Media Release:

Taiwanese Enterprises Face A Tougher Year In 2020

December 11, 2019

Taiwan's economic growth could lose some of its resilience to global trade protectionism in the coming year. That's according to the outlook report, titled, "**Credit Risks Rise For Taiwanese Enterprises On Unresolved Trade Tensions**," that Taiwan Ratings Corp. published today.

"Most of our ratings on Taiwanese corporates and financial institutions will hold on to their stable outlooks in 2020," said Taiwan Ratings credit analyst David Hsu. "However, some credit deterioration is inevitable in the corporate sector, given the continuing uncertainty over when the Sino-U.S. trade war will ease and the time thereafter for export orders to resume growth."

Taiwan's economic growth held relatively steady against various headwinds in 2019, aided chiefly by government incentives for corporates to bring back parts of their value chain to Taiwan, or more commonly known as "reshoring." Nonetheless, the report notes that declining global demand remains the biggest credit risk for Taiwan's export-oriented corporate sector, while financial institutions have so far remained less exposed to the fallout from ongoing trade tension.

China's slowing economic growth is also likely add to widespread deterioration in demand for Taiwanese products and hurt corporate profitability in 2020. But the most significant pressure on Taiwanese credit profiles over the coming 12 months is the impact of the most recent volley of U.S. tariffs that targets technology products, where Taiwanese corporates are most exposed. This latest escalation in the tariff spat could interrupt the global electronics supply chain, raise costs, and slow demand growth for emerging technologies.

"Despite the potential impact of further tariffs, we expect rated corporate credit profiles to weaken only slightly over the next six to 12 months," added Mr. Hsu. "We believe that most local corporates have the capacity to withstand modest weakening in their credit metrics over the coming year, given their generally high cash balances and improved debt leverage over the past two to three years."

Nonetheless, the report notes that negative bias in Taiwan Ratings' rated pool crept slightly higher over the past six months, reaching 5.2% at the end of November compared with 4.0% at the end of May. Negative bias reflects the percentage of ratings with negative outlooks or on CreditWatch with negative implications.

Meanwhile, in the financial services sector, credit analyst Eunice Fan sees "largely stable credit outlooks in the year ahead, given generally sufficient capital buffers and ample market liquidity to cushion against economic and market volatility." That's despite the continuing risks from global economic uncertainty and volatile capital markets.

However, Taiwanese life insurers are likely to face more downside risks than upside potential in 2020, despite the likelihood of generally stable credit profiles for the sector during the next 12 months. Downside risks include proactive and regulatory driven product reforms, U.S. rate cuts, and foreign exchange risk.

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Similarly, the credit quality of fixed-income funds' invested portfolios is likely to remain stable over the coming year, whereas rising event risk on the refund of a withholding tax could lead to deterioration in the credit profiles of certain structured finance notes over the same time frame.

The full report is available to our subscribers at **https://rrs.taiwanratings.com.tw/portal/member** and for members of the media by contacting Simon Chen at +886-2-8722-5871 or via email at simon.chen@taiwanratings.com.tw.

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