

Grand Fortune Securities Co., Ltd.

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% rise in average daily turnover in Taiwan's equity market in 9M23.

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

Niche Underwriting Strength: The ratings of Good Fortune Securities Co., Ltd. (GFS) reflect its modest company profile. This is balanced by sustained competitiveness in equity underwriting, underpinned by the company's focused strategy, expertise and strong pipeline. Fitch also takes into account GFS's adequate capital buffer, which helps to offset high market-risk exposure from holding positions for its underwriting deals.

GFS positions itself as a boutique investment bank, with a strategic focus on underserved SME clients. It has a leading position in Taiwan's underwriting business, despite a modest absolute size, competing with sector peers that are backed by large financial holding companies.

Variable Profitability: GFS's profitability fluctuates over economic cycles given its market-dependent business, similar to peers. Nonetheless, its 10-year average ROAE of 9.3% compared well against the Fitch-rated peer average of 8.3%. Earnings recovered in 1H23 amid improved equity market sentiment, with annualised operating profit/average equity reaching 12.0%, from -4.9% in 2022.

Low Appetite for Leverage: GFS's adequate capital and liquidity buffers compensate for its susceptibility to market risks. Fitch expects the company to maintain lower leverage in the medium term; its net adjusted leverage of 1.7x as of end-1H23 was among the lowest of rated peers. Management aims to maintain regulatory capital adequacy well above the minimum requirement of 150%, aided by an internal alert framework.

Reliance on Wholesale Funding: GFS is wholesale funded and uses repos for short-term funding and carry trades, exposing it to funding market volatility. The risk is mitigated by sufficient liquidity coverage and underlying collateral holdings of high credit quality against its repo liabilities. Liquid assets covered 1.6x of its short-term funding as of end-1H23.

Ratings

National Rating

National Long-Term Rating	A-(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

[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 \(April 2023\)](#)

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Rating Sensitivities

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

GFS's ratings would face downward pressure if prolonged weakness in the capital market were to result in sustained deterioration in its underwriting franchise, 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 pressure the capital position would also be credit negative.

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

A rating upgrade is less likely in light of GFS's moderate overall franchise. Still, improved business diversity and earnings quality – such as an increased earnings contribution from segments with more stable and recurring income streams – would be positive for the ratings.

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Financials

Income Statement

	30 Jun 23		31 Dec 22	31 Dec 21	31 Dec 20
	6 months - interim	6 months - interim	Year end	Year end	Year end
	(USDm)	(TWDm)	(TWDm)	(TWDm)	(TWDm)
	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified	Audited - unqualified
Operating profit	9.5	294.8	-235.8	1,310.8	244.9
Pre-tax profit	10.1	313.7	-217.4	1,505.2	266.8
Net income	9.7	302.6	-264.7	1,411.5	257.3
Exchange rate		USD1 = TWD31.135	USD1 = TWD30.708	USD1 = TWD27.69	USD1 = TWD28.508

Source: Fitch Ratings, Fitch Solutions, GFS

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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 receivables	75.7	2,358.5	20.4	1,114.0	10.8	1,556.4	11.7	740.7	10.7
Securities under agreements to resell	75.7	2,355.4	20.4	3,058.0	29.5	4,891.6	36.8	0.0	0.0
Securities borrowed	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Securities owned (trading securities)	55.7	1,732.8	15.0	1,150.2	11.1	2,145.1	16.1	1,305.0	18.8
Total assets	371.4	11,563.7	100.0	10,359.9	100.0	13,293.9	100.0	6,938.8	100.0
Liabilities and equity									
Total short-term borrowing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Deposits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total other funding	201.8	6,283.0	54.3	5,831.2	56.3	8,150.8	61.3	3,708.0	53.4
Long-term debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total equity	169.6	5,280.7	45.7	4,528.7	43.7	5,143.1	38.7	3,230.8	46.6
Total liabilities and equity	371.4	11,563.7	100.0	10,359.9	100.0	13,293.9	100.0	6,938.8	100.0
Exchange rate		USD1 = TWD31.135		USD1 = TWD30.708		USD1 = TWD27.69		USD1 = TWD28.508	

Source: Fitch Ratings, Fitch Solutions, GFS

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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 (%)	12.0	-4.9	31.3	7.7
ROAA (%)	5.5	-2.2	14.0	4.3
ROAE (%)	12.3	-5.5	33.7	8.1
Net adjusted leverage (x)	1.7	1.6	1.6	2.2
Assets/equity (x)	2.2	2.3	2.6	2.1
Total capital ratio (%)	446.6	494.2	500.0	414.5
Liquid assets/short-term funding (%)	156.9	148.4	139.2	165.5
Long-term funding/illiquid assets (%)	154.8	138.0	133.5	94.2

Source: Fitch Ratings, Fitch Solutions, GFS

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