Media Release:

Outlook On China Steel Corp. Revised To Negative On Prolonged Weak Demand; 'twAA-/twA-1+' Ratings Affirmed

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Rating Action Overview

- **China Steel Corp.** is the only integrated steel manufacturer in Taiwan and commands over 50% domestic market share with annual crude steel capacity of about 16 million tons and EBITDA of new Taiwan dollar (NT$) 34.7 billion in 2024.
- Sluggish demand coupled with potentially rising global trade tension and weakening economic growth could keep China Steel's EBITDA margin relatively low at 10%-12% in 2025-2026.
- China Steel's debt leverage could remain soft with a ratio of FFO to debt around 12% in 2025-2026. That's despite a possible decline in debt to NT$230 billion-NT$235 billion in 2025 and below NT$230 billion in 2026 on lower capex and cash dividend distribution.
- We have revised our outlook on the long-term issuer credit rating on China Steel to negative from stable to reflect our view of the rising likelihood that the company will be unable to improve its debt leverage to materially above 12% over the next one to two years.
- At the same time, we affirmed our 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on China Steel, as well as the 'twAA-' issue credit rating on its unsecured corporate bonds.

Rating Action Rationale

The outlook revision reflects our view that rising downside risks will constrain China Steel's revenue growth and improvement in profit generation. This will make it difficult for the company to sustain its ratio of funds from operations (FFO) to debt substantially above 12% over the next 12-24 months. We believe increasing uncertainties from U.S. tariff policy will hurt economic activities and steel consumption and delay a recovery in demand. The U.S. government has resumed tariffs on steel imported from all countries to the same level on Taiwan-made steel to the U.S., and we expect some steel orders to transfer to Taiwan steel makers from regional peers due to comparable service and quality of Taiwan steel. However, the potential increase in sales volume and sustainability of demand are highly uncertain. China Steel's sales volume was lower in the first quarter of 2025 compared with each quarter for past two years amid weak direct and indirect export markets.

Uncertainty continues to rise over China Steel's ability to increase profits due to increasing anti-dumping taxes overseas that disturb global sales activities and restructure the international steel market. Steel output in China remains the key factor behind the industry's oversupply. Cuts to output might appear in 2025, but China's export volume could also remain high over the next 12 months due to weak domestic demand. Meanwhile, U.S. steel tariffs could force regional peers to redirect sales to southeast Asia where demand growth is higher. As a result, some Asian countries have established anti-dumping taxes to block certain steel products from entering their local markets. We expect China Steel's revenue to decline by 2%-5% in 2025 due to sluggish demand led by rising uncertainties.

There is no sufficient buffer of China Steel's ratio of FFO to debt for downside trigger in the past year. Revenue for 2025 could trend down slightly to NT$347.4 billion, from NT$360.5 billion in 2024. Coupled with limited potential for margin improvement over the coming year could cap FFO generation and the ratio of FFO to debt at around 12% in 2025, which is weaker than our previous forecast.

Nonetheless, we now expect potentially beneficial trade conditions to the U.S. market and a likely anti-dumping tax on imported hot-rolled steels in Taiwan to sightly reduce possibility of material revenue decline in 2025. The potential penalty from a retroactive effectiveness clause in the anti-dumping tax on hot-rolled steels from China has sharply reduced the volume of imported Chinese steel by 90% in the first two months of 2025 compared with the same period in 2024. China Steel's subsidiary in Vietnam could also deliver improved performance in 2025 following the announcement of an anti-dumping tax in Vietnam in 2025. However, rapidly changing international trade conditions coupled with potentially higher trade cost could hinder downstream demand growth and weigh on the sustainability of any economic recovery.

Advanced premium steel products should provide some rating buffer against profit deterioration. These products contributed less than 20% of total revenue but represented over half of China Steel's gross profit over the past two years. This reflects China Steel's technology capability in higher quality special grade steel that carry a better profit margin. We believe the company will enhance its profit generation from advanced premium steel products and separate growing shipments to different countries through different industries to avoid potential risk of anti-dumping taxes. China Steel's EBITDA margin will therefore likely remain slightly above 10% over the next 12-24 months, slightly higher than 9.6% in 2024.

We forecast debt to decline on reduced capex. China Steel's discretionary cash flow could turn positive and help to reduce its debt starting from 2025. We expect the company's capital expenditure (capex) to materially decline to NT$25 billion-NT$30 billion in 2025, from NT$42.8 billion in 2024, following the completion of offshore wind farm construction. Revamping of the a subsidiary's blast furnace will end in 2025, and we do not expect other massive capex projects over the next one to two years.

Wind farm subsidiary to provide additional EBITDA from 2025, but its performance lacks a long-term track record. The subsidiary has connected its 300-megawatt capacity to the electricity grid in late 2024 and will begin full operations in 2025. In our view, EBITDA generation from China Steel's offshore wind farm subsidiary could partly offset potential deterioration in the group's steel businesses in 2025. However, we acknowledge that profit from the company's offshore wind farms could deviate from our assumption due to the lack of a long-term operating track record and climate changes.

Outlook

The negative rating outlook reflects our view that China Steel's ratio of FFO to debt could stay around 12% for longer than under our previous expectation. Downside risks are also likely to remain for longer and dampen demand recovery due to rising trade and geopolitical uncertainties. Rapid changes in the U.S. tariff policy and increasing tax barriers established by other countries could lead to slower economic and steel demand growth.

However, we believe China Steel will largely revise down its capex and reverse discretionary cash flow to positive while mildly reducing debt in 2025-2027, which should ease the pressure on its deteriorating debt leverage. In addition, the potential buildup of an anti-dumping tax in Taiwan on imported steel should prevent China Steel's profit from material decline over the same period.

Downward scenario

We could lower the long-term rating on China Steel if:

- The ratio of FFO to debt weakens to close to 12% or EBITDA margin fails to recover to above 12% for an extended period, possibly due to: (a) a prolonged industry downturn with contraction in demand and intense competition; (b) persistently high raw material prices that materially squeeze the company's profit margin; or (c) China Steel adopts a much more aggressive capex plan than we forecast and which curbs its ability to deleverage and results in elevated debt for an extended period; or
- China Steel's link with the Taiwan government weakens from our current assessment of strong, which may happen if the government materially lowers its ownership stake. However, we view this scenario to be remote over the next two years.

Upward scenario

We may revise the outlook back to stable if we see a clear recovery in steel demand and product margin that bring China Steel's ratio of FFO to debt back to materially above 12% and EBITDA margin recover to above 12% on a sustainable basis. This could be due to improving export businesses and sustainable domestic sales through timely and effectively product mix adjustments.

Our Base-Case Scenario

- S&P Global's projection for China's real GDP to grow 4.1% in 2025 and 3.8% in 2026, down from 5% in 2024. Asia Pacific GDP to grow 4.1% in 2025 and 4% in 2026, down from 4.5% in 2024, and Taiwan's real GDP to grow 2.1% in 2025 and 2026, down from 4.6% in 2024. A slow-down in the growth rate could continue to delay recovery in steel demand.
- China Steel's sales volume to decline by 4%-7% in 2025, as high uncertainty of tariff policy and global trade tension forces downstream consumers to hold off investments and purchases. Sales volume could increase by 1%-4% in 2026-2027 because anti-dumping investigation could reduce price competition from imported goods. Downstream demand could gradually resume production activity and inventory growth when global trade tension stabilizes.
- The company's average selling price (ASP) for steel products could revise down slightly by 1%-4% in 2025, because the recovery in selling price and shipments may only recover slowly. However, we expect ASP to improve by up to 2% from 2026 amid higher prices sustained by international anti-dumping taxes and tariffs.
- Our assumption for iron ore prices of US$90/ton-US$110/ton for 2025-2026 and for coking coal prices of US$200/ton-US$240/ton for 2025 and 2026. We view slowing growth in global steel demand will constrain any increase in material prices.

- China Steel's gross margin to remain stable in 2025 and 2026, constrained by sluggish growth in sales demand. In addition, depreciation in the NT$ could partly offset lower material prices in U.S. dollar terms over the same period.
- Selling, general and administrative expense at 3.6%-3.9% of total revenue in 2025-2026.
- China Steel's capex and equity investment of NT$22 billion-NT$27billion in 2025 and 2026, mainly for facility upgrades and blast furnace revamping.
- Cash dividend of NT$5.2 billion in 2025 and a similar level thereafter.
- We apply a haircut ratio of 8.6% on China Steel's cash and cash equivalents.

China Steel Corp. – Taiwan Ratings Corp. Forecast summary

Industry sector: Metal and mining

(Mil. NT$)	**2022a**	**2023a**	**2024a**	**2025e**	**2026f**	**2027f**
Revenue	449,568	363,326	360,536	347,456	353,656	363,268
EBITDA (reported)	52,615	35,864	34,127	34,212	36,343	39,499
Plus/(less): Other	1,204	853	617	617	617	617
EBITDA	53,819	36,717	34,743	34,829	36,960	40,115
Less: Cash interest paid	(2,841)	(4,570)	(5,234)	(4,619)	(4,376)	(4,176)
Less: Cash taxes paid	(13,492)	(4,176)	(2,352)	(2,133)	(1,267)	(1,978)
Funds from operations (FFO)	37,485	27,972	27,157	28,077	31,483	33,795
Cash flow from operations (CFO)	27,385	38,635	41,297	33,826	31,883	33,313
Capital expenditure (capex)	31,878	37,596	42,768	(26,369)	(22,749)	(22,600)
Free operating cash flow (FOCF)	(4,493)	1,040	(1,471)	7,456	9,134	10,713
Debt (reported)	240,242	256,465	266,348	247,458	239,998	234,660
Plus: Lease liabilities debt	10,983	11,248	10,851	10,468	10,099	9,743
Less: Accessible cash and liquid Investments	(37,470)	(38,412)	(43,047)	(27,673)	(22,850)	(22,850)
Plus/(less): Other	686	936	1,209	1,209	1,209	1,209
Debt	214,440	230,237	235,361	231,462	226,705	220,836
Cash and short-term investments (reported)	41,819	42,351	47,097	30,276	25,000	25,000
Adjusted ratios						
Debt/EBITDA (x)	4.0	6.3	6.8	6.6	6.1	5.5
FFO/debt (%)	17.5	12.1	11.5	12.1	13.9	15.3
Annual revenue growth (%)	(4.0)	(19.2)	(0.8)	(3.6)	1.8	2.7
EBITDA margin (%)	12.0	10.1	9.6	10.0	10.5	11.0

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 issuer credit rating is 'twA-1+'. We believe China Steel has adequate liquidity to meet its needs over the 12 months ending Dec. 31, 2025, with a ratio of liquidity sources to liquidity uses at 1.2x-1.3x over the period. We also believe the company's liquidity sources will continue to exceed uses, even if its EBITDA were to decline by 15%.

In our view, China Steel has a high standing in local credit markets, and well-established and solid banking relationships in Taiwan which are reflected in the low interest rate on its bank loans. This is supported by the company's role as a government-related entity and strong domestic market position. China Steel has some loose financial covenants on its bank loans which we believe the company can meet.

Principal liquidity sources

- Cash and short-term investments of about NT$47.1 billion as of Dec. 31, 2024.
- Cash FFO of NT$28 billion-NT$33 billion in 2025.
- Working capital inflow of NT$2.5 billion-NT$4.5 billion in 2025.
- Committed undrawn bank lines maturing beyond 2025 of NT$44 billion-NT$47 billion.
- Unused short-term credit facilities offered by state-owned banks and bills finance companies to China Steel of NT20 billion-NT$25 billion in 2025.
- NT$3.5 billion corporate bond issuance of a subsidiary in January 2025.

Principal liquidity uses

- Short-term and long-term debt maturity of about NT$87.3 billion in 2025.
- Capex of NT$26 billion-NT$28 billion in 2025.
- Cash dividends of NT$5.2 billion in 2025.

Rating Score Snapshot

Issuer Credit Rating: twAA-/Negative/twA-1+
Note: All scores below are in comparison with global obligors.

Business risk: Satisfactory

- Country risk: Intermediate
- Industry risk: Moderately high
- Competitive position: Satisfactory

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: twa+

Modifiers

- Diversification/Portfolio effect: Neutral (No impact)
- Capital structure: Neutral (No impact)
- Financial policy: Neutral (No impact)
- Liquidity: Adequate (No impact)
- Management and governance: Neutral (No impact)
- Comparable rating analysis: Neutral (No impact)

Stand-alone credit profile: twa+

- Unsolicited issuer credit rating on Taiwan (rated 'AA+' by S&P Global Ratings)
- Likelihood of government support: Moderate (+1 notch from SACP)

Related Criteria & Research

Related Criteria

- 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
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Criteria | Corporates | General: Reflecting Subordination Risk In Corporate Issue Ratings - March 28, 2018
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- 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 Action

	To	From
China Steel Corp.		
Issuer Credit Rating	twAA-/Negative/twA-1+	twAA-/Stable/twA-1+
Issue Credit Rating	twAA-	