

## Research Update

# China Steel Structure Co. Ltd. Ratings Affirmed At 'twA-/twA-2'; Outlook Stable

May 15, 2019

## Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twA-' long-term and 'twA-2' short-term issuer credit ratings on **China Steel Structure Co. Ltd.** The outlook on the long-term rating is stable. The ratings on China Steel Structure reflect our view that the company is a strategically important member of the **China Steel Corp.** group helping to maintain the group's position in Taiwan's steel market. The ratings also reflect China Steel Structure's leading position in Taiwan's steel structure market and the company's strong interest coverage. However, weak profitability amid intensive competition, as well as the company's high debt leverage and heavy reliance on short-term debt to support its working capital needs offset these credit strengths.

## Outlook

The stable outlook on China Steel Structure reflects the outlook on the China Steel group, and our expectation that China Steel Structure will remain a strategically important subsidiary over the next two years. In particular, we expect China Steel Corp. to maintain its ratio of funds from operations (FFO) to debt at 22%-24% over the next one to two years supported by relatively stable and robust cash flow generation. The outlook also reflects our view that China Steel Structure will maintain its market position with a slightly improving profit margin and an EBITDA interest coverage above 4x over the same period.

## Downward scenario

We may lower the long-term issuer credit rating on China Steel Structure if any of the following scenarios occur:

- China Steel Structure's EBITDA interest coverage worsens to below 3x for an extended period, which may result from a deteriorating operating margin caused by stiffer competition;
- China Steel Structure's profitability weakens due to material loss of its steel structure business;
- We lower our assessment of the China Steel group credit profile, which may happen if a long industry downturn or persistently high raw material prices weaken China Steel Corp.'s margin materially, or if the group takes on aggressive capital expenditures or investments such that China Steel Corp.'s ratio of FFO to debt weakens to below 12% for an extended period; or
- We believe China Steel Structure's relationship to the group and potential group support weakens, which could be indicated by a decline in China Steel Corp.'s ownership in the company.

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## Upward scenario

We may raise the long-term rating on China Steel Structure if we raise our assessment of the China Steel group credit profile and at the same time raise our assessment of China Steel Structure's standalone credit profile, despite the likelihood of this is low over the next one to two years.

We could raise the group credit profile if the group improves its profitability and lowers its debt, such that its ratio of FFO to debt improves to above 25% on a sustainable basis. We could raise the standalone credit profile of China Steel Structure if the company materially improves its ratio of liquidity sources to uses to close to 1.2x over the next 12 months, while at the same time sustainably improving its EBITDA margin to close to 4%. This could happen if the company improves its market position and pricing power materially or extends its debt maturity substantially.

## Related Criteria

- General Criteria: Group Rating Methodology - November 19, 2013
- Understanding Taiwan Ratings' Rating Definitions, [www.taiwanratings.com](http://www.taiwanratings.com) - June 26, 2018
- 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
- Criteria | Corporates | Industrials: Key Credit Factors For The Metals And Mining Downstream Industry - December 20, 2013
- Criteria | Corporates | Industrials: Key Credit Factors For The Engineering And Construction Industry - November 19, 2013
- 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

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## Ratings List

Ratings Affirmed

### China Steel Structure Co. Ltd.

Issuer Credit Ratings

twA-/Stable/twA-2

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