

Media Release:

# Cheng Shin Rubber Ind. Co. Ltd. Ratings Affirmed At 'twA/twA-1'; Outlook Stable

February 24, 2022

## Rating Action Overview

- Taiwan based **Cheng Shin Rubber Ind. Co. Ltd.** is the world's 10th largest tire manufacturer with about NT\$14.8 billion EBITDA for the first three quarters of 2021.
- As Cheng Shin's capital expenditure could remain low over 2022-2023, the company is likely to improve its debt-to-EBITDA ratio to close to 1x over the period. Accordingly, we revised our financial risk profile assessment to modest from intermediate. However, given Cheng Shin's relatively volatile operating performance mostly resulting from business concentration in China, we revised the comparable rating analysis to negative from neutral. But the stand-alone credit profile remains unchanged at 'twA'.
- Taiwan Ratings Corp. today affirmed its 'twA' long-term and 'twA-1' short-term issuer credit ratings on Cheng Shin.
- The outlook on the long-term rating is stable.

## Rationale Action Rationale

**Cheng Shin's lowering debt level supports our assessment of stronger financial risk profile.** Cheng Shin should be able to keep its capital expenditure at very low level and make prudent cash dividend payments over 2022 to 2023. This will support the company to generate positive free cash flow of New Taiwan dollar (NT\$) 5 billion-NT\$10 billion per year and improve its ratio of debt to EBITDA to close to 1x over the period. Cheng Shin could lower its annual capital expenditure (capex) to NT\$4 billion-NT\$6 billion, from NT\$8 billion-NT\$12 billion per year over past few years, given its current still low utilization amid weakened demand. The capex will be mostly for equipment updates, with small amounts allocated for capacity additions for bicycle tires in Taiwan and motorcycle tires in Indonesia.

**Business concentration in China continues to weigh on Cheng Shin's overall performance.** The company will continue to face stiff competition in China, particularly in its passenger car and truck and bus businesses. This will keep the pressure on the company's utilization and profitability over the next two years. Cheng Shin's overall operating performance could also see some challenges from several uncertainties throughout 2022 including COVID constraints, supply chain disruptions, and chip component shortages. As a result, the supply-demand condition could deteriorate with intensifying market competition and depress Cheng Shin's

### PRIMARY CREDIT ANALYST

David Hsu  
Taipei  
+886-2-2175-6828  
david.hsu  
@spglobal.com  
david.hsu  
@taiwanratings.com.tw

### SECONDARY CONTACT

Beatrice Chen  
Taipei  
+886-2-2175-6829  
beatrice.chen  
@spglobal.com  
david.hsu  
@taiwanratings.com.tw

overall performance, given China will still account for 50%-60% of Cheng Shin's sales over the next two to three years.

## Outlook

The stable rating outlook reflects our expectation that Cheng Shin will maintain its EBITDA margin at moderately above 20% and debt-to-EBITDA ratio closed to 1x over the next 12-24 months. This is despite the company's weakened business risk profile dragged by lower revenue, which we attribute to the pandemic impact over the past few years. We expect the company to benefit from the relatively sustainable auto market demand in China. However, high market uncertainties because of supply chain disruptions, as well as potential downside risk of a chip shortage could limit Cheng Shin's ability to meaningfully recover its business scale.

### Upward scenario

We may raise the rating if:

- Cheng Shin meaningfully restores its sales growth and strengthens its profitability over the next two years, as reflected in a recovery in sales of passenger car tires in China as well as by higher utilization in other product lines; and
- Simultaneous improvement in Cheng Shin's free cash flow generation and a reduction in debt to sustain the debt-to-EBITDA ratio materially below 2x. This could be achieved if the company lowered its working capital needs or cash dividends without making further aggressive capacity expansion.

### Downward scenario

Conversely, we may lower the rating if:

- Cheng Shin's profitability and cash flow weaken materially, or if the company takes on more aggressive capex than we previously expected. A ratio of debt to EBITDA above 2.5x on a sustainable basis would indicate such deterioration. The possible scenarios include rising competition on Cheng Shin's key market in China or failure to penetrate the new tire market for electric vehicles; or
- The company fails to maintain its cost competitiveness or brand strength. A substantial decline in Cheng Shin's EBITDA margin driven by the weakening average selling price of passenger car tire and truck and bus tire compared to its peers. An EBITDA margin below 15% for an extended period would indicate such deterioration.

[Click or tap here to enter text.](#)

## Ratings Score Snapshot

Issuer Credit Rating: twA/Stable/twA-1

Note: The descriptors below are on a global scale.

Business risk: Fair

- Country risk: Moderately high
- Industry risk: Moderately high
- Competitive position: Fair

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: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: negative (-1 notch)

Stand-alone credit profile: twa

## Related Criteria & Research

### Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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](http://www.taiwanratings.com))

## Ratings List

### Ratings Affirmed

#### Cheng Shin Rubber Ind. Co. Ltd

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](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

Copyright © 2022 by Taiwan Ratings Corporation (TRC). All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of TRC. The Content shall not be used for any unlawful or unauthorized purposes. TRC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively TRC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. TRC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. TRC DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall TRC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. TRC's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. TRC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. TRC does not act as a fiduciary or an investment advisor except where registered as such. While TRC has obtained information from sources it believes to be reliable, TRC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, TRC reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. TRC disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

TRC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of TRC may have information that is not available to other TRC business units. TRC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

TRC receives compensation for its solicited ratings and certain analyses, normally from issuers, originators, arrangers, or underwriters of securities or from obligors. TRC reserves the right to disseminate its opinions and analyses. TRC's public ratings and analyses are made available on its Web sites, [www.taiwanratings.com](http://www.taiwanratings.com) (free of charge), and [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw) (subscription), and may be distributed through other means, including via TRC publications and third-party redistributors. Please click [here](#) for any other conflict of interests that may affect the credit rating as requested by the regulator.