

Media Release:

# Fubon FHC Ratings Affirmed As Tender Offer Begins For JihSun FHC's Shares

December 24, 2020

(Editor's note: In the original version of this article we misstated the publication date. A corrected version follows.)

## Overview

- Taiwan-based **Fubon Financial Holding Co. Ltd.** (Fubon FHC) has commenced a tender offer to purchase the common shares of JihSun FHC group. We believe the deal will be ultimately financed via an issuance of common and preferred stock.
- In our view, the acquisition will not affect the credit strength at the group level, given the small scale of the acquired entity.
- Following the transaction, we believe **Fubon Life Insurance Co. Ltd.** will remain the flagship entity, anchoring the overall group credit profile.
- We are affirming our 'twAA/twA-1+' issuer credit ratings on Fubon FHC.
- The negative outlook reflects the likelihood that the group's flagship entity, Fubon Life, could see reduced growth in its capital and earnings over the next two years due to uncertainties over economic recovery and the containment of COVID-19.

## Rating Action

On Dec. 24, 2020, Taiwan Ratings Corp. affirmed its 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on Fubon Financial Holding Co. Ltd. The outlook on the long-term rating remains negative. We also affirmed the issue rating on the outstanding issuance of Fubon FHC.

## Rationale

The rating affirmation reflects our view that Fubon FHC group's announced tender offer to purchase the common shares of JihSun Financial Holding Co. Ltd. (JihSun FHC) group will have a limited impact on the group's consolidated credit profile, given the manageable size of JihSun FHC group relative to Fubon FHC group. On a pro forma basis, JihSun FHC group represents about 3.9% of the total consolidated asset base of Fubon FHC group. We expect Fubon FHC's credit metrics to weaken slightly until its equity fund raising plan is completed; specifically its double-leverage ratio and debt to equity ratio will slightly increase. However, these ratios should remain at a manageable level by industry standards as well as regulatory thresholds. The acquisition is largely in line with our understanding of the group's strategy to bolster and diversity its market presence in Taiwan's financial services market.

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Fubon FHC announced on Dec. 18, 2020 its plan to purchase over 50% and up to 100% of the outstanding common shares of JihSun FHC (another listed FHC in Taiwan) at a price of New Taiwan dollar (NT\$) 13 per share via tender offer funded by cash. Following the closing of the offer, Fubon FHC plans to subsume JihSun FHC upon regulatory approval. The tender offer has been approved by the regulator and opened on Dec. 22, 2020. It will close on Feb. 1, 2021.

Our assessment of Fubon FHC's group credit profile reflects the group's solid market position and business profile in Taiwan's life and non-life insurance, bank, and securities sectors. The group's operations have outperformed the domestic average for financial groups, and have shown good resilience, supported by a diversified business profile. The group credit profile also reflects the stand-alone credit profile (SACP) of its key and flagship subsidiary, Fubon Life, given the insurer's dominant role contributing 50%-55% of the group's proforma assets and net income over the past five years. As such, the Fubon FHC group's credit profile is sensitive to the investment risks facing the life subsidiary, as well as Fubon Life's capitalization, which inhibits the subsidiary's SACP. The ratings on the holding company also reflect its subordination to the group's core entities.

## Outlook

The negative outlook on Fubon FHC reflects the likelihood that the group's flagship entity, Fubon Life, could see reduced growth in its capital and earnings over the next two years. This is likely due to the prolonged low interest rate environment and the risk of shocks to global capital markets due to uncertainty over economic recovery and the containment of COVID-19.

The outlook also reflects the likely increase in Fubon Life's risk exposure, especially foreign exchange risk, which could move beyond the domestic average for life insurers if not properly controlled. In our assessment of the group credit profile, we expect Fubon Life to continue to dominate the overall group credit profile over the next two years.

### Downward scenario

We could lower the long-term rating on Fubon FHC if the group credit profile weakens mainly due to deterioration in Fubon Life's credit profile. Such deterioration could include:

- We lower our assessment of the insurer's capital and earnings to fair from satisfactory because: (1) Fubon Life overly expands its investment assets, suffers negative credit migration on its fixed-income portfolio, or its exposure to market volatility becomes higher than we assume in our base case; (2) growth in Fubon Life's value of in-force (VIF) is materially lower than we currently forecast because VIF accounts for a large part of the insurer's total adjusted capital; (3) the insurer expands through mergers and acquisitions or capital needs for its subsidiaries increase that exceed our current expectation; or (4) the insurer's operating performance deteriorates significantly.
- Fubon Life's risk exposure deteriorates to moderately high from moderately low at present, such that we believe the insurer's enlarged foreign exchange risk exposure (net of effective hedging) or investment concentration in the financial sector materially and consistently exceeds the local peer average and raises the volatility in its capital and earnings.

### Upward scenario

We could revise the outlook on Fubon FHC back to stable if Fubon Life strengthens its capital buffer sustainably to more than cover the investment risks it could face over the coming one to two years. At the same time, the insurer's other credit risk aspects including competitive position and risk exposure would need to remain unchanged.

## Related Criteria & Research

### Related Criteria

- TRC Financial Services Issue Credit Rating Criteria, Jul 31 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, Jul 01 2019
- General Criteria: Group Rating Methodology, Jul 01 2019
- Criteria | Insurance | General: Insurers Rating Methodology, Jul 01 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, Jun 25 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, Apr 07 2017
- General Criteria: Principles Of Credit Ratings, Feb 16 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, Jun 07 2010

### Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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## Ratings List

### Ratings Affirmed; Outlook Negative

#### Fubon Financial Holding Co. Ltd.

Issuer Credit Rating	twAA/Negative/twA-1+
Unsecured Senior Bond	twAA

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