

Media Release:

Mercedes-Benz Financial Services Taiwan Ltd. Assigned 'twAA+/twA-1+' Ratings; Outlook Stable

July 3, 2024

Overview

- We view Mercedes-Benz Financial Services Taiwan Ltd. (MBFS Taiwan) as a highly strategic member of Mercedes-Benz Group AG (MB Group).
- MBFS Taiwan offers financial services exclusively for Mercedes-Benz brand customers and helps promote sales and protect the brand's market presence in Taiwan as the group's captive finance company.
- We are assigning our 'twAA+' long-term and 'twA-1+' short-term issuer credit ratings to MBFS Taiwan.
- The rating outlook is stable to reflect the outlook on the parent group and our expectation that MBFS Taiwan will remain a highly strategic group member over the next two years.

Rating Action

Taiwan Ratings Corp. today assigned its 'twAA+' long-term and 'twA-1+' short-term issuer credit ratings to MBFS Taiwan. The outlook on the long-term rating is stable.

Rationale

The ratings on MBFS Taiwan reflect our view of a high likelihood of support from the company's ultimate parent, MB Group, given the finance company's highly strategic status within the group.

We anticipate the company will remain a highly strategic member of MB Group as part of the group's captive finance operations--the cornerstone of the group's long-term business strategy. The company offers financial services exclusively for the Mercedes-Benz brand customers and helps promote sales and protect the market presence of the Mercedes brand in Taiwan. MBFS Taiwan maintained a steady performance and portfolio growth within the group's expectations over the past few years, with the Taiwan market representing 1.5% of the group's total sales of passenger vehicles.

In our view, the parent group will support MBFS Taiwan in almost any foreseeable circumstance. This is visible in the group's financial guarantee for the company's outstanding bank debts. The company operates under the Mercedes-Benz brand and carries the Mercedes-Benz name. MBFS Taiwan fully follows the group's policy and operating guidelines unless there are more stringent standards required by local regulatory authorities. These create a strong incentive and solid

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framework for MB Group to provide any needed support to sustain the company's creditworthiness on a timely basis. New car sales volume for Mercedes-Benz Taiwan (MB Taiwan, the sales division of Mercedes-Benz in Taiwan) ranked third or fourth in the local market in the first quarter of 2024.

MBFS Taiwan is majority owned by Mercedes-Benz Mobility AG (MBM AG 51%) with Zhong Li Investment Ltd. as the other major shareholder (49%). The close collaboration and cooperation between the two major shareholders have strongly supported MB group's effective execution of business strategies in Taiwan, in our view. MBM AG represents Mercedes' financial services division, while Zhong Li Investment is a member of the Lei Shing Hong group, which owns the largest dealership for Mercedes-Benz branded vehicles in Taiwan and is the largest dealership organization for Mercedes-Benz cars and vans globally.

MBFS Taiwan is a mid-sized car finance and leasing company in Taiwan that provides financing and leasing services exclusively to Mercedes-Benz branded passenger vehicles. The company's business profile is less diversified than other local finance companies and business momentum fluctuates with the group's sales momentum. However, its close ties with dealers as well as one-stop service of retention program, warranty extension, auto insurance and maintenance underpin MBFS Taiwan's overall business stability.

The company provides financing services to over 80% of MB Taiwan's installment customers and more than 30% of leasing customers. MBFS Taiwan's portfolio has been profitable throughout the years with a return on average assets of 1% in 2023, down from 1.3% in 2022. Nonetheless, this trend was in line with that for other finance companies in Taiwan given the rising interest rate environment during the period. MBFS Taiwan's asset quality has been superior to other local auto finance companies, supported by its focus on new car financing with satisfactory underwriting controls and discipline.

Outlook

The stable rating outlook on MBFS Taiwan reflects our outlook on the parent group, which we expect will maintain a stable consolidated credit profile over the next one to two years. The ratings on MBFS Taiwan will therefore move in tandem with the MB Group's group credit profile, given the company's highly strategic status within the group. On a stand-alone basis, we anticipate MBFS Taiwan will maintain its steady earnings, satisfactory asset quality, and a profitable track record to strongly complement the group's business strategy to promote the Mercedes-Benz brand in Taiwan.

Downward scenario

We may lower the ratings on MBFS Taiwan if S&P Global Ratings lowers its assessment of the group credit profile, or if we believe that MBFS Taiwan's strategic importance to the group significantly and consistently weakens. This could be indicated by a reduction in MB group's stake in MBFS Taiwan to below 50%, the removal of guarantee protection for the entity's bank debts, or a substantial change in the funding mix towards instruments not covered by the guarantee to MBFS Taiwan.

Upward scenario

We may raise the ratings if we reclassify MBFS Taiwan as a core entity to the wider group. This would require the local market in Taiwan to contribute a larger share to the group's car sales and the company to become a much stronger earnings contributor to the group, which we consider to be unlikely in the next two years.

Related Criteria & Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- 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 - April 30, 2024
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

New Ratings

	To	From
Mercedes-Benz Financial Services Taiwan Ltd.		
Issuer Credit Rating	twAA+/Stable/twA-1+	N.R.

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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