

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

22 Feb 2024

BUY

Last Traded Price (21 Feb 2024): S\$0.685 (STI : 3,217.11)

Price Target 12-mth: S\$1.00 (46% upside) (Prev S\$1.05)

Analysts

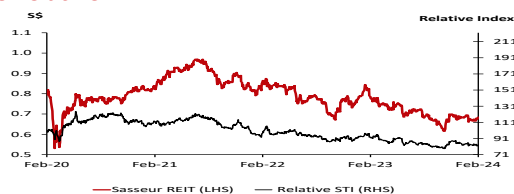
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What's New

- EMA income at RMB658.5m (+11% y-o-y); FY23 DPU at 6.25scts (-6% y-o-y), slightly behind our estimates
- Tenant sales rose 32% y-o-y; spending wariness amongst Chinese saw outlet format sales outperforming
- Valuation flat y-o-y in RMB terms; acquisition interest turning to Guiyang Mall, a more digestible deal
- Maintain BUY with lower TP of S\$1.00

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2022A	2023A	2024F	2025F
Gross Revenue	126	127	135	143
Net Property Inc	126	127	135	143
Total Return	62.1	62.4	74.8	79.3
Distribution Inc	88.5	83.4	81.7	87.7
EPU (S cts)	5.03	5.05	5.99	6.28
EPU Gth (%)	(50)	0	19	5
DPU (S cts)	6.55	6.25	6.22	6.59
DPU Gth (%)	(8)	(5)	(1)	6
NAV per shr (S cts)	86.5	82.5	82.0	81.3
PE (X)	13.6	13.6	11.4	10.9
Distribution Yield (%)	9.6	9.1	9.1	9.6
P/NAV (x)	0.8	0.8	0.8	0.8
Aggregate Leverage (%)	25.4	22.9	23.0	23.1
ROAE (%)	5.5	6.0	7.3	7.7

Distn. Inc Chng (%): (6) -
 Consensus DPU (S cts): 6.60 6.80
 Other Broker Recs: B: 6 S: 0 H: 0

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

Spending wariness promising for outlet malls

Investment Thesis:

Outlet exposure and experiential shopping to ride on consumer sentiment recovery. Sasseur REIT stands as the only pure-play China outlet mall REIT in Singapore. Its experiential giant malls with value proposition benches well on improving consumer sentiments as China bids farewell to COVID-19. Forward yields of c.9.1/9.7% (FY24F/FY25F) are compelling on conservative estimates.

Spending wariness and value-for-money mentality to hold more promise for outlet malls. China's Spring Festival spending data this year (Feb '24) showed continued spending wariness, with spend per pax reducing further to c.90.5% of 2019 levels (from c.97% a year ago). Experience-based spending continues to stand ahead of discretionary goods. This trend has maintained a booster for outlet mall sales, which offers quality products at discounted rates. Overall outlet sales in China rose 26% y-o-y in 9M23, while Sasseur REIT surpassed this growth to deliver a 32% y-o-y increase in sales in FY23. 'Value-for-money' mindset amongst Chinese consumers, alongside the prioritization of experiences and resumption of domestic travel, will be three continued catalysts for Sasseur REIT's outlet malls going into FY24. Double-digit growth in Sasseur REIT's outlet mall sales can be sustained, albeit at a high base, in FY23.

Guiyang Mall added to the acquisition radar. Post-FY23 renewals being completed and diversified to stagger lease expiry, Sasseur REIT will not have substantial debt up for renewal until FY26. Ongoing efforts to strengthen its balance sheet is an important step to build up ammunition for acquisitions and takes the REIT closer to delivering its first acquisition since IPO. Apart from Xi'an mall, management is adding ROFR asset Guiyang mall into the acquisition radar given that the asset is fully unencumbered. Its smaller asset scale will also mean a more digestible deal size for Sasseur REIT.

Maintain BUY with lower TP of S\$1.00. We reduced our forward forex assumptions for SGD/RMB to remain high for all forward years, while reducing our cost of debt by 25 bps in FY24 to reflect a peak in FY23. Reduced DPU of 6.22scts for FY24F translates to a 9.1% yield on last share price.

Key Risks

Acquisitions not priced into our assumptions.

At A Glance

Issued Capital (m shrs)	1,234
Mkt. Cap (S\$m/US\$m)	845 / 629
Major Shareholders (%)	
SASSEUR CAYMAN HOLDING II LTD	54.7
Free Float (%)	44.6
3m Avg. Daily Val (US\$m)	0.29
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	

WHAT'S NEW

FY23 Results

Sasseur REIT reported topline EMA rental income of RMB658.5m (+10.7% y-o-y), boosted by higher variable component rents, which rose 31.7% y-o-y in tandem with underlying portfolio sales.

- Distributable income reversed into a 5.8% y-o-y decline of S\$83.4m on both higher cost of financing and forex translation losses, which saw a 7% y-o-y depreciation of the RMB against the SGD in FY23.
- Full year DPU of 6.25scts (-4.6% y-o-y) came in slightly behind our estimates of 6.4scts on a 93% pay-out ratio.
- Portfolio occupancy remains stable at 97.6% as of end-FY23 (vs. FY22 occupancy of 92.3%)
- With improving cash flow from underlying sales, portfolio valuation was flat y-o-y at RMB 8,497m (+0.02% y-o-y) on local currency terms.
- Capital management remains stable with low gearing of 25.3% and a cost of debt of 5.6%. There remain no substantial loan expiries until FY26, as c.47% of debt will be due for refinancing.

Interest cost should have peaked at the current 5.6%. Cost of borrowing rose 80 bps y-o-y to 5.6% as of 31 December 2023, reflecting refinancings completed in 1Q23. Financing cost is the biggest woe faced by Sasseur REIT given both improving operations and a comfortably low gearing of 25%. We believe that current cost of borrowing would likely have peaked at current rates, given both a decline in offshore cost of debt and onshore 5-year PBoC rates, which declined 65 bps y-o-y to 3.95% (Feb '24). Sasseur REIT will consider the early refinancing of upcoming FY24 expiries (sponsor loan) to take advantage of dovish onshore rates. Based on its sensitivity analysis, every 50 bps decrease in Sasseur REIT's onshore RMB loans will see a 0.07scts uplift to underlying DPUs.

Outlet sales continue to hold many promises in FY24. Outlet performance continued to perform well in 2023, with nationwide outlet sales for 9M23 increasing 26% y-o-y and footfall rising 35% y-o-y. Outlet malls will continue to improve from a normalisation of inbound travel amongst the Chinese consumers, as Sasseur REIT has also mentioned their historical capture in 'tourist' footfall at their malls, alongside the continuation of a trade-down mentality amongst Chinese consumers. Within our short update released yesterday on Spring Festival data released by the

government, spend per pax reduced further from c.97% across holidays in FY22 to c.91% this Spring Festival break ([SG / HK hotels: China CNY travel data - Experiences please, but at a lower price point](#)). We continue to see both of these trends uplifting Sasseur REIT's tenant sales come FY24 to meet a double-digit y-o-y sales level on a higher base.

ROFR asset Guiyang Mall added to the acquisition radar.

Management shared that they are adding ROFR asset Guiyang Mall into their acquisition radar. Guiyang Mall is a smaller-sized outlet mall compared to Xi'an Mall and at a valuation price point more digestible to the REIT. We understand that the asset has attained unencumbered status. We believe Sasseur REIT may look at a full injection of Guiyang Mall or a stake purchase of Xi'an Mall as the REIT's first acquisition. In our site visit to Xi'an Mall ([report](#)), the mall's direct metro connectivity alongside a more substantial F&B offering makes for a quality asset that is on par or superior to Sasseur REIT's existing portfolio titan – the Chongqing Liangjiang Mall.

Maintain BUY with lower TP of S\$1.00 (previously S\$1.05).

We reduced our forward forex assumptions for SGD/RMB to remain high for all forward years. Cost of debt assumptions lowered by 25 bps in FY24 to reflect a peaking of Sasseur REIT's interest cost in FY23 (at 5.6%), but this does not reflect the potential early refinancing of sponsor loan due in FY24 which will translate to interest cost savings when it occurs. Payout ratio remains unchanged at 95%. Our adjustments reflect a more muted topline revenue of S\$134.8m (or an assumed 6% y-o-y growth); revised DPU for FY24F /FY25F at 6.22scts and 6.59scts represents a current yield of 9.1%/9.7% respectively.

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.

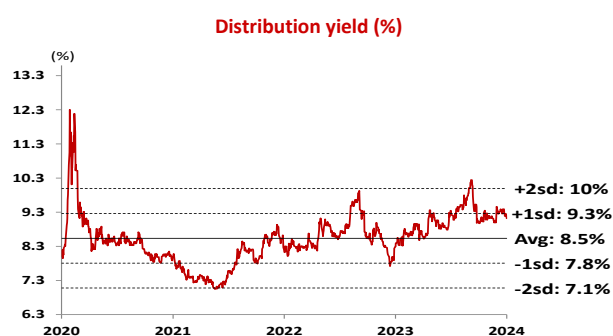
Sasseur REIT

Interim Income Statement (S\$m)

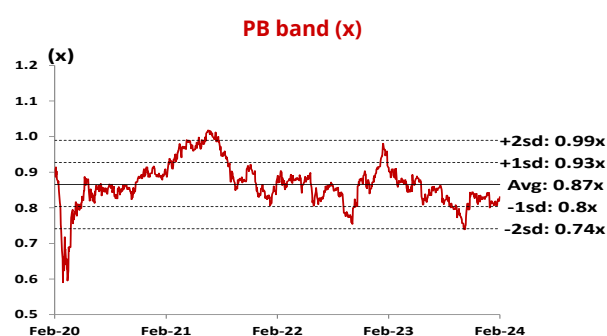
FY Dec	2H2022	1H2023	2H2023	% chg y-o-y	% chg h-o-h
Gross revenue	60.1	63.5	63.2	5.3	(0.4)
Property expenses	0.0	0.0	0.0	-	-
Net Property Income	60.1	63.5	63.2	5.3	(0.4)
Other Operating expenses	(5.2)	(5.1)	(4.8)	(7.3)	(4.8)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(13.8)	(14.3)	(12.8)	7.3	10.5
Exceptional Gain/(Loss)	0.78	3.20	(3.4)	nm	nm
Net Income	41.8	47.3	42.2	1.0	(10.8)
Tax	(8.5)	(9.8)	(14.2)	67.1	44.4
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	33.3	37.5	28.0	(15.9)	(25.3)
Total Return	11.7	16.2	14.1	20.2	(12.6)
Non-tax deductible Items	17.1	17.1	13.6	(20.7)	(20.7)
Net Inc available for Dist.	43.4	43.9	39.4	(9.3)	(10.3)
Ratio (%)					
Net Prop Inc Margin	100.0	100.0	100.0		
Dist. Payout Ratio	88.9	93.4	92.2		

Source of all data: Company, DBS Bank Ltd

Historical Distribution yield and PB band



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



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

Income Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Gross revenue	135	126	127	135	143
Property expenses	0.0	0.0	0.0	0.0	0.0
Net Property Income	135	126	127	135	143
Other Operating expenses	(12.6)	(10.5)	(9.9)	(9.8)	(11.8)
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	(24.0)	(26.1)	(27.1)	(25.3)	(25.0)
Exceptional Gain/(Loss)	65.9	(9.2)	(3.3)	0.0	0.0
Net Income	164	80.2	86.4	99.8	106
Tax	(41.3)	(18.1)	(24.0)	(24.9)	(26.4)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	123	62.1	62.4	74.8	79.3
Total Return	123	62.1	62.4	74.8	79.3
Non-tax deductible Items	(29.0)	26.4	20.9	6.85	8.38
Net Inc available for Dist.	93.9	88.5	83.4	81.7	87.7
Growth & Ratio					
Revenue Gth (%)	7.7	(6.6)	0.6	6.4	5.7
N Property Inc Gth (%)	7.7	(6.6)	0.6	6.4	5.7
Net Inc Gth (%)	161.3	(49.5)	0.5	19.9	6.0
Dist. Payout Ratio (%)	91.8	90.8	92.8	95.0	95.0
Net Prop Inc Margins (%)	100.0	100.0	100.0	100.0	100.0
Net Income Margins (%)	91.1	49.3	49.3	55.5	55.7
Dist to revenue (%)	69.6	70.3	65.8	60.6	61.5
Managers & Trustee's fees	9.4	8.3	7.8	7.2	8.3
ROAE (%)	10.6	5.5	6.0	7.3	7.7
ROA (%)	6.4	3.3	3.6	4.3	4.5
ROCE (%)	6.1	5.7	5.9	7.1	7.4
Int. Cover (x)	5.1	4.4	4.3	5.0	5.2

Source: Company, DBS Bank Ltd

Sasseur REIT

Balance Sheet (\$\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Investment Properties	1,801	1,639	1,580	1,584	1,589
Other LT Assets	0.0	0.0	0.0	0.0	0.0
Cash	160	101	141	145	149
ST Investment	0.0	0.0	0.0	0.0	0.0
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	29.1	28.1	26.0	26.0	26.0
Net Intangibles Assets	0.0	0.0	0.0	0.0	0.0
Other Current Assets	0.0	0.0	0.61	0.61	0.61
Total Assets	1,990	1,768	1,748	1,756	1,764
ST Debt	2.46	487	5.44	5.44	5.44
Creditor	123	69.6	142	142	142
Other Current Liab	31.1	31.4	38.2	38.2	38.2
LT Debt	508	112	427	431	435
Other LT Liabilities	116	0.0	115	115	115
Unit holders' funds	1,209	1,068	1,020	1,024	1,028
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	1,990	1,768	1,748	1,756	1,764
Non-Cash Wkg. Capital	(125)	(72.9)	(154)	(154)	(154)
Net Cash/(Debt)	(351)	(498)	(292)	(292)	(292)
Perpetuals	0.0	0.0	0.0	0.0	0.0
Ratio					
Current Ratio (x)	1.2	0.2	0.9	0.9	0.9
Quick Ratio (x)	1.2	0.2	0.9	0.9	0.9
Aggregate Leverage (%)	23.9	25.4	22.9	23.0	23.1

Source: Company, DBS Bank Ltd

Sasseur REIT

Cash Flow Statement (\$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Income	164	80.2	86.4	99.8	106
Dep. & Amort.	1.00	1.00	1.00	1.00	1.00
Tax Paid	(11.4)	(7.2)	(6.2)	(24.9)	(26.4)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	2.02	(45.6)	68.8	0.0	0.0
Other Operating CF	(34.7)	39.8	36.4	6.85	8.38
Net Operating CF	121	68.1	186	82.7	88.7
Net Invnt in Properties	(5.8)	(4.1)	(0.5)	(4.0)	(4.3)
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	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(5.8)	(4.1)	(0.5)	(4.0)	(4.3)
Distribution Paid	(86.4)	(87.4)	(75.8)	(77.6)	(83.3)
Chg in Gross Debt	(12.6)	(25.0)	(50.0)	4.04	4.28
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(14.9)	(3.0)	(18.8)	0.0	0.0
Net Financing CF	(114)	(115)	(145)	(73.6)	(79.0)
Currency Adjustments	5.51	0.69	0.0	0.0	0.0
Chg in Cash	6.87	(50.7)	41.4	5.08	5.39
Operating CFPS (S cts)	9.74	9.22	9.51	6.62	7.02
Free CFPS (S cts)	9.43	5.19	15.0	6.30	6.68

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth History



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

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
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Source: DBS Bank Ltd

Analysts: Geraldine WONG

Derek TAN

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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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