

Bulletin:

Tariff And Capital Boost Won't Trim Taiwan Power's Debt

March 26, 2024

This report does not constitute a rating action.

TAIPEI (S&P Global Ratings) March 25, 2024--We anticipate **Taiwan Power Co.'s** (Taipower) debt leverage will continue to rise in 2024-2026. That's despite government plans for a tariff rise and capital injection to bolster the power player's finances.

As well as bearing relatively high power generation and power purchase costs, the need to invest heavily in renewable energy generation also incurs a cost burden state-owned Taipower (twAAA/Stable/twA-1+). This follows a referendum to phase out nuclear power by 2025. Along with a long-term government policy to limit tariff increases, these costs have pushed up Taipower's debt significantly.

The Taiwan government has recently announced several supportive capital plans for the utility provider, including an increase in the average electricity tariff by 11% to new Taiwan dollar (NT\$) 3.4518 per kilowatt-hour (kWh), effective April 1, 2024.

This still falls short of Taipower's service cost of NT\$3.7665/kWh as of January 2024.

In addition, the government had earlier announced a plan to inject NT\$100.1 billion into Taipower during 2024 to absorb some of the utility provider's accumulated losses, which stood at NT\$382.6 billion at the end of 2023. We believe these measures are insufficient to fund Taipower's cost gap and critical capital expenditure needs over the next three years without a further increase in debt.

Taipower recorded a pre-tax loss of NT\$198.5 billion in 2023, and we estimate the company will incur a net loss in the range of NT\$100 billion-NT\$120 billion in 2024, excluding a potential one-time government subsidy. This factors in the 11% tariff hike and a potential decline in input costs, including a 45%-55% decline in thermal coal cost and 15%-20% decline in natural gas cost under our assumptions for fuel prices in 2024.

Meanwhile, the Taiwan government announced an increase to the base interest rate of 12.5 basis points on March 21, 2024, which will add to Taipower's interest burden and debt. We estimate Taipower's reported debt will increase to NT\$1.70 trillion-NT\$1.75 trillion by the end of 2024, up from NT\$1.52 trillion at the end of 2023.

Nonetheless, we believe the Taiwan government will continue to provide financial support to improve Taipower's capital structure and financial viability if the company's profitability does not improve materially over the next two to three years. Accordingly, the ratings on Taipower continue to reflect an almost certain likelihood of extraordinary financial support from the government, given the company's critical role implementing the government's energy policy.

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