

Media Release:

Ratings On First Financial Assets Management Co. Ltd. Affirmed At 'twA+/twA-1' On Group Support; Outlook Stable

September 26, 2024

Overview

- First Financial AMC's growth appetite in the cyclical real estate sector has weakened its capitalization. We have therefore lowered our assessment of the company's capitalization to strong from very strong previously.
- We affirmed our 'twA+' long-term and 'twA-1' short-term issuer credit ratings on First Financial AMC. This reflects our view of continuing support for the company's overall credit profile from the financially stronger parent group.
- The rating outlook remains stable and follows the direction of our outlook on the overall group.

Rating Action

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

Rationale

The rating affirmation reflects our view that First Financial AMC's overall credit worthiness will continue to benefit from the financial support of its parent group. We believe the **First Financial Holding Co. Ltd.** (First FHC) group will provide resource support for the subsidiary, as required. This is because we view the asset management subsidiary as a strategically important unit within the parent group. The ratings on First Financial AMC also reflect the company's weakening, albeit strong capitalization.

We believe First Financial AMC's capital strength will hover between 14%-15% under the company's business growth plans in the cyclical real estate industry over the next one to two years. That's according to our measure of capital strength using our risk-adjusted capital (RAC) ratio after dividend payout. The ratio was 19% in 2023 and 21.4% in 2022. We anticipate the management team will maintain a similar growth appetite in Taiwan's property market over the next two years to achieve its financial targets. As a result, we believe it will be difficult for First Financial AMC to maintain the RAC ratio above 15%, which is the level we define as very strong capitalization.

In our assessment, the company's use of earnings to enhance capitalization is insufficient to support its likely growth in cyclical risk assets, given the company's likely high cash dividend payout ratio of 90% over the next one to two years.

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Asset quality remains satisfactory along with superior capital strength relative to similar rated domestic peers, despite First Financial AMC's smaller scale. These, coupled with the potential support of the financially stronger parent group support our unchanged assessment of First Financial AMC's overall credit worthiness. We also believe its credit profile is comparable with other 'twA+' rated peers despite the company's weakened capitalization.

Outlook

The stable rating outlook on First Financial AMC reflects the trend for the First FHC group credit profile, which is dominated by its banking arm. We believe the asset management company will remain a strategically important entity within the overall group over the next two years. The outlook also reflects our view that First Financial AMC will maintain strong capitalization relative to risk exposure over the next two years.

Downward scenario

We may lower the rating on First Financial AMC if we lower our assessment of the company's stand-alone credit profile. This may result from deterioration in capitalization due to aggressive business expansion. The RAC ratio below 10% would indicate such deterioration.

Upward scenario

We may raise the rating on First Financial AMC if:

- The company consistently maintains the RAC ratio above 15%; or
- The company's importance to the parent group strengthens. A higher capital representation or profit contribution to the group could indicate such improvement; however, we believe this scenario to be remote over the rating horizon.

Related Criteria & Research

Related Criteria

- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, Apr 30 2024
- 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
- 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

Ratings Affirmed

First Financial 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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