

Media Release

Fortune Motors Co. Ltd. 'twA/twA-1' Ratings Affirmed Under Revised Criteria; Outlook Stable

December 21, 2021

Overview

- We have reviewed our ratings on Fortune Motors under our revised criteria.
- We have affirmed the 'twA/twA-1' issuer credit ratings on the company. The stable outlook remains unchanged.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA' long-term and 'twA-1' short-term issuer credit ratings on **Fortune Motors Co. Ltd.** The affirmation follows a revision to our methodology for rating nonbank financial institutions (see "Financial Institutions Rating Methodology," Dec. 9, 2021).

Rationale

We assess Fortune Motors to have very strong capitalization relative to its risk profile, and an adequate business position in Taiwan's car sales and car installment financing businesses. Counterbalancing factors include the company's relatively relaxed underwriting standard compared with that in the banking industry, and Fortune Motors' high reliance on market-sensitive wholesale funding.

Outlook

The stable rating outlook on Fortune Motors reflects our view that the company will remain a strategically important subsidiary to its parent China Motor Corp. group, over the next two years. We view the credit profile of Fortune Motors as linked to the China Motor group credit profile, given that the business from the group channel contributes a significant portion of Fortune Motors' overall revenue.

The stable outlook also reflects our view that China Motor's leading position in the commercial vehicle market will continue to support Fortune Motors' market position over the next two years. This is despite significant market competition for Fortune Motors from the commercial car and imported car segment, as well as industry volatility over the next two years. Meanwhile, the outlook also reflects our view that Fortune Motors will maintain very strong

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capitalization over the same period that will further underpin the company's financial risk profile.

Downside scenario

We may lower the rating on Fortune Motors if the parent company's market position in Taiwan's auto market deteriorates substantially or its cost competitiveness erodes, despite our view that the likelihood of a downgrade is low over the next one to two years. An EBITDA margin below 7% for China Motors would indicate such deterioration. We may also lower the rating if China Motor's cooperative relationship with Japan-based Mitsubishi Motors Corp. changes significantly, although we also view the likelihood of this to be low over the next two to three years. In addition, we could lower the rating on Fortune Motors if the company's capitalization significantly weakens. A risk-adjusted capital ratio consistently below 15% would indicate such deterioration and could result from aggressive risk asset growth or capital policies.

Upside scenario

Conversely, we may raise the rating on Fortune Motors if both Fortune Motors and China Motor's credit strength improves. This could happen if China Motor makes substantial business progress in China or it acquires a considerable market share from its competitors. At the same time, Fortune Motors's business stabilities would need to materially improve to be comparable with that of the top industry leaders. Nonetheless, we see a limited likelihood that all these developments would materialize over the next one to two years.

Related Criteria & Research

Related Criteria

- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology - December 09, 2021
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - December 09, 2021
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- 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
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Group Rating Methodology - July 01, 2019
- 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

Fortune Motors Co. Ltd.

Issuer Credit Rating	twA/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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