

Media Release:

Walsin Lihwa Corp. Ratings Affirmed At 'twA-/twA-2'; Outlook Remains Negative On Weak Profitability

August 27, 2025

Rating Action Overview

- Weak operating conditions in **Walsin Lihwa Corp.'s** stainless-steel and nickel resource segments could keep the company's EBITDA margin from bottoming out significantly in 2025 and 2026. Walsin Lihwa has EBITDA of new Taiwan dollar (NT\$) 12.1 billion in 2024.
- We believe weak overall profitability and high capital expenditure (capex) could prevent Walsin Lihwa from reducing its debt in turn and keep ratio of debt to EBITDA at an elevated 4x-5x in 2026. That's despite moderate improvement compared with the recorded 5.9x in 2024.
- We have affirmed our 'twA-' long-term and 'twA-2' short-term issuer ratings on Walsin Lihwa.
- The outlook remains negative to reflect material downside risks that weaker profitability, weaker EBITDA from Walsin Lihwa's investments, and limited debt management action could prevent deleveraging under the current prolonged industry downturn.

Rating Action Rationale

The negative outlook reflects our forecast for Walsin Lihwa's slow EBITDA recovery over the next two years amid a prolonged downturn in the company's key stainless-steel and nickel sectors.

This is mainly caused by high uncertainty of geopolitical risks and limited improvement in overcapacity that broadly affected Walsin Lihwa nickel resource and stainless-steel businesses.

We believe profit generation in the nickel resource sector will likely remain under pressure over the forecast period due to oversupply while at the same time the company faces weaker demand for stainless steel and electric vehicles over the same period. Meanwhile, rising costs from an increase in the royalty rate on nickel products in Indonesia since April 2025 will likely further stress the company's margins.

We expect Walsin Lihwa's plants to remain profitable over the next two years, given their better cost structure compared to local peers. Weak demand could force competitors with higher costs to leave the market thereby alleviating some price pressure. Nonetheless, we believe it will take time for capacity rationalization to materialize which together with still-weak demand are unlikely to support a material profit rebound, in our view.

PRIMARY CREDIT ANALYST

Irene Lai
Taipei
+886-2-2175-6825
irene.lai
@spglobal.com
irene.lai
@taiwanratings.com.tw

SECONDARY CONTACT

James Hung, CFA
Taipei
+886-2-2175-6839
james.hung
@spglobal.com
james.hung
@taiwanratings.com.tw

Overcapacity in China's stainless-steel market could continue to cause operating losses at Walsin Lihwa's China operations. The China government is planning initiatives to end excessive price competitive practices, known as 'involution', in sectors with significant overcapacity. However, by delegating more decision-making to enterprises, industry authorities, and their local government owners, current reforms may play out more slowly than in previous rounds (see Related Research).

Trade uncertainties add to downside profitability pressure on the group's stainless-steel business. Policy risk from tariffs levied by the U.S. administration has muted stainless steel demand since April 2025 with the June announcement of a 50% tariff on steel and aluminum products reinforcing this impact. While there remains very high uncertainty over the next move by the U.S. government, we believe it could update the tariff policy in the next one to two quarters. Demand could rebound once trade uncertainties are removed; however, any rebound in the revenues and EBITDA margins of players in the stainless-steel sector is likely to be moderate. That's because rising global trade protectionism may structurally hit exports from Asia and partly offset demand growth over the next few quarters.

High capex and weak profitability will prevent further debt reductions, keeping debt leverage elevated over the next 12-18 months. We forecast Walsin Lihwa's debt could decrease moderately to NT\$65 billion-NT\$68 billion by the end of 2025 from NT\$71.6 billion at the end of 2024 due to a share placement of NT\$7.6 billion in the first half of 2025. However, we believe the company's high capex needs, including a total of about NT\$13 billion for the future construction of a submarine cable factory, will prevent further debt reduction over the next one to two years without a major rebound in the company's EBITDA generation. Accordingly, Walsin Lihwa's ratio of debt to EBITDA could remain elevated at 4x-5x at the end of 2026, albeit down from about 5.9x and 5.0x-5.5x at the end of 2024 and 2025, respectively.

Incremental EBITDA from acquisitions, new projects, and the company's active debt management should help keep debt to EBITDA materially below 4x under mid-cycle conditions. We believe that Walsin Lihwa's European subsidiaries acquired in 2022-2024 could generate higher margins and EBITDA through successful integration, given their premium product portfolios. Walsin Lihwa could also leverage the know-how acquired through these acquisitions to improve its product mix in Asia and enhance its competitiveness; however, this transition will take time to execute.

Walsin Lihwa's submarine cable plant could contribute significant EBITDA and further diversify the company's business away from the highly volatile commodity metal market, if it can execute the project smoothly. We base this on our view of the business' high entry barriers and a strong demand outlook for Taiwan's offshore wind development. The continued prohibition of equipment from China could also partly alleviate heightened competition now the Taiwan government has lifted the local content requirement for new offshore wind farms.

In addition, we expect Walsin Lihwa to take actions to contain debt leverage if the market downturn extends longer and deeper than in our base case, or if the company takes on additional investments beyond our forecast. Such actions could include capital injections, asset disposals, or more stringent working capital management, such as share sales it executed in 2022, 2023, and 2025. Based on the factors we assume Walsin Lihwa could enhance the ratio of debt to EBITDA to materially below 4x under mid-cycle market conditions.

Outlook

The negative outlook reflects our view that Walsin Lihwa's leverage could remain elevated in 2025-2026 without clear prospects of deleveraging afterwards. This mainly reflects weaker profit generation than we expected due to persistent oversupply in the nickel resource and stainless-steel sectors. High uncertainty associated with the successful integration of Walsin Lihwa's recently acquired European subsidiaries and the execution of major expansion projects, including the submarine cable plant, also cast downside risk over prospects for the company's EBITDA growth.

Downward scenario

We may lower the long-term rating on Walsin Lihwa if the company fails to demonstrate clear prospects of improving the ratio of debt to EBITDA close to 4x over the next 12 months and to below 4x over the following 12 months. The likely scenarios for this are:

- A longer industry downturn amid a contraction in demand and intensifying competition;
- More aggressive capex or investment plans without offsetting measures to reduce debt leverage; or
- Weaker EBITDA contributions from investments and acquisitions than we forecast, perhaps due to poor execution of major expansion projects or a failure to materialize synergy with its European acquisitions.

Upward scenario

We could revise outlook back to stable if Walsin Lihwa could bring the debt-to-EBITDA ratio back sustainably below 4x, possibly because:

- The company's profitability improves materially following a demand recovery and better returns from investments in high value-added products;
- It assumes a more conservative appetite on capex and investments that leads to stronger free operating cash flow for debt reductions; or
- The company materially lowers its debt level through asset disposals or equity injections.

Our Base-Case Scenario

- S&P Global's forecast for Taiwan's GDP to grow 3.3% in 2025, 1.7% in 2026, and 2.3% in 2027, for China of 4.3% in 2025, 4.0% in 2026, and 4.3% in 2027, and for the Eurozone of 0.8% in 2025, 1.1% in 2026, and 1.4% in 2027.
- The copper price to range from US\$9,400-US\$9,600/ton in 2025 and 2026, and the nickel price to range from US\$15,000-US\$16,000/ton in 2025 and 2026.
- Walsin Lihwa's revenue to remain stable in 2025 with improving revenue from wire and cable business offsetting the decline in nickel resource revenue. Revenue could increase by 1%-5% in 2026, supported by relatively normalized demand in stainless steel and nickel.
 - Revenue from stainless steel to remain flat in 2025, because the full-year volume contribution from the acquired entity in Europe will offset declining volume in other regions. Revenue could grow by 3%-6% in 2026, because we expect demand could mildly resume under declining tariff policy risk.
 - Revenue from nickel resource business to drop by 2%-5% in 2025, reflecting a lower nickel price. Revenue could recover by 2%-5% in 2026 amid a gradual recovery in volume with stable average selling price.

- Revenue from wire and cable business to increase by 2.5%-5.5% in 2025 and 2026, mainly due to sustainable domestic demand for infrastructure construction and investments from private companies.
- Gross margins are likely to slightly improve to 12%-13% in 2025 and 2026 from 11.9% in 2024, reflecting better operating efficiency in the wire and cable segment, improving product mix in the stainless-steel sector, and lower material cost for its nickel resource business.
- Ratio of selling, general and administrative expenses to rise to 5.8%-6.5% in 2025-2026, from 5.3% in 2024, because the European subsidiaries are still working to improve their economies of scale.
- Working capital inflow of NT\$3.5 billion-NT\$4.5 billion in 2025, because of better operation integration for its stainless-steel sector in Europe.
- Capex of NT\$13 billion-NT\$15 billion in 2025 and NT\$9 billion-NT\$10 billion in 2026, mainly for the construction of a submarine power cable plant in Taiwan and investment in facilities upgrades across all sectors.
- Share issuance of NT\$7.6 billion in June 2025.
- Dividend payout of NT\$2 billion in 2025 and maintaining a 75% dividend payout ratio thereafter.
- Surplus cash haircut of 3.6% for 2024 and thereafter.

Note: GDP growth forecasts are from the latest Credit Conditions Committee. S&P Global Ratings believes there is a high degree of unpredictability around policy implementation by the U.S. administration and possible responses--specifically with regard to tariffs--and the potential effect on economies, supply chains, and credit conditions around the world. As a result, our baseline forecasts carry a significant amount of uncertainty, magnified by ongoing regional geopolitical conflicts. As situations evolve, we will gauge the macro and credit materiality of potential and actual policy shifts and reassess our guidance accordingly.

Walsin Lihwa Corp. – Taiwan Ratings Corp. Forecast summary

Industry sector: Metal and mining

(Mil. NT\$)	2022a	2023a	2024a	2025e	2026f	2027f
Revenue	180,401	189,840	179,318	180,457	185,777	214,770
EBITDA (reported)	13,950	14,449	11,819	12,077	13,999	18,890
Plus/(less): Other	1,633	1,375	318	340	340	440
EBITDA	15,583	15,824	12,137	12,417	14,339	19,331
Less: Cash interest paid	(740)	(1,926)	(2,237)	(2,443)	(2,250)	(2,051)
Less: Cash taxes paid	(2,732)	(1,690)	(5,642)	(2,200)	(2,000)	(2,000)
Funds from operations (FFO)	12,111	12,208	4,258	7,775	10,089	15,280
Cash flow from operations (CFO)	13,903	22,755	725	13,608	11,454	12,472
Capital expenditure (capex)	15,499	16,512	10,436	14,180	9,749	6,423
Free operating cash flow (FOCF)	(1,596)	6,242	(9,710)	(572)	1,705	6,049
Debt (reported)	74,764	64,517	82,698	76,681	73,258	75,964
Plus: Lease liabilities debt	2,555	3,023	3,943	3,943	3,943	3,943
Less: Accessible cash and liquid Investments	(18,049)	(16,456)	(15,169)	(13,759)	(9,640)	(9,640)
Plus/(less): Other	152	144	99	99	99	99

(Mil. NT\$)	2022a	2023a	2024a	2025e	2026f	2027f
Debt	59,422	51,229	71,571	66,965	67,661	70,366
Cash and short-term investments (reported)	19,428	18,203	15,736	14,273	10,000	10,000
Adjusted ratios						
Debt/EBITDA (x)	3.8	3.2	5.9	5.4	4.7	3.6
FFO/debt (%)	20.4	23.8	5.9	11.6	14.9	21.7
Annual revenue growth (%)	15.2	5.2	(5.5)	0.6	2.9	15.6
EBITDA margin (%)	8.6	8.3	6.8	6.9	7.7	9.0

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. N.M.--Not meaningful.

Liquidity

The short-term issuer credit rating is 'twA-2'. We believe Walsin Lihwa has adequate liquidity, which reflects a ratio of liquidity sources to liquidity uses of about 1.2x for the 12 months ending June 2026. We also believe the company will have positive liquidity sources minus uses, even if its EBITDA declined by 15%.

In addition, we assess Walsin Lihwa has a solid relationship with banks, as indicated by the low interest rate on its bank loans. The company's satisfactory standing in the credit markets also supports this view. In addition, we believe Walsin Lihwa has generally prudent risk management to ensure it maintains adequate liquidity, as indicated by the company's recent share issuance. Walsin Lihwa's sufficient undrawn bank credit lines and flexibility to increase bank facilities further support this view. The company's bank loans carry some financial covenants; however, we believe Walsin Lihwa will meet these with sufficient headroom over the next one to two years.

Principal liquidity sources

- Cash and short-term investments of NT\$19.1 billion at the end of June 2025.
- Funds from operations of NT\$8 billion-NT\$11 billion up to June 2026.
- Committed mid-term bank lines of NT\$8 billion-NT\$10 billion up to June 2026.
- Working capital inflow of NT\$2 billion-NT\$3 billion up to June 2026.

Principal liquidity uses

- Long-term debt amortization plus short-term debt maturity of NT\$18.1 billion up to June 2026.
- Capex of NT\$10.5 billion-NT\$12.5 billion up to June 2026.
- Cash dividend of NT\$2 billion up to June 2026.

Rating Score Snapshot

Issuer Credit Rating: twA-/Negative/twA-2

Note: The descriptors below are in comparison with global obligors.

Business risk: Fair

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

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: twbbb+

Modifiers

- Diversification/portfolio effect: Neutral (no impact)
- Capital structure: Positive (+1 notch)
- 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-

Related Criteria & Research

Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology - July 07, 2025
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- 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
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021
- Why China's 'Collaborative' Commodities Cuts May Result In Delays, www.capitaliq.com - August 6, 2025

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

Ratings List

Ratings Affirmed

Walsin Lihwa Corp.

Issuer Credit Rating	twA-/Negative/twA-2
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