

Media Release:

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

July 27, 2021

Overview

- **Hotai Leasing Corp.'s** capital adequacy has improved after the company disposed of its equity investment in Hoing Mobile to another group member.
- The ratings on Hotai Leasing continue to reflect the company's core status as well as the consolidated credit profile of the parent Hotai Motor Corp. group.
- We affirmed our 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on Hotai Leasing.
- The stable rating outlook reflects our assessment of the group's consolidated credit profile and our view that Hotai Leasing will remain a core subsidiary of the parent 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 rating affirmation reflects our view of Hotai Leasing's high integration with the parent group, the firm's importance within the group's business strategy, and Hotai Leasing's significant profit contribution to the group. 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.

We have revised our assessment of Hotai Leasing's capital, leverage, and earnings assessment to adequate from moderate previously. This reflects our view that the company's capital adequacy has improved following the disposal of its equity investment in Hoing Mobility Service Co. Ltd. to another group member in January 2021. However, despite Hotai Leasing's now lower exposure to equity method investments has helped to lift its total adjusted capital base, we view this enhancement as a rating neutral factor. That's because Hotai Leasing's stand-alone credit profile mainly reflects its solid franchise in the domestic leasing industry and the good record for its asset quality and operating performance, which we believe are unchanged.

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The ratings on Hotai Leasing mostly reflect our view of the company's core status and importance to the financially stronger parent, Hotai Motor, which holds about 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 more relaxed underwriting standard compared to banks, its wholesale funding reliance, and the mismatch of its asset liability tenor that exposes Hotai Leasing to market liquidity stress.

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 better product offerings and smooth logistics for imported cars. Nevertheless, we believe Taiwan's mature and competitive automotive market is likely to constrain significant improvement in Hotai Motor's credit over the next 12-24 months.

Downward 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 with Toyota branded cars drops below 25% for a sustained period and materially weakens Hotai Motor's competitive position,
- (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 or a significant loss on Hotai Motor's overseas investments,
- (3) Hotai Motor's debt to EBITDA ratio weakens to above 1.5x for a prolonged period due to deterioration in its profitability, more aggressive investment plans, or to meet the capital injection needs of its subsidiaries, or
- (4) Toyota terminates its business relationship with Hotai Motor.

We may also lower the rating on Hotai Leasing if the company 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.

Upward 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 to above 40% on a sustainable basis, while maintaining its net cash position.

Related Criteria & Research

Related Criteria

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

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

(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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