CCXAP affirms Red Star Macalline Group Corporation Ltd.'s long-term credit rating at BBB_g, with stable outlook

Hong Kong, 2 August 2021 – China Chengxin (Asia Pacific) Credit Ratings Company Limited ("CCXAP") affirms Red Star Macalline Group Corporation Ltd.'s ("RSM" or the "Company") long-term credit rating at BBB_g, with stable outlook.

Corporate Profile

Founded in 2007, RSM is the largest and leading chain shopping mall operator in home improvement and furnishings sector in China, with a nationwide geographic coverage across 30 provinces and 223 cities at end-2020. The Company offers comprehensive services to merchants, consumers, and business partners through its portfolio and managed shopping malls mainly under the brand name of "Red Star Macalline". As of 31 December 2020, the Company had 92 portfolio shopping malls and 273 managed shopping malls, with a total operating area of 22.1 million sqm. The Company is also involved in pan-home furnishings consumption businesses, including home decoration, online retail platforms and logistic.

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 2020, Red Star Macalline Group Corporation Limited ("RSM Group") held approximately 69.87% of the Company's shares, and the Company is ultimately controlled by Mr. Che Jianxing.

Rating Rationale

The BBBg long-term credit rating of RSM is underpinned by the Company's (1) leading market position and strong brand name in China's home improvement and furnishings shopping mall sector; (2) established business scale with a high level of recurring rental income and management fees; and (3) diversified geographic coverage.

However, the rating is constrained by the Company's (1) weakened profitability with large impairment losses; (2) heightened debt leverage and impaired fixed-charge coverage; and (3) weak liquidity profile with sizable restricted assets.

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. We also expect that the Company's operations will gradually recover from the pandemic, which will generate recurring income and cash inflows.

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 and fixed-charge coverage above 2.5x, 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 that 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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