Media Release:

# Ho Ing Mobility Service Co. Ltd. Outlook Revised To Negative On Weakened Profitability; 'twA-/twA-2' Ratings Affirmed

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## Rating Action Overview

- Taiwan-based **Ho Ing Mobility Service Co. Ltd.** mainly provides car/scooter sharing and short-term car rental services, with EBIT of new Taiwan dollar (NT$) 124.8 million in 2023.
- We anticipate Hon Ing will report a net loss in 2024 due to tepid domestic travel demand and a loss on car disposals. Accordingly, we expect Ho Ing's EBIT margin to be materially below our previous expectation of 2%-4% in 2024-2025.
- We forecast debt rising slightly to NT$4.5 billion-NT$5 billion in 2025-2026 amid weaker operating cash flow generation due to lower profits and ongoing fleet maintenance capex needs. Meanwhile, we forecast the EBIT interest coverage ratio will remain below 1.3x in 2024-2025 before recovering to around 2.1x in 2026.
- We have revised our outlook on the long-term issuer credit rating on Ho Ing to negative from stable to reflect our view of the rising likelihood that the company fails to improve its EBIT interest coverage ratio to be above 1.3x over the next 12-24 months.
- At the same time, we affirmed our 'twA-' long-term and 'twA-2' short-term issuer credit ratings on the company.

## Rating Action Rationale

*The outlook revision reflects our view that slower growth in the domestic car-sharing market and normalized used car market could pressure Ho Ing's profitability 2024-2025.* We forecast annual growth for Taiwan's car-sharing industry will moderate to around 5% from 2024, compared with over 10% growth in 2020-2022. This is mainly due to normalized domestic travel demand from 2023 following an end to overseas travel restrictions. In addition, easing supply shortages have led to normalized demand in the used car market. This reduces the profitability Ho Ing can make from fleet disposals. This is trend that is negatively affecting most car renters globally.

We anticipate Ho Ing will see its operating performance bottom out in 2024. That's because weaker domestic travel demand will lead to declining fleet utilization for Ho Ing's car-sharing and short-term car rental segments. This, along with a fleet disposal loss of new Taiwan dollar (NT$) 100 million in 2024 could lower the company's EBIT margin to negative 1.5% this year. This compares with positive EBIT margin in 2023 when the company reported a disposal gain of NT$3 million. Nevertheless, gradual improvement in domestic travel demand and Ho Ing's smaller fleet disposal scale largely underpin our forecast for the EBIT margin to improve to around positive 2.0% in 2025 and 3.5%-4.0% in 2026.

*More conservative fleet plan could limit debt increase and reduce interest burden.* We believe Ho Ing will focus on improving fleet utilization via more optimal fleet deployment to enhance profitability. At the same time, the company will largely maintain its fleet size at around 8,000 cars over the next two years due to the materially slower growth in the car-sharing market.

We now forecast the company's annual maintenance capital expenditure (capex) will be NT$1.2 billion-NT$1.3 billion in 2024 and around NT$1.5 billion per year in 2025-2026. This compares with our previous expectation of around NT$3 billion annually in 2024-2025. As a result, Ho Ing's overall debt will expect only moderately increase to NT$4.6 billion-NT$4.9 billion in 2025-2026 from NT$4.3 billion-NT$4.4 billion in 2024. Meanwhile the company's annual interest expense will slightly rise to NT$80 million-NT$90 million in 2025-2026 from NT$70 million-NT$80 million in 2024.

*EBIT interest coverage ratio at below 1.3x in 2024 and 2025 could gradually improve in 2025-2026 as profitability restores.* We forecast the ratio of EBIT interest coverage will fall to negative 0.9x in 2024 from positive 1.8x in 2023, before improving to 1.2x in 2025 and 2.1x in 2026. The company's more conservative fleet plan and recovering domestic travel demand mainly support this view.

*We continue to assess Ho Ing as a strategically important group subsidiary of Hotai Motor Corp.* In our view, Hotai Motor will retain its ownership in Ho Ing (approximately 82.74% as of October 14, 2024) and provide financial support to the company, as necessary. Ho Ing's key role in promoting the parent group's 'Mobility as a Service' ecosystem mainly underpins our assessment of its strategically important group status. This ecosystem seeks to promote interaction between the group and its customers through more frequent interactions, which could facilitate more precise marketing plans and customized services from this data.

However, we view Ho Ing's operations as somewhat distanced and detachable from the group's core car dealership business. This along with Ho Ing's insignificant contribution of 3.2% of the group's overall EBITDA in 2023 mainly restrict our assigning a higher group status assessment.

## Outlook

The negative outlook reflects our view that Ho Ing's ratio of EBIT interest coverage could materially weaken to negative 0.9x in 2024 before restoring slightly to positive 1.2x 2025. This reflects the company's pressured profit margin due to tepid domestic travel and the less favorable used car market, particularly in 2024. We see the company's strategic shift to asset-lighter operations without aggressively expanding its fleet size offering some support for its credit metrics. However, the recovery pace of domestic travel and intensifying competition in the car-sharing market remain downside risks for the ratings.

### Downward scenario

We may lower the long-term rating on Ho Ing if the company's EBIT interest coverage ratio fails to improve to above 1.3x and its ratio of funds from operations (FFO) to debt fails to recover to above 12% on a sustainable basis over the next 12-24 months. This could occur if:

- The company fails to improve fleet utilization for its car-sharing and on-site car rental business, possibly due to a prolonged industry downturn and intensifying domestic competition; or

- Takes on a more aggressive fleet expansion plan than we expected, leading to materially higher debt leverage and interest burden.

Upward scenario

We could revise the outlook back to stable if Ho Ing could improve and sustain its EBIT interest coverage ratio to above 1.3x and its FFO-to-debt ratio to above 12% sustainably. This could occur if the company successfully executes its fleet optimization strategy and enhances its overall operating efficiency, thereby achieving better profitability.

## Our Base-Case Scenario

- S&P Global's forecast for Taiwan's real GDP to grow by 4.2% in 2024, 2.1% in 2025, and 2.4% in 2026.
- Ho Ing's revenue to decline moderately by 1.1% in 2024, amid weaker domestic travel demand along with the negative impact from an earthquake in eastern Taiwan in April. Revenue could grow by 4%-6% in 2025-2026 as the company's car-sharing and on-site car rental performance improves.
    - On-site car-rental segment's revenue to decline by 5%-10% in 2024 but return to growth of 7%-8% in 2025 and around 5% in 2026.
    - Car-sharing segment's revenue to decline by 10%-15% in 2024 but return to growth of 4%-5% annually in 2025-2026. Both on-site car-rental and car-sharing segment could face weaker demand with lower fleet utilization in 2024. We expect market conditions to continue to improve in 2025-2026 based on historically steady growth for the domestic car-leasing market.
    - Chauffeur service segment's revenue to grow materially by 44% in 2024 and 15% annually in 2025-2026. Robust airport transfer demand mainly supports this favorable trend.
    - Revenue for the parking lot service segment to grow 30% in 2024, and by a further 10% annually in 2025-2026. Steady domestic parking demand mainly supports this trend.
    - Fleet disposal revenue to increase slightly by 3.5% in 2024, reflecting higher fleet disposals during the year.
- Fleet utilization for on-site car rental business could gradually recover to 42%-44% in 2025-2026, after falling 5.7% year on year to around 39% in 2024. Fleet utilization for the car-sharing segment could also improve from around 21% in 2024 to 22%-23% in 2025-2026.
- We assume the average hourly lease rate will remain steady in 2024-2025.
- Gross margin before depreciation and amortization will decline by 3%-4% in 2024 due to lower fleet utilization but could improve to 41%-42% in 2025-2026 following Ho Ing's improving performance.
- Ratio of selling, general and administrative expenses to revenue to remain at 25%-30% in 2024-2026.
- Capex of NT$1.2 billion-NT$1.3 billion in 2024 and NT$1.5 billion in 2025-2026.
- Fleet disposal loss to reach NT$100 million in 2024, given the weaker used car market, compared with a NT$3 million gain in 2023. Fleet disposal loss could narrow to NT$70-NT$80 million per year in 2025-2026, given we expect the company will dispose of fewer units and the used car market could slightly improve.
- Annual interest expense to be around NT$80 million in 2024-2025 and could rise slightly to NT$85 million-NT$90 million in 2026 to reflect the company's slightly higher debt level.
- We do not expect a cash dividend payout over the next two years.

**Ho Ing Mobility Service Co. Ltd. – Taiwan Ratings Corp. forecast summary**

Industry sector: Operating Leasing

| (Mil. NT$) | 2022a | 2023a | 2024e | 2025f | 2026f |
|---|---|---|---|---|---|
| Revenue | 3,633 | 4,604 | 4,564 | 4,755 | 5,030 |
| Funds from operations (FFO) | 706 | 756 | 498 | 661 | 740 |
| EBIT | 97 | 125 | (69) | 94 | 180 |
| Interest expense | 42 | 69 | 78 | 82 | 87 |
| Cash flow from operations (CFO) | 989 | 1,244 | 1,185 | 1,190 | 1,280 |
| Capital expenditure (capex) | 1,038 | 1,518 | 1,216 | 1,500 | 1,500 |
| Free operating cash flow (FOCF) | (50) | (274) | (30) | (310) | (220) |
| Debt (reported) | 3,650 | 4,089 | 4,128 | 4,437 | 4,657 |
| Plus: Lease liabilities debt | 223 | 220 | 217 | 214 | 211 |
| Debt | 3,873 | 4,309 | 4,345 | 4,651 | 4,868 |
| Cash and short-term investments (reported) | 126 | 91 | 100 | 100 | 100 |
| Adjusted ratios | | | | | |
| Debt/EBITDA (x) | 5.2 | 5.2 | 7.5 | 6.3 | 5.9 |
| FFO/debt (%) | 18.2 | 17.5 | 11.5 | 14.2 | 15.2 |
| Annual revenue growth (%) | 26.3 | 26.7 | (0.9) | 4.2 | 5.8 |
| EBIT margin (%) | 2.7 | 2.7 | (1.5) | 2.0 | 3.6 |
| EBIT interest coverage (x) | 2.3 | 1.8 | (0.9) | 1.2 | 2.1 |
| Debt/debt and equity (%) | 85.2 | 85.6 | 88.2 | 88.8 | 88.0 |

All figures are adjusted by Taiwan Ratings Corp. unless stated as reported. Figures for the forecast period are based on Taiwan Ratings Corp.'s base-case scenario. a--Actual. e--Estimate. f--Forecast. NT$--new Taiwan dollar

# 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 remain at 0.32x over the 12 months ending June 30, 2025.

We also believe Ho Ing has fair headroom to manage its liquidity risk even if the company's performance fluctuates despite the relatively low liquidity ratio. We base this on our view that Ho Ing will maintain a sound relationship with local banks, given its parent-subsidiary relationship with Hotai Motor group. Accordingly, we do not expect Ho Ing to face difficulty 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$286 million at the end of June 2024.
- Funds from operations of NT$1.0 billion-NT$1.2 billion up to June 2025.

Principal liquidity uses

- Long-term debt amortization plus short-term debt maturity of NT$4 billion up to June 2025.
- Maintenance capex (net of vehicle disposals) of NT$600 million over the 12 months ending June 2025.

# Rating Score Snapshot

Issuer Credit Rating: twA-/Negative/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: Neutral (No impact)
- Comparable rating analysis: Positive (+1 notch)

Stand-alone credit profile: twbb+

Group credit profile: twaa-

- Entity status within group: Strategically important (+4 notches)

# Related Criteria & Research

## Related Criteria
- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019
- Criteria | Corporates | Industrials: Key Credit Factors For The Operating Leasing Industry - December 14, 2016
- 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: Methodology: Industry Risk - November 19, 2013
- General Criteria: Principles Of Credit Ratings - February 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 Revision**

| | To | From |
|---|---|---|
| **Ho Ing Mobility Service Co. Ltd.** | | |
| Issuer Credit Rating | twA-/Negative/twA-2 | twA-/Stable/twA-2 |

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.