



Sasseur REIT

(SASSR SP)

Site visit to Sasseur REIT's outlet malls in Chongqing and Hefei

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- We re-visited two outlet malls held by Sasseur REIT (SASSR).
- SASSR's share price climbed 8.5% from S\$0.71 to S\$0.77 after the announcement of positive FY18 results on 18 Feb 2019. SASSR posted a 4Q18 DPU of 1.999 Scts, 28.1% higher than the forecasted DPU of 1.561 Scts.
- At the current price of S\$0.755, SASSR trades at a 5.6% discount to IPO price at S\$0.80. Under the 'minimum rent guarantee' within the REIT's Entrusted Management Agreement (EMA) with sponsor Sasseur Cayman, a forward dividend yield of at least 8.3% will be guaranteed for FY19 (based on current share price).

Company Visit. We give our updated view on SASSR since our initial company visit report published in June 2018. We visited two of SASSR's biggest outlet malls located in Chongqing and Hefei during their biggest promotion event held semi-annually in March and September. SASSR owns a total of 4 outlet malls in China with a total AUM of RMB 7.7bn. Chongqing mall is the biggest asset within their portfolio, valued at RMB 2.9bn, followed by Hefei mall, valued at RMB 2.5bn. Both malls contributed 73% to total EMA rental income in FY18. Although Hefei mall, which commenced operations in May 2016, is one of the newer malls within SASSR's portfolio, we were pleasantly surprised by the mall's strong shopper traffic and high occupancy rate.

Poised to benefit from new regulations. From a macro-level perspective, domestic consumption is growing in China. Per capita disposable income in China is forecast to grow at 7.8% CAGR to 35,000RMB by 2021 led by Tier 2 cities with a 6 year CAGR of 8.2% (China Insights Consultancy). In addition, we expect the implementation of new regulations to be favourable towards retail sales figures in outlet malls:

(1) Income tax reforms effective since Jan 2019 to benefit the mass affluent by reducing individual income tax payable of up to approximately 80%.

(2) Crackdown of shuttle traders (daigou), who often import luxury products overseas at a discount and profit by selling them on selected Chinese ecommerce sites. The new daigou law will require these sellers to acquire operating licenses and pay taxes on profits, or face confiscation of their goods at China's customs.

We think that SASSR is well-positioned to benefit from the rise in Chinese domestic consumption, alongside the reduction in alternative distribution channels for luxury goods, such as daigou.

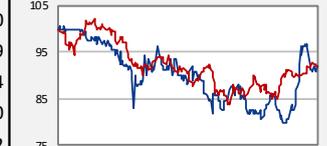
Not Rated

Price as of 29 Mar 19 (SGD)	0.755	Performance (Absolute)	
12M TP (US\$)	-	1 Month (%)	3.5
Previous TP (\$)	-	3 Month (%)	24.3
Upside, incl div (%)	-	12 Month (%)	2.4

Trading data

Mkt Cap (\$mn)	910
Issued Shares (mn)	1,189
Vol - 3M Daily avg (mn)	1.4
Val - 3M Daily avg (\$mn)	1.0
Free Float (%)	16.2

Perf. vs STI Index (Red)



Major Shareholders

Sasseur Cayman	57.2%
Cornerstone investors	19.2%
Meritz Securities	6.6%

Previous Recommendations

Anchoring position in target audience group. Growth of number of SASSR's VIP members last year was impressive. The number of VIP membership which serves as a loyalty programme tracking expenditure almost doubled from 458,900 in FY17 to 819,200 in FY18. This was primarily led by membership growth in Chongqing outlet mall, which started FY17 with a lower base. Since 50% of total sales originate from VIP members' purchases, the increase in number of engaged shoppers under the VIP membership would likely translate to future sales growth.

Valuation & Action: SASSR is currently priced at S\$0.755, with a historical and forward FY19 distribution yield of 7.3% and 8.3%. It is trading at a 6.3% discount to IPO price of S\$0.80. We think that the 8.3% yield at a 1.6% spread over Singapore retail REITs should be sufficient to compensate for the risk should income come in below expectations in FY20.

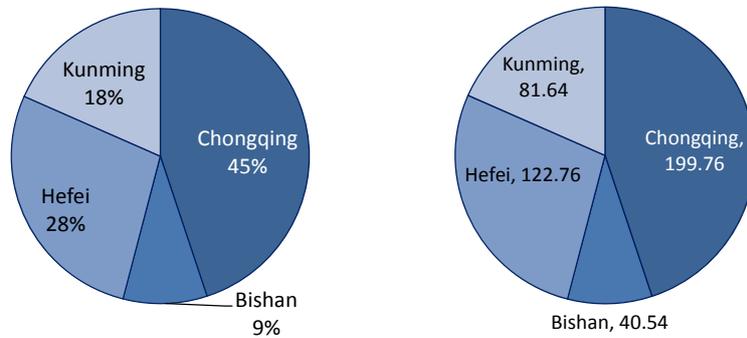
Risks: The 'minimum rent' provision set out in the EMA between SASSR and sponsor (Sasseur Cayman Holdings) will no longer hold in FY20 if the guaranteed dividend yield of 7.5% and 7.8% (based on IPO price of \$0.80/unit) for FY18 and FY19 is met. This guaranteed DPU of approximately 6.24 Scts for FY19, translates to a forward dividend yield of 8.3%.

Although 52% of leases by NLA will expire in 2019, we think that the risk of negative rental reversion is low given high tenant space demand. Management had communicated confidence in at least maintaining DPU for FY20 and beyond even without the 'minimum rent guarantee'.

Company Visit

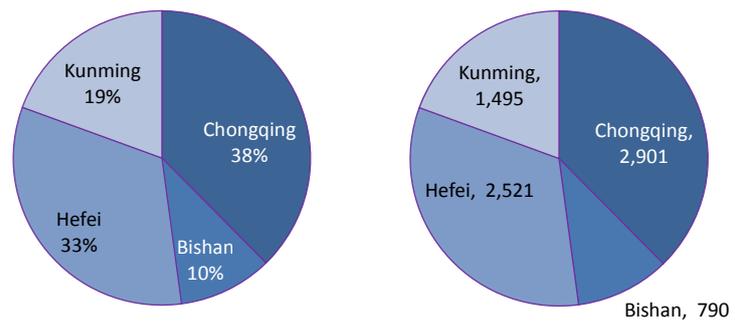
We visited two of SASSR’s biggest outlet malls in Chongqing and Hefei during their biggest promotion event that happens semi-annually in March and September every year. With a combined market value of RMB 5.422bn, these two malls make up 71% of total portfolio AUM, and contributed 73% of total EMA rental income in FY18.

Figure 1: EMA rental income breakdown by property, RMB millions



Source: Company, KGI Research

Figure 2: Portfolio AUM breakdown by property market value, RMB millions



Source: Company, KGI Research

Figure 3: Portfolio Overview; Portfolio occupancy stood at 95.2% as of end FY18



Source: Company, KGI Research

Chongqing outlet mall

Strategic Positioning. Chongqing outlet mall targets middle and upper-class consumers with higher disposable income. Chongqing Outlets houses a cinema, children recreational facilities as well as an array of restaurants. Being the oldest mall within the portfolio, Chongqing mall is also the single biggest contributor to EMA rental income.

Strategic Location. The Chongqing Outlets is located in the northeast region of the city and is located in the middle of Chongqing Jiangbei International Airport and the city center. The mall is also accessible via metro line 10 (walking distance: 1.3km) and metro line 3 (walking distance: 1.4km). By car, the mall is 15 mins away from Chongqing North Railway Station and 20 mins away from city centre.

Figure 4: Chongqing mall locational snapshot



Source: Baidu Maps, KGI Research

Tenant Mix. The mall houses 414 stores with approximately 600 brands. International luxury brand that we could identify at first glance included Coach, Adidas and Calvin Klein. Luxury brands and sports brands are housed on the first and basement one level, with the greatest exposure to shopper traffic. The second and third floor caters to local female brands and selected Japanese brands such as Moussy. The third and fourth floor caters to men’s wear and kids respectively. UME cinema, one of China’s largest operators of cinema theatres, takes up the entire fifth floor.

Figure 5: Coach clearance pop up store featuring discounts of up to 80% off retail price



Source: KGI Research

Figure 6: Brands on the first level included Calvin Klein, Givenchy, and Tommy Hilfiger



Source: KGI Research

Figure 7: '1+N' concept in Chongqing mall, mini outdoor farm



Source: KGI Research

Figure 8: Chongqing Mall's Anchor Tenant – 'Italy Space', a mixed luxury brand concept store



Source: KGI Research

'1+N' Concept. We would like to recap SASSR's '1+N' concept. All malls are developed with this concept in mind, focusing on art, commerce and various lifestyle elements. '1' represents the fundamental basis of an outlet mall business, while 'N' reflected various lifestyle options in each of the outlet malls, such as entertainment, food and beverages, sports, children and furniture stores. Elements of the '1+N' concept we spotted was an outdoor mini farm that housed a lama and several other animals and reptiles.

Hefei outlet mall

Strategic Positioning. Hefei outlet mall caters to the middle class consumer by offering a wide range of entertainment choices as well as luxury brand stores. Given that the Hefei outlet is one of the newer malls which started operations in 2016, the '1+N' concept was much more prominent as compared to the Chongqing mall.

Figure 9: Hefei mall's brick red, Italian inspired exterior design that is iconic to all Sasseur malls



Source: KGI Research

Figure 10: Evening concert taking place at the open space outside Hefei mall's entrance



Source: KGI Research

Strategic Location. Hefei Outlets is located to the west of city centre, within one of China's High-Tech Industrial Development Zones. The city is quickly gaining prominence as a high-tech research and manufacturing hub. Over a thousand R&D institutions have settled in Hefei, and the city is ranked third, behind Shanghai and Beijing, in terms of attracting foreign talent (according to Amazing China 2017 poll).

The mall is a 30 mins drive away from city centre, and a 24 mins drive away from Hefei Xinqiao International Airport. The mall sits within a residential area with a number of secondary schools and universities a stone's throw away. Metro line 2 (800m away) and line 4 (500m away) is within a short walking distance from the outlet.

Figure 11: Hefei mall locational snapshot



Source: Baidu Maps, KGI Research

Tenant Mix. Hefei Outlets features 283 stores carrying approximately 450 brands, including Coach, Giorgio Armani and Givenchy. What sets it apart from the Chongqing outlet is that Hefei outlet features one of the largest cinemas in east China and an indoor zoo, 'MaTaTa' on the top floor. We see these two tenants as key differentiators that are complementary to the '1+N' model.

Figure 12: Crowd at Sketchers



Source: KGI Research

Figure 13: One of the more popular local female brands



Source: KGI Research

The UME cinema houses 17 cinema theatres with a total of over 2,500 seats. The biggest theatre features a cinema screen that is over 3 stories tall. Management shared that this cinema served as a hosting ground for several movie premieres in the past. These events were often patronized by celebrities and movie stars, and a collection of celebrity handprints were on display at the cinema entrance, similar to those in Hollywood's walk of fame. Some that we were able to spot belonged to Jay Chou and Jackie Chan.

The MaTaTa Zoo builds on the concept of close interactions with zoo animals in a comfortable air-conditioned setting. Admission tickets were priced at slightly over RMB 100, but there was a 30% ticket discount for that day, in line with the semi-annual promotion. SASSR gets a 20% share on admission ticket revenue in addition to a fixed base rent.

Figure 14: ‘MaTaTa’ Zoo, an indoor zoo at the top floor of Hefei mall



Source: KGI Research

Figure 15: Open concept bird cage within MaTaTa zoo



Source: KGI Research

Figure 16: ‘MaTaTa’ Zoo builds on the concept of close interactions with zoo animals in a comfortable air-conditioned setting



Source: KGI Research

Figure 17: UME cinema previously hosted movie premiers with celebrities gracing the scene. Here we spotted Jay Chou and Jackie Chan’s hand prints.



Source: KGI Research

‘1+N’ concept. The execution of the ‘1+N’ concept was much more prominent in the new Hefei mall. The outdoor area at the entrance of the mall was fully utilised. In the day, there were a number of activities targeted at kids, including rental karts and mini water game stations. In the evening, the space was quickly transformed into an outdoor concert with performances and lucky draws.

Figure 18: ‘1+N’ concept – rental karts targeted at kids



Source: KGI Research

Figure 19: Mini water game station well-received by kids



Source: KGI Research

Company background

Company Profile. All SASSR malls are developed on the basis of a ‘1+N’ concept that focuses on art, commerce and various lifestyle elements. ‘1’ represents the fundamental basis of an outlet mall business, while ‘N’ reflected various lifestyle options in each of the outlet malls, such as entertainment, food and beverages, sports, children and furniture stores.

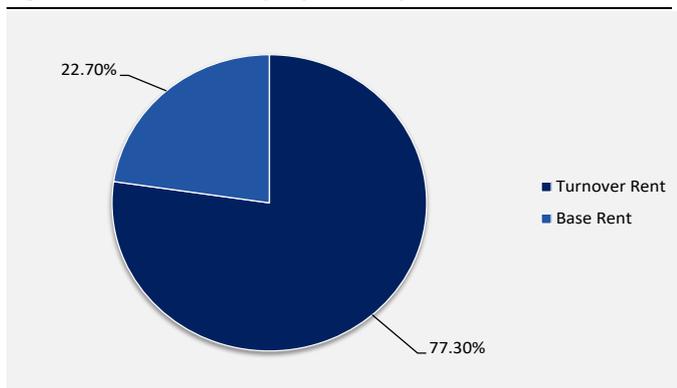
SASSR malls target middle class families and tourists by offering international and luxury brands guaranteed of authenticity and discounts. Customers at SASSR’s outlet malls can expect diverse forms of experiences such as indoor zoos or movie screenings, alongside discounts of up to 60% or more off full-priced retail stores throughout the year.

Percentage Sales Revenue Structure. We would like to recap SASSR’s unique EMA rental income structure that differentiates it from other REIT’s income structure. The EMA structure distinguishes between tenants with stable sales and tenants with strong and growing sales.

The majority of rental leases for retail tenants are on a percentage of sales basis, where SASSR will track tenant sales on a monthly basis through their point-of-sale system in every store, and remit the tenant’s portion of income to them at the end of each month.

Lease Terms. Lease terms range from 1 – 2 years for domestic PRC brands and 3 – 5 years for international brands. Operators of food outlets and cinemas pay a fixed rent or the higher of turnover rent and fixed rent with leases ranging from 3 – 15 years. In the instance of the indoor zoo within Hefei mall, SASSR will earn a variable 20% of all ticket admission income in addition to a fixed base rent.

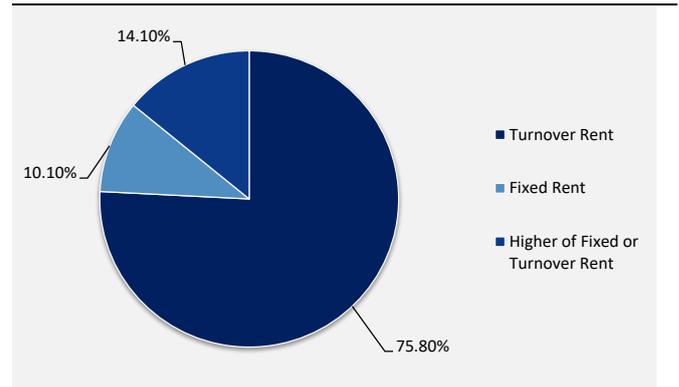
Figure 20: Breakdown of Property Income by Lease Structure



Source: Company, KGI Research

Inventory Management. SASSR uses various mitigating solutions to help underperforming tenants such as changing the rental agreement to improve sales. Inventory management and demand analytics also allows SASSR to closely monitor their tenant’s inventory turnover to minimise the risk of a stock shortage, something that could reduce the success of any outlet mall.

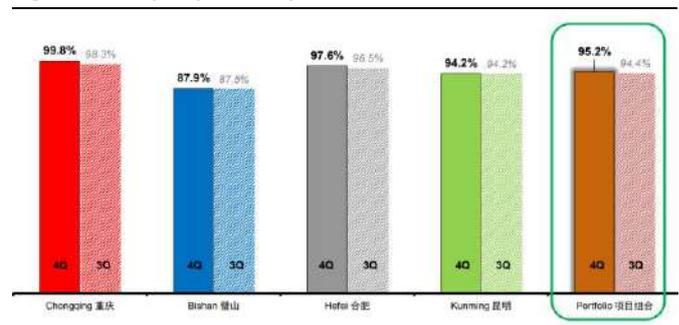
Figure 21: Breakdown of NLA by Lease Structure



Source: Company, KGI Research

Operating Statistics. The REIT’s weighted average lease expiry by property income and committed NLA is 1.3 years and 3.0 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. Overall portfolio occupancy stood at a healthy 95.2% as of end FY18.

Figure 22: Occupancy rate comparison, 3Q18 and 4Q18

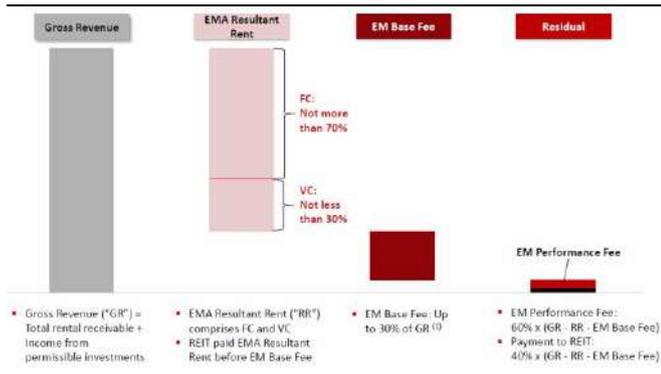


Source: Company, KGI Research

Company background

EMA resultant rent. In the calculation of distributable income, the ‘EMA rental income’ structure is used. The ‘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’.

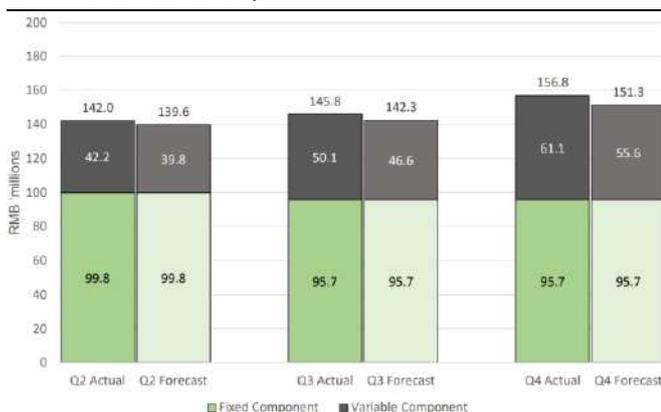
Figure 23: EMA Rental Income Structure



Source: Company, KGI Research

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.

Figure 24: 39% of rental income derived through the variable component of EMA rental income in 4Q18



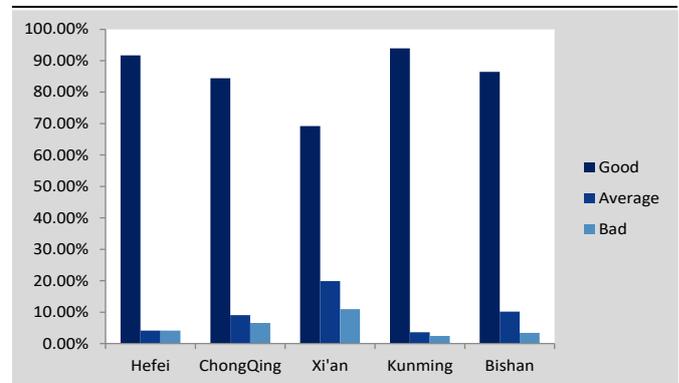
Source: Company, KGI Research

The ‘minimum rent guarantee’ included within the EMA arrangement ensures stable distributable income for at least 2018 and 2019 at 7.5% and 7.8% respectively (in accordance to IPO issuance price of S\$0.80 per unit). Once distributable income is met for FY18 and FY19, this provision will no longer hold in FY20 and beyond.

Customer review. The company’s ‘1+N’ concept was more prominently executed in the Hefei mall. It may also be the reason why we found shopper traffic to be higher at Hefei mall compared to Chongqing mall, an impressive feat for a mall that only commence operations in mid-2016.

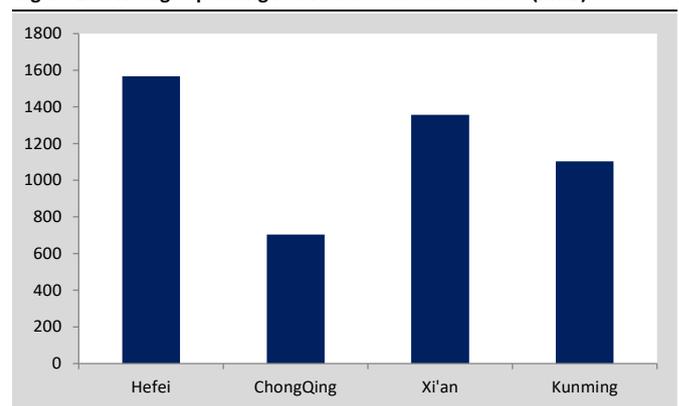
The company’s ‘1+N’ concept has done well in attracting shopper traffic, as evidenced by high approval ratings from its customers on dianping.com.

Figure 25: Approval Ratings of Sasseur’s Outlets



Source: Dianping, KGI Research

Figure 26: Average Spending Per Visit at Sasseur’s Outlets (RMB)



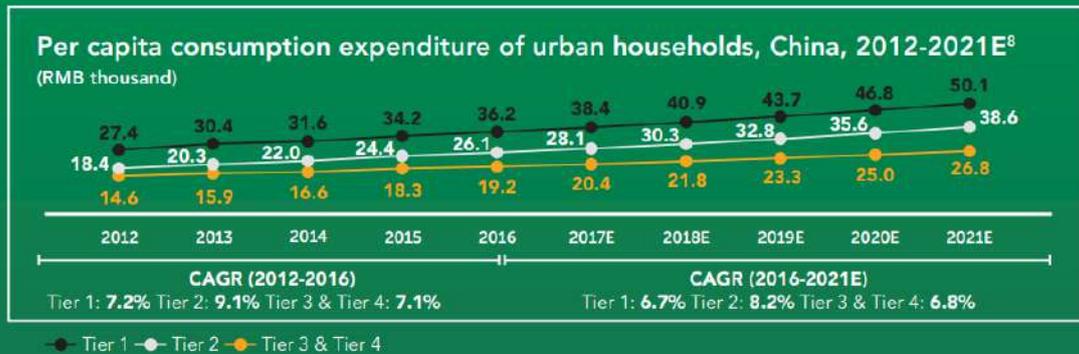
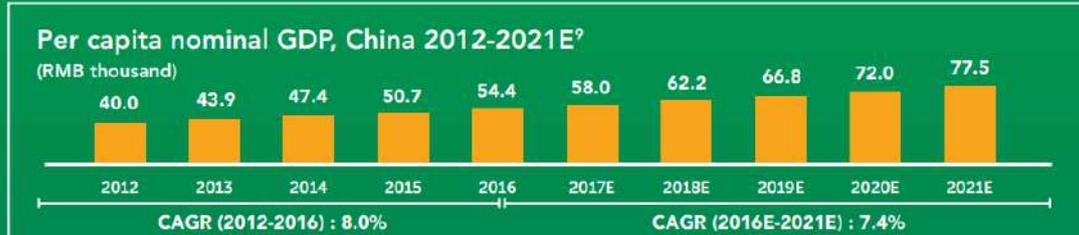
Source: Dianping, KGI Research

Figure 27: China outlook mall market outlook as set out in SASSR's IPO prospectus

THE PRC'S OUTLET MALL INDUSTRY – POTENTIAL FOR RAPID GROWTH

Growing middle class⁸ population in the PRC creates a large potential customer base

- ▶ Increase in spending power represents a sweet spot for the retail outlet mall industry
- ▶ Preference for higher-quality branded and luxury goods at reasonable prices
- ▶ Drive demand for luxury goods from domestic and international brands that appeal to rising aspirations of the middle class



THE PRC'S OUTLET SECTOR IS EXPECTED TO BECOME THE WORLD'S LARGEST OUTLET MARKET BY 2030⁸

⁸ According to China Insights Consultancy, middle class is defined as adults with net wealth between US\$50,000 and US\$500,000 based on the average/year-end exchange rate for RMB/US\$.
⁹ Source: China Insights Consultancy.

Source: SASSR IPO prospectus, KGI Research

Figure 28: Peer Comparables

Company Name	Last Price (local \$)	Currency Adj. Market Cap (\$ m)	Trailing 12M Dividend Yield (%)	Forward Dividend Yield (%)	Current P/B Ratio (x)	Forward 2019 P/B Ratio (x)	6M Average daily trading volume (\$ '000)	1 YR Price Performance (%)	YTD Price Performance (%)
					0.786				
RETAIL		32,355	6.3	6.7	0.93	1.0	4,365.2	1.4	9.7
FORTUNE REIT	HKD 10.30	3,426	5.0	5.2	0.620	0.6	662	8.4	15.6
CAPITALAND MALL TRUST	SGD 2.38	8,778	4.8	5.0	1.181	1.2	24,294	16.1	5.3
MAPLETREE COMMERCIAL TRUST	SGD 1.91	5,519	4.8	4.8	1.288	1.3	11,198	22.4	15.8
MAPLETREE NORTH ASIA COMMERC	SGD 1.33	4,221	5.6	5.6	1.011	1.0	7,702	15.7	16.7
DASIN RETAIL TRUST	SGD 0.88	492	8.2	8.0	0.634	-	406	1.1	1.7
SPH REIT	SGD 1.05	2,714	5.3	5.4	1.114	1.1	902	6.1	5.0
FRASERS CENTREPOINT TRUST	SGD 2.38	2,208	5.1	5.2	1.142	1.1	2,246	8.2	9.7
STARHILL GLOBAL REIT	SGD 0.74	1,603	6.1	6.4	0.816	0.8	1,352	2.1	8.1
CAPITALAND RETAIL CHINA TRUS	SGD 1.58	1,578	6.4	6.5	0.997	1.0	1,950	1.9	16.2
LIPPO MALLS INDONESIA RETAIL	SGD 0.20	569	10.3	12.6	0.694	0.6	837	-47.6	9.3
SASSEUR REAL ESTATE INVESTME	SGD 0.76	898	6.8	8.5	0.755	1.0	823	-6.2	16.2
BHG RETAIL REIT	SGD 0.69	348	7.5	-	0.848	-	11	-11.0	-3.5

Source: Bloomberg, KGI Research

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