

Research Update

Chung Hung Steel Corp. Ratings Affirmed At 'twA/twA-1'; Liquidity Raised To Adequate; Outlook Stable

September 9, 2019

Rating Action Overview

Taiwan Ratings Corp. today affirmed its 'twA' long-term and 'twA-1' short-term issuer credit ratings on **Chung Hung Steel Corp.** (CHSC). The outlook on the long-term rating is stable. The ratings on CHSC reflect the company's highly strategic group status within the **China Steel Corp.** group. CHSC's stand-alone credit profile (SACP) reflects the company's relatively small operating scale, less vertically integrated operations, narrow product lines, and higher operational volatility compared with integrated still mills'. The SACP on CHSC also reflects our view that the company's ratio of funds from operations (FFO) to debt could weaken moderately in 2019, due to higher pricing pressure and material costs, but is likely to gradually recover in 2020. Counterbalancing factors includes CHSC's stable domestic market share backed by the strong market position of the China Steel group and persistently positive free operating cash flow.

We have revised our assessment of CHSC's liquidity to adequate from less than adequate, which has no impact on the ratings or its SACP. The improvement in the assessment mainly reflects CHSC's material increase in available long-term bank facilities, despite likely weakening operating cash flow. We expect CHSC's ratio of liquidity sources to liquidity uses to be 1.2x-1.3x in the next 12 months ending June 2020.

We also believe CHSC's liquidity sources will continue to exceed uses, even if its EBITDA were to decline by 15%. In addition, we believe the company is likely to absorb high impact, low probability events with limited need for refinancing. This takes into consideration CHSC's accessible funding support from other group members. In our view, CHSC has well-established bank relationships and generally satisfactory standing in credit markets supported by its close association with China Steel. This is reflected by the low interest rate on its bank loans. The company does not have any financial covenants on its bank loans.

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Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- Understanding Taiwan Ratings' Rating Definitions, 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
- 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 - November 13, 2012
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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Ratings List

Ratings Affirmed

Chung Hung Steel Corp.

Issuer Credit Ratings

twA/Stable/twA-1

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