability to restore its cash flow generation or improve its ratio of debt to EBITDA to below 7.5x over the next 12 months.

Downward scenario

We may lower the long-term rating if:

- the company's cash flow generation fails to recover on a sustainable basis over the next 12 months, therefore keeping its ratio of debt to EBITDA at above 7.5x. This could be due to a prolonged COVID-19 outbreak leading to an extended period of muted tourism demand and weak consumer spending.

Upward scenario

We may revise the outlook back to stable over the next two to three quarters if:

- domestic consumption sustains strong growth that is enough to mitigate the lost revenue from foreign tourists, such that Taipei Financial Center improves its ratio of debt to EBITDA to below 7.5x, or
- the company lowers its debt considerably, such that its ratio of debt to EBITDA could improve to below 7.5x even without a restoration in cash flow generation, which could be led by conservative dividend payment and capital expenditure.

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Real Estate Industry - February 26, 2018
- 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

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

Ratings List

Ratings Affirmed	
Taipei Financial Center Corp.	
Issuer Credit Rating	twAA-/Negative/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.