Media Release:

Far Eastern New Century And Yuan Ding Investment Outlooks Revised To Positive On Accelerated Deleveraging; 'twA/twA-1' Ratings Affirmed

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Rating Action Overview

- **Far Eastern New Century Corp.** (FENC) is a polyester, fiber, and textile manufacturer with various investments. **Yuan Ding Investment Corp.** (Yuan Ding) is FENC's investment holding company with core group status. We estimate FENC had EBITDA of new Taiwan dollar (NT$) 52.9 billion in 2024.
- We forecast FENC will deleverage at a faster than under our previous assumption supported by higher discretionary cash inflow and the company's asset and share disposal plans. Improving profitability also underpins the company's declining debt leverage, given the cost benefits from its shift towards premium products in polyester and textile businesses, and the satisfactory profitability of FENC's telecommunications subsidiary.
- We have therefore revised our outlook on the long-term issuer credit rating on FENC and Yuan Ding to positive from stable. This reflects our view that FENC could lower its ratio of debt to EBITDA sustainably close to 4x over the next 12-24 months.
- At the same time, we affirmed our 'twA' long-term and 'twA-1' short-term issuer credit ratings on FENC and Yuan Ding.

Rating Action Rationale

The positive outlook revision reflects our view that FENC's improving cash flow generation could speed up improvement in its credit metrics over the next one to two years. FENC could maintain discretionary cash flow generation of NT$9.2 billion in 2024 and NT$8.0 billion-NT$9.0 billion in 2025 and 2026. This is mainly underpinned by a higher EBITDA margin than we originally forecast for the next one to two years and supported by improved profitability in the firm's polyester and textile businesses, as well as larger depreciation expense driven by a merger by its telecom unit.

In addition, FENC could report slightly lower capital spending for 2024, given relatively conservative planned spending by its telecom subsidiary. FENC is less likely to see large-scale capital expenditure (capex) in 2025 and 2026 due to the company's prudent spending appetite. Moreover, FENC's adjusted debt level remains in a downward trajectory, supported by cash inflow from land disposals and share sales. We therefore anticipate FENC could approach our upside rating trigger with the ratio of debt to EBITDA close to 4x in 2024 and 2025.

Material turnaround in polyester and textile businesses should prevent margin erosion. We expect FENC to report improved operating performance at its polyester and textile businesses in 2024. Adjustments in production capacity and a gradual recovery in textile demand could help the company achieve better operating efficiency through improved cost control. We forecast the firm's polyester and textile business will report operating profit of NT$2.5 billion-NT$3.0 billion in 2024 compared to NT$0.981 billion losses in 2023.

We also expect this business segment to maintain a healthy growth momentum over the next one to two years by focusing on its premium product portfolio. This includes recycled polyethylene terephthalate (recycled PET) and in house developed recycled functional fabric. As a result, we forecast FENC's polyester and textile businesses will likely maintain stable revenue growth in 2025 and 2026.

Resilient EBITDA margin from its telecom unit will remain the pillar of FENC's profitability. We anticipate an increasing 5G penetration rate will gradually offset the decrease in average revenue per user (ARPU) at the group's telecom subsidiary, **Far EasTone Telecommunications Co. Ltd.** This follows the telecom firm's consolidation with Asia Pacific Telecom. The increase in 5G take up is mainly driven by the need for low latency, high-speed data plans, given the growth in AI smartphones. This is despite most high-end subscribers in the market have already transitioned to 5G plans. The remaining customers are likely to have a slower migration pace and eventually lead to decelerating ARPU growth. In addition, we believe that the telecom unit can deliver effective cost control measures following its recent merger, including operating cost savings from infrastructure consolidation.

Prudent capital spending and asset disposal plans support debt reduction. We forecast FENC maintaining a conservative appetite for capex in 2025 and 2026 of NT$20 billion. This includes capex needed for FENC's recycled PET product line. We also expect Far EasTone will continue to spend on system integration and base station upgrades. At the same time, FENC's valuable listed investments and large unused land assets offer considerable financial flexibility to fund its deleveraging over the next few years. FENC has recognized NT$2.5 billion cash inflow in 2024. We believe the cash inflow from potential asset disposals and share sales could bring in a further NT$3.5 billion in 2025. This could help FENC reduce its adjusted debt by 5% to NT$224 billion at the end of 2024 and another 5% to NT$213 billion at the end of 2025, from NT$235 billion at end-2023.

Outlook

The positive rating outlook reflects our view that FENC could continue to deleverage over the next one to two years, supported by sustainable cash inflow. In addition to Far EasTone's stable EBITDA contribution, the profitability of FENC's polyester and textile businesses could be relatively stable thanks to cost synergies, capacity adjustments, and the increasing revenue contribution from higher-margin products. FENC could therefore maintain its ratio of debt-to-EBITDA to close to 4x in 2024 and 2025, in our view.

Upside scenario

We may raise the rating on FENC if the company's ratio of debt to EBTIDA remains sustainably close to 4x. This could result from:

- Sustainable and material improvement in the profitability of FENC's chemical business, possibly due to product mix enhancement with high-margin products; and

- FENC pursues a more conservative financial policy regarding capital spending and cash dividend payouts, or makes a significant investment asset disposal, such that it reduces its debt substantially.

Downside scenario

We could revise the rating outlook back to stable over the next 12 to 24 months if FENC fails to maintain its adjusted ratio of debt to EBITDA close to 4x on a sustainable basis, possibly because:

- FENC's profitability fails to recover over the next one to two years, due to a prolonged industry downturn in the polyester product chain or worsening oversupply in purified terephthalic acid (PTA) and PET that weaken the company's profit margin; or
- The company incurs considerably higher capex and investment on its major businesses than we originally assumed.

Our Base Case Scenario

- Taiwan's real GDP to expand 2.4% in 2025 and 2.1% in 2026, China's real GDP to grow 4.1% in 2025 and 3.8% in 2026, and Asia Pacific's real GDP to rise 4.2% in 2025 and 4.1% in 2026.
- Our base-case assumption for brent oil price to remain at US$75 per barrel in 2025 and 2026.
- For FENC, we forecast revenue growth of 5.5% in 2024 and, 0.7% and 1.8% growth in 2025 and 2026. The higher revenue growth in 2024 reflects the full-year consolidation of Asia Pacific Telecom. FENC is likely to have relatively moderate revenue growth in 2025 and 2026 due to no revenue recognition from the delivery of the company's residential project.
- Revenue from its polyester and textile businesses could increase 1%-3% in 2024-2026 due to continuous improvement in demand for polyester and textile products. We forecast a substantial turnaround in FENC's operating profit in 2024 thanks to production capacity adjustments, gradually recovery in textile demand as well as a resilient margin from green products. We also forecast FENC's polyester and textile businesses are likely to maintain a similar level of operating margin in 2025 and 2026 to that in 2024.
- Revenue for the telecom segment could increase 11.7% in 2024, given the full year consolidation of Asia Pacific Telecom, and 2%-4% annually in 2025 and 2026. This is likely to be largely in line with Taiwan's GDP growth and underpinned by rising ARPU, recovering tourist demand, and more rapid growth in Far EasTone's information communication technology (ICT) business.
- Sales at the firm's residential property project in New Taipei City's Banqiao district could support revenue from FENC's property development business at NT$9 billion-NT$10 billion in 2024 but decline to NT$6 billion-NT$7 billion in 2025 and 2026.
- Working capital outflow of NT$2.5 billion in 2024-2026 to support operating needs and property development.
- Cash dividends received from equity-method investments could remain weak at NT$3.8 billion in 2024-2026, due to muted sales momentum at its invested companies.
- Capex of NT$19 billion in 2024 and NT$20 billion in 2025 and 2026 to support further investment in capacity expansion, mainly in its recycled polyester business and telecommunications network infrastructure.
- Cash inflow from asset and share sales of NT$2.5 billion in 2024. We forecast it could be up to NT$2 billion- NT$5 billion in 2025.
- Cash dividend of NT$15.2 billion in 2024.
- We apply a surplus cash haircut of 0.4%, which mainly reflects the discount on equity investments.

Far Eastern New Century Corp. --Taiwan Ratings Corp. forecast summary.

Industry sector: chemical cos

(Mil. NT$)	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	238,807	263,945	257,204	271,332	273,287	278,101
EBITDA (reported)	39,262	42,075	43,103	49,078	48,793	48,735
Plus/(less): Other	4,944	5,186	3,940	3,800	3,800	3,800
EBITDA	44,206	47,261	47,042	52,878	52,593	52,535
Less: Cash interest paid	(2,870)	(3,497)	(5,048)	(3,559)	(3,145)	(2,665)
Less: Cash taxes paid	(2,694)	(3,689)	(3,759)	(3,820)	(3,846)	(3,929)
Funds from operations (FFO)	38,643	40,074	38,236	45,500	45,602	45,941
Cash flow from operations (CFO)	36,979	38,133	45,409	43,415	43,502	43,841
Capital expenditure (capex)	20,281	22,978	21,698	19,000	20,000	20,000
Free operating cash flow (FOCF)	16,698	15,156	23,710	24,415	23,502	23,841
Discretionary cash flow (DCF)	2,724	372	9,404	9,201	8,288	8,627
Debt (reported)	271,026	288,871	266,121	251,404	239,616	230,989
Plus: Lease liabilities debt	9,666	9,706	12,019	12,620	13,251	13,913
Less: Accessible cash and liquid Investments	(43,523)	(56,079)	(40,505)	(39,840)	(39,840)	(39,840)
Debt	237,168	242,498	237,635	224,184	213,027	205,062
Cash and short-term investments (reported)	44,411	56,192	40,668	40,000	40,000	40,000
Adjusted ratios						
Debt/EBITDA (x)	5.4	5.1	5.1	4.2	4.1	3.9
FFO/debt (%)	16.3	16.5	16.1	20.3	21.4	22.4
Annual revenue growth (%)	15.5	10.5	(2.6)	5.5	0.7	1.8
EBITDA margin (%)	18.5	17.9	18.3	19.5	19.2	18.9

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.

Liquidity

The short-term rating on FENC is 'twA-1'. We believe the company has adequate liquidity which reflects a ratio of liquidity sources to liquidity uses of 1.4x over the 12 months ending September 2025. We also believe the company will have positive liquidity sources minus uses, even if its EBITDA declined by 15%.

We believe FENC has a sound relationship with banks as indicated by the low interest rate on its bank loans. In addition, we believe the company has a high standing in the credit markets, as was shown by the total of NT$10.8 billion corporate bond issuances in September and December of 2024 at rates of 1.95%-2.04%.

FENC has generally prudent risk management to ensure continued adequate liquidity, in our view. The company's sufficient undrawn bank credit lines and flexibility to increase bank facilities support this view. We also believe FENC has sufficient headroom without breaching covenant limits due to low interest rates in Taiwan even if the company's EBITDA were to drop by 15%.

Principal Liquidity Sources

- Cash and short-term investments of about NT$40.7 billion as of the end of September 2024.
- Funds from operations of NT$46 billion over the 12 months ending September 2025.
- Asset and share sales of NT$2.8 billion over the 12 months ending September 2025.
- Undrawn mid-to-long term bank lines of NT$58.1 billion maturing beyond September 2025.

Principal Liquidity Uses

- Debt maturity of NT$68 billion over the 12 months ending September 2025.
- Working capital outflow of NT$ 2.5 billion over the 12 months ending September 2025.
- Capex of about NT$19.8 billion over the 12 months ending September 2025.
- Total dividend payment of NT$15.2 billion over the 12 months ending September 2025.

Rating Score Snapshot

Issuer Credit Rating: twA/Positive/twA-1

Note: The descriptors below are on a global scale.

Business risk: Satisfactory

- Country risk: Intermediate
- Industry risk: Intermediate
- Competitive position: Satisfactory

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: twbbb+

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Positive (+1 notch)
- Financial policy: Neutral (no impact)
- Liquidity: Adequate (no impact)
- Management and governance: Neutral (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: twa

- Group credit profile: twa
- Entity status within group: core

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
Far Eastern New Century Corp.		
Yuan Ding Investment Corp.		
Issuer Credit Rating	twA/Positive/twA-1	twA/Stable/twA-1