

Research Update:

# Cheng Shin Rubber Ind. Co. Ltd. 'twA/twA-1' Ratings Affirmed; Outlook Stable

February 6, 2024

## Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twA' long-term and 'twA-1+' short-term issuer credit ratings on **Cheng Shin Rubber Ind. Co. Ltd.** The outlook on the long-term rating is stable. The ratings on Cheng Shin continue to reflect the company's satisfactory product diversity, supported by its continuous product development, fair market position with industry average EBITDA margins, and low financial leverage because of very limited expansionary capital expenditure needs. However, Cheng Shin's geographic concentration in China, the fragmented and competitive global tire market, and the company's weaker scale, technology, and branding power than larger global peers counterbalance these strengths.

## Outlook

The stable rating outlook reflects our view that Cheng Shin will maintain its debt-to-EBITDA ratio at below 1x over the next 12-24 months. This is underpinned by the company's improving profitability from its better product mix and lower raw material prices, as well as limited capital expenditure needs. This is despite revenue growth will remain moderate, given the intense competition in company's core market of China. High market uncertainty in the post-pandemic market and a potential global economic downturn could also limit Cheng Shin's ability to meaningfully recover its business scale over the next one to two years.

### Downward scenario

We may lower the rating if:

- Cheng Shin's profitability and cash flow weaken materially, or if the company takes on more aggressive capital expenditure than we previously forecast. A ratio of debt to EBITDA above 2.5x on a sustainable basis would indicate such deterioration. The possible scenarios for this include rising competition in China or if the company fails to penetrate the new tire market for electric vehicles; or
- Cheng Shin fails to maintain its cost competitiveness or brand strength leading to a sustained decline in its market share. Possible scenarios for this include a substantial decline in Cheng Shin's EBITDA margin driven by a weakening average selling price for passenger as well as truck and bus tires compared to its peers. An EBITDA margin below 15% for an extended period would indicate such deterioration.

### PRIMARY CREDIT ANALYST

**James Hung, CFA**  
Taipei  
+886-2-2175-6839  
james.hung  
@spglobal.com  
james.hung  
@taiwanratings.com.tw

### SECONDARY CONTACT

**Beatrice Chen**  
Taipei  
+886-2-2175-6829  
beatrice.chen  
@spglobal.com  
beatrice.chen  
@taiwanratings.com.tw

## Upward scenario

We may raise the rating if:

- Cheng Shin meaningfully restores its sales growth and strengthens its profitability over the next two years, as reflected in a recovery in sales volume of passenger car tires in China and higher utilization in other product lines. Meanwhile, Cheng Shin would need to significantly increase its global market share with improving brand recognition; and
- At the same time, Cheng Shin improves its free cash flow generation with a reduction in debt to sustain the debt-to-EBITDA ratio materially below 2x. This could be achieved if the company reduced its working capital needs or cash dividends without making further aggressive capacity expansion.

## Related Criteria & Research

### Related Criteria

- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- 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
- 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

#### Cheng Shin Rubber Ind. Co. Ltd.

Issuer Credit Rating	twA/Stable/twA-1
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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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