COMPANY UPDATE

Singapore

EC World REIT

(ECWREIT SP)

Not Rated	
Price as of 24 Nov 2016	0.76
12M target price (S$)	-
Previous target price (S$)	-
Upside (%)	-

Trading data	
Market Cap (S$m)	591.6
Issued Shares (m)	778.5
Ave Daily Traded (3-Month) Vol / Val	0.0m / $0.0m
52 week lo / hi	$0.70 / $0.82
Free Float	50.8%

Major Shareholders	
Forchn Holdings(Sponsoı	53.4%
China Cinda Asset Mgt	12.2%

Well positioned for China's new economy

EC World REIT (EC World) is a pure play Chinese REIT, focused on properties used for e-Commerce, supply-chain management and logistics. The portfolio consists of six properties in Hangzhou, PRC, a fast growing capital city with economic growth outpacing the national average (~10% vs 6-7% for China). The company has guided for a DPU of 5.94 SG Cents for FY17, implying a dividend yield of 7.8% based on its current price. Its current dividend yield is in the mid-range of its peers in the Logistics/ Industrial REITs space. Given its healthy balance sheet (28% gearing ratio), we expect a yield-accretive acquisition to help lift DPU in the next 12 months.

Well positioned in Hangzhou, a key regional centre that is developing to be the high-tech centre of China. Hangzhou is one of the largest hubs in China for e-commerce activity, with Alibaba Group headquartered in the city. Hangzhou's ports are also utilized for shipment of steel, which is relatively more resilient given that it caters mainly to internal Chinese demand. Our understanding from management is that steel volume going through its ports are expected to grow at around 10-20% next year. Hangzhou's economy continues to outperform the overall growth rate of China, with its economy growing at 10.2% in 2015 and 10.8% in 1H16 (vs 6-7% overall for China). This is due to the city's exposure to the high-tech and services industry, a key focus of China's transformation towards a sustainable services-oriented economy.

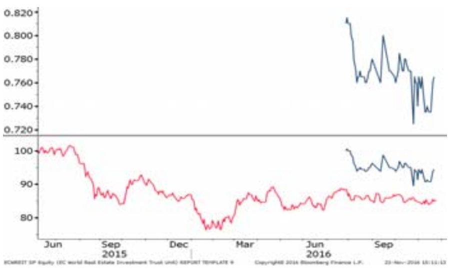
Decent yield with positive rental reversion. Singapore industrial/logistics REITs are currently yielding 6.9 to 9.8% based on consensus estimates for next year, but may be unsustainable given the challenging local economic outlook in the short-mid term. EC World is expected to pay around 5.94 SG cents for FY17, or an implied 7.8% dividend yield. All of its properties have rental escalation terms, ranging from 1-10% p.a. On average, we estimate around 3% positive rental reversions p.a. over the next 4 years. This is excluding increased contributions from any yield-accretive acquisition.

Master lease arrangement with sponsor. EC World's FY17 forecasted 7.8% dividend yield is supported by the master lease arrangement with its sponsor, Forchn Holdings Group (Forchn). Without the master lease agreement, its FY17 forecasted dividend yield would be lower by 1 percentage point. However, we note this arrangement is for the next 4 years and it is highly likely that the leases would be renewed, in our view.

Growth pipeline with two properties. EC World's gearing was 28% as at 30 Sep 2016. We estimate that it has headroom to make a RMB1bn acquisition while keeping its gearing below 40% (MAS has set a gearing limit of 45% for REITs). The company already has two ROFR e-commerce related properties that will be completed in Jan-17 and Dec-17. These two properties would effectively increase its total GFA by 55%.

Key risks: Economic slowdown in China. Changes in gov't regulations. Depreciation of RMB against SGD may affect DPU. EC World has so far only hedged FY16 DPU at 4.95 SGD/RMB.

ECWREIT SP (Blue) vs. FSSTI



Source: Bloomberg

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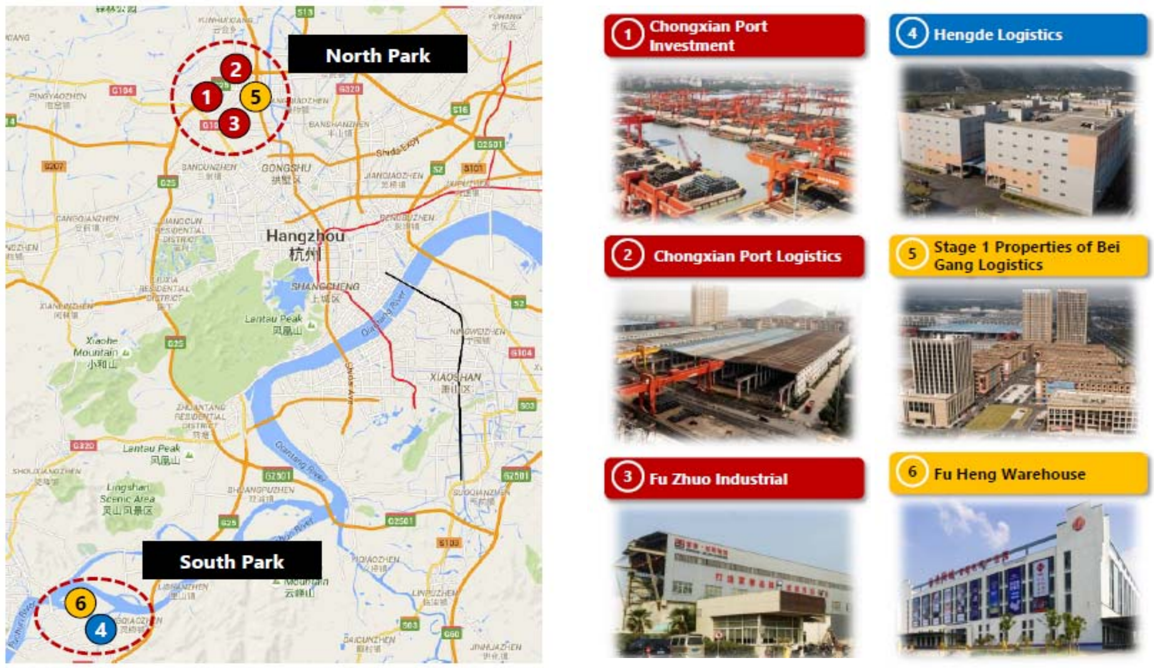
Diversified between steel logistics and e-commerce infrastructure market. Three of its six properties are related to the steel transportation hub, which includes port operation, storage and processing, and logistics distribution for steel products. Its port handles 50% of steel logistics in Hangzhou in 2015. Two properties are related to e-commerce infrastructure market. The remaining property is substantially leased to China Tobacco Zhejiang Industrial for the purpose of tobacco leaves storage in a controlled environment. Rental reversions range from 1% to 10% increase p.a., averaging around 3% p.a. over the next 4 years.

Weighted Average Lease Expiry (WALE) of its properties is 4.1 years. Gross rental income currently is still largely from its port logistics (47% of gross rental income), E-Commerce (39%) and Specialized Logistics (14%). However, future acquisitions would be expected to raise gross rental income from E-Commerce to ~50% in the next two years.

Figure 1: Six properties located in Hangzhou



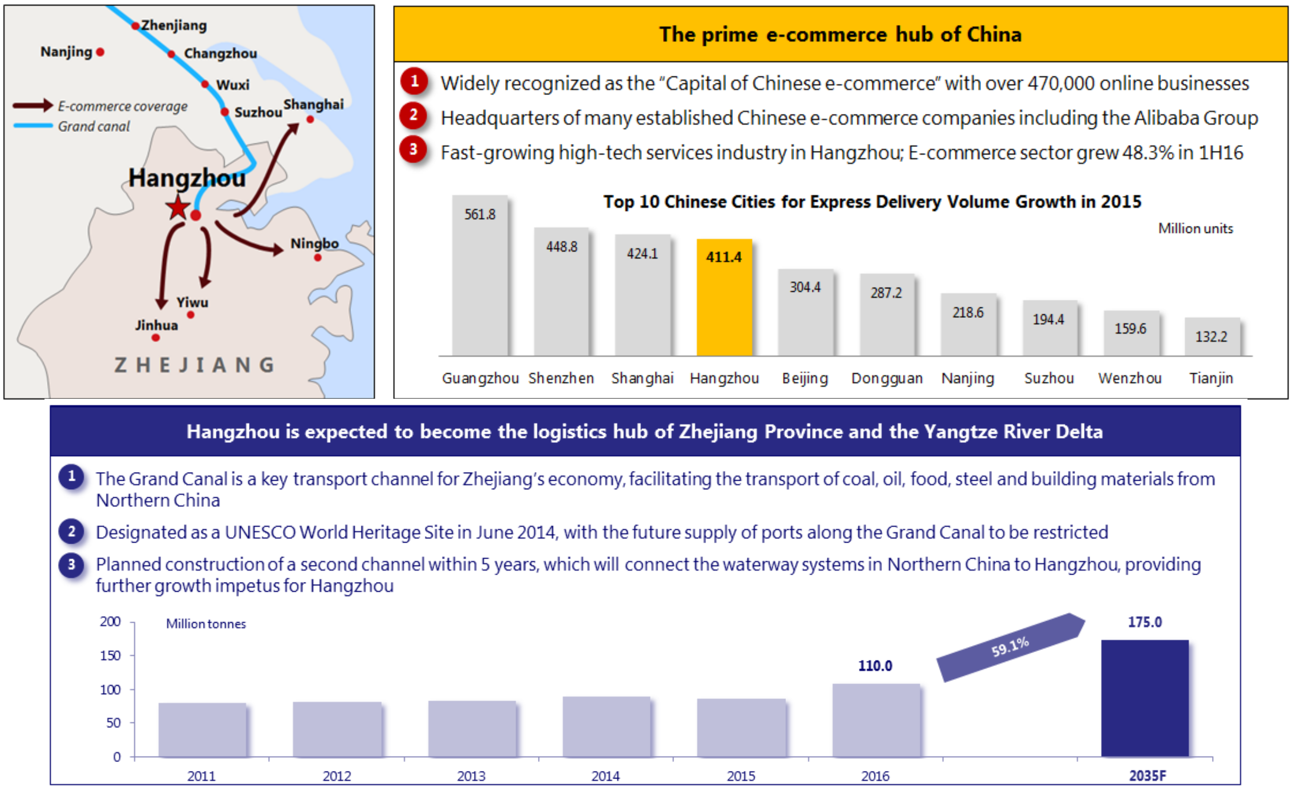
Source: Company

Figure 2: Positive rental reversions over the next four years of between 1% to 10%

Property	Lease Type	Rental Reversion	Type	End-Tenant occupancy	Independent Valuation (RMB m)	NLA (sqm)
Chongxian Port Investment	Master-leased	Rental escalation of 6.0%, 5.0%, 4.0% and 3.0% on 1st January of 2017, 2018, 2019 and 2020 respectively.	Port Logistics	100.0%	2,092.0	112,726
Chongxian Port Logistics	Multi-tenanted	Built in fixed rental escalation of between 5% and 10% per annum for 105 leases.	Port Logistics	100.0%	852.5	125,856
Fu Zhuo Industrial	Multi-tenanted	Fixed rental escalation of between 10.0% per annum for the shorter lease and 7.5% every three years for the longer lease.	Port Logistics	100.0%	106.5	7,128
Stage 1 Properties of Bei Gang Logistics	Master-leased	Paid monthly Rental escalation of 1.0% every 1st January of 2017, 2018, 2019 and 2020 respectively.	E-Commerce Logistics	67.5%	1,293.0	120,449
Fu Heng Warehouse	Master-leased	Rental escalation of 6.0%, 5.0%, 4.0% and 3.0% on 1st January of 2017, 2018, 2019 and 2020 respectively.	E-Commerce Logistics	100.0%	552.5	94,287
Hengde Logistics	Multi-tenanted	Negotiable rental escalation of approximately 10.0% every five years for two of the leases.	Specialised Logistics	100.0%	1,460.0	238,032

Source: Company, KGI Securities

Figure 3: Positive growth prospects for Hangzhou



Source: Company presentation

Source: China-Britain Business Council

Hangzhou - a key regional centre that is developing to be the high-tech centre of China. Hangzhou is located in the southern part of the Yangtze River Delta near Ningbo and Shanghai (Hangzhou is ~180km southwest from Shanghai). The city is the capital of Zhejiang province. The province, which accounted for ~6 percent of China's economy last year, is benefiting from reforms being rolled out across China, such as tax breaks for high-tech firms, more funding for internet start-ups, and a better logistics network to aid e-commerce. Entrepreneurs get housing subsidies, and companies are invited to networking and industrial design events run by the government.

Although much of the attention for technology and innovation have been focused on the big first tier cities of Beijing, Shanghai, Guangzhou and Shenzhen, we note that Hangzhou has been catching up partly due to the ecosystem that has been developing around Alibaba. It has a vibrant economy where 60% of the city's GDP is contributed by private enterprises. According to the China-Britain Business Council, Hangzhou has taken first place in China for 12 years in terms of the number of Top 500 private companies. These companies include Alibaba, Hangzhou Wahaha Group (one of the largest beverage producer in China), Wanxiang Group, Geely and others.

Hangzhou is home to one of China's largest private enterprise: Alibaba Group, which owns the world's largest Customer-To-Customer (C2C) site Taobao.com, Business-To-Business (B2B) site Alibaba.com and Business-To-Customer (B2C) Tmall.com e-business platforms. The government is also encouraging new industries including medicine, information technology, heavy equipment, automotive components, household electrical appliances, electronics, telecommunication, fine chemicals, chemical fiber and food processing.

Comparison among the REITs. Singapore industrial/logistics REITs are currently yielding 6.9 to 9.8% based on consensus estimates for next year. EC World's Singapore focused peers are currently yielding 9-10%, but we note they may have difficulty sustaining their DPU over the next 2-3 years due to the weak outlook for Singapore's industrial/logistics sector. On the other hand, EC World's fundamentals are more closely tied to China's and specifically, Hangzhou's, growth prospect. Furthermore, EC World's leverage ratio is among the lowest of its peers, allowing for yield-accretive acquisitions.

Figure 4: Peer comparison among REITs

	Last Price (S$)	Market Cap (S$ m)	Distribution Frequency	Cons/KGI DPU (cents) Current FY	Next FY	Yield (%) Current FY	Next FY	Leverage ratio (%)	Price-to-book (x)
Office		**S$14,179**				**6.5**	**6.5**	**30.4**	**0.78**
CapitaLand Commercial Trust	1.470	4,356	Semi-Anl	8.9	9.1	6.1	6.2	19.0	0.84
Frasers Commercial Trust	1.275	1,016	Quarter	9.8	9.6	7.7	7.5	35.9	0.82
Keppel REIT	1.030	3,386	Quarter	6.7	6.5	6.5	6.3	33.5	0.72
Suntec Real Estate Investment Trust	1.620	4,104	Quarter	10.0	10.0	6.2	6.2	35.8	0.76
OUE Commercial Real Estate Investment T	0.675	876	Semi-Anl	5.3	5.2	7.9	7.7	37.6	NM
IREIT Global	0.710	439	Semi-Anl	6.4	6.4	9.0	9.0	42.3	NM
Retail		**S$21,610**				**6.4**	**6.5**	**32.6**	**0.97**
CapitaLand Retail China Trust	1.425	1,239	Semi-Anl	10.1	11.0	7.1	7.7	27.5	0.91
CapitaLand Mall Trust	1.925	6,820	Quarter	11.0	11.0	5.7	5.7	32.0	1.02
Frasers Centrepoint Trust	1.945	1,789	Quarter	12.0	12.2	6.2	6.3	28.3	1.01
Lippo Malls Indonesia Retail Trust	0.375	1,051	Quarter	3.2	3.3	8.5	8.8	34.7	0.96
Mapletree Commercial Trust	1.405	4,032	Quarter	8.4	8.7	6.0	6.2	35.1	1.06
Mapletree Greater China Commercial Trus	0.960	2,668	Semi-Anl	7.3	7.3	7.6	7.6	39.4	0.81
SPH REIT	0.935	2,385	Quarter	5.7	5.7	6.1	6.1	25.5	1.00
Starhill Global REIT	0.745	1,625	Quarter	5.3	5.5	7.1	7.4	34.8	0.80
Healthcare		**S$2,418**				**5.7**	**5.9**	**1,382.1**	**1.35**
First Real Estate Investment Trust	1.270	978	Quarter	8.5	8.5	6.7	6.7	3365.1	1.23
Parkw ay Life Real Estate Investment Trus	2.380	1,440	Quarter	12.0	12.6	5.0	5.3	35.2	1.43
Hospitality		**S$6,117**				**7.3**	**7.5**	**36.8**	**0.80**
Ascott Residence Trust	1.125	1,860	Semi-Anl	8.1	8.4	7.2	7.5	38.4	0.86
Ascendas Hospitality Trust	0.700	786	Semi-Anl	5.5	5.4	7.9	7.7	32.7	0.80
OUE Hospitality Trust	0.640	1,146	Quarter	4.5	4.9	7.0	7.7	41.8	0.80
Far East Hospitality Trust	0.575	1,036	Quarter	4.2	4.2	7.3	7.3	32.4	0.62
CDL Hospitality Trusts	1.300	1,289	Semi-Anl	9.5	9.5	7.3	7.3	36.2	0.83
Industrial		**S$17,771**				**7.3**	**7.5**	**35.1**	**1.06**
AIMS AMP Capital Industrial REIT	1.275	813	Quarter	11.3	11.5	8.9	9.0	32.3	0.87
Ascendas Real Estate Investment Trust	2.300	6,533	Semi-Anl	15.7	15.9	6.8	6.9	37.1	1.12
Cache Logistics Trust	0.800	718	Quarter	8.0	7.8	10.0	9.8	39.5	0.97
Cambridge Industrial Trust	0.525	685	Quarter	4.2	4.3	8.0	8.2	36.7	0.79
EC World	0.765	596	Semi-Anl	NM	5.9	NM	7.8	28.0	NM
Mapletree Industrial Trust	1.570	2,829	Quarter	11.1	11.9	7.1	7.6	28.2	1.15
Mapletree Logistics Trust	0.995	2,487	Quarter	7.3	7.4	7.3	7.4	39.5	0.99
Sabana Shari'ah Compliant Industrial Real	0.520	385	Quarter	NM	NM	NM	NM	41.3	0.65
Soilbuild Business Space REIT	0.640	667	Quarter	6.1	6.3	9.5	9.8	32.8	0.83
Keppel DC REIT	1.210	1,362	Semi-Anl	6.6	7.3	5.5	6.0	30.7	1.34
Viva Industrial Trust	0.750	699	Quarter	7.0	7.3	9.3	9.7	38.3	0.9

Source: Bloomberg, KGI Securities

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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