

Media Release:

Chunghwa Telecom Co. Ltd. 'twAAA/twA-1+' Ratings Affirmed On Strengthened Liquidity; Outlook Stable

January 13, 2025

Rating Action Overview

- Chunghwa Telecom Co. Ltd. has strengthened its liquidity cushion through a high cash balance, robust free cash flow, and lower capital expenditure (capex) needs.
- We therefore revised our liquidity assessment for Chunghwa Telecom to strong from adequate.
- We affirmed our 'twAAA' long-term issuer credit rating and 'twA-1+' short-term issuer credit rating on the Taiwan-based telecom operator.
- The stable rating outlook reflects our view that the Chunghwa Telecom will keep its lead market position in 2025-2026, while also maintaining sound financial metrics. This is despite ongoing competitive pressure for its mobile and fixed-line businesses.

Rating Action Rationale

The ratings affirmation reflects our view that Chunghwa Telecom will maintain its strong market position and solid financial resilience in 2025-2026. We believe that the telecom service provider will maintain its clear market leadership in Taiwan's oligopoly telecom market, along with strong cash flow generation and sound financial management over the next one to two years. We also expect Chunghwa Telecom to maintain low debt leverage over the same period, despite significant forecast capex needs and cash dividends over the period. The ongoing competitive pressure in the mobile and broadband telecom sectors, as well as a continued decline in the company's voice revenue partly offset its rating strengths.

Liquidity buffer has increased, supported by the company's high cash position, sustainable free cash flow, and moderating capex. We forecast Chunghwa Telecom's mobile business will grow moderately over the next two years, driven by increasing 5G penetration. This should provide some uplift to the company's average revenue per user (ARPU). Meanwhile, we expect new drivers for revenue growth, particularly in the information and communication technology segment, to contribute strong growth over the next two years. We anticipate these factors will lead to modest EBITDA growth over the period, despite pressure on legacy products such as fixed-line voice and broadband due to product substitution and competition.

Meanwhile, we forecast Chunghwa Telecom's capex will decrease to new Taiwan dollar (NT\$) 29 billion-NT\$31 billion over the next two years, amid a reduction in mobile-related investments. The company had capex of about NT\$34 billion in 2022 and NT\$31 billion in 2023. As such, we

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estimate the ratio of liquidity sources to liquidity uses will be 1.55x-1.65x over the 12 months ending September 2025, and 1.7x-1.8x for the subsequent 12 months.

We also assess the company's net liquidity sources will remain positive, even with a 30% decline in forecast EBITDA. Chunghwa Telecom has well-established banking relationships and a high credit standing in the capital market, in our view. We also believe the company can absorb low probability high impact events without need for refinancing, underpinned by its high cash balance and low debt usage. Chunghwa Telecom's debt has no financial covenants.

Principal liquidity sources:

- Cash and short-term investment of NT\$44.2 billion as of Sept. 30, 2024.
- Funds from operations of NT\$78 billion-NT\$81 billion annually for the 24 months ending September 2026.

Principal liquidity uses:

- Debt maturities due in one year of about NT\$9.2 billion as of Sept. 30, 2024.
- Working capital outflow of NT\$1.5 billion-NT\$2.5 billion annually in the 24 months ending September 2026.
- Capex of NT\$29 billion-NT\$31 billion annually in the 24 months ending September 2026.
- Cash dividend payout of NT\$36 billion-NT\$37 billion annually in the 24 months ending September 2026.

Outlook

The stable rating outlook reflects our view that Chunghwa Telecom will maintain its market leadership, very robust cash flow generation, and prudent financial policy over the next one to two years, as well as a strong competitive position as the largest player in Taiwan's fixed and mobile telecom sectors, with a net cash position over the same period.

Downside scenario

Downgrade risk is low over the next two years, given that Chunghwa Telecom's strong business position and low debt appetite offer some headroom for the rating. However, we may lower the long-term issuer credit rating if the company's competitive position weakens very significantly.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	twAAA/Stable/twA-1+	twAAA/Stable/twA-1+
Business risk	Strong	Strong
Country risk	Intermediate	Intermediate
Industry risk	Intermediate	Intermediate
Competitive position	Strong	Strong
Financial risk	Minimal	Minimal
Cash flow/Leverage	Minimal	Minimal
Anchor	twaaa	twaaa
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 (no impact)	Adequate (no impact)
Management and governance	Positive (no impact)	Positive (no impact)
Comparable ratings analysis	Neutral (no impact)	Neutral (no impact)
Stand-alone credit profile (SACP)	twaaa	twaaa
Note: The descriptors 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
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- 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

Chunghwa Telecom Co. Ltd.

Issuer Credit Rating	twAAA/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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