Media Release:

Outlook On Asia Cement Revised To Stable From Negative On Improving Leverage; 'twAA-/twA-1+' Ratings Affirmed

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Rating Action Overview

- **Asia Cement Corp.** is Taiwan's second largest cement producer and has diversified into power generation. It also receives significant cash dividends from its large portfolio of equity holdings. The company generated EBITDA of new Taiwan dollar (NT$) 15.9 billion in 2023.
- Active cash flow and debt management lowered Asia Cement's debt and improved its debt leverage, leaving sufficient financial buffer for a likely privatization of its China subsidiary and rising capex in 2025 and afterwards.
- We anticipate the company's cement and power generation operations in Taiwan will continue to generate good performances, partly offsetting the weak performance at its cement operations in China.
- We have revised our rating outlook on Asia Cement to stable from negative.
- At the same time, we affirmed the 'twAA-' long-term and 'twA-1+' short-term issue credit ratings on the company.

Rating Action Rationale

The outlook revision reflects our view that tightening working capital management and the disposal of equity investments have reduced the company's lowered debt beyond our previous forecast. Asia Cement's tightened working capital management over the past year has supported steady operating cash flow generation. That's despite weak market conditions in China that narrowed the company's profits in 2023-2024. We forecast the company's active cash flow and debt management will support further debt reduction and sustain the ratio of debt to EBITDA slightly below 2x over the next two years.

In addition, Asia Cement has actively managed its investments to lower its debt, including the disposal of shares in Far Eastern New Century Corp. (FENC) with a total consideration of NT$4.5 billion and shares in Far EasTone Telecommunications Co. Ltd. with a total consideration of NT$8.7 billion. As of the end of June 2024, Asia Cement has substantially lowered its debt, supporting improvement in the ratio of debt to EBITDA to slightly below 2x, despite weaker profitability over the period. Several other factors support the ratings on Asia Cement. These include the financial flexibility provided by Asia Cement's holdings in FENC and U-Ming Marine Transport Corp., as well as its valuable investment property.

Good profitability from cement operations in Taiwan and an improving performance at the company's independent power plant subsidiary partly offset persistently weak profitability at its China operations. We do not foresee China's cement market reaching bottoming out 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 China government's policy to reduce its dependency on property development as a major growth driver. We forecast Asia Cement's cement operations in China will incur operating losses in 2024. Performance is likely to improve gradually over the next one to two years amid improving market discipline in China. However, chronic overcapacity in China's cement market means the profitability of Asia Cement's operations there are unlikely to return the level before the recent slump anytime soon.

We forecast the strong performance of Asia Cement's operating performance in Taiwan will partly offset the continued weakness of its China operations. We expect the profitability of the company's Taiwan operations will remain strong amid declining coal prices over the next one to two years. More importantly, the oligopoly market structure in Taiwan supports stable local cement prices That's despite a decline in Asia Cement's total cement shipments due to the impact of rising imports, softening domestic demand, and declining exports. The company's cement operations in Taiwan generated NT$2 billion in operating profits in the first half of 2024, up from NT$1.6 billion in the same period of 2023, despite business interruption caused by a major earthquake near the company's facilities in eastern Taiwan.

We also forecast the company's independent power plant operations through its subsidiary, ChiaHui Power Corp., will record improved performance over next two years due to rising utilization. Taiwan Power Co. (Taipower) has increased the cap on the utilization rate of ChiaHui Power's power generation capacity amid tightening electricity supply in Taiwan in 2024. We forecast ChiaHui will generate stable operating performance based on its long-term power purchase agreement with Taipower. The firm's cash dividends from key equity holdings in FENC and U-Ming will also rise in 2025. That's because rising recycled polyethylene terephthalate revenue, improving product mix with higher value-added fabrics and materials, and narrowing losses at its pure terephthalic acid production will improve FENC's profitability. Heightened geopolitical tensions have also kept bulk cargo freight rates elevated over the past few quarters.

Asia Cement has the financial capacity to accommodate a likely rise in capital spending after 2025. We believe the company's capital expenditure (capex) will likely stay at around NT$3 billion in 2024 and 2025 in the absence of major expansion projects. However, we forecast capex will rise gradually to above NT$6 billion in 2026 under our base case for Asia Cement. These include the company's plan to relocate its production line in Hubei of China with potential total construction costs of about NT$11.7 billion. However, we believe the project will only kick start in 2025 or later, given very weak market conditions in China.

In addition, ChiaHui is participating in Taipower's offer for new gas-fired generation capacity to meet rising power demand in Taiwan. Taipower faces difficulty attracting investors without providing attractive power purchase prices, given the company's very weak profitability. However, a shortage in power generation capacity is likely to force Taipower to raise its offer, though the timing remains highly uncertain.

Moreover, Asia Cement is likely to reinitiate its plan to privatize its Hong-Kong listed subsidiary, Asia Cement (China) Holdings Corp. in 2025. The company conducts the group's cement operations in China. The privatization will lower Asia Cement's operating expenses including costs associated with a publicly traded company, and lead to improved efficiency through stronger integration with its China operations. Asia Cement (China)'s minority shareholders rejected the parent company's offer at a valuation of HK$5.05 billion on Aug. 23, 2024. Asia Cement cannot repeat the same tender within 12 months according to regulations in Hong Kong.

Nonetheless, we believe the company's current low debt leverage and improving cash flow generation should be sufficient to meet its likely capital spending without materially increasing debt leverage. We forecast Asia Cement could lower its debt substantially in 2024 before rising slightly in 2025. That's assuming the company maintains a stable cash dividend policy and does not take on other major investments. This is based on our view that the company will maintain a conservative approach to investments outside its current core businesses. In addition, we believe the company will take measures, such as disposal of equity holdings, to manage its debt, if necessary.

Outlook

The stable rating outlook for Asia Cement reflects our view that Asia Cement's reduced debt level will enable the company to keep its ratio of debt to EBITDA slightly below 2x over the next two years. This should offset the negative effect of weak profitability on its overall credit metrics.

The outlook also reflects our view that the company's stable cement operations in Taiwan, stronger EBITDA generation from its independent power plant, and equity investments could partly offset the weak performance of its cement business in China in 2024-2025. In addition, we forecast Asia Cement's capex and investments will remain relatively low during the same period due to poor market conditions in China and persistent uncertainty surrounding a likely power plant project at ChiaHui.

Downside scenario

We may lower the long-term issuer credit rating on Asia Cement if the ratio of debt to EBITDA rises above 2x for an extended period, perhaps due to a significant drop in operating cash flow or a material increase in debt. The likely scenarios for this include:

- A deterioration in the operating environment possibly due to persistent oversupply in China, weakening production discipline, or a substantial increase in key operating costs without a corresponding price reflection that could reduce Asia Cement's operating cash flow, or persistent weak performance at its key equity investments; or
- A significant increase in capex or acquisitions which could result in materially higher debt than we previously assumed.

Upside scenario

We view an upgrade to be low over the next 12 months due to the continued business headwinds in China's cement market, and likely capital spending needs for business expansion.
However, we may upgrade Asia Cement if:

- The company could maintain the ratio of debt to EBITDA well below 1x on a sustainable basis through industry cycles. Controlled capex and a substantial reduction in debt using the company's strong operating cash flow could indicate such a sustainable improvement in key credit metrics.

Our Base-Case Scenario

Assumptions

- China's real GDP to grow 4.8% in 2024 and 4.6% in 2025. Recovering consumption and increased infrastructure spending should support GDP growth despite a continued drop in new property construction starts. Cement prices weaken further in 2024 along with a continued decline in cement demand. We project further support measures should underpin cement demand, while tightened environmental standards and enhanced production control in China could support disciplined output and more stable cement prices there in 2025.
- Taiwan's real GDP to grow 4.0% in 2024 and 2.1% in 2025. We expect cement demand to stay largely flat in Taiwan over the next one to two years, amid slowing property developments amid the government's cooling measures on the property market.
- Revenue from the company's cement business will decline by about 12% in China in 2024, reflecting a 7%-10% decline in cement prices and around a 5% drop in sales volume in China due to the still-weak property market, partly offset by more stable cement revenues in Taiwan. Asia Cement's cement sales to recover by mid-to-high single digit in 2025, mainly because of stabilizing cement demand and pricing in China.
- Revenue from power generation to stay largely flat in 2024 and improve slightly in 2025 as higher utilization offsets lower gas prices. Power generation revenue should remain stable without assuming volatility in gas prices. The company's revenues from other businesses to remain stable in 2024-2025.
- Asia Cement's capacity utilization in China will fall to about 70% in 2024 from about 74% in 2023 before rebounding marginally in 2025. The company's capacity utilization in Taiwan to remain at 65%-69% over the same period.
- Asia Cement China's EBITDA margin to decrease to about 10% in 2024 from about 17% in 2023 before rebounding to 13%-15% in 2025.
- EBITDA margin on the domestic cement business will improve to about 19% in 2024-2025 from about 16%-17% in 2023, given a stable domestic market and falling coal costs.
- EBITDA for the company's non-cement business to increase by about 30% in 2024 with higher investment gains and an improving performance at its stainless-steel subsidiary. This could improve further in 2025 due to lower gas prices and higher utilization for power generation.
- Dividend contribution from equity-method investments to fall slightly to about NT$3.5 billion in 2024 but improve to about NT$3.7 billion in 2025 with improving performances at FENC and U-Ming in 2024.
- Capex of NT$3.0 billion-NT$3.5 billion in 2024 and remaining relatively flat in 2025 mostly for the upgrade of its existing cement plants. Capex is likely to increase to NT$6 billion-NT$7 billion in 2026, mostly for the relocation of cement plants in China's Hubei province.
- We assume that Asia Cement will reinitiate its plan to privatize its China subsidiary in 2025.
- Cash dividend payment of NT$7 billion-NT$8 billion annually in 2024-2025.
- We net 83.1% of Asia Cement's cash and liquid investments with its reported debt in calculating adjusted debt.

Asia Cement Corp. - Taiwan Ratings Corp. Forecast Summary

Industry sector: Building materials

(Mil. NT$)	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	89,654.7	90,340.5	80,182.8	78,577.1	82,614.8	83,971.1
EBITDA (reported)	22,616.3	13,340.6	12,215.7	11,018.8	13,080.9	13,814.4
Plus/(less): Other	2,680.8	3,711.3	3,723.0	3,513.5	3,741.4	3,989.9
EBITDA	25,297.1	17,051.9	15,938.7	14,532.3	16,822.2	17,804.3
Less: Cash interest paid	(1,181.1)	(1,294.9)	(1,724.1)	(1,751.3)	(1,396.6)	(1,507.3)
Less: Cash taxes paid	(5,058.6)	(3,719.4)	(2,549.1)	(2,852.3)	(2,360.3)	(2,791.6)
Funds from operations (FFO)	19,057.4	12,037.6	11,665.6	9,928.8	13,065.3	13,505.4
Cash flow from operations (CFO)	17,433.2	16,304.0	16,849.5	14,340.2	13,421.4	14,194.3
Capital expenditure (capex)	3,250.5	2,672.7	4,112.0	3,546.7	3,546.7	6,046.7
Free operating cash flow (FOCF)	14,182.7	13,631.3	12,737.5	10,793.4	9,874.7	8,147.6
Debt (reported)	106,802.4	112,973.7	118,288.9	95,819.1	98,670.5	97,574.4
Plus: Lease liabilities debt	1,271.7	1,563.3	1,354.8	1,174.1	1,017.5	881.7
Less: Accessible cash and liquid Investments	(67,178.0)	(73,501.3)	(82,220.5)	(70,635.0)	(70,635.0)	(70,635.0)
Debt	40,896.2	41,035.7	37,423.2	26,358.2	29,052.9	27,821.2
Cash and short-term investments (reported)	76,338.6	86,269.1	98,941.6	85,000.0	85,000.0	85,000.0
Adjusted ratios						
Debt/EBITDA (x)	1.6	2.4	2.3	1.8	1.7	1.6
FFO/debt (%)	46.6	29.3	31.2	37.7	45.0	48.5
Annual revenue growth (%)	14.6	0.8	(11.2)	(2.0)	5.1	1.6
EBITDA margin (%)	28.2	18.9	19.9	18.5	20.4	21.2

All figures are adjusted by Taiwan Ratings Corp., unless stated as reported. Figures of forecast period are based on Taiwan Ratings Corp.'s base case scenario. a--Actual. e--Estimate. f--Forecast.

Liquidity: Strong

The short-term issuer credit rating is 'twA-1+'. We believe Asia Cement has strong liquidity to meet its needs over the 24 months ended June 30, 2026, reflecting our view that its ratio of liquidity sources to liquidity uses will be around 1.9x over the 12 months ended June 30, 2025, and 2.4x for the following 12 months. We also believe that liquidity sources will continue to exceed uses even if Asia Cement's EBITDA were to decline by 30%.

In addition, we believe Asia Cement has a sound relationship with banks and a generally high standing in the credit market in Taiwan, supported by the company's membership of the FENC group. Asia Cement's five-year corporate bonds issued at a low fixed rate of 1.7% in 2024 also underpin our view. Part of the bank loans at Asia Cement's subsidiary, ChiaHui Power carries loose covenants on the subsidiary's leverage and interest coverage ratio, which are unlikely to have a material effect on the group's overall liquidity, in our view.

Principal liquidity sources:

- Cash and short-term investments of NT$97.9 billion as of the end of June 2024.
- Funds from operations of NT$12 billion-NT$14 billion annually over the 24 months ending June 2026.
- Undrawn bank lines (maturing beyond June 2025) of NT$23.2 billion.

Principal liquidity uses:

- Debt maturities of NT$63.1 billion over the 12 months ending June 2025 and about NT$12 billion over the 12 months ended June 2026.
- Capital expenditure and investments of NT$3.5 billion-NT$5.0 billion annually over the 24 months ending June 2026.
- Cash dividends of 70%-75% of the previous year's net income in 2024-2025

Ratings Score Snapshot

Asia Cement Corp.		
	To	**From**
Issuer Credit Rating	twAA-/Stable/twA-1+	twAA-/Negative/twA-1+
Business risk	Satisfactory	Satisfactory
Country risk	Intermediate	Moderately high
Industry risk	Intermediate	Intermediate
Competitive position	Satisfactory	Satisfactory
Financial risk	Intermediate	Intermediate
Cash flow/Leverage	Intermediate	Intermediate
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	Strong (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)	twaa-	twaa-
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: 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
Asia Cement Corp.		
Issuer Credit Rating	twAA-/Stable/twA-1	twAA-/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.