REAL ESTATE EQUITY RESEARCH

Dasin Retail Trust

SGX: CEDU
Bloomberg: DASIN:SP
ISIN code: SG1DE2000000

12 December 2022

RECOMMENDATION: NEUTRAL

Current Share Price S$0.280
Current Target price: S$0.385

Market capitalisation: S$225.25 million
Issued Stapled Securities: 804.47 million

52-week range: S$0.2000 - S$0.3850

PRICE PERFORMANCE

COMPANY DESCRIPTION

Dasin Retail Trust and its subsidiaries (collectively defined herein as DRT) is a China retail property trust listed on SGX providing direct exposure to Guangdong Hong Kong Macau Greater Bay Area (Greater Bay Area). It has a portfolio of seven retail malls in Zhongshan, Zhuhai and Foshan cities in Guangdong with an aggregate gross floor area (GFA) and net lettable area (NLA) of approximately 794,017 sq m and 385,867 sq m respectively.

SUMMARY

For nine months ended 30 September 2022 (9M2022), DRT recorded revenue of S$70.7 million, a 7.8% yoy decrease from S$76.7 million over the same period a year ago. Property operating expenses also fell in line with lower revenue recorded for the period. Accordingly, net property income (NPI) decreased by 8.3% yoy to S$55.2 million in 9M2022 from S$60.3 million in 9M2021. This was mainly due to higher rental rebates provided to the tenants to cope with the repeated Covid-19 outbreaks in China. DRT's earnings were negatively impacted by net fair value loss on investment properties of S$63.8 million. Consequently, DRT reported a loss per share of 8.28 cents in 9M2022. In view of the continued uncertainties arising from the Covid-19 situation in China, DRT had retained distribution income and deferred distribution for prudent cashflow and capital management. Hence, no distribution per unit (DPU) has been declared for the period

RECOMMENDATION

Since our update report on 31 March 2022, when DRT's share price closed at S$0.310, we note that the share price weakened. From then till present, the share price is down around 10% to the current price of S$0.280. Meanwhile, in terms of valuation, based on our adjusted NAV per share of S$1.17, the share is currently trading at a PB multiple of 0.24x and is trading at approximately 76% discount to NAV. Our peer comparison results show that DRT could be undervalued given a lower PB compared to its peer average PB of 0.70x. However, we note that DRT could be relatively less attractive in terms of distribution yield. Our evaluation of the peer comparison results leads us to believe it may be reasonable for DRT to trade at S$0.480. Overall, we believe that the relaxation of Covid-19 measures and government stimulus could help underpin a broad-based recovery in the retail industry. However, as there is currently no major catalyst in the medium to long term for DRT, we believe that it could be more reasonable for DRT's share price to recover to S$0.385, which was DRT's 52-week high. This represent a 37.50% upside from the current price. We have considered that even with the sale of Shiqi Metro Mall and Xiaolan Metro Mall to repay its debts, the upside would be dependent on what the management does going forward. In addition, if Sino-Ocean Capital were to inject its assets into DRT, it might also initiate a rights offering to raise funds, which could dilute the unitholders' interests. Considering the above, we will maintain our recommendation at neutral.

KEY FINANCIALS

Year ended Dec 31	Revenue (S$ million)	Profit [1] (S$ million)	EPS (cents)	P/E (x)	DPS (cents)	Distribution yield (%)	NAV per unit (S$)	P/B (x)
2020 actual	87.5	(72.1)	(10.18)	NM	3.94	14.1%	1.41	0.20
2021 actual	101.3	(48.9)	(6.26)	NM	5.22	18.6%	1.40	0.20
2022 forecast [2]	93.4	(65.7)	(8.26)	NM	-	-	1.17	0.24
2023 forecast	52.4	15.2	1.89	14.79	-	-	-	-

NM: not meaningful

Figures have been rounded. P/E, P/B and dividend yield figures are based on current price of S$0.280

(1) Profit attributable to unitholder of the Trust

(2) Adjusted NAV, after the sale of Shiqi Metro Mall and Xiaolan Metro Mall

Source: Dasin Retail Trust, FPA Financial

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FINANCIAL REVIEW FOR 9M2022

(I) Financial performance

DRT registered revenue of S$70.7 million for 9 months ended 2022 (9M2022), representing a 7.8% yoy decrease from S$76.7 million for 9M2021. Owing to repeated Covid outbreaks in some parts of China, certain malls and trade sectors had been temporarily closed under local government's order. Therefore, the rental rebates provided to the tenant year-to-year were almost three times higher compared to the corresponding period, fulfilling the commitment to tide through the crisis with its tenants. Additionally, strict travel restrictions and social distancing measures resulted in stifling spending. As a result, DRT recorded lower revenue contribution from all the properties as shown in **Exhibit 1**.

Exhibit 1: Breakdown of DRT's Revenue for 9M2022 and 9M2021

	Revenue (S$'000)		
Portfolio	**9M2022**	**9M2021**	**Yoy change**
Shiqi Metro Mall	16,023	17,188	-6.8%
Xiaolan Metro Mall	16,500	17,447	-5.4%
Ocean Metro Mall	8,904	10,478	-15.0%
Dasin E-Colour	1,567	2,121	-26.1%
Doumen Metro Mall	12,974	13,803	-6.0%
Shunde Metro Mall	13,839	14,539	-4.8%
Tanbei Metro Mall	858	1,089	-21.2%
Total	**70,665**	**76,665**	**-7.8%**

Source: DRT

Total property operating expense which includes property related taxes, property and commercial management fees and property operating expenses all fell inline with lower revenue recorded for the period. Total property operating expense fell by 8.3% to S$15.4 million in 9M2022 from S$16.4 million in 9M2021. Accordingly, DRT recorded a 8.3% yoy decrease in net property income (NPI) to S$55.2 million in 9M2022 from S$60.3 million in 9M2021. Meanwhile, the NPI margin of DRT was approximately 78.2% for 9M2022 compared to approximately 78.6% for 9M2021, representing a decrease of 0.4 percentage points as shown in **Exhibit 2**.

Exhibit 2: Breakdown of DRT's NPI for FY2022 and FY2021

S$'000	9M2022	9M2021	Yoy change
Revenue	70,665	76,665	-7.8%
Total property operating expense	(15,417)	(16,387)	-5.9%
Net Property Income (NPI)	**55,248**	**60,278**	**-8.3%**
NPI Margin	78.2%	78.6%	-0.4 percentage points

Source: DRT, FPA Financial

The Trustee-Manager’s fees comprise the base fee of management fee and trustee fee. The base fee of management fee was calculated based on 0.25% per annum of the value of the trust property of the Group (Trust Property) and the trustee fee was 0.02% per annum of the value of the Trust Property, excluding out of pocket expenses and GST. The Trustee-Manager has elected to receive 100% of the base fee of management fee and the trustee fee in the form of unit up to first half of FY2022. Subsequently, Trustee-Manager has elected to receive 100% of the base fee of management fee and the trustee fee in cash. Trustee-Manager’s fees for 9M2022 decreased slightly by S$0.2 million compared to 9M2021 due to decrease in total assets.

Exchange loss for 9M2022 of S$15.5 million was mainly due to unrealised exchange loss from the weakening of SGD against USD and HKD, arising from the USD and HKD denominated bank loans of US$163.9 million and HKD285.7 million respectively; and offset by exchange gain arising from the RMB denominated bank loans of RMB1,312.3 million due to weakening of the RMB against SGD.

Other expense of S$19,000 was due to the net change in the fair value of derivative financial instruments in the re-measurement of the interest rate swaps as at the respective reporting dates, which were entered into by DRT to hedge the floating interest rate risk of its loans and borrowings. Loss allowance on receivables in 9M2022 was higher compared to 9M2021 mainly due to higher allowance made of about S$7.1 million due to slower repayment by tenants affected by Covid-19.

The decrease in fair value of the investment properties as at 30 September 2022 is primarily due to the ongoing market disruption to rental rates caused by COVID-19 pandemic, which continued to affect market activity and rental performance in many property sectors. In addition, the decrease in turnover rent and negative reversion rental rate from some newly signed leases during 9M2022 also contributed to the decrease in valuation of the investment properties. The decrease in fair value of the investment properties as at 9M2022 is also contributed by foreign exchange due to weakening of Renminbi (RMB) against Singapore dollars as the investment properties are denominated in RMB.

As a result, DRT recorded a loss before income tax of S$70.8 million in 9M2022. Factoring in the income tax credit of S$5.0 million, a net loss after tax of S$65.8 million was recorded in 9M2022. Accordingly, DRT reported loss per unit of 8.28 cents for 9M2022.

DRT’s 9M2022 and 9M2021 financial results are summarised in **Exhibit 3** on the next page.

Exhibit 3: DRT Financial Results for 9M2022 and 9M2021

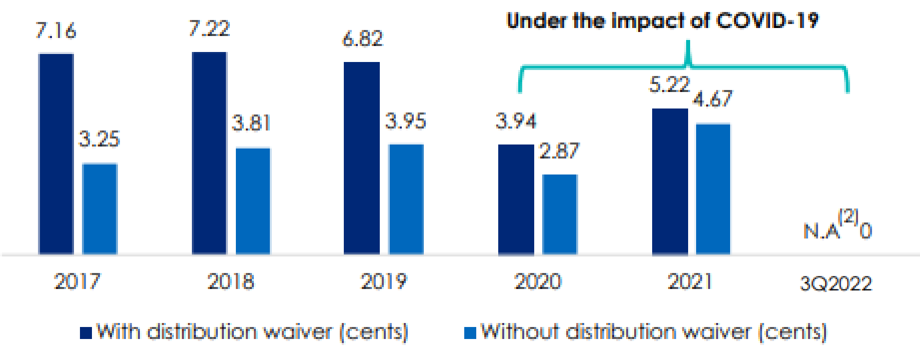
S$'000	9M2022	9M2021	Yoy change
Revenue	70,665	76,665	-7.8%
Total property operating expense	(15,417)	(16,387)	-5.9%
Net Property Income (NPI)	**55,248**	**60,278**	**-8.3%**
Trustee-Manager's fees	(4,949)	(5,174)	-4.3%
Other trust expenses	(2,804)	(2,118)	32.4%
Exchange loss	(15,476)	(8,969)	72.5%
Other (expense)/ income	(19)	740	NM
Loss allowance on receivables	(15,085)	(7,950)	89.7%
Finance income	705	793	-11.1%
Finance cost	(24,631)	(27,970)	-11.9%
Net Income	**(7,011)**	**9,630**	**NM**
Net change in fair value of investment properties	(63,791)	837	NM
Profit before income tax	**(70,802)**	**10,467**	**NM**
Income tax credit/ (expense)	4,999	(13,376)	NM
Profit for the year	**(65,803)**	**(2,909)**	**-2162.0%**
Attributable to:			
Unitholder of the Trust	(65,803)	(2,909)	-2162.0%
Weighted average number of units in issue	794,574	780,605	1.8%
Earnings per unit (cents)	**(8.28)**	**(0.37)**	**-2122.3%**

NM: not meaningful

Source: DRT, FPA Financial

Meanwhile, DRT announced that it decided to retain distribution income and defer distribution in 9M2022 for prudent cash flow and capital management in view of the continued uncertainties arising from the Covid-19 situation in China. Hence, no distribution has been declared for the period. The summary of DRT's DPU since its IPO in 2017 is shown in **Exhibit 4**.

Exhibit 4: DRT's Distribution Per Unit Since IPO



Source: DRT

(II) Capital Management

DRT reported total assets of S$2,341.3 million as at 30 September 2022 compared to S$2,540.0 million as at 31 December 2021. The decrease in total assets was largely due to lower valuation on investment properties and trade & other receivables.

Total liabilities decreased by S$30.2 million to S$1,396.1 million as at 30 September 2022 compared to S$1,426.3 million as at 31 December 2021 mainly due to the decrease in loans & borrowings and deferred tax liabilities as DRT noted that it started to repay its loans and borrowings in small amounts. Deferred tax liabilities comprise the recognition of the temporary differences between the carrying value of the investment properties, the loss allowance on receivables and foreign exchange differences for financial reporting and taxation purposes as well as the provision of 5% withholding tax for undistributed statutory earnings of the PRC subsidiaries. The decrease has been offset by the increase from shareholders' loans of S$17.0 million in 9M2022. The loans from shareholders are unsecured, interest free and are subordinated to bank loans and borrowings.

DRT recorded net asset of S$945.2 million as at 30 September 2022 compared to S$1,113.7 million as at 31 December 2021 mainly due to the lower value on investment properties in 9M2022. Given S$945.2 million in net assets attributable to unitholders, DRT report a net asset value (NAV) of S$1.17 as at 30 September 2022 as compared to S$1.40 as at 31 December 2021. A summary of DRT's balance sheet data is shown in **Exhibit 5**.

Exhibit 5: Summary of DRT's Balance Sheet

S$'000	30-Sep-22	31-Dec-21
Total assets	2,341,321	2,540,017
Total liabilities	1,396,119	1,426,346
Net assets/ equity attributable to unitholders	945,202	1,113,671
Total number of issued and issuable units at the end of the year	804,014	794,014
NAV per share (S$)	1.17	1.40

Source: DRT, FPA Financial

As at 30 September 2022, DRT's net debt (before transaction cost) was S$945.2 compared to S$959.4 million as at 31 December 2022. This comprised of S$755.2 million in current secured borrowings and S$190.0 million in non-current secured borrowings. Thus, DRT's gearing ratio as computed by net debt (before transaction cost) over total assets increased to 40.4% as at 31 September 2022 compared to 37.8% as at 31 December 2021. Net of capitalised transaction cost, DRT's debt stood at S$942.6 million as at 30 September 2022 compared to S$954.1 million as at 31 December 2021. A breakdown of DRT's net debt and gearing ratio is shown in **Exhibit 6**.

Exhibit 6: Breakdown of DRT's Net Debt and Gearing Ratio

S$'000	30-Sep-22	31-Dec-21
Secured borrowings, current	755,225	757,868
Secured borrowings, non-current	190,011	201,539
Net debt (before transaction cost)	**945,236**	**959,407**
Less: Transaction cost	(2,603)	(5,322)
Net debt (net transaction cost)	**942,633**	**954,085**
Net debt (before transaction cost)	945,236	959,407
Total asset	2,341,321	2,540,017
Gearing	**40.4%**	**37.8%**

Source: DRT, FPA Financial

We note that, as at 30 September 2022, DRT has the loan facilities comprising:

- Secured syndicated term loan in aggregate of S$493.1 million (S$234.1 million, US$129.9 million (S$186.3 million) and RMB360.1 million (S$72.6 million)) relating to acquisition of the Initial Portfolio and Shiqi Metro Mall, are due and payable by 2022

- Secured syndicated term loan in aggregate of S$203.1 million (S$53.3 million, HKD285.7 million (S$52.2 million) and RMB483.8 million (S$97.5 million)) relating to acquisition of Doumen Metro Mall. Of which, S$105.5 million (S$53.3 million and HKD285.7 million (S$52.2 million)) are payable by 2022 while RMB483.8 (S$97.5 million) are payable by 2029

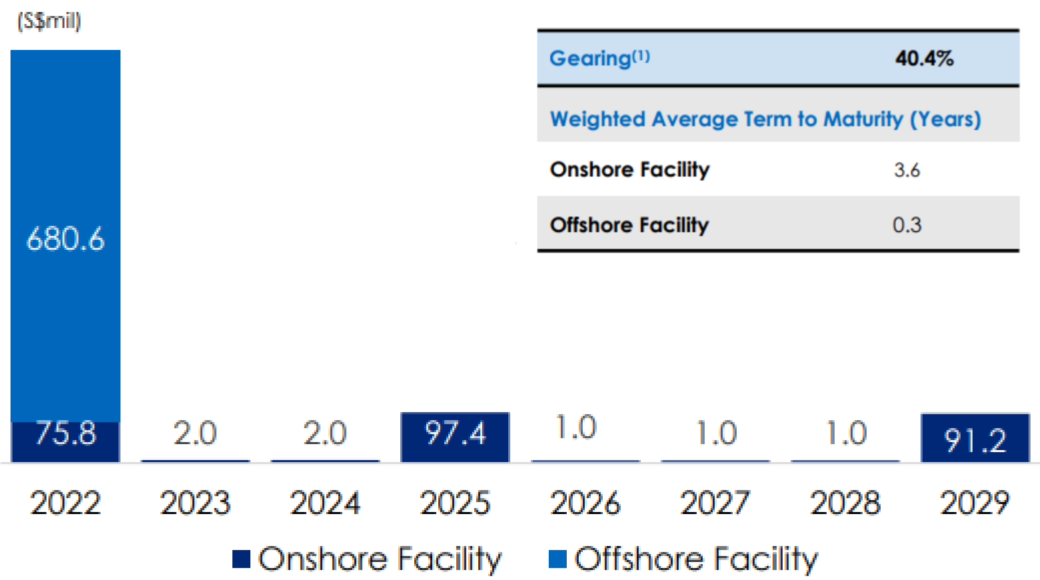
- Secured syndicated term loan in aggregate of S$230.2 million (S$87.0 million, US$34.0 million (S$48.8 million) and RMB468.4 million (S$94.4 million) relating to acquisition of Shunde Metro Mall and Tanbei Metro Mall. Of which, S$135.8 million (S$87.0 million, US$34.0 million (S$48.8 million)) are due and payable by 2022 while, RMB468.4 million are payable by 2025

- Revolving credit loan facility of US$13.1 million (S$18.8 million) due and payable by 2022

The above loans and borrowings are secured by legal mortgage over each of DRT's portfolio and a pledge over the sales proceeds, rental income and receivables derived from these properties

DRT classified its debt maturity profile in term of Onshore Facility and Offshore Facility. The Onshore Facility has a Weighted Average Term to Maturity of 3.6 years while its Offshore Facility has a Weighted Average Term to Maturity of 0.3 years. As shown in **Exhibit 7**, S$756.4 million of the debt would be due in FY2022. It would comprise of S$680.6 million Offshore Facility and S$78.5 million Onshore Facility.

Exhibit 7: DRT's Debt Maturity Profile as at 31 December 2021



Source: DRT

RECENT KEY DEVELOPMENTS

(I) Updates on Refinancing Exercise and Other Offshore Facilities Due in 2022

The lenders of both the Onshore and Offshore Facilities pertaining to the Initial Portfolio and Shiqi Metro Mall have granted an extension of 6 months from 19 June 2022 to 31 December 2022

The offshore syndicated term loan facility of up to the equivalent of $132.9 million relating to acquisition of Shunde Metro Mall and Tanbei Metro Mall have granted approval to an extension up to 31 December 2022 from 17 July 2022.

The offshore facilities pertaining to Doumen Metro Mall have been extended by approximately 3 months from 19 September 2022 to 31 December 2022.

DRT announced that its Trustee-Manager has been working closely with the lenders for the refinancing exercise and exploring potential proposals including but not limited to the disposal of certain Trust assets, partnership with strategic investors, and alternative fund-raising activities. The Trustee-Manager has also commenced discussions with more than one leading Chinese enterprise for potential strategic investment with the objective of leveraging their resources to conclude the Trust's refinancing effort.

(II) Update On The Non-binding Memorandum Of Understanding For Sale Of Shiqi Metro-mall And Xiaolan Metro-mall

In our previous update report, we reported that DRT announced that it had on 19 March 2022 entered into a non-binding memorandum of understanding (MOU) with Wuhu Yuanche Bisheng Investment Center (Limited Partnership) (Purchaser) for the DRT's willingness to explore with the Purchaser a proposal on the potential divestment of Shiqi Metro Mall and Xiaolan Metro Mall (Properties), retail properties located in Zhongshan, Guangdong Province, People's Republic of China (PRC).

According to latest guidance, DRT disclosed that the Trust is proactively negotiating and in talks with potential buyers who have expressed their interest. These potential buyers include domestic SOEs, funds and overseas institutional investors.

(III) DRT's Auditor Flagged A Material Uncertainty That May Cast Significant Doubt On Its Ability To Continue As A Going Concern

Deloitte & Touche (DRT's Auditor), in its report on the financial statements of DRT for the 9M2022, noted that the DRT was in a negative working capital position as at 30 September 2022. As at 30 September 2022, DRT was in net current liabilities of S$693,330,000 (31 December 2021: S$663,169,000) and S$778,933,000 (31 December 2021: S$719,864,000) respectively, as the syndicated term loans pertaining to the Xiaolan Metro Mall, Ocean Metro Mall and Dasin E-Colour and Shiqi Metro Mall of $493,105,000 (31 December 2021: S$499,520,000) in aggregate; the offshore syndicated term loans pertaining to Shunde Metro Mall and Tanbei Metro Mall of $135,781,000 (31 December 2021: S$132,851,000) in aggregate; and the offshore syndicated term loans pertaining to Doumen Metro Mall of $105,543,000 (31 December 2021: S$105,728,000) in aggregate are due and payable on 31 December 2022.

In addition, DRT has drawn down a 24-month credit loan facility of US$13,120,000 equivalent to S$18,824,000 (31 December 2021: US$13,120,000 equivalent to S$17,763,000) in September 2021.

According to the auditor, the conditions as mentioned on the previous page indicate that a material uncertainty exists that may cast significant doubt on the ability of DRT to continue as a going concern.

Notwithstanding the above, the auditor noted that the financial statements have been prepared on a going concern basis as the Trustee Manager is in active negotiations with the lenders and have assessed that it is appropriate to do so after considering the following factors and bases:

a) On 12 October 2021, New Harvest and Sino-Ocean Capital became the immediate holding and the ultimate holding companies of the Trustee-Manager respectively. On 12 October 2021, Sino-Ocean Capital held approximately 6.3% of the total issued units in the Trust via its affiliate Glory Class Ventures Limited which acquired an additional 6% of the total issued units of the Trust from Aqua Wealth Holdings Limited by exercising the call option as announced on 4 May 2022. Sino Ocean Capital currently holds approximately 12% of the total issued units in the Trust via its affiliate Glory Class Ventures Limited;

b) The Trustee-Manager has commenced discussions with more than one leading Chinese enterprise for potential strategic investment with the objective of leveraging their resources to conclude the Trust's refinancing effort as announced by the Trust on 19 September 2022;

c) The Trust's property portfolio is strategically located in the core cities of the Guangdong-Hong Kong-Macau Greater Bay Area ("Greater Bay Area") where there are limited competing properties. The portfolio has stable growth potential from its resilient lease structure, diversified tenants and business mix as well as balanced mix of mature and growth assets;

d) The Group has sufficient cash and cash equivalents and is able to generate positive cash flow from its operations to meet its day-to-day working capital needs; and

e) The Group complied with the stated financial covenants during the period up to the date of this condensed interim financial statements.

Notwithstanding the plans and measures above taken by management, material uncertainties exist as to whether DRT is able to continue as a going concern would depend on the following:

a) The Group is successful in its efforts to timely execute the re-financing of its loans which are due for repayment on 31 December 2022;

b) The Group continues to generate positive cash flows from its operations to meet its day-to-day working capital needs; and

c) The Group is able to obtain sufficient financial support from Sino-Ocean Capital when needed.

(IV) DRT's Plans

DRT disclosed that the Trustee-Manager has no plans to liquidate and will endeavour to make strategic decisions which are aligned with the interest of Unitholders. DRT's board is of the opinion that it will be able to continue as going concerns as DRT has sufficient cash and cash equivalents and is able to generate positive cash flow from its operations to meet its day-to-day working capital needs

In addition, DRT added that its business fundamentals are reasonably stable even during the Covid-19 pandemic and DRT met its loan repayment obligations and complied with the stated financial covenants during the year. DRT assured its Unitholders that it will continue to prioritise its efforts in expediting the completion of the refinancing exercise by working closely with the lenders.

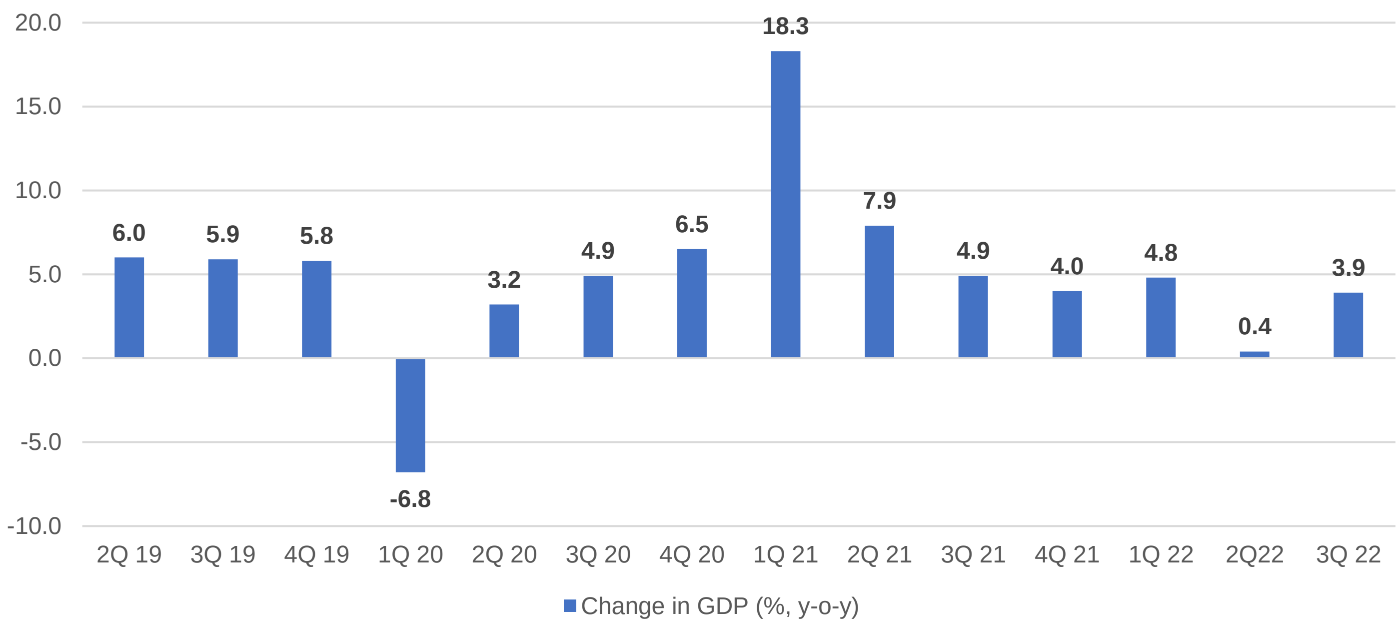
RETAIL INDUSTRY OVERVIEW

In this section, we will provide a review of the retail industry overview for China, Zhongshan, Zhuhai and Foshan.

(I) China

China's economy rebounded at a faster-than-anticipated clip in the third quarter, but a more robust revival in the longer term will be challenged by persistent COVID-19 curbs, a prolonged property slump and global recession risks. During the quarter, China's gross domestic product (GDP) expanded by an annual 3.9% in the third quarter, faster than the 0.4% growth in the previous quarter as shown in **Exhibit 8**.

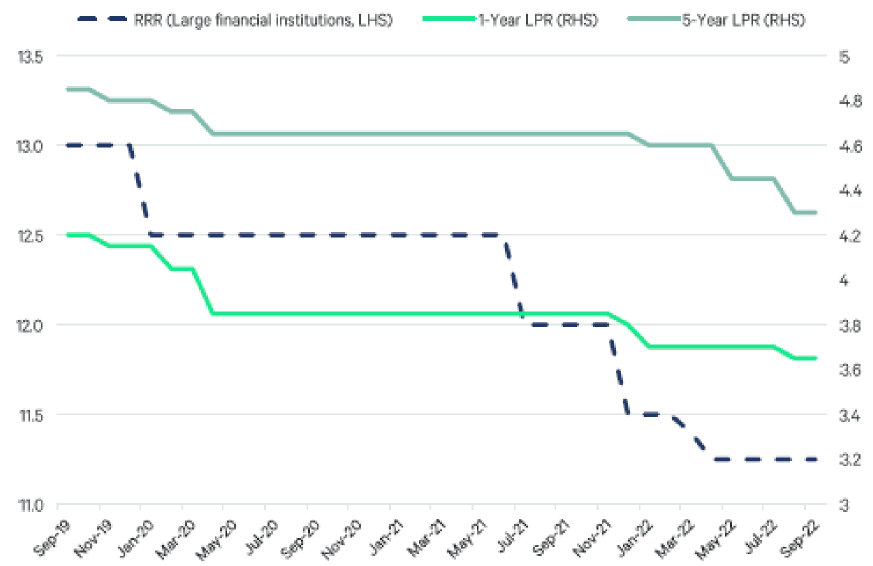
Exhibit 8: Change in China Quarterly GDP (%, yoy)



Source: National Bureau of Statistics of China

The State Council unveiled 19 measures to stabilize economic growth during 3Q2022. Additional fiscal stimulus, business assistance, and city-specific property policies were among the measures. Additionally, in August, the 5-year loan prime rate (LPR) was decreased from 4.45% to 4.30% as shown in **Exhibit 9** on the next page. These measures supported the economy's recovery and helped to stabilize the market.

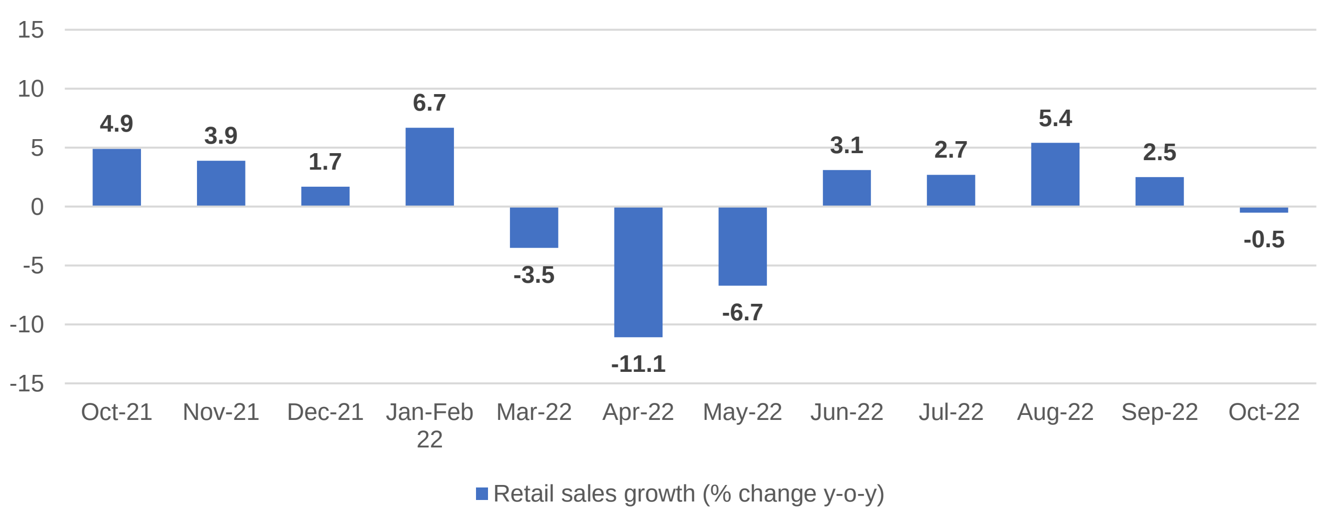
Exhibit 9: China's Reserve Requirement Ratio (RRR) and Year Loan Prime Rate (LPR)



Source: CBRE

Meanwhile, National Bureau of Statistics (NBS) reported that in October, China's total retail sales of social consumer goods was 4,027.1 billion yuan, a yoy decrease of 0.5% as shown in **Exhibit 10**. From January to October, the total retail sales of social consumer goods were 36,057.5 billion yuan, a yoy increase of 0.6%. According to retail format, from January to October, the retail sales of supermarkets, convenience stores, professional stores and specialty stores in retail enterprises above designated size increased by 3.7%, 4.6%, 4.6% and 0.7% respectively yoy, while that of department stores decreased by 6.8%.

Exhibit 10: China Monthly Retail Sales Growth (% change yoy)

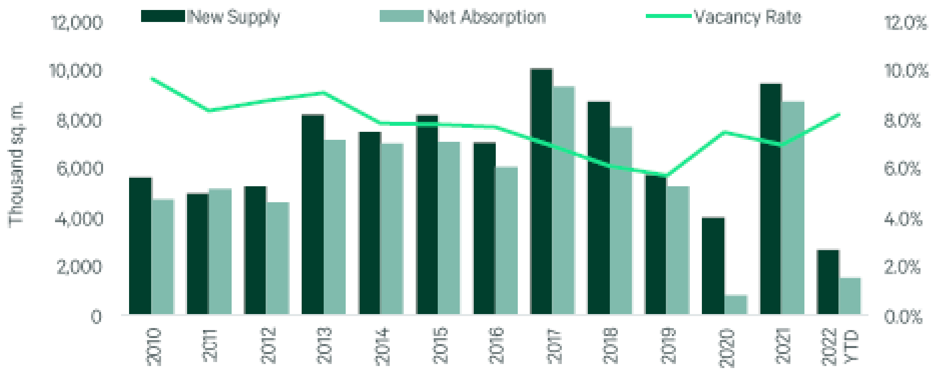


Source: Data compiled from NBS

Demand Recovery Varies by City

CBRE noted that around 1.28 million sq.m. of new retail supply came on stream in 3Q2022, an increase of 51% mom. The bulk of new stock was concentrated in cities in North China and East China that have been largely left unscathed by the pandemic in recent months. Driven by the addition of new projects, net absorption reached 800,000 sq.m., an increase of 196% mom. Outperformers include Beijing, which recorded net absorption of 290,000sq.m., its highest quarterly figure since 2020, mainly due to New Energy Vehicles (NEV) firms expanding to non-prime locations. In West China, leases were withdrawn in a few markets due to upgrading and tenant mix refinement in several shopping malls, which caused negative net absorption. Overall vacancy rose by 0.4 percentage points (ppts) from the previous quarter to 8.2%, primarily due to the increase in new supply and the expiry of several leases. Ground floor shopping mall rents continued to decline, falling 0.3% qoq. The summary of China retail new supply, net absorption and vacancy rate is shown in **Exhibit 11**.

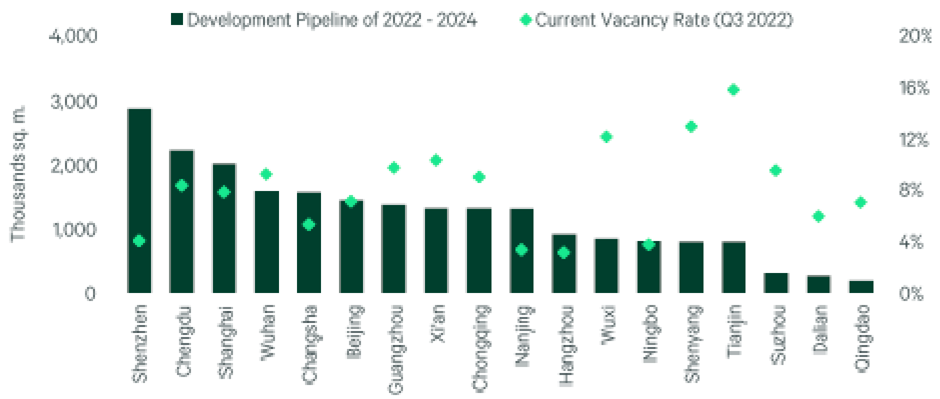
Exhibit 11: China Retail New Supply, Net Absorption And Vacancy Rate



Source: CBRE

We note from CBRE that the development pipeline also varies between cities. Shenzhen, Chengdu and Shanghai have the highest development pipeline between 2022-2024 while Suzhou, Dalian and Qingdao has the least. In terms of vacancy rate, Shenzhen, Nanjing and Hangzhou has the lowest vacancy rate while Tianjin, Shenyang and Wuxi have the highest as shown in **Exhibit 12**.

Exhibit 12: Development Pipeline And Vacancy Rate (by city)



Source: CBRE

China Retail Indicators As At 3Q2022

Overall vacancy rose by 0.4 percentage points (ppts) from the previous quarter to 8.2%, primarily due to the increase in new supply and the expiry of several leases. Ground floor shopping mall rents continued to decline, falling 0.3% qoq. The summary of the performance of the China retail industry for 3Q2022 is shown in **Exhibit 13**.

Exhibit 13: China Retail Latest Performance Indicators (as at 3Q2022)

Retail	q-o-q	y-t-d	y-o-y
Rent	-0.3%	-0.7%	-0.7%
Vacancy	+0.4 pps	+0.6 pps	+0.6 pps

Source: CBRE

Shopping Centre's Rent Fell

According to Jones Lang LaSalle (JLL), as Covid-19 cases decline, retailers gradually resumed their expansion plans. Supermarkets and F&B retailers were the major sources of leasing demand during the quarter. Shanghai's Covid-19 outbreak disrupted the city's retail industry with physical stores suffering major losses during the pandemic. Some cash-strapped small brands closed permanently, and new leasing was delayed. After businesses resumed operations in June, luxury retailers led the market recovery on the back of strong pent-up demand. Rising vacancy and soft leasing momentum contributed to a citywide decline in rents.

The disruption caused by the latest Covid-19 outbreak in Beijing hit the retail market heavily, and F&B tenants were among the hardest hit. Driving by rising operational pressures, more than 60% of closed stores surveyed were F&B brands, according to JLL. As overall leasing demand largely dropped, landlords lowered rental expectations and offered rent concessions on new leases under increasing vacancy pressure, while providing support to current tenants by lowering rents and offering rent-free periods in order to stabilise building occupancies.

Government's Policies to Stimulate Market Consumption

Cushman & Wakefield (C&W) noted that China's central and local governments have implemented a number of policies during the pandemic to aid medium, small, and micro businesses with financial assistance, the easing of financing difficulties, the reduction of operating costs, and the stimulation of market demand for their sales products and services. After the epidemic, the central and local governments introduced a number of policies to support the recovery of consumption. Local governments also adopted initiatives to support the consumer market's recovery as a positive response.

For example, Beijing has introduced 27 measures to promote consumption and has issued RMB100 million in F&B vouchers. Shanghai held a shopping festival from July to September to coordinate "international consumption", to "release new global products" and to promote a "discount season". Shenzhen issued RMB100 million to encourage its citizens to buy consumer digital products and home appliances at a 15% discount on the sales price. Lastly, Tianjin, Chongqing, Hubei, Sichuan, Hainan, Zhejiang and other provinces/cities have launched subsidies, coupons, shopping activities and other measures to promote consumption.

The consumption recovery has been further bolstered with the adjustment of COVID 19 prevention measures in China and the implementation of policies, including interest rate cuts, tax reductions, and consumption stimuli.

China Scraps Most Covid Testing And Quarantine Requirements

Wall Street Journal reported that China’s health officials and state media have suggested it is now possible to relax controls, citing new research showing the latest strains of the virus are less deadly, though they spread more easily. Better techniques to control and treat Covid mean China can apply more nimble and precise measures that have less impact on people’s lives and economic activity.

The new rules bar officials from arbitrarily locking down neighborhoods and from shutting businesses—but the apartments or buildings where infections are found will continue to be placed under lockdown. Covid patients with mild or no symptoms and their close contacts will be allowed to isolate at home instead of being shipped to government quarantine facilities.

Most requirements for virus testing and the scanning of health QR codes when entering premises will be scrapped, except for places deemed vulnerable such as nursing homes, nurseries or schools. Domestic travelers will no longer need to present a negative virus test or have their health codes checked when arriving in another province.

Outlook

CBRE noted that a recent People’s Bank of China Survey of urban depositors in 50 cities across the country found that 22.8% of respondents were inclined to “consume more”, a decrease of 1ppts from 2Q2022, indicating that consumers’ willingness to purchase needs to be further stimulated. While numerous public holidays in 4Q2022 and stimulus measures such as the issuance of consumer coupons by local governments are expected to increase retail demand, uncertainty around Covid-19 will remain a major headwind. CBRE projects full-year retail net absorption to reach 3 million sq.m., while shopping mall ground floor rents will drop by 1%.

C&W highlighted that in terms of supply, about 28.0 million sq m of new prime retail properties are planned to complete over the next three years. In the meantime, long-term, China‘s retail market remains solid, thanks to a growing middle class, continued urbanisation and the effective control of inflation. Accordingly, shopping centres will optimise operations, upgrade facilities and adjust their brand mixtures to prepare for market recovery. In terms of demand, JLL believes that China's consumer market will gradually recover under the influence of a number of factors, including epidemic control, the intensive introduction of policies to stimulate consumption, and the effectiveness of measures to stabilise economic growth. Overall, the Chinese consumer market has taken a short-term hit from the pandemic and other factors. However, in the mid-to-long term, the Chinese retail market will gradually pick up as the central and local governments continue to introduce policies to stimulate consumption. C&W added that brands and retail property owners will continuously introduce new products and services to prepare for the recovery of the consumer market after the pandemic. As consumption picks up, C&W expects absorption and quality retail space to regain momentum in the coming months.

(II) Greater Bay Area

Zhongshan

According to the economic data released by Zhongshan Bureau of Statistics, in the first three quarters of 2022, Zhongshan's GDP amounted to 259.481 billion yuan, a yoy growth of 1.2%. Among them, the added value of the primary industry was 6.342 billion yuan, a yoy increase of 6.2%; the added value of the secondary industry was 128.984 billion yuan, a yoy increase of 1.2%; the added value of the tertiary industry was 124.155 billion yuan, a yoy increase of 0.9%.

From January to October, Zhongshan's total retail sales of consumer goods was 134.224 billion yuan, a yoy increase of 5.3%, and the growth rate was 7.6 percentage points faster than the two-year average growth rate in 2021. In October, retail sales in October was 13.334 billion yuan, with a growth rate of 7.7%, a decrease of 4.7 percentage points from the previous month.

Zhuhai

Economic data from the Statistics Bureau of Zhuhai showed that, in the first three quarters of 2022, Zhuhai's GDP amounted to 286.407 billion yuan, a yoy increase of 2.1%. Among them, the added value of the primary industry was 3.857 billion yuan, a yoy increase of 4.5%; the added value of the secondary industry was 127.325 billion yuan, a yoy increase of 7.9%; the added value of the tertiary industry was 155.226 billion yuan, a yoy decrease of 2.1%.

From January to October, Zhuhai's total retail sales of social consumer goods reached 86.641 billion yuan, a yoy increase of 0.9%, which was the same as the growth rate from January to September, and the growth rate dropped 16.8 percentage points from the same period last year.

According to Savills, Zhuhai's population has a notable consumption demand which will continue to support the retail property markets despite the unpredictable nature of Covid outbreaks, which on the other hand, can be managed through the government's consistent efforts to prevent and contain its spread. Moreover, the city has a blossoming Night Economy and First-store Economy, allowing more established brands – either international or domestic from the F&B, fashion, leisure and entertainment sectors – to pursue their expansion plans, thus leaving a positive outlook for the Zhuhai retail property market in the mid- to long-term. However, the expected launch of three new projects in 2H2022 with a combined retail GFA of 129,446 sqm, as shown in **Exhibit 14**, will likely cause an uptick in the vacancy rate and a structural decline in rents for the remainder of 2022.

Exhibit 14: Expected New Projects in Zhuhai (2H2022)

PROJECT	SUBMARKET/REGION	RETAIL GFA (SQ M)
Yoho Park City Centre	Jida	30,446
Rongde Square	Qianshan	56,000
Zhuhai Perinnal Tower Mall	Hengqin	43,000

Source: Savills

Foshan

As for Foshan, the Foshan Municipal People's Government reported that, in the first three quarters of 2022, the city’s GDP reached 885.010 billion yuan, representing an increase of 2.9% from a year ago and an increase of 0.1 percentage points from the first half of the year. Among them, the added value of the primary industry was 16.279 billion yuan, a yoy increase of 5.7%; the added value of the secondary industry was 489.951 billion yuan, a yoy increase of 3.9%; the added value of the tertiary industry was 378.779 billion yuan, a yoy increase of 1.5%.

From January to October, Foshan’s total retail sales of social consumer goods reached 304.986 billion yuan, a yoy increase of 1.8%, and an increase of 0.3 percentage points over the first three quarters. Among them, retail sales of goods were 283.121 billion yuan, a yoy increase of 1.9%; catering revenue was 21.865 billion yuan, a yoy increase of 0.1%.

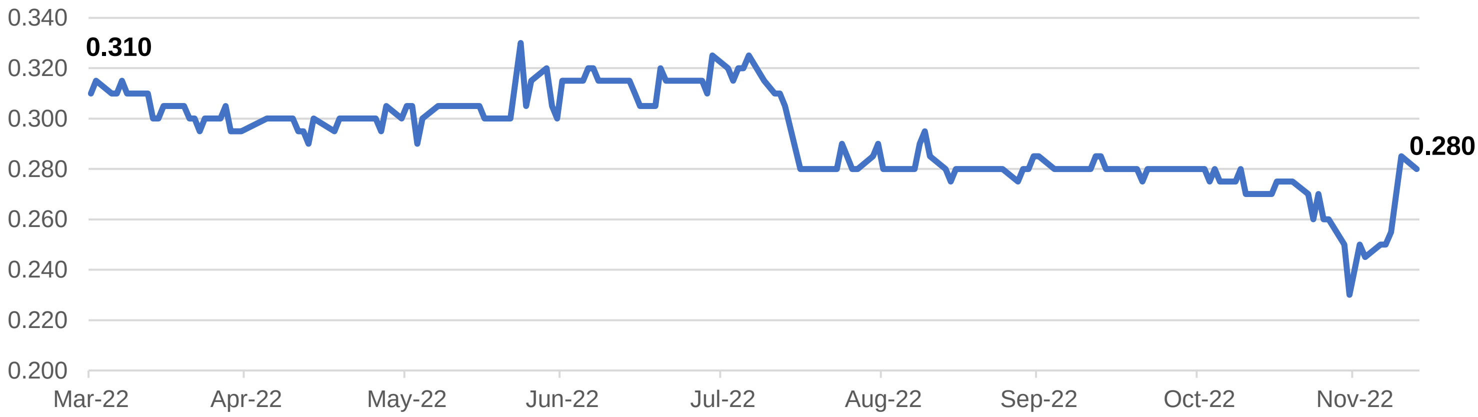
Outlook

For the outlook of Greater Bay Area (GBA), we note from DRT that the population is estimated to grow by 43% to 100 million over the next 15 years. GBA would also be the driving force of China’s innovation economy, with further opening-up and improvement of the business environment attracting global investors to increase investment in the region. The GBA currently contributes 12% of China’s overall GDP and building GBA financial hub is expected to be one the main task of China’s 14th Five-Year Plan.

SHARE PRICE DEVELOPMENT REVIEW

Since our update report issued on 31 March 2022, when DRT's share price closed at S$0.310, we note that the share price has fallen. From then till present, the share price is down by about 10% to the current price of S$0.280 as shown in **Exhibit 15**.

Exhibit 15: DRT's Share Price



Source: Yahoo Finance, FPA Financial

Over the past one year, the share price traded between S$0.200 to S$0.385. The 52-week low of S$0.200 was reached on 29 November 2022 and the 52-week high of S$0.385 was reached on 27 December 2021.

As mentioned earlier, on 11 April 2022, the auditor of DRT flagged a material uncertainty that may cast significant doubt on the real estate investment trust's ability to continue as a going concern. We note that DRT's share price fell by 3.22% from S$0.310 to S$0.300 a day after the announcement.

On 20 June 2022, DRT updated that the lenders of both its Onshore Facilities and Offshore Facilities (the Lenders) pertaining to Xiaolan Metro Mall, Ocean Metro Mall and Dasin E-Colour and Shiqi Metro Mall with outstanding loans amounting to S$499,520,000 as at 31 December 2021, have granted an extension of approximately six months from 19 June 2022 to 31 December 2022. DRT's share price rose by 5.00% on the next day to S$0.315.

On 14 August 2022, DRT announced revenue of S$47.7 million and net property income of S$38.0 million for the half year ended 30 June 2022 (1H2022), both representing a decrease of 7.1% yoy. In addition, DRT also retained distribution income and deferred distribution for prudent cash flow and capital management in view of the continued uncertainties arising from the COVID-19 situation. We note that DRT's share price fell by 8.20% from S$0.305 to S$0.280 after the announcement.

On 7 December 2022, Chinese government unveiled new measures relaxing Covid-19 restrictions and announced that citizens will no longer need to show negative virus tests or health codes in order to travel between different parts of the country. We note that amid the news, DRT's share price rose by 11.76% to close the week at S$0.285.

In terms of insider trades, we note that Sino-Ocean Capital had increased its stake in DRT. On 12 October 2021, Sino-Ocean Capital held approximately 6.3% of the total issued units in the Trust via its affiliate Glory Class Ventures Limited which acquired an additional 6% of the total issued units of the Trust from Aqua Wealth Holdings Limited by exercising the call option as announced on 4 May 2022. Sino Ocean Capital currently holds approximately 12% of the total issued units in the Trust via its affiliate Glory Class Ventures Limited. Sino Ocean Capital acquired 45,569,263 units in DRT for a total consideration of S$13,362,454.

In addition, we note that Harvest Private Wealth income Fund 4 SP (HPWIF4) also increased its stake in DRT. On 2 June 2022, it was announced that HPWIF4 acquired 3,800,000 units in DRT for a total consideration of S$1,064,000. Accordingly, HPWIF4's interest in DRT amounted to 8.45%.

The summary of the insider trades is shown in **Exhibit 16**.

Exhibit 16: DRT's Insider Trades

Date of transaction	Acquirer	No. of shares (sold)/ acquired	Price paid per share	Total consideration	Total interest		Shareholdings (%)	
					Before transaction	After transaction	Before transaction	After transaction
4-May-22	Sino-Ocean Capital	45,569,263	0.293	13,362,454	49,700,900	95,270,163	6.26%	12.00%
2-Jun-22	Harvest Private Wealth Income Fund 4 SP	3,800,000	0.280	1,064,000	55,595,200	67,083,200	7.08%	8.45%

Source: DRT, FPA Financial

FINANCIAL PROJECTION

Here, we will provide our projections for DRT's revenue, earnings and distributions for FY2022 and FY2023.

(I) Revenue projection

FY2022

As noted on page 3, DRT's revenue decreased by 7.8% yoy in 9M2022 due to higher rental rebates provided to tenants. Given the uncertainties in the Covid-19 situation in China, we believe DRT would continue to provide its tenants with rental rebates for the remainder of FY2022. However, we note that in 3Q2022, DRT organised promotional activities such as E-gaming and basketball competition in its malls to help drive footfall and tenants' sales. We believe this would help to increase the turnover rent and in turn improve the revenue for DRT.

Considering the above, for the remainder of FY2022, we believe that DRT will continue to engage shoppers with interactive activities by organising promotional activities and provide rental rebates to its tenant. We note that other than Xiaolan Metro Mall, the other malls have experienced a decrease in revenue of between 10% and 28% yoy as shown in **Exhibit 17**. Accordingly, we would assume CBRE's projection of a 1% decrease in shopping mall rents as a proxy for our revenue projections in 4Q2022. Hence, we would assume the revenue recorded for each of its retail malls to decrease by 1% in 4Q2022 from 3Q2022.

Exhibit 17: DRT's Breakdown of Revenue for 3Q2021 and 3Q2022

Portfolio	Revenue (S$'000) (Actual)		
	3Q2021	3Q2022	Yoy change
Shiqi Metro Mall	5,769	5,183	-10.0%
Xiaolan Metro Mall	5,507	5,634	2.0%
Ocean Metro Mall	3,522	2,959	-16.0%
Dasin E-Colour	642	568	-12.0%
Doumen Metro Mall	4,709	4,093	-13.0%
Shunde Metro Mall	4,810	4,289	-11.0%
Tanbei Metro Mall	370	268	-28.0%
Total	**25,329**	**22,994**	**-9.0%**

Source: DRT

The revenue contribution of the respective properties in 4Q2022 would be calculated as follows:

- Revenue contribution from Shiqi Metro Mall for 4Q2022 = [S$5.183 million (3Q2022 actual) x (100%+ (-1%))] = S$5.131 million

- Revenue contribution from Xiaolan Metro Mall for 4Q2022 = [S$5.634 million (3Q2022 actual) x (100%+ (-1%))] = S$5.578 million

- Revenue contribution from Ocean Metro Mall for 4Q2022 = [S$2.959 million (3Q2022 actual) x (100%+ (-1%))] = S$2.929 million

- Revenue contribution from Dasin E-Colour for 4Q2022 = [S$0.568 million (3Q2022 actual) x (100%+ (-1%))] = S$0.562 million

- Revenue contribution from Doumen Metro Mall for 4Q2022 = [S$4.093 million (3Q2022 actual) x (100%+ (-1%))] = S$4.052 million

- Revenue contribution from Shunde Metro Mall for 4Q2022 = [S$4.289 million (3Q2022 actual) x (100%+ (-1%))] = S$4.246 million

- Revenue contribution from Tanbei Metro Mall for 4Q2022 = [S$0.268 million (3Q2022 actual) x (100%+ (-1%))] = S$0.265 million

The revenue contribution of the respective properties in FY2022 would be calculated as follows:

- Revenue contribution from Shiqi Metro Mall for FY2022 = [S$16.0 million (9M2022 actual) +S$5.1 million (4Q2022 projected)] = S$21.2 million

- Revenue contribution from Xiaolan Metro Mall for FY2022 = [S$16.5 million (9M2022 actual) +S$5.6 million (4Q2022 projected)] = S$22.1 million

- Revenue contribution from Ocean Metro Mall for FY2022 = [S$8.9 million (9M2022 actual) +S$2.9 million (4Q2022 projected)] = S$11.8 million

- Revenue contribution from Dasin E-Colour for FY2022 = [S$1.6 million (9M2022 actual) +S$0.6 million (4Q2022 projected)] = S$2.1 million

- Revenue contribution from Doumen Metro Mall for FY2022 = [S$13.0 million (9M2022 actual) +S$4.1 million (4Q2022 projected)] = S$17.0 million

- Revenue contribution from Shunde Metro Mall for FY2022 = [S$13.8 million (9M2022 actual) +S$4.2 million (4Q2022 projected)] = S$18.1 million

- Revenue contribution from Tanbei Metro Mall for FY2022 = [S$0.9 million (9M2022 actual) +S$0.3 million (4Q2022 projected)] = S$1.1 million

Accordingly, the projected revenue for FY2022 would be S$93.4 million as shown in **Exhibit 18**.

Exhibit 18: Projected Revenue for FY2022

Portfolio	Revenue (S$'000) (Actual)			Forecast	
	3Q2022	Yoy change	9M2022	4Q2022	FY2022
Shiqi Metro Mall	5,183	-10.0%	16,023	5,131	21,154
Xiaolan Metro Mall	5,634	2.0%	16,500	5,578	22,078
Ocean Metro Mall	2,959	-16.0%	8,904	2,929	11,833
Dasin E-Colour	568	-12.0%	1,567	562	2,129
Doumen Metro Mall	4,093	-13.0%	12,974	4,052	17,026
Shunde Metro Mall	4,289	-11.0%	13,839	4,246	18,085
Tanbei Metro Mall	268	-28.0%	858	265	1,123
Total	**22,994**	**-9.0%**	**70,665**	**22,764**	**93,429**

Source: DRT, FPA Financial

FY2023

For FY2023, we would expect a stronger revenue performance amid a stabilisation of the virus situation. South China Morning Post (SCMP) reported in December that Beijing wants 95% of the total population to receive the first shot – up from 90.2%– and for eligible people aged 60-79 to receive a booster jab. This could bode well for the retail market as it could potentially increase domestic mall footfall and spending, with the relaxation of Covid-19 safety measures and restrictions. Further, as mentioned on page 16, the strategic positioning of the GBA would also enable greater footfall in the region, potentially improving DRT's revenue. With the containment of the pandemic and the gradual recovery in the economy we would also expect the withdrawal of support extended to tenants, further improving DRT's revenue. According to IMF, China's GDP is projected to grow by 4.4% in 2023. This positive outlook would regain the confidence of the consumer to shop and dine in retail settings, hence, improving demand for retail spaces and rental growth.

Considering the above, we would assume the 4.4% growth rate for China's GDP as a proxy for our growth in revenue projections for FY2023. However, as noted on page 8, DRT is proactively negotiating and in talks with potential buyers for the potential divestment of Shiqi Metro Mall and Xiaolan Metro Mall. Considering that there have been multiple extensions to the Offshore & Onshore Facilities, we believe the possibility of the sale of Shiqi Metro Mall and Xiaolan Metro Mall to be very high. As the latest extension for the loan will expire on 31 December 2022, for our revenue projections, we would assume the sale of the two properties to be completed by 31 December 2022. Accordingly, we would exclude the revenue of the two properties for FY2023.

The revenue contribution of the respective properties in FY2023 would be calculated as follows:

- Revenue contribution from Ocean Metro Mall for FY2023 = [S$11.8 million (FY2022 projected) x 104.4% (projected revenue growth for FY2023)] = S$12.4 million
- Revenue contribution from Dasin E-Colour for FY2023 = [S$2.1 million (FY2022 projected) x 104.4% (projected revenue growth for FY2023)] = S$2.2 million
- Revenue contribution from Doumen Metro Mall for FY2023 = [S$17.0 million (FY2022 projected) x 104.4% (projected revenue growth for FY2023)] = S$17.8 million
- Revenue contribution from Shunde Metro Mall for FY2023 = [S$18.1 million (FY2022 projected) x 104.4% (projected revenue growth for FY2023)] = S$18.9 million
- Revenue contribution from Tanbei Metro Mall for FY2023 = [S$1.1 million (FY2022 projected) x 104.4% (projected revenue growth for FY2023)] = S$1.2 million

Accordingly, the projected revenue for FY2023 would be S$52.4 million as shown in **Exhibit 19**.

Exhibit 19: Projected Revenue for FY2023

Revenue (S$'000)	Actual	Forecast		
	9M2022	FY2022	FY2023	Yoy change
Shiqi Metro Mall	16,023	21,154	-	-
Xiaolan Metro Mall	16,500	22,078	-	-
Ocean Metro Mall	8,904	11,833	12,354	4.4%
Dasin E-Colour	1,567	2,129	2,223	4.4%
Doumen Metro Mall	12,974	17,026	17,775	4.4%
Shunde Metro Mall	13,839	18,085	18,881	4.4%
Tanbei Metro Mall	858	1,123	1,173	4.4%
Total	**70,665**	**93,429**	**52,406**	**-43.9%**

Source: DRT, FPA Financial

(II) Earnings projection

Given our projected revenue figures for FY2022 and FY2023, we now estimate DRT's earnings for these periods.

Net Property Income

Regarding our NPI projections, we will consider DRT's historical NPI margin. As noted on page 3, the NPI margin of DRT was approximately 78.2% for 9M2022 compared to approximately 78.6% for 9M2021, representing a decrease of 0.4 percentage points. For FY2022 and FY2023, we would assume the same NPI margin of 78.2% as in 9M2022 and the NPI would amount to S$73.0 million and S$41.0 million for FY2022 and FY2023 respectively as shown in **Exhibit 20**.

Exhibit 20: Projected NPI for FY2022 and FY2023

S$'000	Actual		Forecast	
	9M2021	9M2022	FY2022	FY2023
Revenue	76,665	70,665	93,429	52,406
Total property operating expense	(16,387)	(15,417)	(20,383)	(11,433)
Net Property Income (NPI)	60,278	55,248	73,046	40,972
NPI margin	78.6%	78.2%	78.2%	78.2%

Source: DRT, FPA Financial

Trustee-Manager and Acquisition fees

The Trustee-Manager's fees comprise the base fee of management fee, trustee fee, acquisition fee and divestment fees. We note that the Trustee-Manager receives management fees as per the following:

1. The base fee of management fee is calculated based on 0.25% per annum of the value of the trust property of DRT (Trust Property)

2. The trustee fee was 0.02% per annum of the value of the Trust Property

3. The Trustee-Manager is entitled to receive acquisition fee of 0.75% for acquisition from interested person and 1.0% for all other acquisition price plus any other payments in addition to the acquisition price made to the vendor

4. The Trustee-Manager is entitled to receive divestment fee of 0.5% of the sale price plus any other payments received in addition to the sale price from the purchaser

FY2022

As shown in **Exhibit 3**, the Trustee-Manager's fees amounted to S$4.9 million for 9M2022. For the remainder of FY2022, we would assume the same proportion of Trustee-Managers fees to be recorded. Accordingly, the projected Trustee-Manager's fees for FY2022 would amount to S$6.6 million as follows:

- Projected Trustee-Manager's fees for FY2022 = S$4.9 million (9M2022 actual) x 12/9 months = S$6.6 million

FY2023

As noted on page 8, DRT is proactively negotiating and in talks with potential buyers for the potential divestment of Shiqi Metro Mall and Xiaolan Metro Mall. As we believe that there is the possibility of the divestment of the two properties, we would adjust the value of Trust Property accordingly. As at 30 September 2022, Shiqi Metro Mall and Xiaolan Metro Mall were valued at S$556.5 million and S$395.0 million respectively. Accordingly, the adjusted value of Trust Property would amount to S$1,264.4 million as shown in **Exhibit 21**.

Exhibit 21: Adjusted Value of Trust Property

S$'000	9M2022	FY2023 Adjusted
Shiqi Metro Mall	556,480	-
Xiaolan Metro Mall	394,979	-
Ocean Metro Mall	324,815	324,815
Dasin E-Colour	52,422	52,422
Doumen Metro Mall	384,293	384,293
Shunde Metro Mall	489,541	489,541
Tanbei Metro Mall	13,307	13,307
Total Trust Property	**2,215,837**	**1,264,378**

Source: DRT, FPA Financial

Given the Trust Property to be S$1,264.4 million, the projected base management fee for FY2023 would be as follows:

- Projected base fee for FY2023 = 0.25% x S$1,264.4 million = S$3.161 million

Given the Trust Property to be S$1,369.6 million, the projected trustee fee for FY2023 would be as follows:

- Projected trustee fee for FY2023 = 0.02% x S$1,264.4 million = S$0.253 million

Accordingly, the projected Trustee-Manager's fees would be S$3.4 million for FY2023 = [S$3.161 million (projected base fee) + S$0.253 million (projected trustee fee)].

We note that both Shiqi Metro mall and Xiaolan Metro Mall were acquired at a discount compared to its valuation as at 30 June 2016. With that in mind, we believe it would be fair to assume the sale price of each property to be at the valuation of the respective properties as at 30 September 2022. Accordingly, the divestment fee for Shiqi Metro Mall and Xiaolan Metro Mall would amount to S$2.8 million and S$2.0 million respectively as shown in **Exhibit 22**.

Exhibit 22: Projected Divestment Fee

Properties	Shiqi Metro Mall		Xiaolan Metro Mall	
	RMB ('000)	SGD('000)	RMB ('000)	SGD('000)
Valuation as at 30 June 2016 (with the master lease agreements)	Savills: 2,803,500 Colliers: 2,899,000	Savills: 594,911 Colliers: 615,177	Savills: 2,411,000 Colliers: 2,272,000	Savills: 511,622 Colliers: 482,125
Implied acquisition price	1,224,000	246,787	1,580,000	318,564
Valuation as at 30 September 2022	2,760,000	556,480	1,959,000	394,979
Divestment fee (0.5%)	13,800	2,782	9,795	1,975

Source: DRT, FPA Financial

As we do not expect any further divestment or acquisition to DRT's portfolio in FY2023, we would assume no addition acquisition or divestment fee to be paid to the Trustee-Manager. Accordingly, the projected divestment fee would amount to S$4.8 million = S$2.8 million (projected divestment fee for Shiqi Metro Mall) + S$2.0 million (projected divestment fee for Xiaolan Metro Mall).

The projected Trustee-Manager's fees and divestment fee is shown in **Exhibit 23**.

Exhibit 23: Projected Trustee-Manager's fees and Divestment Fee for FY2022 and FY2023

S$'000	Actual		Forecast	
	9M2021	9M2022	FY2022	FY2023
Trustee-Manager's fees	(5,174)	(4,949)	(6,599)	(3,414)
Divestment fee	-	-	(4,757)	-

Source: DRT, FPA Financial

Other Trust Expenses

We note that other trust expenses increased to S$2.8 million in 9M2022 from S$2.1 million in 9M2021. For the remaining quarter of FY2022, we would adjust the 9 months other trust expense of S$2.8 million to a full year contribution. Accordingly, the projected other trust expense for FY2022 would amount to S$3.7 million = [S$2.8 million (9M2022 actual) x 12/9 months]. For FY2023, we would assume the same other trust expenses of S$3.7 million as shown in **Exhibit 24**.

Exhibit 24: Projected Other Trust Expenses for FY2022 and FY2023

S$'000	Actual		Forecast	
	9M2021	9M2022	FY2022	FY2023
Other trust expenses	(2,118)	(2,804)	(3,739)	(3,739)

Source: DRT, FPA Financial

Exchange Gain/ (Loss)

As mentioned on page 4, exchange loss of S$15.5 million was mainly due to an unrealised exchange loss from weakening of SGD against USD and HKD. Thus far in FY2022, we note that the USD/SGD and HKD/SGD exchange rates have been relatively stable. However, there could be a possibility for the SGD to appreciate against the USD or HKD going forward. In our projections, we would assume that the exchange loss to remain unchanged at S$15.5 million as recorded as at 9M2022 for FY2022 and assume no gains or losses on foreign exchange for FY2023.

Other Expense

As noted on page 4, other expense for the trust only comprises of the net change in fair value of derivative financial instruments. For FY2022 we would assume other expenses to remain unchanged at S$0.2 million as recorded as at 9M2022. For FY2023, as the net (loss)/ gain is due to the spot interest rate against the contracted interest rate, we would assume other expense to be zero.

(Loss Allowance)/ Reversal on Loss Allowance

As mentioned on page 4, the loss allowance on receivables of S$15.1 million was due to slower repayment by tenants affected by Covid-19. For FY2022 we would assume for loss allowance on receivables to remain unchanged at S$15.1 million as recorded as at 9M2022. However, given the uncertainties in the loss allowance on receivables, for FY2023, we would assume it to be zero.

Net Finance Cost

We note from the breakdown of loans on page 7 that DRT has loans that are denominated in SGD, USD, HKD and RMB. DRT's current debt amounted to S$756.6 million and its non-current debt amounted to S$188.6 million. The breakdown of DRT's loans based on currency is shown in **Exhibit 25**.

Exhibit 25: Breakdown of DRT's Loans by Currency

Currency	Current debt (S$ million)	Non-current debt (S$ million)	Total debt (S$ million)
SGD	374.5	-	374.5
USD	254.0	-	254.0
HKD	52.2	-	52.2
RMB	76.0	188.6	264.6
Total	**756.6**	**188.6**	**945.2**

Source: DRT

As noted on page 8, DRT has been proactively negotiating and in talks with potential buyers for the sale of its malls in hopes to repay DRT's existing syndicated loans. We believe the net proceeds from the sale of Shiqi Metro Mall and Xiaolan Metro Mall would be used to repay DRT existing syndicated loans and the remainder (if any) for working capital purposes. We are estimating net proceeds of S$946.7 million from the sale of the two properties =[S$553.7 million (net proceeds for Shiqi Metro Mall) + S$393.0 million (net proceeds for Xiaolan Metro Mall)] as shown on **Exhibit 26**.

Exhibit 26: Estimated Net Proceeds from the Sale of Shiqi Metro Mall and Xiaolan Metro Mall

S$'000	Shiqi Metro Mall	Xiaolan Metro Mall
Valuation as at 30 September 2022 (Sale price)	556,480	394,979
Divestment fee (0.5%)	(2,782)	(1,975)
Estimated net proceeds	553,698	393,004

Source: DRT, FPA Financial

We believe it is likely that DRT would repay the extended Onshore and Offshore loans that will expire on 31 December 2022 and the other Offshore Facilities due in 2022, as mentioned on page 7. Accordingly, the projected net debt for DRT in FY2023 would be S$188.6 million, which is DRT's non-current debt as shown in **Exhibit 27**.

Exhibit 27: Projected Net Debt For FY2023

S$'000	FY2023
Current debt	756,636
Outstanding debt	188,600
Total debt (a)	**945,236**
Projected total net proceeds	946,702
Projected repayment of debt (b)	756,636
Projected outstanding net debt (a)-(b)	**188,600**

Source: DRT, FPA Financial

Over the past few months, interest rates have risen due to the Federal Reserve (Fed) hiking the Fed fund rates It was recently reported that the Fed will further raise interest rates by a half-percentage point rate amid high inflation and a tight labor market. Hence, there is a possibility that we could expect an upward pressure on interest rates for the remainder of FY2022.

We also note as at 30 September 2022, the interest rates for DRT's loans have risen since 31 December 2021 as shown in **Exhibit 28**.

Exhibit 28: Breakdown of Interest Rates for DRT's Loans And Borrowings

Loans and borrowings	Interest rate (p.a)	
	As at 31.12.21	As at 30.09.22
RMB	4.700%-5.225%	4.750%-5.725%
SGD	1.310%-2.910%	1.530%-3.280%
USD	1.290%-1.820%	1.410%-3.760%
HKD	1.640%-1.880%	1.640%-2.930%

Source: DRT, FPA Financial

To project the interest expense on loans and borrowings, we would be using the upper range of the interest rate as at 30 September 2022 as a proxy for interest rate for the remainder of FY2022. Accordingly, the effective interest rate for SGD, USD, HKD and RMB denominated loans would be 3.280%, 3.760%, 2.930% and 5.725%.

4Q2022

Given the above interest rate projections, the projected interest expense on loans and borrowings for 4Q2022 would be as follows:

- Interest expense on SGD loans and borrowings for 4Q2022= [S$374.5 million (total debt) x 3.28% (projected interest rate) x 3/12 (1 quarter's contribution)] = S$3.1 million

- Interest expense on USD loans and borrowings for 4Q2022 = [S$254.0 million (total debt) x 3.76% (projected interest rate) x 3/12 (1 quarter's contribution)] = S$2.4 million

- Interest expense on HKD loans and borrowings for 4Q2022 = [S$52.2 million (total debt) x 2.29% (projected interest rate) x 3/12 (1 quarter's contribution)] = S$0.4 million

- Interest expense on RMB loans and borrowings for 4Q2022 = [S$264.6 million (total debt) x 5.00% (projected interest rate) x 3/12 (1 quarter's contribution)] = S$3.8 million

Given the above, the projected interest expense on loans and borrowings for 4Q2022 would amount to S$9.6 million = S$3.1 million (SGD loans and borrowings) + $2.4 million (USD loans and borrowings) + S$0.4 million (HKD loans and borrowings) + S$3.8 million (RMB loans and borrowings)].

Accordingly, the projected interest expense on loans and borrowings for FY2022 would amount to S$31.5 million = S$21.9 million (9M2022 actual) + S$9.6 million (4Q2022 projected)].

FY2023

As shown in **Exhibit 27,** assuming no further repayment or borrowings, DRT's non-current debt of S$188.6 million is denominated in RMB. While we note that China may provide stimulus to support the capital market and introduce market-friendly policies to stabilize capital markets & bolster economic growth, we would assume the same interest rate of 5.725% as of 31 September 2022 for the RMB denominated loans for FY2023

Accordingly, the projected interest expense on loans and borrowings for FY2023 would be as follows:

- Interest expense on loans and borrowings in FY2023 = [S$188.6 million (expected total debt for FY2023) x 5.73% (expected effective interest rate)] = S$10.8 million

The summary of the projected interest expense on loans and borrowings for 4Q2022 and FY2023 is shown in **Exhibit 29**.

Exhibit 29: Projected Interest Expense on Loans and Borrowings for 4Q2022 and FY2023

S$ million	Total debt	Effective interest rate	Interest expense on loans and borrowings
4Q2022			
SGD	374.5	3.28%	3.1
USD	254.0	3.76%	2.4
HKD	52.2	2.93%	0.4
RMB	264.6	5.73%	3.8
Sub total	**945.2**	**-**	**9.6**
FY2023			
SGD	-	-	-
USD	-	-	-
HKD	-	-	-
RMB	188.6	5.73%	10.8
Sub total	**188.6**	**-**	**10.8**

Source: DRT, FPA Financial

For finance income, we note that finance income amounted to S$0.7 million in 9M2022. For the remaining quarter of FY2022, we would adjust the 9 months finance income of S$0.7 million to a full year contribution Accordingly, the projected finance income for FY2022 would amount to S$0.9 million = [S$0.7 million (9M2022 actual) x 12/9 months]. For FY2023, we would assume the same finance income of S$0.9 million. Meanwhile, we would adopt the same adjustment to the amortisation of capitalised borrowing cost, interest expense and interest expense on Right-of Use assets for the remainder of FY2022 and assume the expenses to remain unchanged in FY2023. Consequently, the net finance cost for FY2022 and FY2023 would be S$34.2 million and S$13.5 million respectively as shown in **Exhibit 30** on the next page.

Exhibit 30: Projected Net Finance Cost for FY2022 and FY2023

S$'000	Actual		Forecast	
	9M2021	9M2022	FY2022	FY2023
Finance income	793	705	940	940
Finance cost				
Amortisation of capitalised borrowing cost	(9,401)	(2,531)	(3,375)	(3,375)
Interest expense	(522)	(184)	(245)	(245)
Interest expense on loans and borrowings	(18,003)	(21,894)	(31,521)	(10,797)
Interest expense on Right-of-Use assets	(44)	(22)	(29)	(29)
Net finance cost	**(27,177)**	**(23,926)**	**(34,231)**	**(13,507)**

Source: DRT, FPA Financial

Net Change in Fair Value of Investment Properties

As noted on page 4, DRT recorded a net loss in fair value of investment properties of S$63.8 million due to the impact of the Covid-19 pandemic. For FY2022 we would assume for the net loss in fair value of investment properties to remain unchanged at S$63.8 million. For FY2023, we would assume no fair gain or loss on investment properties.

Profit Before Income Tax

Given the above projections, we estimate a loss before tax of S$70.7 million and a profit before tax of S$20.3 million for FY2022 and FY2023 respectively, as shown in **Exhibit 31**.

Exhibit 31: Projected Profit Before Income Tax for FY2022 and FY2023

S$'000	Actual		Forecast	
	9M2021	9M2022	FY2022	FY2023
Revenue	76,665	70,665	93,429	52,406
Total property operating expense	(16,387)	(15,417)	(20,383)	(11,433)
Net Property Income (NPI)	**60,278**	**55,248**	**73,046**	**40,972**
Trustee-Manager's fees	(5,174)	(4,949)	(6,599)	(3,414)
Divestment fee	-	-	(4,757)	-
Other trust expenses	(2,118)	(2,804)	(3,739)	(3,739)
Exchange loss	(8,969)	(15,476)	(15,476)	-
Other (expense)/ income	740	(19)	(19)	-
Loss allowance on receivables	(7,950)	(15,085)	(15,085)	-
Finance income	793	705	940	940
Finance cost	(27,970)	(24,631)	(35,171)	(14,447)
Net Income	**9,630**	**(7,011)**	**(6,860)**	**20,313**
Net change in fair value of investment properties	837	(63,791)	(63,791)	-
Profit before income tax	**10,467**	**(70,802)**	**(70,651)**	**20,313**

Source: DRT, FPA Financial

Net Gain/ (Loss) on Divestment

We note that net gain/ (loss) on divestment is calculated by subtracting the net book value and the divestment costs of the property from the sale price. As we are projecting that both the properties (Shiqi Metro Mall and Xiaolan Metro Mall) to be sold at its net book value, as noted on page 23, and we have already recognized the divestment cost, as shown in **Exhibit 23**, we are assuming the net gain on divestment to be zero.

Income Tax Expense

FY2022

We note that for 9M2022, DRT recorded loss before income tax of S$70.8 million and recorded current income tax of S$4.4 million. For FY2022, we are projecting a loss before income tax of S$70.7 million, representing an increase in profit in the last quarter of FY2022 of S$0.2 million = [-S$70.7 million (projected FY2022) – S$70.8 million (actual 9M2022)].

Considering the above, we would use the proportion of increase in profit before income tax between 9M2022 and FY2022 to project the current income tax expense for FY2022. Accordingly, the projected current income tax expense would amount to S$5.0 million as follows:

- Projected current income tax expense for 4Q2022 = [S$0.2 million (projected increase in profit in 4Q2022) / S$70.8 million (actual loss recorded as at 9M2022) x S$4.4 million (actual current income tax expense as at 9M2022) = S$11,000

- Projected current income tax expense for FY2022 = S$4.4 million (actual current income tax expense as at 9M2022) + S$11,000 (projected 4Q2022) = S$4.4 million

We would assume the withholding tax expense and deferred tax income of S$0.8 million and S$10.1 million respectively as recorded in 9M2022 to remain unchanged in FY2022. Accordingly, the projected income tax credit would amount to S$5.0 million as shown in **Exhibit 32**.

FY2023

For FY2023, as we are projecting a profit before tax of S$20.3 million, we would calculate the current income tax expense based on the statutory income tax rate of 25%. Meanwhile, we would assume the withholding tax expense and deferred tax expense to be zero. Accordingly, the projected income tax expense for FY2023 would amount to S$5.1 million = [25% x S$20.3 million (projected profit before income tax FY2023)] as shown in **Exhibit 32**.

Exhibit 32: Projected Income Tax Expense for FY2022 and FY2023

S$'000	Actual		Forecast	
	9M2021	9M2022	FY2022	FY2023
Current income tax expense (25%)	5,237	4,370	4,381	5,078
Withholding tax expense	793	777	777	-
Deferred tax (income)/ expense	7,346	(10,146)	(10,146)	-
Income tax (credit)/ expense	13,376	(4,999)	(4,988)	5,078

Source: DRT, FPA Financial

Profit For The Year

Adjusting for income tax expense/ credit, the projected loss for FY2022 would be S$65.7 million and projected profit for FY2023 would be S$15.2 million. As 100% of the profit for the year would be attributed to the unitholder of the trust, the projected figures would be same as the profit of the year.

Earnings per unit (EPU) is calculated by dividing the earnings attributable to the Trust by the weighted average number of units during the financial year. We would assume the latest available weighted average number of units outstanding of 794.6 million shares as at 30 September 2022, for our EPI projections for FY2022. For FY2023, we would assume the total issued units of 804.5 million as at 30 September 2022 for the calculation of FY2023's EPS. Accordingly, we projected a loss per unit of 8.26 cents and an earnings per unit of 1.89 cents for FY2022 and FY2023 respectively as shown in **Exhibit 33**.

Exhibit 33: Projected Profit for FY2022 and FY2023

S$'000	Actual		Forecast	
	9M2021	9M2022	FY2022	FY2023
Revenue	76,665	70,665	93,429	52,406
Total property operating expense	(16,387)	(15,417)	(20,383)	(11,433)
Net Property Income (NPI)	**60,278**	**55,248**	**73,046**	**40,972**
Trustee-Manager's fees	(5,174)	(4,949)	(6,599)	(3,414)
Divestment fee	-	-	(4,757)	-
Other trust expenses	(2,118)	(2,804)	(3,739)	(3,739)
Exchange loss	(8,969)	(15,476)	(15,476)	-
Other (expense)/ income	740	(19)	(19)	-
Loss allowance on receivables	(7,950)	(15,085)	(15,085)	-
Finance income	793	705	940	940
Finance cost	(27,970)	(24,631)	(35,171)	(14,447)
Net Income	**9,630**	**(7,011)**	**(6,860)**	**20,313**
Net change in fair value of investment properties	837	(63,791)	(63,791)	-
Profit before income tax	**10,467**	**(70,802)**	**(70,651)**	**20,313**
Income tax credit/ (expense)	(13,376)	4,999	4,988	(5,078)
Profit for the year	**(2,909)**	**(65,803)**	**(65,662)**	**15,235**
Attributable to:				
Unitholder of the Trust	(2,909)	(65,803)	(65,662)	15,235
Weighted average number of units in issue	780,605	794,574	794,574	804,473
Earnings per unit (cents)	**(0.37)**	**(8.28)**	**(8.26)**	**1.89**

Source: DRT, FPA Financial

(III) Distributions projection

As noted on page 10, DRT announced that it decided to retain distribution income and defer distribution in 9M2022 for prudent cash flow and capital management in view of the continued uncertainties arising from the Covid-19 situation in China. Given the continued uncertainties regarding the Covid-19 situation in China and the refinancing situation, we would assume no distribution to be declared for FY2022 and FY2023.

VALUATION ANALYSIS

(I) Valuation Impact of the Sale of Shiqi Metro Mall and Xiaolan Metro Mall

As mentioned on page 25, we are estimating a net proceeds of S$946.7 million from the sale of the two properties =[S$553.7 million (net proceeds for Shiqi Metro Mall) + S$393.0 million (net proceeds for Xiaolan Metro Mall)]. We also assumed DRT's current borrowings of S$756.6 million would be fully repaid using the proceeds of the sale as mentioned above. We would assume the remainder of the net proceeds would be used for working capital purposes. Accordingly, the working capital would amount to S$190.1 million = [S$946.7 (estimated total net proceeds) – S$756.6 million (repayment of debt)].

Therefore, after adjusting for the impact of the divestment, the estimated total assets of DRT after the transaction would amount to S$1,579.9 million = [S$2,341.3 million (actual total assets as at 30 September 2022) – S$951.5 million (valuation of Shiqi Metro Mall and Xiaolan Metro Mall) + S$190.1 million (estimated working capital)].

Consequently, DRT total liabilities would amount to S$639.5 million = [S$1,396.1 million (actual total liabilities as at 30 September 2022) – S$756.6 million (repayment of debt)]. Accordingly, the estimated net asset/ equity attributable to unitholders would amount to S$940.4 million. Assuming the total number of issued and issuable units at the end of the year to remain the same at 804.0 million, the adjusted NAV would remain at S1.17 per share as shown in **Exhibit 34**.

Exhibit 34: Estimated NAV per Share After the Sale of Shiqi Metro Mall And Xiaolan Metro Mall

S$'000	Actual	Adjusted
Total assets	2,341,321	1,579,928
Total liabilities	1,396,119	639,483
Net assets/ equity attributable to unitholders	945,202	940,445
Total number of issued and issuable units at the end of the year	804,014	804,014
NAV per share (S$)	1.17	1.17

Source: DRT, FPA Financial

(II) Peer Comparison Analysis

We will perform an updated peer comparison analysis to account for the changes in the financial position of DRT and its selected peer companies. The results of our updated peer comparison analysis are summarized in **Exhibit 35**.

Exhibit 35: Peer comparison analysis

Company	SGX code	Price (S$) as at initiation report (1)	Price (S$) as at 1st update report (2)	Price (S$) as at 12 Dec 2022	Market cap (S$ million)	EPU (3) (cents)	P/E (x)	DPU (cents)	Distribution yield (%)	NAV per share (4) (S$)	P/B (x)
Dasin Retail Trust (5)	CEDU	0.515	0.310	0.280	225.25	(13.74)	NM	1.84	6.57	1.17	0.24
Peer companies:											
Sasseur REIT	CRPU	0.955	0.845	0.745	914.75	9.75	7.64	7.14	9.59	0.96	0.78
Capitaland China Trust	AU8U	1.340	1.210	1.140	1,913.64	6.46	17.65	8.60	7.54	1.51	0.75
BHG Retail REIT	BMGU	0.560	0.595	0.500	256.59	1.41	35.46	1.81	3.62	0.88	0.57
Peer average	-	-	-		-	-	**20.25**	-	**6.92**	-	**0.70**

Figures have been rounded and based on the share price as at 12 December 2022. NM: not meaningful

(1) 27 July 2021

(2) 31 March 2022

(3) 12-month trailing diluted EPS based on latest financial statements

(4) As at 30 June 2022

(5) NAV as at 30 September 2022

Source: Respective company data, FPA Financial

Based on the result in **Exhibit 35** above, we note that DRT's distribution yield of 6.57% is lower than the peer average yield of 6.92% which could suggest that it is relatively less attractive in terms of distribution yield. However, we note that DRT is trading at a lower PB multiple of 0.24x compared to the peer average of 0.70x, which could suggest that it may be undervalued.

Similar to our previous reports, we note that while Sasseur REIT and Capitaland China are similar to DRT in terms of industry and business operations, the market capitalisation of the two REITs are significantly higher than DRT, which may justify their higher PB multiples.

In addition, even though BHG Retail REIT's (BHG) market capitalisation is more similar to DRT, the former is trading at a higher PB of 0.57x. We identified two factors which may explain why DRT has a lower PB multiple than BHG.

First, BHG's sponsor, Beijing Hualian Department Store Co., Ltd. is part of Beijing Hualian Group Investment Holding Co., Ltd., one of the 15 largest retail enterprises supported by Ministry of Commerce. BHG's Sponsor is also an established retailer and is one of China's largest retail enterprises with more than 20 years of retail operating experience, managing more than 30 malls over 10 different Chinese cities. It is listed on the Shenzhen stock exchange with a current market capitalisation more than 5 billion yuan. As at 30 December 2021, the company reported total assets and total shareholder equity of approximately 13.0 billion yuan and 7.1 billion yuan respectively.

Next, we also note that BHG's second largest shareholder, Qianhai International Holdings Co. Limited – who owns a 13.07% stake – is a wholly-owned subsidiary of Qianhai Authority, a statutory body of Qianhai Cooperation Zone in China. This relationship suggests that there could be Chinese state-owned control in BHG, which we believe to be positive for BHG.

While we believe that there is growth potential for DRT on the back of stronger economic rebound in China and its strategic partnership with Sino-Ocean Capital, these factors are unlikely to justify for DRT to trade at the BHG's PB multiple 0.57x.

Having considered the above, we believe that it would be more likely for DRT to trade at a PB multiple of the average of DRT's and BHG's at 0.41x = [(DRT PB of 0.24x + BHG PB of 0.57x)/ 2]. This would imply a target price of S$0.480 as computed below

- Estimated target price = [Average PB of DRT and BHG] x [latest reported NAV] = 0.41 x S$1.17 = S$0.480

This estimated target price would represent a 71.43% upside from the current price of S$0.280. However, there is currently no major catalyst in the medium to long term which could justify such high upside potential in the share price Moreover, the multiple extension of its loans could explain the lower valuation multiple for DRT. Adopting a conservative approach, we believe that it could be more reasonable for DRT's share price to recover to S$0.385, which was DRT's 52-week high. This estimated target price would represent a 37.50% upside from the current price of S$0.280.

(III) Potential Injection of Assets into DRT

We note that Sino-Ocean Capital, through New Harvest Investment Limited, is the controlling shareholder of the Trustee-Manager, holding a total of 70% of the total issued and paid-up share capital. As noted on page 18, Sino-Ocean Capital had increased its stake in DRT from 6.3% to approximately 12.0%. We also note that Sino-Ocean announced the possibility of connecting its domestic commercial and office properties with an overseas public REIT.

It was also recently reported on Business Times (BT) that REIT managers should periodically undertake a strategic review of their portfolio as the market conditions and operating environment constantly evolve and change with the passage of time. In addition, for REIT managers to maintain the performance of their REITs, they will need to constantly review their portfolio, divest non-core assets and recycle the capital into better growth opportunities.

As mentioned on page 3, DRT's revenue for 9M2022 has decreased by 7.8% yoy. This could be a catalyst for DRT's manager to conduct a strategic review of its portfolio. With government initiatives to stimulate market consumption, we believe the potential recovery in China's retail sector and the positive outlook for the greater bay area could provide opportunities for Sino-Ocean Capital to inject some of its properties into DRT. This could provide further revenue and distribution growth in the future. However, we would like to highlight that even if Sino-Ocean Capital were to inject its assets into DRT, it might also initiate a rights offering to raise funds, which could dilute the unitholders' interests

We have summarised Sino-Ocean Capital's real estate investment portfolio in **Exhibit 36**.

Exhibit 36: Sino-Ocean Capital's Real Estate Investment Portfolio

Commercial	
Beijing International Center	Shanghai Hexing Building
Beijing Life Financial Center	Shanghai H88 Yuehong Plaza
Beijing Ocean Plaza	Shanghai Sino-Ocean Tower
Beijing INDIGO	Shanghai Amazing City
Beijing INDIGO II	Wuhan Citylane
Beijing CBD Plot Z6	Hangzhou Grand Canal Place
Beijing Ocean Rayzone	Chengdu Sino-Ocean Taikoo Li
Beijing Ocean Office Park	Dalian Coast Time
Beijing Ocean INCOM	Tianjin Ocean We-life
Beijing Sino-Ocean Beiyuan	Tianjin Ocean We-life Plaza
Beijing Grand Canal Place	Tianjin Ocean International Center
Beijing Ocean We-life Plaza	

Logistic	**Data Centers**
Ningbo Yuyao Industrial Park	Guangzhou Ruihe Road Data Center
Tianjin Beichen Industrial Park	Guangzhou Guanda Road Data Center
Tianjin Wuqing Industrial Park	Changzhou Zhonglou Data Center
Tianjin Airport Industrial Park	Beijing Majuqiao Data Center
Chengdu Qingbaijiang Industrial Park	
Suzhou Zhangjiagang Industrial Park	
Jiaxing Pinghu Industrial Park	
Jiaxing Zhapu Industrial Park	
Jiaxing Nanhu Industrial Park	
Beijing Shunyi Niulanshan Industrial Park	
Wuhan Jiangxia Industrial Park	
Xuzhou Jiawang Industrial Park	
Nanjing Binjiang Industrial Park	
Chongqing Jiangjin Logistic Project	
Xi'an Qinhan Industrial Park	
Tianjin Baodi Industrial Park	

Source: Sino-Ocean Capital

INVESTMENT RECOMMENDATION

Based on our valuation analysis, factoring in the impact of the sale of Shiqi Metro Mall and Xiaolan Metro Mall, we derived an adjusted NAV of S$1.17, which remained unchanged from the reported NAV as at 30 September 2022. Based on the adjusted NAV of S$1.17, DRT currently has a PB multiple of 0.24x and is trading at a discount of approximately 76% to NAV.

Meanwhile, our peer comparison analysis results show that DRT's PB of 0.24x is lower than the peer average PB of 0.70x, which suggest that it could be undervalued. However, DRT is relatively less attractive in terms of distribution yield of 6.57% compared to its peer average of 6.92%. Our evaluation of the peer comparison results leads us to believe that it may be reasonable for DRT to trade at the PB multiple of 0.41x and the estimated target price of S$0.480. This estimated target price would represent a 71.43% upside from the current price of S$0.280.

Overall, we believe that the relaxation of Covid-19 measures and government stimulus could help underpin a broad-based recovery in the retail industry. However, there is currently no major catalyst in the medium to long term for DRT which could justify such high upside potential in the share price. Moreover, the multiple extension of its loans could explain the lower valuation multiple for DRT. Adopting a conservative approach, we believe that it could be more reasonable for DRT's share price to recover to S$0.385, which was DRT's 52-week high. This estimated target price would represent a 37.50% upside from the current price of S$0.280.

We have considered that even with the sale of the two properties to repay its debts, the upside would be dependent on what the management does going forward. In addition, if Sino-Ocean Capital were to inject its assets into DRT, it might also initiate a rights offering to raise funds, which could dilute the unitholders' interests. Considering the above, we will maintain our recommendation at neutral. There are also risks to our target price which we would highlight in the next section.

RISKS TO OUR RECOMMENDATION

In this section, we highlight below risk factors that may limit the potential upside in DRT's target price

(I) Refinancing Risk

As noted on page 8, the extension of DRT's Onshore & Offshore Facilities to 31 December 2022 has helped ease investor concerns over its refinancing risks. DRT added that it has commenced discussions with more than one leading Chinese enterprise for potential strategic investment with the objective of leveraging their resources to conclude the Trust's refinancing effort. However, it is currently in the early stages and there are still uncertainties surrounding the transaction. Hence, if the sale of the two properties or other properties in DRT's portfolio do not materialise, there is a possibility that DRT could face trouble refinancing the facilities and there could be a possibility of another sell-off.

(II) Risk of Weak China Economic Recovery

As noted on page 10 and page 11, China's GDP grew by 3.9% yoy in 3Q2022 and its retail sales fell by 0.5% yoy in October respectively. As of the end of the third quarter, growth for the year was up by just 3% from a year ago — well below the official target of around 5.5% announced in March. The slowdown can be mainly attributed to the Zero-Covid policy implemented since the start of the pandemic. We note that as authorities tighten controls, the effects of restrictions are becoming more evident in declining subway ridership and a reduction in car trips. Previous lockdowns caused business closures, a decline in domestic tourism, and a squeeze on factory output.

As it stands, China's economic growth is set to miss its 5.5% growth target, as the weight of Covid measures added to a prolonged property downturn and sinking export demand. Retail sales contracted unexpectedly for the first time in five months. The virus is constantly mutating and new variants of the virus are expected to occur, as seen in the recent spike in COVID-19 cases as mentioned above. With this in mind, there is a possibility that China will tighten or prolong its border control measures, further hindering economic recovery. With the uncertainty in the outlook for the economy, consumers may continue to cut their retail spendings, which would deter recovery in the retail sector. This could have a negative impact on the DRT's financial performance going forward

(III) China's Covid Resurgence Could Spur New Curbs

As mentioned on page 14, China scraped most covid testing and quarantine requirements. These measures have raised hopes of a reopening bounce in the Chinese economy.

However, China's top health experts have warned of a surge in Covid-19 cases, in the wake of the government's decision to abandon its hardline coronavirus strategy, state media said. More recently, Business Times (BT) reported that China is now facing a surge of cases that it is ill-prepared to handle, with millions of elderly still not fully vaccinated and underfunded hospitals lacking the capacity to take on huge numbers of patients.

We believe that if the Covid-19 situation continues to deteriorate, there will be a risk that China may continue to intensify its lockdown and other anti-Covid restrictions measures which could negatively impact the footfall in the retail malls.

(IV) Currency Risk

DRT is exposed to fluctuations of the Chinese Renminbi (RMB), United States Dollar (USD) and Hong Kong Dollar (HKD) against the Singapore Dollar (SGD). Amid the current COVID-19 situation, there is a possibility that SGD could strengthen due to higher vaccination rates and an increase in capital inflow as a result of its safe-haven status. This would imply a reduction in revenue when foreign currency earnings in HKD and RMB are translated to SGD. Hence, a stronger SGD could have a negative impact on DRT's earnings due to currency exchange transaction losses.

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