

HONDA LEASING (THAILAND) CO., LTD.

No. 14/2020
20 February 2020

FINANCIAL INSTITUTIONS

Issue Rating:

Guaranteed

AAA

Outlook:

Stable

RATIONALE

TRIS Rating assigns a “AAA” rating with a “stable” outlook to the proposed guaranteed debentures of up to Bt3 billion due within three years to be issued by Honda Leasing (Thailand) Co., Ltd. (HLTC or the “Issuer”). 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 “stable” 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 keep well 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 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.

Under the keep well agreement provided to HATC from 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 keep well 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, this 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 keep well agreement is not a guarantee, TRIS Rating is of the view that with 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 expect HMC will continue to support HATC’s business and financial profile.

HATC has received business support 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 group strategy. For example, HMC provides technological knowhow as well as advices about new products to HATC to meet the global standards of the

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Honda Group.

HATC has been able to maintain its market position in the Thai passenger cars continuously, as shown by the solid market share of around 26% over the last few years. HATC also serves as a strategic production hub for HMC's overseas expansion efforts.

HATC has a strong financial profile with stable cash flow and no debt. HATC has received financial support as shown by the keep well agreement between HATC and HMC. TRIS Rating expects the support and commitments from HMC to continue in the foreseeable future.

Support from HATC as a captive finance will 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. Its loan portfolio has grown significantly reaching Bt71 billion as of March 2019 from Bt55 billion as of March 2017, a compound annual growth rate (CAGR) of 14%, thanks to its marketing efforts. At the end of March 2019, HLTC's asset quality remained healthy, with the ratio of non-performing loans (NPLs) to total loans staying below 0.2%, lower than the industry average. This has been supported by the generally healthy credit profiles of HATC's clients and HLTC's prudent loan underwriting standards.

HLTC's financial liquidity and flexibility are sufficient. 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. HLTC also receives financial support from HATC, as shown by the Letter of Guarantee provided for HLTC's debentureholders.

BASE-CASE ASSUMPTIONS

- HMC's credit ratings assigned by S&P Global will still be maintained.
- The unconditional and irrevocable guarantee by HATC, whose creditworthiness is enhanced by the keep well agreement, provided by HMC, will remain intact.

RATING OUTLOOK

The "stable" outlook for HLTC's guaranteed debentures reflects the creditworthiness of its guarantor, HATC, a core strategic affiliate of HMC. HMC has an "A" rating with a "stable" outlook from S&P Global.

RATING SENSITIVITIES

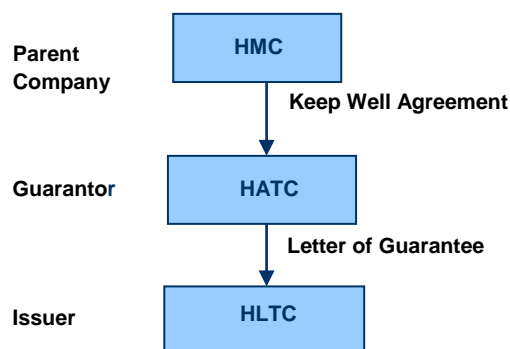
The ratings and/or outlook on HLTC's guaranteed debentures could be revised downward if HMC's creditworthiness has any negative changes.

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: Bt million

	-----Year Ended 31 March -----				
	2019	2018	2017	2016	2015
Total operating revenues	237,951	232,984	196,034	168,679	163,092
Earnings before interest and taxes (EBIT)	13,455	8,898	6,682	2,792	7,068
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	17,350	13,030	11,023	5,909	11,309
Funds from operations (FFO)	16,680	12,151	10,137	5,365	9,933
Adjusted interest expense	39	30	25	26	21
Total assets	102,581	100,147	88,326	83,539	76,908
Adjusted debt	0	0	0	0	0
Adjusted equity	54,559	52,443	46,158	41,049	40,510
Adjusted Ratios					
EBITDA margin (%)	7.3	5.6	5.6	3.5	6.9
Pretax return on permanent capital (%)	23.7	17.0	14.4	6.5	17.2
EBITDA interest coverage (times)	444.1	438.1	438.8	231.6	528.7
Debt to EBITDA (times)	0.0	0.0	0.0	0.0	0.0
FFO to debt (%)	n.m.	n.m.	n.m.	n.m.	n.m.
Debt to capitalization (%)	0.0	0.0	0.0	0.0	0.0

* Consolidated financial statements

n.m. Not meaningful

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Nonbank Lending Company, 7 May 2018
- Group Rating Methodology, 10 July 2015

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

Issue Rating:

Up to Bt3,000 million guaranteed debentures due within 3 years

AAA

Rating Outlook:

Stable

TRIS Rating Co., Ltd.

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