

TOYOTA LEASING (THAILAND) CO., LTD.

No. 137/2020
10 September 2020

FINANCIAL INSTITUTIONS

Issue Ratings

Guaranteed	AAA
Short-term guaranteed	T1+

Outlook: Stable

Last Review Date: 07/07/20

Issue Ratings History:

Date	Rating	Outlook/Alert
27/10/10	AAA,T1+	Stable
12/03/10	AAA	Stable
12/01/06	AAA,T1+	Stable
07/10/04	AAA	Stable

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RATIONALE

TRIS Rating affirms the “AAA” ratings on the guaranteed debentures issued by Toyota Leasing (Thailand) Co., Ltd. (TLT or Issuer) under TLT’s THB60 billion medium-term debenture program. TRIS Rating also affirms the “AAA” ratings and “T1+” short-term rating on TLT’s guaranteed debentures, issued under its THB130 billion Thai Baht Debenture Programme in 2018, and TLT’s guaranteed debentures under its THB130 billion Thai Baht Debenture Program in 2020.

All rated debentures of TLT are guaranteed by Toyota Motor Finance (Netherlands) B.V., (TMF or Guarantor). TMF is a wholly-owned subsidiary of Toyota Financial Services Corporation (TFS), which is in turn wholly owned by Toyota Motor Corporation (TMC), the ultimate parent company. All three companies, TMF, TFS, and TMC, are rated “A+” with a “negative” outlook, and their short-term issue ratings are rated “A-1+” by S&P Global Ratings.

KEY RATING CONSIDERATIONS

Unconditional and irrevocable guarantee

The ratings on TLT’s short- and medium-term debentures reflect the unconditional and irrevocable guarantee given by TMF, whose rating is based on the credit strength of TMC. Under this guarantee structure, TMC has provided a Credit Support Agreement (CSA) to TFS, which has, in turn, provided a CSA to TMF. Under the terms of the CSA, TMC will provide sufficient liquidity for the obligations of bonds, debentures, and commercial papers of both subsidiaries, TFS and TMF. TMC will also provide sufficient liquidity for TMF’s guarantee obligations.

The guarantee is governed by Dutch law and is unconditional and irrevocable. The guarantee covers punctual payments to the debentureholders of all sums payable by TLT. For the guaranteed debentures, the obligations of TMF rank at least pari passu with all other present and future unsecured and unsubordinated indebtedness of TMF. The guarantee cannot be amended or terminated without the consent of both the debentureholders’ representatives and the Guarantor, TMF.

The Guarantor will not be under any obligation to make payment for the Issuer’s failure to pay as a result of any of the following actions by any Thai government agency: (1) interruption of payment by causing Issuer to be unable to transfer monies or to convert foreign currency to the Registrar or debentureholders to pay debt obligations; (2) causing the transfer of majority shareholding in, or control over, the Issuer to a third-party not associated with the Toyota Group; (3) expropriation or nationalization of at least 10% of the net value of hire purchase receivables of the Issuer and its subsidiaries; and (4) expropriation or nationalization that has the effect of preventing the Issuer and its subsidiaries from carrying on business. TRIS Rating believes that the above events are highly unlikely to occur.

Maintain strong market position

We expect TMC’s market and competitive positions to remain strong, supported by a variety of product lines, worldwide market coverage, and technological leadership. TMC is one of the world’s leading automakers with a global market share of around 10% in recent years.

TMC’s consolidated vehicle sales were around 8.9 million units per year on average during fiscal years (FY) 2017-2020. TMC’s share in its domestic market,

Japan, has also been relatively stable at around 47% in FY2017-FY2020. In FY2020 (ended 31 March 2020), sales in Japan made up the major revenue contributor at 43%, followed by 28% in North America, 9% in Asia ex-Japan, 14% in Europe, and 6% in other regions.

TMC reported sales for the first quarter of FY2021 (April-June 2020) of 1.16 million units, a 50% decrease from 2.32 million units in the first quarter of FY2020. The sharp drop in sales was caused by the Coronavirus Disease 2019 (COVID-19) economic fallout.

Financial performance to gradually recover

TMC's operating income had been around JPY2.4 trillion for the past several years. However, in the medium term, falling global auto sales due to the COVID-19 pandemic could still adversely impact the profitability of TMC and other automakers. For the first quarter of FY2021, operating income decreased by 98% year-on-year (y-o-y) to JPY13.9 billion. For the longer horizon, the company should be able to maintain strong profitability by continuously launching new models of vehicles and optimizing production costs. Based on TMC's forecast, consolidated vehicle sales are expected to gradually recover from the first quarter of FY2021 to reach 7.2 million units in FY2021. Operating income is expected to be around JPY500 billion.

Strong liquidity position and balanced funding

TMC has maintained conservative financial policies. It has a strong liquidity position with substantial amount of cash and high-quality liquid assets, such as Japanese government bonds and US treasuries. As of the end of the first quarter of FY2021, the company had JPY9.45 trillion liquid assets, equivalent to 17% of total assets. TMC also has diversified funding domestically and internationally including bank loans, bonds, and commercial papers (CPs). Based on IFRS accounting standards, TMC's short-term borrowings account for 46% of total borrowings, while long-term debt and other financial liabilities account for the remainder 54%. The larger portion of long-term borrowings should help mitigate any liquidity risk that could arise from a funding mismatch of its captive finance business.

BASECASE ASSUMPTIONS

- TMC's credit ratings assigned by S&P Global Ratings will still be maintained.
- There will be no change to the unconditional and irrevocable guarantee by TMF on TLT's debentures.

RATING OUTLOOK

The "stable" outlook reflects the creditworthiness of TMF, TLT's Guarantor. TMF's credit profile is reflected by the creditworthiness of the ultimate parent, TMC. TMC's current international-scale company rating of "A+/Negative" assigned by S&P Global Ratings continues to reflect TMC's credit strengths.

RATING SENSITIVITIES

The ratings and/or outlook on TLT's guaranteed debentures could be revised downward in the event of a significant weakening in TMC's creditworthiness.

COMPANY OVERVIEW

TMC, the ultimate parent company of the Toyota Group including TLT, was founded in 1937. The competitive advantage among automakers is its wide range of vehicle types. TMC produces its main brands under the "Toyota" and "Lexus" brands, as well as the "Daihatsu" and "Hino" brands. Automotive business accounts for more than 90% of TMC's total sales.

TMC is moving toward the Toyota New Global Architecture (TNGA), an initiative for higher development efficiency and the manufacture of better cars. Around 2020, half of the company's global car sales will be TNGA models. The automobile industry is moving toward environmentally conscious cars. As a result, TMC is shifting to electrified vehicles (EV) such as hybrid vehicles.

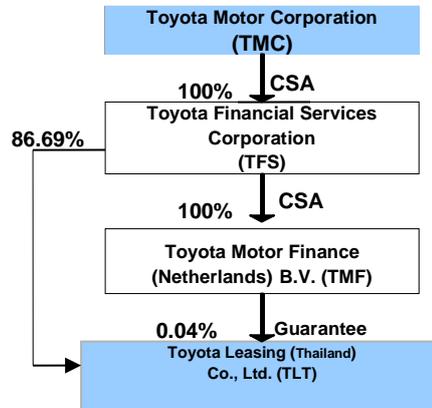
In addition to the automotive business, TMC also provides financial services through its captive financing arms. TMC believes its ability to provide customer financing is an important marketing tool to support the sales of its cars. In 1987, TMC established TMF as a private limited company to function as a finance company. TMF raises funds through bonds and notes issued in the international capital markets. In 2000, TMC established TFS, a holding company, as a new framework for effectively integrating the strengths of the Toyota Group's sales finance companies, such as TLT, on a global scale.

The Toyota Group made its first investment in Thailand through Toyota Motor Sales (Thailand) Co., Ltd. (TMT) in 1957. TMT was founded under Toyota's umbrella in 1962, followed by several subsidiaries and affiliates including TLT in 1993. In 2002, the Toyota Group announced its decision to use Thailand as a global manufacturing base to support its production

and sales.

TLT is a subsidiary of TFS, a wholly-owned subsidiary of TMC in Japan. TLT was established to service automobile hire purchase loans for Toyota's customers and dealers by providing financial services to customers. TLT ranks in the top three automobile hire purchase companies in Thailand, according to TRIS Rating's database.

Chart 1: Shareholding and Credit Support Structure of Toyota Group



Source: TLT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

**Toyota Motor Corporation (TMC)
Guarantor**

Unit: Mil. JPY

	Apr-Jun 2020	-----Year Ended 31 March -----			
		2020	2019	2018	2017
Total operating revenues	4,600,796	29,929,992	30,225,681	29,379,510	27,597,193
Earnings before interest and taxes (EBIT)	128,246	2,882,576	3,014,663	3,118,098	2,585,238
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	728,963	4,216,807	4,446,972	4,382,048	3,834,128
Funds from operations (FFO)	750,165	3,501,160	3,758,950	3,850,056	3,175,875
Adjusted interest expense	10,012	32,217	28,078	27,586	29,353
Capital expenditures	819,848	3,595,131	3,738,887	3,598,707	3,541,437
Total assets	55,916,536	53,972,362	51,936,949	50,308,249	48,750,186
Adjusted debt	16,786,221	16,656,984	14,885,340	14,293,092	13,982,463
Adjusted equity	21,507,667	21,339,012	20,565,210	19,922,076	18,668,953
Adjusted Ratios					
EBITDA margin (%)	15.84	14.09	14.71	14.92	13.89
Pretax return on permanent capital (%)	4.62	6.83	7.54	8.09	6.97
EBITDA interest coverage (times)	72.81	130.89	158.38	158.85	130.62
Debt to EBITDA (times)	4.68	3.95	3.35	3.26	3.65
FFO to debt (%)	18.60	21.02	25.25	26.94	22.71
Debt to capitalization (%)	43.84	43.84	41.99	41.77	42.82

* Consolidated financial statements

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

Toyota Leasing (Thailand) Co., Ltd. (TLT)

Issue Ratings:

THB60,000 million guaranteed debentures under Medium-term Debenture Program:

- TLT20NA: THB1,120 million guaranteed debentures due 2020	AAA
- TLT211A: THB1,300 million guaranteed debentures due 2021	AAA
- TLT212A: THB3,200 million guaranteed debentures due 2021	AAA
- TLT216A: THB1,500 million guaranteed debentures due 2021	AAA
- TLT21NA: THB3,000 million guaranteed debentures due 2021	AAA
- TLT22DA: THB3,000 million guaranteed debentures due 2022	AAA
- TLT22OA: THB3,000 million guaranteed debentures due 2022	AAA
- TLT235A: THB1,500 million guaranteed debentures due 2023	AAA
- TLT24OA: THB3,500 million guaranteed debentures due 2024	AAA
- TLT255A: THB1,000 million guaranteed debentures due 2025	AAA

THB130,000 million guaranteed debentures under Thai Baht Debenture Programme in the year 2018:

- Long-term guaranteed debentures	AAA
- TLT20DA: THB500 million guaranteed debentures due 2020	AAA
- TLT20OA: THB2,800 million guaranteed debentures due 2020	AAA
- TLT212B: THB1,100 million guaranteed debentures due 2021	AAA
- TLT214A: THB400 million guaranteed debentures due 2021	AAA
- TLT215A: THB2,740 million guaranteed debentures due 2021	AAA
- TLT216B: THB700 million guaranteed debentures due 2021	AAA
- TLT217A: THB4,000 million guaranteed debentures due 2021	AAA
- TLT218A: THB4,000 million guaranteed debentures due 2021	AAA
- TLT218B: THB2,000 million guaranteed debentures due 2021	AAA
- TLT21DA: THB1,900 million guaranteed debentures due 2021	AAA
- TLT21OA: THB1,400 million guaranteed debentures due 2021	AAA
- TLT21OB: THB3,700 million guaranteed debentures due 2021	AAA
- TLT221A: THB3,600 million guaranteed debentures due 2022	AAA
- TLT222A: THB3,000 million guaranteed debentures due 2022	AAA
- TLT223A: THB3,000 million guaranteed debentures due 2022	AAA
- TLT225A: THB3,900 million guaranteed debentures due 2022	AAA
- TLT228A: THB3,700 million guaranteed debentures due 2022	AAA
- TLT22NA: THB2,260 million guaranteed debentures due 2022	AAA
- TLT232A: THB3,000 million guaranteed debentures due 2023	AAA
- TLT237A: THB2,100 million guaranteed debentures due 2023	AAA
- Short-term guaranteed debentures	T1+

THB130,000 million guaranteed debentures under Thai Baht Debenture Programme in the year 2020:

- Long-term guaranteed debentures	AAA
- Short-term guaranteed debentures	T1+

Rating Outlook:

Stable

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