

Dasin Retail Trust

Our visit to Zhongshan + A pertinent question answered



25 May 2018

SINGAPORE | REAL ESTATE (REIT) | 1Q18 RESULTS and SITE VISIT

- Revenue and NPI for 1Q18 were within expectations. Boost in revenue was from the acquisition of Shiqi Metro Mall in June 2017. Organic growth was 17% YoY.
- Adjusted DPU downwards to account for adjustments of S\$2.7mn, which is set aside for future repayment of interest and related costs on the loan facilities.
- Site Visit to Zhongshan: 100% occupancy at all four malls plus a look at ROFR assets
- Pertinent question answered – we believe Dasin can ride out the income support

Results at a glance

SGD ('000)	1Q18	1Q17	YoY (%)	Comments
Gross Revenue	18,495	9,982	85%	Contribution from Shiqi Metro Mall, which was acquired on 19 June 2017. Positive effect from recognising future rent escalations on a straight-line basis.
Net Property Income	14,929	8,036	86%	
Net Income	12,101	1,195	n.m.	
Distributable profit	5,345	3,687	45%	
DPU (Cents)	1.83	1.49	23%	

Source: Company, PSR

The Positives

+ **Higher reversions from the renewal of master lease.** A 10-year renewal of the Xiaolan Master Lease Agreement for Superior City Department Store on 26 Sep 2017 was a key contributor to the positive rental reversions, with reversions at Xiaolan Metro Mall jumping to 4.5% in 1Q18.

The Negatives

- **Higher amount of funds retained for future interest repayment.** Other adjustments of S\$2.7mn was recorded in 1Q18. This item was previously not modelled into our forecast, which has led to it being the primary factor for 1Q18's DPU underperforming our forecast.

Outlook

Inorganic growth will be through its ready pipeline of 20 properties. A look at some of Dasin's right-of-first-refusal (ROFR) properties during our visit to Zhongshan allowed us to witness the surrounding catchment areas. 13 ROFR properties (including Doumen Metro Mall, which Dasin has a purchase option on) have been completed and seven are under development. All signs point to the robust growth of Zhongshan's purchasing power with urban disposable income per capita growing 8.9% YoY in 2017. Another catalyst will be the expected opening of the Hong Kong-Zhuhai-Macau bridge in July 2018. It will create some spillover of consumption spending into Zhongshan and in the longer term, potentially raise rental rates and property valuations for Dasin.

Maintain BUY with lower target price of S\$0.97

We narrowed down our DPU forecast to factor in the increased distribution adjustments for funds set aside for future repayment of interest and related costs of the loan facilities. Our initial forecast had not factored in such an adjustment. Our target price has been lowered by \$0.01. With all four malls operating at 100% occupancy, we expect Dasin to continue delivering healthy organic growth. In addition, our assessment suggest that DPU would take a minimal hit when the income support is removed in FY2021. As such, we maintain our BUY rating with a lower target price of S\$0.97.

The report is produced by Phillip Securities Research under the 'SGX StockFacts Research Programme' (administered by SGX) and has received monetary compensation for the production of the report from the entity mentioned in the report.

BUY (Maintained)

LAST DONE PRICE	SGD 0.86
FORECAST DIV	SGD 0.075
TARGET PRICE	SGD 0.97
TOTAL RETURN	21.4%

COMPANY DATA

BLOOMBERG CODE:	DASIN SP
O/S SHARES (MN):	554
MARKET CAP (USD mn / SGD mn):	355 / 476
52 - WK HI/LO (SGD):	0.92 / 0.77
3M Average Daily T/O (mn):	0.17

MAJOR SHAREHOLDERS (%)

AQUA WEALTH HOLDINGS LIMITED	60.1%
CHINA ORIENT ASSET MANAGEMENT CO	9.4%
BOUNTY WAY INVESTMENTS LIMITED	5.2%
ZHANG ZHONGMING	0.7%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(1)	7.2	14.6
STIRETURN	(10)	0.5	12.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec (SGD'000)	FY 16	FY 17	FY 18 e	FY 19 e
Gross Revenue	34,228	57,696	75,853	80,661
NPI	27,565	46,560	59,924	63,722
Dist Inc.	-	18,009	21,769	23,417
P/NAV (x)	-	0.57	0.55	0.55
ROE (%)	6.4%	2.2%	3.3%	3.6%
DPU (Cents)	-	7.16	7.46	7.59
Dist yield (%)	-	8.2%	8.6%	8.7%

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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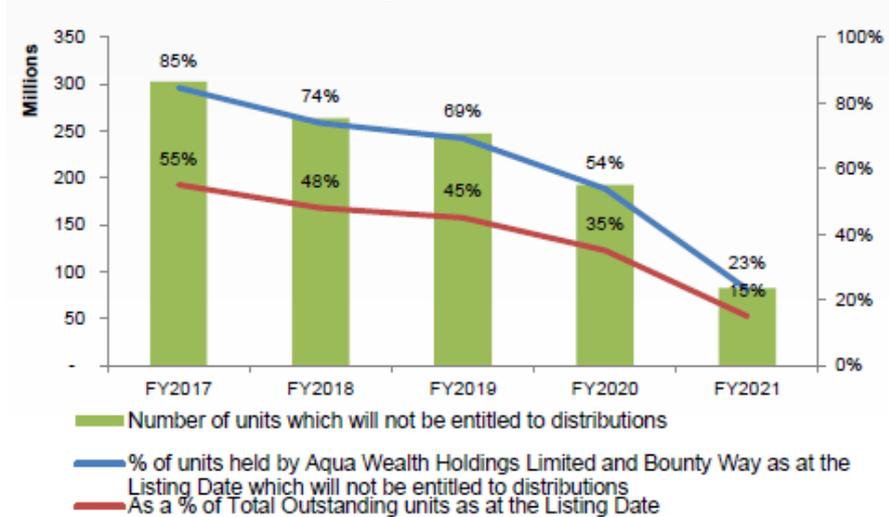
A pertinent question – Will Dasin be able to ride out the removal of income support after FY2021?

FY2022 will be a critical year for Dasin. It will be the first year without income support, which is in the form of a distribution waiver from Dasin’s two biggest shareholders, Aqua Wealth Holdings and Bounty Way Investments. While income support has always been viewed as a short-term bolster to DPU, in this instance, Dasin’s income support was strategized to be drawn out for the first five years of the listing. It was to smoothen out the gestation periods of its two growth malls, Dasin E-Colour and Ocean Metro.

Nonetheless, our forecast – purely based on organic growth, not accounting for any acquisitions/disposals – shows that Dasin’s distributable profit is expected to sustain the removal in income support. The number of units entitled to distribution under the waiver will approximately double from 2017 (first year with income support & year of IPO listing) to 2022 (first year without income support). In order for Dasin to sustain similar distribution yields of ~8.5%, it has to correspondingly double its distributable profit.

Our estimates, which have taken into account a baseline rental CAGR of 6% from FY17 to FY22e, therefore show that Dasin’s distributable profit can in fact double by the same magnitude to cover the shortfall following the drop-off in income support, short of some c.6%, which can potentially be compensated for by any acquisitions made within this same time frame.

Figure 1: Major Unitholders Aqua Wealth and Bounty Way will waive a portion of their entitlement to distributions up to FY2021



Source: Company

NOTE: The waiver by Aqua Wealth and Bounty Way starts at 85% of total Units at FY17 and gradually declines to 23% by FY21. There is no income support from FY22 onwards.

- Site visit note appended below -

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD ('000)	FY16	FY17	FY18e	FY19e
Gross Revenue	34,228	57,696	75,853	80,690
Property operating expenses	(6,663)	(11,136)	(15,929)	(16,945)
Net Property Income	27,565	46,560	59,924	63,745
Trustee-Manager's fees	-	(3,422)	(4,259)	(4,259)
Others	8,452	(1,751)	(1,000)	(1,000)
Net finance income/(expenses)	(6,645)	(22,920)	(25,720)	(26,576)
Net Income	29,372	18,467	28,946	31,911
Net change in fair value of investment properties	3,908	14,047	-	-
Profit before income tax	33,280	32,514	28,946	31,911
Income tax expense	(7,648)	(13,658)	(10,131)	(11,169)
Profit for the period	25,632	18,856	18,815	20,743
Distribution adjustments	-	(847)	2,954	4,838
Distributable profit	-	18,009	21,769	23,506

Per share data (Cents)

Y/E Dec	FY16	FY17	FY18e	FY19e
NAV	-	1.53	1.56	1.56
DPU	-	7.16	7.46	7.62

Cash Flow

Y/E Dec, SGD ('000)	FY16	FY17	FY18e	FY19e
CFO				
Net Income	33,280	32,514	28,946	31,911
Adjustments	512	576	25,811	26,667
WC changes	(573)	20,199	6,473	1,330
Cashflow from ops	33,219	53,289	61,230	59,908
Income tax (paid)/refunded	(1,679)	(5,816)	(10,131)	(11,169)
Net cash from/(used) for ops	31,540	47,473	51,099	48,739
CFI				
Acquisition of subsidiaries	1,224	(520,995)	-	-
Others	55	730	-	-
Cashflow from investing activities	1,279	(520,265)	-	-
CFF				
Distributions paid	-	(7,444)	(21,769)	(23,506)
Issuance of units	13,716	146,415	-	-
Loans, net of repayments	(23,595)	374,420	-	-
Others	(6,288)	(37,373)	(25,720)	(26,576)
Cashflow from financing	(16,167)	476,018	(47,490)	(50,082)
Net change in cash	16,652	3,226	3,609	(1,343)
CCE, end	16,545	20,203	23,812	22,470

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD ('000)	FY16	FY17	FY18e	FY19e
ASSETS				
Investment properties	934,692	1,552,035	1,577,518	1,577,518
Plant and equipment	300	269	251	251
Non Current Assets	934,992	1,552,821	1,577,769	1,577,769
Trade and Other Receivables	86,472	7,336	12,895	13,717
Cash and Cash Equivalents Available for sale investments	16,545	40,672	23,812	22,470
	2,918	36,589	-	-
Current Assets	105,935	84,597	36,707	36,187
Total Assets	1,040,927	1,637,418	1,614,476	1,613,956
LIABILITIES				
Loans and borrowings	73,008	482,226	474,756	309,756
Deferred tax liabilities	154,686	283,425	248,700	248,700
Non Current liabilities	227,694	765,824	723,456	558,456
Loans and borrowings	33,531	810	15,000	180,000
Trade and other payables	316,056	7,051	7,965	8,472
Tax payable	657	1,654	1,159	1,157
Current Liabilities	355,096	22,703	24,124	189,629
Total Liabilities	582,790	788,527	747,580	748,085
EQUITY				
Shareholder Equity	458,137	848,891	866,897	865,871

Valuation Ratios

Y/E Dec	FY16	FY17	FY18e	FY19e
P/NAV (x)	-	0.56	0.55	0.55
Distribution yield (%)	-	8.3%	8.7%	8.9%
NPI yield (%)	2.9%	3.0%	3.8%	4.0%
Growth & Margins (%)	FY16	FY17	FY18e	FY19e
Growth				
Revenue	6.3%	68.6%	31.5%	6.4%
Net property income (NPI)	10.5%	68.9%	28.7%	6.4%
DPU	-	-	4.2%	2.2%
Margins				
NPI margin	80.5%	80.7%	79.0%	79.0%
Net Income Margin	85.8%	32.0%	38.2%	39.5%
Key Ratios				
Gearing	10.2%	30.7%	30.3%	30.3%
ROA	2.8%	1.1%	1.8%	2.0%
ROE	6.4%	2.2%	3.3%	3.7%



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

Site Visit to Zhongshan

We were in Zhongshan, Guangdong province (China) from 17 to 20 May 2018 to visit all four of Dasin’s malls, four (out of 20) of its ROFR assets and a few competitor malls.

Site Visit Highlights

- Dasin’s Sponsor, Dasin Real Estate Co, the retail market leader in Zhongshan**
 - Total assets (4 current + 20 ROFR) represent more than 50% of net lettable retail space in Zhongshan.
 - We were impressed that the Sponsor was asked to manage malls or retail outlets for other organizations, including competitors and local government. This, we believe, is a testament to their operational expertise and focus.
- Malls are well-frequented through weekdays/weekends**
 - We visited the four current assets in the portfolio (Xiaolan, Dasin E-Colour, Ocean Metro, Shiqi I) and four (out of 20) of its ROFR assets (Shunde Metro, Doumen Metro, Guzhen Metro, Shiqi II) over Thursday-Sunday. All enjoyed healthy footfall.
 - 100% occupancy for its four malls with virtually no boarded-up units. In addition, there are hardly any frictional periods between any lease expiries/withdrawals and new lease sign-ups.
- Active tenant engagement and well-planned strategies to capture shopper traffic**
 - Dasin works closely with tenants to work out their specific issues and their track record can be evidenced by its quality tenant profile, which includes McDonald’s, Starbucks, Watsons, Chow Tai Fook and Adidas.
 - 20 May 2018 (5.20) constitutes one of China’s “Valentines’ Day” and we saw how the malls were able to capitalise on this event to draw out promotions and events to attract footfall (Figure 8).

Figure 2: Over 500,000 users of Dasin loyalty system



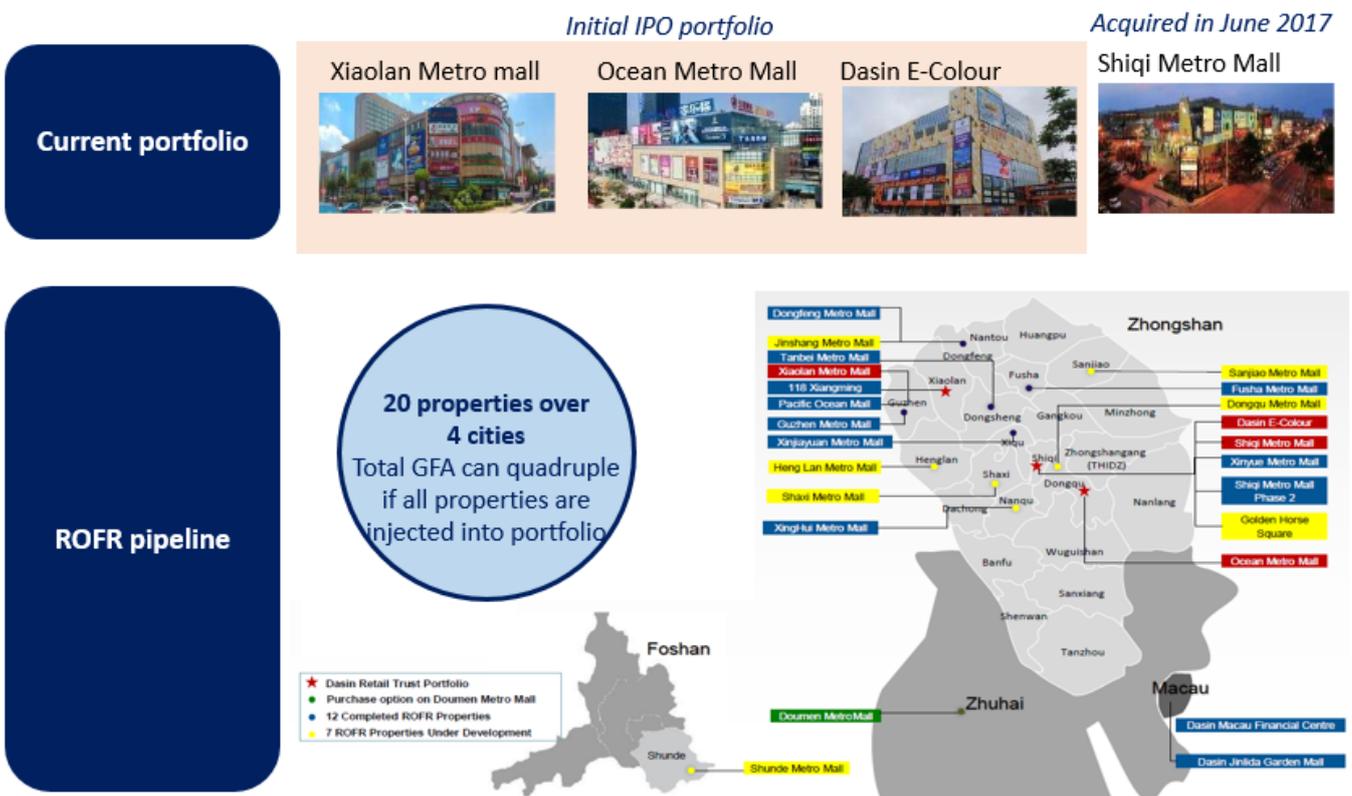
Source: PSR

Figure 3: Sponsor-owned Xin Garden restaurant, which is a tenant at Dasin’s malls



Source: PSR

Figure 4: Recap of Dasin’s current portfolio + ROFR pipeline



Source: PSR, Company

Current portfolio – all malls operating at 100% occupancy

1. Xiaolan Metro Mall, Zhongshan City

- GFA/NLA: 108,690/77,692 sqm
- Six-storey mall with 136 leases and 626 car park lots
- 2nd largest mall in the portfolio
- Master Lease Agreement for 10 years with Dasin Merchant Investment, to 25 September 2027.
- Annual footfall of 22mn. Within the main trade area which contains ~18.4% of Zhongshan’s total population and in close proximity to large-scale residential communities, Xiaolan Town Government and Zhongshan Xiaolan Middle School.

Figure 5: Facade of Xiaolan Metro Mall



Source: PSR

Figure 6: Mall is next to Crowne Plaza, where there is a third-party 2-way shuttle bus service between Zhongshan and Hong Kong



Source: PSR

Figure 7: Crowd on a Saturday afternoon



Source: PSR

Figure 8: Ongoing promotional events at the atrium



Source: PSR

Figure 9: Interactive exhibitions for 5.20 event day



Source: PSR

Figure 10: Xin Garden Restaurant, which was c.85% occupied mid-afternoon on a Saturday



Source: PSR

Figure 11: Live seafood area within the restaurant



Source: PSR

2. Ocean Metro Mall, Zhongshan City

- GFA/NLA: 180,338/68,008 sqm
- Eight-storey mall with 132 leases and 1,991 car park lots
- The newest and fastest growing mall in the portfolio. Lowest proportion of fixed rent leases (2% by GRI) within the portfolio.
- Located at the heart of the new commercial city centre, with a “first mover” status in its primary trade area.

Figure 12: Frontage outside Ocean Metro Mall



Source: PSR

Figure 13: Facade of Ocean Metro Mall



Source: Company

Figure 14: Themed mezzanine-floor restaurant with private booths above



Source: PSR

Figure 15: Inside Ocean Metro Mall



Source: PSR

Figure 16: Only mall with Carrefour as its supermarket tenant



Source: PSR

Figure 17: Carrefour offers free delivery for large appliances with no minimum spend



Source: PSR

Figure 18: Durians being sold at Carrefour



Source: PSR

Figure 19: Located at the rooftop, Win Fitness gym offers one-year memberships for 4,000RMB (~\$5,842)



Source: PSR

Figure 20: The gym houses its own swimming pool



Source: PSR

Figure 21: A playhouse pen with a piglet to attract young children



Source: PSR

Figure 22: Rooftop with greenhouse, where gardening-themed events for young children and their parents are often held



Source: PSR

3. Dasin E-Colour Mall, Zhongshan City

- GFA/NLA: 25,857/12,648 sqm
- Nine-storey mall with 45 leases
- Smallest mall in the portfolio. Caters to the younger crowd as it is located right opposite one of only two Universities in Zhongshan – which has a student capacity of 20,000, and is right next to the University dorm.
- Highest proportion of fixed rent leases (39% by GRI) and highest proportion of Leisure & Entertainment tenants (56.1% by NLA) within the portfolio.
- Master lease agreements for various units on levels 4 to 9, for three years ending March 2019.

Figure 23: Facade of Dasin E-Colour mall



Source: Company

Figure 24: Cinema at the top floor



Source: PSR

Figure 25: Book store with interactive layout



Source: PSR

Figure 26: Café within the bookstore



Source: PSR

Figure 27: Highly-popular KTV mini-booths



Source: PSR

Figure 28: Open-concept live gaming area



Source: PSR

Figure 29: Ready catchment with the University of Electronic Science and Technology of China (Zhongshan Institute) (电子科技大学中山学院) right opposite



Source: PSR

4. **Shiqi Metro Mall, Zhongshan City**

- GFA/NLA: 119,682/85,727 sqm
- Seven-storey mall with 163 leases and 545 car park lots
- Anchor tenants include RT Mart, Superior City Department Store and Jane Eyre Furniture Mall
- Zhongshan’s first shopping mall. Dasin’s first acquisition since IPO and the largest mall in the portfolio.
- Dasin acquired the mall on 26 June 2017 at S\$248mn, a 57.8% discount to market value, which raised DPU by 32.2%.

Figure 30: Crown jewel – Shiqi Metro Mall draws a higher footfall than each of the other three portfolio assets



Source: PSR

Figure 31: Superior City Department Store



Source: PSR

Figure 33: Snaking queues at RT Mart supermarket



Source: PSR

Figure 32: Hair cut salon booth – no store front but quick, easy, cheap haircuts at 15RMB (~\$3.20)



Source: PSR

Figure 34: Live seafood section, which RT Mart is favoured for – as opposed to other supermarkets such as Carrefour



Source: PSR

ROFR pipeline

20 properties across 4 cities – Zhongshan, Foshan, Zhuhai, Macau

We visited four of these ROFR properties – Shunde Metro Mall in Foshan, Doumen Metro Mall in Zhuhai, as well as Guzhen Metro Mall and Shiqi II Mall, both in Zhongshan City.

Shunde Metro Mall

Foshan

- Under construction; expected opening in Nov 2018
- Five-story mall with 80% committed occupancy – including Adidas, Watsons, Suning and Fly On Ice (ice skating rink)
- GFA: 170,000 sqm (c.450 units and 4,000 car park lots)
- Immediate catchment with surrounding residential and offices; it will be the only large-scale shopping mall in the area
- Opposite the Agricultural Bank of China and Guangdong Shunde Shedeng School (a renowned school offering the International Baccalaureate programme)
- Within a five-minute walk to the nearest metro station and in close proximity to the People’s Liberation Army (PLA) division

Figure 35: Boarded-up construction of Shunde Metro Mall

Figure 36: Ongoing construction of Shunde Metro Mall



Source: PSR



Source: PSR

Figure 37: The mall will feature a Phoenix-like design

Figure 38: Artist’s impression of the mall’s interior



Source: PSR



Source: PSR

Doumen Metro Mall

Zhuhai

- Under construction; expected to open in Oct 2018
- GFA: 168,000 sqm (c.300 units and 1,200 parking lots in two basement floors)
- Six-storey mall with 80% committed occupancy
- Only shopping mall in the West of Zhuhai

Figure 39: Current construction of Doumen Metro Mall



Source: PSR

Figure 41: Artist's impression of Doumen Metro Mall



Source: PSR

Figure 40: Mall will be located opposite the Doumen City Government building



Source: PSR

Figure 42: A ferris wheel will be constructed at the rooftop



Source: PSR

Guzhen Metro Mall (Phase 1)

Zhongshan City

- GFA: 100,000 sqm (150,000sqm including car park)
- Opened in Dec 2014 (90% occupancy, as of 30 Apr 2018)
- Seven-story mall with a theme park – Galaxy Land – on the ground level and several entertainment facilities including an Arcade and KTV Centre on the upper floors.
- Most popular units: Supermarket RT-Mall (2nd floor) and the Arcade (4th floor).

** A Phase 2 of Guzhen Metro Mall will be built in the near future*

Figure 43: Facade of Guzhen Metro Mall



Source: PSR

Figure 44: Inside Guzhen Metro mall



Source: PSR

Figure 45: Theme park on the ground floor



Source: PSR

Figure 46: The arcade is one of the most popular tenants



Source: PSR

Figure 47: Advertising within the mall, which generates additional revenue for Dasin



Source: PSR

Shiqi II Mall
Zhongshan City

- GFA: 84,911.7 sqm
- Opened in Oct 2017 (97.2% occupancy, as of 30 Apr 2018)
- Five-storey mall with 608 tenants and 1428 car park lots
- Slightly more upscale tenants as opposed to Shiqi I, which caters more to the middle-income class

Figure 48: Facade of Shiqi II Metro Mall at night



Source: PSR

Figure 49: Block B – between Shiqi I (Block A) and Shiqi II (Block C) – will house apartments, offices and a hotel (Dasin Hotel)



Source: PSR

Figure 50: Inside Shiqi II metro mall



Source: PSR

Figure 51: Walking along Shiqi II metro mall



Source: PSR

Figure 52: Long queue for Spicy “Mala” Frog Hotpot



Source: PSR

Figure 53: Private movie rooms that can be rented out, for about 100RMB (~S\$21) a movie for a two-seater room



Source: PSR

Figure 54: Arcade on the upper floor



Source: PSR

Figure 55: A packed RT Mart supermarket yet again, at 9.30pm



Source: PSR

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