

Media Release:

Mega Securities Co. Ltd. Ratings Affirmed At 'twAA/twA-1+' On Group Support; Outlook Stable

October 28, 2021

Overview

- We assess Mega Securities' capitalization has weakened to strong from very strong previously, due to the company's business expansion under a bullish market.
- Nevertheless, we assess the company's overall stand-alone credit profile remains unchanged, supported by Mega Securities' better market position compared with smaller brokers that have a weaker stand-alone credit profile.
- We have affirmed our 'twAA' long-term and 'twA-1+' short-term issuer credit ratings on Mega Securities.
- The stable rating outlook reflect our view of the likelihood that the parent Mega FHC group would provide Mega 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 **Mega Securities Co. Ltd.** The outlook on the long-term rating remains stable.

Rationale

The rating affirmation reflects our view that Mega Securities' parent, **Mega Financial Holding Co. Ltd. (Mega FHC)**, will provide timely financial support to the company, if needed. We base this on our view that the securities subsidiary plays a highly strategic role within the group's long-term business strategy to be a full financial service provider in Taiwan. Mega Securities' underwriting business aligns with the group's strong corporate banking business and helps provide services to the group's clients. We therefore believe there is a very high possibility that the group would provide Mega Securities with financial support, as required.

We have lowered our capital assessment for Mega 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 expansion of Mega Securities' brokerage business in Taiwan has lowered the company's capital strength. We measure this by the risk-adjusted capital ratio which we assess at 10.5% as of the end of June 2021, down from 12.2% and 16.9% in 2020 and 2019, respectively. We believe the management team will maintain its trading appetite to enhance earnings over the next two years. This will make it difficult for Mega 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 record-high

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earnings in the first half of 2021, amid more favorable stock trading sentiment in Taiwan. 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%, albeit in line with the industry practice among brokers in Taiwan.

In our view, Mega Securities' revenue diversification, operating results and revenue stability are all superior when compared with other small-size brokers with a weaker stand-alone credit profile. As a result, we believe Mega Securities' stand-alone credit profile is unchanged despite its weakened capitalization.

Outlook

The stable rating outlook reflects our view that Mega Securities will maintain its highly strategic role in the parent Mega FHC group over the next one to two years and as such will benefit from group financial support if needed. The ratings on the securities firm will therefore move in tandem with the group credit profile, which highly correlates to the performance of the group's bank subsidiary, **Mega International Commercial Bank Co. Ltd.** We see the bank continuing to play a dominant role in terms of the group's overall risk profile and we believe the bank maintain its strong capitalization over the next two years.

Downward scenario

We may lower the long-term issuer credit rating on Mega Securities if the group credit profile weakens. We could also lower the rating if Mega Securities' importance to the group declines significantly over the next two years. This could occur due to the company's consistently weak performance or significant deterioration in its market position or capitalization.

Upward scenario

We could raise the rating on Mega Securities if Mega FHC improves its credit profile. We could also raise the long-term rating if we reclassify Mega Securities as a core subsidiary 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; however, we view the latter to be unlikely over the coming two years.

Related Criteria & Research

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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 National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Principles Of Credit Ratings - February 16, 2011

Related Research

– Taiwan Ratings' Ratings Definitions – August 10, 2020

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

Ratings List

Ratings Affirmed

Mega Securities Co. Ltd.

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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