

Media Release:

# Co-Operative Assets Management Co. Ltd. Assigned 'twA+/twA-1' Ratings; Outlook Stable

January 6, 2020

## Overview

- We view Co-op AMC as a strategically important entity to Taiwan-based Taiwan Cooperative FHC group.
- We believe Co-op AMC has strong capitalization relative to its risk profile and benefits from implicit support from the financially stronger parent group. Co-op AMC's limited operating scale, higher growth appetite, and higher exposure in the real-estate sector partly counterbalance these strengths.
- We are assigning our 'twA+' long-term and 'twA-1' short-term issuer credit ratings to Co-op AMC.
- The rating outlook is stable to reflect the outlook on Taiwan Cooperative FHC and our expectation that Co-op AMC will maintain its strong capitalization and strategic importance to the group over the next two years.

## Rating Action

Taiwan Ratings Corp. today assigned its 'twA+' long-term and 'twA-1' short-term issuer credit ratings to **Co-Operative Assets Management Co. Ltd.** (Co-op AMC). The outlook on the long-term rating is stable.

## Rationale

The ratings on Co-op AMC reflect the implicit support from the company's financially stronger parent, **Taiwan Cooperative Financial Holding Co. Ltd.** (Taiwan Cooperative FHC) group. It also reflects Co-op AMC's strong capitalization on a consolidated basis and adequate funding and liquidity supported by the group. However, these strengths are partly offset by Co-op AMC's limited operating scale, relatively aggressive risk appetite, and higher risk exposure in the real-estate sector.

### External support: Parental support as a strategically important subsidiary

We expect Co-op AMC to receive timely and sufficient support from the parent group, given its strategically important group status. Co-op AMC's business is in line with the group's full-scale financial services strategy to offer more flexibility to engage into property related management and investment, as well as financial leasing business. Taiwan Cooperative FHC fully owns Co-op AMC and the subsidiary's reputation is closely linked with that of the group under the same name and logo. This supports our assessment of strategic importance, despite Co-op AMC's financial contribution to the parent group remains comparatively limited.

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**Anchor: 'bb+' anchor for financial companies operating mainly in Taiwan**

Our 'bb+' anchor for Co-op AMC reflects the company's business focus as a finance company (FINCO) operating mainly in Taiwan. The anchor is a blend of 80% of our Taiwan FINCO anchor and 20% of the China FINCO anchor, given the company's geographic asset exposure. FINCOs in Taiwan that are regulated by the Financial Supervisory Commission (FSC), generally have an anchor of 'bb+'. The anchor is two notches below Taiwan's bank anchor, which reflects our view that FINCOs face higher economic and industry risk than banks. We believe that FINCOs under the jurisdiction of the FSC operate under the same framework as banks, but which is less comprehensive. These FINCOs follow prudent financial requirements set by the FSC, but with reporting standards that are less robust than those for banks.

In addition, the reliance of Taiwan FINCOs on wholesale funding and the lack of direct access to central bank funding weaken their risk assessment compared with banks', because banks benefit from retail and diversified funding sources. This is despite the fact that FINCOs in general have adequate profit margins and the market shares for leading players are relative stable, suggesting a certain level of entry barrier.

**Business position: Weak business position with relatively small operating scale**

We view the business stability of Co-op AMC to be constrained by its limited market presence in the financial markets in Taiwan and China. Co-op AMC is the asset management vehicle of the Taiwan Cooperative FHC group, and was setup to taking care of the group's non-performing loans (NPLs). However, because the NPL acquisition market continues to shrink, Co-op AMC has stepped in to the urban renewal financial leasing businesses. As a newcomer to these fields, Co-op AMC's operating scale is relatively small, and we believe this scale disadvantage weakens the company's bargaining power and makes it less resilient during market downturns. At the end of 2018, Co-op AMC had total assets of New Taiwan dollar (NT\$) 7.43 billion, which makes it a small player in Taiwan's financial services market.

In our assessment, Co-op AMC has a stable and experienced management team which is reflected in its satisfying operating record with no loss record over the last ten years. Co-op AMC has gradually transitioned from NPL recovery business to financial leasing and real estate investing business since 2013, or what we will call non-NPL business. There is likely to be only limited NPL acquisition business in the domestic market over the next few years; therefore, we expect Co-op AMC will quickly enlarge its non-NPL business line in the coming quarters.

**Capital and earnings: Strong capitalization to support rapid growth**

Co-op AMC's capitalization is strong relative to its risk profile, in our opinion. Despite the company's risk-adjusted capital (RAC) ratio was 23.4% by 2018 and 19.8% as of the third quarter of 2019, given the company's higher growth target and limited capital retention, we expect Co-op AMC's business expansion to erode its capitalization and weaken the RAC ratio to about 13.5% by 2021. Therefore, we assess the company's capital only at a strong level. Our major assumption in this base case scenario includes 20-30% growth in Co-op AMC's financial leasing and real estate business per year and 90% dividend payout ratio. We've also reflected the above-average corporate-risk charge associated with Co-op AMC's real estate related leasing and investment when analyzing the company's risk-adjusted capitalization.

Co-op AMC's return on average assets has declined due to the company's business mix adjustment towards non-NPL business. Nonetheless, we expect Co-op AMC to maintain better profit margins than most other financial institutions in Taiwan over the next two years. The company's return on average assets was 4.41% in 2018 and 2.62% in the first nine months of 2019.

### **Risk position: Higher risk concentration in the real estate sector with a high growth appetite**

We consider Co-op AMC's risk position to be moderate, which mainly reflects the company's risk concentration in the cyclical real estate sector. Our assessment also reflects the company's aggressive growth appetite in its non-NPL business.

Although Co-op AMC's asset quality has been satisfactory with a low impaired asset ratio over the past few years, its risk exposure is more concentrated in real estate due to its client mix in leasing business and its own investments in real estate. In addition, as Co-op AMC's NPL recovery business has shrank rapidly in recent years, the company has increased its appetite to enlarge its non-NPL business. This shift in business mix could increase the concentration of Co-op AMC's risk exposure in the real estate sector and bring additional volatility to its capitalization during market downturns. Besides, we also believe Co-op AMC's aggressive growth target on non-NPL business makes it difficult for the company to maintain its satisfactory asset quality.

### **Funding and liquidity: Adequate with potential group support**

We assess Co-op AMC to have an adequate funding and liquidity profile despite the risks from its reliance on wholesale funding, which we view as sensitive to market liquidity and less stable than retail funding for local banks. Our assessment also reflects our view of Taiwan Cooperative FHC group's adequate funding and liquidity, which can support Co-op AMC if needed. Co-op AMC has diversified unsecured credit lines with average utilization of around 60%, although we expect the company's credit line usage to increase amid its rapid expansion over next one to two years. Considering the ample liquidity in the domestic capital market and potential support from its parent group, we expect Co-op AMC to maintain an adequate funding and liquidity profile. We do not expect the company to face any urgent unexpected liquidity needs in the coming two years.

## **Outlook**

The stable outlook on Co-op AMC mainly reflects our expectation that the company will remain a strategically important entity of Taiwan Cooperative FHC group over the next two years. The outlook also reflects our expectation that credit profile of the group's core banking subsidiary, **Taiwan Cooperative Bank Ltd.** as well as Co-op AMC's stand-alone credit profile, will remain stable over the next one to two years.

### **Downward scenario**

We may downgrade Co-op AMC if its stand-alone credit profile weakens, which may result from deterioration in capitalization or asset quality due to aggressive business expansion.

### **Upward scenario**

We may upgrade Co-op AMC if the company has a material improvement in its operating scale while at the same time maintaining reasonable profitability. We could also upgrade Co-op AMC if the company's importance to the parent group further strengthens which would be shown by a higher capital representation or profit contribution to the group; however, we believe this scenario to be remote over the rating horizon.

## Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Understanding Taiwan Ratings' Rating Definitions - June 26, 2018
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009

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## Ratings List

### New Ratings

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#### Co-Operative Assets Management Co. Ltd.

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Issuer Credit Rating

twA+/Stable/twA-1

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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](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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