

CHINA
DEVELOPMENT
FINANCIAL

Sasseur REIT

(SASSR SP/CRPU.SI)

REITail Recovery

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- **Resilient 3Q23 performance.** Despite a 17.7% YoY decline in total distributable income per unit (DPU) to 1.512 Scts, business performance showcased steady resilience in 3Q23. Outlet sales in RMB rose by an impressive 15.9% QoQ, with a consistent 15.8% YoY increase, driven by pent-up demand and supportive local measures.
- **Retail market recovery in China.** The retail market in China experienced a robust recovery in 3Q23, supported by local authorities' measures to boost domestic consumption. A notable 18.9% YoY increase in total outlet sales in RMB marked an all-time high since its listing, fuelled by the anniversary sales and consumption-boosting initiatives.
- **Maintain Outperform.** We reiterate an OUTPERFORM rating on Sasseur with an upward revised target price of S\$1.05 due to a lower discount rate based on rate cut expectations in 2024. Sasseur's performance aligns with our expectations, demonstrating resilience against foreign exchange fluctuations. Potential upside catalysts include the acquisition of the Xi'an and Guiyang Outlets.

Financials & Key Operating Statistics					
YE Dec (\$'000)	2021	2022	2023F	2024F	2025F
EMA Rental Income	134,850	125,932	128,577	131,277	134,033
PATMI	122,857	62,098	69,358	75,784	82,258
Distributable Income	86,192	80,322	80,175	82,146	88,733
DPU (S Cents)	7.08	6.52	6.51	6.67	7.21
DPU growth (%)	-	(7.9%)	(0.2%)	2.5%	8.0%
Div Yield (Y%)	10.2%	9.4%	9.4%	9.6%	10.4%
Operating Margin (%)	75.5%	71.1%	73.4%	78.5%	83.5%
Net Gearing (%)	28.3%	29.7%	29.7%	21.4%	13.1%
Price P/B (x)	0.70	0.80	0.82	0.72	0.65
ROE (%)	10.2%	5.8%	6.6%	6.4%	6.3%

Source: Company data, KGI Research

9M23 financials update: Forex impact and milestones. EMA rental income in RMB terms demonstrated a resilient 7.5% YoY growth, reaching RMB487.9mn. Unfavourable forex movements (RMB weakens against SGD) led to a 1.5% YoY decline in revenue, amounting to S\$92.96mn. Despite the forex challenges, distributable income fell by 8.6% YoY to S\$62.7mn in 9M23, and 9M23 DPU decreased to 4.834 Scts accordingly. 3Q23 and 9M23 RMB sales grew by respective 15.8% YoY and 18.9% YoY, showing strong outlet businesses. The overall portfolio occupancy reached a record-high of 97.9%. Chongqing Liangjiang Outlet achieved record-breaking sales in 3Q23 and 9M23. Chongqing Bishan Outlet reported a record-high occupancy of 96.3%.

Anniversary sales. Sasseur REIT's sales improved YoY and QoQ in RMB terms. During sales events, especially the anniversary sales, Sasseur's sales growth outpaced China's national retail sales growth of 6.8%.

Outperform - Maintained		Performance (Absolute)	
Price as of 20 Nov 23 (SGD)	0.70	1 Month (%)	10.3
12M TP (\$)	1.05	3 Month (%)	2.2
Previous TP (\$)	0.95	12 Month (%)	-2.0
Upside, incl div (%)	60.7		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	862		
Issued Shares (mn)	1,240		
Vol - 3M Daily avg (mn)	0.7		
Val - 3M Daily avg (\$mn)	0.4		
Free Float (%)	42.2%		
Major Shareholders		Previous Recommendations	
Sasseur Cayman Holding II I	55.0%	10-Jul-23	OP S\$0.95
Yang Xue	0.9%	21-Aug-23	OP S\$0.95
Dimensional Fund Advisors	0.6%		

Figure 1: 9M23 rental income YoY change

	9M22	9M23	YoY Variance
Outlet sales (RMB 'mn)	2,833.2	3,368.5	18.9%
EMA rental income (RMB 'mn)	453.9	487.9	7.5%
Fixed component (RMB 'mn)	325.9	335.6	3.0%
Variable component (RMB 'mn)	128.0	152.3	19.0%
EMA rental income (S\$ 'mn)	94.3	92.9	(1.5%)
Distributable income to Unitholders (S\$ 'mn)	68.6	62.7	(8.6%)
Amount retained (S\$ 'mn)	(4.3)	(2.9)	32.6%
DPU (S 'cents)	5.248	4.834	(7.9%)

Source: Company, KGI Research

Robust financial structure and debt management. As of September 30, 2023, the balance sheet remained robust with an aggregate leverage of 25.4%, the lowest since IPO and amongst the lowest in the S-REIT sector. It delivered a healthy interest coverage ratio of 4.0x. Sasseur maintained a low leverage ratio of 25.4%, showcasing a conservative approach to debt management. Despite a 1.4% decline HoH, the cost of debt increased by 90 basis points to 5.8% after refinancing maturing debt due to the impact of the current high-interest rate environment. Approximately 54% of its loans are denominated in RMB, benefiting from declining onshore rates. Despite the increase in the cost of debt, the lower leverage ratio indicates a reduced proportion of interest payments compared to the previous half. The debt composition and cost are expected to remain constant for the rest of the year, and the next significant refinancing event will be scheduled in 2024.

Valuation & Action: We maintain our OUTPERFORM rating and a higher target price of S\$1.05 on Sasseur, based on DDM, with an 8.7% cost of equity and a 1.5% terminal growth rate.

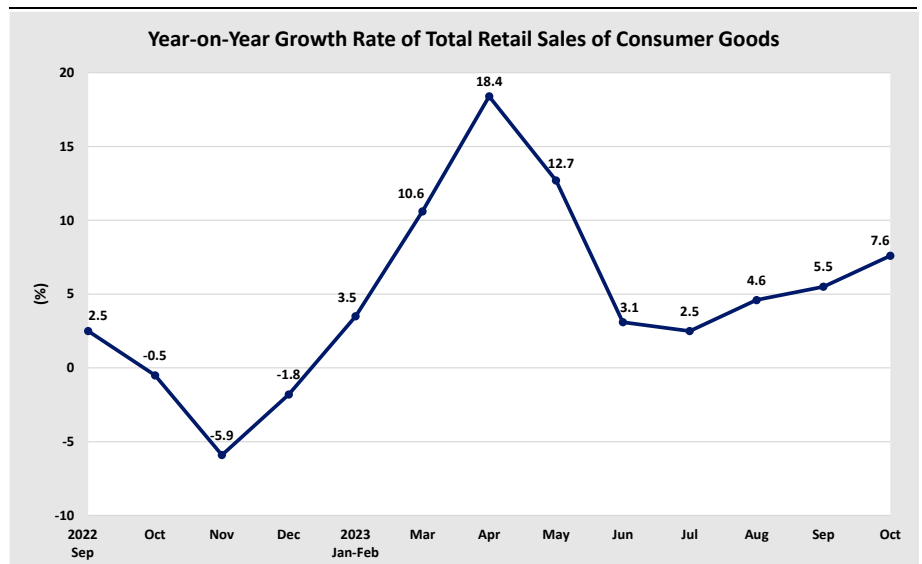
Risks: Higher-than-expected drop in DPU if the sponsor is unable to support the 60% to 70% fixed income component. A weaker RMB is another risk factor given that 100% of sales are derived from China's retail spending.

Investment Thesis and Valuations

Occupancy and growth prospects. Sasseur achieved a record-high occupancy rate of 97.9% in 3Q23 through strategic tenant adjustments, replacing non-aligned tenants with over 300 new ones for a diverse and vibrant tenant mix. VIP member base grew impressively to 3.376mn, marking a robust 17.9% YoY growth, with Hefei outlet VIP members surpassing 1mn, contributing significantly to outlet sales. Bulk lease renewals in 3Q23 resulted in a longer WALE, reaching 2.4 years for net lettable area and 1.4 years for gross revenue. A significant portion of leases expiring in 2023 have been secured through pre-commitments by 3Q23, ensuring stability and continuity in the tenant mix.

Economic and consumption recovery. Positive signs of China's economic recovery were reflected in monthly retail sales growth, enhancing the outlook for Sasseur outlets. As China's domestic consumption improves, Sasseur is well-positioned to benefit from increased consumer activity.

Figure 2: Total retail sales of Consumer Goods in September 2023



Source: [National Bureau of Statistics of China](#)

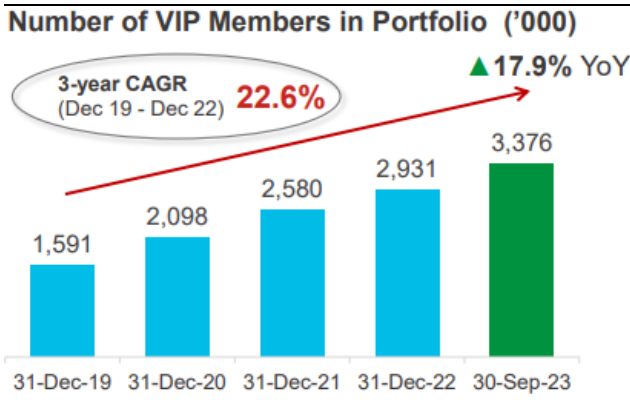
Debt Management and Financing Strategies. Prudent capital management leads to a slight increase in gross borrowings to S\$450mn, with an average debt maturity declining to 3.0 years. The sponsor loan will be due in March 2024, and Sasseur aims for extension and early repayment to leverage on onshore loans and declining 5-year loan prime rates.

Adapting to changing consumer habits. Recognising changing customer habits, Sasseur has adjusted its tenant mix to include more restaurants and plans to incorporate a SMART Yonghui Superstore in its Hefei Outlet. It focuses on creating a family-friendly destination, offering online deliveries for nearby residents and enhancing the overall shopping experience. It aims to open the first "SMART" Yonghui Superstore with a 5-year lease, expecting to draw more shoppers and strengthen the outlet's appeal. Capital expenditure is expected to be RMB212,100 for essential infrastructure works to fulfil the commitment to providing a diverse and attractive shopping environment.

4Q23 outlook. We anticipate further growth in 4Q23 driven by promotional activities such as Sasseur's Red Festival and Christmas promotions in November and

December. Both sales and variable rental income are expected to increase amidst national pride and the festive season.

Figure 3: VIP member in Portfolio as of 9M23



Source: Company

Figure 4: Portfolio occupancy by outlet

Occupancy	1Q23	2Q23	3Q23	Variance
Chongqing Liangjiang	100.0%	100.0%	100.0%	-
Chongqing Bishan	94.5%	95.9%	96.3%	0.4%
Hefei	95.9%	95.4%	97.1%	1.8%
Kunming	96.3%	98.3%	98.4%	0.1%
Total Portfolio	96.6%	97.2%	97.2%	-

Source: KGI Research, Company

Valuation. We raise our valuation of SASSR to **S\$1.05** based on DDM. Our DDM-based valuation utilises a conservative set of assumptions, with an 8.7% cost of equity and a 1.5% terminal growth rate. We maintain our **OUTPERFORM** rating.

Figure 5: DDM valuation – Base case

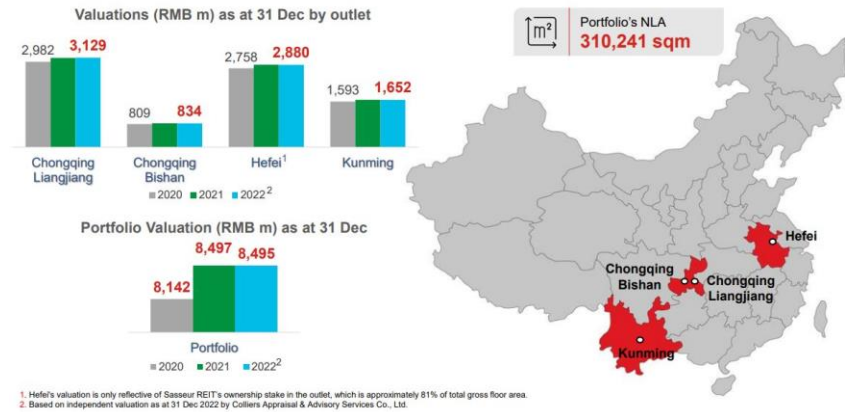
DDM (S\$) - Base Case Scenario	2018A	2019A	2020A	2021A	2022A	2023F	2024F	2025F	2026F	2027F
DPU Full Year (S\$ cents)	5.128	6.533	6.545	7.104	6.550	6.489	6.673	7.208	7.662	7.927
YoY Growth (%)		27.4%	0.2%	8.5%	(7.8%)	(0.9%)	2.8%	10.0%	18.1%	18.8%
Dividend Yield (%)		9.4%	9.4%	10.2%	9.4%	9.3%	9.6%	10.4%	11.0%	11.4%
Dividend per share (S\$ cents) - Normalised	6.673									
Cost of Equity (%)	8.7%									
Terminal Growth Rate (%)	1.5%									
DDM Value (S\$ cents)	104.6									
DDM Value (S\$)	\$1.05									
Current Price (S\$)	\$0.70									
Upside/(Downside), incl div (%)	59.9%									

Source: KGI Research

APPENDIX: Portfolio summary and key trends

Sasseur REITs' four retail malls were last valued at RMB 8.495bn as of December 2022 by Colliers Appraisal & Advisory Services Co., Ltd. Portfolio occupancy rates reached a record high of 97.2% and ranged from 94.5% to 100% as of 30 June 2023, with Chongqing Liangjiang being fully occupied.

Figure 6: Sasseur's portfolio (Valuations in RMB)



Source: Company *Valuations as of 31 December 2022

Figure 7: First quarter outlet sales in RMB

Outlet sales (RMB 'mn)	1Q19	1Q20	1Q21	1Q22	1Q23
Chongqing Liangjiang	609.1	232.5	560.5	566.1	681.2
Chongqing Bishan	124.8	51.9	111.3	108.4	116.2
Hefei	243.0	128.4	244.2	244.0	287.4
Kunming	229.2	121.8	220.6	177.7	207.8
Total Portfolio	1,206.1	534.6	1,136.6	1,096.2	1,292.6

Source: Company, KGI Research

Figure 8: Second quarter outlet sales in RMB

Outlet sales (RMB 'mn)	2Q19	2Q20	2Q21	2Q22	2Q23
Chongqing Liangjiang	480.2	396.0	470.9	431.7	519.3
Chongqing Bishan	93.1	78.6	77.6	79.3	87.0
Hefei	273.2	217.7	199.1	146.8	220.5
Kunming	180.2	143.4	141.9	117.0	134.8
Total Portfolio	1,026.7	835.7	889.5	774.8	961.6

Source: Company, KGI Research

Figure 9: Third quarter outlet sales in RMB

Outlet sales (RMB 'mn)	3Q19	3Q20	3Q21	3Q22	3Q23
Chongqing Liangjiang	579.7	593.4	544.9	536.3	639.1
Chongqing Bishan	114.3	106.3	82.2	75.4	83.8
Hefei	286.4	223.2	188.6	205.0	222.3
Kunming	238.0	187.7	180.9	145.5	169.2
Total Portfolio	1,218.4	1,110.6	996.6	962.2	1,114.4

Source: Company, KGI Research

Financial Summary

FYE 31 December					
INCOME STATEMENT (SGD '000)	2021	2022	2023F	2024F	2025F
EMA Rental Income	134,850.0	125,932.0	128,576.6	131,276.7	134,033.5
REIT Manager's fees	(11,083.0)	(8,850.0)	(8,264.2)	(8,992.5)	(9,717.4)
Trustee fees	(340.0)	(342.0)	(385.7)	(393.8)	(402.1)
Other trust expenses	(1,217.0)	(1,296.0)	(1,285.8)	(1,312.8)	(1,340.3)
Finance income	162.0	171.0	90.8	81.7	77.7
Finance costs	(24,109.0)	(26,280.0)	(24,367.8)	(17,551.6)	(10,735.4)
Net change in fair value of financial derivative	183.0	70.0	–	–	–
Net profit/(loss) before fair value adjustments	101,800.0	89,515.0	94,364.0	103,107.7	111,915.9
Change in fair value - investment ppty	62,355.0	(9,328.0)	–	–	–
Total return before tax	164,155.0	80,187.0	94,364.0	103,107.7	111,915.9
Income tax	(41,298.0)	(18,089.0)	(25,006.4)	(27,323.5)	(29,657.7)
Total return after tax	122,857.0	62,098.0	69,357.5	75,784.2	82,258.2
Distributable income	86,192.0	80,322.0	80,175.0	82,145.6	88,732.7
BALANCE SHEET (SGD '000)	2021	2022	2023F	2024F	2025F
Cash and cash equivalents	159,761.0	100,755.0	81,671.7	77,694.7	74,329.6
Other current assets	29,065.0	28,104.0	28,104.0	28,104.0	28,104.0
Total current assets	188,826.0	128,859.0	109,775.7	105,798.7	102,433.6
Investment properties	1,801,013.0	1,638,981.0	1,638,981.0	1,638,981.0	1,638,981.0
Intangibles, others	–	–	–	–	–
Total assets	1,989,839.0	1,767,840.0	1,748,756.7	1,744,779.7	1,741,414.6
Trade and other payables	123,177.0	69,635.0	69,635.0	69,635.0	69,635.0
Other current liabilities	33,534.0	518,739.0	167,707.4	167,707.4	137,954.7
Total current liabilities	156,711.0	588,374.0	237,342.4	237,342.4	207,589.7
LT Borrowings	508,115.0	–	351,031.6	214,708.2	108,137.6
Other non-current liabilities	115,805.0	111,667.0	111,667.0	111,667.0	111,667.0
Total liabilities	780,631.0	700,041.0	700,041.0	563,717.6	427,394.2
Unitholders' funds and reserves	1,209,208.0	1,067,799.0	1,048,715.7	1,181,062.1	1,314,020.4
Total liabilities and equity	1,989,839.0	1,767,840.0	1,748,756.7	1,744,779.7	1,741,414.6
CASH FLOW STATEMENT (SGD '000)	2021	2022	2023F	2024F	2025F
Total return before tax	164,155.0	80,187.0	94,364.0	103,107.7	111,915.9
Changes in working capital & non-cash adj	(32,670.0)	(6,132.0)	28,024.0	21,936.0	15,844.8
Taxes paid	(11,370.0)	(7,237.0)	(25,006.4)	(27,323.5)	(29,657.7)
Cash flows from operations	120,115.0	66,818.0	97,381.5	97,720.2	98,103.0
Capital expenditure	(5,821.0)	(3,770.0)	(2,000.0)	(2,000.0)	(2,000.0)
Cash flows from investing	(5,821.0)	(3,770.0)	(2,000.0)	(2,000.0)	(2,000.0)
Borrowings raised / (repaid)	(12,603.0)	(5,592.0)	–	–	–
Equity raised / (bought back)	–	–	–	–	–
Dividends paid	(86,421.0)	(87,418.0)	(80,175.0)	(82,145.6)	(88,732.7)
Other financing cashflow	(14,912.0)	(22,398.0)	(24,367.8)	(17,551.6)	(10,735.4)
Cash flows from financing	(113,936.0)	(115,408.0)	(104,542.8)	(99,697.2)	(99,468.1)
FX Effects, Others	5,513.0	(9,228.0)	–	–	–
Net increase in cash	358.0	(52,360.0)	(9,161.3)	(3,977.0)	(3,365.1)
Beginning Cash	146,550.0	152,421.0	90,833.0	81,671.7	77,694.7
Ending cash	152,421.0	90,833.0	81,671.7	77,694.7	74,329.6
KEY RATIOS	2021	2022	2023F	2024F	2025F
DPU (SG cents)	7.10	6.55	6.49	6.67	7.21
Dividend yield (%)	10.2	9.4	9.4	9.6	10.4
NAV per share (SG cents)	1.0	0.9	0.9	1.0	1.1
Price/NAV (x)	0.7	0.8	0.8	0.7	0.7
Profitability					
Operating Margin (%)	75.5	71.1	73.4	78.5	83.5
Net Margin (%)	–	1.0	2.0	3.0	4.0
ROE (ex. Property FV gain) (%)	10.2	5.8	6.6	6.4	6.3
ROA (ex. Property FV gain) (%)	–	1.0	2.0	3.0	4.0
Financial Structure					
Interest Coverage Ratio (x)	5.1	4.4	4.9	6.9	11.4
Gearing Ratio (%)	28.3	29.7	29.7	21.4	13.1

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Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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