

## **Lianhe Global has assigned ‘BB+’ global scale Long-term Issuer Credit Rating with Stable Outlook to Kasen International Holdings Limited**

HONG KONG, 12 January 2024 – Lianhe Ratings Global Limited (“Lianhe Global”), an international credit rating company, has assigned ‘BB+’ global scale Long-term Issuer Credit Rating to Kasen International Holdings Limited (“Kasen” or “the company”). The Outlook is Stable.

The Issuer Rating reflects Kasen’s established market presence in the upholstered furniture sector, low financial leverage and limited debt scale, sufficient liquidity, as well as ongoing capital expenditure to support its business expansion in foreign countries. However, Kasen’s rating is constrained by its weakened profitability and downward trajectory in operating income.

The Stable Outlook reflects our expectation that Kasen will continue to maintain its low leverage and manage its debt level prudently, and gradually stabilize its profitability in the following 12 to 24 months.

### **Key Rating Rationales**

***A Prominent Upholstered Furniture Company Pioneering the Global Market:*** Kasen is a prominent domestic manufacturer of leather products and upholstered furniture, boasts a vertically integrated supply chain from raw materials to finished furniture. This approach provides a unique competitive advantage within the domestic industry, with upholstered furniture contributing over 70% to the company’s total revenue in the past three years. Key clientele from the United States, China, and Europe constituted 82.9%, 9.7%, and 4.3% of sector revenue in 2022. However, concerns about China’s economic situation led to a 23.5% year-on-year decrease of the sector revenue in 2022, totaling RMB599.8 million. To counter the challenges, Kasen is relocating production to Cambodia, aiming to reduce costs and stabilize the sector performance. Although this relocation presents some challenges, the relocation and expansion in Cambodia is likely to increase orders from European and American customers.

***Fading Contribution from Property Development Business:*** The property development sector recorded a 71.2% year-on-year decrease in revenue in 2022, which reached RMB173.4 million. The company manages seven projects located in China and Cambodia. In view of the weak Chinese real estate market, the company halts acquisition of new domestic projects, and shifts its focus on selling existing projects. Asset disposal helps to accelerate capital recovery, while overseas projects in Cambodia present growth prospects. With limited projects for sale and no new land reserve, the declining revenue contribution from property development is likely to continue.

**Higher Planned Capital Expenditure to Support Business Expansion:** Kasen is adjusting its business strategy to penetrate into industries and regions aligned with the Belt and Road Initiative, which include energy, resources and industrial park development. Currently, Kasen is focusing on industrial park project in Cambodia and overseas power generation project. Therefore, we expect Kasen to incur a higher capital expenditure in the next 2-3 years compared with the past few years, which is mainly for the purchase of new land and fixed assets to support its business expansion. Also, the new projects may take a long time for generating positive cash flow and have long cash collection cycles.

**Weakened Profitability amid Deteriorating Market Environment:** Kasen faced declining profit margin compared to the peak in 2021. The declining foreign orders and challenges on industrial transition undermined the revenue and profitability of Kasen's upholstered furniture business. Also, the weak Chinese property market weakened Kasen's property development sector's revenue and profitability. The travel and tourism-related services sector also suffers from revenue decreases due to pandemic-induced restrictions. Kasen is paying efforts to mitigate these challenges by shifting its manufacturing operations to Cambodia, but the new industrial park development and higher operational costs still pose hurdles. It may take time for the contribution from new businesses and recovery of its upholstered furniture business to support Kasen's turnaround for its declining gross margin, EBITDA margin and EBIT margin.

**Financial Leverage Remains Low with Moderately Sufficient Liquidity:** Kasen maintained a low financial leverage, with a debt/capitalization ratio of 18-19% from 2020 to 2022. The strategic decision to halt leveraging for real estate acquisitions resulted in a decrease in total adjusted debt from RMB939.9 million in 2021 to RMB821.5 million in 2022. The projected annual capital expenditures of RMB1.2-1.4 billion in 2023-2025 may increase Kasen's financial leverage to around 22%-26%. The company's debt-servicing capacity is weak given its declining profitability, which is reflected in its high debt/EBITDA ratio. The EBITDA/Interest ratio may fall further to below 2x in the next three years. Despite the financial challenges, Kasen maintains solid liquidity, with a cash balance of RMB460.3 million and adequate bank facilities at end-2022, compared with its short-term debt of RMB217.8 million, providing flexibility in managing working capital. Its quick ratio, as measured by cash and cash equivalents and short-term investments and receivables divided by current liabilities, remained between 0.7x-1x in the past three years.

### **Rating Sensitivities**

We would consider downgrading Kasen's rating if (1) it increases its financial leverage as measured by debt/capitalization consistently to above 40%, or a decrease in its EBITDA interest coverage to below 2.0x, or (2) it suffers a significant deterioration in operating performance in terms of revenue, margin or cash flow generation, or (3) its liquidity is materially worsened.

We would consider upgrading Kasen's rating if (1) it maintains its financial leverage consistently to below 20%, and improves its EBITDA interest coverage consistently to above 4.0x, and/or (2) it improves operating performance and profitability significantly.

## **About Lianhe Global**

Lianhe Global is an international credit rating company that provides credit ratings to corporations, banks, non-bank financial institutions, local investment and development companies, and other asset classes around the globe. Lianhe Global also provides credit risk research and other services related to credit ratings.

## **Rating Methodology**

The principal methodologies used in this Kasen's rating are *Lianhe Global's General Corporate Rating Criteria* published on 31 December 2021 and *General Corporate Rating Criteria: Addendum* published on 30 August 2022, which can be found at the website [www.lhratingsglobal.com](http://www.lhratingsglobal.com).

**Note:** The above Issuer/Issuance Credit Ratings are solicited at the request of the rated entity or a related third party.

## **Contact Information**

Primary Analyst  
Jack Li, CESGA  
Analyst  
(852) 3462 9585  
[jack.li@lhratingsglobal.com](mailto:jack.li@lhratingsglobal.com)

Secondary Analyst  
Toni Ho, CFA, FRM  
Director  
(852) 3462 9578  
[toni.ho@lhratingsglobal.com](mailto:toni.ho@lhratingsglobal.com)

Committee Chairperson  
Joyce Huang, CFA  
Managing Director  
(852) 3462 9586  
[joyce.huang@lhratingsglobal.com](mailto:joyce.huang@lhratingsglobal.com)

Business Development Contact  
Joyce Chi, CESGA  
Managing Director  
(852) 3462 9569  
[joyce.chi@lhratingsglobal.com](mailto:joyce.chi@lhratingsglobal.com)

## Disclaimer

Credit rating and research reports published by Lianhe Ratings Global Limited (“Lianhe Global” or “the Company” or “us”) are subject to certain terms and conditions. Please read these terms and conditions at the company’s website: [www.lhratingsglobal.com](http://www.lhratingsglobal.com)

A credit rating is an opinion which addresses the creditworthiness of an entity or security. Credit ratings are not a recommendation to buy, sell, or hold any security. Credit ratings do not address market price, marketability, and/or suitability of any security nor its tax implications or consequences. Credit ratings may be subject to upgrades or downgrades or withdrawal at any time for any reason at the sole discretion of Lianhe Global.

All credit ratings are the products of a collective effort by accredited analysts through rigorous rating processes. No individual is solely responsible for a credit rating. All credit ratings are derived by a credit committee vesting process. The individuals identified in the reports are solely for contact purpose only.

Lianhe Global conducts its credit rating services based on third-party information which we reasonably believe to be true. Lianhe Global relies on information including, but not limited to, audited financial statements, interviews, management discussion and analysis, relevant third-party reports, and publicly available data sources to conduct our analysis. Lianhe Global has not conducted any audit, investigation, verification or due diligence. Lianhe Global does not guarantee the accuracy, correctness, timeliness, and/or completeness of the information. Credit ratings may contain forward-looking opinions of Lianhe Global which may include forecasts about future events which by definition are subject to change and cannot be considered as facts.

Under no circumstances shall Lianhe Global, its directors, shareholders, employees, officers and/or representatives or any member of the group of which Lianhe Global forms part be held liable to any party for any damage, loss, liability, cost, expense or fees in connection with any use of the information published by the company.

Lianhe Global receives compensation from issuers, underwriters, obligors, or investors for conducting credit rating services. None of the aforementioned entities nor its related parties participate in the credit rating process aside from providing information requested by Lianhe Global.

Credit ratings included in any rating report are solicited and disclosed to the rated entity (and its agents) prior to publishing. Credit rating and research reports published by Lianhe Global are not intended for distribution to, or use by, any person in any jurisdiction where such use would infringe local laws and regulations. Any user relying on information available through credit rating and research reports is responsible for consulting the relevant agencies or professionals accordingly to comply with the applicable local laws and regulations.

All published credit rating and research reports are the intellectual property of Lianhe Global. Any reproduction, redistribution, or modification, in whole or part, in any form by any means is prohibited unless such user has obtained prior written consent from us.

Lianhe Global is a subsidiary of China Lianhe Credit Rating Co., Ltd. The credit committee of Lianhe Global has the ultimate power of interpretation of any methodology or process used in the company’s independent credit ratings and research.

Copyright © Lianhe Ratings Global Limited 2024.