Media Release:

CTBC Venture Capital Co. Ltd. Downgraded To 'twA/twA-1' On Weakening Credit Profile; Outlook Stable

September 29, 2022

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Overview

- We believe CTBC Venture Capital's risk adjusted leverage has heightened as the company continues to fund its private equity investment through borrowing.
- The capitalization of the company's leasing business in China has also weakened under a high growth rate.
- We have therefore lowered our issuer credit rating on CTBC Venture Capital to 'twA/twA-1' from 'twA+/twA-1'.
- The rating outlook is stable to reflect our view that CTBC Venture Capital will maintain its stand-alone credit profile at the current level over the next one to two years .

Rating Action

Taiwan Ratings Corp. today lowered its issuer credit rating on **CTBC Venture Capital Co. Ltd.** to 'twA/twA-1' from 'twA+/twA-1'. The outlook on the long-term rating is stable.

Rationale

The downgrade action reflects our assessment that the credit profile of the company's venture capital business has weakened when viewed under various stress scenarios. This weakening has resulted from higher risk-adjusted leverage and lower liquidity coverage. CTBC Venture Capital has mostly funded its expanding private equity portfolio through short-term wholesale funding, which resulted in a ratio of stressed assets to recourse liabilities of only 0.92x as of March 31, 2022. This compares with 1.05x as of March 31, 20221. Under our base case, we compare the ability of the stressed assets to cover total recourse liabilities under a moderate stress level.

At the same time, we believe the venture capital business is exposed to relatively higher foreign exchange risk due to its overseas investment. These factors support our assessment of the venture capital business's overall risk-adjusted leverage as very weak compared with weak previously.

We view CTBC Venture Capital's very strong funding base as a rating strength for the venture capital business, which partly offsets the company's very weak liquidity profile. This is because of CTBC Venture Capital's stable and permanent capital base that is entirely composed of equity, along with ample liquidity in the domestic capital market and ongoing support from the financially stronger parent group. However, the company's reliance on short-term borrowing to fund non-listed equity holdings, which have been consistently around 60% of the venture capital investments, have constrained the liquidity of its investment portfolio. This short-term funding may not be entirely rolled over in times of stress, which deepens the risk to CTBC Venture Capital's liquidity.

This downgrade also reflects our view that capitalization of the company's leasing business, CTBC Leasing Co. Ltd., will likely weaken amid the company's higher growth appetite that could continue over the next few years. CTBC Leasing is CTBC group's China-based leasing business booked under CTBC Venture Capital. For 2021, CTBC Leasing reported around 40% growth in assets, which was much higher than under our previous expectation and has significantly weakened its capital strength. The leasing company's ultimate parent, CTBC Financial Holding Co. Ltd. (CTBC FHC) group injected Chinese renminbi (RMB) 206 million in capital into the business in March 2022. However, CTBC Leasing's high business growth targets are likely to drive down its risk adjusted capital ratio to a level we assess as adequate for its business operations over the next few years.

The ratings on CTBC Venture Capital also reflect our view that the company will maintain its strategic import role within the CTBC group, which would provide a degree of financial support to the venture capital firm, if needed.

Outlook

The stable rating outlook reflects our expectation that CTBC Venture Capital will maintain its stand-alone credit profile over the next one to two years. Several factors support this, including the adequate capital strength of its leasing subsidiary, the good business diversification and well managed investment disciplines of its venture capital business, and prudent risk control framework which is highly integrated with the parent group.

The outlook also reflects our expectation that CTBC Venture Capital will remain a strategically important subsidiary of the parent group and the CTBC group credit profile will remain unchanged over the next one to two years.

Downward scenario

We could lower the long-term rating on CTBC Venture Capital if the diversification and well managed investment disciplines of the company's venture capital business weakens. We may also downgrade CTBC Venture Capital if the capital strength of its leasing subsidiary weakens beyond our current expectation, which may result from rapid business expansion that exposes the company to higher risks than we currently expect.

Upward scenario

We believe there is a limited likelihood that we would raise the rating on CTBC Venture Capital over the next one to two years. This would require the company improving the its risk-adjusted leverage of its venture capital business materially and sustainably.

Related Criteria & Research

Related Criteria

- Criteria | Financial Institutions | Other: Alternative Investment Funds Methodology - December 09, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - October 10, 2021
- 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

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

Downgraded; Outlook

	To	From
CTBC Venture Capital Co. Ltd.		
Issuer credit rating	twA/Stable/twA-1	twA+/Stable/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.