

14 May 2020

Property | REITS

EC World REIT (ECWREIT SP)

Buy (Maintained)

Defensive Master Leases, Resilient In Logistics

Target Price (Return): SGD0.76 (+12%)
 Price: SGD0.68
 Market Cap: USD383m
 Avg Daily Turnover (SGD/USD) 0.87m/0.62m

- **Keep BUY, new SGD0.76 TP from SGD0.78, 12% upside with 8% FY20F yields.** EC World REIT's (ECW) 1Q20 numbers show resilience from underlying master leases and its logistics portfolio. One-off rental rebates totalling CNY23.7m were also lower than our initial estimate. The REIT's pure-play exposure to the logistics segment, and long master leases, as well as the gradual recovery of the China market puts it in a relatively good position. Valuations are reasonably attractive, at 0.8x P/BV.

- **A decent 1Q20 despite challenges.** Headline revenue and NPI declined 1.4% and 0.2% YoY, mainly due to CNY23.7m worth of rental rebates given (~0.5 months) to tenants for March. However, this was partly offset by contributions from Fuzhou E-Commerce, which it acquired in Aug 2019. DPU, however, declined by a steeper 23% YoY – due to the retention of 5% of distributable income (95% payout ratio), and 50% of management fees paid in cash (100% in units previously) in addition to rental rebates. Management noted that rental rebates are one-off in nature, and does not see the need to provide additional rebates, at this juncture. The retention of distributable income is a prudent measure, and management may choose to distribute it – if there is a sustained market recovery.

- **Majority of 2020 leases likely to be renewed.** With China easing lockdown measures, most underlying operations are returning to normal. About 15% of EC World REIT's leases by rental income are due for renewal in FY20, with the bulk coming from Hengde Logistics (HL) and the rest from Wuhan Meiluote (WHML) and Chongxian Port Logistics (CPL). For HL and CPL, management remains confident of extending its current leases but expects flattish rental reversions vs rental growth expectations previously.

- **WHML accounts for less than 2% of NPI** and has been the most impacted, with one anchor tenant having already given notice of not renewing its lease, upon the expiry date in 2Q20. The lease of another anchor tenant is due for renewal later this year – and this is now in negotiations. While there is some near-term downside risks to occupancy for this asset, the overall impact to earnings remains negligible.

- **No refinancing needed until 2022.** ECW's combination of onshore (33%) and offshore debt (66%) facilities are only due for refinancing in Jun 2022. 100% of onshore facilities are fixed. Gearing remains modest at 38.6%, which is well below the new 50% threshold limit. The REIT also manages FX risks by using FX options to lock in 6-month forward income.

- **We trim FY20-22F DPU** by 10%, 5% and 5% to reflect rental rebates given for FY20, lower rental growth, and the payment of management fees in cash.

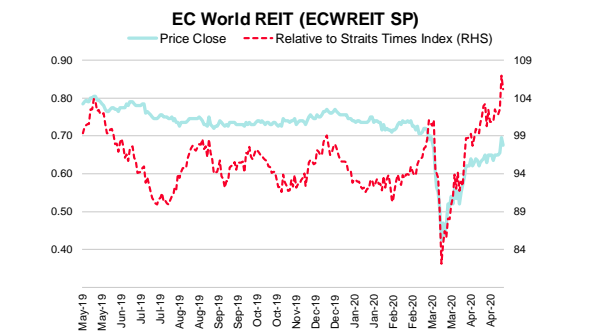
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(9.4)	8.9	(8.2)	(8.8)	(13.5)
Relative	10.3	8.3	11.5	12.0	7.5
52-wk Price low/high (SGD)				0.43	– 0.81



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	96	99	106	113	115
Net property income (SGDm)	87	90	95	103	104
Reported net profit (SGDm)	46.9	65.2	32.8	48.3	49.1
Total distributable income (SGDm)	49.0	48.9	42.9	47.3	48.3
DPS (SGD)	0.06	0.06	0.05	0.06	0.06
DPS growth (%)	2.4	(2.1)	(11.2)	9.9	1.6
P/B (x)	0.78	0.79	0.79	0.78	0.77
Dividend Yield (%)	9.2	9.0	8.0	8.7	8.9
Return on average equity (%)	6.7	9.5	4.8	7.0	6.9
Return on average assets (%)	3.1	4.0	1.9	2.8	2.8

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore Property	Recurring EPS (SGD)	0.06	0.08	0.04	0.06	0.06
EC World REIT	EPS (SGD)	0.06	0.08	0.04	0.06	0.06
ECWREIT SP	DPS (SGD)	0.06	0.06	0.05	0.06	0.06
Buy	BVPS (SGD)	0.87	0.85	0.85	0.87	0.88
	Return on average equity (%)	6.7	9.5	4.8	7.0	6.9
	Weighted avg adjusted shares (m)	787.74	795.15	798.93	802.59	806.49
Valuation basis	Valuation metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
DDM	Recurring P/E (x)	11.33	8.23	16.46	11.22	11.08
	P/E (x)	11.33	8.23	16.46	11.22	11.08
	P/B (x)	0.8	0.8	0.8	0.8	0.8
	FCF Yield (%)	11.6	16.6	13.2	14.0	14.1
	Dividend Yield (%)	9.2	9.0	8.0	8.7	8.9
	EV/EBITDA (x)	-	5.68	-	5.39	-
	EV/EBIT (x)	-	5.68	-	5.39	-
	5.33		5.77		5.17	
	5.33		5.77		5.17	
Key drivers	Income statement (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Rising e-commerce trend in China resulting in increased demand for space in the logistics sector;	Total turnover	96.2	99.1	105.7	113.2	114.7
ii. Yield-accretive acquisitions;	EBITDA	81.9	84.5	89.7	97.6	98.8
iii. Sponsor-backed master leases which provide rental stability.	Operating profit	81.9	84.5	89.7	97.6	98.8
	Net interest	(25.9)	(31.1)	(38.7)	(38.9)	(38.9)
	Pre-tax profit	70.2	98.2	49.3	72.7	73.9
	Taxation	(23.3)	(32.9)	(16.5)	(24.4)	(24.8)
	Recurring net profit	46.9	65.2	32.8	48.3	49.1
Key risks	Cash flow (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
i. Deep economic impact from COVID-19; Prolonged trade tensions leading to a slowdown in economic activity;	Change in working capital	(20)	5	(18)	(21)	(21)
ii. Rise in tenant defaults.	Cash flow from operations	63	92	73	77	78
	Capex	(1)	(3)	(2)	(2)	(2)
	Cash flow from investing activities	(30)	(156)	(2)	(2)	(2)
	Dividends paid	(48)	(49)	(43)	(47)	(48)
	Cash flow from financing activities	(76)	55	(83)	(98)	(94)
	Cash at beginning of period	139	142	119	119	128
	Net change in cash	(43)	(8)	(12)	(22)	(17)
	Ending balance cash	95	133	108	97	111
Company Profile	Balance sheet (SGDm)	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
EC World REIT was established with the strategy of investing principally – directly or indirectly – in a diversified portfolio of income-producing real estate. The latter assets are used primarily for e-commerce, supply-chain management, and logistics. The REIT also focuses on real estate-related assets. The initial geographical focus is in China.	Total cash and equivalents	142	119	119	128	139
	Total investments	1,335	1,568	1,569	1,586	1,604
	Total assets	1,516	1,724	1,726	1,754	1,784
	Short-term debt	475	68	68	68	68
	Total long-term debt	0	587	590	593	596
	Total liabilities	827	1,040	1,042	1,055	1,069
	Shareholders' equity	689	684	684	700	715
	Total equity	689	684	684	700	715
	Net debt	333	535	539	532	524
	Total liabilities & equity	1,516	1,724	1,726	1,754	1,784
Key metrics	Key metrics	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
	Revenue growth (%)	5.3	3.0	6.6	7.1	1.4
	Recurrent EPS growth (%)	(2.2)	37.7	(50.0)	46.7	1.2
	Operating EBITDA margin (%)	85.1	85.3	84.9	86.2	86.1
	Net profit margin (%)	48.8	65.8	31.0	42.7	42.8
	Dividend payout ratio (%)	104.4	73.9	130.9	98.0	98.4
	Capex/sales (%)	1.5	3.4	1.4	1.3	1.3
	Interest cover (x)	2.99	2.57	2.24	2.42	2.44

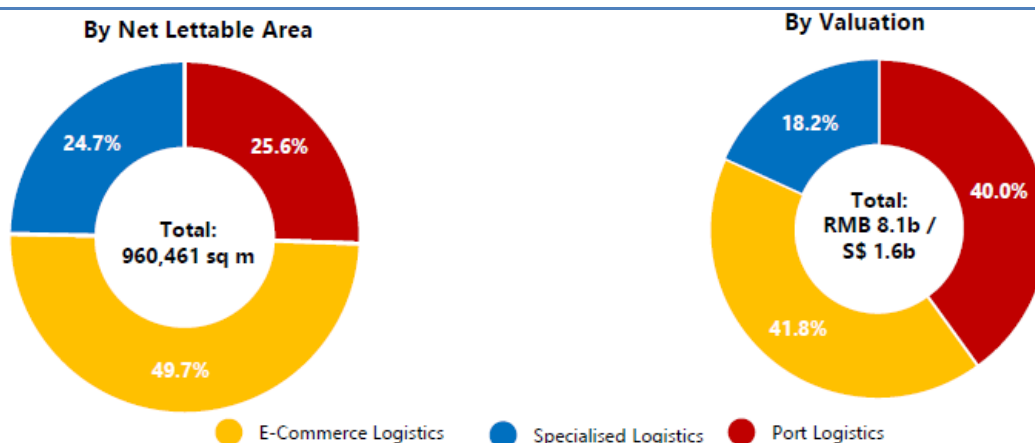
Source: Company data, RHB

Figure 1: EC World REIT's DDM valuation

	FY20F	FY21F	FY22F	FY23F	FY24F	Terminal Value
DPU (SGD)	5.4	5.9	6.0	6.1	6.3	83.9
Target price (SGD)	0.76					
Current Price (SGD)	0.68					
Price Upside	12.7%					
Distribution Yield	8.0%					
Total returns (%)	20.6%					
Assumptions						
Risk-free rate (%)	4.5%					
Beta	0.9					
Cost of equity (%)	9.5%					
Terminal growth (%)	2.0%					

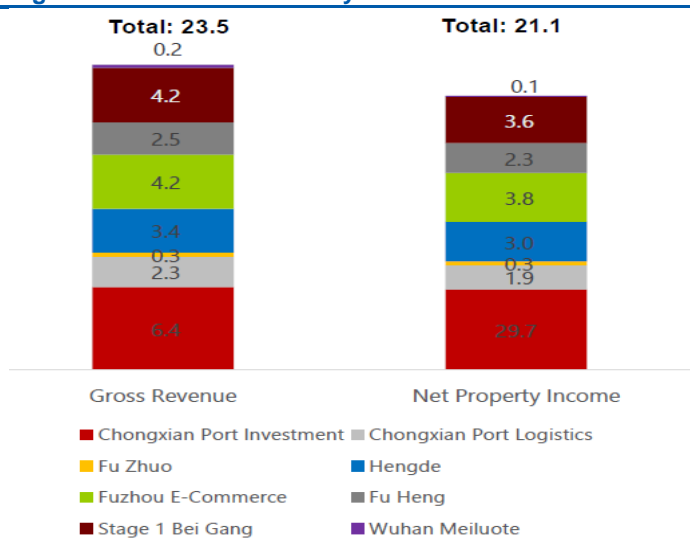
Source: RHB

Figure 2: Resilient logistics assets



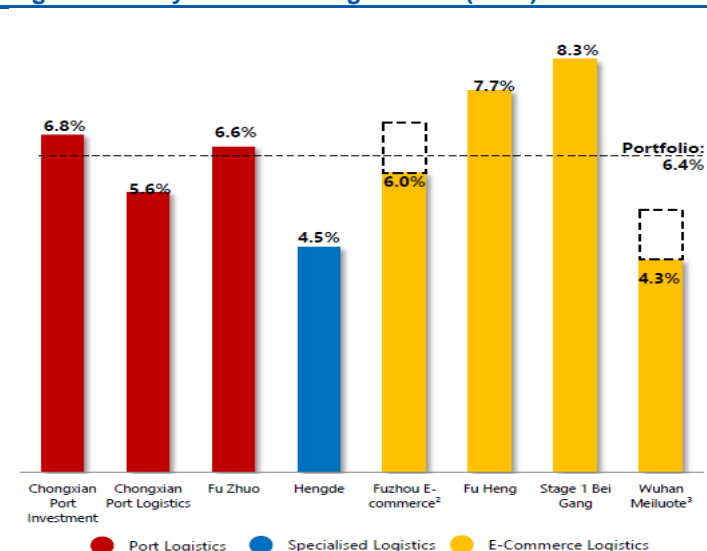
Source: Company data

Figure 3: Revenue and NPI by asset



Source: Company data

Figure 4: NPI yields according to asset (FY19)

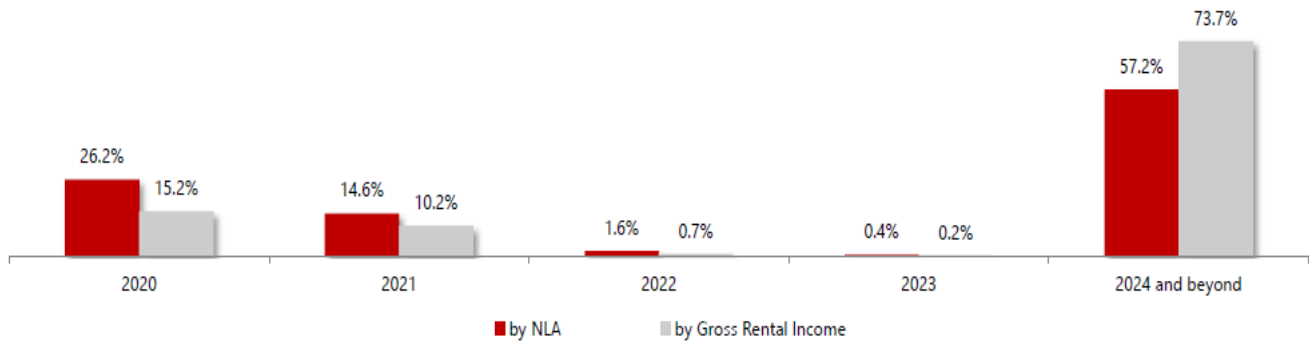


Source: Company data

Figure 5: Portfolio lease expiry profile

WALE by NLA: 3.0 years

WALE by Gross Rental Income: 3.8 years



Source: Company data

Recommendation Chart



Date	Recommendation	Target Price	Price
2020-03-02	Buy	0.78	0.71
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

Source: RHB, Bloomberg

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Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
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