Media Release:

Asia Polymer Corp. Assigned 'twA/twA-1' Ratings; Outlook Stable

December 7, 2021

Rating Action Overview

- Taiwan based plastics manufacturer Asia Polymer Corp. had EBITDA of NT$1.26 billion in 2020 and is a core member of Taiwan's USI Corp. group. This is because the company's EVA and PE business is fully integrated with USI's operations and is critical to the group's central EVA and PE business.
- Asia Polymer's small operating scale and limited product differentiation constrain its SACP but the integration of its operations with USI's same product line enhances its market position and slightly offsets this weakness.
- Asia Polymer's ratio of debt to EBITDA could improve sharply in 2021-2022 through strong operating cash flow and limited capex after completing its expansion and investment in the group's Gulei project.
- We have assigned our 'twA' long-term and 'twA-1' short-term issuer credit ratings to Asia Polymer.
- The stable rating outlook reflects our rating outlook on USI and our view that Asia Polymer's SACP to remain stable over the next one to two years with sustained low debt leverage.

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Rationale Action Rationale

Asia Polymer is the core subsidiary of the USI group. The company's ethylene-vinyl acetate (EVA) and polyethylene (PE) production capacity represents about 40% of the group's total capacity and its operations including production and sales are fully integrated with USI's to maximize market influence and better serve Asia Polymer's clients. We believe that ethylene derivatives are the key product that the group will continue to develop based on the two companies' joint investment in the China-based Gulei project. With joint investments by USI and Asia Polymer, the new EVA capacity at the Gulei complex could enhance the group's position in the EVA market. As such, the group is highly unlikely to divest of Asia Polymer because it operates in lines of business integral to the overall group business strategy.

In addition, Asia Polymer's operations are fully integrated with USI group through a vehicle called USI Management Consulting Corp., including financial management, sales & marketing and procurement. The two companies also share technology and engineering for EVA/PE production. Asia Polymer's financial stress could significantly affect the group's access to capital markets and its services to its customers. Accordingly, we believe the group will provide financial support to Asia Polymer in the event of the subsidiary's financial distress under any foreseeable circumstances and accordingly we rate Asia Polymer at the same level as the group credit profile.

Small operating scale, narrow product mix and limited product differentiation constrain Asia Polymer's SACP. The company's capacity for EVA and PE production is relatively small compared with local and regional peers. In addition, Asia Polymer has relied on external supply for its key feedstock including ethylene and vinyl acetate monomers (VAM) which experience volatile pricing. This, together with volatile end-product prices leads to Asia Polymer's highly volatile and sometimes weaker profitability compared with its peers. Accordingly, we assess the company's comparable rating analysis to be negative.

However, the company’s focus on higher value-added applications such as solar grade EVA could partly alleviate intense price competition in the general-purpose EVA and PE market. In addition, the company's business position is partly supported by its integration with USI's EVA and PE business. The group's centralized procurement of ethylene and VAM also partly offset the company's scale disadvantage, in our view. Asia Polymer's joint investment in the Gulei project also slightly improves its market position in the EVA market and provides greater security over its feedstock supply. Asia Polymer's joint venture with its parent will distribute and market 300,000 tons of EVA output from the Gulei complex and enable the group, including Asia Polymer, to improve its influence in the regional EVA market. Further expansion at the Gulei complex could further enhance the Asia Polymer's feedstock supply security.

Profitability is likely to moderate in 2022 and 2023 from a high in 2021 but remain above the company's historical mid-cycle level. Asia Polymer's profitability is likely to remain above the company's typical mid-cycle level over 2022-2023, supported by still-strong demand for chemicals amid an accelerating global economic recovery. Increasing global consciousness on global warming has also strengthened demand for solar power and consequently EVA which is used for solar panel packaging, in addition to surging needs from consumer products. We forecast that demand from solar power and consumer products will remain strong and partly offset the negative effect of significant capacity additions and recovering output on prices and margins in 2022-2023. Extreme weather events had reduced overall global output in 2021, sending prices higher.

In addition, the Chinese government's more stringent environmental requirements and carbon neutral push will curb chemical production that uses more polluting processes, particularly coal-based chemicals. This could slightly alleviate the negative effect of aggressive new additions to chemicals capacity in China.

Strong free operating cash flow could keep debt leverage low over the next two years, but fluctuations in leverage remain. Strong cash flow will enable the company to further lower its debt over the next two years. This will increase Asia Polymer's financial buffer against industry volatility, higher cash dividends, higher capital expenditure (capex), and likely acquisitions or investments under the USI group's growth strategy to strengthen supply security and business scale.

We forecast Asia Polymer's ratio of debt to EBITDA will fall below 1.0x over 2021, down from 2.1x in 2020, assuming no material acquisitions. However, we expect the company's debt leverage to remain relatively volatile over the long-term, given its volatile profitability and small scale. Its ratio of debt to EBITDA is likely to rise gradually to slightly below 1.5x in 2022-2023 due to weakening profitability and higher cash dividends. In addition, the company is likely to increase its expansion spending again and raise its debt leverage over the long term. This also occurred in 2017-2020 when investments in the Gulei project raised its debt leverage significantly.

Outlook

The stable rating outlook on Asia Polymer reflects the stable outlook on our long-term rating on USI Corp. We forecast Asia Polymer's stand-alone credit profile will remain stable over the next one to two years, given the company's still above mid-cycle profitability and limited capex. Our base case forecasts Asia Polymer's ratio of debt to EBITDA will remain slightly below 1.5x in 2022-2023.

Downward scenario

We may lower the long-term rating on Asia Polymer if:

- We lower the long-term rating on USI which could occur if USI's ratio of debt to EBITDA rises above 2.0x without prospects of improvement. This could occur if the company's profitability weakens due to higher pricing pressure amid intensified competition along with a prolonged regional oversupply or a significant rise in feedstock costs. This could also occur if USI pursues a more aggressive debt-funding expansion strategy over the next two years with large investments and acquisitions that materially increase its debt level; or
- Asia Polymer's linkage and strategic importance to USI weaken materially. A significant reduction in USI's shareholding in Asia Polymer, lower integration in production, marketing and management, and the lower strategic importance of Asia Polymer's EVA/PE capacity to USI's overall product portfolio could be evidence of such a development.

Upward scenario

We may raise the rating on Asia Polymer if we raise the rating on USI, which could occur if USI can significantly expand its operating scale and product mix toward specialty applications or differentiated consumer products, such that the company can withstand volatile prices of its key feedstocks and maintain relatively high and stable profitability. At the same time, USI would need to maintain its ratio of debt to EBITDA constantly below 1.5x.

Our Base-Case Scenario

- S&P Global Ratings projects Taiwan's GDP growth of 5.5% in 2021 and 2.9% in 2022; for China's GDP growth of 8.0% in 2021 and 5.1% in 2022, and for Asia Pacific's GDP to grow by 6.7% in 2021 and 5.2% in 2022.
- Our base-case assumptions for Brent crude oil are US$75 per barrel (bbl) for the rest of 2021, US$65/bbl for 2022 and US$55/bbl for 2023.
- Chemical demand to remain strong throughout the second half of 2021, though supply and demand could become more balanced in 2022 when capacity additions resume. Downstream manufacturers like Asia Polymer will continue to benefit from better spreads on some product lines supported by firm product prices and smaller growth in input costs.
- Asia Polymer's revenue could grow 34%-38% in 2021 and decline by a mid-double digit in 2022. This is to reflect sharp price increases in 2021 because strong demand amid the global economic reopening and supply disruptions induced by COVID-19, extreme weather events, and power shortage. Produce prices could moderate significantly, given significant capacity additions particularly in China and likely slowing demand growth.

- Strong product pricing will raise the company's gross margin before depreciation and amortization to 34%-38% in 2021 before softening slightly to 21%-24% in 2022, compared with 25.3% in 2020.
- Strong demand for solar panels and consumer products will support sharp product spread expansion for Asia polymer's ethylene EVA business in 2021. Capacity additions in China could pressure prices in 2022. PE margins will also expand significantly in 2021 with supply disruptions and strong demand amid economic reopening from the COVID-19 pandemic before softening in 2022 when supply will rise again.
- Capex will rise slightly to NT$350 million-NT$500 million annually in 2021-2022 from NT$284 million in 2020. The higher capital spending is for storage tank construction in Taiwan's southern Kaohsiung City, enhancement in safety, and regular maintenance.
- We assume the company's cash dividend payouts will increase to about NT$699 million in 2021 and NT$1.2 billion-NT$1.4 billion in 2022.

Based on the assumptions, we arrive at the following credit measures:

- EBITDA margin of 32%-35% in 2021 and 17%-20% in 2022.
- Debt to EBITDA of below 0.5x in 2021 and 1.2x-1.6x in 2022.
- Free operating cash flow to debt of 140%-160% in 2021 and 55%-75% in 2022.

Liquidity

The short-term rating on Asia Polymer is 'twA-1'. We believe that the company has strong liquidity to meet its needs in the 24 months ending June 2023 and we assess the company's ratio of liquidity sources to liquidity uses will be 2.8x-3.2x in the 24 months ending June 2023. We also believe the company will have positive liquidity sources minus uses, even if its forecasted EBITDA declines by 30%.

In our assessment, Asia Polymer has long-standing relationships with major local banks partly because of its linkage to the USI group, which is indicated by the low interest rate on Asia Polymers' bank loans. In our view, the company has generally prudent risk management with a track record of maintaining high unused committed banking credit lines. We also believe Asia Polymer has sufficient headroom without breaching covenant limits due to low interest rates in Taiwan even if its EBITDA were to drop by 30%. Our view of its liquidity reflects primarily the following factors:

Principal liquidity sources:

- Cash and short-term investment of about NT$1.6 billion as of the end of June 2021.
- Unused committed banking facilities of NT$1.85 billion expiring beyond Dec. 31, 2022 and NT$2.3 billion expiring beyond Dec. 31, 2023.
- FFO of NT$1.6 billion-NT$1.8 billion in 2021 and NT$0.8 billion-NT$1.0 billion in 2022.

Principal liquidity uses:

- Long-term debt due in one year plus short-term debt of about NT$970 million over the 12-months ending June 2022 and NT$300 million over the 12 months ending June 2023.
- Capex of NT$300 million-NT$450 million annually in 2021-2022.
- Working capital outflow of less than NT$50 million over the 12-months ending June 2022.
- Cash dividend payout to be similar with previous year: about NT$0.9 billion-NT$ 1.0 billion annually in 2021-2022.

Rating Score Snapshot

Issuer Credit Rating: twA/Stable/twA-1
Note: All scores are in comparison with global obligors.

Business risk: Weak
- Country risk: Moderately High Risk
- Industry risk: Moderately High Risk
- Competitive position: Weak

Financial risk: Modest
- Cash flow/Leverage: Modest

Anchor: twa-

Modifiers
- Diversification/Portfolio effect: Neutral (No impact)
- Capital structure: Neutral (No impact)
- Financial policy: Neutral (No impact)
- Liquidity: Strong (No impact)
- Management and governance: Fair (No impact)
- Comparable rating analysis: Negative (-1 notch)

Stand-alone credit profile (SACP): twbbb+

- Group credit profile: twa
- Entity status within group: Core

Related Criteria & Research

Related Criteria

- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities - November 13, 2012
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- Criteria | Corporates | General: Corporate Methodology - November 19, 2013
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

New Ratings

Asia Polymer Corp.	
Issuer Credit Rating	twA/Stable/twA-1

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.