



# EC WORLD REIT

## (ECWREIT SP)

### Normalcy with an added sprinkle of caution

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- Maintain OUTPERFORM with revised 12M TP of S\$0.73.** 1Q revenue and NPI makes up 23% and 22.4% of our revised FY20F forecasts, while DPU contributes 21.4%. Slight drop in 1Q revenue YoY was mainly due to one-off rental rebates offered to tenants, while DPU is lower mainly due to a 5% retention for prudence and financial fluidity during this period.
- All tenants back in business.** As of 31 March 2020, tenants in all assets have resumed operations, although port logistics assets are still seeing a slowdown in supply and demand due to the extended Spring Festival Holidays (Chinese New Year).
- Reversions likely to be flat.** Given the economic outlook in China, as well as a slowing business environment, management have no expectations for any rental reversions for new or renewed leases signed in 2020.

**1Q20 review.** Rental rebates of approximately RMB23.7mn or S\$4.76mn (about half a month in rent) were offered to tenants to help mitigate the impact of forced closures during the lockdown period. Varying from the retail S-REITs who have offered rebates for several months at a time to those affected by closures imposed by the government, management expects rental rebates to be one-off in nature.

However, it should be noted that the decline in revenue due to the rebates were mitigated to some extent, by the full quarter contribution by its newest asset, Fuzhou E-Commerce. DPU would have been SGD 1.529 cents for 1Q20 without the impact of rental rebates.

Management has also proceeded to retain 5% (amounting to c. S\$500k) of 1Q20 distributable income for prudence, in case of any unforeseen circumstances. Should the 5% DPU not be needed, management will consider re-distributing the amount in the future, after the Covid-19 situation stabilizes. We have factored in the return of said distributable income by the end of the year. Even if a second wave of infections occurs, we believe that the Chinese Government will be sufficiently, and much more prepared to suppress the spread.

As of 31 March 2020, all tenants in all assets, including Wuhan Meiluote, have resumed operations and with the full force of workers. We note that there were e-commerce tenants who were continuously operational during the extended Spring Holidays, as they catered to the essential services such as the provision of food and medical supplies. Hengde Logistics also remained somewhat operational as the tobacco curing process was still ongoing, despite a lower workforce.

**Lease renewals.** The lease with DangDang accounting for approximately 25,000sqm, or about 50% of Wuhan

Outperform - Maintain		Performance (Absolute)	
Price as of 14 May 20 (SGD)	0.67	1 Month (%)	3.9
12M TP (SGD)	0.73	3 Month (%)	-5.2
Previous TP (SGD)	0.82	12 Month (%)	-7.8
Upside, incl div (%)	17.2%		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (USD mn)	534		
Issued Shares (mn)	803		
Vol - 3M Daily avg (mn)	1.5		
Val - 3M Daily avg (SGD mn)	0.9		
Free Float (%)	51.9		
Major Shareholders		Previous Recommendations	
Forchn Holdings Group Co Ltd	44.1%	2-Mar-20	OP S\$0.82
China Cinda Asset Mgmt	10.2%	25-Nov-19	OP S\$0.84
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	102.6	104.9	106.7
Net property income	87.3	89.7	94.0	96.0	97.7
Distributable income	49.0	48.9	45.0	46.6	47.2
DPU (SGD cents)	6.2	6.0	5.4	5.7	5.8
DPU growth (%)	2.2	-1.8	-10.9	5.4	1.3
Div Yield (%)	9.3	9.1	8.1	8.5	8.7
NAV (S\$)	0.9	0.9	0.8	0.8	0.8
Price / Book (x)	0.8	0.8	0.8	0.8	0.8
NPI Margin (%)	90.8	90.5	91.6	91.5	91.5
Net Margin (%)	48.8	65.8	33.1	33.1	33.3
Gearing (%)	-	37.4	37.3	37.3	37.3
ROE (%)	6.6	6.8	9.5	5.0	5.1

Source: ECW, KGI Research

Meiluote's NLA, will not be renewed after expiry in 2Q20. However, management is already reaching out to other potential tenants who have expressed interest in taking over the lease.

With respect to the expiring lease with state-owned enterprise China Tobacco Zhejiang Industrial Co., Ltd for Hengde Logistics, management is fairly confident of a lease renewal, but is not expecting any positive reversions. This outlook is expected for the rest of the year on any new leases signed, as well as other lease renewals (i.e. leases relating to Chongxian Port Logistics), due to the less than favourable macro outlook. They have expressed that retention of tenants is key at the moment, especially with a general slowing down in business conditions.

**Valuation & Action: Maintain OUTPERFORM based on fair value of S\$0.73.** We remain optimistic but conservative, due to the less than optimal macro outlook for China. We have factored a slower reversion rate and a slightly higher cost of capital into our valuations due to the uncertainties relating to China's economy, and our revised TP represents a total upside of 17.2% (incl. FY20F div. yield of 8.1%).

**Risks:** Second wave of infections in China; non-renewal of upcoming lease expiry with China Tobacco Zhejiang Industrial Co., Ltd. (Hengde Logistics – specialized logistics asset); 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 Hengde Logistics Complex 2	Multi-tenanted, 2 main leases	(1) 15 Oct 2015 to 14 Oct 2020; (2) 9 May 2016 to 8 May 2021	Up to 10% over a lease term of 5 years (i.e. c.2.0% per annum)	1,479.00	1,470.00
	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
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 Meiluote		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	
<b>Total Portfolio Valuation</b>					<b>8,118.00</b>	<b>6,729.00</b>
<b>Variance</b>					<b>20.6%</b>	

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	5.39	5.68	5.75	6.01	6.10	6.19	8.29
Terminal Growth (%)									1.5%
Terminal value per unit (SGD cents)								92.27	
Cost of equity	10.48%								
Target price (S\$)	0.73								
Capital appreciation	9.1%								
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	FY19	FY20F	Current	FY19F	FY20F			
ECWREIT SP	EC World Real Estate Investment Trust	SGD 0.67	376	8.1	9.1	8.1	0.7	0.8	0.8	1,193	-10.7	-15.8
<b>SINGAPORE LISTED INDUSTRIAL REITS (Avg)</b>			<b>20,033</b>	<b>6.5</b>	<b>7.8</b>	<b>7.9</b>	<b>1.0</b>	<b>1.0</b>	<b>1.0</b>	<b>14,082.5</b>	<b>(17.4)</b>	<b>(11.8)</b>
AREIT SP	Ascendas Real Estate Investment Trust	SGD 2.91	7,410	5.3	5.4	5.4	1.3	1.3	1.3	52,520	-2.0	2.2
MINT SP	Mapletree Industrial Trust	SGD 2.38	3,687	5.0	5.2	5.3	1.5	1.5	1.5	21,582	-8.5	16.3
MLT SP	Mapletree Logistics Trust	SGD 1.80	4,814	5.2	4.6	4.5	1.5	1.5	-	29,176	3.4	22.4
FLT SP	Frasers Logistics & Commercial Trust	SGD 1.08	1,719	5.5	6.5	6.5	1.1	1.0	1.0	11,378	-9.2	-7.2
EREIT SP	ESR-REIT	SGD 0.35	864	7.7	10.6	10.6	0.8	0.8	0.8	7,241	-34.0	-33.2
AAREIT SP	AIMS APAC REIT	SGD 1.18	587	-	8.6	8.7	0.9	0.9	0.9	2,163	-17.4	-15.7
ALLT SP	ARA LOGOS Logistics Trust	SGD 0.51	386	7.7	10.7	10.7	0.9	0.9	0.9	1,264	-29.4	-31.8
SBREIT SP	Soilbuild Business Space REIT	SGD 0.37	329	7.7	10.0	10.0	0.6	0.6	0.6	870	-28.8	-37.2
SSREIT SP	Sabana Shari'ah Compliant Industrial	SGD 0.32	237	7.7	9.1	9.1	0.6	0.6	0.6	548	-30.4	-22.0
<b>SINGAPORE LISTED CHINA RETAIL REITS (Avg)</b>			<b>2,287</b>	<b>7.1</b>	<b>7.6</b>	<b>8.2</b>	<b>0.8</b>	<b>0.9</b>	<b>0.9</b>	<b>8,985.6</b>	<b>(13.1)</b>	<b>(11.1)</b>
SASSR SP	Sasseur Real Estate Investment Trust	SGD 0.72	603	7.4	8.5	8.5	0.8	0.8	0.8	2,652	-19.2	-10.6
BHGREIT SP	BHG Retail REIT	SGD 0.64	228	5.6	-	-	0.8	-	-	257	-7.3	-10.2
CRCT SP	CapitalLand Retail China Trust	SGD 1.27	1,093	7.7	6.5	-	0.8	1.0	1.0	5,828	-21.1	-14.1
DASIN SP	Dasin Retail Trust	SGD 0.80	363	7.7	7.8	7.8	0.6	-	-	249	-4.8	-8.6

Source: Bloomberg, KGI Research

**Financials**

FYE 31 December					
<b>INCOME STATEMENT (SGD mn)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Gross revenue	96.2	99.1	102.6	104.9	106.7
Property expenses	(8.9)	(9.4)	(8.6)	(8.9)	(9.0)
<b>Net property income</b>	<b>87.3</b>	<b>89.7</b>	<b>94.0</b>	<b>96.0</b>	<b>97.7</b>
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)	(1.5)	(1.6)	(1.6)
<b>Net profit/(loss)</b>	<b>56.9</b>	<b>52.1</b>	<b>52.3</b>	<b>53.4</b>	<b>54.6</b>
Change in fair value - investment ppty	12.0	50.3	0.0	0.0	0.0
<b>Total return before tax</b>	<b>70.2</b>	<b>98.2</b>	<b>52.3</b>	<b>53.4</b>	<b>54.6</b>
Income tax	(23.3)	(32.9)	(18.3)	(18.7)	(19.1)
Total return after tax	46.9	65.2	34.0	34.7	35.5
<b>Distributable income</b>	<b>49.0</b>	<b>48.9</b>	<b>45.0</b>	<b>46.6</b>	<b>47.2</b>
<b>BALANCE SHEET (SGD mn)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
Cash and cash equivalents	142.1	119.5	130.0	134.3	138.7
Trade and other receivables	38.3	36.9	39.7	40.5	41.3
Other current assets	329.0	110.0	-	-	-
<b>Total current assets</b>	<b>180.8</b>	<b>156.5</b>	<b>169.7</b>	<b>174.9</b>	<b>179.9</b>
Investment properties	1,335.0	1,567.6	1,568.6	1,569.6	1,570.6
Intangibles, others	-	-	-	-	-
<b>Total assets</b>	<b>1,515.8</b>	<b>1,724.0</b>	<b>1,738.3</b>	<b>1,744.5</b>	<b>1,750.5</b>
Trade and other payables	23.4	34.1	29.3	29.9	30.5
Other current liabilities	484.0	83.9	75.5	75.5	75.5
<b>Total current liabilities</b>	<b>507.3</b>	<b>118.1</b>	<b>104.7</b>	<b>105.4</b>	<b>105.9</b>
LT Borrowings	0.0	586.6	585.1	585.1	585.1
Other non-current liabilities	320.0	335.4	367.3	378.9	390.6
<b>Total liabilities</b>	<b>827.3</b>	<b>1,040.1</b>	<b>1,057.1</b>	<b>1,069.4</b>	<b>1,081.6</b>
Unitholders' funds and reserves	688.6	683.9	681.2	675.1	668.9
<b>Total liabilities and equity</b>	<b>1,515.8</b>	<b>1,724.0</b>	<b>1,738.3</b>	<b>1,744.5</b>	<b>1,750.5</b>
<b>CASH FLOW STATEMENT (SGD mn)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
<b>Total return before tax</b>	<b>70.2</b>	<b>98.2</b>	<b>52.3</b>	<b>53.4</b>	<b>54.6</b>
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	(2.0)	1.5	1.2
Taxes paid	(15.9)	(15.2)	(15.6)	(15.6)	(15.6)
<b>Cash flows from operations</b>	<b>73.2</b>	<b>105.8</b>	<b>92.6</b>	<b>96.1</b>	<b>97.8</b>
Capital expenditure	(1.5)	(3.4)	(1.0)	(1.0)	(1.0)
Acquisition of investment properties	(28.9)	(152.8)	-	-	-
Other investing cashflow	-	-	-	-	-
<b>Cash flows from investing</b>	<b>(30.4)</b>	<b>(156.2)</b>	<b>(1.0)</b>	<b>(1.0)</b>	<b>(1.0)</b>
Borrowings raised / (repaid)	41.7	130.7	-	-	-
Equity raised / (bought back)	-	-	-	-	-
Distributions paid	(48.1)	(48.5)	(43.7)	(46.6)	(47.6)
Other financing cashflow	(69.3)	(26.8)	(30.2)	(30.2)	(30.8)
<b>Cash flows from financing</b>	<b>(75.7)</b>	<b>55.4</b>	<b>(73.8)</b>	<b>(76.7)</b>	<b>(78.4)</b>
FX Effects, Others	(0.7)	-	-	-	-
<b>Net increase/(decrease) in cash</b>	<b>(47.6)</b>	<b>(8.4)</b>	<b>3.7</b>	<b>4.3</b>	<b>4.3</b>
Beginning Cash	87.2	43.7	34.7	38.4	42.7
<b>Ending cash</b>	<b>43.7</b>	<b>34.7</b>	<b>38.4</b>	<b>42.7</b>	<b>47.1</b>
<b>KEY RATIOS</b>	<b>2018A</b>	<b>2019A</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>
DPU (SGD cents)	6.2	6.0	5.4	5.7	5.8
Dividend yield (%)	9.3	9.1	8.1	8.5	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	0.8	0.8
<b>Profitability (%)</b>					
NPI Margin	90.8	90.5	91.6	91.5	91.5
Net Margin	48.8	65.8	33.1	33.1	33.3
ROE	6.6	6.8	9.5	5.0	5.1
ROA	3.2	3.1	3.8	2.0	2.0
<b>Financial Structure</b>					
Interest Coverage (x)	3.9	3.7	2.7	2.8	2.8
Gearing (%)	0.0	37.4	37.3	37.3	37.3

Source: Company, KGI Research

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