

Media Release:

Yulon Finance Corp. Ratings Lowered To 'twA-/twA-2' From 'twA/twA-1' Following Similar Parent Action; Outlook Stable

April 10, 2020

Overview

- We recently lowered the long-term issuer credit rating on Yulon Finance's parent, Yulon Motor Co. Ltd. to 'twBBB+' from 'twA-' due to its weakened financial profile.
- We view Yulon Finance's stand-alone credit characteristics to be superior to those of the parent Yulon Motor group. We also assess Yulon Finance to be an insulated entity within the group, which allows for a one notch uplift to the issuer credit rating on Yulon Finance above the group credit profile.
- We are therefore lowering our long-term and short-term issuer credit ratings on Yulon Finance to 'twA-/twA-2' from 'twA/twA-1'.
- The outlook on the long-term rating is stable, to reflect the company's stable stand-alone credit profile, as well as the rating outlook on Yulon Motor.

Rating Action

Taiwan Ratings Corp. today lowered its long-term and short-term issuer credit ratings on **Yulon Finance Corp.** to 'twA-/twA-2' from 'twA/twA-1'. The outlook on the long-term rating is stable.

Rationale

The downgrade action mainly follows similar rating action that we recently took on Yulon Finance's parent company, **Yulon Motor Co. Ltd.** This reflects a certain level of credit linkage and name association with the parent group in the local financial market. However, we continue to view Yulon Finance's stand-alone credit profile as superior to the group credit profile, and we believe that Yulon Finance remains an insulated entity of the parent group with operational separation from the parent. Based on our assessment of the extent of this credit insulation, the issuer credit rating on Yulon Finance can be no more than one-notch higher than the group credit profile.

The ratings on Yulon Finance continue to reflect the company's strong business position in the domestic car financing and leasing sectors, strong capitalization relative to its risk profile, and

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adequate funding and liquidity profile. The company's moderate risk control framework compared to that of local banks somewhat tempers these strengths.

Outlook

The stable outlook reflects our expectation that Yulon Finance will maintain its strong market position in the domestic car financing and leasing sectors and strong capitalization over the next one to two years. We also expect its parent, Yulon Motor, to maintain a stable credit profile over the same period.

Downward scenario

We may lower the long-term rating on Yulon Finance if the company's stand-alone credit profile weakens, as indicated by a consolidated risk-adjusted capital ratio below 10%, or if the company's asset quality deteriorated substantially. We may also lower the long-term rating if Yulon Motor's credit profile deteriorates materially, leading us to lower our assessment of the Yulon group credit profile.

Upward scenario

We may upgrade Yulon Finance if Yulon Motor improves its credit profile by at least one rating notch.

Related Criteria & Research

Related Criteria

- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com - June 26, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- General Criteria: Hybrid Capital: Methodology And Assumptions - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

Related Research

- Media Release: Yulon Motor Co. Ltd. Downgraded To 'twBBB+/twA-2' On Uncertain Timeframe To Recover Financial Strength; Outlook Stable, www.taiwanratings.com - April 9, 2020

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Ratings List

Downgraded

	To	From
Yulon Finance Corp.		
Issuer Credit Rating	twA-/Stable/twA-2	twA/Stable/twA-1

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 for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.

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