Media Release:

Ho Ing Mobility Service Co. Ltd. Assigned 'twA-/twA-2' Ratings; Outlook Stable

October 17, 2023

Rating Action Overview

- Taiwan-based Ho Ing Mobility Service Co. Ltd. provides car/scooter sharing service via its iRent platform as well as a short-term car rental business. The company generated revenue of NT$3.6 billion and EBIT of NT$97 million in 2022. We view Ho Ing as a strategically important member of the parent Hotai Motor group.
- Ho Ing's credit profile faces business risks from the inherent nature of the car share/leasing industry and financial risk from potential volatility in Ho Ing's EBIT interest coverage ratio. Nonetheless, we see sufficient financial buffer for the ratings over the next one to two years.
- We are assigning our 'twA-' long-term and 'twA-2' short-term issuer credit ratings to Ho Ing.
- The stable outlook reflects our view that Ho Ing could maintain its EBIT interest coverage ratio at above 2.4x over the next two years despite a likely material increase in capital expenditure (capex) over the period. It also reflects our view that Ho Ing will remain a strategically important subsidiary of Hotai Motor group.

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Rationale Action Rationale

Embedded industry risks for the car-sharing sector largely constrain Ho Ing's competitive position. We view the inherent characteristics of Taiwan's car-sharing industry as the major credit weaknesses for Ho Ing. These include very short lease terms, significant intra-day demand volatility, higher price sensitivity for its young target demographic, and increasing service substitution risk.

Ho Ing's short average lease term and volatile intra-day demand constrain the company's ability to effectively improve utilization rates. The average lease term was three to seven hours in 2022, while about one-third of the day (midnight to 7am) accounted for just 11% of its car sharing fleet utilization. Although Ho Ing plans to expand its car-sharing fleet to increase its market penetration rate as well as meet and explore customers' needs, the company could find it more difficult to raise utilization rates due to the relatively limited potential customer base.

As of 2022, 45% of Ho Ing's customers were under the age of 30, which is a more price sensitive demographic and makes it difficult for the company to improve its profitability by raising tariffs. As customers age, they tend to buy their own cars thereby reducing demand for car-sharing service.

Moreover, the Taiwan government is keen to promote the use of mass transportation services which could further constrain Ho Ing's overall utilization rate.

Lower utilization rate for Ho Ing's car-sharing segment constrains profitability. In our view, Ho Ing's longer car fleet renewal timeframe of four to five years correlates with the lower utilization rate of its cars at around 25%. This compares with a one-to-two-year renewal schedule and 60%-70% utilization rate for traditional short-term car rental industry. Ho Ing's average annual EBIT margin of 1%-3% for 2019-2022 is also significantly lower than its international car rental peers, although this metric is not directly comparable due to different business mixes. We also note that since the reopening of Taiwan's international border in late 2022, domestic travel demand has materially decreased, which has subsequently lowered the demand for Ho Ing's services and reduced the utilization rate of its car sharing business.

First-mover advantage and accumulated investment could underpin Ho Ing's lead market position in Taiwan's car-sharing segment. Ho Ing's iRent mobility-sharing platform entered the market almost a decade ago, and it commands about 90% of the domestic market, with only two other players. The sizeable upfront fleet investment and limited parking space availability represent certain barriers for new entrants, as indicated by the large fleet size gap between iRent and the second largest player (a seven-fold difference). We expect this to remain a small and niche market with a stable market structure over the next two years.

Ho Ing's unseasoned business performance and high debt leverage constrain the financial risk profile, despite lower funding costs in Taiwan. Ho Ing's aggressive financial risk profile reflects potential volatility for its EBIT interest coverage ratio, given the company's short operating history. Ho Ing's EBIT interest coverage fluctuated from 1.0x to 2.3x between 2019 and 2022, and its business performance remains untested over a longer term. The aggressive financial risk assessment also reflects industry-wide operational volatility and Ho Ing's high financial leverage. As of the end of 2022, the company's ratio of debt to capital was 85%, which we assess is close to highly leveraged.

Ho Ing plans to expand its car fleet with a net annual increase of 1,000-2,000 vehicles by 2025 to broaden its service network. In our view, competitive funding costs in Taiwan and Ho Ing's likely revenue growth from its expanded car-sharing fleet over the next few years should contribute to a stable EBIT interest coverage ratio above 2.4x in 2023-2024, despite materially higher capex and increased debt over the same period.

Ho Ing is strategically important to Hotai Motor's long-term business strategy. We believe that Hotai Motor, which owns a 72.2% share in Ho Ing, will retain its ownership and provide a certain level of financial support, as needed. Ho Ing's key role in promoting the parent group's *'Mobility as a Service'* ecosystem, underpins the company's strategically important group status, in our view. This eco-system seeks to build an on-going connection with customers and uses customer data to develop membership benefits and a more customized service. Ho Ing's Toyota-branded car fleet promotes the brand among car-sharing users, which could facilitate future car sales where Hotai Motor is Toyota's sole agent in Taiwan. In addition, Ho Ing is the largest single customer for Hotai Motor with annual procurement of 1,000-2,000 units. However, we do not see Ho Ing as very critical to the group's overall creditworthiness, given Ho Ing's insignificant EBITDA contribution at just 3.3% of the group's overall EBITDA in 2022.

Outlook

The stable rating outlook reflects our view that Ho Ing could maintain its EBIT interest coverage ratio at above 2.4x over the next two years, despite a material increase in capex required for fleet expansion. Meanwhile, we believe that Ho Ing will remain a strategically important subsidiary of the parent, Hotai Motor.

Downward scenario

We may lower the long-term issuer credit rating on Ho Ing if:

- The EBIT interest coverage ratio declined to below 1.3x and ratio of funds from operations (FFO) to debt declined to below 12% for an extended period. This could occur if the company's expansion strategy for its car sharing fleet does not payoff, such that its utilization rates decline, or
- We believe Hotai Motor's linkage with and financial support to Ho Ing have weakened materially, possibly because Hotai Motor significantly lowers its ownership in Ho Ing or relinquishes its seats on Ho Ing's board of directors. However, we see this scenario is remote over the next two to three years.

Upward scenario

We could upgrade Ho Ing if:

- The EBIT interest coverage ratio improved to above 3.5x on a sustainable basis, or
- The EBIT interest coverage ratio remained at least 2.4x and its ratio of FFO to debt improved to above 20% on a sustainable basis.

Both scenarios could occur if Ho Ing's car-sharing fleet utilization rate significantly increased, resulting in higher margin and stronger operating cash flow generation.

Company Description

Founded in 2018, Ho Ing Mobility Service Co. Ltd. provides car/scooter sharing service via its iRent platform, which accounted for around 70% of its revenue in 2022, and short-term car rental business at around 18% of revenue in 2022. The company had revenue of NT$3.6 billion and EBIT of NT$97 million in 2022. Ho Ing is a subsidiary of Hotai Motor Co. Ltd., which owns 72.2% the company.

Our Base-Case Scenario

- S&P Global's projection for Taiwan's GDP growth of 0.5% in 2023, 3.0% in 2024 and 2.6% in 2025. Steady economic growth could support domestic consumption such as travel spending.
- Revenue to grow by 28% in 2023 and 22% in 2024, mainly driven by the company's iRent car-sharing fleet expansion plans. Its car fleet of 8,600 units as end of 2022 will grow to 9,400 units as end of 2023, and further grow to 12,200 units as end of 2024.
- Utilization rate to remain stable at 20%-30% for iRent car-sharing and 40%-50% in 2023-2024 for on-site car rental segments.
- We assume the average hourly lease rate will remain steady in 2023-2024.
- Revenue for on-site car rental segment to grow by 10% in 2023, given the pandemic impact has dissipated, before returning to 2%-3% growth in 2024.
- Gross margin before depreciation and amortization to gradually improve to 47%-49% in 2023-2024 from 48% in 2022, mainly because higher-margin business such as iRent car-sharing could enjoy steady growth amid a favorable industry trend.
- Selling, general and administrative expenses to remain stable at 26%-27% in 2023-2024.

- Capex of new Taiwan dollar (NT$) 1.5 billion-NT$3 billion in 2023-2024 to support Ho Ing's car fleet expansion.
- We do not expect a cash dividend payout over the next two years.

Ho Ing Mobility Service Co. Ltd.--Forecast summary

(Mil. NT$)	2021a	2022a	2023e	2024f	2025f
Revenue	2,876	3,633	4,660	5,668	6,560
Funds from operations (FFO)	493	706	855	1,173	1,503
EBIT	26	97	173	265	404
Cash flow from operations (CFO)	1,017	989	961	1,288	1,623
Capex	1,606	1,038	1,487	2,967	2,925
Free operating cash flow (FOCF)	(589)	(50)	(526)	(1,679)	(1,302)
Debt (reported)	3,420	3,650	5,050	6,729	8,030
Plus: Lease liabilities debt	221	223	223	223	223
Debt	3,641	3,873	5,273	6,952	8,254
Cash and short-term investments (reported)	37	126	1,000	1,000	1,000
Adjusted ratios					
FFO/debt (%)	13.5	18.2	16.2	16.9	18.2
Annual revenue growth (%)	30.7	26.3	28.3	21.6	15.8
EBIT margin (%)	0.9	2.7	3.7	4.7	6.2
EBIT interest coverage (x)	1.0	2.3	2.4	2.7	3.3
Debt/debt and equity (%)	85.4	85.2	87.5	88.7	88.1

Liquidity

The short-term issuer credit rating is 'twA-2'. We assess Ho Ing's liquidity as less than adequate. We expect the company's ratio of liquidity sources to uses to be around 0.24x over the next 12 months. Despite of the lower liquidity ratio, we believe Ho Ing has fair headroom to manage its liquidity risk even if the company's performance fluctuates. We base this on our view that Ho Ing will maintain a sound relationship with local banks, given its connection with the Hotai Motor group.

We do not expect Ho Ing to face difficulties rolling over its short-term debts or securing new credit facilities over the next 12 months. In addition, we believe the company has generally prudent risk management, as indicated by the internal limit on its credit utilization rate.

Principal Liquidity Sources:

- Cash and short-term investments of NT$71 million as of June 30, 2023.
- Funds from operations of around NT$1 billion up to June 2024.
- Working capital inflow of around NT$100 million over the 12 months ending June 2024.

Principal Liquidity Uses:

- Debt maturities of about NT$3.8 billion over the 12 months ending June 2024.
- Maintenance capex (net of vehicle disposals) of NT$1.1 billion over the 12 months ending June 2024.

Rating Score Snapshot

Issuer Credit Rating: twA-/Stable/twA-2
Note: All scores are in comparison with global obligors.

Business risk: Weak
- Country risk: Intermediate
- Industry risk: Intermediate
- Competitive position: Weak

Financial risk: Aggressive
- Cash flow/Leverage: Aggressive

Anchor: twbb+

Modifiers
- Diversification/Portfolio effect: Neutral (no impact)
- Capital structure: Negative (-1 notch)
- Financial policy: Neutral (no impact)
- Liquidity: Less Than Adequate (no impact)
- Management and governance: Fair (no impact)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile: twbb+

Group credit profile: twaa-

- Entity status within group: Strategically important (+3 notches)

Related Criteria & Research

Related Criteria

- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities - November 13, 2012
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Criteria | Corporates | General: Corporate Methodology - November 19, 2013
- General Criteria: Methodology: Industry Risk - November 19, 2013
- 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: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Operating Leasing Industry - December 14, 2016
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

New Ratings	
Ho Ing Mobility Service Co. Ltd.	
Issuer Credit Rating	twA-/Stable/twA-2

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