

Media Release:

Cathay Securities Corp. Ratings Affirmed At 'twAA-/twA-1+' On Group Support; Outlook Stable

September 28, 2021

Overview

- We assess Cathay Securities' capitalization has weakened to strong from very strong previously, due to the company's rapid business expansion under a bullish market.
- Conversely, we have raised our risk position assessment for the company supported by its good loss record in recent years and now more diversified risk profile.
- We have affirmed our 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on Cathay Securities.
- The rating outlook remains stable to reflect our view of the likelihood that the parent Cathay FHC group would provide Cathay Securities with financial support, if needed, given the company's highly strategic role within the group's business strategy.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twAA-' long-term and 'twA-1+' short-term issuer credit ratings on **Cathay Securities Corp.** The outlook on the long-term rating remains stable.

Rationale

The rating affirmation reflects our view that Cathay Securities' parent, **Cathay Financial Holding Co. Ltd. (Cathay FHC)**, will provide timely financial support to the company, if needed. This is supported by our view that the securities subsidiary plays a highly strategic role within the group's long-term business strategy. Cathay Securities will remain one of important vehicles for the group to serve its customers' investment and trading activities in Taiwan and overseas markets. More than 50% of Cathay Securities' equity brokerage business is through group referrals. We therefore believe there is a very high possibility that the group will provide Cathay Securities with financial support, as needed.

We have lowered our capital assessment for Cathay Securities to strong from very strong due to the company's rapid business expansion. Over the past year, the company has intermittently increased its equity related trading position, which along with rapid expansion of its brokerage business in Taiwan has lowered Cathay Securities' capital strength. We measure this by its risk adjusted capital ratio which we assess at 13.3% at the end of 2020, down from 25.8% at the end of 2019. We believe the management team will maintain its trading appetite to enhance earnings over the next two years with more position taking. This will make it difficult for Cathay Securities to improve its adjusted capital ratio back to over 15%, which is the level we define as very strong capitalization. This is despite the company's

PRIMARY CREDIT ANALYST

Jenny Lin
Taipei
+886-2-2175-6811
jenny.lin
@spglobal.com
jenny.lin
@taiwanratings.com.tw

SECONDARY CONTACT

Serene Hsieh, CPA, FRM
Taipei
+886-2-2175-6820
serene.hsieh
@spglobal.com
serene.hsieh
@taiwanratings.com.tw

record-high earnings in the first half of 2021, amid more favorable stock market sentiment to trade. In our assessment, the company's use of earnings to enhance its capital is moderate now because of a likely high dividend payout ratio of 70%.

We now assess Cathay Securities' risk profile as close to the domestic industry average and unlikely to drag the company's capitalization down through significant unexpected losses. Cathay Securities' risk management framework and the improving concentration of its exposures are comparable to those of other mid-to-large brokers in Taiwan. The company has a seasoned performance record.

Outlook

The ratings on Cathay Securities will move in tandem with the direction of the parent group credit profile because of the securities company's highly strategic role within the group's business strategy over the next 12-24 months. The stable outlook on Cathay Securities mirrors the trend of the stand-alone credit profile of the group's flagship subsidiary, **Cathay Life Insurance Co. Ltd.**, which reflects our view that the insurer will continue to dominate the group's credit profile over the same period. On a stand-alone basis, we believe Cathay Securities will control the volatility of its investment portfolio and loss experience to sustain strong capitalization over the next two years.

Downward scenario

We may lower the long-term issuer credit rating on Cathay Securities if the group credit profile weakens as a result of Cathay Life's weakened credit. We could also lower the rating if Cathay Securities' importance to the group declines significantly over the next two years. This could occur due to the company's consistently weak performance or significantly deteriorated market position.

Upward scenario

We will raise the rating on Cathay Securities if Cathay FHC improves its credit profile. We will also raise the long-term rating if we reclassify Cathay Securities as core to the wider group. This would require the securities firm to increase its contribution to the group significantly in terms of earnings and shareholders' equity. We view the latter to be unlikely over the coming two years.

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: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014
- 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

Related Research

– Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Affirmed

Cathay Securities Corp.

Issuer Credit Rating	twAA-/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 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.

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