Media Release:

SinoPac Leasing Corp. Ratings Affirmed At 'twA+/twA-1'; Outlook Remains Negative

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Overview

- **SinoPac Leasing Corp.'s** capitalization is slightly better than our earlier forecast for 2022.
- We have affirmed the 'twA+/twA-1' issuer credit ratings on the finance company.
- The negative outlook reflects our view that the company's very strong capitalization could deplete over the next two years amid potential high business growth.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA+' long-term and 'twA-1' short-term issuer credit ratings on SinoPac Leasing. The outlook on the long-term rating remains negative.

Rationale

The affirmation reflects our view that SinoPac Leasing's capitalization is stronger than under our earlier forecast for 2022. However, we have maintained a negative rating outlook because we anticipate that the company's potential high growth over the next two years will likely consume capital and potentially weaken the assessment of SinoPac Leasing's very strong capitalization. The company's risk profile has grown by a double-digit percentage in 2022, which is a good rebound from its low base seen in 2020 and 2021. Since 2020, the company has exercised prudency in its expansion plans amid the spread of the COVID-19 pandemic. However, over the coming few years, we see likely organic growth for the company's Taiwan book and overseas ship leasing business. SinoPac Leasing's Greater China portfolio could also see good growth over the period, given the current low base as the company targets to build a better presence in this market.

We assess SinoPac leasing's capitalization as very strong, despite potential depletion over the next two years. The company's risk-adjusted capital (RAC) ratio was 16.5% and 17.0% as of Dec. 31, 2021 and Sept. 30, 2022, respectively. The most recent RAC ratio is before any consideration of cash dividend for 2022 earnings. Even after considering an assumed 90% cash dividend payout ratio, the ratio is about 16.3%, which somewhat exceeds our previous forecast of 15.1%. SinoPac Leasing's 2022 consolidated shareholders' equities benefits from exchange differences on the translation of foreign financial statements, which partly offset the company's high growth during the year.

It remains uncertain just how well SinoPac Leasing's geographic diversification in overseas markets or the company's established niche in the ship leasing market can translate into stable and profitable earnings compared with domestic peer leasing companies owned by a financial holding company or bank. SinoPac Leasing's return on assets is slightly lower than the peer average and faces some volatility. This was indicated by a one-off event in 2018 and slow business momentum and worsening asset quality amid pandemic's spread overseas in 2020.

The ratings on SinoPac Leasing continue to reflect our view of very likely support from the financially stronger parent. That's because we view SinoPac Leasing as a strategically important member of the parent, SinoPac Holdings group. The ratings also reflect SinoPac Leasing's very strong capitalization and adequate funding and liquidity, supported by the group's resources. Counterbalancing factors for the ratings include the company's smaller operating scale than local finance companies and more aggressive risk appetite to grow in higher-risk countries overseas such as China.

Outlook

The negative rating outlook on SinoPac Leasing reflects the likelihood of capital pressure over the next two years, given the company's likely pursuit of high growth. At the same time, we anticipate SinoPac Leasing will maintain its near peer average asset quality, despite the company's high growth strategy over the rating horizon. Furthermore, believe the parent group will provide the necessary support for the leasing company to maintain its credit profile over the next two years.

Downward scenario

We could lower the rating if:

- SinoPac Leasing's stand-alone credit profile weakens. This is likely if the company's capitalization deteriorates due to an overly aggressive increase in exposure to high economic risk countries over the coming two years or if the company cannot improve its earnings stability due to weakened competitiveness or unexpected operating losses from an increase in bad debt provisions amid high business growth; or
- The consolidated group credit profile deteriorates under the scenario that the core banking subsidiary, Bank SinoPac, is unable to maintain its strong capitalization.

Upward scenario

We could revise the outlook back to stable if:

- SinoPac Leasing maintains a very strong capital over the next two years; or
- The company can sustain its overall credit profile through a track record of earnings stability and satisfactory asset quality as the leasing company achieves its growth target through a gradually enhanced business position and geographical diversification.

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: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- 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

Ratings Affirmed

SinoPac Leasing Corp.	
Issuer Credit Rating	twA+/Negative/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.