

Media Release:

Various Rating Actions On Taiwan Government-Related Entities Following S&P Global Ratings' Upgrade Of Taiwan

May 4, 2022

Rating Action Overview

- S&P Global Ratings recently raised its long-term issuer credit rating on Taiwan to 'AA+' from 'AA'. The rating outlook is stable. At the same time, the rating agency affirmed the 'A-1+' short-term rating.
- We have therefore raised our long-term issuer credit rating on **Aerospace Industrial Development Corp.** (AIDC), a government-related entity (GRE) to 'twAA' from 'twAA-' with a negative rating outlook, and affirmed the 'twA-1+' short-term issuer credit rating on the company.
- At the same time, we affirmed our issuer credit ratings on **Taiwan Power Co.** (Taipower), **Taiwan Water Corp.**, **Taiwan Railways Administration**, **MOTC**, and **Taoyuan International Airport Corp.**, given the 'twAAA/twA-1+' ratings on these entities are already the strongest in our rating spectrum. In addition, we affirmed the issue credit rating on Taipower's various debts.
- We have maintained the ratings and outlooks on other GREs. The remaining GREs that we rate which are not included above are unaffected by S&P Global Ratings upgrade action of Taiwan.

PRIMARY CREDIT ANALYST

Daniel Hsiao
Taipei
+886-2-2175-6826
daniel.hsiao
@spglobal.com
daniel.hsiao
@taiwanratings.com.tw

SECONDARY CONTACT

Raymond Hsu, CFA
Taipei
+886-2-2175-6827
raymond.hsu
@spglobal.com
raymond.hsu
@taiwanratings.com.tw

Rating Action Rationale

The rating actions follow S&P Global Ratings' recent upgrade of Taiwan (unsolicited; AA+/Stable/A-1+). The upgrade of AIDC reflects our view that AIDC will continue to benefit from external support from the Taiwan government over the next 12-24 months.

On April 29, 2022, S&P Global Ratings raised its long-term issuer credit rating on Taiwan to 'AA+' from 'AA'. The outlook is stable. The short-term rating was affirmed at 'A-1+'. The rating actions reflected the rating agency's view of Taiwan's strong economic performance on the back of robust demand for its electronics exports which is raising income to levels compatible with a stronger economic assessment.

We assess AIDC to have a very high likelihood of extraordinary support from the Taiwan government, given the company's very strong link with the government which is the single largest shareholder with shareholding of 35.18% of the company. AIDC plays a very important role for the government, given that it is the sole supplier/coordinator for domestic national air defense projects and has provided Taiwan's self-developed aircraft for the past few decades.

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The negative rating outlook on AIDC reflects the downside risk that the company's debt to EBITDA could remain above 5x for a prolonged period. We expect the company will gradually emerge from the negative impact of COVID-19 because the AIDC's new advanced jet trainer project for the Taiwan government is under progress with mass production deliveries beginning this year. However, downside risk for AIDC remains significant if the company cannot collect its receivables on schedule, or if recovery in the global commercial aircraft business segment remains slow or stagnant due to the continued effect of COVID-19 over the next two years.

We could lower the long-term rating if S&P Global Ratings lowers its issuer credit rating on Taiwan. In addition, we could lower the rating on AIDC if the company fails to lower its debt to EBITDA ratio to close to 5x over the next 12 to 24 months. This could result from lower-than-expected cash flow generation due to the prolonged negative effect of COVID-19 on global aircraft sales and deliveries. AIDC's debt to EBITDA could also remain above 5x if the company cannot materially reduce its working capital to reduce debt over the next one to two years.

We could revise the outlook back to stable if AIDC improves its debt to EBITDA ratio to below 5x over the next one to two years. This could be achieved if the company can gradually recover its profitability and cash flow during the market downturn or improve its management over inventory levels and shorten receivables days.

Our ratings or outlooks on other rated Taiwan-based GREs are unaffected by the rating action on Taiwan. That's because we either already rate the entities 'twAAA', or we believe the ratings only benefit from a low-to-moderately high level of extraordinary government support.

Related Criteria & Research

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- 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 | Utilities: Key Credit Factors For The Regulated Utilities Industry - November 19, 2013
- 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
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General: Reflecting Subordination Risk In Corporate Issue Ratings - March 28, 2018

Related Research

- Research Update: Taiwan Ratings Raised To 'AA+/A-1+' On Strong Economic Performance; Outlook Stable, www.capitaliq.com – April 29, 2022
- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Upgraded

	To	From
Aerospace Industrial Development Corp.		
Issuer Credit Rating	twAA/Negative/twA-1+	twAA-/Developing/twA-1+

Ratings Affirmed; Outlook

Taiwan Power Co.

Issuer Credit Rating	twAAA/Stable/twA-1+
Issue Credit Rating	twAAA

Taiwan Water Corp.

Taiwan Railways Administration, MOTC.

Taoyuan International Airport Corp.

Issuer Credit Rating	twAAA/Stable/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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