

Media Release:

# Hotai Leasing Corp. Ratings Affirmed At 'twAA-/twA-1+'; Outlook Stable

July 28, 2022

## Overview

- Hotai Leasing will continue to maintain its solid market position, good profitability, and satisfactory loss experience.
- We affirmed the 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on Hotai Leasing.
- The outlook on the long-term rating is stable.

## Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on **Hotai Leasing Corp.** The outlook on the long-term rating is stable.

## Rationale

The rating affirmation reflects our view of Hotai Leasing's high integration with the parent group, the firm's importance within the group's business strategy, and Hotai Leasing's significant profit contribution to the group. The ratings also reflect the leasing company's strong business position, good profitability record, and better loss experience than domestic peers. Counterbalancing factors include the company's wholesale funding reliance and the mismatch on its asset liability tenor that make Hotai Leasing sensitive to market liquidity stress.

## Outlook: Stable

The stable rating outlook reflects our expectation that Hotai Leasing 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. Several factors support this view, including Hotai Motor's leading market position, the company's long-term association with Japan-based Toyota Motor Corp., Hotai Motor's stable profitability, and the good business position of the group's leasing and finance subsidiaries and strong capitalization that should support Hotai Motors' credit profile over the next two years.

We believe that Hotai Motor will continue to improve its market share over the next year, supported by an improved product offering and smooth logistics for its imported car range. Nevertheless, Taiwan's mature and competitive automotive sector will likely constrain further significant improvement in Hotai Motor's credit profile over the next one to two years.

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### Downside scenario

We could downgrade Hotai Leasing if the company's importance to the group weakens and leads us to change our assessment of the company's group status. This could result from Hotai Leasing's weaker operating performance or integration with the group.

We could also downgrade Hotai Leasing if:

- Hotai Motor's market share for Toyota branded cars dropped below 25% on a sustainable basis, which materially weakened its competitive position;
- Hotai Motor's profitability weakened on a sustainable basis as indicated by an EBITDA margin below 3.5% along with magnified volatility in its profitability and deterioration in its solid balance sheet. This could result from rising competition from local and foreign brands or 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, due to deterioration in profitability, more aggressive investment plans or capital injection needs to its subsidiaries including **Hotai Insurance Co. Ltd.**;
- Toyota terminates its business relationship with Hotai Motor; or
- Hotai Leasing and Hotai Finance experience significant deterioration in their credit profiles, therefore lowering our assessment of the group credit profile, albeit we view this as remote over the next two years

### Upside scenario

We see limited upside potential over the next two years. However, we could upgrade Hotai Leasing if Hotai Motor strengthens its market position such that its market share for Toyota branded cars rises sustainably above 40% while at the same time Hotai Motor maintains a net cash position.

## Ratings Score Snapshot

Issuer Credit Rating: twAA-/twA-1+

Note: The descriptors below are on a global scale.

Stand-alone credit profile: bb+

Anchor: bb

Business Position: Strong (+1)

Capital and Earnings: Adequate (0)

Risk Position: Adequate (0)

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

## Related Criteria & Research

### Related Criteria

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

### Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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## Ratings List

### Rating Affirmed

#### Hotai Leasing Co. Ltd.

Issuer credit rating	twAA-/Stable/twA-1+
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