

Media Release:

# Outlook On SinoPac Leasing Corp. Revised To Stable On Sustained Diversification Benefits; 'twA+/twA-1' Ratings Affirmed

December 12, 2023

## Overview

- We recognize **SinoPac Leasing Corp.'s** above-average geographic and business diversity by local comparison. This follows our holistic assessment of the company compared with other local finance companies of a similar scale and stand-alone credit profile. We also believe that SinoPac Leasing would benefit from financial support and capital flexibility from its parent group, if needed.
- In our view, these rating strengths offset the company's weakening capitalization, which is likely to lower to our assessment of strong capitalization from very strong currently, over the next two years amid capital depletion from high growth.
- We have therefore revised the outlook on SinoPac Leasing to stable from negative.
- At the same time, we affirmed the 'twA+/twA-1' issuer credit ratings on the finance company.

## Rating Action

Taiwan Ratings Corp. today revised its outlook on the long-term rating on SinoPac Leasing to stable from negative. At the same time, we affirmed the 'twA+' long-term and 'twA-1' short-term issuer credit ratings on the finance company.

## Rationale

**The outlook revision on SinoPac Leasing reflects our more positive holistic view of the finance company relevant to its domestic peers.** We regard other rated local leasing companies owned by a financial holding company or a bank as SinoPac Leasing's close peers. Under our assessment, SinoPac Leasing is larger, with an established presence and geographic diversification in overseas markets. In addition, its niche in the overseas ship finance and leasing market supports the firm's business stability. Moreover, we believe that the finance company would receive financial support and capital flexibility from the parent **SinoPac Holdings** group in times of need.

### **Capitalization could deteriorate to strong from very strong over the next one to two years.**

SinoPac Leasing's consolidated accounts receivables contracted by 3% in 2022 amid a stagnant macroeconomy and reduced exports from Taiwan and China. However, the company resumed double-digit business growth in 2023 thanks to strong growth from its China subsidiary, despite an increase in early repayments for ship finance and leasing under a rising U.S. policy rate. We

### PRIMARY CREDIT ANALYST

**Patty Wang**  
Taipei  
+886-2-2175-6823  
patty.wang  
@spglobal.com  
patty.wang  
@taiwanratings.com.tw

### SECONDARY CONTACT

**Yuhan Lan**  
Taipei  
+886-2-2175-6810  
yuhan.lan  
@spglobal.com  
yuhan.lan  
@taiwanratings.com.tw

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anticipate the company will seek even higher growth in 2024, supported by a more stable economy in Taiwan, the return of ship finance and leasing business, and continued high growth in China--largely among local small and medium size enterprises.

The company's likely high growth, especially in higher-risk countries such as China, will consume more capital. SinoPac Leasing's risk-adjusted capital ratio was about 17% at the end of 2022 and the end of September 2023. The fast accumulation of risky assets under a high growth strategy could pressure SinoPac Leasing's capital over the next two years. Furthermore, we anticipate its capital accumulation will remain slow, amid only moderate growth in profits and the fulfillment of the company's dividend payout needs to the parent group.

**The ratings continue to reflect our view of very likely support from the financially stronger parent.** We view SinoPac Leasing as a strategically important member of the parent SinoPac Holdings group. The ratings on SinoPac Leasing also reflect our assessment of the company's strong capitalization and adequate funding and liquidity, supported by the group's stronger financial resources. Counterbalancing factors for the ratings include SinoPac Leasing's smaller operating scale compared to non-financial holding or bank holding finance companies and more aggressive risk appetite to expand in higher-risk countries such as China.

### Outlook

The stable rating outlook on SinoPac Leasing reflects the company's strategic importance to SinoPac Holdings. We believe the parent group will provide support to the leasing subsidiary in most foreseeable situations.

The outlook also reflects our expectation that SinoPac Leasing will maintain at least strong capitalization and near-peer-average asset quality over the next one to two years, despite its high growth strategy over the period. Moreover, we believe SinoPac Leasing's geographic diversity and strengthening position in niche markets locally and overseas will enable the company to enhance its profitability over the next two years.

#### Downward scenario

We could lower the long-term rating if SinoPac Leasing's stand-alone credit profile weakens. This is likely if the company's capitalization further deteriorates to adequate from strong due to an overly aggressive increase in exposure to high economic risk countries over the next two years. A deterioration in the stand-alone credit profile is also probable if the company cannot improve its earnings stability due to weakened competitiveness or unexpected operating losses from an increase in bad debt provisions under its high growth strategy.

We could also lower the rating if the group credit profile deteriorates under the scenario that the group's core banking subsidiary is unable to maintain strong capitalization over the next two years.

#### Upward scenario

We believe an upgrade is remote over the next two years as it also is for the parent group.

## Related Criteria & Research

### Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- 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

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## Ratings List

### Ratings Affirmed; Outlook Action

	To	From
<b>SinoPac Leasing Corp.</b>		
Issuer Credit Rating	twA+/Stable/twA-1	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](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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