



Sasseur REIT

(SASSR SP/SASS.SI)

Outperformance compared to peers

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- **Good performance.** Given the height of the pandemic in 1H20, Sasseur performed relatively well. While 2Q20 DPU declined 6.0% YoY to 1.512 Scts, sequential performance was commendable as DPU rose 13.6% QoQ.
- **7.6% dividend yield and growing.** 1H20 DPU of 2.856 Scts makes up 48% of our full-year forecast. We expect Sasseur to meet our projections, thus providing an attractive dividend yield of 7.7% in FY20F.
- **Worst is over in our view; 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 28.1% debt gearing puts it in a good place to withstand asset price volatility while providing S\$387mn 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%)	6.6%	8.4%	7.7%	8.0%	8.2%
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)	0.85	0.87	0.88	0.88	0.89
ROE (%)	15.8%	11.8%	5.6%	5.9%	6.1%

Source: Company data, KGI Research

Improvement from the bottom, good momentum. While 2Q20 rental income declined 4.0% YoY to S\$28mn, we were encouraged by the healthy sequential improvement. On a QoQ basis, rental income rose 10.7% QoQ. As a result, 2Q20 DPU declined 6.0% YoY to 1.512 Scts but improved 13.3% QoQ. 1H20 DPU makes up 48% of our forecasts and is on track to meet full-year estimates.

Table 1: 2Q20 performance showing positive momentum

RMB'million	2Q20 sales	QoQ	YoY	1Q20 sales YoY
Chongqing	396	+70%	-62%	-62%
Bishan	79	+52%	-16%	-58%
Hefei	218	+70%	-20%	-47%
Kunming	143	+18%	-20%	-47%
Portfolio	836	+56%	-19%	-56%

Source: Company data, KGI Research

We think there could be DPU upside if management can continue to take advantage of lower interest rates. So far, it has done a good job of bringing down weighted average cost of debt to 4.17% in 2Q20, an improvement from 4.41% in 4Q19. It is in the final stage of refinancing a S\$125mn offshore loan due March 2021, which is based on a floating rate pegged to Singapore SOR. Gearing increased slightly to 28.1% as at end-2Q20, still a comfortable level compared to peers who have gearings of between 35% and 40%.

OUTPERFORM - Maintain			
Price as of 14 Aug 20 (SGD)	0.78	Performance (Absolute)	
12M TP (\$)	0.89	1 Month (%)	0.6
Previous TP (\$)	0.89	3 Month (%)	9.5
Upside, incl div (%)	22.4	12 Month (%)	4.7
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	931		
Issued Shares (mn)	1,201		
Vol - 3M Daily avg (mn)	1.4		
Val - 3M Daily avg (\$mn)	1.0		
Free Float (%)	40.4%		
Major Shareholders		Previous Recommendations	
Xu Rongcan	58.6%	11-Jun-20	Outperform S\$0.89

Best time for 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.

Factors to monitor closely in 2H20. While we believe Sasseur's team has performed well to navigate the disruptions and economic slowdown, it is still not out of the woods yet. July 2020 retail sales in China fell 1.1% YoY, which means retail sales would have declined every month year-to-date. The concern now is that China's 2Q20 GDP growth could have been driven by pent-up demand, and performance may not repeat going forward. Specifically, the jobless rate for college graduates rose to 19% in June and may exert pressure on the consumer sector.

Pivot inwards. Even with the above-mentioned headwinds, China is better placed compared to other major economies due to a better grip on further COVID-19 outbreaks, as well as the government's emphasis on growing the local economy.

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. Key demand is driven by China's growing disposable income per capita.

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. While Sasseur's 1H20 DPU declined 6% YoY due to the lockdown measures in China, the REIT's long-term growth is underpinned by growing middle income spend. In the short term, performance may surprise on the upside going into 2H20 as government policies spur spending.

In our FY2020F base case forecast, we expect Sasseur's operating performance to hit trough level in 1H20, and gradually improve sequentially at a rate of 2.0% QoQ from 3Q20 to 4Q20. 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 (%)		8.4%	7.7%	8.0%	8.2%	8.4%	8.6%	8.9%
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\$)	\$0.78							
Upside/(Downside), incl div (%)	22.4%							

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 0.78	679	7.4	7.7	30.2	1.0	0.9	2,014	-12.4	-3.1
S-REITs focusing on Chinese retail sector											
CRCT SP	CAPITALAND RETAIL CHINA TRUS	SGD 1.17	1,044	6.1	6.8	43.0	1.0	0.8	5,445	-27.3	-20.4
BHGREIT SP	BHG RETAIL REIT	SGD 0.57	212	5.6	-	32.1	0.8	-	556	-16.8	-17.4
DASIN SP	DASIN RETAIL TRUST	SGD 0.80	450	8.2	6.3	44.3	0.6	-	155	-4.2	-8.6
	Average		569	-	6.5	39.8	-	0.8	2,052	(16.1)	(15.5)
	Median		450	-	6.5	43.0	-	0.8	556	(16.8)	(17.4)
Other retail S-REITs											
CT SP	CAPITALAND MALL TRUST	SGD 1.88	5,062	4.9	4.8	31.5	1.2	0.9	46,287	-23.6	-28.2
MCT SP	MAPLE TREE COMMERCIAL TRUST	SGD 1.91	4,619	4.4	4.3	34.2	1.0	1.1	30,769	-20.1	-7.0
SPHREIT SP	SPH REIT	SGD 0.86	1,734	5.1	4.3	28.2	1.0	0.9	2,801	-19.6	-19.6
FCT SP	FRASERS CENTREPOINT TRUST	SGD 2.33	1,906	4.4	4.0	29.6	1.2	1.1	9,060	-17.1	-12.7
SGREIT SP	STARHILL GLOBAL REIT	SGD 0.45	713	-	9.2	37.0	-	0.5	1,873	-38.6	-40.7
LMRT SP	LIPPO MALLS INDONESIA RETAIL	SGD 0.12	258	9.9	9.1	39.8	0.8	0.4	1,303	-45.2	-45.0
	Average		2,382	5.7	6.0	33.4	1.1	0.8	15,349	(27.4)	(25.5)
	Median		1,820	4.9	4.6	32.9	1.0	0.9	5,930	(21.8)	(23.9)

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 79mn 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.

Outlook: China retail sales recovering

Positive momentum going into the second half. China retail sales continued to recover from the troughs in March 2020. China retail sales declined 1.1% YoY in July 2020, but was an improvement from -1.8% in June, -2.8% in May, -7.5% in April and -15.8% in March.

Consumer demand in China has improved since January 2020 and we expect government policies – including lowering import taxes and stimulus – to boost domestic consumption.

We expect the momentum to pick up going into 2H2020 as local governments launch stimulus packages to spur consumption, and as spending is diverted from the restrictions on overseas travel, which is likely to last until the end of the year. Overall, there seems to be better demand visibility in China's post-COVID recovery compared to other countries, given its large domestic market and better control of the COVID-19 outbreak.

Figure 4: China's discretionary spending showed sequential improvement

Key discretionary sales	July YoY (%)	June YoY (%)	May YoY (%)	April YoY (%)	March YoY (%)	Jan-Feb YoY (%)
Home Appliances	-2	+10 ▲	+4 ▲	-9 ▲	-30	-30
Home Furnishings	-4	-1	+3 ▲	-5 ▲	-23 ▲	-34
Gold & Jewellery	+8 ▲	-7	-4 ▲	-12 ▲	-30 ▲	-41
Apparel & Footwear	-3	0 ▲	-1 ▲	-19 ▲	-35	-31
Cosmetics	+9 ▲	+21 ▲	+13 ▲	+4 ▲	-12 ▲	-14

Source: Bloomberg, KGI Research ▲ Sequential improvement in sales

Key risk. There are risks to our view as we note that China's unemployment rate is rising, which could lead to lower growth in the second half. This will be exacerbated if there is a second wave of COVID-19 infections and the accompanying social restrictions. Furthermore, a central component of our positive outlook rests on higher government stimulus measures to offset the weak external demand.

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 (%)	6.6	8.4	7.7	8.0	8.2
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

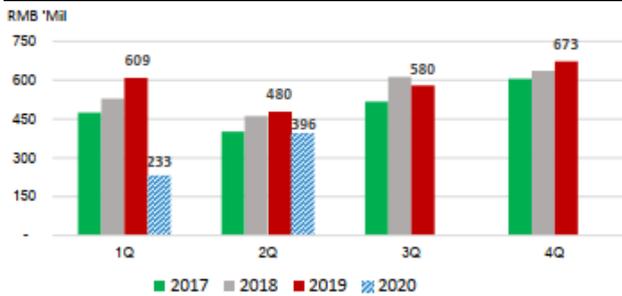
Sasseur REITs’ four retail malls were valued at S\$1.6 bn (RMB 8.2 bn) as at end-2019, by Jones Lang Lassalle Corporate Appraisal and Advisory Limited.

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



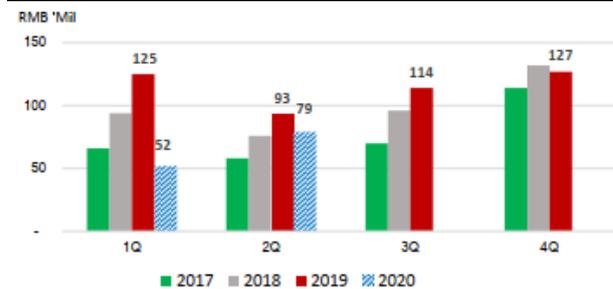
Source: Company *Valuations as at 31 December 2019

Figure 6: Chongqing Outlet Sales



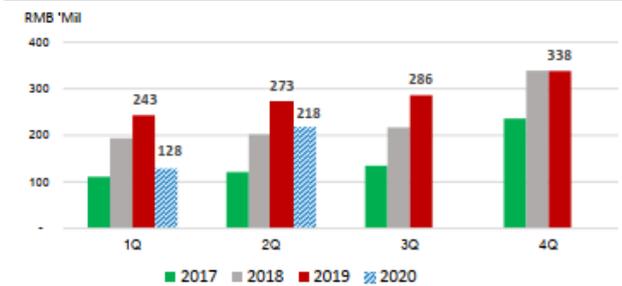
Source: Company

Figure 7: Bishan Outlet Sales



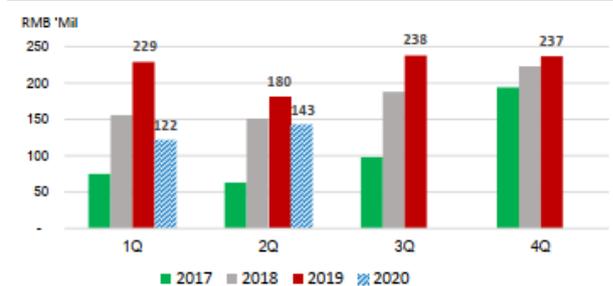
Source: Company

Figure 8: Hefei Outlet Sales



Source: Company

Figure 9: 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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