

Media Release:

Ratings On Hua Nan Assets Management Co. Ltd. Affirmed At 'twA+/twA-1'; Outlook Stable

June 1, 2023

Overview

- We have lowered our assessment of Hua Nan AMC's capital and earnings to adequate from strong. The change reflects Hua Nan AMC's higher debt leverage over the past few quarters than we previously forecast and the company's plan to maintain high asset growth for the next two years.
- Nonetheless, we view that Hua Nan AMC's stand-alone credit profile remains unchanged, supported by its comparative strengths with other smaller fincos, including the company's extensive experience and expertise in urban renewal development, and resilient operating track record.
- We have affirmed our 'twA+' long-term and 'twA-1' short-term issuer credit ratings on Hua Nan AMC.
- The stable rating outlook reflects our view that Hua Nan AMC will continue to benefit from support from the parent group, if needed, and our forecast that the subsidiary will maintain its adequate capitalization.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA+' long-term and 'twA-1' short-term issuer credit ratings on **Hua Nan Assets Management Co. Ltd.** (Hua Nan AMC). The outlook on the long-term rating is stable.

Rationale

The rating affirmation reflects our view that Hua Nan AMC's overall stand-alone credit profile remains unchanged, supported by the company's extensive experience and expertise in urban renewal development and resilient operating track record. This is despite our downward revision to the company's capital and earnings assessment to adequate from strong. We made this revision based on Hua Nan AMC's higher debt leverage than we previously forecast and the company's asset growth plan with concentration on real estate development over the next two years.

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Business growth and concentration on real estate exposure has led to increased leverage. Hua Nan AMC continued to expand its asset base in 2022, which primarily focused on real estate, despite declining earnings amid lower disposal gains over the same period. The company will continue to increase its asset holdings despite a likely earnings decrease due to slower property disposals in response to a new tax code on property sales. The new tax code, effective from July 1, 2021, imposes higher tax rates on disposal gains if the property holding period is shorter than five years. This will consequently increase Hua Nan AMC's leverage, because the company's target asset growth is likely funded by debt leverage. We expect Hua Nan AMC's leverage to remain at 300%-400% over the next two years, compared with 318% at the end of 2022. This equates with an assessment of adequate capital under S&P Global Ratings definition of leverage as total debt divided by adjusted total equity.

In our view, Hua Nan AMC's extensive experience and expertise in urban renewal development makes it one of the leading players in this field among the asset management companies in Taiwan. Hua Nan AMC's urban renewal business also benefits from its close integration with Hua Nan Commercial Bank Ltd. and related cross-selling. Moreover, Hua Nan AMC has demonstrated growing fee-related income and a resilient operating track record. These comparative strengths help to maintain its stand-alone credit profile despite its weakened capitalization, in our opinion.

The ratings on Hua Nan AMC also reflect our view of likely strong support from the financially stronger parent Hua Nan Financial Holdings Co. Ltd. (Hua Nan FHC) group, based on our view that the asset management company is a strategically important member of the parent group. The ratings also reflect Hua Nan AMC's adequate capitalization, the company's limited operating scale in Taiwan's finance and leasing industry, and moderate risk position due to its business and risk concentration on the 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 adequate capitalization, expertise in urban renewal development, and resilient operating performance which provides a buffer against property market volatility.

Downside 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 4.5x. This could result from overly aggressive growth or deteriorating earnings due to a slowing property market; or
- Hua Nan AMC loses its relative competitiveness in urban renewal development or fails to maintain resilient operating performance.

Upside scenario

We view the likelihood of an upgrade as remote, considering Hua Nan AMC's business growth strategy for the next two years.

Related Criteria & Research

Related Criteria

- General Criteria: Group Rating Methodology - July 01, 2019
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- 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
- 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

Ratings Affirmed

Hua Nan Assets Management Co. Ltd.

Issuer Credit Rating	twA+/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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