Media Release:

China Development Financial Holding Corp., Subsidiaries Outlook Revised To Positive On Proposed Acquisition; Ratings Affirmed

December 4, 2020

Overview

- Taiwan-based **China Development Financial Holding Co. Ltd.** (CDFHC) group has announced a tender offer to acquire additional shares of Taiwan-based **China Life Insurance Co Ltd.**
- CDFHC group's credit profile could improve after the group obtains dominating control over the life insurer.
- We are revising the outlook on CDFHC and its key subsidiaries to positive from stable. The outlook on China Life remains negative.

Rating Action

Taiwan Ratings Corp. today revised its rating outlook on CDFHC and its key subsidiaries to positive from stable. The outlook on China Life remains negative. At the same time, we affirmed all the ratings on CDFHC and its key subsidiaries including any ratings on their debt issuances (see rating list).

Rationale

The outlook revision reflects our view that CDFHC group's credit profile could improve after the group obtains absolute dominating control over China Life. CDFHC has announced that it intends to acquire a 21.13% stake in China Life via a tender offer. The transaction is awaiting regulatory approval. CDFHC group currently controls a 35% stake in China Life, and a successful acquisition would increase the group's stake to over 50%.

The positive outlook reflects our view that we may raise our ratings on CDFHC and its key subsidiaries if the acquisition materializes without diluting CDFHC's financial strength and if China Life becomes a core member of CDFHC group.

In our opinion, the group could benefit from better revenue diversification and the stronger stand-alone credit profile of China Life. If the transaction is successful, the life insurer would constitute a significant portion of the consolidated group credit profile which would lead us to view it as core member of the group. As of the end of September 2020, China Life accounted for 49% of the group's profit and 64% of total assets on a consolidated financial report basis. We expect the China Life's profit contribution to increase after CDFHC's increases its shareholding in the insurer.

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We expect CDFHC to execute the acquisition in a reasonable manner to preserve the group's capital strength. CDFHC's leverage is likely to temporarily increase but remain manageable after the acquisition. This is because the group plans to fund the acquisition using a combination of self-funding (including capital deductions of its subsidiaries) and leverage (debt issuance and bank borrowing). We expect CDFHC to maintain its double leverage ratio below the regulatory 125% threshold. The ratio represents the holding company's investment in subsidiaries divided by holding company (unconsolidated) shareholder equity. The group is likely to lower the ratio over the next one to two years once it receives additional cash flow from a planned asset disposal.

Outlook

CDFHC, KGI Bank, KGI Securities Co. Ltd., and CDC Finance & Leasing Corp.

The positive outlook reflects our expectation that CDFHC and its key subsidiaries could see improved credit strength and business diversification following the acquisition of an absolute majority shareholding in China Life. At the same time, we believe CDFHC will execute the acquisition in a reasonable manner to preserve the group's capital strength and leverage.

Upward scenario

We could upgrade CDFHC and its key subsidiaries if CDFHC successfully acquires an absolute majority shareholding in China Life. At the same time, CDFHC would need to execute the acquisition in a reasonable manner to preserve the group and China Life's financial strength.

Downward scenario

We could revise the outlook on CDFHC and its subsidiaries back to stable if CDFHC fails to increase its shareholding in China Life as targeted. We could also revise the outlook back to stable if we downgrade China Life.

China Life Insurance

The negative outlook reflects the likelihood that China Life could see reduced growth for its capital and earnings if global financial markets continue to weaken. At the same time, we do not expect China Life's foreign exchange risk exposure and high-risk asset exposure to increase to levels that would expose the insurer to additional risks over the next two years. China Life's operating performance should help to underpin its satisfactory business risk profile over the period, as evident from a consistently better return on average assets and investment returns than its domestic peers'.

Downside scenario

We may lower the ratings on China Life if the insurer's capitalization weakens, possibly due to overly aggressive investment strategies, higher market volatility, or lower growth in value of in-force (VIF) than our forecast.

Upside scenario

We could revise the outlook to stable if China Life strengthens its capital buffer sustainably to more than cover the investment risks it could face over the coming one to two years. This could happen if: (1) the insurer has significant capital injections, profitable growth, and lower growth in risky assets, while maintaining stable risk exposure; or (2) it significantly and sustainably strengthens its market position to be a top market player by total premiums and assets. These developments would also have to be accompanied by the stable performance of risk factors across its business and financial risk profile.

Related Criteria & Research

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Insurance | General: Insurers Rating Methodology - July 01, 2019
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model - June 07, 2010
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- TRC Financial Services Issue Credit Rating Criteria - July 31, 2019

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Outlook Revision; Ratings Affirmed

	To	From
China Development Financial Holding Corp.		
Issuer Credit Rating	twA+/Positive/twA-1	twA+/Stable/twA-1
Unsecured subordinated issue rating	twA-	
KGI Bank		
Issuer Credit Rating	twAA-/Positive/twA-1+	twAA-/Stable/twA-1+
Senior unsecured issue rating	twAA-	
KGI Securities Co. Ltd.		
Issuer Credit Rating	twAA-/Positive/twA-1+	twAA-/Stable/twA-1+
CDC Finance & Leasing Corp.		
Issuer Credit Rating	twA/Positive/twA-1	twA/Stable/twA-1
China Life Insurance Co. Ltd.		
Financial Strength Rating	twAA/Negative	
Issuer Credit Rating	twAA/Negative	