Dasin Retail Trust

More AEIs to rejuvenate mall offering

SINGAPORE | REAL ESTATE (REIT) | 3Q20

7 December 2020

- Recovery in consumer spending and revenue continued. 8.1% of FY20 lease expiries left for renewal.
- Termination of remaining 9-year 12,000sqm lease with department-store tenant reduces income visibility. But opportunity to recalibrate and enhance the mall's offerings.
- Upgrade to BUY from Accumulate. Catalysts expected from the population growth in the Greater Bay Area, potential acquisitions, and rental uplift post-AEI. DDM TP (cost of equity 8.12%) dips from S$0.91 to S$0.90 due to enlarged share base following fund-raising.

Performance at a glance

Revenue (RMB mn)	9M19	9M20	YoY	Comments
Xiaolan Metro Mall	96.7	88.4	-8.6%	
Ocean Metro Mall	60.2	44.0	-26.9%	
Dasin E-Colour	12.3	8.9	-27.5%	
Shiqi Metro Mall	96.7	77.1	-20.3%	
Doumen Metro Mall	5.1	62.5	NM	Acquired 12 September 2019
Shunde Metro Mall		22.2	NM	Acquired 8 July 2020
Tianbei Metro Mall		1.9	NM	Acquired 8 July2020
Same Store Basis	265.8	218.4	-17.8%	
Total Revenue	**271.0**	**305**	**12.6%**	

Source: Company, PSR

Note: Same store basis calculations exclude contribution from Doumen, Shunde and Tianbei Metro Malls; NM means not meaningful

The Positives

+ Continued recovery. 3Q20 cash revenue (excluding straight-line income recognition) recovered to -7.5% of 3Q19 levels (Figure 1). This was an improvement from June's 9.5% YoY drop in turnover rent. Turnover rent is used as a proxy for tenant sales as Dasin does not disclose this metric. MoM, turnover rent recovered from January through June (Figure 2). But as monthly turnover rent was also not disclosed, we rely on 3Q20 cash revenue to gauge the recovery in tenant sales.

+ Lease renewals reduced FY20 expiring lease from 13.8% to 8.1%. Portfolio lease expiries by GRI fell from 13.8% in 2Q20 to 8.1% in 3Q20. The majority will be from Xiaolan, Ocean and Shiqi. Historically, these three assets maintained high occupancies of 98-99%. The steady recovery in their tenant sales is encouraging and may return confidence to tenants who have been delaying their renewal decisions.

The Negatives

- Portfolio occupancy dipped QoQ from 97.0% to 96.1% (3Q19: 98.6%). The most notable decline was at Dasin E-Colour, which fell from 90.7% in 2Q20 to 85.1%. This was 11.2ppts lower than 3Q19's 96.3%. Dasin E-Colour was affected by the closure of nearby universities during lockdowns. They are the mall's primary catchment. The mall is the smallest in Dasin's portfolio, accounting for 4.14% of its 9M20 revenue. The rest of its malls sustained high occupancy of above 95%. The property manager will use this period of weaker leasing to refine its tenant mix and reposition mall offerings.

- Termination of remaining 9-year lease with Superior City Department Store. Superior's lease was for 15 years from 28 December 2014 to 27 December 2029 for c.12,000 sqm (17.6%) of space at Ocean Metro Mall. This was terminated on 8 November 2020 as the department store struggled financially. Zhongshan Dasin Metro-Mall Merchant Investment Co. Ltd., an interested party of the Trust, will be leasing the space for a year at similar rents as Superior. AEI will be undertaken over the next year to carve up the space into smaller sections. The work will be done progressively so as to minimise disruptions to operations.

BUY (Upgraded)

LAST DONE PRICE	SGD 0.76
FORECAST DIV	SGD 0.05
TARGET PRICE	SGD 0.90
TOTAL RETURN	**24.6%**

COMPANY DATA

BLOOMBERG CODE:	DASIN SP
O/S SHARES (MN) :	775
MARKET CAP (USD mn / SGD mn) :	442 / 58
52 - WK HI/LO (SGD) :	0.87 / 0.7
3M Average Daily T/O (mn) :	0.26

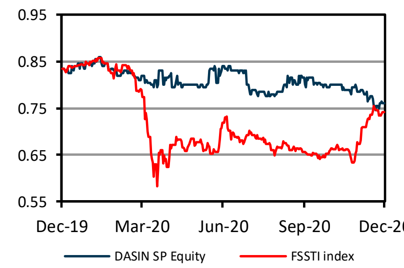
MAJOR SHAREHOLDERS (%)

ZHANG ZHENCHENG	53.3%
HARVEST PVT WEALTH MGMT	8.5%
CHINA ORIENT ASSET MANAGEMENT CO	6.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(4.4)	(6.7)	(3.8)
STI RETURN	13.2	13.7	(6.2)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD (mn)	FY18	FY19	FY20e	FY21e
Gross Revenue	71	76	89	119
NPI	57	60	71	94
Dist Inc.	21	23	27	38
P/NAV (x)	0.5	0.6	0.5	0.5
ROE (%)	3.0%	2.8%	2.1%	3.9%
DPU (Cents)*	7.2	6.8	4.8	5.5
Dist yield (%)	9.5%	9.0%	6.3%	7.2%

Source: Company Data, Bloomberg

*DPU is computed after income support waiver

Valuation Method

DDM (Cost of equity 8.12%, Terminal Growth 0%)

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Typically, conversion from single tenancy to multi-tenancies will allow the landlord to charge higher rentals as discounts are usually given for larger spaces.

Outlook

Opportunity for rental reversions through AEI

Department stores are struggling. Hence, while the pre-termination of such a long lease reduces income visibility, Dasin has the opportunity to recalibrate and enhance the mall's offerings. Dasin last completed AEI at the Ocean Metro Mall in 2Q20. This similarly involved carving up sizeable space. In a bid to enhance the mall's competitiveness, the Trustee-Manager had commissioned a market research study and negotiated the early termination of a 9,085sqm lease with a "furniture and finishing" tenant. The space returned was dissected and leased out to tenants providing goods and services for children. Rental reversion was 42.9%. About 2,500sqm of space has been leased out to a children's playground operator, with the remainder leased to children's education and enrichment tenants.

Benefits from transformation of Greater Bay Area

China intends to develop its Greater Bay Area into a booming financial hub under its 13th 5-Year Plan in December 2016. Up-and-coming financial exchanges will be located in Guangzhou (for carbon-emission futures trading) and Macau (a NASDAQ-like market for start-ups). With this transformation, the population in Greater Bay Area is forecast to grow by 43% over the next 15 years, to 100mn. All seven of Dasin's malls are located in the Bay: five in Zhongshan, one in Foshan and the last in Zhuhai. All are within a 1-hour traffic radius of Greater Bay Area cities (Figure 4). As Tier-2 cities, they provide affordable housing to surrounding Tier-1 cities like Guangzhou and Shenzhen. Zhongshan is primed to benefit from its location at the mid-point of the Bay as well as the Shenzhen-Zhongshan bridge which is under construction. When completed in 2024, the bridge will slash travelling time between the two cities from one hour and 15 minutes to 30 minutes.

Income visibility from lease structure

Dasin's assets maintain high occupancy of 97%. WALE by GRI is 4.0 years. Only 4% of its leases by GRI are on pure turnover terms. About 20% are structured as the higher of base or turnover rents. Another 12% are fixed while 64% are fixed with built-in rent escalations of 3-10% per annum.

Upgrade to BUY, albeit with lower TP of S$0.90, from S$0.91

We lower FY20/21e DPU by 4.0%/1.8% to factor in an enlarged share base following its recent share offering. Upgrade from ACCUMULATE to BUY with stock catalysts expected from the population growth in the Greater Bay Area, potential acquisitions, and rental uplift post-AEI. Our DDM TP dips from S$0.91 to S$0.90. It translates to FY20e/21e DPU yields of 6.3%/7.2%.

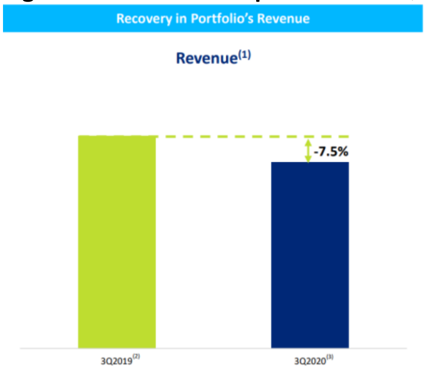
Dasin continues to have an ROFR pipeline of 18 properties in four cities. Six are still under construction. During IPO, major unitholders waived a portion of their distribution entitlement to support DPU yields. The percentage of units under distribution waiver will dwindle to 0% by 2022. Dasin will have to grow its DPUs to offset an increasing unit base, in order to prevent deterioration of its DPU yields. The percentage of units under distribution waiver stands at 25% and 11% for FY20 and FY21 respectively. Dasin acquired three assets from its sponsor in the last two years and we expect it to tap its ROFR pipeline again to keep DPU yields stable.

Risks to our view and valuation include a slowdown in discretionary consumption and a second wave of virus outbreaks in China.

List of abbreviations:

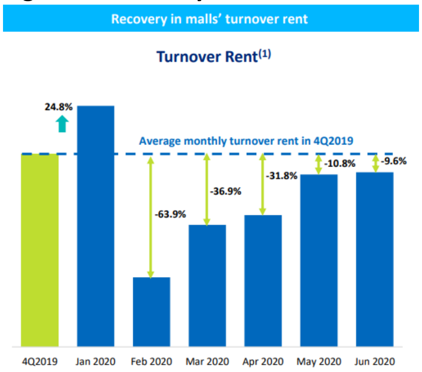
NPI – Net property income
DPU – Distributions per unit
WALE – Weighted average lease expiry
GRI – Gross rental income
AUM – Assets under management
GFA – Gross floor area
NLA – Net lettable area
AEI – Asset enhancement initiative
ROFR – Right of first refusal

Figure 1: Revenue comparison for 3Q



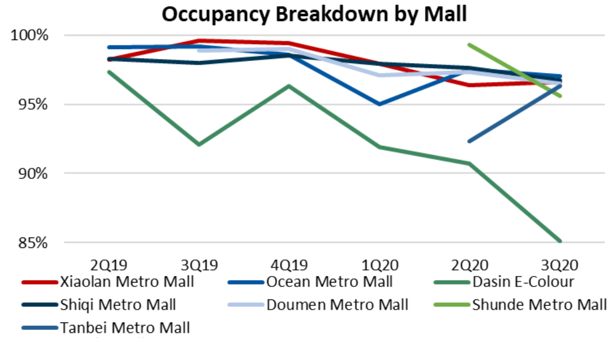
Source: Company
Based on revenue in RMB excluding rental income recognised on a straight-line basis over the lease term.

Figure 2: Recovery in turnover rent



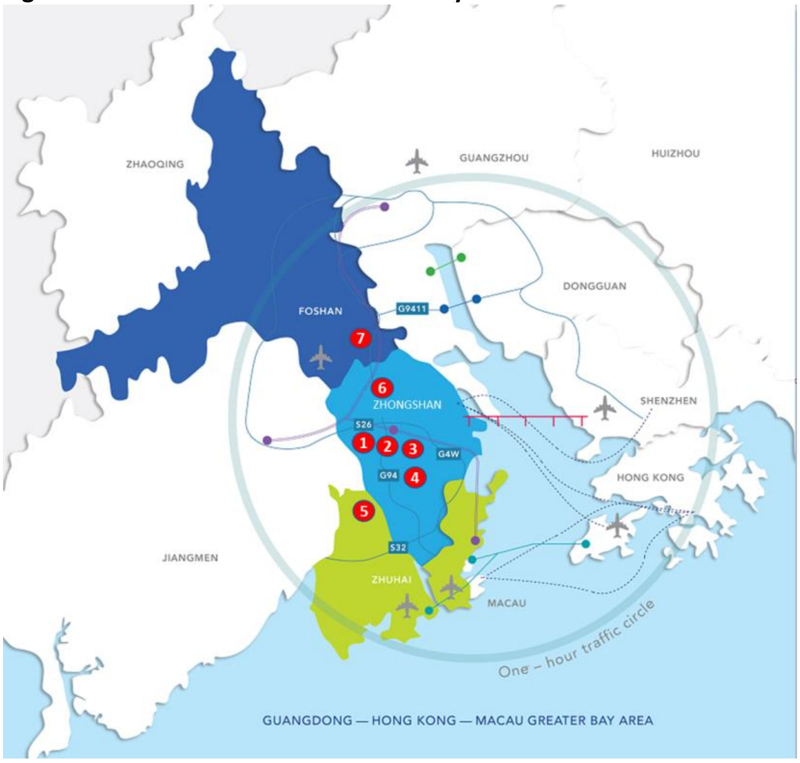
Source: Company

Figure 3: Portfolio occupancy down 2.7ppts since 4Q19



Source: Dasin Retail Trust, PSR

Figure 4: Dasin's assets in the Greater Bay Area



Source: Company, PSR
1. Xiaolan 2. Shiqi 3. E-colour 4. Ocean 5. Doumen 6. Tanbei 7. Shunde

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD (mn)	FY17	FY18	FY19	FY20e	FY21e
Gross Revenue	**57.7**	**71.3**	**76.0**	**89.3**	**119.3**
Property operating expenses	(11.1)	(14.0)	(16.0)	(18.6)	(24.8)
Net Property Income	**46.6**	**57.3**	**60.0**	**70.7**	**94.5**
Trustee-Manager's fees	(3.4)	(4.4)	(4.6)	(8.5)	(6.3)
Others	6.0	(2.6)	3.6	0.0	0.0
Net finance income/(expenses)	(22.9)	(25.6)	(29.6)	(35.9)	(42.5)
Net Income	18.5	22.9	24.4	22.9	43.3
Net change in fair value of invt.	14.0	(22.1)	(20.8)	0.0	0.0
Profit before income tax	1.2	6.1	2.6	26.0	32.5
Income tax expense	(13.7)	(12.3)	(11.0)	(15.8)	(21.0)
Profit for the period	18.9	(11.5)	(7.4)	7.2	22.2
Distribution adjustments	(0.8)	32.7	30.7	19.4	16.2
Amount available for distribution	18.0	21.2	23.3	26.6	38.4
Distributable profit	0.0	21.2	23.3	26.6	38.4

Per share data (Cents)

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
NAV	1.5	1.4	1.4	1.4	1.4
DPU	7.2	7.2	6.8	4.8	5.5

Cash Flow

Y/E Dec, SGD (mn)	FY17	FY18	FY19	FY20e	FY21e
CFO					
Profit before income tax	32.5	0.8	3.6	22.9	43.3
Adjustments	0.6	52.4	52.5	44.6	49.0
WC changes	20.2	6.1	(1.9)	(13.8)	3.4
Cashflow from ops	53.3	59.3	54.3	53.7	95.6
Income tax (paid)/refunded	(5.8)	(9.1)	(8.9)	(15.8)	(21.0)
Net cash from/(used) for ops	**47.5**	**50.2**	**45.4**	**38.0**	**74.6**
CFI					
Acquisition of subsidiaries	(521.0)	-	(145.7)	(335.0)	-
Others	0.7	11.3	23.0	(1.2)	(1.2)
Cashflow from investing activities	**(520.3)**	**11.3**	**(122.8)**	**(336.2)**	**(1.2)**
CFF					
Distributions paid	(7.4)	(20.9)	(25.7)	(26.0)	(38.4)
Issuance of units	146.4	-	68.8	96.2	-
Loans, net of repayments	402.0	6.2	110.8	228.9	10.0
Others	(64.9)	(20.1)	(36.6)	(34.5)	(40.4)
Cashflow from financing	**476.0**	**(34.9)**	**117.3**	**264.7**	**(68.8)**
Net change in cash	**3.2**	**26.6**	**40.0**	**(33.5)**	**4.6**
CCE, end	**20.2**	**45.0**	**83.2**	**49.7**	**54.3**
Add: Restricted Cash	**20.5**	**24.2**	**83.2**	**31.7**	**31.7**

Source: Company, Phillip Securities Research (Singapore) Estimates

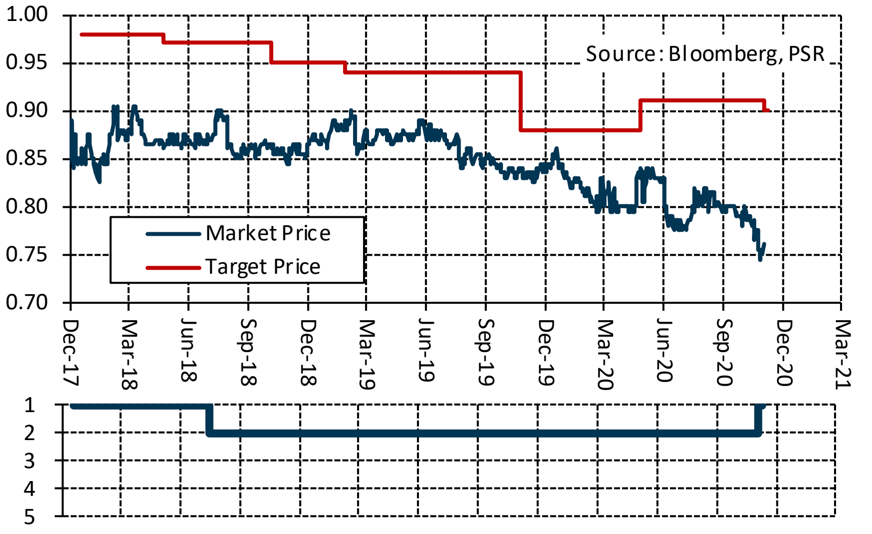
Balance Sheet

Y/E Dec, SGD (mn)	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
Investment properties	1,552.0	1,478.7	1,831.2	2,335.2	2,338.1
Plant and equipment	0.3	0.3	0.2	0.0	(0.1)
Others	0.5	1.3	0.4	0.3	0.3
Non Current Assets	**1,552.8**	**1,480.3**	**1,831.7**	**2,335.6**	**2,338.3**
Trade and Other Receivabl	7.3	6.2	13.0	20.0	20.0
Cash and Cash	40.7	69.2	115.7	72.8	77.4
Others	36.6	23.8	-	-	-
Current Assets	**84.6**	**99.2**	**128.7**	**92.7**	**97.4**
Total Assets	**1,637.4**	**1,579.4**	**1,960.4**	**2,428.3**	**2,435.7**
LIABILITIES					
Loans and borrowings	482.2	314.9	501.6	623.6	847.9
Others	283.6	276.1	332.9	329.3	329.3
Non Current liabilities	**765.8**	**590.9**	**834.6**	**952.9**	**1,177.2**
Loans and borrowings	0.8	185.6	203.9	329.2	120.9
Trade and other payables	7.1	11.6	18.6	11.8	15.3
Others	14.8	15.3	17.6	17.6	17.6
Current Liabilities	**22.7**	**212.5**	**240.1**	**358.6**	**153.9**
Total Liabilities	**788.5**	**803.4**	**1,074.7**	**1,311.5**	**1,331.0**
EQUITY					
Shareholder Equity	**848.9**	**776.0**	**885.7**	**1,116.8**	**1,104.7**

Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/NAV (x)	0.50	0.55	0.56	0.53	0.54
Distribution yield	9.4%	9.5%	9.0%	6.3%	7.2%
NPI yield	3.0%	3.9%	3.3%	3.0%	4.0%
Growth & Margins	**FY17**	**FY18**	**FY19**	**FY20e**	**FY21e**
Growth					
Revenue	-	23.6%	6.6%	17.6%	33.6%
Net property income (NPI)	-	23.1%	4.6%	17.9%	33.6%
DPU	-	0.8%	-5.5%	-29.4%	13.9%
Margins					
NPI Margin	81%	80%	79%	79%	79%
Net Income Margin	32%	32%	32%	26%	36%
Key Ratios					
Gearing	29.5%	31.7%	36.0%	39.2%	39.8%
ROA	1.1%	1.5%	1.2%	0.9%	1.8%
ROE	2.2%	3.0%	2.8%	2.1%	3.9%

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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