

25 February 2019

Property | REITs

## EC World REIT (ECWREIT SP)

**BUY** (Maintained)

### Master Leases Extended Until 2024; Keep BUY

Target Price (Return)	SGD0.84 (+11%)
Price:	SGD0.755
Market Cap:	USD442m
Avg Daily Turnover (SGD/USD)	0.2m/0.1m

- Maintain BUY and raise our DDM-derived TP to SGD 0.84, from SGD 0.81, 11% upside with 8% yield.** 4Q/FY18 results met expectations. With strong earnings visibility from extended master leases up to 4Q24, we lowered by 50pbs our COE to 9.5% and lowered FY19-21F DPU 1-2% to factor in a slightly higher interest cost. With its strategically located seven assets, EC World remains a good proxy to the booming e-commerce and logistics segment growth in China. As its properties mainly cater to domestic consumption, we see minimal impact from the US-China trade tensions.

- Early renewal of master leases shows sponsors commitment.** EC World addressed one of the key market concerns, with an early extension for another four years of its three master lease properties. The leases which were due to expire in 4Q20, will now be extended until 4Q24. Under the new lease term there will be an annual rent escalation of 1-2% pa (see Figure 3). As master lease rents accounts for 70% of FY18 NPI, this extension provides a good earnings visibility. The early extension also shows sponsors commitment (who currently own c.44% stake in REIT) and confidence in growing the underlying income. Based on our understanding, except for Stage-1 Bei Gang logistics, the underlying EBITDA for the remaining two properties is higher than the current master lease rent payments.

- Room for acquisitions led growth in the near-term.** The REIT's current gearing of 31.5%, is currently on the lower side compared to that of its peers and provides debt headroom of c.SGD200m for acquisitions (assuming 40% as a comfortable level). We believe EC World could potentially look at acquiring its sponsors' Fu Zhou E-commerce property in the near-term. It also has access to the 13 YCH logistics assets across SE Asia which, if acquired, could transform it into a pan Asian e-commerce logistics play.

- Expecting 3-7% positive rent reversion for 2019.** Post extension of master lease terms (which are subject to unit holders' approval) EC World's WALE will be extended to 4.8 years (currently 2.0 years) with 72% of leases expiring after 2023. For FY19, c.6.5% of leases are due for renewal with majority coming from the newly acquired Wuhan Meiluote (WHML). As the property is currently under-rented compared to market, we see scope for healthy positive rent reversions in mid-single digits.

- Key risks.** Sharp spike in borrowing costs, FX fluctuations (SGD vs CNY currently 6-month rolling hedges) and adverse regulatory/policy changes.

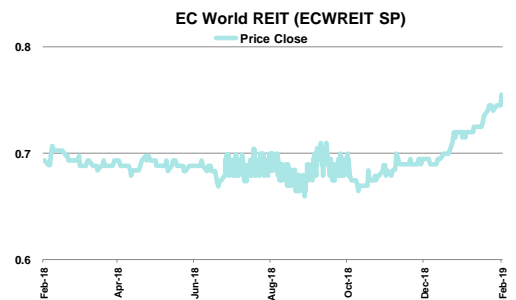
#### Analyst

Vijay Natarajan  
 +65 6232 3872  
[vijay.natarajan@rhbgroup.com](mailto:vijay.natarajan@rhbgroup.com)



#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	9.4	5.6	8.6	7.9	0.0
Relative	2.9	3.2	1.1	5.7	6.3
52-wk Price low/high (SGD)	0.68 - 0.77				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	91.4	96.2	97.3	100.0	104.1
Net property income (SGDm)	82.7	87.3	89.4	91.9	95.7
Reported net profit (SGDm)	47.6	46.9	55.6	57.0	59.3
Distributable income (SGDm)	47.1	49.0	50.3	51.6	54.1
DPS (SGD - cents)	6.0	6.2	6.3	6.4	6.7
DPS growth (%)	5.4	2.4	2.5	1.6	3.8
P/BV (x)	12.4	12.7	9.0	7.0	10.4
Dividend Yield (%)	8.0	9.0	9.0	9.0	8.0
Return on average equity (%)	8.0	8.2	8.4	8.5	8.8
Return on average assets (%)	6.0	5.9	6.9	7.0	7.2
Interest coverage (x)	3.2	3.1	3.6	3.7	3.8

Source: Company data, RHB

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## Results And Operations Review

**4Q18 DPU up 4% YoY, results in-line.** 4Q revenue and NPI rose 13.5%/16.1% YoY on the back of contributions from recently acquired Wu Han Mei Luo Te property. Finance costs rose 5.5% YoY due to higher borrowings. The results were in-line with FY18 DPU accounting for 100% of our estimates. NAV/unit declined 4% YoY to SGD 0.87, mainly due to a weakening of CNY vs SGD. The stock currently trades at 0.8x P/BV.

**Interest cost expected to inch slightly higher in FY19.** EC World's entire debt of SGD 475m comprising of onshore and offshore loans is due to mature in Jul 2019. We understand the manager is currently in advanced discussions with the bank on extending its term-loans. We have currently factored in a 20bps increase in interest cost to 5.2 % pa (it includes an amortized upfront fee).

**High occupancy maintained.** Committed portfolio occupancy and underlying occupancy were stable at 99.2%/96.9%, same as in the previous quarter. Except for newly acquired Wuhan MeiLuo Te the rest of the properties in portfolio are nearly fully occupied.

Figure 1: 4Q18 results summary

(SGDm)	4Q18	3Q18	QoQ (%)	4Q17	YoY (%)	Comments
Revenue	23.5	23.9	-1.7	20.7	13.5	Contributions from Wuhan MeiluoTe which was acquired on Apr 2018
<b>NPI</b>	<b>20.8</b>	<b>22.2</b>	<b>-6.1</b>	<b>17.9</b>	<b>16.1</b>	<b>Same as above</b>
NPI (%)	88.8%	92.9%	-4.1ppt	86.8%	2.0ppt	
Distributable Income	12.4	12.5	-0.7	11.8	5.4	
Unitholders distribution	12.4	12.4	0.2	11.8	5.4	
<b>DPU (cents)</b>	<b>1.57</b>	<b>1.57</b>	<b>0.0</b>	<b>1.50</b>	<b>4.4</b>	
Committed Occupancy (%)	99.2	99.2	-	100	(0.8)ppt	Lower occupancy at Wuhan MeiluoTe compared to IPO properties

Source: RHB

Figure 2: EC World – fair value based on Dividend Discount Model

	FY19F	FY20F	FY21F	FY22F	FY23F	Terminal Value
DPU (SGD)	6.3	6.4	6.7	6.9	6.9	92.6
Target price (SGD)	0.84					
Current Price (SGD)	0.76					
Price Upside	11%					
Distribution Yield FY18F	8.4%					
<b>Assumptions</b>						
Risk-free rate (%)	4.5%					
Beta	0.9					
Cost of equity (%)	9.6%					
Terminal growth (%)	2.0%					

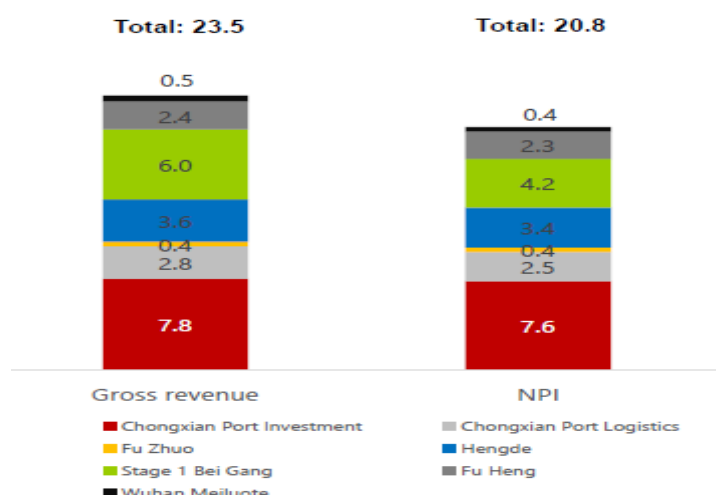
Source: Company data, RHB

Figure 3: Proposed new master lease agreements

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

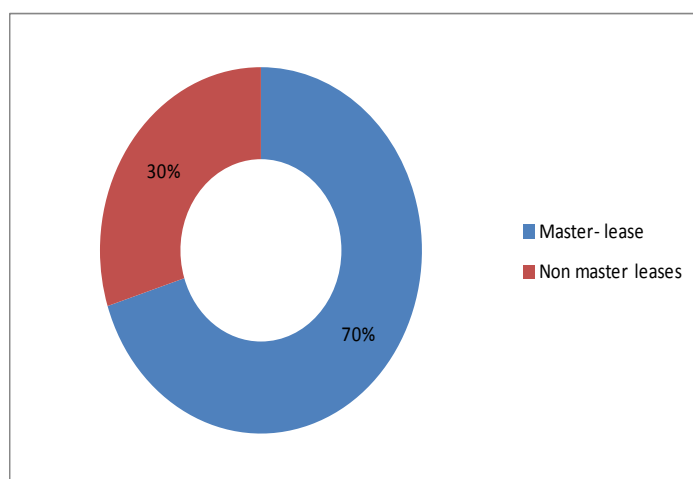
Source: Company data, RHB

Figure 4: 4Q18 Revenue and NPI breakdown by properties



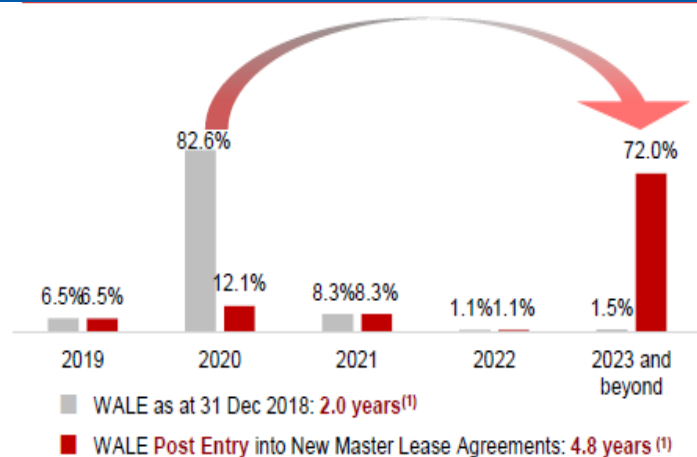
Source: Company Data

Figure 5: Master-lease vs non-master lease NPI – FY18



Source: Company Data

Figure 6: Lease expiry profile – post new master lease



Source: Company Data

Figure 7: Debt and Forex profile

Key Debt Figures	
<b>Total Debt Drawdown as at 31 Dec 2018</b>	<ul style="list-style-type: none"> <li>RMB 983.0 million onshore</li> <li>S\$ 200.0 million offshore</li> <li>S\$ 81.9 million RCF<sup>(3)</sup></li> </ul>
<b>Tenure</b>	Matures in Jul 2019
<b>FY18 Running Interest Rate</b>	<ul style="list-style-type: none"> <li>Onshore – 5.5% p.a.</li> <li>Offshore – 4.1% p.a.</li> <li>RCF – 2.2% p.a.</li> </ul>
Forex (SGD/RMB)	
<b>3Q 2018</b>	<ul style="list-style-type: none"> <li>Hedged through put spread</li> <li>Buy CNH put at 4.920</li> <li>Sell CNH put at 4.950</li> </ul>
<b>4Q 2018</b>	<ul style="list-style-type: none"> <li>Hedged through put spread</li> <li>Buy CNH put at 5.020</li> <li>Sell CNH put at 5.050</li> </ul>
<b>1Q 2019</b>	<ul style="list-style-type: none"> <li>Hedged through put spread</li> <li>Buy CNH put at 5.050</li> <li>Sell CNH put at 5.080</li> </ul>

Source: Company Data

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**RHB Research Institute Sdn Bhd**  
Level 3A, Tower One, RHB Centre  
Jalan Tun Razak  
Kuala Lumpur 50400  
Malaysia  
Tel : +603 9280 8888  
Fax : +603 9200 2216

#### JAKARTA

**PT RHB Sekuritas Indonesia**  
Wisma Mulia, 20th Floor  
Jl. Jenderal Gatot Subroto No. 42  
Jakarta 12710  
Indonesia  
Tel : +6221 2783 0888  
Fax :+6221 2783 0777

#### HONG KONG

**RHB Securities Hong Kong Ltd.**  
12<sup>th</sup> Floor, World-Wide House  
19 Des Voeux Road  
Central  
Hong Kong  
Tel : +852 2525 1118  
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#### BANGKOK

**RHB Securities (Thailand) PCL**  
10th Floor, Sathorn Square Office Tower  
98, North Sathorn Road, Silom  
Bangrak, Bangkok 10500  
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10 Collyer Quay  
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