

Media Release:

# CDC Finance & Leasing Corp. Ratings Affirmed At 'twA+/twA-1'; Outlook Stable

October 28, 2021

## Overview

- We believe the company's overall credit strength will remain unchanged, given our view that CDC Finance's strategic importance to the **China Development Financial Holding Corp.** (CDFHC) group would bring it financial support from the group if necessary.
- We forecast **CDC Finance & Leasing Corp.'s** capital adequacy will weaken under its business growth target over the next one to two years.
- We have affirmed our 'twA+' long-term and 'twA-1' short-term issuer credit ratings on CDC Finance.
- The stable rating outlook reflects our view that CDC Finance will maintain its capitalization at the upper band of our definition of strong capitalization and continue to benefit from support from the CDFHC group, as needed.

## Rating Action

The ratings affirmation on CDC Finance reflects our view that the company's financially stronger parent group would provide financial assistance to maintain the financial and leasing company's overall credit strength. We also believe CDC Finance's capital strength to be slightly stronger than its peers in Taiwan, given our assessment of the company's strong capital, leverage and earnings. This follows our base case assumption that CDC Finance's risk adjusted capital ratio will remain at 13%-14% over the rating horizon and is at the higher end of our assessment for strong capital, leverage and earnings.

We have revised our assessment of CDC Finance's capital, leverage and earnings to strong from very strong previously. We believe that the company's capitalization will weaken along with its business growth target in the absence of a proactive capital plan over the next one to two years. The company's risk adjusted capital ratio was 18.2% at the end of 2020, compared with 16.1% at the end of July 2021 and we expect this to reach 13%-14% in the next two years. Nevertheless, we view this to be neutral to the ratings on CDC Finance, given that we expect the benefit of likely group support under the financial holding structure would help underpin the company's creditworthiness compared to other similar leasing companies without such resources. Meanwhile, we view that CDC Finance's capital strength will be somewhat better than other rated peers under the strong category and with sufficient buffer against potential volatility.

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The ratings also reflect CDC Finance's small market position in Taiwan's finance and leasing industry, which partly offsets these strengths. In addition, CDC Finance's small capital base and high sensitivity to volatile asset quality could increase the volatility of its financial profile.

## Outlook

The stable rating outlook on CDC Finance & Leasing Corp. mainly reflects our view that the company will maintain its strong capitalization with a sufficient buffer along with stable asset quality over the next one to two years. The outlook also reflects our view that CDC Finance's strategically important group status and close association with the CDFHC group will remain unchanged, along with necessary support from the group to maintain the subsidiary's credit profile over the same period.

### Downside scenario

We could lower the rating on CDC Finance if the consolidated group credit profile weakens over the next two years. We may also lower the rating if we assess the company's importance to the group has weakened or if CDC Finance's capitalization weakens beyond our current expectation.

### Upside scenario

We may raise the rating if CDC Finance's market position materially improves; however, we view the likelihood of this to be remote over the next one to two years.

## Related Criteria & Research

### Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- 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: Banks: Rating Methodology And Assumptions - November 09, 2011
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- 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

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## Ratings List

### Ratings Affirmed

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#### CDC Finance & Leasing Corp.

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Issuer Credit Rating	twA+/Stable/twA-1
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