

Singapore Company Focus

BHG Retail REIT

Bloomberg: BHGREIT SP | Reuters: BHGR.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

30 Jun 2021

BUY

(Initiating Coverage)

Last Traded Price (29 Jun 2021): S\$0.55 (STI : 3,089.49)

Price Target 12-mth: S\$0.60 (10% upside)

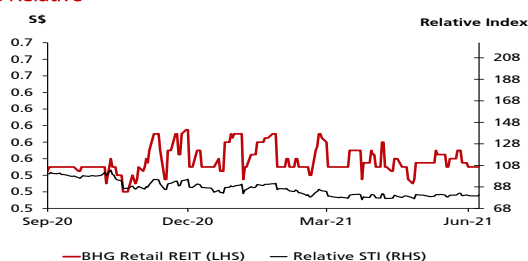
Potential Catalyst: M&A activity, better than expected distributions

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Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2019A	2020A	2021F	2022F
Gross Revenue	79.1	60.6	71.8	76.6
Net Property Inc	50.5	36.4	46.4	49.5
Total Return	(0.9)	15.5	13.6	15.4
Distribution Inc	18.6	12.1	17.1	18.8
EPU (S cts)	(0.2)	3.04	2.63	2.96
EPU Gth (%)	nm	nm	(13)	12
DPU (S cts)	3.86	2.24	3.01	3.26
DPU Gth (%)	(26)	(42)	34	8
NAV per shr (S cts)	116	120	119	119
PE (X)	nm	18.1	20.9	18.6
Distribution Yield (%)	7.0	4.1	5.5	5.9
P/NAV (x)	0.5	0.5	0.5	0.5
Aggregate Leverage (%)	29.1	29.3	28.4	28.3
ROAE (%)	(0.2)	3.6	3.1	3.5

Consensus DPU (S cts):	N/A	N/A	N/A
Other Broker Recs:	B: 0	S: 0	H: 0

GICW Industry: Real Estate

GIC Sector: Equity Real Estate Investment (REITs)

Principal Business: BHG Retail REIT was listed on the SGX on 11 Dec 2015. The REIT's investment strategy revolves around investing real estate primarily used for retail purposes with an initial focus on China.

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Good proxy for China's retail recovery

- DPU to reverse 3-year declining trend with projected 34.4% y-o-y rise in FY21F DPU
- Good potential for long-term high rental supported by strong disposable income growth in China
- ROFR over 12 assets by the established Beijing Hualian Group, the owner of Beijing SKP Mall
- Initiate with BUY and TP of S\$0.60

Bottoming DPU heralds new phase of growth. FY20F DPU marked the bottom in BHG REIT's 3-year declining DPU trend. Going forward, we believe DPU will grow steadily starting with a c.34% y-o-y bounce this year to an estimated 3.01 Scts. The recovery will be led by the end of rental rebates and a recovery from COVID-19 restrictions. FY22F DPU is projected to grow c.8% y-o-y to 3.25 Scts and rise steadily from hereon as there are no more distribution waiver units remaining.

High growth potential with exposure to key cities. BHG REIT has exposure to three properties located in Hefei and Chengdu. Urban disposable income per capita grew by a 5-year CAGR of 8.5% and 7.9% in Hefei and Chengdu, compared to Beijing's 7.2%. Correspondingly, retail spending in Hefei and Chengdu grew faster at a 5-year CAGR of 16.6% and 7.3% versus 5.7% in Beijing. Arguably, BHG REIT's assets in Hefei and Chengdu may potentially enjoy higher rental growth even as its Beijing Wanliu mall provides a stable foundation.

Established Sponsor with pipeline of assets for acquisition. BHG REIT has a right-of-first-refusal (ROFR) over 12 assets. The REIT's pipeline of assets may expand beyond the ROFR, with previous proposed acquisitions outside the ROFR. Using the proposed acquisition of Badaling Outlets as a basis, we estimate that BHG REIT has an acquisition firepower of between c.S\$300m and S\$500m when combined with a rights issue.

Valuation:

Initiate with BUY and DCF-based TP of S\$0.60 based on WACC of 8.0% and terminal growth rate of 2.5%. Our TP implies FY22F target yield of 5.4%.

Key Risks to Our View:

Surge in COVID-19 cases leading to restrictions in Beijing, Chengdu or Hefei and higher-than-expected shift in retail spending to online space.

At A Glance

Issued Capital (m shrs)	512
Mkt. Cap (S\$m/US\$m)	281 / 213
Major Shareholders (%)	

Free Float (%)	
3m Avg. Daily Val (US\$m)	0.00



Live more, Bank less

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Investment Summary

Initiate with BUY and DCF-based TP of S\$0.60. We believe the worst is over for BHG REIT. DPU is expected to reverse its 3-year declining trend in FY21F underpinned by 1) a recovery from COVID-19 as rental rebates taper down and 2) no more distribution waiver units remaining. Additionally, BHG REIT is exposed to cities that could see high rental growth. The REIT is also supported by an established Sponsor with a ROFR over 12 assets and could be set to acquire a new asset in the coming months. Overall, while BHG REIT trades at a premium with a FY22F yield of c.5.8%, we think that investors are paying for higher growth potential and a visible pipeline by buying the REIT.

FY20 marks bottom of declining DPU trend. BHG REIT's DPU has been on a declining trend since FY18 as units that were previously waived from distributions regained their entitlement to distributions. BHG REIT's DPU was hard hit in FY20 due to the double whammy of the COVID-19 outbreak and c.49m units regaining their entitlement to distributions. For FY21F, we are projecting DPU to rise 34.4% y-o-y to c.3.01 Scts. Just c.25m units are expected to regain their entitlement to distributions in FY21F and its impact will be more than offset by BHG REIT's rebound from the COVID-19 pandemic. From FY22F onwards, DPU is expected to rise steadily as there are no more units remaining that are waived from distributions.

Distribution waiver schedule

Distribution Period	Distribution waiver units	% of total units as of listing date
Listing date – 31 Dec 16	147.8m	30.0
1 Jan 17 – 31 Dec 17	135.5m	27.5
1 Jan 18 – 31 Dec 18	123.2m	25.0
1 Jan 19 – 31 Dec 19	73.9m	15.0
1 Jan 20 – 31 Dec 20	24.6m	5.0

Source: Company, DBS Bank

Respectable tenant acquisition ability. As of end-FY19 before the height of the pandemic in China, Beijing Wanliu, Chengdu Konggang, Hefei Mengchenglu and Hefei Changjiangxilu had 35.3%, 30.0%, 30.5% and 34.9% of leases by NLA set to expire in FY20. Taking into account the lease expiries and the impact of the pandemic, we think BHG REIT has managed COVID-19 well, with occupancies of most of its properties declining only a few percentage points in FY20. This suggests that BHG REIT's property attributes remain attractive to tenants.

Occupancies generally remained healthy despite COVID-19

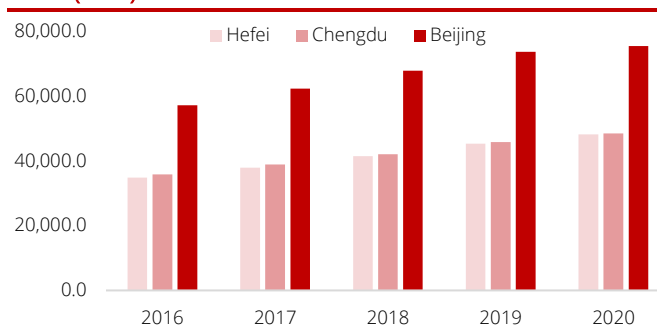
Property	Lease expiry by NLA (%)	FY19 Occupancy (%)	FY20 Occupancy (%)
Beijing Wanliu	35.3	96.2	92.7
Chengdu Konggang	30.0	94.7	96.4
Hefei Mengchenglu	30.5	95.1	81.7*
Hefei Changjiangxilu	34.9	97.6	92.4

*Hefei MCL is currently ongoing tenancy rejuvenation efforts in preparation of a new train line set for trial operations in Dec 2021

Source: Company, DBS Bank

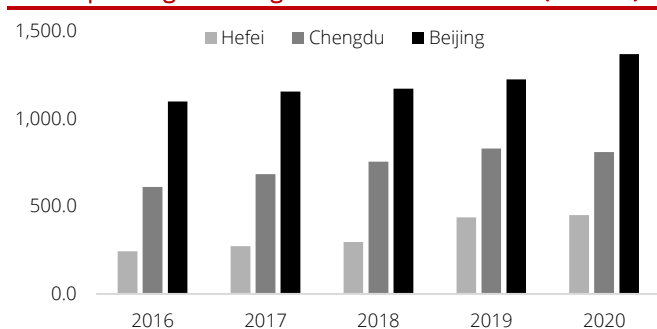
High disposable income growth could pave way for higher rental increases. Urban disposable income per capita at Hefei, Chengdu and Beijing grew at a CAGR of 8.5%, 7.9% and 7.2% respectively from 2016-2020. As expected, retail spending in all three cities kept pace from 2016-2020, growing at a CAGR of 16.6%, 7.3% and 5.7% in Hefei, Chengdu and Beijing respectively. Notably, growth in China's relatively less developed cities, such as Chengdu and Hefei, was faster than in Beijing. Positively, this may signal that BHG REIT's properties situated in Hefei and Chengdu could enjoy higher rental growth compared to their Tier 1 city peers.

Urban disposable income per capita rose the fastest in Hefei (RMB)



Source: Company, DBS Bank

Retail spending in Hefei grew at a CAGR of 16.6% (RMB bn)



Source: Company, DBS Bank

Reputable anchor tenant to drive footfall. BHG Hypermarket is a key tenant in BHG REIT's mall portfolio and contributed 19.1% of the REIT's gross rental income in FY20. BHG Hypermarket is a supermarket that has consistently ranked among China's top 100 retail chain stores, according to China Chain Stores & Franchise Association. The chain was ranked 43rd in 2020, a rise from the its rank of 53rd in 2019. Anchor tenants in essential trade sectors such as supermarkets will help underpin sustained footfall to BHG REIT's properties.

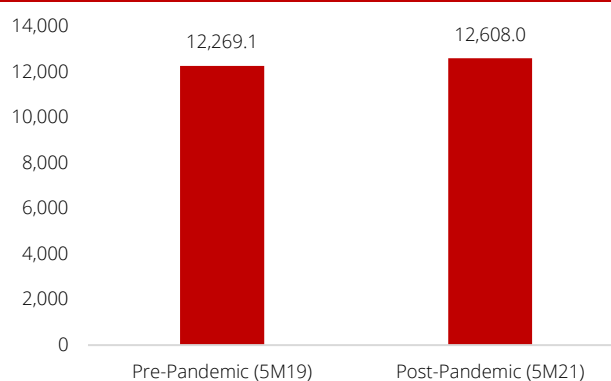
Established Sponsor with wealth of experience in mall management and pipeline of malls mostly located in Beijing. BHG REIT's Sponsor, Beijing Hualian Group ("BHG"), is an established retailer managing more than 30 malls in over 10 different Chinese cities. The Group has opened 24 malls with a total gross floor area of over 1.6m sqm. In Beijing, BHG has 14 malls including its crown jewel, Beijing SKP. Beijing SKP is a high-end department store that is arguably China's top luxury mall. In 2020, despite COVID-19, the mall was expected to generate double-digit growth revenue.

Time may be ripe for next acquisition. Since its listing, BHG REIT has acquired Hefei Changjiangxilu and proposed the acquisition of Badaling Outlets. The proposed acquisition of Badaling Outlets was ultimately shelved as the COVID-19 pandemic ensued. We note that the acquisitions of Hefei Changjiangxilu and Badaling Outlets were proposed in November 2018 and December 2019 respectively. Given the stabilising pandemic and retail mall situation in China, we believe that a possible acquisition may be on the horizon in 2H21. This would be in line with the timeframe of its two previous proposed acquisitions. BHG REIT's next acquisition could also stem from Beijing, considering the Sponsor's larger presence in the city.

China's non-online retail sales have rebounded back to pre-pandemic levels. Following the outbreak of COVID-19 in China in the first few months of 2020, full lockdowns were implemented in China to control its spread. In turn non-online retail sales plunged c.17.9% y-o-y in 1H20.

Subsequently, in 2H20, retail sales in China improved as the pandemic came under control and COVID-19 restrictions were lifted. Unsurprisingly, non-online retail sales recovered, bouncing c.27.9% y-o-y in 5M21 due to last year's low base. 5M21 non-online retail sales also totalled RMB12.6tr, 2.8% higher than pre-pandemic levels (5M19). Indeed, non-online retail sales may be benefitting from a combination of pent-up spending and a lack of international travel.

Post-COVID non-online retail sales have risen above pre-COVID levels (RMB bn)

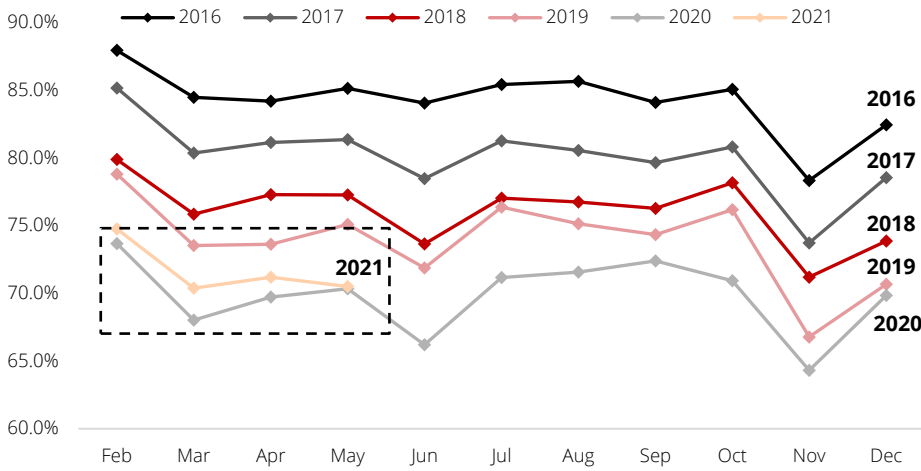


Source: NBS, DBS Bank

Growth in online retail sales has slowed; share of non-online sales has risen. While online retail sales continue to grow at a double-digit pace, growth appears to be on a downward trend, at only 11.8% y-o-y in May 2021 compared to the 15.6% and 18.9% recorded in May 2020 and May 2019. This was also slower when compared to the 25.8% and 38.8% growth seen in May 2018 and May 2017. To reinforce this notion, 5M21 non-online retail sales share was higher than in 5M20, the first time it has increased since at least 2016. Optimistically, non-online retail sales may finally be catching a respite after years of losing share to online competition.

China's online retail sales share has whittled down non-online retail sales share

China non-online retail sales share

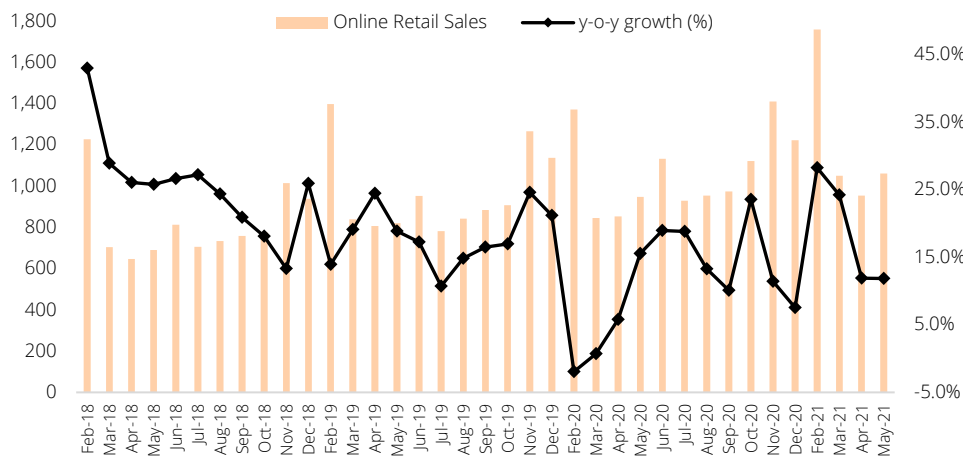


Comments

Share of China's non-online retail sales have shown a gradual but clear trend of decline in the past years. However, 5M21 non-online retail sales share was higher than in 5M20, hinting that non-online retail sales share may have bottomed.

Source: NBS, DBS Bank

China online monthly retail sales value and growth (RMB bn)



Comments

Online retail sales continued to grow at a double-digit rate but is observed to be on a downward trend, growing only 11.8% y-o-y in May 2021 compared to the 15.6% and 18.9% recorded in May 2020 and May 2019.

Source: NBS, DBS Bank

Valuation

Initiate with BUY and DCF-based TP of S\$0.60. BHG REIT's strong and stable cash flow generation ability supports discounting cash flows as a valuation methodology.

Our DCF model assumes China-based risk-free rate of 3.2% and market return of 12.4% giving us a market risk premium of 9.2%. We further assume a beta of 0.8, target gearing of 40.0% and after-tax cost of debt of 4.1% which gives a WACC of 8.0%. Using a terminal growth rate of 2.5%, we derive an equity value of S\$322.5m for BHG REIT, which represents a TP of S\$0.60 and implies FY22F target yield of 5.4%.

Sensitivity analysis of DCF vs WACC and Terminal Growth

		Terminal Growth Rate				
		2.00%	2.25%	2.50%	2.75%	3.00%
WACC	7.5%	\$0.65	\$0.69	\$0.74	\$0.79	\$0.85
	7.8%	\$0.59	\$0.63	\$0.67	\$0.72	\$0.77
	8.0%	\$0.53	\$0.56	\$0.60	\$0.65	\$0.69
	8.3%	\$0.48	\$0.51	\$0.54	\$0.58	\$0.62
	8.5%	\$0.43	\$0.46	\$0.49	\$0.52	\$0.56

Discounted Cash Flow Model

FY (\$m)	21F	22F	23F	Terminal Value
EBIT	42.3	45.8	48.7	
Add: Non-Cash Adjustment	3.5	3.4	2.9	
Less: Tax Provision	(6.5)	(7.2)	(8.6)	
Less: Capex	(5.6)	(5.6)	(5.6)	
Add: Changes in Working Capital	(0.5)	1.6	1.7	
Total FCF to the Firm	33.2	38.1	39.4	932.4
Discounted FCF	32.0	34.0	32.5	449.1

Risk-free Rate (Rf)	3.2%
Equity Risk Premium	12.4%
Beta	0.80
Cost of Equity	9.2%
Proportion of Debt Financing	40.0%
After-tax Cost of Debt	4.1%
WACC	8.0%

Terminal Growth	2.5%
PV of FCF	289.9
PV of Terminal Value	449.1
Net Cash (Debt)	(243.4)
Minority Interest	(173.2)
Equity Value (\$m)	322.5
No. of Shares (average over period)	533.1

DCF-based TP (\$\$) 0.60

**based on 10-year DCF model, cash flows beyond FY23F are not shown*

Source: DBS Bank

Key Risks

Tenant risks. BHG REIT is fairly reliant on its Sponsor for revenue. BHG Hypermarket is the largest tenant of Beijing Wanliu, Chengdu Konggang, Hefei Mengchenglu and Hefei Changjiangxilu with Xining Huayuan and Dalian Jinsanjiao master-leased to the related companies of the Sponsor. Notably, BHG Hypermarket and BHG Cinemas together contributed c.23.5% of BHG REIT's gross rental income (GRI) in December 2020. A default by the Sponsor and its related companies could have a significant impact on BHG REIT. On the flipside, the leases with BHG Hypermarket are long-term in nature (expiring from 2030 onwards) and offers visibility in uncertain times. Recent developments such as the resizing of BHG Hypermarket's space at Wanliu mall will also reduce BHG REIT's reliance on its Sponsor going forward.

Excluding the Sponsor-related tenants, BHG REIT's tenant base is diversified with no single tenant contributing more than 3% of FY20 GRI. The top 6 tenants (excluding the Sponsor) also contributed only c.5.4% of its December 2020 GRI.

BHG REIT has a diversified tenant base – Dec 20 top 7 tenants

Tenant	Presence in no. of Malls	% of GRI
BHG Hypermarket	6	19.1
BHG Cinemas	4	4.4
Bestseller A/S	3	2.6
宝盛道吉	1	0.8
La Chapelle	1	0.8
乐够	1	0.7
TOPFEELING	1	0.7

Source: Company, DBS Bank

Interest rate risk. As at FY20, BHG REIT had entered into interest rate swaps with total notional amount of S\$144.3m, representing c.50% of total borrowings. We note that BHG REIT has a mixture of SGD- and USD-denominated borrowings and RMB-denominated borrowings in a 80/20 proportion which could be pegged to different rates such as Singapore's Swap Offer Rate. Accordingly, a 100-basis point rise/fall in interest rates would lead to a S\$2.9m loss/gain in total return in variable rate instruments offset by S\$1.4m/(1.1m) gain/loss from interest rate swaps.

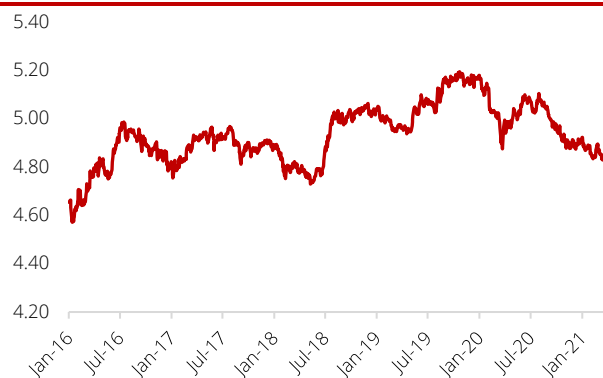
Effect of a 100-bp change in interest rates as of FY20

	Total Return (+/-100bp) (S\$m)	Unitholders' funds (+/- 100bp) (S\$m)
Variable Rate	(2.9)/2.9	0/0
Interest Rate Swaps	1.4/(1.1)	0.64/(0.16)
Cash flow sensitivity (net)	(1.6)/1.8	0.64/(0.16)

Source: Company, DBS Bank

Fluctuating Renminbi. BHG REIT's portfolio of malls are wholly based in China which exposes the REIT to fluctuations in the Chinese Renminbi. Indeed, since 2016, the RMB has depreciated as much as c.12% against the Singapore Dollar before recently appreciating again as China adopted a strengthening stance. The fluctuations could largely be attributed to the US-China trade uncertainty. With US-China tensions not expected to cool soon, the currency may continue to see fluctuations.

RMB has appreciated sharply against SGD recently (SGDRMB)



Source: Bloomberg Finance L.P., DBS Bank

Resurgence of COVID-19. Vaccination progress in China has been relatively slow although COVID-19 appears to have largely been under control. That said, a resurgence in cases could prompt the government to implement localised shutdowns targeting affected cities or provinces. Indeed, pandemic restrictions were imposed in Guangzhou after it saw a rise in COVID-19 cases in June 2021. A resurgence of COVID-19 in Beijing, Hefei and Chengdu may hence affect BHG REIT's malls in a similar manner.

SWOT Analysis

Strengths

- Strong and experienced Sponsor (Beijing Hualian Group) is owner of Beijing's top luxury mall, Beijing SKP and 23 other malls
- Well-situated assets in key Tier 1 and Tier 2 cities such as Beijing and Chengdu
- Master-leased Xining Huayuan and Dalian Jinsanjiao assets provide earnings visibility and certainty

Opportunities

- Right-of-first refusal over at least 12 quality malls owned by the Sponsor provides pipeline for growth
- Asset enhancements and resizing of tenants may provide opportunities to increase net effective rents
- High disposable income growth in Chinese cities could in turn spur high rental growth
- As the pandemic situation stabilises in China, BHG may look to acquire after previously shelving the acquisition of Badaling Outlets

Weakness

- Financial and share price performance may be dependent on interest rates which are beyond the REIT's control
- Fairly reliant on related parties (such as BHG Hypermarket and BHG Cinema) with over c.20% of gross rental income derived from them as of December 2020

Threats

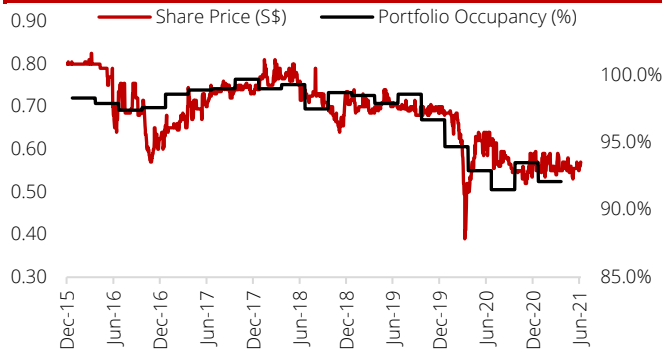
- Rise in interest rates could reduce yield spread and increase borrowing costs
- E-commerce continues to pose a threat even as online retail sales slow
- Potential resurgence of COVID-19 may lead to near-term lockdowns as seen recently in Guangzhou

Source: DBS Bank

Critical Factors

Portfolio occupancy. A key critical factor of most REITs is the portfolio occupancy rate as it directly impacts the REIT's distributable income. Like its peers, BHG REIT has been hit by the pandemic with portfolio committed occupancy rate declining to 92.1% as of end-1Q21.

BHG REIT's occupancy vs share price

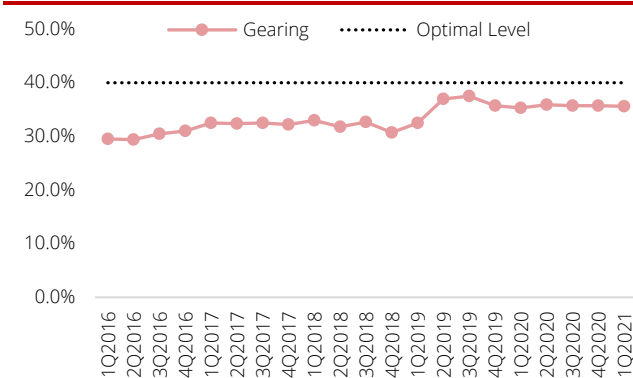


Source: Company, DBS Bank

In the near term, BHG REIT's occupancy rates may recover as the Chinese economy picks up although lease expiries totalling 47.8% of leases (by gross rental income) are set to come off in FY21.

Asset acquisitions and divestments. Accretive acquisitions that boost DPU could have a positive effect on share price. Notably, we observed that BHG REIT's share price rose over 10% in November 2018 after the REIT proposed the acquisition of Hefei Changjiangxilu Mall. BHG REIT's gearing stood at 35.6% as at 1Q21 which in our view is a comfortable level for further acquisitions. Currently, BHG REIT enjoys ROFR over a pipeline of 12 malls owned by the Sponsor that could be a catalyst for share price if acquired.

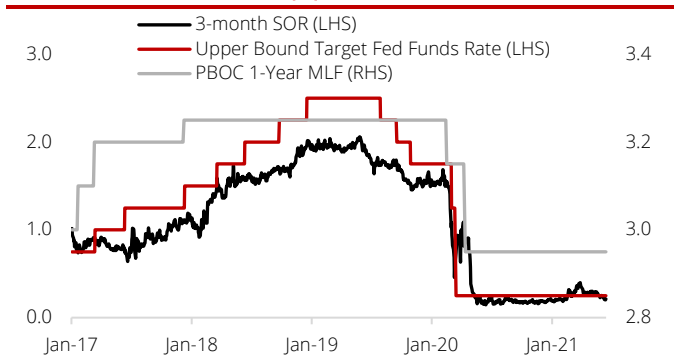
Gearing could be an early indicator of upcoming acquisition



Source: Company, DBS Bank

Interest rates. The economic impact of COVID-19 has led to accommodative interest rates. A low interest rate environment provides support for BHG REIT in two ways. First, lower interest rates lead to cheaper financing costs which could boost BHG REIT's capacity to acquire properties. Secondly, higher yielding securities such as BHG REIT could see more demand as bond yields remain low. We observe that US 10-year yields have recovered significantly and now stand at c.1.6% which is near pre-COVID levels of c.1.9%.

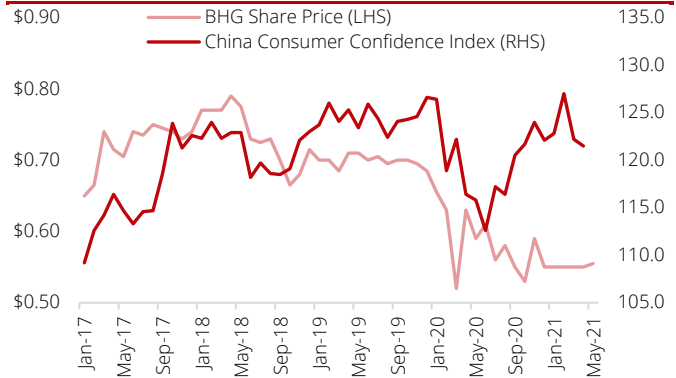
Benchmark interest rates (%)



Source: Bloomberg Finance L.P., DBS Bank

Chinese consumer confidence. The China consumer confidence index could serve as an indicator of Chinese consumers' willingness to spend. We think there could be some relationship between China's consumer confidence and BHG REIT's share price. Notably, consumer confidence can be affected by a wide range of issues such as US-China trade developments and COVID-19. For example, in June 2018 when the US and China each imposed tariffs on US\$50bn worth of goods, China consumer confidence saw a sharp dip to 118.2.

China consumer confidence vs BHG REIT share price

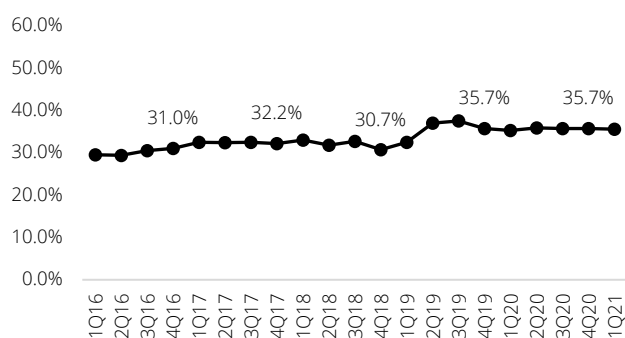


Source: Bloomberg Finance L.P., DBS Bank

Financials

BHG REIT's gearing has inched up over the years. From 1Q16, BHG REIT's gearing has risen from 29.5% to 35.6% in 1Q21. Notably, we observed a spike in gearing in 2Q19 to 37.0% on the back of the acquisition of Hefei Changjiangxilu. Since then, gearing has declined and remained stable at c.35% over the past few quarters.

Level of gearing remains ample for acquisitions



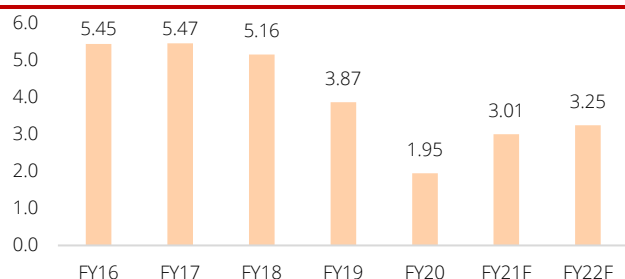
Source: Company, DBS Bank

Going forward, using the proposed acquisition of Badaling Outlets as a base, we estimate that BHG REIT has an acquisition firepower of between c.\$300m and S\$500m when combined with a rights issue.

DPU has bottomed in FY20, to grow steadily from FY21F.

BHG REIT's DPU had declined from FY18 as units that were previously waived from distributions regained their entitlement to distributions. In FY20, c.49m units representing about 10% of total units issued regained their entitlement to distributions. This, together with the impact of COVID-19, pushed DPU to decrease to 1.95 Scts (FY19: 3.87 Scts). For FY21F, we are projecting DPU to rise 34.4% y-o-y to c.3.01 Scts even though c.25m units are expected to regain their entitlement to distributions. We expect the impact to largely be overcome by BHG REIT's rebound from COVID-19. From FY22F, DPU is projected to rise steadily as there are no more distribution waiver units remaining.

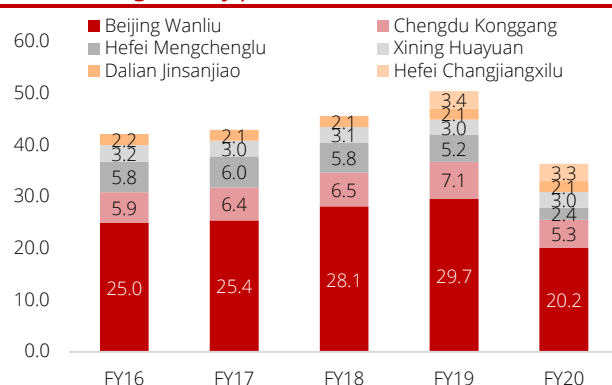
BHG REIT's DPU has bottomed in FY20



Source: Company, DBS Bank

Net property income (NPI) was on a growth track prior to COVID-19. BHG REIT's NPI grew by a CAGR of 6.2% from FY16 to FY19 before the pandemic struck, led by growth of Beijing Wanliu, Chengdu Konggang and the acquisition of Hefei Changjiangxilu. We note that the RMB was on a depreciation trend from FY16-FY19, signalling strong growth in NPI in RMB. However, FY20 NPI fell 27.9% y-o-y to S\$36.4m as the pandemic took its toll. Going forward, we are projecting FY21F NPI to leap 27.5% y-o-y to S\$46.4m as the economy recovers from the pandemic and rental assistance is tapered down.

NPI was rising steadily prior to COVID-19 (S\$m)



Source: Company, DBS Bank

Management fees to rise on better DPU performance. We have projected for BHG REIT's management fees to rise to S\$2.7m in FY21F (FY20: S\$1.1m, FY19: S\$1.9m) on the back of an increase in the performance fee. Specifically, the manager shall receive 25% of the increase in DPU as fees. As such, BHG REIT is forecasted to begin paying a performance fee from FY21F, in line with our projections for DPU to increase steadily.

Summary of BHG REIT's fees

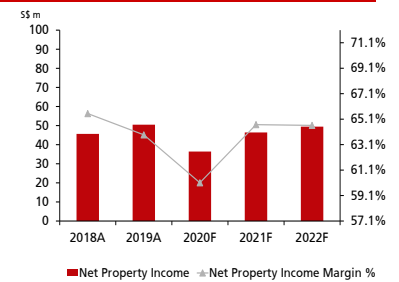
Fees	Comments
Base fee	10.0% of the annual distributable income per annum, payable on a quarterly basis
Performance fee	25.0% per annum of the difference in DPU of a financial year with the DPU in the preceding financial year. Payable only if DPU has increased over the preceding year.
Property management fee	2.0% per annum of the gross revenue and 2.5% per annum of the NPI

Source: Company, DBS Bank

Income Statement (S\$m)

FY Dec	2017A	2018A	2019A	2020A	2021F	2022F
Gross revenue	64.5	69.7	79.1	60.6	71.8	76.6
Property expenses	(21.6)	(24.0)	(28.6)	(24.2)	(25.4)	(27.1)
Net Property Income	42.9	45.7	50.5	36.4	46.4	49.5
Other Opg expenses	(3.4)	(3.1)	(3.8)	(0.7)	(4.1)	(3.6)
Other Non Opg (Exp)/Inc	0.51	0.31	0.48	0.39	0.43	0.43
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(8.2)	(9.1)	(14.4)	(14.8)	(14.5)	(14.9)
Exceptional Gain/(Loss)	0.0	0.07	1.76	1.05	0.0	0.0
Net Income	31.9	33.9	34.5	22.3	28.3	31.4
Tax	(8.7)	(13.9)	(20.8)	(2.0)	(6.5)	(7.2)
Minority Interest	(10.5)	(14.5)	(14.6)	(4.8)	(8.2)	(8.8)
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	12.6	5.49	(0.9)	15.5	13.6	15.4
Total Return	12.6	5.49	(0.9)	15.5	13.6	15.4
Non-tax deductible Items	(0.9)	(11.5)	(29.4)	11.6	3.52	3.41
Net Inc available for Dist.	20.0	19.7	18.6	12.1	17.1	18.8
Growth & Ratio						
Revenue Gth (%)	(2.6)	8.0	13.5	(23.4)	18.5	6.7
N Property Inc Gth (%)	1.8	6.3	10.6	(27.9)	27.5	6.6
Net Inc Gth (%)	nm	(56.6)	nm	nm	(12.6)	13.2
Dist. Payout Ratio (%)	100.0	100.0	90.0	90.0	90.0	90.0
Net Prop Inc Margins (%)	66.6	65.5	63.8	60.1	64.7	64.6
Net Income Margins (%)	19.6	7.9	(1.1)	25.6	18.9	20.1
Dist to revenue (%)	31.0	28.3	23.5	20.0	23.8	24.5
Managers & Trustee's fees to sales (%)	5.2	4.4	4.8	1.1	5.7	4.7
ROAE (%)	3.0	1.3	(0.2)	3.6	3.1	3.5
ROA (%)	1.4	0.6	(0.1)	1.6	1.4	1.6
ROCE (%)	3.4	3.0	2.1	3.5	3.4	3.7
Int. Cover (x)	4.8	4.7	3.2	2.4	2.9	3.1

Net Property Income and Margins



Bounce led by end of rental rebates and COVID-19 recovery

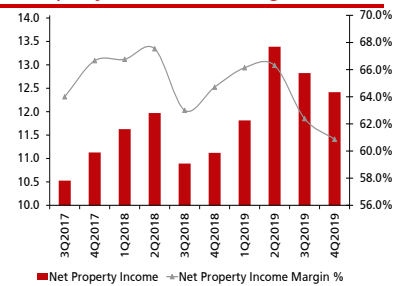
Source: Company, DBS Bank

Interim Income Statement (S\$m)

FY Dec	1H2018	2H2018	1H2019	2H2019	1H2020	2H2020
Gross revenue	35.2	34.5	38.1	41.0	27.8	32.8
Property expenses	11.6	(12.5)	(12.9)	(15.7)	(11.3)	(12.9)
Net Property Income	23.6	22.0	25.2	25.3	16.5	19.9
Other Operating	(1.5)	(1.6)	(1.5)	(2.3)	(1.1)	0.45
Other Non Opg (Exp)/Inc	0.02	0.29	0.04	0.45	0.10	0.29
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(4.9)	(4.5)	(6.8)	(7.6)	(7.1)	(7.7)
Exceptional Gain/(Loss)	0.1	25.6	32.6	18.0	(2.1)	(11.9)
Net Income	17.8	41.8	49.6	33.8	6.24	1.02
Tax	(3.9)	(10.0)	(12.4)	(8.4)	(2.5)	0.47
Minority Interest	(4.3)	(10.2)	(4.6)	(10.0)	(2.9)	(1.9)
Net Income after Tax	9.6	21.5	3.37	15.5	0.90	(0.4)
Total Return	9.6	(4.1)	0.12	(1.0)	0.90	14.6
Non-tax deductible Items	0.79	(12.2)	(22.5)	(6.9)	3.90	7.71
Net Inc available for Dist.	10.4	9.30	10.0	8.59	4.80	7.31
Growth & Ratio						
Revenue Gth (%)	12	(2)	10	8	(32)	18
N Property Inc Gth (%)	11	(7)	14	0	(35)	20
Net Inc Gth (%)	12	124	51	(52)	(94)	(145)
Net Prop Inc Margin (%)	67.2	63.9	66.2	61.6	59.4	60.6

Source: Company, DBS Bank

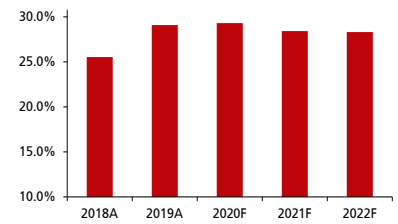
Net Property Income and Margins



Balance Sheet (\$m)

FY Dec	2017A	2018A	2019A	2020A	2021F	2022F
Investment Properties	811	808	909	943	949	954
Other LT Assets	0.84	0.69	0.70	0.75	0.75	0.75
Cash & ST Invts	72.1	55.6	47.0	48.3	32.4	30.4
Inventory	0.0	0.0	0.0	0.0	0.0	0.0
Debtors	4.16	5.29	1.03	2.95	3.49	3.73
Other Current Assets	0.0	0.0	0.0	0.0	0.0	0.0
Total Assets	888	870	958	995	985	989
ST Debt	26.0	222	3.16	9.32	232	15.0
Creditor	19.4	17.7	24.9	26.1	27.3	29.2
Other Current Liab	13.6	14.7	14.5	14.2	12.9	12.9
LT Debt	216	0.0	275	282	47.6	265
Other LT Liabilities	30.7	36.3	51.6	50.8	50.8	50.8
Unitholders' funds	416	410	423	439	441	443
Minority Interests	167	169	166	173	173	173
Total Funds & Liabilities	888	870	958	995	985	989
Non-Cash Wkg. Capital	(28.8)	(27.1)	(38.4)	(37.3)	(36.8)	(38.4)
Net Cash/(Debt)	(169)	(167)	(232)	(243)	(248)	(250)
Ratio						
Current Ratio (x)	1.3	0.2	1.1	1.0	0.1	0.6
Quick Ratio (x)	1.3	0.2	1.1	1.0	0.1	0.6
Aggregate Leverage (%)	27.2	25.5	29.1	29.3	28.4	28.3

Aggregate Leverage



Refinancing of borrowings

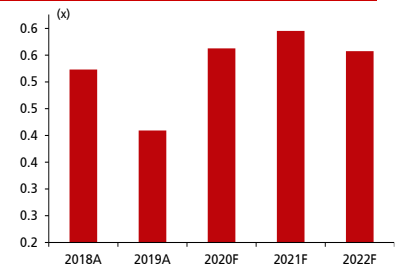
Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019A	2020A	2021F	2022F
Pre-Tax Income	40.2	59.5	83.4	7.26	28.3	31.4
Dep. & Amort.	1.14	1.13	1.11	1.11	1.11	1.11
Tax Paid	(5.6)	(7.4)	(9.5)	(5.8)	(6.5)	(7.2)
Associates & JV	0.0	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(2.6)	(0.4)	2.92	(9.6)	(0.5)	1.64
Other Operating CF	10.9	(14.0)	(33.3)	28.5	3.52	3.41
Net Operating CF	44.0	39.0	44.6	21.5	25.8	30.3
Net Invnt in Properties	(3.3)	(1.2)	(74.0)	(5.4)	(5.6)	(5.6)
Other Invnts (net)	0.0	0.0	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.72	0.65	0.42	0.16	0.0	0.0
Net Investing CF	(2.6)	(0.6)	(73.6)	(5.2)	(5.6)	(5.6)
Distribution Paid	(19.0)	(20.4)	(18.3)	(12.1)	(15.4)	(16.9)
Chg in Gross Debt	11.7	(17.2)	55.8	9.26	(11.6)	0.0
New units issued	0.0	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(27.6)	0.22	(3.6)	(14.5)	(8.2)	(8.8)
Net Financing CF	(34.9)	(37.4)	34.0	(17.3)	(35.2)	(25.7)
Currency Adjustments	(0.6)	(2.2)	(1.1)	2.09	0.0	0.0
Chg in Cash	5.98	(1.2)	3.91	1.12	(14.9)	(0.9)

Source: Company, DBS Bank

Distribution Paid / Net Operating CF

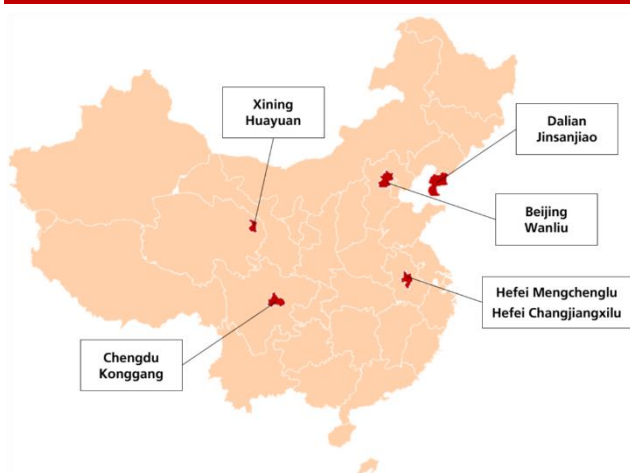


Company Background

Corporate History. Listed in December 2015, BHG Retail REIT (“BHG REIT”) is a China-focused REIT that primarily invests in real estate assets used for retail purposes. BHG REIT counts six assets in its portfolio as of FY20, located in Beijing, Chengdu, Hefei, Xining and Dalian. BHG REIT is sponsored by Beijing Hualian Group (“the Sponsor”), a retail specialist in China that owns 24 retail properties and manages over 30 shopping malls.

Within BHG REIT’s portfolio, Xining Huayuan and Dalian Jinsanjiao are on long-term master leases with a built-in escalation of 1.0% per annum. The two malls are leased to BHG Hypermarket, a related party of the Sponsor. BHG REIT’s malls are fairly mature. Chengdu Konggang is the REIT’s youngest mall, commencing operations in December 2013. On the other hand, the REIT’s master-leased properties of Xining Huayuan and Dalian Jinsanjiao are older, with both commencing operations in 2000.

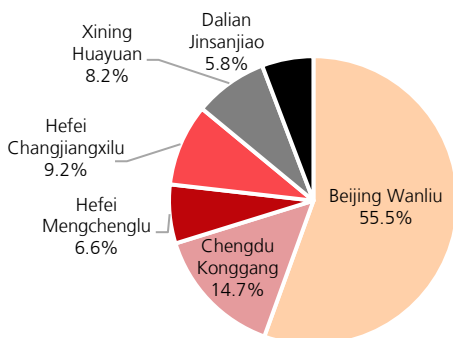
BHG REIT’s malls are situated across China



Source: Company, DBS Bank

As at end-FY20, Beijing Wanliu Mall was the top contributor to BHG REIT with a share of 55.5% of NPI. Chengdu Konggang Mall was a distant second, contributing 14.7% to NPI. That said, accounting for Beijing Wanliu’s minority interest of 40%, share of NPI of the mall would decrease to an estimated c.42.8% versus Chengdu Konggang’s c.18.9%.

Beijing Wanliu Mall dominates NPI share (FY20)

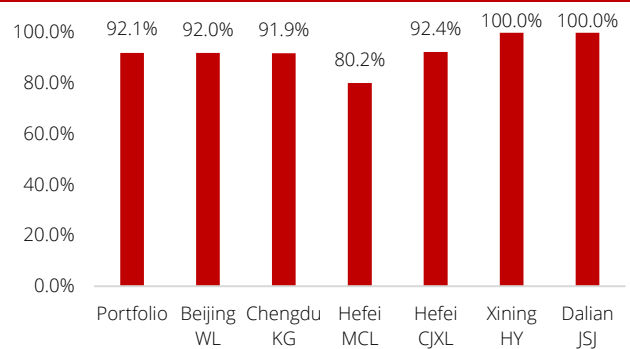


Source: Company, DBS Bank

BHG REIT has made one acquisition since its listing, acquiring Hefei Changjiangxilu in April 2019. The REIT was also set to complete its acquisition of Badaling Outlets this year but called off the deal following the COVID-19 outbreak. Positively, an increased appetite for acquisitions appears to have taken hold of BHG REIT given the short timespan between the acquisition of Hefei Changjiangxilu in April 2019 and proposed acquisition of Badaling Outlets in December 2019.

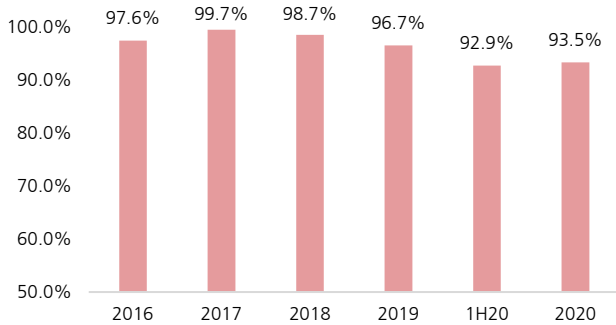
Committed portfolio occupancy of 92.1%. As of 1Q21, BHG REIT’s committed portfolio occupancy stood at 92.1%, a 4.6-ppt fall from the 96.7% as at 4Q19. In general, BHG REIT’s larger and more established properties were more resilient to the impact of COVID-19. Specifically, Beijing Wanliu recorded a 3.5-ppt drop in committed occupancy in 2020 compared to Hefei Changjiangxilu’s 13.4-ppt decline. In addition, portfolio occupancy is supported by the master-leased properties of Xining Huayuan and Dalian Jinsanjiao.

BHG REIT’s portfolio occupancy snapshot (as of 1Q21)



Source: Company, DBS Bank

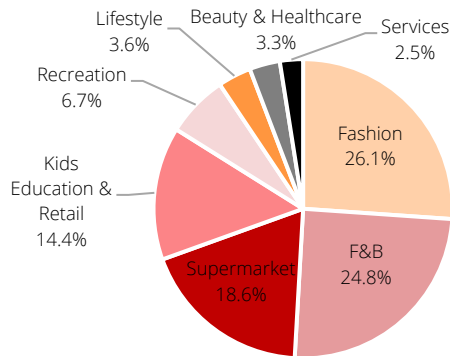
BHG REIT's committed portfolio occupancy trend



Source: Company, DBS Bank

Sizeable defensive tenant mix. BHG REIT has a relatively diversified tenant mix by gross rental income (GRI). While it has a significant exposure to the fashion trade sector (26.1%), this is an improvement from the 38.2% exposure in FY19. In addition, BHG REIT has sizeable exposures to the defensive food and beverage (24.8%) and supermarket (18.6%) sectors that make up c.43% of portfolio GRI. The larger presence of these two sectors could also help generate footfall in BHG REIT's malls.

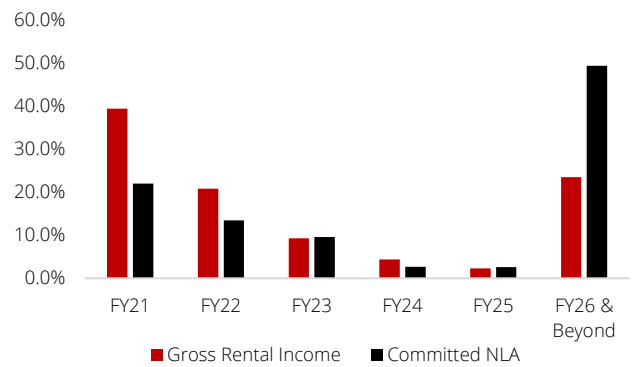
Tenant mix by gross rental income (as of 1Q21)



Source: Company, DBS Bank

Lease expiry profile in line with peers. BHG REIT's portfolio WALE was at 3.8 years by GRI (6.8 years by NLA) as of 1Q21. Portfolio WALE is supported by long leases for Xining Huayuan and Dalian Jinsanjiao which are on master leases set to expire only around 2035. On a whole, BHG REIT's portfolio WALE is in the upper band compared to its peers (Dasin: 3.6 years, Sasseur: 2.6 years, CRCT: 2.3 years), although a notable 39.5% of leases by GRI appears to be due to expire in the remaining of FY21. A long WALE given the current uncertainty reduces the risk that BHG REIT will be confronted with high vacancies in the short term.

Lease expiry profile as of 1Q21 (years)



Source: Company, DBS Bank

Strong Sponsor. BHG REIT's Sponsor, Beijing Hualian Group, is a retail specialist in China that owns 24 retail properties and manages over 30 shopping malls in China (as of end-FY19). The Sponsor opened SKP Mall, Beijing in 2007 which has transformed into one of China's most successful luxury malls. BHG REIT also enjoys right of first refusal (ROFR) over 12 malls totalling c.910,000 sqm of GFA owned by the Sponsor. In 2019, Hefei Changjiangxilu (a mall which BHG REIT enjoys ROFR over) was acquired by BHG REIT.

BHG Retail REIT's Portfolio

Property	NLA (sqm)	Property Valuation (RMBm)*	2020/2019 NPI (S\$m)	Occupancy (%)	WALE by NLA (years)	Land Lease Expiry
Multi-Tenanted						
Beijing Wanliu	52,732	2,502.0	20.2/29.7	92.0%	4.1	Aug-2044
Chengdu Konggang	39,646	661.0	5.3/7.1	91.9%	3.9	May-2047
Hefei Mengchenglu	23,653	582.0	2.4/5.2	80.2%***	4.9	Aug-2044
Hefei Changjiangxilu	27,361	475.0	3.3/3.4**	92.4%	4.9	Apr-2043
Master-Leased						
Xining Huayuan	15,345	274.0	3.0/3.0	100.0%	13.8	Aug-2048
Dalian Jinsanjiao	20,807	165.0	2.1/2.1	100.0%	13.8	Feb-2042

*as at 31 Mar 2021

**2019 NPI is only from April 2019 onwards as acquisition was only completed on 2 April 2019

*** Hefei Mengchenglu is undergoing tenancy rejuvenation in preparation of a new train station in the area that will begin trial operations in Dec 2021

Source: Company, DBS Bank

Management

Board Composition. BHG REIT's board consists of five people with two non-independent directors. Mr Xiong Zhen and Mr Peng Ge are non-executive directors with links to the Beijing Hualian Group (the Sponsor).

Corporate governance. BHG REIT has received awards for good governance, clinching the Platinum and Gold awards

for 'Best Corporate Communications and Investor Relations' and 'Best Governed and Transparent Company' respectively in the Global Good Governance Awards 2020. However, BHG REIT was ranked only 29th among 45 REITs and real estate business trusts for governance in NUS Business School's 2020 Singapore Governance and Transparency Index.

Key Management Team

Name & Position	Experience
Ms Chan Iz-Lynn <i>Chief Executive Officer</i>	<p>Ms Chan Iz-Lynn is the Chief Executive Officer of the Manager of BHG Retail REIT. Her responsibilities involve the delivering of business plans and the steering of BHG Retail REIT's strategic direction.</p> <p>Ms Chan has over a decade of experience in real estate spanning across retail business and hospitality operations. Ms Chan was head of mall management operations at Beijing Hualian Department Store Co prior to BHG Retail REIT's listing. She was also Assistant Director of the Retail Business Group at Far East Organization and concurrently the Head of Service Quality.</p> <p>Ms Chan graduated with a Bachelor of Arts from the University of Leicester and holds a certificate from Harvard Business School's General Management Programme.</p>
Mr Victor Ten <i>Chief Financial Officer</i>	<p>As Chief Financial Officer of BHG Retail REIT, Mr Victor Ten is responsible over the REIT's functions of financial accounting & reporting, financing, internal controls, treasury and tax.</p> <p>Mr Ten has accrued over 25 years of experience in finance during his stints at Hyflux, GAMUDA, YCH and Pacific Healthcare. He was Financial Controller of Hyflux Ltd for the Middle East and North African region prior to joining BHG Retail REIT.</p> <p>Mr Ten holds a Bachelor of Arts in Accountancy from the University of Bolton and is a fellow member of the Institute of Public Accountants, Australia and the Institute of Financial Accountants, United Kingdom.</p>
Mr Eric Liu <i>Investment and Asset Management Manager</i>	<p>Mr Liu is the Investment and Asset Management Manager of BHG Retail REIT and is primarily responsible for creating value at BHG Retail REIT through acquisitions, asset recycling, asset enhancement and active asset management.</p> <p>Mr Liu has worked in the investments and financial services space for more than 10 years. Before joining BHG Retail REIT, he was Asset Manager at Straits Real Estate Pte Ltd and was also the Investment and Asset Manager of Bright Ruby Resources Pte Ltd. Mr Liu began his career at Nexus Link Pte Ltd as an independent market researcher.</p> <p>Mr Liu obtained a Bachelor of Science in Finance and Accounting from the University of Bradford.</p>

Source: Company, DBS Bank

^ Bloomberg ESG Disclosure Scores rate companies annually based on their disclosure of quantitative and policy-related ESG data. It is based on a scoring scale of 0-100, and calculated using a subset of more than 100 raw data points it collects on ESG. It is designed to measure the robustness of companies' disclosure of ESG information in their reporting/the public domain. Based on Bloomberg disclosures, as of 25 Jan 2019, the global ESG disclosure average score is 24.92 and 22.14, 28.26, 49.97 for Environmental, Social and Governance, respectively.

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STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return i.e. > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 30 Jun 2021 17:57:46 (SGT)

Dissemination Date: 30 Jun 2021 17:59:04 (SGT)

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