

Research Update:

China Steel Structure Co. Ltd. Ratings Affirmed At 'twA-/twA-2'; Outlook Stable

May 17, 2021

Rationale Action Rationale

Taiwan Ratings Corp. today affirmed its 'twA-' long-term and 'twA-2' short-term issuer credit ratings on **China Steel Structure Co. Ltd.** The outlook on the long-term rating is stable. The ratings on China Steel Structure reflect our view that the company is a strategically important member of Taiwan-based China Steel Corp. group, which helps to maintain the group's position in Taiwan's steel market. The ratings also reflect China Steel Structure's leading position in the domestic steel structure market and the company's strong interest coverage. However, several factors offset these credit strengths, including the company's weak profitability amid intensive competition, and high debt leverage to support its working capital needs. The heavy reliance on short-term debt which results in less than adequate liquidity, also constrains the company's credit profile.

Outlook

The stable outlook on China Steel Structure reflects the stable rating outlook on its parent, China Steel, and our expectation that China Steel Structure will remain a strategically important subsidiary to the group over the next two years. The stable outlook also reflects our expectation of a recovery in China Steel's ratio of funds from operations (FFO) to debt in 2021, spurred by solid demand recovery, strong operating cash flow generation, and declining guaranteed debts. In addition, the outlook incorporates our expectation that China Steel Structure could benefit from good prospects for its steel structure and engineering and construction businesses over the next one to two years, underpinned by warming domestic construction and infrastructure demand in Taiwan.

Downward scenario

We may lower the long-term issuer credit rating on China Steel Structure if:

- China Steel's ratio of FFO to debt weakens to close to 12% for an extended period, possibly due to (a) a prolonged COVID-19 outbreak that seriously damages the global economy and curbs economic recovery leading to an extensive industry downturn with contraction in demand and intense competition or (b) persistently high raw material prices that would squeeze the company's profit margin materially or (c) China Steel adopts a much more aggressive capital expenditure plan that curbs its ability to deleverage and results in an elevated debt level for an extended period;

PRIMARY CREDIT ANALYST

Irene Lai
Taipei
+886-2-2715-6825
irene.lai
@spglobal.com
irene.lai
@taiwanratings.com.tw

SECONDARY CONTACT

Jin Dong, CFA
Taipei
+886-2-2715-6821
jin.dong
@spglobal.com
Jin.dong
@taiwanratings.com.tw

- We believe China Steel Structure's relationship with the parent group and potential group support weakens, as indicated by a decline in China Steel's ownership in the company; or
- China Steel Structure's EBITDA interest coverage worsens to below 3x for an extended period which may result from increasing material or labor costs that could not be largely bypassed to China Steel Structure's clients.

Upward scenario

We may raise the long-term rating on China Steel Structure if we raise our assessment of the China Steel group credit profile and at the same time raise our assessment of China Steel Structure's standalone credit profile (SACP). We could raise the group credit profile if the group improves its profitability and lowers its debt, such that its ratio of FFO to debt rises to materially above 25% on a sustainable basis.

We could raise China Steel Structure's SACP if the company improves its ratio of liquidity sources to uses to more than 1.2x over the next 12 months, while at the same time improve its EBITDA margin at above 4% on a sustainable basis. This could happen if the company extends its debt maturity substantially while improving its market position and pricing power.

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- 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

China Steel Structure Co. Ltd.

Issuer Credit Rating

twA-/Stable/twA-2

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.

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