

## CCXAP downgrades Red Star Macalline Group Corporation Ltd.'s long-term credit rating to BBB<sub>g-</sub>, with stable outlook

Hong Kong, 28 June 2022 – China Chengxin (Asia Pacific) Credit Ratings Company Limited (“CCXAP”) downgrades the long-term credit rating of Red Star Macalline Group Corporation Ltd. (“RSM” or the “Company”) to BBB<sub>g-</sub> from BBB<sub>g</sub>, with stable outlook.

The BBB<sub>g-</sub> long-term credit rating of RSM is underpinned by the Company’s (1) leading market position and reputable brand name; and (2) diversified geographic coverage. However, the rating is constrained by the Company’s (1) large impairment losses; (2) moderate debt leverage and fixed-charge coverage; and (3) weak liquidity profile with sizable restricted assets.

CCXAP downgrades RSM’s long-term credit rating to BBB<sub>g-</sub> from BBB<sub>g</sub>, citing weakening profitability amid the pandemic and property market downturn. We also opine that its parent company’s rising liquidity risk may weigh on RSM’s credit profile.

### Corporate Profile

Founded in 2007, RSM is the largest and leading chain shopping mall operator in home improvement and furnishings sector in China, with nationwide geographic coverage across 30 provinces and 224 cities at end-2021. The Company offers comprehensive services to merchants, consumers, and business partners through its portfolio and managed shopping malls that are mainly under the brand “Red Star Macalline”. As of 31 December 2021, the Company had 95 portfolio shopping malls and 278 managed shopping malls, with a total operating area of 22.3 million sqm. The Company is also involved in pan-home furnishing consumption businesses, including home decoration and online retail platforms.

RSM (Stock Code: 1528.HK / 601828.SH) was listed on the main board of the Stock Exchange of Hong Kong in June 2015 and the Shanghai Stock Exchange in January 2018. As of 31 December 2021, Red Star Macalline Holding Group Company Limited (“RSM Holding”) held approximately 60.12% of the Company’s shares, and the Company is ultimately controlled by Mr. Che Jianxing.

RSM Holding is a diversified investment holding company engaging in shopping mall operations, property development and investment properties management, while RSM is a core subsidiary and the main income contributor of RSM Holding.

### Rating Rationale

#### Credit Strengths

**Leading market position in home improvement and furnishings shopping mall sector, with reputable brand name.** RSM maintains its leading position in the market, and has the largest market share in China’s home improvement and furnishings shopping mall sector. In 2021, according to Frost & Sullivan’s statistics, the Company had a 17.5% market share in China’s chain home improvement and furnishings retail mall sector and a 7.4% market share



in the whole chain and non-chain mall sector in terms of sales volume. The Company has developed a well-recognized brand name of “Red Star Macalline” and an effective project management system, enhancing its competitive advantage.

**Diversified geographic coverage.** RSM has implemented a double-wheeled approach, with a combination of portfolio and managed malls to balance the pace of mall expansion and capital spending. We consider that the Company has good geographic diversification, which effectively lowers its regional risks. Its portfolio malls are mainly located in prime locations in first and second-tier cities, such as Beijing, Shanghai, Tianjin, Chongqing, and Nanjing.

### Credit Challenges

**Large impairment losses that eroded bottom-line profitability.** RSM’s gross profitability remained moderate. In 2021, the Company’s gross profit margin was stable at 61.7%, as compared with 61.5% in 2020; while its adjusted EBITDA margin (excluding changes in the fair value of investment properties) decreased by 1.6 percentage points YoY to 39.2%. RSM’s bottom-line profitability has weakened given the one-time large impairment losses and lower fair value gains. In 2021, the Company recorded impairment losses of credit and assets totaling RMB752.8 million, equivalent to 4.9% of its revenue.

**Moderate debt leverage and fixed-charge coverage.** RSM adhered to a prudent financial management policy and accelerated its deleveraging process. As of 31 December 2021, the Company’s adjusted debt (including operating lease of RMB4.0 billion) was RMB44.0 billion, a decrease of 12.5% YoY. The Company’s adjusted debt to total assets ratio improved to 32.5% at end-2021 from 38.2% at end-2020. Its fixed charge coverage in 2021 remained at a moderate level of 2.0x due to higher financing expenses.

**Weak liquidity profile with sizable restricted assets.** RSM’s liquidity position was considered weak due to its low cash reserves on balance, large amount of maturing debts, and sizable restricted assets. Given the sluggish capital market, the Company may pledge more assets when additional financing is needed, further weakening its financial flexibility. We expect the Company to rely on bank loans to meet its liquidity needs. In the worst case, it may rely on internal resources (particularly the net operating cash flow) to repay the maturing debts in 2022.

### Rating Outlook

The stable outlook on RSM’s rating reflects our expectation that the Company will maintain its leading position in home improvement and furnishings shopping mall sector over the next 12-18 months.

### What could upgrade the rating?

The rating could be upgraded if the Company’s (1) market position strengthens and asset quality improves, such as larger recurring rental income from its shopping mall business; (2) development risk diminishes with a more mature shopping mall portfolio; and (3) credit metrics improve, such as EBITDA/revenue margin above 50%, net debt/EBITDA ratio below 4.0x or fixed-charge coverage above 4.5x, on a sustained basis.



### **What could downgrade the rating?**

The rating could be downgraded if the Company's (1) leading market position is severely threatened by other players in the industry; (2) aggressive expansion strategy increases its development risk and debt leverage; or (3) liquidity buffer tightens and financing capacity weakens.

### **Rating Methodology**

The methodology used in this rating is the Rating Methodology for [REITs and REOCs \(December 2019\)](#).

### **Regulatory Disclosures**

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