

Media Release:

Carplus Auto Leasing Corp. Ratings Affirmed At 'twA-/twA-2' Despite Weakened Asset Quality; Outlook Stable

June 24, 2021

Overview

- Deteriorating asset quality among **Carplus Auto Leasing Corp.'s** China subsidiaries has weakened Carplus' stand-alone credit profile, in our view. This results in a lower assessment of Carplus' risk position at moderate compared to adequate previously.
- However, as a core subsidiary of **Yulon Finance Corp.**, the ratings on Taiwan-based Carplus will move in tandem with our assessment of Yulon Finance's consolidated credit profile.
- We affirmed our 'twA-' long-term and 'twA-2' short-term issuer credit ratings on Carplus.
- The stable outlook reflects our assessment of Yulon Finance's credit profile and our view that Carplus will remain a core subsidiary of the parent over next one to two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA-' long-term and 'twA-2' short-term issuer credit ratings on Carplus Auto Leasing Corp. The outlook on the long-term rating remains stable.

Rationale

The ratings on Carplus mainly reflect the company's core status to Yulon Finance. The ratings also reflect Carplus' strong business position relative to local auto leasing peers' and the company's adequate capital level relative to its risk exposure. The company's moderate asset quality and wholesale funding nature somewhat offset these strengths.

We have lowered our assessment of Carplus' risk position to moderate from adequate to reflect the company's weaker consolidated asset quality. Although Carplus' risk control framework is not comparable to local banks', we view the company's domestic auto leasing business faces lower credit risk compared with domestic financial companies (fincos). That's because Carplus is protected by beneficial business features, including down payments made by lessees and the company's ownership of the vehicles it leases out. The satisfactory asset quality of Carplus' Taiwan business segment is evidence of this.

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Nonetheless, the asset quality of Carplus' China business segment deteriorated significantly between 2019-2020 due to unfavorable market momentum amid COVID-19. This economic downturn has negatively affected Carplus' overall consolidated asset quality and therefore also its stand-alone credit profile. As of the end of 2020, Carplus' consolidated non-performing asset (NPA) ratio rose to around 4.0%, up from 1.4% at the end of 2018 and 2.1% at the end of 2019. This asset quality is significantly weaker than the company's pre-pandemic level and is in line with that of other domestic fincos which we assess have moderate risk positions.

The ratings on Carplus continue to reflect our view that Carplus is a core subsidiary of Yulon Finance. Carplus is a provider of auto leasing and other auto-related services for its ultimate parent, Yulon Motor group. This affords Carplus a high degree of integration with its ultimate parent group and the company represents around 12% of Yulon Finance's consolidated asset as of the end of 2020. We therefore believe Yulon Finance will provide timely financial support to Carplus, if needed and our ratings on Carplus move in tandem with our assessment of Yulon Finance's consolidated credit profile.

Outlook

The stable outlook on Carplus mainly reflects our view that the company will remain a core subsidiary of Yulon Finance group over next one to two years. The outlook also reflects our assessment that Yulon Finance will maintain its strong market position in the domestic car financing and leasing sectors, strong capitalization, and a stable credit profile over the same period.

On a stand-alone basis, Carplus will maintain its strong business position and uphold an adequate capital level over the next one to two years, in our view.

Downward scenario

We may lower the long-term rating on Carplus if Yulon Finance's consolidated credit profile weakens, which includes weakening of Carplus' stand-alone credit profile including capitalization or asset quality metrics. We may also lower the rating if **Yulon Motor Co. Ltd.'s** credit profile deteriorates materially, leading us to lower our assessment of the overall group credit profile.

Upward scenario

We may raise the rating on Carplus if we upgrade Yulon Finance, which may result from our more positive assessment of the consolidated group credit profile.

Related Criteria & Research

Related Criteria

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

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Affirmed

Carplus Auto Leasing Corp.

Issuer Credit Rating

twA-/Stable/twA-2

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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