Bulletin

Fare Increases Are Credit Positive For Taiwan Railway Corp.

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This report does not constitute a rating action.

PRIMARY CREDIT ANALYST

Irene Lai
Taipei
+886-2-2175-6825
irene.lai
@spglobal.com
irene.lai
@taiwanratings.com.tw

SECONDARY CONTACT

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

Taiwan Ratings Corp. said today that **Taiwan Railway Corp. Ltd.** could see material improvement in its profitability and cash flow generation if it receives approval for significant fare increases.

Taiwan Railway (twAAA/Stable/twA-1+) recently announced it has submitted a request to the Ministry of Transportation and Communications (MOTC) for approval to raise rail fares by an average 26.8%. This is materially above our earlier forecast. Although Taiwan Railway has not announced the implementation date for the proposed fare adjustments, we believe this will begin in the second half of 2025. We now assume that if the fare increases are approved in full, Taiwan Railway's profitability of EBITDA margin could improve to 25%-28% in 2025 and 30%-33% in 2026, up from our estimate of 15.8% for 2024. Moreover, if the company can utilize the tariff setting mechanism to deliver a timelier reflection of operating cost changes, then this will lead to enhanced operating efficiency and strengthen its business risk profile.

In addition, we believe that under the proposed fare adjustment the company could achieve a net cash position in 2028, faster than our previous expectation for the ratio of debt to EBITDA at 0.8x-1.1x over 2025-2028. We base this on our assumption that passenger revenue will increase by new Taiwan dollar (NT$) 2.0 billion-NT$2.4 billion annually in 2025-2026. We also factor a potential temporary softening of the utilization rate to 57%-58% in 2025, down from 58% in 2024, due to the proposed higher fares for the operator's Tze-Chiang limited express trains.