

Capital Securities Corporation

Key Rating Drivers

Stable Operating Environment: Fitch Ratings expects Taiwan's resilient economy and prudent regulatory oversight to underpin stable operating conditions for the securities industry, despite global economic headwinds and capital market volatility. Stable interest rates and investor interest in technology-sector securities led to a 15% increase in equity-market average daily turnover in 9M23 from the level in 2022.

Capital-market activity also recovered during the year, with a pick-up in corporate bond issuance that more than offset weakness in equity financing. Fitch expects further improvements in corporate financing demand, as we forecast Taiwan's GDP growth to accelerate to 2.8% in 2024 from 1.0% in 2023, although equity-market turnover will depend on investor sentiment.

Established Franchise: Capital Securities Corporation's (Capital Securities) ratings are underpinned by its established and stable stockbroking franchise in Taiwan, together with an adequate capital profile. Nevertheless, the dependence of its business model on more volatile capital-market activities constrains its ratings compared with other larger and more diversified financial holding companies in Taiwan.

Variable Return Profile: The company's earnings recovered in 1H23. Its annualised operating profit/average equity improved to 6.4%, from 1.3% in 2022, due to better trading income. The slowdown in US interest-rate hikes and buoyant investor interest in technology securities in 1H23 supported better capital-market sentiment and the company's trading performance.

Nonetheless, Fitch expects Capital Securities' return profile to remain volatile in the medium term, like that of peers. A global economic slowdown and sustained geopolitical tension will continue to weigh on capital-market performance in 2024, although a tapering in the US interest-rate hike cycle could support the performance of fixed-income portfolio investments.

Adequate Capitalisation: We expect Capital Securities to maintain an adequate capital buffer, with broadly steady leverage commensurate with its rating level. The company's net tangible leverage was 6.0x at end-1H23, slightly up from 5.4x at end-2022, mainly because of higher settlement-related assets and a larger investment position amid better capital-market sentiment in 1H23. Nonetheless, regulatory capital requirements in Taiwan should help ensure that securities firms hold sufficient capital against potential market shocks.

Reliance on Wholesale Funding: Capital Securities is exposed to funding market volatility, like industry peers, due to its reliance on wholesale funding and use of repos for short-term funding for its bond investments. It manages the associated risks by maintaining adequate underlying collateral against its repo transactions, mainly in government, financial institution and corporate bonds with adequate credit quality.

Adequate Liquidity Coverage: We consider Capital Securities' liquid asset buffer to be sufficient relative to potential near-term liquidity needs. Liquid assets are mostly unrestricted cash and investments in listed equities and high-quality fixed-income securities.

Ratings

Foreign Currency

Long-Term IDR BBB-

National Rating

National Long-Term Rating A(twn)
National Short-Term Rating F1(twn)

Sovereign Risk

Long-Term Foreign-Currency IDR AA
Long-Term Local-Currency IDR AA
Country Ceiling AAA

Outlooks

Long-Term Foreign-Currency IDR Stable
National Long-Term Rating Stable
Sovereign Long-Term Foreign-Currency IDR Stable
Sovereign Long-Term Local-Currency IDR Stable

Applicable Criteria

[Non-Bank Financial Institutions Rating Criteria \(May 2023\)](#)

[National Scale Rating Criteria \(December 2020\)](#)

Related Research

[Global Economic Outlook – September 2023 \(September 2023\)](#)

[Taiwan Securities Sector: Healthy Balance Sheets Underpin Sector Outlook \(April 2023\)](#)

Analysts

Rowena Chang
+886 2 8175 7602
rowena.chang@fitchratings.com

Carol Liu
+86 21 6898 8001
carol.liu@fitchratings.com

Rating Sensitivities

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

Capital Securities' ratings would face downward pressure if intense market competition leads to a sustained deterioration in its market position, or if its business growth starts to entail greater risk-taking or weakens its capital, funding or liquidity buffers materially.

The ratings are sensitive to an increased appetite for risk, in particular, higher balance-sheet exposure to market risk or greater revenue sensitivity from trading activities. Operational or risk-management lapses that result in unexpected substantial losses and place pressure on the capital position would also be credit negative.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

Improved business diversity and earnings quality – such as increased earnings contribution from segments with more stable and recurring income streams – would be positive for the ratings. A stronger market position in stock brokerage, approaching those of the top-three industry participants, together with stronger profitability due to efficiencies of scale, would also be credit positive.

Ratings Navigator

Capital Securities Corporation								ESG Relevance: 	NBFI Ratings Navigator	
Sector Risk Operating Environment	Business Profile	Management & Strategy	Risk Profile	Financial Profile				Implied Standalone Credit Profile	Standalone Credit Profile	Issuer Default Rating
				Asset Quality	Earnings & Profitability	Capitalisation & Leverage	Funding, Liquidity & Coverage			
	25%	10%	10%	10%	10%	15%	20%	aaa	aaa	AAA
								aa+	aa+	AA+
								aa	aa	AA
								aa-	aa-	AA-
								a+	a+	A+
								a	a	A
								a-	a-	A-
								bbb+	bbb+	BBB+
								bbb	bbb	BBB
								bbb-	bbb-	BBB- Sta
								bb+	bb+	BB+
								bb	bb	BB
								bb-	bb-	BB-
								b+	b+	B+
								b	b	B
								b-	b-	B-
								ccc+	ccc+	CCC+
								ccc	ccc	CCC
								ccc-	ccc-	CCC-
								cc	cc	CC
								c	c	C
								d or rd	d or rd	D or RD

Adjustments

The funding, liquidity and coverage score has been assigned below the implied score for the following adjustment reason: funding flexibility (negative).

Environmental, Social and Governance Considerations

FitchRatings Capital Securities Corporation NBF1 Ratings Navigator

Credit-Relevant ESG derivation
Capital Securities Corporation has 5 ESG potential drivers.

- Capital Securities Corporation has exposure to fair lending practices; pricing transparency; repossession/foreclosure/collection practices; consumer data protection; legal/regulatory fines stemming from any of the above but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

ESG Relevance to Credit Rating	Frequency	Issues
5	0	Issues
4	0	Issues
3	5	Issues
2	3	Issues
1	6	Issues

Environmental (E) Relevance Scores

General Issues	E Score	Sector-Specific Issues	Reference	E Relevance
GHG Emissions & Air Quality	1	Regulatory risks, emissions fines or compliance costs related to owned equipment, which could impact asset demand, profitability, etc.	Sector Risk Operating Environment	5
Energy Management	1	Investments in or ownership of assets with below-average energy/fuel efficiency which could impact future valuation of these assets	Risk Profile	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk profile & management; catastrophe risk; credit concentrations	Business Profile; Asset Quality	1

How to Read This Page
ESG relevance scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant to the credit rating and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the ESG general issues and the sector-specific issues that are most relevant to each industry group. Relevance scores are assigned to each sector-specific issue, signaling the credit-relevance of the sector-specific issues to the issuer's overall credit rating. The Criteria Reference column highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis. The vertical color bars are visualizations of the frequency of occurrence of the highest constituent relevance scores. They do not represent an aggregate of the relevance scores or aggregate ESG credit relevance.

The Credit-Relevant ESG Derivation table's far right column is a visualization of the frequency of occurrence of the highest ESG relevance scores across the combined E, S and G categories. The three columns to the left of ESG Relevance to Credit Rating summarize rating relevance and impact to credit from ESG issues. The box on the far left identifies any ESG Relevance Sub-factor issues that are drivers or potential drivers of the issuer's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the relevance score. All scores of '4' and '5' are assumed to reflect a negative impact unless indicated with a '+' sign for positive impact.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI), the Sustainability Accounting Standards Board (SASB), and the World Bank.

Social (S) Relevance Scores

General Issues	S Score	Sector-Specific Issues	Reference	S Relevance
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	3	Fair lending practices; pricing transparency; repossession/foreclosure/collection practices; consumer data protection; legal/regulatory fines stemming from any of the above	Sector Risk Operating Environment; Risk Profile; Asset Quality	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile; Management & Strategy; Earnings & Profitability; Capitalisation & Leverage; Funding, Liquidity & Coverage	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	2	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core activities	Business Profile; Earnings & Profitability	1

Governance (G) Relevance Scores

General Issues	G Score	Sector-Specific Issues	Reference	G Relevance
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal/compliance risks; business continuity; key person risk; related party transactions	Management & Strategy	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Management & Strategy	2

CREDIT-RELEVANT ESG SCALE
How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/topics/esg/products#esg-relevance-scores.

Financials

Income Statement

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20
	6 months - interim (USDm) Audited - unqualified	6 months - interim (TWDm) Audited - unqualified	Year end (TWDm) Audited - unqualified	Year end (TWDm) Audited - unqualified	Year end (TWDm) Audited - unqualified
Total revenues	165	5,151.5	7,172.5	12,053.5	8,731.7
Operating profit	41	1,267.9	537.5	5,320.3	3,252.2
Pretax income	81	2,513.8	1,846.1	6,227.5	4,382.7
Net income	77	2,412.4	1,179.0	5,461.6	3,840.7
Exchange rate		USD1 = TWD31.135	USD1 = TWD30.708	USD1 = TWD27.69	USD1 = TWD28.508

Source: Fitch Ratings, Fitch Solutions, Capital Securities

Balance Sheet

	30 Jun 23			31 Dec 22		31 Dec 21		31 Dec 20	
	6 months - interim (USDm)	6 months - interim (TWDm)	As % of Assets	Year end (TWDm)	As % of Assets	Year end (TWDm)	As % of Assets	Year end (TWDm)	As % of Assets
Assets									
Total cash and cash equivalents	2,572	80,077.9	35.5	76,545.8	39.9	74,986.8	36.8	60,351.2	37.0
Securities under agreements to resell	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities available for sale	740	23,029.2	10.2	16,407.5	8.6	18,352.3	9.0	20,950.6	12.8
Securities held to maturity	166	5,167.8	2.3	3,268.8	1.7	0.0	0.0	0.0	0.0
Securities owned (trading securities)	1,833	57,069.7	25.3	42,583.6	22.2	45,607.8	22.4	35,379.8	21.7
Receivables from brokers, dealers & clearing org's	381	11,871.4	5.3	5,289.6	2.8	10,726.4	5.3	10,533.3	6.5
Receivables from customers	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net loans	604	18,811.8	8.3	16,360.4	8.5	23,465.6	11.5	17,310.3	10.6
Other receivables	114	3,555.2	1.6	1,012.5	0.5	1,219.6	0.6	674.1	0.4
Total other assets	843	26,248.5	11.6	30,148.6	15.7	29,335.4	14.4	17,863.4	11.0
Total assets	7,253	225,831.4	100.0	191,616.6	100.0	203,693.9	100.0	163,062.6	100.0
Liabilities and equity									
Total short-term funding	2,092	65,149.3	28.8	42,105.6	22.0	48,831.6	24.0	41,236.4	25.3
Total long-term funding	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total other liabilities	3,854	119,996.0	53.1	110,819.9	57.8	113,388.8	55.7	83,151.5	51.0
Total equity	1,307	40,686.0	18.0	38,691.1	20.2	41,473.6	20.4	38,674.7	23.7
Total liabilities and equity	7,253	225,831.4	100.0	191,616.6	100.0	203,693.9	100.0	163,062.6	100.0
Exchange rate		USD1 = TWD31.135		USD1 = TWD30.708		USD1 = TWD27.69		USD1 = TWD28.508	

Source: Fitch Ratings, Fitch Solutions, Capital Securities

Summary Analytics

	30 Jun 23 6 months - interim	31 Dec 22 Year end	31 Dec 21 Year end	31 Dec 20 Year end
Operating profit/average equity (%)	6.4	1.3	13.3	8.7
ROAA (%)	2.3	0.6	3.0	2.6
ROAE (%)	12.2	2.9	13.6	10.3
Net adjusted leverage (x)	6.0	5.4	5.3	4.5
Assets/equity (x)	5.6	5.0	4.9	4.2
Total capital ratio (%)	363.0	401.0	358.0	429.0
(Liquid assets + undrawn committed facilities)/short-term funding (%)	138.1	173.6	172.3	174.9
Long-term funding/illiquid assets (%)	76.1	80.2	95.1	135.0

Source: Fitch Ratings, Fitch Solutions, Capital Securities

SOLICITATION & PARTICIPATION STATUS

For information on the solicitation status of the ratings included within this report, please refer to the solicitation status shown in the relevant entity's summary page of the Fitch Ratings website.

For information on the participation status in the rating process of an issuer listed in this report, please refer to the most recent rating action commentary for the relevant issuer, available on the Fitch Ratings website.

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.fitchratings.com/understandingcreditratings>. In addition, the following <https://www.fitchratings.com/rating-definitions-document> details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at <https://www.fitchratings.com/site/regulatory>. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.

Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

Copyright © 2023 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved.