



CHINA  
DEVELOPMENT  
FINANCIAL

# Sasseur REIT

(SASSR SP/SASS.SI)

## Slower growth outlook in 2H

Joel Ng / 65 6202 1192 / joel.ng@kgi.com | Megan Choo / 65 6202 1190 / megan.choo@kgi.com

- **Steady performance.** FY20's results were rather resilient, with a total distributable income of 6.5 Sing Cents per unit, flat compared to FY19. Outlet sales dipped in 1Q20 but rebounded in the second-half of the year as pent-up demand from shoppers lifted full-year results. Robust shopping trend spilled over to the first-half of 2021, boosted by Chinese New Year sales and gradual recovery from the pandemic, which led to an 18.5% YoY increase in DPU.
- **We expect a slower 2H; downgrade to Neutral.** While we raise our TP to S\$0.97, we downgrade our rating to Neutral. We believe Sasseur's 14% YTD unit price appreciation has largely priced in the recovery from the COVID-19 lows. We also turn more cautious of China's economic growth in 2H2021 given the regulatory-induced slowdown and the spread of the delta strain.

Financials & Key Operating Statistics					
YE Dec (\$ m)	2019	2020	2021F	2022F	2023F
EMA Rental Income	118,015	125,248	131,510	134,272	137,092
PATMI	126,145	47,023	68,461	70,307	72,143
Distributable Income	77,927	78,735	81,615	83,632	85,711
DPU (S Cents)	6.51	6.53	6.76	6.93	7.10
DPU growth (%)	-	0.2%	3.7%	2.5%	2.5%
Div Yield (Y%)	7.0%	7.0%	7.2%	7.4%	7.6%
Operating Margin (%)	68.1%	71.5%	72.8%	73.2%	73.6%
Net Gearing (%)	30.2%	30.5%	30.5%	30.5%	30.5%
Price P/B (x)	1.05	1.02	1.04	1.06	1.08
ROE (%)	11.8%	4.3%	6.3%	6.6%	6.9%

Source: Company data, KGI Research

**FY2020 resilient despite Covid-19.** While EMA rental income declined by 5.2% YoY to S\$122.1mn in FY20, distributable income to unitholders increased slightly by 1.0% to S\$78.7mn. Despite weaker 1Q20 results where malls were closed for 45 days, resilient full-year results were backed by a rebound in EMA rental income in the second-half of the year and positive fair value adjustment to investment properties of S\$25.2mn compared to negative adjustment of S\$95mn in FY19.

**1H21 financials update: Pent-up demand fuelling recovery.** 1H21 EMA rental income rose by 14.1% YoY to S\$66.1mn, spearheaded by a 47.9% increase in overall outlet sales. Distributable income to unitholders increased by 41.0% to S\$40.1mn, largely attributable to the rebound in EMA rental income as restrictions in China were lifted. NAV per unit increased from 91.4 Sing Cents to 93.6 Sing Cents YoY, whereas aggregate leverage remained steady at approximately 27.8%, providing headroom for acquisitions.

**New initiative: Online Sales via WeChat.** As a means to stay relevant and competitive in the retail industry, Sasseur's top-performing Chongqing Liangjiang Outlet has partnered with big brands such as Adidas and Coach to launch WeChat livestreams where live-selling is hosted. Live sales from this

Neutral - Downgrade			
Price as of 19 Aug 21 (SGD)	0.94	<b>Performance (Absolute)</b>	
12M TP (\$)	0.97	1 Month (%)	-3.1
Previous TP (\$)	0.89	3 Month (%)	3.6
Upside, incl div (%)	10.6	12 Month (%)	29.3
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	1,133		
Issued Shares (mn)	1,212		
Vol - 3M Daily avg (mn)	1.7		
Val - 3M Daily avg (\$mn)	1.6		
Free Float (%)	41.3%		
Major Shareholders		Previous Recommendations	
Xu Rongcan	58.6%	13-Nov-20	OP S\$0.89
		17-Aug-20	OP S\$0.89
		11-Jun-20	OP S\$0.89

initiative will contribute to tenant sales which will ultimately boost variable rental income collected by the company. Upon kickstarting the programme in 2Q21, there were more than 90,000 viewerships gained in each of the two hours livestreams held. With the successful programme initiation, Sasseur expects to sustain and extend the livestreams to other brands to increase rental income from this win-win situation.

**Local brands inching towards occupancy share.** Fashion continues to be the biggest contributor to revenue of approximately 42% as of 1H21, whereas international brands dipped slightly from 20.6% in FY20 to 18.3% in 1H21. The decline is due to an increase in domestic fashion brands taking over tenant spaces, which in fact benefits Sasseur given that local brands are paying higher commission to the REIT.

**Potential speedbump in 2H.** We expect spending sentiments to take a hit in the second half of this year due to the delta variant and the regulatory clampdown that the government is currently embarking on. Latest July data suggests China's economy is losing steam as authorities closed tourists' sites, cancel cultural events and flights. July's 8.5% YoY increase in retail sales was the lowest since December 2020, missing expectations of an 11.5% expansion.

**Valuation & Action:** While we raise our TP of S\$0.97, we think risk-reward profile has become less attractive given Sasseur's 14% YTD unit price appreciation. We thus downgrade to Neutral. Our target price is based on a DDM-derived valuation factoring in 9% cost of equity and 2.0% terminal growth rate.

**Risks:** Higher-than-expected drop in DPU if the sponsor is unable to support the 70% fixed income component. A weaker CNH is another risk factor given that 100% of sales is derived from China's retail spending. Rise in Covid-19 cases from nearby cities could affect mall operations.

## Results update

**Steady DPU.** Despite the Covid-19 situation in 2020, total DPU for FY20 amounted to 6.5 Sing Cents, while DPU for 1H21 amounted to 3.4 Sing Cents. Historically, DPU is expected to be higher in the second-half of the year, fuelled by an increase in outlet sales due to Sasseur's anniversary sale in September and the festive season in December. Management has also brought down the weighted average cost of debt, from 4.9% per annum in FY20 to 4.4% as of 30 June 21. Weighted average debt maturity is 1.7 years, which brings a total of S\$3mn, S\$6mn and S\$507mn debt to be repaid in 2021, 2022 and 2023 respectively. With likely increase in rental income in the second-half coupled with prudent financing, we expect a slight DPU upside in 2H21 and subsequently higher overall DPU in FY21.

**Table 1: 1H20 vs 1H21 mall performance**

Outlets	1H20 (RMB mil)	1H21 (RMB mil)	Change (%)
Chongqing Liangjiang	628.5	1,031.5	64.1%
Chongqing Bishan	130.5	188.9	44.8%
Hefei	346.1	443.2	28.1%
Kunming	265.2	362.6	36.7%
	<b>1,370.3</b>	<b>2,026.2</b>	<b>47.9%</b>

*Company reports, KGI Research*

**Figure 2: FY20 QoQ change showing strong second-half performance**

Outlets	2Q20 (RMB mil)	3Q20 (RMB mil)	QoQ Change (%)	4Q20 (RMB mil)	QoQ Change (%)
Chongqing Liangjiang	396.0	593.5	49.9%	630.5	6.2%
Chongqing Bishan	78.6	106.2	35.1%	131.8	24.1%
Hefei	217.7	223.2	2.5%	275.8	23.6%
Kunming	143.3	187.7	31.0%	208.3	11.0%
	<b>835.6</b>	<b>1,110.6</b>	<b>32.9%</b>	<b>1,246.4</b>	<b>12.2%</b>

*Company reports, KGI Research*

**Asset Enhancement Initiatives.** The ongoing AElS for Chongqing Bishan is expected to be completed by December 2021. Overall strategy is to improve shopper circulation and upgrade outlets to achieve higher asset yield and occupancy rate. Works include reconfiguring shop units for better space utilisation and product display and conversion of retail spaces into F&B and creating 79 additional carpark lots to meet demand during peak periods.

## Investment Thesis and Valuations

**Elevator pitch.** Although structured as a REIT, Sasseur generates its rent revenue mainly through a sales-based system whereby tenants pay an agreed percentage of their sales revenue to the sponsor. Therefore, Sasseur allows investors a proxy to China's outlet retail spending, the country's fastest growing retail segment. In addition, its four outlet malls are located in fast growing Tier-2 cities of Chongqing, Hefei and Kunming. Key demand is driven by China's growing disposable income per capita.

**Valuation.** We value SASSR at S\$0.97 based on DDM. Our DDM-based valuation utilises a conservative set of assumptions, with a 9.0% cost of equity and 2.0% terminal growth rate.

**Figure 1: DDM valuation – Base case**

DDM (S\$) - Base Case Scenario	2018	2019	2020	2021F	2022F	2023F	2024F	2025F
DPU Full Year (S\$ cents)	5.128	6.533	6.545	6.755	6.931	7.102	7.275	7.452
YoY Growth (%)		27.4%	0.2%	3.2%	2.6%	2.5%	2.4%	2.4%
Dividend Yield (%)		7.0%	7.0%	7.2%	7.4%	7.6%	7.8%	8.0%
Dividend per share (S\$ cents) - Normalised	6.755							
Cost of Equity (%)	9.0%							
Terminal Growth Rate (%)	2.0%							
DDM Value (S\$ cents)	96.5							
DDM Value (S\$)	\$0.97							
Current Price (S\$)	\$0.94							
Upside/(Downside), incl div (%)	10.4%							

Source: KGI Research

**APPENDIX: Portfolio summary and key trends**

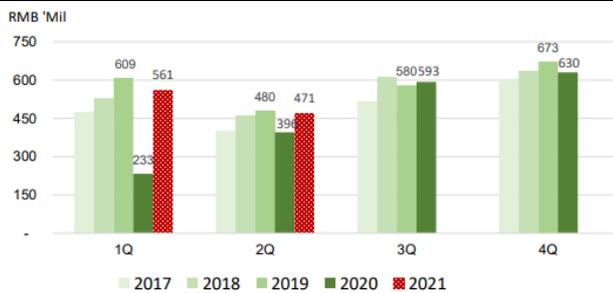
Sasseur REITs’ four retail malls were last valued at RMB 8.1 bn as at December 2020 by Jones Lang Lassalle Corporate Appraisal and Advisory Limited. Occupancy rates range between 80.7% to 100% as of 30 June 21, with Chongqing Liangjiang being fully occupied.

**Figure 5: Sasseur's portfolio (Valuations in RMB)**



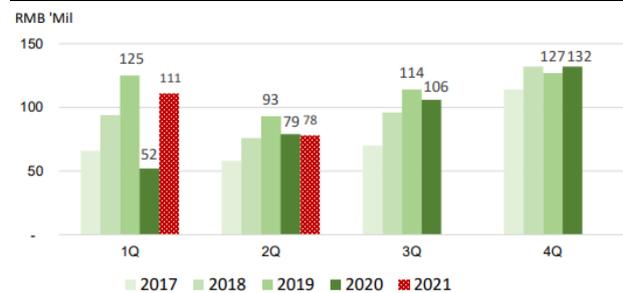
Source: Company \*Valuations as at 31 December 2020

**Figure 6: Chongqing Liangjiang Outlet Sales**



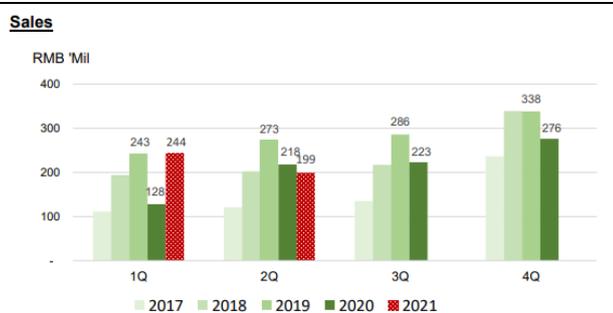
Source: Company

**Figure 7: Chongqing Bishan Outlet Sales**



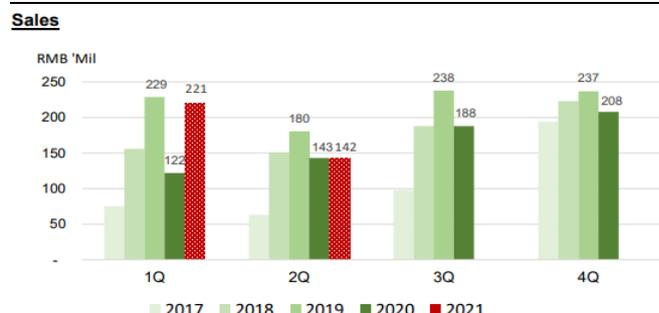
Source: Company

**Figure 8: Hefei Outlet Sales**



Source: Company

**Figure 9: Kunming Outlet Sales**



Source: Company

**KGI's Ratings**

Rating	Definition
<b>Outperform (OP)</b>	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.
<b>Neutral (N)</b>	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.
<b>Underperform (U)</b>	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
<b>Not Rated (NR)</b>	The stock is not rated by KGI Securities.
<b>Restricted (R)</b>	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

**Disclaimer**

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2021. KGI Securities (Singapore) Pte. Ltd. All rights reserved.