Media Release:

SinoPac Leasing Corp. Assigned 'twA+/twA-1' Ratings; Outlook Stable

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Overview

- We view SinoPac Leasing Corp. as a strategically important entity to Taiwan-based **SinoPac Holdings**.
- We are therefore assigning our 'twA+' long-term and 'twA-1' short-term issuer credit ratings to SinoPac Leasing Corp.
- The stable outlook reflects the outlook on the parent group and our expectation that SinoPac Leasing will maintain its very strong capitalization, fine underwriting standards, and strategically important group status over the coming two years.

Rating Action

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

Rationale

The ratings on SinoPac Leasing reflect the implicit support from the company's financially stronger parent, SinoPac Holdings, based on our view that SinoPac Leasing is a strategically important member of the parent 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 smaller operating scale compared to regional peers and more aggressive risk appetite to grow in higher risk countries overseas.

We consider SinoPac Leasing to be strategically important to the group. The company serves the key role of exploring corporate financing sectors in overseas markets for the group. SinoPac Leasing also complements the group's core banking operation by serving small and mid-size corporates in Taiwan, South and South East Asia (SSEA), and Greater China, where the group sees strategic fit. SinoPac Holdings directly owns the leasing subsidiary and their reputation and brand names are closely linked. This is despite SinoPac Leasing accounts for just 1% of the group's assets, 3% of the group's net worth, and contributed 2%-3% of the group's profits in 2019.

Our 'bb' anchor for SinoPac Leasing reflects the company's business focus as a finance company (FINCO), its higher operation weighting overseas compared to local peers', and supervision by the Financial Supervisory Commission (FSC) through its parent holding company. The anchor is three notches below the anchor for Taiwan banks, reflecting the financing company's heavier weighted exposure in higher economic risk markets such as China and SSEA, as well as our view that the finance sector faces higher economic and industry risk than banks do. In our base case, we expect SinoPac Leasing's growth in higher economic risk markets to somewhat balance with growth in lower economic risk markets such as Taiwan and Hong Kong over the coming two years.

We consider FINCOs in Taiwan under the FSC's jurisdiction are subject to more prudent financial requirements and reporting standards compared with FINCOs that are not under the FSC's jurisdiction, though the framework is less comprehensive to that applied for banks. We also assess FINCOs as having adequate profit margins and the market shares for leading players are relatively stable, suggesting a level of entry barriers. However the reliance of Taiwan FINCOs on wholesale funding and the lack of direct access to central bank funding weaken their risk assessment compared with banks, which benefit from retail and diversified funding sources.

We consider SinoPac Leasing to be a mid-size finance company that provides equipment leasing and financing services to small and medium-size enterprises (SME). The company has quite a long operating history and has built a more extensive network overseas than its locally rated peers. SinoPac Leasing also has a well-built reputation and know-how in the used ship finance market abroad. These characteristics add to its business diversity and contribute to the company's stable business mix over the past few years. This is despite SinoPac Leasing’s operation is considered small scale compared with its regional peers. In addition, the company’s profits have been volatile over the past few years due to number of one-off events.

We expect SinoPac Leasing to maintain its very strong capitalization over the coming two years. The company's risk-adjusted capital (RAC) ratio was 18% as of the end of 2019. SinoPac Leasing has deleveraged over the past five years following the company's strategic change to focus more on small and midsize enterprise and micro-companies locally and overseas. The company's risk adjusted capital (RAC) ratio further improved to 20% as of June 2020, reflecting the company's tightened its risk controls amid the stagnant regional economy.

In our base-case, we expect the company's RAC ratio to trend slightly downward over the coming two years, though still remain within our assessment of very strong. We expect SinoPac Leasing to resume business growth of 20% in 2021-2022 following the economic recovery after COVID-19 abates. The company is likely to see higher growth overseas, particularly in Greater China compared with growth in its local book. Though we expect 2020 profits to decline compared with 2019 due to reduced operating business volume and potentially higher credit costs, profitability is nonetheless likely to restore somewhat in the following years as business momentum picks up again.

We assess SinoPac Leasing's risk controls and asset quality to be on par with local peers'. The company's single name concentration has improved over the past few years as it shifted away from a focus on large corporate clients. SinoPac Leasing's risk monitoring adequately follows that of the parent group, and underwriting policies are also adequate, in our view. The company's loss experience has been satisfactory over the past years, despite a spike in 2018 due to one single case. Nonetheless, we considered SinoPac Leasing's risk appetite to be slightly more aggressive than its local peers' due to its high growth targets especially in higher economic risk markets such as China.

As a member of the financially stronger SinoPac Holdings, SinoPac Leasing is likely to receive adequate funding and liquidity support from the parent company. Like other FINCOs, SinoPac Leasing relies on wholesale funding, particularly bank borrowings and commercial paper issuance as sources of funding. Short-term and mid-to-long term credit facilities available to the company is considered balanced. The company also maintains sufficient cash on-hand to ensure coverage of liquidity needs at all time.

Outlook

The stable outlook on SinoPac Leasing reflects the company's strategic importance to SinoPac Holdings. We believe the parent group will provide support to the leasing subsidiary in most foreseeable situations. The stable outlook also reflects our expectation that the company can maintain very strong capitalization and near peer average asset quality, despite its high growth strategy over the rating horizon.

Downward scenario

We could lower the rating if SinoPac Leasing's stand-alone credit profile weakened due to deterioration in its capitalization as a result of overly aggressive business growth or unexpected operating losses over the coming two years. We could also lower the ratings if the group credit profile deteriorates under the scenario that the core banking subsidiary is unable to maintain its strong capitalization.

Upward scenario

We believe an upgrade is remote over the next two years as it also is for the parent group.

Related Criteria & Research

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- 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

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

New Ratings

SinoPac Leasing Corp.	
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.