

KGI Securities Co. Ltd.

Key Rating Drivers

Parental Support: The ratings of KGI Securities Co. Ltd. are driven by Fitch Ratings' expectation of a high probability of shareholder support from China Development Financial Holding Corporation (CDF), whose credit profile is based on the credit strength of its main subsidiary, KGI Life Insurance Co., Ltd. (Insurer Financial Strength: A/AA+(tw)/Stable).

The ratings are underpinned by CDF's obligation to provide support to the securities subsidiary, as stipulated in Taiwan's Financial Holding Company Act. Fitch believes any required support would be manageable relative to the parent's ability to provide it. In addition, a default by KGI Securities would carry considerable reputational risk to the group, due to shared branding with other key group subsidiaries.

Strong Parental Linkage: KGI Securities' solid franchise in the Taiwanese brokerage sector complements the group's financial service solutions. The parent uses KGI Securities' robust client base and resources to drive group-wide synergies, as evident from increased cross-selling and shared resources. These boost operational efficiency and service quality. KGI Securities shares its brand with its sister companies, including KGI Life and KGI Bank Co. Ltd. There is a high level of integration with the parent group in terms of risk management, liquidity and capital planning.

Moderate Asset Quality: Fitch assesses KGI Securities' asset quality as adequate, with sound hedging and risk-management mechanisms. The company did not have credit losses from margin lending in 2020-2023. Furthermore, it maintains a moderate risk appetite in its investment book. Most of its bond holdings are in government and investment-grade private-sector bonds.

Variable Earnings: Operating income/average equity reached 5.1% in 2023, from 3.2% in 2022, on better equity market turnover and investment sentiment. Fitch expects the company's return profile to remain volatile in the medium term, in line with that of peers. A global economic slowdown and sustained geopolitical tension will continue to weigh on capital-market performance in 2024, although any tapering in US interest rates could support the performance of the fixed-income portfolio.

Healthy Liquidity: KGI Securities has demonstrated a prudent funding and liquidity profile over the past few years. It tends to rely on short-tenor funding, like most local peers, but this is offset by liquid assets that consistently exceed its short-term obligations. The majority of liquid assets are held in government and high-grade corporate bonds; its liquidity coverage ratio has been healthy, exceeding 160% for the last four years. KGI Securities has shifted part of its funding structure towards more diversified sources, including the issuance of subordinated debt.

Adequate Capital Profile: Net tangible leverage eased to 7.7x by end-2023, from 7.9x a year earlier, reflecting an increase in shareholders' equity. The company's leverage is slightly above the rated-peer average, due to its higher settlement-related assets and more significant client margin business. Nonetheless, we believe the capital position is adequate relative to balance-sheet risks in light of its established credit- and market-risk mitigation policies. Its regulatory capital-adequacy ratio of 291% also remains comfortably above minimum requirements.

Ratings

National Rating

National Long-Term Rating	AA-(tw)
National Short-Term Rating	F1+(tw)

Sovereign Risk

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

Outlooks

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

Applicable Criteria

[Corporates Recovery Ratings and Instrument Ratings Criteria \(October 2023\)](#)

[Non-Bank Financial Institutions Rating Criteria \(January 2024\)](#)

[Corporate Hybrids Treatment and Notching Criteria \(November 2020\)](#)

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

Related Research

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

[APAC Securities Firms Outlook 2024 \(November 2023\)](#)

[Taiwan's Enhanced ETF Oversight to Contain Market, Counterparty Risks \(March 2024\)](#)

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Rating Sensitivities

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

A deterioration in CDF's credit profile would lead to negative rating action on KGI Securities, assuming Taiwan's National Rating scale correspondence remains unchanged. Negative developments for CDF's credit profile may include a deterioration in KGI Life's credit profile, as denoted by its Insurer Financial Strength Rating and Issuer Default Rating (IDR), or an increasing exposure to subsidiaries with weaker financial profiles that could place a burden on the holding company's consolidated credit profile. For details on KGI Life's rating drivers and sensitivities, see [Fitch Affirms KGI Life's IFS Rating of 'A'; Outlook Stable](#).

Fitch may also consider negative rating action if there is a sustained and significant reduction in CDF's liquid assets and liquidity facilities, which could adversely affect CDF's ability to support its subsidiary.

A reduction in CDF's inclination to back KGI Securities could also lead to negative rating action. This may be signalled by a diminishing role for KGI Securities in the group, or weakening integration, shareholding or control. However, we do not expect these changes to occur in the near term, and would consider the reputational implications from shared branding and the holding company's regulatory support obligations in such a scenario.

Fitch will also assess KGI Securities' credit profile relative to that of domestic peers when considering negative action on the National Ratings.

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

The National Long-Term Rating could be upgraded in the event of an improvement in CDF's credit profile, which may be driven by an upgrade of KGI Life's IFS Rating and Long-Term IDR, or a long-term strengthening in CDF's financial structure, exemplified by a Fitch-defined double leverage ratio sustained below 120%. Fitch will also consider KGI Securities' credit profile relative to the Taiwanese national-rating universe.

There is no upside to the National Short-Term Rating, as it is already at the highest point on its scale.

Debt Ratings

Debt Ratings: KGI Securities Co. Ltd.

Rating level	Rating
Subordinated	A+(EXP)

Source: Fitch Ratings

KGI Securities' proposed Taiwan-dollar unsecured subordinated bond is rated one notch below the issuer's National Long-Term Rating to reflect the instrument's higher loss-severity risk relative to senior unsecured obligations. Additional notching has not been applied due to a lack of going-concern loss-absorption and equity conversion features. Fitch applies the Corporate Hybrids Treatment and Notching Criteria and Corporates Recovery Ratings and Instrument Ratings Criteria to this assessment, in line with its approach for other APAC securities firms.

Debt Rating Sensitivities

The expected National Long-Term Rating on the proposed subordinated bond is sensitive to changes in KGI Securities' National Long-Term Rating. Any action on KGI Securities' National Long-Term Rating would result in similar rating action on the subordinated bond.

Financials

Income Statement

	31 Dec 2023		31 Dec 2022	31 Dec 2021	31 Dec 2020
	Year end				
	(USDm)	(TWDm)	(TWDm)	(TWDm)	(TWDm)
	Audited - unqualified				
Net operating income	672.3	20,664.6	16,324.5	27,310.8	21,127.8
Operating profit	93.9	2,885.0	2,016.8	10,521.4	6,316.9
Pre-tax profit	264.0	8,114.2	4,454.7	14,553.3	9,474.4
Net income	239.0	7,346.4	3,630.2	12,936.2	8,722.2
Exchange rate		USD1 = TWD30.735	USD1 = TWD30.708	USD1 = TWD27.69	USD1 = TWD28.508

Source: Fitch Ratings, Fitch Solutions, KGI Securities

Balance Sheet

	31 Dec 2023			31 Dec 2022		31 Dec 2021		31 Dec 2020	
	Year end (USDm)	Year end (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	2,479.6	76,210.9	17.9	93,688.8	24.6	67,639.5	16.8	70,529.3	17.6
Securities under agreements to resell	427.6	13,142.6	3.1	8,488.0	2.2	13,702.7	3.4	13,610.0	3.4
Securities owned (trading securities)	2,751.8	84,575.8	19.9	76,244.7	20.0	79,159.8	19.6	81,739.9	20.4
Other assets	4,689.4	144,128.8	33.9	139,313.7	36.6	155,955.6	38.7	146,011.3	36.4
Total receivables	3,480.5	106,974.2	25.2	63,335.2	16.6	86,730.8	21.5	89,005.1	22.2
Total assets	13,828.9	425,032.3	100.0	381,070.4	100.0	403,188.4	100.0	400,895.6	100.0
Liabilities and equity									
Total short-term borrowing	4,036.2	124,052.7	29.2	98,221.9	25.8	77,519.6	19.2	99,870.8	24.9
Deposits	0.0	-	0.0	-	0.0	-	0.0	-	0.0
Total other funding	7,649.3	235,099.8	55.3	220,729.4	57.9	245,427.2	60.9	224,946.0	56.1
Long-term debt	205.0	6,300.0	1.5	8,900.0	2.3	8,900.0	2.2	4,200.0	1.1
Total equity	1,938.5	59,579.8	14.0	53,219.0	14.0	71,341.6	17.7	71,878.8	17.9
Total liabilities and equity	13,828.9	425,032.3	100.0	381,070.4	100.0	403,188.4	100.0	400,895.6	100.0
Exchange rate		USD1 = TWD30.735		USD1 = TWD30.708		USD1 = TWD27.69		USD1 = TWD28.508	

Source: Fitch Ratings, Fitch Solutions, KGI Securities

Summary Analytics

	31 Dec 2023	31 Dec 2022	31 Dec 2021	31 Dec 2020
	Year end	Year end	Year end	Year end
Operating income/average equity (%)	5.1	3.2	14.7	8.9
ROAA (%)	1.8	0.9	3.2	2.4
ROAE (%)	13.0	5.8	18.1	12.2
Total capital ratio (%)	291.0	297.4	371.7	282.4
Liquid assets/short-term funding (%)	161.7	187.3	228.3	180.5
Long-term funding/illiquid assets (%)	55.4	55.5	58.6	63.5

Source: Fitch Ratings, Fitch Solutions, KGI Securities

SOLICITATION & PARTICIPATION STATUS

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