

# Singapore Company Guide

## EC World REIT

Version 2 | Bloomberg: ECWREIT SP | Reuters: ECWO.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

28 Feb 2020

### BUY

Last Traded Price (28 Feb 2020): S\$0.705 (STI : 3,011.08)

Price Target 12-mth: S\$0.80 (13% upside) (Prev S\$0.86)

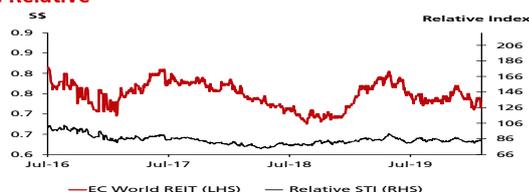
#### Analyst

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#### What's New

- FY19 DPU of 6.047 Scts slightly below expectations; mainly due to retention of 5% of income
- Retention of income as a prudent measure to support any short-term volatility in earnings
- Expect some near-term challenges to operations due to COVID-19 outbreak
- More than 70% of leases underpinned by master-lease with annual rental escalations

#### Price Relative



#### Forecasts and Valuation

FY Dec (S\$m)	2018A	2019A	2020F	2021F
Gross Revenue	96.2	99.1	112	114
Net Property Inc	87.3	89.7	104	105
Total Return	46.9	65.2	44.2	44.8
Distribution Inc	49.0	48.9	50.9	51.6
EPU (S cts)	4.41	1.87	5.51	5.54
EPU Gth (%)	33	(58)	195	1
DPU (S cts)	6.18	6.05	6.26	6.30
DPU Gth (%)	3	(2)	3	1
NAV per shr (S cts)	86.9	85.4	85.4	85.2
PE (X)	16.0	37.7	12.8	12.7
Distribution Yield (%)	8.8	8.6	8.9	8.9
P/NAV (x)	0.8	0.8	0.8	0.8
Aggregate Leverage (%)	31.3	38.0	38.4	38.3
ROAE (%)	5.0	2.2	6.4	6.5

Distn. Inc Chng (%): 2 3  
Consensus DPU (S cts): 6.5 7.0  
Other Broker Recs: B: 4 S: 0 H: 0

Source of all data on this page: Company, DBS Bank, Thomson Reuters

### E-commerce catching the flu?

**Maintain BUY with revised TP of S\$0.80.** We maintain our BUY call but revised our TP to S\$0.80. We like EC World REIT ("ECW") for its portfolio of e-commerce logistics and port logistics properties that are mostly on master leases (more than 70% of all leases) with regular rental escalations, and this provides income visibility and stability. However, persistent weakness in the RMB and the withholding taxes levied on income to be repatriated has been limiting ECW from achieving its full potential. The ongoing COVID-19 outbreak has affected operations is at least one of its properties and is something that we will be monitoring closely. It remains to be seen what further knock-on effects the pandemic will lead to.

**Where we differ:** On the back of the Fuzhou E-Commerce acquisition that was fully funded by borrowings and cash, we see this as a positive for ECW in FY20 with its full-year contribution. With gearing at 39% and current trading yield of 8.4%, the next acquisition will be crucial given the need for equity fund-raising.

**Scaling the e-commerce ladder.** ECW completed the acquisition of the Fuzhou E-Commerce property in August 2019. The 5-year master lease on the asset has built-in rental escalations of 2.25% annually. The property is expected to contribute full-year income of c.S\$13.5m and account for approximately c.12% of FY20 gross revenues. With the addition of Fuzhou E-Commerce and the 1.5% increase in valuation for the rest of the assets, ECW currently has a portfolio of S\$1.6bn worth of properties in the e-commerce logistics sector.

#### Valuation:

We maintain our BUY call with a revised DCF-based TP of S\$0.80.

#### Key Risks to Our View:

Key risks include sponsor-related risks such as failure to extend master-lease agreements and challenges in underlying occupancy.

#### At A Glance

Issued Capital (m shrs)	801
Mkt. Cap (S\$m/US\$m)	565 / 405
Major Shareholders (%)	
Forchn Holdings Group Co Ltd	43.4
China Cinda Asset Management	10.2
Providence World I Pte Ltd	8.3
Free Float (%)	30.3
3m Avg. Daily Val (US\$m)	0.95

**GIC Industry :** Real Estate / Equity Real Estate Investment (REITs)



Live more, Bank less

## WHAT'S NEW

### E-commerce catching the flu?

#### FY19 DPU of 6.047 Scts; 98% of our full-year forecast

- FY19 gross revenue of S\$99.1m was S\$2.9m (3.0%) higher compared to FY18; NPI of S\$89.8m was S\$2.4m (2.7%) higher y-o-y
- In RMB terms, revenue and NPI were 6.5% and 6.3% higher respectively (y-o-y) mainly due to contribution from Fuzhou E-Commerce which was acquired in August 2019
- Distribution income of S\$48.2m, S\$0.6m or 1.2% lower than FY18 mainly due to foreign exchange differences and timing difference between the loan drawdown and the completion of the acquisition of Fuzhou E-Commerce in 3Q19; further amplified by the 5% retention in distributable income
- Without the retention in distributable income, DPU would have been 1.3% higher or 6.13 Scts for FY19
- We understand that the retention of income was mainly as a prudent measure to bolster any volatility in short-term earnings and will not be a recurring item
- This retained income could be distributed if not utilised
- In 4Q19, NPI of S\$24.5m was 6.8% higher q-o-q mainly due to income contribution from Fuzhou E-Commerce
- Increase in DPU to 1.51 Scts was 1.4% higher q-o-q; partially offset by higher finance cost for the Fuzhou E-Commerce acquisition

#### Challenges posed by ongoing COVID-19 pandemic

- A tenant from the Wuhan Meiluote property, likely to be in the e-commerce business, has notified ECW on its non-renewal of approximately 25,000 sqm of space; 50% of the property's NLA
- Despite this lease potentially leading to a c.35% decline to property's full-year income, we expect the impact on overall portfolio revenues to be not more than 0.4%
- ECW anticipates that some tenants may request for rental rebates to tide through this period, and it will evaluate each request on a case-by-case basis
- Wuhan Meiluote remains closed due to the government's mandatory shutdown of operations in the city; the other assets have resumed operations after an approximate one-month closure
- We understand that the other properties are operating at 50-70% capacity since resuming operations

- We believe that the port logistics properties may also face some challenges as they deal mainly with construction materials such as steel and cement
- Rent renewals in FY20 may face some challenges due to pessimism in business activity caused by COVID-19; may see lower occupancy rates and/or negative rental reversions
- Key renewal to look out for in FY20 is the lease with China Tobacco at Hengde Logistics (which accounts for half of the 15.7% of lease expiries in FY20); lease negotiations have been put on hold for now due to the pandemic

#### Healthy operational metrics

- All-in running cost of borrowing inched down slightly from 4.6% in 3Q19 to 4.4% in 4Q19
- Portfolio valuation increased 20.6% to RMB 8.1bn mainly due to addition of Fuzhou E-Commerce; valuation of portfolio on a like-for-like basis would have been up 1.5% y-o-y
- Increase in portfolio valuations attributed to compression in cap rates from approximately 6.25-6.5% to the current average of c.6%.
- Higher valuation led to a decline in gearing from 39.6% to 38.7% q-o-q
- Portfolio occupancy improved to 99.97%; but could potentially fall to c.97% with the non-renewal of the tenant at Wuhan Meiluote
- Approximately 15.7% of leases (by gross revenue) will be due in FY20 and it remains to be seen how the COVID-19 outbreak will impact rental reversions
- More than c.72% of the portfolio are on master-leases and should provide income visibility with the built-in rental escalations

#### Maintain BUY with a lower TP of S\$0.80

- We continue to like ECW for its large proportion of master-leases with annual rental escalations
- We project FY20 DPU to increase by c.3.5% due mainly to additional income from Fuzhou E-Commerce and in-built rental escalations at master-lease properties

## EC World REIT

- However, we revised our TP down to account for near-term challenges to operations caused by COVID-19, as well as potential declines in occupancies and/or negative rental reversions
- We will revisit our forecasts once there is more certainty over the impact of COVID-19 on ECW's operations and earnings

### Quarterly / Interim Income Statement (\$m)

FY Dec	4Q2018	3Q2019	4Q2019	% chg yoy	% chg qoq
Gross revenue	23.5	25.7	25.9	10.2	0.7
Property expenses	(2.6)	(2.8)	(1.4)	(47.3)	(49.7)
Net Property Income	20.8	22.9	24.5	17.4	6.8
Other Operating expenses	(0.7)	(3.3)	(0.3)	(57.7)	(90.6)
Other Non Opg (Exp)/Inc	0.0	(0.2)	(4.2)	nm	1,918.7
Associates & JV Inc	0.0	0.0	0.0	nm	nm
Net Interest (Exp)/Inc	(6.5)	(8.7)	(9.4)	(43.9)	(8.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
<b>Net Income</b>	<b>13.6</b>	<b>10.8</b>	<b>10.6</b>	<b>(22.1)</b>	<b>(1.9)</b>
Tax	(7.4)	(7.8)	(16.9)	128.6	118.1
Minority Interest	0.0	0.0	0.0	-	-
<b>Net Income after Tax</b>	<b>6.16</b>	<b>3.01</b>	<b>(6.4)</b>	<b>nm</b>	<b>nm</b>
Total Return	11.7	17.8	29.2	149.1	64.3
Non-tax deductible Items	0.71	(5.9)	(16.5)	nm	178.6
Net Inc available for Dist.	12.4	11.9	12.7	2.4	7.3
<b>Ratio (%)</b>					
Net Prop Inc Margin	88.8	89.3	94.6		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

**EC World REIT**

**CRITICAL DATA POINTS TO WATCH**

**Critical Factors**

**Sponsor-backed growth**

ECW's sponsor, Forchn Holdings Group Co., Ltd., is a Shanghai investment holding company which specialises in e-commerce logistics services, e-commerce real estate, health and wellness, manufacturing and investment management. Forchn Group has strategic partnerships with leading logistics giants such as Alibaba, JD, etc.

These strategic long-term partnerships allow the sponsor to undertake master leases on properties that it develops, and to provide ECW with assets that have strong and stable cashflows. The sponsor also has an investment management arm and has recently entered into a JV for a platform of up to RMB5bn. The platform develops warehouses and logistic facilities throughout China, and some of the 14 assets will be completed within the next 12-18 months. These platforms will provide ECW with an added avenue for future growth.

**Organic growth provides earnings visibility**

The majority of the properties are on a master lease with annual rental escalations averaging 1-2% per annum. The most recent acquisition, Fuzhou E-Commerce property, is on a 5-year master lease with annual rental escalations of 2.25%.

These master-lease structures provide the REIT with cashflow stability and visibility. The current portfolio WALE of 4.1 years ensures long-term stability to portfolio occupancy as well. Meanwhile, the multi-tenanted properties are mostly backed by main leases to tenants such as JD.com and China Tobacco, a state-owned enterprise. The remaining space is leased out to smaller tenants and provides ECW with some flexibility to benefit from any increase in market rents.

**Riding on the growth in domestic e-commerce**

E-commerce in China is expected to continue its strong growth, with online retail sales in 2018 growing 25.4%, outstripping the growth in Chinese retail sales of consumer goods (9.0%) according to China National Bureau of Statistics.

Despite the ongoing trade wars, ECW's port logistics assets are inland ports which cater to tenants who handle domestic businesses with almost no exposure to international trade. We believe that ECW will be mostly insulated from any uncertainty in trade and will continue to ride on the rapidly growing e-commerce segment in the domestic market.

**Proactive capital management**

The weak RMB is currently creating a drag on ECW in terms of earnings and financing. However, the management is proactively looking at ways to mitigate these impacts by constantly relooking into its FX hedging strategy. In our view, the increasing forward hedge of income, and mix of onshore and offshore debt help mitigate volatility in FX.

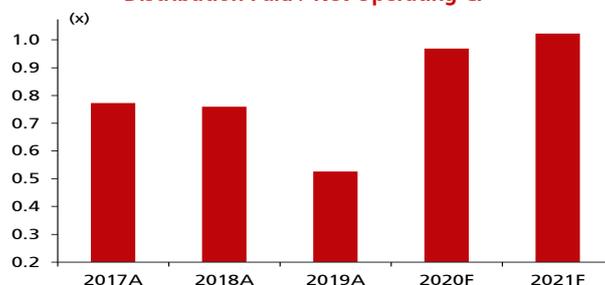
**Net Property Income and Margins (%)**



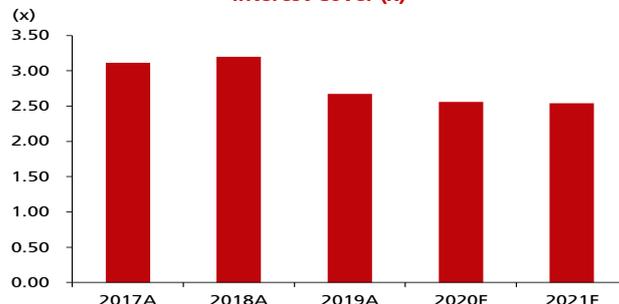
**Net Property Income and Margins (%)**



**Distribution Paid / Net Operating CF**



**Interest Cover (x)**



Source: Company, DBS Bank

## EC World REIT

### Balance Sheet:

**Gearing maintained within targets.** Following the acquisition in FY19, gearing is currently 38.7%. This is well within management's long-term target of keeping leverage at the optimal level of around 40%. Given the headroom before hitting the leverage limit of 45%, we believe that ECW is unlikely to do any opportunistic equity fund-raising, unless it is coupled with an acquisition.

**Efficient management of borrowing costs.** Approximately S\$400m of borrowings taken at IPO has been refinanced and overall costs have come down from 5.4% to 4.5% currently. The savings in borrowing costs were mainly due to the mix of onshore and offshore RMB borrowings. Currently, more than c.70% of borrowings are offshore debt with a significantly lower cost as compared to onshore debt. Going forward, management will also be working on hedging its interest repayment obligations to further mitigate FX fluctuations.

### Share Price Drivers:

#### Acquisitions

ECW also has the ability to grow inorganically with future pipeline from the sponsor, and the strategic partnerships forged by the sponsor that will provide a further acquisition pipeline and the ability to attract major e-commerce tenants.

#### Key Risks:

##### Further weakening of RMB

While ECW is proactively managing FX volatility through the hedging of income and costs, any significant weakening of the RMB will put pressure on distributions.

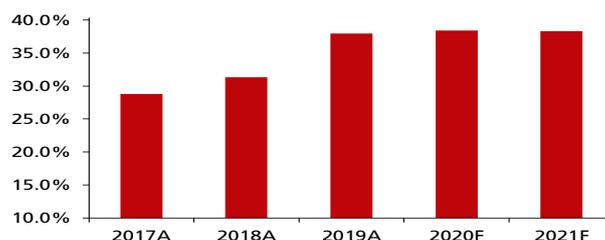
##### Environment, Social, Governance:

ECW published its inaugural sustainability report in December 2018. ECW's approach towards ESG is fully endorsed and actively supported by the board, sponsor and manager. Led by the Chief Executive Officer and senior representatives from key departments, the manager employs a top-down approach in the decision-making process, assessment and execution of the ESG initiatives and best practices to ensure that ECW follows the guidelines set by SGX, GRI and CRESS.

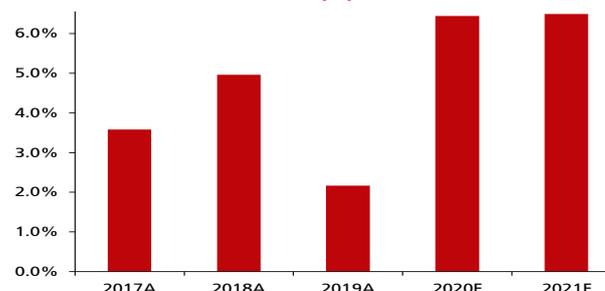
### Company Background

ECW is the first specialised and e-commerce logistics REIT listed on the SGX. It has a portfolio of quality properties that are located in China, within one of the largest e-commerce clusters of Hangzhou in the Yangtze River Delta and Wuhan.

### Aggregate Leverage (%)



### ROE (%)



### Distribution Yield (%)



### PB Band (x)



Source: Company, DBS Bank

## EC World REIT

### Income Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	91.4	96.2	99.1	112	114
Property expenses	(8.7)	(8.9)	(9.4)	(8.8)	(8.9)
<b>Net Property Income</b>	<b>82.7</b>	<b>87.3</b>	<b>89.7</b>	<b>104</b>	<b>105</b>
Other Operating expenses	(6.8)	(4.5)	(6.5)	(6.8)	(6.9)
Other Non Opg (Exp)/Inc	(1.9)	1.26	(4.3)	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(24.4)	(25.9)	(31.1)	(37.8)	(38.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Net Income</b>	<b>49.6</b>	<b>58.2</b>	<b>47.8</b>	<b>59.0</b>	<b>59.8</b>
Tax	(23.8)	(23.3)	(32.9)	(14.7)	(14.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Income After Tax</b>	<b>25.9</b>	<b>34.9</b>	<b>14.9</b>	<b>44.2</b>	<b>44.8</b>
Total Return	47.6	46.9	65.2	44.2	44.8
Non-tax deductible Items	(0.5)	2.07	(16.4)	6.71	6.78
Net Inc available for Dist.	47.1	49.0	48.9	50.9	51.6
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	121.9	5.3	3.0	13.3	1.7
N Property Inc Gth (%)	125.0	5.6	2.7	15.4	1.8
Net Inc Gth (%)	24.9	34.9	(57.4)	197.3	1.3
Dist. Payout Ratio (%)	100.0	99.6	98.7	98.7	98.7
Net Prop Inc Margins (%)	90.5	90.8	90.5	92.2	92.2
Net Income Margins (%)	28.3	36.3	15.0	39.4	39.2
Dist to revenue (%)	51.6	50.9	49.3	45.4	45.2
Managers & Trustee's fees	7.5	4.7	6.5	6.0	6.0
ROAE (%)	3.6	5.0	2.2	6.4	6.5
ROA (%)	1.7	2.3	0.9	2.6	2.6
ROCE (%)	2.7	3.4	1.6	4.3	4.4
Int. Cover (x)	3.1	3.2	2.7	2.6	2.5

Higher revenue mainly due to c.S\$13m full-year contribution from Fuzhou E-Commerce

Growth in revenues were revised down to account for potentially weaker rental reversions in FY20

Source: Company, DBS Bank

## EC World REIT

### Quarterly / Interim Income Statement (\$m)

FY Dec	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Gross revenue	23.5	23.9	23.7	25.7	25.9
Property expenses	(2.6)	(2.7)	(2.6)	(2.8)	(1.4)
Net Property Income	20.8	21.2	21.2	22.9	24.5
Other Operating expenses	(0.7)	(2.6)	(0.3)	(3.3)	(0.3)
Other Non Opg (Exp)/Inc	0.0	0.25	(0.1)	(0.2)	(4.2)
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(6.5)	(6.5)	(6.6)	(8.7)	(9.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Net Income</b>	<b>13.6</b>	<b>12.3</b>	<b>14.2</b>	<b>10.8</b>	<b>10.6</b>
Tax	(7.4)	(4.3)	(3.9)	(7.8)	(16.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Income after Tax</b>	<b>6.16</b>	<b>8.01</b>	<b>10.2</b>	<b>3.01</b>	<b>(6.4)</b>
Total Return	11.7	8.01	10.2	17.8	29.2
Non-tax deductible Items	0.71	3.92	2.10	(5.9)	(16.5)
Net Inc available for Dist.	12.4	11.9	12.3	11.9	12.7
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	(2)	2	(1)	8	1
N Property Inc Gth (%)	(6)	2	0	8	7
Net Inc Gth (%)	(48)	30	28	(70)	(311)
Net Prop Inc Margin (%)	88.8	88.8	89.1	89.3	94.6
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Higher taxes due to acquisition of Fuzhou E-Commerce

### Balance Sheet (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	1,337	1,335	1,568	1,569	1,571
Other LT Assets	0.17	0.0	0.0	0.0	0.0
Cash & ST Invt	139	142	119	125	127
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	35.6	38.3	36.9	9.36	9.52
Other Current Assets	0.0	0.33	0.11	0.11	0.11
<b>Total Assets</b>	<b>1,511</b>	<b>1,516</b>	<b>1,724</b>	<b>1,703</b>	<b>1,708</b>
ST Debt	40.1	475	67.9	67.9	67.9
Creditor	24.6	23.4	34.1	9.36	9.52
Other Current Liab	11.2	9.25	16.0	16.0	16.0
LT Debt	395	0.0	587	587	587
Other LT Liabilities	323	320	335	335	335
Unit holders' funds	718	689	684	688	692
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Funds &amp; Liabilities</b>	<b>1,511</b>	<b>1,516</b>	<b>1,724</b>	<b>1,703</b>	<b>1,708</b>
Non-Cash Wkg. Capital	(0.2)	6.06	(13.2)	(15.9)	(15.9)
Net Cash/(Debt)	(297)	(333)	(535)	(530)	(527)
<b>Ratio</b>					
Current Ratio (x)	2.3	0.4	1.3	1.4	1.5
Quick Ratio (x)	2.3	0.4	1.3	1.4	1.5
Aggregate Leverage (%)	28.8	31.3	38.0	38.4	38.3

Source: Company, DBS Bank

## EC World REIT

### Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	49.6	58.2	47.8	59.0	59.8
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(23.8)	7.36	17.7	(14.7)	(14.9)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	6.95	(4.9)	18.2	2.74	0.0
Other Operating CF	28.1	2.66	8.59	4.91	4.98
<b>Net Operating CF</b>	<b>61.0</b>	<b>63.4</b>	<b>92.3</b>	<b>51.9</b>	<b>49.8</b>
Net Invnt in Properties	5.57	(30.4)	(156)	(1.5)	(1.5)
Other Invnts (net)	0.0	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>5.57</b>	<b>(30.4)</b>	<b>(156)</b>	<b>(1.5)</b>	<b>(1.5)</b>
Distribution Paid	(47.1)	(48.1)	(48.5)	(50.3)	(50.9)
Chg in Gross Debt	35.8	(27.6)	104	0.0	0.0
New units issued	0.0	4.87	4.63	5.21	5.28
Other Financing CF	(61.2)	(4.9)	(4.6)	0.0	0.0
<b>Net Financing CF</b>	<b>(72.5)</b>	<b>(75.7)</b>	<b>55.4</b>	<b>(45.1)</b>	<b>(45.6)</b>
Currency Adjustments	40.9	46.2	(14.2)	0.0	0.0
Chg in Cash	35.0	3.48	(22.7)	5.32	2.66
Operating CFPS (S cts)	6.90	8.61	9.31	6.12	6.16
Free CFPS (S cts)	8.50	4.16	(8.0)	6.27	5.97

Source: Company, DBS Bank

100% of Manager's Fees are taken in units

### Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 May 19	0.79	0.86	BUY
2:	11 Nov 19	0.74	0.86	BUY

Source: DBS Bank

Analyst: Derek TAN

Singapore Research Team

DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return, i.e., > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*\*Share price appreciation + dividends*

Completed Date: 28 Feb 2020 19:19:30 (SGT)

Dissemination Date: 28 Feb 2020 19:23:21 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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