

## Media Release:

# Chung Hung Steel 'twA/twA-1' Ratings Affirmed On Group Support; SACP Lowered On Weaker Profitability; Outlook Negative

September 25, 2025

## Rating Action Overview

- Weak demand and tariff uncertainty could constrain **Chung Hung Steel Corp.'s** profitability from its specialized downstream steel services during 2025-2027, which will limit its ability to improve debt leverage. Chung Hung Steel had revenue of new Taiwan dollar (NT\$) 30.5 billion in 2024.
- We forecast the company's average ratio of funds from operations (FFO) to debt will be well-below 12% over the next two years. We have therefore lowered our assessment of Chung Hung Steel's stand-alone credit profile (SACP) to 'twbb' from 'twbb+'.
- We affirmed our 'twA' long-term and 'twA-1' short-term issuer credit ratings on the company to reflect our view of its role as a subsidiary of highly strategic importance to the parent **China Steel Corp.** group.
- The rating outlook remains negative to reflect the negative outlook on China Steel Corp.

## Rating Action Rationale

**Recovery in sales volume and profitability won't come quickly amid ongoing oversupply of steel products in China and the uncertain impact of U.S. tariffs.** Significant oversupply of steel products in China and the levying of tariffs by the U.S. administration slowed demand for Chung Hung Steel's products over the past few quarters, with no signs of significant recovery on the horizon. Shrinking demand led to a decline in the company's year-on-year sales volume of 25%-28% in the first half of 2025.

We expect Chung Hung Steel's annual sales volume to drop to close to one million tons in 2025 from 1.5 million tons in 2024. This will delay recovery in the company's EBITDA margin beyond our previous forecast timeframe. Our base-case assumptions factor in some recovery in late 2025 once uncertainty over U.S. tariff policy wanes. However, we expect the EBITDA margin to increase only mildly to 3.5% in 2027, up from negative 1.9% in 2024, because increased trade costs could limit the pace of steel demand recovery.

The decline in Chung Hung Steel's profitability also reflects the company's limited production lines as a downstream steel processor. The company has been improving its operating efficiency and customer service through increasing customized specifics, shortening sales cycle, and tightening

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inventory control. We believe these efforts will help Chung Hung Steel deliver better performance once its sales activities normalize.

We could lower our assessment of the SACP over the next one to two years if the company is unable to restore its competitive ability and profitability to the levels we anticipate. This could occur due to continuous oversupply or an unfavorable trade environment, and debt materially increases to a level that offsets the financial buffer provided by the company's land assets.

**The ratings still move in tandem with those on China Steel.** We continue to view Chung Hung Steel as a highly strategic member of the wider China Steel group. This reflects the parent's 40.59% ownership stake in Chung Hung Steel, which makes it the largest shareholder and gives China Steel control over the subsidiary's board. Chung Hung Steel's operations are very important to the parent group and help maintain its dominant share of Taiwan steel product market. Therefore, the long-term rating on Chung Hung Steel is one notch below China Steel's group stand-alone credit profile, and the rating on the subsidiary will move in tandem with the long-term rating on China Steel.

## Outlook

The negative rating outlook on Chung Hung Steel reflects the negative outlook on its parent, China Steel, given our view of Chung Hung Steel as a highly strategic subsidiary of the parent group. The outlook also reflects our view that China Steel's ratio of FFO to debt could stay around 12% for longer than under our previous forecast.

Downside risk for the rating is likely to prolong amid dampened prospects for a demand recovery under rising trade and economic uncertainties. This includes rapid changes in U.S. tariff policy potentially leading to slower economic and steel demand growth. This is despite China Steel's declining capital expenditure (capex) needs and our view that the levying of an anti-dumping tax in Taiwan should provide some credit buffer for China Steel's debt leverage.

### Downward scenario

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

- China Steel's ratio of FFO to debt fails to improve to materially above 12% or the company's EBITDA margin fails to recover to above 12% for an extended period. The possible scenarios for this are: (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 that curbs its ability to deleverage and results in elevated debt for an extended period; or
- We believe the link between China Steel and the Taiwan government has weakened from our current assessment of strong, which may happen if the government materially lowers its ownership stake in China Steel. However, we view this scenario to be remote over the next two years.
- We may also lower the rating on Chung Hung Steel if we believe China Steel's support for the subsidiary has weakened. This could happen if China Steel significantly lowers its ownership in Chung Hung Steel or reduces its control over Chung Hung's board of directors.

## Upward scenario

We may revise the outlook to stable if we revise the rating outlook on China Steel to stable. This may occur if we believe China Steel could keep its ratio of FFO to debt above 12% and its EBITDA margin recover to above 12% on a sustainable basis. This could result from improving export businesses and sustainable domestic sales through timely and effectively product mix adjustments.

## Our Base-Case Scenario

- S&P Global Ratings' forecast for Taiwan's GDP to grow by 5.5% in 2025 and 1.6% in 2026; and for Asia Pacific by 4.4% in 2025 and 4.6% in 2026.
- Chung Hung Steel's sales volume to decline by 26%-30% in 2025 due to additional cost and rising uncertainty from U.S. tariffs. We forecast sales volume will rebound by 21%-25% in 2026, given a likely decline in uncertainty over U.S. tariff policy. However, even improved sales volume in 2026 would be relatively low compared to the average industry cycle.
- Average selling price could decline by 9%-13% in 2025 but increase by 3%-6% in 2026 to reflect a similar trend in steel prices because of lower prices for coking coal and iron ore during weak demand.
- Slab cost to decrease by 35%-40% in 2025, mainly due to lower sales volume with a 13%-16% slab price correction. Slab cost could increase by 22%-26% in 2026, mainly supported by rising sales volume.
- Chung Hung Steel's gross margin will deteriorate to negative 5.0%-negative 6.5% in 2025, considering lower utilization and inventory losses. Gross margin could recovery to 1%-3% in 2026 with some recovery in sales volume and a reversal of inventory valuations associate with a mild increase in slab prices.
- Selling, general and administrative expense to slightly increase to 2.1%-2.4% of total revenue in 2025 but reduce to 1.6%-1.9% in 2026, following revenue changes.
- Capex will remain limited at NT\$300 million-NT\$400 million over the next two years.
- No cash dividend in 2025 and 2026.
- Surplus cash haircut at 100%.

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.

**Chung Hung Steel Corp. – Taiwan Ratings Corp. Forecast summary**

Industry sector: Metal and mining

<b>(Mil. NT\$)</b>	<b>2022a</b>	<b>2023a</b>	<b>2024a</b>	<b>2025e</b>	<b>2026f</b>	<b>2027f</b>
Revenue	44,504	37,764	30,462	19,804	25,183	28,929
EBITDA (reported)	(1,043)	667	(587)	(1,606)	(144)	1,010
Plus/(less): Other	36	54	12	12	12	12
EBITDA	(1,006)	721	(575)	(1,594)	(132)	1,022
Less: Cash interest paid	(115)	(217)	(221)	(234)	(238)	(244)
Less: Cash taxes paid	(653)	(62)	(3)	3	3	3
Funds from operations (FFO)	(1,775)	441	(799)	(1,825)	(367)	782
Cash flow from operations (CFO)	447	2,002	(346)	1,046	(806)	94
Capital expenditure (capex)	323	393	578	350	350	400
Free operating cash flow (FOCF)	125	1,609	(924)	696	(1,156)	(306)
Debt (reported)	17,659	14,817	15,217	13,840	14,996	15,302
Plus: Lease liabilities debt	49	70	102	147	147	147
Plus/(less): Other	244	88	162	162	162	162
Debt	17,952	14,974	15,480	14,148	15,304	15,610
Cash and short-term investments (reported)	6,056	3,738	2,937	1,500	1,500	1,500
<b>Adjusted ratios</b>						
Debt/EBITDA (x)	(17.8)	20.8	(26.9)	(8.9)	(116.0)	15.3
FFO/debt (%)	(9.9)	2.9	(5.2)	(12.9)	(2.4)	5.0
FFO cash interest coverage ratio (x)	(14.4)	3.0	(2.6)	(6.8)	(0.5)	4.2
Annual revenue growth (%)	(17.2)	(15.1)	(19.3)	(35.0)	27.2	14.9
EBITDA margin (%)	(2.3)	1.9	(1.9)	(8.0)	(0.5)	3.5

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 on Chung Hung Steel is 'twA-1' to reflect the long-term issuer credit rating and our assessment of the company's liquidity as adequate over the 12 months ending June 2026. The liquidity assessment reflects our view that the ratio of liquidity sources to liquidity uses will be 2x over the same period. In addition, we believe Chung Hung Steel's liquidity sources will continue to exceed its uses, even if EBITDA was to decline by 15%.

We assess the company has well-established banking relationships and a generally satisfactory standing in credit markets, supported by its close association with China Steel group. The low interest rate on Chung Hung Steel's bank loans and issued bonds demonstrates this relationship, in our view. The company carries some financial covenants with narrowing buffer for year-end 2025. However, we view the potential covenant breach is unlikely to negatively affect Chung Hung Steel's access to bank facilities, considering its association with China Steel group.

**Principal liquidity sources**

- Cash and short-term investments of about NT\$3.6 billion as of June 30, 2025.
- Undrawn bank lines maturing beyond June 30, 2026, of NT\$11 billion-NT\$12 billion.
- Cash flow from operations of NT\$0.5 billion-NT\$1.5 billion for the 12 months ending June 30, 2026.

**Principal liquidity uses**

- Debt maturities of about NT\$6.5 billion for the 12 months ending June 30, 2026.
- Capex of NT\$300 million-NT\$400 million for the 12 months ending June 30, 2026.

**Ratings Components Score**

<b>Chung Hung Steel Corp.</b>	<b>To</b>	<b>From</b>
Issuer Credit Rating	twA/Negative/twA-1	twA/Negative/twA-1
Business risk	Weak	Weak
Country risk	Intermediate	Intermediate
Industry risk	Moderately high	Moderately high
Competitive position	Weak	Weak
Financial risk	Highly leveraged	Highly leveraged
Cash flow/Leverage	Highly leveraged	Highly leveraged
Anchor	twb+	twbb
Modifiers		
Diversification/Portfolio effect	Neutral (no impact)	Neutral (no impact)
Capital structure	Positive (+1 notch)	Positive (+1 notch)
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 (SACP)	twbb	twbb+
Group stand-alone credit profile (which excludes external support)	twA+	twA+
Entity status within group	Highly strategic (one notch below GSACP)	Highly strategic (one notch below GSACP)
Note: The descriptors are on a global scale. GSACP--Group stand-alone credit profile.		

**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

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## Ratings List

### Ratings Affirmed

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#### Chung Hung Steel Corp.

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Issuer Credit Rating	twA/Negative/twA-1
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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](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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