Media Release:

Outlook On Taiwan Cement Revised To Stable From Negative On Improving Profitability; 'twA+/twA-1' Ratings Affirmed

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Rating Action Overview

- **Taiwan Cement Corp.** is Taiwan's largest cement producer with an expanding presence overseas. It has also diversified into green power generation, energy storage, and lithium-ion battery manufacturing. The company generated EBITDA of new Taiwan dollar (NT$) 17.4 billion in 2023.
- Consolidation of two overseas units, Cimpor and OYAK, will help stabilize EBITDA generation from cement operations and reduce dependence on the China market. Meanwhile, rising green power generation and the ramp up lithium battery production will enhance Taiwan Cement's overall EBITDA growth in 2024-2025.
- Equity funding and tightened working capital management reduced debt substantially in 2023, which supports higher capital expenditure (capex) in 2024-2025. This, together with faster growth in EBITDA, could enable Taiwan Cement to keep its ratio of debt to EBITDA below 3x in 2024-2025.
- We have therefore revised our rating outlook on Taiwan Cement to stable from negative.
- At the same time, we affirmed the 'twA+' long-term and 'twA-1' short-term issue credit ratings on the company.

Rating Action Rationale

The outlook revision reflects our view of stable and possibly improving credit metrics for Taiwan Cement over the next one to two years. We believe that by consolidating Turkey-based OYAK Cimento Fabrikalari Anonim Sirketi and Portugal-based Cimpor Portugal Holdings SGPS S.A. into its financial statements, Taiwan Cement will improve its geographical diversity and profit stability while at the same time lowering its dependence on the more volatile cement market in China. This should help Taiwan Cement to generate more stable and likely stronger profitability from its overall cement business over the coming 12-24 months. On March 6, 2024, Taiwan Cement completed its acquisition of a further 20% holding in the holding company of OYAK, TCC OYAK Amsterdam Holdings B.V., which raises its shareholding in the company to 60% from 40%. This brought Taiwan Cement full control over OYAK without significant restrictions from the material minority shareholder.

On the same day, it raised its shareholding in Cimpor to 100% from 40% previously. Taiwan Cement began consolidating the two companies into its financial statements on the same date. The two acquirees are the largest cement producers in Turkey and Portugal, accounting for about 15% and 53% market shares, respectively, in 2023. Together the two firms generated about NT$50 billion in revenue and NT$11.2 billion in net income in 2023. On a pro forma consolidation basis for 2023, the two acquirees' revenue will account for about 42% of Taiwan Cement's overall cement revenue, partly due to weak market conditions in China. Nonetheless, we view Turkey's high country risk, including economic uncertainty with high inflation and vast currency depreciation, brings some business and financial risks to Taiwan Cement.

Incremental profits from Cimpor and OYAK will more than offset the contribution from China's weak cement market in 2024-2025. We do not foresee China's cement market reaching its low in 2024, given a still-ongoing slump in the domestic property sector. In addition, China cement demand is likely to structurally decline over the next few years, given the government's policy of lowering its dependency on property development as a major growth driver. We therefore forecast Taiwan Cement's cement operations in China will continue to incur operating losses in 2024 before recovery begins in 2025.

A stabilizing property market, retirement of aged capacity with tightened environmental requirements, and strengthened staggered production should support such stabilization. However, we expect the profitability of China's cement business will remain low throughout 2025-2026. Nonetheless, relatively stable profitability from operations in Taiwan, Portugal, and Turkey should support the profitability of the company's overall cement operations. We now forecast its cement business will generate NT$15 billion-NT$16 billion in operating profits in 2024 and NT$17 billion-NT$18 billion in 2025.

Taiwan Cement's energy storage engineering and construction (E&C) and charging station business in Europe will take longer to turn profitable. We expect the company's energy storage E&C and electric vehicles (EV) charging business will remain loss-making throughout 2024-2025 before it achieves scale economies through a material increase in the revenue base. This business operates under Taiwan Cement's subsidiary, NHOA S.A. Accordingly, we forecast NHOA can only gradually narrow its operating losses over the next one to two years.

By contrast, we forecast Taiwan Cement's green power and energy storage business will continue to grow with stable profitability over the same period. However, the lengthy regulatory review process could constrain the pace of its capacity expansion. In addition, we expect power supply subsidiary Ho-Ping Power Co. will generate stable, albeit significantly lower, profits in 2024-2025. An adjustment to Ho-Ping Power's power purchase agreement with Taiwan Power Co. has helped Ho-Ping Power to make a turnaround in 2023 after recording significant losses in 2022.

Taiwan Cement has made good progress ramping up the yield rate of battery production at its new factory, but demand and competition risks persist. The company has made significant progress increasing its production yield rate to achieve mass production at its new battery factory. In addition, new long-term supply contracts with key prospective clients will secure the new factory's utilization. The initial clients for Taiwan Cement's high-performance batteries are mostly established consumer electronics and electric car and bike manufacturers that have embedded Taiwan Cement's batteries in their new product designs, which partly reduces demand risk. However, these contracts carry a limited penalty for its clients to terminate. Accordingly, we forecast Taiwan Cement can significantly grow its battery revenue in 2024-2025.

While revenue from battery sales is likely to grow rapidly over the next two year, it is likely to take more time to achieve profitable, which we estimate for some time in 2025. This is because of the high costs associated with a lower yield rate and utilization for the new factory in 2024. In addition, we believe the long-term outlook of this business line is more uncertain than for Taiwan Cement's other businesses. This is due to the rapid technological evolution of various end applications and potential competition from much larger global battery makers.

Enhanced EBITDA generation could sustain the ratio of debt EBITDA below 3x, despite higher capex. We forecast Taiwan Cement will see growth in EBITDA of about 90% in 2024, reaching NT$33 billion-NT$34 billion. This is mostly supported by the consolidation of Cimpor and OYAK and to a lesser extent, narrowing losses at NHOA, as well as Taiwan Cement's China cement business and battery production business. We anticipate EBITDA will continue to improve in 2025, particularly following enhanced battery revenue and margins, and further improvement in China's cement market performance. These factors should enable Taiwan Cement to keep its ratio of debt to EBITDA below 3x in 2024-2025, despite rising debt for the recent acquisitions of Cimpor and OYAK, and materially higher capex over the period.

We forecast debt will climb to about NT$92.3 billion in 2024 from NT$60.3 billion in 2023. The increase stems from about NT$21.3 billion for the increasing shareholdings in Cimpor and OYAK, as well about NT$32 billion for expansion in green energy, energy storage, and battery production. Taiwan Cement plans to maintain high capex throughout 2025-2026 with continued investment in renewables, environmental services, energy storage, and improvements at its cement fabs. The company also plans a new battery factory in Canada, which could keep capex elevated after 2025. In addition, Taiwan Cement is likely to maintain a higher level of cash dividend over the next two years, amid strong confidence in its earnings growth. The high capex together with higher dividends will prevent the company from reducing debt over the next two to three years without equity funding, in our view.

The ratings factor in our expectation that Taiwan Cement will take adequate action, including equity funding, to maintain debt leverage consistent with the ratings if the company's profitability falls short of our expectations or it takes on material capex additions beyond our base case. The company's equity issues and tightening of working capital management that materially reduced debt in 2023 support our expectation. We do not factor in equity funding in our base case projection period.

Liquidity to strengthen on extended debt maturity profile. We assess that Taiwan Cement's liquidity buffer has strengthened for the next two years. This is mostly supported by a material decrease in short-term debt maturity and higher cash balance after significant debt reduction in 2023. In addition, the company has good access to capital markets, as indicated by equity issues and additions of banking facilities. Accordingly, we have revised our liquidity assessment on Taiwan Cement to exceptional from strong.

Outlook

The stable rating outlook reflects our view that Taiwan Cement could materially increase its EBITDA generation and maintain the ratio of debt to EBITDA slightly below 3x in 2024-2025. This follows the consolidation of OYAK and Cimpor into its financial statements, and growing revenue from green energy and battery production, albeit amid higher capex and cash dividend payouts. On the one hand, our base case assumes accelerated production at the company's new lithium-ion battery plant in 2024, which will allow its battery division to achieve profitability in 2025. On the other hand, we assume the company's cement business in China will remain weak over the same period and we expect the company will maintain the same or higher cash dividends in 2025.

Downside scenario

We could lower the long-term rating on Taiwan Cement if we believe the ratio of debt to EBITDA will remain materially above 3x without prospects for improvement. This could occur if:

- Taiwan Cement adopts a more aggressive business expansion strategy or dividend policy, leading to a substantial increase in debt beyond our base case; its operating environment deteriorates possibly due to sluggish demand, weakening production discipline, or a substantial increase in key operating costs without a corresponding price reflection; or its aggressive investments in green and battery businesses fail to make the significant contribution to EBITDA that we forecast; or
- The company fails to actively manage its debt leverage through measures such as raising additional equity.

Upside scenario

We could raise the ratings on Taiwan Cement if the company could maintain its ratio of debt to EBITDA below 2x. This could happen if:

- The company controls its debt leverage, such as through equity raising to reduce its reliance on debt funding, or it takes a more conservative approach to capital spending and cash dividend payouts; and
- EBITDA generation grow significantly, possibly brought by green and battery businesses and a sustainable rebound in the profitability of the company's cement business in China.

Our Base-Case Scenario

Assumptions

- S&P Global's projection for China's real GDP to grow 4.6% in 2024 and 4.8% in 2025. However, the recovery in China's residential property market could lag other segments, thereby keeping cement demand weak over the next one to two years.
- S&P Global's projection for Taiwan's real GDP to grow 3.0% in 2024 and 2.6% in 2025. A slowing property market could offset continued private investments and cap cement demand after a decline in 2023.
- Turkey's economy to grow by 6.8% in 2024 and 4.7% in 2025; while Portugal's economy to grow 1.4% in 2024 and 1.8% in 2025.
- Our base case forecast that Taiwan Cement's revenue will grow 60%-63% in 2024 and 4%-7% in 2025, mostly due to the consolidation of Cimpor and OYAK in March 2024.
- EBITDA margin will improve to 20%-22% in 2024 and to 22%-23% in 2025 from 17.7% in 2023.

- Taiwan Cement's sales volume in China to increase by a low single digit in 2024-2025 amid a drop in construction activities in the property market. Cement price could drop by a mid-to-high single digit in 2024, following a slight rebound in 2025.
- Taiwan Cement's sales in Taiwan will stay largely flat over the next two years with average selling prices dropping slightly due to competition from imports and a likely cooling in the property market.
- OYAK could see cement sales grow slightly with reconstruction needs, driving moderate revenue and earnings growth in Taiwan dollar term. Cimpor will generate stable performance given a relatively stable economy.
- Operating losses for Taiwan Cement's China operations could narrow significantly in 2024 and turn around in 2025. Performance of the company's Taiwan operations to decline slightly amid rising price pressure. The consolidation of Cimpor and OYAK could raise the overall gross margins before depreciation and amortization from cement sales to 27.5%-28.5% in 2024 and 28.5%-29.5% in 2025.
- Revenue from green power and energy storage will more than double in 2024 and grow by about 30% in 2025 supported by aggressive capacity additions and rapid growth in NHOA's energy storage E&C revenue. Nonetheless, NHOA will remain loss-making in 2024-2025 because the company is still expanding its EV charging station network. This will likely keep Taiwan Cement's overall green businesses in the red in 2024-2025, despite growing operating profits from energy storage and green power operations in Taiwan.
- Ho-Ping Power's operating profits are likely to drop materially to NT$4.0 billion-NT$4.5 billion, given that Taiwan Power's coal procurement prices will drop significantly in 2024-2025.
- Taiwan Cement's battery sales will increase sharply in 2024-2025 after dropping in 2024 following the commissioning of a new factory in southern Taiwan in the second half of 2023 which become fully operational in 2024. The business could more than halve its operating losses in 2024 from NT$1.6 billion in 2023 with production ramping still in progress. The business should turn to profitability in 2025 with capacity utilization reaching 90% in our base case.
- Capex of NT$32 billion-NT$33 billion in 2024 and NT$27 billion-NT$28 billion 2025, mainly to support capacity expansion in green power, energy storage and battery production, and waste management. Capex on energy efficiency improvements of its cement capacity will also rise under the company's decarbonization drive.
- Taiwan Cement will pay cash dividends (including dividends to Ho-Ping Power's minority shareholder) of NT$9.4 billion-NT$9.8 billion in cash dividends in 2024 and moderately increase from the level in 2025-2026 amid rising earnings.
- We net 89.2% of Taiwan Cement's cash and liquid investments with debt.
- We proportionally consolidate the financial figures of Ho-Ping Power based on Taiwan Cement's ownership.
- We view Taiwan Cement's NT$10 billion preferred shares as having intermediate equity content and adjust 50% of its book value as debt and the rest as equity.

Taiwan Cement Corp.--Forecast summary

Industry sector: Capital goods

(Mil. NT$)	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	102,960.0	104,735.0	98,542.0	158,536.0	177,988.0	181,530.0
EBITDA (reported)	26,850.0	9,678.0	19,315.0	34,091.0	40,276.0	42,908.0
Plus/(less): Other	485.0	1,181.0	(1,901.0)	(791.0)	(814.0)	(977.0)
EBITDA	27,335.0	10,859.0	17,414.0	33,300.0	39,461.0	41,931.0
Less: Cash interest paid	(2,404.0)	(3,376.0)	(4,178.0)	(6,629.0)	(8,242.0)	(8,441.0)
Less: Cash taxes paid	(6,740.0)	(4,156.0)	(1,729.0)	(6,153.0)	(7,257.0)	(7,866.0)
Funds from operations (FFO)	18,192.0	3,326.0	11,507.0	20,518.0	23,962.0	25,625.0
Cash flow from operations (CFO)	19,742.0	10,918.0	29,172.0	34,134.0	29,570.0	32,827.0
Capital expenditure (capex)	18,273.0	22,977.0	24,510.0	32,109.0	27,018.0	20,556.0
Free operating cash flow (FOCF)	1,468.0	(12,059.0)	4,662.0	2,025.0	2,552.0	12,271.0
Debt (reported)	173,560.0	177,748.0	161,297.0	189,079.0	197,246.0	198,960.0
Plus: Lease liabilities debt	3,669.0	3,950.0	4,234.0	4,539.0	4,866.0	5,216.0
Less: Accessible cash and liquid Investments	(106,918.0)	(109,808.0)	(110,038.0)	(104,456.0)	(103,551.0)	(105,700.0)
Plus/(less): Other	5,048.0	1,543.0	4,766.0	3,223.0	3,463.0	2,983.0
Debt	75,359.0	73,433.0	60,259.0	92,385.0	102,024.0	101,459.0
Cash and short-term investments (reported)	126,558.0	122,365.0	127,229.0	120,000.0	120,000.0	120,000.0
Adjusted ratios						
Debt/EBITDA (x)	2.8	6.8	3.5	2.8	2.6	2.4
FFO/debt (%)	24.1	4.5	19.1	22.2	23.5	25.3
Annual revenue growth (%)	(5.3)	1.7	(5.9)	60.9	12.3	2.0
EBITDA margin (%)	26.5	10.4	17.7	21.0	22.2	23.1

All figures are adjusted by Taiwan Ratings Corp., unless stated as reported. a--Actual. e--Estimate. f--Forecast.

Liquidity: Exceptional

The short-term issuer credit rating is 'twA-1'. We believe Taiwan Cement has exceptional liquidity to meet its needs over the next 24 months, which reflects our view that the ratio of liquidity sources to uses will be about 2.6x over the 12 months ending Dec. 31, 2024, and 3.1x over the next 12 months ending Dec. 31, 2025. It also reflects our belief that liquidity sources will continue to exceed uses even if Taiwan Cement's EBITDA was to decline by 50%.

In addition, we view the company has a sound relationship with banks and a generally high standing in the credit market in Taiwan, as indicated by its capability in obtaining low-cost funding through banks and capital market. Moreover, Taiwan Cement and its subsidiaries could meet financial covenants over the next two years with sufficient headroom, underpinned by the company's high cash balance and satisfactory cash flow generation.

Principal liquidity sources:

- Cash and short-term investments of about NT$127 billion as of the end of 2023.
- Funds from operations of NT$28 billion-NT$37 billion annually in 2024-2025.
- Undrawn committed credit facilities of NT$74 billion expiring beyond Dec. 31, 2024, and NT$25.4 billion expiring beyond Dec. 31, 2025 (as of Dec. 31, 2023).

- About NT$27 billion new bank facilities mainly for funding the acquisition of OYAK and Cimpor shares in March 2024.

Principal liquidity uses:

- Debt maturities of NT$36.9 billion in 2024 and NT$7.9 billion in 2025 as of Dec 31, 2023.
- Capex of NT$27 billion-NT$32 billion annually in 2024-2025.
- Working capital out flows of NT$1 billion-NT$3 billion annually in 2024-2025
- About NT$21.1 billion for the acquisition of OYAK and Cimpor shares in March 2024.
- Cash dividends of NT$7.5 billion-NT$10 billion annually in 2024-2025.

Ratings Score Snapshot

Taiwan Cement Corp.		
	To	**From**
Issuer Credit Rating	twA+/Stable/twA-1	twA+/Negative/twA-1
Business risk	Satisfactory	Satisfactory
Country risk	Intermediate	Moderately high
Industry risk	Intermediate	Intermediate
Competitive position	Satisfactory	Satisfactory
Financial risk	Significant	Significant
Cash flow/Leverage	Significant	Significant
Anchor	twa	twa
Modifiers		
Diversification/Portfolio effect	Neutral (no impact)	Neutral (no impact)
Capital structure	Positive (+1 notch)	Positive (+1 notch)
Financial policy	Neutral (no impact)	Neutral (no impact)
Liquidity	Exceptional (no impact)	Strong (no impact)
Management and governance	Neutral (no impact)	Neutral (no impact)
Comparable ratings analysis	Neutral (no impact)	Neutral (no impact)
Stand-alone credit profile (SACP)	twa+	twa+
Note: The descriptors are on a global scale.		

Related Criteria & Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- Criteria | Corporates | General: Sector-Specific Corporate Methodology - April 04, 2024
- 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: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions - March 02, 2022
- 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 – November 11, 2021

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

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Taiwan Cement Corp.		
Issuer Credit Rating	twA+/Stable/twA-1	twA+/Negative/twA-1

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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