

Media Release:

KGI Finance & Leasing 'twA+/twA-1' Ratings Affirmed; Outlook Stable

October 30, 2024

Overview

- We anticipate KGI Finance will resume its business growth strategy and maintain strong capitalization over the next two years.
- We affirmed the 'twA+' long-term and 'twA-1' short-term issuer credit ratings on KGI Finance.
- The stable rating outlook reflects our view of KGI Finance's strong capitalization and continued support from the financially stronger parent KGI FHC group over the next two years.

Rating Action

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

Rationale

The affirmation reflects our view that we will maintain our assessment of the company's strong capital on a risk-adjusted basis over the next two years. We measure capital strength through our risk-adjusted capital (RAC) ratio, which we believe will likely remain at 10%-15% for KGI Finance over the next two years and capable of supporting its business growth over the period. The ratio was 15.4% at end-2023, up from 14% at end-2022 due to the company's negative receivables growth to manage its asset quality under a challenging business environment for its core business commercial vehicle financing.

We believe KGI Finance will resume its business momentum over the next two years as market conditions improve following a recent industry downturn. We believe the RAC ratio will remain around 10%-15% over the same period.

The ratings on KGI Finance continue to reflect our view of potential financial support from the parent group, if needed. That's because of the company's strategic importance to the parent **KGI Financial Holding Corp.** (KGI FHC) group's business strategy, in our view. KGI Finance's small market position partly offsets its rating strengths. We also believe that KGI Finance's small capital base and high sensitivity to volatile asset quality could increase the volatility of its financial profile.

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Outlook

The stable rating outlook on KGI Finance mainly reflects our view that the company will maintain strong capitalization with a sufficient buffer and manageable asset quality over the next one to two years.

The outlook also reflects our view that KGI Finance's strategically important status and close association with the KGI FHC group will remain unchanged over the next one to two years, along with necessary support from the group to maintain the subsidiary's credit profile.

Upward scenario

We may upgrade on KGI Finance if the company strengthens its capitalization while at the same maintaining stable asset quality and a stable business profile. A RAC ratio consistently above 15% over the next two years would indicate such capital improvement.

Downward scenario

We may downgrade KGI Finance if:

- We assess KGI FHC's group credit profile weakens over the next two years; or
- We assess KGI Finance's importance to the group has weakened or if KGI Finance's RAC ratio consistently drops below 10% over the next two years.

Related Criteria & Research

Related Criteria

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

Related Research

- Taiwan Ratings' Ratings Definitions – Nov. 11, 2021

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

Ratings List

Ratings Affirmed

KGI Finance & Leasing Corp.

Issuer Credit Rating	twA+/Stable/twA-1
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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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