

Media Release:

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

September 25, 2024

Overview

- Under our holistic assessment, CTBC Venture Capital's risk-adjusted leverage has improved under the company's revised short-term investment strategy, with risk-adjusted leverage unlikely to change noticeably over the next year.
- We believe this improved leverage assessment is more supportive of the company's stand-alone credit strengths, which are now more comparable with its close rated international peers. As such, we no longer apply a comparable rating analysis in our assessment of CTBC Venture Capital's stand-alone credit profile (SACP).
- We affirmed our 'twA' long- and 'twA-1' short-term issuer credit ratings on CTBC Venture Capital.
- The rating outlook remains stable. This reflects our view that our assessment of CTBC Venture Capital's SACP will remain unchanged over the next year along with our adequate assessment for the leasing subsidiary's capitalization.

Rating Action

Taiwan Ratings Corp. today affirmed its 'twA' long- and 'twA-1' short-term issuer credit ratings 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 capitalization of its leasing subsidiary, good diversification, and well-managed investment discipline for its venture capital portfolio. However, the company's moderate stressed leverage, high reliance on short-term wholesale funding, and weak liquidity under our quantitative cash flow testing, somewhat offset its credit strengths.

CTBC Venture Capital's risk-adjusted leverage has improved which is likely to sustain over the next year. We have raised our assessment of the company's risk-adjusted leverage to weak from very weak to reflect our view of an improved stressed leverage ratio with more idling cash on hand following the regular disposal of its investment portfolio. The improved risk-adjusted leverage benefits from slower growth in the firm's investment portfolio over the past year, and full earnings retention.

PRIMARY CREDIT ANALYST

Eric Lin
Taipei
+886-2-2175-6830
eric.lin
@spglobal.com
eric.lin
@taiwanratings.com.tw

SECONDARY CONTACT

Yuhan Lan
Taipei
+886-2-2175-6810
yuhan.lan
@spglobal.com
yuhan.lan
@taiwanratings.com.tw

In addition, we view the management team is more conservative over the acquisition of new investments amid the bullish capital market. We believe CTBC Venture Capital can maintain this improved risk-adjusted adjusted leverage over the coming year. However, we believe the company's overall investment strategies remain unchanged because the venture capital firm will pursue continuous growth in the investment portfolio over the long term.

Removal of the comparable rating analysis has no impact on the SACP. When compared to its close international rated peers, our assessment of the venture capital company's SACP now fully reflects its stand-alone credit strengths following the improvement in risk-adjusted leverage. This means we no longer need to apply a comparable rating analysis in our assessment of CTBC Venture Capital's SACP. Our view of the company's improved risk-adjusted leverage has no impact on the company's SACP because there have been no significant changes to its long-term investment strategies, risk appetite, or funding and liquidity structures.

The ratings continue to reflect the company's role within the parent CTBC FHC group. The ratings on CTBC Venture Capital reflect our view that the company will maintain its strategic importance to the parent **CTBC Financial Holding Co. Ltd.** (CTBC FHC) group, and our view that the group would provide financial support to the venture capital firm, if needed, over the next 12 months.

Outlook

The stable rating outlook reflects our view that CTBC Venture Capital will maintain its SACP over the next one to two years. Several factors support this view. These include the adequate capital strength of its leasing subsidiary, the good business diversification and well-managed investment discipline over its venture capital business, and prudent risk control framework that is highly integrated with parent group.

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

Downward scenario

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

- The stand-alone credit profile of the venture capital business deteriorates. This might be due to weakening diversification or an over-aggressive investment strategy; or
- The capital strength of the leasing subsidiary weakens beyond our current forecast, which may result from rapid business expansion that exposures the company to higher risks than we currently assume.

Upward scenario

We could raise the rating on CTBC Venture Capital if:

- A change in investment strategy at its venture capital business helps to improve the risk-adjusted leverage materially and sustainably. This could result from more conservative expansion in its investment portfolio over the next two years; or
- The leasing subsidiary's capital strength improves sustainably because of lower growth than we forecast for the next two years.

Related Criteria & Research

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - April 30, 2024
- Criteria | Financial Institutions | Other: Alternative Investment Funds Methodology - August 30, 2024
- 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: 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
- General Criteria: National And Regional Scale Credit Ratings Methodology - June 08, 2023

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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