

Media Release:

MasterLink Securities Corp. Outlook Revised To Stable From Negative; Ratings Affirmed At 'twA+/twA-1' On Group Support

May 30, 2022

Overview

- The ratings and outlook on MasterLink Securities move in tandem with the direction of the parent group credit profile due to the company's highly strategic role in the group.
- We have revised the rating outlook on key units of the Shin Kong group to stable from negative to reflect the parent group's stabilized financial risk profile. We also affirmed the ratings on these units (see related research).
- We have therefore revised the rating outlook on MasterLink Securities to stable from negative.
- At the same time, we affirmed our 'twA+' long-term and 'twA-1' short-term issuer credit ratings on MasterLink Securities to reflect our view that the company's overall credit worthiness continues to benefit from the financially stronger parent group despite the company's weakening stand-alone credit profile. MasterLink Securities' capitalization has weakened to strong from very strong previously amid the company's rapid business expansion under a bullish market.

Rating Action

Taiwan Ratings Corp. today revised its rating outlook on **MasterLink Securities Corp.** to stable from negative. At the same time, we affirmed our 'twA+' long-term and 'twA-1' short-term issuer credit ratings on the company.

Rationale

The outlook revision reflects our recent outlook revision on the parent **Shin Kong Financial Holding Co. Ltd.** (Shin Kong FHC) group following our assessment of the group's stabilized financial risk profile.

Similar, we affirmed our ratings on MasterLink Securities following similar action on the key units of the Shin Kong FHC group because we believe the broker's overall credit worthiness could benefit from the support of its financially stronger parent group. We expect the parent group to provide timely and sufficient financial support to MasterLink Securities based on its high strategic group status.

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We have lowered our capital assessment for MasterLink Securities to strong from very strong. This reflects the negative impact on the company's capital strength from the intermittent increase in its equity related trading position during rapid expansion of its brokerage business in Taiwan. This weakening is indicated by the broker's risk adjusted capital ratio, which has hovered at 13%-14% in the 24 months up to the end of 2021. We believe the broker's management team will maintain a similar investment appetite for trading over the next two years under its strategy to enhance earnings. As a result, we believe it will be difficult for MasterLink Securities to improve and consistently maintain its risk adjusted capital ratio above 15%, which is the level we define as very strong capitalization. This is despite the company's record-high earnings in 2021, amid favorable stock market sentiment. We believe the company's use of earnings to enhance its capitalization is not sufficient to support the growth in its risk assets, given the company's likely high cash dividend payout ratio of 60%-70%.

Outlook

The stable rating outlook on MasterLink Securities mirrors the trend of the stand-alone credit profile of the group's flagship subsidiary, **Shin Kong Life Insurance Co. Ltd.**, which reflects our view that the insurer will continue to dominate the group's credit profile over the next one to two years. On a stand-alone basis, we expect MasterLink Securities to control the volatility of its investment portfolio and loss experience to sustain strong capitalization over the next two years. We also expect MasterLink Securities to remain a highly strategic unit within the parent group.

Downward scenario

We may lower the long-term rating on MasterLink Securities if:

- The group credit profile weakens due to Shin Kong Life's weakened credit profile; or
- MasterLink 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 capitalization.

Upward scenario

We could raise the rating on MasterLink Securities if the parent group improves its overall credit profile, or we reclassify MasterLink Securities as core to the wider group. This would require the securities firm to increase its contribution to the group in terms of earnings and shareholders' equity.

Related Criteria & Research

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Dec 09 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology, Dec 09 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct 10 2021
- General Criteria: Group Rating Methodology, Jul 01 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, Jun 25 2018

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- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, Jul 20 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, Apr 07 2017
- General Criteria: Principles Of Credit Ratings, Feb 16 2011

Related Research

- Taiwan Ratings' Ratings Definitions – August 10, 2020
- Media Release: Shin Kong FHC, Shin Kong Life Outlooks Revised To Stable From Negative On Sustained Financial Buffer; Ratings Affirmed – May 30, 2022

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

Ratings List

Affirmed; Outlook Revised

	To	From
MasterLink Securities Corp.		
Issuer Credit Rating	twA+/Stable/twA-1	twA+/Negative/twA-1

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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