

CHINA
DEVELOPMENT
FINANCIAL

Sasseur REIT

(SASSR SP/CRPU.SI)

REIT-laxing consumption

Alyssa Tee / 65 6202 1193 / alyssa.tee@kgi.com

- Outstanding 4Q23 performance.** Despite a 4.6% YoY decline in total distributable income per unit (DPU) to 6.249 Scts in FY23, the business performance showcased better-than-expected results in 4Q23. 4Q23 DPU rose 8.7% YoY to 1.415 Scts. Outlet sales in RMB rose by an impressive 84.6% YoY, with a consistent 16.2% QoQ increase, driven by the outlets' Red Festival and year-end promotions.
- Scale back consumption in China.** Amidst growing consumer caution towards domestic spending, outlet sales have witnessed a notable resurgence, benefiting from the prevailing trend of economizing on consumption in the country. Sasseur REIT's flagship outlet, Chongqing Liangjiang outlet, achieved record-breaking full-year sales, surpassing its pre-COVID FY19 peak by 8.5%. Moreover, other outlets also experienced significant improvements in their sales figures for 4Q23 and FY23, driven by its adeptness at appealing to a broader consumer base through its combination of competitive pricing and high-quality offerings. Additionally, ongoing enhancements to its tenant mix also help attract diverse audiences, further bolstering portfolio sales performance.
- Maintain Outperform.** We reiterate an **OUTPERFORM** rating on Sasseur with a downward revised target price of **S\$1.01** due to our expectation of continuing weak RMB against SGD in FY24, and the unfavourable foreign exchange rate outweighs its better-than-expected performance. Sasseur's performance exceeded 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 (S\$ '000)	2022	2023F	2024F	2025F	2026F
EMA Rental Income	125,932	126,726	129,032	130,968	133,587
PATMI	62,098	62,421	69,868	76,097	83,895
Distributable Income	80,322	76,265	76,296	82,593	89,895
DPU (S Cents)	6.52	6.14	6.14	6.65	7.23
DPU growth (%)	(7.9%)	(5.9%)	0.0%	8.3%	8.8%
Div Yield (Y%)	9.6%	9.0%	9.0%	9.8%	10.6%
Operating Margin (%)	71.1%	70.6%	73.7%	80.1%	85.4%
Net Gearing (%)	29.7%	23.8%	23.4%	14.5%	8.4%
Price P/B (x)	0.78	0.83	0.79	0.63	0.65
ROE (%)	5.8%	6.1%	6.5%	5.7%	6.4%

Source: Company data, KGI Research

FY23 financials update: Reaching new highs. EMA rental income in RMB terms demonstrated an impressive 31.9% YoY growth, reaching RMB4,663.7mn. Unfavourable forex movements translated to a slight 3.0% YoY incline in EMA rental income, amounting to S\$124.9mn. The forex headwinds and higher finance and tax expense led distributable income to fall by 5.8% YoY to S\$83.4mn in FY23, and FY23 DPU decreased to 6.249 Scts accordingly. 4Q23 and FY23 RMB sales grew by respective 84.6% YoY and 31.9% YoY,

Outperform - Maintained		Performance (Absolute)	
Price as of 29 Feb 24 (SGD)	0.68	1 Month (%)	1.5
12M TP (\$)	1.01	3 Month (%)	1.5
Previous TP (\$)	1.05	12 Month (%)	-2.4
Upside, incl div (%)	67.3		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	845		
Issued Shares (mn)	1,243		
Vol - 3M Daily avg (mn)	0.6		
Val - 3M Daily avg (\$mn)	0.4		
Free Float (%)	42.1%		
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%	20-Nov-23	OP S\$1.05

showing strong outlet businesses. The overall portfolio occupancy declined slightly from a high of 97.9% in 3Q23 to 97.6% at the end of 4Q23. Chongqing Liangjiang Outlet achieved record-breaking sales high in 4Q23 and FY23. Chongqing Bishan Outlet and Kunming Outlet reported a record-high occupancy of 96.8% and 98.5% respectively.

Cut in China's key mortgage rate. On 20 February, the People's Bank of China lowered the five-year loan prime rate (LPR), used as a benchmark by banks to adjust their mortgage rates, from 4.2% to 3.95%. Its one-year LPR remained unchanged at 3.45%. The decline in the 5-year LPR will benefit Sasseur REIT as it can refinance at a lower interest rate for both onshore and offshore yuan loans.

Strong close to FY23. Sasseur REIT's sales demonstrated YoY and QoQ improvement in RMB terms, reflecting the sustained growth momentum observed in the domestic consumption trends. In Q4, sales received a significant boost from the outlets' Red Festival and year-end promotions, resulting in an impressive 84.6% YoY and 16.2% QoQ growth in Sasseur's total outlet sales in RMB. This growth surpassed nationwide retail sales growth rate of 8.3% YoY. In FY23, Sasseur's total portfolio sales surged by 31.9% YoY from RMB3,534.8mn to RMB4,663.7mn, outpacing nationwide retail consumer growth rate of 7.2%. Sasseur outlets effectively appealed to a broader consumer base by offering compelling value-for-money propositions, particularly amidst the economizing on consumption scenario prevalent in China.

Figure 1: 4Q23 rental income YoY change

	4Q22	4Q23	YoY Variance
Outlet sales (RMB 'mn)	701.6	1,295.1	84.6%
EMA rental income (RMB 'mn)	140.9	170.6	21.1%
Fixed component (RMB 'mn)	108.6	111.9	3.0%
Variable component (RMB 'mn)	32.3	58.7	81.7%
EMA rental income (S\$ 'mn)	27.0	32.0	18.5%
Distributable income to Unitholders (S\$ 'mn)	19.9	20.6	3.5%
Amount retained (S\$ 'mn)	(3.9)	(3.1)	20.5%
DPU (S 'cents)	1.302	1.415	8.7%

Source: Company, KGI Research

Robust financial structure and debt management. As of 31 December 2023, its balance sheet remained robust, with an aggregate leverage of 25.3%, the lowest level since its IPO and the lowest among S-REITs. Sasseur REIT delivered a healthy interest coverage ratio of 4.3x, indicating its ability to comfortably meet interest obligations. Demonstrating a conservative approach to debt management, Sasseur maintained a low leverage ratio of 25.3%. However, the cost of debt increased by 80 basis points year-on-year to 5.6% due to refinancing maturing debt amidst the current high-interest rate environment. After refinancing, the average debt maturity stands at 2.9 years. Approximately 53.4% of its loans are denominated in RMB, benefiting from declining onshore rates.

Despite the increased cost of debt, the lower leverage ratio suggests a reduced proportion of interest payments compared to the previous year. Debt composition and costs are expected to remain stable for the remainder of the year, with the next significant refinancing event scheduled for 2025. Moreover, Sasseur REIT has a substantial debt headroom of S\$863.4mn, which provides it with the potential to pursue acquisitions of properties for which it holds the right of first refusal.

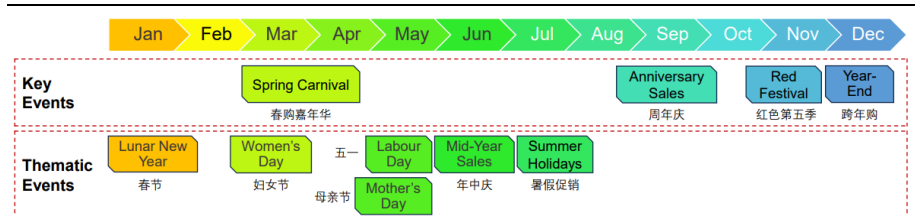
Valuation & Action: We maintain our **OUTPERFORM** rating and a lowered target price of **S\$1.01** on Sasseur, based on DDM, with an 8.7% cost of equity and a 1.5% terminal growth rate.

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

Business updates

Tenant management and sales growth are crucial components of our strategy. To sustain sales growth, the management team has implemented strategies to ensure all tenants contribute to revenue generation. Leveraging short-term leases allows for selective tenant choices, favouring those that drive higher revenue. For FY24, a series of engaging programs are planned to attract customers and stimulate spending. Notably, VIP membership in the portfolio increased by 20.5% YoY to 3,530,000 members as of December 31, 2023, with VIP members contributing over 60% of total sales in FY23. Continued efforts to enhance sales include introducing new tenants and ongoing evaluation of location and consumer needs. Capitalizing on the surrounding residences in Hefei, the introduction of Yonghui Superstore, a supermarket, aims to better serve nearby consumers, with the store opening in FY24 to coincide with peak Chinese New Year crowds. Additionally, the completion of an additional entryway project at Bishan Outlet in December 2023 aims to improve accessibility and visibility from the highway, targeting increased foot traffic and reduced congestion, particularly during peak periods.

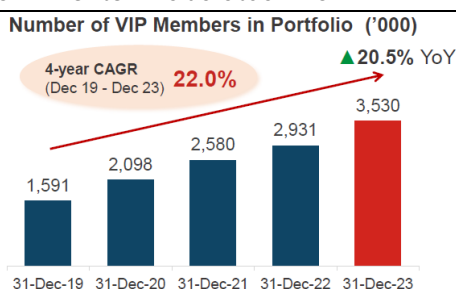
Figure 2: FY24 event line-up



Source: Sasseur REIT

Occupancy and lease management are critical aspects of our operations. Despite achieving record occupancy rates for its Chongqing Bishan and Kunming Outlets at 96.8% and 98.5%, respectively, and maintaining full occupancy for its Chongqing Liangjiang Outlet, Sasseur REIT's total portfolio occupancy experienced a slight decline in the fourth quarter, decreasing from the previous quarter's high of 97.9% to 97.6%. This decline was primarily attributable to a marginal decrease in occupancy at the Hefei outlet, dropping from 97.1% in Q3 to 96.1% in Q4 due to vacant periods resulting from tenant changes between the two periods. With a significant portion of leases expiring in 2024, the management has proactively pursued lease renewals. While the Weighted Average Lease Expiry (WALE) slightly declined to 2.1 years for net leasable area and 1.2 years for gross revenue, deliberate utilization of short leases aims to optimize tenant mix, enabling the management to promptly respond to evolving consumer preferences in China and replace underperforming tenants with successful brands. Furthermore, Sasseur has adjusted its tenant trade mix to meet the higher demand among Chinese consumers for domestic brands and increased food options across its various outlets.

Figure 3: VIP member in Portfolio as of FY23



Source: Company

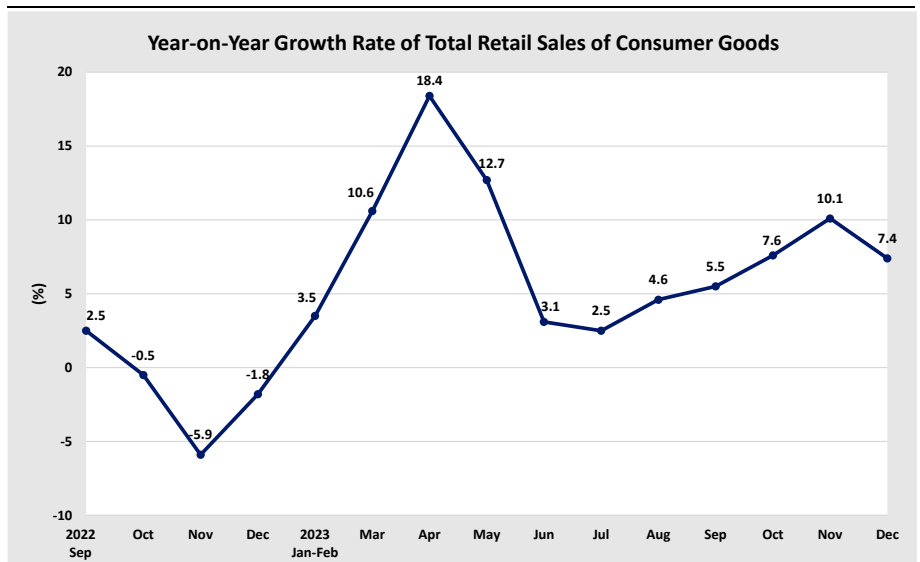
Figure 4: Portfolio occupancy by outlet

Occupancy	1Q23	2Q23	3Q23	4Q23	Variance
Chongqing Liangjiang	100.0%	100.0%	100.0%	100.0%	-
Chongqing Bishan	94.5%	95.9%	96.3%	96.8%	0.5%
Hefei	95.9%	95.4%	97.1%	96.1%	(1.0%)
Kunming	96.3%	98.3%	98.4%	98.5%	0.1%
Total Portfolio	96.6%	97.2%	97.9%	97.6%	(0.3%)

Source: KGI Research, Company

Macroeconomic environment and consumption recovery. Positive indicators of China's economic recovery were evident in its 2023 GDP growth of 5.2%, surpassing government expectations and bolstering the outlook for Sasseur outlets. Notably, consumer spending accounted for 82.5% of GDP growth, despite lingering tepid consumer confidence. Urban unemployment remained stable at 5.2% in 2023, while disposable income per capita of urban households increased by 4.8% YoY after adjusting for inflation. As China's domestic consumption trends toward frugality, Sasseur is strategically positioned to capitalize on heightened consumer thriftiness, thriving in an environment where consumers seek quality goods at affordable prices. Moreover, the Chinese government's stimulus measures, including plans to stimulate domestic consumption and enhance residents' incomes to expand the middle-income population, signify efforts to sustain and foster consumption growth. These initiatives include a package of major policies such as a reduction in the reserve ratio, injecting RMB1 trillion of long-term liquidity into the market, and lowering the 5-year Loan Prime Rate (LPR) from 4.2% to 3.95%. Collectively, these measures underscore the government's commitment to bolstering consumption and fostering economic growth.

Figure 5: Total retail sales of Consumer Goods in December 2023



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

Debt Management and Financing Strategies. Prudent capital management has led to a modest decrease in gross borrowings to S\$442.1mn, accompanied by a decline in average debt maturity to 2.9 years. Notably, the sponsor loan has been extended to March 2025, prompting Sasseur's intention to refinance this loan to lower its weighted average cost of debt, currently at 5.6%, and leverage on onshore loans amidst declining 5-year loan prime rates. Despite facing challenges, Sasseur REIT's FY2023 results witnessed a decline in distributable income compared to the previous year. This decline, partially offset by higher existing lease (EMA) rental income and foreign exchange gains from strategic hedging, was influenced by factors such as increased interest rates, upfront costs associated with new loans, and a change in calculation methods. Additionally, higher sales and a non-recurring tax benefit in the prior year contributed to the decrease. Nevertheless, the REIT emphasizes its commitment to long-term cash flow sustainability amid these challenges.

Acquisition in the horizon. Sasseur REIT holds the right of first refusal for two outlet malls, namely Xi'an and Guiyang Outlets, owned by its Sponsor. As of 31 January 2024, the Xi'an outlet has minimal external borrowing of less than 20%, while the Guiyang Outlet is entirely debt-free. The REIT strategically prioritizes acquisitions in large, rapidly expanding Chinese cities, with both Xi'an and Guiyang outlets showcasing considerable potential. While initially more inclined towards the Xi'an outlet, recent developments have elevated Guiyang's appeal as a significant consideration. Xi'an Outlet, established in 2017, boasts extensive retail space and serves a substantial customer base with diverse amenities. On the other hand, Guiyang Outlet, opened in 2017, offers abundant space and caters to various needs within a strategically positioned economic zone. These outlets present promising long-term growth opportunities for Sasseur REIT.

Outlook

We anticipate further growth in the first quarter of 2024, driven by Lunar New Year travel and increased consumption during the Spring Festival period in February. Both sales and variable rental income are projected to rise amid heightened national pride and the festive season. The eight-day Chinese New Year holidays witnessed a remarkable surge in tourism revenues in China, with a YoY increase of 47.3%, surpassing pre-COVID-19 levels in 2019, fuelled by a surge in domestic travel. Domestic tourism spending reached RMB632.7bn, with the number of domestic trips growing by 34.3% compared to the previous year, surpassing pre-pandemic levels by 19%. However, average spending per trip decreased by 9.5% compared to 2019, indicating a trend of consumption downgrading. International travel also witnessed significant growth, with inbound and outbound trips increasing by 2.8 times compared to the previous year. The ongoing trend of consumption scaling back benefits Sasseur REIT, as it thrives in environments where consumption is restrained.

Valuation

We lower our target price of SASSR to S\$1.01. Our DDM-based valuation utilises a conservative set of assumptions, with an 8.7% cost of equity and a 1.5% terminal growth rate. Despite FY23 revenue improving in both RMB and SGD terms, DPU declined YoY. This is due to our expectation of continuing weak RMB against SGD in FY24, and the unfavourable foreign exchange rate outweighs its better-than-expected performance. We expect SGD/CNY to remain elevated in FY24, with a slight depreciation in 2H24. We revise our valuation downwards and maintain an **OUTPERFORM** rating.

Figure 6: DDM valuation – Base case

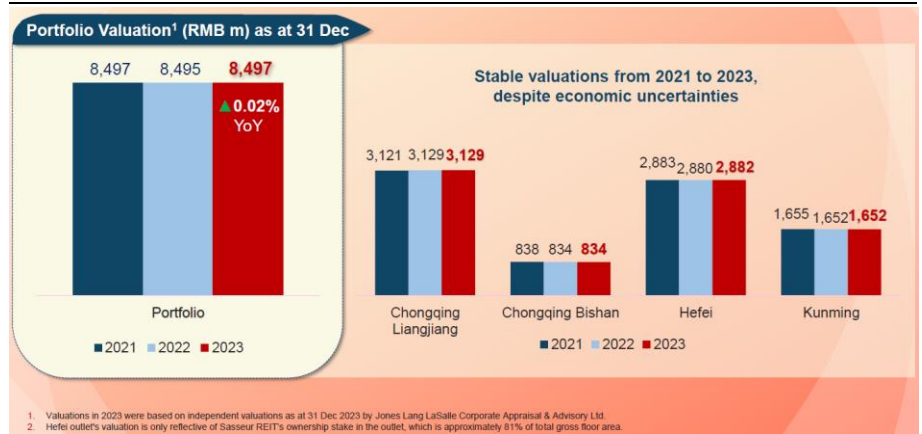
DDM (S\$) - Base Case Scenario	2018A	2019A	2020A	2021A	2022A	2023A	2024F	2025F	2026F	2027F	2028F
DPU Full Year (S\$ cents)	5.128	6.533	6.545	7.104	6.550	6.249	6.140	6.647	7.234	7.433	7.714
YoY Growth (%)		27.4%	0.2%	8.5%	(7.8%)	(4.6%)	(1.7%)	1.5%	15.8%	21.1%	25.6%
Dividend Yield (%)		9.6%	9.6%	10.4%	9.6%	9.2%	9.0%	9.8%	10.6%	10.9%	11.3%
Dividend per share (S\$ cents) - Normalised	6.140										
Cost of Equity (%)	8.7%										
Terminal Growth Rate (%)	1.5%										
DDM Value (S\$ cents)	100.5										
DDM Value (S\$)	\$1.01										
Current Price (S\$)	\$0.68										
Upside/(Downside), incl div (%)	57.4%										

Source: KGI Research

APPENDIX: Portfolio summary and key trends

Sasseur REITs' four retail malls were last valued at RMB 8.497bn as of December 2023 by Jones Lang LaSalle Corporate Appraisal & Advisory Ltd. Portfolio occupancy rates remained high at 97.6% and ranged from 96.1% to 100% as of 31 December 2023, with Chongqing Liangjiang being fully occupied.

Figure 7: Sasseur's portfolio (Valuations in RMB)



Source: Company *Valuations as of 31 December 2023

Figure 8: 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 9: 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 10: 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

Figure 11: Fourth quarter outlet sales in RMB

Outlet sales (RMB 'mn)	4Q19	4Q20	4Q21	4Q22	4Q23
Chongqing Liangjiang	673.4	630.5	601.8	340.9	701.7
Chongqing Bishan	126.8	131.8	102.9	67.5	113.7
Hefei	337.9	275.8	268.6	185.1	306.9
Kunming	236.8	208.3	188.6	108.1	172.8
Total Portfolio	1,374.9	1,246.4	1,161.9	701.6	1,295.1

Source: Company, KGI Research

Financial Summary

FYE 31 December					
INCOME STATEMENT (SGD '000)	2022	2023	2024F	2025F	2026F
EMA Rental Income	125,932.0	126,726.0	129,032.4	130,967.9	133,587.3
REIT Manager's fees	(8,850.0)	(8,335.0)	(8,516.1)	(9,167.8)	(9,351.1)
Trustee fees	(342.0)	(321.0)	(387.1)	(392.9)	(400.8)
Other trust expenses	(1,296.0)	(1,268.0)	(1,290.3)	(1,309.7)	(1,335.9)
Finance income	171.0	286.0	262.4	258.9	251.1
Finance costs	(26,280.0)	(27,409.0)	(24,043.2)	(15,394.6)	(8,607.5)
Net change in fair value of financial derivative	70.0	614.0	–	–	–
Net profit/(loss) before fair value adjustments	89,515.0	89,480.0	95,058.1	104,961.9	114,143.0
Change in fair value - investment ppty	(9,328.0)	(3,101.0)	–	–	–
Total return before tax	80,187.0	86,379.0	95,058.1	104,961.9	114,143.0
Income tax	(18,089.0)	(23,958.0)	(25,190.4)	(28,864.5)	(30,247.9)
Total return after tax	62,098.0	62,421.0	69,867.7	76,097.4	83,895.1
Distributable income	80,322.0	76,265.3	76,296.2	82,592.6	89,895.3
BALANCE SHEET (SGD '000)	2022	2023	2024F	2025F	2026F
Cash and cash equivalents	100,755.0	140,834.0	129,472.6	125,537.2	125,076.1
Other current assets	28,104.0	26,656.0	26,042.0	26,042.0	26,042.0
Total current assets	128,859.0	167,490.0	155,514.6	151,579.2	151,118.1
Investment properties	1,638,981.0	1,580,190.0	1,580,190.0	1,638,981.0	1,580,190.0
Intangibles, others	–	–	–	–	–
Total assets	1,767,840.0	1,747,680.0	1,735,704.6	1,790,560.2	1,731,308.1
Trade and other payables	69,635.0	142,285.0	142,285.0	69,635.0	142,285.0
Other current liabilities	518,739.0	43,639.0	171,255.4	135,799.9	73,906.3
Total current liabilities	588,374.0	185,924.0	313,540.4	205,434.9	216,191.3
LT Borrowings	–	369,895.0	236,839.6	132,423.7	96,717.4
Other non-current liabilities	111,667.0	172,249.0	114,970.0	111,667.0	114,970.0
Total liabilities	700,041.0	728,068.0	665,350.0	449,525.6	427,878.7
Unitholders' funds and reserves	1,067,799.0	1,019,612.0	1,070,354.6	1,341,034.5	1,303,429.4
Total liabilities and equity	1,767,840.0	1,747,680.0	1,735,704.6	1,790,560.2	1,731,308.1
CASH FLOW STATEMENT (SGD '000)	2022	2023	2024F	2025F	2026F
Total return before tax	80,187.0	86,379.0	95,058.1	104,961.9	114,143.0
Changes in working capital & non-cash adj	(5,824.0)	105,213.0	30,747.3	19,954.3	16,146.7
Taxes paid	(7,237.0)	(6,164.0)	(25,190.4)	(28,864.5)	(30,247.9)
Cash flows from operations	67,126.0	185,428.0	100,615.0	96,051.7	100,041.8
Capital expenditure	(4,078.0)	(532.0)	(2,000.0)	(2,000.0)	(2,000.0)
Cash flows from investing	(4,078.0)	(532.0)	(2,000.0)	(2,000.0)	(2,000.0)
Borrowings raised / (repaid)	(5,592.0)	(95,945.0)	–	–	–
Equity raised / (bought back)	–	–	–	–	–
Dividends paid	(87,418.0)	(75,807.0)	(76,296.2)	(82,592.6)	(89,895.3)
Other financing cashflow	(22,398.0)	27,203.0	(24,043.2)	(15,394.6)	(8,607.5)
Cash flows from financing	(115,408.0)	(144,549.0)	(100,339.4)	(97,987.2)	(98,502.9)
FX Effects, Others	(9,228.0)	17.0	–	–	–
Net increase in cash	(52,360.0)	40,347.0	(1,724.4)	(3,935.5)	(461.1)
Beginning Cash	152,421.0	90,833.0	131,197.0	129,472.6	125,537.2
Ending cash	90,833.0	131,197.0	129,472.6	125,537.2	125,076.1
KEY RATIOS	2022	2023	2024F	2025F	2026F
DPU (SG cents)	6.55	6.25	6.14	6.65	7.23
Dividend yield (%)	10.2	9.6	9.6	10.4	11.3
NAV per share (SG cents)	0.9	0.8	0.9	1.1	1.0
Price/NAV (x)	0.7	0.8	0.7	0.6	0.6
Profitability					
Operating Margin (%)	71.1	70.6	73.7	80.1	85.4
Net Margin (%)	1.0	2.0	3.0	4.0	5.0
ROE (ex. Property FV gain) (%)	5.8	6.1	6.5	5.7	6.4
ROA (ex. Property FV gain) (%)	1.0	2.0	3.0	4.0	5.0
Financial Structure					
Interest Coverage Ratio (x)	4.4	4.3	5.0	7.8	14.3
Gearing Ratio (%)	29.7	23.8	23.4	14.5	8.4

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Rating	Definition
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.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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