

Media Release:

Taiwan Cooperative Securities Co. Ltd. Ratings Affirmed At 'twAA-/twA-1+' On Highly Strategic Status; Outlook Stable

January 18, 2023

Overview

- We assess Taiwan Cooperative Securities' capitalization has weakened to strong from very strong previously, due to the high volatility of its investment portfolio.
- Nevertheless, we assess the broker's overall stand-alone credit profile (SACP) remains unchanged, supported by adequate revenue diversification and a strong capital buffer compared to similar size brokers in Taiwan.
- We have affirmed the 'twAA-/twA-1+' issuer credit ratings on Taiwan Cooperative Securities, given the company is a highly strategic group member under the parent, Taiwan Cooperative FHC group. Therefore, the ratings on Taiwan Cooperative Securities will move in tandem with the direction of the parent group credit profile.
- The rating outlook remains stable and follows the same direction as our outlook for the group.

Rating Action

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

Rationale

The rating affirmation reflects our view that Taiwan Cooperative Securities remains a highly strategic entity of the wider Taiwan Cooperative FHC group. We believe there is strong likelihood that **Taiwan Cooperative Financial Holdings Co. Ltd.** (Taiwan Cooperative FHC) group would provide timely support to the securities subsidiary under almost all circumstances. The ratings also reflect the broker's weakening, albeit still-strong capitalization. The company's investment portfolio is more sensitive to economic conditions than other domestic brokers that continuously weigh on the company's capitalization. These conditions include the COVID-19 pandemic and recent interest rate hikes.

The company's risk-adjusted capital (RAC) ratio after dividend payout has hovered between 12% and 14% since 2020. We believe Taiwan Cooperative Securities faces difficulty to significantly refine its risk control framework over the next two years such that this would improve the RAC ratio back above 15% - the level we define as very strong capitalization. This is despite the company's supportive capital policy to withhold most of its earnings.

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However, we assess the broker's SACP remains unchanged on a holistic basis relative to its peers. In our view, Taiwan Cooperative Securities' SACP is comparable to other similar size small brokers, supported by the broker's adequate revenue diversification and a strong capital buffer. As a result, we believe the SACP is unchanged despite the company's weakening capitalization from very strong in recent years.

Outlook

The ratings on Taiwan Cooperative Securities will move in tandem with the direction of the parent group credit profile, given the broker's highly strategic status within the group. The stable outlook on Taiwan Cooperative Securities reflects our outlook on the parent group credit profile. We assess that on a stand-alone basis, Taiwan Cooperative Securities will maintain strong capitalization over the next one to two years, although its business scale is unlikely to improve substantially over the same period amid stiff industry competition.

Downside scenario

We may lower the long-term rating if:

- The company's importance to the group declines significantly over the next two years. This could result from the broker's consistently weak performance or a significantly deteriorated position in the local securities market; or
- The group credit profile deteriorates substantially, although we view this to be remote over the next one to two years, considering the group's prudent capital policies.

Upside scenario

We may raise the long-term rating if we reclassify Taiwan Cooperative Securities as a core entity to the wider group. This would require the company to make a significant increase in its contribution to the group in terms of earnings and shareholders' equity; however, we believe this is relatively remote over the next two years.

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings - June 25, 2018
- 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
- 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
- General Criteria: Principles Of Credit Ratings - February 16, 2011
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, Fri Apr 07 2017

Related Research

- Taiwan Ratings' Ratings Definitions – November 11, 2021

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

Ratings List

Ratings Affirmed

Taiwan Cooperative 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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