

SASSEUR REIT

Growth drivers intact

Singapore | REIT | SITE VISIT NOTE

- We visited the outlet malls in Chongqing Liangjiang, Chongqing Bishan and Xi'an (ROFR asset) during SASSR's Anniversary Sales. Outlet sales at the Sponsor Group level increase 39% YTD as of Sept 22, 2023. Sales for the past nine months have outperformed the entire year of FY23 due to the pent up demand and clear value proposition for its products.
- We expect VIP membership at the REIT level to continue increasing after the Anniversary sales (3.2 million as of 1H23), as the average spending per customer tends to be higher during this period, resulting in a higher conversion rate to VIP status. Additionally, we project that VIP members will contribute to more than 60% of the total sales in FY23.
- Potential accretive acquisition of Xi'an asset to raise DPU by c.4% in FY24 as the gearing is currently 26.2% with debt headroom of c. S\$811 mn.
- We maintain our BUY recommendation with unchanged DDM-TP of S\$0.90 and FY23-24e dividend yield of 9.6% - 9.9%.

Site Visit Highlights

- Outlet sales at the Sponsor Group level robust.** Sales for the past nine months have outperformed the entire year of FY23, with the Chongqing Liangjiang outlet mall being the top contributor, and domestic brands accounting for c.70% of sales. Nike, Adidas, and +39 Space are usually the top three best-performing tenants for Chongqing Liangjiang and Xi'an outlet. New brands, including Teenie Weenie (for teenagers), Le Coq Sportif (sports), and AIMER (lingerie), have also gained popularity among middle-income Chinese customers. We anticipate a 29% YoY increase in FY23 sales, driven by SASSR's clear value proposition, which capitalises on the trend of consumption downgrade in China.
- VIP membership at the Sponsor Group level is expected to increase by 20% to 20 million** by the end of FY23, contributing to c.70-80% of total sales. At the portfolio level, VIP membership reached 3.2 mn as of 1H23, with a 3-year CAGR of 22.6%. SASSR has also adjusted its business model to adapt to several paradigm shifts post-COVID. To enhance customer conversion rates and engagement, SASSR has launched an online WeChat mini-program as part of its omnichannel strategy. We believe that the proportion of online sales has significant growth potential, as products have higher exposure with greater convenience to shop (currently accounting for low-single digit of total sales). Meanwhile, SASSR is also extending operating hours during the Anniversary Sales event to attract more customers and is launching various events such as the upcoming National Day sales event for domestic Chinese brands.
- Xi'an outlet mall is a sponsor pipeline asset and the second largest outlet mall in terms of sales revenue.** The valuation of the Xi'an asset is estimated to be c.S\$500mn-600mn as it is comparable to the largest asset in the portfolio (Chongqing Liangjiang) ,with a stable cap rate of c.7%. We believe such an acquisition is DPU accretive with a positive carry of 1.5% and would raise DPU by 4% given that EMA rental income would increase by 45%. However, given the current capital market condition, we believe acquisition is unlikely to be done in FY23. Leverage ratio as of 1H23 was 26.2% which is one of the lowest among S-REITs, as such SASSR has no intention to divest any asset.
- We maintain our BUY recommendation with unchanged DDM-TP of S\$0.90.** At the current share price, our FY23-24e DPUs of S\$6.45 - 6.61 cents would translate into 9.6% - 9.9% dividend yield.



StocksBnB.com

2 October 2023

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.67
FORECAST DIV	SGD 0.06
TARGET PRICE	SGD 0.90
TOTAL RETURN	44.8%

COMPANY DATA

BLOOMBERG CODE:	SASSR SP Equity
O/S SHARES (MN):	1,234
MARKET CAP (USD mn /SGD mn):	684 /925
52 - WK HI/LO (SGD):	0.85 /0.66
3M Average Daily T/O (mn):	1.37

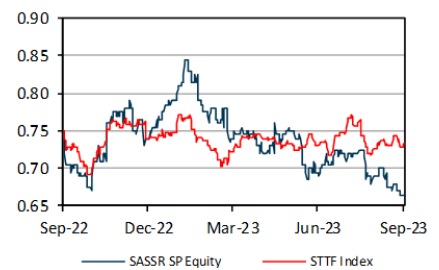
MAJOR SHAREHOLDERS

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

	1MTH	3MTH	YTD
COMPANY	4.2	0.4	1.1
STTF RETURN	(1.1)	0.0	0.5

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	0.78	0.79
DPU (cents)	7.10	6.55	6.45	6.61
Dist. Yield (%)	9.60	8.19	9.63	9.86

Source: Company, PSR

VALUATION METHOD

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

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Description of the Chongqing Liangjiang asset

Sasseur (Chongqing) Outlets stands out as the star asset with the highest valuation (Dec 22: RMB 3,129 mn) and the most significant foot traffic. It is a retail outlet mall strategically targeting middle and upper-class consumers. As of Dec22, VIP members reached 967k with 3 different tiers and own set of benefits (Figure 3 and 4).

Figure 1: Chongqing Liangjiang outlet mall



Source: Company, PSR

Figure 2: Chongqing Liangjiang outlet mall



Source: Company, PSR

Figure 3: VIP Benefits



Source: Company, PSR

Figure 4: VIP Lounge



Source: Company, PSR

Description of the Chongqing Bishan asset

Sasseur (Bishan) Outlets is a comprehensive shopping destination that seamlessly combines retail shopping with entertainment, dining, education, and leisure experiences. It offers various amenities, including UME cinema (Figure 12), Counter-Strike game area (Figure 8), a VIP lounge (Figure 11), and a super farm for strawberry picking (Figure 7). The recent Asset Enhancement Initiative (AEI) involves AI assistance to guide customers and provide the latest offers and promotions (Figure 10).

Figure 5: Bishan outlet mall



Source: Company, PSR

Figure 6: Bishan outlet mall



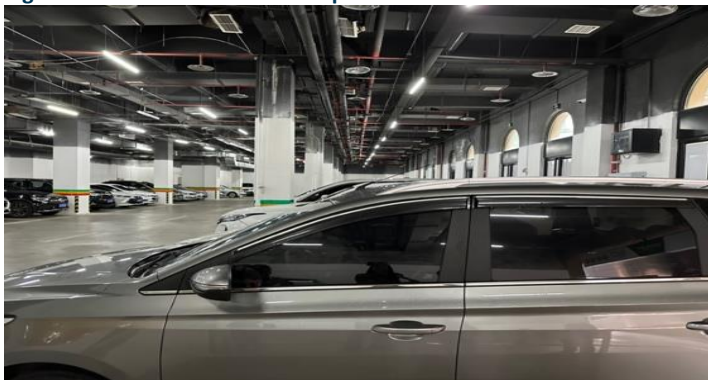
Source: Company, PSR

Figure 7: Bishan outlet mall – Super Farm



Source: Company, PSR

Figure 9: Bishan outlet mall – Carpark



Source: Company, PSR

Figure 11: Bishan outlet mall – VIP Lounge



Source: Company, PSR

Figure 8: Bishan outlet mall – Counter Strike



Source: Company, PSR

Figure 10: Bishan outlet mall – AEI



Source: Company, PSR

Figure 12: Bishan outlet mall – Cinema



Source: Company, PSR

Description of the Xi'an asset

Sasseur (Xi'an) Outlets has a collection of over 600 international and domestic brands, along with 50 specialty restaurants. F&B accounts for 10-15% of the total outlet sales (Figure 15). One of the largest F&B offering is to bring traditional Xi'an food from the village into the outlet mall (Figure 14). Tenant turnover is c.20% a year to replace non-performing tenants. Additionally, it has several amenities, including a five-star cinema called UME, three theme children's parks, a super children's hall, and a super sports hall. As a result, there are 1.2m VIP members. Sales of the first day of anniversary sales increased by c.15% yoy in 2023. Target sales in 2023 is RMB 2bn with record high of RMB 1.6bn last year and generated 12m traffic. During our visit to the Xi'an outlet, we observed that the parking lot, which has 1,330 parking spaces, was nearly at full capacity. In fact, some visitors had resorted to parking on the roadside due to the limited availability of parking spaces. (Figure 17). Nike as the TOP3 best performing tenants saw the most crowd (Figure 18).

Figure 13: Xi'an outlet mall



Source: Company, PSR

Figure 14: Xi'an outlet mall – F&B



Source: Company, PSR

Figure 16: Xi'an outlet mall - Carpark



Source: Company, PSR

Figure 18: Nike as the most popular store



Source: Company, PSR

Figure 15: Xi'an outlet mall – F&B



Source: Company, PSR

Figure 17: Parking on the street due to Anniversary sales



Source: Company, PSR

Figure 19: +39 Space (affordable luxury brands)



Source: Company, PSR

Comment

The biggest concern for SASSR is the weakened macroeconomic outlook of China. Retail sales nationwide increased by only 2.5% YoY in Jul23. It slowed from a 3.1% growth in the prior month and missing market estimates of 4.5%. However, the outlet mall industry has proven to be resilient with Sasseur Group's sales experiencing consistent annual growth rate of 20.89% from Dec19 to Sep23. We noticed the change in consumer preference with people becoming more practical and more inclined to spend on experiential and value-for-money products rather than making substantial investments such as purchasing cars or homes.

We have observed that the sponsor is committed to the outlet mall business and is taking a leading role in the redevelopment of commercial buildings, especially considering the prevalent trend of developer defaults in China. This commitment includes converting projects such as the unfinished buildings in Changsha, the abandoned computer wholesale market in Lanzhou, and the suspended shopping mall in Suzhou into outlet malls.

Figure 20: Pre-redevelopment (Changsha)



Source: Company, PSR

Figure 21: Post-redevelopment (Changsha)



Source: Company, PSR

Financials
Income Statement

Y/E Dec, (\$S'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, (\$S'000)	FY20	FY21	FY22	FY23e	FY24e
NAV (\$S)	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, (\$S'000)	FY20	FY21	FY22	FY23e	FY24e
CFO					
Total return for the period before	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-related	(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, (\$S'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, (\$S'000)	FY20	FY21	FY22	FY23e	FY24e
P/NAV (x)	0.90	0.75	0.92	0.78	0.79
Distribution Yield (%)	7.98	9.60	8.19	9.63	9.86

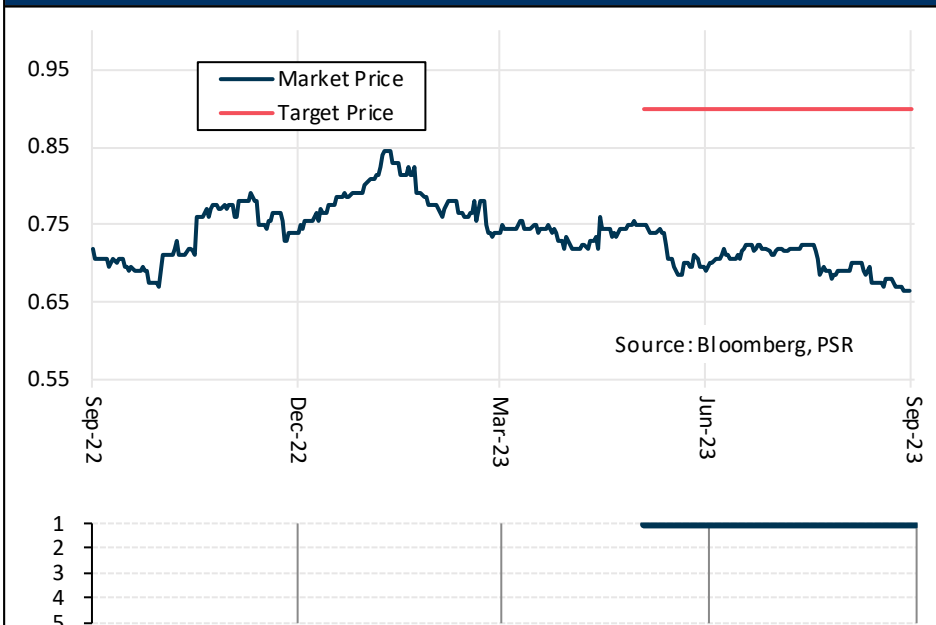
Growth & Margins

	FY20	FY21	FY22	FY23e	FY24e
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

	FY20	FY21	FY22	FY23e	FY24e
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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