Maybank Kim Eng

Sasseur REIT (SASSR SP)

Ready For Recovery

1Q20 DPU in line, maintain BUY

SASSR's 1Q20 DPU at -19.4% YoY was in line with our estimates as its four outlet malls were closed for 48-54% of all operating days following the Covid-19 outbreak. While sales declined 55.7% YoY, its rental income fell less by 18.2% YoY, with support from its EMA-backed fixed rent. We see a recovery in 2Q following its Mar reopening and a lift from Spring sales events, and for sales growth to pick-up momentum in the seasonally-stronger 2H. We see catalysts from better-than-expected 2Q20 portfolio sales and contributions from potential deals, backed by a visible pipeline and SGD379m debt headroom. We maintain our forecasts and DDM-based SGD0.95 TP (COE: 10.0%, LTG: 3.0%). BUY.

Sales down 55.7% YoY with mall closures

Portfolio sales declined 55.7% YoY on the back of operational disruptions and the temporary closure of its four malls (over a period of between 44-49 days) following the Covid-19 outbreak. Portfolio occupancy dipped QoQ from 96.0% to 94.6%, with weaker occupancies at Bishan and Hefei, due to ongoing adjustments to their tenancy mix. Fashion, sports and international brands were 58.0% of its overall NLA and 77.4% of revenue contributions as of end-Mar 2020, and are expected to grow further.

Strong reopening sales on pent-up demand

It had closed all four malls since 26 Jan as a precautionary measure due to Covid-19; they have since reopened (11-15 Mar), and pent-up demand has resulted in a 129% YoY jump in first day portfolio sales. Its annual Spring sales events planned for Mar and rescheduled to end-Apr, reported a stronger four-fold jump in first-day sales, and should contribute to 2Q's revenue. AEIs planned for its Chongqing and Hefei Outlets will commence in May-Jun through 4Q20-1Q21.

Visible deal pipeline, DPU upside

Its balance sheet is sound at 28.5% leverage with SGD379m debt headroom as of end-Mar 2020. We expect it to eye sizeable acquisitions, backed by a visible medium-term pipeline from its sponsor's growing property portfolio - two ROFR assets and nine others that could boost its GFA by 4x. Management could push on deals beyond China, likely in developed markets, as third-party opportunities arise post-virus outbreak.

FYE Dec (SGD m) FY18A FY19A FY20E FY21E Revenue 115 118 130 139 Net property income 115 118 130 139 Core net profit 70 78 72 76 Core EPU (cts) 5.9 6.5 6.0 6.3 Core EPU growth (%) 25.9 10.3 (7.9) 4.7 DPU (cts) 5.9 6.5 6.0 6.3 DPU growth (%) 25.9 10.3 (7.9) 4.7 P/NTA (x) 0.7 1.0 0.8 0.8 DPU yield (%) 9.1 7.4 8.4 8.8 ROAE (%) 7.0 7.3 6.8 7.0 ROAA (%) 4.3 4.4 4.1 4.2						outbicar.
Net property income 115 118 130 139 Core net profit 70 78 72 76 Core EPU (cts) 5.9 6.5 6.0 6.3 Core EPU growth (%) 25.9 10.3 (7.9) 4.7 DPU (cts) 5.9 6.5 6.0 6.3 DPU growth (%) 25.9 10.3 (7.9) 4.7 P/NTA (x) 0.7 1.0 0.8 0.8 DPU yield (%) 9.1 7.4 8.4 8.8 ROAE (%) 7.0 7.3 6.8 7.0	FY22E	FY21E	FY20E	FY19A	FY18A	FYE Dec (SGD m)
Core net profit 70 78 72 76 Core EPU (cts) 5.9 6.5 6.0 6.3 Core EPU growth (%) 25.9 10.3 (7.9) 4.7 DPU (cts) 5.9 6.5 6.0 6.3 DPU growth (%) 25.9 10.3 (7.9) 4.7 P/NTA (x) 0.7 1.0 0.8 0.8 DPU yield (%) 9.1 7.4 8.4 8.8 ROAE (%) 7.0 7.3 6.8 7.0	146	139	130	118	115	Revenue
Core EPU (cts) 5.9 6.5 6.0 6.3 Core EPU growth (%) 25.9 10.3 (7.9) 4.7 DPU (cts) 5.9 6.5 6.0 6.3 DPU growth (%) 25.9 10.3 (7.9) 4.7 P/NTA (x) 0.7 1.0 0.8 0.8 DPU yield (%) 9.1 7.4 8.4 8.8 ROAE (%) 7.0 7.3 6.8 7.0	146	139	130	118	115	Net property income
Core EPU growth (%) 25.9 10.3 (7.9) 4.7 DPU (cts) 5.9 6.5 6.0 6.3 DPU growth (%) 25.9 10.3 (7.9) 4.7 P/NTA (x) 0.7 1.0 0.8 0.8 DPU yield (%) 9.1 7.4 8.4 8.8 ROAE (%) 7.0 7.3 6.8 7.0	81	76	72	78	70	Core net profit
DPU (cts) 5.9 6.5 6.0 6.3 DPU growth (%) 25.9 10.3 (7.9) 4.7 P/NTA (x) 0.7 1.0 0.8 0.8 DPU yield (%) 9.1 7.4 8.4 8.8 ROAE (%) 7.0 7.3 6.8 7.0	6.8	6.3	6.0	6.5	5.9	Core EPU (cts)
DPU growth (%) 25.9 10.3 (7.9) 4.7 P/NTA (x) 0.7 1.0 0.8 0.8 DPU yield (%) 9.1 7.4 8.4 8.8 ROAE (%) 7.0 7.3 6.8 7.0	7.2	4.7	(7.9)	10.3	25.9	Core EPU growth (%)
P/NTA (x) 0.7 1.0 0.8 0.8 DPU yield (%) 9.1 7.4 8.4 8.8 ROAE (%) 7.0 7.3 6.8 7.0	6.8	6.3	6.0	6.5	5.9	DPU (cts)
DPU yield (%) 9.1 7.4 8.4 8.8 ROAE (%) 7.0 7.3 6.8 7.0	7.2	4.7	(7.9)	10.3	25.9	DPU growth (%)
ROAE (%) 7.0 7.3 6.8 7.0	0.8	0.8	0.8	1.0	0.7	P/NTA (x)
	9.4	8.8	8.4	7.4	9.1	DPU yield (%)
ROAA (%) 4.3 4.4 4.1 4.2	7.3	7.0	6.8	7.3	7.0	ROAE (%)
	4.4	4.2	4.1	4.4	4.3	ROAA (%)
Debt/Assets (x) 0.28 0.27 0.28 0.27	0.26	0.27	0.28	0.27	0.28	Debt/Assets (x)
Consensus DPU 6.0 6.4	6.8	6.4	6.0	-	-	Consensus DPU
MKE vs. Consensus (%) - 0.7 (0.5)	(0.4)	(0.5)	0.7	-	-	MKE vs. Consensus (%)

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BUY

Share Price SGD 0.72

12m Price Target SGD 0.95 (+39%)

Previous Price Target SGD 0.95

Company Description

Sasseur REIT focuses on real estate used primarily for retail outlet malls in Asia.

Statistics

52w high/low (SGD)	0.92/0.53
3m avg turnover (USDm)	2.1
Free float (%)	40.5
Issued shares (m)	1,199
Market capitalisation	SGD863.0N
	LISDAGO

Major shareholders:

XÚ VITO	58.1%
TMB Asset Management Co., Ltd.	2.2%
Catterton Management Co. LLC	1.4%

Price Performance



 Sasseur REIT / Straits Times Index - (RHS, %)

-1M	-3M	-12M
16	(12)	(8)
15	9	15
	16	16 (12)

Source: FactSet

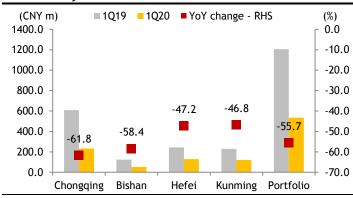
Fig 1: Summary financials 1Q20A comparison

FYE 31 Mar	1Q19	4Q19	1Q20	Chan	ge	YTD20	% of FYE	FY20E
	(SGD m)	(SGD m)	(SGD m)	(% YoY)	(% QoQ)	(SGD m)		(SGD m)
EMA rental income	30.9	31.5	25.3	(18.2)	(19.7)	25.3	21.3	129.8
Borrowing costs	(7.0)	(6.9)	(6.9)	(1.1)	1.1	(6.9)	26.4	(26.2)
Distributable income to unitholders	19.7	19.5	16.0	(18.7)	(18.0)	16.0	22.2	72.2
Distribution per unit (SGD cts)	1.66	1.63	1.33	(19.4)	(18.1)	1.3	22.1	6.03
NAV per unit (SGD)	0.89	0.89	0.93					
Aggregate leverage (%)^	29.2	27.8	28.5	(70)	70			
All-in financing cost (%)^	4.50	4.41	4.34	(16)	(7)			
Occupancy (%)^	96.1	96.0	94.8	(130)	(120)			

[^]Change in basis points

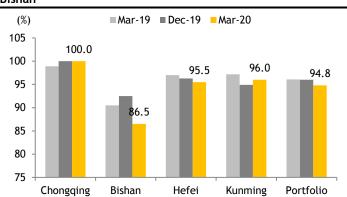
Source: Company data, Maybank Kim Eng

Fig 2: Portfolio sales fell 55.7% YoY with all four malls closed for 44-49 days



Source: Company data

Fig 3: Occupancies dipped due to adjustments to tenancies at Bishan



Source: Company data

Fig 4: Sponsor's pipeline properties are about 4x Sasseur REIT's IPO portfolio

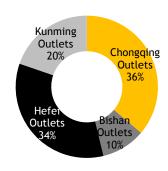
City	GFA (sqm)	Car park lots	Opening date
Xi'an*	141,708	~2,000	Sep-17
Guiyang*	193,520	~1,000	Dec-17
Nanjing	149,875	~8,000	May-15
Hangzhou	45,873	~5,000	Jun-11
Changchun	172,128	~4,000	Sep-17
Changsha	210,600	~2,084	Dec-18
Lanzhou	~100,000	~2,500	Dec 2019
Xiamen	~75,000	~2,000	Sep 2020
Yangzhou	~85,000	~1,200	Sep 2020
Shanghai	~109,000	~2,500	~3Q 2021
Shenzhen	~150,000	~2,200	~2022
Total	~1,432,704	~32,484	

Source: Company data. *ROFR properties

Value Proposition

- Sponsor is an established operator of retail outlet malls backed by strategic shareholders, L Catterton Asia Advisers and Ping An Real Estate Company Ltd.
- REIT owns four outlet mall properties with 306,709 sqm in NLA and a total appraised value of CNY8.2b (SGD1.6b) strategically located in China's fast-growing tier-2 cities of Chongqing, Hefei and Kunming.
- Distributions protected on the downside with minimum rental guarantees until FY19, while embedded 10-plus-10year entrusted management agreements (EMAs) enjoy growth upside from sales-based leases.
- Has ROFR to two properties owned by its sponsor, which could expand the portfolio GFA by 0.9x, and including seven pipeline properties, could 4x its initial total NLA.

Valuation breakdown (as of end-Dec 2019)

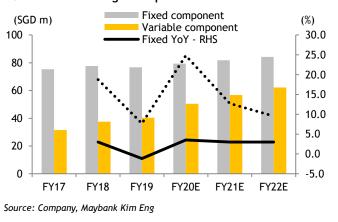


Source: Company

Financial Metrics

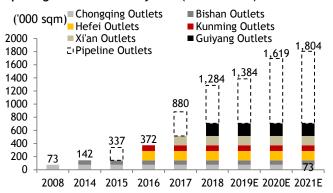
- EMA resultant rent forecast at +7.4% CAGR from FY19-22E, with each property's sales growth based on its maturity profile; +30-40% for Hefei / Kunming properties, which opened in May 2016 / Dec 2016, compared to +3% for Chongqing which opened in 2008.
- 100.0% of available income for distribution is distributed for FY17-19 on a quarterly basis. Distributions to be at least 90.0% over the longer term, from FY20 onwards.
- EMAs promise DPU yields of 7.5% / 7.8% for FY18 / FY19, implying +4.1% YoY growth in FY19.

EMA resultant rent growth profile



Price Drivers

Opening of outlet malls by GFA (2008-2021E)



Source: Company, Maybank Kim Eng

- 1. Sasseur REIT has a ROFR to two properties owned by its sponsor Xi'An Outlets Plaza and Guiyang Outlets Plaza. Both commenced operations in late 2017.
- Its sponsor also manages nine pipeline properties owned by third parties, and has been granted ROFR from each owner to acquire their respective properties, and will offer these to the REIT under similar ROFR terms.
- 3. Its portfolio GFA could expand by 1.2m sqm or 4.0x with the acquisition of the two ROFR properties and by 914,000 sqm with all eleven properties.
- 4. Acquisitions could be funded by debt, given substantial headroom. Management estimates headroom at SGD304m on 45% aggregate leverage.

Swing Factors

Upside

- Stronger-than-expected growth in leasing demand for retail space driving improvement in occupancy.
- Better-than-anticipated rental reversions.
- Accretive acquisitions or redevelopment projects.

Downside

- Prolonged slowdown in economic activity and consumption expenditure could reduce demand for retail space, resulting in lower occupancy and rental rates.
- Termination of leases contributing to weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

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FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Metrics					
Price/DPU(x)	10.9	13.5	11.9	11.4	10.6
P/BV (x)	0.7	1.0	0.8	0.8	0.8
P/NTA (x)	0.7	1.0	0.8	0.8	0.8
DPU yield (%)	9.1	7.4	8.4	8.8	9.4
FCF yield (%)	40.2	11.4	13.1	11.8	12.4
INCOME STATEMENT (SGD m)					
Revenue	115.1	118.0	129.8	138.6	146.5
Net property income	115.1	118.0	129.8	138.6	146.5
Management and trustee fees	(8.2)	(8.1)	(8.9)	(10.3)	(10.7)
Net financing costs	(26.5)	(27.7)	(25.9)	(25.9)	(25.9)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(4.0)	95.1	(8.9)	39.8	40.9
Other pretax income/expenses	0.4	0.3	0.3	0.3	0.3
Pretax profit	75.3	169.5	77.5	133.0	140.9
Income tax	(22.6)	(49.3)	(17.2)	(18.6)	(20.0)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	70.3	77.9	72.2	75.7	81.2
Distributable inc to unitholders	70.3	77.9	72.2	75.7	81.2
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	203.6	154.7	174.3	174.3	174.3
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	0.0	0.0	0.0	0.0	0.0
Inverstment properties	1,539.5	1,587.2	1,578.3	1,618.1	1,659.0
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	25.5	28.5	28.5	28.5	28.5
Total assets	1,768.7	1,770.4	1,781.2	1,821.0	1,861.9
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	142.7	124.4	130.7	130.7	130.7
LT interest bearing debt	493.3	478.6	492.0	492.0	492.0
Other liabilities	58.7	98.2	98.2	98.2	98.2
Total Liabilities	694.7	701.3	720.9	720.9	720.9
Shareholders Equity	1,074.0	1,069.2	1,060.3	1,100.1	1,141.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	1,074.0	1,069.2	1,060.3	1,100.1	1,141.0
Total liabilities and equity	1,768.7	1,770.4	1,781.2	1,821.0	1,861.9
CASH ELOW (SCD ==)					
CASH FLOW (SGD m)	200.2	440.7	442.0	404.6	407.3
Cash flow from operations	309.2	119.7	112.9	101.6	107.2
Capex	(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Acquisitions & investments	0.0	(33.0)	0.0	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.4	0.0	0.3	0.3	0.3
CF from investing activities	(70.0)	(33.0)	0.3	0.3	0.3
Dividends paid	(70.9)	(100.2)	(72.2)	(75.7)	(81.2)
Interest expense	(26.9)	(22.5)	(26.2)	(26.2)	(26.2)
Change in debt	0.0	(7.7)	13.4	0.0	0.0
Equity raised / (purchased)	347.7	0.0	0.0	0.0	0.0
Other financial activities	(396.0)	(0.1)	0.0	0.0	0.0
CF from financing activities	(146.1)	(130.5)	(85.0)	(101.9)	(107.5)
Effect of exchange rate changes	0.0	(5.2)	0.0	0.0	0.0
Net cash flow	163.5	(49.0)	28.2	0.0	0.0



FYE 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Key Ratios					
Growth ratios (%)					
Revenue growth	7.7	2.5	10.0	6.8	5.7
Net property income growth	7.7	2.5	10.0	6.8	5.7
Core net profit growth	26.2	10.9	(7.4)	4.8	7.4
Distributable income growth	26.2	10.9	(7.4)	4.8	7.4
Profitability ratios (%)					
Net property income margin	100.0	100.0	100.0	100.0	100.0
Core net profit margin	61.0	66.0	55.6	54.6	55.5
Payout ratio	100.0	100.0	100.0	100.0	100.0
DuPont analysis					
Total return margin (%)	61.0	66.0	55.6	54.6	55.5
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.6	1.7	1.7	1.7	1.6
ROAE (%)	7.0	7.3	6.8	7.0	7.3
ROAA (%)	4.3	4.4	4.1	4.2	4.4
Leverage & Expense Analysis					
Asset/Liability (x)	2.5	2.5	2.5	2.5	2.6
Net gearing (%) (excl. perps)	27.0	30.3	30.0	28.9	27.8
Net interest cover (x)	4.0	3.7	4.3	4.6	4.8
Debt/EBITDA (x)	4.7	4.7	4.4	4.1	3.9
Capex/revenue (%)	0.0	0.0	0.0	0.0	0.0
Net debt/ (net cash)	289.6	323.9	317.7	317.7	317.7
Debt/Assets (x)	0.28	0.27	0.28	0.27	0.26

Source: Company; Maybank

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Technical Analysis



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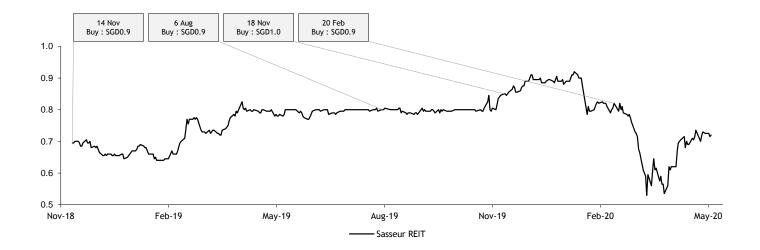
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