Media Release:

Selected Taiwan-Based Finance Company Ratings Affirmed Under Revised Criteria

February 17, 2022

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- We have reviewed our ratings on several Taiwan-based finance companies under our revised criteria.
- We have affirmed the ratings on these finance companies, and the outlooks are unchanged.

Taiwan Ratings Corp. said today that it has affirmed its issuer credit ratings on the following finance companies. Our outlooks on these financial institutions remain unchanged.

- CDC Finance & Leasing Corp. (twA+/Stable/twA-1)
- CTBC Asset Management Co. Ltd. (twA+/Stable/twA-1)
- FCB Leasing Co. Ltd. (twA+/Stable/twA-1)
- First Financial Assets Management Co. Ltd. (twA+/Stable/twA-1)
- Hua Nan Assets Management Co. Ltd. (twA+/Stable/twA-1)
- Mega Asset Management Co. Ltd. (twAA-/Stable/twA-1+)
- Mega Bills Finance Corp. (twAA+/Stable/twA-1+)
- SinoPac Leasing Corp. (twA+/Negative/twA-1)

The affirmations follow a revision to our criteria for rating banks and nonbank financial institutions and for determining a Banking Industry Country Risk Assessment (BICRA) (see "Financial Institutions Rating Methodology," published Dec. 9, 2021 and "Banking Industry Country Risk Assessment Methodology And Assumptions," published Dec. 9, 2021).

Our assessments of economic risk and industry risk in Taiwan also remain unchanged at '3' and '5', respectively. These scores determine the BICRA and the anchor, or starting point, for our ratings on financial institutions that operate primarily in that country. The trends we see for both economic risk and industry risk in Taiwan remain stable.

The BICRA criteria changes also don't alter the fundamentals of the existing analytical framework. They remove quantitative limits on the frequency of the use of adjustments and replace the multiple subfactor-specific individual adjustments within each of the economic and industry risk factors with an initial score for each factor with a single adjustment applied to arrive at the final score. The changes also reduce some mechanistic links with sovereign rating scores and allow for a wider range of metrics and economic indicators to be used to reflect the specifics of economic structures.

CDC Finance & Leasing Corp.

The ratings on CDC Finance reflect our view that the company's financially stronger parent, **China Development Financial Holding Corp.** (CDFHC) group, would provide financial support as needed. We base this on our view that CDC Finance is a strategically important member of the CDFHC group. The ratings also reflect CDC Finance's strong capitalization relative to its risk profile. Counterbalancing factors include the company's small market position in Taiwan's finance and leasing industry and potential instability in CDC Finance's financial profile. That's because the company's small capital base results in high sensitivity to volatility in its asset quality.

Outlook

The stable rating outlook on CDC Finance mainly reflects our view that the company will maintain its strong capitalization with a sufficient buffer along and stable asset quality over the next one to two years. The outlook also reflects our view that CDC Finance's strategically important status and close association with the CDFHC group will remain unchanged, along with necessary support from the group to maintain the subsidiary's credit profile over the next one to two years.

Downward scenario

We could lower the rating on CDC Finance if the consolidated group credit profile weakens over the next two years. We may also lower the rating if we assess the company's importance to the group has weakened or if CDC Finance's capitalization weakens beyond our current forecast.

Upward scenario

We may raise the rating if CDC Finance's market position materially improves; however, we view the likelihood of this to be remote over the next one to two years.

CTBC Asset Management Co. Ltd.

The ratings on CTBC Asset Management reflect our view of timely and sufficient support from the company's financially stronger parent **CTBC Financial Holding Co. Ltd.** (CTBC FHC) group. The ratings also reflect the asset management company's strong capitalization under its growth strategy as well as adequate funding and liquidity supported by the group's resources. Counterbalancing factors include CTBC Asset Management's limited operating scale in Taiwan and moderate risk position due to the company's risk concentration on property related business.

Outlook

The stable rating outlook mainly reflects our view that CTBC Asset Management will maintain strong capitalization over the coming two years through adequate risk controls and close group oversight. The outlook also reflects our belief that the asset management company will remain a strategically important entity of CTBC FHC group over the next two years.

Downward scenario

We may downgrade CTBC Asset Management if the company's leverage materially weakens as reflected in a ratio of debt to adjusted total equity consistently above 2.75x. This could be due to overly aggressive growth or an operating loss from unfavorable developments in the property market. However, we view this to be remote over the next one to two years. We may also lower the long-term rating if we believe CTBC Asset Management's importance to its parent group has weakened. The asset management company's significantly weaker earnings performance over the next two years would be evidence of such weakening.

Upward scenario

We may raise the long-term rating if the company's leverage remains very strong over the next two years as indicated by a ratio of debt to adjusted total equity consistently below 1.5x.

FCB Leasing Co. Ltd.

The ratings on FCB Leasing reflect our belief in implicit support for FCB Leasing from the company's financially stronger parent **First Financial Holding Co. Ltd.** (First FHC) group, based on our view that FCB Leasing is a strategically important member of the group. The ratings also reflect the company's very strong capitalization and adequate funding and liquidity supported by the group's resources. Counterbalancing factors include FCB Leasing's limited operating scale in Taiwan's finance and leasing industry and moderate risk position due to some single-name concentration.

Outlook

The stable rating outlook on FCB Leasing reflects the company's strategically important group status within the Taiwan-based First FHC group. We believe the group will provide support to FCB Leasing when needed. The outlook also reflects our view that the company will adopt a prudent growth strategy over the coming two years, particularly in China and ASEAN countries.

Downward scenario

We could lower the rating if FCB Leasing pursues more aggressive overseas business expansion in the next two years which increases the company's overall economic risk. We would also lower the rating if FCB Leasing's risk-adjusted capital (RAC) ratio drops below 15% over the same period

Upward scenario

We could raise the rating on FCB Leasing if the company expands its presence in the leasing industry while maintaining its profitability at about the industry average over the next two years.

First Financial Assets Management Co. Ltd. (First Financial AMC)

The ratings on First Financial AMC reflect our view that the company's financially stronger parent, First FHC group would provide support for the company in times of need. The ratings also reflect First Financial AMC's very strong capitalization and adequate funding and liquidity, which embeds our view of a degree of implied support from the group, given the subsidiary's importance. Counterbalancing these strengths are First Financial AMC's limited operating scale and relatively aggressive growth appetite.

Outlook

The stable rating outlook for First Financial AMC reflects the trend for the First FHC group, which is dominated by its banking arm, **First Commercial Bank Ltd.** We believe the asset management company will remain a strategically important entity within the overall group over the next two years. The outlook also reflects our view that First Financial AMC's stand-alone credit profile will remain stable with very strong capitalization over the same period.

Downward scenario

We may downgrade First Financial AMC if the company's stand-alone credit profile weakens, which may result from deterioration in its capitalization due to aggressive business expansion. A RAC ratio below 15% would indicate such deterioration.

Upward scenario

We may upgrade First Financial AMC if the company demonstrates material improvement in its operating scale while at the same time maintaining reasonable profitability. We could also upgrade the company if its importance to the parent group strengthens. This would be shown by a higher capital representation or profit contribution to the group; however, we believe this scenario to be remote over the rating horizon.

Hua Nan Assets Management Co. Ltd. (Hua Nan AMC)

The ratings on Hua Nan AMC reflect our view of likely strong support from the financially stronger parent group, based on our view that the asset management company is a strategically important member of **Hua Nan Financial Holdings Co. Ltd.** (Hua Nan FHC) 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.

Outlook

The stable rating outlook reflects our view that Hua Nan AMC will remain a strategically important entity within parent Hua Nan FHC group over the next two years. The outlook also reflects our assessment that Hua Nan AMC will maintain its strong capitalization through adequate risk controls, close oversight, and supportive capital management under the parent 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 ratio of debt to adjusted total equity 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 ratio of debt to adjusted total equity consistently below 1.5x over the next one to two years.

Mega Asset Management Co. Ltd.

The ratings on Mega Asset Management reflect the support from the company's parent **Mega Financial Holding Co. Ltd.** (Mega FHC) group, given the company's strategic importance to the group. The ratings also reflect the company's adequate capitalization and satisfactory profit record and asset quality, as well as adequate funding and liquidity supported by the group. Counterbalancing factors include the limited diversity of Mega Asset Management's revenue stream and the company's high business and risk concentration on property related business.

Outlook

The stable rating outlook for Mega Asset Management mainly reflects our view that the company will maintain its adequate capitalization through adequate risk controls, close oversight, and supportive capital management under the parent Mega FHC group. The outlook also reflects our view that Mega Asset Management will remain a strategically important group entity over the next two years.

Downward scenario

We may lower the long-term rating on Mega Asset Management if the company's capitalization weakens as shown by a RAC ratio consistently below 7%. This could result from aggressive growth or weakening earnings capacity, or if the company's asset quality deteriorates and unfavorable developments in the property development segment lengthen the company's return period resulting in significant losses. We may also lower the rating if we assess Mega Asset Management's importance to the parent group has weakened as evidenced by significantly weaker earnings performance over the next one to two years.

Upward scenario

We view the likelihood of an upgrade is remote over the next one to two years. However, we may raise the long-term rating if the company's capitalization improves to strong from adequate currently, as indicated by a RAC ratio consistently above 10% over the next one to two years. We may also upgrade Mega Asset Management if we consider the company's importance to the group has strengthened as indicated by a higher capital representation or profit contribution to the parent group.

Mega Bills Finance Corp.

The ratings on Mega Bills Finance mainly reflect the potential support from the parent Mega FHC group, given our assessment of Mega Bills Finance as a core subsidiary to its parent group. The ratings also reflect Mega Bills Finance's strong business stability, given its leading position in the domestic bills finance industry, as well as strong capitalization supported by the satisfactory quality of its capital and earnings and its prudent capital management. These strengths are somewhat offset by the company's asset-liability mismatch, given the nature of its business operations.

Outlook

The stable rating outlook on Mega Bills Finance reflects our view that the company will remain a core entity of the parent Mega FHC group. Therefore, the ratings on Mega Bills Finance will move in line with the group credit profile. In our view, Mega FHC group through its core banking unit, **Mega International Commercial Bank Co. Ltd.** (Mega Bank), will maintain a strong position in Taiwan's financial market and good funding profile. We also believe Mega Bank will maintain strong capitalization over the next two years.

On a stand-alone basis, Mega Bills Finance is likely to maintain its strong business position in the bills finance segment, as well as strong capital buffers with satisfactory quality of capital and earnings to help absorb market volatility in the coming one to two years.

Downward scenario

We could downgrade Mega Bills Finance if the parent group credit profile deteriorates, which could be driven by weakening in Mega Bank's strong business position or capitalization with a RAC ratio below 10% over the next one to two years.

Upward scenario

We could up[grade Mega Bills Finance if the group credit profile improves, supported by sustainable improvement in Mega Bank's RAC ratio to above 15%; however, we believe this is highly unlikely over the next one to two years, given the bank's business strategy.

SinoPac Leasing Corp.

The ratings on SinoPac Leasing reflect our view of very likely support from the financially stronger parent, **SinoPac Holdings** group. That's because we view SinoPac Leasing as a strategically important member of the parent group. The ratings also reflect SinoPac Leasing's very strong capitalization and adequate funding and liquidity, supported by the group's resources. Counterbalancing factors for the ratings include the company's smaller operating scale than local finance companies' and more aggressive risk appetite to grow in higher-risk countries overseas such as China and South and South East Asia.

Outlook

The negative rating outlook on SinoPac Leasing reflects the likelihood of capital pressure over the next two years as the company pursues high growth. At the same time, we anticipate SinoPac Leasing will maintain its near peer-average asset quality, despite the company's high growth strategy over the rating horizon. We also believe the parent group will provide the necessary support for the leasing company to maintain its credit profile.

Downward scenario

We could lower the rating if SinoPac Leasing's stand-alone credit profile weakens, possibly due to deterioration in its capitalization amid aggressive business growth or unexpected operating losses over the coming two years. We could also lower the rating if the group credit profile deteriorates under the scenario that the core banking subsidiary is unable to maintain its strong capitalization.

Upward scenario

We could revise the outlook to stable if SinoPac Leasing maintains its capital buffer at a very strong level over the coming two years. We could also revise the outlook to stable if SinoPac Leasing's business position improves together with a track record of earnings stability and satisfactory asset quality as the company achieves its growth target.

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - December 09, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology - December 09, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- General Criteria: Principles Of Credit Ratings - February 16, 2011

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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.