

Bulletin

Formosa Plastic Group Ratings Unaffected By U.S. Investment Plan

April 27, 2018

Taiwan Ratings Corp. said today that its ratings and outlook on the core members of the Formosa Plastics group (**Formosa Plastics Corp.**, **Formosa Chemicals & Fibre Corp.**, **Nan Ya Plastics Corp.**, and **Formosa Petrochemical Corp.**; all rated twAA-/Positive/twA-1+) are not affected by the group's proposed investment plan in the U.S. We expect favorable market conditions and the group's lower planned capital expenditure in 2018-2019 to support its improved profitability and cash flow while further lowering its debt. This should in turn increase the group's financial headroom to fund the US\$9.7 billion project.

As of the end of 2017, the group's ratio of funds from operations (FFO) to debt was 67%, which is higher than our base case of 50%-55%, due to a slightly higher EBITDA margin than we had projected. It also reflects the group's lower adjusted debt level, mainly because of a fair value change in its short-term investment.

We will continue to monitor the group's financial ratios and any downside risks or uncertainty that could alter our base-case scenario for 2018-2019 and affect the group's ability to maintain its strong credit metrics through business cycles. Industry risks such as oil price volatility, continuing oversupply for most commodity chemicals in Asia, and downside risk to China's economic growth, could weaken the group's currently strong profitability and cash flow. In addition, the group's credit metrics could weaken if weakening market conditions coincide with: (1) increased cash dividend payouts; (2) the U.S.-based investment; and (3) potential financial outlay to support the group's Vietnam-based steel mill and investments in dynamic random access memory production.

A proposed vertical integration chemical complex in Louisiana is undergoing environmental assessment. It is likely to commence operations in 2022 and will combine facilities for up to 2.4 million ton ethane cracking, 600,000 ton propane dehydrogenation, and the manufacture of other downstream products such as polypropylene, polyethylene, and ethylene glycol. Formosa Petrochemical and Formosa Chemicals & Fibre will share the majority of the investment in the project.

Only a rating committee may determine a rating action and this report does not constitute a rating action.

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