

Bulletin:

Proposed Investment Is Unlikely To Dent Uni-President Enterprises' Financial Strength

December 1, 2020

Taiwan Ratings Corp. said today that **Uni-President Enterprises Corp.'s** (UPE; twAA/Stable/twA-1+) strong cash flow generation could help finance its planned investment in a nutritional supplement firm without materially lifting UPE's debt leverage growing beyond our base case. Our view of UPE's likely debt profile over the next one to two years already factors in the likelihood that UPE will pursue business diversity and growth through mid-size mergers and acquisitions. That's because of the company's growing maturity and slowing revenue growth from its food and beverage (F&B) and retail business in Taiwan and China.

On Nov. 27, 2020, UPE announced its intention to acquire an 8% share of Taiwan-based Grape King Bio Ltd., through a private placement. We do not expect the proposed investment of New Taiwan dollar (NT\$) 2 billion to impair UPE's financial strength, given the group's strengthened discretionary cash flow of NT\$32 billion in the 12 months up to September 2020. UPE's operating performance is likely to sustain over the next few quarters, supported by the company's enhanced operating efficiency in its China F&B operations and performance improvements in other non-F&B businesses. We believe UPE's ratio of debt to EBITDA will remain well below 2.0x in 2020-2021, even with potential NT\$15 billion-NT\$18 billion cash outflow for potential acquisitions incorporated in our base case. The ratio was about 1.4x on a rolling 12 months basis as of the end of September 2020.

The investment in Grape King Bio is in line with the group's strategy to drive growth through premium products and could help enhance UPE's product offering in the health and wellness sector. However, the investment is unlikely to have any material positive impact on UPE's business profile, given its minority ownership in Grape King and the investment target's small scale.

This report does not constitute a rating action.

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PRIMARY CREDIT ANALYST

Anne Kuo, CFA
Taipei
+886-2-8722-5829
anne.kuo
@spglobal.com
anne.kuo
@taiwanratings.com.tw

SECONDARY CONTACT

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

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