

10 in 10 – Sasseur REIT (SGX Code: CRPU)

10 Questions in 10 Minutes with SGX-listed companies



10 Questions for Sasseur REIT

Company Overview

Sasseur REIT is the first outlet REIT listed in Asia. Its property portfolio comprises four outlets with an estimated appraised value of RMB 8.5 billion as at 31 December 2021 and net lettable area of 310,242 sqm as at 30 September 2022. The outlets are strategically located in China's high-growth cities of Chongqing, Hefei and Kunming. Sasseur REIT is managed by Sasseur Asset Management Pte. Ltd., an indirect wholly-owned subsidiary of Sasseur Cayman Holding Limited (the REIT's Sponsor) which is part of Sasseur Group, one of the leading premium outlet operators in China with 15 outlets under management.

[Link to Stock Screener company page.](#)

SGX Code: CRPU	BBG: SASSR SP	RIC: SASS.SI
Market cap on 6 Dec (S\$m)		963.9
Price on 6 Dec (S\$)		0.785
52 wk high/low (S\$)		0.895 - 0.655
12m ADTV (S\$)		1,399,674
Shares Outstanding (m)		1,222
Float		42.5%
P/B (LTM)		0.8
Dividend Yield		9.0%

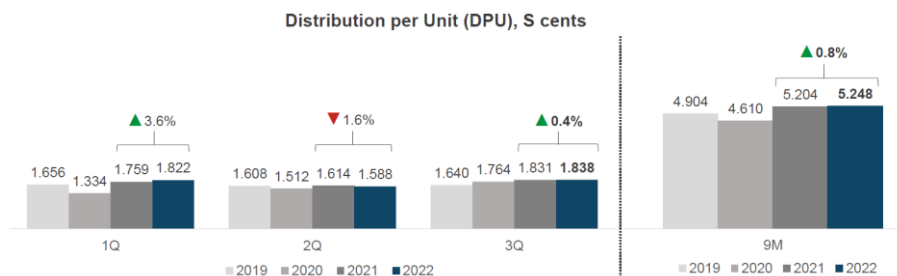
Source: Bloomberg (6 Dec 2022)

1. Please describe Sasseur REIT's recent financial performance.

- Third quarter (3Q) 2022 was exceptionally challenging for Sasseur REIT's outlets, with local authorities' COVID-19 control measures causing the unfortunate short-term temporary closures of Kunming and Chongqing Bishan Outlets.
- Despite that, Sasseur REIT's financial performance has been resilient. Sasseur REIT achieved 3Q 2022 distributable income of S\$23.5 million, up 1.2% year-on-year (YoY) and declared distribution per unit (DPU) of 1.838 Singapore cents, up 0.4% YoY. The increase in distributable income was mainly due to an income tax refund of S\$2.1 million relating to Chongqing Liangjiang Outlets' reduction of tax rate from 25% to 15%. This was part of the government's tax incentive to encourage investments in selected industries in Western China.
- For the January to September 2022 period (9M 2022), Sasseur REIT's distributable income was unchanged YoY at S\$68.6 million while DPU was up 0.8% YoY. During this period, the portfolio's outlet sales declined by 6.3% YoY to RMB 2.8 billion. Sales from Chongqing Liangjiang, Chongqing Bishan and Hefei Outlets were relatively resilient despite challenges arising from COVID-19 curbs and shortened operating hours.
- Our balance sheet remains robust with low aggregate leverage at 26.4% leaving a high debt headroom, a healthy interest coverage ratio of 4.9 times, and close to 71% of borrowings pegged to stable and fixed interest rates as at 30 September 2022.

2. What are some key highlights and milestones achieved by Sasseur REIT in recent months?

- Sasseur REIT continues to deliver a stable and growing DPU profile since its listing in March 2018, supported by the strength and resilience of the unique Entrusted Management Agreement (EMA) model. For 3Q 2022, Sasseur REIT achieved the highest 3Q DPU of 1.838 Singapore cents in four years despite disruptions to outlet operations and lower outlet sales due to an extremely challenging operating environment in China relating to stringent COVID control measures and unprecedented heatwaves.



Source: Company presentation

- The annual Anniversary Sales event at Sasseur REIT's four outlets continue to be a sales highlight in 3Q 2022. The portfolio's first day combined Anniversary event sales registered RMB 207.8 million, up 12.5% YoY. The Chongqing Liangjiang Outlets and Kunming Outlets generated record sales of RMB 147.1 million (+10.0% YoY) and RMB 34.6 million (+19.1% YoY) respectively on the first day of their anniversary sales events, notwithstanding the volatile and uncertain operating environment.
- Sasseur REIT's portfolio was resilient, with 3Q 2022 portfolio occupancy hitting 96.9%, the highest in four years, surpassing pre-COVID levels. As at 30 September 2022, the majority of leases expiring in 2022 have been renewed, with minimal lease rollover of only 4.4% (by gross revenue) expiring for the balance of 2022.
- We continue to hit new milestones on the corporate governance front as well. In 2022, Sasseur REIT was awarded Runner-Up of the Singapore Corporate Governance Award, REITs & Business Trusts Category, for the second consecutive year at the Securities Investors Association (Singapore) Investors' Choice Awards and was ranked 19th out of 44 REITs and Business Trusts in the Singapore Governance and Transparency Index.

3. What is Sasseur REIT doing to help build tenant loyalty while attracting new tenants?

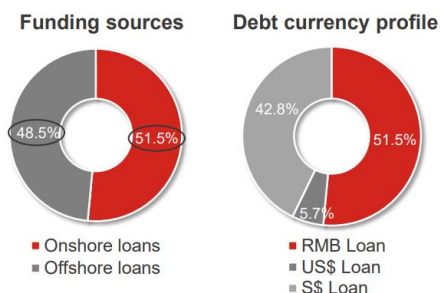
- The majority of the outlets' leases are sales-based whereby tenants pay an agreed percentage of their sales revenue as turnover rent. This ensures alignment of interests among the tenants, REIT Manager and Sponsor.
- We have a unique leasing strategy whereby we optimise resource allocation to cultivate tenants who have the potential to be brand champions. We help tenants boost sales through (i) advice on merchandise, store-front displays and inventory levels; (ii) provision of promotional spaces; (iii) loyalty programmes; and (iv) digital platforms.
- The Sponsor's industry position as one of the leading premium outlet operators in China is attractive to new tenants. We conduct regular market research on consumer trends and are always on the look-out for new and unique brands who can deliver higher sales margins and commissions. We are able to leverage on the Sponsor's brand management expertise as well as a database of more than 3,500 international and local brands.

4. Has COVID-19 impacted business operations and how has the REIT rebounded?

- China's current zero-COVID strategy is a key challenge for sales performance in 9M 2022, mainly due to mandated temporary closures and inter-city travel restrictions. However, the Chinese government has announced guidelines in November to recalibrate the policy and some cities have started to unwind restrictions in December. We remain hopeful that the government will further ease COVID curbs in 2023 and believe that the long-term potential of growing urbanisation and middle-class consumer spending remains intact.
- In the final quarter of this year, we are planning various promotional events at all the outlets to leverage the year-end peak festive shopping season.

5. How is the REIT managing its balance sheet in this rising interest rates environment?

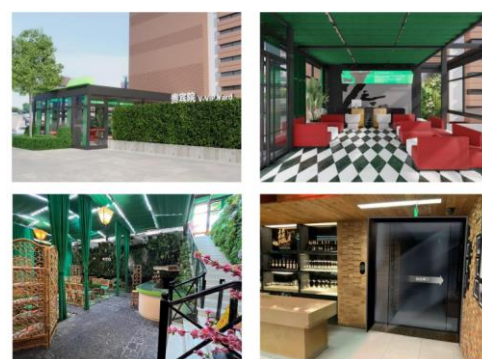
- We maintain a prudent balance sheet, keeping our asset values stable despite foreign exchange volatilities.
- Our hedging policies help to manage foreign exchange volatilities. We progressively hedge at least 30% and up to 100% of foreign currency exposure on committed net cashflows using hedging instruments with settlement dates within six months from the date of contract, depending on the movements of the foreign currencies.
- Our refinancing progress is on track and at advanced stages. We are forging banking relationships with a larger base of lenders, including existing and new lenders. We are also targeting a well-staggered debt profile over time to gradually reduce the concentration of debt maturities in any one year.



Source: Company presentation

6. What are the mid to long-term expansion plans for Sasseur REIT?

- Sasseur REIT has been granted a Right of First Refusal to acquire Xi'an and Guiyang Outlets from its Sponsor, Sasseur Group. If market conditions are conducive, we will explore an acquisition at the appropriate time to grow the REIT's asset portfolio and enhance long-term value for the REIT's unitholders. The REIT's Sponsor also operates other third-party owned outlets through its asset-light strategy, presenting an additional acquisition pipeline for the REIT.
- We continue to pursue targeted asset enhancement initiatives that can enhance shopper traffic or boost consumer spending such as the revamp of Chongqing Liangjiang Outlets' VIP lounge which is expected to be completed by end-2022.



Artist impressions of Chongqing Liangjiang Outlets' VIP lounge revamp

7. With ESG increasingly a key factor for investment decisions, how is Sasseur REIT incorporating sustainability into its business model?

- As part of the REIT's overall sustainability strategy, we believe effective Board oversight is critical. As such, in July 2022, we have strengthened the REIT's sustainability governance structure by establishing a Sustainability Committee. The Committee, which reports to the Board of Directors, is headed by Dr Gu Qingyang, the Lead Independent Director, as Chairman and Mr Xu Rongcan, the non-executive Chairman and founder of Sasseur Group as well as Mr Cheng Heng Tan, Independent Director and Chairman of the Audit and Risk Committee.

- In 2021, we have also adopted the Task Force on Climate-Related Financial Disclosures (TCFD) framework to assess climate risks and opportunities. This year, we have set up processes to identify, manage and integrate climate-related risks into our business by establishing metrics and targets to measure greenhouse gases and related risks.

- Conduct **physical climate risk assessment** of all Sasseur REIT's outlets; **identify risks and opportunities** in the short, medium and long term
- **Identify actual and potential impacts** on the business, strategy and financial planning

- ✓ Established **sustainability governance structure**, with Board having oversight of sustainability performance, risks and opportunities
- ✓ Adopted **TCFD framework** to assess climate risks and opportunities
- ✓ Board & management team attended **workshops on climate-related risks & opportunities**

- Conduct **scenario analysis of impacts** including a 2°C or lower scenario
- **Integrate climate-related risks** into overall risk management framework
- Enhance the **process of managing climate-related risks**

- Set up **processes to identify, manage and integrate climate-related risks**
- **Establish metrics and targets** to measure GHG emissions and related risks
- To fulfil **disclosure of 26 out of 27 core ESG metrics** identified by SGX



Sasseur REIT's sustainability roadmap

- We are making headway on our sustainability journey with a roadmap we have established since 2021. We believe that an effective ESG strategy is core to delivering long-term resilience and value for Sasseur REIT's unitholders.

8. What is Sasseur REIT's value proposition to its unitholders and potential investors?

- China's outlet industry is expected to become the world's largest outlet market in terms of sales revenue by 2030, according to China Insights Consultancy. Sasseur REIT provides its unitholders pure exposure to this specialised segment of the retail industry, and the country's large and rising middle class consumer base. The REIT's Sponsor is also focused on high-growth tier-2 Chinese cities and has deep industry knowledge and wide brand network.
- Sasseur REIT has a unique EMA model which provides stability of EMA rental income via the fixed component and upside to be derived from higher sales via the variable component of the EMA rental income.

9. What do you think investors may have overlooked about Sasseur REIT?

- Some investors may be unfamiliar with our Sponsor, Sasseur Group, who is a leading operator in China's outlet industry with close to 30 years of experience in focusing on outlet operations in China.
- Sasseur Group has won multiple awards and accolades in the past decade. It also has a unique "Super Outlet" business model which merges art, outlet shopping, social spaces, and the use of data technology to provide visitors with lifestyle shopping experiences.
- Investors may have also overlooked the Sasseur REIT's unique EMA model, which comprises a built-in 3% fixed component. It has proven its strength despite COVID-related challenges this year, boosting the resiliency of the REIT's portfolio. Click [here](#) to read more about the EMA model on page 41.

Sasseur Group (57.35% stake in Sasseur REIT¹)

30 years' experience focusing on outlet operations in China

15 operating outlets in China², with another **3** upcoming outlets



Source: Company presentation

10. Why should investors invest in Sasseur REIT now?

- Sasseur REIT was trading at a discount to net asset value of approximately 15% as at end-November 2022. The REIT makes distributions quarterly and had an attractive distribution yield of about 9.0% – 9.5% based on trading price as at end-November 2022.
- Although China's zero-COVID policy currently presents a key challenge for the REIT, we believe that the eventual re-opening of China in the future will provide strong growth opportunities for the REIT.

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Designed to be a short read, 10 in 10 provides insights into SGX-listed companies through a series of 10 Q&As with management. Through these Q&As, management will discuss current business objectives, key revenue drivers as well as the industry landscape. Expect to find wide-ranging topics that go beyond usual company financials.

This report contains factual commentary from the company's management and is based on publicly announced information from the company.

For more, visit sgx.com/research.

For more company information, visit www.sasseurreit.com

Click [here](#) for Sasseur REIT's 3Q 2022 Business and Operational Updates.



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