Media Release:

Hotai Leasing Corp. Ratings Affirmed At 'twAA-/twA-1+'; Outlook Stable

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Overview

- We view Taiwan-based Hotai Leasing Corp. as a core entity of the Hotai Motor Group, with ratings equivalent to the group credit profile.
- However, Hotai Leasing's rapid expansion and the growing size of its overseas equity holdings have weakened the company's stand-alone capital strength.
- We therefore revised our assessment of Hotai Leasing's capital and earnings to moderate from adequate.
- The stable rating outlook reflects our view that the consolidated parent group credit profile will remain unchanged over the next one to two years.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on **Hotai Leasing Corp.** The outlook on the long-term rating is stable.

Rationale

The rating affirmation reflects our view of Hotai Leasing's high integration with the parent Hotai Motor group, importance within the group's business strategy, and satisfactory profit contribution to the group. We believe Hotai Leasing will remain a core group member over the new two to three years, at least. As such, the ratings on the leasing company will move in tandem with the group credit profile. The ratings also reflect Hotai Leasing's strong business position and better loss experience than its domestic leasing peers.

We have revised our assessment of Hotai Leasing's capital and earnings to moderate from adequate. This reflects our view that the company's capital adequacy has weakened due to the growing investment it holds in China-based leasing firm, Hoyun International Lease Co. Ltd. This is likely to continue under the China firm's strategic expansion plans along with its increasing equity base due to profit retention. Hotai Leasing holds a 49.5% stake in the Chinese leasing company on behalf of the parent Hotai Motor group.

The investment in Hoyun International represented a significant portion of Hotai Leasing's balance sheet or about 50.9% of shareholders' equity at the end of 2022. We deduct this equity investment from Hotai Leasing's total adjusted capital in our risk-adjusted capital (RAC) analysis.

Hotai Leasing's RAC ratio was 5.6% at the end of 2022, down from 6.2% at the end of 2021, mainly due to the enlarged overseas equity investment.

Hoyun International's future expansion strategy could continue to weigh on Hotai Leasing's capitalization. We forecast the RAC ratio of Hotai Leasing will drop to below 5% by the end of 2025. We believe that Hoyun International will fully retain its profits and report double-digit asset growth over the next two to three years. This will likely outpace growth in Hotai Leasing's internal capital generation over the same period.

Hotai Leasing's good capital quality and solid profitability offset its weakened capital adequacy. The company recorded a return on average assets of about 2.2% over the past five years. In addition, we believe that the company's good loss reserves and the parent group's financial flexibility will underpin Hotai Leasing's capital strength. These factors should help sustain Hotai Leasing's moderate capital and earnings over the next one to two years.

Outlook

The stable rating outlook reflects our view that Hotai Leasing will remain a core subsidiary of the parent Hotai Motor group over the next one to two years. The outlook also reflects our assessment that the consolidated group credit profile will remain unchanged over the same period.

Several factors support this view, including Hotai Motor's leading market position in Taiwan, the company's long-term relationship with Japan-based Toyota Motor Corp., Hotai Motor's stable profitability, and the good business position of the group's leasing and finance subsidiaries and strong capitalization. These factors should support Hotai Motor's credit profile over the next two years.

We expect Hotai Motor to maintain its leading position in Taiwan's auto leasing market over the next two years, supported by the company's more comprehensive product offerings. Nevertheless, Taiwan's mature and competitive automotive market is likely to constrain significant improvements in Hotai Motor's credit profile over the next one to two years.

Downward scenario

We could downgrade Hotai Leasing if:

- We view the company's importance to the group has weakened, which leads us to lower our assessment of the company's group status. This could result from Hotai Leasing's weaker operating performance or integration with the group;
- Hotai Motor's market share of Toyota branded cars drops and remains below 25% which materially weakens its competitive position;
- Hotai Motor's profitability as shown by its EBITDA margin weakens to consistently below 3.5% with increased volatility in its profitability and deterioration in its balance sheet. This could result from rising competition from local and foreign brands or a significant loss on Hotai Motor's overseas investments;
- Hotai Motor's debt-to-EBITDA ratio weakens to above 1.5x, due to a deterioration in profitability, more aggressive investment plans or the need to provide capital injections to its subsidiaries;
- Toyota terminates its business relationship with Hotai Motor; or
- Hotai Leasing and its subsidiary **Hotai Finance Co. Ltd.** show significant deterioration in their credit profiles, which leads us to lower our assessment of the group credit profile, although we believe the possibility to be very low over the next two years.

Upward scenario

We see limited upside potential over the next two years. However, we could upgrade Hotai Leasing if Hotai Motor strengthens its market position such that its market share for Toyota branded cars rises sustainably above 40% while at the same time, Hotai Motor maintains a net cash position.

Ratings Score Snapshot

	To	From
Issuer Credit Rating	BBB/Stable/A-2	BBB/Stable/A-2
Stand-alone credit profile	bb	bb+
Anchor	bb	bb
Business Position	Strong (+1)	Strong (+1)
Capital and Earnings	Moderate (-1)	Adequate (0)
Risk Position	Adequate (0)	Adequate (0)
Funding and Liquidity	Adequate and Adequate (0)	Adequate and Adequate (0)
Comparable Rating Analysis	0	0
Support	+3	+2
ALAC Support	0	0
GRE Support	0	0
Group Support	+3	+2
Sovereign Support	0	0
Additional Factors	0	0

Related Criteria & Research

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec 09 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec 09 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct 10 2021
- General Criteria: Group Rating Methodology, Jul 01 2019
- General Criteria: National And Regional Scale Credit Ratings Methodology, Jun 08 2023
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, Jul 20 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, Apr 07 2017
- General Criteria: Principles Of Credit Ratings, Feb 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; Outlook	
Hotai Leasing Corp.	
Issuer Credit Rating	twAA-/Stable/twA-1+