

BUY
TP: SGD 0.88
▲ 24.3%

EC World REIT

ECWREIT.SP

Resilience amid COVID-19 outbreak

ECWREIT FY19 results came in generally inline with our FY estimates. We believe ECWREIT will remain relatively resilient amidst COVID-19 outbreak in China, backed by master leases with built-in escalations (~67% of AUM), while operations are starting to ramp back up. Any potential headwind could come from reversions for the expiring FY20E leases (~15% GRI), mainly from Hengde Logistics, where we expect the tenant to renew, but revised our +6-7% reversions assumptions to flattish. Maintain BUY, at a lower TP S\$0.88.

- ➔ **FY19 results inline:** FY19 DPU came in generally in line at 99.0% of our estimates. 4Q19 DPU declined 3.8% YoY, mainly due to 5% DI retention in view of the COVID-19 outbreak. Excluding the retention, 4Q19 DPU would have risen by 1.3% YoY and 6.8% QoQ, driven by embedded escalations and the Fuzhou asset acquisition, while FY19 DPU would have come in at 100.3% of our estimates.
- ➔ **COVID-19 to mainly impact Hengde & Wuhan Meiluote lease in FY20E:** ~15% of ECWREIT's leases are expiring in FY20E, mainly from the Hengde asset in 2H20 (leased to China Tobacco since inception for the past 9 yrs). Mgmt expects the tenant to renew their lease, due to the costly nature of moving out. ECWREIT also disclosed the non-renewal of ~51% of space of their smaller asset Wuhan Meiluote (~1.6% of GRI), and expects limited demand as Wuhan businesses are at a standstill. We adjusted our assumption of Meiluote occupancy to ~49% in 2Q20-2Q21, assuming recovery to ~95% occupancy thereafter. We expect Hengde lease to be renewed, but have revised our FY20E reversion assumptions for all assets from +4-7% to flattish.
- ➔ **Resilient amid headwinds, backed by master leases:** We expect ECWREIT operations to remain robust given significant master lease contributions (~67% of AUM, with no variable component and built-in escalations). In addition, we think the e-commerce and logistics industry in China is partially cushioned from the adverse impact of the virus outbreak as they are relied-on to deliver necessities. All assets except Wuhan Meiluote have also received permits to resume operations, where they are operating at 60-95% capacity, with manpower as the main bottleneck (which ramps up as individual quarantine periods pass).
- ➔ **Maintain BUY:** After making the aforementioned adjustments to our model, we maintain BUY with a lower TP of S\$0.88/unit. We have yet to factor in rental incentives attributable to COVID-19 outbreak, awaiting further clarity moving forward. ECWREIT currently trades at 8.67% FY20E yield and 0.83x P/B.

Financial highlights

Y/E 31 Dec (SGD m)	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue	96	99	114	119	122
Distribution income	49	49	49	52	54
Outstanding shares (M)	792	797	804	811	817
DPU (SGD cts)	6.2	6.0	6.1	6.5	6.6
DPU growth (%)	2.6%	-2.1%	1.0%	5.6%	2.4%
Yield (%)	8.8%	8.6%	8.7%	9.1%	9.4%
BV per share	0.9	0.9	0.9	0.9	0.9
P/B (x)	0.8	0.8	0.8	0.8	0.8

Source: Company, SCCM Research; as of 28 February 2020



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PRICE CLOSE (28 Feb 2020)

SGD 0.705

MARKET CAP

SGD 564.9 mln

USD 405.1 mln

SHARES O/S

801.2 mln

FREE FLOAT

52.1%

3M AVG DAILY VOLUME/VALUE

SGD 0.858 mln / USD 0.616 mln

52 WK HIGH

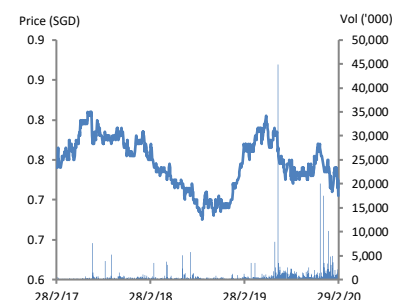
SGD 0.805

52 WK LOW

SGD 0.700

Target Price

SGD 0.88



FY19 results came in generally in line

- FY19 DPU came in generally in line- stable results offset by DI retention in view of COVID-19 situation:** FY19 DPU came in at 99.0% of our estimates. 4Q19 DPU declined by 3.8% YoY mainly due to 5% retention in view of the COVID-19 outbreak, but rose by 1.4% QoQ. Excluding the retention, 4Q19 DPU would have risen by 1.3% YoY and 6.8% QoQ, driven by embedded escalations and the Fuzhou asset acquisition. FY19 DPU declined by 2.1% YoY largely due to the retention of 5% of DI in 4Q19, adverse FX differences and technical timing difference between the loan drawdown and the completion of the acquisition of Fuzhou E-commerce in 3Q19. Excluding the retention of 5% distribution, FY19 DPU would have declined by 0.8% YoY, coming in at 100.3% of our estimates.

Mgmt typically distributes 98-100% of DI, reviewed on a quarter-by-quarter basis

Adverse FX impact, which has plagued the REIT in FY19, has gradually started to ease as the US-China trade deal progresses in phases

Fig 1 - Results summary vs previous FY19E estimates

FY 31Dec (\$m)	4Q19	4Q18	YoY %	3Q19	QoQ %	FY19	FY19E	% of forecast
Gross Revenue	25.9	23.5	10.2%	25.7	0.7%	99.1	101.9	97.3%
Operating Expenses	-1.3	-2.6	-51.1%	-2.8	-53.3%	-9.4	-11.2	83.6%
NPI	24.6	20.8	17.9%	22.9	7.2%	89.7	90.7	99.0%
Trustee-Manager's fees	-1.3	-1.3	-3.1%	-1.2	7.5%	-4.9	-5.8	84.7%
Trustee's Expenses	-0.1	-0.1	11.1%	-0.1	1.3%	-0.3	-0.3	101.0%
Other Trust Expenses	-0.5	0.0	NM	-0.5	-5.1%	-1.7	-1.6	106.7%
Net income before financing cost & tax	22.7	19.5	16.2%	21.2	7.0%	82.9	81.3	101.9%
Interest Income	0.3	0.4	-19.3%	0.6	-41.1%	1.8	1.5	116.3%
Borrowing Costs	-9.7	-6.9	40.0%	-9.3	5.0%	-32.9	-30.3	108.7%
Net Income	13.3	13.0	2.3%	12.5	6.3%	51.7	52.6	98.4%
Net income aft Tax	29.2	11.7	NM	17.8	NM	65.2	49.9	NM
Income Available for Distribution	12.7	12.4	2.4%	11.873	7.3%	48.9	48.6	100.6%
Distribution to Unitholders	12.1	12.4	-2.8%	11.873	1.9%	48.2	48.6	99.2%
DPU (\$c)	1.510	1.570	-3.8%	1.489	1.4%	6.047	6.111	99.0%*

Source: SCCM Research, Company, * is at 100.3% of our estimates, assuming no DI retention

COVID-19 to mainly impact Hengde & Wuhan Meiluote lease in FY20E

- Hengde lease renewal to be the key impact on FY20E earnings:** Approximately 15% of ECWREIT's leases are expiring in FY20, mainly from Hengde asset. While Mgmt still expects the tenant (SOE China Tobacco) to renew their lease, they toned down their expectations for positive reversions in view of current situation. They shared that given that they are already providing competitive rates (one of the reasons why they previously estimated up to +10% positive reversions), and that it is likely to be costly for China Tobacco to move to a different location. ECWREIT has several months before the lease expiry in 2H20. Hence mgmt may re-enter into talks with the tenant in a potentially more positive environment, assuming that the COVID-19 situation improves.
- Upcoming drop in occupancy for one of the smaller assets Wuhan Meiluote:** Mgmt disclosed the non-renewal of a major tenant occupying one of their smaller MTB asset Wuhan Meiluote, and expects difficulties in backfilling the space as businesses operations are generally at a standstill in Wuhan. We expect limited impact on the REIT as the asset contributes to only ~1.6% of 4Q19 portfolio GRI. Mgmt plans to prioritise the Hengde Logistics lease renewal, shifting their focus away from Wuhan Meiluote until the situation in Wuhan improves.
- We expect China Tobacco to renew their lease, but have also revised all FY20E reversion assumptions to flattish. Our previous reversion assumption for China**

Hengde Logistics was leased to SOE China Tobacco since its inception in Nov 2010. The asset was built to cater to China Tobacco's needs

Tobacco was +6% to 7%. We adjusted our assumption of Wuhan Meiluote occupancy to be ~49% occupied from 2Q20-2Q21, recovering to ~95% occupancy thereafter.

- **We have yet to factor in any potential rental incentives to assist tenants through the COVID-19 situation.** Mgmt shared that the amount will be reviewed on a case-by-case basis and it will likely take them several weeks to make the decision.

Resilient amid headwinds, backed by master leases

- **~67% Master leases to support stability in REIT earnings:** We expect resilience in ECWREIT due to their significant master lease contributions. (~67% of AUM, with no variable component and built-in escalations). As ECWREIT has recently renewed their 3 masterleases in 2019, they achieved earnings visibility for the majority of the leases and hence ~74% of GRI will be expiring 2023 and beyond.

The 4th master lease is from Fuzhou E-commerce, which was acquired in 2019 and hence is at the beginning of its master lease time span as well

Fig 2 - ECWREIT master lease & MTB structure breakdown

E-Commerce Logistics Assets			
Asset	Lease Structure	Occupancy	Key Highlight
Fu Heng	Master Lease: 1 Jan 2016 to 31 Dec 2024 Rental escalation of 3.0% on 1st Jan 2020, 2.0% annually from 1st Jan 2021.	100%	Coveted property, entire suite of facilities supporting ecommerce fulfilment
Fuzhou E-Commerce	Master Lease: 8 Aug 2019 to 7 Aug 2024 Rental escalation of 2.25% per annum	100%	Situated next to Fu Heng. A rare sizable integrated e-commerce logistics asset
Stage 1 Properties of Bei Gang	Master lease: 1 Nov 2015 to 31 Oct 2024 Rental escalation of 1% on 1st Jan 2020 and 1% from Nov 2020 to Oct 2024	100%	One of the largest e-commerce developments in the region
Wuhan Meiluote	Multi Tenanted	99.4%	First acquisition in 2018. Tenanted to e-commerce players
Specialized Logistics Asset			
Asset	Lease Structure	Occupancy	Key Highlight
Hengde Logistics	Multi Tenanted: 2 main leases.	100%	Customised environment control warehouse space for major SOE tenant China Tobacco
Port Logistics Assets			
Asset	Lease Structure	Occupancy	Key Highlight
Chongxian Port Investment	Master lease: 1 Jan 2016 to 31 Dec 2024 Rental escalation of 3.0% on 1st Jan 2020 and 2.0% annually from 1st Jan 2021	100%	Leading river port with 60% market share for steel products in Hangzhou
Chongxian Port Logistics	Multi Tenanted	100%	Integrated operations , storage processing and logistics distribution for steel products
Fu Zhuo Industrial	Two main tenancies: (1) Apr 2015 to Apr 2020: 10% annually in first 3 years, 15% from Year 4 from and (2) 7.5% every 3 years from Oct 2014 to Oct 2029	100%	Adjacent to port for cement related products

Source: Company

- **E-commerce & Logistics industries relatively resilient to COVID-19 outbreak – manpower as key bottleneck:** We think that the e-commerce and logistics industry in China is also one of the less susceptible segments to virus outbreak. Other than having no direct reliance on human traffic, Mgmt has observed that some E-commerce tenants such as JD.com continued operations throughout the outbreak to deliver necessities in China. **All assets except Wuhan Meiluote has received permit to resume operations, where they are operating at 60-95% capacity due to the lack of manpower.** Mgmt is positive on overall business operations and expects gradual ramp up in tenant operations as manpower supply recovers (as individual quarantine periods pass).

Maintain BUY

- **Maintain BUY:** After making the aforementioned adjustments to our model, we maintain BUY with end-FY20 TP of S\$0.88/unit. ECWREIT currently trades at attractive valuation of 8.67% FY20E yield and 0.83x P/B.

Financial Statements

Income Statement

Y/E 31 Dec (in SGD'm)	FY18A	FY19A	FY20E	FY21E	FY22E
Gross Revenue	96.2	99.1	114.1	118.9	121.8
Gross Revenue Growth Rate	5.3%	3.0%	15.1%	4.2%	2.5%
Property Expenses	(8.9)	(9.4)	(12.8)	(13.2)	(13.4)
Net Property Income	87.3	89.7	101.3	105.7	108.4
Trustee-Manager's fees	(5.1)	(4.9)	(4.6)	(5.4)	(5.2)
Trustee's fee	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Trust and administrative expenses	(0.9)	(1.7)	(1.6)	(1.6)	(1.6)
EBIT	81.0	82.9	94.8	98.4	101.3
EBIT Margin	84.2%	83.6%	83.1%	82.7%	83.2%
Non-Operating Income					
Interest Income	1.5	1.8	1.6	1.7	1.8
Interest Expense	(27.4)	(32.9)	(34.0)	(34.0)	(34.0)
Exceptional Gains/(Losses)	3.1	(3.9)			
Net Income	58.2	47.8	62.4	66.0	69.1
Tax	(23.3)	(32.9)	(23.0)	(24.3)	(25.4)
Net Income	34.9	14.9	39.5	41.7	43.7
Net Gains from revaluation of properties	12.0	50.3			
Total Return for the year	46.9	65.2	39.5	41.7	43.7
Invnt Income available for distribution	48.8	48.2	49.1	52.3	54.0
DPU (cents)	6.18	6.05	6.11	6.45	6.61
DPU Growth Rate	2.6%	-2.1%	1.0%	5.6%	2.4%

Balance Sheet

Y/E 31 Dec (in SGD'm)	FY18A	FY19A	FY20E	FY21E	FY22E
Cash	142.1	119.5	124.3	130.5	136.5
Trade Receivables	38.3	36.9	44.4	46.3	47.4
Other Current Assets	0.3	0.1	0.1	0.1	0.1
Current Assets	180.8	156.5	168.8	176.9	184.0
Investment Properties	1,335.0	1,567.6	1,567.6	1,567.6	1,567.6
Non-Current Assets	1,335.0	1,567.6	1,567.6	1,567.6	1,567.6
Total Assets	1,515.8	1,724.0	1,736.4	1,744.5	1,751.6
Trade Payables	23.4	34.1	30.7	32.0	32.8
OD & ST Debt	474.7	67.9	67.9	67.9	67.9
Current Tax Liabilities	9.2	11.7	23.0	24.3	25.4
Other ST Liabilities	0.1	4.3	4.3	4.3	4.3
Current Liabilities	507.3	118.1	125.9	128.5	130.4
LT Debt	0.0	586.6	586.6	586.6	586.6
Deferred Payments (over 12 months)	262.4	271.0	271.0	271.0	271.0
Other LT Liabilities	57.5	64.4	64.4	64.4	64.4
Non-Current Liabilities	320.0	922.0	922.0	922.0	922.0
Total Liabilities	827.3	1,040.1	1,047.9	1,050.5	1,052.4
Total Unitholders' Equity	688.6	683.9	688.5	693.9	699.2
Total Liabilities and Equity	1,515.8	1,724.0	1,736.4	1,744.5	1,751.6

Cash Flow Statement

Y/E 31 Dec (in SGD'm)	FY18A	FY19A	FY20E	FY21E	FY22E
Pre-tax Profit	58.2	47.8	62.4	66.0	69.1
Tax Paid	(15.9)	(15.2)	(11.7)	(23.0)	(24.3)
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	43.1	9.7	10.6	10.4
Changes in Non-Cash Work Cap	(4.9)	16.7	(11.0)	(0.6)	(0.4)
Cash From Operations	63.4	92.3	49.4	53.0	54.8
Net Change in Property Investments	(1.4)	(3.4)	0.0	0.0	0.0
Net Change In Investments	(28.9)	(152.8)	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)	(156.2)	0.0	0.0	0.0
Distribution to Unit Holders	(48.1)	(48.5)	(49.1)	(52.3)	(54.0)
Net Change in Gross Debt	41.7	130.7	0.0	0.0	0.0
Issue of Units (net of Expenses)	0.0	0.0	4.6	5.4	5.2
Other Financing Activities	(69.3)	(26.8)	0.0	0.0	0.0
Cash from Financing Activities	(75.7)	55.4	(44.6)	(46.8)	(48.8)
Net Changes in Cash	(42.7)	(8.4)	4.8	6.2	6.0

Per Share Data

Y/E 31 Dec (SGD)	FY18A	FY19A	FY20E	FY21E	FY22E
EPU	0.06	0.08	0.05	0.05	0.05
DPU	0.06	0.06	0.06	0.06	0.07
BVPU	0.87	0.86	0.86	0.86	0.86

Valuation Ratios

Y/E 31 Dec (x)	FY18A	FY19A	FY20E	FY21E	FY22E
P/E	11.9	8.6	14.3	13.6	13.1
P/B	0.8	0.8	0.8	0.8	0.8

Financial Ratios

Y/E 31 Dec	FY18A	FY19A	FY20E	FY21E	FY22E
Profitability & Return Ratios (%)					
EBIT margin	84.2	83.6	83.1	82.7	83.2
Net profit margin	36.3	15.0	34.6	35.1	35.8
ROE	5.0%	2.2%	5.7%	6.0%	6.3%
ROCE	3.5%	1.6%	3.6%	3.8%	3.9%
Working Capital & Liquidity Ratios					
Receivables (days)	142	142	142	142	142
Payables (days)	98	98	98	98	98
Current ratio (x)	0.4	1.3	1.3	1.4	1.4
Turnover & Leverage Ratios (x)					
Total asset turnover	0.06	0.06	0.07	0.07	0.07
Gearing Ratio	0.32	0.38	0.38	0.38	0.37

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