Media Release:

IBT Leasing Co. Ltd. Assigned 'twBBB+/twA-2' Ratings; Ratings Placed On WatchNeg On Potential Decline In Group Support

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Overview

- We assess IBT Leasing as a strategically important group member to **O-Bank Co. Ltd.**
- However, IBT Leasing's group status is likely to weaken due to the group's recent announcement that it intends to enter into a new joint venture through the merger of IBT Leasing with Jih Sun International Leasing (not rated).
- We have assigned our 'twBBB+' long-term and 'twA-2' short-term issuer credit ratings to IBT Leasing.
- We have placed the ratings on CreditWatch with negative implications. The potential implicit group support to the post-merger entity from O-Bank is highly sensitive to the degree of O-Bank's management control over the entity, and the entity's strategic importance to the group.

Rating Action

Taiwan Ratings Corp. today assigned its 'twBBB+' long-term and 'twA-2' short-term issuer credit ratings to IBT Leasing Co. Ltd. We have placed the ratings on CreditWatch with negative implications.

Rationale

The ratings reflect IBT Leasing's strategic importance to its parent bank and the likelihood of financial support for the leasing company if needed. IBT Leasing's adequate capitalization relative to its risk profile and adequate liquidity management also support the ratings. Counterbalancing factors include the company's pursuit of high growth during its expansionary phase and smaller operating scale compared to regional peers.

The CreditWatch placement reflects our view that the joint venture may have less strategic importance to O-Bank than IBT Leasing currently has. We do not have enough information currently to ascertain whether the joint venture will be more or less strategically important to O-Bank than IBT Leasing currently is. O-Bank has recently announced that the leasing subsidiary, which it wholly owns, will form a joint venture with Jih Sun International Leasing (Jih Sun Leasing) via share swap. Jih Sun Leasing will be the surviving entity following the merger which is set for December 2022. O-Bank will own 44.5% of the new entity and be its second largest shareholder. The joint venture will carry in some form both the Jih Sun and IBT name. The arrangements regarding management control, board seating, and recognition under O-Bank's financial reports have not been decided, given the early stage of the merger, which is also subject to regulatory approval.

Our 'bb' anchor for IBT Leasing reflects the company's business focus as a finance company, its higher overseas operating weighting compared to local peers, and supervision by the Financial Supervisory Commission through its parent O-Bank. The anchor is three notches below the anchor for Taiwan banks, reflecting the financing company's heavier weighted exposure in higher economic risk markets such as China, as well as our view that the finance sector faces higher economic and industry risk than banks do.

In our base case, we expect IBT Leasing's growth in lower economic risk markets such as Taiwan to somewhat balance its growth in higher economic risk markets such as China over the coming two years.

We consider finance companies in Taiwan under the Financial Supervisory Commission's jurisdiction as subject to more prudent financial requirements and reporting standards compared with finance companies not under the commission's jurisdiction, though the framework is less comprehensive to that applied for banks. We also assess finance companies to have adequate profit margins and the market shares for leading players are relatively stable, suggesting a level of entry barriers. However, the reliance of Taiwan finance companies on wholesale funding and the lack of direct access to central bank funding weaken their risk assessment compared with banks, which benefit from retail and diversified funding sources.

We consider IBT Leasing to be a mid-size finance company that provides equipment leasing and financing services to corporates. We assess the company's credit profile based on its consolidated book. Through its wholly owned subsidiary, IBT International Leasing Corp., the company has established a stable footprint in the China market. The China subsidiary dominates the credit profile of IBT Leasing with a heavy weighting of about 75% by accounts receivables. This is despite the company's operations are relatively small compared with regional peers. IBT International Leasing is a comparatively small player in the wider China market. IBT Leasing also owns a venture capital subsidiary, albeit this company is small relative to IBT Leasing's consolidated base and will transfer the holding back to O-Bank if the merger with Jih Sun International Leasing materializes.

We anticipate IBT Leasing will continue to pursue scale expansion with the aim to build profitable niche markets over the next two years. The company realigned its strategy and focus in 2019 and 2020 and achieved good growth for its Taiwan and China operations in 2021. We believe the company's strategy to develop niche markets, expanding geographic footprints locally as well as in China and Southeast Asia will continue to drive its growth over the next two years. Its China operation had negative growth in the first six months of 2022 due to widespread lock-down measures during the pandemic and disruption to supplier chains in China. Business momentum has slowly resumed growth in China following the relaxation of lock-down measures in May 2022. By contrast, the company's Taiwan operations continue to grow healthily in 2022.

We believe IBT Leasing can uphold its overall profitability over the next two years. Operating performance has stabilized over the past three years with adequate interest margins and return on average assets when compared with close peers such as SinoPac Leasing Corp. and

FCB Leasing Co. Ltd. Good returns from IBT Leasing's venture capital subsidiary amid a buoyant equity market in 2021 also helped lift the company's full year 2021 profits.

We view the company's consolidated capital and earnings as adequate. IBT Leasing's risk-adjusted capital ratio was 8.6% as of the end of 2021. Despite the company's low leverage, its capital ratio by our definition is weaker than for other local finance companies due to its smaller capital base and higher exposure to equity investments relative to its capital base. This is because of IBT Leasing's own investments on hand and its holdings through the venture capital subsidiary.

We estimate the risk-adjusted capital ratio will remain adequately around 8% over the next two years supported by stable profitability and the full retention of profits to fund growth. We anticipate IBT Leasing will seek high growth over the coming two years and close to the level in 2021. However, we believe that adequate maintenance of its profit margins should largely offset the risks from its growth strategy.

In addition, we believe IBT Leasing 's return of IBT VII Venture Capital shares to O-Bank through a properties refund capital reduction in 2022 will not affect IBT Leasing's capital and earnings, which we currently assess as adequate. Despite the venture capital company's lower leverage than IBT Leasing, the weighting of the venture capital company in IBT Leasing's 2021 consolidated book is small. The transaction is valued at new Taiwan dollar (NT$) 711 million.

IBT Leasing's risk position is on par with local peers that also operate under a bank or financial holding company. We view the company's risk framework and risk mechanisms as adequate and closely aligned with its regulated parent bank. Single name exposure is relatively diverse based on the company's net worth and accounts receivables. IBT Leasing's loss experience has improved in recent years, despite some volatility remaining in its Taiwan book. The company had a ratio of reserve coverage to gross receivables of 2.7% at the end of March 2022 which is similar to other local finance companies.

Nonetheless, we consider IBT Leasing's risk appetite to be more aggressive than its local peers due to the company's high growth targets, particularly in higher risk markets such as China and Southeast Asia. The company is set to grow fast both in Taiwan and in China, with plans to enter Southeast Asian markets.

Funding and liquidity are adequate in our view, despite IBT Leasing's reliance on wholesale funding. The company maintains stable relationships with banks and bills finance companies in Taiwan and China to support stable bank borrowings and commercial paper issuance. The company also manages and monitors its liquidity effectively to ensure adequate cash flow and coverage. We anticipate IBT Leasing will acquire more diversified and stable funding sources as it expands in size and profits over the next one to two years.

We consider IBT Leasing to be strategically important to the parent bank. The company serves the key role of exploring corporate financing sectors and has established a presence in overseas markets for the group. IBT Leasing is a wholly own subsidiary of O-Bank, and their reputations and brand names are closely linked. Contributions from the leasing arm are likely to remain at a single digit percentage by assets and net worth. We continue to monitor the development of the companies' merger with Jih Sun Leasing.

CreditWatch

We aim to resolve the CreditWatch placement after we have greater clarity over the next two to three months regarding the regulator's approval of the merger, O-Bank's future management control over the joint venture, and how the merger will affect the importance of the combined leasing subsidiary to O-Bank group.

Downward scenario
We may lower the ratings on IBT Leasing if we believe the group status of the leasing subsidiary has declined.

Upward scenario
We may affirm the ratings on IBT Leasing if we conclude that the new leasing subsidiary will remain strategically important to O-Bank group after the merger is completed.

Related Criteria & Research

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Group Rating Methodology - July 01, 2019
- 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: Principles Of Credit Ratings - February 16, 2011

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

New Ratings

IBT Leasing Co. Ltd.	
Issuer Credit Rating	twBBB+/WatchNeg/twA-2

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.