

## Research Update

# Yulon Motor Co. Ltd. Ratings Affirmed At 'twA-/twA-2' Under Revised Criteria; Outlook Stable

July 8, 2019

## Rating Action Overview

- Our assessment of the Yulon Motor group credit profile is 'twA-' following a review under S&P Global Ratings' revised Group Rating Methodology, published July 1, 2019.
- On July 5, 2019, Taiwan Ratings Corp. affirmed its 'twA-' long-term and 'twA-2' short-term issuer credit ratings on Yulon Motor Co. Ltd.
- The rating outlook is stable.

## Rating Action Rationale

The rating affirmation reflects our view that the group credit profile (GCP) of the Yulon Motor group remains unchanged at 'twA-', following our review under S&P Global Ratings' revised Group Rating Methodology.

Based on the revised criteria, we first determine the standalone credit profile (SACP) of **Yulon Motor Co. Ltd.** (after deconsolidating **Yulon Finance Corp.**) based on S&P Global Ratings' corporate methodology criteria and the SACP of Yulon Finance based on S&P Global Ratings' non-bank financial institution criteria. We then combine the two SACPs to derive the GCP for the Yulon Motor group. Prior to the criteria revision, we incorporated analysis of the financial subsidiary in our corporate methodology to derive the ratings on Yulon Motor.

In our view, several factors support Yulon Motor's SACP. These include the satisfactory market position of the company's Nissan branded car business in China in which Yulon Motor has directly invested and could continue to receive sizable and sustainable cash dividends, generally stable auto manufacturing business in Taiwan, and good financial flexibility with large investment properties on hand. However, the limited sales scale and weak brand name of its Luxgen business constrains the SACP and results in generally volatile credit metrics, as well as elevated losses associated with the development of new Luxgen models.

Yulon Finance's SACP reflects our view that the company has a strong business position in the domestic car financing and leasing sectors, strong capitalization relative to the company's risk profile, and an adequate funding and liquidity profile. Yulon Finance's moderate risk control framework compared to those of local banks somewhat tempers these strengths.

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# Outlook

The stable outlook on Yulon Motor reflects our view that Yulon Finance's growing contribution to the Yulon group, strong capitalization, and prudent capital management will mitigate Yulon Motor's higher financial risk associated with the Luxgen brand. The stable outlook also reflects our expectation that sales of Nissan-branded cars in Taiwan and Luxgen-branded cars could recover moderately after the launch of new car models, leading to a mild recovery in Yulon Motor's EBITDA. At the same time, we believe strong and stable sales of Nissan-branded cars in China will continue to underpin Yulon Nissan's capability to contribute significant and a stable cash dividend to Yulon Motor. In addition, sales from the company's real estate project in New Taipei City's Xindian district could lower Yulon Motor's debt level substantially in 2023.

## Downward scenario

We may lower the long-term rating on Yulon Motor if the group's GCP weakens materially. This could happen if Yulon Motor's ratio of debt to EBITDA exceeds 4x on a consistent basis, either due to much weaker sales of Luxgen or Nissan branded cars or due to higher R&D cost for Luxgen's new auto development. A downgrade could also happen if Yulon Finance's stand-alone credit profile weakens materially.

## Upward scenario

The likelihood of an upgrade is very low over the next two years, due to Yulon Motor's likely high development spending on new car models and cash outflow associated with the company's real estate development project over the same period. However, we may raise the rating on Yulon Motor if the company's ratio of debt to EBITDA improves to below 2x on a consistent basis, possibly via asset disposal that lowers its debt level or via revenue growth that strengthens cash flow generation substantially. We may also raise the rating if Yulon Finance's capitalization improves substantially.

# Rating Score Snapshot

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

Note: All scores are in comparison with global obligors and are based on Yulon Motor after deconsolidating Yulon Finance.

Business risk: Weak

- Country risk: Moderately high
- Industry risk: Moderately high
- Competitive position: Weak

Financial risk: Significant

- Cash flow/Leverage: Significant

Anchor: twbbb-

Modifiers

- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Positive (+1 notch)
- Liquidity: Adequate (no impact)
- Financial policy: Neutral (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Neutral (no impact)

Stand-alone credit profile: twbbb

- Group credit profile: twa-
- Entity status within group: ultimate parent

## Related Criteria

- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology -December 09, 2014
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Understanding Taiwan Ratings' Rating Definitions, [www.taiwanratings.com](http://www.taiwanratings.com) - June 26, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General Criteria: Methodology: Industry Risk - November 19, 2013
- Criteria - Corporates - Industrials: Key Credit Factors For The Auto And Commercial Vehicle Manufacturing Industry - November 19, 2013
- Criteria | Corporates | General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers - November 13, 2012
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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## Ratings List

Ratings Affirmed

### **Yulon Motor Co. Ltd.**

Issuer Credit Ratings

twA-/Stable/twA-2

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