Media Release:

Yulon Motor Co. Ltd. Ratings Affirmed At 'twA-/twA-2'; Outlook Stable

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Rating Action Overview

- **Yulon Motor Co. Ltd.**’s effort to broaden its auto-original equipment manufacturer (OEM) portfolio faces heightened competitive pressure from agile domestic rivals and Chinese players overseas. This is despite Yulon Motor could see production volume expanding in 2026-2027.
- We expect the stable profit margin of the company's core auto manufacturing business, steady cash dividends from Yulon Finance, and Yulon Motor's prudent financial policy will support its deleveraging.
- We affirmed our long-term issuer credit rating on Yulon Motor at 'twA-' and short-term rating at 'twA-2'.
- The rating outlook is stable, reflecting our view that Yulon Motor's production volume will rebound in 2026-2027, driven by new model launches; nonetheless, market competition remains a key headwind. At the same time, we forecast the company will maintain its debt-to-EBITDA ratio at 1.5x-2.0x over the period.

Rating Action Rationale

Multi-brand auto OEM strategy faces competitive pressure, despite volume rebound in 2026-2027. While we anticipate Yulon Motor's production volume will recover over the next one to two years, the long-term sustainability of this rebound remains uncertain. Yulon Motor's relatively smaller operating scale compared to its leading peers, combined with highly competitive domestic and overseas markets, creates significant execution risk for its business strategy.

We forecast the company's production volume will increase meaningfully by 15%-20% annually in 2026 and 2027, following a 46.4% contraction in 2025. This recovery will primarily be driven by two Foxtron Vehicle Technologies Co. Ltd. electric vehicle (EV) models, one introduced in 2025 and one in 2026, a new MG-branded multi-purpose vehicle, and the commencement of Mitsubishi EV exports to Oceania in the fourth quarter of 2026.

However, we see a low likelihood for a material rebound in the production of Nissan domestic vehicles before 2028, due to the brand's slower product refresh cycle compared to its more agile competitors. Furthermore, intense competition in Taiwan's passenger vehicle market could limit growth potential for Nissan and Foxtron-brands, which held a limited market share of 2.9% and 1.4%, respectively, in the first half of 2026. These brands also face challenges from their narrower product lineups, and potentially more intense competitive pressure if the Taiwan government reduces its tariffs on imported U.S. vehicles.

Operating conditions in the Oceania market present additional challenges for Yulon Motor. As regional governments push for electrification, Chinese automakers are rapidly gaining market shares at the expense of traditional Japanese incumbents. This shifting landscape creates uncertainty regarding the sales performance of the Mitsubishi-branded EVs, which are the brand's first battery EV model entry in the region.

In our view, Yulon Motor is likely to maintain its multi-brand OEM strategy, including its partnership with Foxtron. Nonetheless, the ability of this strategy to support manufacturing utilization and profitability over the longer term remains highly uncertain, given the evolving competitive landscape. We reflect Yulon Motor's weakened market position and uncertainty over its strategic execution in our negative comparable rating analysis assessment for the company.

Auto manufacturing business could maintain a stable profit margin in 2026-2027. Likely higher production volume could bolster Yulon Motor's capacity utilization. This, combined with ongoing efficiency improvements and cost-reduction initiatives, could support a stable profit margin for the company's core automotive manufacturing business over the next two years. Additionally, the divestment of Luxgen Motor Co. Ltd. to Foxtron on April 1, 2026, should enhance Yulon Motor's overall profitability and reduce the operating burden from this brand, because Luxgen has constantly reported operating losses over the past few years. As a result, we forecast Yulon Motor's reported EBITDA margin excluding cash dividends from equity method investments, will remain at 6.4%-6.7% in 2026-2027, similar to the 6.4% it reported in 2025.

Cash dividends from equity method investments will continue to decline in 2026-2027. This decrease is mainly attributable to Yulon Nissan's impaired ability to distribute dividends to Yulon Motor, led by Nissan's constrained sales in Taiwan and China markets. Sales of Nissan passenger cars in China remain on a downward trajectory, plummeting 19.6% year on year in the first half of 2026 after a drop of 8.5% in 2025. This trend is due to the brand's inferior market position where it lags in EV development. Combined with softened sales performance in Taiwan, these factors resulted in a net loss for Yulon Nissan Motor in the first half of 2026, and we believe the company is unlikely to return to profit in full-year 2026.

As such, we project Yulon Motor's cash dividends from equity method investments will drop meaningfully to new Taiwan dollar (NT$) 500 million-NT$600 million in 2026-2027 from a historical level of above NT$1 billion, resulting in a lower adjusted EBITDA level.

Continued deleveraging will enhance its financial risk profile. We project Yulon Motor's adjusted debt to decrease to NT$5.0 billion-NT$5.5 billion in 2026 from NT$7.0 billion in 2025, and further to NT$4.0 billion-NT$4.5 billion in 2027. This deleveraging trend is supported by steady cash dividends from Yulon Finance of NT$1.0 billion-NT$1.2 billion in 2026-2027, alongside Yulon Motor's prudent capital expenditure (capex) and dividends policies. In addition, cash inflow or NT$750 million–NT$800 million in 2026 from the disposal of Luxgen will further support the company's debt reduction. We therefore forecast Yulon Motor's debt-to-EBITDA ratio will improve to 1.5x-2.0x in 2026-2027 from 2x in 2025, despite lower absolute EBITDA over the projection period. As a result, we have raised our assessment of the company's financial risk profile assessment to intermediate from significant.

Outlook

The stable outlook reflects our expectation that Yulon Motor's production volume will rebound in 2026-2027 following a material contraction in 2025. The introduction of new domestic EV models from Foxtron and the export of Mitsubishi EV models produced by Yulon Motor to Oceania will mostly drive this recovery. However, intensifying competition in both domestic and international automotive markets pose possible headwinds that could pressure the company's core manufacturing business over the next two years.

Meanwhile, we project Yulon Motor will improve its debt-to-EBITDA ratio to 1.5x-2.0x in 2026-2027. Steady margins from its core manufacturing business, consistent rental income, and stable cash dividends from Yulon Finance will underpin this deleveraging. This is despite a likely decline in cash dividends from equity investments during the period.

Downward scenario

We may lower the long-term rating on Yulon Motor if:

- The company faces a prolonged contraction in production volume without a clear path to recovery. This could be triggered by a continuous decline in sales for Nissan domestic cars or Foxtron EVs in Taiwan's new auto market, due to a lack of new model introductions or major facelifts to existing products. At the same time, Yulon Motor fails to execute its multi-brand auto OEM strategy, including cooperation with Foxtron in overseas markets, to make up the production volume loss in the Taiwan market;
- The EBITDA margin of Yulon Motor's core car manufacturing business deteriorates to below 4% without signs of recovery. This could happen if Yulon Motor fails to maintain its car manufacturing utilization rate, possibly led by a significant reduction in production volume; or
- The company's debt-to-EBITDA ratio weakens to above 4.0x on a sustainable basis. This could result from weaker profitability of Yulon Motor's core business, or the company assumes a more aggressive property development program that incurs persistently large cash outflow.

Upward scenario

We may raise the long-term rating on Yulon Motor if:

- The company continues to expand production volume. This could be driven by sales growth for Nissan domestic cars or Foxtron EVs within Taiwan's new auto market, or the successful execution of Yulon Motor's multi-brand auto OEM strategy. At the same time, the company would need to maintain its debt-to-EBITDA ratio sustainably below 2x; or
- The company at least maintains its EBITDA scale while improving its debt-to-EBITDA ratio to near net cash level. This could be supported by Yulon Motor's stable profitability, a meaningful increase in cash dividends from Yulon Nissan, or Yulon Motor's deleveraging through the disposal of investment assets.

Yulon Motor Co. Ltd. – Taiwan Ratings Corp. Forecast Summary

(Mil. NT$)	2024a	2025a	2026e	2027f	2028f
Revenue	44,305	32,815	29,986	32,594	31,071
EBITDA (reported)	2,760	2,114	2,011	2,094	2,052
Plus/(less): Other	1,150	1,363	588	552	555
EBITDA	3,910	3,477	2,599	2,646	2,607
Less: Cash interest paid	(615)	(578)	(303)	(276)	(251)
Less: Cash taxes paid	(226)	(132)	(552)	(77)	(49)
Funds from operations (FFO)	3,069	2,767	1,744	2,293	2,306
Cash flow from operations (CFO)	3,576	3,760	1,422	1,734	2,721
Capital expenditure (capex)	2,255	1,001	916	1,403	1,453
Free operating cash flow (FOCF)	1,321	2,759	506	331	1,268
Discretionary cash flow (DCF)	(427)	1,117	(93)	(169)	668
Debt (reported)	19,742	16,419	13,854	13,729	11,404
Plus: Lease liabilities debt	1,263	514	514	514	514
Plus: Pension and other postretirement debt	95	72	72	72	72
Less: Accessible cash and liquid Investments	(11,977)	(9,997)	(9,150)	(9,958)	(9,578)
Debt	9,123	7,008	5,291	4,357	2,412
Cash and short-term investments (reported)	12,688	10,738	10,000	10,883	10,468
Adjusted ratios					
Debt/EBITDA (x)	2.3	2.0	2.0	1.6	0.9
Annual revenue growth (%)	9.0	(25.9)	(8.6)	8.7	(4.7)
EBITDA margin (%)	8.8	10.6	8.7	8.1	8.4
Return on capital (%)	4.5	0.0	(1.2)	0.3	0.4

All figures are adjusted by Taiwan Ratings Corp., unless stated as reported. Figures of forecast period are based on Taiwan Ratings Corp.'s base case scenario. a--Actual. e--Estimate. f--Forecast. NT$-- new Taiwan dollar. N.M.--Not meaningful.

Our Base-Case Scenario

Assumptions

- S&P Global's forecast for Taiwan's real GDP to grow by 8.2% in 2026, 2.2% in 2027, and 2.4% in 2028, and China's real GDP to grow by 4.4% in 2026-2028.
- Domestic new car sales to grow marginally by 1% in 2026, following a 9.5% contraction in 2025. This sluggish recovery reflects the prolonged impact of unsettled import tax reductions on U.S. vehicles and weakened consumer sentiment driven by elevated oil prices. Aggressive new model launches and facelifts by major car companies, alongside government subsidies and a resilient domestic economy will support sales growth. Sales volumes could grow by 2%–5% in 2027–2028, with the potential resolution of the import tax issue helping normalize consumer purchasing patterns.
- China's domestic light vehicle sales to decline by 5%-7% in 2026 due to pulled forward demand in 2025 ahead of higher EV purchase taxes. We anticipate a slight recovery in 2027, supported by potential advance purchases ahead of the full termination of the EV purchase tax-exemption in 2028.

- Yulon Motor's revenue (deconsolidating Yulon Finance) will decline by 5%-10% in 2026 due to the disposal Luxgen and will rebound by 5%-10% in 2027, supported by the increase of production volume.
- Gross margin to remain at 20%-25% in 2026-2027, compared to 23.5% in 2025. The company could sustain its profitability through maintaining its manufacturing utilization rate and effective control of production costs. Stable rental income from investing properties also supports the company's profits.
- Cash dividends received from equity-method investments, including Yulon Nissan and other equity investment companies, to decline to NT$0.5 billion-NT$0.6 billion in 2026-2027 from NT$1.1 billion in 2025.
- We project working capital outflow in 2026-2027 to support Yulon Motor's increasing production volume.
- Capex of NT$1.0 billion-NT$1.5 billion in 2026-2027 to support maintenance capex for Yulon Motor's core auto manufacturing business and real estate development.
- Cash dividend payout of NT$500 million-NT$600 million annually in 2026-2027.
- We include the cash dividend from Yulon Finance in our cash flow calculation for Yulon Motor, resulting in cash inflow of NT$1.0 billion-NT$1.2 billion annually in 2026-2027.

Liquidity

The short-term issuer credit rating is 'twA-2'. We believe Yulon Motor has adequate liquidity to meet its needs over the 12 months ending June 30, 2027. We base this on our view that the ratio of liquidity sources to liquidity uses will be around 1.4x over the period. Liquidity sources will still exceed uses even if Yulon Motor's EBTIDA were to decline by 15.0%. In addition, we believe the company has a sound relationship with banks, as shown by its abundant undrawn banking facilities. Yulon Motor's debt does not carry any covenant.

Principal liquidity sources:

- Cash and short-term investments of NT$9.4 billion at the end of June 2026.
- Funds from operations of NT$2 billion-NT$3 billion over the upcoming 12 months ending June 2027.
- Undrawn bank lines maturing beyond 12 months of NT$5 billion-NT$6 billion.
- Cash inflow of NT$750 million-NT$800 million in 2026 from Luxgen disposal.

Principal liquidity uses:

- Debt maturity of NT$10.7 billion in the 12 months ending June 2027.
- Working capital outflow of NT$400 million-NT$500 million in the 12 months ending June 2027.
- Capex of NT$1.0 billion-NT$1.5 billion in 2026.
- Cash dividend payout of nearly NT$600 million in 2026.

Rating Component Scores

Yulon Motor Co. Ltd.		
	To	From
Issuer Credit Rating	twA-/Stable/twA-2	twA-/Stable/twA-2
Business risk	Weak	Weak
Country risk	Intermediate	Intermediate
Industry risk	Moderately high	Moderately high
Competitive position	Weak	Weak
Financial risk	Intermediate	Significant
Cash flow/Leverage	Intermediate	Significant
Anchor	twbbb	twbbb-
Modifiers		
Diversification/Portfolio effect	Neutral (no impact)	Neutral (no impact)
Capital structure	Positive (+1 notch)	Positive (+1 notch)
Financial policy	Neutral (no impact)	Neutral (no impact)
Liquidity	Adequate (no impact)	Adequate (no impact)
Management and governance	Neutral (no impact)	Neutral (no impact)
Comparable ratings analysis	Negative (-1 notch)	Neutral (no impact)
Stand-alone credit profile (SACP)	twbbb	twbbb
Group credit profile	twa-	twa-
Entity status within group*	Ultimate parent	
*Therefore, the issuer credit rating equates to the group credit profile. Note: The descriptors are in comparison with global obligors.		

Related Criteria

- General Criteria: Country Risk Assessment Methodology And Assumptions - November 19, 2013
- Criteria | Corporates | General: Sector-Specific Corporate Methodology - July 07, 2025
- Criteria | Corporates | General: Corporate Methodology - January 07, 2024
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers - December 16, 2014
- General Criteria: Methodology: Industry Risk - November 19, 2013
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities - January 07, 2024
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments - April 01, 2019

(Unless otherwise stated, these articles are published on www.taiwanratings.com)

Ratings List

Ratings Affirmed

Yulon Motor Co. Ltd.	
Issuer Credit Ratings	twA-/Stable/twA-2

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.taiwanratings.com for further information. Complete ratings information is available to subscribers of Rating Research Service at rrs.taiwanratings.com.tw. All ratings affected by this rating action can be found on Taiwan Ratings' public website at www.taiwanratings.com.