Media Release:

Ratings On Hotai Leasing Corp. Affirmed At 'twAA-/twA-1+' On Strong Group Support; Outlook Stable

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PRIMARY CREDIT ANALYST

Patty Wang
Taipei
+886-2-7724-8651
patty.wang
@spglobal.com
patty.wang
@taiwanratings.com.tw

SECONDARY CONTACT

Yuhan Lan
Taipei
+886-2-7724-8666
yuhan.lan
@spglobal.com
yuhan.lan
@taiwanratings.com.tw

Rating Action Overview

- We believe Taiwan-based **Hotai Leasing Corp.'s** capital strength will improve to strong from moderate following completion of its IPO in August 2026.
- We also believe the company's stand-alone credit profile will strengthen to be comparable to those of larger finance companies in Taiwan.
- We continue to view Hotai Leasing as a core subsidiary of the wider Hotai Motor Co. Ltd. group and we believe potential support from the parent group will remain unaffected by the dilution of the group's stockholding following the IPO.
- We have affirmed our 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on Hotai Leasing. The ratings and outlook on Hotai Leasing continue to move in tandem with the direction of the parent group credit profile.
- The rating outlook is stable to reflect our view that Hotai Motor will maintain the overall consolidated group credit profile over the next two years.

Rating Action Rationale

Hotai Leasing's stand-alone credit profile will likely strengthen under its improved capitalization post-IPO. The company has already received regulatory approval for its planned IPO, which is set for mid-August 2026. We forecast the IPO will bring in enough new capital to strengthen Hotai Leasing's capitalization to strong from our current assessment of moderate relative to its consolidated risk profile. The company's risk-adjusted capital (RAC) ratio was 5.2% at the end of 2025 and the planned IPO with potential new Taiwan dollar (NT$) 3.6 billion in new capital will likely boost the ratio to around 12.0% at the end of 2026.

We see Hotai Leasing maintaining its strong capital level with the RAC ratio above 10% over the next two years. Our base case for Hotai Leasing takes into consideration organic growth of 10% in accounts receivables and operating lease assets. We anticipate the company's earnings will improve moderately as it adjusts the funding profile to reduce costs and enhance risk pricing. Hotai Leasing is also likely to distribute most of its earnings via cash dividends over the next few years. However, we believe any capital needs for potential business expansion locally or overseas will be small and manageable over the period.

The post-IPO credit profile should be similar to other larger sized local finance companies including Hotai Finance. Both Hotai Leasing and sister company Hotai Finance Co. Ltd. are market leaders in their respective finance and leasing sectors. They have demonstrated business stability and steady profits over the past few years; nonetheless, Hotai Leasing may be less competitive advantages compared with other larger finance companies in Asia Pacific due to Hotai Leasing's weaker product diversity and smaller scale. Any aggressive growth, organic or inorganic, to build business scale could jeopardize the company's strong capital or adequate risk position.

We consider Hotai Leasing to be a core entity of the wider Hotai Motor group. This is because the company plays an important role in the group's operations and is highly integrated within the group's business strategies. We believe Hotai Motor will remain the majority shareholder in the leasing subsidiary post-IPO. Relationships and close collaboration with the parent group will not diminish even though the IPO will dilute the parent group's stake holding. Hotai Leasing remains the sole provider of long-term auto leasing services within the parent group, offering leasing products to the group's customers to facilitate the group's auto-related sales. We therefore believe Hotai Motor will support the subsidiary under any foreseeable circumstances.

Outlook

The stable rating outlook reflects our view that Hotai Motor's consolidated group credit profile will remain unchanged over the next two years. We believe Hotai Leasing will remain a core subsidiary to Hotai Motor group over the same period with the ratings and outlook on the subsidiary moving in tandem with the direction of the parent group credit profile.

Several factors support Hotai Motor's stable group credit profile. These include (1) Hotai Motor's leading market position, stable profitability, (2) its long-term relationship with Japan-based Toyota Motor Corp.; and (3) our view that the good business position of the group's leasing and finance subsidiaries will continue to support the group credit profile over the next two years.

In our view, Hotai Motor will remain the largest seller in the domestic auto sector by market share over the next two years, supported by better and more comprehensive product offerings than its competitors. Nevertheless, we believe Hotai Motor's credit profile is unlikely to improve significantly over the same period due to its high business concentration in Taiwan's mature and competitive automotive market.

Material changes in the Taiwan government's tariff policy for imported cars could lead to deviation from our forecasts; however, we believe Hotai Motor can rely on its flexible and timely business strategy to sustain its performance and absorb potential downside pressure. In addition, Hotai Motor's sustainable operating cash flow generation and prudent capital expenditure should continue to support its net cash position in 2026-2028. This is despite the group's planned cash outflow needs for investment in five Hino dealerships in Japan.

Downside scenario

We may lower the long-term rating on Hotai Leasing if any of the following occur:

- The company's importance to the group weakens and we revise downward our assessment of its group status. This could result from the company's weaker operating performance or integration with the group;
- Hotai Motor's market share for Toyota branded cars drops below 25% on a sustainable basis, thus materially weakening the company's competitive position;

- Hotai Motor's profitability, as demonstrated by its EBITDA margin, weakens to consistently below 3.5% along with magnified volatility in profitability and noticeable deterioration in its balance sheet. This could result from rising competition from local and foreign brands, lower tariffs on imported cars, or a significant loss on Hotai Motor's overseas investments;
- Hotai Motor's debt-to-EBITDA ratio weakens and remains above 1.5x possibly due to deterioration in profitability or more aggressive investment plans or capital injection needs of its subsidiaries;
- Toyota terminates its business relationship with Hotai Motor; or
- Hotai Leasing Corp. and fellow subsidiary, Hotai Finance, report significant deterioration in their respective credit profiles, which leads us to revise downward lowering our assessment of the group credit profile. However, we believe this possibility to be very low over the next two years.

Upside scenario

We could upgrade Hotai Leasing if Hotai Motor strengthens its market position, such that its market share for Toyota branded cars rises sustainably above 40%. At the same time, Hotai Motor would need to maintain a net cash position.

Rating Component Scores

Issuer Credit Rating	twAA-/Stable/twA-1+
SACP	bb+
Anchor*	bb
Business position	Strong
Capital and earnings	Strong
Risk position	Adequate
Funding	Adequate
Liquidity	Adequate
Comparable ratings analysis	-1
Support	+2
ALAC support	0
GRE support	0
Group support	+2
Sovereign support	0
Additional factors	0

ALAC--Additional loss-absorbing capacity. GRE--Government-related entity. SACP--Stand-alone credit profile.

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, May 5, 2026
- General Criteria: National And Regional Scale Credit Ratings Methodology, June 8, 2023
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

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

Ratings List

Ratings affirmed

Hotai Leasing Corp.	
Issuer Credit Rating	twAA-/Stable/twA-1+