

Research Update:

# Taiwan Cogeneration Corp. Ratings Affirmed At 'twA-/twA-2'; Outlook Stable

May 25, 2023

## Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twA-' long-term and 'twA-2' short-term issuer credit ratings on **Taiwan Cogeneration Corp.** (Taiwan Cogen). The outlook on the long-term rating is stable. The ratings on Taiwan Cogen are supported by the company's low-risk business model involving Taiwan Cogen's four invested gas-fired independent power plants (IPPs). Minimum guaranteed hours and full cost-pass-through terms in the power purchase agreements between the IPPs and Taiwan Power Co. (Taipower) nearly eliminate risks associated with demand and price changes in natural gas. Nonetheless, the IPPs' cash dividend contribution to Taiwan Cogen could decline in 2023-2024 to support their capacity expansions.

In our view, Taiwan Cogen's growing renewable energy business could enhance the company's earnings stability over the next three to five years. These strengths are mitigated by Taiwan Cogen's less-stable cogeneration business, particularly given the prevailing high coal price. In addition, the company's high capital expenditure (capex) needs driven by planned capacity expansion in renewable energy will lead to a significant increase in Taiwan Cogen's debt over the next two years. However, we expect the company to take measures, including a new Taiwan dollar (NT\$) 3.03 billion rights issue to be closed in June 2023, to keep its ratio of FFO to debt around 12% over the next two to three years.

We believe that Taiwan Cogen's credit quality is partly insulated to Taipower and can be rated two notches above Taipower's stand-alone credit profile (SACP). Accordingly, the rating on Taiwan Cogen is currently not constrained by Taipower's 'twbbb+' SACP. Taiwan Cogen is a listed company with significant regulatory oversight by capital market regulators. In addition, Taipower as a state-owned company is subject to the government's budget process as well as administrative and legislative oversight. We do not expect the company to receive approvals for actions that could breach governance standards and hurt the government's reputation. As a result, we believe Taipower is unlikely to significantly undermine Taiwan Cogen's capital structure and damage the interests of other stakeholders for the company's benefit. Furthermore, there are also other non-financial institutional shareholders that have resources to coordinate and block Taipower's actions against the interests of other stakeholders, given Taipower's only 27.66% ownership in Taiwan Cogen.

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## Ratings Score Snapshot

Issuer Credit Rating: twA-/Stable/twA-2

Note: The descriptors below are on a global scale.

Business risk: Satisfactory

- Country risk: Intermediate
- Industry risk: Moderately high
- Competitive position: Satisfactory

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: twbbb+

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Neutral (no impact)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Positive (+1 notch)

SACP: twa-

ESG credit indicators: E-2, S-2, G-2

- Taiwan Power Group SACP: twbbb+
- Entity status within group: Strategically important (The ICR reflects the entity's SACP of 'twa-' and is currently not capped by GCP)
- We assess Taiwan Cogen as an insulated and highly strategic subsidiary of Taiwan Power group. The issuer credit rating on Taiwan Cogen can be two notches above the Taiwan Power group SACP on S&P Global Ratings' global rating scale if its SACP is two or more notches higher than the GCP.

## 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 – November 11, 2021

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## Ratings List

### Ratings Affirmed

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#### Taiwan Cogeneration Corp.

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Issuer Credit Rating	twA-/Stable/twA-2
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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](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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