



CHINA  
DEVELOPMENT  
FINANCIAL

# Sasseur REIT

(SASSR SP/SASS.SI)

## Not your average retail REIT

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- **We assume coverage of Sasseur with an Outperform recommendation.** Our S\$0.89 target price is based on DDM valuation. While Sasseur's 1Q20 DPU declined 19% YoY due to the lockdown measures in China, the REIT's long-term growth is underpinned by growing middle income spend, and in fact, may surprise on the upside going into 2H20 as government policies spur spending.
- **With you in your ups and downs.** Sasseur's unique business model offers investors upside potential with a variable component linked to 4.0-5.5% of total sales of its four outlet malls while providing downside protection with a fixed income component that increase 3.0% per annum until 2028.

### 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 (\$ 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

**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. Sasseur, therefore, allows investors to invest into a proxy of China's outlet retail spending, the country's fastest growing retail segment. Furthermore, its four outlet malls are located in fast growing Tier-2 cities of Chongqing, Hefei and Kunming. Demand is primarily driven by China's growing disposable income per capita.

**E-commerce? No sweat.** Even with the growing e-commerce trend and the decade-long disruption to traditional retail malls, many shoppers are still reluctant to buy big ticket items (defined as above RMB 1,000 per item) online. As such, Sasseur has managed to thrive despite the disruption to the retail industry, as it ensures that all the products at its outlet malls are genuine, with harsh penalties imposed on merchants found selling counterfeit goods.

**DPU downside protection; upside potential.** Sasseur's income is generated through its fixed income component and a variable income component. The fixed income component grows at 3% per annum until 2018, while 4.0-5.5% of the total sales of its four outlets contributes to the variable income component. The ratio in the first year following its IPO was 70% fixed and 30% variable.

### Outperform - Initiation

Price as of 10 Jun 20 (SGD)	0.80	<b>Performance (Absolute)</b>	
12M TP (\$)	0.89	1 Month (%)	11.6
Previous TP (\$)	-	3 Month (%)	10.1
Upside, incl div (%)	19.1	12 Month (%)	7.4
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>	
Mkt Cap (\$mn)	955		
Issued Shares (mn)	1,201		
Vol - 3M Daily avg (mn)	3.6		
Val - 3M Daily avg (\$mn)	2.4		
Free Float (%)	40.4%		
<b>Major Shareholders</b>		<b>Previous Recommendations</b>	
Xu Rongcan	58.6%		

**Overseas ban a boon.** As COVID-19 cuts into overseas trips spending, domestic shopping by residents may potentially get a lift, helped by supportive government policies. China's Labour Day holidays in May 2020 showed the government's willingness to boost local consumption. Examples included authorities in Shanghai collaborating with internet companies and retailers to promote Double Five Shopping Festival from 30 April onwards. In Beijing, shoppers can use e-coupons offered by the local government and retailers to enjoy discounts over the following two months. Furthermore, the yuan's decline against the USD and Yen may incentivise shoppers to spend on domestic activities.

**Holidaying at the malls.** Sasseur outlet malls are designed to pull in shoppers by offering a holistic experience, with activities such as an indoor zoo, children's playgrounds, and sports concepts. As such, we believe that Sasseur's malls stand to recover quickly post the 44-49 days lockdowns of its malls in 1Q20. While 1Q20 sales declined 56% YoY to RMB 535mn and resulted in a 19% YoY drop in DPU, it has opted to pay 100% of distributable income and has not retained any cash. We think this is only possible as the REIT's occupancy was stable at 95% (a slight decline of 1.2% pts), and shows the positive momentum that management sees going into 2Q20.

**Valuation & Action:** We initiate coverage on Sasseur REIT with an Outperform and a target price of S\$0.89. Our target price is based on DDM, with an 9% cost of equity and 2.0% terminal growth rate.

**Risks:** DPU payment can decline higher-than-expected if the sponsor is financially unable to support the 70% fixed income component. We provide more information of the sponsor in this report to give reassurance. A weaker CNH will also be a forex risk factor to DPU performance.

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### Investment Thesis

Who doesn't like a bargain?

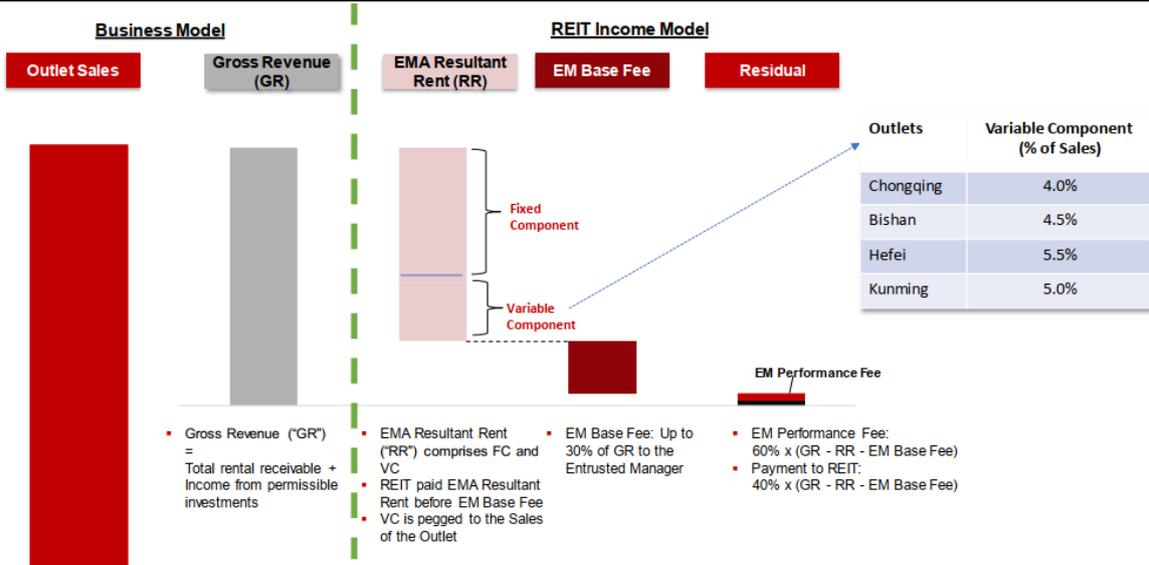
Sasseur's outlet malls attract shoppers with brands like Coach, Michael Kors, Armani, Adidas, and Nike, alongside discounts of up to 80% throughout the year.

**Not your average REIT: Upside potential and downside support.** Sasseur offers investors the opportunity to invest into a unique model where the fixed income component grows at 3% per year, while the remaining (around 30% in the first year when the agreement was put in place) is made up of variable component linked to tenant sales. This model offers investors upside potential when tenants do well, and downside protection as DPU decline is capped to the fixed income component.

The variable income component is contributed by its four outlet malls, with varying percentage of between 4.0% to 5.5% of the total sales of each outlet that goes into this pool. Chongqing, the most mature of its four malls, contributes 4.0% of its total sales, while Hefei, which is the most recent to open, provides the highest percentage of its sales at 5.5%.

The difference in the contribution of each mall is attributed to several factors such as the maturity and performance of each mall that was decided in 2018 when the agreement was put in place. The agreement is in effect for 10 years, with an option to extend another 10 years depending on the manager.

**Figure 1: Sasseur's unique business model**



Source: Company data, KGI Research

**The not-so-secret formula: Quality products, good prices and lifestyle experiences.**

Unlike online retail platforms, the malls target middle class families, offering international and luxury brands with the guarantee of authenticity and quality. Customers at Sasseur's outlet malls can expect diverse forms of experiences such as dining or movie screenings, alongside discounts of up to 80% or more off full-priced retail stores throughout the year.

The REIT's short WALE was specifically planned to constantly renew tenant mix to ensure its malls remain attractive to shoppers.

**Constant renewal.** The majority of Sasseur's lease are sales-based whereby the tenant pays an agreed percentage of sales to the sponsor. The terms of such leases are around one year for most brand tenants and longer leases for a small portion of tenants under fixed rent leases (e.g., restaurants and cinema operators). The REIT's short 1 year WALE by property income is supportive of their sales driven model, as the manager can renew leases at a higher commission for tenants with strong sales growth, and gives it the option to replace underperforming tenants with more popular brands, which ensures the mall remains attractive to consumers.

China is showing a V-shape recovery, tapered only by weaker global demand.

## Shopping therapy after the lockdown

Since March, China has resumed most economic activities following the lockdown in January and March. The country is showing signs of a V-shaped recovery, only tapered by slowing demand in its key overseas export markets in 2Q20. However, the global economy is expected to generate one of the strongest growths going into the first half of 2021, although we note the rising risks of renewed trade tensions could derail our forecasts.

We believe Sasseur would be less impacted by external events, and likely to benefit from supportive government measures to boost domestic consumption. All Sasseur's four malls were gradually opened after 11 March 2020. While taking all precautionary measures to ensure safety after the temporary closures, pent up demand was evident as first day sales for its four malls were 129% YoY higher.

**Figure 2: All outlets were temporary closed for 44-49 days but recorded significant first day sales upon opening**

Outlet Mall	Reopening Date	Temporary Closure Period	First Day Reopening Sales (RMB' million)	Compared to Corresponding Date in 2019
Kunming	11 March 2020	44 days	1.90	+171%
Hefei	13 March 2020	46 days	2.00	+57%
Chongqing	15 March 2020	49 days	5.64	+132%
Bishan	15 March 2020	49 days	1.92	+228%
<b>Total</b>			<b>11.46</b>	<b>+129%</b>

Source: Company data, KGI Research

## The worst is over in 1Q20

With Sasseur's unique business model, the REIT reported a decent set of 1Q20 figures despite bearing the full brunt of the temporary closures. While total sales plunged 56% YoY, 1Q20 DPU dropped by only 19% YoY to 1.334 Sing cents, as the fixed income component helped provide a floor. The REIT maintained its 100% payout ratio and did not retain any cash, a pleasant surprise which stood out among its peers.

This was possible due to its healthy operating and financial metrics throughout the quarter: occupancy was stable at 95%, its 29% leverage remains among the most conservative of its peers, and its 4.7x interest ratio coverage is safely above MAS's new minimum requirement of 2.5x, implementation of which has been deferred to 1 January 2022.

Sasseur's operational and financial metrics remain healthy amid the pandemic – 29% gearing and 4.7x interest coverage ratio are conservatively within regulatory requirements.

Note: On 16 April 2020, MAS raised gearing limit to 50% and deferred the minimum 2.5x Interest Coverage Ratio to 1 Jan 2022.

**Figure 3: 1Q20 financial performance**

	1Q20	1Q19	Change (%)
Fixed Income (RMB mn)	102.4	98.5	+3.9
Variable Income (RMB mn)	24.8	54.8	-54.8
EMA Rental Income* (RMB mn)	127.2	153.3	-17.1
Exchange Rate (RMB/S\$)	5.0339	4.9665	+1.4
EMA Rental Income * (S\$ mn)	25.3	30.9	-18.2
Distributable Income (S\$ mn)	16.0	19.7	-18.7
DPU (Sing cents)	<b>1.334</b>	1.656	<b>-19.4</b>

Source: Company, KGI Research \*Excluding straight-line accounting adjustment

## Industry outlook: China retail sales almost back to trend

**Positive momentum going into the second half.** The pace of China's retail sales decline improved in April. China reported a 7.5% YoY decline in overall retail sales in April, an improvement from the 16% YoY and 21% YoY plunge in March and February, respectively.

We expect the momentum to pick up going into June and 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.

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

**Figure 4: China's discretionary spending continued to decline in April, but at a slower pace vs March. Data includes both offline and online physical goods revenue.**

Key discretionary sales	April YoY (%)	March YoY (%)	Jan-Feb YoY (%)
Home Appliances	-9 ▲	-30	-30
Home Furnishings	-5 ▲	-23 ▲	-34
Gold & Jewelry	-12 ▲	-30 ▲	-41
Apparel & Footwear	-19 ▲	-35	-31
Cosmetics	+4 ▲	-12 ▲	-14

Source: Bloomberg, KGI Research ▲ Sequential improvement in sales

**Lower taxes on imported goods.** Reductions on imported goods have been ongoing over the last eight years, and there are plans to lower it further in order to incentivise consumers to increase domestic purchases, even after the government lifts travel restrictions. This trend has helped to repatriate overseas spending and improve local living conditions.

**Figure 5: Import taxes on consumer goods in China**

Categories	2012	2017	2019	2020 onwards
Cosmetics & Skincare	6.5-10%	2-5%	2-5%	2-5%
Watches	20%	11-20%	8-15%	8-15%
Home & Personal Care products	6.5-15%	6.5-15%	3.0%	2-3%
Clothing	14-25%	14-25%	7.0%	4-7%
Athletic Gear/Equipment	10-20%	10-20%	7.0%	7.0%
Home Appliances	10-35%	10-35%	8.0%	5-8%

Source: Bloomberg Intelligence, KGI Research

**Reversion of some demand to physical retail.** Online sales of physical goods share of total retail sales rose to around 24% in the Jan-April 2020 period, compared to around 21% share in 2019. Although Covid-19 has accelerated the trend towards online purchases, we believe that a portion of that will revert to physical sales as travel restrictions are lifted, especially for big-ticket items where shoppers feel more comfortable committing in person.

**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.

## Valuations

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 1Q20 DPU declined 19% 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 2020 base case forecast, we expect Sasseur's operating performance to hit trough level in 1Q20, and gradually improve at a rate of 5.0% QoQ from 2Q to 4Q20. From 2021 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 6: 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	5.750	6.225	6.378	6.537	6.696	6.860
YoY Growth (%)		27.4%	(12.0%)	8.3%	2.5%	2.5%	2.4%	2.4%
Dividend Yield (%)		8.2%	7.2%	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 (%)	19.1%							

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 7: 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

**Initial outperformance by China-focused REITs in 2020.** China-focused REITs's unit prices performed relatively better in 1Q20 compared to Singapore-focused REITs, but this gap has since narrowed following the easing of Singapore's circuit breaker measures in June. On average, stripping out outliers, both China and Singapore focused REITs have recouped most of the unit price losses in 1Q20 and are only lower by 8-15% YTD. Malls that derive a significant percentage of sales from the tourism sector continue to underperform, mainly those with malls along Singapore's Orchard Road shopping belt such as SPH REIT (Paragon) and Starhill Global REIT (Wisma Atria and Ngee Ann City).

Lippo Malls Indonesia Retail REIT (LMRT) is an outlier and deserves special attention. It is the worst performer among the retail REITs, still down 35% YTD due to concerns that it may potentially miss distributions to perpetual holders, thus cutting off dividends entirely to equity holders until distributions to perpetual holders are resumed.

**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 8: 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 (\$'000)	YTD Price Performance (%)	1YR Price Performance (%)	1YR Total Returns (%)
				FY19	FY20F		FY19	FY20F				
SASSR SP	SASSEUR REAL ESTATE INVESTME	SGD 0.80	689	7.4	7.5	30.2	1.0	0.9	2,630	-10.2	-0.6	7.4
<b>S-REITs focusing on Chinese retail sector</b>												
CRCT SP	CAPITALAND RETAIL CHINA TRUS	SGD 1.39	1,227	6.1	6.0	43.0	1.0	0.9	5,942	-13.7	-9.0	-4.8
BHGREIT SP	BHG RETAIL REIT	SGD 0.64	235	5.6	-	32.1	0.8	-	17	-6.6	-8.6	-3.0
DASIN SP	DASIN RETAIL TRUST	SGD 0.84	391	8.2	6.2	44.3	0.6	-	252	0.0	-4.6	2.4
<b>Average</b>			<b>618</b>	<b>-</b>	<b>6.1</b>	<b>39.8</b>	<b>-</b>	<b>0.9</b>	<b>2,070</b>	<b>(6.7)</b>	<b>(7.4)</b>	<b>(1.8)</b>
<b>Median</b>			<b>391</b>	<b>-</b>	<b>6.1</b>	<b>43.0</b>	<b>-</b>	<b>0.9</b>	<b>252</b>	<b>(6.6)</b>	<b>(8.6)</b>	<b>(3.0)</b>
<b>Other retail S-REITs</b>												
CT SP	CAPITALAND MALL TRUST	SGD 2.24	5,967	4.9	4.2	31.5	1.2	1.1	45,531	-8.9	-13.2	-9.8
MCT SP	MAPLETREE COMMERCIAL TRUST	SGD 2.17	5,189	4.4	3.9	34.2	1.0	1.3	33,313	-9.2	7.8	11.2
SPHREIT SP	SPH REIT	SGD 0.91	1,803	5.1	4.8	28.2	1.0	0.9	3,079	-15.4	-13.8	-9.2
FCT SP	FRASERS CENTREPOINT TRUST	SGD 2.58	2,085	4.4	3.6	29.6	1.2	1.2	9,130	-8.2	2.4	6.2
SGREIT SP	STARHILL GLOBAL REIT	SGD 0.58	909	5.8	6.8	37.0	0.9	0.7	1,878	-20.7	-23.3	-19.7
LMRT SP	LIPPO MALLS INDONESIA RETAIL	SGD 0.16	327	9.9	11.6	39.8	0.8	0.5	1,353	-30.5	-31.1	-25.3
<b>Average</b>			<b>2,714</b>	<b>5.7</b>	<b>5.8</b>	<b>33.4</b>	<b>1.0</b>	<b>0.9</b>	<b>15,714</b>	<b>(15.5)</b>	<b>(11.9)</b>	<b>(7.1)</b>
<b>Median</b>			<b>1,944</b>	<b>5.0</b>	<b>4.5</b>	<b>32.9</b>	<b>1.0</b>	<b>1.0</b>	<b>6,105</b>	<b>(12.3)</b>	<b>(13.5)</b>	<b>(9.3)</b>

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.

Having an established sponsor is critical for the REIT, as the fixed income component is only possible if the sponsor can financially sustain this amount.

### Sponsor – Sasseur Group

Sasseur Group, the sponsor of Sasseur REIT, was founded by Mr. Vito Xu in 1989, who established the group's first outlet in Chongqing in 2008.

Since then, the Sasseur Group has gone on to grow into a recognised enterprise in Chongqing, China. It was ranked 15th in Chongqing's Top 100 Enterprise (Service Industry) in 2019 and ranked 313th in the whole of China in the Service Industry. The Sasseur Group has 11 mall outlets under management, with 4 more in the pipeline. Among the 11 outlets in operation, 5 outlets have sales of above RMB 1 billion in 2019. Its malls attracted more than 55 million visitors in 2019, driven by a combination of strict controls over products sold and non-overlapping product segment with online retailers (its products average RMB 1,000 per transaction compared to RMB 200 for e-commerce platforms).

The sponsor is supported by two important strategic shareholders: L Catterton Asia (a private equity fund partnership between L capital of the LVMH Group and Catterton of the US) and Ping An Real Estate, an affiliate of Ping An Insurance.

**Figure 9: Sasseur Group was awarded the highest credit rating of AAA at the National Commercial Credit Conference in December 2019**



**COMMERCIAL ENTERPRISE CREDIT RATING AAA**

In December, Sasseur Group was awarded the highest Enterprise Credit Rating of AAA at the National Commercial Credit Conference.

As one of the leading outlet operators, Sasseur Group is highly committed to promoting the healthy and active development of China's outlet industry, and has been highly recognised by the industry and widely trusted by consumers.

Source: Company Annual Report

### Founders and largest shareholder

Both co-founders have more than 20 years of experience in the retail business in China, backed by an impressive list of board of directors and senior management team. The full list of directors and management team is provided in "[APPENDIX A: Directors and management team](#)". The husband and wife team are also the largest shareholders of Sasseur REIT, with a total ownership of 58.6%.

#### Mr Xu Rongcan, Vito – Non-Executive and Non-Independent Chairman

Mr Xu founded the Sasseur Group in 1989 and is responsible for overall management of the group. Mr Xu was employed in the Southwest Normal University from July 1985 to December 1989, where he was responsible for office management and advertising. He has received awards including "2009 Chongqing Top Fashion Icon" and "Chongqing Top 10 Retailer", awarded by the Chongqing Morning News and Chongqing City Chamber of Commerce. He was named Asia's Top Entrepreneur by Fortune Times in 2019.



#### Ms Yang Xue – Non-Executive and Non-independent Director

Ms Yang co-founded Sasseur (Shanghai) Holding Company Limited, a property development and construction company which provides enterprise management to nine malls in eight municipalities and provincial capitals in China. She is currently an Executive Director of the sponsor, responsible for external affairs, as well as for its growth and development.



Source: Company Annual Report

**Financials**

FYE 31 December					
<b>INCOME STATEMENT (SGD mn)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
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	–	–	–
<b>Net profit/(loss) before fair value adjustments</b>	<b>54,614.0</b>	<b>80,315.0</b>	<b>83,222.3</b>	<b>87,527.7</b>	<b>89,910.3</b>
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)
<b>Total return after tax</b>	<b>169,225.0</b>	<b>126,145.0</b>	<b>59,503.9</b>	<b>62,582.3</b>	<b>64,285.9</b>
<b>Distributable income</b>	<b>60,530.0</b>	<b>77,926.0</b>	<b>71,679.6</b>	<b>75,105.7</b>	<b>76,967.3</b>
<b>BALANCE SHEET (SGD mn)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
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
<b>Total current assets</b>	<b>229,187.0</b>	<b>183,229.0</b>	<b>172,728.0</b>	<b>170,773.0</b>	<b>168,818.0</b>
Investment properties	1,539,491.0	1,587,197.0	1,587,197.0	1,587,197.0	1,587,197.0
Intangibles, others	–	–	–	–	–
<b>Total assets</b>	<b>1,768,678.0</b>	<b>1,770,426.0</b>	<b>1,759,925.0</b>	<b>1,757,970.0</b>	<b>1,756,015.0</b>
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
<b>Total current liabilities</b>	<b>158,050.0</b>	<b>148,668.0</b>	<b>148,668.0</b>	<b>148,668.0</b>	<b>148,668.0</b>
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
<b>Total liabilities</b>	<b>694,712.0</b>	<b>701,263.0</b>	<b>701,263.0</b>	<b>701,263.0</b>	<b>701,263.0</b>
Unitholders' funds and reserves	1,073,966.0	1,069,163.0	1,058,662.0	1,056,707.0	1,054,752.0
<b>Total liabilities and equity</b>	<b>1,768,678.0</b>	<b>1,770,426.0</b>	<b>1,759,925.0</b>	<b>1,757,970.0</b>	<b>1,756,015.0</b>
<b>CASH FLOW STATEMENT (SGD mn)</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
<b>Total return before tax</b>	<b>237,296.0</b>	<b>175,395.0</b>	<b>83,222.3</b>	<b>87,527.7</b>	<b>89,910.3</b>
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)
<b>Cash flows from operations</b>	<b>102,814.0</b>	<b>119,730.0</b>	<b>94,654.6</b>	<b>98,080.7</b>	<b>99,942.3</b>
Capital expenditure	(857.0)	(10,684.0)	(1,000.0)	(1,000.0)	(1,000.0)
<b>Cash flows from investing</b>	<b>(857.0)</b>	<b>(33,003.0)</b>	<b>(1,000.0)</b>	<b>(1,000.0)</b>	<b>(1,000.0)</b>
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)
<b>Cash flows from financing</b>	<b>36,477.0</b>	<b>(130,525.0)</b>	<b>(95,609.6)</b>	<b>(99,035.7)</b>	<b>(100,897.3)</b>
FX Effects, Others	(1,323.0)	(5,181.0)	–	–	–
<b>Net increase in cash</b>	<b>138,434.0</b>	<b>(43,798.0)</b>	<b>(1,955.0)</b>	<b>(1,955.0)</b>	<b>(1,955.0)</b>
Beginning Cash	58,015.0	195,126.0	146,147.0	144,192.0	142,237.0
<b>Ending cash</b>	<b>195,126.0</b>	<b>146,147.0</b>	<b>144,192.0</b>	<b>142,237.0</b>	<b>140,282.0</b>
<b>KEY RATIOS</b>	<b>2018</b>	<b>2019</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
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
<b>Profitability</b>					
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) (%)	–	–	–	–	–
<b>Financial Structure</b>					
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 A: Directors and management team**

<p><b>DR. WANG JUN</b></p> <p>Non-Executive and Non-Independent Director Date of First Appointment: 16 November 2017</p>	<p>Dr. Wang is currently the Managing Director of L Catterton Singapore Pte. Ltd., where he is responsible for deal sourcing, term sheet negotiations, deal executions and post deal portfolio management. Dr. Wang joined L Catterton in June 2010. From October 2008 to April 2010, he was a Senior Associate with McKinsey &amp; Company, Shanghai, where he was primarily responsible for providing support to his private equity clients, including in their takeover of other companies. From March 2003 to June 2006, Dr Wang was the Manager of the Global Strategic Alliance Department at Procter &amp; Gamble, United Kingdom, where he led the marketing, research &amp; development and patent departments to form multi- company alliance marketing strategies.</p>
<p><b>DR. ZHOU YIMIN</b></p> <p>Non-Executive and Non-Independent Director Date of first Appointment: 16 November 2017</p>	<p>Dr. Zhou is the chairman and chief executive officer of Ping An Real Estate Company Limited. Dr. Zhou joined Ping An Insurance (Group) Company of China, Ltd. in early 2010 after spending more than 12 years in Sun Hung Kai Properties Limited, one of the largest global real estate developers headquartered in Hong Kong. During his time at Sun Hung Kai Properties Limited, Dr. Zhou was the chairman of Sun Hung Kai Real Estate (Shanghai) Limited, overseeing its real estate business in the China market and the significant growth in its land bank and investment portfolio. Prior to his term at Sun Hung Kai Properties Limited, Dr. Zhou was the vice chairman of Chu Kong Shipping Enterprises (Group) Co., Ltd. (formerly known as 'Chu Kong Shipping Development Co., Ltd'), which was successfully listed on the Stock Exchange in 1997. Dr. Zhou is also currently a Non-Executive Director of Landsea Green Properties Co. Ltd., a company listed on the Stock Exchange of Hong Kong Limited. Dr. Zhou graduated from Fudan University with a doctorate degree.</p>
<p><b>DR. GU QINGYANG</b></p> <p>Lead Independent Director Date of first Appointment: 16 November 2017</p>	<p>Dr. Gu has been an Associate Professor of the Lee Kuan Yew School of Public Policy of the National University of Singapore since August 2009, where he conducts lectures on the Chinese economy, economics of the public sector and urban development. He has been an economic adviser to the Fuzhou New Zone in the PRC since April 2017. As economic adviser, he provides advice to the Chinese government for economic development of new zones, experiments on the PRC's new type of urban cluster. He was an Assistant Professor at the Nanyang Technological University of Singapore from July 2001 to July 2009, where he taught mathematical economics, microeconomics and macroeconomics and cost-benefit analysis and undertook research work relating to the Chinese economy, econometric modelling, reform of state- owned enterprises and international trade and finance. He carried out research on the Chinese economy, Singapore public policy and urban development from June 1997 to July 2001 as a research officer in the East Asian Institute of the National University of Singapore. He has been an Independent Director of China Life Insurance (Singapore) Pte. Ltd. since June 2015.</p>
<p><b>MR. MARIO BOSELLI</b></p> <p>Independent Director Date of first Appointment: 16 November 2017</p>	<p>Mr. Boselli began his career in 1959 in his family's silk mill which was established in 1586 in Garbagnate Monastero, taking over the reins from his father, Carlo Boselli. For four decades from the 1970s till the 2000s, Mr. Boselli developed the company's textile supply chain and grew the business both at home and abroad. He left the family business in 2005 to pursue new goals for his career. Mr. Boselli's distinguished career includes his time as President of the Italian Fashion Chamber, Federtessile, Fiera Internazionale di Milano, Pitti Immagine, International Silk Association (Lyon), Italian-Slovak Chamber of Commerce (Bratislava), and Italy-Hong Kong Association. For his accomplishments, Mr. Boselli was appointed the Cavaliere del Lavoro (1990), the Commandeur de l'Ordre National de la Legion d'Honneur (France 2002) and the Cavaliere di Gran Croce Ordine al Merito della Repubblica Italiana (2007). Mr. Boselli was born in Como, Italy in 1941, and is married with three children. He is President of Banca5 (Intesa Sanpaolo Group), Italy China Foundation and Italy China Institute, and sits on the boards of several listed and unlisted companies.</p>
<p><b>MR. CHENG HENG TAN</b></p> <p>Independent Director Date of first Appointment: 16 November 2017</p>	<p>Mr. Cheng brings to the Group his extensive experience with Ernst &amp; Young LLP (then known as Turquand, Youngs &amp; Co) from April 1977 to June 2010. During his 33 years with Ernst &amp; Young LLP, he amassed experience in financial audit, bank audit and training and administration. He was an audit partner of Ernst &amp; Young LLP from July 1990 to June 2010, when he was responsible for financial audit, group administration as well as audit work in relation to initial public offerings. In July 2010, he stepped down from his role in Ernst &amp; Young LLP and is currently a self-employed restaurant operator. Mr. Cheng was an Independent Director of Singapore-listed Chip Eng Seng Corporation Ltd. from July 2011 to April 2017, where he chaired the Nominating Committee and was a member of its Audit and Remuneration Committees. He was a journalist with two Chinese language daily newspapers in Singapore from December 1970 to July 1975.</p>
<p><b>MR. WU GENG</b></p> <p>Independent Director Date of first Appointment: 16 November 2017</p>	<p>Mr. Wu has practiced with Drew &amp; Napier LLC since April 2008, and has been a Director at Drew &amp; Napier LLC since May 2016. His areas of practice include corporate finance, capital markets, and general corporate legal advisory work. He was with Hoh Law Corporation (formerly known as Hoh &amp; Partners) as a legal executive from November 2003 to April 2008, Hoh &amp; Partners as a Chinese law adviser from January 2002 to June 2003, and Colin Ng &amp; Partners as a foreign counsel from June 2003 to October 2003, and with Pan-Commercial Pte. Ltd. as a legal adviser and foreign trade assistant from July 1999 to December 1999 where he assisted with the company's trading business and investments in the PRC. He started his career as a Judicial Clerk with the Supreme People's Court of the PRC (July 1995 to June 1998), where he was mainly responsible for reviewing legal cases, conducting legal research and drafting legal documents. Mr. Wu has been an Independent Director of Shengli Oil &amp; Gas Pipe Holdings Limited (listed on the mainboard of the Hong Kong Stock Exchange) since March 2015, where he chairs the Remuneration Committee and is a member of the Audit Committee and the Nominating Committee.</p>

**Management team**

<p><b>MR. ANTHONY ANG</b> Chief Executive Officer</p>	<p>Mr. Ang brings to the Group his extensive and diverse experience over 35 years, in the management of REITs, real estate funds as well as other investment asset classes while working with the ARA Group (ARA), GIC Real Estate Pte Ltd (GICRE), Vertex Management (Vertex), Armstrong Industrial Group and the Singapore Economic Development Board (EDB).</p> <p>Before joining Sasseur, Mr. Ang was the CEO and Executive Director of ARA Asset Management (Fortune) Pte. Ltd., the manager of Fortune REIT. Prior to that, he served as the CEO of ARA's flagship US\$1.13 billion ARA Asia Dragon Fund.</p> <p>Mr. Ang was with GIC Real Estate, serving as the EVP of Administration and Corporate Affairs for their global real estate investment operations. He also served as SVP in Vertex, managing venture capital investment, and Group GM and Executive Director of Armstrong Industrial Corporation Limited, overseeing its manufacturing business. Mr. Ang started his career at the EDB from 1979 and rose up the ranks to become the Regional Director of EDB's North America operation.</p> <p>Mr. Ang is currently Singapore's Non-Resident Ambassador to the Republic of Tunisia. Mr. Ang holds a Bachelor of Science degree (Mechanical Engineering) with First Class Honours from Imperial College London, and an MBA from the European Institution of Business Administration ("INSEAD") in 1982 on a scholarship from the Singapore and French governments. He also completed an International Directorship Programme at INSEAD in 2019.</p>
<p><b>MR. CHEW HIAN CHIN (KEN)</b> Chief Operating Officer</p>	<p>Mr. Chew oversees operational matters in Sasseur REIT, including investment and asset management for Sasseur REIT. He has many years of experience in real estate investment, fund and asset management for various assets classes, ranging from retail malls, offices, hotels, to warehouses and industrial parks.</p> <p>Mr. Chew was previously Fosun Group's Chief Representative in Singapore. He was responsible for investment and group-related matters and was also Fosun Property's Managing Director in charge of all property-related investments and asset management for Southeast Asia. He was previously a Vice President in CapitaMalls Asia and based in China. Before that, he worked as Mapletree Logistics' Representative in South Korea and Mapletree Group's Deputy General Manager in Japan. Prior to that, he worked in Tokyo at the Itochu Corporation on secondment from the Mapletree group, and was responsible for Itochu's investment and asset management in the Asia Pacific region. His first job was with the Singapore Economic Development Board where he was Assistant Head for Biomedical Sciences, and the Japan and India markets for investment promotion.</p> <p>Mr. Chew holds a Master of Information Science and Technology (Computer Science) and a Bachelor of Science Degree from the University of Tokyo and was awarded the joint Singapore Public Service Commission - Japan Monbusho scholarship. He is fluent in English, Chinese, Japanese and Korean.</p>
<p><b>MS. LEONG MEI KUAN (JASLYN)</b> Head of Finance</p>	<p>Ms. Leong is in charge of finance functions of Sasseur REIT including financial reporting, treasury, taxation and capital management.</p> <p>Ms. Leong has over 20 years of experience in audit, corporate finance, real estate fund accounting and treasury. Prior to joining the Manager, Ms. Leong was an Assistant Vice President at Mediaport Pte Ltd, overseeing all finance management functions and strategic planning of the data center business. Prior to that, Ms. Leong was the Group Senior Finance Manager of Tuan Sing Holdings Limited, handling SGX reporting and corporate finance. Previously, she worked in CapitaMalls Asia Limited as a Senior Finance Manager, handling China real estate funds on financial reporting, corporate finance, treasury, acquisitions and divestments as well as strategic planning. Ms. Leong started her early years of career as an external auditor with Ernst &amp; Young and held several finance positions in the electronics group of ST Engineering Limited.</p> <p>Ms. Leong holds a Bachelor of Business Degree from Nanyang Technological University and a professional qualification from the Association of Chartered Certified Accountants (ACCA). She is a Fellow Chartered Accountant (Singapore) with the Institute of Singapore Chartered Accountants.</p>
<p><b>MS. WONG SIEW LU</b> Head of Investor Relations and Corporate Affairs</p>	<p>Ms. Wong oversees Investor Relations and Corporate Affairs functions of Sasseur REIT. She has over a decade of experience in investor relations, capital markets (buyside), corporate banking, and has been actively involved in capital raising, M&amp;A transactions, and corporate strategy and development.</p> <p>As the liaison between SAMPL, Sasseur REIT and the investment community, Ms. Wong nurtures relationships with institutional and retail investors, research analysts and the media. She is also the main point of contact with investors and stakeholders as part of Sasseur REIT's investor relations efforts.</p> <p>Ms. Wong had extensive international exposure to various industries and roles, having worked and lived in 6 different countries over the course of her career. She spent over 5 years in investor relations role with Falcon Energy Group Limited, an SGX Mainboard-listed oil and gas company. Prior to that, Ms. Wong held corporate banking position at National Australia Bank as well as investment analyst positions at asset management firms.</p> <p>Ms. Wong holds a Bachelor of Applied Science degree (Computational Finance) from National University of Singapore. She is a Chartered Financial Analyst (CFA) Charterholder and a Chartered Accountant of Singapore, and is a member of the Institute of Singapore Chartered Accountants</p>

Source: Company Annual Report, KGI Research

## APPENDIX B: Portfolio summary and key trends

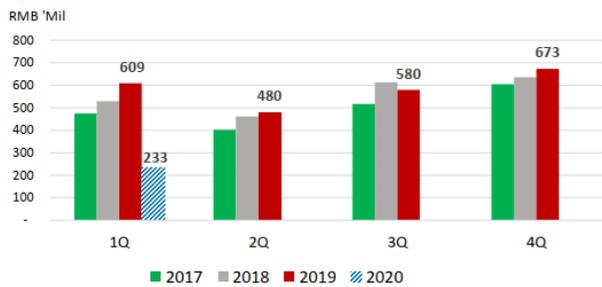
Sasseur REITs' four retail malls were valued at S\$1.6 bn (RMB 8.2 bn) as at end-2019, by Jones Lang Lassalle Corporate Appraisal and Advisory Limited.

**Figure 10: Sasseur's portfolio (Valuations in RMB)**



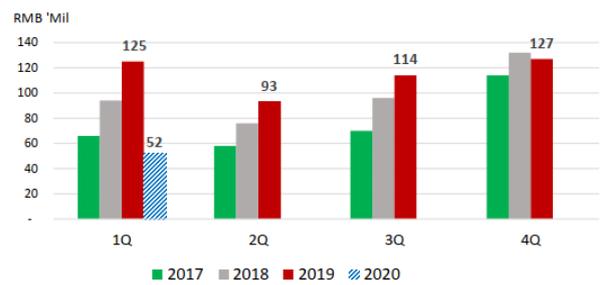
Source: Company \*Valuations as at 31 December 2019

**Figure 11: Chongqing Outlet Sales**



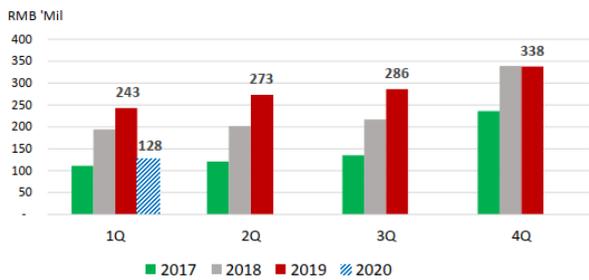
Source: Company

**Figure 12: Bishan Outlet Sales**



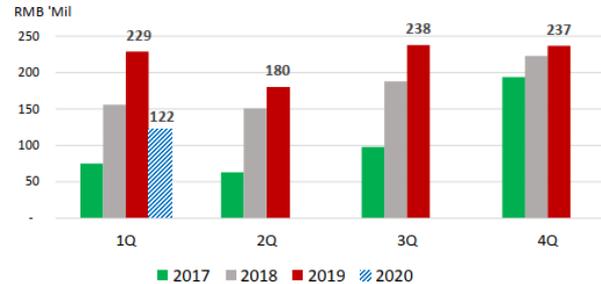
Source: Company

**Figure 13: Hefei Outlet Sales**



Source: Company

**Figure 14: Kunming Outlet Sales**



Source: Company

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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.

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