

Media Release

Outlook On Capital Securities Co. Ltd. Revised To Stable From Negative On Restored Funding And Liquidity Profile; 'twA/twA-1' Ratings Affirmed

June 17, 2019

Overview

- Capital Securities has restored its funding and liquidity matrix by reducing its bond holding portfolio, which was funded mainly through short-term borrowing and repurchase agreements.
- We are therefore revising our rating outlook on Capital Securities to stable from negative to reflect our view that the restored funding and liquidity profile could support the company's credit profile at the current level.
- We are affirming our 'twA' long-term and 'twA-1' short-term issuer credit ratings on Capital Securities.

Rating Action

Taiwan Ratings Corp. today revised its rating outlook on **Capital Securities Co. Ltd.** to stable from negative. At the same time, we affirmed our 'twA' long-term and 'twA-1' short-term issuer credit ratings on Capital Securities.

Rationale

The outlook revision reflects our expectation that Capital Securities will maintain its funding and liquidity profile at an adequate level through active management of its key credit metrics including a gross stable funding ratio (GSFR) above 90% and liquidity coverage metric (LCM) above 0.9x over the next two years. As of the end of 2018, the company's GSFR and LCM had increased to 134% and 1.27x, respectively, up from 98% and 0.94x, at the end of 2017. This improvement in key funding and liquidity metrics is mainly due to a reduction by more than half in the company's overseas bond portfolio in 2018. Capital Securities has also managed its funding and liquidity risk by increasing its committed bank facility. At the same time, the company has lengthened its short-term wholesale funding duration and maintained a good credit quality portfolio.

Capital Securities ranks fifth in the domestic brokerage business with a market share of 4.4% as of the end of 2018. The company reported return on equity of 5% in 2018, down from 10% in 2017, mainly due to a bearish stock market in the fourth quarter of 2018. We continue to view the company as having very strong capitalization. The company's risk-adjusted capital ratio strengthened as of the end of 2018, supported by the lower holding of bonds and equities for trading purposes, given the unfavorable market conditions during the year.

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The ratings on Capital Securities continue to reflect our view of the company's very strong capitalization and its stable business position in the domestic securities market. Counterbalancing these strengths is the company's revenue concentration in Taiwan's stock market, which results in more volatile earnings compared with that of its international peers. Capital Securities' high reliance on wholesale funding also tempers the aforementioned strengths.

Outlook

The stable outlook reflects our expectation that Capital Securities will adopt an adequate financial policy to manage its funding and liquidity matrix and maintain its very strong capital through the pursuit of a prudent growth strategy over the next one to two years. We also believe the company's earnings are likely to remain volatile and in line with the industry average, with a high reliance on Taiwan's stock market. Nonetheless, we believe Capital Securities will maintain its earnings quality and capacity, dominated by stable brokerage fee income and interest from margin lending.

Downward scenario

We may lower the long-term rating on Capital Securities if the firm is unable to maintain its funding risks at an adequate level or its liquidity ratio at an adequate-low level over the coming two years. We may also lower the rating on Capital Securities if the company's capital and earnings deteriorate amid aggressive risk taking or a change in the firm's risk appetite.

Upward scenario

Conversely, we may raise the rating on Capital Securities if the company is able to meaningfully diversify its business and strengthen its market position, while demonstrating above-average stable earnings compared to its peers'.

Related Criteria & Research

Related Criteria

- Understanding Taiwan Ratings' Rating Definitions, www.taiwanratings.com - June 26, 2018
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings - April 07, 2017
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology - July 20, 2017
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology - December 09, 2014
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- General Criteria: Group Rating Methodology - November 19, 2013

Related Research

- Capital Securities Co. Ltd. Outlook Revised To Negative On Weakening Funding And Liquidity Profile; Ratings Affirmed, www.taiwanratings.com, June 12, 2017

(Unless otherwise stated, these articles are published on www.standardandpoors.com, access to which requires a registered account)

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Capital Securities Co. Ltd.		
Issuer Credit Ratings	twA/Stable/twA-1	twA/Negative/twA-1

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