

Media Release:

Outlook On China Steel Structures Co. Ltd. Revised To Negative On Similar Parent Action; 'twA-/twA-2' Ratings Affirmed

April 24, 2025

Rating Action Overview

- **China Steel Structure Co. Ltd.** is a specialized steel structure producer with its main products as prefabricated sections including high-rise building structures and factory structures. In 2024, China Steel Structure had EBITDA of new Taiwan dollar (NT\$) 0.96 billion.
- We recently revised the rating outlook on China Steel Structure's parent company, **China Steel Corp.**, to negative from stable. We view China Steel Structure as a strategically important subsidiary of China Steel; therefore, the ratings and outlook on China Steel Structure move in tandem with those on the parent.
- We have revised our outlook on the long-term issuer credit rating on China Steel Structure to negative from stable, following our similar rating action on China Steel.
- At the same time, we affirmed our 'twA-' long-term and 'twA-2' short-term issuer credit ratings on China Steel Structure.

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 Corp. reflects our view that the pace of China Steel's revenue growth and ability to improve its profit generation make it difficult for the company to sustain the ratio of funds from operations (FFO) to debt above 12% over the next 12-24 months. Increasing uncertainties from recent changes to the U.S. government's tariff policy could hurt economic activity in the U.S. and related steel consumption and delay potential recovery in China Steel's credit metrics. We expect the company's ratio of FFO to debt to remain under pressure throughout 2025, given the ratio has already breached our downside trigger once during the past year.

The ratings on China Steel Structure reflect our view of the company's strategically important status within China Steel group. We believe China Steel group will retain operating control of China Steel Structure over the next two to three years, primarily through majority control over the company's board of directors. China Steel group controls 35.35% of China Steel Structure's shares as of the end of 2024, and we believe the group will remain the majority controlling shareholder over next one to two years. That's because China Steel Structure is likely to remain important to the group's long-term business strategy, given its leading position in Taiwan's steel

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structure industry which expands the group's downstream exposure and business opportunities in wider steel structure market.

The ratings and outlook on China Steel Structure continue to reflect our view that it will remain a strategically important subsidiary of China Steel group. The long-term rating on China Steel Structure benefits from three notches uplift above the company's stand-alone credit profile and is capped at one notch below the below China Steel's credit profile. Therefore, the ratings and outlook on China Steel Structure move in tandem with those on its parent.

Outlook

The negative rating outlook on China Steel Structure reflects the negative rating outlook on its parent, China Steel, given our view of China Steel Structure as a strategically important subsidiary of the parent group. The outlook also reflects our opinion that China Steel's FFO-to-debt ratio could only 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.

Downward scenario

We could lower the long-term rating on China Steel Structure if:

- We lower our rating on China Steel;
- China Steel Structure's profitability deteriorates materially due to a weakening steel structure market, as indicated by an average EBITDA interest coverage ratio remaining below 6x on a sustainable basis; or
- China Steel Structure's relationship with the parent group and potential group support weakens, as indicated by a decline in China Steel's ownership in the company or failure to maintain majority control over the board.

Upward scenario

We may revise the outlook back to stable if we see a sufficient recovery in steel demand and product margin for China Steel that brings the company's ratio of FFO to debt back to materially above 12% on a sustainable basis. This could possibly be due to improving export businesses and sustainable domestic sales through timely and effectively product mix adjustments. At the same time, China Steel would need to maintain conservative capital expenditure, cash dividend payouts, and debt-funding investments within our base case assumptions.

Ratings Score Snapshot

Issuer Credit Rating: twA-/Negative/twA-2

Note: The descriptors below are compared with global obligors.

Business risk: Fair

- Country risk: Intermediate
- Industry risk: Moderately High
- Competitive position: Fair

Financial risk: Aggressive

- Cash flow/Leverage: Aggressive

Anchor: twbbb

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Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Negative (-1 notch)
- Financial policy: Neutral (no impact)
- Liquidity: Less than adequate (no impact)
- Management and governance: Neutral (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: twbbb-

- Group stand-alone credit profile: twa+
- Entity status within group: Strategically important (+3 notches from 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

- Taiwan Ratings' Ratings Definitions – November 11, 2021
- Media Release: Outlook On China Steel Corp. Revised To Negative On Prolonged Weak Demand; 'twAA-/twA-1+' Ratings Affirmed - April 24, 2025

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed; Outlook Action

| | To | From |
|---------------------------------|---------------------|-------------------|
| China Steel Structures Co. Ltd. | | |
| Issuer Credit Rating | twA-/Negative/twA-2 | twA-/Stable/twA-2 |

Media Release: Outlook On China Steel Structures Co. Ltd. Revised To Negative From Stable On Similar Parent Action; 'twA-/twA-2' Ratings Affirmed

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