

Research Update:

Taiwan Cogeneration Corp. Ratings Affirmed At 'twA-/twA-2'; Outlook Stable

May 18, 2021

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA-' long-term and 'twA-2' short-term issuer credit ratings on **Taiwan Cogeneration Corp.** (Taiwan Cogen). The outlook on the long-term rating is stable. The ratings on Taiwan Cogen are mainly supported by the low-risk business model involving the company's four invested gas-fired independent power plants (IPPs), which can contribute largely stable cash dividend income to Taiwan Cogen on a sustainable basis. Minimum guaranteed hours and full cost-pass-through terms in the power purchase agreements between the IPPs and Taiwan Power Co. nearly eliminate risks associated with demand and price changes in natural gas. We also expect the growing renewable energy business to enhance the company's earnings stability over the next three to five years. These strengths are mitigated by Taiwan Cogen's less-stable cogeneration and power plant engineering & construction (E&C) business. In addition, the company's high capital expenditure (capex) needs driven by planned capacity expansion in renewable energy will lead to a deterioration in credit metrics over the next two years.

Outlook

The stable outlook mainly reflects our expectation that Taiwan Cogen's ratio of funds from operations (FFO) to debt will remain above 12% over the next two years, despite its aggressive capacity expansion plan. Our view is underpinned by a likely increase in EBITDA contribution from its renewable energy business, solid growth prospective from its E&C business and largely stable, albeit lower dividend contribution from the four invested IPPs.

We may lower the long-term rating on Taiwan Cogen if:

- the company's ratio of FFO to debt deteriorates to below 12% without prospect of improvement, possibly due to more aggressive capex or dividend payouts than our base case scenario indicates,
- Taiwan Cogen's liquidity position deteriorates from the current adequate level, possibly due to a significant debt maturity without a sufficient long-term refinancing plan in place, or
- EBITDA experiences increased volatility. This may occur if the cash flow contribution from its power generation business declines substantially due to a severe mechanical incident without sufficient insurance coverage, or if the company undertakes E&C projects that incur large losses.

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We view the likelihood of an upgrade as remote over the next two years. We may raise the rating on Taiwan Cogen if:

- the company takes a more conservative approach in its capacity expansion or reduces its cash dividend payout materially, such that its ratio of FFO to debt improves to consistent above 25%.

Related Criteria & Research

Related Criteria

- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Unregulated Power And Gas Industry - March 28, 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

Taiwan Cogeneration Corp.

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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