

Research Update:

Taiwan Hon Chuan Enterprise Co. Ltd. Ratings Affirmed At 'twA-/twA-2'; Outlook Stable

September 22, 2023

Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twA-' long-term and 'twA-2' short-term issuer credit ratings on **Taiwan Hon Chuan Enterprise Co. Ltd.** The outlook on the long-term rating is stable. The ratings on Hon Chuan reflect the company's good market position with satisfactory profitability in its focused markets including Taiwan, China and southeast Asia. The ratings also reflect our view that Hon Chuan will maintain its prudent financial management to keep its debt leverage relatively unchanged over the next two years. Counterbalancing these strengths are Hon Chuan's lower revenue base compared to that of its global peers, as well as higher customer concentration risk, narrower product lines, and exposure in some highly competitive markets.

Outlook

The stable rating outlook reflects our view that Hon Chuan will keep satisfactory profitability through good positions in key markets over the next two years. The company's high revenue contribution from long-term contracts could help generate steady and predictable cash flows. Hon Chuan's capital expenditure (capex) could remain at around new Taiwan dollar (NT\$) 3.5 billion in 2023 and slightly down to NT\$3.2 billion in 2024 along with continuous debt funding needs. However, new capacity additions in Taiwan and China should continue to support Hon Chuan's operating performance and improve the ratio of funds from operations (FFO) to debt to 36% in 2023 and 39% in 2024.

Upward scenario

We could upgrade Hon Chuan if:

- The company improves its profitability and reduces debt through conservative capex or dividend policies, such that the ratio of FFO to debt improves to sustainably over 45%;
- Hon Chuan's competitive position strengthens materially. This could happen if its operating scale improves significantly while the company maintains a good profit margin and market leadership in focused markets, as well as a ratio of FFO to debt consistently above 25%; or
- Hon Chuan builds and maintains a stronger profit margin than its global packaging peers over the next two years.

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Downward scenario

We see a low likelihood that we would downgrade Hon Chuan over the next one to two years; however, we could downgrade the company if the ratio of FFO to debt falls close to 25% for an extended period. This could occur if:

- Hon Chuan faces increasing competitive pressure or loses key customers;
- There is a sharp material price rebound without sufficient cost passthrough to its clients and significantly erodes profitability; or
- The company adopts aggressive debt-funded capex or investments that materially increases debt.

Related Criteria & Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- 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

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed

Taiwan Hon Chuan Enterprise Co. Ltd.

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 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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