

Singapore Company Update

BHG Retail REIT

Bloomberg: BHGREIT SP | Reuters: BHGR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Mar 2022

HOLD

Last Traded Price (4 Mar 2022): S\$0.545 (STI : 3,226.78)
Price Target 12-mth: S\$0.57 (5% upside)

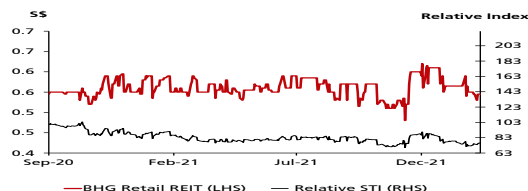
Analyst

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What's New

- FY21 net property income grows 14.9% y-o-y to S\$41.8m
- Total DPU for FY21 stands at 2.17 Scts
- Return of Hefei Mengchenglu to drive DPU growth in FY22F
- Maintain HOLD with TP of S\$0.57

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Gross Revenue	60.6	70.6	74.2	79.7
Net Property Inc	36.4	41.8	45.2	48.8
Total Return	14.0	7.51	11.2	14.7
Distribution Inc	10.5	12.4	15.7	17.9
EPU (S cts)	2.74	1.47	2.16	2.82
EPU Gth (%)	nm	(46)	47	31
DPU (S cts)	1.95	2.17	2.74	3.10
DPU Gth (%)	(49)	12	26	13
NAV per shr (S cts)	120	128	128	127
PE (X)	19.9	37.2	25.2	19.3
Distribution Yield (%)	3.6	4.0	5.0	5.7
P/NAV (x)	0.5	0.4	0.4	0.4
Aggregate Leverage (%)	29.3	28.3	27.0	28.0
ROAE (%)	3.2	1.6	2.4	3.1

Distn. Inc Chng (%): (7) (1) 0

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

A year of recovery

Investment Thesis

DPU miss hints at possible protracted recovery. While FY20 was undoubtedly the bottom of BHG REIT's three-year declining DPU trend, its recovery is expected to be slower, as FY21 DPU numbers did not bounce back as quickly as anticipated. Still, we maintain our FY22F estimates, as Hefei Mengchenglu is set to make a bigger contribution this year following disruptions from its AEI in FY21. With yields of c.5.0% and limited upside to our TP, we maintain HOLD.

Potential to deliver strong organic growth in the medium term. BHG REIT offers investors a good mix of growth and stability. We note that the REIT has exposure to three properties located in Hefei and Chengdu, where urban disposable income grew at five-year CAGRs of 8.5% and 7.9%, respectively, outpacing Beijing's 7.2%. Correspondingly, retail spending in Hefei and Chengdu grew at faster five-year CAGRs of 16.6% and 7.3%, versus 5.7% in Beijing. With the ongoing tenancy remix, we believe BHG REIT's assets in Hefei and Chengdu have the potential to deliver strong organic growth in the medium term.

Acquisition offers upside to estimates. BHG REIT has a right-of-first-refusal (ROFR) over c.10 assets. The pipeline of assets may expand beyond the ROFR, with previously proposed acquisitions that are outside the ROFR. We understand that the manager remains keen to tap into the sponsor's pipeline to accelerate its growth.

Valuation:

Maintain HOLD with a DCF-based TP of S\$0.57, based on a WACC of 8.0% and terminal growth rate of 2.75%. Our TP implies a FY22F target yield of 4.8%.

Where we differ:

We are the only house covering the stock and have assumed a more conservative recovery for FY22F.

Key Risks to Our View:

A surge in COVID-19 cases, leading to restrictions in Beijing, Chengdu, or Hefei, and a higher-than-expected shift in retail spending to the online space.

At A Glance

Issued Capital (m shrs)	512
Mkt. Cap (S\$m/US\$m)	279 / 205
Major Shareholders (%)	
Beijing Hualian Group Investment Holdings Co Ltd	36.2
Qianhai Intl Holdings	13.2
Chanchai Ruayrungruang	13.1
Free Float (%)	25.6
3m Avg. Daily Val (US\$m)	0.02
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



Watchlist the stock on Insights Direct to receive prompt updates

ed: BM/ sa: YM, PY, CS



Live more, Bank less

BHG Retail REIT

WHAT'S NEW

A year of recovery

Net property income recovery in line, but DPU misses estimates

- 2H21 revenue and NPI rose to S\$36.3m (+10.8% y-o-y, +5.7% h-o-h) and S\$21.2m (+6.6% y-o-y, +2.7% h-o-h), respectively, as committed portfolio occupancies continue to improve
- BHG REIT also ended all rental rebates in FY21, which contributed to the improved performance
- Notably, Hefei Mengchenglu's committed occupancy jumped 10.5ppt h-o-h, as the AEI at the property was gradually completed
- However, 2H21 DPU was lower, at 1.05 Scts (-0.9% y-o-y, -6.3% h-o-h), largely due to higher taxes incurred in the second half of the year

Key financial and operating metrics

S\$m	2H21	2H20	y-o-y	1H21	h-o-h
Revenue	36.3	32.8	10.8%	34.3	5.7%
NPI	21.2	19.9	6.6%	20.6	2.7%
DPU	1.05	1.06	-0.9%	1.12	-6.3%
Occupancy	97.0%	93.5%	3.5ppt	93.0%	4.0ppt
WALE (GRI)	3.6	3.8	2.2	3.8	2.2
Gearing	34.1%	35.7%	-1.6ppt	34.9%	-0.8ppt
<i>Occupancy</i>					
Beijing WL	96.1%	92.7%	3.4ppt	94.4%	1.7ppt
Chengdu KG	98.0%	96.4%	1.6ppt	92.5%	5.5ppt
Hefei MCL	91.3%	81.7%	9.6ppt	80.8%	10.5ppt
Hefei CJXL	98.2%	92.4%	5.8ppt	92.5%	5.7ppt
Xining HY	100.0%	100.0%	0.0ppt	100.0%	0.0ppt
Dalian JSJ	100.0%	100.0%	0.0ppt	100.0%	0.0ppt

Source: Company, DBS Bank

Portfolio's committed occupancies continue rise; Hefei Mengchenglu occupancy surges 10.5ppt h-o-h.

The improvement in occupancies across the portfolio is a positive sign that things are returning to normal in China. That said, rental reversions were not disclosed, which may potentially point to lower reversions. Importantly, FY22 is the year in which all of BHG REIT's borrowings will mature. Uncertainty over China's real estate sector may create difficulties in refinancing (as seen at Dasin Retail Trust), although we do believe the REIT will successfully refinance its borrowings.

Maintain HOLD with a TP of S\$0.57. Even as BHG REIT misses our FY21 estimates, our forecasts remain largely unchanged, as we expect Hefei Mengchenglu to contribute significantly following its AEI in FY21. We maintain HOLD on relatively rich valuations of the REIT, trading at a FY22F yield of 5.0% vs. its peers' average of c.7%.

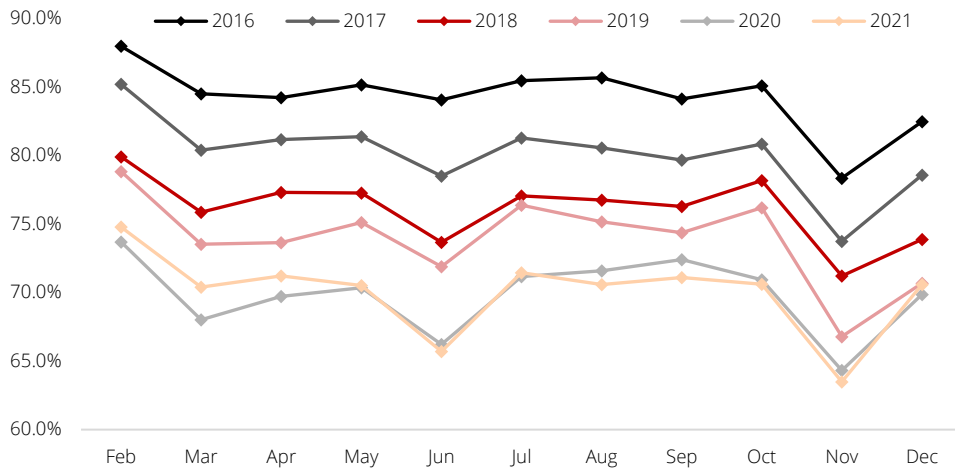
Company Background

Listed in December 2015, BHG Retail REIT ("BHG REIT") is a China-focused REIT that primarily invests in real estate assets used for retail purposes. BHG REIT counts six assets in its portfolio as of FY20, located in Beijing, Chengdu, Hefei, Xining, and Dalian. BHG REIT is sponsored by Beijing Hualian Group ("the sponsor"), a retail specialist in China that owns 24 retail properties and manages over 30 shopping malls.

BHG Retail REIT

China's non-online retail sales share continues bottoming trend

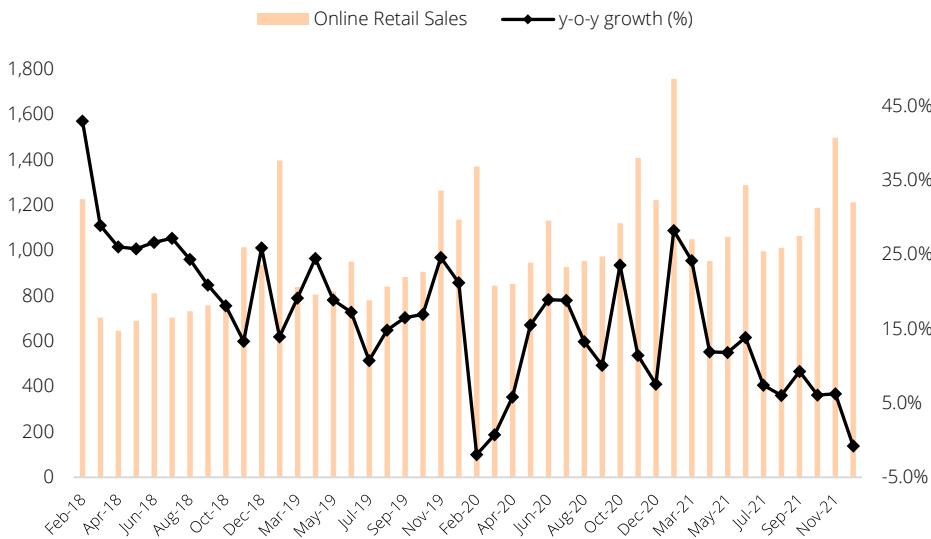
China non-online retail sales share



Comments

The share of China's non-online retail sales has shown a gradual but clear trend of decline over the past years. However, 7M21 average non-online retail sales appears to be stabilising in 2021. Indeed, the share of non-online retail sales in December 2021 rose to 70.6%, marking the first year-on-year increase since at least 2016.

China online monthly retail sales value and growth (RMB bn)



Comments

Online retail sales growth has slowed and recorded a 0.8% y-o-y dip in December 2021. This marks a significant milestone, as online retail sales growth has rarely dipped into negative territory, with the exception of February 2020, when COVID-19 struck China.

Source: NBS, DBS Bank

BHG Retail REIT

Interim Income Statement (\$m)

FY Dec	2H2020	1H2021	2H2021	% chg y-o-y	% chg q-o-q
Gross revenue	32.8	34.3	36.3	10.8	5.7
Property expenses	(12.9)	(13.7)	(15.1)	17.3	10.4
Net Property Income	19.9	20.6	21.2	6.6	2.7
Other Operating expenses	(1.1)	(1.6)	(1.4)	25.1	(15.1)
Other Non Opg (Exp)/Inc	0.29	0.41	0.52	77.7	24.9
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(7.7)	(6.9)	(7.4)	4.4	(7.3)
Exceptional Gain/(Loss)	(11.9)	(1.0)	(0.4)	nm	nm
Net Income	(0.5)	11.5	12.5	nm	8.6
Tax	0.47	(3.7)	(5.3)	nm	41.2
Minority Interest	(1.9)	(3.7)	(3.8)	(100.4)	3.3
Net Income after Tax	(2.0)	4.09	3.42	nm	(16.5)
Total Return	13.1	4.09	3.42	(73.9)	(16.5)
Non-tax deductible Items	7.71	2.30	2.54	(67.0)	10.6
Net Inc available for Dist.	5.74	6.39	5.96	3.8	(6.8)
Ratio (%)					
Net Prop Inc Margin	60.6	60.1	58.3		
Dist. Payout Ratio (%)	90	90	90		

Source of all data: Company, DBS Bank

Historical PB band



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

BHG Retail REIT

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross revenue	79.1	60.6	70.6	74.2	79.7
Property expenses	(28.6)	(24.2)	(28.8)	(28.9)	(30.9)
Net Property income	50.5	36.4	41.8	45.2	48.8
Other Operating expenses	(3.8)	(2.3)	(3.0)	(3.7)	(3.7)
Other Non Opg (Exp)/Inc	0.48	0.39	0.93	0.43	0.43
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(14.4)	(14.8)	(14.3)	(14.4)	(14.4)
Exceptional Gain/(Loss)	1.76	1.05	(1.5)	0.0	0.0
Net Income	34.5	20.7	24.0	27.5	31.2
Tax	(20.8)	(2.0)	(9.0)	(8.5)	(7.8)
Minority Interest	(14.6)	(4.8)	(7.5)	(7.8)	(8.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	(0.9)	14.0	7.51	11.2	14.7
Total Return	(0.9)	14.0	7.51	11.2	14.7
Non-tax deductible Items	(29.4)	11.6	4.84	4.57	3.23
Net Inc available for Dist.	18.6	10.5	12.4	15.7	17.9
Growth & Ratio					
Revenue Gth (%)	13.5	(23.4)	16.6	5.0	7.4
N Property Inc Gth (%)	10.6	(27.9)	14.9	8.2	7.9
Net Inc Gth (%)	nm	nm	(46.2)	48.5	31.6
Dist. Payout Ratio (%)	90.0	90.0	90.0	90.0	90.0
Net Prop Inc Margins (%)	63.8	60.1	59.2	61.0	61.3
Net Income Margins (%)	(1.1)	23.1	10.6	15.0	18.4
Dist to revenue (%)	23.5	17.4	17.5	21.2	22.5
Managers & Trustee's fees	4.8	3.7	4.3	5.0	4.6
ROAE (%)	(0.2)	3.2	1.6	2.4	3.1
ROA (%)	(0.1)	1.4	0.7	1.1	1.4
ROCE (%)	2.1	3.3	2.5	2.9	3.4
Int. Cover (x)	3.2	2.3	2.7	2.9	3.1

Source: Company, DBS Bank

BHG Retail REIT

Interim Income Statement (\$m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Gross revenue	41.0	27.8	32.8	34.3	36.3
Property expenses	(15.7)	(11.3)	(12.9)	(13.7)	(15.1)
Net Property Income	25.3	16.5	19.9	20.6	21.2
Other Operating	(2.3)	(1.1)	(1.1)	(1.6)	(1.4)
Other Non Opg (Exp)/Inc	0.45	0.10	0.29	0.41	0.52
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(7.6)	(7.1)	(7.7)	(6.9)	(7.4)
Exceptional Gain/(Loss)	18.0	(2.1)	(11.9)	(1.0)	(0.4)
Net Income	33.8	6.24	(0.5)	11.5	12.5
Tax	(8.4)	(2.5)	0.47	(3.7)	(5.3)
Minority Interest	(10.0)	(2.9)	(1.9)	(3.7)	(3.8)
Net Income after Tax	15.5	3.37	(2.0)	4.09	3.42
Total Return	(1.0)	0.90	13.1	4.09	3.42
Non-tax deductible Items	(6.9)	3.90	7.71	2.30	2.54
Net Inc available for Dist.	8.59	4.80	5.74	6.39	5.96
Growth & Ratio					
Revenue Gth (%)	8	(32)	18	5	6
N Property Inc Gth (%)	0	(35)	20	4	3
Net Inc Gth (%)	(52)	(94)	(319)	(308)	(17)
Net Prop Inc Margin (%)	61.6	59.4	60.6	60.1	58.3
Dist. Payout Ratio (%)	90	90	90	90	90

Balance Sheet (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Investment Properties	909	943	993	997	1,001
Other LT Assets	0.70	0.75	0.73	0.73	0.73
Cash & ST Invts	47.0	48.3	48.5	34.1	48.4
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	1.03	2.95	2.69	3.61	3.88
Other Current Assets	0.0	0.0	0.0	0.0	0.0
Total Assets	958	995	1,045	1,035	1,054
ST Debt	3.16	9.32	295	0.0	15.0
Creditor	24.9	26.1	22.8	31.2	33.3
Other Current Liab	14.5	14.2	21.6	18.0	18.0
LT Debt	275	282	0.0	280	280
Other LT Liabilities	51.6	50.8	47.9	47.9	47.9
Unit holders' funds	423	439	471	473	475
Minority Interests	166	173	186	186	186
Total Funds & Liabilities	958	995	1,045	1,035	1,054
Non-Cash Wkg. Capital	(38.4)	(37.3)	(41.7)	(45.5)	(47.3)
Net Cash/(Debt)	(232)	(243)	(247)	(246)	(247)
Ratio					
Current Ratio (x)	1.1	1.0	0.2	0.8	0.8
Quick Ratio (x)	1.1	1.0	0.2	0.8	0.8
Aggregate Leverage (%)	29.1	29.3	28.3	27.0	28.0

Source: Company, DBS Bank

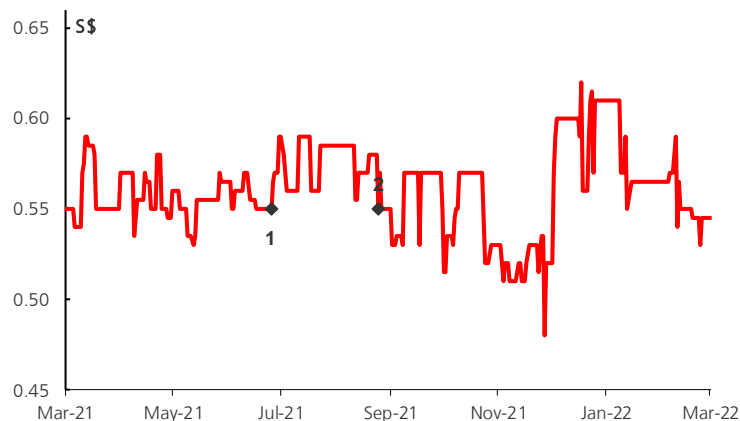
BHG Retail REIT

Cash Flow Statement (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Income	83.4	5.70	24.0	27.5	31.2
Dep. & Amort.	1.11	1.11	1.11	1.11	1.11
Tax Paid	(9.5)	(5.8)	(6.7)	(8.5)	(7.8)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg. Cap.	2.92	(9.6)	(1.6)	3.82	1.81
Other Operating CF	(33.3)	30.1	16.5	4.57	3.23
Net Operating CF	44.6	21.5	33.4	28.5	29.5
Net Invnt in Properties	(74.0)	(5.4)	(2.7)	(4.4)	(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	0.42	0.16	0.13	0.0	0.0
Net Investing CF	(73.6)	(5.2)	(2.6)	(4.4)	(4.4)
Distribution Paid	(18.3)	(12.1)	(10.9)	(14.2)	(16.1)
Chg in Gross Debt	55.8	9.26	(1.3)	(15.5)	15.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(3.6)	(14.5)	(17.4)	(7.8)	(8.7)
Net Financing CF	34.0	(17.3)	(29.5)	(37.4)	(9.8)
Currency Adjustments	(1.1)	2.09	2.13	0.0	0.0
Chg in Cash	3.91	1.12	3.33	(13.4)	15.3
Operating CFPS (S cts)	8.23	6.09	6.82	4.78	5.33
Free CFPS (S cts)	(5.8)	3.17	5.97	4.66	4.82

Source: Company, DBS Bank

Target Price & 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:	30 Jun 21	0.55	0.60	BUY
2:	30 Aug 21	0.55	0.57	HOLD

Source: DBS Bank

Analyst: Woon Bing Yong

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

Completed Date: 7 Mar 2022 07:58:08 (SGT)

Dissemination Date: 7 Mar 2022 08:39:59 (SGT)

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2. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates have a net long position exceeding 0.5% of the total issued share capital in BHG Retail REIT recommended in this report as of 31 Jan 2022.
3. DBS Bank Ltd, DBS HK, DBSVS, DBSVUSA or their subsidiaries and/or other affiliates beneficially own a total of 1% of any class of common equity securities of BHG Retail REIT as of 31 Jan 2022.

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