

Media Release:

CTBC Venture Capital Co. Ltd. Ratings Affirmed At 'twA/twA-1'; Outlook Stable

September 14, 2023

Overview

- We assess CTBC Venture Capital's funding profile has weakened, due to the company's increased reliance on short-term wholesale funding over the past two years.
- Conversely, we assess the company's liquidity has strengthened, supported by increasing income sources including dividends and management fees.
- We have affirmed our issuer credit rating on CTBC Venture Capital at 'twA/twA-1'.
- The rating outlook remains stable to reflect our view that CTBC Venture Capital will maintain its credit profile and remain a strategically important group member under the CTBC FHC group.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA' long-term and 'twA-1' short-term issuer credit rating on **CTBC Venture Capital Co. Ltd.** The outlook on long-term rating remains stable.

Rationale

The ratings on CTBC Venture Capital mainly reflect the adequate capital strength of the company's leasing subsidiary, good diversification, and well-managed investment discipline.

The ratings also reflect the potential financial support from its parent **CTBC Financial Holding Co. Ltd.**, if needed, given the subsidiary's strategically important group role. However, we assess CTBC Venture Capital has weak stressed leverage, and weak liquidity according to our quantitative cash flow testing, which somewhat offsets the rating strengths.

CTBC Venture Capital's funding profile has weakened over the last two years. We have lowered our assessment of the funding profile to adequate from strong. This reflects CTBC Venture Capital's increased reliance on short-term wholesale funding sources as its funding source, namely commercial paper, for its investment portfolio. We view this funding source as more volatile and with higher uncertainty in times of financial or market stress, which increases potential risk for the stability and diversity of the funding profile. At the end of March 2023, commercial papers accounted for around 30% of the source to fund CTBC Venture Capital's total assets, with the rest comprised of common equity.

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The liquidity profile has improved to weak from very weak. In contrast with the funding profile, we have raised our assessment of the company's liquidity profile, amid a gradual increase in income sources over the past year. Specifically, the new income sources include fund management fee income from funds raised and managed by CTBC Venture Capital since Q2 2022, as well as dividend income from the company's investment portfolio. We believe such potential income sources can somewhat offset the company's liquidity risk, despite these income sources are somewhat unpredictable and have only a short historical record, which is why we exclude from our quantitative cash-flow testing.

We continue to view CTBC Venture Capital will maintain its strategic importance group status to CTBC Financial Holding Co. Ltd. (CTBC FHC) group, which would provide financial support to the venture capital firm when needed.

Outlook

The stable rating outlook reflects our view that CTBC Venture Capital will maintain its stand-alone credit profile over the next one to two years. Several factors support this. These include 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 that's highly integrated with the parent group.

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

Downward scenario

We could lower the long-term rating on CTBC Venture Capital if:

- The well-diversified investment portfolio and good investment management discipline of the venture capital business weaken; or
- The capital strength of its leasing subsidiary weakens beyond our current forecast, which may result from rapid business expansion or significantly weaker asset quality than we predict over the next one to two years.

Upward scenario

We could raise the rating on CTBC Venture Capital if the company materially and sustainably improves the risk-adjusted leverage of its venture capital business. At the same time, the consolidated credit profile of CTBC Venture Capital--including both the venture capital and leasing arms--would have to improve.

Related Criteria & Research

Related Criteria

- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - December 09, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Financial Institutions | Other: Alternative Investment Funds Methodology - December 09, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology - December 09, 2021
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023
- 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: 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

CTBC Venture Capital 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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