

# BANGKOK MITSUBISHI UFJ LEASE CO., LTD.

No. 102/2018

13 July 2018

## FINANCIAL INSTITUTIONS

**Issue Rating:**

Guaranteed

AAA

**Outlook:**

Stable

## RATIONALE

TRIS Rating assigns the “AAA” rating to the proposed issue of up to Bt1,000 million in guaranteed debentures, due within five years, 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 and “A3/Stable” by Moody’s Investors Service (Moody’s). The rating of the guaranteed debentures is based on the credit quality of the guarantor and the unconditional and irrevocable guarantee.

## 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 make payment promptly to the debentureholders of 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.

### MUL has strong support from MUFG

We expect Mitsubishi UFJ Financial Group Inc. (MUFG) will continue to support MUL’s business because it is a strategically important subsidiary of MUFG. MUL is an affiliate of both MUFG, which holds a 23.4% stake in MUL, and Mitsubishi Corporation (MC), which holds 20.0%.

MUL is one of the largest firms in the Japanese leasing industry, as measured by market share. MUL leases equipment and makes installment sales and loans to corporate customers, offers financial services, offers eco-related services, trades used equipment, and offers other loan services. MUL has a solid customer base because it receives referrals from MUFG and MC. The experience and customer networks of MUFG and MC have also helped MUL expand.

### Expansion efforts boost profits

In our view, MUL’s net income should continue to improve. It is expanding in Japan and abroad, continually improving operations, and increasing efficiency. Net income was 63.6 billion yen in fiscal year 2018 (FY2018), up 19.8% year-on-year (y-o-y). At the end of March 2018, total operating assets were 4.9 trillion yen, up 0.7% y-o-y. This was due mainly to a y-o-y increase in real estate-related dividend income and positive results from the leasing business relating to aircraft and other global assets.

MUL has been expanding overseas. At the end of March 2018, its overseas subsidiaries owned operating assets of 1,649 billion yen, or 34.0% of MUL’s operating assets. For comparison, operating assets at overseas subsidiaries were 8.1% at the end of March 2012 before it expanded into aircraft leasing in the United States (US) in FY2013.

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MUL is also striving to improve profits by enhancing efficiency while maintaining wide customer base in domestic market. In May 2018, MUL announced the medium-term management plan. The plan set a goal of 63.0 billion yen in profit in FY2019. MUL states it will achieve this goal by expanding in Japan and abroad via organic growth.

The plan also lays out specific target markets. The company will focus on industrial segments such as environment and energy, healthcare, real estate, global assets, and social infrastructure. The aircraft engine leasing and marine container leasing companies in the US will also expand.

We see positive benefits from the overseas expansion efforts, but this will also elevate risks. The overseas markets are growing more rapidly than the domestic market. The aggressive expansion into higher-risk countries and market segments could have a negative effect on the company's financial performance because the new countries and markets are more risky than the domestic market.

#### **Acceptable liquidity**

MUL has an asset-liability mismatch because it uses a large amount of short-term borrowings. Despite this risk, MUL has a high-ability to maintain funding through diversified funding sources such as bank loans, bonds, commercial papers (CPs), and securitization. In addition, we believe that MUL has a high probability to receive extraordinary financial support from MUFG if needed.

#### **Leverage remains moderate**

In our view, MUL's leverage is moderate. The debt to equity (D/E) ratio averaged 7 times from FY2015-FY2017. At the end of March 2018, the D/E ratio was 6.6 times. A rapid rise in borrowing, needed to fund new opportunities, may push leverage higher. However, we expect MUL to maintain leverage at a moderate level. Solid profits will strengthen the capital base.

#### **RATING OUTLOOK**

The "stable" outlook for BMUL's guaranteed debentures reflects the creditworthiness of its guarantor, MUL, a strategically important affiliate of MUFG. MUL has an "A-" rating with a "stable" outlook from S&P Global Ratings and an "A3" rating with a "stable" outlook from Moody's.

#### **RATING SENSITIVITIES**

The rating and/or outlook for BMUL's guaranteed debentures could be revised should there be any change 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 2018, 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 20.0% stake.

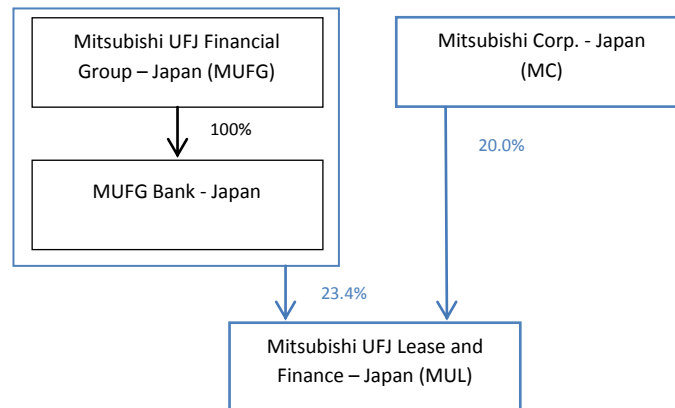
MUL sees Thailand as a growing market. BMUL, a subsidiary, is the means to capture new opportunities in Thailand. BMUL has a long track record as a machinery and equipment leasing company in Thailand. BMUL was established in 1991, as a cooperative effort with Bangkok Bank PLC (BBL) in Thailand. BMUL has two major business segments: machinery and equipment leasing, and automobile maintenance leasing. At present, BMUL's major shareholder is MUL. MUL owns 44.0% of BMUL while BBL and its affiliated companies together hold 34.0%. At the end of March 2018, BMUL's operating assets accounted for 3.0% 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, including a 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.

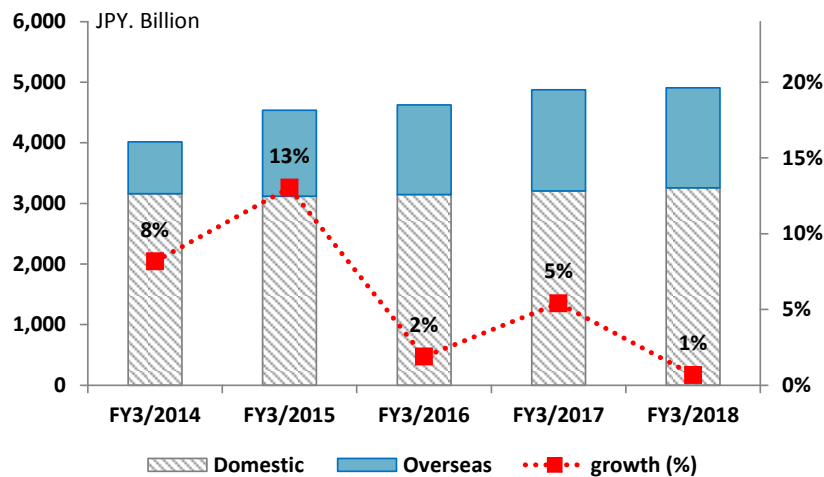
KEY OPERATING PERFORMANCE

Chart 1: Shareholding of MUL as of 31 Mar 2018



Source: MUL

Chart 2: Operating Assets of Consolidated Overseas Subsidiaries (As of 31 Mar 2018)



Source: MUL

Table 1: Shareholders of BMUL

Shareholders	Number of Shares	%
<b>Japanese shareholders</b>	<b>294,000</b>	<b>49.0</b>
- MUL	264,000	44.0
- MUFG Bank Ltd.	30,000	5.0
<b>Thai shareholders</b>	<b>306,000</b>	<b>51.0</b>
- 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 Chayorath Co., Ltd.	6,000	1.0
<b>Total</b>	<b>1,000,000</b>	<b>100.0</b>

Source: BMUL

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

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

Unit: Billion yen

	----- Fiscal Year Ended 31 March -----				
	FY2018	FY2017	FY2016	FY2015	FY2014
Operating assets	4,909	4,877	4,626	4,541	4,017
Total assets	5,564	5,389	5,121	5,036	4,498
Short-term borrowings	1,764	1,909	2,033	2,084	1,961
Long-term borrowings	2,587	2,323	1,958	1,897	1,578
Total debt	4,832	4,702	4,479	4,414	3,963
Shareholders' equity	731	686	642	621	534
Total revenues	870	839	826	742	718
Selling general and administrative expenses	77	71	78	63	63
Provision for doubtful receivables	4	4	11	2	1
Other income (expense) (net)	3	6	2	6	2
Net income	64	53	55	44	38
Return on average assets ratio (ROAA) (%)	1.2	1.0	1.1	0.9	0.9
Return on average equity (ROAE) (%)	9.0	8.0	8.6	7.6	7.5
ROAE** (%)	9.3	8.4	9.0	8.0	7.9
Shareholders' equity ratio (%)	13.1	12.7	12.5	12.3	11.9
Shareholders' equity ratio** (%)	12.7	12.2	12.0	11.8	11.4
Total debt/total equity (X)	6.6	7.0	7.0	7.1	7.4

\* Consolidated financial statements

\*\* Net minority interest for equity, Japan GAAP Base

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

#### Issue Rating:

Up to Bt1,000 million guaranteed debentures due within 2023

AAA

#### Rating Outlook:

Stable

#### TRIS Rating Co., Ltd.

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