Media Release:

USI Corp. Downgraded To 'twBBB+/twA-2' On Weak Profit And Debt Leverage; Outlook Negative

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Rating Action Overview

- **USI Corp.'s** profitability could remain under significant pressure in 2026-2027, amid structural industry oversupply and elevated feedstock costs on continuing Middle East disruption.
- The group's capital expenditure (capex) for the important revamping of aging PVC facilities in conjunction with persistent weak operating cash flow could prevent USI from restoring its debt leverage for an extended period.
- We have lowered our long-term issuer credit rating on USI to 'twBBB+' from 'twA-' and at the same time affirmed the 'twA-2' short-term issuer credit rating.
- The rating outlook is negative to reflect a material likelihood that chronic regional overcapacity and heightened raw material costs could keep USI's profitability and debt leverage materially weaker than under our base case over the next one to two years.

Rating Action Rationale

The downgrade action reflects USI's weak profitability and high debt leverage in 2026-2028. Elevated feedstock costs, persistent regional overcapacity across USI's key products, and softening downstream demand are likely to constrain product spreads and the group's profitability over the next one to two years. Meanwhile, weak operating cash flow generation and ongoing capex needs would keep debt level high during the period.

We forecast USI group's overall EBITDA margin will only slightly improve to 2%-4% in 2026 from 0.2% in 2025, mostly supported by supply disruption from the conflict in the Middle East. Higher average selling prices and low-cost inventories temporarily boosted the group's profitability in the second quarter of 2026. Nonetheless, weak market demand and high ethylene costs could compress the group's margin over the coming quarters. Meanwhile, competition from gas and coal-based commodity chemicals could hinder USI from fully passing through high costs to customers.

In addition, massive supply additions by Chinese competitors for USI group's key products could keep product spreads thin over the next one to two years. Ethylene Vinyl Acetate (EVA) supply growth is likely to outpace demand growth for key downstream product applications, such as photovoltaic modules and footwear. The group's other key products, including polyvinylchloride

(PVC), acrylonitrile butadiene styrene (ABS), and polystyrene (PS) also face intensifying price competition from producers in China over the next few years.

We forecast USI's weak operating cash flow generation and high capex needs for the revamp of aging PVC facilities in Taiwan could keep the company's free operating cash flow negative in 2026-2027. We therefore project USI's adjusted debt level could surge to new Taiwan dollar (NT$) 15 billion-NT$16 billion in 2026 from NT$10.6 billion in 2025, which will in turn keep the company's ratio of debt to EBITDA above 10x in 2026.

USI group's margin could take longer to restore to the mid-cycle level, hindering deleveraging. We anticipate USI will achieve more meaningful profit improvements from 2027, with the EBITDA margin rising to 5%-7% in 2027-2028. This recovery could be supported by slowing capacity additions in China, the Chinese government's anti-involution measures, and likely lower feedstock costs along with normalizing crude oil prices.

In addition, USI plans to further enhance its product portfolio through differentiated products, such as specialized EVA compounds for electrical wires and cables, and high-end low-density polyethylene (LDPE) for medical and hygienic packaging materials. The group's capacity for premium-grade PVC is also likely to increase following facility upgrades. Demand for its magnetic and silicon carbide materials could also rise alongside growing demand from AI and renewable energy applications.

However, near-term revenue and profit contributions from these high-value products will likely remain limited and insufficient to offset the weakness in the commodity chemical sector. Additionally, a progressive reduction in inefficient capacity in China is unlikely to quickly improve supply and demand dynamics. We thereby forecast USI's profitability will remain below its mid-cycle level with the EBITDA margin staying materially below 10% over the next one to two years. As such, we forecast USI's ratio of debt to EBITDA is likely to stay elevated at above 5x until the end of 2028.

Volatile global economy and unsettled geopolitical tensions add downside risk to our base case. Chronic oversupply remains the primary headwind that could derail USI's recovery in 2027-2028. Ineffective supply cuts in China, tepid growth in market demand amid economic uncertainties, and a prolonged downturn in China's property market could prevent a meaningful improvement in oversupply.

Furthermore, extended tensions in the Middle East could keep USI's feedstock costs high. Such vulnerability stems from the group's lack of integration and dependence on external ethylene supplies in Taiwan. This has risen significantly over the past few months because of high crude oil prices. The commissioning of new storage tanks in southern Taiwan could improve the group's ability to manage feedstock supply and costs, but it is unlikely to fully mitigate those risks.

Outlook

The negative rating outlook reflects the material risk that chronic oversupply could prevent USI from improving its profitability and debt leverage as we project over the next 12 months. In addition, oil price could stay higher for longer and constrain USI's cost competitiveness. It also remains uncertain whether USI can successfully execute its plan to increase its sales of differentiated products such as EVA for high-voltage cable applications.

Downward scenario

We may lower the long-term rating on USI if the company fails to achieve persistent improvement in its profitability and debt leverage in line or above our base case. Likely scenarios include:

- Oversupply in Asia does not ease because of weaker demand growth or further capacity additions in China, leading to worsening price competition. Persistently high input costs or a failure by USI to increase sales of its differentiated chemical could also result in weaker profitability and cash flow than we forecast; or
- The company pursues more aggressive capex and cash dividends, leading to weaker cash flow than we forecast, or the company does not take measures to improve its debt leverage in case its profitability falls short.

Upward scenario

We may revise the outlook to stable if USI materially improves its profitability and debt leverage such that we believe that the company can sustain its ratio of debt to EBITDA materially below 5x. Scenarios that could lead to this include:

- A significant recovery in Asia's chemical market or a faster growth in sales of differentiated and premium products that substantially raise USI's revenue and EBITDA margin; and
- The company takes measures such as material cuts in capex and dividends or receives equity injections that reduce debt significantly in 2027 and beyond.

USI Corp. – Taiwan Ratings Corp. Forecast Summary

(Mil. NT$)	2024a	2025a	2026e	2027f	2028f
Revenue	51,008	44,168	42,815	43,401	45,500
EBITDA (reported)	731	97	1,158	2,204	2,880
Plus/(less): Other	731	97	1,158	2,204	2,880
EBITDA	(294)	(318)	(413)	(454)	(463)
Less: Cash interest paid	(659)	(26)	--	--	--
Less: Cash taxes paid	(222)	(247)	746	1,750	2,418
Funds from operations (FFO)	585	878	689	1,790	2,161
Cash flow from operations (CFO)	3,709	3,677	4,686	2,663	1,788
Capital expenditure (capex)	(3,124)	(2,800)	(3,998)	(874)	372
Free operating cash flow (FOCF)	(3,960)	(3,246)	(4,176)	(1,052)	194
Discretionary cash flow (DCF)	18,412	18,515	21,600	22,652	22,459
Debt (reported)	2,471	2,317	2,317	2,317	2,317
Plus: Lease liabilities debt	419	339	339	339	339
Plus: Pension and other postretirement debt	(13,986)	(10,691)	(9,110)	(9,110)	(9,110)
Less: Accessible cash and liquid Investments	136	136	136	136	136
Plus: Other	7,453	10,616	15,283	16,335	16,141
Debt	14,508	11,090	10,000	10,000	10,000
Cash and short-term investments (reported)	51,008	44,168	42,815	43,401	45,500

USI Corp. -- Forecast Summary (cont'd)

	2024a	2025a	2026e	2027f	2028f
Adjusted ratios					
Debt/EBITDA (x)	10.2	109.4	13.2	7.4	5.6
EBITDA interest coverage (x)	2.3	0.3	2.8	4.9	6.2
Annual revenue growth (%)	(2.4)	(13.4)	(3.1)	1.4	4.8
EBITDA margin (%)	1.4	0.2	2.7	5.1	6.3

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.

Our Base-Case Scenario

Assumptions

- S&P Global Ratings' projected GDP growth for China's economy of 4.3% in 2026 and 2027, and 4.4% in 2028; Taiwan's GDP growth of 10.9% in 2026, 3.8% in 2027 and 3.5% in 2028; and APAC GDP growth of 4.6% in 2026 and 4.4% in 2027-2028.
- Our base-case assumption for the brent oil price at US$105 per barrel until the end of 2026 before declining to US$85 per barrel in 2027 and US$65 in 2028.
- USI group's consolidated revenue could decline by 3%-6% in 2026 as sales volume contraction across major product lines outweighs the support from higher ASPs. Revenue to rebound gradually by 1%-5% in 2027-2028, driven by recovering sales volume amid normalized product prices.
- Gross margin before depreciation and amortization could improve to 10%-12% in 2026 from 9.3% in 2025, primarily supported by the short-term profit gain from geopolitical tensions in the Middle East during the first half of the year. Gross margin could increase to 13%-16% in 2027-2028 but remain below the group's mid-cycle levels. For individual product segment:
  - Profitability to remain under significant pressure within the EVA segment in 2026-2028 due to ongoing capacity expansions in China; however, an increasing contribution from premium products should support a gradual recovery.
  - LDPE segment to maintain more resilient and stable profitability, underpinned by the group's strategic focus on differentiated and customized high-end markets, alongside lower levels of regional competition.
  - A recovery in the PVC business driven by more balanced global supply and demand conditions, together with implementations of trade protection measures against low-cost Chinese exports from several key markets, including India.
  - Profitability in the ABS segment to remain constrained by softened end-market demand and excess capacity, despite the group's effort to diversify its sales footprint away from China.
- The group's capex to increase to NT$4 billion-NT$5 billion in 2026 from NT$3.7 billion in 2025 mainly for the revamping of USI's PVC facilities. Capex to decline to NT$2 billion-NT$3 billion in 2027 and to NT$1 billion-NT$2 billion in 2028, mainly to support the construction of a new R&D center, debottlenecking, and equipment for high value-added products.
- Cash dividend payment at NT$178 million in 2026 with a flexible dividend policy in the following years to reserve cash amid a still-challenging operating environment.

Liquidity

The short-term rating on USI is 'twA-2'. We believe the company has adequate liquidity to meet its needs over the 12 months ending June 2027, with the ratio of liquidity sources to liquidity uses at 1.5x. In addition, we forecast USI will have positive liquidity sources minus uses, even if its forecast EBITDA declines by 15%.

In our assessment, USI has good and long-standing relationships with major local banks, given the relatively lower interest rate on its bank loans and sufficient bank facilities provided. 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, even if its EBITDA were to drop by 15%.

Principal liquidity source

- Cash and short-term investments of about NT$9.6 billion as of June 30, 2026.
- Undrawn bank lines of NT$7.6 billion in the 12-months ending June 2027.
- Fund from operations of NT$1.0 billion-NT$1.5 billion over the 12-month period ending June 2027.

Principal liquidity uses

- Long-term debt due in one year plus short-term debt of NT$8.5 billion over the 12-months ending June 30, 2027.
- Capex of NT$3.5 billion-NT$4 billion over the 12-months ending June 30, 2027.
- Cash dividend payments of about NT$178 million in 2026.

Rating Score Snapshot

USI Corp.		
	To	**From**
Issuer Credit Rating	**twBBB+/Negative/twA-2**	**twA-/Watch Neg/twA-2**
Business risk	Fair	Fair
Country risk	Moderately high	Moderately high
Industry risk	Moderately high	Moderately high
Competitive position	Fair	Fair
Financial risk	Aggressive	Significant
Cash flow/Leverage	Aggressive	Significant
Anchor	twbbb	twbbb+
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	Adequate (no impact)	Adequate (no impact)
Management and governance	Neutral (no impact)	Neutral (no impact)
Comparable ratings analysis	Positive (+1 notch)	Positive (+1 notch)
Stand-alone credit profile (SACP)	twbbb+	twa-
Note: The above descriptors are in comparison with global obligors.		

Related Criteria

- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- Criteria | Corporates | General: Sector-Specific Corporate Methodology - July 07, 2025
- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019

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

Ratings List

Downgraded

	To	From
USI Corp.		
Issuer Credit Rating	twBBB+/Negative/twA-2	twA-/Watch Neg/twA-2

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 for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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