

Media Release:

Hotai Leasing Corp. 'twAA-/twA-1+' Ratings Affirmed; Outlook Stable

July 30, 2020

Overview

- Hotai Leasing's capital adequacy has weakened due to the company's growth in leasing assets and its rising exposure from equity method investments.
- Nonetheless, given the company's solid franchise and superior track record for operating performance and asset quality, we believe the stand-alone credit profile hasn't weakened.
- As a core group member, the ratings on Hotai Leasing move in tandem with the consolidated credit profile of the parent Hotai Motor group.
- We are affirming our 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on Hotai Leasing Corp.
- The rating outlook is stable to reflect our assessment of the consolidated credit profile of the parent group and our expectation that Hotai Leasing will remain a core subsidiary of the group over next one to two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on **Hotai Leasing Corp.** The outlook on the long-term rating is stable.

Rationale

The ratings on Hotai Leasing mainly reflect our view of the company's core status and importance to its financially stronger parent, Hotai Motor Corp., which holds around a 66% stake in the finance unit. The ratings also reflect Hotai Leasing's strong business position and better loss experience compared with domestic peers'. Counterbalancing factors include the company's moderate capital adequacy compared with its risk exposure, the company's more relaxed underwriting standard compared to banks, and its wholesale funding reliance and the mismatch on its asset liability tenor that make Hotai Leasing sensitive to market liquidity stress.

We have revised our assessment of Hotai Leasing's capital and earning to moderate from adequate previously, because we view the company's growth in leasing assets and use of equity method investment has eroded its capital adequacy. However, despite the negative impact of equity method investment on the company's capital adequacy, these investments were mostly made in other group members upon guidance from its parent group and our

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assessment of capital, leverage, and earnings is at the higher end of the moderate range. Considering Hotai Leasing's solid franchise in the domestic leasing industry as well as the good track record for its asset quality and operating performance, we believe the stand-alone credit profile remains unchanged.

The rating affirmation reflects our view of Hotai Leasing's high integration with the parent group, importance within the group's business strategy, and significant profit contribution to the parent. We therefore believe Hotai Leasing will remain a core member for the foreseeable future and as such the ratings on Hotai Leasing will move in tandem with the group credit profile.

Outlook

The stable outlook on Hotai Leasing reflects our expectation that the company will remain a core group subsidiary over next one to two years. The outlook also reflects our assessment of the consolidated group credit profile supported by several factors. These include Hotai Motor's leading market position, long-term association with Japan-based Toyota Motor Corp., stable profitability, and the good business position of the group's leasing and finance subsidiaries.

We expect Hotai Motor to continue to improve its market share over the next 12 months, supported by popular models and attractive product offerings of Toyota and Lexus branded cars. Nevertheless, we believe Taiwan's mature and competitive automotive market is likely to constrain further significant improvement in Hotai Motor's credit over the next 12-24 months

Downside scenario

We may lower the long-term rating on Hotai Leasing if the company's importance to the group weakens and leads us to change our assessment of its group status. This could result from the company's weaker operating performance or integration with the group.

We may also lower the rating on Hotai Leasing if:

- (1) Hotai Motor's market share of Toyota branded cars drops below 25% on a sustainable basis and materially weakens Hotai Motor's competitive position, or
- (2) Hotai Motor's profitability weakens. A decline in Hotai Motor's EBITDA margin to below 3.5% on a prolonged basis accompanied by magnified volatility in its profitability and deterioration in the balance sheet would signify such weakening. This could result from rising competition from local and foreign brands, a significant loss on Hotai Motor's overseas investments, or
- (3) Toyota terminates its business relationship with Hotai Motor.

We may also lower the rating on Hotai Leasing if it and fellow subsidiary Hotai Finance Corp. experience significant deterioration in their respective credit profiles, which leads us to lower our assessment of the consolidated group credit profile. However, we believe the possibility of this scenario to be very low over the next two years.

Upside scenario

We believe there is a limited likelihood that we would raise the rating on Hotai Leasing over the next one to two years. However, we may upgrade Hotai Leasing if Hotai Motor can further strengthen its market position for Toyota branded cars above 40% on a sustainable basis, while maintaining its profitability.

Related Criteria

- Understanding Taiwan Ratings' Rating Definitions - 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: 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

(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+
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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 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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