



## Fitch Revises Outlook on Eight Taiwanese Securities Firms to Negative; Affirms Ratings

Fitch Ratings - Taipei/Hong Kong/Shanghai - 24 March 2020:

Fitch Ratings has revised the Outlook on eight Taiwanese securities companies to Negative from Stable and has affirmed their Issuer Default Ratings and National Ratings.

The companies affected are Oriental Securities Corporation, Concord Securities Co., Ltd., Grand Fortune Securities Co., Ltd. (GFS), Shin Kong International Securities Co., Ltd. (SKIS), Ta Ching Securities Co., Ltd., Tachan Securities Co., Ltd, Horizon Securities Co., Ltd. and CL Securities Taiwan Company Limited (CLST).

The Outlook revision reflects heightened uncertainty in the operating environment arising from the coronavirus pandemic. It also reflects the associated pressure on the companies' earnings and profitability amid potential proprietary trading losses arising from increased capital market volatility as well as lower revenue generation from brokerage activities.

The affirmation reflects Fitch's view that the companies have adequate capital buffers to withstand the immediate shock brought about by the pandemic.

### Key Rating Drivers

The ratings of the eight entities are based on their modest company profiles; namely, their small market franchise in a global context with limited business diversification. However, the ratings also incorporate their consistently low use of leverage and Fitch's expectation of their ability to maintain adequate capital buffers and liquidity through market shocks.

All eight securities companies had modest use of leverage as of end-1H19, within a range of 1x-3x net tangible leverage, providing sound capital buffer against market disruption given their simple business models. In addition, the risk of high reliance on wholesale funding, particularly in repo transactions for those with larger fixed-income positions, are mitigated by sufficient liquidity coverage for short-term funding and high credit-quality fixed-income collateral, mostly in the forms of Taiwanese government bonds and investment-grade private-sector bonds.

GFS, SKIS, Oriental and Concord are rated higher than the other four entities. GFS has demonstrated an ability to sustain a competitive underwriting business franchise backed by expertise and a strong pipeline. SKIS' continued strength in electronic brokerage and competitive cost structure has supported its superior profitability. Oriental has a large equity base committed by the Far Eastern group and its franchise also benefits from being part of the group. Concord's rating is driven by its diversified business model and large operating scale.

CLST and Horizon are rated at the lowest level among the peer group. CLST's ratings are constrained by a high reliance on its business partner and largest client, CLSA Limited, and a short record of sustained profitability after the management buyout in late 2016. Horizon's ratings are based on the prospect of weaker and volatile profitability as well as its more modest franchise and higher risk appetite for trading.











## RATING SENSITIVITIES













Rating upgrades for all eight entities are less probable in light of the current environment in addition to their modest franchises.

The Negative Outlook reflects increased potential for losses from proprietary trading and pressure on brokerage revenue in the medium term. Rating downgrades could arise from unexpected trading losses from higher-than-expected exposure to market risk, credit losses due to margin financing activity and a prolonged drop in brokerage revenue generation that weakens capital and funding positions. A weakening in franchise strength as a result of an inability to navigate current conditions would also lead to negative rating action.

In addition, rating pressure for Concord could come from an inability to improve the quality and stability of its earnings through broader product offerings. The ratings of Shin Kong and CLST could come under pressure if the companies were exposed to operational challenges amid the coronavirus pandemic that undermined business continuity, given their more narrowly focused business models.

### RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR
Tachan Securities Co., Ltd	LT IDR BB  Affirmed	BB 
	ST IDR B Affirmed	B
	Natl LT BBB+(tw)  Affirmed	BBB+(tw) 
	Natl ST F2(twn) Affirmed	F2(twn)
Horizon Securities Co., Ltd.	Natl LT BBB(twn)  Affirmed	BBB(twn) 
	Natl ST F3(twn) Affirmed	F3(twn)
Grand Fortune Securities Co., Ltd.	Natl LT A-(tw)  Affirmed	A-(tw) 
	Natl ST F1(twn) Affirmed	F1(twn)
Oriental Securities Corporation	LT IDR BB+  Affirmed	BB+ 
	ST IDR B Affirmed	B

	Natl LT A-(tw)  Affirmed	A-(tw) 
	Natl ST F1(twn) Affirmed	F1(twn)
Ta Ching Securities Co., Ltd.	Natl LT BBB+(tw)  Affirmed	BBB+(tw) 
	Natl ST F2(twn) Affirmed	F2(twn)
CL Securities Taiwan Company Limited	Natl LT BBB(twn)  Affirmed	BBB(twn) 
	Natl ST F2(twn) Affirmed	F2(twn)
Concord Securities Co., Ltd.	LT IDR BB+  Affirmed	BB+ 
	ST IDR B Affirmed	B
	Natl LT A-(tw)  Affirmed	A-(tw) 
	Natl ST F2(twn) Affirmed	F2(twn)
Shin Kong International Securities Co., Ltd.	Natl LT A-(tw)  Affirmed	A-(tw) 
	Natl ST F2(twn) Affirmed	F2(twn)

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

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## **Applicable Criteria**

National Scale Ratings Criteria (pub. 18 Jul 2018)  
Non-Bank Financial Institutions Rating Criteria (pub. 28 Feb 2020)  
Short-Term Ratings Criteria (pub. 06 Mar 2020)

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