

Research Update:

# China Steel Structure Co. Ltd. Ratings Affirmed At 'twA-/twA-2'; Outlook Stable

May 17, 2023

## Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twA-' long-term and 'twA-2' short-term issuer credit ratings on **China Steel Structure Co. Ltd.** The outlook on the long-term rating is stable. The ratings on China Steel Structure reflect the company's good position in the domestic steel structure market and improving debt leverage. However, several factors offset these credit strengths, including China Steel Structure's highly volatile profitability amid intensive competition, and heavy reliance on short-term debt which results in less-than-adequate liquidity. The ratings also reflect our view that the company is a strategically important member of Taiwan-based parent China Steel Corp. group, which helps to maintain the group's position in Taiwan's steel market.

## Outlook

The stable rating outlook on China Steel Structure reflects our view that the company could maintain relatively stable shipments for its steel structure business over the next year, given the good visibility of its order pipeline. The outlook also reflects our view that China Steel Structure will remain strategically important subsidiary to China Steel group over the next two years. This is despite Taiwan Mask Corp. became the second largest shareholder in the company in 2021.

### Downward scenario

We could lower the long-term rating on China Steel Structure if:

- The company's profitability deteriorates materially due to a weakening steel structure market, as indicated by an average EBITDA interest coverage ratio remaining below 6x on a sustainable basis;
- China Steel Structure's relationship with the parent group and potential group support weakens, as indicated by a decline in China Steel's ownership in the company or lose of majority board seats; or
- We lower the rating on China Steel.

### Upward scenario

We could raise the long-term rating if:

- China Steel Structure improves its ratio of liquidity sources to uses to more than 1.2x over the next 12 months, while at the same time sustainably improving the ratio of debt to EBITDA below 2x. This could happen if the company extends its debt maturity substantially while improving its market position and pricing power.
- At the same time, we raise the rating on China Steel.

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## Related Criteria & Research

### Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- 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
- 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

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## Ratings List

### Ratings Affirmed

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#### China Steel Structure Co. Ltd.

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Issuer Credit Rating	twA-/Stable/twA-2
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