



2024 Taiwan Finance Sector Credit Trends

Tighter risk controls bring short-term pain, long-term gain

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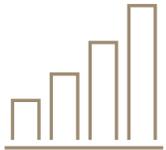
Key Expectations

- Taiwan-based finance companies (fincos) can adapt to short-term challenges to limit asset quality deterioration.
- A more stringent playbook for Taiwan's leasing sector will curb initial growth. However, the tightening of risk controls will likely bring net benefits for the sector.
- Tighter credit controls should help to slow the rise in delinquencies over the next two to three quarters.
- Profitability remains muted, given that additional credit costs will offset the benefits from a recovering interest spread.
- Proactive capital management cushions the sector from potential volatility.

Fincos

Weaker lending appetite and weakening asset quality dampen earnings

2024 forecast



Key ratios

Account receivables growth: 8%

Slower year-on-year growth

Return on assets (ROA): 1.5%-2.5%

Lower pre-tax ROA

Adequate-to-strong capitalization

Fincos can maintain their capital strength

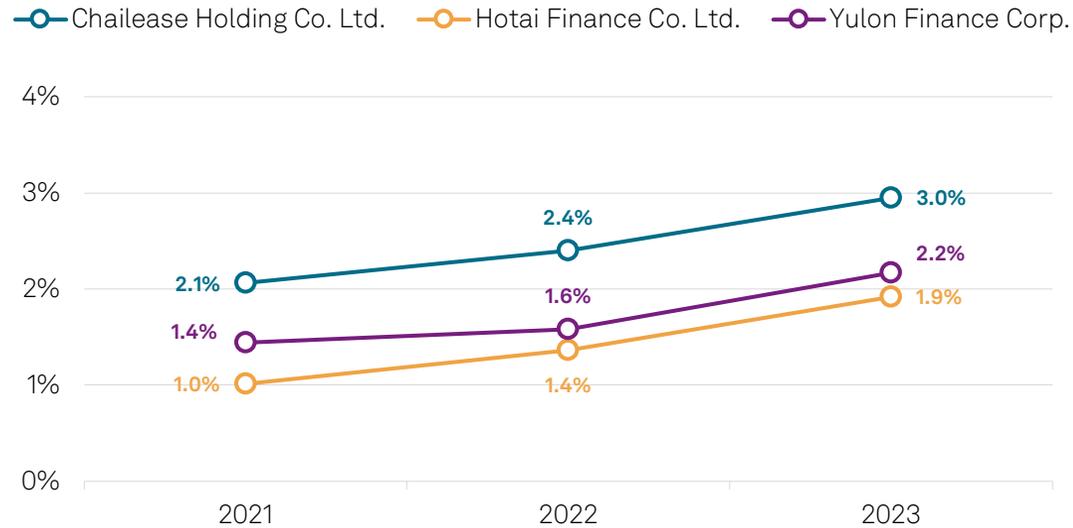
Summary

- Tighter consumer credit controls will slow growth.
- Onshore/offshore business remains muted under heightened volatility and ongoing economic uncertainty.
- Interest spread to bottom out along with gradual asset repricing to compensate for extra funding cost.
- Central bank of Taiwan's hike of the benchmark rate will keep local funding cost high.
- Write-downs of delinquent loans will dent profitability.
- Proactive capital management and modest growth should preserve capital strength.
- Funding and liquidity risk remains manageable.

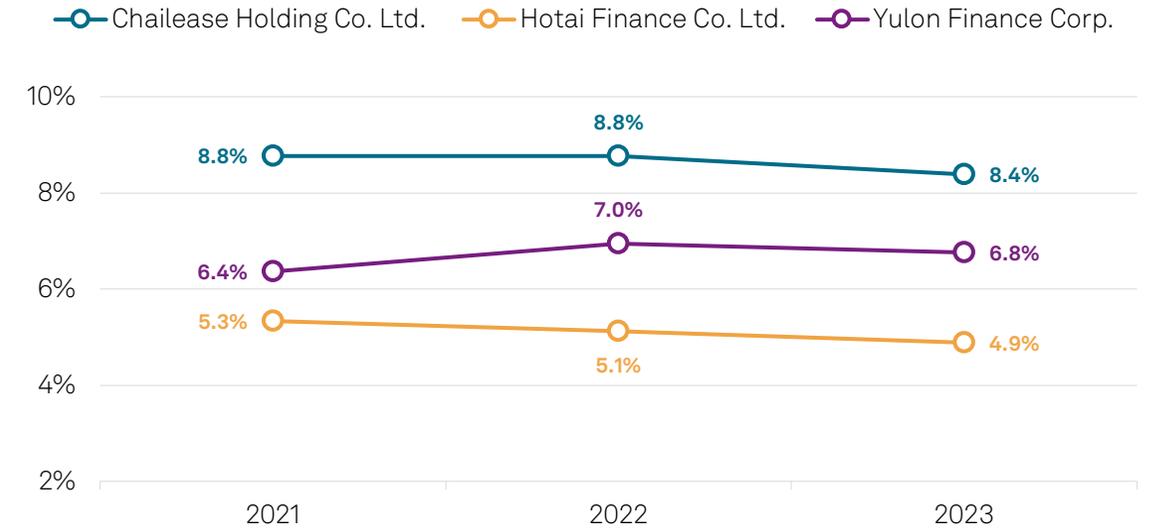
Source: Taiwan Ratings Corp. estimates.

Asset repricing could lead to a recovery in net interest margin

Average funding cost



Net interest margin



TAIBIR--Taiwan Bills Index Rate. Source: Companies audited financial reports.

- We expect interest spread to bottom out in 2024 along with gradual asset repricing to compensate for a rise in funding cost.
- Interest income, however, will remain slimmer due to lower accounts receivable volume and loan-to-value in 2024.

Rising delinquency ratio will push up credit costs

Delinquency ratio



Sources: Companies' data and Taiwan Ratings Corp. estimates (e).

Definition of overdue:

Chailease Holding: Check payments: 7 days, non-check payments: 30 days, consumer loan and installments: 90 days.

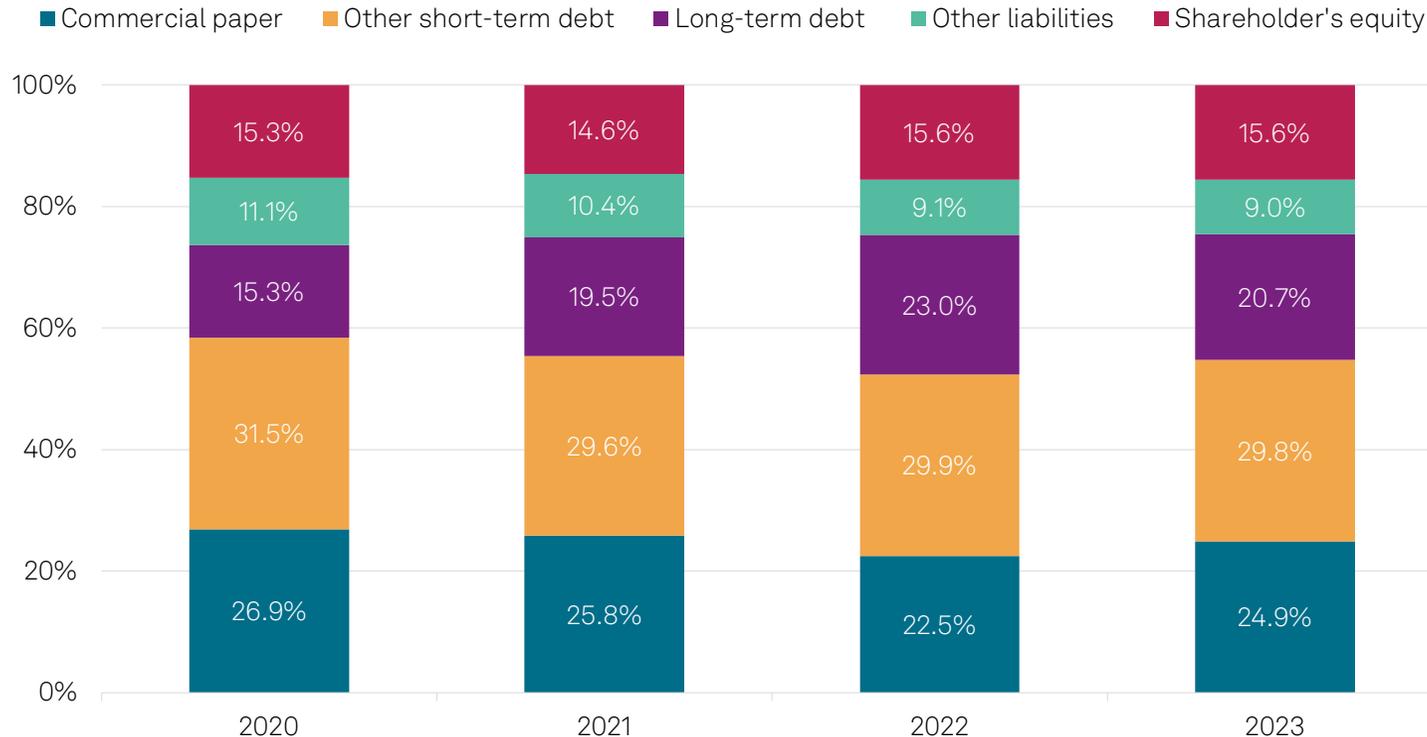
Hotai Finance: Accounts receivable-31 days.

Yulon Finance: Accounts receivable-30 days.

- Deterioration in asset quality to ease over the following two to three quarters under tightened credit controls.
- Adequate risk pricing should help absorb most delinquencies.
- The sector is actively provisioning and making charge-offs on delinquencies, which mainly arise from earlier over-lending in the consumer credit segment. Corporate sector performance remains stable.
- Buy now pay later remains a small part of the industry's total loan portfolio. Enhancement in risk mechanisms will be beneficial for the sector in the long term.

Resilient performance underpins stable funding franchises

Funding structure of Taiwan's fincos



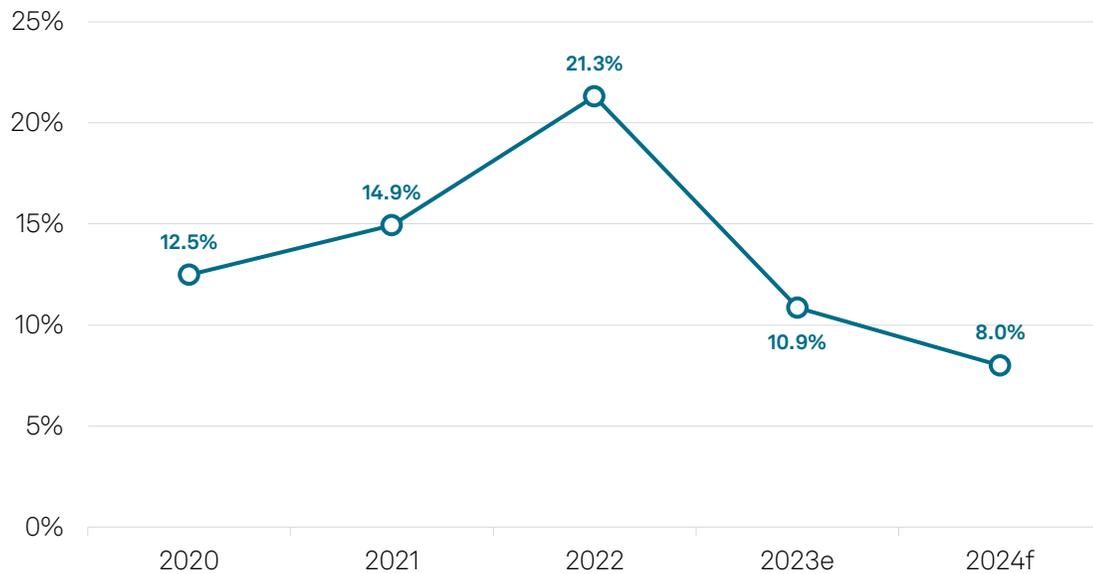
Note: Other short-term debt includes short-term borrowings and current maturities of long-term debt among others. Source: Taiwan Ratings estimates.

- The funding franchises of Taiwan fincos remain versatile and stable, given a favorable liquidity environment in Taiwan.
- Market leaders can directly obtain financing through the capital market to maintain an optimal funding structure and manage the mismatch in their funding cost.
- The local regulator's move toward closer scrutiny over the funding usage of leasing companies should have a manageable impact on the sector's funding capacity.

Proactive capital management to underpin capitalization

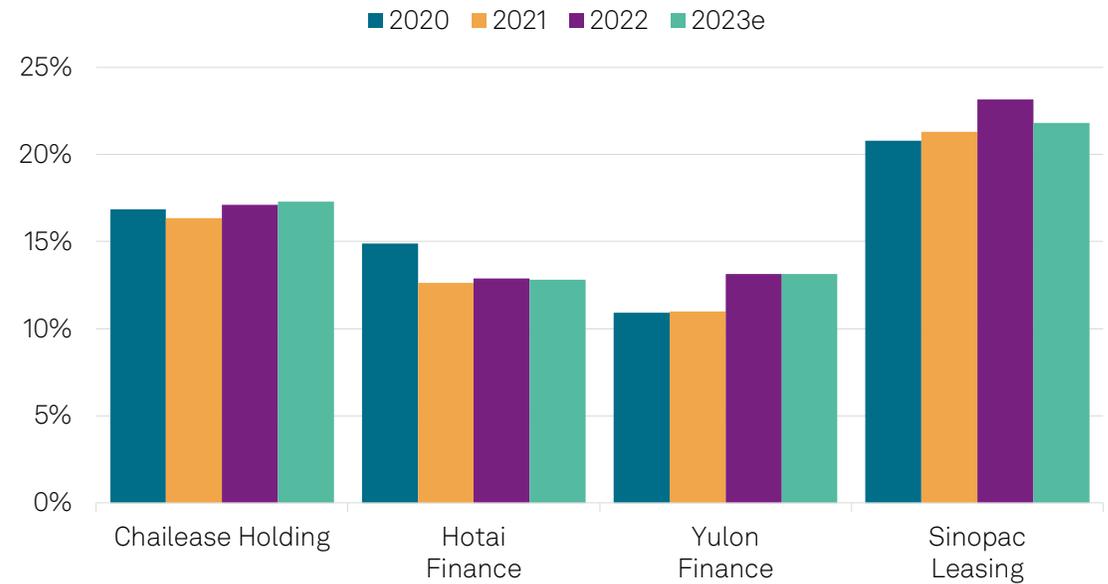
- Modest growth in accounts receivable alleviates the pressure on capital.
- Proactive capital management should uphold capital strength over the next one to two years.

Accounts receivable growth for rated fincos



Source: Taiwan Ratings estimates (e) and forecasts (f).

Equity-to-asset ratio



e--Estimate. Sources: Consolidated financial statements. Taiwan Ratings estimates.



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