

Research Update:

Aerospace Industrial Development Corp. Ratings Affirmed At 'twAA-/twA-1+'; Outlook Remains Developing

May 18, 2021

Rationale Action Rationale

Taiwan Ratings Corp. today affirmed its 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on **Aerospace Industrial Development Corp.** (AIDC). The outlook on the long-term rating remains developing.

The ratings on AIDC reflect the company's monopoly role providing self-developed aircraft to Taiwan's military. The ratings also reflect AIDC's sustainable business from the maintenance of such aircraft, the government's policy to increase self-sufficiency in airborne defense, as well as the relatively stable performance of AIDC's commercial engine business. In addition, we believe there is a very high likelihood the company will receive extraordinary government support should AIDC experience financial stress. These strengths are partly offset by the company's relatively small scale and limited projects on hand, high client concentration, and high debt leverage.

Outlook

The developing outlook indicates that we may lower, affirm, or raise our ratings on AIDC over the next one to two years. The outlook reflects our view that S&P Global Ratings recent upgrade of Taiwan (unsolicited; AA/Positive/A-1+) as well as AIDC's weakening stand-alone credit profile (SACP) is transformational for the company's overall credit quality, which depends on the changes of both Taiwan's credit quality as well as AIDC's stand-alone credit profile (SACP) over the next one to two years.

Downside scenario

We could lower the long-term rating on AIDC if we lowered the SACP to 'twbbb-' from 'twbbb' currently, while at the same time S&P Global Ratings long-term issuer credit rating on Taiwan remains at 'AA'. We could lower the SACP if AIDC failed to lower its debt to EBITDA ratio to close to 5x by 2022. This could result from lower EBITDA and cash flow generation than we currently forecast for AIDC perhaps due to a major delay on deliveries of its advanced jet trainer (AJT) aircraft, or the prolonged negative effect of COVID-19 on global air traffic and resulting weak demand for aircraft parts. AIDC's debt to EBITDA ratio could also remain

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substantially above 5x if the company cannot reduce its working capital to lower debt over the next one to two years.

Upside scenario

We could raise the long-term rating on AIDC if S&P Global Ratings raises its long-term rating on Taiwan to 'AA+' while at the same time, AIDC's SACP remained at 'twbbb'. AIDC could maintain its SACP at 'twbbb' if the company improves its debt to EBITDA ratio to below 5x by 2022. This could be achieved by delivering AJT aircraft on schedule, or if AIDC can continue to lower its debt materially by further reducing its working capital needs, such as shortening its cash conversion cycle by shortening the account receivable days from the government.

Related Criteria & Research

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- 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

Aerospace Industrial Development Corp.

Issuer Credit Rating	twAA-/Developing/twA-1+
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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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