

Research Update:

# Uni-President Enterprises Corp. Ratings Affirmed At 'twAA/twA-1+'; Outlook Stable

June 30, 2021

## Rationale Action Rationale

Taiwan Ratings Corp. today affirmed its 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on **Uni-President Enterprises Corp.** (UPE). The outlook on the long-term rating is stable. The ratings on UPE reflect the company's good business diversity with strong, leading market positions in Taiwan's food and beverage (F&B) and convenience store sectors, as well as improving profitability of China's F&B business. The ratings on UPE also reflect our view that the company is likely to maintain its improved cash flow protection measures over the next two years, given its stable operating cash flow and modest capital expenditure (capex). This should enable UPE to maintain its ratio of debt to EBITDA at 1.1x-1.4x over the period.

Counterbalancing the rating strengths are the higher industry risk in China's F&B market due to intense competition, as well as volatile material costs, and weaker performance on UPE's other smaller business such as F&B packaging.

## Outlook

The stable outlook reflects our view that UPE's strong position across various products and markets as well as its good business diversity are likely to sustain the company's improved profitability and operating cash flow over 2021-2022. We believe that along with UPE's modest capex, the company will generate strong positive free operating cash flow to fund mid-sized acquisitions and a cash dividend payout while maintaining its adjusted debt to EBITDA ratio at 1.1x-1.4x over the same period.

### Upside scenario

We could raise the long-term rating if:

- UPE demonstrates persistently prudent financial management to maintain sufficiently low debt leverage to withstand the negative financial impact from potential acquisitions or market downturns, such that the company maintains the debt to EBITDA ratio comfortably below 1x through business cycles, or
- UPE can improve its competitive position and profitability further, particularly for its retailing, China, and other non-F&B businesses, while at the same time maintaining its adjusted debt to EBITDA ratio below 1.5x on a sustained basis. This could be achieved by strong growth from its retailing business such that the EBITDA contribution from these businesses continues to grow in Taiwan and Philippines, and also material improvement in the business scale and

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market position of Uni-President China Holdings Ltd. (UPC) and UPE's F&B packaging business (Taiwan-based Tonyi Industrial Corp.).

### Downside scenario

We may lower the long-term rating if:

- UPE fails to maintain the ratio of debt to EBITDA below 2.0x for an extended period or its operating performance deteriorates materially. This could result from (a) higher investments or acquisitions of a larger size than we previously expected such that UPE's debt usage increases materially, (b) highly aggressive shareholder distributions, (c) a material setback to its China business development amid intense competition, or (d) weaker profitability in its Taiwan F&B or convenience store business due to the loss of market share or weakening brand equity.

## 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
- 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

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## Ratings List

### Ratings Affirmed

#### Uni-President Enterprises Corp.

Issuer Credit Rating	twAA/Stable/twA-1+
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