Media Release:

# TECO Ratings Affirmed At 'twA+/twA-1'; Liquidity Revised To Strong From Exceptional; Outlook Remains Positive

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## Rating Action Overview

- We assess **TECO Electric & Machinery Co. Ltd.'s** liquidity buffer will narrow. This is based on our expectation of the company's higher capital expenditure and investment needs tied to its electrical solution and green energy businesses, as well as higher cash dividends over the next one to two years. We therefore revised our liquidity assessment for TECO to strong from exceptional.
- We affirmed our 'twA+' long-term and 'twA-1' short-term issuer credit ratings on TECO.
- The positive rating outlook reflects our view that TECO could enhance its product portfolio around energy efficient electrical motor and equipment solutions to sustain its enhanced EBITDA margin over the next two years.

## Rating Action Rationale

**Good position in the electrical motor market, strengthened product portfolio, and low debt leverage underpin the ratings.** We forecast TECO will maintain its market position and enhancing product mix for its core electric motor business over the next one to two years. This should in turn continue to strengthen the company's profitability. The ratings also reflect our view that TECO's improving profitability along with prudent financial management will help sustain low debt leverage. This will be reflected in the ratio of debt to EBITDA below 0.5x in 2025-2026, despite rising capital spending and cash dividends over the same period.

Several factors temper these rating strengths. These include TECO's high profit concentration on its motor business, slightly weaker technology capability and product mix relative to global peers, and the relatively weak, albeit improving, profitability of TECO's non-motor businesses.

**The liquidity buffer has narrowed moderately due to rising investments and high cash dividend payouts.** Nonetheless, TECO's abundant cash on hand and growing fund from operations should keep its liquidity strong. We forecast the ratio of liquidity sources to uses will be 1.8x over the 12 months ending September 2025, and 1.6x for the subsequent 12 months. The company's liquidity sources will still exceed liquidity uses even if its EBITDA drops by 30%.

We believe TECO has well-established banking relationships and a generally high standing in domestic credit market. We also believe that the company can absorb high-impact, low probability events without financing, supported by low debt leverage. Moreover, TECO has sufficient headroom on financial covenants over the next two years, in our view.

# Outlook

The positive rating outlook reflects our view that TECO will moderately increase its revenue with a stable EBITDA margin over the next two years. This, together with the company's active management over non-strategic assets should support very low debt leverage over the period. That's despite our anticipation of substantial growth in TECO's capital expenditure and acquisitions over the period. Recovering capital spending in TECO's key markets, accelerating demand for energy-efficient electric motors, and an enhanced product mix support this view.

### Upside scenario

We may raise the long-term issuer credit rating on TECO if:

- The company could maintain its EBITDA margin materially above 14% through business cycles. This could happen if TECO strengthens its profitability by improving the company's core technology or an increasing sales contribution from higher value-added system solutions at its electric motor division; and
- At the same time, the company maintains prudent investment and capital expenditure plans along with the ratio of debt to EBITDA comfortably and sustainably below 1.5x.

### Downside scenario

We may revise the positive outlook to stable if:

- We believe TECO cannot maintain its EBITDA margin above 14% through business cycles. This may occur due to a material erosion in profitability possibly led by the company's inability to manage volatility in input costs, trade frictions, or rising industry competition, as demonstrated by the loss of key clients or market share, especially for the company's electric motor business amid the global trade friction; or
- TECO becomes more aggressive in its capital expenditures, acquisitions, or investments in new businesses than we currently assume, or if the return on these investments is weaker than our forecast. A ratio of debt to EBITDA above 1.5x for an extended period would indicate such deterioration.

# Ratings Score Snapshot

| **TECO Electric & Machinery Co. Ltd.** | | |
|---|---|---|
| | **To** | **From** |
| Issuer Credit Rating | twA+/Positive/twA-1 | twA+/Positive/twA-1 |
| Business risk | Satisfactory | Satisfactory |
| Country risk | Intermediate | Intermediate |
| Industry risk | Intermediate | Intermediate |
| Competitive position | Satisfactory | Satisfactory |
| Financial risk | Modest | Modest |
| Cash flow/Leverage | Modest | Modest |
| Anchor | twaa- | twaa- |
| 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) | Exceptional (no impact) |
| Management and governance | Neutral (no impact) | Neutral (no impact) |
| Comparable ratings analysis | Negative (-1 notch) | Negative (-1 notch) |
| Stand-alone credit profile (SACP) | twa+ | twa+ |
| 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
- 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**

| **TECO Electric & Machinery Co. Ltd.** | |
|---|---|
| Issuer Credit Rating | twA+/Positive/twA-1 |