Media Release:

Outlook On USI Corp. And Asia Polymer Corp. Revised To Negative On Weak Profitability; 'twA/twA-1' Ratings Affirmed

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PRIMARY CREDIT ANALYST

Beatrice Chen
Taipei
+886-2-2175-6829
beatrice.chen@spglobal.com
beatrice.chen@taiwanratings.com.tw

SECONDARY CONTACT

Irene Lai
Taipei
+886-2-2715-6825
irene.lai@spglobal.com
irene.lai@taiwanratings.com.tw

Rating Action Overview

- **USI Corp.** is a petrochemical group based in Taiwan with a diverse product mix ranging from plastics and plastic processing to electronics materials. **Asia Polymer Corp.** is USI's core subsidiary. USI group generated EBITDA of new Taiwan dollar (NT$)4.2 billion in 2023.
- Continued capacity additions in China could extend significant overcapacity for USI's key chemical products and slow the rebound in the group's profitability in 2024-2025 beyond our previous forecast.
- We revised our cash flow/leverage assessment for USI to intermediate from modest to reflect our forecast for USI's debt leverage to rise materially in 2024-2025 before falling below 2x in 2026. Nonetheless, we see material risk that USI may not be able to lower its ratio of debt to EBITDA below 2x over the next 12-24 months, amid weak cash flow and higher capex needs.
- We consequently revised our outlook on our long-term issuer credit ratings on USI and Asia Polymer to negative from stable. At the same time, we affirmed the 'twA' long-term and 'twA-1' short-term issuer credit ratings on the two companies.

Rating Action Rationale

The negative outlook revision reflects our view that aggressive capacity additions in China could continue to suppress USI's operating performance and prevent improvement in its cash flow protection over 2024-2025. We forecast a continued significant supply-demand imbalance, particularly for ethylene-vinyl acetate (EVA) over the period, which will constrain profitability for companies, including USI and Asia Polymer, that produce general purpose and solar-grade. We estimate more than two million tons of additional capacity is likely to come online in China over the same period and keep supply and demand out of balance. That's despite our view that lower costs could stimulate high demand growth for solar panels in China and globally.

In addition, a continued slump in China's property market and weak spending by Chinese consumers, as well as slowing export growth from Asia has slowed demand growth for most commodity chemicals. This includes USI's key polyvinylchloride (PVC), acrylonitrile butadiene styrene (ABS), and polystyrene (PS) products. This, together with significant capacity additions by competitors across USI's product range has slashed chemical prices over the past few quarters.

In addition, high raw material costs, particularly for ethylene supply in Taiwan, will continue to pressure USI's profitability over the next few quarters before the company can increase its procurement flexibility along with the completion of new storage tanks. High oil prices have led to higher ethylene prices throughout Asia when naphtha is the major feedstock for ethylene production. Accordingly, we forecast consolidated EBITDA for USI group of about NT$1.6 billion in 2024, down from NT$4.2 billion in 2023. USI's debts have also grown over the past few quarters amid weakened profitability, higher capital expenditure (capex), and rising working capital outflows. These have collectively led to much weaker cash flow protection measures. As a result, we forecast USI's ratio debt to EBITDA will rise to above 4x in 2024 from 0.9x in 2023, before declining moderately in 2025 before dropping below 2x in 2026.

USI's profitability will take longer to recover than in the previous cycles. Demand could begin a turnaround in 2025, given that the China government's more aggressive fiscal and monetary stimulus policies should stimulate stronger demand growth in 2025. In addition, the government is likely to take action to curb excessive price competition in China which will stem output growth, and in turn support product prices. This, together with a likely drop in oil prices, should lower input costs and support product spreads from further deterioration.

In addition, USI's efforts to shift its sales to higher value-added EVA compounds used in premium footwear as well as electrical wire and cable segments, should partly shield the company from intense price competition. That's because of likely significant overcapacity for USI's other key products over the next one to two years. We believe that USI's unique EVA production process and facilities allow the group more flexibility in developing specialized EVA products than its peers of much larger scale in China and Taiwan.

We also expect the group's non-commodity chemical businesses, including electronics materials and specialized consumer products, to demonstrate stronger growth with higher margins over next one to two years. These products utilize the group's chemicals such as EVA and Cyclic Block Copolymers (CBC). Moreover, USI's magnetic materials and silicon carbide segment benefit from rising demand from AI and electric vehicle applications. The company's developments of consumer products such as portable water sterilizers are also gaining traction through successful customer engagements.

That said, USI's profitability is unlikely to return to its mid-cycle level over the next 12-24 months due to the group's high exposure to commodity chemicals and lingering overcapacity. In addition, significant downside risks persist to our base case for the company. These include likely weaker exports from and lower GDP growth in China and the rest of Asia under the uncertain trade policy of the incoming U.S. Trump administration. The sales outlook for USI's new consumer products also remains untested, while its electronics materials segment, including silicon carbide, is subject to rising competition particularly from China.

Weak profitability and high capex will keep debt leverage elevated over the next 12-18 months. We anticipate USI will generate negative discretionary cash flow in 2024 and 2025, amid weakening EBITDA generation and still-escalating capex. USI's adjusted debt could rise to NT$7.5 billion in 2024 and to NT$10.5 billion in 2025 from NT$3.9 billion in 2023. The company will spend heavily on the renovation of its PVC facilities in Taiwan as well as on some capacity expansion at its non-chemical businesses. However, we expect USI's capex to decrease materially in 2026 and after, given the company's shifting focus to non-commodity chemical businesses. Accordingly, we believe the company could significantly lower its debt leverage and keep the ratio of debt to EBITDA below 2x beyond 2026.

The negative outlook revision on Asia Polymer reflects the company's core subsidiary role within the parent USI group. We view Asia Polymer as a core member of the USI group and equalize our rating on Asia Polymer with our rating on its parent. This is because we believe USI will provide financial support to Asia Polymer in the event of the subsidiary's financial distress under any foreseeable circumstances. Asia Polymer's EVA and PE businesses are fully integrated with USI's operations to maximize market influence and better serve the group's clients. Asia Polymer's EVA capacity represents about half the group's total EVA production capacity.

We forecast that despite sharply falling profitability, Asia Polymer could maintain a net cash position in 2024-2026, given its low capex and high cash balance on hand. Asia Polymer has also generated better profitability than the group as a whole during the current downturn because of more differentiated applications of its low density polyethylene. These factors support our assessment of Asia Polymer's 'twbbb+' stand-alone credit profile.

Outlook

The negative rating outlook reflects our view of material risk that drastic oversupply in Asia's chemical market could limit USI's earnings recovery and prevent significant improvement in its ratio of debt to EBITDA over the next 24 months. Our base case assumes a gradual recovery in profitability amid increasing revenue contribution from higher-value products. The company could still reduce its leverage through recovering profitability and lower capex following completion of a major overhaul of its PVC facilities and the construction of new storage tanks in Taiwan's southern Kaohsiung City.

Downside scenario

We may lower the rating on USI if the company's ratio of debt to EBITDA remains above 2.0x without prospects of improvement. This could occur if:

- The company's profitability does not improve as we forecast due to higher pricing pressure caused by a prolonged regional oversupply amid persistently weak demand growth in Asia, a significant rise in feedstock costs, or a failure to increase sales of its differentiated chemical and consumer products; or
- USI pursues a more aggressive debt-funding expansion strategy over the next two years than we forecast, including large investments and acquisitions that materially increase its debt.

Upside scenario

We may revise the outlook back to stable if USI can improve and sustain the consolidated ratio of debt to EBITDA materially below 2x. Scenarios that could lead to this include:

- A significant recovery in Asia's chemical market, a successful shift to differentiated products, or faster growth in sales of new consumer products substantially that raise USI's revenue and EBITDA margin; or
- The company reduces debt significantly in 2026 without taking on aggressive capital spending after completing its ongoing projects, while maintaining a prudent dividend policy.

Our Base Case Scenario

- S&P Global Ratings' projected growth for China's economy of 4.8% in 2024 and 4.1% in 2025; Taiwan's GDP growth of 4.4% in 2024 and 2.4% in 2025; and APAC GDP growth of 4.5% in 2024 and 4.2% in 2025.
- Our base-case assumption for brent oil price is US$80 per barrel for the rest of 2024 and US$75 per barrel for 2024-2025.
- Demand from China Photovoltaic (PV) modules is likely to continue to grow over the next 12-24 months, driving growing demand for EVA. However, EVA prices could remain weak due to large capacity in China. Meanwhile, base chemicals and general plastics like PE, PP and PVC are likely to generate product spreads that are significantly below the mid-cycle level because significant capacity additions and weak demand growth will cap further margin improvement.
- We expect 3.8% revenue decline for USI in 2024. This reflects continued price pressure for all USI's main product lines as well as an uncertain demand outlook. Revenue for 2025 is likely to recover by 6.6%, mainly to reflect our forecast of a slight rebound in commodity chemical sales and increasing revenue contributions from specialized EVA compounds.
- We expect USI's EBITDA margin to decline to 3.1% in 2024 but slightly recover to 5.6% in 2025. Demand recovery could improve average sales price for general purpose plastics including PE, PP and PVC while growing sales of differentiated EVA compounds will support EVA margins.
    - EVA's overall margins should be close to break even in 2025 along with growing sales of specialty products following operating losses in 2024. This is despite the production of general-purpose EVA will continue to see losses amid large capacity additions in 2025.
    - The group's PVC and downstream plastics processing business is likely to improve in 2025-2026 amid faster demand growth, particularly in emerging Asia markets. More stable plastics processing business partly supports the business' performance in 2024.
    - USI's ABS business continues to record significant losses due to its small scale and weak product prices. Its PS operations could perform slightly better with better supply and demand dynamics. Nonetheless, the two businesses will be relatively weak compared to USI's other major business lines in 2024-2026.
    - USI's electronics materials business, including ferrite and silicon carbide power, could generate more stable performance in 2025-2026 amid rising demand, particularly from AI and EV. Restocking, recovering IT demand and growing silicon carbide sales have significantly improved the profitability of the division in 2024.
    - USI's consumer products segment will generate improving margins in 2025-2026 with recovering demand and gradually increasing sales of new consumer products such as portable water sterilizers. This follows operating losses in 2023-2024 due to intense competition for its legacy diaper material business.
- The group's capex in 2024 will stay around NT$3.3 billion, which is similar to the level of 2023. Capex will increase to NT$4.8 billion in 2025, mainly to support the renovation of the company's PVC facilities.
- We assume USI group's cash dividend payment to be NT$0.8 billion in 2024 and NT$0.4 billion in 2025.

USI Corp.-- Taiwan Ratings Corp. forecast summary.

Industry sector: chemical cos

(Mil. NT$)	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	71,756	66,437	52,265	50,289	53,606	55,457
EBITDA (reported)	15,219	8,146	4,228	1,566	2,986	5,073
EBITDA	15,219	8,146	4,228	1,566	2,986	5,073
Less: Cash interest paid	(162)	(219)	(254)	(323)	(350)	(374)
Less: Cash taxes paid	(1,287)	(2,611)	(1,669)	--	--	--
Funds from operations (FFO)	13,770	5,316	2,305	1,243	2,636	4,699
Cash flow from operations (CFO)	9,233	7,286	5,311	321	2,185	5,751
Capital expenditure (capex)	3,620	2,767	3,287	3,300	4,783	2,994
Free operating cash flow (FOCF)	5,613	4,519	2,024	(2,979)	(2,597)	2,758
Discretionary cash flow (DCF)	2,710	(901)	469	(3,767)	(2,947)	2,408
Debt (reported)	17,434	15,832	16,643	16,859	19,806	19,806
Plus: Lease liabilities debt	461	1,365	2,136	2,136	2,136	2,136
Less: Accessible cash and liquid Investments	(14,953)	(13,747)	(14,930)	(11,628)	(11,628)	(13,961)
Plus/(less): Other	136	136	136	136	136	136
Debt	3,078	3,586	3,986	7,504	10,451	8,118
Cash and short-term investments (reported)	16,254	14,320	15,552	12,000	12,000	14,408
Adjusted ratios						
Debt/EBITDA (x)	0.2	0.4	0.9	4.8	3.5	1.6
FFO/debt (%)	447.4	148.2	57.8	16.6	25.2	57.9
Annual revenue growth (%)	42.9	(7.4)	(21.3)	(3.8)	6.6	3.5
EBITDA margin (%)	21.2	12.3	8.1	3.1	5.6	9.1

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 USI is 'twA-1'. We believe the company has strong liquidity to meet its needs over the 24 months ending June 2026. We forecast the ratio of liquidity sources to liquidity uses will be about 2.7x over the 12 months ending June 30, 2025, and about 2.4x over the following 12 months. In addition, we forecast USI will have positive liquidity sources minus uses, even if its forecasted EBITDA declines by 30%.

In our assessment, USI has sound and long-standing relationships with major local banks as indicated by the low interest rate on its bank loans. USI also has generally prudent risk management with a track record of maintaining high unused committed banking credit lines. Furthermore, we believe the company has sufficient headroom without breaching covenant limits due to low interest rates in Taiwan even if its EBITDA were to drop by 30%. Our view of USI's liquidity primarily reflects the following factors:

Principal liquidity sources

- Cash and short-term investment of about NT$14 billion as of the end of June 2024.
- Unused committed banking facilities of NT$16.9 billion in the 12-months ending June 2025, and NT$11.8 billion over the following 12-months ending June 2026.
- Fund from operations of about NT$2 billion in the 12-months ending June 2025 and NT$3.8 billion over the next 12-months ending June 2026.

Principal liquidity uses

- Long-term debt due in one year plus short-term debt of NT$6.7 billion over the 12-months ending June 2025 and NT$3.9 billion over the next 12-months ending June 2026.
- Capex of about NT$4 billion in 12-months ending June 2025 and about NT$3.9 billion over the next 12-months ending June 2026.
- Cash dividend payments of about NT$0.6 billion in the 12-months ending June 2025 and NT$0.4 billion over the next 12-months ending June 2026.

Rating Score Snapshot

USI Corp.		
	To	**From**
Issuer Credit Rating	twA/Negative/twA-1	twA/Stable/twA-1
Business risk	Fair	Fair
Country risk	Moderately high risk	Moderately high risk
Industry risk	Moderately high risk	Moderately high risk
Competitive risk	Fair	Fair
Financial risk	Intermediate	Modest
Cash flow/Leverage	Intermediate	Modest
Anchor	twa-	twa
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	Strong	Strong
Management and governance	Neutral (no impact)	Neutral (no impact)
Comparable ratings analysis	Positive (+1 notch)	Neutral (no impact)
Stand-alone credit profile	twa	twa
Note: The descriptors above are on a global scale.		

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 – November 11, 2021

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

Ratings List

Ratings Affirmed; Outlook Action

	To	From
USI Corp.		
Asia Polymer Corp.		
Issuer Credit Rating	twA/Negative/twA-1	twA/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.