

Media Release:

Chailease Consumer Finance Co. Ltd. Assigned 'twA+/twA-1' Ratings; Outlook Stable

March 28, 2023

Overview

- We view Chailease Consumer Finance as core entity to Taiwan-based Chailease Holding group, with ratings equivalent to that of the group credit profile.
- We are therefore assigning our 'twA+' long-term and 'twA-1' short-term issuer credit ratings to Chailease Consumer Finance.
- The stable rating outlook reflects our forecast that the parent group, Chailease Holding, will maintain its good market presence locally and strong capitalization on a consolidated basis.

Rating Action

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

Rationale

We derived the ratings on Chailease Consumer Finance based on the consolidated group credit profile of the Taiwan-based parent, Chailease Holding Co. Ltd. The ratings reflect the group's strong capitalization relative to its risk profile and good market presence in Taiwan's financial leasing market. Counterbalancing factors include the group's pursuit of high growth, especially in higher-risk countries overseas and reliance on wholesale funding, which is similar to other Taiwan-based finance companies.

Anchor: 'bb' for finance companies operating mainly in Taiwan

Our 'bb' anchor for Chailease Holding reflects the group's business focus as a finance company and its supervision by the Ministry of Economic Affairs instead of the Financial Supervisory Commission. The anchor also reflects the group's larger operations in Taiwan, where the economic risk is lower compared to the economic risk of China and Southeast Asia where the group also operates. The anchor for the group credit profile is the same as for other finance companies in Taiwan that are supervised by the Ministry of Economic Affairs.

Finance companies in Taiwan that are not regulated by the Financial Supervisory Commission have an anchor of 'bb'. This anchor is three notches below the anchor we assign to Taiwan-based banks and reflects our view that finance companies face higher economic and industry risk than banks do. Finance companies generally have less-robust reporting standards than banks', rely on

PRIMARY CREDIT ANALYST

Patty Wang

Taipei

+886-2-2175-6823

patty.wang

@spglobal.com

patty.wang

@taiwanratings.com.tw

SECONDARY CONTACT

Eunice Fan

Taipei

+886-2-2175-6818

eunice.fan

@spglobal.com

eunice.fan

@taiwanratings.com.tw

wholesale funding and lack direct access to central bank funding. These factors weaken our risk assessment for finance companies compared with our assessment for banks, given that banks benefit from retail and diversified funding sources. Nonetheless, we acknowledge that finance companies in general have adequate profit margins and the market shares for leading players are relatively stable, which suggests a certain level of entry barriers.

Business position: Strong presence in the local finance and leasing market with resilient earnings

Chailease Holding has a strong business position with diversified operations, in our view. Chailease Finance Co. Ltd., the group's flagship company, is the largest finance and leasing company in Taiwan and has held a solid market share of about 48% by accounts receivable in the domestic finance and leasing sector over the past decade. Chailease Finance and its major subsidiaries including Fina Finance & Trading Co. Ltd. and Chailease Consumer Finance provide a wide range of products in the small and medium enterprises, microfinance, and consumer finance sectors. Chailease Holding also has a niche foothold in auto finance, truck finance, ship vessel leasing, finance for fishery sector, as well as investments in solar power. In addition to its local operations, the group operates in China and several countries in Southeast Asia where it has a long track record with operations covering some niche subsectors and products. We believe that the group will maintain its leading position in the domestic market and continue to deepen its presence overseas.

The group's consistently good operating performance also supports its strong business position, in our view. Given the higher weighting of the group's overseas exposure and focus on risk pricing, Chailease Holding has reported better net interest margins than its peers' in Taiwan and China. Despite the increase in cost of funding seen in many finance companies in Asia Pacific, including Chailease Holding, the group has managed the rising cost well through diversified funding and actively repricing its new lending. The group's return on average assets has also shown a good degree of resilience with the group performing above the closely rated peer average. We expect this good operating performance to continue over the coming two years.

Capital and earnings: Strong capitalization supported by proactive capital management

We view the group's consolidated capital and earnings as strong. Chailease Holding' risk-adjusted capital ratio was 11.9% as of the end of 2021. We estimate the ratio to be 13.4% at Sept. 30, 2022, after taking into consideration potential cash dividends for 2022 earnings. The improvement in the capital ratio in 2022 stemmed from the group's completion of new Taiwan dollar (NT\$) 11.4 billion capital raising through the issuance of global depository shares in July 2022. Good earnings for the year also contributed strongly to the improved capital ratio, which offset the group's high growth locally and overseas. In our base case scenario, we view the preferred shares issued by Chailease Holding in 2020 as intermediate equity due to their loss absorbing characteristics.

We forecast the risk adjusted capital ratio will remain in the strong range over the next two years. Growth of credit exposure is still likely to be in the double digits over the same period, with Southeast Asian operations exerting a higher growth rate than Taiwan, amid a lower base and the group's expansion into more diversified product lines. China operations are also likely to resume growth momentum over the coming two years following an end to COVID-19 lockdowns. While a stable level of cash dividends remains likely, we believe the group can sustain its capitalization through stable profitability and adequate earnings retention. In addition, the group has a proven track record of proactive capital planning to fund its growth.

Risk position: Adequate risk monitoring to weather growing risks

Chailease Holding's risk position is adequate relative to its risk profile. We view the group has a comprehensive risk framework and adequate risk mechanisms including calculations of probability of default and expected losses by countries and products. The group's lending and underwriting standards depend highly on its knowledge of and familiarity with clients through close monitoring and constant onsite visits, as well as management's experience in the finance and leasing business. Its overseas operations mirror similar business and risk management frameworks covering the group's successful operation in Taiwan. These frameworks somewhat balance the group's appetite for growth, especially in higher-risk areas such as China and Southeast Asia.

We assess the group's loss experience in different markets as about the same as its peers'. Chailease Holding group's definition of delinquencies is somewhat conservative in which the group considers 30-day corporate overdue and 60-day retail overdue as delinquent, versus 90-day overdue used by many other peers. The group observed rising delinquent and substandard accounts receivable in 2022. Its China operations endured slow macroeconomic growth and the impact of pandemic lockdowns during the year. The pickup of substandard accounts receivable in the group's Southeast Asian operations originated from the introduction of motorcycle finance in Malaysia and Cambodia and micro-small and mid-size enterprise lending in Vietnam. Despite the increase in ratios and charge-off amount, the group's credit cost remained manageable at 1.5% over its total accounts receivable, which compared fairly with some of its close peers. The group continued to report stable recoveries and profits to cover its credit losses in 2022.

Funding and liquidity: Adequate, supported by diverse funding sources and effective management

Funding and liquidity are adequate for the group, despite Chailease Holding's reliance on wholesale funding. The group has diverse funding sources ranging from bank credits, commercial paper issuances, syndicated lending, bond issuances, project finance and securitization. The group's major operations locally and overseas have shown good access to secured and unsecured funding in currencies where they are located. Borrowings are from a diverse pool of creditors and repayment schedules are spread-out. The group also manages and monitors its liquidity effectively to ensure adequate cash flow and coverage.

External support: Core as the group's key operations in the local market

We view Chailease Consumer Finance as a core subsidiary to the group, given its full integration with Chailease Finance and operation as a department under the group's Taiwan operation. Chailease Consumer Finance specializes in consumer lending with a niche in providing finance by utilizing financial technology (fintech), big data, and mobile applications. The company's business scope is in line with the group's target to deepen its presence in consumer lending domestically and overseas. The group continues to set high growth prospects for Chailease Consumer Finance for the upcoming two years, which is similar to its growth path over the past two years. The subsidiary currently contributes 5%-6% of the group's assets, equities, and profits.

Outlook

The stable rating outlook reflects our view that parent company, Chailease Holding, will uphold its asset quality, especially in overseas markets, as it continues to pursue growth over the next two years. We also anticipate the Chailease group's capitalization will remain strong, with growth funded by adequate retained earnings and supported by active capital planning as needed. The group is likely to maintain its leading market position in the domestic finance and leasing sectors and continue to build its niche in overseas markets.

Downward scenario

We may lower the ratings on Chailease Consumer Finance if:

- Chailease Holding's capitalization deteriorates through the fast accumulation of risky assets without adequate support from retained earnings or capital planning, or
- The group's asset quality deteriorates due to prolong unexpected losses from fast expansion over the coming two years.

Upward scenario

We may raise the ratings on Chailease Consumer Finance if the group improves its capital and earnings to very strong with our calculation of its risk-adjusted capital ratio sustainably above 15%. However, we view the upside potential as remote over the coming two years because the group continues to pursue growth.

Related Criteria & Research

Related Criteria

- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 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
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- General Criteria: Hybrid Capital: Methodology And Assumptions - March 02, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2011

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

Ratings List

New Ratings

Chailease Consumer Finance 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.

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