

HONDA LEASING (THAILAND) CO., LTD.

No. 37/2020

29 May 2020

FINANCIAL INSTITUTIONS

Issue Rating:

Guaranteed AAA

Outlook: Negative

Last Review Date: 20/02/20

Issue Rating History:

Date	Rating	Outlook/Alert
20/02/20	AAA	Stable

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RATIONALE

TRIS Rating affirms its “AAA” rating on the guaranteed debentures of Honda Leasing (Thailand) Co., Ltd. (HLTC), but revises downward the rating outlook to “negative” from “stable”.

The outlook revision reflects the outlook revision of the ratings on Honda Motor Co., Ltd. (HMC), which is the keep well provider and the parent company of Honda Automobile (Thailand) Co., Ltd. (HATC), the Guarantor of HLTC’s debentures. HMC is rated “A-” with a “negative” outlook by S&P Global Ratings. The rating was recently downgraded by S&P Global Ratings from “A” with negative CreditWatch. The rating action reflected an expected deterioration in operating and financial performance due to the COVID-19 pandemic which caused a substantial drop in global auto sales of HMC.

The rating on HLTC’s guaranteed debentures at “AAA” is based on the unconditional and irrevocable guarantee by HATC, whose creditworthiness is enhanced by the keep well agreement provided by its ultimate parent company, HMC. Although the keep well agreement is not a guarantee, TRIS Rating is of the view that with the highly rated credit profile 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. In our view, HATC has a strong market position in the Thai passenger car market. HATC also has a healthy financial profile with stable cash flow and no debt obligations. TRIS Rating believes that HLTC will continue to receive business support from HATC given HLTC’s status as a captive finance arm set up to provide financial services for HATC’s clients.

Under the guarantee terms, HATC provides a guarantee to cover all of the amount due under the terms of the debentures of up to Bt3.3 billion (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.

RATING OUTLOOK

The “negative” outlook for HLTC’s guaranteed debentures reflects the downward trend in earnings of its keep well provider, HMC, due to the impact of the COVID-19 fallout that causes a sharp fall in global auto sales. HMC currently has a “A-” rating with a “negative” outlook from S&P Global Ratings.

RATING SENSITIVITIES

The rating on HLTC’s guaranteed debentures could be downgraded if HMC’s rating is downgraded. The outlook could be revised to “stable” if the rating outlook on HMC 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.

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 Rating:

HLTC233A: Bt3,000 million guaranteed debentures due 2023

AAA

Rating Outlook:

Negative

TRIS Rating Co., Ltd.

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