

25 February 2019

**BUY**

TP: SGD 0.89

▲ 18.0%

# EC World REIT

ECWREIT.SP

## Strengthened portfolio; imminent asset injection

**EC World REIT (ECW) 4Q18 DPU grew by a robust 4.4% YoY, driven by Wuhan Meiluote's full contribution, in-built rental escalations, and positive reversions. The early renewal of 3 master leases (~61% of asset value, with +1-2% pa step-ups) in FY21E-24E enhances stability on the underlying portfolio. In addition, we think Fu Zhou ROFR asset injection is imminent, boosting DPU further. Reiterate BUY with a revised TPS\$0.89/unit.**

- ➔ **4Q18 results inline:** 4Q18 DPU increased 4.4% YoY to S\$1.57c, while FY18 DPU is inline at 100.5% of our FY estimates at S\$6.179c. FY18 revenue and NPI, however, are below our estimates at 95%, and actual DI was boosted by lower non-tax-deductible expenses, offset by higher tax. FY18 revenue is lower due to lower-than-expected occupancy of Stage 1 Bei Gang Logistics at 85.6%. However, as contractual occupancy for this asset is ~100%, we expect occupancy to reach our estimated full occupancy moving forward.
- ➔ **Strengthened stability with renewal of master leases:** All 3 master leases with in-built rental escalations of 1-2% pa have been renewed for FY21E-FY24E (61.1% of asset value). This provides further upside (+S\$0.04c to our TP) with higher starting rents of +3-8% vs our previous estimates in FY21E. WALE by GRI is also lengthened post this renewal to 4.8yrs (vs 2yrs in 4Q18). Committed occupancy remains strong at 99.2% and we expect ECW to renew their leases successfully and continue to deliver stable results with strong earnings visibility.
- ➔ **Fu Zhou asset injection imminent, potential +30% increase in NLA:** ECW currently has 500,000sqm of potential asset injections in the pipeline (~+67% in NLA). We think 1 ROFR asset - Fu Zhou E-commerce properties (NLA >200,000sqm) is ripe for injection, after commencing operations in 2017. ECW retains a low gearing at 31.5% (3Q18: 30.7%) with ~S\$350m debt headroom, and Management does not expect to raise equity when Fu Zhou asset is acquired.
- ➔ **Reiterate BUY:** With visibly and enhanced stability in the underlying portfolio, as well as imminent asset acquisition, we reiterate BUY for ECW at a revised of TP\$0.89/unit (includes updated FY18 results and the master lease renewal.) ECW is currently trading at an attractive 8.36% FY19E yield and 0.87x P/B.

### Financial highlights

Y/E 31 Dec (SGD m)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	96	106	109	115	118
Distribution income	49	50	53	57	59
Outstanding shares (M)	792	794	799	805	811
DPU (SGD cts)	6.2	6.3	6.6	7.0	7.2
DPU growth (%)	2.6%	2.2%	4.8%	6.4%	2.7%
Yield (%)	8.2%	8.4%	8.8%	9.3%	9.6%
BV per share	0.87	0.87	0.86	0.86	0.85
P/B (x)	0.86	0.87	0.88	0.88	0.89

Source: Company, SCCM Research; as of 25 Feb 2019



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PRICE CLOSE (22 Feb 2019)

SGD 0.755

MARKET CAP

SGD 598.0 mln

USD 443.3 mln

SHARES O/S

790.2 mln

FREE FLOAT

41.4%

3M AVG DAILY VOLUME/VALUE

SGD 0.141 mln / USD 0.104 mln

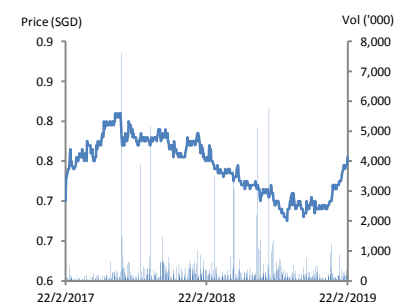
52 WK HIGH

SGD 0.770

52 WK LOW

SGD 0.675

Target Price SGD 0.89



## FY18 results inline; new TP of S\$0.89/unit

- **FY18 results generally inline with our estimates:** FY18 DPU came in at S\$6.179c, which is generally inline with our estimates at 100.5%. FY18 revenue and NPI, however, are below our estimates at 95%. The difference in actual DI vs our estimates is narrowed as actual results were boosted by lower non-tax-deductible expenses, offset by higher tax.
- FY18 revenue is lower than our estimates due to underlying occupancy of Stage 1 Bei Gang Logistics at 85.6%, as compared to our estimates of 100%. However, we expect occupancy to reach our estimates moving forward as committed occupancy for this asset is at 100%.
- We revised our estimates to include FY18 results and the new master lease arrangements, updating SGD/RMB assumptions from 4.80 to 4.97 (partially offsets the increase in TP), arriving at a new TP of S\$0.89/unit. We have yet to include the estimates for Fu Zhou acquisition, though we expect it to be realized in the near term, with further upside to be unlocked.

Fig 1 - Results summary

FY 31Dec (\$\$m)	4Q18	4Q17	YoY %	3Q18	QoQ %	Actual FY18	FY18E	% of forecast
Gross Revenue	23.5	20.7	13.5%	23.9	-1.7%	96.2	101.0	95.3%
Operating Expenses	-2.6	-2.7	-3.7%	-1.7	55.6%	-8.9	-9.5	93.8%
<b>NPI</b>	<b>20.8</b>	<b>17.9</b>	<b>16.1%</b>	<b>22.2</b>	<b>-6.1%</b>	<b>87.3</b>	<b>91.5</b>	<b>95.5%</b>
Trustee-Manager's fees	-1.3	-1.3	1.3%	-1.4	-3.2%	-5.1	-5.2	98.8%
Trustee's Expenses	-0.7	-0.1	914.1%	-0.1	900.0%	-0.3	-0.3	96.3%
FX gain/ (loss)	0.6	-0.5	-217.0%	1.6	-62.1%	1.8	0.0	Nm
Other Expenses	0.0	-0.5	-109.3%	-0.1	-134.1%	-0.9	-1.4	69.1%
<b>Net income before financing cost &amp; tax</b>	<b>20.1</b>	<b>15.6</b>	<b>29.2%</b>	<b>22.3</b>	<b>-9.7%</b>	<b>82.8</b>	<b>84.6</b>	<b>97.8%</b>
Interest Income	0.4	0.4	3.4%	0.3	28.9%	1.5	0.2	738.9%
Borrowing Costs	-6.9	-6.6	5.5%	-6.8	1.5%	-27.4	-25.8	106.1%
Net Income	13.6	9.4	44.6%	15.8	-13.7%	56.9	59.0	96.5%
Revaluations of investment properties	5.6	21.7	-74.4%	0.0	NM	12.0	0.0	NM
Net change in Fair Value of Financial Derivatives	0.0	0.5	-107.0%	0.0	385.7%	1.3	0.0	NM
<b>Net income before Tax</b>	<b>19.1</b>	<b>31.6</b>	<b>-39.5%</b>	<b>15.8</b>	<b>21.4%</b>	<b>70.2</b>	<b>59.0</b>	<b>119.0%</b>
Tax	-7.4	-12.2	-39.3%	-4.0	84.4%	-23.3	-15.4	150.6%
<b>Net income aft Tax</b>	<b>11.7</b>	<b>19.4</b>	<b>-39.6%</b>	<b>11.7</b>	<b>-0.1%</b>	<b>46.9</b>	<b>43.5</b>	<b>107.8%</b>
Income Available for Distribution	12.4	11.8	5.4%	12.5	-0.7%	49.0	48.7	100.7%
<b>Distribution to Unitholders</b>	<b>12.4</b>	<b>11.8</b>	<b>5.4%</b>	<b>12.4</b>	<b>0.2%</b>	<b>48.8</b>	<b>48.7</b>	<b>100.2%</b>
# of units, end of period (m)	792.0	784.7	0.9%	790.2	0.2%	792.0	791.8	100.0%
<b>DPU (\$\$c)</b>	<b>1.570</b>	<b>1.504</b>	<b>4.4%</b>	<b>1.570</b>	<b>0.0%</b>	<b>6.179</b>	<b>6.149</b>	<b>100.5%</b>

Source: SCCM Research, Company

- **Renewal of all 3 master leases strengthens stability and earnings visibility, with further upside (+\$0.04 TP) to our estimates:** ECW announced the proposed master lease renewals for Chongxian, Bei Gang and Fu Heng (total ~61.1% of valuation as at 31Dec18) with 1-2% pa rental escalation for FY21E-FY24E. This boosts the upside, adding ~\$0.04 to our TP as we previously estimate the rents for the same period to remain flat for prudence. In addition, the starting rents in FY21E are also higher than our estimates by ~2.8%, ~8.2% and ~7.1% for Chongxian, Bei Gang and Fu Heng, respectively. Post-renewal, WALE by GRI will also be lengthened from 2yrs to 4.8yrs.

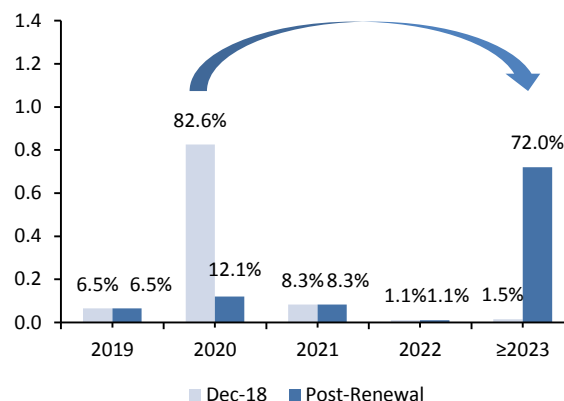
As ECW's assets are in China, where the NLA/GFA efficiency is close to 100%, we assumed ~100% efficiency in the calculations here for the potential NLA increase.

Fig 1 - Details on renewal of master leases

Property	Existing Master Lease Agreements Lease Terms	New Master Lease Agreements
Stage 1 Properties of Bei Gang Logistics	1 Nov 2015 to 31 Oct 2020 with rental escalation of 1% on 1st Jan of 2017, 2018, 2019 and 2020	4 years from 1 November 2020 with 1% annual rental escalation
Fu Heng	1 Jan 2016 to 31 Dec 2020 with rental escalation of 6.0%, 5.0%, 4.0% and 3.0% on 1st Jan of 2017, 2018, 2019 and 2020 respectively	4 years from 1 January 2021 with 2% annual rental escalation
Chongxian Port Investment	1 Jan 2016 to 31 Dec 2020 with rental escalation of 6.0%, 5.0%, 4.0% and 3.0% on 1st Jan of 2017, 2018, 2019 and 2020 respectively	4 years from 1 January 2021 with 2% annual rental escalation

Source: Company, as at Dec 2018

Fig 2 - Lease Expiry profile after master lease renewal



Source: Company, as at Dec 2018

- We expect the renewals to be completed successfully, and together with strong committed occupancy of 99.2% (3Q18: 99.2%, 4Q17: 100%), the portfolio's stability and earnings visibility are enhanced moving forward.

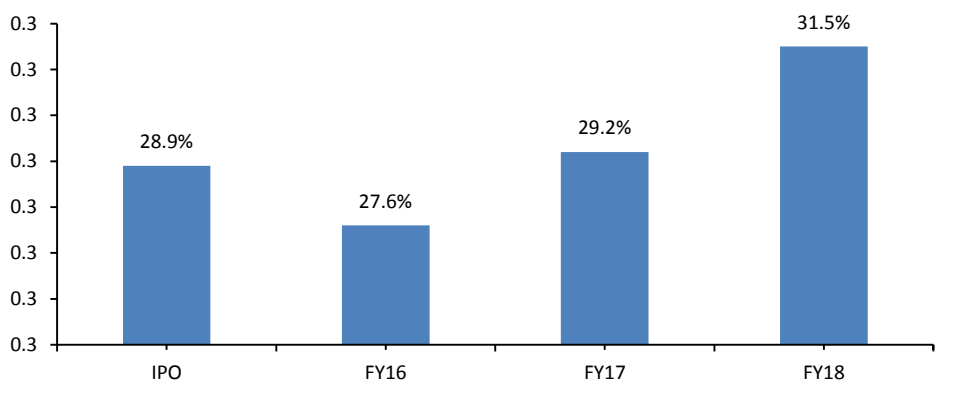
Fig 3 - Portfolio summary

Property	Type	Valuation (RMB'm)	NLA (sqm)	NPI Yield	Lease Type	Lease Term	Rental Escalation
Stage 1 Bei Gang	E-commerce Logistics	1297	120,449	8.2%	Master lease	1 Nov 2015 to 31 Oct 2020	1% on 1st Jan 2019 and 2020
Wuhan MeiLuoTe	E-commerce Logistics	171	94,287	4.6%*	Multi-tenant	-	4.5%-5% pa
Fu Heng Warehouse	E-commerce Logistics	580	48,695	7.8%	Master lease	1 Jan 2016 to 31 Dec 2020	4.0% and 3.0% on 1st Jan 2019 and 2020 respectively
Hengde Logistics	Specialised Logistics	1470	238,032	4.6%	Multi-tenant	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	2235	112,726	6.7%	Master lease	1 Jan 2016 to 31 Dec 2020	4.0% and 3.0% on 1st Jan 2019 and 2020 respectively
Chongxian Port Logistics	Port Logistics	862	125,856	5.5%	Multi-tenant	-	For 72% of leases: increase of 10% in first 3 years, 12% from Year 4
Fu Zhuo Industrial	Port Logistics	114	7,128	7.0%	Multi-tenant	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
<b>Portfolio</b>		<b>6729</b>	<b>747,173</b>	<b>6.10%</b>			

Source: SCCM Research, Company as of Dec 2018, \*Using acquisition price of RMB145m, FY18 NPI yield would be 5.4%

- Potential pipeline of a considerable ~500,000sqm for inorganic growth:** ECW has ~500,000sqm GFA/NLA of potential pipeline assets. This consists of the ROFR asset Fu Zhou E-commerce Properties (215,643sqm GFA, ~+30% NLA to Portfolio, Sponsor has 58% stake in asset) which began its operations in 2017. We visited phase 3 of this property and is of the view that this asset is currently ripe for injection and expect its acquisition to be realised in the near term. With its acquisition, we expect portfolio ecommerce exposure to increase to ~40% by asset valuation from current exposure of 30%.
- ECW currently has a healthy gearing of 31.5% with plenty of debt headroom (~S\$350m) and Management does not expect a need to issue equity in order to fund the acquisition in the near term. The remaining potential pipeline consists of the 13 warehouses in Asia as part of YCH Group's collaboration with the Sponsor Forchn Holdings Group.

Fig 4 - ECW's gearing since IPO



Source: Company, as at Dec 2018

BUY

TP: SGD 0.89

▲ 18.0%

## EC World REIT

ECWREIT.SP

Results Review

Singapore

REITs

## Financial Statements

## Income Statement

Y/E 31 Dec (in SGD'm)	FY18A	FY19E	FY20E	FY21E	FY22E
Gross Revenue	96.2	105.8	109.4	114.8	117.7
<b>Gross Revenue Growth Rate</b>		<b>9.9%</b>	<b>3.5%</b>	<b>4.9%</b>	<b>2.6%</b>
Property Expenses	(8.9)	(10.2)	(10.5)	(10.9)	(11.2)
<b>Net Property Income</b>	<b>87.3</b>	<b>95.5</b>	<b>99.0</b>	<b>103.8</b>	<b>106.5</b>
Trustee-Manager's fees	(5.1)	(5.3)	(5.9)	(6.5)	(6.3)
Trustee's fee	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Trust and administrative expenses	(0.9)	(1.3)	(1.3)	(1.3)	(1.3)
<b>EBIT</b>	<b>81.0</b>	<b>88.6</b>	<b>91.4</b>	<b>95.6</b>	<b>98.6</b>
<b>EBIT Margin</b>	<b>84.2%</b>	<b>83.8%</b>	<b>83.5%</b>	<b>83.3%</b>	<b>83.8%</b>
Non-Operating Income					
Interest Income	1.5	0.2	0.2	0.2	0.2
Interest Expense	(27.4)	(28.2)	(28.2)	(28.2)	(28.2)
Exceptional Gains/(Losses)	3.1				
<b>Net Income</b>	<b>58.2</b>	<b>60.6</b>	<b>63.4</b>	<b>67.7</b>	<b>70.6</b>
Tax	(23.3)	(15.9)	(16.6)	(17.6)	(18.4)
<b>Net Income</b>	<b>34.9</b>	<b>44.8</b>	<b>46.9</b>	<b>50.1</b>	<b>52.3</b>
Net Gains from revaluation of properties	12.0				
<b>Total Return for the year</b>	<b>46.9</b>	<b>44.8</b>	<b>46.9</b>	<b>50.1</b>	<b>52.3</b>
<b>Invnt Income available for distribution</b>	<b>49.0</b>	<b>50.1</b>	<b>52.8</b>	<b>56.6</b>	<b>58.6</b>
<b>DPU (cents)</b>	<b>6.18</b>	<b>6.31</b>	<b>6.61</b>	<b>7.03</b>	<b>7.23</b>
<b>DPU Growth Rate</b>	<b>2.6%</b>	<b>2.2%</b>	<b>4.8%</b>	<b>6.4%</b>	<b>2.7%</b>

## Balance Sheet

Y/E 31 Dec (in SGD'm)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash	142.1	151.1	151.4	151.8	152.2
Trade Receivables	38.3	41.2	42.6	44.7	45.8
Other Current Assets	0.3	0.3	0.3	0.3	0.3
Current Assets	180.8	192.6	194.3	196.8	198.3
Investment Properties	1,335.0	1,335.0	1,335.0	1,335.0	1,335.0
Non-Current Assets	1,335.0	1,335.0	1,335.0	1,335.0	1,335.0
<b>Total Assets</b>	<b>1,515.8</b>	<b>1,527.7</b>	<b>1,529.3</b>	<b>1,531.8</b>	<b>1,533.4</b>
Trade Payables	23.4	28.5	29.5	30.9	31.7
OD & ST Debt	474.7	40.1	40.1	40.1	40.1
Current Tax Liabilities	9.2	15.9	16.6	17.6	18.4
Other ST Liabilities	0.1	0.1	0.1	0.1	0.1
Current Liabilities	507.3	84.6	86.3	88.7	90.3
LT Debt	0.0	434.6	434.6	434.6	434.6
Deferred Payments (over 12 months)	262.4	262.4	262.4	262.4	262.4
Other LT Liabilities	57.5	57.5	57.5	57.5	57.5
Non-Current Liabilities	320.0	754.5	754.5	754.5	754.5
<b>Total Liabilities</b>	<b>827.3</b>	<b>839.1</b>	<b>840.8</b>	<b>843.3</b>	<b>844.8</b>
Total Unitholders' Equity	688.6	688.6	688.6	688.6	688.6
<b>Total Liabilities and Equity</b>	<b>1,515.8</b>	<b>1,527.7</b>	<b>1,529.3</b>	<b>1,531.8</b>	<b>1,533.4</b>

## Cash Flow Statement

Y/E 31 Dec (in SGD'm)	FY18A	FY19E	FY20E	FY21E	FY22E
Pre-tax Profit	58.2	60.6	63.4	67.7	70.6
Tax Paid	(15.9)	(9.2)	(15.9)	(16.6)	(17.6)
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	25.9	5.3	5.9	6.6	6.3
Changes in Non-Cash Work Cap	(4.9)	2.3	(0.4)	(0.6)	(0.4)
Cash From Operations	63.4	59.1	53.1	57.0	59.0
Net Change in Property Investments	(1.4)	0.0	0.0	0.0	0.0
Net Change In Investments	(28.9)	0.0	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	(0.0)	0.0	0.0	0.0	0.0
Cash from Investing Activities	(30.4)	0.0	0.0	0.0	0.0
Distribution to Unit Holders	(48.1)	(50.1)	(52.8)	(56.6)	(58.6)
Net Change in Gross Debt	41.7	0.0	0.0	0.0	0.0
Issue of Units (net of Expenses)	0.0	0.0	0.0	0.0	0.0
Other Financing Activities	(69.3)	0.0	0.0	0.0	0.0
Cash from Financing Activities	(75.7)	(50.1)	(52.8)	(56.6)	(58.6)
<b>Net Changes in Cash</b>	<b>(42.7)</b>	<b>9.0</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>

## Per Share Data

Y/E 31 Dec (SGD)	FY18A	FY19E	FY20E	FY21E	FY22E
EPU	0.06	0.06	0.06	0.06	0.06
DPU	0.06	0.06	0.07	0.07	0.07
BVPU	0.87	0.87	0.86	0.86	0.85

## Valuation Ratios

Y/E 31 Dec (x)	FY18A	FY19E	FY20E	FY21E	FY22E
P/E	12.7	13.3	12.8	12.1	11.7
P/B	0.86	0.87	0.88	0.88	0.89

## Financial Ratios

Y/E 31 Dec	FY18A	FY19E	FY20E	FY21E	FY22E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	84.2	83.8	83.5	83.3	83.8
EBIT margin	84.2	83.8	83.5	83.3	83.8
Net profit margin	36.3	42.3	42.8	43.6	44.4
ROE	5.0	6.5	6.8	7.3	7.6
ROCE	3.5	4.4	4.6	4.8	4.9
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	142	142	142	142	142
Payables (days)	98	98	98	98	98
Current ratio (x)	0.4	2.3	2.3	2.2	2.2
<b>Turnover &amp; Leverage Ratios (x)</b>					
Total asset turnover	0.06	0.07	0.07	0.07	0.08
Gearing Ratio	0.31	0.31	0.31	0.31	0.31

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