

SASSEUR REIT

Stronger than expected sales but FX hit

Singapore | REIT | 1H23 RESULTS

- 1H23 rental income in SGD terms was within expectations at 47.7% of our estimates (S\$62.6m, -1.4% YoY, +8% YoY in RMB), representing a S\$0.9m YoY decrease due to the weakening RMB against the S\$ by 8.7%, as compared to 1H22.
- Outlet sales in RMB were at 50.9% of our estimations (RMB 2254.1m, +20.5% YoY). The variable component income surged by 20.8% YoY, driven by pent-up consumer demand but offset by depreciation in RMB and higher finance costs.
- The 1H2023 DPU was within expectations at 50.6% (3.322 cents, - 2.6% YoY). SASSR retained 6.7% of distributable income mainly for the repayment of onshore RMB loans.
- We reiterate our BUY recommendation with an unchanged DDM TP of S\$0.9. FY23e – FY24e DPU forecasts have been lowered 1.5% - 1% after factoring in a stronger-than-expected depreciation of RMB against SGD.

Result at a glance

(mn)	1H23	1H22	YoY (%)	Comments
EMA Rental Income in RMB	320.6	301.8	6.23%	
EMA Rental Income in SGD	62.6	63.5	-1.42%	Depreciation of RMB against S\$ by 8.7% as compared to 1H22
Outlet Sales in RMB	2,254.1	1,871.1	20.47%	Pent-up consumer demand following re-opening
Variable component in RMB	102.2	84.6	20.80%	
Finance Cost in SGD	11.8	9.1	29.67%	Higher offshore interest rate
DPU	3.32	3.41	-2.58%	6.7% retention for loan repayment
NAV	0.83	0.87	-4.60%	Weakening of RMB against S\$ by 3.0% as compared to Dec22

Source: Company, PSR

The Positives

+ 1H23 outlet sales up 20.5% (RMB2.5Bn) and reached all-time high since listing. Performance was better than expected as Q2 is usually muted due to seasonality. Hefei outlet saw a 50.2% surge in sales YoY as Shanghai's COVID lockdown imposed a negative impact in 1H22. Sales of Chongqing Liangjiang increased 20.3% YoY. The trend is expected to continue and deliver a stronger 2H23 performance since the Mega Anniversary Sales is slated in 3Q and festival sales in 4Q.

+ The portfolio occupancy achieved a record high of 97.2% (+0.6% YoY). Chongqing Liangjiang reached 100% occupancy, while the other 3 outlets remained stable above 95%. SASSR is actively replacing non-performing tenants and introducing new F&B offerings, capitalising on Kunming city's recovery in F&B sales (+12.3% YoY sales growth) in 1H23. The newly signed tenants, KFC and Erlanggang Chongqing Hotpot, are based 100% on sales turnover. Chongqing Bishan Outlet's sales growth of 8.2% YoY was disrupted by rebalancing of trade mix. Constraints expected to be resolved in 3Q23.

The Negatives

- Depreciation of RMB and raising offshore interest rate were the main headwinds. Renminbi weakened by 8.7% YoY against Singapore dollar. SASSR has been hedging its revenue for 3-6 months and realised exchange gain of S\$1.3m. Additionally, higher finance costs (+0.9% YoY to 5.8%, S\$2.7m) due to higher interest rates on the offshore loans also added pressure to the bottom line. Offshore loans accounts for 46.4% of the total borrowing and 77% is hedged in fixed rate. We expect Singapore dollar to stay strong against RMB in 2H23 and offshore loan continues to rise.



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BUY (Maintained)

LAST CLOSE PRICE	SGD 0.69
FORECAST DIV	SGD 0.06
TARGET PRICE	SGD 0.90
TOTAL RETURN	39.5%

COMPANY DATA

BLOOMBERG CODE:	SASSR SP Equity
O/S SHARES (MN):	1,237
MARKET CAP (USD mn / SGD mn):	628 / 853
52 - WK HI/LO (SGD):	0.85 / 0.66
3M Average Daily T/O (mn):	1.20

MAJOR SHAREHOLDERS

Sasseur Cayman Holding II Ltd	56.7%
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PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(2.8)	(1.6)	(2.5)
STTF RETURN	0.7	1.9	2.9

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY21	FY22	FY23e	FY24e
Gross Rev (\$mn)	134.9	125.9	124.5	133.9
Dist. Inc. (\$mn)	86.2	80.3	80.0	82.2
P/NAV (x)	0.75	0.92	0.88	0.89
DPU (cents)	7.10	6.55	6.45	6.61
Dist. Yield (%)	9.60	8.19	8.61	8.81

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity:9.16%; Terminal g: 1.5%)

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Outlook

We expect 2H23 to deliver an even stronger performance leveraging on the various sales events (eg, Mega Anniversary Sales) in 3Q23 and festivals such as the National Day and Christmas in 4Q23. Meanwhile, the rising onshore borrowing cost is expected to be partially offset by the decreasing onshore loan. As SASSR has already hedged its revenue, depreciation of RMB will be place less pressure on DPU in the 2H23.

Maintain BUY with unchanged TP to S\$0.90

We lowered the FY23e earnings by 5% on the back of stronger Singapore dollar against renminbi. SASSR is currently trading at FY23e yields of 6.53%. We anticipate a growth in sales of 29% YoY riding on SASSR clear value proposition catering towards the increasing number of middle-income families in China. After raising our FY24e interest rate assumptions by 0.3% points, DDM target price of S\$0.90 is unchanged with projected FY23-24e DPUs lowered by 1.5% - 1% to S\$6.45 - 6.61 cents.

Financials
Income Statement

Y/E Dec, (\$'000)	FY20	FY21	FY22	FY23e	FY24e
EMA rental income	125,248	134,850	125,932	124,451	133,922
Manager's management fee	(7,910)	(11,083)	(8,850)	(8,429)	(8,923)
Trust expense	(2,515)	(1,557)	(1,638)	(1,643)	(1,648)
Finance income	64	162	171	171	171
Finance costs	(28,476)	(24,109)	(26,280)	(34,690)	(34,690)
Other items	(154)	102	3,116	3,537	180
Total return before before tax	64,239	164,155	80,187	79,990	88,833
Tax Expense	(17,216)	(41,298)	(18,089)	(17,598)	(20,432)
Net income after Tax	47,023	122,857	62,098	62,392	68,401
Distribution adjustments	31,712	(28,952)	26,405	22,725	21,970
Distribution to unitholders	78,735	86,192	80,322	80,010	82,238

Per unit data

Y/E Dec, (\$'000)	FY20	FY21	FY22	FY23e	FY24e
NAV (\$)	0.91	0.99	0.87	0.85	0.84
DPU (\$ cents)	6.55	7.10	6.55	6.45	6.61

Cash Flow

Y/E Dec, (\$'000)	FY20	FY21	FY22	FY23e	FY24e
CFO					
Total return before tax	64,239	164,155	80,187	79,990	88,833
Adjustments	52,345	(34,851)	39,609	36,529	37,690
WC changes	(15,472)	2,020	(45,596)	45,144	6,666
Tax paid and interest received	(8,018)	(11,209)	(7,074)	(17,427)	(20,261)
Cash generated from ops	93,094	120,115	67,126	144,237	112,928
CFI					
CAPEX	(4,691)	(5,821)	(4,078)	(5,000)	(5,000)
Cashflow from investments	(4,691)	(5,821)	(4,078)	(5,000)	(5,000)
CFF					
Proceeds from bank loans	248,366	-	-	-	60,000
Repayments of bank loans	(238,440)	(12,603)	(5,592)	-	(60,000)
Payment of borrowing	(7,881)	-	-	-	-
Distributions to unitholders	(74,881.0)	(86,421.0)	(87,418.0)	(80,009.8)	(82,238.0)
Others	(20,438)	(14,912)	(22,398)	(28,267)	(28,267)
Cashflow from financing	(93,274)	(113,936)	(115,408)	(108,276)	(110,505)
Net change in cash	(4,871)	358	(52,360)	30,960	(2,577)
Cash at the start of the period	146,147.0	146,550.1	152,421.1	100,755.0	131,715.3
FX changes	5,274.0	5,513.0	(9,228.0)	-	-
Ending cash	146,550	152,421	90,833	131,715	129,139

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (\$'000)	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Cash and short term deposit	155,944	159,761	100,755	131,715	129,139
Prepayments, deposits etc	51,212	29,065	28,104	27,379	29,463
Total current assets	207,156	188,826	128,859	159,094	158,601
Investment properties	1,651,052	1,801,013	1,638,981	1,643,981	1,648,981
Total non-current assets	1,651,052	1,801,013	1,638,981	1,643,981	1,648,981
Total Assets	1,858,208	1,989,839	1,767,840	1,803,075	1,807,582
LIABILITIES					
Other payables and accruals	137,047	123,177	69,635	114,055	122,804
Loans and borrowings	2,359	2,457	487,355	60,000	-
Others	26,261	31,077	31,384	31,384	31,384
Total current liabilities	165,667	156,711	588,374	205,439	154,188
Loans and borrowings	501,895	508,115	-	427,355	487,355
Deferred tax liabilities	85,232	115,805	111,667	111,667	111,667
Total non-current liabilities	587,127	623,920	111,667	539,022	599,022
Total Liabilities	752,794	780,631	700,041	744,461	753,210
Net assets	1,105,414	1,209,208	1,067,799	1,058,615	1,054,372
Represented by:					
Unitholders' funds	1,105,414	1,209,208	1,067,799	1,058,615	1,054,372

Valuation Ratios

Y/E Dec, (\$'000)	FY20	FY21	FY22	FY23e	FY24e
P/NAV (x)	0.90	0.75	0.92	0.81	0.82
Distribution Yield (%)	7.98	9.60	8.19	9.35	9.58

Growth & Margins

Growth					
Revenue		7.7%	-6.6%	-1.2%	7.6%
Distributable income		9.5%	-6.8%	-0.4%	2.8%
DPU		8.5%	-7.8%	-1.5%	2.4%

Key Ratios

Key Ratios					
Net Debt or (Net Cash)	(1,353,954)	(1,479,267)	(1,280,485)	(1,315,720)	(1,320,227)
Gearing	0.27	0.26	0.28	0.27	0.27

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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