

Media Release:

# SinoPac Leasing Outlook Revised To Negative On Weaker Capital Amid Likely Business Growth; 'twA+/twA-1' Ratings Affirmed

December 6, 2021

## Overview

- Potential high growth will likely consume **SinoPac Leasing Corp.'s** capital over the coming two years.
- We anticipate SinoPac Leasing will face pressure to maintain its currently very strong capitalization.
- We have revised the outlook on our long-term ratings on SinoPac Leasing to negative from stable. At the same time, we have affirmed the 'twA+/twA-1' issuer credit ratings on the finance company.

## Rating Action

Taiwan Ratings Corp. today revised its outlook on the long-term ratings on SinoPac Leasing to negative from stable. At the same time, we affirmed the 'twA+' long-term and 'twA-1' short-term issuer credit ratings on the finance company.

## Rationale

The downward outlook revision on SinoPac Leasing reflects our view that the finance company will experience capital pressure over the coming two years. That's given the potential high growth in the company's business operations. SinoPac Leasing has experienced a good rebound in business momentum, particularly in the second half of 2021, after negative growth in 2020 amid prudence over the spread of COVID-19. We forecast the finance company will increase its lending business by 15%-20% over the next two years. SinoPac Leasing's Taiwan book and overseas ship leasing business could continue to grow organically and, we anticipate the company will see good growth in its Greater China portfolio, given the current low base as the company targets to build a better presence in this market.

SinoPac Leasing's potential high growth over the next two years will likely consume its capital and the company could find it difficult to maintain its currently very strong capitalization. SinoPac Leasing's risk-adjusted capital ratio was 17.8% and 17.4% at the end of 2020 and June 2021, respectively. This is close to the level of 17.9% at the end of 2019, given the

### PRIMARY CREDIT ANALYST

**Patty Wang**  
Taipei  
+886-2-2175-6823  
patty.wang  
@spglobal.com  
patty.wang  
@taiwanratings.com.tw

### SECONDARY CONTACT

**Eva Chou**  
Taipei  
+886-2-2175-6822  
eva.chou  
@spglobal.com  
eva.chou  
@taiwanratings.com.tw

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company's low growth over the period. Fast accumulation of risk assets could pressure SinoPac Leasing's capital over the coming two years; in addition, we anticipate its capital accumulation will be slow amid moderate growth in profits and the fulfillment of the company's dividend payout to the parent SinoPac Holdings group.

The ratings on SinoPac Leasing continue to reflect our view of very likely support from the financially stronger parent. That's because we view SinoPac Leasing as a strategically important member of the parent group. The ratings also reflect SinoPac Leasing's very strong capitalization and adequate funding and liquidity, supported by the group's resources. Counterbalancing factors for the ratings include the company's smaller operating scale than local finance companies' and more aggressive risk appetite to grow in higher-risk countries overseas such as China and South and South East Asia.

## Outlook

The negative rating outlook on SinoPac Leasing reflects the likelihood of capital pressure over the next two years as the company pursues high growth. At the same time, we anticipate the company will maintain its near peer average asset quality, despite SinoPac Leasing's high growth strategy over the rating horizon. We also believe the parent group company will provide the necessary support for the leasing company to maintain its credit profile.

### Downward scenario

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

### Upward scenario

We could revise the outlook back to stable if SinoPac Leasing maintains its capital buffer at a very strong level over the coming two years. We could also revise the outlook back to stable if the SinoPac Leasing's business position improves along with a track record of earnings stability and satisfactory asset quality as the company achieves its growth target.

## Related Criteria & Research

### Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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

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- 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](http://www.taiwanratings.com))

## Ratings List

### Ratings Affirmed; Outlook Action

	To	From
<b>SinoPac Leasing Corp.</b>		
Issuer Credit Rating	twA+/Negative/twA-1	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](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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