

Media Release:

# CHIMEI Corp. Downgraded To 'twA+/twA-1' On Weak Profitability; Outlook Stable

May 28, 2025

## Rating Action Overview

- **CHIMEI Corp.** is a leading global producer of acrylonitrile butadiene styrene (ABS) resins, with a total capacity of 2.4 million tons in Taiwan and China. The company generated EBITDA of new Taiwan dollar (NT\$) 5 billion in 2024.
- Chronic overcapacity and intense competition could sustain CHIMEI's weak performance over the next two years without prospects of the company's profitability recovering to the mid-cycle level over the period.
- We have therefore lowered our long-term issuer rating on CHIMEI to 'twA+' from 'twAA-' and the short-term rating on the company to 'twA-1' from 'twA-1+'.
- The rating outlook is stable to reflect our view that CHIMEI could maintain a net cash position to buffer against adverse continuing market conditions over the next two years.

## Rating Action Rationale

The downgrade reflects our view of CHIMEI's weak profitability, which is unlikely to materially recover until the sector resolves its problem of chronic overcapacity. We expect CHIMEI's major products including ABS, polystyrene and polycarbonate will continue to face overcapacity in Asia over the next two years. ABS capacity in China will likely continue to increase over the same period in part because of new integrated chemical complexes being built there. This increased capacity will likely lead to a substant increase in supply, given the tendency for new integrated facilities to maintain a higher level of utilization. That's despite our forecast for continued weak demand and low average selling price (ASP). The latest integrated facilities will also intensify competition, particularly for aged facilities in Asia.

In addition, we believe demand growth for commodity chemicals is unlikely to pick up sufficiently to quickly consume any new capacity due to slower economic growth in China. Several factors could constrain demand growth for commodity chemicals over the next two years. These include weaker export demand for downstream goods using CHIMEI's products amid rising trade protectionism, and a prolonged downturn in China's property market. This is despite stimulus measures by the China's government could accelerate demand slightly. We therefore believe that capacity utilization for most commodity chemicals in Asia is unlikely to increase materially in 2025-2026 from the trough in 2024. In turn, this will continue to suppress the ASP and product spreads for commodity chemicals.

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According to S&P Global Commodity Insights, total capacity of ABS in China could reach 8.8 million metric tons (mt) per year in 2024, 1.6 million mt/year higher than the 2023 level. S&P Global Commodity Insights projects a further 2.5 million mt new capacity will flood the market in 2025 and global utilization rates will decrease to 59.1% in 2025 from 65.6% in 2024.

Accordingly, we forecast CHIMEI's profitability will remain well below its previous mid-cycle level during 2025-2026. This is despite our view that CHIMEI could maintain higher ASP and product spreads than its peers because of its superior brand equity and strong ability to provide differentiated specifications. We forecast CHIMEI's return on capital will stay materially below 8% in 2025-2026. Rising competition and chronic overcapacity will likely make it difficult for CHIMEI to materially enhance its profitability anytime soon, in our view.

**High product concentration adds to business risk amid chronic overcapacity.** CHIMEI's high concentration in ABS sales has led to significant business volatility for the company. ABS contributed 50%-80% of CHIMEI's gross profits during previous business cycles. However, chronic overcapacity for this chemical has a particularly negative effect on CHIMEI's operating performance with the contribution to gross profits falling to 30%-40% in 2023 and 2024.

High volatility and downside risk facing CHIMEI's profitability could therefore persist before the company can materially expand its sales of ABS using premium specifications or for new products including recycled plastics and chemicals for semiconductor manufacturing. We believe CHIMEI can sustain its advantage in product quality and production differentiations which should enable the company to reduce its dependence on commodity products and thereby improve its margins. However, it will take time for CHIMEI to significantly enhance sales of differentiated products, given the long lead time for product development and to acquire new customers.

**CHIMEI's very strong balance sheet could buffer the likely continued downturn in 2025-2026.**

CHIMEI is likely to incur negative discretionary cash flow in 2025-2026 due to weak profitability, despite our forecast for the company's lower capex needs over the period. Nonetheless, CHIMEI could still maintain a net cash position, albeit narrowing, over the period. We also forecast CHIMEI will strengthen its net cash position after 2026, given our expectation of the company's lower capex needs and improving profitability over the long term supported by a shift in the company's focus on product differentiation along with a conservative financial policy.

## Outlook

The stable rating outlook reflects our view that CHIMEI could keep very low debt leverage with lower capex over the next two years, despite still-weak profitability. We also believe CHIMEI could gradually increase sales of differentiated and specialty chemicals to counter the negative effects of overcapacity and gradually improve its profitability.

### Downside scenario

We could lower the long-term rating on CHIMEI if the ratio of debt to EBITDA exceeds 1.5x due to:

- The company continues to generate weak cash flow amid rising competition or a prolonged industry downturn, or
- The company pursues a more aggressive expansion strategy or dividend policy through debt funding.

We may also lower the ratings if CHIMEI's profitability remains significantly weaker than our forecast without material prospects of a recovery. This could be due to rising cost competition from

new integrated facilities in China or a deterioration in the company's pricing power or product differentiation against its competitors.

### Upside scenario

We may upgrade CHIMEI if the company can materially improve its profitability and keep its return on capital above 8% through industry cycles, while at the same time maintain the ratio of debt to EBITDA below 1x. This could result from better product differentiation through rising specialty products for most product lines. Meanwhile, the company would need to maintain prudent control of working capital, capex, and cash dividend distributions.

## Our Base Case Scenario

- China's real GDP to slow to 3.5% in 2025 and 3.0% in 2026. This softer economic growth reflects China's weak property market and high uncertainty caused by rapid changes in the U.S. administration's tariff policy. Meanwhile, Taiwan's GDP will slow to 2.0% in 2025 and 1.2% in 2026.
- S&P Global assumes the price of Brent crude oil will stay around US\$65 per barrel for the rest of 2025 before rising to US\$70 per barrel in 2026. Despite a drop in oil prices in 2025, we expect chemical producers will prudently control utilization rates to sustain prices. A mild recovery in oil prices in 2026 should slightly lift commodity chemical prices. This is despite individual product ASPs could vary considerably depending on their demand-supply balance, especially from pressure from increasing capacity in China.
- CHIMEI's revenue to remain flat in 2025, reflecting persistent weak demand. We do not expect to see a boost in revenue, given high uncertainty over a demand recovery and intensifying competition in China amid increasing capacity. Revenue could increase by 6%-9% in 2026 supported by additional polycarbonate capacity and a slight recovery in oil prices.
  - Revenue from ABS to increase by 1%-4% in 2025 and 4%-7% in 2026, reflecting mild sales volume and ASP growth. Relatively low utilization rate continues to constrain CHIMEI's gross margin throughout 2025.
  - Revenue from polystyrene to increase by 4%-6% in 2025 and 2026, driven by ASP improvement and a light increase in sales volume. Stagnant demand will continue to cap the utilization rate and thereby limit improvement in the gross margin.
  - Revenue from polycarbonates to decline by 10%-15% in 2025 to reflect the continuing negative impact of China's antidumping taxes on Taiwan imports before a material recovery of 50%-60% in CHIMEI's revenue in 2026 due to the company adding new capacity in China. Gross margin is unlikely to fully recover to the 2023 level, despite rising sales of specialty grade products with better gross margins.
  - Revenue from rubber to decline 4%-8% in 2025, to reflect softened sales volume caused by lower tire sales for traditional automobiles amid rising competition from electric vehicles (EV). Revenue to recover 3%-7% in 2026, following mild recovery in the global auto market and gradually increasing involvement in EV models. This enhanced gross margin could sustain over the next one to two years.
  - Revenue from specialty chemicals could decline by 8%-11% in 2025 due to weakening display panel market but rebound 5%-8% in 2026 under improving conditions in the display sector and rising sales of chemicals for semiconductors.

- Revenue from polymethyl-methacrylate (PMMA) and light-guide plates to remain low in 2025 and 2027, reflecting minimum demand during this market downturn. Margins should stay largely flat with the company's focus on profitability.
- Capex to reduce to NT\$6.5 billion-NT\$8.5 billion in 2025 and NT\$3.5 billion-NT\$5.5 billion in 2026 to support capacity expansion for polycarbonate in China and upgrades to ABS manufacturing lines in Taiwan, along with some maintenance projects.
- Limited working capital outflow within NT\$2.5 billion per year in 2025 and 2026 under CHIMEI's prudent control.
- Cash dividend distribution of NT\$2.2 billion in 2025 and 2026, based on the company's announcement and records.
- A surplus cash haircut of 4% for a discount on liquid equity investments.

**CHIMEI Corp.– Taiwan Ratings Corp forecast summary****Industry sector: Chemical**

<b>(Mil. NT\$)</b>	<b>2022a</b>	<b>2023a</b>	<b>2024a</b>	<b>2025e</b>	<b>2026f</b>	<b>2027f</b>
Revenue	153,538.5	124,821.6	132,886.7	134,555.1	144,495.9	153,809.5
EBITDA (reported)	9,859.9	3,597.8	4,745.8	5,065.7	6,637.8	8,305.7
Plus/(less): Other	861.0	398.5	222.4	222.4	222.4	222.4
EBITDA	10,720.9	3,996.3	4,968.2	5,288.1	6,860.2	8,528.1
Less: Cash interest paid	(486.9)	(647.5)	(755.5)	(716.1)	(661.4)	(551.1)
Less: Cash taxes paid	(6,206.4)	(1,112.7)	(5.5)	(5.5)	(5.5)	(5.5)
Funds from operations (FFO)	4,027.6	2,236.0	4,207.2	4,566.5	6,193.3	7,971.6
Cash flow from operations (CFO)	8,896.4	2,048.5	8,142.5	5,007.9	5,619.1	7,390.5
Capital expenditure (capex)	9,283.8	12,417.9	10,306.9	7,259.1	4,159.1	4,359.1
Free operating cash flow (FOCF)	(387.4)	(10,369.4)	(2,164.4)	(2,251.2)	1,460.0	3,031.3
Dividends	10,709.4	5,385.0	2,167.2	2,167.2	2,167.2	2,167.2
Discretionary cash flow (DCF)	(11,159.5)	(15,795.7)	(4,623.1)	(4,418.4)	(707.2)	864.2
Debt (reported)	23,988.9	19,391.3	28,705.9	28,368.4	24,333.8	19,137.0
Plus: Lease liabilities debt	182.4	971.4	819.8	691.8	583.8	492.7
Less: Accessible cash and liquid Investments	(50,184.8)	(31,364.3)	(35,671.2)	(31,105.5)	(26,553.4)	(22,394.1)
Debt	--	--	--	--	--	--
Cash and short-term investments (reported)	52,221.4	32,102.7	37,157.5	32,401.6	27,659.8	23,327.2
Adjusted ratios						
Debt/EBITDA (x)	--	--	--	--	--	--
FFO/debt (%)	N.M.	N.M.	N.M.	N.M.	N.M.	N.M.
Annual revenue growth (%)	(14.1)	(18.7)	6.5	1.3	7.4	6.4
EBITDA margin (%)	7.0	3.2	3.7	3.9	4.7	5.5
Return on capital (%)	5.9	(0.5)	0.5	0.6	1.9	3.5

All figures are adjusted by Taiwan Ratings Corp., unless stated as reported. Figures for the forecast period are based on Taiwan Ratings Corp.'s base-case scenario. a--Actual. e--Estimate. f--Forecast. NT\$--new Taiwan dollar. N.M.--Not meaningful.

## Liquidity: Strong

The short-term rating on CHIMEI is 'twA-1'. We believe the company has strong liquidity based on our projection of its net cash position and we forecast the ratio of liquidity sources to liquidity uses at 1.8x in 2025 and 2.2x in 2026. We believe CHIMEI has sufficient liquidity sources to cover its liquidity uses, even if forecasted EBITDA declines by 30%.

In addition, CHIMEI has well-established banking relationship and a high credit standing in the capital market, in our view. Moreover, we believe the company can absorb low probability high impact events with limited need for refinancing, underpinned by its high cash balance and low debt usage.

Principal liquidity sources:

- Cash and short-term investment of about NT\$37.1 billion as of the end of 2024.
- Funds from operations of NT\$4 billion-NT\$7 billion in 2025 and 2026.

Principle liquidity uses:

- Short-term debt maturity of about NT\$15.8 billion in 2025 and NT\$3 billion-NT\$5 billion in 2026.
- Working capital outflow of below NT\$1.5 billion in 2025 and NT\$1 billion-NT\$2.5 billion in 2026.
- Capex of NT\$6.5 billion-NT\$8.5 billion in 2025 and NT\$3.5 billion-NT\$5.5 billion in 2026.
- Cash dividend payout of NT\$2.2 billion in 2025 and 2026.

## Ratings Score Snapshot

CHIMEI Corp.		
	To	From
Issuer Credit Rating	twA+/Stable/twA-1	twAA-/Negative/twA-1+
Business risk	Fair	Satisfactory
Country risk	Moderately high	Moderately high
Industry risk	Moderately high	Moderately high
Competitive position	Fair	Satisfactory
Financial risk	Modest	Modest
Cash flow/Leverage	Modest	Modest
Anchor	twA+	twAA
Modifiers		
Diversification/Portfolio effect	Neutral (no impact)	Neutral (no impact)
Capital structure	Neutral (no impact)	Neutral (no impact)
Financial policy	Neutral (no impact)	Neutral (no impact)
Liquidity	Strong (no impact)	Strong (no impact)
Management and governance	Neutral (no impact)	Neutral (no impact)
Comparable ratings analysis	Neutral (no impact)	Negative (-1 notch)
Stand-alone credit profile (SACP)	twA+	twAA-
Note: The above descriptors are in comparison with global obligors.		

## Related Criteria & Research

### Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology - April 04, 2024
- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Principles Of Credit Ratings - February 16, 2011

### Related Research

- Taiwan Ratings' Ratings Definitions – Nov. 11, 2021

(Unless otherwise stated, these articles are published on [www.taiwanratings.com](http://www.taiwanratings.com))

## Ratings List

### Downgrade

	To	From
<b>CHIMEI Corp.</b>		
Issuer Credit Rating	twA+/Stable/twA-1	twAA-/Negative/twA-1+

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.taiwanratings.com](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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