

BANGKOK MITSUBISHI UFJ LEASE CO., LTD.

No. 88/2020
22 June 2020

FINANCIAL INSTITUTIONS

Issue Rating:
Guaranteed AAA

Outlook:
Stable

Last Review Date: 12/07/19

Issue Rating History:

Date	Rating	Outlook/Alert
13/07/18	AAA	Stable

Contacts:

Sithakarn Tongphiphat, CFA, FRM
sithakarn@trisrating.com

Preeyaporn Kosakarn
preeyaporn@trisrating.com

Taweekok Jiamsakunthum
taweekok@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the “AAA” rating with a “stable” outlook on the guaranteed debentures issued by Bangkok Mitsubishi UFJ Lease Co., Ltd. (BMUL). The debentures are fully guaranteed by BMUL’s parent company in Japan, Mitsubishi UFJ Lease & Finance Co., Ltd. (MUL), a company rated “A-/Stable” by S&P Global Ratings. The rating on the guaranteed debentures is based on the credit quality of the guarantor and that the guarantee is unconditional and irrevocable.

KEY RATING CONSIDERATIONS

Unconditional and irrevocable guarantee

Under the terms of the guarantee agreement, which is governed by the laws of Japan, the guarantor unconditionally and irrevocably guarantees to pay promptly to the debentureholders all sums payable by BMUL under the obligations of the rated debentures in the event that BMUL has no ability to pay.

In addition, if there is any merger or consolidation of MUL, the successor of MUL shall assume these guaranteed obligations. In case the guarantor fails to pay the amount due after receiving notice, the debentureholders’ representatives can commence legal action against the guarantor in a court in Japan for the amount in default. The guarantee cannot be amended or terminated without the unanimous consent of the debentureholders.

MUFG and MC will continue to support MUL

We expect Mitsubishi UFJ Financial Group Inc. (MUFG) and Mitsubishi Corporation (MC) will continue to support MUL’s business as we view that MUL is a strategically important subsidiary of MUFG. MUL is an affiliate of MUFG Group, which holds a 23% stake in MUL, while MC holds a 20% stake.

MUL’s solid and expanding customer base is the result of business referrals from MUFG and MC. The expertise and customer franchise of MUFG and MC have helped MUL expand finance and leasing business domestically and internationally including various industries, e.g., logistics, real estate, aviation, environment and energy, healthcare, and infrastructure.

Business diversity sustains profitability

MUL achieved its profit target set for the previous Medium-Term Target (2017-2019), with net income reaching JPY70.7 billion in fiscal year 2019, ending March 2020 (FY2019, April 1, 2019 - March 31 2020), up 2.8% year-on-year (y-o-y). This was driven by its continuous investments geographically and across industries, for example, the real estate and finance businesses in the US and solar power projects. The continuous expansion of leasing business in the overseas market has resulted in a larger asset base. At the end of March 2020, total operating assets were JPY5.2 trillion, up 3.6% y-o-y. Of this amount, 39% represented operating assets of subsidiaries abroad compared with 37% in the previous FY.

MUL recently announced its new Medium-Term Management Plan (2020-2022) as part of its long-term 10-year strategy. Under the current plan, the company’s target is to achieve at least JPY85 billion profit by FY2022. However, the financial targets may be adjusted from time to time depending on developments in the operating environment. MUL expects to achieve this

goal by expanding services beyond the leasing business, developing new businesses and increasing investment activities.

The strategy is to leverage the group's asset value creation by integrating eight business functions, including acquisition, development, possession, rent, management, maintenance, operation, and sale to create an asset business platform. The platform comprises five business fields: asset utilization business, provision of asset utilization, asset investment and loans, asset-based financial solution, and asset-related services. The asset utilization business includes, for example, operation of solar power business and real estate rental. Provision of asset utilization is an area where the company earns fees from renting out assets to multiple users. Asset investment and loans may take the form of operating lease of global assets and project finance or financing provisions via real estate-backed securitization. Asset-based financial solutions may include finance lease of assets or lease of properties. Finally, asset-related services, which provide fee revenues, may take the form of asset management or maintenance services.

Although MUL benefits from the rapid expansion of overseas businesses, which has helped sustain profit growth so far, the expansion plans could carry increased overall risk, particularly in the current environment where various countries and industries are being adversely impacted by economic downturns due to the coronavirus (COVID-19) pandemic. Nonetheless, its strategy to integrate the business functions within the group as well as consolidate management and human resources globally should help mitigate any unfavorable developments from the weak global economy.

Strong relation with financial institutions support liquidity

MUL's strong liquidity profile is underpinned by its strong relationships with financial institutions including MUFG Group. MUL also has access to diversified funding, in the form of bonds, commercial papers (CPs), securitization, and borrowings. Foreign currency-denominated borrowings remain moderate, constituting 37% of total borrowings at the end of March 2020. Despite MUL's high reliance on wholesale funding and short-term funding, which we view as having higher funding risk, its status as a strategically important subsidiary of the MUFG Group offsets the funding risk, in our view.

Leverage remains moderate

In TRIS Rating's view, MUL's leverage is moderate. The debt to equity (D/E) ratio ranged between 6-7 times from FY2016 to FY2020. At the end of March 2020, the D/E ratio was 6.9 times. The need to fund new business opportunities may lead to a rise in borrowing and push leverage higher in the future. Nonetheless, we expect MUL will try to maintain leverage at a moderate level, helped by capital accretion through solid profits.

BASE-CASE ASSUMPTIONS

- MUL's credit ratings assigned by S&P Global Ratings will still be maintained.
- The unconditional and irrevocable guarantee undertaken by MUL on BMUL's debentures will remain intact.

RATING OUTLOOK

The "stable" outlook for BMUL's guaranteed debentures reflects the creditworthiness of the company's guarantor, MUL, a strategically important affiliate of MUFG. MUL has an "A-" rating with a "stable" outlook from S&P Global Ratings.

RATING SENSITIVITIES

The rating and/or outlook on BMUL's guaranteed debentures could be revised downward should there be any deterioration in MUL's creditworthiness.

COMPANY OVERVIEW

MUL was established in 1971 as Diamond Lease Co., Ltd. After a merger with UFJ Central Leasing Co., Ltd. in April 2007, the company was renamed MUL. As of 31 March 2019, MUFG and its affiliated banks, including MUFG Bank and Mitsubishi UFJ Trust and Banking Corp., owned a combined 23.4% stake in MUL. MC owned a 20% stake.

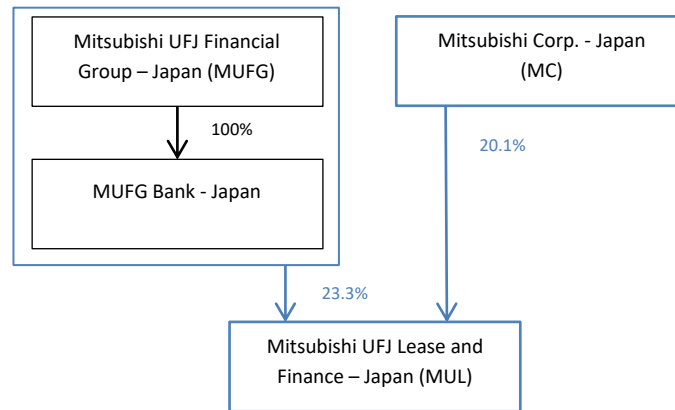
MUL sees Thailand as a growing market. BMUL, a subsidiary, is perceived as the means to capture new opportunities in Thailand. BMUL has a long track record as a machinery and equipment leasing company in Thailand. BMUL was established in 1991 as a cooperative effort with Bangkok Bank PLC (BBL) in Thailand. BMUL has two major business segments: machinery and equipment leasing, and automobile maintenance leasing. BMUL's major shareholder is MUL. MUL owns 44% of BMUL while BBL and its affiliated companies together hold 34%. At the end of March 2020, BMUL's operating assets accounted around 3% of MUL's overseas operating assets.

MUL provides extensive business and financial support to BMUL. For example, MUL provides operating procedures and risk management practices, plus new innovative products. The debt guarantee such as the guarantee for the debentures, is one example of the kind of financial support BMUL receives as MUL's strategic subsidiary.

The strong support BMUL receives from its parent company is expected to continue for the foreseeable future. This support is consistent with MUL's emphasis on new opportunities overseas.

KEY OPERATING PERFORMANCE

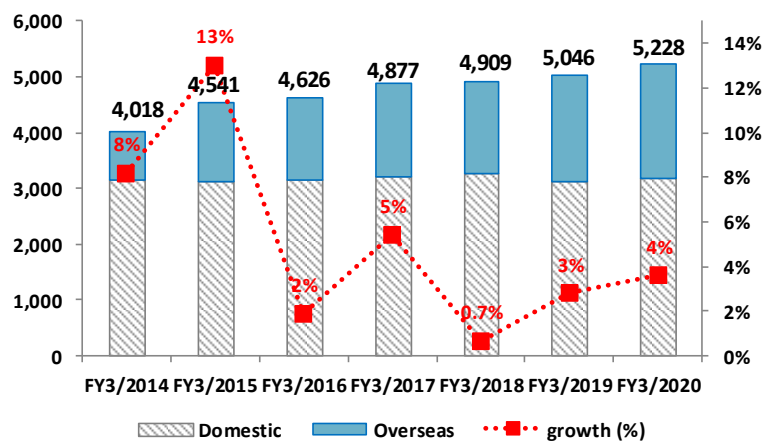
Chart 1: Shareholding of MUL as of 31 Mar 2020



Source: MUL

Chart 2: Operating Assets of Consolidated Overseas Subsidiaries (As of 31 Mar 2020)

Unit: JPY billion



Source: MUL

Table 1: Shareholders of BMUL

Shareholders	Number of Shares	%
Japanese shareholders	294,000	49.0
- MUL	264,000	44.0
- MUFG Bank Ltd.	30,000	5.0
Thai shareholders	306,000	51.0
- Bangkok Bank PLC and affiliates	204,000	34.0
- Bangkok Bank PLC	60,000	10.0
- The Sophonich Co., Ltd.	60,000	10.0
- Bangkok Insurance PLC	60,000	10.0
- Jatubhut Holding Co., Ltd.	24,000	4.0
- Others	102,000	17.0
- Bangkok BTMU Ltd.	60,000	10.0
- Toyota Tsusho (Thailand) Co., Ltd.	36,000	6.0
- Bangkok Chayoratr Co., Ltd.	6,000	1.0
Total	1,000,000	100.0

Source: BMUL

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Mitsubishi UFJ Lease & Finance Co., Ltd. (MUL)

Unit: JPY billion

	Fiscal Year Ended 31 March				
	2020	2019	2018	2017	2016
Operating assets	5,228	5,046	4,909	4,877	4,626
Total assets	6,286	5,791	5,553	5,389	5,121
Total debt	4,930	4,440	4,252	4,142	3,909
Shareholders' equity	799	779	731	686	642
Total revenues	924	864	870	839	826
Selling general and administrative expenses	90	78	77	71	78
Provision for doubtful receivables	8	3	5	4	11
Net income	69	69	64	53	55
Return on average assets ratio (ROAA) (%)	1.2	1.2	1.2	1.0	1.1
Return on average equity (ROAE)** (%)	9.2	9.4	9.3	8.4	9.0
Shareholders' equity ratio** (%)	12.4	13.0	12.7	12.2	12.0
Total debt/total equity*** (time)	6.9	6.4	6.6	6.9	7.0

* Consolidated financial statements

** Net minority interest for equity, Japan GAAP base

*** Total debt/total equity = Total liabilities/total equity

RELATED CRITERIA

- Nonbank Financial Institution Methodology, 17 February 2020
- Group Rating Methodology, 10 July 2015

Bangkok Mitsubishi UFJ Lease Co., Ltd. (BMUL)

Issue Rating:

BMUL218A: Bt1,000 million guaranteed debentures due 2021

AAA

Rating Outlook:

Stable

TRIS Rating Co., Ltd.

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

© Copyright 2020, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution or storing for subsequent use for any purpose, in whole or Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at www.trisrating.com/rating-information/rating-criteria