

Media Release:

Taipei Financial Center Corp. Upgraded To 'twAA/twA-1+' On Improving Debt Leverage; Outlook Stable

October 11, 2024

Rating Action Overview

- **Taipei Financial Center Corp.** built and operates the Taipei 101 office building and shopping complex, with EBITDA of NT\$4.2 billion in 2023.
- The company could see revenue grow 4%-6% in 2024-2025 under the strengthening performance of Taipei 101 observation deck and the steady performance of the company's office and shopping assets. Deleveraging efforts could also improve the debt-to-EBITDA ratio to 3.8x in 2024 and 3.2x in 2025.
- We raised our assessment of the financial risk profile to modest from intermediate, which also led us to raise our capital structure assessment to neutral from negative and comparable ratings analysis to neutral from positive. We also raised our liquidity assessment to strong from adequate to reflect improving cash inflow from all business units.
- As a result, we raised our long-term issuer credit rating on Taipei Financial Center to 'twAA' from 'twAA-' and affirmed the short-term issuer credit rating at 'twA-1+'.
- The rating outlook is stable to reflect our view that positive management, a strong competitive advantage, deleveraging efforts, and no plans for portfolio expansion should support the ratio of debt to EBITDA below 4.5x over the next one to two years.

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Rating Action Rationale

The upgrade reflects the company's improving leverage ratio supported by a conservative financial policy and record-high operating performance. Taipei Financial Center's conservative financial policy and recently robust operating performance have helped to consistently reduce outstanding debt. The company has maintained its efforts to cut debt despite operating challenges that constrained its performance during the recent pandemic.

Taipei Financial Center's record-high revenue over the past year has helped accelerate its debt repayments. This significantly lowered outstanding debt to new Taiwan dollar (NT\$) 7.8 billion at the end of June 2024, down from NT\$13.55 billion at the end of 2019. We anticipate outstanding debt will continue to shrink, given the likelihood of no new asset expansion over the next few years. This should improve the debt-to-EBITDA ratio to around 3.8x and 3.2x at the end of 2024 and 2025, respectively. The company's conservative financial policy and steadily improving operating performance over the next few years also support its deleveraging efforts, in our view.

Recovering observation deck performance is a significant growth driver. Soaring tourist numbers greatly lifted the revenue from the Taipei 101 observation deck in 2023. Visitors to the deck reached 1.3 million in 2023 from a low of about 160,000 in 2021. Under our base case for Taipei

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Financial Center, we anticipate tourist numbers surging to around 1.6 million in 2024, albeit still below the record high of 2.4 million in 2019.

We expect tourism growth to underpin strong recovery in the observation deck's performance over the next few years. This will be a critical factor underpinning the company's overall performance, given that the office and department store units see more steady growth momentum over the same period. The performance of the office and department stores faces a high base effect on waning pent-up demand since mobility restrictions ended, and gradually stabilizing inflation. We therefore expect the company's EBITDA to expand by about 5% in 2024 and about 8% in 2025.

Our revised assessments for modifiers and liquidity have no rating impact. Under our base case for Taipei Financial Center in 2024-2025, the improving leverage ratio should offset the company's refinancing risk due to a weighted average debt maturity as short as under three years over the period. This supports our decision to revise the capital structure assessment to neutral from negative. As a result, we also revised the comparable ratings analysis assessment to neutral to positive. Therefore, the rating impact is neutralized after the mixed revised assessments on these two modifiers.

Meanwhile, we revised our assessment of the company's liquidity to strong from adequate. This reflects our expectation that liquidity sources are likely to be higher over the next 12 months amid rising cash revenue generated from its operations. This should support strong liquidity to cover its operating needs over the same period.

Outlook

The stable rating outlook reflects our view that the company's sophisticated management team, prestigious property status, and superior property location among other factors will support steady performance over the next few years. The revenue stream from the Taipei 101 observation deck will play a critical role underpinning the company's overall performance as tourist numbers continue to recovery.

We expect the shopping mall and office building to deliver steady performance in 2024 and 2025 by building on its robust operating foundation. This is despite the performance of these units is likely to stabilize in 2024 and 2025, given a high base effect, waning pent-up demand, and gradually stabilizing inflation. These, along with the company's conservative financial policy, underpin our view that Taipei Financial Center will generate sufficient operating cash flow to reduce debt by NT\$1.6 billion in 2025 while at the same time improving the ratio of debt to EBITDA to 3.2x.

Downside scenario

We could lower the rating on Taipei Financial Center if:

- The company's cash flow generation deteriorates and pushes its ratio of debt to EBITDA above 4.5x for an extended period. This could be due to a substantial weakening in the domestic economy that hampers consumer spending and office space demand. It could also result from a prolonged recovery in tourism, leading to volatile performance of the observation deck; or
- The company adopts shareholder-friendly action such as increasing its dividend payout ratio which would push up debt and weaken the ratio of debt to EBITDA to 4.5x or above.

Upside scenario

We could raise the rating on Taipei Financial Center if:

- The company could reduce debt materially, leading to sustainable improvement in the ratio of debt to EBITDA to below 2.5x, possibly through more conservative cash dividend payouts or better earning ability; or
- The company expands its asset scale with enhanced asset and geographic diversification, while maintaining good asset quality as well as stable profitability, with the ratio of debt to EBITDA below 4.5x. However, we believe the likelihood of such a massive scale expansion is low.

Our Base-Case Scenario

- Taiwan's real GDP growth of 4.2% in 2024 and 2.1% in 2025.
- Total revenue in 2024 and 2025 is likely to continue to expand on top of the existing robust foundation, despite growth of total revenue over the next few years may not be as strong as in 2022 and 2023.
- Relatively high rental growth rate in the office tower in 2022 and 2023 is likely to stabilize in the coming years, in view of easing inflation pressure and potential competition from the new office supply in Xinyi District.
- Occupancy rate should remain at 95% or above in the next few years, supported by the company's sophisticated management, superior location, prestigious status, and cluster effect among other factors.
- Department store sales momentum is also likely to stabilize over the next few years, considering the high base effect, waning pent-up demand, and rising outbound tourist numbers that may slightly hinder local expenditure.
- Nonetheless, sales of luxury products in the department store remain supportive given the careful management of high-net-worth domestic customers and the department store's leading market position.
- Surging inbound tourist numbers, albeit still below the 2019 level, along with an upswing in domestic visitors will underpin strong performance recovery for the observation deck over the next few years. Tourist numbers are likely to trend toward the historical level of about 2.4 million in 2027.
- Gross margin for 2024 and 2025 is slightly higher than in 2022 with operating expenses generally moving in tandem with revenue growth. Capital expenditure of NT\$242 million and NT\$107 million in 2024 and 2025, respectively.
- Dividend payout of 90% of the previous year's net income.
- We deduct 100% of the company's cash balance in arriving at the adjusted debt level.

Taipei Financial Center – Taiwan Ratings Corp. Forecast Summary

(Mil. NT\$)	2022a	2023a	2024e	2025f	2026f
Revenue	4,603	5,791	6,042	6,410	6,533
EBITDA (reported)	3,235	4,199	4,396	4,728	4,813
EBITDA	3,235	4,199	4,396	4,728	4,813
Less: Cash interest paid	(246)	(301)	(248)	(217)	(197)
Less: Cash taxes paid	(332)	(390)	(593)	(658)	(672)
Funds from operations (FFO)	2,657	3,507	3,555	3,852	3,944
Cash flow from operations (CFO)	3,232	4,469	3,569	3,866	3,958
Capex	330	190	242	107	56
Free operating cash flow (FOCF)	2,902	4,280	3,327	3,760	3,903
Debt (reported)	11,992	9,996	6,829	6,829	3,469
Plus: Lease liabilities debt	10,444	10,270	10,373	10,477	10,582
Less: Accessible cash and liquid Investments	(1,503)	(2,231)	(500)	(2,226)	(500)
Debt	20,934	18,035	16,702	15,080	13,550
Cash and short-term investments (reported)	1,503	2,231	500	2,226	500
Adjusted ratios					
Debt/EBITDA (x)	6.5	4.3	3.8	3.2	2.8
FFO/debt (%)	12.7	19.4	21.3	25.5	29.1
Annual revenue growth (%)	12.26	25.80	4.34	6.09	1.91
EBITDA margin (%)	70.3	72.5	72.8	73.8	73.7

All figures are adjusted by Taiwan Ratings Corp., unless stated as reported. Figures for the forecast period are based on Taiwan Ratings Corp.'s base-case scenario. a--Actual. e--Estimate. f--Forecast. NT\$-- new Taiwan dollar. N.M.--Not meaningful.

Liquidity

The short-term rating on Taipei Financial Center is 'twA-1+'. We believe the company has strong liquidity to cover its needs over the 12-month period ending June 30, 2025, with the ratio of liquidity sources to liquidity uses at about 1.8x over the period. We also believe the company will have positive liquidity sources less uses, even if EBITDA declined by 15%.

Taipei Financial Center has a sound relationship with local banks, which is reflected in the low interest rate on its bank loans. In addition, we believe Taipei Financial Center has a high standing in credit markets, as shown by the low rate on the company's three-year NT\$6 billion corporate bond issued in 2023. The company debt does not carry any financial covenant.

Principal liquidity sources

- Existing cash of about NT\$655 million at the end of June 2024.
- Undrawn bank lines (maturing beyond June 2025) of NT\$1 billion.
- Cash funds from operations of NT\$3.8 billion for the 12 months ending June 2025.

Principal liquidity uses

- Capital expenditure of around NT\$174 million for the 12 months ending June 2025.
- Short-term debt maturity of about NT\$800 million for the 12 months ending June 2025.
- Cash dividend of NT\$2.1 billion in 2024.

Rating Score Snapshot

Taipei Financial Center Corp.		
	To	From
Issuer Credit Rating	twAA/Stable/twA-1+	twAA-/Stable/twA-1+
Business risk	Satisfactory	Satisfactory
Country risk	Intermediate	Intermediate
Industry risk	Low	Low
Competitive position	Satisfactory	Satisfactory
Financial risk	Modest	Intermediate
Cash flow/Leverage	Modest	Intermediate
Anchor	twaa	twaa-
Modifiers		
Diversification/Portfolio effect	Neutral (no impact)	Neutral (no impact)
Capital structure	Neutral (no impact)	Negative (-1 notch)
Financial policy	Neutral (no impact)	Neutral (no impact)
Liquidity	Strong (no impact)	Adequate (no impact)
Management and governance	Positive (no impact)	Positive (no impact)
Comparable ratings analysis	Neutral (no impact)	Positive (+1 notch)
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 | Industrials: Key Credit Factors For The Real Estate Industry - February 26, 2018
- 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 – Nov. 11, 2021

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

Ratings List

Rating Action

	To	From
Taipei Financial Center Corp.		
Issuer Credit Rating	twAA/Stable/twA-1+	twAA-/Stable/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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