Media Release:

Selected Finance Company Ratings Affirmed Under Revised Criteria

February 15, 2022

- We reviewed our ratings on several finance companies under our revised criteria.
- We affirmed our ratings on these finance companies, and the outlooks are unchanged.

Taiwan Ratings Corp. today affirmed its issuer credit ratings on the following finance companies. Our outlooks on these financial institutions remain unchanged.

- Carplus Auto Leasing Corp. (twA-/Positive/twA-2)
- Hotai Finance Co. Ltd. (twAA-/Stable/twA-1+)
- Hotai Leasing Corp. (twAA-/Stable/twA-1+)
- Shinshin Credit Corp. (twA-/Positive/twA-2)
- Taishin D.A. Finance Co. Ltd. (twA+/Stable/twA-1)
- Yu Rich Financial Services Co. Ltd. (twA-/Positive/twA-2)
- Yulon Finance Corp. (twA-/Positive/twA-2)
- Fortune motor Corp. (twA/Stable/twA-1)

The affirmations follow a revision to our criteria for rating banks and nonbank financial institutions and for determining a Banking Industry Country Risk Assessment (BICRA) (see "Financial Institutions Rating Methodology," and "Banking Industry Country Risk Assessment Methodology And Assumptions," both published Dec. 9, 2021).

Our assessments of economic risk and industry risk in Taiwan also remain unchanged at '3' and '5', respectively. These scores determine the BICRA and the anchor, or starting point, for our ratings on financial institutions that operate primarily in that country. The trends we see for both economic risk and industry risk in Taiwan remain stable.

The BICRA criteria changes also don't alter the fundamentals of the existing analytical framework. They remove quantitative limits on the frequency of the use of adjustments and replace the multiple subfactor-specific individual adjustments within each of the economic and industry risk factors with an initial score for each factor with a single adjustment applied to arrive at the final score. The changes also reduce some mechanistic links with sovereign rating scores and allow for a wider range of metrics and economic indicators to be used to reflect the specifics of economic structures.

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Carplus Auto Leasing Corp.

The ratings on Carplus reflect our view that the company is a core subsidiary of Yulon Finance Corp. Carplus is a provider of auto leasing and other auto-related services for its ultimate parent, Yulon Motor Corp. group. This affords Carplus a high degree of integration with its ultimate parent group and the company represents about 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 positive rating outlook reflects the outlook on the ultimate parent, Yulon Motor, and our view that the parent will strengthen its financials and the group credit profile. The outlook also reflects our view that Yulon Finance will maintain its strong market position in Taiwan's car financing and leasing sectors, as well as strong capitalization over the next one to two years. We are unlikely to change our view of the core group status of Carplus Auto Leasing over the next one to two years.

Downward scenario

We may revise the outlook to stable if Yulon Motor fails to strengthen its financials as well as the group credit profile.

Upward scenario

We may upgrade Carplus if Yulon Motor improves its credit profile.

Hotai Finance Co. Ltd.

The ratings on the auto finance company reflect our view of its core status and importance to, as well as likely support from its financially stronger parent, Hotai Motor Co. Ltd. The parent group holds a 45.39% stake in Hotai Finance. The ratings on Hotai Finance also reflect the company's strong business position in the domestic auto finance segment and strong capitalization relative to its risk profile. Counterbalancing factors include the company's moderate risk control framework compared to that of local banks and Hotai Finance's wholesale funding dependence, albeit mitigated by likely parent support, if needed.

Outlook

The stable rating outlook on Hotai Finance reflects our view that the company will remain a core subsidiary of the parent Hotai Motor group over next one to two years. The outlook also reflects our assessment that the consolidated group credit profile will remain unchanged over the same period. In this regard, several factors support our view of a stable outlook. 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 and strong capitalization to support the company's credit profile over the next two years.

Under our assessment, Hotai Motor will continue to improve its market share over the next 12 months, supported by a better product offering and smooth logistics for imported cars. Nevertheless, we believe Taiwan's mature and competitive automotive sector will likely constrain significant improvement in Hotai Motor's credit profile over the next 12-24 months.

Downward scenario
We may lower the long-term rating on Hotai Finance if the company's importance to the parent group weakens and leads us to change our assessment of its group status. This could result from Hotai Finance's weaker operating performance or integration with the group.
We may also lower the rating on Hotai Finance if:

- Hotai Motor's market share for Toyota-branded cars drops below 25% on a sustainable basis, thus materially weakening its competitive position;
- Hotai Motor's profitability as demonstrated by its EBITDA margin weakens to below 3.5% on a sustainable basis with magnified volatility in profitability and noticeable deterioration in its balance sheet. This could result from rising competition from local and foreign brands, a significant loss on Hotai Motor's overseas investments;
- Hotai Motor's debt-to-EBITDA ratio weakens to above 1.5x on a sustainable basis, possibly due to deteriorating profitability or more aggressive investment plans or capital injection needs to its subsidiaries;
- Toyota terminates its business relationship with Hotai Motor; or
- Fellow subsidiary Hotai Leasing Corp. and Hotai Finance see significant deterioration on their credit profiles, thus lowering our assessment of the group credit profile. However, we believe this possibility to be very low over the next two years.

Upward scenario
There is a limited likelihood that we would upgrade Hotai Finance over the next two years. However, we may raise the rating on Hotai Finance if Hotai Motor can strengthen its market position such that its market share for Toyota-branded cars rises above 40% on a sustainable basis, while at the same time Hotai Motor maintains its net cash position.

Ratings Score Snapshot
Issuer Credit Rating: twAA-/Stable/twA-1+
Stand-alone credit profile: bb+

- Anchor: bb
- Business Position: Strong (+1)
- Capital and Earnings: Strong (+1)
- Risk Position: Moderate (-1)
- Funding and Liquidity: Adequate and Adequate (0)
- Comparable Rating Analysis: 0

Support: 2

- ALAC Support: 0
- GRE Support: 0
- Group Support: +2
- Sovereign Support: 0

Additional Factors: 0

Hotai Leasing Corp.

The ratings on the leasing company reflect our view of its core status and importance to, as well as likely support from its financially stronger parent, Hotai Motor Co. Ltd. The parent group holds around 66% stake in the leasing company. The ratings on Hotai Leasing also reflect the company's strong business position in the domestic auto leasing segment. The major counterbalancing factor is the company's wholesale funding dependence, albeit mitigated by likely parent support, if needed.

Outlook

The stable rating outlook on Hotai Leasing reflects our view that the company will remain a core subsidiary of the parent Hotai Motor group over next one to two years. The outlook also reflects our assessment that the consolidated group credit profile will remain unchanged over the same period. In this regard, several factors support our view of a stable outlook. 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 and strong capitalization to support the company's credit profile over the next two years.

Under our assessment, Hotai Motor will continue to improve its market share over the next 12 months, supported by a better product offering and smooth logistics for imported cars. Nevertheless, we believe Taiwan's mature and competitive automotive sector will likely constrain significant improvement in Hotai Motor's credit profile 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 parent group weakens and leads us to change our assessment of its group status. This could result from the company Hotai Leasing's weaker operating performance or integration with the group. We may also lower the rating on Hotai Leasing if:

- Hotai Motor's market share for Toyota-branded cars drops below 25% on a sustainable basis, thus materially weakening its competitive position;
- Hotai Motor's profitability as demonstrated by its EBITDA margin weakens to below 3.5% on a sustainable basis with magnified volatility in profitability and noticeable deterioration in its balance sheet. This could result from rising competition from local and foreign brands, a significant loss on Hotai Motor's overseas investments;
- Hotai Motor's debt-to-EBITDA ratio weakens to above 1.5x on a sustainable basis, possibly due to deteriorating profitability or more aggressive investment plans or capital injection needs to its subsidiaries;
- Toyota terminates its business relationship with Hotai Motor; or
- Fellow subsidiary Hotai Leasing Corp. and Hotai Finance see significant deterioration on their credit profiles, thus lowering our assessment of the group credit profile. However, we believe this possibility 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 strengthen its market position for Toyota-branded cars to above 40% on a sustainable basis, while maintaining its net cash position.

Shinshin Credit Corp.

The ratings on Shinshin Credit reflect our view of potential support from the company's immediate parent Yulon Finance, if needed, given Shinshin Credit's core status within the parent group. We view Shinshin Credit has good market position in commercial vehicle financing. The company's less-comprehensive risk framework than that of local banks and Shinshin Credit's reliance on confidence-sensitive funding temper these strengths.

Outlook

The positive rating outlook reflects the outlook on the ultimate parent, Yulon Motor, and our view that Yulon Motor will strengthen its financials and the group credit profile. The outlook also reflects our view that the parent Yulon Finance will maintain its strong market position in Taiwan's car financing and leasing sectors, as well as strong capitalization over the next one to two years. We are unlikely to change our view of the core group status of Shinshin Credit over the next one to two years.

Downward scenario

We may revise the outlook back to stable if Yulon Motor fails to strengthen its financials as well as the group credit profile.

Upward scenario

We may upgrade Shinshin Credit if Yulon Motor improves its credit profile.

Taishin D.A. Finance Co. Ltd.

The ratings on Taishin D.A. Finance reflect our view of potential financial support from the parent **Taishin Financial Holding Co. Ltd.** (Taishin FHC)group, if needed, given our view of the company's strategic importance to the group's business strategy. We also believe Taishin D.A. Finance has very strong capitalization. The company's small domestic market presence with business scale disadvantage and a less-comprehensive risk framework than that of local banks temper these strengths.

Outlook

The stable rating outlook on Taishin D.A. Finance reflects our view of the parent Taishin FHC group credit profile. The outlook also reflects our view that Taishin D.A. Finance will maintain very strong capitalization over the next two years, as well as its strategically important role within the parent group's business development plan.

Downward scenario

We may lower the long-term rating on Taishin D.A. Finance if any of the following occur:

- The overall group credit profile weakened;
- The importance of Taishin D.A. Finance to the parent group weakened; or

- Taishin D.A. Finance' stand-alone credit profile weakened as indicated by a RAC ratio consistently below 15% over the next two years or if the company's asset quality deteriorated to consistently below the domestic industry average.

Upward scenario

We believe the chance of an upgrade over the coming two years is remote.

Yu Rich Financial Services Co. Ltd.

The issuer credit rating on Yu Rich Financial Services is higher than the company's stand-alone credit profile to reflect our view of potential financial support from the parent Yulon group in times of financial stress. That's because we believe that Yu Rich Financial Services plays a core role in the group's overall business strategy. We also assess Yu Rich Financial Services has strong, albeit declining, capitalization. The company's small business scale and less comprehensive risk framework than those of local banks temper these strengths.

Outlook

The positive rating outlook reflects the outlook on the ultimate parent, Yulon Motor, and our view that Yulon Motor will strengthen its financials and the group credit profile. The outlook also reflects our view that Yu Rich Financial Services' parent, Yulon Finance, will maintain its strong market position in Taiwan's car financing and leasing sectors, as well as strong capitalization over the next one to two years. We are unlikely to change our view of the core group status of Yu Rich Financial Services over the next one to two years.

Downward scenario

We may revise the outlook to stable if Yulon Motor fails to strengthen its financials as well as the group credit profile.

Upward scenario

We may upgrade Yu Rich Financial Services if Yulon Motor improves its credit profile.

Yulon Finance Corp.

Our ratings on Yulon Finance reflect the company's strong business position in the car financing and leasing sectors in Taiwan, and the company's strong capitalization relative to its risk profile. Yulon Finance's moderate risk control framework compared to that of local banks somewhat tempers these strengths; however, we view the company's risk controls as comparable to that of other finance companies in Taiwan. As with its peers, Yulon Finance depends on short-term wholesale funding. That's despite the company's gradual improvement in securing medium funding facilities.

The stand-alone credit characteristics of Yulon Finance are superior to those of the parent Yulon Motor group, in our view. Furthermore, we assess Yulon Finance is an insulated entity within the parent group, which allows for a one notch uplift to the issuer credit rating on Yulon Finance above the group credit profile.

Outlook

The positive rating outlook reflects our outlook on the ultimate parent, Yulon Motor, to strengthen its financials and the group credit profile. We also anticipate Yulon Finance will maintain its strong market position in Taiwan's car financing and leasing sectors as well as strong capitalization over the next one to two years. We are unlikely to change our view of the core group status of Carplus Auto Leasing, Shinshin Credit, and Yu Rich Financial Services over the next one to two years.

Downward scenario

We may revise the outlook to stable if Yulon Motor failed to strengthen its financials as well as the group credit profile. We may also revise the outlook to stable if Yulon Finance's consolidated credit profile weakened, as indicated by a consolidated RAC ratio below 10%, or if the company's asset quality deteriorated substantially.

Upward scenario

We may upgrade Yulon Finance and its core subsidiaries if Yulon Motor improved its credit profile.

Fortune Motor Co. Ltd.

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 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 capitalization over the same period which 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, its cost competitiveness erodes, or its cash dividend received from equity method investments weakened due to rising competition in China's commercial car market. A sharp decline in market share (e.g., below 8%) due to competition in the domestic commercial car market that materially erodes China Motor's gross margin 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. We may upgrade China Motor if the company makes substantial business progress in China or it acquires a considerable market share from its competitors, and we believe the improvement to be sustainable. 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

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - December 09, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology - December 09, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Hybrid Capital: Methodology And Assumptions - July 01, 2019
- 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

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