

Media Release:

# Taishin D.A. Finance Outlook Revised To Negative On Capitalization Pressure; 'twA+/twA-1' Ratings Affirmed

October 30, 2023

## Overview

- Taishin D.A. Finance Co. Ltd. will have a lower anchor and a one-in-three possibility of lower capitalization after its planned acquisition of the group's China leasing subsidiary, in our view. The finance company (finco) segment has higher economic risks in China than in Taiwan.
- We revised the business position of the Taiwan-based finance company to moderate from constrained to reflect a larger scale and greater geographical diversification after the acquisition. This tempers the downward revision in our assessment of the company's anchor.
- We continue to view Taishin D.A. Finance as a strategically important entity of **Taishin Financial Holding Co. Ltd.** The group will provide financial support to the company if needed, in our view.
- We revised the outlook on our long-term rating on Taishin D.A. Finance to negative from stable. At the same time, we affirmed the 'twA+' long-term and 'twA-1' short-term issuer credit ratings on the company.
- The negative rating outlook reflects the pressure on Taishin D.A. Finance's capitalization over the next two years, given its increasing China exposure after the acquisition.

## Rating Action

Taiwan Ratings Corp. today revised its outlook on the long-term rating on Taishin D.A. Finance to negative from stable. At the same time, we affirmed our 'twA+' long-term and 'twA-1' short term issuer credit ratings on the company.

## Rationale

The outlook revision on Taishin D.A. Finance reflects our view that it will have increased exposure to the finance segment in China, which has higher economic risk than in Taiwan. This follows the company's planned acquisition of Taishin Financial Leasing (China) Co. Ltd. (Taishin Leasing China) by end-2023. Capital pressure will also rise on a consolidated basis. Partially tempering this will be an improved business position from a larger operating scale and greater geographical diversification, post-acquisition.

**The anchor for Taishin D.A. Finance's consolidated book could drop to 'bb' from 'bb+' due to the company's increasing exposure to China's finco segment.** Our 'bb' anchor for the company reflects: (1) its business as a finco; (2) China's weighting on its consolidated book after the acquisition; and (3) the Financial Supervisory Commission's supervision through its parent holding

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company. We estimate Taishin Leasing China will account for 40%-50% of Taishin D.A. Finance's consolidated assets on a pro-forma basis.

**Taishin D.A. Finance's capitalization may succumb to pressure from its higher exposure to the China market.** We currently assess the company's capital and earnings as very strong but see a one-in-three possibility that the company will fail to sustain this strength after it fully acquires Taishin Leasing China. While parent Taishin International Bank Co. Ltd. will inject capital into Taishin D.A. Finance to help fund the acquisition, we do not think the injection will be sufficient to cover the higher economic risk from operating in China. China will contribute nearly half of Taishin D.A. Finance's consolidated balance sheet after the acquisition.

We will assess the risk-adjusted capital (RAC) ratio of Taishin D.A. Finance on a consolidated basis after the acquisition. This is given the company's full ownership of Taishin Leasing China, the high contributions of its Chinese operation to the consolidated book, as well as Taishin D.A. Finance's high commitment to maintaining the financial strength of its China subsidiary.

Taishin D.A. Finance had stand-alone assets of new Taiwan dollar (NT\$) 12.9 billion as of end-December 2022. Taishin Leasing China had stand-alone assets of NT\$14.6 billion. In our view, Taishin D.A. Finance's operating scale will significantly improve after the acquisition. The company will also have better geographical diversification that tempers our downward revision of its anchor.

**Taishin D.A. Finance remains a strategically important entity of Taishin Financial Holding.** We consider Taishin D.A. Finance to be strategically important to the group. The company complements the group's core banking operation by serving small and mid-sized corporates, and retail clients whom the group sees as strategic fits.

Taishin Financial Holding directly owns the leasing subsidiary through Taishin International Bank Co. Ltd. The entities also have closely-linked reputations and brand names. This is despite the small contributions of Taishin D.A. Finance and Taishin Leasing China to the group's total assets as of end-2022, at about 1% collectively.

## Outlook

The negative rating outlook on Taishin D.A. Finance reflects the pressure on the company to maintain very strong capitalization over the next two years, given its increasing China exposure after the acquisition. At the same time, we anticipate the consolidated asset quality will not largely deviate from the current level. Furthermore, we believe the parent group will provide support to Taishin D.A. Finance in case of need.

### Downward scenario

We may lower the long-term rating on Taishin D.A. Finance if:

- Our assessment of its SACP weakens, as indicated by a consolidated RAC ratio consistently below 15% over the next two years, or if the company's asset quality deteriorates to consistently below the domestic industry average.
- The overall group credit profile weakens; or
- The importance of Taishin D.A. Finance to the parent group weakens.

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## Upward scenario

We may revise the outlook on Taishin D.A. Finance back to stable if we believe the company can sustain a consolidated RAC ratio above 15% or it can demonstrate better consolidated asset quality than similarly-rated peers.

## Related Criteria & Research

### Related Criteria

- General Criteria: Group Rating Methodology - July 1, 2019
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 8, 2023
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - Dec. 9, 2021
- Criteria | Financial Institutions | General: Financial Institutions Rating Methodology - Dec. 9, 2021
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings - Oct. 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 7, 2017
- General Criteria: Principles Of Credit Ratings - Feb. 16, 2011

### Related Research

- Taiwan Ratings' Ratings Definitions – Nov. 11, 2021

(Unless otherwise stated, these articles are published on [www.taiwanratings.com](http://www.taiwanratings.com))

## Ratings List

### Ratings Affirmed; Outlook Revision

|                                      | To                  | From              |
|--------------------------------------|---------------------|-------------------|
| <b>Taishin D.A. Finance Co. Ltd.</b> |                     |                   |
| Issuer Credit Ratings                | twA+/Negative/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](http://www.taiwanratings.com) for further information. Complete ratings information is available to subscribers of Rating Research Service at [rrs.taiwanratings.com.tw](http://rrs.taiwanratings.com.tw). All ratings affected by this rating action can be found on Taiwan Ratings' public website at [www.taiwanratings.com](http://www.taiwanratings.com).

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