

Bulletin:

# Acquisition Of Far EasTone Shares Could Slightly Weaken Asia Cement's Capital Structure

March 9, 2023

This report does not constitute a rating action.

Taiwan Ratings Corp. said today that **Asia Cement Corp.'s** acquisition of shares in a fellow group unit could nudge up the cement maker's debt leverage and slightly weakening its overall capital structure.

Asia Cement (twAA-/Stable/twA-1+) disclosed the acquisition of shares in the group's flagship unit, Far EasTone Telecommunications Co. Ltd., for a market value of new Taiwan dollar (NT\$) 10 billion at the time of purchase on March 8, 2023. The share acquisition will slightly increase Asia Cement's debt leverage on an adjusted basis, reflecting the firm's weaker capital structure after the purchase. Asia Cement's adjusted debt was NT\$41.7 billion at the end of September 2022.

We consider the shares in Far EasTone as a source of liquidity for Asia Cement to make debt repayments, if they are held for the purpose of short-term financial investments for sale. However, the generally high volatility in the market value of equities and stock market liquidity could limit the availability of these funds, if needed. We therefore do not fully net the book value of such investments against Asia Cement's reported debt when we derive our leverage metrics.

Nonetheless, we consider the share acquisition credit neutral, based on the likely limited impact on Asia Cement's already low debt leverage. The company's prudent investment strategy has helped support its conservative capital structure, in our view. The ratio of debt to EBITDA rose slightly to 2.0x for the 12 months ended September 2022, up from 1.7x in the previous September. This followed a sharp downturn in China's cement market in 2022 which sharply weakened Asia Cement's profitability. However, the reopening of China's economy, the China government's support measures for the property sector, and higher public spending could support a recovery in Asia Cement's profitability and cash flow in 2023. This could in turn help sustain the ratio of debt to EBITDA at about 2x in 2023-2024, even after accounting for the negative impact of the share acquisition on adjusted debt leverage.

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