Media Release:

ECOVE Environment Corp. Ratings Affirmed At 'twA/twA-1'; Outlook Stable

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Rating Action Overview

- **ECOVE Environment Corp.,** a major environmental services provider in Taiwan, is a core subsidiary of **CTCI Corp.,** offering operation and maintenance services for domestic and foreign waste-to-energy units. ECOVE generated about new Taiwan dollar (NT$) 8.5 billion revenue and NT$2.1 billion EBITDA in 2024.
- ECOVE's debt leverage could grow substantially over the next two to three years due to rising capital expenditure (capex) for several large construction projects.
- We believe ECOVE will manage its debt leverage to alleviate growing financial risk, possibly through capital injections or disposal of minority-owned equity investment. In addition, we forecast that stable cash flows from its construction projects will enable ECOVE to deleverage gradually following a peak in capex in 2025-2027.
- We affirmed our 'twA' long-term and 'twA-1' short-term issuer credit ratings on ECOVE.
- The rating outlook remains stable to reflect the outlook on CTCI and our view that ECOVE will remain a core subsidiary of CTCI group.

Rating Action Rationale

Significant capex growth will push up ECOVE's debt and pressure its stand-alone credit profile. We forecast ECOVE's capex will rise to NT$5 billion-NT$6 billion in 2025 and 2026, from around NT$0.3 billion in 2024. This will mainly be used for a major landfill project in Changhua and a waste incinerator build-operate-transfer (BOT) project in Chiayi. Accordingly, we expect the company's adjusted debt to significantly increase to NT$5.0 billion at the end of 2025 and NT$9.9 billion at the end of 2026, compared to NT$85 million at the end of 2024 without factoring in any debt management action such as capital injections. This, together with the long payback period of those projects could increase ECOVE's ratio of debt to EBITDA to 2.4x in 2025 and to 4.9x in 2026.

In addition, ECOVE's debt could exceed our forecast if the company wins additional incinerator projects over the next one to two years. Nonetheless, we anticipate ECOVE will take measures to contain debt growth, particularly if the company wins more projects than we assume in our base case. Such measures could include raising new capital or reducing its cash dividend distribution. In addition, capex could decline materially after reaching a peak in 2025-2027 which together with stable EBITDA and cash flows from its incinerator and landfill projects should enable ECOVE to lower its debt leverage. This should also help the company maintain its ratio of debt to EBITDA at about 4x or lower over the long term.

New projects could help ECOVE slightly strengthen its business position. ECOVE now operates 10 major waste incinerators following its winning bid for two incinerator projects in Chiayi and Taitung over the past 12 months. In addition, a landfill project in Changhua could help diversify ECOVE's operations and generate stronger and more stable EBITDA after its commissioning in 2027. This could partly offset the higher financial risk from high capex on this and other projects, as well the business impact of losing an incinerator build operate transfer (BOT) project in Tainan and two operation and maintenance (O&M) contracts for incinerators in Macau.

However, we believe ECOVE will continue to experience contract renewal risks over the service contracts for two incinerators in Taiwan in 2026.Nonetheless, we believe ECOVE is in a good position to win the bids, given the company's and the group's strong track record and expertise in waste incinerator construction and operations.

The ratings affirmation reflects ECOVE's status as a core subsidiary of the CTCI group. We continue to assess ECOVE as a core member of CTCI group and we equalize the rating on ECOVE with our assessment of the group credit profile at 'twa'. In contrast with CTCI's volatile E&C operations, ECOVE's stable performance in environmental services plays an important role supporting the parent group's stable performance. In addition, we believe ECOVE's EBITDA contributions will likely increase after the commissioning of its new BOT projects in 2027 and after. In 2024, ECOVE contributed about NT$2.1 billion in EBITDA to the group or about 36% of the group's total EBITDA.

Outlook

The stable rating outlook on ECOVE reflects the outlook on its parent CTCI Corp., given the company's status as a core subsidiary of the CTCI group. The outlook also reflects our view that CTCI's stronger EBITDA generation could cap its ratio of debt to EBITDA at or slightly below 3.0x in 2025-2027, despite significant growth in capex for several environmental projects. We expect CTCI's profitability to improve slightly over the same period, given its enhanced ability to pass through cost fluctuations to its customers. In addition, we believe CTCI will prudently manage its debt leverage through financial measures such as equity funding, to maintain the ratio of debt to EBITDA at about 3x over the period.

ECOVE's stand-alone credit profile could face pressure if its ratio of debt to EBITDA remains consistently above 4.0x. This could happen if ECOVE's debt burden rises materially for new BOT and renewables projects without adequate measures to limit debt growth.

Downward scenario

We may lower the long-term issuer credit rating on ECOVE if we lower the long-term rating on the parent or if we believe CTCI's support for ECOVE has weakened. This could occur if:

- CTCI's debt burden materially rises due to either: 1) significant capital investments for projects such as the rebuilding or revamping of incinerators or renewable energy projects, or the consolidation of debt-heavy BOT projects operated by its subsidiaries; or 2) sustained high working capital requirements lead to persistent working capital outflow, or
- CTCI records a significant decline in EBITDA due to large losses on project execution as well as, weak risk management, or the company faces more intense competition that results in material deterioration in its profit margin.

Upward scenario

We may raise the rating on ECOVE if we raise the rating on the parent. This could occur if CTCI keeps its ratio of debt to EBITDA at close to or below 1.5x for an extended period which could happen if:

- CTCI materially reduces its debt beyond our expectations, possibly through capital injections or enhanced working capital management, while limiting debt-funded capex; or
- CTCI generates a stronger and more stable profit margin such as through an increased contribution from more stable and higher-margin environmental services business.

Our Base Case Scenario

- S&P Global Ratings forecast for Taiwan's real GDP to grow 2.4% in 2025 and 2.1% in 2026.
- Taiwan's waste treatment business through incineration could remain stable over the next few years in terms of processing volume, despite the planned upgrade projects for several major incinerators. We view the waste management industry is relatively stable and recession resistant due to the essential nature of the services provided, as demonstrated by continuing growth in waste volume during the recent pandemic.
- ECOVE's revenue to grow 15%-18% in 2025 but decline by 3%-5% in 2026.
- The incinerator BOT project in Chiayi and new O&M contracts for Chiayi and Taitung incinerators will contribute most to revenue growth in 2025-2026. Higher electricity tariffs and construction revenue from new incinerator BOT projects could also improve ECOVE's revenue growth in 2025. However, revenue could decline in 2026 due to lower construction revenue from incinerator BOT projects.
- Major incinerators in Taiwan operated by ECOVE will maintain their stable operations without material unplanned downtime. We also assume ECOVE can renew its O&M contracts for existing projects.
- ECOVE's profit margin could decline slightly over the next two years. This is mainly due to additional costs associated with incinerator upgrades and revamping, as well as lower operating efficiency and electricity sales of the firm's aging facilities. However, the company's expansion in higher-margin businesses, such as recycling for industrial waste, partly offsets this and will maintain its EBITDA margin above 21% in 2025-2026.
- ECOVE's capex plus long-term investment will grow materially because the company will spend heavily on landfill and incinerator BOT projects, solar power generation, and solvent recycling business. We assume capex plus long-term investments of NT$ 5 billion-NT$6 billion in 2025 and 2026, and NT$2 billion-NT$3 billion in 2027.
- Cash conversion cycle in 2025-2026 remains unchanged from 2024.
- Cash dividend payout ratio of 95% in 2025-2026.

ECOVE Environment Corp.–Taiwan Ratings Corp. Forecast Summary

Industry sector: Electric utility

(Mil. NT$)	2022a	2023a	2024a	2025e	2026f	2027f
Revenue	7,030	7,629	8,531	9,893	9,504	8,959
EBITDA (reported)	1,855	1,918	2,033	2,078	1,936	1,847
Plus/(less): Other	67	39	90	90	90	90
EBITDA	1,922	1,957	2,123	2,168	2,026	1,937
Less: Cash interest paid	(24)	(26)	(18)	(51)	(143)	(221)
Less: Cash taxes paid	(316)	(238)	(440)	(315)	(263)	(227)
Funds from operations (FFO)	1,582	1,692	1,665	1,802	1,620	1,488
Cash flow from operations (CFO)	2,458	1,734	1,268	1,954	1,649	1,480
Capex	1,208	373	331	5,580	5,041	2,587
Free operating cash flow (FOCF)	1,250	1,360	937	(3,626)	(3,392)	(1,107)
Debt (reported)	2,452	2,061	2,126	6,180	11,038	13,504
Plus: Lease liabilities debt	266	281	242	246	251	256
Less: Accessible cash and liquid Investments	(3,217)	(3,030)	(2,864)	(1,908)	(1,908)	(1,908)
Plus/(less): Other	159	488	582	582	582	582
Debt	--	--	85	5,101	9,964	12,435
Cash and short-term investments (reported)	3,387	3,101	3,002	2,000	2,000	2,000
Adjusted ratios						
Debt/EBITDA (x)	--	--	0.0	2.4	4.9	6.4
FFO/debt (%)	NM	NM	1,959.1	35.3	16.3	12.0
Annual revenue growth (%)	18.0	8.5	11.8	16.0	(3.9)	(5.7)
EBITDA margin (%)	27.3	25.7	24.9	21.9	21.3	21.6

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. N.M.--Not meaningful.

Liquidity: Adequate

The short-term issuer credit rating is 'twA-1'. We believe ECOVE has adequate liquidity, reflecting a ratio of liquidity sources to liquidity uses of 1.5x to 2.0x over the 12 months ending Dec. 31, 2025. We also believe the company will have positive liquidity sources minus uses, even if its EBITDA declined by 15%. In addition, we believe ECOVE has a sound relationship with banks, given the company is the core member of the CTCI group. This is demonstrated by the low interest rate and the absence of financial covenants on ECOVE's bank loans.

Principal liquidity sources:

- Cash and short-term investments of NT$3.0 billion as of the end of 2024.
- Funds from operations of about NT$1.8 billion in 2025.
- Undrawn long-term bank facilities about NT$8.9 billion for the 12-month period ending Dec. 31, 2025.

Principal liquidity uses:

- Debt maturities of NT$125 million in 2025.
- Capex of about NT$5.6 billion in 2025.
- Cash dividend payout of about NT$1.4 billion in 2025.

Ratings Score Snapshot

ECOVE Environment Corp.		
	To	**From**
Issuer Credit Rating	twA/Stable/twA-1	twA/Stable/twA-1
Business risk	Fair	Fair
Country risk	Intermediate	Intermediate
Industry risk	Intermediate	Intermediate
Competitive position	Fair	Fair
Financial risk	Aggressive	Significant
Cash flow/Leverage	Aggressive	Significant
Anchor	twbbb	twbbb+
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	Positive (+1 notch)	Neutral (no impact)
Stand-alone credit profile (SACP)	twbbb+	twbbb+
Group credit profile	twa	twa
Entity status within group	Core (equalizes rating with the group credit profile)	Core (equalizes rating with the group credit profile)
Note: The descriptors are on a global scale.		

Related Criteria & Research

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology - April 04, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Group Rating Methodology - July 01, 2019
- 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: 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 – Nov. 11, 2021

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

Ratings List

Ratings Affirmed

ECOVE Environment Corp.	
Issuer Credit Rating	twA/Stable/twA-1