Media Release:

Mega Asset Management Upgraded Co. Ltd. To 'twAA-/twA-1+' On Consistent Performance And Asset Quality Through Business Transition; Outlook Stable

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Overview

- Mega AMC has maintained satisfactory operating performance and asset quality while gradually shifting its core business to urban renewal financing business in recent years.
- We believe Mega AMC will sustain its adequate capitalization supported by the group's capital policy, while at the same time sustaining its satisfactory asset quality and profitability.
- We are therefore raising our long-term and short-term issuer credit ratings on Mega AMC to 'twAA-/twA-1+' from 'twA+/twA-1'.
- The stable outlook reflects our expectation that the company will maintain adequate capitalization and asset quality over the next two years.

Rating Action

Taiwan Ratings Corp. today raised its long-term and short-term issuer credit ratings on **Mega Asset Management Co. Ltd.** (Mega AMC) to 'twAA-/twA-1+' from 'twA+/twA-1'. The outlook on the long-term rating is stable.

Rationale

The upgrade action largely reflects Mega AMC's satisfactory operating record and asset quality during the gradual transition of its core business to urban renewal financing business over the past few years. We now believe that the potential risks associated with Mega AMC's property financing business are lower than those we assume in our risk-adjusted capital (RAC) framework where we assessed very high risk weights. As a result, we believe that our assessment of Mega AMC's adequate capitalization provides sufficient buffer to absorb potentially unfavorable property market conditions.

Mega AMC has demonstrated satisfactory operating performance in recent years as it transitioned from nonperforming loan (NPL) to urban renewal financing business. There have been no reported losses on the company's accounting book and low overdue payments in its property financing business which had an impaired assets ratio of about 1.3% in 2016-2019. Mega AMC's provision practice is conservative, in our view, with a ratio of reserves to gross receivables above 4% in 2016-2019 and a ratio of credit provisioning to gross receivables below 0.15% over the same period.

We believe the potential credit losses of Mega AMC's business are now lower than those assumed in our RAC framework which includes a 225% risk weight on the company's property related lending. These exposures actually have a loan to collateral value of 65%-70% and most have trust mechanisms to provide an additional buffer against the company's cash inflows. We expect Mega AMC's asset quality to remain adequate over the next two to three years, supported by the parent **Mega Financial Holding Co. Ltd.** (Mega FHC) group's close oversight and satisfactory underwriting practices.

The ratings on Mega AMC continue to reflect a strong implicit support from the company's parent Mega FHC group, given Mega AMC's strategic importance to the group, and adequate capitalization with a satisfactory profit record and high quality of capital. Counterbalancing factors include the limited diversity of Mega AMC's revenue stream and the company's high business and risk concentration on property related business.

Outlook

The stable outlook on Mega AMC mainly reflects our expectation that the company will maintain its adequate capitalization through adequate risk controls, close oversight, and supportive capital management under the Mega FHC group. The stable outlook also reflects our view that Mega AMC will remain a strategically important group entity over the next two years.

Downward scenario

We may lower the long-term rating on Mega AMC if the company's capitalization weakens as shown by a RAC ratio below 7%. This could result from overly aggressive growth or weakening earnings capacity, or if Mega AMC's asset quality deteriorates because of unfavorable developments in the property development segment that lengthen the company's return period. We may also lower the rating if we assess Mega AMC's importance to its parent group has weakened as evidenced by significantly weaker earnings performance over the next one to two years.

Upward scenario

We may raise the long-term rating if the company's capitalization improves to strong as indicated by a RAC ratio consistently above 10% over the next one to two years. We may also upgrade Mega AMC if we consider the company's importance to the group strengthens as represented by a higher capital representation or profit contribution to the group.

Related Criteria

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

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

Ratings List

Upgraded

	To	From
Mega Asset Management Co. Ltd.		
Issuer Credit Rating	twAA-/Stable/twA-1+	twA+/Stable/twA-1

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.