

Research Update:

Cheng Shin Rubber Ind. Co. Ltd. Ratings Affirmed At 'twA/twA-1'; Outlook Stable

February 8, 2021

Rationale Action Rationale

Taiwan Ratings Corp. today affirmed its 'twA' long-term and 'twA-1' short-term issuer credit ratings on **Cheng Shin Rubber Ind. Co. Ltd.** (Cheng Shin Tire, CST). The outlook on the long-term rating is stable.

The ratings on CST reflect the company's fair market position with average profitability, satisfactory product and customer diversity, adequate cost control despite still low utilization, as well as adequate scale economies to support the company's continued product development. These strengths are partly offset by the company's high geographic concentration in, as well as CST's weaker scale, technology, and branding power than those of large global peers.

Outlook

The stable rating outlook reflects our expectation that despite CST's weakened business risk profile largely as a result of its moderate revenue decline over past a few years, we believe the company can sustain its EBITDA margin at moderately above 20% and a ratio of debt-to-EBITDA at close to 1.5x over the next one to two years. We also expect the company to continue to benefit from the fast recovery in China's auto market as well as from the negative effect of supply issues on other tire makers due to the Covid-19 pandemic, at least in 2021. However, a still-competitive market in China, high market uncertainty post COVID, as well as potential downside risk from the initiation of U.S. anti-dumping measures could all limit CST's ability to make a meaningful recovery in its business scale and further lower its debt to EBITDA ratio.

Downside Scenario

We may lower the rating if:

- CST's profitability and cash flow weaken materially, or if the company takes on more aggressive capital expenditure than we previously expected, such that CST's credit ratios weaken substantially. A ratio of debt to EBITDA close to 3x on a sustainable basis would indicate such deterioration; or,
- CST fails to maintain its cost competitiveness or brand strength. A substantial decline in CST's EBITDA margin relative to its peers or an EBITDA margin below 15% for an extended period would indicate such deterioration.

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Upside Scenario

We may raise the rating if

- CST meaningfully restores its sales growth and strengthens its profitability over the next two years, as reflecting in a recovery in sales of passenger car tires in China as well as by higher utilization in other product lines, such as motorcycle tires and bicycle tires; and,
- At the same time CST would have to continue to improve its free cash flow and lower its debt in order to sustain its debt to EBITDA ratio materially below 2x. This could be achieved by lowering its working capital needs or lowering cash dividends without taking on aggressive capacity expansion.

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 | 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;

Cheng Shin Rubber Ind. Co. Ltd.

Issuer Credit Rating	twA/Stable/twA-1
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