

Research Update

Yang Ming Marine Transport Corp. Ratings Affirmed At 'twBBB/twA-2'; Outlook Stable

April 29, 2019

Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twBBB' long-term and 'twA-2' short-term issuer credit ratings on **Yang Ming Marine Transport Corp.** The outlook on the long-term rating is stable. At the same time, we affirmed our 'twBBB' issue credit rating on the company's senior unsecured corporate debt. The ratings on Yang Ming continue to reflect the company's fair market position as a mid-size container carrier with adequate trade route coverage in the global market and improved cost structure driven by a more fuel-efficient fleet. High volatility in the long-haul container shipping segment, Yang Ming's weak profitability and volatile operating cash flow, and high financial leverage constrain the credit ratings.

Outlook

The stable outlook reflects our view that Yang Ming will maintain sufficient interest service capability over the next 12 months, underpinned by more sustainable freight rates, which will continue to support positive cash flow generation. The stable outlook also reflects our expectation that Yang Ming's role and linkage to the Taiwan government will remain intact and the company will continue to have good access to Taiwan's banking channels over the next two years.

Downside Scenario

We may lower the long-term rating if Yang Ming's competitive position weakens substantially. This could be due to: (1) a significant decline in the company's market share; or (2) a major deterioration in the company's cost structure and service network relative to larger peers' as a result of its inadequate fleet.

We may also lower the rating if Yang Ming's funds from operations (FFO) cash interest coverage falls below 2x for an extended period. This could result from aggressive debt-funded capital expenditures together with prolonged deterioration in industry conditions.

The rating will also come under pressure if we believe the company's role and link with the Taiwan government has weakened substantially, which includes a substantial reduction in government ownership or control of its board. Nevertheless, we view this scenario as remote over the next 12-24 months.

Upside scenario

The likelihood of an upgrade is limited over the next 12 months because we view Yang Ming's fleet upgrade will keep the company's debt leverage high. Nevertheless, we may raise the rating if Yang Ming can further improve its cash flow and profitability, or substantially lower its debt level, such that its ratio of FFO to debt rises substantially above 12% on a sustainable basis. Such a result may indicate

PRIMARY CREDIT ANALYST

Anne Kuo, CFA
Taipei
+886-2 8722-5829
anne.kuo
@spglobal.com
anne.kuo
@taiwanratings.com.tw

SECONDARY CREDIT ANALYST

Jin Dong, CFA
Taipei
+886-2 8722-5821
jin.dong
@spglobal.com
jin.dong
@taiwanratings.com.tw

strengthened cost competitiveness and further improved market conditions, or that the company has adopted a more conservative financial policy that substantially reduces its debt.

Related Criteria

- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: Group Rating Methodology - November 19, 2013
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings - March 28, 2018
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com - June 26, 2018
- General Criteria: Methodology And Assumptions: Assigning Equity Content To Hybrid Capital Instruments Issued By Corporate Entities And Other Issuers Not Subject To Prudential Regulation - January 16, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- Criteria | Corporates | Industrials: Key Credit Factors For The Transportation Cyclical Industry - February 12, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- Criteria | Corporates | General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria | Insurance | General: Hybrid Capital Handbook: September 2008 Edition - September 15, 2008

(Unless otherwise stated, these articles are published on www.standardandpoors.com, access to which requires a registered account)

Ratings List

Ratings Affirmed

Yang Ming Marine Transport Corp.

Issuer Credit Ratings	twBBB/Stable/twA-2
Issue Credit Rating	twBBB

Copyright © by Taiwan Ratings Corp. All rights reserved.

Copyright © 2019 by Taiwan Ratings Corporation (TRC). All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of TRC. The Content shall not be used for any unlawful or unauthorized purposes. TRC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively TRC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. TRC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. TRC DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall TRC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. TRC's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. TRC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. TRC does not act as a fiduciary or an investment advisor except where registered as such. While TRC has obtained information from sources it believes to be reliable, TRC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, TRC reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. TRC disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

TRC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of TRC may have information that is not available to other TRC business units. TRC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

TRC receives compensation for its solicited ratings and certain analyses, normally from issuers, originators, arrangers, or underwriters of securities or from obligors. TRC reserves the right to disseminate its opinions and analyses. TRC's public ratings and analyses are made available on its Web sites, www.taiwanratings.com (free of charge), and rrs.taiwanratings.com.tw (subscription), and may be distributed through other means, including via TRC publications and third-party redistributors. Please click [here](#) for any other conflict of interests that may affect the credit rating as requested by the regulator.