

BUY

TP: SGD 0.88

▲ 37.3%

EC World REIT

ECWREIT.SP

Resilient core operations; inorganic opportunities

EC World REIT (ECW) delivered resilient 3Q18 results with +2.3% YoY growth in adjusted DPU, amidst macroeconomic headwinds. The rise in DPU were mainly driven by Wuhan Meiluote acquisition and steady organic growth, partially offset by RMB depreciation. With low gearing of 30.7% and visible acquisitions pipeline, ECW is well positioned to grow inorganically in FY19. ECW is trading at an attractive 9.5% FY19E yield and 0.79x P/B. Reiterate BUY.

- ➔ **Robust, steady results:** 3Q18 gross revenue grew 0.1% YoY to S\$23.9m, while NPI grew by 0.5% YoY to S\$22.2m. Distribution to unitholders rose 10% YoY to S\$12.4m, resulting in DPU of S\$1.57c (+9.0% YoY, flat QoQ). Post adjustment of Withholding Tax (WHT), DPU was up 2.3% YoY. Underlying portfolio occupancy increased marginally by 0.2pp to 96.9%, while gearing remains low at 30.7% (100% fixed rate).
- ➔ **Geared for more inorganic acquisitions:** Wuhan Meiluote acquisition in April 2018 was the primary driver of 3Q results growth, contributing ~10% of revenue and ~11% of NPI. Wuhan's 3Q economic growth continues to outperform national averages. After passing on ROFR asset Bei Gang Logistics Stage 2 due to non-accretion, ECW retains its healthy balance sheet with gearing of 30.7%, leaving plenty of headroom for subsequent ROFR injection (already under consideration).
- ➔ **Active hedging strategy to protect downside:** While core organic growth from revenue and NPI were a healthy +6.0% YoY and +6.8% YoY, respectively, in RMB terms, results in SGD were dampened by RMB depreciation. Moving forward, we believe that unfavourable exchange rate could ease as China has committed not to engage in currency war in July 2018. In addition, ECW maintains an active hedging policy of up to 75% of projected distribution income (6mo rolling).
- ➔ **Reiterate BUY:** 9M18 results are inline within expectations, making up ~75% of our FY18E forecast. We like ECW for its healthy organic growth and potential acquisition (without equity raise) heading into FY19. ECW offers an attractive FY19E yield of 9.5% and 3.5% DPU CAGR from FY18-21E. It currently trades at an undemanding 0.79x P/B.

Financial highlights

Y/E 31 Dec (SGD m)	FY17A	FY18E	FY19E	FY20E	FY21E
Revenue	91	101	106	109	111
Distribution income	47	49	52	54	56
Outstanding shares (M)	783	792	800	808	816
DPU (SGD cts)	6.0	6.1	6.5	6.7	6.8
DPU growth (%)	NA	2.4%	5.5%	3.5%	1.5%
Yield (%)	8.8%	9.0%	9.5%	9.8%	9.9%
BV per share	0.91	0.91	0.90	0.89	0.88
P/B (x)	0.75	0.76	0.76	0.77	0.78

Source: Company, SCCM Research; as of 7 Nov 2018

8 November 2018



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PRICE CLOSE (7 Nov 2018)

SGD 0.685

MARKET CAP

SGD 545.2 mln

USD 397.3 mln

SHARES O/S

790.2 mln

FREE FLOAT

41.6%

3M AVG DAILY VOLUME/VALUE

SGD 0.202 mln / USD 0.147 mln

52 WK HIGH

SGD 0.790

52 WK LOW

SGD 0.675

Target Price

SGD 0.88



9M18 results generally in line with estimates

- 9M18 Gross revenue and NPI are generally in line with our estimates at ~72% of FY18E. Due to revaluation of investment properties, the bottom line has surpassed our expectations with 9M18 net income at 80.9% of FY18E, leading to a 9M DPU of S\$4.609c at 75% of our estimates. Therefore, we are maintaining our target price of S\$0.88 and our BUY recommendation.

Fig 1 - Results summary

FY 31Dec (S\$m)	3Q18	3Q17	%Change	9M18	9M17	%Change	FY18E	% of forecast
Gross Revenue	23.9	23.9	0.1%	72.8	70.7	2.9%	101.0	72.1%
Operating Expenses	-1.7	-1.8	-4.9%	-6.3	-5.9	5.5%	-9.5	66.0%
NPI	22.2	22.1	0.5%	66.5	64.8	2.7%	91.5	72.7%
Net income before financing cost & tax	22.3	20.3	9.8%	62.7	60.3	3.9%	84.6	74.1%
Interest Income	0.3	0.4	-13.6%	1.1	1.1	2.2%	0.2	532.7%
Borrowing Costs	-6.8	-6.5	4.6%	-20.5	-19.3	6.2%	-25.8	79.2%
EBT	15.8	14.1	11.6%	43.3	42.1	2.8%	59.0	73.4%
Total return before tax	15.8	14.3	10.0%	51.1	39.8	28.4%	59.0	86.6%
Net income	11.7	9.9	18.8%	35.2	28.2	24.8%	43.5	80.9%
Income available for distribution	12.527	11.281	11.0%	36.566	35.315	3.5%	48.682	75.1%
# of units, end of period (m)	790.2	783.2	0.9%	790.2	783.2	0.9%	791.8	99.8%
DPU (cents)	1.570	1.440	9.0%	4.609	4.521	1.9%	6.149	75.0%
DPU adj for WHT	1.570	1.530	2.6%	4.710	4.6	2.1%	NA	NA

Source: SCCM Research, Company

Geared for more inorganic acquisitions

- Topline growth is mainly supported by the latest acquisition: Acquired this April, Meiluote contributed ~10% of revenue and ~11% of NPI in 3Q18. Its macroeconomic environment also remains positive as Wuhan's GDP growth of 8.5% in 3Q18 continues to outperform China's 6.5% increase.
- Excluding Meiluote, organic growth was c.2%, translating to flat SGD results for the quarter. We think that amidst macroeconomic uncertainty the portfolio as proven to be resilient with its in-built escalations, but significant growth will still incur from new acquisitions, an untapped potential for this quarter. **ECW is still well positioned for asset injection with a healthy gearing of 30.7% and visible ROFR pipeline. The management currently already has 1 potential asset for acquisition under review.**

Fig 2 - Current portfolio with rental escalations providing resilient organic growth

Property	Type	NLA (sq m)	Lease term	Rental Escalation
Stage 1 Properties of Bei Gang Logistics	E-commerce Logistics	120,449	Master lease: From 1 Nov 2015 to 31 Oct 2020	1% on 1 st Jan 2019 and 2020
Fu Heng		94,287	Master lease: 1 Jan 2016 to 31 Dec 2020	4.0% and 3.0% on 1st Jan 2019 and 2020 respectively
Wuhan Mei Luo Te ⁽⁵⁾		48,695	Multi-tenanted	Between 4.5% to 5% per annum
Hengde Logistics	Specialised Logistics	238,032	1) 15 Oct 2015 to 14 Oct 2020 2) 9 May 2016 to 8 May 2021	2 main leases. Up to 10% upon renewal
Chongxian Port Investment	Port Logistics	112,726	Master lease: 1 Jan 2016 to 31 Dec 2020	4.0% and 3.0% on 1 st Jan 2019 and 2020 respectively
Chongxian Port Logistics		125,856	Multi-tenanted	For 72% of leases: increase of 10% in first 3 years, 12% from Year 4
Fu Zhuo Industrial		7,128	1) 25 Apr 2015 to 24 Apr 2020 2) 8 Oct 2014 to 7 Oct 2029	1) 10% in first 3 years, 15% from Year 4 2) 7.5% every 3 years
Total		747,173		

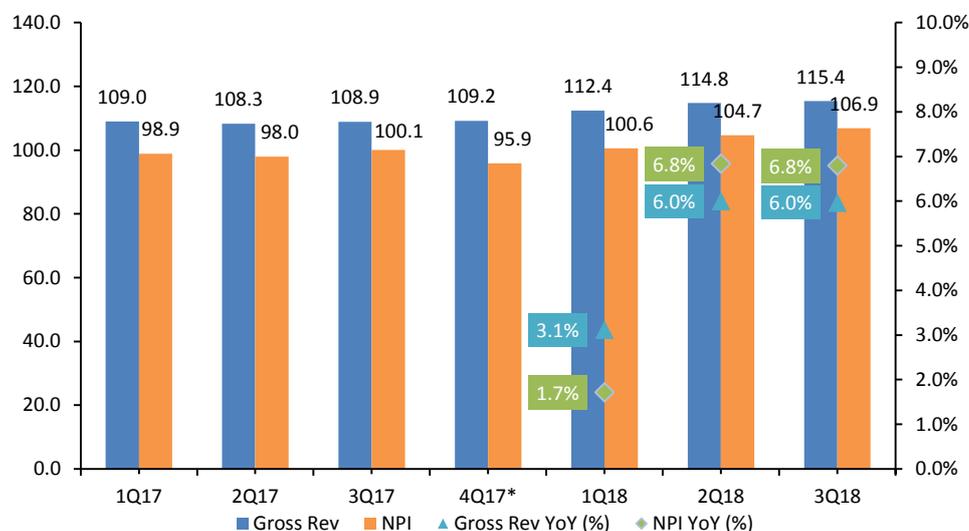
Source: Company

Active hedging strategy to protect downside

- ECW's untranslated results in RMB in 3Q18 are a robust 6.0% rise in revenue and 6.8% rise in NPI for 2 consecutive quarters 2Q and 3Q18. Their results in operations have been on a consistent uptrend for the past 2 years, highlighting quality assets initial portfolio and Meiluote.

RMB appreciated in the first 2 quarters of 2018, only negatively affecting ECW's results in 3Q.

Fig 3 - 3Q18 results in RMB



Source: SCCM Research, Company, *4Q17 NPI Include a provision of impairment (RMB5.2m) of receivables at Fu Zhuo. There was no impact to DPU for FY17

- RMB depreciation dampened the results this quarter, leading only to marginal increase of 0.1% YoY and 0.5% YoY for revenue and NPI respectively. The negative impact of unfavourable exchange rates for 3Q18 are cushioned due to the management's active hedging throughout the year. They have continued with their 6mo rolling FX hedging strategy moving into 4Q18. They currently have 75% of their projected distributable income hedged. Considering the China governments' stand of having no intention to start a currency war announced in July 2018 and ECW's established hedging moving forward, we do not foresee RMB depreciation to overshadow ECW's growth in future, especially if inorganic growth occurs.

Fig 4 - Forex Hedging

Hedge through put spread	2Q18	3Q18	4Q18
Buy	CNH put at 4.8134	CNH put at 4.920	CNH put at 5.020
Sell	CNH put at 4.8634	CNH put at 4.950	CNH put at 5.050

Source: SCCM Research, Company

Financial Statements

Income Statement

Y/E 31 Dec (in SGD'm)	FY17A	FY18E	FY19E	FY20E	FY21E
Gross Revenue	91.4	101.0	105.8	109.1	111.1
Gross Revenue Growth Rate		10.5%	4.8%	3.1%	1.9%
Property Expenses	(8.7)	(9.5)	(10.2)	(10.4)	(10.6)
Net Property Income	82.7	91.5	95.5	98.7	100.5
Trustee-Manager's fees	(5.3)	(5.2)	(5.9)	(5.9)	(5.8)
Trustee's fee	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Trust and administrative expenses	(1.5)	(1.4)	(1.4)	(1.4)	(1.4)
EBIT	75.7	84.6	88.0	91.1	93.0
EBIT Margin	82.8%	83.8%	83.2%	83.5%	83.7%
Non-Operating Income					
Interest Income	1.5	0.2	0.2	0.2	0.2
Interest Expense	(25.8)	(25.8)	(25.8)	(25.8)	(25.8)
Exceptional Gains/(Losses)	(1.6)	0.0	0.0	0.0	0.0
Net Income	49.7	59.0	62.3	65.4	67.4
Tax	(23.8)	(15.4)	(16.3)	(17.1)	(17.6)
Net Income	25.9	43.5	46.1	48.4	49.9
Net Gains from revaluation of properties	21.7	0.0	0.0	0.0	0.0
Total Return for the year	47.6	43.5	46.1	48.4	49.9
Invnt Income available for distribution	47.1	48.7	51.9	54.2	55.6
DPU (cents)	6.0	6.1	6.5	6.7	6.8
DPU Growth Rate		2.4%	5.5%	3.5%	1.5%

Balance Sheet

Y/E 31 Dec (in SGD'm)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash	138.6	112.8	113.1	113.4	113.7
Trade Receivables	35.6	39.3	41.2	42.5	43.3
Current Assets	174.2	152.1	154.3	155.9	157.0
Investment Properties	1,337.0	1,367.3	1,367.3	1,367.3	1,367.3
Other LT Assets	0.2	0.2	0.2	0.2	0.2
Non-Current Assets	1,337.2	1,367.4	1,367.4	1,367.4	1,367.4
Total Assets	1,511.4	1,519.6	1,521.7	1,523.4	1,524.4
Trade Payables	24.6	27.2	28.5	29.4	29.9
OD & ST Debt	40.1	40.1	40.1	40.1	40.1
Tax Provision	9.9	15.4	16.3	17.1	17.6
Other ST Liabilities	1.3	1.3	1.3	1.3	1.3
Current Liabilities	75.9	84.1	86.2	87.9	88.9
LT Debt	395.4	395.4	395.4	395.4	395.4
Deferred Payments (over 12 months)	263.2	263.2	263.2	263.2	263.2
Other LT Liabilities	59.3	59.3	59.3	59.3	59.3
Non-Current Liabilities	717.9	717.9	717.9	717.9	717.9
Total Liabilities	793.8	802.0	804.1	805.8	806.8
Total Unitholders' Equity	717.6	717.6	717.6	717.6	717.6
Total Liabilities and Equity	1,511.4	1,519.6	1,521.7	1,523.4	1,524.4

Cash Flow Statement

Y/E 31 Dec (in SGD'm)	FY17A	FY18E	FY19E	FY20E	FY21E
Pre-tax Profit	49.7	59.0	62.3	65.4	67.4
Tax Paid	(10.8)	(9.9)	(15.4)	(16.3)	(17.1)
Depreciation & Amortization	0.0	0.0	0.0	0.0	0.0
Associates & JVs Inc	0.0	0.0	0.0	0.0	0.0
Other Non-Cash Adjustments	14.2	5.1	5.9	5.9	5.8
Changes in Non-Cash Work Cap	7.9	(1.2)	(0.6)	(0.4)	(0.2)
Cash From Operations	61.0	53.1	52.2	54.6	55.8
Net Change in Property Investments	(2.1)	0.0	0.0	0.0	0.0
Net Change In Investments	0.0	(30.3)	0.0	0.0	0.0
Net Change in Invmts in Assoc & JVs	0.0	0.0	0.0	0.0	0.0
Dividends rec'vd from Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing Activities	7.7	0.0	0.0	0.0	0.0
Cash from Investing Activities	5.6	(30.3)	0.0	0.0	0.0
Distribution to Unit Holders	(46.7)	(48.7)	(51.9)	(54.2)	(55.6)
Net Change in Gross Debt	35.8	0.0	0.0	0.0	0.0
Issue of Units (net of Expenses)	0.1	0.0	0.0	0.0	0.0
Other Financing Activities	(61.7)	0.0	0.0	0.0	0.0
Cash from Financing Activities	(72.5)	(48.7)	(51.9)	(54.2)	(55.6)
Net Changes in Cash	(7.2)	(25.8)	0.3	0.4	0.2

Per Share Data

Y/E 31 Dec (SGD)	FY17A	FY18E	FY19E	FY20E	FY21E
Reported EPU	0.06	0.05	0.06	0.06	0.06
Adjusted EPU	0.06	0.05	0.06	0.06	0.06
DPU	0.06	0.06	0.07	0.07	0.07
BVPU	0.91	0.91	0.90	0.89	0.88

Valuation Ratios

Y/E 31 Dec (x)	FY17A	FY18E	FY19E	FY20E	FY21E
P/E	11.3	12.5	11.8	11.4	11.2
P/B	0.75	0.76	0.76	0.77	0.78

Financial Ratios

Y/E 31 Dec	FY17A	FY18E	FY19E	FY20E	FY21E
Profitability & Return Ratios (%)					
EBITDA margin	82.8	83.8	83.2	83.5	83.7
EBIT margin	82.8	83.8	83.2	83.5	83.7
Net profit margin	28.3	43.1	43.5	44.4	44.9
ROE	3.6	6.1	6.4	6.7	6.9
ROCE	2.7	4.2	4.4	4.6	4.7
Working Capital & Liquidity Ratios					
Receivables (days)	142	142	142	142	142
Payables (days)	98	98	98	98	98
Current ratio (x)	2.3	1.8	1.8	1.8	1.8
Turnover & Leverage Ratios (x)					
Total asset turnover	0.06	0.07	0.07	0.07	0.07
Gearing Ratio	0.29	0.29	0.29	0.29	0.29

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