

Research Update:

# Yulon Motor Co. Ltd. 'twBBB+/twA-2' Ratings Affirmed; Outlook Remains Positive

September 20, 2022

## Rating Action Rationale

Taiwan Ratings Corp. today affirmed its 'twBBB+' long-term and 'twA-2' short-term issuer credit ratings on **Yulon Motor Co. Ltd.** The outlook on the long-term rating remains positive. The ratings on Yulon are supported by several factors. These include the established brand position of Nissan vehicles in Taiwan and China that underpins Yulon Motor's relatively stable cash flow from manufacturing activities, and the cash dividend the company receives from Yulon Nissan Motor. The ratings also reflect Yulon Motor's shift toward a conservative business development plan, and the company's good financial flexibility with large cashable investment properties on hand. The vulnerable market position of the Luxgen brand and relatively high debt leverage mitigate these rating strengths.

## Outlook

The positive rating outlook reflects our view that Yulon Motor could improve its stand-alone credit profile and correspondingly the overall group credit profile over the next two years. Our view is supported by a likely strengthening in Yulon's EBITDA generation over the next two years through the introduction of new, competitive car models, as well as the rental contribution from a new shopping mall the group has built in Taiwan, named Yulon City. Yulon Motor's operating cash flow could help lower its debt along with relatively conservative capital spending and cash dividend payments. These factors could help lower the company's ratio of debt to EBITDA ratio to below 4x in 2024, despite its capital injection to Tokio Marine Nawa in 2022, which will result in a debt hike and push up its debt to EBITDA ratio to 4.2x-4.4x in 2022 and 2023.

The positive outlook also reflects the stronger business position of Yulon group's finance subsidiary, Yulon Finance Corp., that is increasingly important to the group with its solid growth.

### Upward scenario

We may raise the long-term rating if Yulon Motor can keep its debt to EBITDA ratio comfortably and sustainably below 4x. The likely scenarios to improve the company's cash flow generation include:

- Enhancement in its core auto manufacturing business possibly through the launch of new models;
- Strong and sustainable performance from Yulon Nissan; or
- No material losses from Luxgen and the group's car model development company Haitec.

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### Downward scenario

We may revise the outlook back to stable if Yulon Motor fails to improve its debt to EBITDA ratio to below 4x over the next two years. This could result from:

- A materially higher capital injection into Tokio Marine Nawa Insurance than under our current forecast;
- Substantial performance deterioration in Nissan branded cars in China, resulting in persistently low investment income from Yulon Nissan;
- More aggressive property development plan that results in persistently high cash outflow or working capital needs; or
- An unexpected large loss from the business restructuring of Haitec and Luxgen.

## Related Criteria & Research

### Related Criteria

- Criteria | Financial Institutions | General: Issue Credit Rating Methodology For Nonbank Financial Services Companies - December 09, 2014
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- Criteria | Corporates | General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities - November 13, 2012
- General Criteria: Principles Of Credit Ratings - February 16, 2011

### Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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## Ratings List

### Ratings Affirmed

#### Yulon Motor Co. Ltd.

Issuer credit ratings	twBBB+/Positive/twA-2
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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](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).

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