

Media Release:

# Hotai Finance Co. Ltd. Ratings Affirmed At 'twAA-/twA-1+'; Outlook Stable

July 28, 2022

## Overview

- Taiwan-based Hotai Finance will continue to maintain its solid market position and strong capitalization.
- We affirmed the 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on Hotai Finance.
- 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 Finance Co. Ltd.** The outlook on the long-term rating is stable.

## Rationale

The ratings on Hotai Finance reflect our view of the company's core status and importance to its financially stronger parent, Hotai Motor Co. Ltd. and our belief that the parent would provide support to the subsidiary in which it holds a 45.39% stake. The ratings also reflect Hotai Finance's strong business position in Taiwan's auto finance market and strong capitalization relative to the company's risk profile. Counterbalancing factors include Hotai Finance's moderate risk control framework compared to those of local banks and the company's dependence on wholesale funding. However, Hotai Finance's strong business flow and likely parent support could partly offset this funding risk.

## Outlook: Stable

The stable rating outlook reflects our expectation 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. 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 support Hotai Motor's 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.

### PRIMARY CREDIT ANALYST

**Yuhan Lan**  
+886-2-2175-6810  
yuhan.lan  
@spglobal.com  
yuhan.lan  
@taiwanratings.com.tw

### SECONDARY CONTACT

**Serene Hsieh, CPA, FRM**  
+886-2-2175-6820  
serene.hsieh  
@spglobal.com  
serene.hsieh  
@taiwanratings.com.tw

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.

### **Downside scenario**

We could downgrade Hotai Finance 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 Finance's weaker operating performance or integration with the group.

We could also downgrade Hotai Finance 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 Corp. and Hotai Finance see significant deterioration in their credit profiles, therefore lowering our assessment on 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 Finance 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: 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

## 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

(Unless otherwise stated, these articles are published on [www.taiwanratings.com](http://www.taiwanratings.com))

## Ratings List

### Rating Affirmed

#### Hotai Finance Co. Ltd.

Issuer credit rating

twAA-/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).

Copyright © by Taiwan Ratings Corp. All rights reserved.

Copyright © 2022 by Taiwan Ratings Corporation (TRC). All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of TRC. The Content shall not be used for any unlawful or unauthorized purposes. TRC and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively TRC Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. TRC Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. TRC DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall TRC be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. TRC's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. TRC assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. TRC does not act as a fiduciary or an investment advisor except where registered as such. While TRC has obtained information from sources it believes to be reliable, TRC does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, TRC reserves the right to assign, withdraw or suspend such acknowledgement at any time and in its sole discretion. TRC disclaims any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

TRC keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of TRC may have information that is not available to other TRC business units. TRC has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

TRC receives compensation for its solicited ratings and certain analyses, normally from issuers, originators, arrangers, or underwriters of securities or from obligors. TRC reserves the right to disseminate its opinions and analyses. TRC's public ratings and analyses are made available on its Web sites, [www.taiwanratings.com](http://www.taiwanratings.com) (free of charge), and [rrs.taiwanratings.com.tw](mailto:rrs.taiwanratings.com.tw) (subscription), and may be distributed through other means, including via TRC publications and third-party redistributors. Please click [here](#) for any other conflict of interests that may affect the credit rating as requested by the regulator.