

CHINA
DEVELOPMENT
FINANCIAL

EC WORLD REIT

(ECWREIT SP)

Somewhat immune, but some sniffles expected

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- **Maintain OUTPERFORM with revised 12M TP of US\$0.82.** 4Q19 and FY19 results largely in line with our forecasts. DPU missed by 2.5% as management retained 5% of DI for general working capital purposes and unforeseen circumstances, during this Covid-19 period. This is a one-off event where management has retained DI, it is not expected to repeat unless in unforeseen circumstances.
- **Demand for Wuhan Meiluote to be muted throughout 2020.** ECW has received notification from a tenant for the non-renewal of 24,929 sqm (approx. 50%) of space at Wuhan Meiluote (FY19: 1.6% of NPI) in 2Q20. Management is pessimistic on being able to replace the tenant as quickly, due to the current situation in Wuhan.
- **Potential slowdown in tenants' businesses and possible rental rebates to be given out.** Since ECW is in the logistics sector, it is less reliant on human traffic, and operations have been steadily resuming (60-90% capacity) since receiving the necessary permits to restart operations. However, the temporary closure has inevitably affected businesses in China, and several landlords have committed to some rental rebates. ECW expects to receive similar requests, but will carefully assess them as they arise.

Figure 1: 2019 Actual Earnings vs KGI Forecasts

YE Dec SGD mn	2019A	KGI 2019F	Variance
Gross revenue	99.1	103.1	-3.9%
Net property income	89.7	94.8	-5.3%
Distributable income	48.9	49.3	-0.9%
DPU (SGD cents)	6.0	6.2	-2.5%

Source: ECW, KGI Research

4Q/FY19 review. Gross revenue and NPI increased 10.2% and 17.4% YoY (13.2% and 20.5% in RMB terms), mainly due to contribution from Fuzhou E-Commerce. DPU would have been SGD 1.59 cents for 4Q19 should 100% have been distributed, bringing FY19 distributions to SGD 6.13 cents, and distribution yield to 8.7% based on current prices of S\$0.705. Portfolio valuations have also increased 20.6% largely due to the acquisition of Fuzhou E-Commerce, excluding which, ECW's base portfolio has increased by 1.5% YoY due to some cap rate compression across its assets (c.0.25%-0.5%).

2020. We have revised our estimates down, in line with our house view of China potentially entering stagflation. The temporary closures of warehouses and factories will inevitably affect Chinese businesses, with a direct impact on 1-2 months of cash flows. We have also factored in ECW providing up to a month of rental rebates, especially for its port logistics assets that may see sluggish growth this year. On the other hand, we are confident that its e-commerce assets (with the exception of Wuhan Meiluote), will perform as expected. The full year contribution of Fuzhou E-

Outperform - Maintain		Performance (Absolute)	
Price as of 2 Mar 20 (SGD)	0.71	1 Month (%)	-1.4
12M TP (SGD)	0.82	3 Month (%)	-5.4
Previous TP (SGD)	0.84	12 Month (%)	1.2
Upside, incl div (%)	23.0%		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (USD mn)	569		
Issued Shares (mn)	801		
Vol - 3M Daily avg (mn)	2.0		
Val - 3M Daily avg (SGD mn)	1.5		
Free Float (%)	52.1		
Major Shareholders		Previous Recommendations	
Forchn Holdings Group Co Ltd	44.1%	25-Nov-19	OP S\$0.84
China Cinda Asset Mgmt	10.2%		
Bocom Intl Global Inv Ltd	7.7%		

Financials & Key Operating Statistics

YE Dec SGD mn	2018	2019	2020F	2021F	2022F
Gross revenue	96.2	99.1	104.4	110.4	112.3
Net property income	87.3	89.7	95.7	101.1	102.9
Distributable income	49.0	48.9	46.1	49.9	50.5
DPU (SGD cents)	6.2	6.0	5.7	6.1	6.1
DPU growth (%)	2.2%	-1.8%	-6.0%	6.9%	0.3%
Div Yield (%)	8.7	8.6	8.1	8.6	8.7
NAV (S\$)	0.9	0.9	0.8	0.8	0.8
Price / Book (x)	0.8	0.8	0.8	0.9	0.9
NPI Margin (%)	90.8	90.5	91.6	91.6	91.6
Net Margin (%)	48.8	65.8	33.6	34.4	34.6
Gearing (%)	-	37.4	37.3	37.3	37.3
ROE (%)	6.6	6.8	9.5	5.2	5.6

Source: ECW, KGI Research

Commerce is also expected to offset any potential decreases in revenue from its other assets.

To date, Wuhan Meiluote is the only asset that has not yet received the green light to resume operations. Management has not received any news or notifications of when the warehouse will be allowed to reopen. Outside of Hubei, Wuhan, management has conveyed that the virus spread is somewhat under control, and business is slowly normalising.

Leases due for renewal in 2020. Of the c.16% of leases expiring (by gross rental income): about 8% relates to Hengde Logistics (for which management expects minimal reversion and rental to remain flattish), c.1.1% relates to leases for Wuhan Meiluote, and the rest relating to Chongxian Port Logistics. WALE by GRI stands at 4.1 years, with new master leases for 3 of 4 assets already signed and set to renew in 4Q20/1Q21.

Valuation & Action: Maintain OUTPERFORM based on fair value of US\$0.82. We remain optimistic but conservative, due to the less than optimal outlook for China. Our TP represents a total upside of 15.1% (incl. FY20F div. 8.1%).

Risks: High dependency on its sponsor for rental income; non-renewal of upcoming lease expiry with China Tobacco Zhejiang Industrial Co., Ltd. (Hengde Logistics – specialized logistics asset); defaulting of any tenants impacted by a drastic slowdown in business due to Covid-19; CNY/SGD currency fluctuations.

Figure 2: ECW's portfolio details and valuations

		Lease Structure	Lease Tenure	Rental Escalation	FY19 Valuations (RMB 'mn)	FY18 Valuations (RMB 'mn)
Port Logistics	Chongxian Port Investment	Master lease	1 Jan 2016 to 31 Dec 2024	3.0% on 1 Jan 2020; 2% annually from 1st Jan 2021	2,265.00	2,235.00
	Chongxian Port Logistics Complex 1 Chongxian Port Logistics Complex 2	Multi-tenanted	-	For 72% of leases: increase of 10% in the first 3 years, 12% from Year 4	867.00	862.00
	Fu Zhuo Industrial	Multi-tenanted, 2 main leases	(1) 25 Apr 2015 to 24 Apr 2020; (2) 8 Oct 2014 to 7 Oct 2029	(1) 10% annually in the first 3 years, 15% annually from the 4th year; (2) 7.5% every 3 years	116.00	114.00
Specialised Logistics	Hengde Logistics Complex 1	Multi-tenanted, 2 main leases	(1) 15 Oct 2015 to 14 Oct 2020;	Up to 10% over a lease term of 5 years (i.e. c.2.0% per annum)	1,479.00	1,470.00
	Hengde Logistics Complex 2		(2) 9 May 2016 to 8 May 2021			
E-Commerce Logistics	Fu Heng Warehouse	Master lease	1 Nov 2015 to 31 Oct 2024	3.0% on 1 Jan 2020; 2.0% annually from 1st Jan 2021	613.00	580.00
	Stage 1 Properties of Bei Gang Logistics	Master lease	1 Nov 2015 to 31 Oct 2024	1.0% on 1 Jan 2020; 1.0% annually from Nov 2020 to Oct 2024	1,309.00	1,297.00
	Wuhan Meilute	Multi-tenanted	-	Up to 5% per annum	179.00	171.00
	Fuzhou E-Commerce	Master lease	1 Aug 2019 to 31 Jul 2024	2.25% per annum	1,290.00	
Total Portfolio Valuation					8,118.00	6,729.00
Variance					20.6%	

Source: ECW, KGI Research

Figure 3: DDM valuation

Fiscal year ending December 31	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Distribution per unit (SGD cents)	6.16	6.05	5.69	6.08	6.10	6.44	6.53	6.63	8.29
Terminal Growth (%)									1.5%
Terminal value per unit (SGD cents)								101.30	
Cost of equity	9.68%								
Target price (S\$)	0.82								
Capital appreciation	15.8%								
FY20F distribution yield	8.1%								

Source: KGI Research

Figure 4: Peer comparison

BB ticker	Company Name	Last Price (local \$)	Currency Adj. Market Cap (\$\$ m)	Dividend Yield (%)			P/B (x)			6M Average daily trading volume (\$\$ '000)	YTD Price Performance (%)	1YR Price Performance (%)
				Current	FY19F	FY20F	Current	FY19F	FY20F			
ECWREIT SP	EC World Real Estate Investment Trus	SGD 0.71	409	-	8.6	8.1	0.8	0.8	0.8	1,059	-4.7	6.6
SINGAPORE LISTED INDUSTRIAL REITS (Avg)			22,273	6.7	7.1	6.7	1.2	1.2	1.2	10,114.0	(1.8)	5.9
AREIT SP	Ascendas Real Estate Investment Tru:	SGD 3.02	7,849	5.3	-	5.3	1.4	1.4	1.4	38,453	1.7	9.9
MINT SP	Mapletree Industrial Trust	SGD 2.65	4,190	5.8	4.7	4.7	1.7	1.7	1.7	15,268	1.9	11.8
MLT SP	Mapletree Logistics Trust	SGD 1.81	4,941	5.4	4.5	4.5	1.5	1.5	-	19,478	4.0	18.4
FLT SP	Frasers Logistics & Industrial Trust	SGD 1.22	1,982	5.5	-	5.6	1.3	1.3	1.3	8,516	-1.6	8.9
AAREIT SP	AIMS APAC REIT	SGD 1.37	692	7.2	7.7	7.7	1.0	1.0	1.0	3,582	-4.2	2.1
CACHE SP	Cache Logistics Trust	SGD 0.68	526	7.7	8.3	8.3	1.0	1.2	1.2	872	-5.6	6.2
SBREIT SP	Soilbuild Business Space REIT	SGD 0.47	427	7.7	9.6	9.6	0.8	0.8	0.8	807	-9.6	20.9
SSREIT SP	Sabana Shari'ah Compliant Industrial	SGD 0.45	337	7.7	6.5	6.5	0.8	0.8	0.8	356	-3.3	4.7
EREIT SP	ESR-REIT	SGD 0.53	1,329	7.7	8.3	8.3	1.2	1.2	1.2	3,694	0.0	1.7
SINGAPORE LISTED CHINA RETAIL REITS (Avg)			2,482	7.7	8.0	8.3	0.8	0.9	0.9	7,131.6	(9.0)	(6.1)
SASSR SP	Sasseur Real Estate Investment Trust	SGD 0.79	675	-	8.0	8.0	0.9	0.9	0.9	2,073	-11.3	1.9
BHGREIT SP	BHG Retail REIT	SGD 0.63	230	-	-	-	0.8	-	-	681	-8.0	10.6
CRCT SP	Capitaland Retail China Trust	SGD 1.38	1,199	7.7	7.2	-	0.9	1.0	1.0	4,168	-14.3	7.2
DASIN SP	Dasin Retail Trust	SGD 0.82	379	7.7	8.6	8.6	0.6	-	-	209	-2.4	8.4

Source: Bloomberg, KGI Research

Financials

FYE 31 December					
INCOME STATEMENT (SGD mn)	2018A	2019F	2020F	2021F	2022F
Gross revenue	96.2	99.1	104.4	110.4	112.3
Property expenses	(8.9)	(9.4)	(8.7)	(9.2)	(9.4)
Net property income	87.3	89.7	95.7	101.1	102.9
Manager's fees	(5.1)	(4.9)	(4.5)	(5.3)	(5.1)
Trustee fees	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net interest expense	(19.4)	(23.2)	(29.8)	(29.8)	(30.4)
Other expenses	(0.9)	(1.7)	(1.6)	(1.7)	(1.7)
Net profit/(loss)	56.9	52.1	53.9	58.4	59.8
Change in fair value - investment ppty	12.0	50.3	0.0	0.0	0.0
Total return before tax	70.2	98.2	53.9	58.4	59.8
Income tax	(23.3)	(32.9)	(18.9)	(20.5)	(20.9)
Total return after tax	46.9	65.2	35.0	38.0	38.8
Distributable income	49.0	48.9	46.1	49.9	50.5
BALANCE SHEET (SGD mn)	2018A	2019F	2020F	2021F	2022F
Cash and cash equivalents	142.1	119.5	130.4	139.0	145.7
Trade and other receivables	38.3	36.9	40.4	42.7	43.4
Other current assets	329.0	110.0	-	-	-
Total current assets	180.8	156.5	170.8	181.7	189.1
Investment properties	1,335.0	1,567.6	1,568.6	1,569.6	1,570.6
Intangibles, others	-	-	-	-	-
Total assets	1,515.8	1,724.0	1,739.4	1,751.3	1,759.7
Trade and other payables	23.4	34.1	29.8	31.5	32.1
Other current liabilities	484.0	83.9	75.5	75.5	75.5
Total current liabilities	507.3	118.1	105.3	107.0	107.5
LT Borrowings	0.0	586.6	585.1	585.1	585.1
Other non-current liabilities	320.0	335.4	369.2	385.5	399.1
Total liabilities	827.3	1,040.1	1,059.6	1,077.5	1,091.7
Unitholders' funds and reserves	688.6	683.9	679.8	673.8	668.0
Total liabilities and equity	1,515.8	1,724.0	1,739.4	1,751.3	1,759.7
CASH FLOW STATEMENT (SGD mn)	2018A	2019F	2020F	2021F	2022F
Total return before tax	70.2	98.2	53.9	58.4	59.8
Change in fair value - investment ppty	(12.0)	-	-	-	-
Management fees payable in units	5.1	4.9	4.5	5.3	5.1
Changes in working capital	(4.9)	18.2	(0.8)	4.0	1.3
Taxes paid	(15.9)	(15.2)	(15.6)	(15.6)	(15.6)
Cash flows from operations	73.2	105.8	95.5	103.7	103.1
Capital expenditure	(1.5)	(3.4)	(1.0)	(1.0)	(1.0)
Acquisition of investment properties	(28.9)	(152.8)	-	-	-
Other investing cashflow	-	-	-	-	-
Cash flows from investing	(30.4)	(156.2)	(1.0)	(1.0)	(1.0)
Borrowings raised / (repaid)	41.7	130.7	-	-	-
Equity raised / (bought back)	-	-	-	-	-
Distributions paid	(48.1)	(48.5)	(46.1)	(49.9)	(50.5)
Other financing cashflow	(69.3)	(26.8)	(30.2)	(30.2)	(30.8)
Cash flows from financing	(75.7)	55.4	(76.2)	(80.0)	(81.3)
FX Effects, Others	(0.7)	-	-	-	-
Net increase/(decrease) in cash	(47.6)	(8.4)	4.1	8.6	6.7
Beginning Cash	87.2	43.7	34.7	38.8	47.4
Ending cash	43.7	34.7	38.8	47.4	54.1
KEY RATIOS	2018A	2019F	2020F	2021F	2022F
DPU (SGD cents)	6.2	6.0	5.7	6.1	6.1
Dividend yield (%)	8.7	8.6	8.1	8.6	8.7
NAV per stapled security (S\$)	0.9	0.9	0.8	0.8	0.8
Price/NAV (x)	0.8	0.8	0.8	0.9	0.9
Profitability (%)					
NPI Margin	90.8	90.5	91.6	91.6	91.6
Net Margin	48.8	65.8	33.6	34.4	34.6
ROE	6.6	6.8	9.5	5.2	5.6
ROA	3.2	3.1	3.8	2.0	2.2
Financial Structure					
Interest Coverage (x)	3.9	3.7	2.8	2.9	2.9
Gearing (%)	0.0	37.4	37.3	37.3	37.3

Source: Company, KGI Research

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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