

Bulletin:

Taiwan Cement's Debt Leverage Faces Continued Pressure From High Capital Spending

November 30, 2023

Taiwan Ratings Corp. said today that Taiwan Cement Corp's plans for continued high capital spending could prevent the company from lowering its debt leverage materially over the next two to three years. That's based on the likely materialization of the cement maker's plans to increase its overseas investments.

Taiwan Cement (twA+/Negative/twA-1) recently announced its intention to increase the company's stockholding in European-based Oyak Denizli Çimento Anonim Şirketi and Cimpor Portugal Holdings SGPS S.A., as well as invest in the construction of a lithium-ion battery plant in Canada.

The investment plans will further diversify Taiwan Cement's revenue mix and reduce its dependence on the China cement market. Taiwan Cement plans to increase its holdings in Oyak Denizli and Cimpor to 60% and 100%, respectively, from 40% currently. The total consideration for the investments will be about new Taiwan dollar (NT\$) 26.6 billion. Taiwan Cement will consolidate the two investments into its financial statements once it finalizes the transactions, likely in the first quarter of 2024.

The two European cement companies generated about NT\$38 billion in revenue and about NT\$4.4 billion in net income in the first three quarters of 2023. The increased stockholding will also significantly increase Taiwan Cement's sales of low-carbon cement, thereby enhancing the company's competitiveness amid tightening climate regulations. In addition, Taiwan Cement plans to build a lithium-ion battery factory in Canada which will require approximately NT\$25.5 billion. The factory would increase Taiwan Cement's lithium-ion battery output to 5.1 gigawatt hours (GWh) in 2028 from 3.3GWh in 2023, and enhance the company's position in the global market for high performance lithium-ion batteries.

The planned capital spending would materially increase Taiwan Cement's debt over the next two to three years if there is no significant equity funding involved. The consolidation of Cimpor and Oyak Denizli along with the improving performance of Taiwan Cement's cement business in China could reduce its ratio of debt to EBITDA slightly to 3.5x-3.7x in 2024. However, rising spending on the construction of the lithium-ion battery plant in Canada in 2025-2027 will likely prevent further reduction in debt leverage over the same period. Moreover, the acquisition of Oyak Denizli will expose Taiwan Cement to high country risk in Turkey with very high inflation and interest rates. The planned new lithium-ion battery plant could also increase business risk associated with the rapidly evolving battery market in addition to the project's high execution risk.

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