
CCXAP releases Research on Cash Flow Forecast and Asset Backed Securitization for Daily Revenue Obligations

Hong Kong, 26 January 2024 – China Chengxin (Asia Pacific) Credit Ratings Co., Ltd. (“CCXAP”) has released “Research on Cash Flow Forecast and Asset Backed Securitization for Daily Revenue Obligations”, and held a press conference for this research. The study introduces the asset characteristics and risks of Daily Revenue Obligations (“DRO”) backed securitization products and proposes a comprehensive assessment method.

DROs provide contractual rights to a predetermined percentage of a business’s daily revenues over a specific period. This is a unique financing tool that helps fill the financing gap for small and micro enterprises (“SMEs”), especially startup SMEs, by offering a flexible way that better matches their cash flow pattern. At the same time, investors can automatically share the daily revenue of SMEs, realizing a relatively effective way to exit from their investment.

The release conference focused on the characteristics of DRO-backed securitization products, including the diversification of underlying asset risks and the correlation of credit performance among SMEs operating different brands. On this basis, CCXAP proposed a comprehensive assessment method aimed at providing a more accurate and reliable credit assessment method for DRO securitization products. The assessment method includes a cash flow forecasting model that fully considers the revenue volatility of SME stores and the correlation among assets, as well as the impact of different macroeconomic trends on the cash flow of SMEs. By scientifically forecasting cash flows, a cash flow waterfall analysis was constructed for the transaction structure of DRO securitization products.

In addition, CCXAP introduced the evaluation model for SME stores and the credit rating model for DRO securitization products. It is expected that through this research, investors, market participants, and regulatory authorities will understand the risks and value of DRO securitization products, and help promoting the healthy development of the offshore asset-backed securitization market. DRO securitized products enriched investment options, offering investors new types of investments and increasing market diversity. A standardized assessment method also provides a quantitative risk indicator, helping to eliminate information asymmetry.

Standardized rating symbols provide risk assessments of asset-backed securitization products for rating users. Asset securitization products convert uncertain cash flows into standardized bonds with different risk levels through modeling and tranching. Investors can choose securities tranches based on their risk preferences to match the risk and expected returns. The credit rating of asset securitization products will help to reduce market information asymmetry, lower transaction costs, and increase the efficiency of the entire capital market. Furthermore, CCXAP expects that publishing more research for market participants will help promote the mature and stable development of the offshore asset-backed securitization market.