**Rating Announcement** 12 July 2018

# Red Star Macalline Group Corporation Ltd.

Hong Kong

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|---|---|
| Category: | Corporate rating |
| Rating type: | Solicited rating |
| Industry: | Home Improvement and Furniture Shopping Mall Operator |
| Long-term Credit Rating: | $AA_g$- |
| Rating Outlook: | Stable |

Analysts:
Elle Hu elle_hu@ccxap.com
Vincent Tong vincent_tong@ccxap.com

Director of Credit Ratings:
Guo Zhang guo_zhang@ccxap.com

Tel.: +852-28607111

## China Chengxin (Asia Pacific) Credit Ratings affirms the $AA_g$- rating of Red Star Macalline Group Corporation Ltd., with stable outlook

Hong Kong, 12 July 2018 -- China Chengxin (Asia Pacific) Credit Ratings announces that the $AA_g$- rating of Red Star Macalline Group Corporation Ltd ("RSM" or the "Company") is unaffected by its 2017FY results. RSM's rating reflects its sound business performance and solid market position in home improvement and furnishings mall industry. It also reflects the Company's enhanced funding channels resulting from its IPO listing on the A-share market in January 2018.

Established in 2007, the Company is a leading home improvement and furnishings mall operator in Mainland China with a nationwide geographical coverage. At the end of January 2018, the Company was indirectly owned by Mr. Che Jianxing, who held approximately 57.93% of the Company's share.

In 2017, RSM continued its two-pronged business model by expanding portfolio and managed malls business across Mainland China. The Company newly opened 56 shopping malls (net number as calculated by newly opened malls minus closed malls), including 5 portfolio malls and 51 managed malls. The total operating area of the net newly opened portfolio malls and managed malls was 0.6 million sqm and 1.8 million sqm, respectively. At end-2017, the Company operated 256 shopping malls with total operating area of approximately 15.1 million sqm in 177 cities, including 71 portfolio shopping malls and 185 managed shopping malls. RSM's portfolio malls mainly located in first and second tier cities while its managed malls mainly located in lower tier cities. Given its enriched management skills and operation experience, the Company recorded a high average occupancy rate in its shopping malls. The average occupancy rate of portfolio malls and managed malls were both 97.6% in 2017, slightly increasing from 96.7% and 96.2% in 2016, respectively.

In 2017, RSM demonstrated a steady revenue growth and sustained a relatively high net profit. The Company reported total revenue of RMB 11.0 billion and net profit of RMB 4.3 billion in 2017, increasing by 16.1% and 16.5% YoY respectively. The revenue growth was mainly contributed by its expanded managed malls business, which increased by 30.4% YoY to RMB 3.6 billion. The Company's gross profit margin remained in a high level but slightly decreased to 71.1% in 2017 from 72.3% in 2016, mainly due to the decreasing profit margin in its managed mall business. As for two types of mall, the gross profit margin of portfolio malls remained stable as 77.2% in 2017 while the gross profit margin of managed malls decreased to 63.9% as compared to 66.5% in 2016. The decrease was mainly due to the diminishing gross profit margin of the managed malls business as a result of the increasing number of newly opened managed malls.

In 2017, the Company continued to implement its "internet plus" business strategy, aiming to create a synergy effect with online and offline platforms. The Company has proactively developed an internet-based retail platform namely Dragon's Wings, with over 11,000 merchants signed up for the platform. As of 31 December 2017, the Company's online platform has been launched in its 66 offline shopping malls with the number of users reaching 133,000. In addition, the Company has established its internet home decoration platform that help better match between its platform designers and the retail customers with improved online service tools and communication channels. The Company has signed agreements with 2,364 decoration companies and introduced 4,323 home decoration designers joining the platform. As of 31 December 2017, the Company received 29,516 customer orders.

Moreover, the Company continued to hold a number of strategic equity investments in align with its line of business, including furnishing logistics, smart home manufacturing, and home decoration. The Company made investments in various companies including Oppein Home Group, YunDing network technology, Mlily and Snimay. In March 2017, Oppein Home Group successfully listed on the A-share market that generated an aggregated gain of RMB 2.0 billion to the Company at the end of 31 December 2017.

RSM maintained resilient credit metrics and manageable debt leverage as enhanced by its strengthened business performance. The net gearing ratio was 41.5% at end-2017, slightly increased from 39.7% at end-2016. The debt-to-capital ratio was 39.6% at end-2017, up from 35.5% at end-2016. The Company repayment ability was strengthened given its improved net operating cash flow and EBITDA. The ratio of net operating cash to interest expense was 4.4x. The ratio of EBITDA interest coverage (excluding investment income from associates and joint ventures) was 4.9x in 2017. If excluding the change in fair value of investment properties from EBITDA, the ratio of EBITDA interest coverage was 3.5x in 2017 as compared with 3.3x in 2016. Moreover, the Company was listed on the A-share market on January 17, 2018, which was expected to help optimize its capital structure and strengthen its credit metrics.

The Company also had adequate liquidity profile. As of 31 December 2017, the Company held unrestricted cash reserves of RMB 10.4 billion and were sufficient to cover its short-term debts of RMB 9.9 billion. However, the restricted assets accounted for 56.0% of total assets, which may weaken its financing capability in a distressed market environment.

In 2017, the RSM's average finance cost further decreased to 5% as a result of its diversified debt financing structure. As of 31 December 2017, the Company's total debts was RMB 28.9 billion with an YoY increase of 31.3% as comparing with that at end-2016. The ratio of short-term debts to total debts increased to 34.0% at end-2017 from 21.3% at end-2016. The Company's indebtedness constituted by bank loans, corporate bonds, commercial mortgage-backed securities (CMBS), and finance lease, accounting for approximately 53.3%, 36.0%, 8.2% and 1.4% of its indebtedness, respectively.

## Appendix. CCXAP's Credit Rating Symbols and their Meaning

China Chengxin (Asia Pacific) Credit Ratings Company Limited uses simple, consistent, and comparable rating symbols expressed in letters to represent the credit worthiness of rated entities and rated debt issues.

### A. Long-Term Credit Ratings

A long-term credit rating refers to a rating for a period of more than 12 months.

| Rating Symbol | Definition |
|---|---|
| **AAAg** | Capacity to meet commitments on short-term and long-term debts is extremely strong. Business is operated in a virtuous circle. The foreseeable uncertainty on business operations is minimal. |
| **AAg+**<br>**AAg**<br>**AAg-** | Capacity to meet short-term and long-term financial commitments is very strong. Business is operated in a virtuous circle. Foreseeable uncertainty in business operations is relatively low. |
| **Ag+**<br>**Ag**<br>**Ag-** | Capacity to meet short-term and long-term commitments is strong. Business is operated in a virtuous circle. Business operation and development may be affected by internal uncertain factors, which may create fluctuations in profitability and solvency of the issuer. |
| **BBBg+**<br>**BBBg**<br>**BBBg-** | Capacity to meet financial commitment is considered adequate and capacity to meet short-term and long-term commitments is satisfactory. Business is operated in a virtuous circle. Business is affected by internal and external uncertainties. Profitability and solvency may experience significant fluctuation. Principal and interest may not be sufficiently protected by the terms of agreement. |
| **BBg+**<br>**BBg**<br>**BBg-** | Capacity to meet short-term and long-term financial commitment is relatively weak. Financial commitment towards short-term and long-term debts is below average. Status of business operations and development is not good. Solvency is unstable and subject to sustainable risk. |
| **Bg+**<br>**Bg**<br>**Bg-** | Financial commitment towards short-term and long-term debts is bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Solvency is uncertain and subject to high credit risk. |
| **CCCg** | Financial commitment towards short-term and long-term debts is very bad. Business is affected by internal and external uncertain factors. There are difficulties in business operations. Poor solvency with very high credit risk. |
| **CCg** | Financial commitment towards short-term and long-term debts is extremely bad. Business operations are poor. There are very limited positive internal and external factors to support business operation and development. Extremely high credit risk is found. |
| **Cg** | Financial commitment towards short-term and long-term debts is insolvent. Business falls into a vicious circle. Very limited positive internal and external factors are found to support business operations and development in positive cycle. Extremely high credit risk is seen and is near default. |
| **Dg** | Unable to meet financial commitments. Default is confirmed. |

### B. Long-term Credit Rating Outlook

A rating outlook is the medium- and long-term trend of the credit rating of a rated entity. In formulating a rating outlook, CCXAP considers the potential change in economic and commercial factors from a medium- and long-term perspective for a period of 12 to 18 months.

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| **Positive** | Indicates a rating with an ascending trend |
| **Negative** | Indicates a rating with a descending trend |
| **Stable** | Indicates the rating is likely to be stable |

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CCXAP has distributed and disclosed this solicited credit rating report to the rated entity prior to the publication date.

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**China Chengxin (Asia Pacific) Credit Ratings Company Limited**

Address: Suites 805-808, Jardine House, 1 Connaught Place, Hong Kong

Website: www.ccxap.com

Email: info@ccxap.com

Tel: +852-2860 7111

Fax: +852-2868 0656