

Singapore Company Guide

Sasseur REIT

Version 2 | Bloomberg: SASSR SP | Reuters: SASS.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

20 Feb 2019

BUY

Last Traded Price (19 Feb 2019): S\$0.74 (STI : 3,259.80)

Price Target 12-mth: S\$0.97 (31% upside) (Prev S\$0.91)

Analyst

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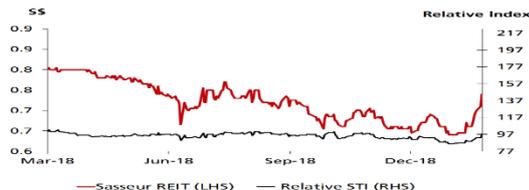
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What's New

- 4Q18 DPU of 1.999 Scts exceeds expectations
- Strong tenant sales (up 16% y-o-y) in 4Q18 and DPU boosted by absence of need to set aside statutory reserves
- Expect strong tenant sales to be maintained with three out of four malls still relatively immature
- Post revaluation gains, c.29% gearing provides debt headroom for yield-accretive acquisition

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2018A	2019F	2020F	2021F
Gross Revenue	93.5	125	131	135
Net Property Inc	93.5	125	131	135
Total Return	169	67.2	69.8	72.6
Distribution Inc	60.5	79.4	82.9	85.5
EPU (S cts)	14.3	5.63	5.79	5.95
EPU Gth (%)	nm	(61)	3	3
DPU (S cts)	5.13	6.66	6.87	7.01
DPU Gth (%)	nm	30	3	2
NAV per shr (S cts)	91.0	90.1	89.0	88.0
PE (X)	5.2	13.1	12.8	12.4
Distribution Yield (%)	6.9	9.0	9.3	9.5
P/NAV (x)	0.8	0.8	0.8	0.8
Aggregate Leverage (%)	29.0	29.0	29.2	29.4
ROAE (%)	31.5	6.3	6.5	6.8

Distn. Inc Chng (%):	6	7	7
Consensus DPU (S cts):	6.30	6.40	6.70
Other Broker Recs:	B: 3	S: 0	H: 0

* For period 28 March to 31 December 2018

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

One of a kind

Unique exposure to rapidly growing China outlet mall industry.

We maintain our BUY call with a revised TP of S\$0.97 as we remain bullish on Sasseur REIT's prospects given its exposure to the fast-growing Chinese outlet mall industry which is projected to grow at a CAGR of 24% from 2016-2021 via its initial portfolio of four outlet malls located in Chongqing, Bishan, Hefei and Kunming. Furthermore, at current level, Sasseur REIT offers an attractive forward FY19 yield of 9.4%, which is among the highest in the S-REIT sector.

Where we differ – Underappreciated business model. Sasseur REIT's share price is trading below its IPO price of S\$0.80 which, in our view, is partially attributed to the lack of familiarity with its business model. Via the Entrusted Management Agreement (EMA) with its Sponsor, 70% of the REIT's revenues are fixed, growing at 3% per annum and providing the REIT with downside protection. The remaining 30% of revenues are pegged to 4-5% of a property's tenant sales, which provides leverage to the success of Sasseur REIT's malls. Furthermore, we believe concerns over a depreciating RMB is overstated due to the rapidly growing tenant sales at its properties which grew by 29% y-o-y in 2018, beating its IPO and our DPU projections.

Upside from acquisitions. Sasseur REIT's Sponsor has extended the right of first refusal (ROFR) over two properties and three pipeline properties which would triple the REIT's gross floor area (GFA). A successful execution of an inorganic growth strategy may present upside risk to our earnings estimates.

Valuation:

After the better-than-expected 4Q18 results, we have raised our DCF based-TP to S\$0.97 from S\$0.91.

Key Risks to Our View:

The key risk to our view is slower-than-expected growth in tenant sales which would raise doubts on the sustainability of DPU despite the revenue guarantee provided by the Sponsor.

At A Glance

Issued Capital (m shrs)	1,180
Mkt. Cap (S\$m/US\$m)	873 / 646
Major Shareholders (%)	
Sasseur Cayman Holding II Ltd	57.6
Cornestone Investors	19.4
Meritz Securities Co Ltd	6.6
Free Float (%)	16.4
3m Avg. Daily Val (US\$m)	0.48

ICB Industry : Financials / Real Estate Investment Trust



Live more, Bank less

Sasseur REIT

WHAT'S NEW

Strong results to convince investors

FY2018 DPU exceeds expectations. Sasseur REIT ended the year on the high note with 4Q18 DPU of 1.999 Scts, translating into FY18 DPU (for 28 March to 31 December 2018) of 5.128 Scts. For FY18, DPU exceeded its IPO and our estimates by 13% and 11% respectively. The stronger-than-expected DPU performance is largely attributed to robust tenant sales. Furthermore, Sasseur REIT did not need to provide for statutory reserves (c.\$3m) owing to the strong profitability of the SPV holding the properties.

Tenant sales continuing the uptrend. 4Q18 outlet sales jumped 16% y-o-y to RMB1.3bn, translating into CY18 tenant sales of RMB4.3bn (+29% y-o-y) which exceeded our estimate of RMB4.1bn. Overall sales exceeded our estimates in all four outlets with stronger performances from the less mature malls.

Chongqing Outlets reported a 5% y-o-y growth in 4Q18 tenants, with CY18 tenant sales up 12% y-o-y to RMB636m. This is strong result considering Chongqing Outlets is a mature mall having first opened in September 2018.

Meanwhile, Hefei Outlets (which opened in May 2016) achieved a strong tenant sales growth of 43% y-o-y to RMB339m in 4Q18 (+58% y-o-y for CY18). Other newer malls in Kunming Outlets also showed strong results, with a 15% y-o-y increase in 4Q18 tenant sales to RMB223m, contributing to the 67% y-o-y rise for CY18. Finally, Bishan Outlets delivered a 16% y-o-y rise in 4Q18 tenant sales (+30% y-o-y for CY18). While y-o-y growth in tenant sales moderated in 4Q18 largely due to a high-base effect, we remain confident of Sasseur REIT continuing strong tenant sales into FY19, due to the inherent attractiveness of outlet malls and active management of the properties by Sasseur REIT. On that front, we have penciled in 3-35% growth in tenant sales across Sasseur REIT's portfolio in FY19.

Large amount of leases due in FY19 a positive. In FY19, c.74% of leases are expected to expire on a gross revenue basis. While this may be a concern for some investors, given

the strong tenant sales performance across Sasseur REIT's portfolio, we believe the ability to retain tenants is high. Moreover, with c.78% of FY18 DPU supported by underlying income from the properties (stripping out the impact of the EMA), we believe the large number of leases due gives the Sponsor and the REIT the ability to restructure the leases to gain a greater share of tenant sales and reduce the shortfall provided by the Sponsor. Based on its IPO prospectus, Sasseur REIT guided that headline DPU will match the underlying DPU (stripping out the impact of the EMA).

Improved gearing levels. Gearing fell to 29.0% from 32.5% in the prior quarter, largely on the back of portfolio revaluation gains. We understand the 0.1-9.3% increase in property values was largely due to the impact of the higher income from the strong tenant sales. As a consequence of the higher property values, NAV per unit now stands at c.\$0.903, up 12.9% since its IPO. Meanwhile, average borrowing costs remained stable at c.5.4% in 4Q18. Going forward, to mitigate the risk of higher interest rates, management is exploring opportunities to increase the proportion of fixed rate debt from 50% currently to 80%. Furthermore, Sasseur REIT does not face any no major refinancing requirement until 2021 when c.\$132m is due.

Raising FY19-20F DPU estimates. On the back of the stronger-than-expected tenant sales and the limited need to provide for statutory reserves, we raised our FY19-20F DPU by 6-7% which likewise translates into a higher DCF-based TP of S\$0.97 from S\$0.91.

Maintain BUY with revised TP of S\$0.97. With 4Q18 results exceeding expectations and Sasseur REIT continuing to enjoy strong tenant sales, we believe investor concerns over Sasseur REIT's ability to deliver on its robust IPO projections should be allayed and would convince more investors on the REIT's merits as an attractive investment opportunity. Thus, with 37% capital upside and 9.4% yield, we reiterate our BUY call with a higher TP of S\$0.97.

Sasseur REIT
Quarterly / Interim Income Statement (S\$m)

FY Dec	3Q2018	4Q2018	% chg qoq
Gross revenue	30.3	31.0	2.1
Property expenses	0.0	0.0	-
Net Property Income	30.3	31.0	2.1
Other Operating expenses	(1.6)	(1.8)	11.8
Other Non Opg (Exp)/Inc	0.0	0.0	-
Net Interest (Exp)/Inc	(7.0)	(7.0)	0.1
Exceptional Gain/(Loss)	0.0	(0.2)	nm
Net Income	21.7	22.1	1.5
Tax	(5.3)	(58.3)	998.8
Minority Interest	0.0	0.0	-
Net Income after Tax	16.4	(36.2)	nm
Total Return	18.2	23.6	29.6
Non-tax deductible Items	2.99	(127)	nm
Net Inc available for Dist.	18.2	23.6	29.6
Ratio (%)			
Net Prop Inc Margin	100.0	100.0	
Dist. Payout Ratio	100.0	100.0	

Source of all data: Company, DBS Bank

Sasseur REIT

CRITICAL DATA POINTS TO WATCH

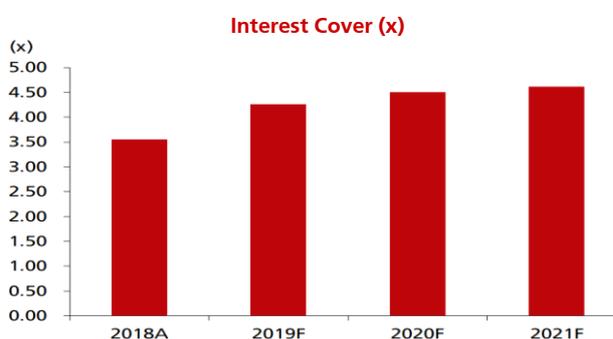
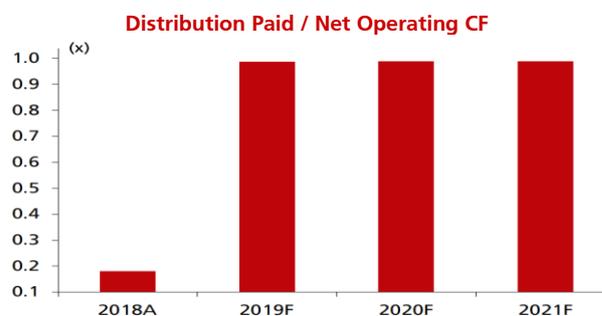
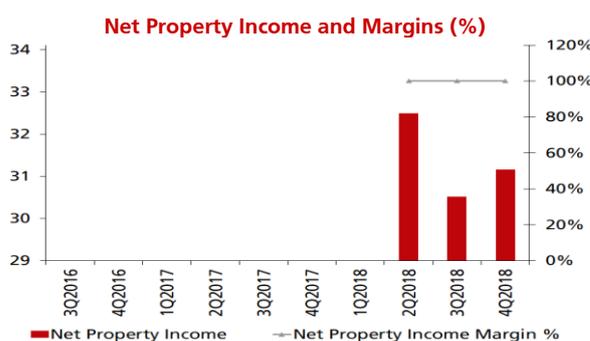
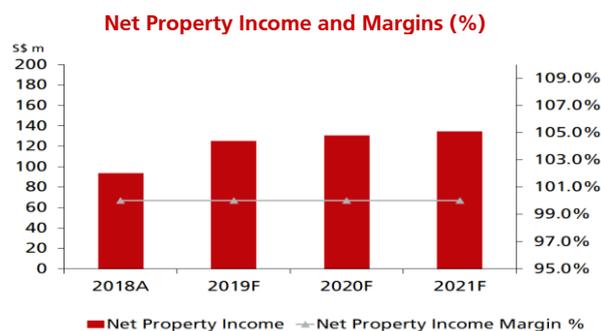
Critical Factors

Exposure to fast-growing retail outlet sector. Sasseur REIT offers investors the opportunity to gain exposure to the fast-growing retail outlet mall sector in China. According to China Insights Consultancy, the retail outlet mall sector is expected to grow from RMB49.1bn (US\$7.1bn) in 2016 to RMB144.9bn (US\$21bn) by 2021 or at a CAGR of 24.2%. In the medium term, the retail outlet industry in China is set to be the largest globally to surpass the US by 2030, reaching annual sales revenue of c.RMB640.2bn (US\$92.9bn). This strong growth outlook is underpinned by growing consumption levels in China as well as the emerging middle-class.

Rental formula empowers the REIT to enjoy a balance of growth and stability. Sasseur REIT derives rental income from a lease arrangement (called the Entrusted Management Agreement) with the Entrusted Manager. The Entrusted Manager oversees the day-to-day operations, marketing and cash collection. Rentals paid to the REIT under the Entrusted Management Agreement (EMA) is based on a mix of fixed component rent, growing at 3% per annum (c.70% of gross revenues) and a variable rent that is tied to the performance of underlying tenant sales. This rental income structure enables Sasseur REIT to deliver a balance of stability and growth through variable income tied to underlying tenant sales. We project FY19-21F revenues to grow by 3-5% per annum underpinned by 3-35% growth in tenant sales.

Exposure to still-growing established mall and three newly opened malls. Sasseur REIT currently owns an established property, Chongqing Outlets (c.45% of total revenues) which was first opened in September 2018. While the outlet is relatively mature, it continues to display strong tenant sales growth on the back of active management. Since Sasseur REIT's listing, tenant sales for Chongqing Outlets has increased by c.12% y-o-y, exceeding the IPO projection of 7.1% growth. Meanwhile, Sasseur REIT's three other properties, Bishan Outlets, Hefei Outlets and Kunming Outlets were opened in January 2014, May 2016 and December 2016 respectively. We expect these "immature" malls to report robust tenant sales of 10-35% over the next couple of years.

Potential to more than quadruple the GFA of the initial portfolio. The Sponsor has given Sasseur REIT a voluntary right of first refusal (ROFR) over two properties and seven pipeline properties, most of which are in Tier 2 cities. Assuming the REIT acquires all of the Sponsor's ROFR and pipeline properties, Sasseur REIT could quadruple its GFA with the addition of 1.2m sqm.



Source: Company, DBS Bank

Sasseur REIT

Balance Sheet:

Low gearing. As at 31 December 2018, gearing stood at c.29% (total debt/investment properties) which places the REIT in a strong financial position to pursue yield-accretive acquisitions.

Half of offshore borrowings hedged. Approximately 50% of Sasseur REIT's offshore borrowings that are in SGD are hedged which helps mitigate the impact of rising interest rates. We understand management may push the hedge ratio to 80%. The SGD borrowings represent c.24% of total debt with the remainder comprising onshore RMB borrowings. Due to the high hedging costs, the REIT has not hedged its RMB debt.

Share Price Drivers:

Delivering or exceeding IPO forecasts. Given Sasseur REIT's limited track record as a listed entity and being the first listed REIT in Singapore with exposure to the Chinese outlet industry, we believe it will require the REIT to deliver if not exceed its IPO projections, for investors to gain comfort with Sasseur REIT's business model and its ability to achieve strong tenant sales. For FY18, Sasseur REIT exceeded its DPU projections by c.13% and should it beat expectations again in FY19, we believe this will convince investors on the REIT's merits.

Key Risks:

Income support by Sponsor. Approximately 78% of FY18 DPU was contributed by the underlying income generated by Sasseur REIT's properties, with the shortfall made up by the Sponsor. We understand this is due to the underlying revenues generated as a percentage of tenant sales not being at an optimal level. Based on the prospectus projections by FY19, the income generated by the properties will be equivalent to the amount paid to the REIT via the EMA, with no income support required. However, if by FY19 there remains a difference between the underlying property income and amount paid to the REIT via the EMA, and the Sponsor is required to provide income support, there is a risk that investors will question the sustainability of Sasseur REIT's DPU and price the REIT based on the underlying DPU rather than its headline yield.

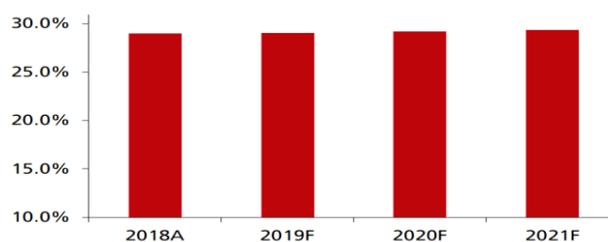
Foreign currency risks. All of the REIT's assets are located in China with RMB as its operating currency and it generates revenues in RMB. Investors who receive distributions in SGD are exposed to volatility in the RMB/SGD FX rate.

Short WALE. Sasseur REIT has a short WALE by gross revenue of 1.3 years with c.74.0% of leases expiring in FY19. The inability to renew tenancies may negatively impact DPU.

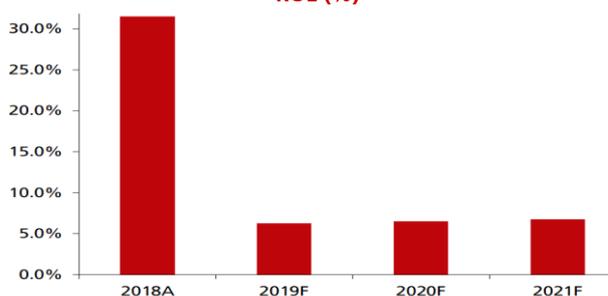
Company Background

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.

Aggregate Leverage (%)



ROE (%)



PB Band (x)



Source: Company, DBS Bank

Sasseur REIT

Income Statement (\$m)

Y Dec	2018A*	2019F	2020F	2021F
Gross revenue	93.5	125	131	135
Property expenses	0.0	0.0	0.0	0.0
Net Property Income	93.5	125	131	135
Other Operating expenses	(17.3)	(9.7)	(11.0)	(11.1)
Other Non Opg (Exp)/Inc	(0.2)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(21.5)	(27.1)	(26.6)	(26.8)
Exceptional Gain/(Loss)	183	0.0	0.0	0.0
Net Income	237	88.4	93.1	96.8
Tax	(68.1)	(21.2)	(23.3)	(24.2)
Minority Interest	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
Net Income After Tax	169	67.2	69.8	72.6
Total Return	169	67.2	69.8	72.6
Non-tax deductible Items	(109)	12.2	13.1	12.9
Net Inc available for Dist.	60.5	79.4	82.9	85.5
Growth & Ratio				
Revenue Gth (%)	N/A	33.7	4.5	3.0
N Property Inc Gth (%)	nm	33.7	4.5	3.0
Net Inc Gth (%)	nm	(60.3)	4.0	4.0
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	100.0	100.0	100.0	100.0
Net Income Margins (%)	180.9	53.7	53.4	53.9
Dist to revenue (%)	64.7	63.4	63.4	63.5
Managers & Trustee's fees	18.5	7.7	8.4	8.2
ROAE (%)	31.5	6.3	6.5	6.8
ROA (%)	19.1	3.8	3.9	4.1
ROCE (%)	8.1	6.6	6.7	6.9
Int. Cover (x)	3.6	4.3	4.5	4.6

Increase in earnings due to growth in tenant sales. Note that under the EMA structure, all operating expenses for the outlets are borne by the Sponsor. Thus, gross revenue and net property income are the same.

* For period 28 March to 31 December 2018
Source: Company, DBS Bank

Sasseur REIT

Quarterly / Interim Income Statement (\$m)

FY Dec	2Q2018*	3Q2018	4Q2018
Gross revenue	32.3	30.3	31.0
Property expenses	0.0	0.0	0.0
Net Property Income	32.3	30.3	31.0
Other Operating expenses	(14.0)	(1.6)	(1.8)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0
Net Interest (Exp)/Inc	(7.5)	(7.0)	(7.0)
Exceptional Gain/(Loss)	0.0	0.0	(0.2)
Net Income	10.8	21.7	22.1
Tax	(4.5)	(5.3)	(58.3)
Minority Interest	0.0	0.0	0.0
Net Income after Tax	6.35	16.4	(36.2)
Total Return	18.7	18.2	23.6
Non-tax deductible Items	15.1	2.99	(127)
Net Inc available for Dist.	18.7	18.2	23.6
Growth & Ratio			
Revenue Gth (%)	N/A	(6)	2
N Property Inc Gth (%)	nm	(6)	2
Net Inc Gth (%)	nm	159	(321)
Net Prop Inc Margin (%)	100.0	100.0	100.0
Dist. Payout Ratio (%)	100.0	100.0	100.0

* For period between the listing date 28 March to 30 June 2018

Balance Sheet (\$m)

FY Dec	2018A	2019F	2020F	2021F
Investment Properties	1,539	1,540	1,544	1,548
Other LT Assets	0.0	0.0	0.0	0.0
Cash & ST Invt	229	229	229	229
Inventory	0.0	0.0	0.0	0.0
Debtors	0.0	0.0	0.0	0.0
Other Current Assets	0.0	0.0	0.0	0.0
Total Assets	1,769	1,770	1,774	1,778
ST Debt	7.71	7.71	7.71	7.71
Creditor	0.0	0.0	0.0	0.0
Other Current Liab	150	150	150	150
LT Debt	486	487	490	495
Other LT Liabilities	51.1	51.1	51.1	51.1
Unit holders' funds	1,074	1,074	1,074	1,074
Minority Interests	0.0	0.0	0.0	0.0
Total Funds & Liabilities	1,769	1,770	1,774	1,778
Non-Cash Wkg. Capital	(150)	(150)	(150)	(150)
Net Cash/(Debt)	(264)	(265)	(269)	(273)
Ratio				
Current Ratio (x)	1.5	1.5	1.5	1.5
Quick Ratio (x)	1.5	1.5	1.5	1.5
Aggregate Leverage (%)	29.0	29.0	29.2	29.4
Z-Score (X)	1.1	1.2	1.2	1.2

Source: Company, DBS Bank

Sasseur REIT

Cash Flow Statement (\$m)

FY Dec	2018A	2019F	2020F	2021F
Pre-Tax Income	54.6	88.4	93.1	96.8
Dep. & Amort.	1.00	1.00	1.00	1.00
Tax Paid	1.82	(21.2)	(23.3)	(24.2)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(12.7)	0.0	0.0	0.0
Other Operating CF	59.1	12.2	13.1	12.9
Net Operating CF	104	80.4	83.9	86.5
Net Invnt in Properties	(0.9)	(1.0)	(3.9)	(4.0)
Other Invnts (net)	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0
Net Investing CF	(0.9)	(1.0)	(3.9)	(4.0)
Distribution Paid	(18.7)	(79.4)	(82.9)	(85.5)
Chg in Gross Debt	121	1.00	3.92	4.04
New units issued	396	0.0	0.0	0.0
Other Financing CF	(492)	0.0	0.0	0.0
Net Financing CF	6.78	(78.4)	(79.0)	(81.5)
Currency Adjustments	(1.3)	0.0	0.0	0.0
Chg in Cash	108	1.00	1.00	1.00
Operating CFPS (S cts)	9.87	6.74	6.96	7.09
Free CFPS (S cts)	8.72	6.66	6.63	6.76

* For period between the listing date 28 March to 30 June 2018
Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	18 Sep 18	0.71	0.91	BUY
2:	27 Sep 18	0.73	0.91	BUY
3:	14 Nov 18	0.70	0.91	BUY

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

Source: DBS Bank

Analyst: Derek TAN

Mervin SONG, CFA

Carmen Tay

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 catalysts within this time frame)

Share price appreciation + dividends

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

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