

kopi-C: the Company brew

28 July 2017

China's Insatiable Appetites Boost BHG Retail REIT



BHG Retail REIT

SGX Code	BMGU
Mkt Cap S\$M	366
% Price Change YTD	12.2%
% Price - Div Adj. YTD	16.5%
% Price - Div Adj. [1 Year]	15.8%
Price vs. 12M High %	-3.3%
Price vs. 12M Low %	+28.9%
12M High Price	0.76
12M High Date	26/08/16
12M Low Price	0.57
12M Low Date	03/11/16
% Div Yld	6.8%
P/B	0.9

Source: SGX StockFacts (26 July 2017)

Chan Iz-Lynn, Chief Executive Officer of the manager of SGX-listed BHG Retail REIT, firmly believes in pursuing her dreams.

Johor-born Chan left home at the age of eight, crossing the Malaysia-Singapore border to live with different families, all because she yearned to attend a school in "Lee Kuan Yew's country".

"I grew up wanting different experiences," she said.

"As a kid, I heard adults talk about Singapore, and got the sense that it's a good place to be in, so I asked my parents if I could study in Singapore."

This was one of the toughest choices she had ever made.

"Although my dad visited me every week, I was homesick all the time, and sometimes, in the middle of class, I would suddenly burst into tears," she recalled.

"But I knew, deep down, there was no turning back, because this was an important decision that had been made, and it was for a better future."

In 1996, after graduating from the University of Leicester with a Bachelor of Arts with Honours in English, Chan continued to blaze her own trail.

She subsequently fulfilled her aspiration to become Singapore Airlines' first female Station Manager, handling the carrier's airport operations first in Frankfurt, then Copenhagen, followed by New York and Hong Kong, over the next nine years.

"SQ had previously only appointed male station managers, and I was their first female station manager. It was a tough life - I had to make sure I performed better than my male counterparts in almost every

aspect of the job," she said.

A living testimony to the power of tenacity, Chan's personal mantra is "never give up on your dreams".

"You may feel that something is impossible to achieve, but if you push hard enough and persevere long enough, you will be able to overcome the obstacles and reach your goal."

Over the next decade, Chan's career was focused exclusively on senior roles in retail and hospitality real estate management with Singapore's Far East Organization, as well as Beijing Hualian Department Store Co Ltd - affectionately known as BHG Mall and the Sponsor of BHG Retail REIT.

In 2015, she was appointed CEO of BHG Retail Trust Management, the manager of BHG Retail REIT.

Third Space

BHG Retail REIT is the first pure-play China retail real estate investment trust sponsored by an established China-based retail property operator. Listed on SGX Mainboard in December 2015, the REIT aims to invest directly or indirectly in a diversified portfolio of income-producing real estate and real estate-related assets used primarily for retail purposes (wholly or partially), with an initial focus on China.

With a current market capitalisation of over S\$365 million, BHG Retail REIT has generated a total return of 16.5% in the 2017 year-to-date, compared with the benchmark Straits Times Index's (STI) 17.8%, and the broader FTSE ST All-Share Index's 17.0%.

The manager of the REIT - BHG Retail Trust Management - is an indirect, wholly owned unit of the Sponsor, Beijing Hualian Department Store Co Ltd, which listed on the Shenzhen Stock Exchange in May 1998. The Sponsor is part of the Beijing Hualian Group, which has more than two decades of experience in managing retail properties, as well as operating supermarkets and hypermarkets.

The REIT owns a diversified portfolio of five retail properties strategically located in major Chinese cities. These assets have a total net lettable area of about 156,000 square metres, and average occupancy rate of over 98%. The portfolio comprises a 60% interest in Beijing Wanliu Mall, Chengdu Konggang Mall, Hefei Mengchenglu Mall, Xining Huayuan Mall and Dalian Jinsanjiao Property.

The malls are located in high-density population areas frequented by middle-class professionals and families. Designated as lifestyle destinations, the anchor tenant or master lessee in every mall is the highly popular Beijing Hualian Hypermarket Co.

The very deliberate positioning of the malls ensures they remain relevant to the broader community, Chan said.

"We're in the business of running retail malls, but they're not just money-spinners for us - they function to serve the community," she noted.

"In China, homes are getting smaller and traffic jams are on the rise, so people enjoy spending time in a third space - outside the home, office or school. This space is sacrosanct, and plays an important role in enriching their lives. We're working with our tenants and shoppers to make the mall a happy and positive space for them."

The five properties in the REIT's portfolio are similar to Jurong Point, Singapore's largest suburban mall located in the west, and Tampines Mall, another heartland mall situated in the east.

"We won't shy away from who we are, and we'll stay true to our positioning through our tenant mix, activities and promotions," she added.

Asset enhancement efforts are also a key element in the REIT's strategy. "We make it a point to communicate with shoppers regularly - through WeChat, emails and face-to-face surveys - so we can bring in products and brands that they want."

For example, its Chengdu Konggang Mall is being refurbished to elevate the mall's active lifestyle offering, due to rising demand for sporting goods and services from a relatively young demographic in its vicinity. This enhancement initiative, which is on track to be completed in the third quarter of 2017, has boosted occupancy levels in the mall and added new brands such as Nike, Adidas and New Balance.

"As long we stay relevant to the community, the revenues will come in," Chan said.

The relatively shorter lease tenures for its tenants also work in the REIT's favour. "In China, it's not uncommon to have one- to three-year leases, which give us a chance to raise rentals or refresh the tenant mix upon expiry. The majority of our leases also come with a yearly in-built escalation and gross turnover component," she added.

Macro Drivers

Looking ahead, Chan expects the REIT to benefit from robust growth in the Chinese economy. In the April-June quarter, gross domestic product (GDP) expanded 6.9% year-over-year, maintaining the growth rate in the first quarter and beating economists' estimates. Factory output grew 7.6% in June from a year earlier, the fastest rate in three months, while retail sales rose a better-than-expected 11.0% last month from a year ago, the quickest pace since December 2015.

"The macroeconomy will be our key driver. Growth looks positive and retail sales have remained strong. The rise of the middle class, migration of rural population to cities, and the implementation of a two-child policy from 2016 - all of these will also boost domestic consumption," she added.

Another avenue of growth is acquisitions - via right of first refusal (ROFR) properties from the Sponsor, as well as suitable assets from third-party operators.

"We have a total of 14 ROFR properties from our Sponsor located in Beijing and other cities, and the first batch will be ready for our consideration from 2018," Chan said.

"We're also exploring opportunities to acquire income-producing retail assets from third parties. The criteria includes being yield-accretive, a good location, and potential for asset enhancement," she added.

While the outlook remains bright, one issue that lingers at the back of Chan's mind is how to ensure the REIT continues to meet the needs of an increasingly sophisticated Chinese shopper.

"Many people think our challenges are the rise of e-commerce and oversupply, but these are not really our biggest concerns. Our properties are not located in areas where many malls are present, and while e-commerce is growing, consumers continue to engage with brands both online and offline," Chan pointed out.

According to a McKinsey survey of China's Internet users conducted in April 2016, consumer satisfaction was higher with physical stores than online ones. Two-thirds of Chinese consumers in the survey noted that shopping is the best way to spend time with family, and malls that combine shopping, dining and entertainment experiences for the whole family have benefited most from this trend, she said.

Retailers are also increasingly adopting an omni-channel strategy, which blurs boundaries between online and offline purchases. "The physical mall will be relevant as long as the tenant mix is relevant, and our malls have adopted an experiential focus."

Following a collaboration with Alibaba and Alipay, consumers can purchase shopping vouchers online and spend them in the REIT's brick-and-mortar stores. They can also download dining discount vouchers via online food and beverage platforms or apps.

Shifting Demands

A more pertinent issue, instead, is how to keep up with constantly evolving consumer demands.

"Many Chinese travel widely now, such as having visited Southeast Asia, and they want to be able to savour different kinds of cuisine, such as Thai food or chilli crab, in the malls. Social media provides them with information on the latest trends, so they want not just yoga, but aerial yoga!"

The focus on brands is also paramount. "Customers desire better and better products. They ask for imported brands because one, they can afford it, and two, they want the very best for themselves and their children."

But trends can change very quickly - what's popular today can become passe tomorrow, Chan noted, pointing to cheesecake fads. "As an operator, we need to monitor and keep up with these shifts in demand."

And staying in tune with what's current means reading widely. A voracious reader, Chan spends her time

outside the office researching on topics ranging from art and history to health and food. "I enjoy learning about anything and everything," the gregarious 44-year-old said with a laugh.

Being a good listener is also an important part of the learning process, she pointed out. "We should listen more than we speak. There's always something to glean from everyone you meet - even a five-year-old can have words of wisdom to share."

Chan, who is married to a pilot and has three dogs, believes in carving out "me time". After attending the General Management Programme at Harvard Business School in 2012, she realised the importance of managing herself.

"We were encouraged to spend 50% of our time managing ourselves, as opposed to managing our staff, bosses or peers," she said.

"Only when we're able to handle ourselves and our emotions, can we manage the other aspects of our lives well - that really hit home for me."

By extension, understanding yourself is critical, she added.

"By spending time alone and being still - when you're calm and your mind is clear - that's when you can find your direction and focus. Only when you are focused will you be able to make the right decisions and achieve your goals."

kopi-C Conversations: Chat with BHG Retail REIT CEO Chan Iz-Lynn

The list of videos and their topics are as follows:

Management Core Values - <https://youtu.be/X5n068ukUTs>

Growth Drivers & Outlook - <https://youtu.be/AYi1Hr7E2qs>

Key Challenges & Strategies - <https://youtu.be/nDnIDSJ38xU>

Sharing Life's Lessons - https://youtu.be/kktvevU_Hek

Financial results

Quarter ended 31 March (S\$ '000)	1Q 2017*	1Q 2016*	% Change
Gross revenue	15,492	16,039	-3.4^
Net property income	10,371	10,139	2.3^ ~
Distribution per unit (cents)	1.39	1.37	1.5

*average SGD:CN¥ translation rate of 1:4.864 and 1:4.643 used for 1Q 2017 and 1Q 2016 respectively

^with effect from 1 May 2016, Value Added Tax replaced Business Tax in China, and is net off revenue instead of reflecting in property operating expenses

~with effect from 1 July 2016, the Beijing State Government aligned its tax policy with the national practice of charging property tax based on rental income, which resulted in higher property-related tax expenses for Beijing Wanliu Mall.

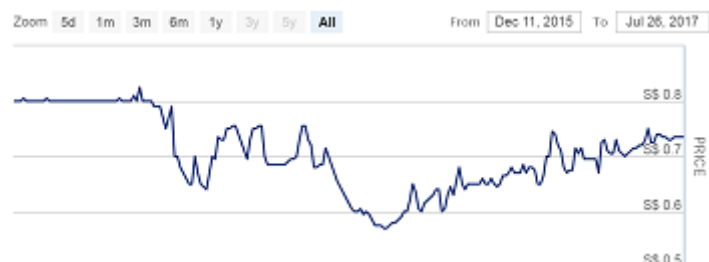
Source: Company data

Brokers' Ratings - Not Rated

Buys	0
Holds	0
Sells	0
Consensus PT	N/A

Source: SGX Stockfacts

Price Chart



Outlook & Risks

- According to data from the National Bureau of Statistics of China, China registered GDP growth of 6.7% YoY in 2016. Based on preliminary estimates, the economy grew 6.9% YoY in the first quarter of 2017. The latest results have laid a solid foundation for the Chinese economy to realise its full-year growth target of 6.5%. Disposable income per capita for urban residents increased 6.3% YoY in the first quarter, while unemployment remained stable at 3.97%, and total retail sales rose 10.0% YoY.
- During the annual National People's Congress & Chinese People's Political Consultative Conference meeting in March 2017, the government identified several key targets for developments in the year ahead, including full-year GDP growth of 6.5%, increasing personal incomes reasonably in line with economic growth, increasing 11 million new urban jobs, and keeping unemployment rate within 4.5%. It also emphasised the commitment to drive domestic consumption and target retail sales growth of 10.0% for the full year.
- According to CBRE data, China's Consumer Confidence Index rose to a 10-year record of 112.6 in February. For the first two months of 2017, solid growth was registered for sales of sporting goods, office supplies and books, as well as the food and beverage sector. Experiential retail also continued to perform well.
- Looking forward, BHG Retail REIT's portfolio of five resilient community retail properties, with their strong experiential-focused trade mix and robust surrounding catchment, will continue to benefit from China's economic transformation, driven by rising disposable income, domestic consumption and urbanisation.

BHG Retail REIT

BHG Retail REIT is the first pure-play China Retail REIT sponsored by a leading China integrated retail group. The REIT was listed on SGX Mainboard on 11 December 2015. The principal investment strategy of the REIT is to invest, directly or indirectly, in a diversified portfolio of income-producing real estate, which is used primarily for retail purposes (wholly or partially), as well as real estate-related assets in relation to the foregoing, with an initial focus on China. Its portfolio comprises five retail properties - Beijing Wanliu (60%), Chengdu Konggang, Hefei Mengchenglu, Xining Huayuan, Dalian Jinsanjiao - located in Tier 1, Tier 2 and other cities of significant economic potential in China. As at 31 March 2017, the portfolio has a gross floor area of about 264,000 sqm and a committed occupancy of 98.6%. As at 31 December 2016 (latest valuation date), the total appraised value is approximately S\$810.7 million.

The company website is: www.bhgreit.com.

Click [here](#) for the company's Stockfacts page.

For first quarter ended 31 March 2017 financial results, click [here](#).



Text: Jennifer LH Tan

Photo: Company file

kopi-C is a regular column on SGX's My Gateway website that features C-level executives of leading companies listed on the Singapore Exchange. These interviews are profiles of senior management aimed at helping investors better understand the individuals who run these corporations.

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For more information, or if you would like your senior executives to be featured on SGX Market Dialogues, please send suggestions to jennifer.tan@sgx.com.

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