Media Release:

FCB Leasing Co. Ltd. Assigned 'twA+/twA-1' Ratings; Outlook Stable

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Overview

- We view FCB Leasing as a strategically important entity to Taiwan-based First FHC group.
- FCB Leasing operates in line with the group's core financial services and plays an important role in providing leasing services to small and mid-size enterprise clients.
- We are therefore assigning our 'twA+' long-term and 'twA-1' short-term issuer credit ratings on FCB Leasing.
- The stable outlook reflects the outlook the parent group and our expectation that FCB Leasing will maintain its very strong capitalization and strategically important group status over the next two years.

Rating Action

Taiwan Ratings Corp. today assigned its 'twA+' long-term and 'twA-1' short-term issuer credit ratings on FCB Leasing Co. Ltd. The outlook on the long-term rating is stable.

Rationale

The ratings on FCB Leasing reflect the implicit support from the company's financially stronger parent First Financial Holding Co. Ltd. (First FHC) group, based on our view that FCB Leasing is a strategically important member of the group. The ratings also reflect the company's very strong capitalization and adequate funding and liquidity supported by the group's resources. Counterbalancing factors include FCB Leasing's limited operating scale in Taiwan's finance and leasing industry and moderate risk position due to some single name concentration.

We consider FCB Leasing to be strategically important to the First FHC group. FCB Leasing complements the group's key strategy to serve small and mid-size corporates in Taiwan and China. First FHC fully owns FCB Leasing through the group's banking unit, First Commercial Bank. FCB Leasing's reputation is closely linked with that of the parent group, given the similar naming and logo. FCB Leasing represents only a small proportion of the group's total capital base, at about 2% in 2019, and makes a limited profit contribution to the group.

Our 'bb+' anchor for FCB Leasing on a global scale reflects the company's business focus as a finance company (FINCO) and also the fact the Financial Services Commission (FSC) supervises FCB Leasing through its parent banking group, First FHC group.

We estimate FCB Leasing's asset exposure mix is 70% in Taiwan and 30% in China and other ASEAN countries. This exposes FBC Leasing to higher economic risks compared with other FINCO operating mostly in Taiwan. The anchor for FINCOs in general is three notches below bank anchor for Taiwan to reflect our view that FINCOs face higher economic and industry risk than banks do. In addition, the reliance of FINCOs on wholesale funding and the lack of direct access to central bank funding weakens their risk assessment compared with that of banks, because banks benefit from retail and diversified funding sources. This is despite the fact that FINCOs in general have adequate profit margins and the market shares of leading players are relative stable, suggesting a certain level of entry barriers.

FCB Leasing operates under a financial holding company umbrella in Taiwan. This brings FCB Leasing under the jurisdiction of the FSC. For FINCOs regulated by the FSC, we generally apply a one notch uplift from the anchor when we determine the issuer credit rating. This is because we believe that such FINCOs operate under the same, albeit a less comprehensive framework, as banks do. These FINCOs follow the prudent financial requirements set by the FSC, but with reporting standards that are less robust than those for banks.

FCB Leasing is a small to mid-size finance company that provides financing services to small and mid-size enterprises in Taiwan while at the same time the company has expanded its business scope to China and Association of Southeast Asian Nations (ASEAN) countries via its subsidiaries. FCB Leasing's revenue saw some volatility several years ago but has regained its momentum since 2018 and has shown good stability since then. The company's business mix includes financing, loans and long-term auto leasing business.

Referrals from First Commercial Bank contribute more than 50% of FCB Leasing's overall business, which helps FCB Leasing to weather business cycles. FCB Leasing has adequate business diversity because it goes hand in hand with its parent bank to set up subsidiaries in China, which the group refers to as a 'dual engine' strategy. FCB Leasing also taps into the ASEAN market together with its parent bank to increase its business scale.

In our view, FCB Leasing has very strong capitalization under the company's prudent growth strategy. As of the end of 2019, FCB Leasing's risk-adjusted capital (RAC) ratio was 20.6%. Our base-case expectation for FCB Leasing is for flat business growth in 2020 in light of negative or greatly reduced GDP growth in Taiwan and in key overseas markets due to the COVID-19 pandemic, and marginal 3% business growth in 2021-2022. Under this scenario, we believe the company is likely to sustain its RAC ratio at above 15% over the same period, which is our lower threshold for very strong capitalization. FCB Leasing will maintain its high cash dividend payout policy under the guideline from the group. Given the financing company's priority on bottom-line profit instead of top line growth in the coming two years, we expect FCB Leasing's capitalization to continue to provide a buffer against potential capital volatility in the coming two years.

We assess FCB Leasing's credit risk mechanism and controls as adequate, but weakened by higher single-name concentration in its credit portfolio. We anticipate the company will maintain adequate underwriting discipline under close oversight from its bank parent, although the financing firm has higher inherent credit risks than local banks have. FCB Leasing's ratio of non-performing loans (defined as loans that are 90-day overdue) was 2.7% in 2019, which shows improvement from a historical 3%-4%. We expect the ratio to remain at close to the peer average of 2%-3% over the next two years, in spite of pressure stemming from the global economic slowdown. Loss coverage on nonperforming loans exceeded 100% in

2019 and we expect this level to sustain over the coming two years. FCB Leasing has somewhat higher single-name concentration in its credit exposure than its peers have, partly due to good chunk of business referral from its parent bank.

FCB Leasing's membership of the financially stronger First FHC group will continue to support the financing company's satisfactory funding and liquidity profile, despite its wholesale funding nature. FCB Leasing's funding sources include commercial papers and bank loans. We believe the company has adequate funding sources relative to its potential funding needs. In addition, FCB Leasing has an adequate liquidity management mechanism to manage future cash outflow needs, in our view. Hence, we do not foresee the company will have any difficulties to retain sufficient funding over the next two years, given ample liquidity in Taiwan's financial market.

Outlook

The stable outlook on FCB Leasing reflects the company's strategic important group status within First FHC group. We believe the group will provide support to FCB Leasing when needed. The stable outlook also reflects our expectation that the company will adopt a prudent growth strategy, given likely economic uncertainty in the coming two years, particularly in China and ASEAN countries.

Downward scenario

We could lower the rating if the company pursues more aggressive overseas business expansion in the next two years which increases its overall economic risk. We would also lower the rating if FCB Leasing's RAC ratio drops below 15% over the next two years.

Upward scenario

We could raise the rating on FCB Leasing if the company grows its presence in the leasing industry while maintaining its profitability at about the industry average over the next two years.

Related Criteria

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

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

Ratings List

New Rating

FCB Leasing Co. Ltd.	
Issuer Credit Rating	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.