

Media Release

# Hua Nan Assets Management Co. Ltd. Rated 'twA+/twA-1'; Outlook Stable

June 17, 2021

## Overview

- We view Hua Nan AMC as a strategically important entity to Taiwan-based Hua Nan FHC group.
- We believe Hua Nan AMC's business scope in Taiwan's asset management business fits with the group's full-scale financial services strategy to offer more flexibility to engage into property management and investment and urban renewal business.
- We have assigned our 'twA+' long-term and 'twA-1' short-term issuer credit ratings on Hua Nan AMC.
- The stable outlook reflects the outlook on the parent group and our view that Hua Nan AMC will maintain its strong capitalization and strategically important group status over the next two years.

## Rating Action

On June 17, 2021, Taiwan Ratings Corp. assigned its 'twA+' long-term and 'twA-1' short-term issuer credit ratings on Hua Nan Assets Management Co. Ltd. (Hua Nan AMC). The outlook on the long-term rating is stable.

## Rationale

The ratings on Hua Nan AMC reflect a strong implicit support from the company's financially stronger parent Hua Nan Financial Holding Co. Ltd. (Hua Nan FHC) group, based on our view that Hua Nan AMC is a strategically important member of the group. The ratings also reflect the company's strong capitalization and adequate funding and liquidity supported by the group's resources. Counterbalancing factors include Hua Nan AMC's limited operating scale in Taiwan's finance and leasing industry and moderate risk position due to its risk concentration on property related business.

We consider Hua Nan AMC to be strategically important to the Hua Nan FHC group. Hua Nan FHC fully owns Hua Nan AMC and the asset management company's reputation is closely linked with that of the parent group, given the similar naming and logo. We believe Hua Nan AMC's business scope in Taiwan's asset management business fits with the group's full-scale

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financial services strategy to offer more flexibility to engage into property management and investment and urban renewal business. Hua Nan AMC represents only a small proportion of the group's total capital base, at less than 1% in 2020, and makes a limited profit contribution to the group.

Our 'bb+' anchor for Hua Nan AMC reflects the company's business focus as a finance company (FINCO) and the fact the Financial Supervisory Commission (FSC) regulates Hua Nan AMC through its parent banking group.

The anchor for Hua Nan AMC is two notches below Taiwan's bank anchor. This is to reflect our view that FINCOs face higher economic and industry risk than banks. In addition, the reliance of 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 FINCOs in general have adequate profit margins and the market shares for leading players are relative stable, suggesting a certain level of entry barriers.

Hua Nan AMC operates under a financial holding company umbrella in Taiwan, which brings the company under the jurisdiction of the FSC. We believe that such FINCOs 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 that are less robust than those for banks.

Hua Nan AMC is a small size company focusing on property business. The company has a stable and experienced management team to proactively respond to regulation changes. Established in 2005, Hua Nan AMC's business scope has evolved from nonperforming loan (NPL) acquisition business to direct property investment and court auction services. With the Taiwan government's recent initiative on urban renewal and reconstruction of unsafe and old buildings, Hua Nan AMC has expanded its arena to urban renewal and reconstruction projects.

In our view, Hua Nan AMC has strong capitalization under the company's prudent growth strategy. As of the end of 2020, the company's leverage measured by debt over adjusted total equity (Debt/ATE) was 2x. Under our base-case assumption of flat business growth in 2021-2023 for Hua Nan AMC, we forecast the company will sustain its leverage at below 2.75x over the period, which is our higher threshold for strong capitalization. Hua Nan AMC is also likely to maintain its high cash dividend payout policy under the group's guidance, in our view. Hua Nan AMC's return on average assets over the past few years has experienced volatility due to the time needed for a property project to mature. On average, the firm's profitability will likely to be in line with the domestic industry average at 2-3% measured by return on average assets.

We assess Hua Nan AMC's risk mechanism and controls as adequate, albeit weakened by high sector concentration in property related segments and some single-name concentration. We anticipate the company will maintain adequate underwriting discipline under close oversight from its parent group. Hua Nan AMC constantly monitors the value of its property portfolio and makes an impairment loss provision when needed. The company has somewhat higher single-name concentration in its risk exposure than its peers have, partly due to the nature of the higher property market exposure.

Hua Nan AMC's membership of the financially stronger Hua Nan FHC group should continue to support the asset management company's satisfactory funding and liquidity profile, despite its wholesale funding nature. Hua Nan AMC's funding sources include commercial papers and bank loans. We believe the company has adequate funding sources relative to its potential funding needs. In addition, Hua Nan AMC has an adequate liquidity management mechanism to manage future cash outflow needs, in our view. Hence, we do not foresee the company will face any difficulty to retain sufficient funding over the next two years, given ample liquidity in Taiwan's financial market.

## Outlook

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

### Downward scenario

We may lower the long-term rating on Hua Nan AMC if the company's leverage weakens as shown by a debt to ATE ratio consistently above 2.75x. This could result from overly aggressive growth or weakening earnings because of unfavorable developments in the property market.

### Upward scenario

We may raise the long-term rating if the company's leverage improves to very strong as indicated by a debt to ATE ratio consistently below 1.5x over the next one to two years.

## Related Criteria & Research

### Related Criteria

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

### Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020

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## Ratings List

### New Ratings

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#### Hua Nan 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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