

Media Release:

Cheng Shin Rubber Ind. Co. Ltd. Ratings Affirmed At 'twA/twA-1'; Liquidity Revised To Strong From Adequate; Outlook Stable

February 16, 2023

Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twA' long-term and 'twA-1' short-term issuer credit ratings on **Cheng Shin Rubber Ind. Co. Ltd.** The outlook on the long-term rating is stable. The ratings on Cheng Shin continue to reflect the company's satisfactory product diversity attributed to Cheng Shin's continuous product development, fair market position with industry average EBITDA margins, and low financial leverage because of declining capital expenditure. However, Cheng Shin's geographic concentration in China, the fragmented and competitive global tire market, and the company's weaker scale, technology, and branding power than large global peers counterbalance these strengths.

We have revised our assessment of Cheng Shin's liquidity to strong from adequate, which has no impact on the ratings. The revision mainly reflects Cheng Shin's lower capital spending as well as our forecast of the company's continuous generating positive free operating cash flow over the next two years, supported by increasing consumer mobility following relaxation in the China government's zero COVID policy.

Outlook

The stable rating outlook reflects our view that Cheng Shin will maintain its debt-to-EBITDA ratio at close to 1x over next one to two years. This is despite a likely fall in the company's revenue due to the continued negative impact of the pandemic on economic activity. High market uncertainty in the post-pandemic market and a global economic downturn could still limit Cheng Shin's ability to meaningfully recover its business scale over the next one to two years. However, we believe Cheng Shin will still benefit from relatively sustainable auto market demand in China and decent growth in the Southeast Asia motorcycle market over the same period.

Downward scenario

We may lower the rating if:

- Cheng Shin's profitability and cash flow weaken materially, or if the company takes on more aggressive capital expenditure than we previously forecast. A ratio of debt to EBITDA above 2.5x on a sustainable basis would indicate such deterioration. The possible scenarios for this include rising competition in Cheng Shin's key market of China or the company's failure to penetrate the new tire market for electric vehicles; or

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- Cheng Shin fails to maintain its cost competitiveness or brand strength leading to a sustained decline its global market share. Possible scenarios include a substantial decline in its EBITDA margin driven by a weakening average selling price for passenger car tires and truck and bus tires compared to its peers. An EBITDA margin below 15% for an extended period would indicate such deterioration.

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 volume of passenger car tires in China and higher utilization in other product lines. Meanwhile, Cheng Shin would need to significantly increase its global market share with improving brand recognition. An EBITDA margin above 20% for an extended period would indicate such improvement; and
- At the same time, Cheng Shin improves its free cash flow generation with 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.

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 – Nov. 11, 2021
(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmation

Cheng Shin Rubber Ind. Co. Ltd.

Issuer Credit Rating	twA/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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