

Research Update:

China Development Financial Holding Corp. And Subsidiaries Upgraded On Strengthened Group Credit Profile, Outlook Stable

May 26, 2021

Overview

- In our view, CDFHC group's acquisition of an absolute majority shareholding in Taiwan-domiciled China Life Insurance is now a core subsidiary and the dominant contributor to the group credit profile.
- We also believe that China Life's credit profile has stabilized with improved capitalization to buffer against potential market volatility and foreign exchange risks.
- We have raised our issuer credit ratings on CDFHC and its subsidiaries given our assessment of the group's strengthened credit profile.
- The outlook on the ratings is stable to reflect our view that China Life's overall credit profile will remain stable with satisfactory capital and earnings over the next one to two years.

Rating Action

On May 26, 2021, S&P Global Ratings raised its issuer credit ratings on Taiwan-based China Development Financial Holding Corp. (CDFHC) and subsidiaries, as well as our issue credit ratings on their various debt issues.

The affected ratings are:

- China Development Financial Holding Corp. to 'BBB/Stable/A-2' from 'BBB-/Positive/A-3',
- KGI Bank to 'BBB+/Stable/A-2' from 'BBB/Positive/A-2',
- KGI Securities Co. Ltd. to 'BBB+/Stable/A-2' from 'BBB/Positive/A-2',
- KGI Asia Ltd. to 'BBB+/Stable/A-2' from 'BBB/Positive/A-2', and
- KGI International (Hong Kong) Ltd. to 'BBB/Stable/A-2' from 'BBB-/Positive/A-3'.

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Rationale

The upgrades reflect our view that the CDFHC group credit profile has improved following its acquisition of an absolute majority shareholding in financially stronger Taiwan-based China Life Insurance Co. Ltd.

We now view the life insurer as a core operating unit and the dominant contributor to the group credit profile. China Life makes up over 65% of the group's consolidated assets, 54% of net worth, and contributes over 50% of profits as of end of March 2021. China Life's satisfactory operating track record has strengthened the group's business position and revenue diversification, in our view. We believe the franchise linkage, potential resource sharing, and cross selling activities between China Life with other group members will increase over time and enable the group to report average operating performance in comparison to other insurance centric financial groups in Taiwan.

CDFHC group's credit strength has improved following the acquisition of the life insurer which could allow the group to lower its financial leverage gradually over the next two years. China Life's credit profile remains solid and supported by improved capitalization to buffer against potential market volatility and foreign exchange risks.

CDFHC funded the acquisition through a combination of self-funding and leverage including debt issue and bank borrowing. As of the end of March 2021, the company's double leverage ratio has increased to 121%, as we expected after the acquisition. The ratio is likely to decline after the group repays some of its debt using proceeds from the sale of its head office building in January 2021. The asset disposal brought about new Taiwan dollar (NT\$) 8 billion. In addition, we believe the capitalization of two of the group's key operating units, KGI Bank and KGI Securities Co. Ltd., will remain strong. These units are unlikely to require capital injections from the group over the next one to two years.

The long-term rating on the holding company is one notch lower than that on the group's core entities to reflect the holding company's relative subordination. CDFHC's directly controls multiple key operating units including banking and securities, which consistently contribute over 40% of the group's consolidated equity. We lower the long-term rating by only one notch due to limited regulations in Taiwan restricting cash-flows between group members or between insurance units and holding companies that would otherwise result in a wider notching between the holding company rating and the group's credit profile.

Outlook

The stable outlook on CDFHC and its subsidiaries reflects our view that China Life, as a core operating unit, will dominate the overall group credit profile. Therefore, the ratings on the various group units will move in tandem with ratings on China Life.

The outlook also reflects our view that China Life's overall credit profile will remain stable with satisfactory capital and earnings over the next one to two years. At the same time, we believe the group will register an industry average operating performance and its key subsidiaries sustain their current capitalization over the same period.

Downside scenario

We could downgrade CDFHC and its subsidiaries if we believe that China Life's credit profile has

weakened. We could also downgrade CDFHC and its subsidiaries if the group's operating performance weakens to materially below that of similar-rated peer financial holding groups in Taiwan.

Upside scenario

We consider the likelihood of an upgrade of CDFHC and its subsidiaries to be relatively limited over the next one to two years.

Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Insurance | General: Insurers Rating Methodology, July 1, 2019
- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- Criteria | Financial Institutions | General: Nonbank Financial Institutions Rating Methodology, Dec. 9, 2014
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011
- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Insurance | General: Refined Methodology And Assumptions For Analyzing Insurer Capital Adequacy Using The Risk-Based Insurance Capital Model, June 7, 2010

Ratings List

Upgraded; Outlook Action

	To	From
China Development Financial Holding Corp.		
Issuer Credit Rating	BBB/Stable/A-2	BBB-/Positive/A-3
KGI International (Hong Kong) Ltd.		
Issuer Credit Rating	BBB/Stable/A-2	BBB-/Positive/A-3

Upgraded; Outlook Action; Ratings Affirmed

	To	From
KGI Asia Ltd		
Issuer Credit Rating	BBB+/Stable/A-2	BBB/Positive/A-2
KGI Bank		
KGI Securities Co. Ltd.		
Issuer Credit Rating	BBB+/Stable/A-2	BBB/Positive/A-2

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