

HONDA LEASING (THAILAND) CO., LTD.

No. 212/2020
21 December 2020

FINANCIAL INSTITUTIONS

Issue Ratings:

Guaranteed

AAA

Outlook:

Negative

Last Review Date: 29/05/20

Issue Rating

History:

Date	Rating	Outlook/Alert
29/05/20	AAA	Negative
20/02/20	AAA	Stable

Contacts:

Siriwan Weeramethachai

siriwan@trisrating.com

Sithakarn Tongphiphat, CFA, FRM

sithakarn@trisrating.com

Taweekok Jiamsakunthum

taweekok@trisrating.com

Narumol Charnchanavivat

narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the rating on the guaranteed debentures issued by Honda Leasing (Thailand) Co., Ltd. (HLTC or the “Issuer”) at “AAA” with a “negative” outlook. At the same time, TRIS Rating assigns the “AAA” rating with a “negative” outlook to HLTC’s proposed guaranteed debentures of up to THB2 billion due within three years.

The debentures are guaranteed by the issuer’s parent company, Honda Automobile (Thailand) Co., Ltd. (HATC or the “Guarantor”). HATC is a subsidiary of Honda Motor Co., Ltd. (HMC), a company rated “A-” with a “negative” outlook by S&P Global Ratings (S&P Global).

KEY RATING CONSIDERATIONS

Unconditional and irrevocable guarantee

The rating on HLTC’s debentures reflects the unconditional and irrevocable guarantee by HATC, whose creditworthiness is enhanced by the keepwell agreement provided by its ultimate parent company, HMC. Under the guarantee terms, HATC provides a guarantee to cover all amounts due under the terms of the debentures of up to 110% of face value, including the principal, plus any accrued interest, and other related expenses. The guarantee agreement is governed by the laws of the Kingdom of Thailand.

According to the keepwell agreement between HATC and HMC, which is governed by Japanese law, HMC, the ultimate parent company of HATC, shall:

- (1) own and hold, directly and indirectly, the legal title to and beneficial interest in, at least 80% of all the issued and outstanding shares of stock of HATC;
- (2) cause HATC to have a positive consolidated tangible net worth; and,
- (3) ensure that HATC has sufficient liquidity and funds to punctually meet its payment obligations associated with the debt described in the keepwell agreement.

In addition, any claims on HMC arising from any funds provided by HMC to HATC are subordinated to the claims of the debentureholders. So long as any debt shall be outstanding, the agreement shall not be modified, amended, or terminated in any manner which may have any adverse effect upon the debentureholders unless the debentureholders and the representatives of the debentureholders have consented thereto in writing.

Although the keepwell agreement is not a guarantee, TRIS Rating is of the view that given the high credit quality of HMC and HATC’s status as a core subsidiary of HMC, HMC will provide sufficient financial support to HATC to ensure that all of HATC’s obligations are met.

HATC is a core subsidiary of HMC

HATC’s creditworthiness reflects its status as a core member of HMC which holds a 64% stake in HATC. We anticipate HMC will continue to provide support to maintain HATC’s business and financial profile.

HATC has received business and financial support from HMC. In terms of business cooperation, HATC’s production plans, marketing strategy, and risk management policies are integrated with those of the overall HMC’s group

strategy. For example, HMC provides technological knowhow as well as advices about new products to HATC to meet the global standards of the Honda Group.

We expect HATC's business position to remain strong over the medium term. HATC has maintained a leading market share in passenger car sales in Thailand of around 24% for the first 10 months of 2020, ranked second among automakers in Thailand. We expect its strong market position to be maintained for the rest of 2020, supported by HATC's launching of new car models such as Honda City Hatchback and Honda City HEV in late November 2020. HATC also serves as a strategic production hub for HMC's overseas expansion efforts, especially in the production of hybrid cars.

HATC has a strong financial profile with stable cash flow and low level of debt. In terms of financial cooperation, HATC has obtained financial support as shown by the keepwell agreement between HATC and HMC. TRIS Rating believes the support and commitments from HMC continue into the foreseeable future.

Support from HATC, as HLTC is a captive finance arm, to continue

TRIS Rating believes that HLTC will continue to receive business support from HATC given its status as a captive finance arms set up to provide financial services for HATC's clients. HLTC has helped HATC expand its business and collaborated in marketing strategies to support sales of Honda cars through referrals from HATC's dealers. The average penetration rate, i.e., the number of HATC's customers being financed by HLTC, has been around 40% for the past few years.

HLTC is one of the market leaders in automobile financing in Thailand. Its loan portfolio stood at THB78.7 billion as of March 2020, an 11% growth from March 2019, driven by decent sales growth at HATC. In our view, HLTC's asset quality has remained at a healthy level, supported by the generally good credit profiles of HLTC's clients and HLTC's conservative underwriting policy. The ratio of non-performing loans (NPLs) to total loans increased only slightly to 0.20% at the end of March 2020 from 0.12% at the end of March 2019, remaining lower than the industry average. We believe the deterioration in asset quality resulted from the economic fallout from the Coronavirus Disease 2019 (COVID-19) pandemic is manageable.

We expect HLTC to maintain an adequate liquidity and financial profile. HLTC's asset-liability duration gap has remained positive. HLTC has various sources of funds from large financial institutions and loans from the Honda Group in Thailand, which help provide additional financial flexibility. At the end of October 2020, the company had credit facilities from various financial institutions totaling THB121 billion, 46% of which were undrawn. HLTC also receives financial support from HATC, as shown by the Letter of Guarantee provided to HLTC's debentureholders.

BASE-CASE ASSUMPTIONS

- Credit ratings on HMC as assigned by S&P Global to remain unchanged over the forecast period.
- The unconditional and irrevocable guarantee by HATC, whose creditworthiness is enhanced by the keepwell agreement provided by HMC, will remain in full force.

RATING OUTLOOK

The "negative" outlook on HLTC's guaranteed debentures mirrors the "negative" outlook on the ratings on HMC, due to the impact of the COVID-19 fallout on global car sales. HMC currently has a "A-" rating with a "negative" outlook from S&P Global.

RATING SENSITIVITIES

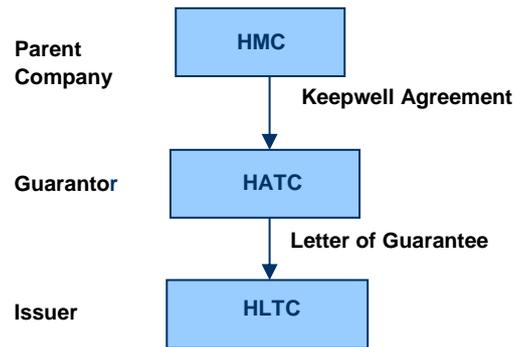
The rating on HLTC's guaranteed debentures could be downgraded if the rating on HMC assigned by S&P Global is downgraded. The outlook could be revised to "stable" if the rating outlook on HMC assigned by S&P Global is revised to "stable".

COMPANY OVERVIEW

HATC was established in 2000 as a result of the merger between Honda Cars (Thailand) Co., Ltd. (HCT), a sales and distribution company of the Honda Group in Thailand, and Honda Cars Manufacturing (Thailand) Co., Ltd. (HCMT), an automobile manufacturer. Currently, HMC continues to be the largest shareholder of HATC with an 89% stake (both direct and indirect).

HLTC is an automobile financing company, established in 2002 as a captive finance subsidiary of its parent companies, HATC and Asian Honda Motor Co., Ltd. (ASH). HLTC was founded to support the sales and marketing activities of its parent companies. At present, HLTC's shareholders are HATC (holding 51.2%) and ASH (holding 48.8%). The company's entire portfolio comprises loans for Honda-branded automobiles, the products produced by the parent companies.

Chart 1: Support Structure of Honda Group



Source: HLTC

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

**Honda Automobile (Thailand) Co., Ltd. (HATC)
(Guarantor)**

Unit: Mil. THB

	-----Year Ended 31 March -----				
	2020	2019	2018	2017	2016
Total operating revenues	205,070	237,951	232,984	196,034	168,679
Earnings before interest and taxes (EBIT)	13,737	13,455	8,898	6,682	2,792
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	17,211	17,350	13,030	11,023	5,909
Funds from operations (FFO)	15,122	16,680	12,151	10,137	5,365
Adjusted interest expense	263	39	30	25	26
Total assets	93,722	102,581	100,147	88,326	83,539
Adjusted debt	0	0	0	0	0
Adjusted equity	53,395	54,559	52,443	46,158	41,049
Adjusted Ratios					
EBITDA margin (%)	8.39	7.29	5.59	5.62	3.50
Pretax return on permanent capital (%)	23.73	23.69	17.04	14.44	6.46
EBITDA interest coverage (times)	65.40	444.13	438.09	438.82	231.62
Debt to EBITDA (times)	n.a.	n.a.	n.a.	n.a.	n.a.
FFO to debt (%)	n.a.	n.a.	n.a.	n.a.	n.a.
Debt to capitalization (%)	n.a.	n.a.	n.a.	n.a.	n.a.

* Consolidated financial statements

n.a. Not available

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Honda Leasing (Thailand) Co., Ltd. (HLTC)

Issue Ratings:

HLTC233A: THB3,000 million guaranteed debentures due 2023	AAA
Up to THB2,000 million guaranteed debentures due within 3 years	AAA

Rating Outlook: Negative

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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