

2 March 2020

Property | REITS

## EC World REIT (ECWREIT SP)

**Buy** (Maintained)

### Near-Term Headwinds; Long-Term Outlook Intact

Target Price (Return): SGD0.78 (10%)  
 Price: SGD0.71  
 Market Cap: USD405m  
 Avg Daily Turnover (SGD/USD) 1.44m/1.06m

- **Keep BUY, new SGD0.78 TP from SGD0.82, 10% upside and c.9% yield.** 4Q/FY19 DPU came in slightly below due to lower pay-out ratio and FX impact. While EC World's China logistics assets are relatively less impacted from the COVID-19 outbreak, underlying economic activity remains low. This is likely to result in short-term rent rebates and lower rent growth. Despite uncertainties, we remain optimistic on long-term prospects, and maintain BUY as valuations are attractive at 0.8x P/B and 8.6% yield.
- **4Q19 DPU down 3.1% YoY** as EC World took a prudent approach to pay out only 95% of distributable income in light of uncertainties ahead. Overall FY19 DPU fell 2.1% YoY, mainly due to weakening of the CNY vs SGD. Portfolio valuation (excluding the newly acquired Fuzhou E-Commerce) rose 1.5% YoY on the back of 25-30bps cap rate compression. For FY20, we expect the positive impact from acquisition and master lease rent step-up to be offset by slightly lower occupancy and rent growth.
- **WHML remains closed, but accounts for <2% NPI.** Wuhan Meilute (WHML), which is located at the outbreak epicentre, remains closed. One anchor tenant occupying half the space has notified non-renewal of its leases upon expiry in 2Q20. As the situation remains fluid, management does not expect occupancy to be ramped up soon. However, the impact on bottomline and DPU is minimal as the asset accounted for only 1.6% of 2019 net property income (NPI).
- **Hangzhou assets commenced operations.** The remaining seven key assets have commenced operations, but underlying economic activity in the assets remains way below normal due to staff shortages and travel restrictions. The REIT manager also noted several managers in China have committed to certain rental rebates, and expects similar requests from its tenants. It will review such rental rebate requests (including sponsor assets) on a case-by-case basis.
- **Expect flattish rent reversion for FY20.** About 16% of leases by rental income are due for renewal in FY20, with Hengde Logistics and Chongxian Port Logistics (CPL) accounting for the bulk. While Hengde Logistics is likely to extend their long lease, we do not expect any rental uplift due to current market conditions, vs 5-10% rent increase previously. Similarly, we expect rent reversions for CPL's lease renewals to be flattish at best. We do not expect any acquisitions in the near term (FY20), and expect management to focus on its operations instead.
- **Earnings changes.** We have lowered our FY20-21F DPU by 4-6%, factoring in slightly lower occupancy and rent growth, and without factoring in any rental rebates. Overall earnings growth outlook remains intact, backed by sponsors' master leases.

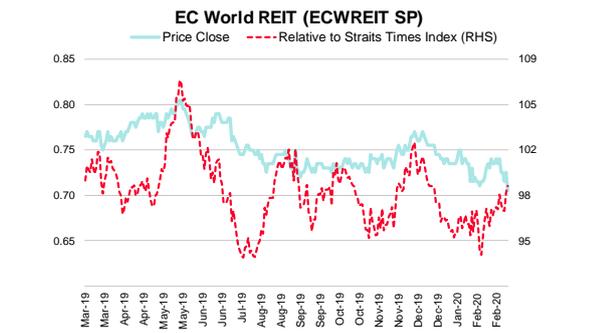
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.4)	(1.4)	(6.0)	(3.4)	(7.2)
Relative	1.2	4.0	(0.1)	(1.9)	(0.9)
52-wk Price low/high (SGD)	0.71 – 0.81				



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	96	99	110	114	116
Recurring net profit (SGDm)	38	35	36	38	39
Recurring net profit growth (%)	10.7	(9.0)	3.6	6.1	3.4
Recurring P/E (x)	14.59	16.19	15.76	14.99	14.63
P/B (x)	0.8	0.8	0.8	0.8	0.8
P/CF (x)	8.77	6.07	7.22	7.14	7.06
Dividend Yield (%)	8.8	8.6	8.6	8.8	9.0
EV/EBITDA (x)	- 5.45 -	5.60 -	4.94 -	4.95 -	5.06
Return on average equity (%)	6.7	9.5	5.2	7.0	7.1
Net debt to equity (%)	48.3	78.2	78.7	76.0	73.2

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (SGD)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Regional	Recurring EPS	0.05	0.04	0.04	0.05	0.05
Property	DPS	0.06	0.06	0.06	0.06	0.06
<b>EC World REIT</b>	BVPS	0.87	0.85	0.85	0.86	0.87
ECWREIT SP	Return on average equity (%)	6.7	9.5	5.2	7.0	7.1
Buy						
	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
<b>Valuation basis</b>	Recurring P/E (x)	14.59	16.19	15.76	14.99	14.63
DDM Methodology	P/B (x)	0.8	0.8	0.8	0.8	0.8
	FCF Yield (%)	11.1	15.9	13.6	13.7	13.9
<b>Key drivers</b>	Dividend Yield (%)	8.8	8.6	8.6	8.8	9.0
	EV/EBITDA (x)	- 5.45	- 5.60	- 4.94	- 4.95	- 5.06
	EV/EBIT (x)	- 5.45	- 5.60	- 4.94	- 4.95	- 5.06
	<b>Income statement (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total turnover	96.2	99.1	110.5	114.0	116.4
	Gross profit	87.3	89.7	99.7	103.2	105.5
	EBITDA	81.0	82.9	92.7	96.1	98.2
	Operating profit	81.0	82.9	92.7	96.1	98.2
	Net interest	(25.9)	(31.1)	(38.7)	(38.9)	(38.9)
	Pre-tax profit	70.2	98.2	54.0	73.0	75.1
	Taxation	(23.3)	(32.9)	(18.1)	(24.5)	(25.2)
	Reported net profit	46.9	65.2	35.9	48.5	49.9
	Recurring net profit	38.1	34.6	35.9	38.1	39.4
	<b>Cash flow (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Cash flow from operations	63	92	78	80	82
	Capex	(1)	(3)	(2)	(2)	(2)
	Cash flow from investing activities	(30)	(156)	(2)	(2)	(2)
	Dividends paid	(48)	(49)	(49)	(50)	(52)
	Cash flow from financing activities	(76)	55	(89)	(100)	(97)
	Cash at beginning of period	139	142	119	119	129
	Net change in cash	(43)	(8)	(12)	(22)	(17)
	Ending balance cash	95	133	108	97	112
	<b>Balance sheet (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	142	119	119	129	140
	Total investments	1,335	1,568	1,569	1,586	1,604
	Total assets	1,516	1,724	1,727	1,755	1,785
	Short-term debt	475	68	68	68	68
	Total long-term debt	0	587	590	593	596
	Total liabilities	827	1,040	1,043	1,055	1,069
	Total equity	689	684	684	700	715
	Total liabilities & equity	1,516	1,724	1,727	1,755	1,785
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	5.3	3.0	11.4	3.3	2.1
	Recurrent EPS growth (%)	9.8	(9.8)	2.7	5.1	2.5
	Gross margin (%)	90.8	90.5	90.3	90.5	90.6
	Operating EBITDA margin (%)	84.2	83.6	83.9	84.3	84.3
	Net profit margin (%)	48.8	65.8	32.5	42.5	42.9
	Dividend payout ratio (%)	104.4	73.9	135.5	103.4	103.8
	Capex/sales (%)	1.5	3.4	1.4	1.3	1.3
	Interest cover (x)	2.95	2.52	2.31	2.39	2.43

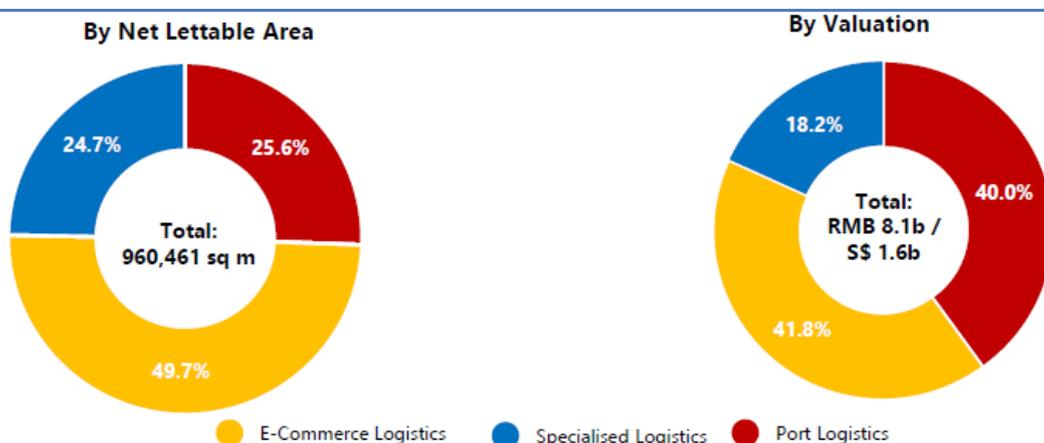
Source: Company data, RHB

Figure 1: EC World – fair value based on dividend discount model

	FY20F	FY21F	FY22F	FY23F	FY24F	Terminal Value
DPU (SGD)	6.1	6.2	6.3	6.5	6.7	86.1
Target price (SGD)	0.78					
Current Price (SGD)	0.71					
Price Upside	10.6%					
Distribution Yield	8.6%					
Total returns (%)	19.2%					
<b>Assumptions</b>						
Risk-free rate (%)	4.5%					
Beta	1.0					
Cost of equity (%)	9.7%					
Terminal growth (%)	2.0%					

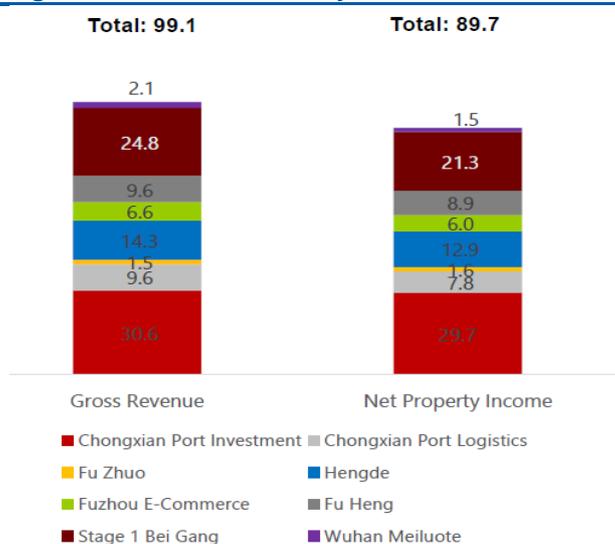
Source: RHB

Figure 2: Asset class breakdown by NLA and valuation



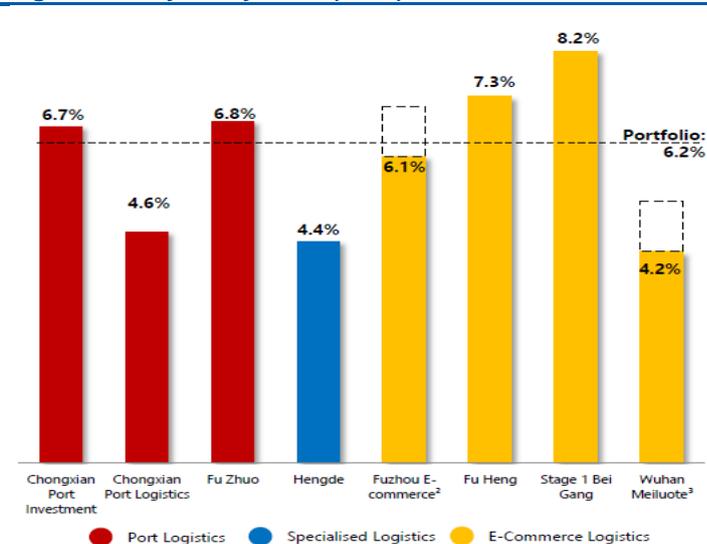
Source: Company Data

Figure 3: Revenue and NPI by asset



Source: Company Data

Figure 4: NPI yield by asset (FY19)

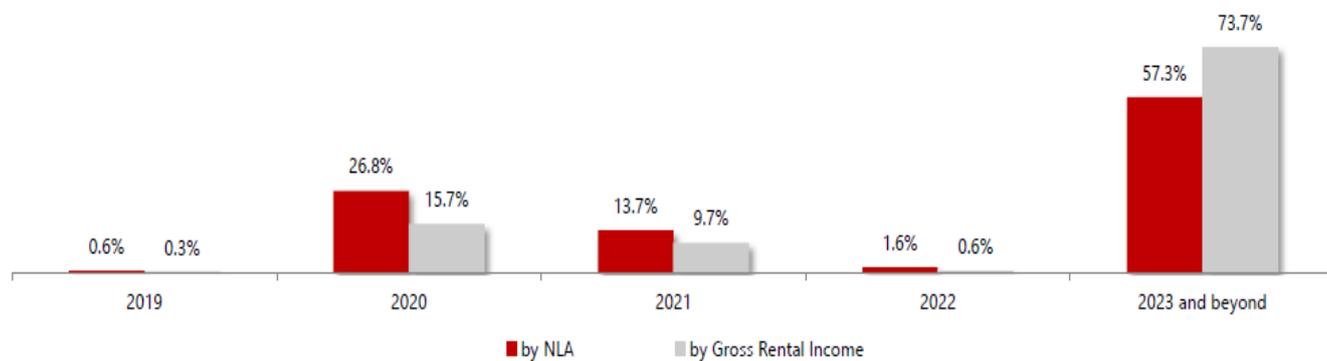


Source: Company Data

Figure 5: Portfolio lease expiry profile

WALE by NLA: 3.2 years

WALE by Gross Rental Income: 4.1 years



Source: Company Data

## Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2019-08-08	Buy	0.82	0.74
2019-05-14	Buy	0.85	0.79
2019-02-25	Buy	0.84	0.77
2019-01-08	Buy	0.81	0.70

Source: RHB, Bloomberg

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<b>Neutral:</b>	Share price may fall within the range of +/- 10% over the next 12 months
<b>Take Profit:</b>	Target price has been attained. Look to accumulate at lower levels
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<b>Not Rated:</b>	Stock is not within regular research coverage

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