Media Release:

USI Corp. And Asia Polymer Corp. Downgraded To 'twA-/twA-2' On Weakened Leverage And Profitability; Outlook Negative

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Rating Action Overview

- **USI Corp.** group is a diverse petrochemical group with **Asia Polymer Corp.** as a core subsidiary. The group generated EBITDA of new Taiwan dollar (NT$) 731 million in 2024.
- USI's profitability could remain very weak during 2025-2026, amid growing industry overcapacity and tepid demand growth. Constant cash outflows to support the group's capex needs could push up debt significantly over the same period, which along with a slow recovery in profitability would greatly delay restoration in the group's leverage.
- We have lowered our long- and short-term issuer credit ratings on USI and Asia Polymer to 'twA-/twA-2' from 'twA/ twA-1'.
- The negative outlook reflects a material likelihood that chronic overcapacity could endure beyond our forecast period and keep USI's profitability weak. This would in turn prevent the company from improving its ratio of debt to EBITDA to close to 3x over the next 12-24 months.

Rating Action Rationale

The downgrade reflects USI's weakened leverage and profitability with low recovery prospects over the next two years. Chronic overcapacity and gloomy macroeconomic conditions will continue to deeply hit USI group's profitability over the next few quarters. We forecast weakening margins over the same period, leading to persistently constrained EBITDA generation.

Aggressive capacity additions of the group's key product, Ethylene Vinyl Acetate (EVA), in China could continue to outpace demand growth for major applications such as photovoltaic (PV) modules, keeping product spreads very thin in 2025-2026. The group's other key products, including polyvinylchloride (PVC), acrylonitrile butadiene styrene (ABS), and polystyrene (PS), could also face continued chronic overcapacity along with the slowing economy in China and rising trade tension with the U.S. These factors will keep USI's operating cash flow very weak in 2025-2026, in our view.

We forecast USI's EBITDA improving only marginally to NT$1.2 billion in 2025 compared with NT$0.73 billion in 2024. This improvement is partly supported by better cost management through its new storage tanks and lower input costs on relatively lower oil prices. We do not assume the ongoing conflict between Israel and Iran will materially alter market demand and supply dynamics for an extended period.

Meanwhile, the company could continue to spend heavily on improvement projects, mainly including the renovation of its PVC facilities in Taiwan in 2025. This will keep USI's discretionary cash flow consistently negative in 2024-2026, which will sharply increase its adjusted debt to NT$10.3 billion in 2025 from NT$7.4 billion in 2024 under our base case. This would keep the group's ratio of debt to EBITDA very weak at 8x-9x in 2025.

USI group's margin could take longer to restore to the mid-cycle level than we earlier forecast, thereby slowing deleveraging. We now anticipate the group will see faster improvement in its EBITDA margin from 2027 and only recovering to 8%-9% in 2028. Slowing capacity additions in China and industry consolidation should gradually reduce overcapacity along with growing demand for USI's key products from 2027.

In addition, USI could enhance its product portfolio towards differentiated products such as specialized EVA compounds and electrical wires and cables. We also expect the group's consumer product business will accelerate gradually after it completes product testing with potential clients over the next one to two years. These products, primarily used in consumer applications, utilize the group's chemicals such as EVA and Cyclic Block Copolymers (CBC). Moreover, USI's magnetic and silicon carbide materials will likely benefit from rising demand from AI and electric vehicle applications.

Accordingly, we forecast USI's ratio of debt to EBITDA will improve to around 3x in 2027. This is despite the company's debt will remain high with weak free operating cash flow generation due to high capex. We also believe the company will reduce its debt and improve its credit metrics through operating cash flows in the long term. We base this on our view that the company will limit its capex after completing most of its investments in commodity chemicals.

Material downside risk to our base case due to the volatile global economy and uncertainty over the success of USI's product differentiation strategy. Prolonged overcapacity could continue to squeeze USI group's profitability. Several factors could continue to constrain growth for commodity chemicals over the next two years including a conservative market demand amid uncertainties and China's gloomy economic growth. Ongoing geopolitical tension is also likely to dampen consumer spending and deepen the demand slowdown over the next few quarters.

Volatile oil prices could also bring significant volatility to the company's product spreads, particularly for EVA, which is its key product. This is due to USI's high dependence on external supply of base chemicals such as ethylene supply in Taiwan, which could pressure USI's profitability more than we forecast. In addition, the sales outlook for USI's new products remains untested. The performance of its electronics materials segment, including silicon carbide, is subject to rising competition particularly from China.

The downgrade of Asia Polymer reflects the company's status as a core subsidiary under USI group. We view Asia Polymer as a core member of the USI group and equalize our rating on Asia Polymer with our rating on its parent. This is because we believe USI will provide financial support to Asia Polymer in the event of the subsidiary's financial distress under any foreseeable circumstances. Asia Polymer's EVA and PE businesses are fully integrated with USI's operations to maximize market influence and better serve the group's clients. Asia Polymer's EVA capacity represents about half the group's total EVA capacity.

We believe Asia Polymer could maintain a net cash position in 2025-2026 despite sharply falling profitability. That's because of the company's low capex and high cash balance on hand. In general, Asia Polymer has also generated slightly better profitability than the group during the current industry downturn because of the more differentiated applications of its low-density polyethylene. These factors support our assessment of Asia Polymer's 'twbbb+' stand-alone credit profile.

Outlook

The negative rating outlook reflects the material risk that USI's profitability could remain weaker than under our base-case projection over the next two years due toa longer and deeper industry downturn. This could keep USI's debt leverage materially higher than our projection and reduce its financial headroom for the ratings over the next 12-24 months.

Downside scenario

We may lower the rating on USI if the company's leverage rises materially higher than our base case without strong prospects of debt/EBITDA falling towards 3x over the next 12-24 months. This could occur if:

- The company's profitability does not improve as we forecast due to higher pricing pressure, a significant rise in feedstock costs, or a failure to increase sales of its differentiated chemical and consumer products; or
- USI pursues a more aggressive debt-funding expansion strategy than we forecast over the next two years, including large investments and capex that materially increase its debt.

Upside scenario

We may revise the outlook back to stable if USI could improve and sustain the consolidated ratio of debt to EBITDA below 3x by consistent improvement in EBITDA generation. Scenarios that could lead to this include:

- A significant recovery in Asia's chemical market, a successful shift to differentiated products, or faster growth in sales of new consumer products substantially that raise USI's revenue and EBITDA margin; or
- The company reduces debt significantly in 2027 and after without taking on aggressive capital spending once current projects end, while maintaining a prudent dividend policy.

Our Base Case Scenario

- S&P Global Ratings' projected growth for China's economy of 4.1% in 2024 and 3.8% in 2025; Taiwan's GDP growth of 2.0% in 2025 and 1.2% in 2026; and APAC GDP growth of 4.1% in 2025 and 4.4% 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. We expect chemical producers will prudently control utilization rates to sustain prices despite a drop in oil prices in 2025. A mild rise in oil prices in 2026 should slightly lift commodity chemical prices. This is despite average selling prices for individual products could vary considerably depending on their demand-supply balance, especially under pressure from increasing capacity in China.
- Demand from China PV modules is likely to grow over the next 12-24 months. However, prices could continue to edge down due to large capacity in China. Meanwhile, base chemical and general plastics like PE, PP and PVC are likely to generate product spreads that are significantly below mid-cycle level, because utilization will remain in a trough.

- We expect a 5.7% revenue decline for USI in 2025 reflecting continued ASP pressure for its main product lines and uncertain demand. Revenue in 2026 is likely to recover by 5.6% which mainly reflects our forecast for increasing revenue contribution from premium grade products.
- We expect USI's EBITDA margin to stay very weak at 2.4% in 2025 but slightly recover to 6.1% in 2026. The demand recovery in 2025 could improve ASP for general plastics including PE, PP and PVC while the shipment of EVA is likely to stay weak due to the intense competition for the PV application.
    - We expect EVA manufacturers like USI and APC will continue to record gloomy operating performance along with compressed margins under newly added capacity in 2025. It could slightly pick up after 2026 following increasing revenue contributions from differentiated products.
    - The group's PVC business is likely to gradually recover over the next year because the rollout of Bureau of Indian Standards license requirement could support stronger margins for sales to India. However, we believe the margin is less likely to resume to mid-cycle levels with still-significant overcapacity in the region.
    - Weak market demand and excess capacity could keep USI's ABS revenue and margin materially lower than in earlier years. This is despite the company has significantly increased sales outside China.
- The group's capex will increase to NT$4 billion in 2025 from NT$3.7 billion in 2024, mainly to support CGPC Polymer Corp.'s plant renovation plan but decline to NT$3.5 billion in 2026.
- We assume USI group's cash dividend payment to be NT$0.4 billion in 2025 and 2026.

Note: GDP growth forecasts from latest Credit Conditions Committee. S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty. As situations evolve, we will gauge the macro and credit materiality of potential and actual policy shifts and reassess our guidance accordingly.

USI Corp.-- Taiwan Ratings Corp. forecast summary.

Industry sector: chemical cos

(Mil. NT$)	2022a	2023a	2024a	2025f	2026f	2027f
Revenue	66,437	52,265	51,008	48,100	50,806	52,637
EBITDA (reported)	8,146	4,228	731	1,175	3,122	4,270
EBITDA	8,146	4,228	731	1,175	3,122	4,270
Less: Cash interest paid	(219)	(254)	(294)	(316)	(318)	(322)
Less: Cash taxes paid	(2,611)	(1,669)	(659)	--	--	--
Funds from operations (FFO)	5,316	2,305	(222)	859	2,804	3,949
Cash flow from operations (CFO)	7,286	5,311	585	1,488	2,509	3,784
Capital expenditure (capex)	2,767	3,287	3,709	3,997	3,477	3,777
Free operating cash flow (FOCF)	4,519	2,024	(3,124)	(2,509)	(968)	8
Discretionary cash flow (DCF)	(901)	469	(3,960)	(2,946)	(1,368)	(392)
Debt (reported)	15,832	16,643	18,832	19,269	20,637	21,029

Plus: Lease liabilities debt	1,365	2,136	2,471	2,471	2,471	2,471
Less: Accessible cash and liquid Investments	(13,747)	(14,930)	(14,044)	(11,616)	(11,616)	(11,616)
Plus/(less): Other	136	136	136	136	136	136
Debt	3,586	3,986	7,395	10,260	11,628	12,020
Cash and short-term investments (reported)	14,320	15,552	14,508	12,000	12,000	12,000
Adjusted ratios						
Debt/EBITDA (x)	0.4	0.9	10.1	8.7	3.7	2.8
FFO/debt (%)	148.2	57.8	(3.0)	8.4	24.1	32.9
EBITDA interest coverage (x)	37.3	15.4	2.3	3.7	9.8	13.3
Annual revenue growth (%)	(7.4)	(21.3)	(2.4)	(5.7)	5.6	3.6
EBITDA margin (%)	12.3	8.1	1.4	2.4	6.1	8.1

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

The short-term rating on USI is 'twA-2'. We believe the company has strong liquidity to meet its needs over the 24 months ending March 2027. We forecast the ratio of liquidity sources to liquidity uses will be 2.06x ending March 2026 and 1.54x ending March 2027. In addition, we forecast USI will have positive liquidity sources minus uses, even if its forecasted EBITDA declines by 30%.

In our assessment, USI has sound and long-standing relationships with major local banks, given the low interest rate on its bank loans. USI also has generally prudent risk management with a track record of maintaining high unused committed banking credit lines. Furthermore, we believe the company has sufficient headroom without breaching covenant limits due to low interest rates in Taiwan even if its EBITDA were to drop by 30%. Our view of USI's liquidity primarily reflects the following:

Principal liquidity sources

- Cash and short-term investments of about NT$13.2 billion as of the end of March 2025.
- Unused committed banking facilities of NT$12.3 billion in the 12-months ending March 2026, and NT$8 billion over the following 12-months.
- Fund from operations of about NT$1.5 billion in the 12-month period ending March 2026 and NT$3.2 billion over the following 12-months.

Principal liquidity uses

- Long-term debt due in one year plus short-term debt of NT$9 billion over the 12-month period ending March 2026 and NT$4 billion over the following 12-months.
- Capex of NT$3.9 billion in 12-month period ending March 2026 and NT$3.6 billion over the next 12-month period ending March 2027.
- Cash dividend payments of about NT$0.4 billion per year in the 24-months ending March 2027.

Ratings Component Scores

USI Corp.		
	To	**From**
Issuer Credit Rating	twA-/Negative/twA-2	twA/Negative/twA-1
Business risk	Fair	Fair
Country risk	Moderately high risk	Moderately high risk
Industry risk	Moderately high risk	Moderately high risk
Competitive risk	Fair	Fair
Financial risk	Significant	Intermediate
Cash flow/Leverage	Significant	Intermediate
Anchor	twbbb+	twa-
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	Strong
Management and governance	Neutral (no impact)	Neutral (no impact)
Comparable ratings analysis	Positive (+1 notch)	Positive (+1 notch)
Stand-alone credit profile	twa-	twa
Note: All scores above 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 – November 11, 2021

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

Ratings List

Downgraded; Outlook

	To	From
USI Corp.		
Asia Polymer Corp.		
Issuer Credit Rating	twA-/Negative/twA-2	twA/Negative /twA-1