

Research Update:

Chunghwa Telecom Co. Ltd. Ratings Affirmed At 'twAAA/twA-1+'; Liquidity Revised To Adequate; Outlook Stable

November 27, 2020

Rating Action Overview

- We believe that despite **Chunghwa Telecom Co. Ltd.'s** (CHT) strong projected funds from operations over the next 12 months, its liquidity profile could weaken slightly over the same period. This reflects our expectation of CHT's reduced cash on hand, increased short-term refinancing needs, and higher capital expenditure.
- We are therefore revising our assessment of CHT's liquidity to adequate from strong.
- At the same time, we are affirming our 'twAAA' long-term and 'twA-1+' short-term issuer credit ratings on CHT.
- The rating outlook remains stable and reflects our expectation that (CHT) will maintain its market leadership, very robust cash flow generation, and very conservative financial policy over the next one to two years.

Rationale Action Rationale

CHT's overall liquidity is likely to weaken over the next 12 months despite still strong funds from operations. We expect CHT's liquidity to weaken over the next one to two years due to reduced cash on hand, higher refinancing in terms of short-term borrowing needs, and higher capital expenditure. This is despite our projection of the company's strong funds from operations (FFO) of New Taiwan dollar (NT\$) 68 billion to NT\$72 billion per year in 2020-2021. We now expect CHT's ratio of liquidity sources to liquidity uses to be less than 1.5x over the next 12 months, when factoring into expansionary capital expenditure. Therefore, we have revised our assessment of CHT's liquidity to adequate from strong which has no impact on the ratings.

We still believe CHT has strong banking relationships, a high credit standing, and can absorb high-impact, low-probability events, with limited refinancing. This is supported by CHT's very strong credit reputation in the domestic financial market and the very low interest rates on the company's corporate bonds.

PRIMARY CREDIT ANALYST

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

SECONDARY CONTACT

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

CHT has maintained relatively stable performance in the highly competitive domestic telecom market. We affirmed the ratings on CHT to reflect our view that the telecom provider will maintain its market leadership, robust cash flow generation, and conservative debt appetite over the next one to two years. We also expect CHT to maintain low debt leverage over the same period, despite moderately increasing capital expenditure. These strengths are partly offset by persistent margin pressure in the mobile sector due to stiff competition, as well as the company's slightly declining market share in broadband markets.

Outlook

The stable rating outlook reflects our expectation that (CHT) will maintain its market leadership, very robust cash flow generation, and very conservative financial policy over the next one to two years.

Downside scenario

Downgrade risk is remote over the next two years because CHT's very strong business position and low debt offer significant headroom for the ratings. However, we may lower the long-term issuer credit rating if CHT's competitive position weakens very significantly. Such a change could result from potential unfavorable regulatory changes.

Liquidity

We estimate that CHT's principal liquidity sources in the 12 months ending September 2021 will comprise:

- Cash and short-term investments: NT\$22 billion as of the end of third quarter 2020.
- Funds from operations: NT\$68 billion-NT\$72 billion.

We estimate that CHT's principal liquidity uses in the 12 months ending September 2021 will comprise:

- Debt maturity of NT\$13.7 billion.
- Maintenance capital expenditure: NT\$10 billion
- Cash dividend: NT\$30 billion-NT\$33 billion.

Ratings Score Snapshot

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

Note: The descriptors below are on a global scale.

Business Risk: Strong

- **Country risk:** Intermediate
- **Industry risk:** Intermediate
- **Competitive position:** Strong

Financial Risk: Minimal

- **Cash flow/Leverage:** Minimal

Anchor: twaaa

Modifiers

- **Diversification/Portfolio effect:** Neutral (no impact)
- **Capital structure:** Neutral (no impact)

Research Update: Chunghwa Telecom Co. Ltd. Ratings Affirmed At 'twAAA/twA-1+'; Liquidity Revised To Adequate; Outlook Stable

- **Financial policy:** Neutral (no impact)
- **Liquidity:** Adequate (no impact)
- **Management and governance:** Strong (no impact)
- **Comparable rating analysis:** Neutral (no impact)

Stand-alone credit profile: twaaa

- **Related government rating:** AA-
- **Likelihood of government support:** Low (no impact)

Related Criteria & Research

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- 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
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Affirmed

Chunghwa Telecom Co, Ltd.

Issuer Credit Rating	twAAA/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.

Research Update: Chunghwa Telecom Co. Ltd. Ratings Affirmed At 'twAAA/twA-1+'; Liquidity Revised To Adequate; Outlook Stable

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.