



CHINA  
DEVELOPMENT  
FINANCIAL

# Sasseur REIT

(SASSR SP/CRPU.SI)

## Not Rated

Price as of 4 Jun 2018	0.77
12M target price (US\$)	-
Previous target price (US\$)	-
Upside, incl. div (%)	-

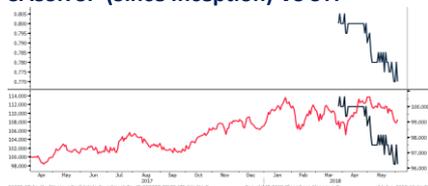
## Trading data

Mkt Cap (S\$m) / (US\$m)	909 / 680
Issued Shares (m)	1,180
Ave Daily Traded (3-Month) Vol / Val	-
52 week lo / hi	\$0.76 / \$0.81
Free Float	23.2%

## Major Shareholders

Sasseur Cayman	57.4%
Cornerstone Investors	19.4%

## SASSR SP (Since Inception) VS STI



Source: Bloomberg

## Visit to Sasseur REIT's outlet in Chongqing, Hefei & Xi'an

### Event

**Site Visit to Sasseur REIT's outlets.** We recently visited Sasseur REIT's outlets in Chongqing, Hefei and Xi'an. The REIT has strategically selected its portfolio to be located in fast-growing Tier-2 cities in China in order to gain a first-mover advantage. The growing middle-class population in China creates a large potential customer base for the outlet mall market and with a unique design concept towards outlet shopping, Sasseur is aiming to become the "outlet-to-go" in this cities.

**Only listed REIT for outlet stores in Asia.** Listed on the SGX in March 2018, the company currently has 4 outlet malls in Chongqing, Bishan, Hefei and Kunming. The REIT's sponsor, Sasseur Cayman Holding, is a premium outlet mall group in the PRC and was founded in 1989 by its founder Mr Xu Rongcan, with a focus on incorporating art and culture into its outlet malls.

**Unique Revenue Structure.** Unlike traditional REITs, Sasseur REIT uses sales-based leases whereby tenants are required to pay an agreed percentage of their sales revenue as turnover rent to the sponsor. To ensure that the monthly rental is deducted, the REIT has installed a point-of-sale and cash management system in each shop unit to collect revenue every day. At the end of the month, the balance from rental will be handed to tenants.

### Impact

**The rise of the middle class.** According to China Insights Consultancy, the per capita disposable income in China is forecast to grow at 7.8% CAGR to 35,000RMB by 2021 with the population expanding at 12.1% to 216 million people by 2021. The steady increase in income levels would help drive increased consumption, with a shift in consumer purchasing behaviour towards higher-quality, branded product. As a first mover, Sasseur REIT is primed to benefit from the rise of the middle class in China's 2<sup>nd</sup> tier cities.

### Valuation & Action

Sasseur REIT is currently trading at S\$0.77, 3 cents from its IPO price of S\$0.80. With guaranteed minimum rent from the sponsor, we believe the REIT is currently trading at an attractive yield of 7.5% and 7.8% for 2018F and 2019F. We expect the firm to continue benefiting from a widening middle income group in tier 2 cities, and will continue to monitor the REIT's portfolio performance for this year for any possible re-rating opportunities.

### Peer Comparison

Company Name	Last Price	Currency Adj. Market Cap (US\$ m)	Gearing (%)	Dividend yield (%)		P/B (x)		6M Average daily trading volume (S\$ '000)	(YTD) Price Performance
				FY17	FY18F	FY17	FY18F		
Sasseur REIT	SGD 0.77	679.8	36.4%	-	7.5%	-	-	-	-
Capitaland Retail China Trust	SGD 1.57	1,139.1	32.3%	6.2%	6.6%	1.0	1.0	1,927.5	-3.1%
BHG Retail REIT	SGD 0.76	284.8	29.3%	7.4%	-	0.9	-	14.4	2.7%
<b>Average</b>		<b>711.9</b>	<b>30.8%</b>	<b>6.8%</b>	<b>6.6%</b>	<b>1.0</b>	<b>1.0</b>	<b>971.0</b>	<b>-0.2%</b>

Source: Bloomberg, KGI Research

### Risks

Competition from other outlet malls could materialize in the future, which might lead to revenue pressure for the REIT. The REIT's rental structure is a double-edged sword that might work against investors should revenues start compressing after 2 years.

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See the last page for important disclosures.

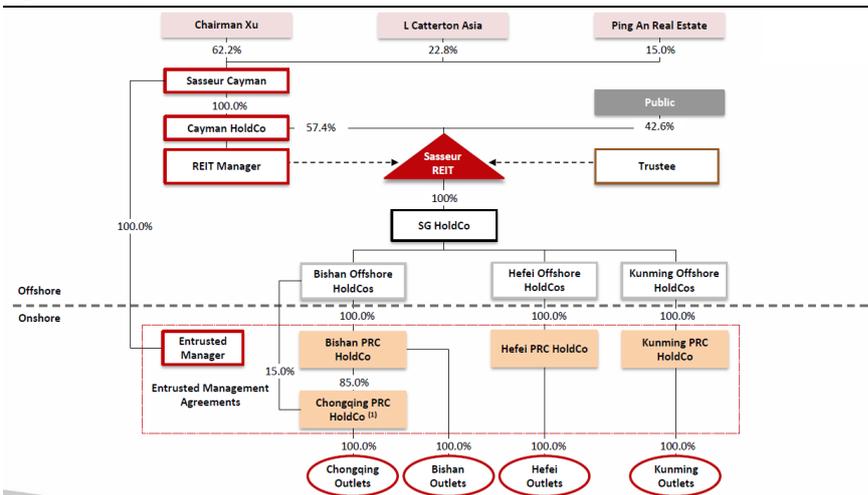
### Company background

Both Sasseur REIT and its sponsor enjoy good institutional support with 12 cornerstone investors participating in Sasseur REIT’s IPO this year, including Adriot Idology (a unit of JD.com), CKK Holdings (Charles & Keith) and Sparkling Gateway (L Capital). Sponsor Sasseur Cayman itself is backed by L Catterton Asia and Ping An Real Estate, alongside Chairman Xu.

Since inception, the sponsor group’s founder Mr Xu Rongcan, has always developed Sasseur’s malls with a combination of art, commerce and various lifestyle elements, dubbed the “Super Outlet” concept. This concept focuses a “1+N” model, with the 1 representing the outlet mall business platform and N reflecting various lifestyle options in each of the outlet malls, such as entertainment, food and beverages, sports, children and furniture stores.

Unlike online retail platforms, the malls target middle class families and tourists with 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 60% or more off full-priced retail stores throughout the year.

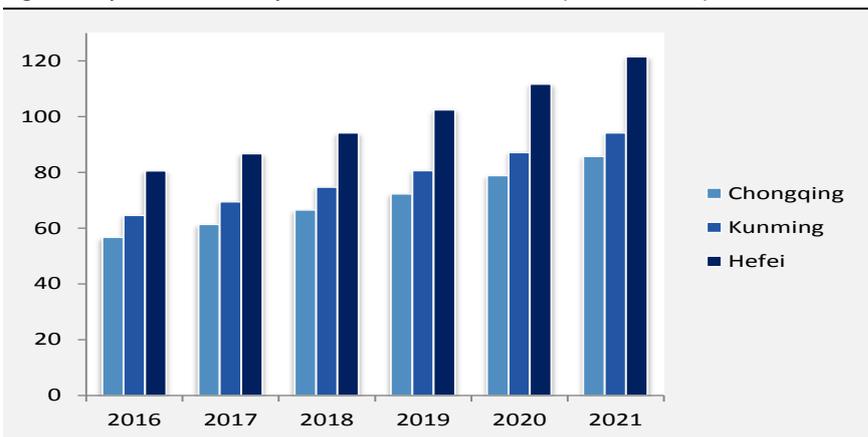
Figure 1: Group Structure



Source: Sasseur REIT, KGI Research

The company expects retail sales in China outlet malls to experience the highest growth in the China retail industry from 2016 to 2021 at a CAGR of 24.2% and has strategically located its malls in burgeoning tier 2 cities within an hour of city centres to take advantage of the upcoming growth.

Figure 2: Expected GDP Per Capita of Sasseur’s Portfolio Cities (RMB Thousand)

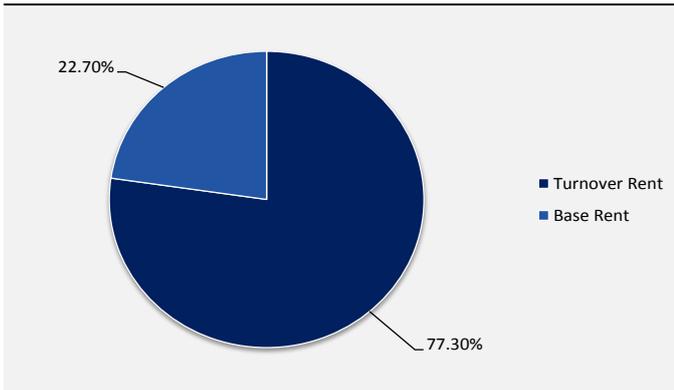


Source: Sasseur REIT, KGI Research

### Unique Revenue Structure

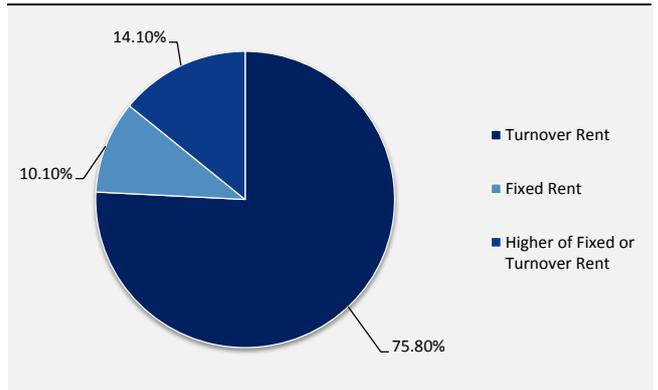
As compared to other types of REITs, Sasseur’s revenue structure is unique as it distinguishes between tenants with stable sales and tenants with strong, growing sales. For retail tenants, the majority of leases are sales-based leases whereby the tenants pay an agreed percentage of their sales revenue as turnover rent to the sponsor. The term of such leases range from 1 – 2 years for domestic PRC brands and 3 – 5 years for international brands. For operators of food outlets and cinemas, they pay a fixed rent or the higher of turnover rent and fixed rent with leases ranging from 3 – 15 years.

**Figure 3: Breakdown of Property Income by Lease Structure**



Source: Sasseur REIT, KGI Research

**Figure 4: Breakdown of NLA by Lease Structure**

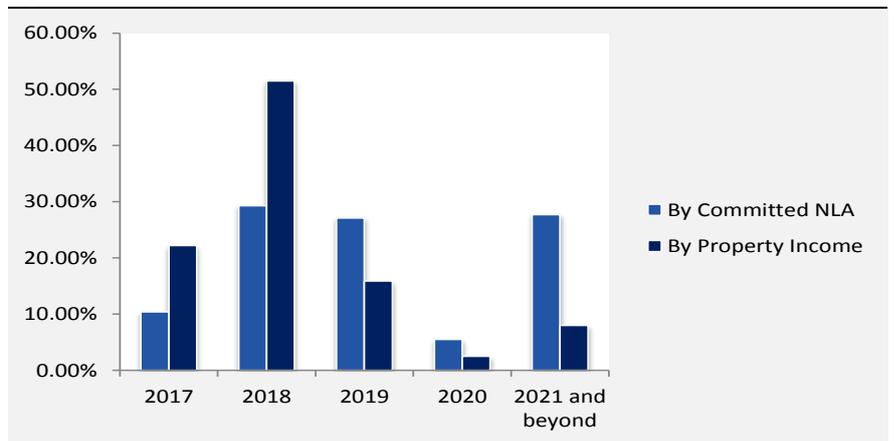


Source: Sasseur REIT, KGI Research

In the event that a retail tenant is not generating sufficient sales revenue, the sponsor will use various mitigating solutions such as changing the rental agreement in order to promote business and improve sales or a replacement of the tenant. The sponsor also closely monitors the inventory of its tenants to minimise the risk of a shortage of product supply, which could affect the success of an outlet mall. To ensure that the monthly rental is deducted, the REIT has installed a point-of-sale and cash management system in each shop unit to collect revenue every day. At the end of the month, the balance from rental will be handed to tenants.

The REIT’s weighted average lease expiry by property income and committed NLA is 1.2 years and 3.2 years respectively, which is supportive of their sales-driven business model. With short leases, the landlord can renew leases at higher commission rates for tenants with strong sales growth. The short lease also gives the REIT an option to replace its tenants with the most popular brands, which ensures the mall remains attractive to consumers.

**Figure 5: Lease Expiry Profile**



Source: Sasseur REIT, KGI Research

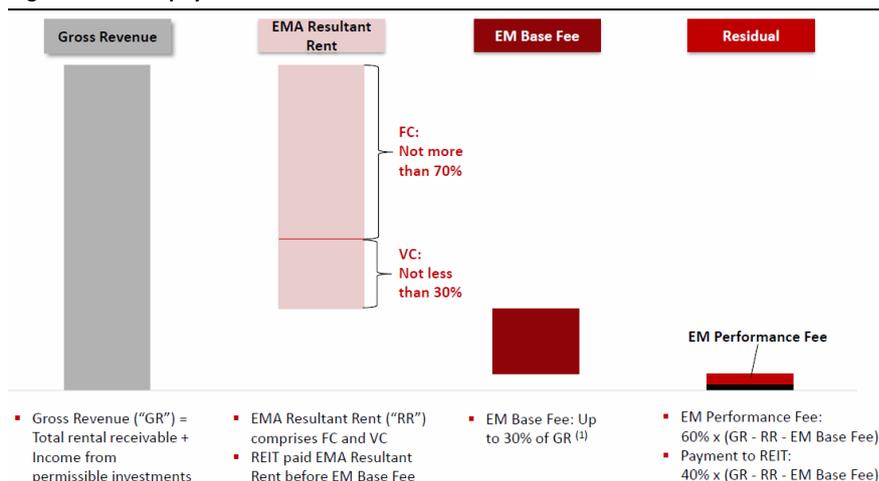
The REIT’s malls are maintained, operated, managed and marketed by an “entrusted manager”, Sasseur Shanghai, which also advises tenant and monitors their inventories. From gross revenue proceeds, the entrusted manager takes a base fee and splits the performance fees with the REIT.

For the REIT, its “EMA resultant rent” comprises of 2 parts, the fixed component and the variable component. The fixed component will increase at 3% every year but form less than 70% of the REIT of the “EMA resultant rent” while the variable component will be a percentage of each outlet mall’s respective total sales and will make up more than 30% of the “EMA resultant rent”.

After the REIT gets its “EMA resultant rent”, they will pay a base fee to the entrusted manager. This base fee is calculated 30% of gross revenue or gross revenue – “EMA resultant rent”, whichever is lower. Finally, the entrusted manager will also be entitled to a performance fee which is calculated as 60% of ((Gross Revenue – EMA Resultant Rent) – EM Base Fee). The remaining 40% will be paid to the REIT.

In summary, the REIT will get the EMA Resultant Rent and the remaining performance fee. After which, it will pay its REIT management fees, trustee management fees and other expenses. The final remainder will be paid out to unit holders via distributions.

Figure 6: Lease Expiry Profile



Source: Sasseur REIT, KGI Research

To mitigate the event that sales growth is slower than expected, which can impact the variable component, the “entrusted manager” will guarantee that the aggregate of the fixed component and variable component that is payable to the REIT from rental income collected will not be less than a stipulated amount for 2 years. This “minimum rent” guarantee is forecasted to ensure stable distributable income for 2018 and 2019 at 7.5% and 7.8% respectively.

While the entrusted management agreements can seem complex as compared to traditional retail REITs, the company has appointed KPMG to provide an opinion as to whether these agreements are on normal commercial terms and not prejudicial to the interests of Sasseur REIT and its minority unit holders.

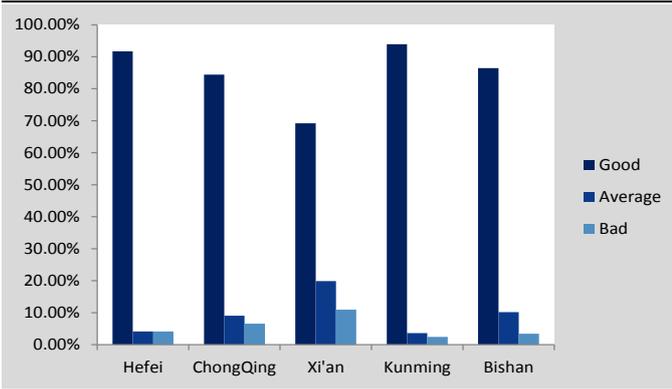
KPMG is of the opinion that these agreements are on normal commercial terms and not prejudicial.

### Customers Review & Appendix

The company’s 1+N concept has done well, as evidenced by high approval ratings from its customers on dianping.com. With increasing awareness of luxury brands in China, the company expects demand for luxury goods from its outlets to continue growing, especially during periods of slower economic growth.

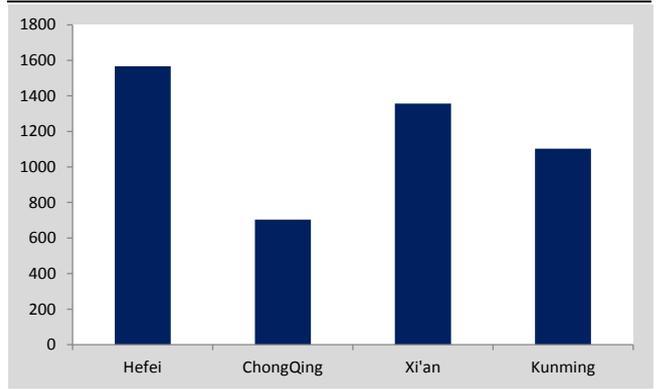
Given the short operating history of Sasseur REIT and its manager, we remain cautious on the REIT’s performance and will continue to monitor its portfolio performance in 2018 for possible re-rating opportunities.

Figure 7: Approval Ratings of Sasseur’s Outlets



Source: Dianping, KGI Research

Figure 8: Average Spending Per Visit at Sasseur’s Outlets (RMB)



Source: Dianping, KGI Research

Figure 9: Daily Cash Collection Machines for Tenants



Source: KGI Research

Figure 10: Cars are sold in the outlet malls as well



Source: KGI Research

Figure 11: “1+N” Concept: Teaching kids how to drive safely



Source: KGI Research

Figure 12: A Sasseur Outlet in Chongqing



Source: KGI Research

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Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
<b>BUY</b>	>10% total return over the next 12 months
<b>HOLD</b>	-10% to +10% total return over the next 12 months
<b>SELL</b>	<-10% total return over the next 12 months

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