

Capital Securities Corporation

Key Rating Drivers

Established Securities Franchise: Capital Securities Corporation's (Capital Securities) ratings are driven by its stable and well-established franchise, along with an adequate capital profile. The company is Taiwan's largest independent full-service securities firm, with a 3.5%-4.0% share of domestic brokerage turnover and strong positions in underwriting, warrant issuance, and futures and options brokerage. However, reliance on volatile capital-market activities limits its ratings relative to larger and more diversified financial holding companies in Taiwan.

Stable Operating Environment: Fitch anticipates that Taiwan's steady economic growth prospects and prudent regulatory oversight will sustain stable operating conditions for the securities industry, despite global economic headwinds and market volatility.

Strong investor interest in the technology sector has boosted equity market activity in 2024, with robust equity financing demand and the stock market's average daily turnover surging by 51% in the first nine months of 2024 compared with all of 2023. This was nonetheless offset by a decline in corporate bond issuance amid higher domestic financing costs. Equity market activity should moderate in 2025, but continued domestic economic growth and companies' expansion outside of China should bolster Taiwanese corporate financing demand in 2025.

Improved but Variable Profitability: Fitch expects Capital Securities' return profile to remain volatile in the medium term, similar to its peers, due to its reliance on transaction-related and trading income. Capital Securities' earnings improved in 1H24, with annualised operating profit/average equity rising to 8.3% from 7.0% in 2023, as robust equity market turnover boosted brokerage-related and trading profit.

Earnings in 2025 are likely to moderate as domestic equity market turnover eases from record levels in 2024. However, US and domestic interest rate cuts could bolster the performance of its fixed-income portfolio.

Rising Leverage: Capital Securities' net tangible leverage increased to 8.2x by end-1H24 from 6.1x at end-2023, driven by higher trade settlement and financing receivables, and expanded investment positions. Notwithstanding this, we expect local regulatory capital requirements and the company's strict collateral maintenance ratios and risk limits to ensure it has adequate capital to withstand potential market shocks.

Short-Term Wholesale Funding Reliance: Capital Securities is exposed to funding-market volatility due to its reliance on short-term wholesale funding, including the use of repos to finance its bond investments. That said, the company manages liquidity risks in its repo financing by maintaining adequate collateral, primarily in government, financial institution, and high-quality corporate bonds.

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 \(January 2024\)](#)

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

Related Research

[Taiwanese Securities Firms Resilient Against Market Volatility \(November 2024\)](#)

[Global Economic Outlook \(September 2024\)](#)

[Taiwan Securities Firms See Strong Profits, but Risk Rises amid Volatile Capital Market \(October 2024\)](#)

[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

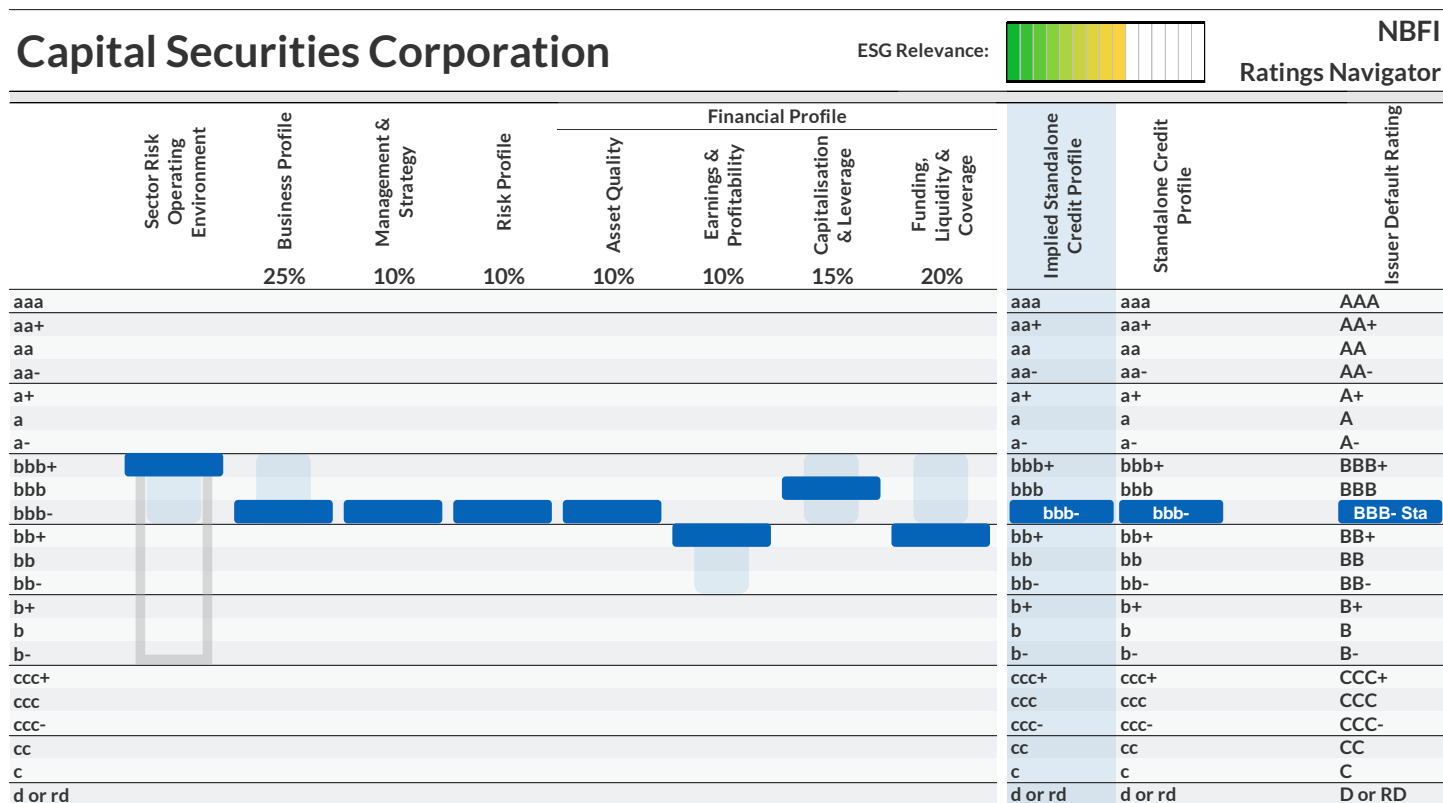
Capital Securities' ratings could face downward pressure if intense market competition leads to a sustained deterioration in its market position, and if an increased risk appetite leaves its capital position more vulnerable to capital-market volatility, such that net adjusted leverage exceeds 10x, or if its funding or liquidity buffers are affected significantly.

Indications of a greater risk appetite would include higher balance-sheet exposure to market risk from trading activities. In addition, operational or risk-management lapses that result in unexpected substantial losses and pressure the capital position would be credit negative.

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

Improved business diversity and earnings quality – such as increased contribution from relatively stable, 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 better profitability due to efficiencies of scale, would also be credit positive.

Ratings Navigator



The Key Rating Driver (KRD) weightings used to determine the implied Standalone Credit Profile (SCP) are shown as percentages at the top. In cases where the implied SCP is adjusted upwards or downwards to arrive at the SCP, the KRD associated with the adjustment reason is highlighted in red. The shaded areas indicate the benchmark-implied scores for each KRD. The sector risk assessment acts as a sector-specific constraint on the typical implied operating environment range and is shown as an overlay on the operating environment.

Adjustments

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

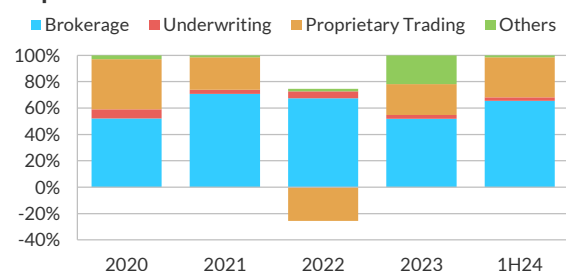
Key Qualitative Factors

Business Profile

Capital Securities is one of Taiwan's leading securities firms, holding the #6 position in the domestic stock brokerage market with a stable market share of 3.6% in the first half of 2024, consistent with its 2023 performance. The firm is a key player in the investment banking sector, consistently ranking among the top five in domestic fixed-income underwriting. As the largest independent securities firm in Taiwan, Capital Securities operates under a full-service broker model, offering a comprehensive range of capital-market products and services.

Capital Securities' business model is heavily reliant on capital-market activities, which are inherently volatile. Domestic stock brokerage operations contribute the bulk of its revenue. Yet, this still allows for better earnings stability than smaller standalone securities companies that depend more significantly on proprietary trading for profit. The majority of Capital Securities' operations are based in Taiwan.

Capital Securities' Profit Breakdown



Note: Others in 2023 include profits from futures and derivatives department

Source: Fitch Ratings, Fitch Solutions, Capital Securities

Financial Profile

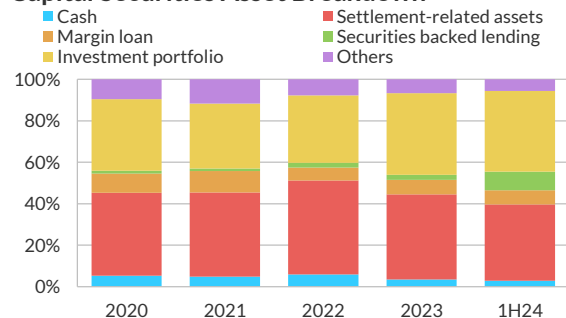
Adequate Asset Quality

We assess Capital Securities' asset quality primarily through the composition of its investment portfolio and the size of credit losses in its margin and securities-backed lending. The company maintains adequate asset quality, supported by its established risk infrastructure and effective execution of its risk policies.

As of 1H24, the investment portfolio represented 39% of Capital Securities' consolidated assets, with fixed-income securities being the largest component. We consider the company's fixed-income portfolio to be of relatively lower risk, as a significant proportion of the bonds are government or investment-grade private-sector bonds. The company's equity investments have increased since 2023 due to positive investment sentiment towards technology shares. The majority of its equity holdings are in listed equities, which are more liquid.

Margin and securities-backed lending represent 7% and 9%, respectively, of Capital Securities' total consolidated assets in 1H24. The company controls its risk for these two business lines by managing the maintenance ratio. Over the last few years there have not been any material losses due to adequate control over the maintenance ratio, and the quality and concentration of the underlying collateral.

Capital Securities Asset Breakdown



Source: Fitch Ratings, Fitch Solutions, Capital Securities

Improved Earnings

Capital Securities earnings improvement trend in 2023 continued into 1H24, driven primarily by strong brokerage and trading income, as domestic equity market turnover surged due to strong investor sentiment in technology shares and a positive domestic economic growth outlook.

Brokerage and equity trading income could face pressure in 2025 as market turnover moderates from record levels in 2024. This would be particularly the case if weaker global economic growth prospects or geopolitical risks start to exert greater pressure on equity-market sentiment. Nevertheless, potential revaluation gains for the fixed-income portfolio, from anticipated domestic rate cuts, should partially offset this pressure.

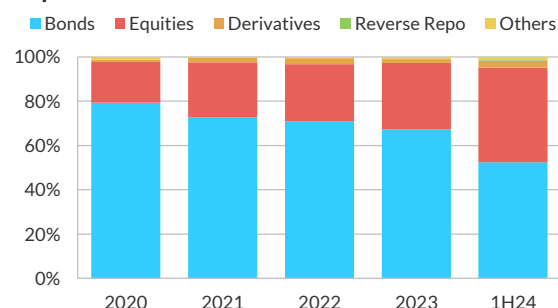
Healthy Capital and Liquidity Positions

Capital Securities has generally maintained adequate capital and liquidity buffers against potential market shocks. Similar to its industry peers, leverage rose in 2023-1H24 as strong domestic equity-market performance spurred higher investment and market-related exposure. Settlement-related assets and financing receivables increased amid strong market turnover. The company also expanded its equity investment positions amid positive investment sentiment in the domestic equity market, and boosted its fixed-income investment holdings in anticipation of US interest-rate cuts.

Fitch views the company’s capital position as still adequate despite the rise in leverage. We consider the increase in settlement-related assets and financing receivables to be of lower risk due to higher maintenance ratio requirements for margin financing and securities-backed lending. The increase in investments was allocated to large-cap listed equities and fixed-income securities of higher credit quality – fairly liquid assets that Capital Securities can quickly dispose of, if needed, to maintain an adequate capital position.

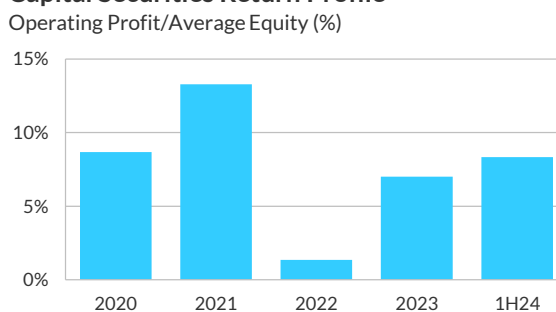
Capital Securities’ funding and liquidity profile has been healthy over the last few years, with its liquid assets consistently covering short-term funding needs. There is a high reliance on short-term repo funding, which is typical for Taiwanese securities firms due to the relatively liquid domestic financial system. We also expect the potential risks associated with the high reliance on short-term repo transactions to be mitigated by the quality of the underlying assets, as the transactions are backed by investment-grade bonds.

Capital Securities Investment Breakdown



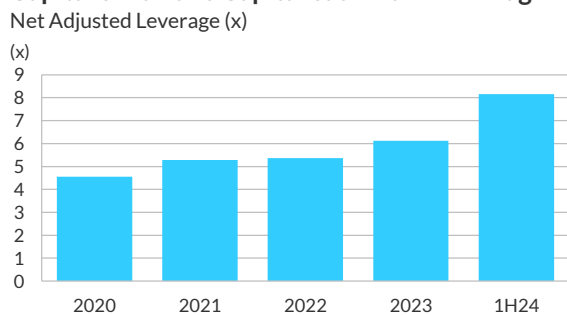
Source: Fitch Ratings, Fitch Solutions, Capital Securities

Capital Securities Return Profile



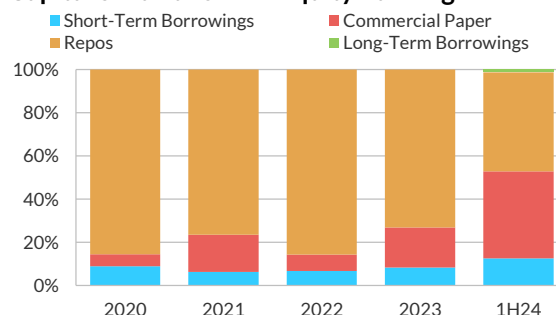
Source: Fitch Ratings, Fitch Solutions, Capital Securities

Capital Securities Capitalisation and Leverage



Source: Fitch Ratings, Fitch Solutions, Capital Securities

Capital Securities Non-Equity Funding Mix



Source: Fitch Ratings, Fitch Solutions, Capital Securities

Environmental, Social and Governance Considerations

FitchRatings Capital Securities Corporation NBFI
Ratings Navigator

Credit-Relevant ESG Derivation			ESG Relevance to Credit Rating	
Capital Securities Corporation has 5 ESG potential rating drivers			key driver	0 issues
<ul style="list-style-type: none"> 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. 			driver	0 issues
			potential driver	5 issues
				3 issues
			not a rating driver	6 issues

Environmental (E) Relevance Scores				E Relevance	
General Issues	E Score	Sector-Specific Issues	Reference		
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	<p>How to Read This Page</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
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	

Social (S) Relevance Scores				S Relevance	
General Issues	S Score	Sector-Specific Issues	Reference		
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5	<p>CREDIT-RELEVANT ESG SCALE</p> <p>How relevant are E, S and G issues to the overall credit rating?</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>2 Irrelevant to the entity rating but relevant to the sector.</p> <p>1 Irrelevant to the entity rating and irrelevant to the sector.</p>
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				G Relevance	
General Issues	G Score	Sector-Specific Issues	Reference		
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5	<p>CREDIT-RELEVANT ESG SCALE</p> <p>How relevant are E, S and G issues to the overall credit rating?</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>2 Irrelevant to the entity rating but relevant to the sector.</p> <p>1 Irrelevant to the entity rating and irrelevant to the sector.</p>
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	
				1	

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 <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

Financials

Income Statement

	30 Jun 24		31 Dec 23	31 Dec 22	31 Dec 21
	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
Net revenues	191	6,209.6	9,662.5	6,383.9	11,664.2
Operating profit	55	1,795.7	2,875.6	537.5	5,320.3
Pre-tax income	100	3,240.7	5,108.8	1,846.1	6,227.5
Net income	88	2,870.9	4,571.0	1,179.0	5,461.6
Exchange rate		USD1 = TWD32.45	USD1 = TWD30.735	USD1 = TWD30.708	USD1 = TWD27.69

Source: Fitch Ratings, Fitch Solutions, Capital Securities

Balance Sheet

	30 Jun 24			31 Dec 23		31 Dec 22		31 Dec 21	
	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	236	7,672.3	2.4	8,241.3	3.3	9,054.5	4.7	8,415.3	4.1
Securities under agreements to resell	7	220.3	0.1	60.2	0.0	0.0	0.0	0.0	0.0
Securities available for sale	996	32,323.3	10.0	27,757.0	11.2	16,407.5	8.6	18,352.3	9.0
Securities held to maturity	190	6,167.0	1.9	5,310.1	2.2	3,268.8	1.7	0.0	0.0
Securities owned (trading securities)	2,695	87,464.5	26.9	64,269.1	26.0	42,583.6	22.2	45,607.8	22.4
Receivables from brokers, dealers & clearing org's	693	22,487.7	6.9	15,419.6	6.2	5,289.6	2.8	10,726.4	5.3
Receivables from customers	2,693	87,394.8	26.9	74,011.9	30.0	67,491.3	35.2	66,856.3	32.8
Net loans	1,593	51,707.5	15.9	23,284.3	9.4	16,360.4	8.5	23,465.6	11.5
Other receivables	74	2,405.6	0.7	1,054.5	0.4	1,012.5	0.5	1,219.6	0.6
Total other assets	832	27,001.4	8.3	27,502.8	11.1	30,148.6	15.7	29,050.6	14.3
Total assets	10,011	324,844.2	100.0	246,910.7	100.0	191,616.6	100.0	203,693.9	100.0
Liabilities and equity									
Total short-term funding	3,532	114,600.5	35.3	70,389.8	28.5	42,105.6	22.0	48,831.6	24.0
Total long-term funding	46	1,498.5	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Total other liabilities	5,110	165,818.2	51.0	133,156.4	53.9	110,819.9	57.8	113,388.8	55.7
Total equity	1,323	42,927.1	13.2	43,364.5	17.6	38,691.1	20.2	41,473.6	20.4
Total liabilities and equity	10,011	324,844.2	100.0	246,910.7	100.0	191,616.6	100.0	203,693.9	100.0
Exchange rate		USD1 = TWD32.45		USD1 = TWD30.735		USD1 = TWD30.708		USD1 = TWD27.69	

Source: Fitch Ratings, Fitch Solutions, Capital Securities

Summary Analytics

	30 Jun 24 6 months - interim	31 Dec 23 Year end	31 Dec 22 Year end	31 Dec 21 Year end
Operating profit/average equity (%)	8.3	7.0	1.3	13.3
ROAA (%)	2.0	2.1	0.6	3.0
ROAE (%)	13.3	11.1	2.9	13.6
Net adjusted leverage (x)	8.2	6.1	5.4	5.3
Assets/equity (x)	7.6	5.7	5.0	4.9
Total capital ratio (%)	250.0	276.0	337.0	358.0
(Liquid assets + undrawn committed facilities)/short-term funding (%)	145.4	158.1	181.4	172.3
Long-term funding/illiquid assets (%)	85.4	90.0	86.1	95.1

Source: Fitch Ratings, Fitch Solutions, Capital Securities

SOLICITATION & PARTICIPATION STATUS

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