Media Release:

Far EasTone Telecommunications Outlook Revised To Positive On Parent's Accelerated Deleveraging; 'twA+/twA-1' Ratings Affirmed

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Rating Action Overview

- **Far EasTone Telecommunications Co. Ltd.** is one of the three leading operators in Taiwan's wireless telecommunications market and is a member of one of Taiwan's largest industrial conglomerates, **Far Eastern New Century Corp.** (FENC) group. We estimate Far EasTone generated EBITDA of new Taiwan dollar (NT$) 36.6 billion in 2024.
- We view Far EasTone as an insulated and strategically important subsidiary of FENC. The ratings on Far EasTone are capped at one notch above the FENC group credit profile and the ratings and outlook on Far EasTone move in tandem with the direction of the group credit profile.
- We recently revised our rating outlook on FENC to positive from stable to reflect the likelihood that the parent will deleverage faster than under our previous assumption, supported by higher discretionary cash inflow. FENC could lower its ratio of debt to EBITDA close to 4x over the next 12-24 months.
- We therefore revised the outlook on our long-term issuer credit rating on Far EasTone to positive from stable. At the same time, we affirmed the 'twA+' long-term and 'twA-1' short-term issuer credit ratings on the company.
- We also raised our assessment of Far EasTone's stand-alone credit profile (SACP) to 'twaa+' from 'twaa', given our view that the telecom operator will continue to reduce its debt leverage and bring the ratio of debt to EBITDA down to 1.5x in 2024, 1.1x in 2025, and 0.9x in 2026, from about 2.1x in 2023.

Rating Action Rationale

The positive outlook revision follows our similar action on FENC. The outlook revision reflects our view that FENC's improved cash flow generation could speed up its deleveraging over the next one to two years. We now expect FENC will report a higher EBITDA margin in 2025-2026 than under our previous forecast supported by improved profitability of the firm's polyester and textile businesses, and a larger depreciation expense driven by a merger by its telecom unit. Furthermore, FENC's prudent capital spending and asset disposal plans could continue to support its debt reduction over the next one to two years. We anticipate FENC's debt leverage ratio could approach our upside rating trigger with the ratio of debt to EBITDA close to 4x in 2024 and 2025.

Strong discretionary cash inflow provides uplift for Far EasTone's financial profile. We anticipate Far EasTone will continue to report positive discretionary cash flow of NT$11 billion-NT$12 billion annually in 2024 to 2026, underpinned by the firm's satisfactory operating performance and prudent capital spending over the period. We anticipate an increasing 5G penetration rate will gradually offset the declining growth in average revenue per user (ARPU) following Far EasTone's consolidation with Asia Pacific Telecom.

We believe that consumer optimism surrounding AI technology will gradually increase the 5G penetration rate in Taiwan over the next few years. The growing number of AI smartphones will support the need for low-latency, high-speed data plans which could drive an increase in ARPU. This is despite most high-end subscribers in the market have already transited to 5G plans. The remaining customers are likely to migrate at a slower pace and eventually lead to decelerating ARPU growth.

Far EasTone has reported higher margins over the past few quarters than under our original forecast, due to synergies following its merger with Asia Pacific Telecom. This should underpin a more resilient operating margin for Far EasTone in 2025 and 2026. The company could continue to reap the benefit of effective cost control measures following the merger, including operating cost savings from infrastructure consolidation.

We also anticipate Far EasTone maintaining a conservative appetite for capex in 2025 and 2026 of NT$8.5 billion, albeit slightly higher than the firm's NT$7.5 billion capex scheduled in 2024. Far EasTone plans to use the capex in 2025-2026 to support system integration and base station upgrades. We therefore forecast the company's debt will edge down by 19% to around NT$53 billion in 2024, 20% to NT$43 billion in 2025, and 26% to NT$32 billion in 2026. A conservative debt appetite could also help Far EasTone to maintain its debt-to-EBITDA ratio comfortably below 1.5x over the next two years.

FENC group's consolidated credit profile caps the rating on Far EasTone. We expect to maintain our long-term issuer credit rating on Far EasTone at one notch above the parent FENC group credit profile on S&P Global Ratings' global rating scale, given Far EasTone's insulated role within the group. The rating on Far EasTone reflects our assessment that the company is a separate entity within the overall group structure. We believe Far EasTone will maintain its independence from the parent group in respect of its financial and funding prospects, and we view the parent has strong incentives to preserve its financial strength.

Outlook

The positive rating outlook reflects our view that FENC could continue to deleverage over the next two years, supported by sustainable cash inflow. In addition to Far EasTone's stable EBITDA contribution, the profitability of FENC's polyester and textile business could be relatively stable over the same period. This will be underpinned by cost synergies, capacity adjustments, and the increasing revenue contribution from higher-margin products. FENC should therefore be able to maintain its ratio of debt-to-EBITDA to close to 4x in 2024 and 2025, in our view.

Upside scenario

We may raise the rating on FENC if the company's ratio of debt to EBTIDA remains sustainably close to 4x. This could result from:

- Sustainable and material improvement in the profitability of FENC's chemical business, possibly due to product mix enhancement with high-margin products; and

- FENC pursues a more conservative financial policy regarding capital spending and cash dividend payouts, or makes a significant investment asset disposal, such that to reduce its debt substantially.

Downside scenario

We could revise the outlook back to stable over the next 12 to 24 months if FENC fails to maintain its adjusted ratio of debt to EBITDA close to 4x on a sustainable basis, possibly because:

- FENC's profitability fails to recover over the next one to two years, due to a prolonged industry downturn in the polyester product chain or worsening oversupply in purified terephthalic acid (PTA) and PET that weaken the company's profit margin; or
- The company incurs considerably higher capex and investment on its major businesses than we originally assumed.

Our Base Case Scenario

- Taiwan's real GDP to expand 4.4% in 2023, 2.4% in 2025, and 2.1% in 2026.
- Revenue of Far EasTone to increase by 11.7% in 2024, which mainly reflects the full-year consolidation of Asia Pacific Telecom. Revenue could increase by 2%-3% annually in 2025 and 2026, which is largely in line with the growth in Taiwan's GDP and is underpinned by rising ARPU, recovering tourist demand, and more rapid growth in information communication technology (ICT) business.
- Far EasTone's postpaid subscriber base to remain largely flat over the next two years while the prepaid subscriber base could continue to benefit from the rise in international tourists and gradually increasing foreign labor force.
- We anticipate the blended ARPU of Far EasTone will increase by NT$5-NT$15 annually in 2025 and 2026, through an increase in the 5G adoption rate under the demand for high speed and low latency data plans in 2025-2026.
- Far EasTone's fixed-line revenue to increase 1%-3% in 2025 and 2026, underpinned by moderate growth in its ICT business.
- Far EasTone's EBITDA margin to increase to 35% in 2024 from 34.3% in 2023. However, EBITDA margin could slightly decline to 34.6% in 2025 and 33.7% 2026, due to the increasing revenue contribution from ICT business and rising input costs such as higher electricity and labor costs.
- Selling, general, and administrative expense at 16%-18% of revenue in 2025-2026.
- Capex of NT$7.5 billion in 2024 and NT$8.5 billion in 2025 and 2026.
- Cash dividend of NT$11.8 billion in 2024 and NT$12 billion-NT$13 billion annually for 2025 and 2026.

Far EasTone Telecommunications Co. Ltd.--Taiwan Ratings forecast summary

Industry sector: Diversified telecom

(Mil. NT$)	2021a	2022a	2023a	2024e	2025f	2026f
Revenue	85,320	89,151	93,690	104,623	107,641	110,190
EBITDA (reported)	28,170	30,792	32,082	36,602	37,206	37,142
Plus/(less): Other	--	0	8	--	--	--
EBITDA	28,170	30,792	32,090	36,602	37,206	37,142
Less: Cash interest paid	(678)	(665)	(747)	(906)	(768)	(668)
Less: Cash taxes paid	(2,024)	(1,945)	(2,265)	(2,593)	(2,670)	(2,698)
Funds from operations (FFO)	25,468	28,181	29,078	33,103	33,768	33,776
Cash flow from operations (CFO)	35,315	27,082	26,122	31,177	31,871	31,930
Capital expenditure (capex)	11,457	9,229	7,412	7,500	8,500	8,000
Free operating cash flow (FOCF)	23,859	17,853	18,710	23,677	23,371	23,930
Discretionary cash flow (DCF)	13,190	7,189	8,039	11,862	11,259	11,460
Adjusted Debt	65,159	60,431	66,428	53,551	42,748	31,768
Adjusted ratios						
Debt/EBITDA (x)	2.3	2.0	2.1	1.5	1.1	0.9
FFO/debt (%)	39.1	46.6	43.8	61.8	79.0	106.3
Annual revenue growth (%)	7.3	4.5	5.1	11.7	2.9	2.4
EBITDA margin (%)	33.0	34.5	34.3	35.0	34.6	33.7

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.

Liquidity

The short-term rating on Far EasTone is 'twA-1', which reflects the long-term issuer credit rating and our assessment of the company's liquidity as adequate and capable of meeting its liquidity needs up to September 2025. This is indicated by the ratio of liquidity sources to liquidity uses of 1.82x over the same period.

In our view, Far EasTone has solid banking relationships and a very high standing in credit markets, as shown by the low funding cost of its bank loans and bonds. The company issued a 5-year bond valued at NT$2.7 billion and 7-year bond valued at NT$0.8 billion in March 2024, with coupon rates of 1.68% and 1.72%, respectively. Far EasTone has no financial covenants on its debts.

Principal Liquidity Sources

- Cash and short-term investments of about NT$6.3 billion as of the end of September 2024.
- Funds from operations of NT$33.7 billion over the 12 months ending September 2025.
- Undrawn mid-to-long term bank lines of NT$29 billion maturing beyond September 2025.

Principal Liquidity Uses

- Debt maturity of NT$15 billion over the 12 months ending September 2025.
- Working capital outflow of NT$2 billion over the 12 months ending September 2025.
- Capex of about NT$8.3 billion over the 12 months ending September 2025.
- Total dividend payment of NT$12 billion over the 12 months ending September 2025.

Rating Score Snapshot

	To	From
Issuer Credit Rating	twA+/Positive/twA-1	twA+/Stable/twA-1
Business risk	Satisfactory	Satisfactory
Country risk	Intermediate	Intermediate
Industry risk	Intermediate	Intermediate
Competitive risk	Satisfactory	Satisfactory
Financial risk	Minimal	Modest
Cash flow/Leverage	Minimal	Modest
Anchor	twaa+	twaa
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	Neutral (no impact)	Neutral (no impact)
Stand-alone credit profile	twaa+	twaa
Group credit profile	twa	twa
Entity status within group	Strategically important	Strategically important
Note: We assess Far EasTone as an insulated and strategically important subsidiary of the Far Eastern New Century group. The issuer credit rating on Far EasTone is subject to a cap of one notch above the group credit profile. The descriptors above are on a global scale.		

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Sector-Specific Corporate Methodology - April 04, 2024
- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

Ratings Affirmed; Outlook Revision

	To	From
Far EasTone Telecommunications Co. Ltd.		
Issuer Credit Rating	twA+/Positive/twA-1	twA+/Stable/twA-1

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.