

TOYOTA LEASING (THAILAND) CO., LTD.

No. 144/2021
10 September 2021

FINANCIAL INSTITUTIONS

Issue Ratings

Guaranteed AAA
Short-term guaranteed T1+

Outlook: Stable

Last Review Date: 10/09/20

Issue Ratings History:

Date	Rating	Outlook/Alert
27/10/10	AAA,T1+	Stable
12/03/10	AAA	Stable
12/01/06	AAA,T1+	Stable
07/10/04	AAA	Stable

Contacts:

Siriwan Weeramethachai
siriwan@trisrating.com

Sithakarn Tongphiphat, CFA, FRM
sithakarn@trisrating.com

Jittrapan Pantaleard
jittrapan@trisrating.com

Taweechok Jiamsakunthum
taweechok@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com



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RATIONALE

TRIS Rating affirms the “AAA” ratings on the guaranteed debentures issued by Toyota Leasing (Thailand) Co., Ltd. (TLT or Issuer) under TLT’s THB60 billion medium-term debenture program. TRIS Rating also affirms the “AAA” ratings and “T1+” short-term rating on TLT’s guaranteed debentures, issued under its THB130 billion Thai Baht Debenture Programme in 2018, and TLT’s guaranteed debentures under its THB130 billion Thai Baht Debenture Programme in 2020.

All rated debentures of TLT are guaranteed by Toyota Motor Finance (Netherlands) B.V., (TMF or Guarantor). TMF is a wholly-owned subsidiary of Toyota Financial Services Corporation (TFS), which is in turn wholly owned by Toyota Motor Corporation (TMC), the ultimate parent company in Japan. All three companies, TMF, TFS, and TMC, are rated “A+” with a “stable” outlook, and their short-term issue ratings are rated “A-1+” by S&P Global Ratings.

KEY RATING CONSIDERATIONS

Unconditional and irrevocable guarantee

The ratings on TLT’s short- and medium-term debentures reflect the unconditional and irrevocable guarantee given by TMF, whose rating is based on the credit strength of TMC. Under this guarantee structure, TMC has provided a Credit Support Agreement (CSA) to TFS, which has, in turn, provided a CSA to TMF. Under the terms of the CSA, TMC will provide sufficient liquidity for the obligations of bonds, debentures, and commercial papers of both subsidiaries, TFS and TMF. TMC will also provide sufficient liquidity for TMF’s guarantee obligations.

The guarantee is governed by Dutch law and is unconditional and irrevocable. The guarantee covers punctual payments to the debentureholders of all sums payable by TLT. For the guaranteed debentures, the obligations of TMF rank at least pari passu with all other present and future unsecured and unsubordinated indebtedness of TMF. The guarantee cannot be amended or terminated without the consent of both the debentureholders’ representatives and the Guarantor, TMF.

The Guarantor will not be under any obligation to make payment for the Issuer’s failure to pay as a result of any of the following actions by any Thai government agency: (1) interruption of payment by causing Issuer to be unable to transfer monies or to convert foreign currency to the Registrar or debentureholders to pay debt obligations; (2) causing the transfer of majority shareholding in, or control over, the Issuer to a third-party not associated with the Toyota Group; (3) expropriation or nationalization of at least 10% of the net value of hire purchase receivables of the Issuer and its subsidiaries; and (4) expropriation or nationalization that has the effect of preventing the Issuer and its subsidiaries from carrying on business. TRIS Rating believes it highly unlikely that any of the above events would to occur.

Market position remains strong

We believe TMC’s market position and product competitiveness remain strong, supported by broad product lines, wide geographic market coverage, and technological leadership. TMC is one of the world’s largest automakers, maintains a global market share of about 12% over the past few years.

TMC reported car sales of 7.6 million units in fiscal year 2021 (FY2021: April 2020-March 2021), decreasing by 15% from the 8.9 million units sold in FY2020. The sharp drop in sales was caused by the Coronavirus Disease 2019 (COVID-19) economic fallout. Sales for the first quarter of FY2022 recovered to 2.1 million units, an 85% increase from 1.2 million units for the same period in FY2021. TMC's sales have recovered mainly in North America and China. In the first quarter of FY2022 (ended June 2021), sales in Japan made up the major revenue contribution at 40%, followed by North America at 28%, Asia ex-Japan at 15%, Europe at 10%, and 7% in other regions.

Strong financial performance expected

We anticipate TMC's financial performance will remain solid supported by ongoing cost-reduction efforts and continuous launches of new vehicle models. However, falling global auto sales due to the COVID-19 pandemic are likely to pressure the profitability of TMC and other automakers in the short term. TMC's operating income decreased by 8% to JPY2.2 trillion in FY2021. Thanks to the cost-reduction strategy, operating income improved to JPY997 billion for the first quarter of FY2022, rising by 35% from the same period of FY2021. Based on TMC's forecast, operating income is expected to reach around JPY2.5 trillion in FY2022 due to a gradual recovery in vehicle sales.

Solid liquidity position and balanced funding

TMC has maintained conservative financial policies. It has a strong liquidity position with considerable reserves of cash and high-quality liquid assets, such as Japanese government bonds and US treasuries. At the end of the first quarter of FY2022, TMC had JPY8.1 trillion in net liquid assets, equivalent to 13% of total assets. TMC also has diversified funding sources domestically and internationally including bank loans, bonds, and commercial papers (CPs). Based on IFRS accounting standards, TMC's short-term borrowings account for 48% of total borrowings, while long-term debt and other financial liabilities account for the remaining 52%. The larger proportion of long-term borrowings should help mitigate any liquidity risk that could arise from a funding mismatch of its captive finance business.

BASECASE ASSUMPTIONS

- TMC's credit ratings assigned by S&P Global Ratings will be maintained.
- There will be no change to the unconditional and irrevocable guarantee by TMF on TLT's debentures.

RATING OUTLOOK

The "stable" outlook reflects the creditworthiness of TMF, TLT's Guarantor. TMF's credit profile reflects the creditworthiness of the ultimate parent, TMC. TMC's current international-scale company rating of "A+/Stable" assigned by S&P Global Ratings continues to reflect TMC's credit strengths.

RATING SENSITIVITIES

The ratings and/or outlook on TLT's guaranteed debentures could be revised downward in the event of a significant weakening in TMC's creditworthiness.

COMPANY OVERVIEW

TMC, the ultimate parent company of the Toyota Group including TLT, was founded in 1937. The company's competitive advantage among automakers is its wide range of vehicle types. TMC produces its main brands under the "Toyota" and "Lexus" brands, as well as the "Daihatsu" and "Hino" brands. The automotive business accounts for more than 90% of TMC's total sales.

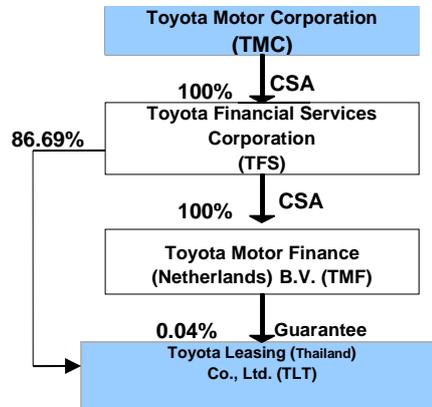
TMC is moving toward the Toyota New Global Architecture (TNGA), an initiative for higher development efficiency and the manufacture of better cars. Since 2020, half of the company's global car sales will be TNGA models. The automobile industry is moving toward environmentally conscious cars. As a result, TMC is shifting to electric vehicles (EV) such as hybrid vehicles.

In addition to the automotive business, TMC provides financial services through its captive financing arms. TMC believes its ability to provide customer financing is an important marketing tool to support the sales of its cars. In 1987, TMC established TMF as a private limited company to function as a finance company. TMF raises funds through bonds and notes issued in the international capital markets. In 2000, TMC established TFS, a holding company, as a new framework for effectively integrating the strengths of the Toyota Group's sales finance companies, such as TLT, on a global scale.

The Toyota Group made its first investment in Thailand through Toyota Motor Sales (Thailand) Co., Ltd. (TMT) in 1957. TMT was founded under Toyota's umbrella in 1962, followed by several subsidiaries and affiliates including TLT in 1993. In 2002, the Toyota Group announced its decision to use Thailand as a global manufacturing base to support its production and sales.

TLT is a subsidiary of TFS, a wholly-owned subsidiary of TMC in Japan. TLT was established to service automobile hire purchase loans for Toyota’s customers and dealers by providing financial services to customers. TLT ranks in the top three automobile hire purchase companies in Thailand, according to TRIS Rating’s database.

Chart 1: Shareholding and Credit Support Structure of Toyota Group



Source: TLT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Toyota Motor Corporation (TMC)

Unit: Mil. JPY

	Apr-Jun 2021	-----Year Ended 31 March -----			
		2021	2020	2019	2018
Total operating revenues	7,935,557	27,214,593	29,866,547	30,225,681	29,379,510
Earnings before interest and taxes (EBIT)	1,264,703	2,979,891	2,840,098	3,014,663	3,118,098
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,784,883	4,567,672	4,443,606	4,446,972	4,382,048
Funds from operations (FFO)	1,446,720	3,870,159	3,714,634	3,758,950	3,850,056
Adjusted interest expense	7,484	47,537	47,155	28,078	27,586
Capital expenditures	1,139,087	3,767,945	3,746,576	3,738,887	3,598,707
Total assets	61,651,150	62,267,140	53,972,362	51,936,949	50,308,249
Adjusted debt	18,347,584	18,432,281	16,656,984	14,885,340	14,293,092
Adjusted equity	25,016,902	24,288,329	21,339,012	20,565,210	19,922,076
Adjusted Ratios					
EBITDA margin (%)	22.49	16.78	14.88	14.71	14.92
Pretax return on permanent capital (%)	8.48	6.29	6.73	7.54	8.09
EBITDA interest coverage (times)	238.49	96.09	94.23	158.38	158.85
Debt to EBITDA (times)	3.26	4.04	3.75	3.35	3.26
FFO to debt (%)	24.89	21.00	22.30	25.25	26.94
Debt to capitalization (%)	42.31	43.15	43.84	41.99	41.77

* Consolidated financial statements

RELATED CRITERIA

- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Nonbank Financial Institution Methodology, 17 February 2020
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Toyota Leasing (Thailand) Co., Ltd. (TLT)

Issue Ratings:

THB60,000 million guaranteed debentures under Medium-term Debenture Program:

- TLT21NA: THB3,000 million guaranteed debentures due 2021	AAA
- TLT22DA: THB3,000 million guaranteed debentures due 2022	AAA
- TLT22OA: THB3,000 million guaranteed debentures due 2022	AAA
- TLT235A: THB1,500 million guaranteed debentures due 2023	AAA
- TLT24OA: THB3,500 million guaranteed debentures due 2024	AAA
- TLT255A: THB1,000 million guaranteed debentures due 2025	AAA

THB130,000 million guaranteed debentures under Thai Baht Debenture Programme in the year 2018:

- Long-term guaranteed debentures	AAA
- TLT21DA: THB1,900 million guaranteed debentures due 2021	AAA
- TLT21OA: THB1,400 million guaranteed debentures due 2021	AAA
- TLT21OB: THB3,700 million guaranteed debentures due 2021	AAA
- TLT221A: THB3,600 million guaranteed debentures due 2022	AAA
- TLT222A: THB3,000 million guaranteed debentures due 2022	AAA
- TLT223A: THB3,000 million guaranteed debentures due 2022	AAA
- TLT225A: THB3,900 million guaranteed debentures due 2022	AAA
- TLT228A: THB3,700 million guaranteed debentures due 2022	AAA
- TLT22NA: THB2,260 million guaranteed debentures due 2022	AAA
- TLT232A: THB3,000 million guaranteed debentures due 2023	AAA
- TLT237A: THB2,100 million guaranteed debentures due 2023	AAA
- Short-term guaranteed debentures	T1+

THB130,000 million guaranteed debentures under Thai Baht Debenture Programme in the year 2020:

- Long-term guaranteed debentures	AAA
- TLT234A: THB3,000 million guaranteed debentures due 2023	AAA
- TLT235B: THB2,000 million guaranteed debentures due 2023	AAA
- TLT23NA: THB2,200 million guaranteed debentures due 2023	AAA
- TLT243A: THB3,000 million guaranteed debentures due 2024	AAA
- TLT245A: THB2,910 million guaranteed debentures due 2024	AAA
- TLT248A: THB2,600 million guaranteed debentures due 2024	AAA
- TLT253A: THB1,500 million guaranteed debentures due 2025	AAA
- TLT255B: THB2,900 million guaranteed debentures due 2025	AAA
- TLT258A: THB1,200 million guaranteed debentures due 2025	AAA
- TLT263A: THB1,500 million guaranteed debentures due 2026	AAA
- TLT265A: THB2,900 million guaranteed debentures due 2026	AAA
- TLT285A: THB1,290 million guaranteed debentures due 2028	AAA
Short-term guaranteed debentures	T1+

Rating Outlook:

Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000

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