Media Release

He Jing Co. Ltd. Assigned 'twA+/twA-1' Ratings; Outlook Stable

August 31, 2022

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Overview

- We view Taiwan-based He Jing Co. Ltd. as an entity of highly strategic importance to the Hotai Finance Co. Ltd. group; therefore, we believe He Jing will benefit from strong support from the parent Hotai group.
- We forecast He Jing will maintain strong capitalization and a reasonably good market presence in Taiwan's commercial vehicle finance segment over the next two years, under the support of the parent group's resource.
- We are assigning our 'twA+' long-term and 'twA-1' short-term issuer credit ratings to He Jing.
- The stable rating outlook reflects our view that He Jing will maintain its highly strategic importance to Hotai Finance group, and our assessment that He Jing will maintain strong capitalization over the next two years.

Rating Action

Taiwan Ratings Corp. today assigned its 'twA+' long-term and 'twA-1' short-term issuer credit ratings on He Jing Co. Ltd. The outlook on the long-term rating is stable.

Rationale

The ratings on He Jing reflect our view of a strong degree of support from its parent, Hotai Finance, given the subsidiary's highly strategic role within the parent group. The ratings also reflect our forecast for He Jing's market share to expand through the support of resources from Hotai Finance and business association with the Hotai Motor Co. Ltd. group, as well as He Jing's strong capitalization relative to its risk profile. The company's short operating record, concentrated business lines, and moderate risk control framework compared to with local banks' temper these strengths.

In our view, the potential resource support and business association with the wider Hotai Motor group will help He Jing to ramp up its business scale, given it is still very much a newly formed finance company. He Jing began operations in Taiwan in 2021 and focuses on the commercial vehicle finance segment. Strong sales of Hotai Motor group's commercial vehicle brand--Hino--provide a good business base for He Jing's new car installment business, in our view. The company's strategy for high business growth over the next two to three years, if successful, could put it on a path to become a major player in commercial vehicle financing since 2023.

He Jing has more business concentration than its domestic auto finance peers'. The company will focus on commercial vehicle financing and move slowly into new business lines such as tourist bus financing and corporate financing over the next three to five years. With just a short operating record, He Jing will require a few years to demonstrate a more stable, seasoned business portfolio amid high competition in the industry.

Under our base case scenario for He Jing, we forecast the company will maintain strong capital and earnings over the next two years, especially under its parent's supportive capital policy. We forecast He Jing's risk-adjusted capital ratio before diversification in the range of 10%-15% by 2024, considering its strong business growth and operating losses during the first two-year's operation. This forecast also factors in a planned capital injection from the parent group in 2023 to meet the group's internal capital policy. He Jing's profitability, however, will remain below the domestic peer average during its early years of operation under the constraint of high initial operating expenses. We believe it will take one to two years for He Jing to reach profitability through stronger economies of scale.

We assess He Jing's risk management and asset quality as comparable to those of domestic finance company peers. We base this on the good operating record of its parent Hotai Finance, which continues to support He Jing's credit approval and risk control functions. We believe this support could help He Jing to manage its high growth appetite during the company's expansionary stage. Nonetheless, as with its peers, He Jing's underwriting standards are more relaxed and with higher lending flexibilities relative banks. This is evidenced by the higher average loan-to-value of auto finance companies in Taiwan compared with banks in the local market, which could result in underestimation in our capital model loss assumptions.

We view He Jing's funding and liquidity are adequate, considering the company's diversified funding sources without immediate cash outflow needs. Our assessment also factors in potential strong business and cash flow from He Jing's core business to help the company sustain sufficient funding and liquidity sources. In addition, we believe He Jing will benefit from the resource support and name association with Hotai Finance, which is demonstrated in the development of He Jing's bank credit lines over the past few quarters.

We see He Jing as an entity of highly strategic importance to the Hotai Finance group, considering the company's very important role in executing the group's strategy to become a full-scale auto finance business provider. Moreover, He Jing is likely to present a meaningful part of the group's asset and capital base after the next two to three years because of its strong business expansion plans. It's highly unlikely that the group will divest He Jing over the next two to three years. We view Hotai Finance group is a core subgroup under the Hotai Motor group to conduct financing related functions. In our view, the potential support from the Hotai Motor group for Hotai Finance will also flow into He Jing because the latter helps to promote the group's heavy-duty car brand.

He Jing was established in 2021 by Taiwan-based Hotai Finance (81%) and Hozao Enterprise Co. Ltd. (19%) and is mainly engaged in commercial vehicle financing and corporate financing business. The company has initial paid-up capital of new Taiwan dollar (NT$) 1 billion.

Outlook

The stable rating outlook reflects our view that He Jing will remain a company of highly strategic importance to the Hotai Finance group. Therefore, the ratings on He Jing will move in tandem with the parent group's consolidated credit profile. We also believe He Jing will maintain strong capitalization and reasonably good risk controls during its initial period strong business expansion with linkage to the parent Hotai Finance group's resources and expertise in Taiwan's auto finance market.

Downward scenario

We may lower the rating on He Jing if the credit profile of the Hotai Finance group deteriorates or if He Jing's importance to Hotai Finance group weakens over the next two years. This could result from He Jing's sizeable operating losses or decreased business interaction with the group.

Upward scenario

We may raise the rating on He Jing if the parent group credit profile improves. We could also upgrade He Jing if the company becomes a core entity to the immediate parent group, which could result from a more stable operating record with increased profit contribution to the group.

Related Criteria & Research

Related Criteria

- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- 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

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

New Ratings	
He Jing Co. Ltd.	
Issuer Credit Rating	twA+/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 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.