

Media Release:

Chailease Finance And Fina Finance & Trading Assigned 'twA+/twA-1' Ratings; Outlook Stable

April 12, 2022

Overview

- We view Chailease Finance and Fina Finance & Trading as core entities to Taiwan-based Chailease Holding group, with ratings equivalent to that of the group credit profile.
- We are therefore assigning our 'twA+' long-term and 'twA-1' short-term issuer credit ratings to Chailease Finance and Fina Finance & Trading.
- The stable rating outlook reflects our forecast that the parent group, Chailease Holding, will maintain its good market presence locally and strong capitalization on a consolidated basis.

Rating Action

Taiwan Ratings Corp. today assigned its 'twA+' long-term and 'twA-1' short-term issuer credit ratings to Chailease Finance and Fina Finance & Trading. The outlook on the long-term rating is stable.

Rationale

We derived the ratings on Chailease Finance and Fina Finance & Trading based on the consolidated group credit profile of the Taiwan-based parent, Chailease Holding Co. Ltd. The ratings reflect the group's strong capitalization relative to its risk profile and good market presence in Taiwan's financial leasing market. Counterbalancing factors include the companies' pursuit of high growth especially in higher-risk countries overseas and, similar to other finance companies, reliance on wholesale funding.

Our 'bb' anchor for Chailease Holding reflects the group's business focus as a finance company and its supervision by the Ministry of Economic Affairs instead of the Financial Supervisory Commission (FSC). The anchor also reflects the group's larger operations in Taiwan, where the economic risk is lower compared to the economic risk of China and Southeast Asia where the group also operates. The anchor for the group credit profile is the same as for other finance companies in Taiwan that are supervised by the Ministry of Economic Affairs.

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Finance companies in Taiwan that are not regulated by the Financial Supervisory Commission have an anchor of 'bb'. This anchor is three notches below the anchor we assign to Taiwan-based banks and reflects our view that finance companies face higher economic and industry risk than banks do. Finance companies generally have less-robust reporting standards than banks', rely on wholesale funding and lack direct access to central bank funding. These factors weaken our risk assessment for finance companies than for banks, given that banks benefit from retail and diversified funding sources. Nonetheless, we acknowledge that finance companies in general have adequate profit margins and the market shares for leading players are relatively stable, which suggests a certain level of entry barriers.

Chailease Holding has a strong business position with diversified operations in our view. Chailease Finance, the group's flagship company, is the largest finance and leasing company in Taiwan and has held a solid market share of about 45% in the domestic finance and leasing sector over the past decade. Chailease Finance provides a wide range of products in the small and medium enterprises, microfinance, and personal finance sectors. The company also has a niche foothold in auto finance, truck finance, ship vessel leasing, finance for fishery sector, as well as investments in solar power. In addition to its local operations, the group operates in China and several countries in Southeast Asia where it has a long track record with operations covering some niche subsectors and products. We believe that the group will maintain its market leading position in the domestic market and continue to deepen its market presence overseas.

The group's consistently good operating performance also supports its strong business position, in our view. Given the higher weighting of the group's overseas exposure and focus on risk pricing, Chailease Holding has reported better net interest margins than its peers in Taiwan and China. The group's return on average assets has also shown a good degree of resilience with the group performing above the closely rated peer average. We expect this good operating performance to persist over the coming two years.

We view the group's consolidated capital and earnings as strong. Chailease Holding's risk-adjusted capital ratio was 12.1% as of the end of 2020. We estimate the ratio to be 12.5% at the end of September 2021 after taking into consideration potential cash dividends for 2021 earnings. We forecast the ratio will remain in the strong range over the next two years, despite the group's potential double-digit growth over the period due to stable profitability, adequate earnings retention, and proactive capital planning. In our base case scenario, we view the preferred shares issued by Chailease Holding in 2020 as intermediate equity due to their loss absorbing characteristics.

Chailease Holding's risk position is adequate relative to its risk profile. We view the group has a comprehensive risk framework and adequate risk mechanisms including calculations of probability of default and expected losses by countries and by products. The group's lending and underwriting standards depend highly on its knowledge of and familiarity with clients through close monitoring and constant onsite visits, as well as management's experience in the finance and leasing business. These somewhat balances the group's appetite for growth especially in higher risk areas such as China and Southeast Asia. We assess the group's loss experience in different markets as about the same as its peers. Chailease Holding group's delinquencies and substandard loans over total account receivable ratios have slightly improved even under the group's fast pace of growth over the past five years.

Funding and liquidity are adequate for the group, despite Chailease Holding's reliance on wholesale funding. The group has diverse funding sources ranging from bank credits, commercial paper issuances, syndicated lending, bond issuances, project finance and securitization. The group's major operations locally and in overseas markets have shown good access to secured and unsecured funding in currencies where they are located. Borrowings are from a diverse pool of creditors and repayment schedules are spread-out. The group also manages and monitors its liquidity effectively to ensure adequate cash flow and coverage.

We view Chailease Finance and Fina Finance & Trading as core subsidiaries to the group. Chailease Finance is the flagship company of the group and consolidates most of the group's operations in Taiwan, including Fina Finance & Trading, as well as the group's operations in Vietnam. Chailease Finance consistently contributes about half of the group's accounts receivables and earnings. There is very high linkage and integration between Chailease Finance and the group in terms of branding and franchise, as well as daily business operation, risk frameworks, and overlap of management and personnel. We view Fina Finance & Trading as a core subsidiary to the group, given its full integration with Chailease Finance and operation as a department under its immediate parent. Fina Finance & Trading specializes in local heavy machineries leasing, truck finance, and one of the group's core focuses, used car finance, with fast growth in the previous and upcoming two years.

Outlook

The stable rating outlook reflects our view that Chailease Holding will uphold its asset quality especially in overseas markets as it continues to pursue growth over the next two years. We also anticipate the group's capitalization will remain strong, with growth funded by adequate retained earnings and supported by active capital planning in times of need. The group is likely to maintain its market leading position in the domestic finance and leasing sector and continue to build its niche in the overseas markets.

Downward scenario

We may lower the ratings on Chailease Finance and Fina Finance & Trading if:

- Chailease Holding's capitalization deteriorates through the fast accumulation of risky assets without adequate support from retained earnings or capital planning, or
- The group's asset quality deteriorates due to prolonged unexpected losses from fast expansion over the coming two years.

Upward scenario

We may raise the ratings on Chailease Finance and Fina Finance & Trading if the group improves its capital and earnings to very strong with our risk-adjusted capital ratio sustainably above 15%. However, we view the upside potential as remote over the coming two years as the group continues to pursue growth.

Related Criteria & Research

Related Criteria

- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Hybrid Capital: Methodology And Assumptions - March 02, 2022
- 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

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

New Ratings

Chailase Finance Co. Ltd.

Issuer Credit Rating	twA+/Stable/twA-1
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Fina Finance & Trading 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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