Media Release:

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

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Rating Action Overview

- **Dragon Steel Corp.**, a wholly owned subsidiary of **China Steel Corp.**, has a combined steel production capacity of six million tons, with EBITDA of new Taiwan dollar (NT$) 784.5 million in 2024.
- Sluggish demand could prolong under rising global trade tension and weakening economic growth. Meanwhile, high capex is also likely to push up Dragon Steel's debt amid weak operating cash flow generation, which could keep the ratio of FFO to debt below 12% in 2025-2026. We therefore revised our assessment of Dragon Steel's stand-alone credit profile (SACP) to 'twbbb-' from 'twbbb'.
- We have revised our outlook on the long-term issuer credit rating on Dragon Steel to negative from stable, following similar action on its parent, China Steel.
- At the same time, we affirmed our 'twA+' long-term and 'twA-1' short-term issuer credit ratings on the company.

Rating Action Rationale

The outlook revision on Dragon Steel reflects our similar action taken on the parent, China Steel. 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 economic recovery.

Capex for blast furnace revamp will push up debt. The revamp of Dragon Steel's blast furnace will lift capital expenditure (capex) to NT$9.7 billion in 2025 from NT$4.6 billion in 2024. However, operating cash flow generation could remain negative over the next two years and push up debt to above NT$60 billion at the end of 2025. Annual capex will likely show a material decline following the revamp to below NT$3 billion. However, debt reduction and the recovery in operating cash generation could be limited in 2026-2027. We now forecast Dragon Steel's ratio of funds from operations (FFO) to debt will stay below 12% over 2025-2027. Thus, we revised comparable rating analysis to 'neutral' from 'positive'.

We continue to view Dragon Steel as a core member of the China Steel group. This reflects China Steel's 100% ownership of Dragon Steel with full control over the company's board. Dragon Steel's crude steel production capacity represents about one-third of the entire China Steel group with which it is fully integrated. The core status also embodies our view that the parent is highly unlikely to divest Dragon Steel because its operations are integral to the group's overall business strategy. Therefore, the long-term rating on Dragon Steel is the same as the stand-alone group credit profile, and the rating on Dragon Steel will move in tandem with the long-term rating on the parent.

Outlook

The negative rating outlook on Dragon Steel reflects the negative outlook on its parent, China Steel Corp., given our view of Dragon Steel as a core subsidiary of the parent group. 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. This is despite China Steel's declining capex and the launch of an anti-dumping tax in Taiwan should provide some credit buffer for the company's debt leverage.

Downward scenario

We could lower the long-term rating on Dragon Steel if China Steel's ratio of FFO to debt fails to improve to materially above 12% or EBITDA margin fails to recover to above 12% for an extended period, possibly due to:

- A prolonged industry downturn with contraction in demand and intense competition;
- Persistently high raw material prices that materially squeeze the company's profit margin; or,
- China Steel adopts a much more aggressive capex plan that curbs its ability to deleverage and results in elevated debt for an extended period.

Upward scenario

We may revise the outlook back to stable if we revise the rating outlook back to stable on China Steel. This may occur if we believe China Steel could maintain the ratio of FFO to debt 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. Taiwan's real GDP to grow 2.1% in 2025 and 2.1% in 2026, down from 4.6% in 2024. A slow-down in the growth rate could continue to delay recovery in steel demand.
- 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 that slowing down growth in global steel demand will constrain increase in material prices.
- Dragon Steel's revenue to decline by 4%-8% in 2025, reflecting 3%-8% decline in shipments for lower hot-rolled related products sales due to prolonged weak demand. Average selling price (ASP) could dip slightly by 2%-4% compared to higher base of the first half of 2024. Imported goods is likely to constrain price improvement as well. We view that revenue could recover by 1%-4% in 2026 as demand should resume moderately after global trade stabilizes.
- Dragon Steel's gross margin to improve slightly to 2.5%-4.5% in 2025, supported by mild revision in material prices. The margin could improve to 4.5%-6.5% in 2026, because Dragon Steel could restore some economic scale through improved shipments.
- Selling, general, and administration expense to remain at 2%-3% of total revenue during the forecast period, because the company's continuous cost-saving strategy could prevent a significant increase in this expense.
- Capex will increase materially to NT$9.7 billion in 2025, up from NT$4.7 billion in 2024, due to blast furnace revamping. We expect capex to largely drop back to NT$2 billion-NT$4 billion in 2026 for maintenance.
- No cash dividend payout in 2025 according to the company's announcement.

Dragon Steel Corp. – Taiwan Ratings Corp. Forecast summary

Industry sector: Metal and mining

(Mil. NT$)	2022a	2023a	2024a	2025e	2026f	2027f
Revenue	110,729	89,574	82,030	75,983	76,875	80,286
EBITDA (reported)	11,772	4,396	764	610	2,120	4,439
Plus/(less): Other	24	16	20	20	20	20
EBITDA	11,796	4,412	785	630	2,140	4,460
Less: Cash interest paid	(571)	(805)	(873)	(895)	(991)	(996)
Less: Cash taxes paid	(4,065)	(108)	(3)	(3)	(3)	(3)
Funds from operations (FFO)	7,161	3,498	(91)	(267)	1,146	3,461
Cash flow from operations (CFO)	(1,731)	7,087	5,267	1,409	1,136	3,148
Capital expenditure (capex)	(2,762)	(3,461)	(4,758)	(9,809)	(2,500)	(2,500)
Free operating cash flow (FOCF)	(4,493)	3,626	509	(8,400)	(1,364)	648
Debt (reported)	50,927	46,698	47,525	55,664	57,027	56,380
Plus: Lease liabilities debt	6,965	7,737	7,619	7,504	7,390	7,278
Debt	57,891	54,434	55,144	63,167	64,417	63,657
Cash and short-term investments (reported)	1,567	532	1,261	1,000	1,000	1,000
Adjusted ratios						
Debt/EBITDA (x)	4.9	12.3	70.3	100.3	30.1	14.3
FFO/debt (%)	12.4	6.4	(0.2)	(0.4)	1.8	5.4
Annual revenue growth (%)	(11.1)	(19.1)	(8.4)	(7.4)	1.2	4.4
EBITDA margin (%)	10.7	4.9	1.0	0.8	2.8	5.6

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

The short-term rating on Dragon Steel is 'twA-1'. We believe Dragon Steel has adequate liquidity to meet its needs over the 12 months ending Dec. 31, 2025, with an estimated ratio of liquidity sources to liquidity uses at around 1.2x over the period. We believe Dragon Steel's liquidity sources will still exceed liquidity uses even if its EBITDA were to decline by 15%. The liquidity assessment also reflects our view that Dragon Steel has prudent risk management and the ability to absorb high-impact, low-probability events with limited refinancing.

In addition, we believe Dragon Steel has a generally satisfactory standing in credit markets and has sound relationships with banks in Taiwan, thanks to its association with China Steel. Dragon Steel has relatively large short-term debt maturity in 2024; however, we view its refinancing risk as low, given Taiwan's competitive banking environment and the company's solid refinancing track record.

Principal liquidity sources

- Cash and short-term investment of NT$1.3 billion as of the end of December 2024.
- Working capital inflow of NT$1 billion-NT$2 billion up to the end of December 2025.
- Undrawn credit facilities maturing beyond December 2025 of NT$17 billion-NT$23 billion.
- Issued corporate bond of NT$3.5 billion on January 6, 2025

Principal liquidity uses

- Debt repayment of NT$15.6 billion up to the end of December 31, 2025.
- FFO: NT$0.1 billion-NT$1 billion up to the end of December 2025.
- Maintenance capex of NT$5 billion-NT$6 billion up to the end of December 31, 2025.

Rating Score Snapshot

Dragon Steel Corp.		
	To	**From**
Issuer Credit Rating	twA+/Negative/twA-1	twA+/Stable/twA-1
Business risk	Weak	Weak
Country risk	Intermediate	Intermediate
Industry risk	Moderately high	Moderately high
Competitive position	Weak	Weak
Financial risk	Aggressive	Aggressive
Cash flow/Leverage	Aggressive	Aggressive
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	Neutral (no impact)	Positive (+1 notch)
Stand-alone credit profile (SACP)	twbbb-	twbbb
Group SACP	twa+	twa+
Entity status within group	Core (same as group SACP)	Core (same as group SACP)
Note: All scores above are in comparison with global obligors.		

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

- Media Release: Outlook On China Steel Corp. Revised To Negative On Prolonged Weak Demand; 'twAA-/twA-1+' Ratings Affirmed – April 24, 2025
- 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
Dragon Steel Corp.		
Issuer Credit Rating	twA+/Negative/twA-1	twA+/Stable/twA-1