

Media Release:

Cathay Securities Corp. Upgraded To 'twAA' On Improved Business Stability; Outlook Stable

September 26, 2023

Overview

- We assess the overall credit profile of Cathay Securities has strengthened, supported by its strengthened business profile.
- We now evaluate Cathay Securities' business position as stronger than previously, and comparable to the domestic industry average, underpinned by the broker's improving business stability.
- We therefore raised our long-term issuer credit ratings to 'twAA' from 'twAA-' and affirmed the 'twA-1+' short-term issuer credit ratings on Cathay Securities.
- The rating outlook is stable to reflect our view that the parent Cathay FHC group would provide Cathay Securities with financial support, if needed, given the company's highly strategic role within the group.

Rating Action

Taiwan Ratings Corp. today raised its long-term issuer credit rating on **Cathay Securities Corp.** to 'twAA' from 'twAA-'. The outlook is stable. At the same time, we affirmed the 'twA-1+' short-term issuer credit ratings on the securities company.

Rationale

The upgrade reflects our assessment of Cathay Securities' strengthened stand-alone credit profile relative to other domestic securities brokers. This largely reflects our view of Cathay Securities' improved business stability. We still view Cathay Securities as a highly strategic subsidiary with an important platform and outlet for its parent, **Cathay Financial Holding Co. Ltd.** (Cathay FHC) group. However, we assess the broker's overall credit profile is now closer to those of other affiliates with core group status.

Cathay Securities now ranks among the top five brokers in Taiwan and has a 4% share of the brokerage market on the mainboard of the Taiwan Stock Exchange as of June 2023. We also see stronger strategic alignment between the securities subsidiary and the overall Cathay FHC group. We believe this will give the group strong incentive to support this wholly owned securities subsidiary, despite Cathay Securities' still-small contribution to the group's total equity and profits.

The business profile has nudged close to the domestic industry average, despite Cathay Securities' still-developing non-brokerage business. The company has been the leading broker in

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Taiwan's sub-brokerage business segment since 2015. This couples with Cathay Securities improved scale in lower-risk domestic stock brokerage business, which has increased Cathay Securities' business stability. The broker's profitability remained relatively stable during market volatility in 2022 and we expect Cathay Securities to keep its market position and stable profit on par with other medium size integrated brokers in Taiwan over the next two years.

Outlook

The ratings on Cathay Securities will move in tandem with the direction of the parent Cathay FHC group's consolidated credit profile. We base this view on the securities company's highly strategic role within the group's business strategy over the next 12-24 months. The stable rating outlook on Cathay Securities mirrors the trend of the stand-alone credit profile of the group's flagship subsidiary, **Cathay Life Insurance Co. Ltd.** because we believe the insurer will continue to dominate the group credit profile over the same period. On a stand-alone basis, we believe Cathay Securities will control the volatility of its investment portfolio and loss experience to sustain strong capitalization over the next two years.

Downward scenario

We may lower the long-term issuer credit rating on Cathay Securities if:

- The group credit profile weakens due to Cathay Life's weakened credit profile; or
- Cathay Securities' importance to the group declines significantly over the next two years, which could result from the company's consistently weak performance or significantly deteriorated market position.

Upward scenario

We could raise the rating on Cathay Securities if the group credit profile improves. We could also raise the rating if we reclassify Cathay Securities as a core unit within the wider group. This would require Cathay Securities to increase its contribution to the group significantly in terms of earnings and shareholders' equity, although we believe this is unlikely over the next two years.

Related Criteria & Research

Related Criteria

- General Criteria: National And Regional Scale Credit Ratings Methodology, Jun 08 2023
- 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
- 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 – November 11, 2021

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

Ratings List

Upgraded

	To	From
Cathay Securities Corp.		
Issuer Credit Rating	twAA/Stable/twA-1+	twAA-/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.

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