

5 Things To Know About Sasseur REIT (SGX Code: CRPU), A Pure Play On Chinese Retail Outlet Malls

Chinese retail outlet malls could be a good and resilient proxy for China's recovery.

by **Shashi Kumar** December 17, 2022



China has the second-largest consumer market in the world, with a burgeoning 400 million middle-income group spending around **44.1 billion yuan** (about S\$8.60 billion) in 2021. One way investors can ride on the rising spending power of the Chinese middle-class is through retail outlet malls.

Listed on the Singapore Exchange (SGX) in 2018, Sasseur Real Estate Investment Trust ("Sasseur REIT") (SGX Code: CRPU) is the first outlet REIT listed in Asia with an estimated portfolio of 8.5 billion yuan (as of 31 December 2021) and a net lettable area of 310,242 sqm. It has four outlets that are strategically located in the high-growth cities of Bishan, Chongqing, Hefei, and Kunming.

Sasseur REIT incorporates a unique "super outlet" business model by merging art, outlet shopping, social spaces, and the use of data technology to provide shoppers with a unique lifestyle shopping experience. Unlike traditional retail REITs, Sasseur REIT collects its rental income based on a fixed component (which grows 3% annually) and a variable component (that is pegged to tenant sales of between 4% – 5.5%) under its Entrusted Management Agreement (EMA) Model.

Given the recent announcement by China's National Health Commission on easing its zero-COVID-19 policy, here are 5 things to know about Sasseur REIT as a play on the recovery of the Chinese retail sector.

Having a “moat” or a competitive advantage is something many investors look for in companies they invest in. Can you share how Sasseur REIT has a strong advantage?

Sasseur REIT's strengths lie mainly in the strong support from its Sponsor, positioning of its outlets and a unique EMA model:

The REIT is backed by a strong Sponsor, Sasseur Group, one of the leading retail industry players focusing on the operations of outlets in China. The Group's “Super Outlet” business model merges art, outlet shopping, social spaces and the use of data technology to garner in-depth insights on consumer trends – so as to curate more targeted promotions and unique lifestyle shopping experiences.

$$A \times (1 + N) \times DT$$

A: Art

1: Outlets' business platform

N: Various lifestyle offerings in each of the Sasseur outlets

DT: Data technology

The fast-growing middle-class population in China is a large potential customer base for the outlet mall market in the country and resulting increase in spending power represents a sweet spot for the outlet business. Sasseur REIT's outlets are located in China's tier 2 cities with a growing and captive base of domestic shoppers.

Sasseur REIT has a unique and resilient EMA model which has a fixed component to provide a stable growing income and a variable component to enable unitholders to participate in the upside in sales performances of the outlets. Under this model, every sale from the tenants is captured in the REIT's bank account from which a certain percentage is drawn out as the variable rent component. Coupled with the built-in 3% annual step-up of the fixed component under the EMA, this ensures Sasseur REIT can achieve fair, transparent and stable growth whilst aligning the REIT Manager's interests with that of the REIT's unitholders. The Sponsor bears all the operating expenses related to the running of all the outlets under the EMA model, insulating the REIT from rising property operating costs despite global inflationary pressures.

What is one lesser-known business area of Sasseur REIT that you wish more people/investors know about?

Sustainability continues to be a focal point and critical element of Sasseur REIT's business strategy.

Besides the formalisation of a Sustainability Committee in July 2022, we had, earlier on, already established a Sustainability Steering Committee comprising senior management and key functional representatives to support the implementation of sustainability initiatives across Sasseur REIT and the REIT Manager.

In the past few years, the REIT has been ramping up its efforts on the reduction of energy, water and greenhouse gas emissions through the following initiatives at its four outlets:

- Energy savings
 - Centralisation of air-conditioning system at Chongqing Liangjiang Outlets
 - Adjustment to the running time of air-conditioning at Chongqing Bishan Outlets
 - Installation of solar-power lights at Kunming Outlets
- Water savings
 - Tapping of spring water at Chongqing Bishan Outlets
 - Recycling of collected waste water at Kunming Outlets
- Reduction of greenhouse gas emissions
 - Expansion of green spaces through planting of trees at Chongqing Liangjiang, Chongqing Bishan and Kunming Outlet

As we continue to progress in the REIT's sustainability journey, we will play our part to build on past sustainability initiatives, enhance corporate transparency and stay committed to our sustainability goals.

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.

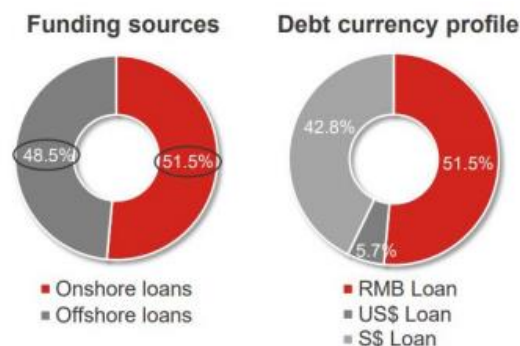
In the final quarter of this year, we are planning various promotional events at all the outlets to leverage the yearend peak festive shopping season.

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

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.](#)

Editor's Note: Some answers for this article were extracted from the *SGX 10 in 10 series* published on 7 December 2022 and have been republished with permission. You can read more on Sasseur REIT on the SGX website.