Media Release:

First Financial Assets Management Co. Ltd. Assigned 'twA+/twA-1'; Outlook Stable

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Overview

- We view First AMC as a strategically important entity to Taiwan-based First FHC group.
- We believe First AMC has very strong capitalization relative to its risk profile and adequate funding & liquidity benefiting from implicit support from the financially stronger parent group. However, the company's limited operating scale and higher growth appetite in the cyclical real estate sector partly counterbalance these strengths.
- We are assigning our 'twA+' long-term and 'twA-1' short-term issuer credit ratings to First AMC.
- The stable outlook on the long-term rating reflects our stable outlook on First FHC and our expectation that First AMC will maintain its very strong capitalization and strategically important group status 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 First financial Assets Management Co. Ltd. (First AMC). The outlook on the long-term rating is stable.

Rationale

The ratings on First AMC reflect our view of implicit support from the company's financially stronger parent, **First Financial Holding Co. Ltd.** (First FHC) group. The ratings also reflect First AMC's very strong capitalization and adequate funding and liquidity supported by the group. However, these strengths are partly offset by the company's limited operating scale and relatively aggressive growth appetite.

External support: Parental support as a strategically important subsidiary

We expect First AMC to receive timely and sufficient support from the parent group, given the asset management company's strategically important group status. We view First AMC's business to be in line with the group's strategy of offering its clients full-scale financial services. First AMC has helped the group's collection of non-performing loans (NPLs) and offers more execution flexibility to engage in property investment and urban renewal business. First FHC fully owns First AMC and the subsidiary's reputation is closely linked with that of the parent group, given the same name and logo. This supports our assessment of First AMC's strategic importance, despite the company's comparatively limited financial contribution to the parent group.

Anchor: 'bb+' anchor for finance companies operating under financial holding companies in Taiwan

Our 'bb+' anchor for First AMC reflects the company's business focus as a finance company (FINCO) in Taiwan. FINCOs that are regulated by Taiwan's Financial Supervisory Commission (FSC) generally have an anchor of 'bb+', which is two notches below Taiwan's bank anchor and 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, albeit a less comprehensive one. These FINCOs follow prudent financial requirements set by the FSC, but with reporting standards 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 Taiwan-based FINCOs in general have adequate profit margins and the market shares for leading players are relative stable, suggesting a certain level of entry barriers.

Business position: Weak business position with relatively small operating scale

In our view, First AMC's limited market presence in the domestic financial market constrains its business stability. First AMC is the management vehicle for the First FHC group's troubled assets, and was setup by the group to take care of its nonperforming loans (NPLs). As of the end of 2019, NPL-related business was First AMC's key business and contributes around 65% of its total revenue. In addition to the stable cash inflow from the company's NPL-related business, First AMC expanded in to real estate investment by 2011 and urban renewal businesses in late 2018 in order to diversify its revenue portfolio.

Although First AMC's business lines are reasonably diversified, its operating scale is relatively small compared with other domestic FINCO peers'. We believe the company's scale disadvantage could weaken its bargaining power and makes it less resilient during periods of market volatility. As of the end of 2019, First AMC has total assets of New Taiwan dollar (NT$) 3.25 billion, which is much smaller than most other domestic FINCOs' and limits our assessment of the company's business position in the weak category.

Our assessment also reflects our view that First AMC has a stable and experienced management team. In addition, we believe the management team has sufficient expertise to manage its relatively new urban renewal business.

Capital and earnings: Very strong capitalization to support business growth

First AMC's capitalization is very strong relative to its risk profile, in our opinion. The company's risk-adjusted capital (RAC) ratio was 31.8% by 2019, which is much higher than the 15% threshold of our very strong assessment for capital and earnings. That's despite our expectation that the company could pursue higher business growth in real estate investment and urban renewal business over the next one to two years which may heavily consume its capitalization.

With regards to its solid capital buffer, we expect First AMC to maintain its RAC ratio well above 15% over the next one to two years. Our major assumption in this base case scenario includes 10%-20% asset growth each year, given the company's expansion in real estate investment and urban renewal business and 90% cash dividend payout ratio. The forecast also reflects our application of an above-average corporate-risk charge associated with First AMC's increasing risk exposure in the real estate sector when we analyze the company's risk-adjusted capitalization.

First AMC's return on average assets was 3.56% by 2019, which is higher than for most domestic financial institutions at the same time. We expect First AMC to maintain its satisfactory profit margin over the next two years.

Risk position: higher growth appetite in cyclical real estate related business

We consider First AMC's risk position to be moderate, which mainly reflects the company's higher growth appetite in its real estate investment and urban renewal loan business. Given the management team expects to enlarge its urban renewal business to become First AMC's third largest business line, we believe there will be a relatively higher growth in this business line over the next one to two years. Moreover, First AMC has demonstrated a strong appetite to increase its real estate investment. We believe the company's growth appetite will drive up its total assets, with growth at a pace much higher than that of other domestic FINCOs.

In addition to higher asset growth, the company's risk exposure is also likely to increase as it focuses on the real estate sector. We believe this will result in additional capital volatility during market downturns, given the real estate sector's cyclical feature, which we have also reflected in our assessment of the company's risk position.

Funding and liquidity: Adequate with potential group support

We assess First 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 First FHC group's adequate funding and liquidity, which can support First AMC, if needed. First AMC has diversified unsecured credit lines with average utilization of around 35%, although we expect the company's credit line usage to increase amid its business expansion over next one to two years. Considering the ample liquidity in the domestic capital market and potential support from its parent group, we believe First AMC will maintain an adequate funding and liquidity profile over the next one to two years. We do not expect the company to face any urgent unexpected liquidity needs over the same period.

Outlook

The stable outlook on First AMC mainly reflects our expectation that the company will remain a strategically important entity of First FHC group over the next two years. The outlook also reflects our expectation that the credit profile of the group's core banking subsidiary, First commercial Bank Ltd. as well as First AMC's stand-alone credit profile, will remain stable over the same period.

Downward scenario

We may downgrade First AMC if its stand-alone credit profile weakens, which may result from deterioration in its capitalization due to aggressive business expansion. A RAC ratio below 15% would indicate such deterioration.

Upward scenario

We may upgrade First AMC if the company demonstrates material improvement in its operating scale while at the same time maintaining reasonable profitability. We could also upgrade First AMC if the company's importance to the parent group further strengthens. This 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 & Research

Related Criteria

- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- 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
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- General Criteria: Group Rating Methodology - July 01, 2019

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Assigned

First Financial Assets Management Co. Ltd.	
Issuer Credit Rating	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.