Bulletin:

Taiwan Power's Capital Structure Will Deteriorate Further

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This report does not constitute a rating action.

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Taiwan Power Co.'s debt leverage will rise further in the coming one to two years. Tariff hikes and cash injections could slow the rise, but will not be enough to offset it completely. This is due to high operating costs and high capital expenditure needed to shift Taiwan's power structure toward renewables.

On March 17, 2023, the Taiwan government announced it would raise the average electricity tariff by 11% to new Taiwan dollar (NT$) 3.1154 per kilowatt-hour (kWh), effective April 1, 2023. This is still lower than service costs of NT$4.4054/kWh in January 2023 for the company (Taipower; twAAA/Stable/twA-1+;). The government previously announced plans to inject NT$200 billion in the company during 2023. These measures are insufficient to fund Taipower's operating needs and critical capex without increasing its debt in 2023, in our opinion.

Taipower generated NT$32.1 billion in pretax losses in January 2023. We estimate Taipower will incur pretax losses of NT$190 billion-NT$200 billion in 2023 if fuel costs stay flat, after factoring in the tariff increase. Our assessment assumes that fuel prices will fall gradually for the rest of the year. We forecast Taipower's reported debt could therefore rise to NT$1.4 trillion-NT$1.43 trillion by the end of 2023 from NT$1.2 trillion at the end of June 2022.

We do not expect Taipower to turn around its operations and improve its capital structure anytime soon, given that the company's servicing costs remain significantly higher than the average tariff. Also, costs to increase the use of renewables are much higher costs and will rise faster over the next one to two years, in our view. Such capex could also further increase the company's debt during 2024-2025 if fuel costs do not decrease significantly.

Nonetheless, we believe the Taiwan government will provide additional cash injections and further increase electricity tariffs to improve Taipower's capital base and financial viability if the company's profitability does not improve materially. Accordingly, the ratings on Taipower continue to reflect an almost certain likelihood of extraordinary financial support from the government.

We believe that Taipower will continue its vital role in carrying out the government's electricity policy and serving as a critical vehicle to achieve Taiwan's social and economic policies, particularly during a crisis such as the COVID-19 pandemic. Taipower will maintain its role of providing stable and sufficient electricity and in Taiwan's transition to renewable energy, in our view. The company is the sole provider of electricity transmission and distribution services and generates most of the electricity in Taiwan.