

# Singapore Company Update

## Sasseur REIT

Bloomberg: SASSR SP | Reuters: SASS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

21 Feb 2022

### BUY

Last Traded Price (18 Feb 2022): S\$0.850 (STI : 3,428.90)  
Price Target 12-mth: S\$1.15 (35% upside) (Prev S\$1.10)

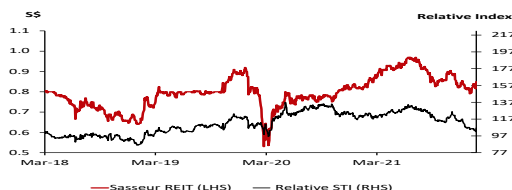
#### Analyst

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#### What's New

- Record high DPU of 7.104 Scts for FY21, surpassing our full year estimate
- Expect tenant sales to normalise to pre-COVID level by year end from c.90% level currently
- Early refinancing of 2023 loan lays a foundation for Sasseur REIT's first acquisition; Xi'an Mall, the most prominent contender, will stand together with Chongqing Mall as a portfolio Titan
- Reiterate BUY with higher TP of S\$1.15; Compelling forward yields close to 9.0%

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2020A	2021A	2022F	2023F
Gross Revenue	125	135	141	146
Net Property Inc	125	135	141	146
Total Return	47.0	123	81.7	85.4
Distribution Inc	78.7	93.9	90.8	92.3
EPU (S cts)	3.89	10.1	6.61	6.83
EPU Gth (%)	(63)	159	(34)	3
DPU (S cts)	6.55	7.10	7.34	7.38
DPU Gth (%)	0	9	3	1
NAV per shr (S cts)	91.4	98.9	97.8	96.7
PE (X)	21.9	8.5	12.9	12.4
Distribution Yield (%)	7.7	8.4	8.6	8.7
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	26.2	23.9	24.0	24.2
ROAE (%)	4.3	10.6	6.8	7.1

Distn. Inc Chng (%): 5 6  
Consensus DPU (S cts): 7.4 7.8  
Other Broker Recs: B: 4 S: 0 H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

### A new Titan (Xi'an Mall) to join the portfolio?

#### Investment Thesis

Reiterate BUY; TP increased to S\$1.15. We raise our growth estimates for Sasseur REIT as the EMA (Entrusted Management Agreements) structure has once again outperformed expectations. With sales hovering at c.90% of pre-pandemic level, we expect a full recovery by year end to provide upside to variable rental growth.

**EMA structure virtually guarantees growth.** The EMA structure has once again proven its benefits on FY21 results. We expect tenant sales to normalize back to pre-pandemic levels by end-FY22 and flow to the REIT as higher variable rents, while fixed rents that make up c.70% of topline, continues to escalate at 3.0% per annum.

**Xi'an is within reach.** Sasseur is negotiating to refinance c.S\$516m worth of debt due Mar'23. Ongoing efforts to strengthen its balance sheet is an important stepping stone to build up ammunition for acquisitions, and a step closer for the REIT to deliver its first acquisition since IPO. Xi'an mall features strongly as a prominent acquisition candidate that could stand alongside Chongqing mall as Sasseur REIT's portfolio titans. Xi'an mall is one of the best ranked malls by tenant sales within sponsor Sasseur Group.

#### Valuation:

We reiterate our BUY call with a higher DCF-based TP of S\$1.15 as we roll forward valuations into FY22, raise our portfolio tenant sales forecast and assume interest savings from mid-22.

#### Where we differ:

**Maintaining conservative tenant sales estimates.** We expect tenant sales in FY22 to normalise back to FY19 levels based on our conservative estimates. Further organic and acquisition growth opportunities are currently not priced in.

#### Key Risks to Our View:

Tightening pandemic measures in Sasseur REIT's portfolio.

#### At A Glance

Issued Capital (m shrs)	1,214
Mkt. Cap (S\$m/US\$m)	1,032 / 767
Major Shareholders (%)	
Sasseur Cayman Holding II Ltd	57.0
Free Float (%)	43.0
3m Avg. Daily Val (US\$m)	0.79
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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**WHAT'S NEW**

**Record profit and DPU in FY21**

**Record high profit and DPU for FY21**

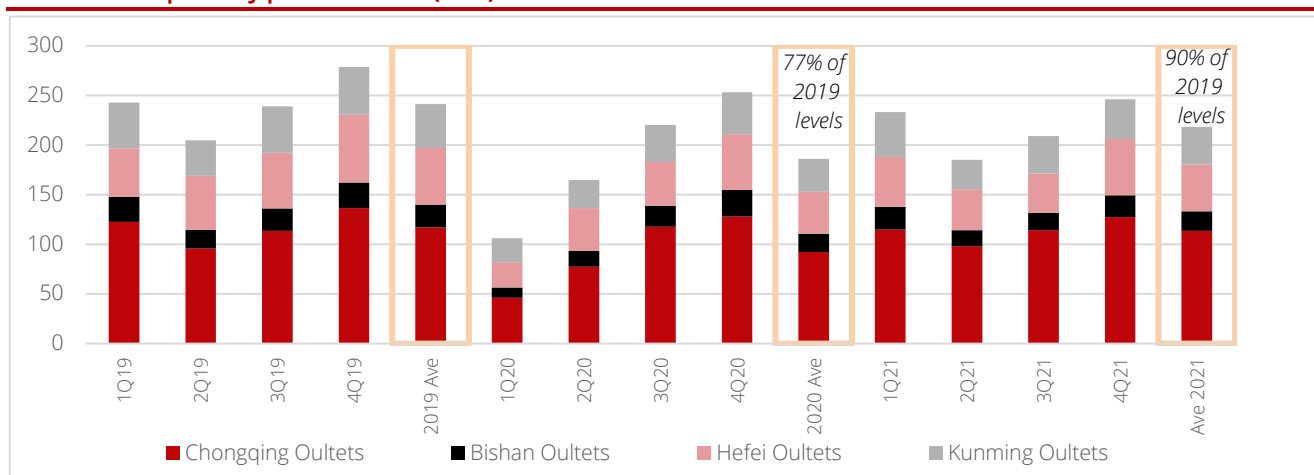
- Sasseur REIT reported higher EMA rental of S\$127.5m (+10.1%), or S\$134.9m before straight-line adjustments.
- Distributable income rose 19.3% y-o-y to S\$93.9m, a record high and above our estimate of S\$84.3m.
- Full year income that is distributable to unitholders at S\$86.2m, and implies 92% payout ratio.
- Correspondingly, full year DPU of 7.104 Scts rose 8.5% y-o-y and surpassed our estimate of 6.89 Scts.

**Growth in DPU underpinned by EMA rental model**

- EMA (entrusted management agreements) rental income rose 5.5% y-o-y in RMB terms, lifted by a 11.7% increase in variable EMA rents, attributable to 12.3% higher y-o-y sales of RMB4185m.
- Portfolio occupancy stood at 94.5%, inching close to pre-pandemic level of 95.8%.
- Portfolio sales in 4Q21 surged 16.6% q-o-q but was down 6.8% y-o-y. This was due to 'hotter' winter months last year, which muffled the seasonality effect of stronger 4Q sales from sales of pricier winter goods.
- Annual portfolio sales surged 12.3% in FY 2021, albeit on a low base from closures in 2020 which was about 7 weeks on a blended basis.

- The higher sales contribution was traced to Sasseur's flagship Chongqing mall (+17.6%) and Kunming mall (+10.7%).
- Sasseur's outlet sales stood at c.90% of pre-COVID levels for FY21, an improvement from c.77% in FY20.
- We attribute the stronger performance as a result of the EMA rental model which has underpinned growth in DPUs. In addition, we expect growth momentum on the variable rent component (typically c.30% of topline) to pick up as tenant sales reach pre-pandemic levels.
- Moreover, the completion of several AEI projects this year should help to increase traffic flow to two of Sasseur's four malls. This includes conversion of ancillary space into retail space at Chongqing Mall which was completed in Dec'21 and space reconfiguration at Bishan Mall pending completion by 1Q22.

**Sasseur REIT quarterly portfolio sales (\$m)**



Source: Company, DBS Bank

## Sasseur REIT

### Lowest geared within the S-REITs universe; strong valuation uplift a surprise

- Property valuation rose by 9.1% y-o-y to S\$1.80 billion due to a 4.4% increase in valuation in RMB terms and the appreciation of RMB against SGD.
- The NAV uplift from the portfolio valuation was 8.2% to 98.94 Scts.
- Gearing improved from 27.9% as at end FY20 to 26.1% at end FY21 on the back of higher valuation, ranking Sasseur as the lowest geared within the S-REITs universe.
- Interest cover improved from 4.0 as at end FY20 to 5.1x in FY21.

### Refinancing a step ahead of acquisition, Xi'an the most prominent acquisition candidate

- Sasseur REIT is in the midst of early refinancing negotiations for c.S\$520m worth of debt maturing in Mar'23. Given PBoC's dovish stance, Sasseur could potentially reduce its average cost of debt from the current 4.4% to 4.0% post refinancing.
- The earlier refinancing exercise in Sep'20 saw c.2.5m reduction in interest expense per annum on a 50bps reduction in average cost of debt.
- Management has shared that they intend to reduce cost of debt to c.4.0% and stagger the debt expiry profile during their ongoing negotiations.
- Current leverage at 26.1% leaves a debt headroom of c.S\$385m on a 40% target gearing.
- Ongoing efforts to strengthen the balance sheet will be an important steppingstone to build up acquisition ammunition in the immediate term.
- Xi'an features as the most prominent acquisition candidate, which could stand next to Chongqing mall as Sasseur REIT's portfolio Titans.

- At 141,708 sqm, Xi'an outlet mall will be the largest mall by NLA in Sasseur REIT's portfolio if acquired, with Hefei a close second at 138,449 sqm.
- We also understand that Xi'an mall is one of the top-performing malls within Sponsor Sasseur group's portfolio of outlet malls by quantum, a close contender to Chongqing mall, which is the best ranked outlet mall by tenant sales performance.

**New TP of S\$1.15.** We roll forward our valuations into FY22, while assuming strong sales recovery to pre-COVID levels by end 2022 (+11% y-o-y). Underlying EMA rents will continue to be well-supported by a 3% annual escalation for the fixed component (c.70% of topline), while leaving room for upside for the variable rent component part (c.30% of topline). Interest cost savings is projected to start mid-FY22. New DPU of 7.39 Scts for FY22 (previously 6.96 Scts) implies 4% growth in DPU and 8.9% forward yield on last close price.

### Company Background

Sasseur REIT is a Singapore REIT established with an initial portfolio of four retail outlet malls located in China, offering investors the opportunity to invest in the country's fast-growing retail outlet mall sector.

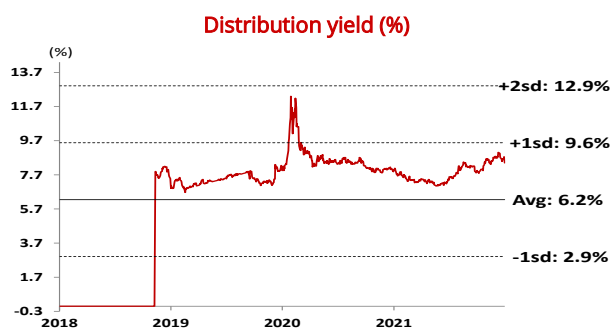
## Sasseur REIT

## Quarterly / Interim Income Statement (\$m)

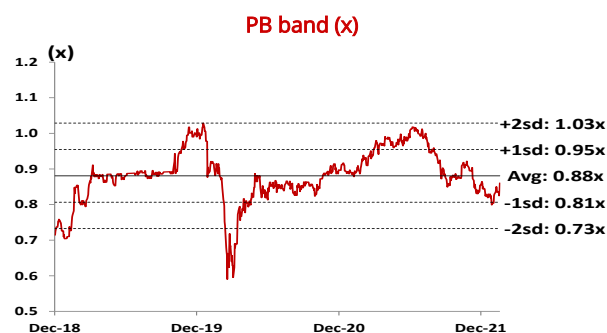
FY Dec	4Q2020	3Q2021	4Q2021	% chg yoy	% chg qoq
Gross revenue	34.7	33.3	35.4	2.2	6.5
Property expenses	0.0	0.0	0.0	-	-
Net Property Income	34.7	33.3	35.4	2.2	6.5
Other Operating expenses	(3.0)	(2.8)	(4.2)	38.2	47.5
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(7.7)	(6.0)	(6.0)	21.1	(0.2)
Exceptional Gain/(Loss)	1.96	(0.1)	0.17	nm	nm
<b>Net Income</b>	<b>26.0</b>	<b>24.4</b>	<b>25.4</b>	<b>(2.1)</b>	<b>4.3</b>
Tax	(6.3)	(4.6)	(28.4)	347.7	517.8
Minority Interest	0.0	0.0	0.0	-	-
<b>Net Income after Tax</b>	<b>19.6</b>	<b>19.8</b>	<b>(3.0)</b>	<b>nm</b>	<b>(115.0)</b>
Total Return	0.0	5.54	7.71	nm	39.3
Non-tax deductible Items	21.9	5.30	(39.6)	nm	nm
Net Inc available for Dist.	23.3	23.2	25.3	8.4	8.9
<b>Ratio (%)</b>					
Net Prop Inc Margin	100.0	100.0	100.0		
Dist. Payout Ratio	100.0	95.7	91.4		

Source of all data: Company, DBS Bank

## Historical Dividend yield and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

## Sasseur REIT

## Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross revenue	118	125	135	141	146
Property expenses	0.0	0.0	0.0	0.0	0.0
<b>Net Property Income</b>	<b>118</b>	<b>125</b>	<b>135</b>	<b>141</b>	<b>146</b>
Other Operating expenses	(10.1)	(10.4)	(12.6)	(9.4)	(9.7)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(27.7)	(28.4)	(24.0)	(22.5)	(22.7)
Exceptional Gain/(Loss)	95.2	(22.2)	65.9	0.0	0.0
<b>Net Income</b>	<b>175</b>	<b>64.2</b>	<b>164</b>	<b>109</b>	<b>114</b>
Tax	(49.3)	(17.2)	(41.3)	(27.2)	(28.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Income After Tax</b>	<b>126</b>	<b>47.0</b>	<b>123</b>	<b>81.7</b>	<b>85.4</b>
Total Return	126	47.0	123	81.7	85.4
Non-tax deductible Items	(48.2)	31.7	(29.0)	9.08	6.87
Net Inc available for Dist.	77.9	78.7	93.9	90.8	92.3
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	26.2	6.1	7.7	4.4	3.8
N Property Inc Gth (%)	26.2	6.1	7.7	4.4	3.8
Net Inc Gth (%)	(25.5)	(62.7)	161.3	(33.5)	4.6
Dist. Payout Ratio (%)	100.0	100.0	91.8	100.0	100.0
Net Prop Inc Margins (%)	100.0	100.0	100.0	100.0	100.0
Net Income Margins (%)	106.9	37.5	91.1	58.0	58.4
Dist to revenue (%)	66.0	62.9	69.6	64.5	63.1
Managers & Trustee's fees	8.6	8.3	9.4	6.6	6.6
ROAE (%)	11.8	4.3	10.6	6.8	7.1
ROA (%)	7.1	2.6	6.4	4.1	4.3
ROCE (%)	5.7	5.9	6.1	6.3	6.5
Int. Cover (x)	3.9	4.0	5.1	5.8	6.0

Source: Company, DBS Bank

## Sasseur REIT

## Quarterly Income Statement (\$m)

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Gross revenue	34.7	34.1	32.0	33.3	35.4
Property expenses	0.0	0.0	0.0	0.0	0.0
Net Property Income	34.7	34.1	32.0	33.3	35.4
Other Operating	(3.0)	(2.9)	(2.8)	(2.8)	(4.2)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(7.7)	(6.0)	(5.9)	(6.0)	(6.0)
Exceptional Gain/(Loss)	1.96	1.49	1.94	(0.1)	0.17
<b>Net Income</b>	<b>26.0</b>	<b>26.7</b>	<b>25.3</b>	<b>24.4</b>	<b>25.4</b>
Tax	(6.3)	(4.5)	(3.8)	(4.6)	(28.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Income after Tax</b>	<b>19.6</b>	<b>22.2</b>	<b>21.5</b>	<b>19.8</b>	<b>(3.0)</b>
Total Return	0.0	2.36	4.54	5.54	7.71
Non-tax deductible Items	21.9	3.24	2.08	5.30	(39.6)
Net Inc available for Dist.	23.3	23.6	21.7	23.2	25.3
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	6	(2)	(6)	4	6
N Property Inc Gth (%)	6	(2)	(6)	4	6
Net Inc Gth (%)	0	13	(3)	(8)	(115)
Net Prop Inc Margin (%)	100.0	100.0	100.0	100.0	100.0
Dist. Payout Ratio (%)	100.0	90.0	90.0	95.7	91.4

Source: Company, DBS Bank

## Balance Sheet (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Investment Properties	1,587	1,651	1,801	1,805	1,810
Other LT Assets	0.0	0.0	0.0	0.0	0.0
Cash & ST Invt	146	156	160	160	160
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	28.5	51.2	29.1	29.1	29.1
Other Current Assets	8.55	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>1,770</b>	<b>1,858</b>	<b>1,990</b>	<b>1,994</b>	<b>1,998</b>
ST Debt	4.08	2.36	2.46	2.46	2.46
Creditor	124	137	123	123	123
Other Current Liab	20.1	26.3	31.1	31.1	31.1
LT Debt	475	502	508	512	517
Other LT Liabilities	78.1	85.2	116	116	116
Unit holders' funds	1,069	1,105	1,209	1,209	1,209
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Funds &amp; Liabilities</b>	<b>1,770</b>	<b>1,858</b>	<b>1,990</b>	<b>1,994</b>	<b>1,998</b>
Non-Cash Wkg. Capital	(108)	(112)	(125)	(125)	(125)
Net Cash/(Debt)	(332)	(348)	(351)	(355)	(359)
<b>Ratio</b>					
Current Ratio (x)	1.2	1.3	1.2	1.2	1.2
Quick Ratio (x)	1.2	1.3	1.2	1.2	1.2
Aggregate Leverage (%)	28.5	26.2	23.9	24.0	24.2
Z-Score (X)	1.1	1.1	1.1	1.1	1.1

Source: Company, DBS Bank

## Sasseur REIT

## Cash Flow Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Income	175	64.2	164	109	114
Dep. & Amort.	1.00	1.00	1.00	1.00	1.00
Tax Paid	(6.3)	(8.1)	(11.4)	(27.2)	(28.5)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	5.99	(15.5)	2.02	0.0	0.0
Other Operating CF	(55.4)	52.4	(34.7)	9.08	6.87
<b>Net Operating CF</b>	<b>121</b>	<b>94.1</b>	<b>121</b>	<b>91.8</b>	<b>93.3</b>
Net Invnt in Properties	(22.3)	(4.7)	(5.8)	(4.2)	(4.4)
Other Invnts (net)	0.0	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(10.7)	0.0	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(33.0)</b>	<b>(4.7)</b>	<b>(5.8)</b>	<b>(4.2)</b>	<b>(4.4)</b>
Distribution Paid	(100)	(74.9)	(86.4)	(90.8)	(92.3)
Chg in Gross Debt	(7.7)	(17.9)	(12.6)	4.22	4.39
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(22.6)	(0.5)	(14.9)	0.0	0.0
<b>Net Financing CF</b>	<b>(131)</b>	<b>(93.3)</b>	<b>(114)</b>	<b>(86.5)</b>	<b>(87.9)</b>
Currency Adjustments	(5.2)	5.27	5.51	0.0	0.0
Chg in Cash	(48.0)	1.40	6.87	1.00	1.00
Operating CFPS (S cts)	9.59	9.06	9.74	7.42	7.46
Free CFPS (S cts)	8.22	7.39	9.43	7.08	7.11

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	11 Mar 21	0.85	0.89	BUY
2:	14 Jun 21	0.92	1.10	BUY

Source: DBS Bank

Analyst: Geraldine WONG

Derek TAN

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

\*Share price appreciation + dividends

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Dissemination Date: 21 Feb 2022 08:23:59 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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