

Research Update:

Formosa Taffeta Co. Ltd. Ratings Affirmed At 'twA/twA-1'; Outlook Stable

October 23, 2023

Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twA' long-term and 'twA-1' short-term issuer credit ratings on **Formosa Taffeta Co. Ltd.** The outlook on the long-term rating is stable.

The ratings on Formosa Taffeta reflect our view that several factors will continue to support the company's competitive strength in woven fabric business over the next two years. These include Formosa Taffeta's good technology capabilities in high-end and functional products, well-established long-term relationships with key customers and diversified production sites in Taiwan, China and Vietnam. However, Formosa Taffeta could face profitability and competitive pressures over the next one to two years, given slowing downstream demand amid continued economic uncertainty and industry competition for fabric and tire cord businesses.

The ratings on Formosa Taffeta also incorporate our view that the company's shareholding in **Formosa Petrochemical Corp.** could provide an additional financial buffer, given the sizeable cash dividends it receives. In addition, the ratings factor in our view that Formosa Taffeta will maintain its moderately strategic status within the **Formosa Plastic Corp.** group over the next two years.

Outlook

The stable rating outlook reflects our view that Formosa Taffeta's ratio of debt to EBITDA will be 4.0x-4.5x in 2023 and drop to 3.5x-4.0x in 2024. The EBITDA margin could come under pressure over the same period due to subdued downstream demand amid the gloomy global economy. However, Formosa Taffeta's continuous cash flow generation to support debt repayment, along with cash dividends received from Formosa Petrochemical should help the company to continue reduce its debt over the next two years.

Downward scenario

We may lower the long-term rating on Formosa Taffeta if the company's adjusted ratio of debt to EBITDA rises to above 5x without any sign of recovery, which could result from:

- The EBITDA margin of its tire cord and fabric businesses deteriorates further than our base case suggests due to dampened downstream demand, volatile raw material prices, rapidly changing market trends or intensifying competition; or
- The company receives lower cash dividends from its equity investments than under our base case; or

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- Formosa Taffeta's cash inflow cannot support its dividend payout and capital expenditure; or
- The company engages in more aggressive investment to follow the group's investment strategy.

Upward scenario

We view the likelihood of an upgrade is low over the next year due to the gloomy economic outlook globally. However, we could raise the long-term rating on Formosa Taffeta if:

- The company's profitability materially and sustainably improved because of a demand recovery for its fabric and tire cord businesses or a significant increase in contribution from the higher value-added products of both businesses; and
- At the same time, the company maintains its prudent capital expenditure and investment plans and improve its debt-to-EBITDA ratio to below 4x through business cycles.

Related Criteria & Research

Related Criteria

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

Formosa Taffeta Co. Ltd.

Issuer Credit Rating	twA/Stable/twA-1
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