



Sasseur REIT

(SASSR SP/SASS.SI)

First In First Out as China's recovery firms up

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- **Better-than-expected results.** 3Q20 DPU rose 17% QoQ and 8% YoY to 1.764 Scts, helped by a stronger SGD vs RMB.
- **7.5% dividend yield and growing.** 9M20 DPU of 4.61 Scts makes up 78% of our full-year forecast. We expect Sasseur to meet our projections, thus providing an attractive dividend yield of 7.5% in FY20F and 7.8% in FY21F.
- **Maintain Outperform.** We maintain our S\$0.89 TP based on a conservative set of DDM assumptions (9.0% COE and 2.0% Terminal Growth). Sasseur's 27.8% debt gearing puts it in a good place to withstand asset price volatility while providing S\$828mn of debt headroom (based on 50% gearing limit) to embark on asset enhancement initiatives (AEI).

Financials & Key Operating Statistics					
YE Dec (\$ m)	2018	2019	2020F	2021F	2022F
EMA Rental Income	93,525	118,015	116,678	121,345	123,893
PATMI	169,225	126,145	59,504	62,582	64,286
Distributable Income	60,530	77,926	71,680	75,106	76,967
DPU (S Cents)	5.13	6.51	5.94	6.23	6.38
DPU growth (%)	–	27.0%	(8.7%)	4.7%	2.5%
Div Yield (Y%)	6.5%	8.2%	7.5%	7.8%	8.0%
Operating Margin (%)	58.4%	68.1%	71.3%	72.1%	72.6%
Net Gearing (%)	32.0%	30.2%	30.2%	30.2%	30.2%
Price P/B (x)	0.87	0.89	0.91	0.91	0.91
ROE (%)	15.8%	11.8%	5.6%	5.9%	6.1%

Source: Company data, KGI Research

Good momentum. 3Q20 distributable income rose 8.5% YoY to S\$21.2mn, translating to a 7.6% YoY increase in DPU to 1.764 Scts. EMA Fixed Income rose 2.5% YoY while there was weakness in EMA Variable Component which dropped 10.4% YoY. A stronger SGD helped to lift up DPU. It paid out 100% of distributable income to unitholders. In summary, 9M20 DPU makes up 78% of our forecasts and is on track to meet full-year estimates.

Table 1: 3Q20 performance showing positive momentum

RMB' million	3Q20 sales	QoQ	YoY	9M20 vs 9M19
Chongqing	593.5	+49.9%	+2.4%	-26.8%
Bishan	106.2	+35.2%	-7.0%	-28.8%
Hefei	223.2	+2.5%	-22.1%	-29.1%
Kunming	187.7	+30.9%	-21.1%	-30.0%
Portfolio	1,110.6	+32.9%	-8.8%	-28.1%

Source: Company data, KGI Research

Better refinancing terms going into 4Q20. There could be DPU upside as management takes advantage of lower interest rates. So far, it has done a good job of bringing down weighted average cost of debt to 4.11% in 3Q20, an improvement from 4.41% in 4Q19. Management has highlighted that the effects of lower financing will be fully reflected in 4Q20. Gearing remained stable at 27.8% as at end-3Q20, still a comfortable level compared to peers who have gearings of between 35% and 40%. Interest Coverage

OUTPERFORM - Maintain			
Price as of 13 Nov 20 (SGD)	0.80	Performance (Absolute)	
12M TP (\$)	0.89	1 Month (%)	1.3
Previous TP (\$)	0.89	3 Month (%)	4.7
Upside, incl div (%)	19.3	12 Month (%)	2.8
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	957		
Issued Shares (mn)	1,204		
Vol - 3M Daily avg (mn)	0.9		
Val - 3M Daily avg (\$mn)	0.7		
Free Float (%)	40.0%		
Major Shareholders		Previous Recommendations	
Xu Rongcan	58.6%	17-Aug-20	Outperform S\$0.89
		11-Jun-20	Outperform S\$0.89

Ratio (ICR) improved to 5.3x in 3Q20, from 4.8x in 4Q19, allowing it total headroom of S\$828mn based on a 50% limit.

China is taking the global lead; more reasons to be optimistic. China is leading in economic recovery among major countries due to a better grip on new COVID-19 outbreaks, as well as the government's emphasis on growing the local economy. China's export growth YoY hit a YTD high in October despite a slowdown in pandemic-fighting product exports, pointing to a healthy trend of global economic recovery. Although the pandemic is intensifying in multiple countries, prompting some to launch more restraints on economic activity in November, this round of lockdowns will only slow economic improvement rather than reversing global economic recovery, as vaccine development is almost completed and COVID-19 treatment know-how has made great strides.

Asset enhancements. AEIs are ongoing for its Chongqing and Hefei outlet malls and are expected to be completed by 2Q21 and 1Q21, respectively. There is no guidance on capex requirements for the AEIs but this should not have any impact on DPU. The scope of work is relatively minimal and mainly includes re-configuration of retail units and floor plates to achieve better efficiency, as well as the refurbishment of interior spaces.

Valuation & Action: We maintain Outperform and a target price of S\$0.89. 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.

Investment Thesis and Valuations

Elevator pitch. Although structured as a REIT, Sasseur generates its rents 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. The REIT's long-term growth is underpinned by growing middle income spend.

Valuation. We value SASSR at S\$0.89 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. In the short term, performance may surprise on the upside going into 2H20 as China recovers faster-than-expected, and as it takes advantage of lower interest rates.

In our FY2020F base case forecast, we expect Sasseur's operating performance to hit trough level in 1H20, and gradually improve sequentially. From FY2021 onwards, we conservatively forecast a 2.0% terminal growth rate, a realistic assumption in our view, as the 3.0% fixed rent escalation already contributes 2.0% growth in total income.

Figure 1: DDM valuation – Base case

DDM (S\$) - Base Case Scenario	2018	2019	2020F	2021F	2022F	2023F	2024F	2025F
DPU Full Year (S\$ cents)	5.128	6.533	5.946	6.225	6.378	6.537	6.696	6.860
YoY Growth (%)		27.4%	(9.0%)	4.7%	2.5%	2.5%	2.4%	2.4%
Dividend Yield (%)		8.2%	7.5%	7.8%	8.0%	8.2%	8.4%	8.6%
Dividend per share (S\$ cents) - Normalised	6.225							
Cost of Equity (%)	9.0%							
Terminal Growth Rate (%)	2.0%							
DDM Value (S\$ cents)	88.9							
DDM Value (S\$)	\$0.89							
Current Price (S\$)	\$0.80							
Upside/(Downside), incl div (%)	19.3%							

Source: KGI Research

\$0.56 valuation based on worst-case scenario. Sasseur's income is generated through its fixed income component and the variable income component. The fixed income component works out to an EMA rental income of around S\$78mn per year in FY2019, with a 3% p.a. rental income growth until 2028. In our worst-case scenario, we completely removed the variable income component from the rental income and assumed all other expenses remained constant from our base-case scenario, except for lower taxes.

Figure 2: DDM valuation – Bear case where we assume contribution from only the fixed income component

DDM (S\$) - Worst Case Scenario	2018	2019	2020F	2021F	2022F	2023F	2024F	2025F
Fixed Income Component			80,250.2	82,657.7	85,137.4	87,691.6	90,322.3	93,032.0
YoY Growth (%)			0.3%	3.0%	3.0%	3.0%	3.0%	3.0%
Expenses			(33,455.7)	(33,817.4)	(33,983.1)	(34,215.4)	(34,389.4)	(34,567.1)
Tax expenses (25%)			(11,698.6)	(12,210.1)	(12,788.6)	(13,369.0)	(13,983.2)	(14,616.2)
Total return to unitholders			35,095.9	36,630.2	38,365.8	40,107.1	41,949.7	43,848.7
Distribution adjustment			12,175.7	12,523.4	12,681.4	12,905.9	13,072.0	13,241.5
Total distributable income			47,271.5	49,153.6	51,047.2	53,013.0	55,021.6	57,090.2
DPU Full Year (S\$ cents)	5.128	6.533	3.919	4.074	4.230	4.393	4.558	4.729
Terminal value (S\$ cents)								67.559
YoY Growth (%)		27.4%	(40.0%)	3.9%	3.8%	3.8%	3.8%	3.7%
Dividend Yield (%)		8.2%	4.9%	5.1%	5.3%	5.5%	5.7%	5.9%
Cost of Equity (%)	9.0%							
Terminal Growth Rate (%)	2.0%							
DDM Value (S\$ cents)	56.1							
DDM Value (S\$)	\$0.56							

Source: KGI Research

Peer comparison

Sasseur REIT's valuation metrics are overall better than peers. Sasseur has the lowest gearing among the four China-focused REITs (CRCT, BHGREIT, DASIN). This stronger balance sheet places it in a better position to withstand property price declines, and gives it more debt headroom to acquire DPU-accretive assets or to implement asset enhancement initiatives thereby driving higher operational yield. Furthermore, Sasseur also offers the highest forward dividend yield of >7.0%, which is 100-300 bp higher than both Singapore and China-focused REITs.

Figure 3: Peer comparison

Bloomberg Ticker	Company Name	Last Price (local \$)	Currency Adj. Market Cap (US\$ m)	Dividend Yield (%)		Gearing (%)	P/B (x)		6M Average daily trading volume (S\$ '000)	YTD Price Performance (%)	1YR Price Performance (%)
				FY19	FY20F		FY19	FY20F			
SASSR SP	SASSEUR REAL ESTATE INVESTME	SGD 0.80	709	7.4	7.5	30.2	1.0	0.9	854	-10.2	-5.4
S-REITs focusing on Chinese retail sector											
CRCT SP	CAPITALAND RETAIL CHINA TRUS	SGD 1.25	1,141	6.1	6.2	43.0	1.0	0.8	5,227	-22.4	-17.8
BHGREIT SP	BHG RETAIL REIT	SGD 0.52	197	5.6	-	32.1	0.8	-	654	-24.1	-24.6
DASIN SP	DASIN RETAIL TRUST	SGD 0.79	451	8.2	6.4	44.3	0.6	0.6	304	-6.0	-5.4
	Average		596	-	6.3	39.8	-	0.7	2,062	(17.5)	(15.9)
	Median		451	-	6.3	43.0	-	0.7	654	(22.4)	(17.8)
Other retail S-REITs											
CICT SP	CAPITALAND INTEGRATED COMMER	SGD 2.00	9,588	4.9	4.6	31.5	1.2	0.9	35,364	-18.7	-20.3
MCT SP	MAPLETREE COMMERCIAL TRUST	SGD 2.00	4,912	4.4	4.3	34.2	1.0	1.2	18,922	-16.3	-12.3
SPHREIT SP	SPH REIT	SGD 0.78	1,604	3.1	6.8	31.6	0.9	0.8	1,724	-27.1	-29.1
FCT SP	FRASERS CENTREPOINT TRUST	SGD 2.33	2,917	3.8	5.4	33.0	1.1	1.0	9,664	-16.9	-13.2
SGREIT SP	STARHILL GLOBAL REIT	SGD 0.45	725	5.8	9.2	40.8	0.6	0.6	1,289	-38.6	-39.0
LMRT SP	LIPPO MALLS INDONESIA RETAIL	SGD 0.09	184	9.9	4.7	39.8	0.8	0.3	643	-61.2	-64.6
	Average		3,322	5.3	5.8	35.1	0.9	0.8	11,268	(29.8)	(29.7)
	Median		2,260	4.6	5.1	33.6	1.0	0.9	5,694	(22.9)	(24.7)

Source: Bloomberg, KGI Research

Playing with the big boys: the virtuous cycle of being in a global property index. Liquidity of Sasseur has improved since its IPO in 2018. Monthly traded volume averaged around 13mn in its first year of IPO, increasing to 32mn in 2019, and has since more than doubled to 79mm for the YTD period. The REIT was included in the FTSE EPRA NAREIT Global Emerging Market Index in 2019, which is a well-followed index tracking global property-related companies. The improved trading liquidity and the inclusion in a global equity index tend to create a virtuous cycle for a REIT's unit price, as it gains visibility from investors.

Financials

FYE 31 December					
INCOME STATEMENT (SGD mn)	2018	2019	2020F	2021F	2022F
EMA Rental Income	93,525.0	118,015.0	116,678.0	121,345.1	123,893.4
REIT Manager's fees	(6,053.0)	(7,793.0)	(7,175.7)	(7,523.4)	(7,681.4)
Trustee fees	(226.0)	(316.0)	(350.0)	(364.0)	(371.7)
Other trust expenses	(11,028.0)	(1,996.0)	(2,000.0)	(2,000.0)	(2,000.0)
Finance income	232.0	284.0	-	-	-
Finance costs	(21,682.0)	(27,981.0)	(23,930.0)	(23,930.0)	(23,930.0)
Net change in fair value of financial derivative	(154.0)	102.0	-	-	-
Net profit/(loss) before fair value adjustments	54,614.0	80,315.0	83,222.3	87,527.7	89,910.3
Change in fair value - investment ppty	182,682.0	95,080.0	-	-	-
Total return before tax	237,296.0	175,395.0	83,222.3	87,527.7	89,910.3
Income tax	(68,071.0)	(49,250.0)	(23,718.3)	(24,945.4)	(25,624.4)
Total return after tax	169,225.0	126,145.0	59,503.9	62,582.3	64,285.9
Distributable income	60,530.0	77,926.0	71,679.6	75,105.7	76,967.3
BALANCE SHEET (SGD mn)	2018	2019	2020F	2021F	2022F
Cash and cash equivalents	203,641.0	154,693.0	144,192.0	142,237.0	140,282.0
Other current assets	25,546.0	28,536.0	28,536.0	28,536.0	28,536.0
Total current assets	229,187.0	183,229.0	172,728.0	170,773.0	168,818.0
Investment properties	1,539,491.0	1,587,197.0	1,587,197.0	1,587,197.0	1,587,197.0
Intangibles, others	-	-	-	-	-
Total assets	1,768,678.0	1,770,426.0	1,759,925.0	1,757,970.0	1,756,015.0
Trade and other payables	142,705.0	124,447.0	124,447.0	124,447.0	124,447.0
Other current liabilities	15,345.0	24,221.0	24,221.0	24,221.0	24,221.0
Total current liabilities	158,050.0	148,668.0	148,668.0	148,668.0	148,668.0
LT Borrowings	485,564.0	474,521.0	474,521.0	474,521.0	474,521.0
Other non-current liabilities	51,098.0	78,074.0	78,074.0	78,074.0	78,074.0
Total liabilities	694,712.0	701,263.0	701,263.0	701,263.0	701,263.0
Unitholders' funds and reserves	1,073,966.0	1,069,163.0	1,058,662.0	1,056,707.0	1,054,752.0
Total liabilities and equity	1,768,678.0	1,770,426.0	1,759,925.0	1,757,970.0	1,756,015.0
CASH FLOW STATEMENT (SGD mn)	2018	2019	2020F	2021F	2022F
Total return before tax	237,296.0	175,395.0	83,222.3	87,527.7	89,910.3
Changes in working capital & non-cash adj	(129,995.0)	(49,375.0)	35,150.7	35,498.4	35,656.4
Taxes paid	(4,487.0)	(6,290.0)	(23,718.3)	(24,945.4)	(25,624.4)
Cash flows from operations	102,814.0	119,730.0	94,654.6	98,080.7	99,942.3
Capital expenditure	(857.0)	(10,684.0)	(1,000.0)	(1,000.0)	(1,000.0)
Acquisition of investment properties	-	-	-	-	-
Other investing cashflow	-	-	-	-	-
Cash flows from investing	(857.0)	(33,003.0)	(1,000.0)	(1,000.0)	(1,000.0)
Borrowings raised / (repaid)	121,005.0	(7,723.0)	-	-	-
Equity raised / (bought back)	-	-	-	-	-
Dividends paid	(18,731.0)	(100,226.0)	(71,679.6)	(75,105.7)	(76,967.3)
Other financing cashflow	(65,797.0)	(22,576.0)	(23,930.0)	(23,930.0)	(23,930.0)
Cash flows from financing	36,477.0	(130,525.0)	(95,609.6)	(99,035.7)	(100,897.3)
FX Effects, Others	(1,323.0)	(5,181.0)	-	-	-
Net increase in cash	138,434.0	(43,798.0)	(1,955.0)	(1,955.0)	(1,955.0)
Beginning Cash	58,015.0	195,126.0	146,147.0	144,192.0	142,237.0
Ending cash	195,126.0	146,147.0	144,192.0	142,237.0	140,282.0
KEY RATIOS	2018	2019	2020F	2021F	2022F
DPU (SGD cents)	5.13	6.51	5.94	6.23	6.38
Dividend yield (%)	6.5	8.2	7.5	7.8	8.0
NAV per share (SGD cents)	0.9	0.9	0.9	0.9	0.9
Price/NAV (x)	0.9	0.9	0.9	0.9	0.9
Profitability					
Operating Margin (%)	58.4	68.1	71.3	72.1	72.6
Net Margin (%)	-	-	-	-	-
ROE (ex. Property FV gain) (%)	15.8	11.8	5.6	5.9	6.1
ROA (ex. Property FV gain) (%)	-	-	-	-	-
Financial Structure					
Interest Coverage Ratio (x)	3.5	3.9	4.5	4.7	4.8
Gearing Ratio (%)	32.0	30.2	30.2	30.2	30.2

APPENDIX: Portfolio summary and key trends

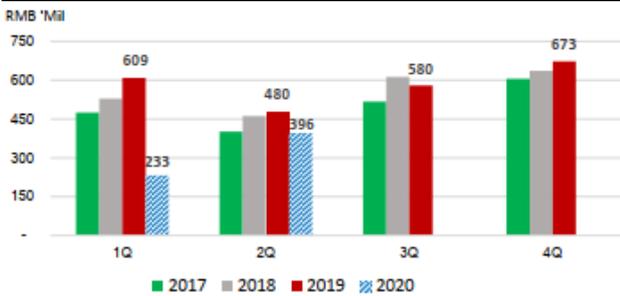
Sasseur REITs' four retail malls were valued at S\$1.6 bn (RMB 8.2 bn) as at end-2019, by Jones Lang Lassalle Corporate Appraisal and Advisory Limited.

Figure 4: Sasseur's portfolio (Valuations in RMB)



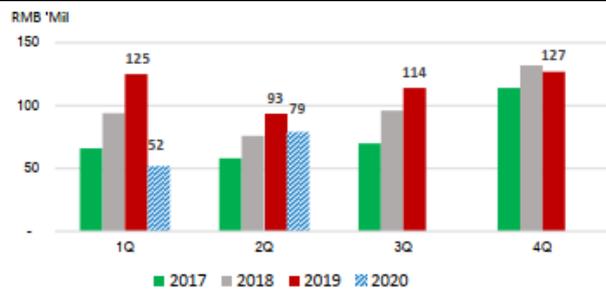
Source: Company *Valuations as at 31 December 2019

Figure 5: Chongqing Outlet Sales



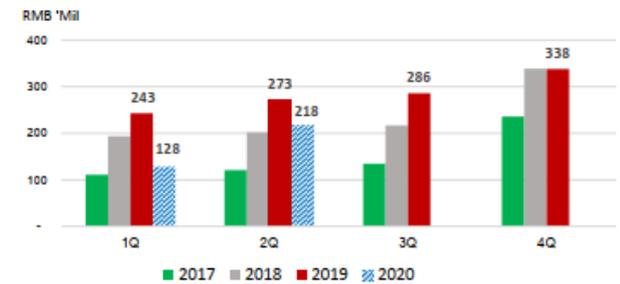
Source: Company

Figure 6: Bishan Outlet Sales



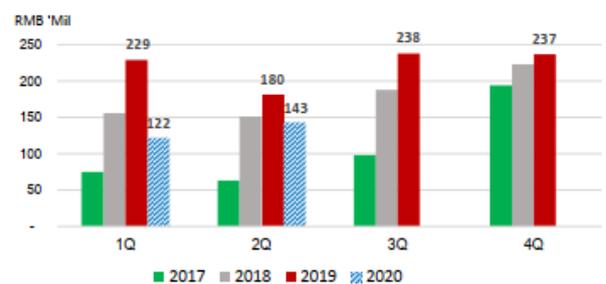
Source: Company

Figure 7: Hefei Outlet Sales



Source: Company

Figure 8: Kunming Outlet Sales



Source: Company

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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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