

COMPANY UPDATE

Sasseur REIT (SASSR SP)

Sustainable Growth With Lowest Gearing In 4Q21

SASSR is a pure play on growth in domestic consumption and the middle income population in China. According to management, tenant sales have rebounded with the arrival of colder weather in 1Q22. Yield-accretive acquisitions would enhance scale and trading liquidity. SASSR provides an attractive 2022 distribution yield of 8.8% and trades at P/NAV of 0.87x. Maintain BUY. Target price: S\$1.12.

4Q21 RESULTS

Year to 31 Dec (S\$m)	4Q21	yoy % chg	FY21	yoy % chg	Remarks
EMA Rental Income (Rmb m)	158.4	-0.5	611.9	5.5	Tenant sales affected by warm winter.
- Fixed Components (Rmb m)	105.5	3.0	421.8	3.0	
- Variable Components (Rmb m)	52.9	-6.8	190.1	11.7	
EMA Rental Income (S\$m)	33.6	4.1	127.5	10.1	Boosted by strength of the Rmb.
Distributable Income (S\$m)	25.3	8.4	93.9	19.3	Boosted by lower average cost of debt.
DPU (S cents)	1.900	-1.8	7.104	8.5	Retained S\$2.2m in 4Q21 and S\$7.7m in 2021.

Source: Sasseur, UOB Kay Hian

RESULTS

- Sasseur REIT (SASSR) reported 4Q21 DPU of 1.9 S cents (down 1.8% yoy but up 3.8% qoq), bringing 2021 DPU to 7.104 S cents (+8.5% yoy). It retained distributable income of S\$2.2m in 4Q21 and S\$7.7m in 2021 to finance asset enhancement initiatives and working capital purposes. Excluding the retention, 4Q21 DPU would be 2.079 S cents, representing an increase of 7.4% yoy. Payout ratio was 91.8% in 2021.**
- Normalisation in domestic consumption.** The four outlet malls generated tenant sales of RMB1,161.9m in 4Q21, a significant rebound of 16.6% qoq. SASSR benefitted from robust consumption in Chinese cities and intensive promotional efforts in collaboration with tenants. Unusually warm winter has, however, affected sales of higher value winter fashion and accessories, resulting in a 6.8% yoy decline in tenant sales.
- Constant renewal of tenants' trade mix.** Portfolio occupancy improved 0.8ppt qoq to 94.5% in 4Q21. Chongqing Liangjiang Outlets completed its asset enhancement initiatives in Dec 21 and occupancy maintained at 100%. Its outlet malls at Chongqing Bishan, Hefei and Kunming all recorded higher occupancies. SASSR diversified its trade mix by introducing more F&B, beauty and healthcare tenants. Watsons opened a new store with floor area of 220 sqm at its Chongqing Bishan Outlets.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	125	135	141	147	153
EBITDA	115	122	124	135	140
Operating profit	115	122	124	135	140
Net profit (rep./act.)	47	123	75	83	87
Net profit (adj.)	90	102	101	111	116
EPU (S\$ cent)	7.5	8.4	8.3	9.0	9.3
DPU (S\$ cent)	6.5	7.1	7.6	7.7	8.0
PE (x)	11.5	10.2	10.4	9.6	9.3
P/B (x)	0.9	0.9	0.9	0.9	0.9
DPU Yld (%)	7.6	8.3	8.8	8.9	9.3
Net margin (%)	37.5	91.1	53.3	56.2	56.4
Net debt/(cash) to equity (%)	31.3	28.8	30.3	30.4	31.1
Interest cover (x)	4.0	5.1	5.3	5.6	5.8
ROE (%)	4.3	10.6	6.3	7.0	7.4
Consensus DPU (S\$ cent)	n.a.	n.a.	7.4	7.8	8.1
UOBKH/Consensus (x)	-	-	1.02	0.98	0.98

Source: Sasseur REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.86
Target Price	S\$1.12
Upside	+30.2%
(Previous TP)	S\$1.05

COMPANY DESCRIPTION

Sasseur REIT is the first outlet mall REIT to be listed in Asia. It invests principally in a diversified portfolio of income-producing real estate used primarily for retail outlet mall purposes with an initial focus on Asia.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	SASSR SP
Shares issued (m):	1,217.1
Market cap (S\$m):	1,046.7
Market cap (US\$m):	777.9
3-mth avg daily t'over (US\$m):	0.8

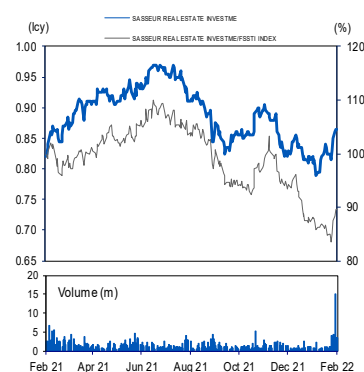
Price Performance (%)

52-week high/low	S\$0.97/S\$0.79			
1mth	3mth	6mth	1yr	YTD
5.5	(2.8)	(5.5)	3.6	1.8

Major Shareholders

Sasseur Cayman Holding II Ltd	56.9%
FY22 NAV/Share (S\$)	0.97
FY22 Net Debt/Share (S\$)	0.29

PRICE CHART



Source: Bloomberg

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- Benefitted from strength of the renminbi and lower cost of debt.** Entrusted Management Agreement (EMA) rental rebounded 5.3% qoq but dipped 0.5% yoy in 4Q21. Fixed component expanded at a steady pace of 3% yoy. Variable component registered sequential expansion of 17.8% qoq but nevertheless contracted 6.8% yoy. SASSR benefitted as the renminbi strengthened 4.7% against the Singapore dollar in 2021.
- NAV boosted by strength of the renminbi.** SASSR has recognised gain in fair value of its investment properties of S\$62.4m in 2021. NAV/unit increased 8.2% yoy to S\$0.99 as the renminbi strengthened 4.7% against the Singapore dollar.
- Lowest gearing among S-REITs.** SASSR's aggregate leverage dipped 1.8ppt yoy to 26.1% in 4Q21, the lowest among S-REITs. The low gearing provides ample debt headroom of S\$952m based on the Monetary Authority of Singapore's (MAS) limit on aggregate leverage of 50%. The strong balance sheet provides flexibility to pursue yield-accretive acquisitions.
- Lower cost of debt.** Interest expense declined 20% yoy as weighted average cost of debt was reduced by 0.5ppt yoy from 4.9% to 4.4% (includes borrowing-related fees). Thus, interest coverage ratio has improved from 4.0x to 5.1x.

STOCK IMPACT

- China re-orientates towards domestic consumption.** China is expected to prioritise expanding domestic consumption and promoting the rapid development of hi-tech industries in its 14th Five-Year Plan (2021-25). The external environment has become more complicated and unpredictable, while trade relations with the US remain uncertain. The re-orientation towards promotion of domestic demand and consumption will steer the Chinese towards spending on goods and services produced domestically, which will benefit SASSR's outlet malls.
- Limited impact from China's dynamic zero COVID-19 strategy.** China practices a targeted approach called dynamic clearing whereby restrictions cover just a district, neighbourhood or building. Lockdown for an entire city is an exception rather than the norm. Dynamic zero COVID-19 strategy does not mean China targets zero infection. Rather, it means China imposes a slew of measures to swiftly stamp out new outbreaks. Most localities do not undergo restrictions. For localities that experienced new cases of infection, local residents are inconvenienced by the tough restrictions for only a short period of time.
- Pursuing yield-accretive acquisitions.** Sponsor Sasseur Group has opened its 14th outlet mall with GFA of 77,843sqm at Suzhou in Oct 21. Management highlighted outlet malls in Xi'an (GFA: 141,708sqm) and Guiyang (GFA: 193,520sqm) within its sponsor pipeline. SASSR has right of first refusal to acquire the two large scale outlet malls with good long-term growth potential.

EARNINGS REVISION

- We have raised our 2022F DPU forecast by 5% to 7.6 S cents due to continued growth in tenant sales for its four outlet malls. We have assumed that SASSR retains distributable income of S\$5m in 2022 (payout ratio: 95%).

VALUATION/RECOMMENDATION

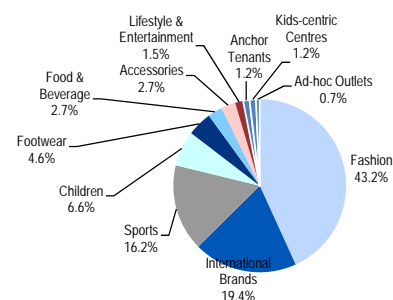
- Maintain BUY.** We raise our target price from S\$1.05 to S\$1.12 based on DDM (cost of equity: 8.5%, terminal growth: 1.5%).
- SASSR trades at attractive 2021 distribution yield of 8.8% and P/NAV of 0.87x.

KEY OPERATING METRICS

		1Q21	2Q21	3Q21	4Q21	yoy	qoq
DPU	S cents	1.759	1.614	1.831	1.900	-1.8%	3.8%
Occupancy	%	93.5%	92.5%	93.7%	94.5%	1ppt	0.8ppt
Gearing	%	27.6%	27.8%	27.2%	26.1%	-1.8ppt	-1.1ppt
Average Cost of Debt	%	3.3%	4.4%	4.4%	4.4%	-0.5ppt	0ppt
Weighted Average Debt Maturity	year	2.0	1.7	1.5	1.2	-1yrs	-0.3yrs

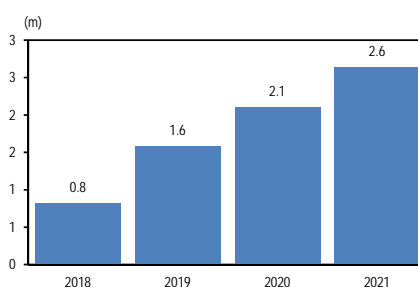
Source: SASSR, UOB Kay Hian

REVENUE BY TRADE SECTOR MIX



Source: Sasseur

VIP MEMBERSHIP



Source: Sasseur

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	134.9	141.4	147.2	153.4
EBITDA	122.2	124.4	135.1	140.2
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	122.2	124.4	135.1	140.2
Net interest income/(expense)	(23.9)	(23.4)	(24.0)	(24.1)
Pre-tax profit	164.2	101.0	111.1	116.1
Tax	(41.3)	(25.6)	(28.3)	(29.6)
Net profit	122.9	75.4	82.8	86.5
Net profit (adj.)	101.6	101.0	111.1	116.1

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	1,801.0	1,804.0	1,807.0	1,810.0
Other LT assets	0.0	0.0	0.0	0.0
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	159.8	165.3	168.8	168.3
Other current assets	29.1	27.1	28.2	29.4
Total assets	1,989.8	1,996.4	2,004.1	2,007.8
Other current liabilities	156.7	158.1	166.1	172.8
LT debt	508.1	527.0	527.0	531.3
Other LT liabilities	115.8	119.0	130.9	136.8
Shareholders' equity	1,209.2	1,192.2	1,180.0	1,166.8
Total liabilities & equity	1,989.8	1,996.4	2,004.1	2,007.8

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	120.1	82.6	115.1	110.6
Pre-tax profit	164.2	101.0	111.1	116.1
Tax	(11.4)	(25.6)	(28.3)	(29.6)
Deprec. & amort.	0.0	4.0	4.0	4.0
Working capital changes	2.0	(5.0)	3.7	3.9
Non-cash items	(58.4)	19.8	15.2	16.5
Other operating cashflows	23.7	(11.6)	9.4	(0.3)
Investing	(5.8)	(3.0)	(3.0)	(3.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(5.8)	(3.0)	(3.0)	(3.0)
Others	0.0	0.0	0.0	0.0
Financing	(113.9)	(74.1)	(108.5)	(108.1)
Distribution to unitholders	(86.4)	(92.4)	(94.9)	(99.7)
Issue of shares	0.0	15.4	10.6	11.7
Proceeds from borrowings	0.0	26.4	0.0	4.3
Loan repayment	(12.6)	0.0	0.0	0.0
Others/interest paid	(14.9)	(23.6)	(24.2)	(24.3)
Net cash inflow (outflow)	0.4	5.5	3.6	(0.5)
Beginning cash & cash equivalent	155.9	159.8	165.3	168.8
Changes due to forex impact	3.5	0.0	0.0	0.0
Ending cash & cash equivalent	159.8	165.3	168.8	168.3

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	90.6	88.0	91.7	91.4
Pre-tax margin	121.7	71.4	75.4	75.7
Net margin	91.1	53.3	56.2	56.4
ROA	6.4	3.8	4.1	4.3
ROE	10.6	6.3	7.0	7.4
Growth				
Turnover	7.7	4.8	4.2	4.2
EBITDA	6.4	1.8	8.6	3.8
Pre-tax profit	155.5	(38.5)	10.0	4.6
Net profit	161.3	(38.6)	9.8	4.5
Net profit (adj.)	13.2	(0.6)	10.0	4.6
EPU	12.7	(1.4)	8.5	3.4
Leverage				
Debt to total capital	29.6	30.7	30.9	31.3
Debt to equity	42.0	44.2	44.7	45.5
Net debt/(cash) to equity	28.8	30.3	30.4	31.1
Interest cover (x)	5.1	5.3	5.6	5.8

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