TAIWAN'S TOP 50 CORPORATES

September 2014

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Taiwan Ratings' Rating Research Service

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Introduction

We warmly welcome you to our latest study of Taiwan's top 50 corporates, covering the island's largest corporations by revenue in 2013. In the five years since we last published our analysis of Taiwan's leading corporates there have been many changes to both the global and local economies and consequently on the corporate landscape in Taiwan.

Our survey of Taiwan's top corporates includes an assessment of the 14 industry sectors in which these companies operate, to inform our views on which sectors are most vulnerable to the slowdown in China and the slow yet still-volatile recovery in global markets.

We selected these companies, which we believe are representative of their industries, from a pool of the largest revenue earners. Each credit summary features an evaluation of the company's business risk and financial risk profiles, an outlook for those corporates with a "tw" rating, and statistics covering key financial figures and credit ratios, all based on Taiwan Ratings/Standard & Poor's credit rating methodology.

The key findings of the report are:

- Taiwan's top companies have improved their profitability and credit ratios amid recovering global demand and lower commodity prices, but risks remain.
- High-tech firms have stronger financial risk profiles than non-techs', because high-tech's more conservative debt-usage policies help respond to fast-changing operating areas.
- Retail, semiconductor, and telecom sectors have the strongest credit profiles among Taiwan's top 50, while transportation cyclical and metal companies have the weakest.

Taiwan Ratings has unrivalled expertise in providing professional and independent investors with accurate and unbiased ratings on corporates throughout Taiwan, supported by our strong local presence and Standard & Poor's Ratings Services' global credit analytical expertise. We remain committed to providing the best coverage of the Taiwan market. We trust that the financial and investor communities, both in Taiwan and overseas, will find this report a valuable reference tool that enables you to make better-informed investment decisions.

The commentaries and rating analyses in this publication are extracted from research contained on our subscriber site, Ratings Research Services.

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Corporate Ratings
Taiwan Ratings Corp.

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Sector Review:

Taiwan's Top Corporates Face Continued Headwind On The Road To Recovery

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China's slowing economic growth and excess capacity remain the key credit risks for Taiwan's corporates over the next year. Taiwan Ratings Corp. expects the island's top 50 corporates to mostly improve their profitability during the next 12 to 18 months. A gradually strengthening global economy and lower commodity prices helped bolster economic activity in Taiwan in recent quarters, signaling an upturn in prosperity for export-dependent corporates. But not all corporate players are out of danger. In particular, a greater slowdown in Chinese growth than under our base-case scenario could weaken the credit ratios and profitability in sectors with a higher revenue concentration in neighboring China. This includes steel and chemical sectors, where excess capacity has built up over the past few years.

We also view rising competition from Korean competitors as a threat to Taiwanese credit profiles if a free trade agreement (FTA) between Korea and China is implemented as planned, without a similar FTA between Taiwan and China in place. Taiwanese and Korean players in the chemical, steel, and thin-film-transistor liquid crystal display (TFT-LCD) panel sectors have been competing heavily in the region over recent quarters, particularly in China.

Overview:

- Taiwan's largest 50 companies by revenue have improved their profitability and credit ratios amid recovering global demand and lower commodity prices, but risks remain.
- High-tech firms have stronger financial risk profiles than non-techs', because their more conservative debt-usage policies help respond to fast-changing operating areas.
- Retail, semiconductor, and telecom sectors have the strongest credit profiles among Taiwan's top 50, while transportation cyclical and metal companies have the weakest.

High-Tech And Non-Tech Sectors Share Similar Business Risk Profiles

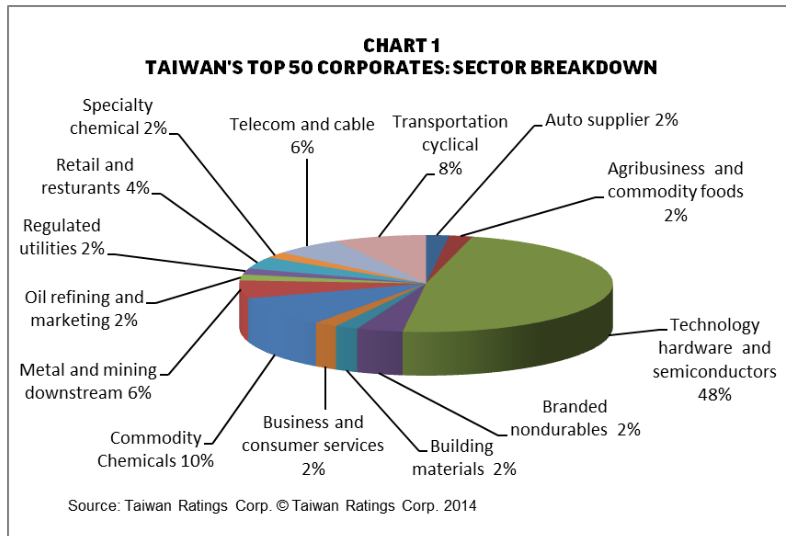
Our study covers Taiwan's top 50 corporations by revenue in 2013 (see table 1 and chart 1). Overall, we assess the average business risk profile of these corporates as "satisfactory" and financial risk profile as "modest," as our criteria define those terms, compared to Taiwanese obligors, and "fair" and "intermediate," respectively, compared with their global peers. We also believe that the high-tech and non-tech sectors share similar business risk profiles, but the technology sector has a stronger financial risk profile.

Table 1

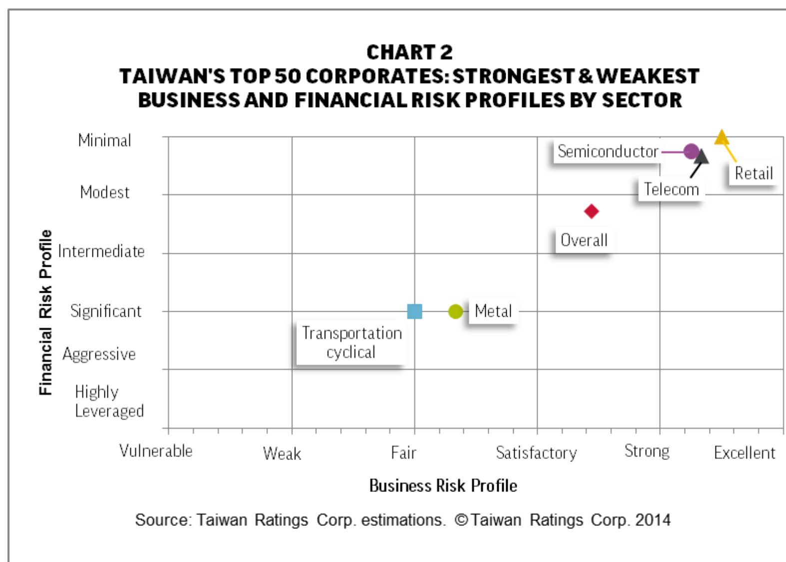
Taiwan Top 50 Corporates By Revenue In 2013

Rank	Company	Industry	(Mil. NT$)
1	Hon Hai Precision Industry Co. Ltd.	Technology hardware and semiconductors	3,952,318
2	CPC Corp., Taiwan	Oil refining and marketing	1,187,701
3	Pegatron Corp.	Technology hardware and semiconductors	949,752
4	Formosa Petrochemical Corp.	Commodity Chemicals	931,334
5	Quanta Computer Inc.	Technology hardware and semiconductors	880,402
6	Compal Electronics, Inc.	Technology hardware and semiconductors	692,748
7	Wistron Corp.	Technology hardware and semiconductors	624,009
8	Taiwan Semiconductor Manufacturing Co. Ltd.	Technology hardware and semiconductors	597,024
9	Taiwan Power Co.	Regulated utilities	592,791
10	ASUSTeK Computer Inc.	Technology hardware and semiconductors	463,287
11	INVENTEC Corp.	Technology hardware and semiconductors	461,091
12	Formosa Chemicals & Fibre Corp.	Commodity Chemicals	428,294
13	Uni-President Enterprises Corp.	Branded Nondurables	423,056
14	Innolux Corp.	Technology hardware and semiconductors	422,730
15	AU Optronics Corp.	Technology hardware and semiconductors	416,363
16	WPG Holding Ltd.	Technology hardware and semiconductors	406,256
17	Acer Inc.	Technology hardware and semiconductors	360,132
18	China Steel Corp.	Metal and mining downstream	347,829
19	Synnex Technology International Corp.	Technology hardware and semiconductors	330,260
20	Tingyi (Cayman Islands) Holding Corp.	Branded Nondurables	326,151
21	Nan Ya Plastics Corp.	Commodity Chemicals	311,005
22	Far Eastern New Century Corp.	Telecommunications and cable	238,840
23	Chunghwa Telecom Co. Ltd.	Telecommunications and cable	227,981
24	Pou Chen Corp.	Business and consumer services	226,665
25	Advanced Semiconductor Engineering Inc.	Technology hardware and semiconductors	219,862
26	Formosa Plastics Corp.	Commodity Chemicals	215,425
27	Lite-On Technology Corp.	Technology hardware and semiconductors	213,214
28	HTC Corp.	Technology hardware and semiconductors	203,403
29	President Chain Store Corp.	Retail and resturants	200,610
30	Chi Mei Corp.	Commodity Chemicals	179,384
31	Delta Electronics Inc.	Technology hardware and semiconductors	177,053
32	TPK Holding Co., Ltd	Technology hardware and semiconductors	159,067
33	Walsin Lihwa Corp.	Metal and mining downstream	148,634
34	China Airlines Ltd.	Transportation cyclical	141,703
35	Evergreen Marine Corp. (Taiwan) Ltd.	Transportation cyclical	139,216
36	MediaTek Inc.	Technology hardware and semiconductors	136,056
37	Yieh United Steel Corp.	Metal and mining downstream	133,756
38	Cheng Shin Rubber Ind. Co. Ltd.	Auto supplier	133,087
39	Hotai Motor Co. Ltd.	Retail and resturants	131,835
40	Eva Airways Corp.	Transportation cyclical	124,164
41	United Microelectronics Corp.	Technology hardware and semiconductors	123,812
42	Qisda Corp.	Technology hardware and semiconductors	119,231
43	Yang Ming Marine Transport Corp.	Transportation cyclical	118,874
44	Taiwan Cement Corp.	Building materials	116,099
45	Chang Chun Petrochemical Co. Ltd.	Specialty Chemical	114,950
46	Tatung Co.	Technology hardware and semiconductors	112,927
47	Taiwan Mobile Co. Ltd.	Telecommunications and cable	109,143
48	Cheng Uei Precision Industry Co. Ltd.	Technology hardware and semiconductors	106,156
49	Foxconn Technology Co. Ltd.	Technology hardware and semiconductors	94,598
50	Great Wall Enterprise Co. Ltd.	Agribusiness and commodity foods	90,478

NT$--New Taiwan dollar. Source: Audited company financial reports.

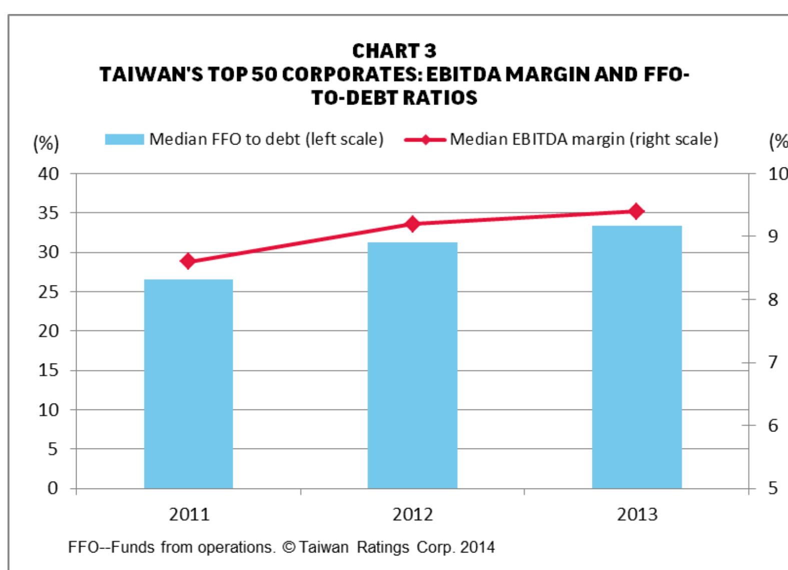


We believe the transportation cyclical sector has the weakest business risk profile among the top 50, followed by metal, and two sub-sectors of technology hardware and semiconductors, including consumer electronics (i.e. branded technology companies), and computer hardware and electronics component firms (such as TFT-LCD panel makers), which are all below the top 50 average. The transportation cyclical, metal, and technology distributors (a subsector of technology hardware and semiconductors) sectors all have below-average financial risk profiles. Accordingly, we believe the transportation cyclical and metal sectors have the weakest credit profiles among Taiwan's top 50 corporates (see chart 2). This is mainly due to industry overcapacity and weaker competitive positions that constrain profitability. Meanwhile, we believe the retail, semiconductor (a subsector of technology hardware and semiconductors), and telecommunications sectors have the strongest overall credit profiles, supported by their established market positions and conservative debt use policy.



Profits Rise More Rapidly For Some Sectors Than Others

We expect corporate profitability to generally improve in 2014, but individual performance will diverge. Our analysis of median EBITDA margins for the top 50 companies reveals that overall profitability improved to 9.4% in 2013 from 8.6% in 2011, partly due to lower material cost, such as coals and iron ore (see chart 3). For instance, *Taiwan Power Co.*'s EBITDA margin rose to 23.5% in 2013 from 19.3% in 2011, partly due to the positive effect of tariff hikes and lower coal prices, meanwhile EBITDA margins in the metal sector rose to 4.7% from 3% over the same period. Oversupply in the natural rubber and synthetic rubber markets also helped to improve the profitability of tire manufacturers, such as *Cheng Shin Rubber Industries Co.* We expect semiconductor, retail, and building material sectors to see profitability improve in 2014, backed by recovery in demand and more disciplined supply in China's cement market.



Conversely, several sectors are facing margin pressure as a result of rising competition, overcapacity, or unfavorable regulations. We believe that Taiwanese consumer electronics companies (or branded technology companies), including smartphone and PC branded companies such as *HTC Corp. and Acer Inc.*, will continue to experience severe competition from Chinese branded IT firms, due to the lack of product differentiation and control on operating platforms. Commodity chemical companies and metal manufacturers are also likely to experience problems from continued overcapacity in China, depending on their product offering. Meanwhile, a regulatory requirement for tariff reductions is likely to exert continued margin pressure in the telecom sector.

Rising Profitability Lifts Cash Flow Protection; Capital Expenditures And Debt Remain Flat

We expect the cash flow protection of Taiwan's top 50 companies to strengthen in 2014, supported by their improving profitability. The median credit protection level (measured by the ratio of funds from operations to debt) improved to 33.4% in 2013 from 26.6% in 2011, according to our analysis. We believe this was the result of improved profitability and flat capital expenditures. Sectors with higher capital expenditures in 2013 include regulated utilities

(*Taipower*), oil refining and marketing (*CPC Corp., Taiwan*), and telecommunications. Meanwhile, higher capital expenditures in the telecom sector were the result of bidding on 4G mobile license fees.

Technology companies represented within the top 50 generally reduced their capital expenditures in 2013, with the exception of *Taiwan Semiconductor Manufacturing Co. Ltd.* (TSMC), *TPK Holding Co. Ltd.*, and *Lite-On Technology Corp*. The electronics manufacturing service sector (*Hon Hai Precision Industry Co. Ltd.*), TFT-LCD panel firms (*AU Optronics Corp.* and *Innolux Corp.*), and branded technology firms (*Acer Inc.* and *HTC Corp.*) all took a more conservative approach to capital expenditure in 2013, partly due to the absorption of current capacity and restructuring of product lines. We expect these sectors to increase capital expenditure in 2014. Demand recovery for EMS and panel sectors and capital expenditure were already the lowest in the branded technology sector in 2013.

Although the median debt level was unchanged in 2013 from 2012, several sectors continue to take on more debt. Taipower and CPC had the highest debt in 2013, which reflects the fact that their cash flow generation isn't sufficient to cover their capital expenditures. We believe this imbalance will continue in 2014, because the companies are obliged to fulfill their government policy roles. Players in the telecom sector borrowed to fund the 4G license fee in 2013, but we believe the debt will gradually be repaid, because the sector's cash flow generation is generally strong. Meanwhile, the semiconductor sector built up debt as a result of widespread practices to maintain high cash balances in 2013. We expect the sector to maintain a relatively high level of debt in 2014 to support its capital expenditures and cash dividend payout.

We note that the chemical, building material, and auto suppliers sectors reduced their respective debt levels in 2013, due to decreasing expansion opportunities or a slowdown in capital expenditure plans, which we believe are unlikely to change over the next one to two years.

Transportation Cyclical And Metal Sectors Are More Vulnerable To Downturns

Transportation cyclical

In our opinion, companies representing the transportation cyclical sector in our analysis have on average "fair" business risk profiles and "significant" financial risk profiles compared to other Taiwanese obligors, and "weak" and "aggressive" risk profiles, respectively, compared to global obligors (see table 2).

Table 2

Taiwan's Top 50 Corporates: Transportation Cyclical Sector

Sales ranking	Company	BRP	FRP
34	China Airlines Ltd.	Fair	Significant
35	Evergreen Marine Corp. (Taiwan) Ltd.	Fair	Significant
40	Eva Airways Corp.	Fair	Intermediate
43	Yang Ming Marine Transport Corp.	Fair	Aggressive
	Average	Fair	Significant

BRP--Business risk profile; FRP--Financial risk profile. Note: Risk profiles are in comparison with other Taiwanese obligors. Source: Taiwan Ratings Corp.

We believe that sliding demand in the highly cyclical shipping subsector has just about bottomed out. However, we anticipate that business volatility will remain high given our view that the problem of oversupply is unlikely to end anytime soon. In particular, we believe that container freight rates will not rebound significantly and could stay near their lowest point for much longer than in previous downturns. Airlines are also likely to see business conditions remain weak (excluding cross-Strait routes between Taiwan and China), given rising competition particularly from low-cost carriers, and weaker cargo performance. However, direct cross-Strait flights and stable fuel prices could partly support airlines' performances over the next year. We believe that direct flights between Taiwan and China that are not code shared with foreign carriers remain highly undersupplied, supporting more stable pricing for the route.

Metal

We assess the average business risk profile in the metal sector as "fair", and the average financial risk profile as "significant" compared to other Taiwanese obligors, or "weak" and "aggressive", respectively, compared to global obligors (see table 3).

Table 3

Taiwan's Top 50 Corporates: Metal Sector

Sales ranking	Company	BRP	FRP
18	China Steel Corp.	Strong	Intermediate
33	Walsin Lihwa Corp.	Fair	Significant
37	Yieh United Steel Corp.	Weak	Aggressive
	Average	**Fair**	**Significant**

BRP--Business risk profile; FRP--Financial risk profile. Note: Risk profiles are in comparison with other Taiwanese obligors. Source: Taiwan Ratings Corp.

We don't expect iron ore prices to recover significantly in the next six months. As such, we believe that carbon steel company, *China Steel Corp.*, could benefit from relatively lower material costs. However, we also expect the lack of production discipline among Chinese steelmakers to continue to suppress crude steel prices over the next one to two years, given the excess capacity in China. Stainless steel producers continue also face margin pressure as a result of global oversupply. In particular, this is due to rapid growth in Chinese output compared with slower growth in global demand. Chinese output rose 18% in 2013, and the output in China accounted for about 50% of global stainless steel supply.

Retail, Telecom, And Semiconductor Sectors Will Likely Sustain Stronger Credit Profiles

Retail

We view retail companies on average as possessing a "strong" business risk profile and "minimal" financial risk profile compared to other Taiwanese obligors, and "satisfactory" and "modest" risk profiles, respectively, compared to global obligors (see table 4).

Table 4

Taiwan's Top 50 Corporates: Retailing Sector			
Sales ranking	Company	BRP	FRP
29	President Chain Store Corp.	Excellent	Minimal
39	Hotai Motor Co. Ltd.	Strong	Minimal
	Average	Strong	Minimal

BRP--Business risk profile; FRP--Financial risk profile. Note: Risk profiles are in comparison with other Taiwanese obligors. Source: Taiwan Ratings Corp.

Retailing companies such as *President Chain Store Corp.* (PCSC) and *Hotai Motor Corp.*, benefit from an established market position and a net cash position. On the one hand, we expect PCSC's 7-11 convenience stores to maintain a dominant market position in Taiwan with about 50% market share and a large operating scale with comprehensive service offering. We also expect the company to utilize its strong network and integrated operations to further entrench its dominating market position. On the other hand, we believe that Hotai Motor benefits from strong market share and brand equity of Toyota Motor Corp.'s, which it represents in Taiwan. Toyota cars have broad popularity in Taiwan with a leading 33.6% share of new car unit sales in 2013. In addition, Hotai Motor has also carried out a successful merchandising strategy to promote Toyota cars and maintain customer loyalty, which we expect to help it maintain its strong domestic market position. We believe that Hotai's long and solid relationship with Toyota partly offsets the risk associated with the company's complete reliance on selling Toyota cars for its revenue.

Telecom

We assess the telecom sector as having on average a "strong" business risk profile and "minimal" financial risk profile compared to other Taiwanese obligors, and "satisfactory" and "modest" risk profiles, respectively, compared to global obligors (see table 5).

Table 5

Taiwan's Top 50 Corporates: Telecommunication Sector			
Sales ranking	Company	BRP	FRP
22	Far Eastern New Century Corp.	Strong	Modest
23	Chunghwa Telecom Co. Ltd.	Excellent	Minimal
47	Taiwan Mobile Co. Ltd.	Strong	Minimal
	Average	Strong	Minimal

BRP--Business risk profile; FRP--Financial risk profile. Note: Risk profiles are in comparison with other Taiwanese obligors. Source: Taiwan Ratings Corp.

We believe the leading telecom operators in Taiwan, including Chunghwa Telecom Co. Ltd., *Far EasTone Telecommunications Co. Ltd.* (one of the key subsidiaries of *Far Eastern New Century Corp.*), and *Taiwan Mobile Co. Ltd.*, will maintain their competitive edges despite new entrants to the market following bidding on 4G licenses. This view is underpinned by our assessment of the three firms' sufficient economies of scale and well-established customer base. However, the magnitude of average revenue per user and margin improvement will depend on the adoption rate of 4G service's and the level of market competition from new competitors. In our view, new

telecom companies are unlikely to weaken the leading operators' credit profiles over the next two to three years, given their established user base and more comprehensive service offering.

Semiconductor

We assess the semiconductor sector on average as possessing a "strong" business risk profile and "minimal" financial risk profile compared to other Taiwanese obligors, and "satisfactory" and "modest" risk profiles, respectively, compared to global obligors (see table 6).

Table 6

Taiwan's Top 50 Corporates: Semiconductor Sector			
Sales ranking	Company	BRP	FRP
8	Taiwan Semiconductor Manufacturing Co. Ltd.	Excellent	Minimal
25	Advanced Semiconductor Engineering Inc.	Strong	Modest
36	MediaTek Inc.	Strong	Minimal
41	United Microelectronics Corp.	Strong	Minimal
	Average	**Strong**	**Minimal**

BRP--Business risk profile; FRP--Financial risk profile. Note: Risk profiles are in comparison with other Taiwanese obligors. Source: Taiwan Ratings Corp.

We believe that semiconductor foundry, assembly and testing, as well as IC design firms, will mostly maintain their competitive advantage and credit profiles over the next 12 months, given their leading market positions in their respective subsectors. We expect competition to rise due to a number of factors, including Chinese players supported by favorable Chinese government policies, large branded Chinese IT companies, and strong domestic demand. However, we also expect major Taiwanese semiconductor firms to be able to cope with the rising challenge from China without compromising their market positions. This is in light of the sector's high technology barriers, scale economy, and the advantage of a complete and efficient semiconductor supply chain in Taiwan. Moreover, we expect these companies to maintain their solid financial profiles, underpinned by their high surplus cash on the balance sheet (see Related Research).

GREs Are Leveraging Up As A Result Of Potential Government Support

We assess the government-related entities (GREs) among the top 50 corporates as having a "satisfactory" business risk profile and "significant" financial risk profile on average compared to other Taiwanese obligors, and "fair" and "aggressive" risk profiles, respectively, compared to global obligors (see table 7).

Table 7

Taiwan's Top 50 Corporates: Government Related Entities			
Sales ranking	Company	BRP	FRP
2	CPC Corp., Taiwan	Satisfactory	Significant
9	Taiwan Power Co.	Satisfactory	Significant
18	China Steel Corp.	Strong	Intermediate
23	Chunghwa Telecom Co. Ltd.	Excellent	Minimal
34	China Airlines Ltd.	Fair	Significant
43	Yang Ming Marine Transport Corp.	Fair	Aggressive
	Average	**Satisfactory**	**Significant**

BRP--Business risk profile; FRP--Financial risk profile. Note: Risk profiles are in comparison with other Taiwanese obligors. Source: Taiwan Ratings Corp.

The GREs in our survey cover various sectors, from the low industry risk regulated utilities sector (Taipower) to the high industry risk transportation cyclical sector (*China Airlines Ltd.* and *Yang Ming Marine Transport Corp.*). Excluding the exceptional case of *Chunghwa Telecom Co. Ltd.*, the financial leverage of these GREs is generally higher than that of the average of the top 50 companies. However, we believe these GREs will maintain their better access to capital markets and higher interest coverage ratios than similarly leveraged non-GRE peers partly due to their government-owned status. This status is underpinned by both entities' government ownership and their policy carrying roles, which enable the local credit market to finance their balance sheet on the basis of government support. The Taiwan government has in the past demonstrated its financial support for weaker GREs, in the case of two transportation companies. Moreover, the government still owns several large and important banks, which are also likely to provide funding flexibility to GREs in times of stress.

China's Uncertain Economic Growth Could Put A Bend In The Road To Recovery

Taiwan Ratings expects the island's top 50 corporates to further strengthen their profitability and credit profiles over the next 12 to 24 months. But the gradually improving global economy doesn't guarantee a swift recovery for all corporates. The risk of an economic slowdown in China could negatively affect the creditworthiness of companies that face supply overcapacity in China or for which the country serves as their main revenue source. In additional, transportation cyclical and metal sectors are particularly vulnerable to economic downturns and have the weakest business and financial risk profiles among the 50 corporates we studied.

Nevertheless, we believe that Taiwan's competitive banking sector and strong liquidity in the domestic financial market provide a short-term liquidity buffer for larger corporates. Moreover, the low cost of holding cash generally helps island's largest companies to maintain high cash balances and stronger liquidity to weather future downturns. The key to future profitability and stronger credit profiles could rest on a number of factors, but key among these are the potential for a free trade agreement with China, better product differentiation, and building technology barriers to restrict long-term competition.

Related Criteria And Research

Related Criteria

- Corporate Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013

Related Research

- Taiwan's IT Hardware Sector Wrestles With Increasing Risk From Chinese Competitors, Sept. 1, 2014
- Asia-Pacific Economic Outlook: China Embraces Risk And Japan Provides An Unexpected Boost, www.globalcreditportal, June 9, 2014
- Challenges Remain For Some Asia-Pacific Sectors In Q2 2014, www.globalcreditportal, June 9, 2014
- Asia-Pacific Credit Outlook 2Q 2014: Auto, Oil And Gas Outperform Others As Negative Bias Persists, www.globalcreditportal, June 9, 2014

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Sector Review:
Taiwan's IT Hardware Sector Wrestles With Increasing Risk From Chinese Competitors

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Chinese manufacturers of low-priced IT products and components are widening their global market share. This could pose a significant threat to more established Taiwanese peers in competing hardware subsectors. Taiwan Ratings Corp. expects the pressure on Taiwanese credit profiles to strengthen over time, but the impact on individual players will depend on the level of product differentiation and technology barriers in each subsector.

We expect China's IT sector to maintain rapid growth over the next few years. This is supported by the nation's fast-growing IT market, low cost structure, and businesses' accumulated learning curve as the global hub for IT manufacturing. Manufacturers also have the support of Chinese government policy, which promotes the development of important technology segments such as semiconductors and thin-film-transistor liquid crystal display (TFT-LCD) manufacturing. Moreover, we expect China's branded technology hardware firms to make substantial progress increasing their share of major IT product markets over the next few quarters. This development will likely foster a stronger local supply chain in China and increase competition for Taiwanese technology companies in the regional IT supply chain.

Overview:

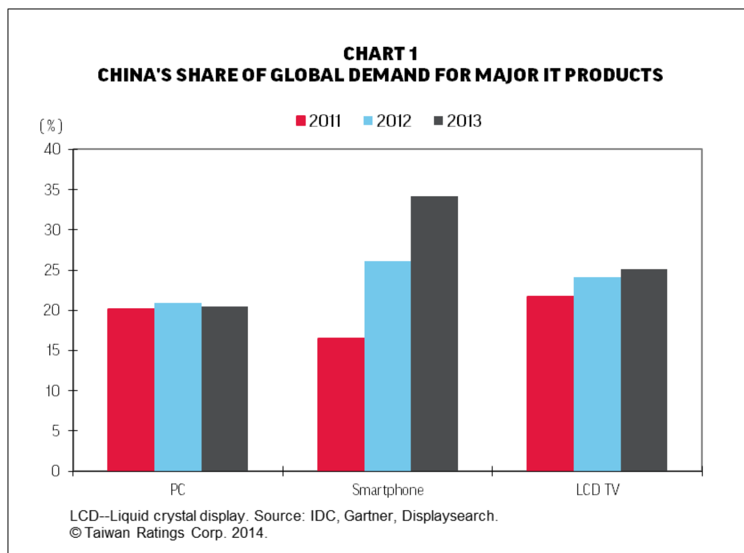
- China's branded IT hardware companies are likely to make significant market gains and strengthen their local supply chain over the next few quarters.
- The majority of Taiwan's largest high tech firms will continue to benefit from scale advantages, product differentiation and technology leadership, but commoditized product manufacturers are likely to suffer from rising Chinese competition.
- Branded IT companies and TFT-LCD panel makers will experience the highest competition risk from Chinese competitors, but semiconductor and EMS firms should be able to cope with rising challenges.

In our opinion, branded IT product and TFT LCD manufacturing companies in Taiwan will continue to face substantial margin and market pressure. This is despite some differentiation in technology and quality in their respective sectors. The potential realization of a free trade agreement between Taiwan and China will likely bring only short-term relief to Taiwanese panels makers, whose futures remain dependent on individual product and technology differentiation. Component manufacturers such as printed circuit board (PCB) makers are also likely to experience more intense competition given Chinese peers' improving manufacturing capability. But Taiwan's leading electronic manufacturing services (EMS) and semiconductor companies are better equipped to cope with the growing challenge from China, in our view. This

is because they possess strong advantages in terms of scale economies, integrated production business models, and unabated technology leadership.

China's Technology Sector Will Grow At Above The Global Average

We expect China's branded IT and consumer electronics companies to rapidly expand their market share over the next two years, despite our prediction of slowing growth in China's GDP. China is the largest international market for major IT products and we predict it will grow faster than the global average because of China's relatively high GDP growth rate (see chart 1). In addition, we believe the strengthening product quality of Chinese IT manufacturers' for commoditized IT products and low cost structure should help these businesses to expand their market share outside of China. Branded Chinese IT companies have also made gradual progress increasing their market shares at home and overseas. We expect improving product quality and design power, as well as low-cost competitiveness to support these manufacturers in achieving continued market share growth (see chart 2).



LCD--Liquid crystal display. Source: IDC, Gartner, Displaysearch.
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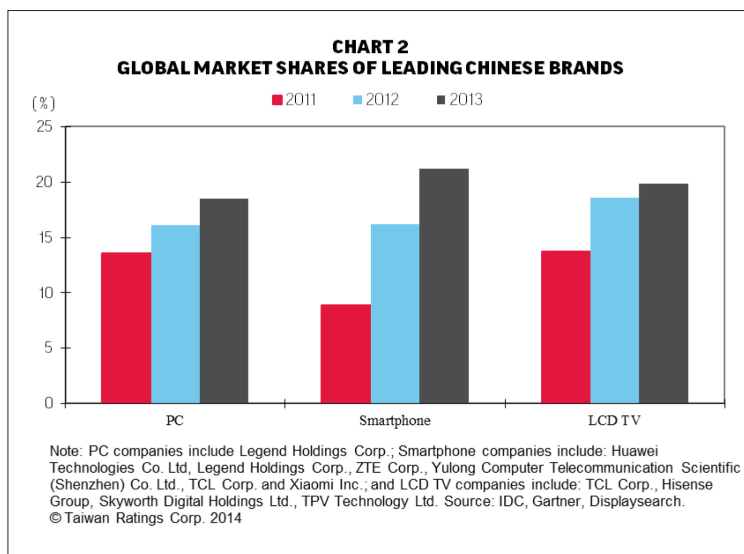

Note: PC companies include Legend Holdings Corp.; Smartphone companies include: Huawei Technologies Co. Ltd, Legend Holdings Corp., ZTE Corp., Yulong Computer Telecommunication Scientific (Shenzhen) Co. Ltd., TCL Corp. and Xiaomi Inc.; and LCD TV companies include: TCL Corp., Hisense Group, Skyworth Digital Holdings Ltd., TPV Technology Ltd. Source: IDC, Gartner, Displaysearch.
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We believe the expansion of branded Chinese technology companies together with the Chinese government's supportive policies will spur faster development of the local hardware supply chain. China is the world's largest IT products manufacturing center and has a low cost structure, yet the country still imports the majority of key manufacturing components. We expect the Chinese government will continue to support the IT sector while at the same time reduce the nation's huge IT trade deficit via a number of measures. These include providing access to capital, offering direct subsidies on investment in technology development and cutting-edge facilities, as well as imposing national technology and security standards and possibly import tariffs on key IT subsectors. China's trade deficit in the semiconductor sector stood at over US$180 billion in 2013.

Furthermore, the Chinese government is highly influential in the development of the nation's technology sector and in the procurement strategies of major technology companies. This has been achieved through the government's control of state businesses or through business incentive programs. According to our study, the Chinese government exerts substantial influence over more than half of the country's top 100 technology companies (see table). This is because 53 of the 100 are defined as government-related entities according to our criteria.

Impact Of China's Growing Technology Sector On Taiwan's Largest Technology Companies*

Sectors	Impact on credit profile†	Technology companies among Taiwan's 50 largest firms	Peers among China's Top 100 technology corporates and significant other firms§
Branded IT products	High	Acer Inc., HTC Corp., ASUSTeK Computer Inc.	Huawei Technologies Co. Ltd., Legend Holdings Corp., ZTE Corp., TCL Corp., Yulong Computer Telecommunication Scientific (Shenzhen) Co. Ltd., Hasee Computer Co. Ltd., Cosun
TFT LCD (thin-film transistor liquid crystal display)	High	Innolux Corp., AU Optronics Corp.	BOE Technology Group Co. Ltd., Shenzhen China star Optoelectroincs Technology Co. Ltd. (CSOT)
Hardware components	Medium	Lite-On Technology Corp., Delta Electronics Inc., TPK Holding Co. Ltd., Tatung Co., Cheng Uei Precision Industry Co. Ltd., Foxconn Technology Co. Ltd., Nan Ya Printed Circuit Board Corp., Unimicron Technology Corp.	Fujian Electronics and Information (Group) Co. Ltd., Goertek Inc., Shengyi Technology Co. Ltd., Shenzhen O-Film Tech Co. Ltd.,
Electronics manufacturing services	Low	Hon Hai Precision Industry Co. Ltd., Pegatron Corp., Quanta Computer Inc., Compal Electronics, Inc., Wistron Corp., INVENTEC Corp., Qisda Corp.	BYD Co. Ltd.
Electronics distributors	Low	WPG Holding Ltd., Synnex Technology International Corp.	
Seminconductors	Low	Taiwan Semiconductor Manufacturing Co. Ltd., United Microelectronics Corp., MediaTek Inc., Advanced Semiconductor Engineering Inc.	Semiconductor Manufacturing International Corp., Shanghai Huahong (Group) Co. Ltd., Jiangsu Xinchao Technology Group Co. Ltd., Datang Telecom Technology Co. Ltd, Nantong Huada Microelectronics Group Co. Ltd., China Resources Microelectronics Ltd., Hitech Semiconductor Co. Ltd., Spreadtrum Communications Inc., HiSilicon Technologies Co.

*Refers to corpoates ranked among the island's top 50 by revenue in 2013 and companies rated by Taiwan Ratings Corp. § According to the compilation of China's top 100 corporates in 2013 by the Ministry of Industry and Information Technology of The People's Republic of China. † 'High' means more than 2 notches impact on credit quality, 'Medium" means one-to-two notches and 'Low' means no impact to one notch by Standard & Poor's Ratings Services' rating defintion. CSOT is a subsidary of TCL Corp. and HiSilicon is a subsidary of Huawei Technologies Co. Ltd. Source: Taiwan Ratings Corp., Ministry of Industry and Information Technology of The People's Republic of China.

Branded IT Product And TFT-LCD Firms Are Most Vulnerable To Chinese Competition

In our opinion, Taiwanese branded hardware companies including smartphone manufacturers will continue to face severe competition due to their lack of product differentiation and control on operating systems. Smartphone and consumer electronics companies such as *HTC Corp.* face particular downside risk due to intense price competition from their Chinese counterparts. We believe that branded PC companies, such as Acer Inc. and *ASUSTeK Computer Inc.* will also experience rising pressure from Chinese competitors including *Legend Holdings Corp.* However, the downside risk for PC companies is somewhat offset by the fact that the PC market is likely to become more consolidated with a low likelihood of significant competition from new entrants over the next two to three years.

Taiwanese TFT-LCD companies are most vulnerable to Chinese competition, in our view. This is due to Chinese panel makers' aggressive expansion and the Chinese government's support for this sector through import tariffs and subsidies on technology and new facilities. Taiwanese panel makers have a weaker position in high-end small-to-mid-size panels, which aggravates their competitive risk despite manufacturers' progress in transforming their product mix. However, we expect that if executed the proposed free trade agreement will remove this pricing disadvantage. In addition, we believe that large Taiwanese panel makers such as *AU Optronics Inc.* and *Innolux Corp.* can maintain their product performance and production cost advantages if they can maintain technology leadership over the next two years.

We expect other Taiwanese hardware component makers to face a high risk of market share and margin erosion due to a strengthening supply chain in China. We also believe Taiwanese manufacturers of commoditized products such as solar cells will continue to experience significant margin pressure from Chinese and Korean competitors. A growing Chinese supply chain could also affect sectors that require higher technology and product customization such as PCB and mechanical parts where Chinese companies have a significant presence in low-end products. However, we believe that leading Taiwanese PCB, power supply and mechanical parts companies possess better technology that will help them to maintain their market positions over the next one to two years.

Electronics Manufacturing Services Companies Can Sustain Rising Competition

We believe that Taiwanese EMS companies can maintain a competitive edge and satisfactory margins against their Chinese rivals despite the rapid growth of a competing supply chain in China. In our view, Chinese companies still lack scale economies, product development capability, and more importantly the integration into upstream component manufacturing that could help customers to shorten design and production cycles.

In addition, Taiwanese companies continue to benefit from their global production and logistics networks that strengthen individual competitive positions, given manufacturers' long track records serving global branded IT companies. Taiwanese original design manufacturing (ODM) and EMS companies are also highly efficient at controlling their cost structure as evidenced by their management of rising production costs in China. Nonetheless, competition from Chinese EMS companies could still pressure margins for their Taiwanese counterparts, whose clients can

benchmark the pricing offered by Chinese competitors.

No Material Impact On Taiwan's Semiconductor Supply Chain For Now

We believe that high technology barriers will help Taiwan's semiconductor supply chain to retain most of its competitive advantages over the next two to three years, despite the Chinese government's strong support for competing Chinese firms. The most advanced foundry company in China, *Semiconductor Manufacturing International Corp. (SMIC)* is still at least two generations behind Taiwanese competitor *Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC)* in terms of leading-edge process technology. In addition, we believe that SMIC's volume production using 28 nanometer process technologies is still at least several quarters behind the other leading Taiwanese competitor, *United Microelectronics Corp.* This is despite the fact that SMIC has recently improved its performance by focusing on specialty processes and capacity utilization. We do not expect SMIC to substantially narrow its technology gap with leading foundries over the next two to three years.

In the outsourced semiconductor assembly and testing (OSAT) sector, we expect the leading Taiwanese companies by revenue to continue to expand their market shares, because of the high levels of technology, scale and customization required for newcomers to compete effectively. The top three Taiwanese OSAT companies increased their aggregate global market share to 33.3% in 2013, up from 32.5% in 2012. We expect this share to increase, given the firms' leading position in advanced products. Chinese OSAT companies are unlikely to represent competition significant threat over the next one to two years, considering the still limited size of China's foundry sector and foundries' substantial technology lag.

Conversely, Taiwan's IC design sector is likely to face higher competition risk from Chinese peers given that Chinese companies have a stronger position in the global communications equipment market. We believe the Chinese government's favorable IT policies coupled with the support of large branded IT companies and strong domestic demand will accelerate the reach and competitiveness of Chinese IC designers over the next two to three years. However, we expect Taiwan's large IC design houses such as *MediaTek Inc.* to be able to maintain their technology leadership over the next two years. These companies possess good research and development capabilities to provide better total solutions than their Chinese peers such as *Spreadtrum Communications Inc.* and *HiSilicon Technologies Co.*

Low Interest Rates And Better Trading Terms With China Cannot Offer Lasting Relief

In Taiwan Ratings' opinion, the free trade agreement with China could positively affect only a few Taiwanese technology companies, particularly those in the TFT LCD industry. It could not strengthen pricing competitiveness in other technology subsectors given their significant production output in China and the fact that most IT products and components imported to China are tariff free. We also believe that prevailing low funding costs and ample liquidity in Taiwan's banking sector offer only a short-term buffer against potential business volatility. In our view, technology leadership and product and service differentiation are keys to helping Taiwanese technology firms cope with rising competition from China. Crucially, we believe that Taiwan's branded IT companies and TFT-LCD panel makers are particularly susceptible to

weakening competitive positions and credit profiles over the next two to three years if they fail to increase their product differentiation.

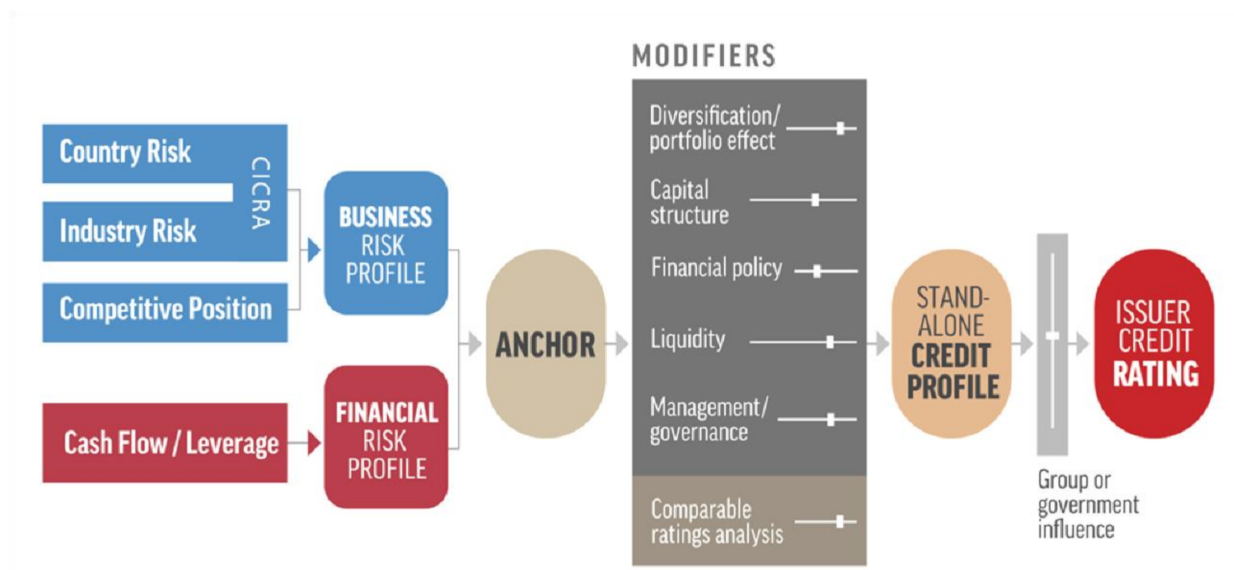
Related Criteria And Research

Related Research

- **Economic Research: Asia-Pacific Economic Outlook: China Embraces Risk And Japan Provides An Unexpected Boost**, www.globalcreditportal.com, June 9, 2014

Under Taiwan Ratings' policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

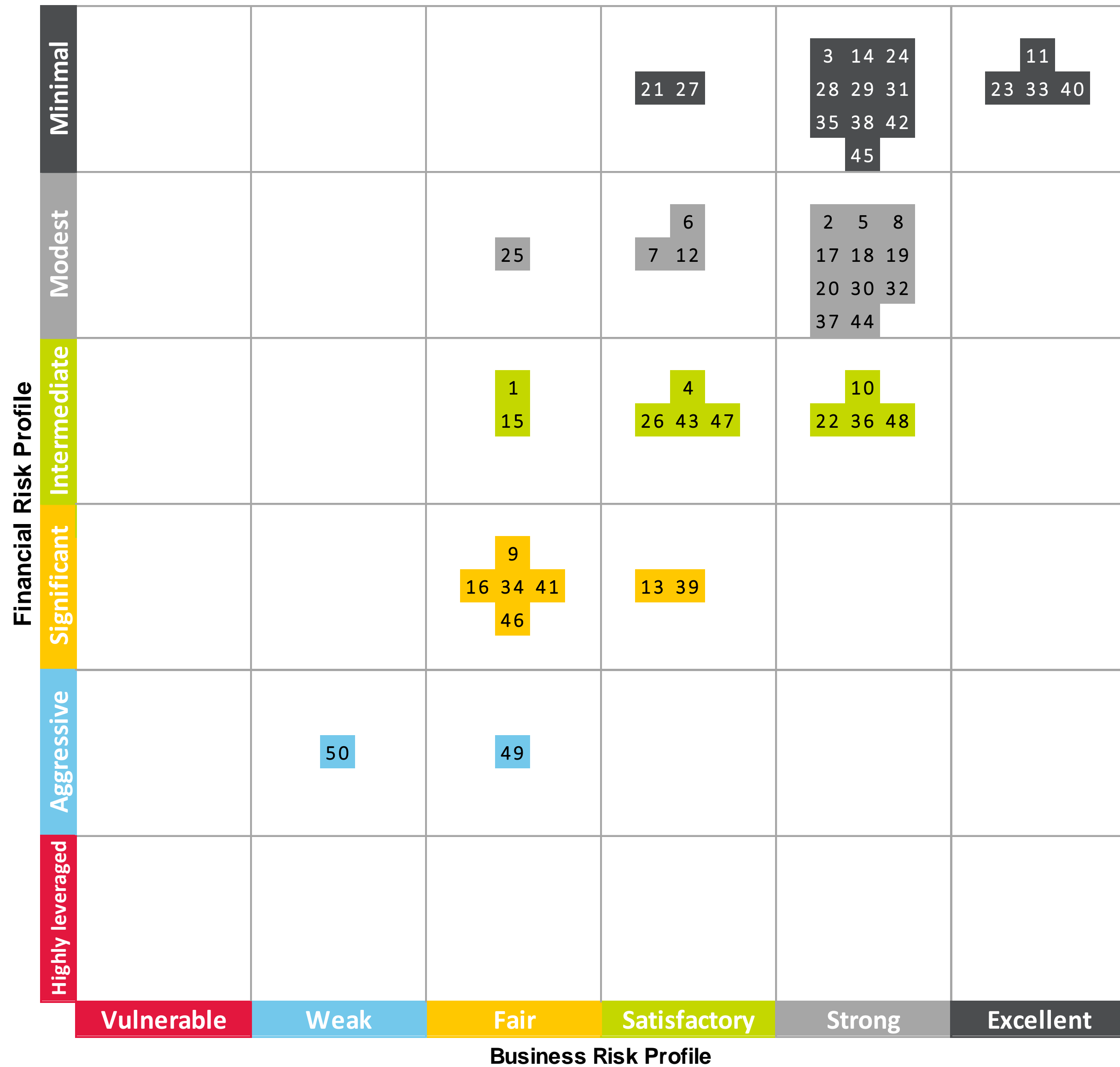
TAIWAN RATINGS' CORPORATE RATINGS CRITERIA FRAMEWORK



Note: Taiwan Ratings Corp. (TRC) uses Standard & Poor's Ratings Service's corporate ratings criteria framework (Corporate Methodology, published Nov. 19, 2013) to first arrive at our global scale rating estimate. We then use the mapping table below to arrive at the TRC scale ratings, as well as rating descriptors.

Standard & Poor's Global Scale Rating	TRC Scale Rating	
	Long-term rating	Short-term rating
A & above	twAAA	twA-1+
A- to A	twAA+	twA-1+
BBB+ to A-	twAA	twA-1+
BBB to BBB+	twAA-	twA-1 to twA-1+
BBB- to BBB	twA+	twA-1
BB+ to BBB-	twA	twA-2 to twA-1
BB+	twA-	twA-2
BB to BB+	twBBB+	twA-3 to twA-2
BB- to BB	twBBB	twA-3
B+ to BB-	twBBB-	twA-3
B+	twBB+	twB
B to B+	twBB	twB
B	twBB-	twB
B- to B	twB+	twB
B-	twB	twB
B-	twB-	twC to twB
CCC+	twCCC+	twC
CCC	twCCC	twC
CCC-	twCCC-	twC
CC	twCC	twC
R	twR	twR
D	D	D

TAIWAN'S TOP CORPORATES: BUSINESS AND FINANCIAL RISK PROFILES



Note: Entities are placed alphabetically within each quadrant. Source: Taiwan Ratings Corp. estimates. © Taiwan Ratings Corp. 2014

Scatter graph legend on following page.

SCATTER GRAPH LEGEND

No.	Entity	Business Risk Profile	Financial Risk Profile	No.	Entity	Business Risk Profile	Financial Risk Profile
1	Acer Inc.	Fair	Intermediate	26	Innolux Corp.	Satisfactory	Intermediate
2	Advanced Semiconductor Engineering Inc.	Strong	Modest	27	Inventec Corp.	Satisfactory	Minimal
3	ASUSTeK Computer Inc.	Strong	Minimal	28	Lite-On Technology Corp.	Strong	Minimal
4	AU Optronics Corp.	Satisfactory	Intermediate	29	MediaTek Inc.	Strong	Minimal
5	Chang Chun Petrochemical Co. Ltd.	Strong	Modest	30	Nan Ya Plastics Corp.	Strong	Modest
6	Cheng Shin Rubber Ind. Co. Ltd.	Satisfactory	Modest	31	Pegatron Corp.	Strong	Minimal
7	Cheng Uei Precision Industry Co. Ltd.	Satisfactory	Modest	32	Pou Chen Corp.	Strong	Modest
8	Chi Mei Corp.	Strong	Modest	33	President Chain Store Corp.	Excellent	Minimal
9	China Airlines Ltd.	Fair	Significant	34	Qisda Corp.	Fair	Significant
10	China Steel Corp.	Strong	Intermediate	35	Quanta Computer Inc.	Strong	Minimal
11	Chunghwa Telecom Co. Ltd.	Excellent	Minimal	36	Synnex Technology International Corp.	Strong	Intermediate
12	Compal Electronics Inc.	Satisfactory	Modest	37	Taiwan Cement Corp.	Strong	Modest
13	CPC Corp., Taiwan	Satisfactory	Significant	38	Taiwan Mobile Co. Ltd.	Strong	Minimal
14	Delta Electronics Inc.	Strong	Minimal	39	Taiwan Power Co.	Satisfactory	Significant
15	Eva Airways Corp.	Fair	Intermediate	40	Taiwan Semiconductor Manufacturing Co. Ltd.	Excellent	Minimal
16	Evergreen Marine Corp. (Taiwan) Ltd.	Fair	Significant	41	Tatung Company	Fair	Significant
17	Far Eastern New Century Corp.	Strong	Modest	42	Tingyi (Cayman Islands) Holding Corp.	Strong	Minimal
18	Formosa Chemicals & Fibre Corp.	Strong	Modest	43	TPK Holding Co. Ltd.	Satisfactory	Intermediate
19	Formosa Petrochemical Corp.	Strong	Modest	44	Uni-President Enterprises Corp.	Strong	Modest
20	Formosa Plastics Corp.	Strong	Modest	45	United Microelectronics Corp.	Strong	Minimal
21	Foxconn Technology Co. Ltd.	Satisfactory	Minimal	46	Walsin Lihwa	Fair	Significant
22	Great Wall Enterprise Co. Ltd.	Strong	Intermediate	47	Wistron Corp.	Satisfactory	Intermediate
23	Hon Hai Precision Industry Co. Ltd.	Excellent	Minimal	48	WPG Holdings Ltd.	Strong	Intermediate
24	Hotai Motor Co. Ltd.	Strong	Minimal	49	Yang Ming Marine Transport Corp.	Fair	Aggressive
25	HTC Corp.	Fair	Modest	50	Yieh United Steel Corp.	Weak	Aggressive

Note: Risk profiles are based on TRC scale descriptors. Source: Taiwan Ratings Corp. estimates © Taiwan Ratings Corp. 2014

CREDIT SUMMARIES

ACER INC.

Analytical Contact: David Hsu, Taipei, (886) 28722-5828; david.hsu@taiwanratings.com.tw

Company description

Founded in 1976, Acer Inc. has three brands, Acer, Gateway, and Packard Bell in the global personal computer (PC) market. It ranked No. 4 in the global PC market in 2013. The company's revenue breakdown by products in the first quarter of 2014 was: notebook PC (60%), desktop PC (17%), display (9%), tablet (4%), and others (10%). Acer's revenue breakdown by region in the first quarter of 2014 was: EMEA (42%), Pan America (24%), Asia Pacific (19%), and greater China (15%).

Business risk profile: Fair

Moderately high industry risks. We view the technology hardware industry as "moderately high risk" cyclicality and "moderately high risk" degree of competitive risk and growth. Based on S&P's database, technology hardware manufacturers experienced an average peak-to-trough (PTT) decline in revenues of about 4% during recessions since 1952. However, PTT revenue declines in the most recent 2000-2002 and 2008-2009 downturns were much more pronounced, at 19% and 18%, respectively. Moreover, PC market is under the pressure to compete with the mobile devices and losing growth momentum. In 2013 global PC shipments suffered the worst decline (10%) in PC Market history and that this is the seventh consecutive quarter of declining PC shipments.

Weak business momentum, despite established market position and brand recognition. Under the environment of weak PC demand, Acer's multi-brand strategy added less value, in our view. As a result, the company's revenue declined significantly over the past three to four years, with sales declining by 16% in 2013. Acer's quarterly revenue declined to NT$77 billion in the first quarter of 2014 from NT$162 billion in the same quarter of 2010.

Risk of company's strategy transition. The company has successfully transformed itself several times. However, we view further transformation as challenging due to the competitive market for smart devices and declining PC demand.

Product concentration. Laptop and desktop PCs still accounted for about 80% of Acer's sales in the first quarter of 2014. Meanwhile, mobile devices including smartphone and tablet devices accounted for just mid-single digits.

Very weak margin. Acer's EBITDA margin was negative 2.2% in 2013 compared to positive 1.2% in 2012, partly due to inventory loss, impairment of trademarks and goodwill, and high operating expenses. The company reported a net loss of NT$20.5 billion in 2013. However Acer broke even in the first quarter of 2014, because of better inventory and expense control, and stabilized margin.

Financial risk profile: Intermediate

Acer's financial risk profile is highly linked to the company's weak profitability, despite high surplus cash. At the end of the first quarter 2014, the company had reported cash of NT$42.7 billion, while its debt on the balance sheet was NT$2.9 billion. Although Acer's cash balance is currently sufficient to cover its debt, which enables the company to maintain a net cash position and high credit ratios, we view the financial risk profile is highly related to Acer's profitability, which is currently weak.

Weaker interest coverage ratios. The company's EBITDA interest coverage is weak due to weak profitability, despite the low debt level. Accordingly, Acer's EBITDA and coverage ratio were both negative in 2013.

Acer Inc. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	360,132.0	429,627.2	475,258.1
EBITDA	(8,039.0)	4,983.3	(2,724.7)
Funds from operations (FFO)	(7,724.9)	3,143.3	(5,415.3)
Net income from continuing operations	(20,519.3)	(2,461.0)	(6,601.9)
Cash flow from operations	(7,902.9)	1,882.0	6,457.1
Capital expenditures	377.1	5,282.9	1,066.7
Free operating cash flow	(8,280.0)	(3,400.9)	5,390.4
Discretionary cash flow	(8,280.0)	(3,400.9)	(4,147.3)
Cash and short-term investments	10,841.3	12,749.9	14,828.1
Debt	-	-	-
Equity	56,251.4	74,204.0	75,751.6
Adjusted ratios			
EBITDA margin (%)	(2.2)	1.2	(0.6)
Return on capital (%)	(29.6)	(1.6)	(8.1)
EBITDA interest coverage (x)	(7.8)	4.9	(2.4)
FFO cash interest coverage (x)	(16.9)	10.0	(7.0)
Debt/EBITDA (x)	0.0	0.0	0.0
FFO/debt (%)	N.M.	N.M.	N.M.
Cash flow from operations/debt (%)	N.M.	N.M.	N.M.
Free operating cash flow/debt (%)	N.M.	N.M.	N.M.
Discretionary cash flow/debt (%)	N.M.	N.M.	N.M.
NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.			

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ADVANCED SEMICONDUCTOR ENGINEERING INC.

Analytical Contact: Anne Kuo, CFA, Taipei, (886) 28722-5829; anne.kuo@taiwanratings.com.tw

Company description

Established in 1984, Advanced Semiconductor Engineering Inc. (ASE) is the world's largest backend semiconductor packaging and testing service provider. It has production bases in Taiwan, China, Korea, Malaysia, Singapore, Japan, and the U.S. The company also provides electronics manufacturing services (EMS) through Universal Scientific Industrial Co. Ltd. (USI), which ASE acquired in 2010. In 2013, packaging, testing and EMS accounted for 51%, 11% and 36%, respectively, of ASE's total revenue.

Business risk profile: Strong

Largest player in the outsourced semiconductor assembly and testing services (OSATS) market. We expect ASE to maintain its leading position with revenue growth above the industry average over the next one to two years. The company sustained its No.1 position in the world's OSATS market with a market share of 18.9% in 2013 according to Gartner, and maintained a meaningful gap with the second largest player, Amkor Technology Inc. which holds 11.8% market share. We believe ASE's capability of integrating the IC packaging and electronics manufacturing service (EMS) will continue to support its lead market position because it helps the company to capture stronger growth opportunities.

Stable profitability amid intensifying competition. ASE's EBITDA margin declined to a low of 20% from about 30% after it acquired USI in 2010. USI is engaged in EMS business which carries a lower margin. We expect ASE's profitability to remain average supported by its improving product mix and good technology positioning amid intensifying margin pressure.

Satisfactory operating efficiency supported by economies of scale and integrated business model. ASE's operating efficiency is satisfactory, in our view, given the company's good economies of scale and high capacity utilization. Its operating efficiency is further enhanced by its established integrated model with expertise in semiconductor assembly and module business. This will continue to support ASE's growth momentum and cost competitiveness, in our opinion.

Moderately high industry risks. ASE is subject to moderately high industry risk, in our view. We assess the technology hardware and semiconductor industry has a "moderately high risk" assessment for cyclicality and a "moderately high risk" assessment of competitive risk and growth. Major industry risks for the OSATS segment include rising price competition, rapid technological changes, and its cyclical and highly capital intensive business nature. The relatively stable structure of the OSATS market partly offsets these risks, in our view.

Financial risk profile: Modest

Strong cash flow protection metrics due to stable cash generation. We expect ASE to maintain its adjusted debt to EBITDA below 1.5x over the next one to two years given our expectation of the company's good growth momentum and stable profitability. We expect ASE's capital expenditure to remain high to support its growth in the following two to three years, but the company will generate sufficient operating cash flow to meet its capital expenditure and cash dividend payments. However, we believe ASE's financial ratios could come under pressure during periods of economic stress from high industry volatility in the global semiconductor sector.

Advanced Semiconductor Engineering -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	219,862.4	193,972.3	185,347.2
EBITDA	47,780.6	41,394.1	40,072.8
Funds from operations (FFO)	43,258.1	37,088.9	36,499.5
Net income from continuing operations	16,155.0	13,523.5	13,979.1
Cash flow from operations	41,429.5	33,159.1	31,886.8
Capital expenditures	29,393.1	39,291.1	31,546.8
Free operating cash flow	12,036.4	(6,132.0)	340.0
Discretionary cash flow	4,201.5	(10,374.2)	(3,518.3)
Cash and short-term investments	12,541.9	6,041.0	6,317.0
Debt	70,137.7	72,678.3	61,750.0
Equity	127,165.0	110,951.8	102,282.5
Adjusted ratios			
EBITDA margin (%)	21.7	21.3	21.6
Return on capital (%)	11.3	10.7	22.6
EBITDA interest coverage (x)	20.3	19.9	20.4
FFO cash interest coverage (x)	20.7	18.3	21.6
Debt/EBITDA (x)	1.5	1.8	1.5
FFO/debt (%)	61.7	51.0	59.1
Cash flow from operations/debt (%)	59.1	45.6	51.6
Free operating cash flow/debt (%)	17.2	(8.4)	0.6
Discretionary cash flow/debt (%)	6.0	(14.3)	(5.7)
NT$--New Taiwan dollar. Note: Data are fully adjusted.			

Disclaimer: Where an entity is assigned a public rating, a full analysis is available on our subscriber website rrs.taiwanratings.com.tw. For unrated entities, the credit summary only discusses the entity's business and financial risk profiles; it does not factor in the likelihood of government or group support.

ASUSTEK COMPUTER INC.

Analytical Contact: Jin Dong, Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

Founded in 1989 and headquartered in Taiwan, ASUSTeK (Asus) mainly produces PC components, notebooks, tablets, servers and smartphones. ASUSTeK is the fourth largest notebook vendor and largest motherboard manufacturer in the world. Its products are sold mainly to APAC countries (64% of its revenue in 2013), Taiwan (13%), and the U.S (19%).

Business risk profile: Strong

Satisfactory market position in major product categories. We believe Asus has a satisfactory market position in its major product categories including notebook PC (No. 4 globally), motherboard (No. 1) and tablet (No.3), ranking in the top spectrum in the world. We expect the company's market position to remain strong supported by its products with high cost performance as well as the company's strong design and development capabilities. In addition, recent notebook industry consolidation with some players exiting the market is likely to positively contribute to Asus's market share, in our view. Its market share of the notebook PC segment was 10%-11% in 2013.

Moderately high concentration on notebooks mitigated by low customer concentration. We expect the company's product concentration risk to remain relatively high with notebooks to remain the most important business segment for ASUS in the next one to two years. However, we expect the company's rapid growing handheld business to take over in the mid-term given the market trend toward mobile devices, and Asus's growing market shares.

Continued margin pressure. While we expect consolidation in the notebook PC industry to slightly improve the competitive landscape, the tablet and smartphone segment remain highly competitive. Overall, we expect heavy pricing pressure to continue, especially for mid-to-low-end products, which account for the majority of Asus's product library. However, the company's strong operating efficiency underpinned by its scale and management capabilities mitigate this margin pressure.

Moderately high industry risks. We expect Asus to continue to face the risk of rapid shifts in technology trends and consumer preferences, which can trigger quick market position changes given the industry's short products cycles. Successful and frequent new product launches are essential for companies to stay competitive in the market.

Financial risk profile: Minimal

Low leverage level with plenty of cash on hand. We expect Asus to maintain a minimal financial risk profile supported by a high cash balance and strong operating cash flow. We expect the company to continue to generate positive discretionary cash flow after capital expenditures and cash dividends over the next two to three years, supported by limited capital expenditure and moderate dividend payments. The company announced a cash dividend of NT$14.5 billion in 2014, which is about 67% of its net income in 2013.

High volatility of cash flow coverage ratios. We expect the volatility of Asus's cash flow/leverage ratios to be high due to rapid technology changes, evolving customer preferences, short product cycles, and intense competition.

ASUSTeK Computer Inc. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	**2013**	**2012**	**2011**
Revenues	463,286.5	448,684.6	384,112.3
EBITDA	24,267.9	24,991.5	22,111.0
Funds from operations (FFO)	20,199.9	21,341.5	19,717.5
Net income from continuing operations	21,531.7	22,537.2	16,847.4
Cash flow from operations	30,170.9	22,035.1	17,912.5
Capital expenditures	2,328.0	2,299.4	7,525.2
Free operating cash flow	27,842.9	19,735.7	10,387.3
Discretionary cash flow	13,540.5	8,820.7	1,749.1
Cash and short-term investments	19,291.9	14,834.7	13,624.0
Debt	-	-	-
Equity	136,971.5	127,787.7	116,174.7
Adjusted ratios			
EBITDA margin (%)	5.2	5.6	5.8
Return on capital (%)	19.9	21.6	34.0
EBITDA interest coverage (x)	58.6	181.5	132.3
FFO cash interest coverage (x)	277.1	237.9	276.2
Debt/EBITDA (x)	0.0	0.0	0.0
FFO/debt (%)	N.M.	N.M.	N.M.
Cash flow from operations/debt (%)	N.M.	N.M.	N.M.
Free operating cash flow/debt (%)	N.M.	N.M.	N.M.
Discretionary cash flow/debt (%)	N.M.	N.M.	N.M.
NT$-New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.			

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AU OPTRONICS CORP.

Analytical Contact: Jin Dong, Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

AU Optronics Corp. (AUO) is a leading manufacturer of thin film transistor liquid crystal display (TFT-LCD) panels. The company has a wide and well established customer base including global top branded TV makers and original engineering manufacturers. Taiwan and China are two of the most important markets for AUO, each representing 34% of revenue in 2013.

Business risk profile: Satisfactory

Fourth largest TFT-LCD manufacturer. We expect AUO to maintain its position as the world's fourth largest LCD panel manufacturer by market share over the next one to two years, despite growing competition from Chinese companies. The company had a 16.7% market share in large size TV panels in 2013 behind LG Display, Samsung Display and Innolux. We believe that AUO's established customer base and technology capability, particularly in small-and-medium size panels will enable the company to maintain its competitive position over the next one to two years.

Oversupply to intensify price competition for large-size TV panels. We believe that the TFT-LCD market could experience material oversupply particularly after 2015 if Chinese suppliers add capacity according to their current schedule. We expect panel supply to be increasingly localized for Chinese TV makers, a move that is likely to materially affect AUO's large panel sales, which accounted for 45% of its sales in 2013. Nevertheless, we expect AUO to stay technologically ahead of its Chinese peers and that the company's growing focus on small-to-medium size panels will partly offset the oversupply risk.

Adequate operating efficiency with improving cost structure. We believe that AUO can maintain its profitability relative to its peers given the company's improving product mix and cost-down efforts, despite the downward trend for panel prices. We also expect AUO's better technology capability relative to its Chinese peers to help the company generate higher selling prices while lowering its material costs.

Moderately high industry risk. AUO is subject to moderately high industry risk, in our view. The TFT LCD industry has high demand cyclicality, high capital intensity and intense competition and significant technology risk. The increasing commoditization of LCD TV and PC panels is also increasing margin pressures and price competition, particularly from emerging Chinese panel makers. In addition, the tariffs imposed on panel exports to China also place Taiwanese panel makers at an inferior cost position.

Financial risk profile: Intermediate

Recovering profitability should lift cash flow coverage ratios. We expect AUO's recovering profitability and reduced debt level will enable the company to limit the increase in its leverage, despite our expectation of rising capital spending, including the construction of new LTPS fab in China. However, we expect high demand cyclicality and intense price competition to continue to challenge the sustainability of its cash flow generation.

Very high volatility of cash flow coverage ratios. AUO's cash flow coverage ratios have experienced substantial volatility due to the company's capital intensity, volatile demand and increasing commoditization of large size panels that leads to high price competition and frequent oversupply. We expect such factors to continue to heavily influence the company's cash flow coverage ratios.

AU Optronics Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	416,363.0	378,470.9	379,711.9
EBITDA	73,054.1	37,785.7	33,336.5
Funds from operations (FFO)	67,235.7	31,685.4	27,831.9
Net income from continuing operations	4,253.1	(56,038.7)	(61,447.1)
Cash flow from operations	49,979.5	36,192.2	14,521.0
Capital expenditures	25,718.9	43,572.4	59,387.0
Free operating cash flow	24,260.6	(7,380.2)	(44,866.0)
Discretionary cash flow	24,260.6	(7,380.2)	(48,396.9)
Cash and short-term investments	19,090.3	19,169.8	22,730.6
Debt	133,244.1	170,475.6	169,376.3
Equity	178,345.9	161,516.8	221,276.9
Adjusted ratios			
EBITDA margin (%)	17.5	10.0	8.8
Return on capital (%)	3.2	(13.6)	(15.5)
EBITDA interest coverage (x)	14.3	6.3	6.4
FFO cash interest coverage (x)	17.4	7.4	6.1
Debt/EBITDA (x)	1.8	4.5	5.1
FFO/debt (%)	50.5	18.6	16.4
Cash flow from operations/debt (%)	37.5	21.2	8.6
Free operating cash flow/debt (%)	18.2	(4.3)	(26.5)
Discretionary cash flow/debt (%)	18.2	(4.3)	(28.6)
NT$--New Taiwan dollar. Note: Data are fully adjusted.			

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CHANG-CHUN PETROCHEMICAL CO. LTD.

Analytical Contact: Jin Dong, Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

Found in 1964, Chang Chun is a key member of the Chang Chun group, the second largest petrochemical conglomerate in Taiwan. The company has three plants in Taiwan, located in MiaoLi, MaiLiao and DaFa, employing more than 1800 employees. Its major products include polyvinyl alcohol, glacial acetic acid, hydrogen peroxide, copper foil and epoxidized soya bean oil, among others. Products are supplied to chemical, textile, coating, resin, semiconductor, pharmaceutical, electronic, paper, and plastic industries.

Business risk profile: Strong

Strong domestic market position support by robust technology developments. Chang Chun is a leading specialty chemical company in Taiwan with a strong customer base. We expect the company to maintain some degree of differentiation and experience less competition relative to other major commodity chemical companies, given Chang Chun's good capability of new product and new application developments.

Diverse product mix and low costumer concentration. Chang Chun has a diverse product mix and wide product applications, which could partly offset the negative impact from volatility in a single product or business sector, in our view. We also expect the company's customer base to remain diverse with no single customer accounting for more than 10% of its sales due to the wide application of its products.

Moderate profit volatility. We expect a relatively high degree of volatility for Chang Chun's profitability to persist given the company's exposure to volatile feedstock prices. However, a certain degree of vertical integration within the group strengthens feedstock supply and enhances each member's cost position.

Financial risk profile: Modest

Stable operating cash flow and lower capital spending support an improving financial risk. We expect Chang Chun's relatively high debt level to decline and its Debt/EBITDA ratio to gradually improve to about 2x in the next two to three years given the company's reduced capital expenditure needs. Chang Chun's debt level has increased substantially over the past two years due to intensive capacity expansion in China. In addition, the company's stable operating cash flow could gradually reverse its negative free operating cash flow with reduced capital spending.

Chang Chun Petrochemical Co. Ltd. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	114,949.9	95,916.6	89,765.9
EBITDA	17,062.2	14,917.5	15,843.3
Funds from operations (FFO)	14,811.8	13,580.9	13,585.6
Net income from continuing operations	6,294.3	8,064.6	9,189.8
Cash flow from operations	10,533.8	7,853.7	10,852.2
Capital expenditures	22,700.6	29,942.2	16,611.4
Free operating cash flow	(12,166.8)	(22,088.5)	(5,759.2)
Discretionary cash flow	(13,432.2)	(23,620.0)	(7,524.5)
Cash and short-term investments	1,704.5	3,213.9	3,721.9
Debt	35,833.8	40,091.1	20,064.0
Equity	70,271.8	74,102.1	66,066.1
Adjusted ratios			
EBITDA margin (%)	14.8	15.6	17.6
Return on capital (%)	8.5	8.7	13.8
EBITDA interest coverage (x)	24.0	23.4	39.7
FFO cash interest coverage (x)	20.7	20.4	49.0
Debt/EBITDA (x)	2.1	2.7	1.3
FFO/debt (%)	41.3	33.9	67.7
Cash flow from operations/debt (%)	29.4	19.6	54.1
Free operating cash flow/debt (%)	(34.0)	(55.1)	(28.7)
Discretionary cash flow/debt (%)	(37.5)	(58.9)	(37.5)

NT$--New Taiwan dollar. Note: Data are fully adjusted.

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CHENG-SHIN RUBBER IND CO. LTD.

Issuer Credit Rating: twA/Positive/twA-2
Analytical Contact: Raymond Hsu, CFA, Taipei, (886) 28722-5827; raymond.hsu@taiwanratings.com.tw

Company description

Cheng Shin Rubber Ind. Co. Ltd. (CST) began operations producing bicycle tires in 1965 and is now the world's ninth largest tire manufacturer. The company currently offers a full line of tire products for cars, buses, heavy duty and light trucks, bicycles, motorcycles, all-terrain vehicles, race karts, trailers, industrial and lawn and garden equipment. CST sells tires under a number of brand names, with the major ones including Maxxis and Presa, as well as the Cheng Shin brand for bikes and cars.

Outlook: Positive

The positive outlook reflects our view that CST's improving scale, product mix and branding power particularly in China, and relatively stable material costs will enhance the company's free operating cash flow (FOCF) generation while reducing the volatility of its profitability over the next one to two years. The outlook also reflects the material possibility that the company's ratio of FOCF to debt is likely to increase to above 15% in 2013-2015, while its ratio of debt to EBITDA could fall below 2x during 2013-2015.

Business risk profile: Satisfactory

Profitability is above the industry average. CST's profitability has consistently outperformed larger peers in terms of EBITDA margin due to the company's strong cost efficiency and improving branding power in its major markets such as China and Southeast Asia. We do not expect moderately rising raw material costs to significantly erode CST's profitability over the next two years, because of support from the company's strengthening product mix and CST's good ability to transfer raw material costs.

Good product and customer diversity. We expect CST to maintain better product and customer diversity than its larger peers due to the company's strong brand name and leading market share in the niche bicycle and motorcycle tire segment. This is despite our expectation that CST's passenger car radial tire sales will grow faster among its product portfolio over the next two years following significant capacity additions.

A growing market position in China and worldwide. We expect CST's strengthening product mix and branding power to enable the company to improve its market position in global markets over the next two years. CST's product mix is improving towards high-performance tires for luxury cars, backed by its improving technology and advanced R&D facilities, including China's first advanced testing ground owned by tire makers.

Moderately high industry risks. The global and regional tire market is highly competitive and highly fragmented. In addition, the industry's profitability is highly sensitive to volatile rubber prices due to tire makers' limited ability to raise tire prices to cover rising material costs. China's tire market is particularly competitive and fragmented because high demand growth has led to significant capacity additions by all major global tire makers.

Weaker technology and branding power relative to that of its peers. We believe relatively high volatility in the company's EBITDA margin and CST's relatively weaker technology and branding power constrain improvement in its business risk profile, despite the company's above-average profitability.

Financial risk profile: Modest

Reduced debt leverage. We expect CST to limit its capital expenditures over the next 24 months because of slowing growth in China and weaker-than-expected demand in Europe and the U.S. As a result, we expect growing EBITDA generation to help the company generate stronger FOCF and lower its debt further over the next two years. We expect the company to keep its ratio of debt to EBITDA below 2x during 2014-2015.

Free operating cash flow payback ratio constrains the financial risk profile. CST's ratio of free operating cash flow (FOCF) to debt constrains its financial risk profile because high capital spending needs for rapid growth limit its FOCF. However, we expect CST to gradually enhance its ratio of FOCF to debt to about 15% in 2014, from 4% in 2012 in our base case.

Cheng Shin Rubber Ind. Co. Ltd. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	133,086.5	130,269.4	119,960.6
EBITDA	31,317.9	26,736.6	18,218.1
Funds from operations (FFO)	25,531.9	22,305.9	14,802.0
Net income from continuing operations	18,641.9	15,967.0	8,587.3
Cash flow from operations	28,713.2	26,533.1	6,324.2
Capital expenditures	14,420.2	24,185.2	27,170.5
Free operating cash flow	14,293.0	2,347.9	(20,846.2)
Discretionary cash flow	10,065.1	(1,113.5)	(24,967.0)
Cash and short-term investments	4,989.5	3,928.0	4,673.1
Debt	43,778.0	54,965.8	57,002.2
Equity	79,399.5	63,427.1	52,261.4
Adjusted ratios			
EBITDA margin (%)	23.5	20.5	15.2
Return on capital (%)	20.2	18.0	12.7
EBITDA interest coverage (x)	24.5	16.7	14.1
FFO cash interest coverage (x)	20.3	13.3	12.1
Debt/EBITDA (x)	1.4	2.1	3.1
FFO/debt (%)	58.3	40.6	26.0
Cash flow from operations/debt (%)	65.6	48.3	11.1
Free operating cash flow/debt (%)	32.6	4.3	(36.6)
Discretionary cash flow/debt (%)	23.0	(2.0)	(43.8)

NT$--New Taiwan dollar. Note: Data are fully adjusted.

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CHENG-UEI PRECISION INDUSTRY CO. LTD.

Analytical Contact: Jin Dong, Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

Established in 1986, Cheng Uei manufactures and sells connectors, cable assemblies, power management devices, and battery packs on an original equipment manufacturer and original design manufacturer (ODM) basis to some of the world's leading makers of communications devices, computers and consumer electronics. The company diversified into retail business in 2009 through investing in Studio A, an authorized Apple reseller. Cheng Uei has established a total of 92 Studio A stores in Taiwan, South Korea, Hong Kong and China as of the end of 2013.

Business risk profile: Satisfactory

Satisfactory market position in cable and connectors. We expect Cheng Uei to maintain its competitive position in the cable and connector business for handheld devices and notebooks due to its good product quality and design capability. Nonetheless, Cheng Uei's distribution business (Studio A), which accounted for 26% of revenue in 2013, increases the company's business risk in our view, due to its smaller scale and intense competition online and offline.

Smaller scale and high customer concentration. We view Cheng Uei's scale as relatively small compared to global peers such as TYCO and Hon Hai. We expect the company's single customer reliance to remain high for the cable/connector business and distribution business, albeit with slow improvement attributed to Cheng Uei's increasingly diversified product mix, such as game console assembly and branded headsets.

Continued margin pressure. Cheng Uei's EBITDA margin has been declining over the past seven years and in 2013 its EBITDA margin dropped to a historical low of 5.5%. Fierce competition from other major electronics manufacturing services/ODM players, a continued increase in wage levels in China and higher revenue contribution from lower margin business such as branded headsets are likely to maintain pressure on the company's margin, in our view.

Moderately high industry risk. Cheng Uei's connector business is subject to moderately high industry risk due to volatile demand, high customer bargaining power and intense competition. The company's distribution business is also exposed to industry risk including cyclical demand and secular changes due to an increasingly intensive threat from e-commerce.

Financial risk profile: Modest

Moderating debt level and improving cash coverage ratios. Cheng Uei's satisfactory operating cash flow and more cautious store expansion will enable the company to maintain its modest financial risk profile over the next two to three years, in our view. Cheng Uei's cash flow coverage ratios had meaningful improvement in 2013, which we believe results from the slowing down of capital expenditure on Studio A store expansions.

High volatility of cash flow coverage ratios. We expect the volatility of Cheng Uei's cash flow/leverage ratios to remain high due to intense competition, customer concentration and volatile end-product demand.

Cheng Uei Precision Industry Co. Ltd. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	106,156.3	102,876.5	81,596.7
EBITDA	5,828.4	6,400.9	5,212.2
Funds from operations (FFO)	4,785.5	5,117.8	4,252.8
Net income from continuing operations	2,051.5	2,266.4	1,851.0
Cash flow from operations	8,375.5	3,473.5	5,406.3
Capital expenditures	5,479.0	6,007.5	6,524.8
Free operating cash flow	2,896.6	(2,533.9)	(1,118.5)
Discretionary cash flow	1,661.1	(3,737.3)	(2,282.9)
Cash and short-term investments	1,979.3	2,350.9	1,989.9
Debt	9,632.0	14,165.8	12,578.8
Equity	27,747.8	25,528.0	23,894.8
Adjusted ratios			
EBITDA margin (%)	5.5	6.2	6.4
Return on capital (%)	8.5	9.7	8.3
EBITDA interest coverage (x)	20.0	17.7	18.4
FFO cash interest coverage (x)	17.0	15.9	16.0
Debt/EBITDA (x)	1.7	2.2	2.4
FFO/debt (%)	49.7	36.1	33.8
Cash flow from operations/debt (%)	87.0	24.5	43.0
Free operating cash flow/debt (%)	30.1	(17.9)	(8.9)
Discretionary cash flow/debt (%)	17.2	(26.4)	(18.1)
NT$--New Taiwan dollar. Note: Data are fully adjusted.			

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CHI-MEI CORP.

Issuer Credit Rating: **twA+/Negative/twA-1**
Analytical Contact: **David Hsu,** Taipei, (886) 28722-5828; david.hsu@taiwanratings.com.tw

Company description

Chi Mei Corp. (CMC) manufactures styrene resins and acrylic and synthetic rubber products. The company's products consist primarily of acrylonitrile butadiene styrene (ABS) resins, acrylic resins, polycarbonate, polystyrene resins, specialty chemicals and light guiding panels for the manufacturing of thin-film liquid crystal display panels.

Outlook: Negative

The negative rating outlook on CMC reflects our view of the significant risk that the company will be unable to improve its profitability to our base-case level if the current market downturn prolongs.

Business risk profile: Strong

Leading market position and cost structure as the world's largest ABS resin producer. Our assessment on CMC's business risk profile reflects our view that the company's leading market position in the global ABS and light guide panel markets, stable growth in higher-margin specialty chemicals, growing sales in differentiated products, and good cost position will enable CMC to enhance its profitability over the next one to two years.

"Moderately high" industry cyclicality and our "moderately high" competitive and growth risk assessment for the global commodity chemical industry. We believe CMC continues to face industry risks as a result of "moderately high" cyclicality and competition in the commodity chemical sector. Oversupply and weak demand have led to high business volatility over the past few years. In addition, the weak global and regional economy has prompted users to substitute higher-quality ABS with low-price alternatives, which has dragged down ABS demand.

Relatively higher volatility in the company's profitability than for more diversified and integrated peers'. We believe that CMC's relative product concentration in the ABS resin business and lack of integration into upstream raw material production are likely to cause higher volatility in the company's operating performance than those of its more diversified and integrated peers.

Financial risk profile: Modest

Asset disposal plan from business restructuring strategy focusing on chemical-related products. We believe that CMC's strategy is to focus more strongly on its core chemical-related business and enhance its product mix with limited capacity expansion that requires only moderate capital spending. As a result, we expect CMC to continue to dispose of non-core investments and idle land over next one to two years, albeit by a smaller scale than over the past two years.

Gradual debt reduction using free operating cash flow (FOCF) and the proceeds of investment disposals. CMC's financial risk profile reflects our view that the company will gradually reduce its debt and increase its ratio of funds from operations to debt to above 30% through improving FOCF and the disposal of non-core assets over the next one to two years.

Chi Mei Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
	2013	2012	2011
Revenues	179,383.5	186,364.8	201,749.1
EBITDA	9,425.1	11,810.8	15,188.8
Funds from operations (FFO)	7,622.3	9,895.0	12,104.2
Net income from continuing operations	(3,825.2)	(643.1)	(3,815.6)
Cash flow from operations	8,298.0	16,729.2	4,216.6
Capital expenditures	7,837.9	6,861.5	10,121.4
Free operating cash flow	460.1	9,867.7	(5,904.8)
Discretionary cash flow	(1,227.8)	7,466.5	(9,910.0)
Cash and short-term investments	1,394.7	4,729.6	3,851.9
Debt	36,298.8	36,238.0	54,582.1
Equity	51,320.9	61,204.7	73,447.5
Adjusted ratios			
EBITDA margin (%)	5.3	6.3	7.5
Return on capital (%)	(1.6)	1.4	(0.2)
EBITDA interest coverage (x)	9.6	9.3	12.6
FFO cash interest coverage (x)	8.8	8.3	13.5
Debt/EBITDA (x)	3.9	3.1	3.6
FFO/debt (%)	21.0	27.3	22.2
Cash flow from operations/debt (%)	22.9	46.2	7.7
Free operating cash flow/debt (%)	1.3	27.2	(10.8)
Discretionary cash flow/debt (%)	(3.4)	20.6	(18.2)
NT$--New Taiwan dollar. Note: Data are fully adjusted.			

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CHINA AIRLINES LTD.

Issuer Credit Rating: twBBB+/Stable/twA-3
Analytical Contact: David Hsu, Taipei, (886) 28722-5828; david.hsu@taiwanratings.com.tw

Company description

Founded in 1959, China Airlines Ltd. (CAL) is Taiwan's largest commercial airline by passenger seats sold with a well-established network of international flights. As of September 2013, it had 75 planes (54 passenger jets and 21 freighters) averaging 10 years old. CAL's passenger service accounted for 66% of total revenues in 2013, and air cargo services 29%.

Outlook: Stable

This reflects our view that continued growth in passenger traffic between Taiwan and Mainland China, improving profitability from CAL's cargo services and continued government support will enable CAL to improve its adjusted ratio of funds from operations (FFO) to debt to above 12% over the next two years.

Business risk profile: Fair

High industry risks. We expect CAL to continue to experience high industry risks given the industry's high cyclicality and "moderately high" competitive risk. We expect demand for cargo services to remain very sensitive to the global economy resulting in high business volatility. In addition, relatively high oil prices continue to constrain airline profitability, particularly from long-haul flights that consume much more fuel. However, we believe that the stable demand from still highly undersupplied flights to and from China partly offsets this risk.

Satisfactory market position. We expect CAL to maintain its satisfactory position in the regional aviation market through its extensive flight network, particularly between Taiwan and China and northeast Asia, as well as its partnership with the SkyTeam alliance. CAL has the largest market share of international air passenger and cargo traffic in Taiwan, which was 31% and 32%, respectively, in the first nine months of 2013. We expect CAL's market position to remain unchanged over the next year because of increasing flights to Japan following the introduction of an open sky policy, and growing flight destinations in China.

Improved profitability as a result of direct air links with mainland China. We believe increasing direct flights to mainland China will help maintain CAL's profitability over the next one two years. The carrier has stronger margins on these routes than on its other international routes due to the absence of competition from other competitive foreign airlines. We believe the carrier's stronger profitability from these routes will help to partly absorb the impact of high fuel costs and cyclical demand for air cargo transportation over the next one year.

Financial risk profile: Significant

Weak, albeit improving cash flow adequacy ratios. We believe CAL's cash flow protection measures are improving, but will remain weak for a 'twBBB+' rating over the next one to two years. This should nonetheless support CAL's more fuel efficient fleet expansion plan, with the carrier's improving profitability and cash flow. In our base-case projection, we expect the company's adjusted ratio of funds from operations to debt to improve slightly to 12%-14% in 2014 and 14%-16% in 2015, from 11.4% in 2013.

Aggressive financial leverage. CAL's financial leverage is relatively aggressive compared with other carriers'. The company uses high leverage to fund the acquisition of new aircraft, but this is not unique in the global airline industry. The company does not have a stated target on its major financial metrics, but CAL has conducted equity injections to lower the company's financial leverage in 2009 and 2012.

"Less than adequate" liquidity. We expect the company's ratio of liquidity sources to liquidity uses will be less than 1.2x over the next 12 months and we believe CAL's liquidity sources will fall short of its uses if EBITDA declines by more than 15%. However, we also believe that CAL has sound relationships with banks and satisfactory standing in credit markets given its government-related entity status.

China Airlines Ltd. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	141,702.5	143,452.7	142,311.0
EBITDA	22,054.7	19,686.3	16,596.2
Funds from operations (FFO)	17,914.5	15,563.2	12,261.3
Net income from continuing operations	(948.9)	242.8	(1,766.0)
Cash flow from operations	24,474.8	14,397.7	11,849.7
Capital expenditures	5,063.2	7,355.6	6,680.0
Free operating cash flow	19,411.6	7,042.1	5,169.7
Discretionary cash flow	19,319.6	6,859.6	3,173.7
Cash and short-term investments	19,433.8	14,630.1	17,232.0
Debt	156,700.3	142,279.8	155,099.4
Equity	52,890.4	55,279.5	50,247.0
Adjusted ratios			
EBITDA margin (%)	15.6	13.7	11.7
Return on capital (%)	1.7	2.2	1.1
EBITDA interest coverage (x)	5.5	4.7	3.8
FFO cash interest coverage (x)	11.1	8.8	7.1
Debt/EBITDA (x)	7.1	7.2	9.3
FFO/debt (%)	11.4	10.9	7.9
Cash flow from operations/debt (%)	15.6	10.1	7.6
Free operating cash flow/debt (%)	12.4	4.9	3.3
Discretionary cash flow/debt (%)	12.3	4.8	2.0

NT$--New Taiwan dollar. Note: Data are fully adjusted.

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CHINA STEEL CORP.

Issuer Credit Rating: **twAA-/Stable/twA-1+**
Analytical Contact: **Anne Kuo,** CFA, Taipei, (886) 28722-5829; anne.kuo@taiwanratings.com.tw

Company description

China Steel is the largest steel maker by market size and Taiwan's only integrated steel manufacturer. Its major products include hot-rolled coils and sheets, cold-rolled coils and sheets, wire rods, steel plates, steel bars, electrical sheets, and galvanized sheets. About 65% of its products were sold domestically in 2013, with the rest mostly sold within Asia.

Outlook: Stable

The stable outlook reflects our expectation that China Steel will maintain its ratio of funds from operations (FFO) to debt above 12% over the next one to two years, despite the fact that the company's debt will remain at a high level.

Business risk profile: Strong

Dominant domestic position. We expect China Steel to maintain its leading position as Taiwan's largest and sole integrated steel producer over the next few years. The company commands more than 50% of the market for most of its products and maintains strong relationships with its customers, which enhances China Steel's competitive advantage despite its smaller capacity compared with regional larger peers'. The completion of a new blast furnace in 2010 and another in the first quarter of 2013, through its 100%-owned subsidiary Dragon Steel Corp., have further solidified this market position with a total annual capacity of about 16 million metric tons.

Low-cost competitiveness and good operating efficiency. China Steel's good operating efficiency and integrated operations underpin its cost advantage, which in turn helps to sustain the company's dominant local market position and comparable profitability with its larger global peers. This is despite China Steel's relatively small scale, less control on raw materials, and a smaller portion of high-end products in its product mix than its global peers'. We believe Chinese steelmakers' lack of production discipline will continue to weigh on crude steel prices over the next one to two years. Meanwhile, China Steel's lower raw material self-sufficiency ratio makes its profitability more sensitive to material price changes, though we don't expect a price hike on key materials in the next few years.

Moderately high industry risk. We believe the global steel industry suffers from high cyclicality risk and intermediate competitive risk and growth, which China Steel faces along with its peers.

Financial risk profile: Intermediate

High debt usage due to large capital expenditures. Although we expect China Steel to restore its profitability in the next one to two years, these improvements are constrained by the cyclical industry nature driven by overcapacity. Furthermore, we believe the company's still-high capital expenditures for maintenance, raw material mine acquisitions and overseas expansions will keep its debt level high over the next two years and constrain a meaningful recovery of the company's ratios of debt to EBITDA and FFO to debt.

Weak credit metrics for its anchor of 'twa+'. We expect China Steel to maintain strong interest coverage ratios, which underpin our assessment of its 'intermediate' financial risk profile. This is despite the company's rising debt level and still weak debt payback measures. Low interest rates in Taiwan and China Steel's generally high credit standing in the local market support the company's strong interest coverage. The moderate likelihood of government support provides additional support to its financial soundness.

Adequate liquidity. We believe China Steel has "adequate" liquidity to meet its needs over the next six months, supported by the company's cash on hand, committed-term loans, internal generated cash flow, and its status as a government-related entity.

China Steel Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	347,828.8	358,536.7	401,027.0
EBITDA	56,253.4	36,773.8	50,720.7
Funds from operations (FFO)	49,698.5	31,829.6	45,116.8
Net income from continuing operations	18,354.2	6,389.5	20,830.0
Cash flow from operations	53,393.6	62,244.1	15,219.0
Capital expenditures	70,191.7	62,125.4	56,597.0
Free operating cash flow	(16,798.1)	118.7	(41,378.0)
Discretionary cash flow	(22,774.5)	(14,619.8)	(67,481.0)
Cash and short-term investments	24,045.5	28,990.5	26,156.0
Debt	295,612.0	258,732.6	244,403.0
Equity	319,369.7	305,499.4	312,108.0
Adjusted ratios			
EBITDA margin (%)	16.2	10.3	12.6
Return on capital (%)	4.4	1.9	4.9
EBITDA interest coverage (x)	14.7	10.4	17.9
FFO cash interest coverage (x)	15.1	10.3	16.8
Debt/EBITDA (x)	5.3	7.0	4.8
FFO/debt (%)	16.8	12.3	18.5
Cash flow from operations/debt (%)	18.1	24.1	6.2
Free operating cash flow/debt (%)	(5.7)	0.0	(16.9)
Discretionary cash flow/debt (%)	(7.7)	(5.7)	(27.6)
NT$--New Taiwan Dollar. Note: Data are fully adjusted.			

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CHUNGHWA TELECOM CO. LTD.

Issuer Credit Rating: twAAA/Stable/twA-1+
Standard & Poor's Global Scale Rating: AA/Negative/--
Standard & Poor's Greater China Regional Scale Rating: cnAAA/--
Analytical Contact: **Anne Kuo,** CFA, Taipei, (886) 28722-5829; anne.kuo@taiwanratings.com.tw

Company description

Chunghwa Telecom Co. Ltd. (CHT) is the largest telecommunications company in Taiwan's stable fixed-line and oligopolistic wireless telecom market. CHT provides integrated telecom services including local and international fixed-line services, mobile services, internet and broadband access, and data communications. In 2013, mobile business accounted for 48.5% of CHT's consolidated revenue, fixed-line services 39.1% (32.2% from domestic fixed-line and 6.9% from international fixed-line), and the rest mostly from internet business.

Outlook: Stable

The stable outlook reflects our expectation that CHT will continue to maintain its market leadership, very robust cash flow generation, and very conservative financial policy.

Business risk profile: Excellent

Dominant position in Taiwan's telecom sector. CHT's broad customer base, strong branding, and high-quality networks should enable it to maintain its dominant position in Taiwan's fixed-line business and the company's leading market share in the wireless sector over the next few years, despite growing market competition. In addition, CHT's well-established economies of scale and customer base should continue to underpin its good cost competitiveness. We expect CHT's acquisition of favorable bandwidths for fourth generation mobile services to enhance its competitive advantage in the mobile data market and help the company to maintain its market leadership.

Better-than-average diversity supported by complete and integrated telecom product lines. We expect CHT's efforts in enhancing its value-added services, bundling its different product offerings, and leveraging its extensive network coverage and strong customer base to partly offset margin pressures from adverse price interventions.

Margin pressure due to regulatory intervention. We expect regulatory price intervention to continue over the next one to two years, but its magnitude and impact on CHT's profitability will decline, in our view. CHT's EBITDA margin declined to about 36.4% in 2013 from 38.3% in 2012.The potential for adverse regulatory interventions such as local loop unbundling (the regulatory process of allowing multiple telecommunications operators to use connections from the telephone exchange to the customer's premises) remains the key uncertainty in sustaining CHT's excellent business risk profile.

Potentially fiercer competition for mobile 4G services. CHT began offering 4G mobile services ahead of most of its competitors, because of more readily available equipment and compatible devices for its bandwidths. But we believe competition from two newcomers could increase pricing pressures after 2014.

Financial risk profile: Minimal

Very strong cash flow generation is more than sufficient to support large capital expenditures. We believe CHT will keep its ratio of debt to EBITDA well below 0.5x for 2014 to 2015, while maintaining very strong cash flow generating ability. This is despite the high acquisition costs of 4G mobile services licenses, the resultant rollout costs, CHT's slightly declining profitability, and its high cash dividend payout.

Very low debt leverage despite likelihood of high dividend payout. We believe CHT will maintain its high dividend payout ratio, but also maintain a solid balance sheet over the next few years supported by strong cash flow generation and the company's flexibility to adjust its cash dividends whenever needed to support additional capital spending. We assess CHT's financial policy to be very conservative with very low risk tolerance.

Chunghwa Telecom Co. Ltd. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	227,981.3	220,130.9	217,493.0
EBITDA	82,955.4	84,308.0	89,369.8
Funds from operations (FFO)	74,663.5	76,625.6	81,167.6
Net income from continuing operations	40,839.6	41,037.7	48,095.0
Cash flow from operations	77,532.8	68,392.7	76,673.8
Capital expenditures	76,343.4	33,197.7	27,324.2
Free operating cash flow	1,189.4	35,195.0	49,349.6
Discretionary cash flow	(41,124.2)	(7,166.9)	6,494.6
Cash and short-term investments	5,352.1	14,926.4	17,784.0
Debt	399.2	-	-
Equity	365,344.1	369,910.2	373,043.0
Adjusted ratios			
EBITDA margin (%)	36.4	38.3	41.1
Return on capital (%)	13.5	13.3	15.4
EBITDA interest coverage (x)	147.7	183.0	240.6
FFO cash interest coverage (x)	2,066.6	1,058.9	1,969.5
Debt/EBITDA (x)	0.0	0.0	0.0
FFO/debt (%)	18,702.9	N.M.	N.M.
Cash flow from operations/debt (%)	19,421.7	N.M.	N.M.
Free operating cash flow/debt (%)	297.9	N.M.	N.M.
Discretionary cash flow/debt (%)	(10,301.5)	N.M.	N.M.

NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.

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COMPAL ELECTRONICS INC.

Analytical Contact: Jin Dong, Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

Compal is a leading manufacturer of notebook PCs, liquid crystal display (LCD) products and smart device in Taiwan. Major customers include Lenovo, Acer, Dell, Nokia, Toshiba, and Hewlett-Packard, among others. Founded in 1984, Compal has manufacturing plants located in Brazil, China, Taiwan, and Vietnam. It has two subsidiaries in the US, Bizcom Electronics and Auscom Engineering.

Business risk profile: Satisfactory

Satisfactory market position in notebook original design manufacturing (ODM). We expect Compal's position as the world's second largest notebook computer ODM company to remain strong, supported by its good product quality. While Lenovo's strategy to increase in-house supply would negatively affect ODM players, we believe such an impact would largely be muted due to Compal's joint venture with Lenovo, LCFC.

High degree of product concentration. We expect Compal's degree of product concentration on notebooks to remain high, albeit declining, in the next one to two years. Compal's product mix is likely to improve with a more balanced structure with faster growing smartphone revenue. This is based on our expectation that better integration of Compal's handset business within the company could boost its smartphone revenue faster over the next two to three years, following Compal's merger with its 51%-owned smartphone manufacturing subsidiary, Compal Communications Inc. (CCI) in 2013.

A declining EBITDA margin. Fierce competition from other major electronic manufacturing services (EMS)/ODM players as well as a continued increase in wage levels in China are likely to keep the company's margin under pressure, in our view. Compal's satisfactory operating scale in notebook manufacturing and increasing contribution from smart devices that have slightly better margins could ease some of the margin pressure.

Moderately high industry risk. The EMS industry is subject to moderately high industry risk due to volatile demand, short product lifecycles, strong buyer power and intense competition. Thus industry players are subject to revenue volatility and price pressure, especially as brand equity and differentiation are largely limited in the EMS industry.

Financial risk profile: Modest

Weakening balance sheet. We expect Compal's Debt/EBITDA margin to remain above 2x to support the company's capital expenditures and another round of Compal's share buyback program of up to 100 million shares in 2014. Compal's leverage has become more aggressive due to weaker profitability, high capital expenditures to grow its smart device business, the cash acquisition of CCI and share repurchase program.

High volatility of cash flow coverage ratios. We expect the volatility of Compal's cash flow/leverage ratios to be high due to the aforementioned industry risks and customer concentration which could induce large fluctuations in EBITDA and funds from operations.

Compal Electronics Inc. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$	2013	2012	2011
Revenues	692,748.3	683,913.7	693,126.6
EBITDA	15,237.3	15,680.8	19,292.3
Funds from operations (FFO)	13,907.2	14,176.5	17,943.0
Net income from continuing operations	2,903.7	7,240.1	11,096.3
Cash flow from operations	871.9	(11,663.9)	34,318.9
Capital expenditures	10,845.6	12,982.2	9,735.6
Free operating cash flow	(9,973.7)	(24,646.1)	24,583.3
Discretionary cash flow	(14,307.5)	(30,751.4)	12,813.5
Cash and short-term investments	12,218.7	11,086.5	13,157.7
Debt	31,527.0	5,724.4	-
Equity	99,962.3	114,793.3	114,097.6
Adjusted ratios			
EBITDA margin (%)	2.2	2.3	2.8
Return on capital (%)	3.9	8.4	12.0
EBITDA interest coverage (x)	26.8	32.8	37.5
FFO cash interest coverage (x)	32.6	39.3	38.8
Debt/EBITDA (x)	2.1	0.4	0.0
FFO/debt (%)	44.1	247.6	N.M.
Cash flow from operations/debt (%)	2.8	(203.8)	N.M.
Free operating cash flow/debt (%)	(31.6)	(430.5)	N.M.
Discretionary cash flow/debt (%)	(45.4)	(537.2)	N.M.

NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.

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CPC CORP., TAIWAN

Analytical Contact: **Jin Dong,** Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

CPC Corp., Taiwan is engaged in the exploration, production, refining, storage, transportation, and the sale of oil and oil products in Taiwan. Its refineries produce natural gas, kerosene, fuel oil, ethylene, propylene, and other refined products. CPC owns and operates more than 2500 gas stations, as well as boat and aviation refueling stations. The company is 100% controlled and owned by government. However, the Taiwanese government has CPC on track for privatization.

Business risk profile: Satisfactory

Strong market position in petroleum and Liquefied Natural Gas (LNG) products. CPC has established a strong distribution network for petroleum products with more than 2,500 service stations in Taiwan, giving CPC over 70% market share. It is also the sole LNG operator in Taiwan. These strengths are partly offset by the Taiwan government's heavy influence on CPC's pricing, which makes the company vulnerable to volatile feedstock prices during a price freeze.

Strong operating scale with satisfactory diversification. We view CPC's operating scale as strong given its combined refinery capacity of 720,000 barrels per day. CPC's multiple-refinery structure allows a low degree of reliance on a single refinery, which leads to lower operation concentration risks.

Relatively weaker operating efficiency than that of its peers. We assess CPC's operating efficiency as weaker than its peers due to its below-average complexity, yielding relatively low-value-added product mix compared with that of its industry peers. CPC also has higher-than-average operating costs due to the age of its refineries.

Financial risk profile: Significant

High financial leverage level. We do not expect the company's financial risk profile to have meaningful improvement in the upcoming two years given its high debt level. The financial risk induced by the high leverage is partly offset by its adequate cash generated to cover cash interest expenses.

Excellent standing in credit market. The company's financial risk is further mitigated by its excellent standing in credit market and strong ability to roll over its debt. In addition, the company has significant non-core investment in land and property, with a total market value of NT$37,868 million as of the end of 2013, which could slightly improve the company's degree of leverage if disposed.

Note: The company's credit profile is enhanced by its status as a government related entity, which is not included in this analysis.

CPC Corp., Taiwan -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	1,187,701.0	1,147,207.0	1,029,853.5
EBITDA	32,682.7	(11,458.0)	(19,978.5)
Funds from operations (FFO)	27,389.5	(14,422.1)	(21,411.6)
Net income from continuing operations	3,292.2	(33,728.2)	(32,449.8)
Cash flow from operations	35,884.6	(58,253.3)	(61,014.6)
Capital expenditures	60,606.9	25,527.8	32,329.9
Free operating cash flow	(24,722.3)	(83,781.1)	(93,344.5)
Discretionary cash flow	(26,205.9)	(85,458.0)	(93,344.5)
Cash and short-term investments	2,267.9	592.1	1,065.3
Debt	435,692.3	397,106.5	347,692.2
Equity	227,102.8	222,073.5	273,593.4
Adjusted ratios			
EBITDA margin (%)	2.8	-1.0	(1.9)
Return on capital (%)	1.3	(4.5)	(5.8)
EBITDA interest coverage (x)	5.4	(2.4)	(6.1)
FFO cash interest coverage (x)	7.4	(2.7)	(6.7)
Debt/EBITDA (x)	13.3	(34.7)	(17.4)
FFO/debt (%)	6.3	(3.6)	(6.2)
Cash flow from operations/debt (%)	8.2	(14.7)	(17.5)
Free operating cash flow/debt (%)	(5.7)	(21.1)	(26.8)
Discretionary cash flow/debt (%)	(6.0)	(21.5)	(26.8)
NT$--New Taiwan dollar. Note: Data are fully adjusted.			

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DELTA ELECTRONICS INC.

Analytical Contact: Anne Kuo, CFA, Taipei, (886) 28722-5829; anne.kuo@taiwanratings.com.tw

Company description

Established in 1971, Delta Electronics started its business as a PC component maker. The company emerged to become the largest global PC switch power supply (SPS) vendor, and maintains its leading position in the market. Delta Electronics currently is engaged in three main businesses including power electronics business, energy management business and smart green life business; accounting for about 58%, 19% and 20% of consolidated revenue, respectively, in 2013.

Business risk profile: Strong

Good competitive advantage with leading position in PC power components. We expect Delta to maintain its good competitive advantage and market position over the next two to three years supported by its advanced technology capabilities through continued effective R&D spending. Delta's R&D expense accounted for 6.4% of its revenue in 2013. We also expect the company to generate above-market-average revenue growth momentum from product lines including industrial automation (IA), big power systems, passive components and notebook power supplies through its product offering and service coverage expansion.

Improving margin with evolving business model. Delta's EBITDA margin has improved in the past several years and we expect the uptrend to continue over the next two to three years. This is mainly contributed by the company's business model shifting from components supplier to the system and total solution provider. We expect Delta's product mix to continue to improve from low-margin and standardized components to high-margin and high value-added products. In addition, we believe the company's cost competitiveness is enhanced by its better economies of scale, good operating efficiency and continued cost-saving efforts.

Satisfactory business diversification across product offerings and customer mix. We expect Delta's business diversification to continue to improve in the following one to two years, with declining revenue and profit contribution from PC-related products which have slower growth prospects given the market's saturation. The company has continually introduced new products to extend its product offerings from components to sub-systems. Its customer diversification is also satisfactory, in our view, with no single customer accounting for over 10% of its revenue base.

Moderately high industry risk. The technology hardware and semiconductor industry is subject to moderately high industry risk due to volatile demand, short product lifecycles, and intense competition. Therefore industry players are subject to higher-than-average revenue and profitability cyclicality. Delta's efforts in expanding product offering and moving to higher-margin products with higher entry barriers partly offset this moderately high industry risk.

Financial risk profile: Minimal

Moderate debt level with a high cash balance. We expect Delta to maintain a minimal financial risk profile supported by its relatively stable operating cash flow generation and a high cash balance over the next one to two years. We also expect the company to continue to generate positive free operation cash flows on the back of its moderate capital expenditure.

High volatility of cash flow coverage ratios. We expect the volatility of Delta's cash flow/leverage ratios to be high during periods of economic stress due to the aforementioned industry risks, which could induce large fluctuations in EBITDA and funds from operations.

Delta Electronics Inc. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	177,053.1	171,759.9	172,056.3
EBITDA	28,130.4	25,138.8	17,580.3
Funds from operations (FFO)	26,151.2	23,297.1	14,835.9
Net income from continuing operations	18,914.7	18,629.2	11,759.0
Cash flow from operations	25,350.7	22,835.4	17,602.2
Capital expenditures	10,074.2	15,993.5	20,318.9
Free operating cash flow	15,276.5	6,841.9	(2,716.7)
Discretionary cash flow	2,433.3	(1,575.4)	(17,505.5)
Cash and short-term investments	14,951.6	13,116.1	17,106.0
Debt	-	-	-
Equity	107,885.6	98,328.0	92,485.7
Adjusted ratios			
EBITDA margin (%)	15.9	14.6	10.2
Return on capital (%)	20.7	22.0	31.0
EBITDA interest coverage (x)	146.0	93.0	41.8
FFO cash interest coverage (x)	116.5	50.4	41.0
Debt/EBITDA (x)	0.0	0.0	0.0
FFO/debt (%)	N.M.	N.M.	N.M.
Cash flow from operations/debt (%)	N.M.	N.M.	N.M.
Free operating cash flow/debt (%)	N.M.	N.M.	N.M.
Discretionary cash flow/debt (%)	N.M.	N.M.	N.M.

NT$--New Taiwan dollar. N.M.--Not Meaningful. Note: Data are fully adjusted.

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EVA AIRWAYS CORP.

Analytical Contact: Daniel Hsiao, Taipei, (886) 28722-5826; daniel.hsiao@taiwanratings.com.tw

Company description

Established in March 1989, Eva Airways Corp. (EVA) shares the similar shareholder (Dr. Chang Yung-Fa and his family) as Evergreen Marine Corp. (EMC). But EMC is also the shareholder of EVA, with a stake of 19%. EVA currently flies to 64 destinations as end of the end of 2013. In addition, it has been a member of the Star Alliance partnership since June 2013.

Business risk profile: Fair

High industry risks. We assess the aviation industry as having high industry risk given the industry's very high cyclicality, intense competition, and its high sensitivities to fuel prices and event risk. The global aviation industry remains in a recession due to high and very volatile oil prices and the demand slump stemming from the global financial crisis and ensuing sovereign debt crisis in Europe. We expect the industry to recover slightly over the next one to two years due to a recovering global economy, but high fuel costs and intense competition will continue to suppress the industry's profit margins, in our view.

Weak, albeit improving, profitability. We expect EVA's profitability to improve on the assumption of stable fuel prices and a constant increase in direct flights between Taiwan and China that are not shared with foreign carriers. We believe direct flights remain undersupplied, despite a substantial capacity increase over the past two years. However, we believe that volatile oil prices and the bumpy pace of economic recovery in Taiwan and Asia will keep the volatility of EVA's profitability very high, which in turn weakens its business risk profile.

Satisfactory market position. EVA is Taiwan's second largest air carrier after China Airlines Ltd. EVA's market share of Taiwan's international air passenger traffic was about 20%, compared to CAL's 28% in 2013. Meanwhile, EVA's cargo market share was 27%, versus CAL's 32% as of the same time.

Improving operating efficiency. EVA have introduced 15 fuel efficient B777-300ER as of the end of 2013, and plans to introduce an additional four of the same model aircraft in 2014, which is likely to enhance its operating efficiency. We expect further enhancement over the next two years with 26 B777-300ER aircraft in operation as of the end of 2016. The company's fleet is relatively young, with average age of 8.54 years at the end of 2013.

Financial risk profile: Intermediate

Lower debt leverage through improving free operating cash flow. We believe the carrier's operating cash flow is sufficient to cover its capital expenditures over the next two years. Moreover, EVA's conservative dividend policy, which reserves all of the profit in the company's account and does not distribute to the shareholders, also enhances its ability to repay debts. Accordingly, we expect the company's debt leverage to decrease over the next one to two years.

Eva Airways Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	124,164.5	120,158.5	113,619.4
EBITDA	21,403.4	20,649.7	20,146.9
Funds from operations (FFO)	17,771.6	16,721.3	16,393.5
Net income from continuing operations	1,279.7	1,195.7	750.9
Cash flow from operations	22,199.6	19,943.6	18,975.1
Capital expenditures	5,145.0	5,103.8	2,977.9
Free operating cash flow	17,054.6	14,839.8	15,997.2
Discretionary cash flow	17,054.6	14,839.8	13,034.5
Cash and short-term investments	6,746.3	6,134.5	5,023.1
Debt	84,530.0	92,311.9	96,879.1
Equity	40,257.4	39,384.8	41,645.9
Adjusted ratios			
EBITDA margin (%)	17.2	17.2	17.7
Return on capital (%)	4.2	4.1	5.9
EBITDA interest coverage (x)	6.0	5.4	5.0
FFO cash interest coverage (x)	13.4	12.0	10.1
Debt/EBITDA (x)	3.9	4.5	4.8
FFO/debt (%)	21.0	18.1	16.9
Cash flow from operations/debt (%)	26.3	21.6	19.6
Free operating cash flow/debt (%)	20.2	16.1	16.5
Discretionary cash flow/debt (%)	20.2	16.1	13.5
NT$--New Taiwan dollar. Note: Data are fully adjusted.			

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EVERGREEN MARINE CORP. (TAIWAN) LTD.

Analytical Contact: Daniel Hsiao, Taipei, (886) 28722-5826; daniel.hsiao@taiwanratings.com.tw

Company description

Founded in 1968, Evergreen Marine Corp. (Taiwan) Ltd. is the fourth largest container shipping company in the world, with a fleet of over 160 container vessels. With more than 240 service locations, Evergreen covers over 80 countries with its shipping network, including several east-west routes linking southeast Asia, Hong Kong, Taiwan, Mainland China, Korea and Japan with the east and west coasts of the U.S.

Business risk profile: Fair

High industry risks. We view Evergreen's dedication to the volatile and competitive container shipping market, particularly the most volatile long-haul market, as supporting our assessment of the company's high business risk. The long-haul market accounted for about 73% of Evergreen's total revenue in 2013. Sharply declined freight rates in the long-haul market because of considerable oversupply resulted in substantial operating losses for Evergreen in 2013. We expect market oversupply to continue in 2014, but freight rates could stabilize supported by faster demand growth and better discipline on pricing and capacity management in the market. In addition, we believe that volatile bunker prices will continue to cause volatile profitability for shipping companies. However, lower bunker costs will help to slightly enhance the profitability of the industry during 2014-2015, in our view.

Satisfactory market position in the global market. Evergreen is the world's fourth largest container shipping company and the largest in Taiwan. It has leading market shares for major routes, such as North America (9%; No. 2) and European routes (6%; No. 4). The company formed the COSCO-K Line- Yangming-Hanjin-Evergreen alliance in 2013, which allows Evergreen to manage its fleet more efficiently.

Financial risk profile: Significant

Weak credit ratios. Although we expect Evergreen's performance to gradually improve in 2014 and 2015, because 2013 should be the trough of the current industry cycle, though the company's key credit ratios remain weak. Evergreen's ratio of debt to EBITDA was 7x and its ratio of FFO to debt was 11% in 2013.

Higher financial leverage due to high capital expenditures. Evergreen's order book for new vessels is high, standing at 36.2% of its current capacity as of the end of 2013. At the same time, the company's unpaid order book, was NT$18 billion out of a total order book worth NT$61.8 billion. As a result we expect Evergreen's free operating cash flow to be negative over the next one to two years, which will keep the company's financial leverage high.

Evergreen Marine Corp. (Taiwan) Ltd. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	139,216.4	141,026.4	108,156.1
EBITDA	7,562.0	10,852.8	6,690.7
Funds from operations (FFO)	6,004.9	9,481.2	5,439.6
Net income from continuing operations	(2,047.4)	(211.7)	(3,679.8)
Cash flow from operations	6,828.2	12,423.5	4,547.6
Capital expenditures	11,655.0	16,779.8	21,167.1
Free operating cash flow	(4,826.8)	(4,356.3)	(16,619.5)
Discretionary cash flow	(4,826.8)	(4,356.3)	(19,777.0)
Cash and short-term investments	8,376.9	8,348.2	6,547.6
Debt	53,050.9	28,948.7	46,722.7
Equity	60,169.7	60,759.3	65,601.5
Adjusted ratios			
EBITDA margin (%)	5.4	7.7	6.2
Return on capital (%)	(0.3)	1.2	(2.9)
EBITDA interest coverage (x)	5.2	7.6	4.2
FFO cash interest coverage (x)	10.1	14.2	24.9
Debt/EBITDA (x)	7.0	2.7	7.0
FFO/debt (%)	11.3	32.8	11.6
Cash flow from operations/debt (%)	12.9	42.9	9.7
Free operating cash flow/debt (%)	(9.1)	(15.0)	(35.6)
Discretionary cash flow/debt (%)	(9.1)	(15.0)	(42.3)

NT$--New Taiwan dollar. Note: Data are fully adjusted.

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FAR EASTERN NEW CENTURY CORP.

Issuer Credit Rating: **twAA-/Stable/twA-1+**

Analytical Contact: **Anne Kuo,** CFA, Taipei, (886) 28722-5829; anne.kuo@taiwanratings.com.tw

Company Description

Founded in 1954, Far Eastern New Century Corp. (FENC) is a fiber and textile manufacturer in Taiwan, but also holds various investments, including Far EasTone Telecommunications Co. Ltd. (Far EasTone). FENC is the flagship company of the Far Eastern group, which is one of the largest industrial conglomerates in Taiwan. The group has diverse business and investments in petrochemicals, telecommunications, cement, shipping, department stores, and banking sectors.

Outlook: Stable

The rating outlook is stable, based on our view that FENC's stable cash flow generation from its telecom business and the stabilizing, albeit still weak, profitability of its chemical business will enable the company to maintain its adjusted ratio of debt to EBITDA between 3x-4x over the next two years.

Business Risk Profile: Strong

Stable and strong profitability from Far EasTone. We expect FENC's telecom business through Far EasTone to maintain its strong market position over the next two to three years. We also expect Far EasTone's stable profitability to sustain FENC's satisfactory profitability.

Business diversity through its main and lesser business lines and equity investments. In our view, FENC's business diversity, including its holdings in other major group member companies will continue to support the company's business risk profile. We expect FENC to maintain controlling ownerships in its key affiliates over the next two to three years. The dividend income from the group's diverse investments, in addition to Far EasTone's strong and stable profitability and the group's low-cost land bank, will help FENC to maintain stable cash flow generation, despite volatility in its chemical and polyester business.

High demand cyclicality and weaker profitability in FENC's chemical and polyester business. We expect significant volatility to continue in FENC's chemical and polyester business due to high business cyclicality as a result of its commodity nature. This makes the business sensitive to changes in the economy and raw material price volatility. FENC's continuous efforts in advanced product expansion, vertical integration and cost-saving projects partly offset this risk, in our view. In addition, we expect this sector's profitability to remain weak and volatile over the next one to two years due to intense market competition. However, conditions should moderately improve over the next two to three quarters due to large players' production cuts, lower para-xylene prices and some benefits from cost savings.

Financial Risk Profile: Modest

Stable cash flow generation supported by Far EasTone's strong cash flow. We expect Far EasTone, which contributed about 80% of FENC's consolidated EBITDA in 2013, to support FENC to maintain its ratio of debt to EBITDA at 3x-4x over the next one to two years. FENC's ratio of adjusted debt to EBITDA weakened to 4x in 2013, due to weakening profitability from its chemical and polyester business, as well as rising debt level as a result of Far EasTone's acquisition of 4G licenses and FENC's higher capital expenditures on petrochemicals. However, we expect the ratio to slightly improve to 3.5x-4.0x over the next one to two years with stabilizing profitability, particularly at FENC's chemical and polyester divisions.

Strong interest coverage ratios. We also expect FENC's very strong funds from operations (FFO) cash interest coverage and strong access to the capital markets to offer additional support for the company's financial risk profile supported by FENC's good credit standing in Taiwan's debt market and prevailing low interest rates. We expect the group's FFO cash interest coverage to stay above 13x in 2014-2016.

Far Eastern New Century Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	238,840.7	240,417.0	235,561.0
EBITDA	35,362.0	39,258.6	39,472.9
Funds from operations (FFO)	30,614.6	34,837.0	35,736.9
Net income from continuing operations	14,283.4	14,988.7	17,674.0
Cash flow from operations	29,271.6	37,739.9	34,751.7
Capital expenditures	59,241.1	19,813.7	20,362.0
Free operating cash flow	(29,969.5)	17,926.2	14,389.7
Discretionary cash flow	(44,233.9)	2,996.7	(1,498.3)
Cash and short-term investments	7,895.1	9,310.7	8,195.8
Debt	139,829.7	91,880.9	87,278.8
Equity	175,680.6	171,825.1	168,410.0
Adjusted ratios			
EBITDA margin (%)	14.8	16.3	16.8
Return on capital (%)	6.2	7.3	9.3
EBITDA interest coverage (x)	16.4	19.0	18.6
FFO cash interest coverage (x)	21.6	23.6	26.8
Debt/EBITDA (x)	4.0	2.3	2.2
FFO/debt (%)	21.9	37.9	40.9
Cash flow from operations/debt (%)	20.9	41.1	39.8
Free operating cash flow/debt (%)	(21.4)	19.5	16.5
Discretionary cash flow/debt (%)	(31.6)	3.3	(1.7)

NT$--New Taiwan dollar. Note: Data are fully adjusted.

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FORMOSA PLASTICS GROUP (FOUR CORE COMPANIES)

Issuer Credit Rating: twAA-/Negative/twA-1+
Standard & Poor's Global Scale Rating: BBB+/Negative/--
Standard & Poor's Greater China Regional Scale Rating: cnA+/--
Analytical Contact: Raymond Hsu, CFA, Taipei, (886) 28722-5827; raymond.hsu@taiwanratings.com.tw

Company description

The Formosa Plastics group (FP group) is Taiwan's largest private-sector industrial conglomerate in terms of assets. The FP group consists of four core companies (Formosa Plastics Corp. Nan Ya Plastics Corp., Formosa Chemicals & Fibre Corp., and Formosa Petrochemical Corp.) whose operations are vertically integrated, ranging from oil refining and naphtha cracking to plastics and polyesters.

Outlook: Negative

The rating outlook reflects our assessment of the material risk that the FP group's cash flow adequacy might not improve as we expect if the group fails to execute its strategy to reduce debt on a timely basis or the petrochemical market weakens.

Business risk profile: Strong

Strong operating efficiency and product diversity. The FP group's good product diversity, strong scale economy and highly vertical integrated operations should continue to support the group's strong competitive position and satisfactory profitability. No single product accounts for over 5% of group revenue. The very high complexity of the group's single site also offers strong operating efficiency with better energy efficiency and higher output of value-added products than its peers'.

Strong domestic market position in petrochemicals. We expect the FP group to maintain its dominant position in Taiwan's petrochemical industry and second place in the oil refining market. We also expect the group to maintain its lead regional position for numerous products due to its large production scale.

High-risk non-core investments. The group's investments in the dynamic random access memory (DRAM) business remain more volatile than its core chemical business. However, we don't expect the group to make large equity injections in DRAM over the next few years after a big restructuring in its DRAM subsidiary, Nanya Technology Corp., and withdrawing from the PC DRAM market in early 2013.

Highly cyclical commodity chemical industry. Demand for commodity chemicals is likely to remain cyclical with oversupply lengthening the current downturn for a few more quarters amid China's slowing economy and substantial new recent capacity additions. Cheaper chemicals from lower-cost shale gas could also intensify competition in two to three years.

Asset concentration and rising regulatory risk. We expect asset concentration risk to be unchanged over the next few years. The group's single-site complex generates over 70% of its revenue. Significant operational disruption would significantly affect the FP group's operating performance and cash flow, partly seen in the group's weaker 2012performance. But significant investments in safety enhancement and higher maintenance spending should substantially lower operating risk over next two to three years.

Financial risk profile: Modest

Weak cash flow adequacy for the current ratings. A very strong FFO cash interest coverage and strong access to capital markets offer additional support to the group's financial risk profile. We expect the ratio of FFO to debt to improve to about 30% in 2014 and higher in 2015, while the ratio of debt to EBITDA will decrease below 3x in 2014-2015. The group's FFO cash interest coverage is likely to stay above 10x in 2014-2015.

Improving profitability and debt reduction efforts should improve leverage. We expect the group's leverage will improve in the next two years due to improving profitability and the group's more conservative financial policy. The four core units will likely lower their cash dividend payout ratio and reduce ownership in Formosa Petrochemical and Formosa Ha Tinh Steel.

Formosa Plastics Corp. Group -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	1,449,370.4	1,276,292.2	1,292,664.3
EBITDA	140,666.6	95,887.2	193,328.3
Funds from operations (FFO)	125,155.4	92,599.3	186,282.7
Net income from continuing operations	78,353.7	27,100.0	99,796.9
Cash flow from operations	113,731.7	98,106.0	152,792.2
Capital expenditures	97,567.6	71,089.0	55,420.0
Free operating cash flow	16,164.1	27,017.0	97,372.2
Discretionary cash flow	2,344.3	(40,860.7)	(31,814.2)
Cash and short-term investments	23,702.3	17,995.6	20,718.8
Debt	593,482.4	615,897.5	513,890.4
Equity	747,369.0	628,803.4	680,671.2
Adjusted ratios			
EBITDA margin (%)	9.7	7.5	15.0
Return on capital (%)	8.0	3.4	11.1
EBITDA interest coverage (x)	14.0	9.1	22.3
FFO cash interest coverage (x)	13.1	9.9	24.0
Debt/EBITDA (x)	4.2	6.4	2.7
FFO/debt (%)	21.1	15.0	36.2
Cash flow from operations/debt (%)	19.2	15.9	29.7
Free operating cash flow/debt (%)	2.7	4.4	18.9
Discretionary cash flow/debt (%)	0.4	(6.6)	(6.2)

NT$--New Taiwan dollar. Note: Data are fully adjusted. Note: Formosa Plastics group's reported amounts shown are the pro-forma consolidation of the four core companies.

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FOXCONN TECHNOLOGY CO. LTD.

Analytical Contact: **Jin Dong,** Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

Foxconn Technology Co. Ltd. (FTC) is primarily engaged in the design and manufacturing of magnesium and aluminum casing and mechanical parts, thermal modules, and consumer electronic products. Incorporated in 1990, FTC has manufacturing facilities in Taiwan and China, and is a member of the Hon Hai Precision Industry Co. Ltd. group.

Business risk profile: Satisfactory

Leading market position in magnesium alloy and thermal modules. We expect FTC to maintain its position as a leading supplier of magnesium alloy components and heat dissipation modules in Taiwan. Our assessment is based on our expectation that the company will continue to benefit from technology and business integration with the Hon Hai group, which has strong relationships with leading global IT vendors.

Very high customer concentration. We believe that high customer concentration could continue to cause volatility in FTC's sales and EBITDA. The company's top two customers have consistently accounted for over 80% of revenue during the past few years. FTC' s sales and EBITDA dropped 29% and 17% year on year respectively in 2013, mainly due to the lackluster performance of its key game console customer. This will also further increase its customer concentration to its top customer over the next one to two years, in our view.

Adequate operating efficiency with enhancing margins. We view FTC's operating efficiency as adequate because the company benefits from its good technology capability and vertical integration with Hon Hai. We expect FTC to sustain its EBITDA margin over the next one to two years due to a larger portion of revenue from light metal cases amid rising demand for mobile devices.

Moderately high industry risk. FTC is subject to moderately high industry risk due to volatile end-market demand, high customer bargaining power and intense competition, in our view. In particular, the company's very high customer concentration amplifies the industry risks if the company loses its key customers or the performance of its customers weakens materially.

Financial risk profile: Minimal

Very low leverage. We expect FTC's Debt/EBITDA ratio to remain under 1.5x underpinned by its strong accumulated cash position and persistent positive free operating cash flow over the next two to three years. The company's debt level remained at NT$6 billion-NT$7 billion over the past two years, which is just a fraction of its cash position of NT$33 billion-NT$40 billion.

High volatility of cash flow coverage ratios. We expect the volatility of FTC's cash flow/leverage ratios to remain high due to volatile end-market demand, customer concentration and intense competition.

Foxconn Technology Co. Ltd. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	94,598.1	133,616.6	131,497.9
EBITDA	11,214.8	13,424.2	12,327.6
Funds from operations (FFO)	10,150.7	11,991.6	11,154.3
Net income from continuing operations	7,011.2	8,346.3	8,010.5
Cash flow from operations	14,629.4	13,629.9	7,526.7
Capital expenditures	1,940.7	2,385.4	3,851.4
Free operating cash flow	12,688.8	11,244.5	3,675.3
Discretionary cash flow	11,451.8	10,071.8	2,562.3
Cash and short-term investments	9,993.9	8,368.4	6,398.4
Debt	-	-	-
Equity	69,267.9	61,078.9	54,413.3
Adjusted ratios			
EBITDA margin (%)	11.9	10.0	9.4
Return on capital (%)	12.8	17.3	16.0
EBITDA interest coverage (x)	69.2	78.7	89.9
FFO cash interest coverage (x)	67.2	136.9	85.7
Debt/EBITDA (x)	0.0	0.0	0.0
FFO/debt (%)	N.M.	N.M.	N.M.
Cash flow from operations/debt (%)	N.M.	N.M.	N.M.
Free operating cash flow/debt (%)	N.M.	N.M.	N.M.
Discretionary cash flow/debt (%)	N.M.	N.M.	N.M.

NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.

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GREAT WALL ENTERPRISE CO. LTD.

Analytical Contact: Jin Dong, Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

Great Wall Enterprise is primarily engaged in the production and sale of animal nutrition feed for a variety of animal species including poultry, pork, and fish in Taiwan, China and Vietnam. The company also operates a vertically integrated poultry business, from nutritional feed, breeding and hatching, to automated slaughtering and processing activities. In addition, the company is involved in the management of restaurant chains and shopping malls. Great Wall Enterprise was founded in 1957 and is based in Tainan, Taiwan.

Business risk profile: Strong

Leading market position in Taiwan and China. Great Wall Enterprise is the largest animal-nutrition supplier in Taiwan and the largest poultry producer in Taiwan and China. We expect the company to maintain its strong market position supported by its established brands, large-scale vertically integrated operations, proven track record of food safety, and strong and long-term relationship with major fast food chains and hypermarkets.

High exposure to volatile feedstock prices. Volatile agricultural commodity prices, which depend on harvest conditions, remain a key driver of Great Wall Enterprise's cost cyclicality. However, we view the company's vertical integration from upstream feedstuff production to downstream poultry processing as likely to moderate the degree of volatility in material costs. In addition, we believe that the company's joint procurement with industry peers could also partly offset the disadvantage.

Sensitive to macro uncertainties, partly offset by adequate product diversity. We expect disease outbreaks to periodically affect animal protein demand while consumer food preferences are constantly evolving, which results in demand/supply imbalances and price fluctuations. Great Wall Enterprise's diversified product mix covering different animal protein categories, satisfactory geographic diversification and favorable long-term demand trends amid China's economic growth, help mitigate demand and price volatility, in our view.

Financial risk profile: Intermediate

Thin margins and high capital costs. We do not expect meaningful improvement in Great Wall Enterprise's financial risk profile over the next one to two years, because the company's margin will remain thin and it will continue to spend heavily on capacity expansion. Great Wall Enterprise's cash flow coverage ratios have deteriorated over the past three years due to the company's higher debt level and declining EBITDA margin. Great Wall Enterprise's Debt/EBITDA margin increased to 3.5x in 2013 from 1.8x in 2011.

Great Wall Enterprise Co. Ltd. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	90,478.0	86,532.6	84,062.7
EBITDA	2,476.7	2,725.3	2,873.2
Funds from operations (FFO)	2,034.4	2,298.5	2,512.5
Net income from continuing operations	2,256.7	1,129.6	1,774.2
Cash flow from operations	4,775.5	2,042.8	1,310.7
Capital expenditures	3,506.2	2,741.0	1,798.2
Free operating cash flow	1,269.3	(698.2)	(487.5)
Discretionary cash flow	638.4	(1,281.8)	(1,081.1)
Cash and short-term investments	1,072.6	974.4	1,024.8
Debt	8,719.6	8,794.4	5,078.2
Equity	18,788.3	16,916.0	16,597.3
Adjusted ratios			
EBITDA margin (%)	2.7	3.1	3.4
Return on capital (%)	10.9	7.1	10.3
EBITDA interest coverage (x)	8.3	9.1	17.7
FFO cash interest coverage (x)	11.3	28.3	16.4
Debt/EBITDA (x)	3.5	3.2	1.8
FFO/debt (%)	23.3	26.1	49.5
Cash flow from operations/debt (%)	54.8	23.2	25.8
Free operating cash flow/debt (%)	14.6	(7.9)	(9.6)
Discretionary cash flow/debt (%)	7.3	(14.6)	(21.3)

NT$--New Taiwan dollar. Note: Data are fully adjusted.

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HON HAI PRECISION INDUSTRY CO. LTD.

Issuer Credit Rating: twAA+/Stable/twA-1+
Standard & Poor's Global Scale Rating: A-/Stable/--
Standard & Poor's Greater China Regional Scale Rating: cnAA/--
Analytical Contact: **David Hsu,** Taipei, (886) 28722-5828; david.hsu@taiwanratings.com.tw

Company description:

Hon Hai is the world's largest electronic manufacturing services (EMS) provider and offers a wide range of products from components and modules to system assembly services. Its customers are composed of large corporations in the global computer, communications, and consumer electronics sectors. Revenue from consumer electronics has achieved high growth over the past few years, mainly due to mobile devices such as smartphones and tablet PCs.

Outlook: Stable

The stable outlook reflects our view that Hon Hai's strong competitive position will enable the company to maintain its profitability and cash flow protection measures with a ratio of adjusted debt to EBITDA below 1.5x over the next one to two years, despite continued margin pressures.

Business risk profile: Excellent

Strong market position and operating efficiency. The world's largest EMS provider by market share and most efficient in the global EMS and original design manufacturing (ODM) industry. Hon Hai's unrivalled vertically integrated production model, strong component manufacturing capabilities and scale benefits should enable it to retain the lead market position over the next one to two years. The completion of new facilities in inland China and increasing production automation will further support Hon Hai's strong operating efficiency and help maintain its low-cost structure.

Heightening industry risks. Hon Hai will continue to face rising risk from intensifying competition and margin pressure over the next few years, as competitors try to follow its successful business model, while its main customers could also attempt to reduce their supplier concentration risk. Intensifying competition and rising production costs in mainland China are also likely to increase margin pressure. But manufacturing automation and new low-cost facilities in inner China along with the sharing of some incremental costs with customers should help Hon Hai to partly offset this risk. The rollout of Hon Hai's 4G mobile services could further stress profitability but is absorbable by the firm's strong profitability without substantial weakening for some time.

Increasing customer concentration. Hon Hai's high sales concentration in its larger clients could amplify the company's business volatility if clients fail to maintain their market shares. However, Hon Hai's strong competiveness to acquire new orders and its customers' solid performance could partly offset this over the next one to two years. Hon Hai's sales concentration, particularly in its largest client has increased over the past two years amid strong demand growth for consumer electronics products and stagnant PC demand.

Financial risk profile: Minimal

Relatively high cash balance, modest adjusted debt leverage. We expect Hon Hai to keep a relatively high cash balance and modest debt leverage through the company's strong operating cash flow and moderate dividend policy. The acquisition of a 4G mobile service license doesn't change Hon Hai's slightly conservative financial management, given its relatively low acquisition costs compared with existing mobile service providers. Hon Hai also has a sufficient earnings buffer against potential 4G service losses given the strong performance of its EMS business.

Strong operating cash flow. Supported by lower capital expenditures on its EMS business services over the next few years, despite likely 4G investment in the near future. Hon Hai's ratio of adjusted debt to EBITDA is likely to remain below 1x over the next two years.

Strong liquidity. We expect the company to maintain its strong liquidity over next two years, mostly due to its very large cash and short-term investment level, and strong cash flow.

Hon Hai Precision Industry Co. Ltd. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	3,952,317.5	3,905,395.3	3,452,681.3
EBITDA	184,580.0	177,842.0	135,390.9
Funds from operations (FFO)	154,730.2	154,802.4	111,899.2
Net income from continuing operations	107,345.9	91,787.1	81,934.6
Cash flow from operations	175,970.4	178,981.8	126,412.0
Capital expenditures	55,547.5	91,347.0	109,530.2
Free operating cash flow	120,422.9	87,634.8	16,881.8
Discretionary cash flow	102,669.1	71,601.2	7,220.6
Cash and short-term investments	175,369.4	126,848.0	94,320.1
Debt	51,874.8	128,226.0	151,520.1
Equity	805,924.6	681,731.2	615,019.5
Adjusted ratios			
EBITDA margin (%)	4.7	4.6	3.9
Return on capital (%)	17.4	16.2	15.0
EBITDA interest coverage (x)	19.7	18.0	21.6
FFO cash interest coverage (x)	20.0	18.4	25.3
Debt/EBITDA (x)	0.3	0.7	1.1
FFO/debt (%)	298.3	120.7	73.9
Cash flow from operations/debt (%)	339.2	139.6	83.4
Free operating cash flow/debt (%)	232.1	68.3	11.1
Discretionary cash flow/debt (%)	197.9	55.8	4.8
NT$--New Taiwan dollar. Note: Data are fully adjusted.			

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HOTAI MOTOR CO. LTD.

Analytical Contact: Anne Kuo, CFA, Taipei, (886) 28722-5829; anne.kuo@taiwanratings.com.tw

Company description

Founded in 1955 as the sole agent of Toyota Motor Corp. and Hino Motors Ltd. in Taiwan, Hotai Motor distributes Toyota and Lexus branded cars, and Hino-branded heavy vehicles in Taiwan through its eight dealerships. The company has commanded over 30% market share since 2007, given the popularity of Toyota branded cars in Taiwan.

Business risk profile: Strong

Strong relationship with Toyota Motor as its sole agent in Taiwan. We don't expect the close and solid relationship between Hotai Motor and Toyota to change over the next one to two years, given their 60 years' relationship and successful operating results. Meanwhile, Hotai Motor and Toyota have some joint ventures including auto assembler, auto finance and auto leasing companies, which further strengthen their relationship, in our view.

Sustained leading market position with stable profitability in Taiwan's passenger car market. Toyota cars have broad popularity in Taiwan with a leading 33.6% share of new car unit sales in 2013. Hotai Motor has also carried out a successful merchandising strategy to promote Toyota cars and maintain customer loyalty. We also expect Hotai Motor to maintain good margins given the island's stable market structure and the company's position as the exclusive agent of the strongest auto brand in Taiwan.

Likely higher performance volatility due to saturated auto market and Hotai Motor's concentration risk. Hotai Motor's business diversity is constrained by its exposure to the Toyota and Lexus brands and concentrated profit contribution from Taiwan. The limited growth and high volatility in Taiwan's auto market further intensifies Hotai Motor's business volatility risk. However, we expect Toyota's very strong market position in Taiwan with a sustained market share of over 30%, and its good operating efficiency through well-established sales network, to partly offset the aforementioned risks.

Financial risk profile: Minimal

Low debt level with a high cash balance. We expect Hotai Motor to maintain a relatively stable operating cash flow generation and high cash balance over the next one to two years. We also expect the company to continue generating positive free operation cash flows on the back of its moderate capital expenditure.

High volatility of cash flow coverage ratios. We expect the volatility of Hotai Motor's cash flow/leverage ratios to be high during periods of economic stress due to the aforementioned industry risks, which could induce large fluctuations in EBITDA and funds from operations.

Hotai Motor Co. Ltd. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	131,834.8	122,288.4	116,219.9
EBITDA	9,173.7	8,093.4	6,902.6
Funds from operations (FFO)	7,181.4	6,221.2	5,320.9
Net income from continuing operations	8,633.3	8,461.5	7,461.0
Cash flow from operations	11,616.9	5,154.2	6,871.2
Capital expenditures	6,003.2	1,750.3	2,019.0
Free operating cash flow	5,613.7	3,403.9	4,852.2
Discretionary cash flow	272.3	(1,308.2)	1,351.5
Cash and short-term investments	2,826.3	3,206.8	2,750.3
Debt	-	-	-
Equity	30,173.2	27,910.7	25,589.1
Adjusted ratios			
EBITDA margin (%)	7.0	6.6	5.9
Return on capital (%)	25.6	30.1	28.1
EBITDA interest coverage (x)	31.0	24.1	33.4
FFO cash interest coverage (x)	34.2	41.8	25.5
Debt/EBITDA (x)	-	-	-
FFO/debt (%)	N.M.	N.M.	N.M.
Cash flow from operations/debt (%)	N.M.	N.M.	N.M.
Free operating cash flow/debt (%)	N.M.	N.M.	N.M.
Discretionary cash flow/debt (%)	N.M.	N.M.	N.M.

NT$-New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted by deconsolidating data for Hotai Leasing Corp. and Hotai Finance Corp.

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HTC CORP.

Analytical Contact: Anne Kuo, CFA, Taipei, (886) 28722-5829; anne.kuo@taiwanratings.com.tw

Company description

Founded in 1997, HTC is a smartphone manufacturer headquartered in Taiwan. The company focuses on the research, development and manufacturer of handheld wireless telecommunications devices based on Android and Windows Mobile operating systems. It offers smartphones and tablets under its own brand name HTC.

Business risk profile: Fair

Weakening market position with fiercer competition in the smartphone market. We expect HTC to continue to face stiff competition in high-end as well as low-to-mid end smartphone markets. HTC's global market share has declined over the past two to three years from a peak of about 10% in 2011 to just 2% in 2013, ranking it as the eleventh largest smartphone vendor. The decline is primarily due to more players entering into the market with broader product offerings. This led to a significant decline in HTC's revenue in 2012 and 2013. We do not expect the company to make meaningful market share gains or recover to the previous high, particularly in light of some Chinese branded vendors continuing to offer new products with a rising cost-to-performance ratio.

Continued margin pressure due to competition and declining economies of scale. We expect HTC's profitability to remain under pressure because rising competition, HTC's shrinking market share and declining economies of scale will highly limit the upside from HTC's margin improvement. In addition, we do not expect the company's operating expense to decrease significantly as a result of the need to promote its global brand awareness. Consequently, HTC's profitability will remain below average over the next one to two years, in our view. This is despite our expectation that the company's operating efficiency will slightly increase through an improving cost structure and better control on operating expenses.

High business volatility intensified by short product cycle and larger-scale competitors. HTC's performance volatility will remain high, in our view, and subject to short product life cycles, intense competition, and the popularity of newly launched products. The company will continue to face fierce competition in the high-end smartphone market from key players such as Samsung and Apple. Meanwhile, HTC is turning more aggressively to the mid-market and more affordable smartphone. However, we believe the competitive landscape in the market is unfavorable and over-competitive, particularly in China, given the rising competition from larger scale local brands including ZTE, Huawei, and Xiaomi. These factors will result in high business volatility for HTC, in our opinion.

Moderately high industry risk. The technology hardware industry is subject to moderately high industry risk with a moderately high cyclicality assessment and moderately high competitive risk and growth assessment. Consumer electronics producers are exposed to risks inherent to the technology industry, including technological innovation, short product life cycles and intense competition. Thus industry players are subject to revenue volatility and price pressure.

Financial risk profile: Modest

Very low leverage level with plenty of cash on hand. We expect HTC to maintain a modest financial risk profile supported by a high cash balance in the next year. However we expect its financial risk profile to weaken as a result of the company's weakening performance that will consume its cash flow and cash balance. We also expect HTC's capital expenditure to remain moderate over the next one to two years.

High volatility of cash flow coverage ratios. We expect the volatility of HTC's cash flow/leverage ratios to be very high during periods of economic stress, due to the aforementioned industry risks, which could induce large fluctuations in EBITDA and funds from operations.

HTC Corp. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	203,402.7	289,020.2	465,794.8
EBITDA	1,560.3	23,338.0	71,188.6
Funds from operations (FFO)	604.1	20,179.4	60,230.7
Net income from continuing operations	(1,323.8)	17,621.8	62,299.1
Cash flow from operations	(16,215.2)	23,620.5	88,507.4
Capital expenditures	2,855.7	7,468.3	28,698.1
Free operating cash flow	(19,070.9)	16,152.1	59,809.2
Discretionary cash flow	(20,733.3)	(17,097.0)	29,918.1
Cash and short-term investments	13,364.8	12,829.2	22,123.6
Debt	-	-	-
Equity	77,707.6	80,272.7	102,419.3
Adjusted ratios			
EBITDA margin (%)	0.8	8.1	15.3
Return on capital (%)	(0.2)	21.2	69.8
EBITDA interest coverage (x)	185.5	13568.6	2297.9
FFO cash interest coverage (x)	72.8	11733.2	1871.5
Debt/EBITDA (x)	0.0	0.0	0.0
FFO/debt (%)	N.M.	N.M.	N.M.
Cash flow from operations/debt (%)	N.M.	N.M.	N.M.
Free operating cash flow/debt (%)	N.M.	N.M.	N.M.
Discretionary cash flow/debt (%)	N.M.	N.M.	N.M.

NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.

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INNOLUX CORP.

Analytical Contact: Daniel Hsiao, Taipei, (886) 28722-5826; daniel.hsiao@taiwanratings.com.tw

Company description

Innolux Corp. was formed through the merger of Innolux Display Corp, an affiliate company of the Hon Hai Precision Industry Co. Ltd. group, Chi Mei Optoelectronics Corp. and TPO Displays Corp. on March 18, 2010. Innolux is the world's third largest thin film transistor liquid crystal display (TFT-LCD) panel maker.

Business risk profile: Satisfactory

Third largest TFT-LCD manufacturer. We expect Innolux to maintain its position in the global TFT-LCD panel market over the next one year, despite growing competition from Chinese companies. Innolux had a 17.7% market share in large-size panel production in 2013, behind LG Display and Samsung Display. The company also had a 10% market share in the small-and-medium size panel market. We believe that Innolux's established customer base and technology capability, particularly in small-and-medium size panels will enable the company to maintain its competitive position over the next one to two years.

Oversupply to intensify price competition for large-size TV panels. We believe the TFT-LCD market could experience material oversupply particularly after 2015 if Chinese suppliers add capacity according to their current schedule. We expect panel supply to be increasingly localized for Chinese TV makers, adding pressure on Innolux's large panel sales. Nevertheless, we expect Innolux to stay technologically ahead of Chinese peers and its growing focus on small-to-medium size panels to partly offset this risk.

Weak and volatile profitability, despite improving cost structure. We expect Innolux's profitability to remain relatively weak and volatile over the next one to two years due to a continued downward trend for panel prices and the company's weaker position in high-end products. Innolux's profitability is also highly volatile due to volatile demand and aggressive capital spending in the industry that often lead to severe oversupply. Nonetheless, we believe that Innolux's improving product mix and cost-down efforts, such as production line automation, will enable the company to sustain its profitability relative to its peers', despite rising competition, particularly from Chinese panel makers.

Moderately high industry risk. Innolux is subject to moderately high industry risk, in our view. The TFT LCD industry has high demand cyclicality, high capital intensity and intense competition, and significant technology risk. The increasing commoditization of LCD TV and PC panels are also increasing price competition, particularly from emerging Chinese panel makers. This subsequently has a negative effect on Innolux's margins. In addition, tariffs imposed on panel exports to China have placed Taiwanese panel makers in an inferior cost position.

Financial risk profile: Intermediate

Recovering profitability supports improved cash flow coverage ratios. We expect Innolux's recovering profitability and reduced debt level to enable the company to limit the increase in its leverage, despite our expectation of rising capital spending, including moving part of its back-end capacity back to Taiwan. However, we expect high demand cyclicality and intense price competition to continue to challenge the sustainability of Innolux's cash flow generation.

Very high volatility of cash flow coverage ratios. We have seen substantial volatility in Innolux's cash flow coverage ratios due to its high capital intensity and volatile profitability. We expect such factors to continue to heavily influence the company's cash flow coverage ratios.

Innolux Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	422,730.5	483,609.9	510,081.2
EBITDA	93,860.3	67,685.0	36,954.4
Funds from operations (FFO)	87,872.5	59,752.0	31,389.8
Net income from continuing operations	5,095.0	(30,167.3)	(64,760.6)
Cash flow from operations	76,232.7	50,715.4	28,307.0
Capital expenditures	18,370.3	19,955.6	45,730.6
Free operating cash flow	57,862.4	30,759.8	(17,423.6)
Discretionary cash flow	57,862.4	30,759.8	(17,423.6)
Cash and short-term investments	11,091.4	10,251.6	13,594.5
Debt	171,224.2	242,947.3	294,433.7
Equity	194,577.9	171,357.0	198,668.1
Adjusted ratios			
EBITDA margin (%)	22.2	14.0	7.2
Return on capital (%)	2.8	(5.0)	(25.6)
EBITDA interest coverage (x)	17.6	8.2	6.0
FFO cash interest coverage (x)	18.4	9.0	6.4
Debt/EBITDA (x)	1.8	3.6	8.0
FFO/debt (%)	51.3	24.6	10.7
Cash flow from operations/debt (%)	44.5	20.9	9.6
Free operating cash flow/debt (%)	33.8	12.7	(5.9)
Discretionary cash flow/debt (%)	33.8	12.7	(5.9)
NT$--New Taiwan dollar. Note: Data are fully adjusted.			

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INVENTEC CORP.

Analytical Contact: Jin Dong, Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

Originally established in 1975 to develop and manufacture electronic calculators, Inventec has since grown to become a major original design manufacturer (ODM) producing notebook computers, servers and mobile devices. Inventec has also entered the fields of cloud computing, mobile computing, network applications, digital home appliances, software application, and solar energy for business diversification.

Business risk profile: Satisfactory

Satisfactory market position with growing smart device business. We expect Inventec to maintain its satisfactory market position in notebook and mid-to-high-end servers based on the company's long-term relationship with its major customers and satisfactory design capability in server manufacturing. In addition, we expect stronger growth in Inventec's smart device business in the next one to two years, underpinned by Chinese handset makers' aggressive sales expansion.

Moderately high industry risk. The electronic manufacturing services (EMS) industry is subject to moderately high industry risk due to volatile demand, short product lifecycles, strong buyer bargaining power and intense competition. Thus industry players are subject to revenue volatility and price pressure, particularly as brand equity and differentiation are largely limited in the EMS industry.

Slight EBITDA margin improvement under high margin pressure. We expect Inventec's notebook business to continue to face fierce competition from other major EMS/original design manufacturer players and increasing wages in China, which are likely to maintain pressure on the company's margin. This weakness is offset by Inventec's product mix adjustment to increase exposure to cloud and server business, which partly supported the company's margin improvement in 2013.

High business and customer concentration. Inventec's degree of product concentration on notebook manufacturing is likely to remain above 50% over the next one to two years, in our view, but the concentration will gradually decline as cloud business, servers, and handheld devices increase their revenue contribution. We also expect Inventec's key customer concentration to remain high in the next one to two years, which exposes the company to potential business volatility.

Financial risk profile: Minimal

Low debt leverage level with high cash position. We expect Inventec to maintain a minimal financial risk profile supported by its strong operating cash flow and a high cash balance. We also expect the company to continue to generate positive discretionary cash flow for the same reasons in the next one to two years. This is despite our expectation of moderately high capital expenditure needs to support capacity expansion in China and relatively aggressive dividend payments. The company has announced a cash dividend of NT$5.7 billion in 2014, which is about 92% of its net income in 2013.

High volatility of its cash flow coverage ratios. We expect the volatility of Inventec's cash flow/leverage ratios to remain high due to the aforementioned industry risks and high customer concentration, which could induce large fluctuations in EBITDA and funds from operations.

Inventec Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	461,091.7	410,937.1	380,027.8
EBITDA	12,655.9	9,736.5	3,087.9
Funds from operations (FFO)	11,030.3	8,348.7	1,700.3
Net income from continuing operations	6,209.4	1,769.0	(985.9)
Cash flow from operations	21,149.1	20,301.9	7,074.0
Capital expenditures	3,013.2	4,013.6	5,530.4
Free operating cash flow	18,135.9	16,288.3	1,543.6
Discretionary cash flow	15,265.9	15,248.5	(1,418.9)
Cash and short-term investments	15,127.3	9,211.8	6,447.1
Debt	-	4,639.9	17,829.4
Equity	61,812.2	55,532.3	55,844.9
Adjusted ratios			
EBITDA margin (%)	2.7	2.4	0.8
Return on capital (%)	15.8	7.0	1.1
EBITDA interest coverage (x)	18.4	8.1	6.2
FFO cash interest coverage (x)	18.5	8.0	4.8
Debt/EBITDA (x)	0.0	0.5	5.8
FFO/debt (%)	N.M.	179.9	9.5
Cash flow from operations/debt (%)	N.M.	437.6	39.7
Free operating cash flow/debt (%)	N.M.	351.1	8.7
Discretionary cash flow/debt (%)	N.M.	328.6	(8.0)
NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.			

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LITE-ON TECHNOLOGY CORP.

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Company description

Founded in 1975, Lite-On Technology Corp. was the first company in Taiwan to produce LEDs (Light-Emitting Diodes) and also the first technology company listed on the Taiwan Stock Exchange in 1983. The company product range includes optoelectronics and handheld device components (31% of its revenue in 2013), power supply and PC/servers-used components (42%), storage products (21%), and others (6%).

Business risk profile: Strong

Good market position in diversified product lines. The company manufactures key components for 3C products and positions to provide total solution and one stop shopping to its global clients. Lite-On has a leading global share in the optical storage products (26% in 2013) market, phone camera modules (14%) and power supply (11%) markets. It is also the third largest casing manufacturer globally (including enclosures for desktop PCs, servers, notebook PCs, and game consoles).

Persistent margin pressure. We view Lite-On as facing continuous margin pressure as a result of market competition and shortening product life cycles in line with most of its technology hardware peers. However, we believe that the company's efforts to diversify its product mix from PC applications will slightly ease the margin pressure. Lite-On has increased its non-PC related revenue to 40% of its revenue in 2013.

Highly competitive nature of the global electronics components industry. We assess Lite-On faces moderate high industry risks associated with the global IT components industry. These risks include intense competition and short product life cycles. The demand for optical storage devices such as CD/DVD ROM products declined at the rate of 40%-50% annually over the next two years due to technology displacement by mobile hard disc drives and NAND flash memory.

Financial risk profile: Minimal

High surplus cash supports strong credit metrics. We expect Lite-On's high cash balance and cash flow generation to enable the company to maintain strong credit metrics. Lite-On has maintained a net cash position in three years ending in 2013. However, we believe the company's high capital expenditures and high cash dividend payout could reduce its cash balance over the next one to two years. In addition, Lite-On's debt could also increase for working capital needs to support its revenue growth and product mix adjustment.

High volatility of cash flow ratios. We view Lite-On's cash flow ratios to be highly volatile due to cyclical demand, rapid technology change, and a highly competitive market that leads to high volatility in profitability and cash flow generation. We expect such factors to continue to heavily influence the company's cash flow ratios.

Lite-On Technology Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	213,214.3	216,047.0	230,520.1
EBITDA	17,073.0	17,971.8	19,272.2
Funds from operations (FFO)	15,155.4	16,240.1	16,275.6
Net income from continuing operations	8,890.5	9,376.2	9,721.7
Cash flow from operations	20,688.3	12,846.8	16,572.9
Capital expenditures	23,383.2	8,119.4	9,857.7
Free operating cash flow	(2,694.9)	4,727.5	6,715.2
Discretionary cash flow	(8,485.6)	(2,233.9)	245.5
Cash and short-term investments	16,523.4	15,150.8	14,156.8
Debt	-	-	-
Equity	79,237.2	89,421.3	89,078.4
Adjusted ratios			
EBITDA margin (%)	8.0	8.3	8.4
Return on capital (%)	14.1	13.7	14.5
EBITDA interest coverage (x)	24.1	32.4	32.7
FFO cash interest coverage (x)	21.4	31.3	15.4
Debt/EBITDA (x)	0.0	0.0	0.0
FFO/debt (%)	N.M.	N.M.	N.M.
Cash flow from operations/debt (%)	N.M.	N.M.	N.M.
Free operating cash flow/debt (%)	N.M.	N.M.	N.M.
Discretionary cash flow/debt (%)	N.M.	N.M.	N.M.
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MEDIATEK INC.

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Company description

Founded in 1997 as a spin off from UMC, MediaTek Inc. is a fabless semiconductor company that provides system-on-chip (SOC) solutions. Applications for its chips include smartphones and feature phones, tablets and digital television, among others. The company is the largest chip supplier for wireless handsets in China and Taiwan.

Business risk profile: Strong

Strong market position in SOC solutions for wireless communications. MediaTek's strong market position is underpinned by its satisfactory technology capability and its established market shares, including 23% and 10% in the global smartphone and tablet chip markets, respectively, in 2013. MediaTek has a particularly strong market position in China contributing to its ability to provide low-cost turn-key solutions for China's less technologically advanced smartphone makers. We expect growing long-term evolution (LTE) chip sales and orders from leading global smart phone makers to support MediaTek's growth and market position over the next one to two years.

Improving product mix and profitability. We expect MediaTek to sustain its profitability, measured by EBITDA margin supported by continued improvement in its product mix with an increasing weighting of mid-to-high-end products. This is based on our expectation that LTE technology transition rapidly rolls out in China and that Chinese smartphone markers continue to upgrade their products to incorporate higher-end features in the next one to two years.

High industry risks induce revenue volatility. We expect the fabless semiconductor industry to continue to face risk of rapid technology changes and short products cycles. As a result, players like MediaTek must maintain their technology leadership and introduce new products ahead of competitors to sustain their revenue and margin. MediaTek is not immune to such risks and the company's revenue fluctuated widely over the past seven years with annual revenue growth ranging from negative 23% to positive 37%.

Financial risk profile: Minimal

Low leverage level with plenty of cash on hand. We expect MediaTek to maintain a minimal financial risk profile supported by a high cash balance and strong operating cash flow. We expect the company to continue to generate positive discretionary cash flow over the next two to three years as a result of light capital expenditures, an above average margin, and prudent cash dividend payout.

High volatility of cash flow coverage ratios. We expect the volatility of MediaTek's cash flow/leverage ratios to remain high due to high technology risk, short product cycles, volatile end market demand, and intense competition.

MediaTek Inc. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	136,056.0	99,263.2	86,857.5
EBITDA	28,890.7	16,270.4	15,270.9
Funds from operations (FFO)	27,523.2	17,025.3	15,859.6
Net income from continuing operations	27,484.7	15,544.8	13,615.8
Cash flow from operations	38,265.2	11,529.2	16,554.4
Capital expenditures	1,720.3	3,462.7	2,786.5
Free operating cash flow	36,544.9	8,066.4	13,767.9
Discretionary cash flow	24,470.6	(2,191.5)	(8,231.6)
Cash and short-term investments	34,804.8	22,647.4	22,758.1
Debt	-	-	-
Equity	195,353.4	175,457.7	116,328.4
Adjusted ratios			
EBITDA margin (%)	21.2	16.4	17.6
Return on capital (%)	16.0	11.3	12.2
EBITDA interest coverage (x)	130.8	105.7	581.4
FFO cash interest coverage (x)	220.9	152.6	3309.6
Debt/EBITDA (x)	0.0	0.0	0.0
FFO/debt (%)	N.M.	N.M.	N.M.
Cash flow from operations/debt (%)	N.M.	N.M.	N.M.
Free operating cash flow/debt (%)	N.M.	N.M.	N.M.
Discretionary cash flow/debt (%)	N.M.	N.M.	N.M.
NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.			

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PEGATRON CORP.

Analytical Contact: Jin Dong, Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

The company formed in 2008 when computer maker ASUSTeK spun off its contract manufacturing business. Pegatron is a worldwide leader in electronic and computing design manufacturing services with a diversified product mix including desktop PCs, motherboards, notebooks, game consoles, handheld devices, liquid crystal display TVs, mobile Internet devices, and cable set-top boxes.

Business risk profile: Strong

A leading player in the global electronic manufacturing services (EMS) industry. The company has a well-established customer base including major global players for a wide range of electronic products. Pegatron's good capability in design, assembly and the manufacturing of components enables the company to establish solid relationships with its customers.

High customer concentration offset by adequate end-product diversification. We expect Pegatron's customer concentration, particularly on its top client, to expose the company to potential business volatility. The degree of reliance on its largest client significantly increased in 2013, with 41% of total revenue from one client, versus 27.6% in 2012. Pegatron's adequate end-product diversification in which communication, consumer electronics and computing each accounted for 25%-35% of total revenue in 2013, partly offsets the company's concentration risk.

Continued margin pressure. Fierce competition from other major original design manufacturer and EMS players, strong buyer power, as well as rising wages in China are likely to maintain pressure on the company's margin. However, Pegatron's satisfactory operating scale and increasing use of automation help to ease some of the pressure.

Moderately high industry risk. The EMS industry is subject to moderately high industry risk due to volatile end-market demand, short product lifecycles and intense competition. Thus industry players are subject to revenue volatility and price pressure, especially as brand equity, and technology and product differentiation are largely limited in the EMS industry.

Financial risk profile: Minimal

Low leverage level with plenty of cash on hand. We expect Pegatron to maintain a minimal financial risk profile supported by a high cash balance, satisfactory operating cash flow and moderate dividend policy, despite relatively high capital spending to support growth compared with its peers'. We expect the company's capital expenditure to remain at a relatively high level in the mid-term to accommodate anticipated revenue growth and evolving product mix.

High volatility of cash flow coverage ratios. We expect the volatility of Pegatron's cash flow/leverage ratios to remain high due to the aforementioned industry risks and customer concentration, which could induce large fluctuations in EBITDA and funds from operations.

Pegatron Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	949,752.0	881,197.4	599,942.7
EBITDA	29,809.7	25,349.7	12,015.3
Funds from operations (FFO)	24,818.8	20,914.7	10,292.1
Net income from continuing operations	14,247.2	10,336.2	3,305.3
Cash flow from operations	25,020.8	24,537.7	6,129.8
Capital expenditures	11,146.7	15,749.8	21,438.7
Free operating cash flow	13,874.1	8,787.9	(15,308.9)
Discretionary cash flow	8,137.5	6,612.5	(21,183.8)
Cash and short-term investments	20,427.8	16,866.0	14,331.6
Debt	-	5,439.2	9,773.5
Equity	144,055.2	127,637.6	118,196.7
Adjusted ratios			
EBITDA margin (%)	3.1	2.9	2.0
Return on capital (%)	14.5	11.8	4.1
EBITDA interest coverage (x)	22.9	19.5	19.9
FFO cash interest coverage (x)	36.7	24.4	21.4
Debt/EBITDA (x)	0.0	0.2	0.8
FFO/debt (%)	N.M.	384.5	105.3
Cash flow from operations/debt (%)	N.M.	451.1	62.7
Free operating cash flow/debt (%)	N.M.	161.6	(156.6)
Discretionary cash flow/debt (%)	N.M.	121.6	(216.7)
NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.			

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POU CHEN CORP.

Analytical Contact: Daniel Hsiao, Taipei, (886) 28722-5826; daniel.hsiao@taiwanratings.com.tw

Company description

Pou Chen Corp. was founded in 1969. Its core businesses include athletic and casual footwear manufacturing (77% of its consolidated revenue) and sportswear retail (23%). Pou Chen produces athletic footwear for major international brands such as Nike, adidas, and Reebok. Its production bases include China, Indonesia, Vietnam, United States and Mexico. It has a sportswear retail sales network of 5,756 point of sales (POS) in greater China. Its consolidated revenue declined by 18% in 2013 because its key subsidiary, Yue Yuen Industrial (Holdings) Ltd., changed its accounting year resulting in Yue Yuen's 2012 accounting year covering 15 months.

Business risk profile: Strong

Largest athletic and casual footwear manufacturer globally. Pou Chen, through its 48.6%-owned subsidiary Yue Yuen Industrial (Holdings) Ltd., is the world's largest branded athletic and casual footwear manufacturer, with 20% of the combined wholesale value of the global branded athletic and casual footwear market. It can produce over 300 million pairs of shoes per annum, through its integrated supply chain services for major international brand name companies.

Heightening cost pressure. We view the company's cost structure is weakening due to rising labor costs in China where its major production bases domicile. Recent large-scale labor strikes in China and Vietnam in April 2014 could lift the company's labor costs over the next few quarters, in our view. However, automation and Pou Chen's good bargaining power against material suppliers, backed by its large production scale, could partly offset the margin pressures.

Customer concentration risk. The top five brands in the global branded athletic footwear market accounted for about 72% of the market in 2013, of which Nike (36% global market share) and adidas (20%) are the two largest. We believe Pou Chen's footwear business also shares a similar concentration risk on its client portfolio. Nevertheless, we view the company's strong capability of product innovation, cost effective production of large scale and superior quality will mitigate the customer turnover risk.

Financial risk profile: Modest

Margin pressure may lead to negative discretionary cash flow. We believe Pou Chen's weakened profitability and higher level of capital expenditures to enhance the automation of its production lines will lead to negative discretionary cash flow over the next one to two years. However, we expect the company to maintain its ratio of debt to EBITDA at 2x-3x partly supported by its relatively high level of cash.

Pou Chen Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	226,664.6	276,107.7	208,439.2
EBITDA	21,144.9	28,851.6	19,943.9
Funds from operations (FFO)	18,475.0	26,170.0	17,677.4
Net income from continuing operations	16,911.0	19,078.1	12,890.5
Cash flow from operations	16,098.0	24,797.5	15,776.3
Capital expenditures	7,623.2	13,327.9	22,698.8
Free operating cash flow	8,474.8	11,469.6	(6,922.5)
Discretionary cash flow	4,073.5	7,657.3	(10,392.9)
Cash and short-term investments	11,512.1	10,527.6	9,191.3
Debt	38,574.7	45,377.9	47,815.3
Equity	137,620.4	132,544.9	126,303.6
Adjusted ratios			
EBITDA margin (%)	9.3	10.4	9.6
Return on capital (%)	11.4	12.9	8.9
EBITDA interest coverage (x)	13.4	13.1	12.8
FFO cash interest coverage (x)	16.3	15.3	12.6
Debt/EBITDA (x)	1.8	1.6	2.4
FFO/debt (%)	47.9	57.7	37.0
Cash flow from operations/debt (%)	41.7	54.6	33.0
Free operating cash flow/debt (%)	22.0	25.3	(14.5)
Discretionary cash flow/debt (%)	10.6	16.9	(21.7)
NT$--New Taiwan dollar. Note: Data are fully adjusted.			

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PRESIDENT CHAIN STORE CORP.

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Company description

Founded in 1987, President Chain Store Corp. (PCSC), is 45.4% owned by Uni-President Enterprise Corp. (UPE), and is the largest convenient store chain operator in Taiwan. PCSC's business is largely managing 7-11 branded stores on the island, and also covering multiple well-known brands of restaurants and cafés, pharmacy, department stores, and logistics. In addition, PCSC has expanded its business in China and South-East Asia in past few years.

Business risk profile: Excellent

Stable and mature domestic convenient store chain market. We expect the market to remain a stable oligopoly structure over the next one to two years, given high entry barriers due to economies of scale and market saturation. In addition, we expect very little demand volatility for convenient stores due to the dense domestic population and people's high dependence on services provided by those store chains. This is despite the existing competition from other retailing formats such as hypermarkets and supermarkets. We also believe that convenience store chains will benefit more from an aging population due to their high penetration rate and close service distance.

7-11 to maintain a leading market position. We expect PCSC's 7-11 stores to maintain a dominant market position in Taiwan with about 50% market share and a large operating scale with comprehensive service offering. We expect the company to utilize its strong network and integrated operations including trucking and low temperature warehousing to further entrench its dominating market position. In addition, we expect PCSC to expand its business scale through the addition of more value-added innovative services, such as express delivery and various payment collection services.

Strong operating efficiency to support above-average profitability with very low volatility. We expect PCSC's strong operating efficiency, mostly due to its large economies of scale, business integration, and continued effort on larger store transformation that drives its per-store-daily sales, to support its above-average profitability and a likelihood of very low volatility.

Financial risk profile: Minimal

Low adjusted leverage with high cash balance and moderate capital expenditure. We believe PCSC will maintain a high cash balance, despite our expectation that the company's debt from operating lease adjustments will continue to grow moderately along with its business expansion. We believe PCSC will maintain healthy free operating cash flow over the next two to three years, even with the necessary adjustment for its lease debts. In addition, most of the company's capital expenditures are for store transformation, and we consider the scale as moderate compared with its business scale and strong cash flow.

President Chain Store -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	200,610.8	192,603.0	189,251.6
EBITDA	22,809.1	21,406.9	21,090.3
Funds from operations (FFO)	18,590.2	17,258.8	17,039.1
Net income from continuing operations	9,242.3	6,756.3	7,158.9
Cash flow from operations	18,618.4	22,521.1	23,647.7
Capital expenditures	5,228.0	7,123.9	6,948.6
Free operating cash flow	13,390.4	15,397.2	16,699.1
Discretionary cash flow	8,348.2	10,407.0	11,605.0
Cash and short-term investments	7,053.3	6,546.8	5,975.1
Debt	21,015.5	18,019.0	25,787.5
Equity	27,498.4	24,151.6	24,223.8
Adjusted ratios			
EBITDA margin (%)	11.4	11.1	11.1
Return on capital (%)	30.6	24.0	28.1
EBITDA interest coverage (x)	8.9	8.5	8.6
FFO cash interest coverage (x)	287.2	224.1	291.8
Debt/EBITDA (x)	0.9	0.8	1.2
FFO/debt (%)	88.5	95.8	66.1
Cash flow from operations/debt (%)	88.6	125.0	91.7
Free operating cash flow/debt (%)	63.7	85.4	64.8
Discretionary cash flow/debt (%)	39.7	57.8	45.0

NT$-New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.

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QISDA CORP.

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Company description

Founded in 1984, Qisda Corp. is an original design manufacturing (ODM) service provider of electronic products for consumer, commercial, medical, and industrial applications. Its main products include monitors (approx. 63% its revenue first quarter 2014), projectors (18%), professional and industrial displays (6%), printers (6%), and others (8%). Qisda has manufacturing sites in China, Mexico, and Taiwan and a R&D center in Taiwan. Its largest shareholder is AU Optronics Corp. (AUO; 9.5% ownership as of the end of April 2014).

Business risk profile: Fair

Highly competitive nature of the global ODM industry. We believe Qisda faces moderately high industry risks associated in the global ODM industry, including intense competition and short product life cycles. The company's liquid crystal display (LCD) monitor manufacturing generates low margins due to strong competition and relatively lower entry barriers.

Concentrated customer and product base. We expect Qisda's customer and product concentration risks to remain high. The company's revenue is highly concentrated in LCD monitor manufacturing, which represented 63% of its total revenue in the first quarter of 2014, despite improving sales of other products including some niche products. In addition, Qisda's customer base is also concentrated in major global PC and IT vendors, with the company's largest client accounting for 22% of its revenue in 2013.

Weak, albeit improving, profitability. Qisda's profitability is below the industry average and volatile due to the company's limited product differentiation and smaller production scale relative to its ODM peers'. However, Qisda's strategy to focus on higher-margin niche products, such as medical display products, should improve its profitability gradually. The company's EBITDA margin recovered to 3.9% in 2013 from 2% in 2012 as a result of product mix adjustment and better demand.

Second largest LCD monitor and projector manufacturer. Qisda is likely to maintain its second ranking by market share among global LCD monitor manufacturers, in our view. The company improved its market share to 10.6% in 2013. It is also the second largest projector maker globally, with a market share of 16%. We expect Qisda's LCD monitor and projector businesses to generate relatively steady, albeit limited, cash flow generation, despite stagnant demand for the two products.

Strategic relationship with leading TFT-LCD panel maker AUO. We believe that Qisda will benefit from its strategic relationship with AUO to secure internal panel supply and support product development, as AUO is the company's largest shareholder. Qisda's shareholding in AUO also provides additional financial flexibility for the company's liquidity position. As of the end of March 2014, Qisda owned 6.9% of AUO's shares, with a market value of NT$7.1 billion.

Financial risk profile: Significant

Weak credit metrics. We expect the company's credit metrics remains relatively weak compared to its peers due to working capital needs, despite its improving profitability. Qisda's working capital needs could constrain its free operating cash flow and consequently the company's ability to reduce debt, given the likelihood of revenue growth from new products. However, the low interest rate environment in Taiwan benefits the company in terms of higher interest coverage ratios.

High volatility of cash flow ratios. Qisda's cash flow ratios remain highly volatile due to volatile demand and high price competition. We expect such factors to continue to heavily influence the company's cash flow ratios.

Qisda Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	119,230.5	116,575.3	122,055.6
EBITDA	4,601.7	2,283.6	3,960.1
Funds from operations (FFO)	3,372.7	658.9	3,074.5
Net income from continuing operations	1,406.0	(3,421.1)	(3,546.9)
Cash flow from operations	6,079.9	(2.8)	(184.2)
Capital expenditures	2,945.0	3,673.1	3,549.4
Free operating cash flow	3,134.9	(3,675.9)	(3,733.6)
Discretionary cash flow	3,129.3	(3,683.2)	(4,697.7)
Cash and short-term investments	2,932.3	2,306.6	3,630.0
Debt	23,595.3	28,374.6	25,232.3
Equity	23,424.7	20,356.3	24,374.7
Adjusted ratios			
EBITDA margin (%)	3.9	2.0	3.2
Return on capital (%)	5.9	(3.1)	(4.1)
EBITDA interest coverage (x)	4.2	1.9	3.6
FFO cash interest coverage (x)	N.M.	N.M.	N.M.
Debt/EBITDA (x)	5.1	12.4	6.4
FFO/debt (%)	14.3	2.3	12.2
Cash flow from operations/debt (%)	25.8	(0.0)	(0.7)
Free operating cash flow/debt (%)	13.3	(13.0)	(14.8)
Discretionary cash flow/debt (%)	13.3	(13.0)	(18.6)

NT$-New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.

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QUANTA COMPUTER INC.

Analytical Contact: Jin Dong, Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

Established in 1988, Quanta Computer is an original design manufacturer (ODM) serving some of the leading names in computer hardware, including Dell, Apple, and HP. It is the world's largest manufacturer of notebook computers and also has businesses in enterprise network systems, home entertainment, mobile communication, automotive electronics and digital home markets.

Business risk profile: Strong

Market leader in notebook ODM industry. We expect Quanta Computer to remain the largest notebook ODM company in the world, on the back of its good product quality and design capability. The company's leading market position has further enhanced following the move by PC brands to adjust their sourcing strategies to concentrate orders on first-tier suppliers. This partly offsets the persistent weak performance of notebook demand worldwide due to product's longer replacement cycles and demand cannibalization by tablet computers.

High business concentration. We expect the company's degree of concentration on notebook ODM to remain high over the next one to two years with revenue generated from notebooks production accounting for 65%-70% of the firm's total revenue. This is despite our expectation that Quanta Computer's server business is likely to take on more weight in terms of its revenue contribution over the same period. Growth in the server business is likely to be in the double digits, which could lead to a more balanced product structure. In addition, the company's strong customer relationships backed by its good manufacturing capability help to mitigate its concentration risk.

Continued margin pressure. Fierce competitions from other major EMS/ODM players as well as a continued increase in wage levels in China are likely to keep Quanta Computer's margin under pressure, in our view. The company's satisfactory operating scale in notebook ODM and the increasing contribution from its higher-margin server business could help to ease some of the margin pressure.

Moderately high industry risk. The electronic manufacturing services (EMS) industry is subject to moderately high industry risk due to volatile demand, short product lifecycles, strong buyer power and intense competition. Thus industry players are subject to revenue volatility and price pressure, especially as brand equity and differentiation are largely limited within the EMS industry.

Financial risk profile: Minimal

Moderate debt level with high cash balance. We expect Quanta Computer to maintain a minimal financial risk profile supported by the company's relatively stable operating cash flow generation and relatively low capital spending needs compared with peers'. We also expect Quanta Computer to continue to generate positive free operation cash flows supported by its moderate dividend policy and minimal capacity expansion over the next one to two years.

High volatility of cash flow coverage ratios. We expect the volatility of Quanta Computer's cash flow/leverage ratios to remain high due to aforementioned industry risks and customer concentration, which could induce large fluctuations in EBITDA and funds from operations.

Quanta Computer -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	880,402.0	1,024,985.4	1,109,727.9
EBITDA	21,042.2	28,877.5	22,461.3
Funds from operations (FFO)	20,972.9	29,008.9	15,728.2
Net income from continuing operations	19,109.5	23,437.4	23,498.7
Cash flow from operations	48,618.4	35,764.0	2,166.4
Capital expenditures	2,413.4	5,685.2	7,606.1
Free operating cash flow	46,205.0	30,078.8	(5,439.7)
Discretionary cash flow	30,291.6	14,558.8	(19,608.4)
Cash and short-term investments	55,420.6	49,898.7	71,195.4
Debt	28,900.5	55,559.0	87,808.7
Equity	131,086.8	127,637.5	123,761.8
Adjusted ratios			
EBITDA margin (%)	2.4	2.8	2.0
Return on capital (%)	15.2	19.8	17.9
EBITDA interest coverage (x)	9.6	2.8	4.1
FFO cash interest coverage (x)	11.0	3.8	4.3
Debt/EBITDA (x)	1.4	1.9	3.9
FFO/debt (%)	72.6	52.2	17.9
Cash flow from operations/debt (%)	168.2	64.4	2.5
Free operating cash flow/debt (%)	159.9	54.1	(6.2)
Discretionary cash flow/debt (%)	104.8	26.2	(22.3)

NT$--New Taiwan dollar. Note: Data are fully adjusted.

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SYNNEX TECHNOLOGY INTERNATIONAL CORP.

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Company description

Established in 1988, Synnex Technology International Corporation (STIC) is the largest 3C products (computer, communication and consumer electronic products) distributor in Asia-Pacific and the third largest in the world. Its channels reach 30 countries and regions in the world covering sales locations in more than 200 cities with more than 80,000 resellers. STIC distributes a wide variety of 3C products from more than 300 leading brands. In the first half of 2014, the company's revenue mix by products was: information products (55%), IC components (27%), consumer electronics (13%), and communication products (5%).

Business risk profile: Strong

Strong market position with diversified overseas markets. We acknowledge STIC's outstanding position as the largest 3C distributor in Asia Pacific region. We believe the company can leverage its strong logistic capability and remain the largest electronic product distributor in Taiwan, Australia/New Zealand, India, Middle East, Indonesia and Thailand. We also expect STIC to further increase its revenue from the China market, where it ranked second in 2013. Nonetheless, STIC's rapid growth in China, which accounted for 62% of its revenue in 2013, is likely to lower the company's geographical diversity over the next one to two years.

Strong operating efficiency. We believe the company is able to leverage its expanding sales network and a wide-range of products offerings to provide one-stop shopping for the customers. Moreover, its leading information technology and know-how in logistic and supply chain management should be able to enhance its cost competitiveness.

Disintermediation risk may weaken its business growth. Growth in e-commerce including on-line shopping and business to business (B2B) services threatens to replace STIC's physical stores and resellers particularly for 3C products. However, the company's good after-sales service and capability in after sales maintenance should somewhat offset the risk.

Compressed margin. We expect the company's margin to remain under pressure, which is in line with the industry trend, due to competition and disintermediation. Also, we note that the life cycles of the majority of electronic products have shortened to about six months due to technological evolution, thereby raising inventory risk for IT distributors and pressuring their margins. The company's EBITDA margin was 1.4% in 2013, down from a very thin 1.9% in 2011.

Financial risk profile: Intermediate

Weaker cash flow generation as a result of high working capital needs. We believe that STIC's leverage will remain high, given the high working capital needed for its distribution business that provides a working capital buffer for its clients. STIC's cash conversion cycle increased to 53 days in 2012 from 42 days in 2010. However, we believe STIC should be able to limit this risk through stronger inventory and credit risk management.

Weaker core credit ratios. Like other distributors, STIC's credit ratios have weakened because the company's operating cash flow is weak in order to meet its its higher working capital needs, and this is largely funded through debt. However, the company benefits from higher interest coverage ratios than its peers' due to the favorable banking environment in Taiwan, which somewhat offsets the financial risk.

Synnex Technology International Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	330,259.8	312,585.4	310,672.8
EBITDA	4,722.1	5,381.5	5,760.0
Funds from operations (FFO)	3,978.3	4,659.3	4,561.3
Net income from continuing operations	5,432.4	5,767.0	7,236.6
Cash flow from operations	3,334.8	(1,848.3)	(3,957.9)
Capital expenditures	1,814.8	1,131.2	2,130.7
Free operating cash flow	1,520.0	(2,979.5)	(6,088.7)
Discretionary cash flow	(1,653.8)	(9,286.6)	(9,565.0)
Cash and short-term investments	3,350.7	3,731.2	3,334.9
Debt	26,669.1	29,189.2	20,433.5
Equity	43,348.4	40,793.1	42,805.2
Adjusted ratios			
EBITDA margin (%)	1.4	1.7	1.9
Return on capital (%)	10.0	11.0	28.0
EBITDA interest coverage (x)	7.9	11.8	14.4
FFO cash interest coverage (x)	9.0	14.4	18.7
Debt/EBITDA (x)	5.6	5.4	3.5
FFO/debt (%)	14.9	16.0	22.3
Cash flow from operations/debt (%)	12.5	(6.3)	(19.4)
Free operating cash flow/debt (%)	5.7	(10.2)	(29.8)
Discretionary cash flow/debt (%)	(6.2)	(31.8)	(46.8)
NT$--New Taiwan dollar. Note: Data are fully adjusted.			

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TAIWAN CEMENT CORP.

Analytical Contact: **Daniel Hsiao,** Taipei, (886) 28722-5826; daniel.hsiao@taiwanratings.com.tw

Company description

Established in 1946, Taiwan Cement Corp. (TCC) is the largest cement company in Taiwan by market share. TCC is engaged in the production and marketing of cement, cement- related products, and ready-mix concrete. As end of March 2014, the company's total capacity was 65.8 million tons, of which 10.6 million tons is located in Taiwan and 55.2 million tons in China. TCC is the sixth largest cement company in China by capacity, with production capacity spread across 10 provinces, including Guangdong (30% of its China capacity as of the end of March 2014), Guangxi (18%), Sichuan (13%) and Guizhou (13%). In addition to TCC's cement business, which accounted for 66% of its consolidated revenue in the first quarter of 2014, the company also has chemicals (23%) and utilities (10%) businesses through its operating subsidiaries.

Business risk profile: Strong

Good position in Taiwan and China's cement markets. We expect TCC to maintain its above-average market position in Taiwan's near oligopoly cement market. The company had a 40% domestic market share in terms of capacity, ahead of the next competitor with 25% market share. TCC continues to expand its capacity in China.

Stable profitability from its operating subsidiaries. We expect TCC's subsidiary Ho-Ping Power Co. (59.5%-owned independent power plant) and its port operations to continue to provide stable cash flow to TCC over the next few years. Ho-Ping Power's operating performance is backed by a 25-year power purchase agreement with Taiwan Power Co. In the first quarter of 2014, TCCs utilities accounted for 27% of its operating income. We believe the company's diverse business lines significantly offset the higher business volatility in its China-based cement business.

High industry risks associated with high fragmentation and cyclicality in China's cement market. We expect TCC to continue to experience higher business volatility in China's cement market relative to Taiwan, due to high industry fragmentation and existing excess capacity that causes intense market competition, as well as volatile market demand. Nevertheless, the Chinese government's policies to control capacity additions as well as to lower polluting and energy inefficient capacity may help to alleviate overcapacity over the next few quarters.

Aggressive expansion likely through acquisitions in China. We believe the company is more likely to pursue its aggressive expansion plan in China through acquisitions, given the low likelihood of gaining permission for green field projects. This could negatively affect TCC's operating efficiency due to integration risks. However, we believe that TCC will find it increasingly difficult to achieve its growth plan due to decreasing merger and acquisition targets and intense competition for such opportunities.

Financial risk profile: Modest

Improving profitability strengthens TCC's credit metrics. We expect TCC's improving profitability and resultant discretionary cash flow to help lower the company's debt level over the next one to two years, despite TCC's high capital spending for capacity expansion in China, and its high cash dividend payout. We expect the cement prices in China to improve in the next one to two years, given easing oversupply. Nevertheless, the company's credit profile could weaken substantially if TCC achieves its aggressive plan of 100 million tons in cement capacity in China through debt funded acquisitions by 2016.

High volatility of cash flow ratios. We view TCC's cash flow ratios to be high volatility due to volatile demand and frequent oversupply partly stemming from changes in the Chinese government's housing policies and economic growth strategy. We expect such factors to continue to heavily influence the company's cash flow ratios.

Taiwan Cement Corp. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	116,098.9	113,699.3	118,497.0
EBITDA	25,348.2	19,952.9	25,433.2
Funds from operations (FFO)	20,845.9	15,966.8	20,710.3
Net income from continuing operations	15,118.7	9,998.2	13,728.0
Cash flow from operations	22,642.3	26,022.7	13,290.8
Capital expenditures	4,598.3	6,509.8	14,020.0
Free operating cash flow	18,044.0	19,512.9	(729.2)
Discretionary cash flow	9,387.8	10,186.0	(11,758.2)
Cash and short-term investments	11,273.0	10,377.9	9,753.5
Debt	61,109.5	69,616.9	74,432.5
Equity	153,618.6	141,806.3	129,319.6
Adjusted ratios			
EBITDA margin (%)	21.8	17.5	21.5
Return on capital (%)	9.6	7.2	9.5
EBITDA interest coverage (x)	13.1	7.2	9.3
FFO cash interest coverage (x)	953.1	396.1	109.6
Debt/EBITDA (x)	2.4	3.5	2.9
FFO/debt (%)	34.1	22.9	27.8
Cash flow from operations/debt (%)	37.1	37.4	17.9
Free operating cash flow/debt (%)	29.5	28.0	(1.0)
Discretionary cash flow/debt (%)	15.4	14.6	(15.8)

NT$-New Taiwan dollar. Note: Data are fully adjusted.

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TAIWAN MOBILE CO. LTD.

Issuer Credit Rating: twAA/Stable/twA-1+
Analytical Contact: **Anne Kuo,** CFA, Taipei, (886) 28722-5829; anne.kuo@taiwanratings.com.tw

Company description

Taiwan Mobile is one of the three leading telecom companies in Taiwan with about 25% market share in terms of subscriber numbers. Mobile revenues accounted for about 65% of total revenue in 2013, with other revenue from fixed-line, cable TV/broadband, and retailing businesses.

Outlook: Stable

The stable outlook reflects our expectation that Taiwan Mobile will be able to maintain its position as one of the top three players in Taiwan's telecom industry and that the company can maintain its adjusted ratio of debt to EBITDA at 1.4x-1.5x over the next two years, despite higher-than-expected 4G license acquisition cost and slightly declining profitability.

Business risk profile: Strong

Strong market position in Taiwan's oligopoly wireless telecom industry. Taiwan Mobile's sufficient economies of scale, well-established customer base, and high industry entry barriers support its strong domestic market position. In our view, the acquisition of a 4G license enables Taiwan Mobile to compete in offering the next generation of telecom services and largely maintain its market position. However, the magnitude of average revenue per user and margin improvement will depend on the service's adoption rate and the level of market competition, including from new emerging competitors.

EBITDA margin to trend down due to fiercer competition, tariff reduction and increasing contribution from low-margin retailing. We believe better growth momentum from Taiwan Mobile's retail unit (momo) and the higher margin from its cable business have somewhat offset the limited growth in the saturated telecom market. Taiwan Mobile's EBITDA margin trended downward to 30.8% in 2013 from over 39% in 2010, mainly due to regulatory tariff reductions and the low margin contribution from a retail operator the company acquired in 2011. We expect the decline in margins to moderate over the next one to two years given the declining impact from regulatory tariff reductions and the closure of loss-making traditional retail channels. However, we don't expect the EBITDA margin to improve to the 2010-2011 level given the firm's current product mix, regulated tariff constraints, and increasing operating expense from the commercialization of 4G operations.

High appetite to pursue growth through acquisitions. We believe Taiwan Mobile has a high appetite to expand its operations through mergers acquisitions including cable TV and cable broadband services, which will likely remain a key growth strategy given the island's saturated mobile telecom market. Taiwan Mobile's competitive position and profitability could improve if it acquires an additional cable business which carries a higher EBITDA margin, but the timing of such an acquisition remains highly uncertain given legal restrictions and is unlikely to materialize in the next 12 months.

Financial risk profile: Minimal

Strong and stable cash flow generation to support its robust credit profile. Taiwan Mobile's main telecom business provides a strong and stable cash flow in our view, which helps support its "minimal" financial risk profile.

Sustained high cash dividend. We expect Taiwan Mobile to maintain a high cash dividend payout ratio above 90% over the next one to two years, which is in line with its domestic peers, supported by firm's strong and stable cash flow generation.

High-value treasury shares offer buffers for debt addition tied to potential acquisition. We believe Taiwan Mobile will maintain its ratio of debt to EBITDA below 1.5x over the next one to two years given the company's strong cash flow generation and moderate capital expenditures. In addition, the firm's possession of high-value treasury shares could help to offset the related debt addition for potential acquisitions.

Taiwan Mobile Co. Ltd. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	109,143.4	98,141.0	81,369.0
EBITDA	33,657.4	29,808.4	27,609.3
Funds from operations (FFO)	30,187.7	26,438.5	25,335.4
Net income from continuing operations	15,817.8	14,916.3	13,626.0
Cash flow from operations	27,188.9	27,344.3	25,296.8
Capital expenditures	41,555.2	8,323.9	15,021.0
Free operating cash flow	(14,366.3)	19,020.4	10,275.8
Discretionary cash flow	(29,409.9)	4,886.7	(2,165.2)
Cash and short-term investments	2,228.8	1,857.3	1,727.8
Debt	51,230.0	17,712.4	14,718.2
Equity	58,520.6	50,805.8	50,064.0
Adjusted ratios			
EBITDA margin (%)	30.8	30.4	33.9
Return on capital (%)	22.1	27.8	26.2
EBITDA interest coverage (x)	36.7	45.0	84.6
FFO cash interest coverage (x)	95.2	83.4	69.5
Debt/EBITDA (x)	1.5	0.6	0.5
FFO/debt (%)	58.9	149.3	172.1
Cash flow from operations/debt (%)	53.1	154.4	171.9
Free operating cash flow/debt (%)	(28.0)	107.4	69.8
Discretionary cash flow/debt (%)	(57.4)	27.6	(14.7)

NT$--New Taiwan dollar. Note: Data are fully adjusted.

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TAIWAN POWER CO.

Issuer Credit Rating: twAAA/Negative/twA-1+
Standard & Poor's Global Scale Rating: A+/Negative/--
Standard & Poor's Greater China Regional Scale Rating: cnAAA/--
Analytical Contact: **Aaron Lei,** Taipei, (886) 28722-5852; aaron.lei@taiwanratings.com.tw

Company description

Taiwan Power Co. (Taipower) is the sole integrated power company in Taiwan, providing service in power generation, power grid operation, and electricity transmission and distribution to end users. The government of Taiwan owns 94% of Taipower.

Outlook: Negative

The negative outlook on Taipower reflects our view that continuing uncertainty on the completion and later operation of the company's fourth nuclear power plant, its carry cost (maintenance and interest cost), and Taipower's potential inadequate cost recovery position could weigh on the company's financial performance. These factors could affect Taipower's SACP and credit quality over the next one to two years if the Taiwan government fails to provide mitigating measures.

Business risk profile: Satisfactory

Weak competitive position. Taiwan's unfavorable execution of tariff setting and adjustments weakens Taipower's competitive position, in our view. We believe the company's continuing difficulty in raising tariffs will offset any temporary improvement in operations from lower fuel costs, similar to events in 2013.

Very weak profitability. This is due to the difficulty that faces to raise tariffs to cover cost increases. Recent tariff increases have been inadequate to recover costs and the difficulty to periodically increase tariffs will continue to weaken Taipower's profitability, in our view.

Very low industry risk. This is due to the regulations-supported operation dominance and Taipower's position as a regulated utilities company. We classify Taipower as a regulated utilities company that benefits from "very low" industry risk for national industries and utilities in Taiwan, according to our criteria.

Financial risk profile: Significant

Very weak cash flow adequacy due to low earnings and rising debt. Taipower's weak leverage reflects the company's high debt levels, weak operational cash flows, and no returns from the near-complete fourth nuclear power plant.

Intermediate interest coverage. While Taipower's ratio of funds from operations to total debt is consistent with a highly leveraged profile, it should be noted that our assessment of debt includes capitalized power purchase costs because we see them as fixed obligations to be met. The interest coverage ratio primarily reflects Taipower's better access to low-cost debt due to the company's dominant market position and government ownership.

Potential significant financial stress. We believe that if the government abandons the fourth nuclear power plant without providing timely and adequate capital support to Taipower it would result in significant financial stress for the company. If the Taiwan government eventually needs to abandon this power plant and Taipower has to write down the investment as a result, the company could face heavy losses that deplete all its equity. Under such a scenario, we believe the government would step in with mitigating measures to at least preserve Taipower's standalone credit profile (SACP). However, if such support is not timely and sufficient, we will likely downgrade Taipower by multiple notches to reflect the potential of a bankruptcy filing and diminished government support.

Taiwan Power Co. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	592,790.8	547,163.9	523,472.0
EBITDA	139,527.7	86,319.1	101,114.5
Funds from operations (FFO)	105,930.9	48,634.9	64,050.2
Net income from continuing operations	(17,055.6)	(75,785.8)	(43,365.0)
Cash flow from operations	97,039.7	36,955.2	74,827.5
Capital expenditures	120,308.6	125,164.3	140,462.5
Free operating cash flow	(23,268.9)	(88,209.1)	(65,635.0)
Discretionary cash flow	(23,268.9)	(88,209.1)	(65,635.0)
Cash and short-term investments	557.8	828.2	792.0
Debt	1,475,588.5	1,467,262.6	1,397,445.4
Equity	180,684.3	282,642.2	361,947.7
Adjusted ratios			
EBITDA margin (%)	23.5	15.8	19.3
Return on capital (%)	0.8	(1.6)	(0.6)
EBITDA interest coverage (x)	3.8	2.3	2.7
FFO cash interest coverage (x)	8.5	5.4	7.2
Debt/EBITDA (x)	10.6	17.0	13.8
FFO/debt (%)	7.2	3.3	4.6
Cash flow from operations/debt (%)	6.6	2.5	5.4
Free operating cash flow/debt (%)	(1.6)	(6.0)	(4.7)
Discretionary cash flow/debt (%)	(1.6)	(6.0)	(4.7)
NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.			

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TAIWAN SEMICONDUCTOR MANUFACTURING CO. LTD.

Issuer Credit Rating: twAAA/Stable/twA-1+
Standard & Poor's Global Scale Rating: A+/Stable/--
Standard & Poor's Greater China Regional Scale Rating: cnAAA/--
Analytical Contact: **David Hsu,** Taipei, (886) 28722-5828; david.hsu@taiwanratings.com.tw

Company description

As the world's first dedicated semiconductor, TSMC remains the largest by market share, offering a comprehensive set of IC fabrication (fab) processes to manufacture a full range of semiconductors. TSMC operates one 6-inch wafer fab, four 8-inch wafer fabs, and three 12-inch wafer fabs, all in Taiwan. The company also has fabs in the U.S., Singapore, and China.

Outlook: Stable

The outlook reflects our view that TSMC's dominant market position and minimal financial risk profile will continue to provide good support for the rating and that TSMC can sustain its ratio of debt to EBITDA comfortably below 1.5x, despite the foundry sector's high cyclicality and capital intensity.

Business risk profile: Excellent

Strong market position in the global foundry business. We believe TSMC will hold its solid market position in the next two to three years, despite intensifying competition old and new entrants. TSMC's market share was about 46% in 2013, over four times that of its closest competitor, Global Foundries.

Advanced technology capability supporting very strong profitability. TSMC's leadership in advanced process technology and high manufacturing efficiency underpin its strong competitiveness, market leadership capability, and very strong profitability. This is evidenced by TSMC's better capability at producing multiple products simultaneously at one fab, and its stable and high yield rates. We expect TSMC to maintain its technological supremacy, particularly for 28 nanometer (nm) and 20nm process technology, over the next two years. In addition, TSMC has maintained a stable EBITDA margin relative to its peers over the past few years due to its technology leadership that enables it to maintain a high utilization rate and service pricing, despite market volatilities.

High industry risks. In our view, TSMC will continue to face high industry risks, including high industry cyclicality and high capital and technology intensity. The semiconductor foundry industry frequently experiences oversupply due to volatile end-market demand and long lead times for building larger fabs. This can also result in high revenue and earnings volatility when combined with the industry's high fixed costs.

Rapid technological changes. Employing leading-edge is technology is critical to maintaining profitability in the foundry industry and we believe TSMC may experience margin pressures if it fails to maintain its technology position.

Financial risk profile: Minimal

Conservative leverage. We expect TSMC to maintain its conservative financial policy and investment strategy with low debt leverage. We don't expect it to invest aggressively in non-foundry businesses or take on large-scale acquisitions that could significantly hurt its financial risk profile in the next 1-2 years.

Very strong cash flow generation. We believe TSMC's strong profitability will enable the company to maintain its very strong cash flow protection and low debt leverage.

Temporary negative discretionary cash flow. TSMC is likely to continue its aggressive capital expenditures to further entrench its market leadership in the next one to two years. We expect TSMC's cash flow to grow along with its increased capacity, supporting a return to positive discretionary cash flow starting in 2014. This should enable TSMC to maintain its low debt leverage and net cash position. We expect the ratio of total debt to EBITDA to remain comfortably below 0.5x in 2014 and 2015.

Strong liquidity. We believe the company has "strong" liquidity to meet its needs over the next 12-24 months with liquidity sources exceeding uses by well over 1.5x over the next 12 months and remain above 1x over the next 12-24 months.

Taiwan Semiconductor Manufacturing Co. Ltd. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	597,024.2	506,248.6	427,080.6
EBITDA	368,529.6	315,155.8	252,707.1
Funds from operations (FFO)	346,365.3	300,495.9	242,065.4
Net income from continuing operations	188,018.9	165,963.7	134,453.3
Cash flow from operations	347,769.1	287,320.2	245,063.7
Capital expenditures	287,594.8	246,131.0	213,953.4
Free operating cash flow	60,174.3	41,189.2	31,110.3
Discretionary cash flow	(17,599.0)	(36,559.5)	(46,619.9)
Cash and short-term investments	61,335.6	37,729.5	37,655.5
Debt	62,479.2	12,824.5	-
Equity	847,775.1	725,753.7	632,043.6
Adjusted ratios			
EBITDA margin (%)	61.7	62.3	59.2
Return on capital (%)	26.5	26.7	24.1
EBITDA interest coverage (x)	121.3	232.0	270.1
FFO cash interest coverage (x)	262.5	409.8	449.5
Debt/EBITDA (x)	0.2	0.0	0.0
FFO/debt (%)	554.4	2343.1	N.M.
Cash flow from operations/debt (%)	556.6	2240.4	N.M.
Free operating cash flow/debt (%)	96.3	321.2	N.M.
Discretionary cash flow/debt (%)	(28.2)	(285.1)	N.M.

NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted, including cash item.

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TATUNG COMPANY

Analytical Contact: **Jin Dong,** Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

Established in 1918 and headquartered in Taipei, Tatung has evolved into a conglomerate. Its businesses cover seven major segments including digital display, home appliance, new energy, ICT & energy solutions, heavy electrics, wire & cable, and motor. The company is also involved in real estate development through its subsidiaries.

Business risk profile: Fair

Relatively weak market position on major product segment. Despite high domestic brand recognition for Tatung's consumer products, its market position is substantially weaker than its global competitors, and the mature and highly competitive domestic market offers limited growth potential. Tatung's digital display, thin film transistor liquid crystal display (TFT-LCD) and solar energy businesses have only limited market share due to weaker product offering and smaller business scale compared with larger peers.

Weak, albeit improving, profitability. We expect Tatung's strategy of focusing resources on the company's more profitable power and system business and to dispose of underperforming/non-core businesses to only gradually improve Tatung's profitability. This is because the company's restructuring moves have been slow and Tatung's core business and long-term investment portfolio performance are likely to remain largely unprofitable.

High industry risks and unfavorable industry conditions. We categorize most of the businesses that Tatung operates in as the technology hardware industry, which carries industry risks such as volatile end-market demand, technology risk and intense competition. Some of the business lines, including PC manufacturing, TFT LCD and solar energy, face particularly unfavorable industry conditions such as weak demand, oversupply and fierce price competition.

Diversified business investments but with limited benefits. Tatung has a diverse product mix and investment portfolio, but their weak performance limits the diversification benefit of reducing performance volatility through economic cycles.

Financial risk profile: Significant

Weak but improving cash flow leverage. We expect Tatung's financial risk profile to improve in the next one to two years with better cash flow. We expect the company to continue to dispose of its non-core underperforming subsidiaries and reduce its debt level. This combined with more disciplined capital expenditures at key subsidiaries will likely improve Tatung's financial leverage, in our view. In addition, we believe the company's substantial land assets could provide an additional buffer to weather cash flow volatility.

High volatility of cash flow coverage ratios. We expect Tatung's cash flow coverage ratios to remain volatile due to the company's relatively weak competitive position, unfavorable industry conditions, and high volatility in Tatung's major markets However, we believe that Tatung's current credit metrics properly reflect the negative effect of industry volatility, given the company's restructuring and our view that Tatung's major operating sectors are still near the trough of the current downturn.

Tatung Company -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	112,926.9	106,098.5	146,250.2
EBITDA	10,726.1	1,692.0	9,579.6
Funds from operations (FFO)	7,226.9	(1,675.7)	5,995.0
Net income from continuing operations	(5,319.7)	(15,208.0)	(11,993.3)
Cash flow from operations	5,750.1	5,486.3	(2,253.5)
Capital expenditures	4,916.4	7,319.6	12,465.7
Free operating cash flow	833.7	(1,833.3)	(14,719.2)
Discretionary cash flow	833.7	(1,833.3)	(14,719.2)
Cash and short-term investments	7,790.5	6,980.5	7,990.8
Debt	70,594.8	78,048.7	80,505.5
Equity	62,249.7	62,973.8	76,097.3
Adjusted ratios			
EBITDA margin (%)	9.5	1.6	6.6
Return on capital (%)	(1.2)	(7.9)	(5.3)
EBITDA interest coverage (x)	3.3	0.5	3.3
FFO cash interest coverage (x)	2.8	0.5	4.5
Debt/EBITDA (x)	6.6	46.1	8.4
FFO/debt (%)	10.2	(2.1)	7.4
Cash flow from operations/debt (%)	8.1	7.0	(2.8)
Free operating cash flow/debt (%)	1.2	(2.3)	(18.3)
Discretionary cash flow/debt (%)	1.2	(2.3)	(18.3)
NT$--New Taiwan dollar. Note: Data are fully adjusted.			

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TINGYI (CAYMAN ISLANDS) HOLDING CORP.

Standard & Poor's Global Scale Rating: BBB+/Stable/--
Standard & Poor's Greater China Regional Scale Rating: cnA+/--
Analytical Contact: **Lillian Chiou,** Hong Kong, (852) 2533-3530; lillian.chiou@standardandpoors.com

Company description

Founded in 1991, Tingyi is one of the largest producers and distributors of instant noodles, beverages, and bakery products in China. The group operates mainly under the brand Master Kong, one of the best known in China. It controls majority shares of China's instant noodles and ready-to-drink (RTD) tea markets, and operates through an extensive and well-penetrated distribution network.

Outlook: Stable

The stable outlook reflects Standard & Poor's expectation that Tingyi will maintain strong market positions and good financial performance over the next one to two years. The outlook also reflects the rating agency's view that Tingyi will continue to improve the operating performance of its bottling business in China with PepsiCo, and gradually broaden its brand diversity. Standard & Poor's also expects Tingyi to sustain average profitability, generate positive free operating cash flows, and maintain conservative financial management despite fierce competition.

Business risk profile: Strong

Dominant market position and good brand name in China. Standard & Poor's expects Tingyi to sustain its dominant market positions with good operating efficiency and innovative product offerings. We expect demand for instant noodles to increase at a slower pace than China's GDP growth but that demand for beverages will outpace GDP growth.

Extensive national distribution network. Tingyi's wide-reaching distribution network and improving business diversity form a good entry barrier and strengthen the company's market position in China.

Good integration with PepsiCo. Tingyi's successful turnaround of PepsiCo Inc.'s China-based bottling business underpins the assessment of Tingyi's business risk.

Continued margin pressure because of fierce competition and exposure to volatile raw material prices. Intense competition, higher marketing and distribution costs, and volatile raw material prices continue to weigh on Tingyi's profitability.

Financial risk profile: Minimal

Disciplined financial management. Although the company's financial ratios are likely to deteriorate slightly following the acquisition of Wealth City, which is partly debt-funded, Standard & Poor's expects Tingyi's financial performance to remain in line with the rating agency's assessment of Tingyi's financial risk profile.

Moderate capital expenditure needs. We expect Tingyi to be able to fund most of its capital expenditure with operating cash flows and its existing cash balance over the next two years.

Good working capital management.

Tingyi (Cayman Islands) Holding Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. $)	2013	2012	2011
Revenues	10,941.0	9,211.9	7,866.6
EBITDA	1,085.3	956.4	859.1
Funds from operations (FFO)	911.1	763.6	742.6
Net income from continuing operations	408.5	458.6	419.5
Cash flow from operations	1,301.8	1,224.0	641.9
Capital expenditures	849.8	834.7	1,323.9
Free operating cash flow	452.0	389.3	(682.0)
Discretionary cash flow	245.3	141.5	(983.5)
Cash and short-term investments	309.8	207.7	147.7
Debt	900.9	980.7	908.2
Equity	3,905.2	3,469.6	2,661.0
Adjusted ratios			
EBITDA margin (%)	9.9	10.4	10.9
Return on capital (%)	15.5	15.9	19.5
EBITDA interest coverage (x)	22.3	21.9	49.1
FFO cash interest coverage (x)	23.6	19.6	46.4
Debt/EBITDA (x)	0.8	1.0	1.1
FFO/debt (%)	101.1	77.9	81.8
Cash flow from operations/debt (%)	144.5	124.8	70.7
Free operating cash flow/debt (%)	50.2	39.7	(75.1)
Discretionary cash flow/debt (%)	27.2	14.4	(108.3)
N.M.--Not meaningful. Note: Data are fully adjusted.			

Note: Tingyi (Cayman Islands) Holding Corp. is rated by Standard & Poor's Ratings Services. For the purpose of this publication, the business risk profile and financial risk profile descriptors given in this report are therefore based on TRC scale descriptors.

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TPK HOLDING CO. LTD.

Analytical Contact: Jin Dong, Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

Founded in 2005 and registered in the Cayman Islands, TPK is principally engaged in the research, development, manufacturing and distribution of capacitive touch sensors, modules, and displays. The Company's operations are primarily based in China and Taiwan, where it produces medium- and small-sized touch panels for a variety of end products.

Business risk profile: Satisfactory

A major touch panel manufacturer facing increasing competition. We expect TPK to sustain its leading position in the high-end touch panel segment, given the increasing adoption of its new technology by major smartphone makers. However, the company's competitive strength is under increasing pressure caused by rising competition from local and Chinese manufacturers particularly in low-to-mid-end smartphone and notebook applications.

Moderately high customer and product concentration risk. We expect TPK's degree of single customer reliance to remain high in the next one to two years. We also expect TPK's product concentration to remain moderately high with smart phones and tablets accounting for the majority of its revenue. This is despite our expectation that car applications, wearable devices and touch notebooks will grow faster in the upcoming two years.

Improving operating efficiency. We expect TPK's improving operating efficiency achieved through production consolidation that increases capacity utilization and lowers production costs, to help the company weather margin pressures from Chinese peers. Thus we expect TPK to slightly increase its EBITDA margin in 2014, but intense price competition could limit the benefit of rising efficiency.

Moderately high industry risk. TPK is subject to moderately high industry risk, in our view, due to the company's capital intensity, heightened competition and significant technology risk. Liquid crystal display makers' entry into the notebook touch panel segment could also challenge the competitiveness of dedicated touch panel markers due to their ability to provide integrated services.

Financial risk profile: Intermediate

Increase in financial leverage. We expect the company's leverage to remain elevated, given its high capital needs to support growth and continued margin pressures. TPK's adjusted debt doubled in 2013 compared to that in 2012 due to the construction of a new fabrication plant. However, we do not expect further deterioration in TPK's cash flow coverage ratios in the next one to two years supported by cash flow from new capacity and lower capital expenditures.

High volatility of cash flow coverage ratios. We expect significant volatility in TPK's cash flow coverage ratios to remain due to capital intensity and increasing margin pressure from price competition. We expect such factors to continue to heavily influence the company's cash flow coverage ratios.

TPK Holding Co. Ltd. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	159,067.4	176,609.6	143,371.6
EBITDA	16,917.2	25,435.1	19,635.2
Funds from operations (FFO)	15,878.0	21,034.0	16,126.1
Net income from continuing operations	7,614.6	14,916.3	11,227.4
Cash flow from operations	20,789.1	14,914.9	18,322.7
Capital expenditures	23,702.8	15,316.3	29,318.9
Free operating cash flow	(2,913.7)	(401.4)	(10,996.2)
Discretionary cash flow	(9,783.9)	(5,106.8)	(10,996.2)
Cash and short-term investments	11,889.6	6,629.6	2,595.7
Debt	34,888.8	17,906.9	18,108.3
Equity	44,876.8	43,272.0	29,362.7
Adjusted ratios			
EBITDA margin (%)	10.6	14.4	13.7
Return on capital (%)	13.6	37.7	31.4
EBITDA interest coverage (x)	15.1	32.7	38.0
FFO cash interest coverage (x)	59.2	180.6	116.3
Debt/EBITDA (x)	2.1	0.7	0.9
FFO/debt (%)	45.5	117.5	89.1
Cash flow from operations/debt (%)	59.6	83.3	101.2
Free operating cash flow/debt (%)	(8.4)	(2.2)	(60.7)
Discretionary cash flow/debt (%)	(28.0)	(28.5)	(60.7)

NT$--New Taiwan dollar. Note: Data are fully adjusted.

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UNI-PRESIDENT ENTERPRISES CORP.

Issuer Credit Rating: **twAA-/Stable/twA-1**
Analytical Contact: **David Hsu,** Taipei, (886) 28722-5828; david.hsu@taiwanratings.com.tw

Company description

Uni-President is Taiwan's largest food and beverage (F&B) company, as well as the island's largest convenience store operator by market share. Uni-President engages in F&B, retail, tinplate manufacturing, and other investment activities in Taiwan, China and Southeast Asia. The company's major F&B products include instant noodles, dairy products, juice, and ready-to-drink teas.

Outlook: Stable

The outlook reflects our view that Uni-President's strong position across various products and markets, as well as its good business diversity are likely to support the company's growth momentum and profitability over the next two years.

Business risk profile: Strong

Strong-to-excellent positions in various Taiwanese sectors, satisfactory and improving position in China. We expect Uni-President's excellent position in Taiwan's convenience store and strong position in F&B markets to support the company's strong business risk profile over the next one to two years. Uni-President had about 50% share of Taiwan's convenience store market in 2013; almost double that of its closest peer. It held over 40% of the instant noodle and ready-to-drink tea markets, as well as several dairy product segments in Taiwan at the same time. The company has a satisfactory, albeit improving, market position in China's juice, ready-to-drink tea, and instant noodles segments due to the company's strengthening branding power, rising economies of scale, and a significantly enhanced production and sales network. We expect Uni-President continue to grow in China's F&B markets, albeit at a slower pace, and add to the company's geographical diversification over the next two to three years. Uni-President ranked among the top three players of those segments by market share in 2013.

Above-average business diversity. Uni-President's business diversity is above-average in our view, and we expect this coupled with the firm's strengthening branding power and enhanced scale economies to underpin its profitability and relatively stable cash flow while partly offsetting the negative impact of heightening industry risk in the China market.

Higher industry risk in China's F&B market from intense competition and volatile material costs. We view the industry risk in China's F&B market as higher than in Taiwan, due to volatile material costs and intense competition. We expect competition among leading players to somewhat limit Uni-President's margin improvement over the next one to two years, due to higher costs and expenses from more marketing activities.

Financial risk profile: Modest

Weaker cash flow adequacy ratio than its peers', mostly due to Uni-President's higher debt level for expansion. In our view, Uni-President's cash flow protection measures will remain relatively weak for the next two years compared with leading regional peers', due to the company's high capital spending from its expansion plan in China's F&B market. We expect Uni-President to maintain its larger capital expenditure to sustain its growth, particularly in China. However, we believe the company will continue reducing its leverage through the disposal of non-efficient long-term investments, which along with the Uni-President's growing cash flow should help to limit additional debt usage over the next two years.

Relatively high cash balance, despite recent larger capital spending. We expect Uni-President to maintain a relatively high cash balance as a buffer against market volatility over the next one to two years.

Adequate liquidity. Uni-President's existing cash plus liquid short-term investment was NT$54.7 billion at the end of 2013. It has adequate access to banking credit given its satisfactory credit standing and sound banking relationships in Taiwan.

Uni-President Enterprises Corp. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	423,056.2	406,046.7	388,028.0
EBITDA	43,643.2	42,809.5	37,048.2
Funds from operations (FFO)	35,638.5	35,252.0	30,562.2
Net income from continuing operations	20,740.0	15,568.8	14,735.0
Cash flow from operations	39,187.8	44,658.4	38,605.1
Capital expenditures	33,733.6	25,808.9	32,410.0
Free operating cash flow	5,454.2	18,849.5	6,195.1
Discretionary cash flow	(1,353.3)	14,305.1	193.1
Cash and short-term investments	13,669.2	13,520.9	13,318.0
Debt	132,573.2	112,760.5	114,698.3
Equity	138,066.6	125,237.1	118,999.5
Adjusted ratios			
EBITDA margin (%)	10.3	10.5	9.5
Return on capital (%)	11.6	10.0	10.0
EBITDA interest coverage (x)	9.3	9.4	8.7
FFO cash interest coverage (x)	19.9	19.9	23.0
Debt/EBITDA (x)	3.0	2.6	3.1
FFO/debt (%)	26.9	31.3	26.6
Cash flow from operations/debt (%)	29.6	39.6	33.7
Free operating cash flow/debt (%)	4.1	16.7	5.4
Discretionary cash flow/debt (%)	(1.0)	12.7	0.2

NT$--New Taiwan dollar. Note: Data are fully adjusted.

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UNITED MICROELECTRONICS CORP.

Issuer Credit Rating: twAA/Negative/twA-1+
Analytical Contact: **David Hsu,** Taipei, (886) 28722-5828; david.hsu@taiwanratings.com.tw

Company description

United Microelectronics Corp. (UMC) was founded in 1980 as an integrated device manufacturer (IDM) and began to transform into a pure-play foundry in 1995. It is currently the world's third-largest contract microchip manufacturer by market share after Taiwan Semiconductor Manufacturing Co. Ltd. (TSMC) and GLOBALFOUNDRIES Inc. UMC operates seven wafer fabrication (fab) plants in Taiwan and two overseas.

Outlook: Negative

The outlook reflects our view that UMC's competitive position could continue to weaken due to a likely further decline in the company's market share and technological competitiveness over the next one to two years. This is despite our expectation that given UMC's conservative financial policies the company will keep its ratio of debt to EBITDA below 1.5x over the same period.

Business risk profile: Strong

Satisfactory global market position. We expect UMC to maintain its third place market ranking over the next one to two years, but it could be difficult for UMC to maintain its market share. The foundry market grew rapidly in 2011-2013, partly due to strong demand for semiconductors in smartphones and tablets, but UMC's growth has substantially lagged behind the peer average.

Satisfactory albeit deteriorating technology capability. UMC has fallen behind market leaders in terms of advanced process technology. We believe its chief competitors have made better progress using 28nm advanced technology than UMC.

High cyclicality and intensive capital nature of the semiconductor foundry industry. We expect UMC's capacity utilization to increase only slightly in 2014-2015, because of the still-low revenue from manufacturing services using 28nm process technology.

Rapid technological changes. Foundries must invest heavily to maintain pace with competitors in a technology driven industry. We believe UMC's weakening market position and technological competitiveness could limit its ability to increase profitability and restrict its long-term technical capability.

Financial risk profile: Minimal

Low debt leverage. We expect UMC to maintain low debt leverage over the next one to two years, given its strategy to limit its capital expenditure within its operating cash flow generation through business cycles. In addition, we don't expect UMC to undertake large scale acquisitions that could significantly change its financial risk profile over the next one to two years. This should maintain the ratio of debt to EBITDA comfortably below 1.5x in 2014-2015. It will likely be difficult for UMC to invest in more advanced technology while still maintaining low debt leverage in the long term if the company fails to improve its profitability, particularly from services using advanced process technology.

Strong cash flow protection. The assessment reflects our view that UMC's satisfactory EBITDA margin will enable the company to generate sufficient operating cash flow to support its disciplined capital expenditures and cash dividend payout through business cycles.

Positive free operating cash flow with a policy to keep capital expenditures within its operating cash flow. UMC's free operating cash flow turned positive in 2013, as a result of lower capital expenditures. We anticipate the company will lower its capital expenditure slightly in 2014 and 2015, in view of the currently low utilization of its 12 inch wafer fab.

Adequate liquidity. We believe the company's ratio of liquidity sources to liquidity uses will remain above 1.2x over the next 12 months.

United Microelectronics Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	123,811.6	115,674.8	116,702.7
EBITDA	42,921.7	39,671.3	37,949.8
Funds from operations (FFO)	39,337.9	35,714.4	36,378.2
Net income from continuing operations	12,105.0	5,873.9	8,466.9
Cash flow from operations	43,503.6	40,616.4	41,968.0
Capital expenditures	32,705.0	52,094.7	53,253.6
Free operating cash flow	10,798.6	(11,478.3)	(11,285.6)
Discretionary cash flow	5,737.3	(17,794.7)	(25,301.3)
Cash and short-term investments	13,399.6	11,894.9	13,726.1
Debt	15,622.2	18,034.9	3,581.8
Equity	212,441.2	205,020.9	212,125.0
Adjusted ratios			
EBITDA margin (%)	34.7	34.3	32.5
Return on capital (%)	6.7	3.9	4.5
EBITDA interest coverage (x)	40.2	54.7	71.4
FFO cash interest coverage (x)	90.6	101.3	140.6
Debt/EBITDA (x)	0.4	0.5	0.1
FFO/debt (%)	251.8	198.0	1015.6
Cash flow from operations/debt (%)	278.5	225.2	1171.7
Free operating cash flow/debt (%)	69.1	(63.6)	(315.1)
Discretionary cash flow/debt (%)	36.7	(98.7)	(706.4)
NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.			

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WALSIN LIHWA CORP.

Analytical Contact: **Anne Kuo,** CFA, Taipei, (886) 28722-5829; anne.kuo@taiwanratings.com.tw

Company description

Founded in 1966, Walsin Lihwa has three major divisions including wire and cable division (copper wire/rod, and power wire/cable), specialty steel division (nickel chromium stainless steel and nickel stainless steel products) and micro-electro-mechanical system (MEMS division producing LED wafers and chips, as well as solar power system design, installation and engineering services), respectively accounting for 67%, 29%, and 3% of revenue in 2013. The company also has a small exposure in real estate, which offers residential building and office leasing services.

Business risk profile: Fair

Weaker global market position than the peer average. Walsin Lihwa maintains its largest position in Taiwan's wire and cable market, and commands satisfactory market share in the domestic stainless steel market, which we do not expect to change materially over the next one to two years. But its global market position remains weaker than the peer average, in our view, due to fierce competition from other large-scaled players.

Subject to business volatility. Walsin Liwha offers an extensive range of products under its main business divisions. However, we believe the company is subject to product concentration risk, because its wire and cable and specialty steel division together account for almost 100% of its revenue base. We expect industry oversupply, fierce competition, and raw material volatility to add to Walsin Lihwa's operation volatility over the next one to two years. The company has also engaged in new businesses including LED and solar energy systems. However, the division is still in a loss-making position and we expect very limited revenue and profit contribution over the next one to two years.

Weak profitability. We expect Walsin Lihwa's profitability to remain below average over the next one to two years. This is mainly due to the low profit margin from its wire and cable business, and margin pressure from the specialty steel industry as a result of intense competition and oversupply. These weaknesses are partly offset by the company's vertically integrated operation which enables Walsin Lihwa to achieve economies of scale and slightly enhance its operating efficiency.

Moderately high industry risk. Walsin Lihwa is subject to moderately high industry risk, in our view. The metal industry has high cyclicality risk and intermediate competition and growth risk, in our view. The cyclicality risk is further intensified by the oversupply and economic slowdown in some major consumption markets. In addition, higher tariffs imposed on Taiwanese producers as opposed to competitors that benefit from free trade agreements also places Taiwanese steel makers in an inferior competitive position.

Financial risk profile: Significant

Weak cash flow protection due to margin pressure. We expect Walsin Lihwa's cash flow protection to remain weak while its adjusted ratio of debt to EBITDA will remain above 5x for the next two to three years. This is due to weak profitability, weak cash flow generation, and the company's high debt level. However, Walsin Lihwa's good interest coverage ratios due to Taiwan's low interest rates environment, moderate the company's financial risk profile.

High volatility of its cash flow coverage ratios. We expect Walsin Lihwa's financial metrics to remain volatile due to sustained oversupply in the industry that leads to high price competition. We expect such factors to continue to heavily influence the company's cash flow coverage ratios.

Walsin Lihwa Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	148,635.0	157,463.1	189,893.2
EBITDA	2,817.1	5,159.7	1,911.3
Funds from operations (FFO)	3,309.3	5,125.4	1,447.1
Net income from continuing operations	(2,431.4)	(3,124.8)	(4,192.6)
Cash flow from operations	6,130.8	6,242.0	6,431.6
Capital expenditures	5,610.4	6,846.7	6,971.3
Free operating cash flow	520.4	(604.7)	(539.7)
Discretionary cash flow	520.4	(604.7)	(2,247.9)
Cash and short-term investments	1,902.9	1,528.7	3,239.3
Debt	26,300.4	28,358.1	32,361.7
Equity	62,197.3	61,866.9	64,381.2
Adjusted ratios			
EBITDA margin (%)	1.9	3.3	1.0
Return on capital (%)	(1.9)	(1.2)	(2.6)
EBITDA interest coverage (x)	4.6	8.4	1.5
FFO cash interest coverage (x)	5.6	9.6	2.0
Debt/EBITDA (x)	9.3	5.5	16.9
FFO/debt (%)	12.6	18.1	4.5
Cash flow from operations/debt (%)	23.3	22.0	19.9
Free operating cash flow/debt (%)	2.0	(2.1)	(1.7)
Discretionary cash flow/debt (%)	2.0	(2.1)	(6.9)
NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.			

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WISTRON CORP.

Analytical Contact: Jin Dong, Taipei, (886) 28722-5821; jin.dong@taiwanratings.com.tw

Company description

Wistron is a contract manufacturer of computer and consumer electronics products, including notebook computers, desktop PCs, servers, liquid crystal display TVs, and handheld devices. It is one of the major original design manufacturers (ODM) in Taiwan. The company is organized into four business groups consisting of digital consumer, enterprise, mobile, and services.

Business risk profile: Satisfactory

Less-favorable market position due to weakening notebook orders. We expect Wistron's position in the notebook ODM market to weaken further in 2014, because sales to its top customers could decline. This is based on our expectation of potential order cuts from Wistron's major customers due to a change in outsourcing strategies or weak sales performance. A stabilizing notebook PC market and Wistron's likely market share expansion in the smart devices segment could partly offset this weakness.

Continued decline in EBITDA margin. Fierce competition from other major electronic manufacturing services (EMS)/ODM players as well as a continued increase in wage levels in China are likely to keep Wistron's margin under pressure, in our view.

Moderately high industry risk. The EMS industry is subject to moderately high industry risk due to volatile demand, short product lifecycles, strong buyer power and intense competition. Thus industry players are subject to revenue volatility and price pressure, especially as brand equity and differentiation are largely limited in the EMS industry.

A more diversified product mix relative to its local peers'. We expect the degree of concentration to moderate in the next two to three years with the contribution from notebooks to fall from its current 45%-50% level, and we expect non-notebook business, such as smart devices and server/storage to continue to increase their share of revenue contribution in the near term. However, like other EMS/ODM companies, Wistron's customer concentration is high with its top three customers accounting for 57% of revenue in 2013.

Financial risk profile: Intermediate

Moderate debt level with adequate cash balance. We expect Wistron to maintain an intermediate financial risk profile supported by an adequate cash balance and our expectation that the company is likely to continue to generate positive free operating cash flows in the next one to two years. This is despite Wistron's moderately high capital expenditure needs for its smart device production investment in China.

High volatility of cash flow coverage ratios. We expect the volatility of Wistron's cash flow/leverage ratios to be high due to the aforementioned industry risks and customer concentration which could induce large fluctuations in EBITDA and funds from operations.

Wistron Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	624,009.1	657,844.6	658,366.7
EBITDA	14,440.1	15,361.5	16,996.1
Funds from operations (FFO)	11,594.1	13,080.9	13,476.1
Net income from continuing operations	5,754.7	7,249.9	9,065.0
Cash flow from operations	9,452.5	12,299.6	11,219.0
Capital expenditures	5,076.9	8,105.0	14,041.4
Free operating cash flow	4,375.6	4,194.6	(2,822.4)
Discretionary cash flow	4,375.6	4,194.6	(9,122.1)
Cash and short-term investments	17,734.3	18,147.3	11,392.1
Debt	34,750.4	35,328.6	23,785.3
Equity	66,196.0	61,927.7	61,549.8
Adjusted ratios			
EBITDA margin (%)	2.3	2.3	2.6
Return on capital (%)	9.7	12.4	14.4
EBITDA interest coverage (x)	6.7	7.8	15.5
FFO cash interest coverage (x)	9.1	11.6	15.8
Debt/EBITDA (x)	2.4	2.3	1.4
FFO/debt (%)	33.4	37.0	56.7
Cash flow from operations/debt (%)	27.2	34.8	47.2
Free operating cash flow/debt (%)	12.6	11.9	(11.9)
Discretionary cash flow/debt (%)	12.6	11.9	(38.4)

NT$--New Taiwan dollar. Note: Data are fully adjusted.

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WPG HOLDINGS LTD.

Analytical Contact: David Hsu, Taipei, (886) 28722-5828; david.hsu@taiwanratings.com.tw

Company description

WPG Holdings Ltd. is the largest electronic components distributor in Asia and operates through its four business units, World Peace Industrial Group, Silicon Application Corporation Group, Asian Information Technology Group, and Yosun Industrial Corp. WPG provides distribution services as well as turnkey solutions, technical support, warehousing, and logistics to clients such as original equipment manufacturers (OEM), original design manufacturers (ODM), electronic manufacturing services (EMS) companies, and others.

Business risk profile: Strong

Moderately high industry risk for global IT distributors. We expect global IT hardware distributors such as WPG to continue to face a highly competitive market with relatively low value added characteristics. In addition, demand is cyclical, particularly for consumer electronics related products. However, the related risk is offset by limited technology risk, WPG's liquid balance sheet characteristics, and light capital investment. In addition, we believe entry barriers are slightly higher in previous years due to industry consolidation.

Higher than industry average growth supported by high exposure in emerging markets. WPG's strong growth in the past few years was mainly due to its high business exposure in emerging markets, particularly the Greater China area. The sales contribution from China accounted for more than 80% of WPG's revenue in 2013. We expect the company's leading position in the region as well as in multiple IC component offerings, particularly for smart devices, to support WPG's high growth over next two years. This is despite our expectation of a low-to-mid single-digit growth for global IT spending in 2014.

Aggressive growth strategy to help the company strengthen its competitiveness. WPG has tripled its revenue over the past seven years by continuous mergers and acquisitions. Now the company has four major business units, acting for more than 250 well-known IC component brands in multiple downstream applications. We expect WPG to continue to benefit from its broader offering in products and downstream applications, and slightly improve its margins through merger synergy.

Continuous margin pressure. We expect WPG's client and region focus to continue to pressure the company's margins. In general, we believe the electronic components sold in the Asia Pacific region carry lower margins than those sold in Western countries. In addition, lower growth rates coupled with competitive pricing pressure also make it difficult for distributors to maintain higher profitability levels. Moreover, we believe the prevalence of mid-to-low cost smart devices also adds to margin pressure for related industries.

Financial risk profile: Intermediate

Aggressive adjusted debt level due to very high working capital needs. We expect WPG to maintain its high working capital outflow, the majority from its increasing revenue base and longer receivable turnover days as a result of stronger bargaining power from downstream large OEM/ODM/EMS clients. The company's receivable conversion day increased to 64 days in 2013 from 52 days in 2011, which requires the company to reserve more working capital.

High volatility of cash flow coverage ratios. We expect the volatility of WPG's cash flow/leverage ratios to remain high due to volatile end-market demand, short product cycles, and intense competition.

WPG Holdings Ltd. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	406,256.0	360,614.2	332,322.6
EBITDA	7,176.0	7,152.7	7,030.1
Funds from operations (FFO)	5,261.4	5,195.3	5,149.8
Net income from continuing operations	4,759.7	4,548.5	5,084.0
Cash flow from operations	(4,362.3)	519.3	(6,347.9)
Capital expenditures	1,379.5	2,891.5	512.8
Free operating cash flow	(5,741.8)	(2,372.2)	(6,860.7)
Discretionary cash flow	(9,715.5)	(6,677.0)	(9,912.2)
Cash and short-term investments	2,397.6	2,238.0	1,988.2
Debt	41,300.1	36,982.3	30,243.7
Equity	39,936.6	38,082.9	37,813.2
Adjusted ratios			
EBITDA margin (%)	1.8	2.0	2.1
Return on capital (%)	8.5	9.1	10.2
EBITDA interest coverage (x)	8.0	8.1	10.4
FFO cash interest coverage(x)	7.8	8.0	7.4
Debt/EBITDA (x)	5.8	5.2	4.3
FFO/debt (%)	12.7	14.0	17.0
Cash flow from operations/debt (%)	(10.6)	1.4	(21.0)
Free operating cash flow/debt (%)	(13.9)	(6.4)	(22.7)
Discretionary cash flow/debt (%)	(23.5)	(18.1)	(32.8)

NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.

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YANG MING MARINE TRANSPORT CORP.

Issuer Credit Rating: **twBBB/Stable/twA-3**

Analytical Contact: **Raymond Hsu, CFA,** Taipei, (886) 28722-5827; raymond.hsu@taiwanratings.com.tw

Company description

Yang Ming Marine Transport Corp. (Yangming) ranked 14th in the global container shipping industry in terms of capacity in 2013. As of the end of March 2014, the company has 89 container vessels with operating capacity of 386,417 twenty-foot equivalent units (TEU). Yangming also operates 19 bulk cargo ships, which contributed 2.5% with the rest mostly from long-haul container routes.

Outlook: Stable

The stable outlook reflects our view that Yangming's cost structure and stabilizing freight rates will help the company to improve its profitability in 2014-2015, with adjusted return on capital increasing to 3%-4% during the period. The outlook also reflects our expectation that Yangming's role and linkage to the Taiwan government will remain intact and the company will continue to maintain its good access to Taiwan's banking channels, with relatively stronger interest coverage ratios over the next two years.

Business risk profile: Fair

High exposure to the volatile long-haul container shipping market. Yangming's business focusses on the highly volatile and competitive long-haul container shipping market, which increases the company's business risk, in our view. The long-haul market accounted for about 73% of Yangming's total container shipping revenue in 2013. Sharply declined freight rates in this market as a result of considerable oversupply led to substantial operating losses for Yangming in 2013.

Weak and volatile profitability. We believe Yangming's market position will continue to constrain the competitiveness of its cost structure and service network resulting in weaker and more volatile profitability than its leading peers. However, we expect the addition of 15 fuel efficient container vessels with capacity of 14,000 TEUs to substantially enhance the company's cost competitiveness in 2015-2016. We believe that volatile bunker prices will continue to cause volatile profitability for shipping companies, but lower bunker costs should help to slightly enhance operators' profitability in 2014-2015.

Fair global market position as a mid-size container carrier in the global market. Yangming ranked as the 14th largest container carrier globally in 2013. However, we believe that the company's participation in the COSCO-Yangming-K Line-Yangming-Hanjin-Evergreen (CYKYHE) Alliance partly offsets the disadvantage of its smaller operating scale.

Financial risk profile: Aggressive

Highly leveraged due to high capital expenditures and weak operating cash flow. We assess Yangming's leverage as high because of its aggressive capital outlay on fleet expansion over the next two to three years. We expect Yangming's ratio of funds from operations to debt to remain weak at about 10% during 2014-2015. However, we believe that Yangming's higher interest coverage than its peers' and good access to the banking market as a result of its position as a government related entity will partly offset the risk. We expect the company's FFO cash interest coverage will increase to about 10x during 2014-2015, despite high capital expenditures on new vessels.

Volatile cash flow protection due to volatile profitability. Yangming's cash flow protection remains volatile due to the volatile nature of its profitability amid intense competition and oversupply. Nonetheless, we expect the company's cash flow ratios to improve slightly because of the likelihood of reduced oversupply and better pricing discipline among major container shipping companies in 2014-2015.

Yang Ming Marine Transport Corp. -- Financial Summary

	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	118,874.0	131,724.2	118,555.0
EBITDA	13,456.4	15,187.2	8,911.5
Funds from operations (FFO)	7,568.9	9,570.2	3,054.3
Net income from continuing operations	(2,909.9)	65.2	(9,295.0)
Cash flow from operations	7,673.3	10,639.6	2,810.1
Capital expenditures	9,716.7	17,705.7	12,969.0
Free operating cash flow	(2,043.4)	(7,066.1)	(10,158.9)
Discretionary cash flow	(2,043.4)	(7,113.2)	(13,482.9)
Cash and short-term investments	15,570.2	13,378.9	12,860.0
Debt	143,999.0	141,312.9	138,246.3
Equity	29,159.2	32,283.5	30,405.0
Adjusted ratios			
EBITDA margin (%)	11.3	11.5	7.5
Return on capital (%)	1.4	3.1	(2.4)
EBITDA interest coverage (x)	2.4	2.8	1.5
FFO cash interest coverage (x)	7.4	8.9	4.0
Debt/EBITDA (x)	10.7	9.3	15.5
FFO/debt (%)	5.3	6.8	2.2
Cash flow from operations/debt (%)	5.3	7.5	2.0
Free operating cash flow/debt (%)	(1.4)	(5.0)	(7.3)
Discretionary cash flow/debt (%)	(1.4)	(5.0)	(9.8)

NT$--New Taiwan dollar. Note: Data are fully adjusted.

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YIEH UNITED STEEL CORP.

Analytical Contact: Anne Kuo, CFA, Taipei, (886) 28722-5829; anne.kuo@taiwanratings.com.tw

Company description

Established in 1988, Yieh United Steel is the largest stainless steel producer in Taiwan. Its stainless steel product lines include hot-rolled stainless steel plates and sheet in coils, and stainless steel plates, billets and wire rods. In 2013, about 65% of the company's total sales were generated from exports, mainly to other Asian countries.

Business risk profile: Weak

Relatively weak global market position despite dominant share of domestic market. Yieh United Steel is the largest stainless steel producer in Taiwan, with about 3 million tons of crude stainless steel capacity in Taiwan and China. The company has a dominant market share of about 49% in the domestic market, but a relatively weak position in the global market at about 1.5% in 2013.

Weak profitability due to industry oversupply. Like other global stainless steel producers worldwide, Yieh United Steel continues to face margin pressure as a result of global oversupply. We do not expect the industry supply-demand imbalance to improve over the next one to two years. This is particularly due to rapid output growth from China, which stood at 18% in 2013, accounting for about 50% of global stainless steel supply, compared with slower growth in global demand. As a result, we believe the potential for an upturn in the company's profitability is limited because strong price competition will remain in place.

Volatile operations due to concentration risk and raw material price volatility. In our view, Yieh United Steel is subject to concentration risk given its limited product diversification, which further intensifies its operating performance volatility. In addition, the company also faces volatility in the price of its raw materials because it relies primarily on imports for key raw materials such as nickel which accounts for about 50% of material cost in certain products. The company's integrated operation slightly enhances its operating efficiency, in our opinion.

Moderately high industry risk. The metal industry has high cyclicality risk, and intermediate competition and growth risk. The cyclicality risk is further intensified by worldwide oversupply in the stainless steel industry. In addition, higher tariffs imposed on Taiwanese producers compared with other competitors that benefit from free trade agreements also places Taiwanese steel makers in an inferior competitive position.

Financial risk profile: Aggressive

Weak cash flow protection with improvement constrained by margin pressure. We expect Yieh United Steel's cash flow protection to remain weak while its adjusted ratio of debt to EBITDA will remain above 5x for the next two to three years due to industry volatility, margin pressure and the company's high debt level, in our view.

High volatility of cash flow coverage ratios. In addition, we expect Yieh United Steel's financial metrics to remain volatile due to the company's capital intensity and sustained industry oversupply that lead to strong price competition. We expect such factors to continue to heavily influence the company's cash flow coverage ratios.

Yieh United Steel Corp. -- Financial Summary			
	--Fiscal year ended Dec. 31--		
(Mil. NT$)	2013	2012	2011
Revenues	133,756.1	121,826.4	155,795.8
EBITDA	6,284.1	2,621.7	4,747.9
Funds from operations (FFO)	3,657.1	443.3	1,894.5
Net income from continuing operations	(895.0)	(3,965.5)	(633.5)
Cash flow from operations	2,278.9	4,031.0	1,408.9
Capital expenditures	3,949.8	4,767.8	5,017.8
Free operating cash flow	(1,670.9)	(736.8)	(3,608.9)
Discretionary cash flow	(1,670.9)	(736.8)	(4,740.7)
Cash and short-term investments	1,536.4	1,605.6	1,651.1
Debt	72,889.9	72,463.5	75,037.4
Equity	24,504.5	24,904.5	26,539.7
Adjusted ratios			
EBITDA margin (%)	4.7	2.1	3.0
Return on capital (%)	1.9	(1.7)	1.8
EBITDA interest coverage (x)	2.1	0.8	1.6
FFO cash interest coverage (x)	2.2	1.1	1.6
Debt/EBITDA (x)	11.6	27.6	15.8
FFO/debt (%)	5.0	0.6	2.5
Cash flow from operations/debt (%)	3.1	5.6	1.9
Free operating cash flow/debt (%)	(2.3)	(1.0)	(4.8)
Discretionary cash flow/debt (%)	(2.3)	(1.0)	(6.3)

NT$--New Taiwan dollar. N.M.--Not meaningful. Note: Data are fully adjusted.

Disclaimer: Where an entity is assigned a public rating, a full analysis is available on our subscriber website rrs.taiwanratings.com.tw. For unrated entities, the credit summary only discusses the entity's business and financial risk profiles; it does not factor in the likelihood of government or group support.

TAITAN'S TOP 50 CORPORATES: MEDIANS OF FINANCIAL RATIOS

	EBITDA margin (%)			FFO cash interest coverage (x)			EBITDA interest cover (x)		
Industry sector	2013	2012	2011	2013	2012	2011	2013	2012	2011
Technology hardware & semiconductors	5.4	5.9	6.5	15.4	14.2	16.7	19.9	18.7	20.1
Computer hardware	13.9	12.3	9.8	91.9	93.7	63.3	107.6	85.8	65.8
Consumer electronics	0.8	5.6	5.8	72.8	237.9	276.2	58.6	181.5	132.3
Electronic components	10.1	9.2	7.8	17.9	12.5	10.9	16.3	12.9	12.4
Electronics manufacturing services	2.7	2.4	2.6	19.3	15.0	18.6	18.4	8.1	15.5
Semiconductors	28.2	26.7	27.2	220.9	124.9	295.6	80.8	76.0	171.0
Technology distributors	1.6	1.9	2.0	8.4	11.2	13.0	8.0	10.0	12.4
Agribusiness and commodity foods	2.7	3.1	3.4	11.3	28.3	16.4	8.3	9.1	17.7
Auto supplier	23.5	20.5	15.2	20.3	13.3	12.1	24.5	16.7	14.1
Branded nondurables	10.1	10.5	10.2	21.7	19.8	34.7	15.8	15.6	28.9
Building materials	21.8	17.5	21.5	953.1	396.1	109.6	13.1	7.2	9.3
Business and consumer services	9.3	10.4	9.6	16.3	15.3	12.6	13.4	13.1	12.8
Commodity chemicals	7.2	7.6	15.6	13.8	11.1	32.0	13.7	10.0	26.7
Metal and mining downstream	4.7	3.3	3.0	15.1	10.3	2.0	4.6	8.4	1.6
Oil refining and marketing	2.8	(1.0)	(1.9)	7.4	(2.7)	(6.7)	5.4	(2.4)	(6.1)
Regulated utilities	23.5	15.8	19.3	8.5	5.4	7.2	3.8	2.3	2.7
Retail and resturants	10.3	8.9	8.2	167.6	116.0	149.2	11.1	6.2	7.9
Specialty chemical	14.8	15.6	17.6	20.7	20.4	49.0	24.0	23.4	39.7
Telecommunications and cable	30.8	30.4	33.9	95.2	83.4	69.5	36.7	45.0	84.6
Transportation cyclical	8.4	9.6	7.5	9.4	10.5	11.8	5.6	6.5	4.6
All industries	9.4	9.2	8.6	18.5	15.7	18.7	14.5	10.2	16.2

	FFO/debt (%)			Return on capital (%)			Debt/EBITDA (x)		
Industry sector	2013	2012	2011	2013	2012	2011	2013	2012	2011
Technology hardware & semiconductors	49.7	51.0	22.3	10.6	11.2	13.3	0.9	0.6	1.0
Computer hardware	N.M.	N.M.	N.M.	16.8	19.7	23.5	0.0	0.0	0.0
Consumer electronics	N.M.	N.M.	N.M.	(0.2)	21.2	34.0	0.0	0.0	0.0
Electronic components	49.7	24.6	16.4	5.9	2.4	1.5	1.8	2.9	3.7
Electronics manufacturing services	44.1	120.7	37.3	14.5	11.8	12.0	1.4	0.7	1.4
Semiconductors	202.6	179.8	541.6	13.6	11.0	17.4	0.3	0.3	0.0
Technology distributors	13.8	15.0	19.7	9.3	10.0	19.1	5.7	5.3	3.9
Agribusiness and commodity foods	23.1	26.1	49.5	10.9	7.1	10.3	3.5	3.2	1.8
Auto supplier	75.3	40.6	26.0	21.0	18.0	12.7	1.1	2.1	3.1
Branded nondurables	64.0	54.6	54.2	13.5	12.9	14.7	1.9	1.8	2.1
Building materials	34.1	22.9	27.8	9.6	7.2	9.5	2.4	3.5	2.9
Business and consumer services	47.9	57.7	37.0	11.4	12.9	8.9	1.8	1.6	2.4
Commodity chemicals	24.6	27.3	52.2	8.2	2.1	9.5	3.6	3.3	1.7
Metal and mining downstream	12.6	12.3	4.5	1.9	(1.2)	1.8	9.3	7.0	15.8
Oil refining and marketing	6.3	(3.6)	(6.2)	1.3	(4.5)	(5.8)	13.3	(34.7)	(17.4)
Regulated utilities	7.2	3.3	4.6	0.8	(1.6)	(0.6)	10.6	17.0	13.8
Retail and resturants	427.5	95.8	66.1	25.2	27.0	26.6	0.5	0.4	0.6
Specialty chemical	41.3	33.9	67.7	8.5	8.7	13.8	2.1	2.7	1.3
Telecommunications and cable	58.9	93.6	106.5	13.5	13.3	15.4	1.5	0.6	0.5
Transportation cyclical	16.2	22.7	14.3	0.6	2.3	(1.3)	5.5	3.8	5.9
All industries	33.4	31.3	26.6	8.5	8.5	10.1	2.1	2.3	1.7

FFO--Funds from operations. Source: Taiwan Ratings Corp. N.M.--Not meaningful. © Taiwan Ratings Corp. 2014

TAIWAN RATINGS' CORPORATE RATINGS LIST

Issuer	Taiwan Ratings Corp. ratings*		Standard & Poor's Ratings Services foreign currency ratings*	
	Rating	Outlook	Rating	Outlook
Chunghwa Telecom Co. Ltd.	twAAA	Stable	AA	Negative
Taiwan Power Co.	twAAA	Negative	A+	Negative
Taiwan Semiconductor Manufacturing Co. Ltd.	twAAA	Stable	A+	Stable
Hon Hai Precision Ind. Co. Ltd.	twAA+	Stable	A-	Stable
Far EasTone Telecommunications Co. Ltd.	twAA	Stable	BBB+	Stable
Shinkong Number One Real Estate Investment Trust	twAA	Stable		
United Microelectronics Corp.	twAA	Negative		
Taiwan Mobile Co. Ltd.	twAA	Stable		
Formosa Chemicals & Fibre Corp.	twAA-	Negative	BBB+	Negative
Formosa Petrochemical Corp.	twAA-	Negative	BBB+	Negative
Formosa Plastics Corp.	twAA-	Negative	BBB+	Negative
Nan Ya Plastics Corp.	twAA-	Negative	BBB+	Negative
Mai-liao Power Corp.	twAA-	Negative		
Ho-Ping Power Co.	twAA-	Stable		
Far Eastern New Century Corp.	twAA-	Stable		
Yuan Ding Investment Corp.	twAA-	Stable		
Taiwan Sugar Corp.	twAA-	Stable		
Uni-President China Holdings Ltd.	twAA-	Stable		
Hotai Leasing Corp.	twAA-	Stable		
Hotai Finance Corp.	twAA-	Stable		
China Steel Corp.	twAA-	Stable		
Uni-President Enterprises Corp.	twAA-	Stable		
Nan Ya Printed Circuit Board Corp.	twA+	Negative		
Unimicron Technology Corp.	twA+	Stable		
Formosa Taffeta Co. Ltd.	twA+	Negative		
Chi Mei Corp.	twA+	Negative		
Asia Cement Corp.	twA+	Stable		
Dragon Steel Corp.	twA+	Stable		
Fubon No.1 Real Estate Investment Trust	twA+	Stable		
Fubon No.2 Real Estate Investment Trust	twA+	Stable		
Sinyi Realty Inc.	twA	Stable		
TECO Electric & Machinery Co. Ltd.	twA	Positive		
Taiwan Acceptance Corp.	twA	Stable		
Fortune Motors Co. Ltd.	twA	Stable		
Carplus Auto Leasing Corp.	twA	Stable		
Cheng Shin Rubber Ind. Co. Ltd.	twA	Positive		
Gallop Number One Real Estate Investment Trust	twA	Stable		
USI Corp.	twA-	Stable		
Wan Hai Lines Ltd.	twA-	Stable	BB+	Stable
Cathay Number One Real Estate Investment Trust	twA-	Stable		
Union Finance & Leasing (Int'l) Corp.	twA-	Stable		
ShinShin Credit Corp.	twA-	Stable		
China Airlines Ltd.	twBBB+	Stable		
Solar Applied Materials Technology Corp.	twBBB+	Stable		
Yang Ming Marine Transport Corp.	twBBB	Stable		

*As of Sept. 1, 2014.

GLOSSARY OF FINANCIAL RATIOS AND FORMULAS

Key Ratios

Core debt-payback ratios:

- Funds from operations (FFO)/debt
- Debt/EBITDA

Supplemental debt-payback and debt-service ratios:

- Cash flow from operations (CFO)/debt
- Free operating cash flow (FOCF)/debt
- Discretionary cash flow (DCF)/debt
- (FFO + interest)/cash interest (FFO cash interest cover)
- EBITDA/interest

Profitability ratios:

- EBIT/revenues (EBIT margin)
- EBITDA/revenues (EBITDA margin)
- EBIT/average beginning-of-year and end-of-year capital (return on capital)

Glossary

Capital: Debt plus noncurrent deferred taxes plus equity (plus or minus all applicable adjustments).
Capital expenditures: Funds spent to acquire or develop tangible and certain intangible assets (plus or minus all applicable adjustments).

Cash interest: For the purposes of calculating the FFO cash-interest-cover ratio, "cash interest" includes only cash interest payments on gross financial debt (including bank loans, debt capital market instruments, finance leases, and capitalized interest). Cash interest does not include any Standard & Poor's-adjusted interest on debt-like obligations, such as postretirement benefit obligations or operating leases.

CFO (cash flow from operations): CFO is also referred to as operating cash flow. This measure reflects cash flows from operating activities (as opposed to investing and financing activities), including all interest received and paid, dividends received, and taxes paid in the period (plus or minus all applicable adjustments). For companies that do not use U.S. GAAP, we reclassify as CFO any dividends received, or interest paid or received, that a company reports as investing or financing cash flows.

Current tax expense: This is the amount of income taxes payable on taxable profit, or income tax recoverable from tax losses, in an accounting period (plus or minus all applicable adjustments). Current tax expense is to be distinguished from deferred tax expense.

DCF (discretionary cash flow): FOCF minus cash dividends paid on common stock and preferred stock (plus or minus all applicable adjustments).

Debt: Gross financial debt (including items such as bank loans, debt capital market instruments, and finance leases) minus surplus cash (plus or minus all applicable adjustments).

Dividends: Dividends paid to common and preferred shareholders and to minority interest shareholders of consolidated subsidiaries (plus or minus all applicable adjustments).

EBIT: A traditional view of profit that factors in capital intensity, but also includes interest income, the company's share of equity earnings of associates and joint ventures, and other recurring, nonoperating items (plus or minus all applicable adjustments).

EBITDA: A company's revenue minus operating expenses, plus depreciation and amortization expenses, including impairments on noncurrent assets and impairment reversals (plus or minus all applicable adjustments). Dividends (cash) received from affiliates, associates, and joint ventures accounted for under the equity method are added, while the company's share of profits and losses from these affiliates is excluded.

Equity: Common equity and equity hybrids and minority interests (plus or minus all applicable adjustments).

FFO (funds from operations): EBITDA, minus net interest expense minus current tax expense (plus or minus all applicable adjustments).

FOCF (free operating cash flow): CFO minus capital expenditures (plus or minus all applicable adjustments).

Interest: This is the reported interest expense figure, including noncash interest on conventional debt instruments (such as payment-in-kind, zero-coupon, and inflation-linked debt), minus any interest income derived from assets structurally linked to a debt instrument (plus or minus all applicable adjustments).

Net interest expense: This is the reported interest expense figure, including noncash interest on conventional debt instruments (such as payment-in-kind, zero-coupon, and inflation-linked debt), minus the sum of interest income and dividend income (plus or minus all applicable adjustments).

Revenues: Total sales and other revenues we consider to be operating (plus or minus all applicable adjustments).

Source: Corporate Methodology: Ratios And Adjustments, published Nov. 19, 2013.

TAIWAN RATINGS' RATINGS DEFINITIONS

Issuer Credit Ratings

A Taiwan Ratings issuer credit rating is a forward-looking opinion about the overall creditworthiness of a debt issuer, guarantor, insurer, or other provider of credit enhancement ("obligor") to meet its financial obligations as they come due, relative to other Taiwanese obligors. Such Taiwanese obligors include all active borrowers, guarantors, insurers, and other providers of credit enhancement residing in Taiwan, as well as foreign obligors active in Taiwan's financial markets.

Issuer credit ratings do not apply to specific obligations, as they do not take into account the nature and provisions of the obligation, its standing in bankruptcy or liquidation, statutory preferences, or the legality and enforceability of the obligation. In addition, they do not take into account the creditworthiness of the guarantors, insurers, or other forms of credit enhancement on the obligation.

Counterparty credit ratings and corporate credit ratings are all forms of issuer credit ratings.

Long-Term Issuer Credit Ratings

Long-Term Issuer Credit Ratings Category*	Definition
twAAA	An obligor rated 'twAAA' has an extremely strong capacity to meet its financial commitments relative to that of other Taiwanese obligors. 'twAAA' is the highest issuer credit rating assigned according to Taiwan Ratings national scale.
twAA	An obligor rated 'twAA' differs from the highest-rated obligors only to a small degree, and has a very strong capacity to meet its financial commitments relative to that of other Taiwanese obligors.
twA	An obligor rated 'twA' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than higher-rated obligors. Still, the obligor has a strong capacity to meet its financial commitments relative to that of other Taiwanese obligors.
twBBB	An obligor rated 'twBBB' has an adequate capacity to meet its financial commitments relative to that of other Taiwanese obligors. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.
twBB; twB; twCCC; and twCC	Obligors rated 'twBB', 'twB', 'twCCC', and 'twCC' on the Taiwan Ratings credit rating scale are regarded as having high risk relative to other Taiwanese obligors. While such obligors will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions relative to other Taiwanese obligors.
twBB	An obligor rated 'twBB' denotes somewhat weak capacity to meet its financial commitments, although it is less vulnerable than other lower-rated Taiwanese obligors. However, it faces ongoing uncertainties or exposure to adverse business, financial, or economic conditions, which could result in an inadequate capacity on the part of the obligor to meet its financial commitments.
twB	An obligor rated 'twB' is more vulnerable than obligors rated 'twBB'. The obligor currently has a weak capacity to meet its financial commitments relative to other Taiwanese obligors. Adverse business, financial, or economic conditions would likely impair the obligor's capacity or willingness to meet its financial commitments.
twCCC	An obligor rated 'twCCC' is currently vulnerable relative to other Taiwanese obligors and is dependent upon favorable business and financial conditions to meet its financial commitments.
twCC	An obligor rated 'twCC' is currently highly vulnerable to defaulting on its financial commitments relative to other Taiwanese obligors. The 'twCC' rating is used when a default has not yet occurred, but Taiwan Ratings expects default to be a virtual certainty, regardless of the anticipated time to default.
twR	An obligor rated 'twR' is under regulatory supervision owing to its financial condition. During the pendency of the regulatory supervision, the regulators may have the power to favor one class of obligations over others or pay some obligations and not others.
SD and D	An obligor rated 'SD' (selective default) or 'D' is in default on one or more of its financial obligations including rated and unrated financial obligations but excluding hybrid instruments classified as regulatory capital or in non-payment according to terms. An obligor is considered in default unless Taiwan Ratings believes that such payments will be made within five business days, or within the earlier of the stated grace period or thirty calendar days. A 'D' rating is assigned when Taiwan Ratings believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. A 'SD' rating is assigned when Taiwan Ratings believes that the obligor has selectively defaulted on a specific issue or class of obligations but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. An obligor's rating is lowered to 'D' or 'SD' if it is conducting a distressed exchange offer.
NR	An issuer designated 'NR' is not rated.

**The credit ratings from 'twAA' to 'twCCC' may be modified by the addition of a plus (+) or minus (-) to show relative strength with the rating category.*

Short-Term Issuer Credit Ratings

Short-Term Issuer Credit Ratings Category*	Definition
twA-1	An obligor with a 'twA-1' short-term credit rating has a strong capacity to meet financial commitments relative to that of other Taiwanese obligors. Within this category, certain obligors are designated with a plus sign (+). This indicates that the obligor's capacity to meet its financial commitment on these obligations, relative to that of other obligors in the Taiwanese market, is extremely strong.
twA-2	An obligor with a 'twA-2' short-term credit rating has a satisfactory capacity to meet financial obligations relative to that of other Taiwanese obligors.
twA-3	An obligor with a 'twA-3' short-term credit rating has an adequate capacity to meet financial commitments relative to that of other Taiwanese obligors. However, the obligor is more vulnerable to adverse changes in business circumstances or economic conditions than higher-rated obligors.
twB	An obligor with a 'twB' short-term credit rating has a weak capacity to meet financial commitments, relative to that of other Taiwanese obligors, and is vulnerable to adverse business, financial, or economic conditions.
twC	An obligor with a 'twC' short-term credit rating has a doubtful capacity to meet financial commitments.
SD and D	An obligor rated 'SD' (selective default) or 'D' has failed to pay one or more of its financial obligations (rated or unrated), excluding hybrid instruments classified as regulatory capital or in nonpayment according to terms, when it came due. An obligor is considered in default unless Taiwan Ratings believes that such payments will be made within any stated grace period. However, any stated grace period longer than five business days will be treated as five business days. A 'D' credit rating is assigned when Taiwan Ratings believes that the default will be a general default and that the obligor will fail to pay all or substantially all of its obligations as they come due. A 'SD' credit rating is assigned when Taiwan Ratings believes that the obligor has selectively defaulted on a specific issue or class of obligations, excluding hybrid instruments classified as regulatory capital, but it will continue to meet its payment obligations on other issues or classes of obligations in a timely manner. An obligor's rating is lowered to 'D' or 'SD' if it is conducting a distressed exchange offer.
NR	An issuer designated 'NR' is not rated.

**Apply to an obligor's capacity to meet financial commitments over a time horizon of less than one year.*

CreditWatch

CreditWatch highlights our opinion regarding the potential direction of a short-term or long-term rating. It can be applied to issuer ratings and issue ratings, as well as insurer financial strength ratings and fund credit quality ratings. It focuses on identifiable events and short-term trends that cause ratings to be placed under special surveillance by Taiwan Ratings' analytical staff. Ratings may be placed on CreditWatch under the following circumstances:

- When an event has occurred or, in our view, a deviation from an expected trend has occurred or is expected and when additional information is necessary to evaluate the current rating. Events and short-term trends may include mergers, recapitalizations, voter referendums, regulatory actions, performance deterioration of securitized assets, or anticipated operating developments.
- When we believe there has been a material change in performance of an issue or issuer, but the magnitude of the rating impact has not been fully determined, and we believe that a rating change is likely in the short-term.
- A change in criteria has been adopted that necessitates a review of an entire sector or multiple transactions and we believe that a rating change is likely in the short-term.

A CreditWatch listing, however, does not mean a rating change is inevitable, and when appropriate, a range of potential alternative ratings will be shown. CreditWatch is not intended to include all ratings under review, and rating changes may occur without the ratings having first appeared on CreditWatch. The "positive" designation means that a rating may be raised; "negative" means a rating may be lowered; and "developing" means that a rating may be raised, lowered, or affirmed.

Rating Outlooks

A Taiwan Ratings' rating outlook assesses the potential direction of a long-term credit rating over the intermediate term (typically six months to two years). It can be applied to issuer ratings and issue ratings, as well as insurer financial strength ratings. In determining a rating outlook, consideration is given to any changes in the economic and/or fundamental business conditions. An outlook is not necessarily a precursor of a rating change or future CreditWatch action.

- Positive means that a rating may be raised.
- Negative means that a rating may be lowered.
- Stable means that a rating is not likely to change.
- Developing means a rating may be raised or lowered.
- N.M. means not meaningful.

RELATED CRITERIA

Please find below a selected list of published criteria by Taiwan Ratings Corp. and Standard & Poor's Ratings Services. Ratings information can be found at Standard & Poor's public Web site at www.standardandpoors.com unless otherwise stated.

- Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Jan. 2, 2014
- Corporate Methodology, Nov. 19, 2013
- Methodology: Industry Risk, Nov. 19, 2013
- Group Rating Methodology, Nov. 19, 2013
- Corporate Methodology: Ratios And Adjustments, Nov. 19, 2013
- Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- Understanding TRC Rating Definitions, www.taiwanratings.com, Oct. 29, 2013
- Management And Governance Credit Factors For Corporate Entities And Insurers, Nov. 13, 2012
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

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Taiwan Ratings' Credit & Risk Training

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