

Media Release:

Chang Chun Plastics And Chang Chun Petrochemical Ratings Affirmed At 'twAA/twA-1+'; Outlook Stable

May 28, 2024

Rating Action Overview

- The liquidity cushion of **Chang Chun Plastics Co. Ltd.** and **Chang Chun Petrochemical Co. Ltd.** has strengthened. Support will come from positive free cash flow, lower capital expenditure (capex), and a prudent dividend payout policy. We therefore revised our liquidity assessment for the two companies to exceptional from strong.
- On May 28, 2024, we affirmed our 'twAA' long-term issuer credit rating and 'twA-1+' short-term issuer credit rating on the two Taiwan-based chemical companies.
- The stable rating outlook reflects our view that the Chang Chun group can enhance its financial buffer with a net cash position over the next two years. We expect the group to improve profitability moderately in 2024-2025 despite subdued demand and excess capacity from China's chemical firms.

Rating Action Rationale

The ratings continue to reflect the group's strong regional market position for some specialty chemicals. In our view, broad product offerings, diverse end-applications, highly integrated production, and good product and process technologies will continue to underpin profitability and cash flow. Our rating affirmation also reflects the group's enhanced financial buffer, with a large net cash position. This could well support capex and cash dividend payouts over the next two years.

The group's lack of integration in basic feedstock chemicals such as ethylene and propylene will partially offset its strengths. So will high volatility in product prices and product margins due to intense competition, particularly for commodity chemicals. Furthermore, entry barriers are limited for some of its products. The group also has limited scale and technology resources compared with larger peers.

Liquidity buffer has expanded with positive free cash flow, moderating expansion, and a prudent dividend policy. We forecast group EBITDA will improve over the next two years, with higher spreads for several products. We also expect group capex to drop to u New Taiwan dollar (NT\$) 12 billion-NT\$14 billion without significant expansion in commodity chemical products. Capex was NT\$24.5 billion in 2022 and NT\$16.1 billion in 2023.

Meanwhile, the group will likely maintain a prudent cash dividend policy, with 50%-60% payouts over the next two years. As such, we estimate it will have a ratio of liquidity sources to liquidity uses of about 3x in 2024 and above 4x in 2025.

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Our assessment of the group's liquidity buffer also reflects our forecast that liquidity sources will exceed uses even if EBITDA declines by 50% from our base case. We believe the group is capable of absorbing high-impact low- probability events without refinancing, given its net cash position.

In addition, the group has well-established and solid relationships with banks and a generally high standing in credit markets, as the second largest chemical group in Taiwan. The group's low interest rates and good relationships with key local banks indicate this.

Principal liquidity sources:

- Cash and short-term investments of NT\$87.3 billion as of end-2023.
- Funds from operations of NT\$24 billion-NT\$26 billion in 2024, and NT\$27 billion-NT\$29 billion in 2025.

Principal liquidity uses:

- Debt maturities of about NT\$14 billion in 2024.
- Working capital outflow of NT\$5 billion-NT\$6 billion in 2024 and NT\$2.5 billion-NT\$3.5 billion in 2025.
- Capex of about NT\$14 billion in 2024 and NT\$12 billion in 2025.
- Cash dividend payouts of NT\$4 billion-NT\$5 billion a year in 2024-2025.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	twAA/Stable/twA-1+	twAA/Stable/twA-1+
Business risk	Satisfactory	Satisfactory
Country risk	Moderately High	Moderately High
Industry risk	Intermediate	Intermediate
Competitive position	Satisfactory	Satisfactory
Financial risk	Modest	Modest
Cash flow/Leverage	Modest	Modest
Anchor	twaa	twaa
Modifiers		
Diversification/Portfolio effect	Neutral (no impact)	Neutral (no impact)
Capital structure	Neutral (no impact)	Neutral (no impact)
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	Positive (+1 notch)	Positive (+1 notch)
Stand-alone credit profile (SACP)	Not assigned	Not assigned
Group credit profile	twaa+	twaa+
Entity status within group	Highly Strategic	Highly Strategic
Note: The descriptors are on a global scale. We use our Principle of Credit Ratings criteria to assess a proxy GCP. The scores above are for the GCP		

Related Criteria & Research

Related Criteria

- 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: 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

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

Ratings List

Ratings Affirmed

Chang Chun Petrochemical Co. Ltd. & Chang Chun Plastics Co. Ltd.

Issuer Credit Rating	twAA/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 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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