

Sasseur REIT

Sales disrupted by natural disasters



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Singapore | REIT | 3Q24 UPDATE

11 November 2024

- Total rental income for 9M24 was down by 1.5% YoY to S\$91.5mn, representing 73% of our FY24e estimates, which is in line with our expectations. Despite the variable component in RMB terms decreasing by 6.8% YoY, EMA rental income was supported by the 3% annual escalation. Distributable income was not disclosed.
- Tenant sales declined by 7.2% YoY in 9M24 as 3Q24 sales were disrupted by a heatwave in Chongqing and earthquakes. In addition, SASSR observed a more cautious spending pattern in China, which caused a decline in international brand sales.
- We reiterate our BUY recommendation with a lower DDM-TP of S\$0.84 (prev: S\$0.87). We remain mindful of the potential lag between recent macroeconomic stimulus measures and the recovery of consumer confidence. Value-for-money products continue to be favored by Chinese consumers, while international brands have underperformed. Tenant sales may continue to trend below FY23 levels for the remainder of 2024. However, lower interest expenses, more aggressive sales events, and a continued brand shift toward domestic products will partially offset consumer cautiousness. We have lowered our FY24e revenue forecast by 1% due to disrupted 3Q24 sales, while FY24e/FY25e DPU forecasts remain unchanged at 6.27/6.34 cents. SASSR is currently trading at an FY24e dividend yield of 9.2% and a P/NAV of 0.8x.

Result at a glance

(mn)	3Q24	3Q23	YoY (%)	Comments
EMA Rental Income in RMB	158.6	161.9	-2.04%	Drop in tenant sales
EMA Rental Income in SGD	29.2	30.3	-3.63%	Depreciation of RMB against S\$
Outlet Sales in RMB	958.4	1,114.4	-14.00%	Extreme heatwaves in Chongqing, caution in Chinese purchasing decisions
Variable component in RMB	43.4	50.0	-13.20%	
Cost of borrowing	5.3%	5.8%	(0.5ppt)	Higher portion of onshore debt

Source: Company, PSR

The Positives

+ Refinancing well on track. The cost of borrowing remains stable, and SASSR plans to refinance its S\$58mn sponsor loan at a projected borrowing cost below the current rate, aligning with the prevailing Loan Prime Rate (LPR). Following the 25 basis point rate cut in China's Loan Prime Rate in October 2024 and the recent Federal Reserve rate cut last week, SASSR projects annual interest savings of c.S\$0.8mn.

+ Resilient occupancy rate. Despite muted tenant sales in China, the occupancy rate across SASSR's four outlet malls remained resilient, rising by 0.2% QoQ. Notably, the Kunming outlet achieved a record-high occupancy rate of 98.8%.

The Negative

- Weaker consumption demand. Tenant sales in 3Q24 declined by 14% YoY as shopper traffic was impacted by the heatwave in Chongqing and a series of earthquakes in Hefei. SASSR has also observed a more cautious spending pattern among Chinese consumers, who are less inclined to purchase high-ticket international brands. Domestic brands, particularly in sportswear and children's apparel, remain popular. This year's Golden Week sales reached a record RMB276.1mn, marking a 28% YoY increase and 55% above 2019 levels. However, the portion of Golden Week sales as a share of total October sales rose by c. 7% YoY to 52%, suggesting softer demand outside of festival periods.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.69
FORECAST DIV	SGD 0.06
TARGET PRICE	SGD 0.84
TOTAL RETURN	30.5%

COMPANY DATA

BLOOMBERG CODE:	SASSR SP Equity
O/S SHARES (MN):	1250.8
MARKET CAP (USD mn / SGD mn):	652 / 863
52 - WK HI/LO (SGD):	0.74 / 0.66
3M Average Daily T/O (mn):	1.4447

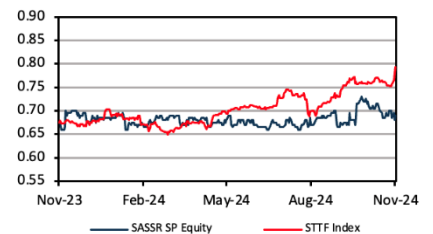
MAJOR SHAREHOLDERS

Sasseur Cayman Holding II Ltd	54.6%
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TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(6.2)	3.9	6.1
STTF RETURN	2.7	14.5	18.6

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev (\$mn)	125.9	126.7	122.9	131.4
Dist. Inc. (\$mn)	80.3	77.4	78.3	79.6
P/NAV (x)	0.79	0.83	0.83	0.84
DPU (cents)	6.55	6.25	6.27	6.34
Dist. Yield (%)	10.45	9.63	9.19	9.22

Source: Company, PSR

VALUATION METHOD

DDM (Cost of Equity: 8.94%; Terminal g: 1.5%)

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Outlook

We expect sales to be supported by VIP members, as membership increased by 12.9% YoY as of 9M24, with a 3-year CAGR of 18.9%. Sales from VIP members contributed more than 60% of the 9M24 outlet sales. There will be two promotional events in 4Q24, with the higher value of winter clothes, we expect sales in 4Q24 to uphold well but below FY23 level.

SASSR is negotiating more aggressive discounts with international brands. Coach offered 7k products during the Anniversary Sales period with up to 80% discounts. RMB 2.6mn of sales were generated over the 8-day period. We believe this is a pivot point for SASSR to open a discussion with another international brand with a stronger brand reputation that tends to shy away from aggressive discounts to preserve its brand reputation.

Maintain BUY with a lower TP of S\$0.84 (prev: S\$0.87)

The lower interest expense, more aggressive discounts and continued brand and product mix enhancement will support FY24e earnings. We revised our FY24e revenue forecast down by 1% due to the impact of disrupted sales in 3Q24, while our FY24e/FY25e DPU forecasts remain unchanged at 6.27/6.34 cents. SASSR is trading at an FY24e dividend yield of 9.2% and a P/NAV of 0.8x.

Financials

Income Statement

Y/E Dec, (\$'000)	FY21	FY22	FY23	FY24e	FY25e
EMA rental income	134,850	125,932	126,726	122,926	131,392
Manager's management fee	(11,083)	(8,850)	(8,335)	(7,811)	(8,585)
Trust expense	(1,557)	(1,638)	(321)	(790)	(791)
Finance income	162	171	286	286	286
Finance costs	(24,109)	(26,280)	(27,409)	(24,659)	(22,063)
Other items	102	3,116	3,537	180	(199)
Total return before before tax	164,155	80,187	86,379	87,465	97,752
Tax Expense	(41,298)	(18,089)	(23,958)	(17,493)	(22,483)
Net income after Tax	122,857	62,098	62,421	69,972	75,269
Distribution adjustments	(28,952)	26,405	20,929	14,179	10,307
Distribution to unitholders	86,192	80,322	77,370	78,260	79,585

Per unit data

Y/E Dec, (\$'000)	FY21	FY22	FY23	FY24e	FY25e
NAV (\$)	0.87	0.82	0.81	0.81	0.81
DPU (\$ cents)	7.10	6.55	6.25	6.27	6.34

Cash Flow

Y/E Dec, (\$'000)	FY21	FY22	FY23	FY24e	FY25e
CFO					
Total return for the period before tax	164,155	80,187	86,379	87,465	97,752
Adjustments	52,345	(34,851)	39,609	37,945	30,021
WC changes	(15,472)	2,020	(45,596)	68,833	(581)
Tax paid and interest received	(8,018)	(11,209)	(7,074)	(5,917)	(17,207)
Cash generated from ops	193,010	36,147	73,318	188,326	109,985

CFI

CAPEX	(4,691)	(5,821)	(4,078)	(532)	(532)
Cashflow from investments	(5,821)	(4,078)	(532)	(532)	(532)

CCF

Proceeds from bank loans	-	-	395,193	-	-
Repayments of bank loans	(12,603)	(5,592)	(491,138)	-	-
Payment of borrowing-related	-	-	(13,513)	-	-
Distributions to unitholders	(74,881.0)	(86,421.0)	(87,418.0)	(75,807.0)	(78,260.4)
Others	(20,438)	(14,912)	(22,398)	(18,789)	(22,496)
Cashflow from financing	(107,922)	(106,925)	(219,274)	(94,596)	(100,756)
Net change in cash	79,267	(74,856)	(146,488)	93,198	8,697
Cash at the start of the period	146,147	146,550	152,421	100,755	140,834
FX changes	5,274	5,513	(9,228)	17	-
Ending cash	230,688	77,207	(3,295)	193,953	149,531

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, (\$'000)	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Cash and short term deposit	159,761	100,755	140,834	139,244	145,399
Prepayments, deposits etc	29,065	28,104	26,042	27,044	28,906
Total current assets	188,826	128,859	167,490	166,902	174,920
Investment properties	1,801,013	1,638,981	1,580,190	1,580,722	1,581,254
Total non-current assets	1,801,013	1,638,981	1,580,190	1,580,722	1,581,254
Total Assets	1,989,839	1,767,840	1,747,680	1,747,624	1,756,174

LIABILITIES

Other payables and accruals	123,177	69,635	142,285	142,706	146,987
Loans and borrowings	2,359	2,457	487,355	5,439	5,439
Others	26,261	31,077	31,384	38,200	38,200
Total current liabilities	156,711	588,374	185,924	186,345	190,626
Loans and borrowings	508,115	-	369,895	369,895	369,895
Deferred tax liabilities	115,805	111,667	114,970	114,970	114,970
Total non-current liabilities	623,920	111,667	542,144	542,144	542,144
Total Liabilities	780,631	700,041	728,068	728,489	732,770

Net assets	1,209,208	1,067,799	1,019,612	1,019,135	1,023,403
Represented by:					
Unitholders' funds	1,209,208	1,067,799	1,019,612	1,019,135	1,023,403

Valuation Ratios

Y/E Dec, (\$'000)	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)		0.79	0.83	0.83	0.84
Distribution Yield (%)		10.45	9.63	9.19	9.22

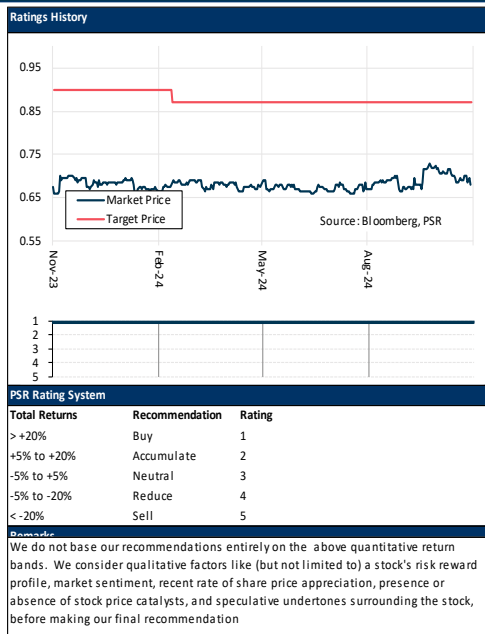
Growth & Margins

Growth

Revenue	-6.6%	0.6%	-3.0%	6.9%
Distributable income	-6.8%	-3.7%	1.2%	1.7%
DPU	-7.8%	-4.6%	0.3%	1.1%

Key Ratios

Net Debt or (Net Cash)	(1,479,365)	(1,765,383)	(890,430)	(1,372,290)	(1,380,840)
Gearing	0.28	0.00	0.54	0.24	0.24



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