

# TISCO TOKYO LEASING CO., LTD.

No. 89/2020

22 June 2020

## FINANCIAL INSTITUTIONS

### Issue Rating:

Guaranteed AAA

Outlook: Stable

Last Review Date: 28/06/19

### Issue Rating History:

Date	Rating	Outlook/Alert
02/07/18	AAA	Stable
07/08/13	AA+	Stable

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## RATIONALE

TRIS Rating affirms the rating on TISCO Tokyo Leasing Co., Ltd.'s (TTL) guaranteed debentures at "AAA", with a "stable" rating outlook. The debentures are fully guaranteed by TTL's parent company in Japan, Tokyo Century Corporation (Tokyo Century). The rating on the guaranteed debentures issued by TTL is based on the credit quality of the guarantor and the unconditional and irrevocable guarantee on the debentures. In 2020, Tokyo Century's rating is maintained at "AA-/Stable" by Japan Credit Rating Agency, Ltd. (JCR).

## KEY RATING CONSIDERATIONS

### Unconditional and irrevocable guarantee

The rating on TTL's debentures reflects the full payment guarantee of its parent company, Tokyo Century. The guarantee agreement is governed by the laws of Japan. The guarantor unconditionally and irrevocably guarantees to promptly make payment to the debentureholders on all sums payable by TTL under the obligations of the rated debentures in the event that TTL has no ability to pay.

In addition, if there is any merger or consolidation of Tokyo Century, the successor of Tokyo Century shall assume these guarantee 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 at least 75% of all the votes of the debentureholders.

### Steady improvements in profitability

The net income of Tokyo Century has improved steadily. Net income attributable to owners of parent (net income) increased to JPY56 billion in fiscal year 2019, ending March 2020 (FY2019, April 2019 - March 2020), from JPY34 billion in FY2014, a compound annual growth rate (CAGR) of 10.6%. Return on average total assets dropped slightly to 1.2% in FY2019 from 1.3% in FY2018. The decline was the result of increased consolidated assets following the acquisition of remaining 75.5% interest in Aviation Capital Group LLC (ACG). Under the fourth medium-term management plan (2020-2022) announced in February 2020, the company targets net income of JPY80 billion by FY2022.

### Steady capital position

Tokyo Century's capital position measured by shareholders' equity ratio (shareholder's equity divided by total assets) declined to 8.2% at the end of December 2019 resulting from the increase in borrowing required to finance the full acquisition of ACG. In February 2020, the company issued new shares through third party allotment to new business partners, Nippon Telegraph and Telephone (NTT) and ITOCHU. NTT has become the third largest shareholder of the company with 10.08% ownership after the allotment as of March 31, 2020. At the end of FY2019, after the capital injection, the shareholder's equity ratio recovered to 9.9%. Under the new fourth medium-term management plan, the company targets to increase the shareholders' equity ratio to a level of 12% by FY2022.

### Heightened risk from ACG acquisition

ACG, an aircraft leasing company, became a wholly-owned subsidiary of Tokyo

Century in December 2019. We are of the view that the acquisition of ACG has increased the overall risk profile for Tokyo Century as the risk profile of the newly acquired entity is now considered higher. The market prices of leased aircraft have turned out to be uncertain following the outbreak of the COVID-19 pandemic that has crippled the airline industry globally. The company would need to generate incremental earnings from the acquisition of ACG to compensate for the increased risk arising from the acquisition.

### **Adequate liquidity**

Tokyo Century has sufficient funding in the form of credit facilities from various financial institutions as well as on-going funding support main bank, Mizuho Bank. The financial support, in our view, mitigates any impact of a mismatch in the maturities of assets and liabilities.

### **Support from Tokyo Century and TISCO to continue**

TTL is a joint venture between Tokyo Century and TISCO Financial Group PLC (TISCO). TTL receives business support and financial support from the two partners, as illustrated by the guarantee provided by Tokyo Century for TTL's debentures. Tokyo Century and TISCO also provide operational and risk management knowhow as well as advice about new products. TRIS Rating expects the support and commitment from Tokyo Century and TISCO will continue in the foreseeable future. For Tokyo Century, TTL is a strategic subsidiary that complements its overseas expansion efforts, especially in Asia. For TISCO, TTL provides a niche service for the bank's corporate clients.

### **BASECASE ASSUMPTIONS**

- Tokyo Century's credit rating by JCR is not downgraded by more than one notch.
- There is no change to the unconditional and irrevocable guarantee by Tokyo Century on TTL's debentures.

### **RATING OUTLOOK**

The "stable" outlook for TTL's guaranteed debentures reflects the creditworthiness of its guarantor, Tokyo Century, which has been assigned the international-scale ratings of "AA-" with a "stable" outlook by JCR. The outlook also reflects Tokyo Century's improving business and financial performance and its ability to sustain its market position and financial strength in the medium term.

### **RATING SENSITIVITIES**

The rating and/or outlook could be revised downward should any significant weakness in Tokyo Century's creditworthiness arises.

### **COMPANY OVERVIEW**

On 1 April 2009, Tokyo Century was established through a merger between Century Leasing System, Inc. and Tokyo Leasing Co., Ltd. The rating on Tokyo Century, the guarantor, is supported by its business profile as one of the leading firms in the Japanese leasing industry. Tokyo Century has diversified geographically by expanding into several markets overseas.

Tokyo Century has diverse lines of business. It has been able to grow steadily and improve its business and financial profile starting in FY2010. Total consolidated assets increased to JPY5.6 trillion in FY2019 from JPY2.2 trillion in FY2010, a CAGR of 10.9%.

At the end of March 2020, the operating assets by segment were JPY1,471 billion for equipment leasing segment (30.8% of total assets), JPY593 billion for the mobility and fleet management segment (13.2%), JPY2,148 billion for the specialty financing segment (45.0%), JPY511 billion for the international business segment (10.7%) and JPY12 billion for other businesses (0.3%).

Tokyo Century has enhanced its competitive position in the leasing segment, bolstered the financing segment, and expanded overseas. At the end of 2019, Tokyo Century has acquired the remaining 75.5% interest in ACG, a US based commercial aircraft lessor. This has further increase the oversea exposure of Tokyo Century. The value of the oversea assets has largely increase to JPY2089 billion at the end of FY2019, which is 45% of total operating assets, increase from 31% in FY2018.

TTL was established in 1993. The company has a long track record in machinery and equipment leasing. TTL also has a long history of cooperation in Thailand with TISCO. At present, TTL is a joint venture between TISCO and Tokyo Century. These two companies each own 49% of TTL. Sampo Brokers (Thailand) Co., Ltd. (SBT) holds the remaining 2%.

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***

Unit: JPY billion

	----- Year Ended 31 March -----				
	2020 (FY2019)	2019 (FY2018)	2018 (FY2017)	2017 (FY2016)	2016 (FY2015)
Operating assets	4,773	3,631	3,339	3,244	3,000
Total assets	5,609	4,087	3,759	3,580	3,318
Short-term borrowings**	2,124	1,955	1,748	1,704	1,607
Long-term borrowings**	2,165	1,098	1,076	1,046	963
Total debt**	4,289	3,053	2,824	2,750	2,570
Net assets	660	524	456	405	375
Total revenues	1,167	1,067	1,012	976	940
Total costs	959	886	849	823	804
Selling, general, and administrative expenses	120	104	89	81	71
Operating income	88	78	74	72	66
Income before income taxes and minority interests	95	86	79	74	68
Net income attributable to owners of parent	56	52	51	44	40
Return on average total assets (%)	1.16	1.33	1.40	1.27	1.24
Return on average net assets (%)	9.46	10.66	11.92	11.20	11.25
Net assets/total assets (%)	11.77	12.83	12.13	11.31	11.30
Debt to net assets (time)	6.48	5.82	6.19	6.79	6.85

\* Consolidated financial statement

\*\* Including lease receivables and obligations

**RELATED CRITERIA**

- Nonbank Financial Institutions Methodology, 17 February 2020

**TISCO Tokyo Leasing Co., Ltd. (TTL)**
**Issue Rating:**

TTL207A: Bt1,500 million guaranteed debentures due 2020

AAA

**Rating Outlook:**

Stable

**TRIS Rating Co., Ltd.**

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