Media Release:

Outlook On Chung Hung Steel Corp. Revised To Negative Following Similar Parent Action; 'twA/twA-1' Ratings Affirmed

April 24, 2025

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Rating Action Overview

- **Chung Hung Steel Corp.** is a specialized downstream steel processor with production capacity of 2.4 million tons for hot-rolled coils and revenue of new Taiwan dollar (NT$) 30.5 billion in 2024.
- We recently revised the rating outlook on Chung Hung's parent company, **China Steel Corp.,** to negative from stable. We view Chung Hung as a highly strategic subsidiary of China Steel; therefore, the ratings and outlook on Chung Hung move in tandem with those on the parent.
- The negative outlook revision on China Steel reflects our view that rising global trade tension could continue to weigh on already sluggish demand. We forecast China Steel's ratio of FFO to debt will remain soft at around 12% 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 Chung Hung Steel.

Rating Action Rationale

The negative outlook revision follows our similar action on the parent. Our recent outlook revision on our long-term rating on China Steel reflects our view that increasing uncertainties from U.S. tariff policy could hurt economic activity and steel consumption and delay a potential demand recovery. The outlook also reflects rising uncertainty over China Steel's ability to generate profit, driven by increasing anti-dumping taxes from various countries. This could disrupt sales and restructure the steel market. China's steel output remains a significant contributor to global oversupply.

We expect China Steel's ratio of funds from operations (FFO) to debt to remain under pressure throughout 2025, given the ratio has no buffer for our downside trigger in the past year. The company's revenue could decline slightly to NT$347.4billion in 2025, down from NT$360.5 billion in 2024. This coupled with limited margin improvement could cap FFO generation and the ratio of FFO to debt at around 12% in 2025, which is weaker under our previous forecast.

The ratings on Chung Hung Steel reflect our view of the company's highly strategic role within China Steel group. We view Chung Hung Steel as a highly strategic member of the parent group. This reflects the fact that China Steel is the single largest shareholder with about a 40% shareholding in Chung Hung Steel, which gives China Steel control over the subsidiary's board of directors. Chung Hung Steel's operations are very important to the group and help it to maintain a dominant share in Taiwan's steel market. Therefore, we assess the long-term rating on Chung Hung Steel at one notch below our assessment of China Steel's stand-alone credit profile, and our ratings and outlook on Chung Hung will move in tandem with those on its parent.

Outlook

The negative rating outlook on Chung Hung Steel reflects the negative outlook on its parent, China Steel, given our view of Chung Hung Steel as a highly strategic subsidiary of the parent group. The outlook also reflects our view that China Steel's ratio of FFO to debt could stay around 12% for longer than under our previous forecast.

Downside risk for the rating is likely to sustain longer amid dampened prospects for demand recovery under rising trade and economic uncertainties with rapid changes in the U.S. tariff policy potentially leading to slower economic and steel demand growth. This is despite China Steel's declining capital expenditure (capex) needs and the levying of an anti-dumping tax in Taiwan should provide some credit buffer for China Steel's debt leverage.

Downward scenario

We could lower the long-term rating if:

- China Steel's ratio of FFO to debt fails to improve to materially above 12% or EBITDA margin fails to recover to above 12% for an extended period, possibly due to: (a) a prolonged industry downturn with contraction in demand and intense competition; (b) persistently high raw material prices that materially squeeze the company's profit margin; or, (c) China Steel adopts a much more aggressive capex plan that curbs its ability to deleverage and results in elevated debt for an extended period; or
- We believe the link between China Steel and the Taiwan government has weakened from our current assessment of strong, which may happen if the government materially lowers its ownership stake in China Steel. However, we view this scenario to be remote over the next two years.
- We may also lower the rating on Chung Hung if we believe China Steel's support for the subsidiary has weakened. This could happen if China Steel significantly lowers its ownership in Chung Hung or reduces its control over Chung Hung's board of directors.

Upward scenario

We may revise the outlook back to stable if we revise the rating outlook on China Steel back to stable. This may occur if we believe China Steel could keep its ratio of FFO to debt above 12% and EBITDA margin recover to above 12% on a sustainable basis. This could be due to improving export businesses and sustainable domestic sales through timely and effectively product mix adjustments.

Rating Score Snapshot

Issuer Credit Rating: twA/Negative/twA-1
Note: All scores below are in comparison with global obligors.

Business risk: Weak
- Country risk: Intermediate
- Industry risk: Moderately high
- Competitive position: Weak

Financial risk: Highly leveraged
- Cash flow/Leverage: Highly leveraged

Anchor: twbb

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: twbb+
- Group stand-alone credit profile (which exclude external support): twa+
- Entity status within group: Highly strategic (one notch below group SACP)

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- 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
- 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

- Media Release: Outlook On China Steel Corp. Revised To Negative On Prolonged Weak Demand; 'twAA-/twA-1+' Ratings Affirmed – April 24, 2025
- 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
Chung Hung Steel Corp.		
Issuer Credit Rating	twA/Negative/twA-1	twA/Stable/twA-1