

## Overseas Chinese Town (Asia) Holdings Company's 2019-1 Corporate Bonds

**Credit rating for this bond:** AAA

**Credit rating of the issuer:** AAA

**Rating outlook:** Stable

**Scale of this issuance:** CNY 1.5 billion, with an over-allotment limit of CNY 1.0 billion (inclusive)

**Maturity:** 5 years for Product 1, the Company has the option of adjusting the coupon rate and a put option is also available to investors at the end of the third year; 5 years for Product 2.

**Debt servicing method:** Annual interest payment, bullet repayment of principal at maturity.

**Rating assigned date:** March 14, 2019

### Key financial data

| Item  | 2015     | 2016     | 2017     | Sept. 2018 |
|---|----------|----------|----------|------------|
| Total assets (CNY 100mn)                            | 1,369.57 | 1,740.72 | 3,223.82 | 4,120.72   |
| Owners' equity (CNY 100mn)                          | 506.91   | 557.79   | 1,056.82 | 1,206.86   |
| Long-term liabilities (CNY 100mn)                   | 204.69   | 309.43   | 641.79   | 1,173.24   |
| Total liabilities (CNY 100mn)                       | 371.01   | 508.02   | 1021.31  | 1,691.89   |
| Revenue (CNY 100mn)                                 | 506.93   | 542.56   | 801.08   | 598.89     |
| Net profit (CNY 100mn)                              | 63.34    | 74.29    | 133.23   | 77.36      |
| EBITDA (CNY 100mn)                                  | 118.53   | 127.95   | 250.02   | 94.31      |
| Net cash flow from operating activities (CNY 100mn) | -5.67    | 9.73     | -152.44  | -213.53    |
| Operating profit margin (%)                         | 26.37    | 26.43    | 22.44    | 21.52      |
| ROE (%)   | 13.84    | 13.96    | 16.50    | --         |
| Debt-to-asset ratio (%)                             | 62.99    | 67.96    | 67.22    | 70.71      |
| Total debt capitalization ratio (%)                 | 42.26    | 47.67    | 49.15    | 58.37      |
| Current ratio (x)                                   | 1.46     | 1.44     | 1.53     | 1.72       |
| Debt to EBITDA ratio (x)                            | 0.32     | 0.25     | 0.24     | --         |
| EBITDA-to-interest coverage ratio (x)               | 8.98     | 11.95    | 6.42     | --         |
| EBITDA / scale of this bond (x)                     | 4.74     | 5.12     | 10.00    | --         |

Note: 1. The difference between the sum of sub-totals and grand totals in this report is due to rounding-off; 2. Unless otherwise stated, the currency used here refers to the Chinese yuan (CNY); 3. Interest-bearing debt of other current liabilities is partially adjusted to short-term debt, and the debt from long-term payables and other non-current liabilities is adjusted to long-term liabilities.

### Rationale

The ratings assigned to Overseas Chinese Town (Asia) Holdings Company (hereinafter referred to as "the Company" or "OCT Group") conducted by United Credit Ratings Co., Ltd (hereinafter referred to as "United Ratings") reflect the fact that, as a large central enterprise under the management of the State-owned Assets Supervision and Administration Commission of the State Council, the Company has significant advantages in terms of policy support, industry status, diversified business structure, real estate development model and land reserve; that it gains revenue from the supply chain management business, newly established in 2017, which tops up the Company's income; and that its asset size and owner's equity continue to grow. At the same time, United Ratings is also mindful of certain factors that exert a negative impact on the Company's credit profile, such as cut-throat competition in the tourism industry, pressure on operations at the electronics business, the large scale of future investment, and large fluctuations in net cash flow from operating activities.

Looking ahead, the Company will continue to increase investment in comprehensive tourism projects. As such, the Company's comprehensive competitiveness, as well as its revenue, is likely to further grow, while its overall credit status is also expected to remain sound. As a result, United Ratings assigns the "stable" rating outlook to the Company.

Based on an overall assessment of the bond issuer's long-term credit profile and its ability to repay debts associated with this Bond tranche, United Ratings concludes that the risk of default on the bond repayment is extremely low.

### Strengths

1. The Company is a large, central enterprise under the management of the State-owned Assets Supervision and Administration Commission of the State Council. It has set up various “Happy Valley” theme parks in many large and mid-sized cities across China, greatly benefiting the brand.

2. The Company follows a comprehensive development business model pivoted on the conceptual combinations of “culture + tourism + urbanization” and “tourism + Internet + finance”. This has created good synergistic effects and cluster advantages in terms of business configuration, product function, return on capital and profit.

3. The Company’s real estate business is characterized by low development costs, large profit margins and ample land reserves, laying the foundation for subsequent development.

4. In 2017, the Company earned revenue from the newly established supply chain management business, which topped up its income. The Company’s asset size and owner’s equity continue to grow, with low restricted asset ratio and good overall asset quality.

### Concerns

1. Due to the fierce competition in the tourism market, the Company’s integrated business in this domain will face a certain degree of operational pressure as more enterprises pile into the tourism and holiday industry.

2. The Company’s electronics business shows relatively poor profitability. The continued downturn in the home appliance market and

intense competition in the industry have reduced the profit potential of this business. Income from the home appliance business continues to slide and the gross profit margin on the electronics business has declined, meaning that these operations will continue to face considerable pressure in the future.

3. Net cash flow from the Company’s operating activities has fluctuated dramatically; investment income and non-operating income have a relatively high impact on profits.

### Analysts

WANG Jinqu

Tel.: 010-85172818

Email: wangjq@unitedratings.com.cn

ZHI Yamei

Tel: 010-85172818

Email: zhiym@unitedratings.com.cn

**Fax:** 010-85171273

**Address:** 12/F PICC Office Tower, No. 2 Jianguomenwai Avenue, Chaoyang District, Beijing (100022)

[Http://www.unitedratings.com.cn](http://www.unitedratings.com.cn)