

Research Update:

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

June 22, 2022

Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on **Uni-President Enterprises Corp.** The outlook on the long-term rating is stable. The ratings on Uni-President 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 the improving profitability of China's F&B business. The ratings on Uni-President also reflect our view that the company is likely to maintain its strong cash flow protection measures over the next two years, given its stable operating cash flow and modest capital expenditure. This should enable Uni-President to maintain its ratio of debt to EBITDA at 1.1x-1.5x over the period.

Counterbalancing its 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 the company's other smaller businesses.

Outlook

The stable rating outlook reflects our view that Uni-President's strong position across various products and markets as well as its good business diversity are likely to sustain the company's strong profitability and operating cash flow in 2022-2023. We forecast Uni-President will see modest capital expenditure over the same period. At the same time, we believe the company will generate strong positive free operating cash flow to fund mid-sized acquisitions and cash dividend payouts while maintaining the ratio of adjusted debt to EBITDA at 1.1x-1.5x.

Upside scenario

We could raise the long-term rating if the company can:

- Improve its competitive position and profitability, such as for its retailing business, while at the same time maintaining the ratio of adjusted debt to EBITDA below 1.5x on a sustainable basis. This could be achieved by enlarging the business scale of its retailing business such as via the company's proposed acquisition of a controlling interest in Carrefour's hyper-market business in Taiwan; or
- Demonstrate persistent prudent financial management to maintain sufficiently low debt leverage to withstand the negative financial impact from potential acquisitions or market downturns. A ratio of debt to EBITDA sustaining comfortably below 1x through business cycles would indicate this.

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Downside scenario

We could lower the long-term rating if the company fails to maintain the ratio of debt to EBITDA below 2x for an extended period. This could result from:

- Higher investments or acquisitions of a larger size than we previously expected such that the company's debt usage increases materially;
- More aggressive shareholder cash distributions than we expected;
- A material setback to its business development in China amid intense competition; or
- Weaker profitability in its Taiwan F&B or convenience store businesses due to significant 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: 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)

Ratings List

Ratings Affirmed

Uni-President Enterprises Corp.

Issuer Credit Rating	twAA/Stable/twA-1+
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