

Singapore Company Guide

EC World REIT

Version 3 | Bloomberg: ECWREIT SP | Reuters: ECWO.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

14 May 2020

BUY

Last Traded Price (13 May 2020): S\$0.675 (STI : 2,572.01)
Price Target 12-mth: S\$0.80 (19% upside)

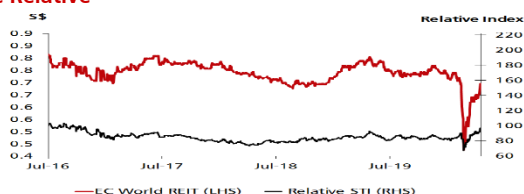
Analyst

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What's New

- Tenants in all properties have resumed operations
- RMB23.7m in rental rebates were given to tenants; equivalent to half month of rent
- 1Q20 distributable income and DPU declined 23.2% and 23.3% to S\$9.8m and 1.158 Scts respectively
- 5% of distributable income was retained as a prudent measure and to maintain some financial flexibility

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2018A	2019A	2020F	2021F
Gross Revenue	96.2	99.1	106	114
Net Property Inc	87.3	89.7	97.3	105
Total Return	46.9	65.2	39.9	44.8
Distribution Inc	49.0	48.9	46.1	51.6
EPU (S cts)	4.41	1.87	4.97	5.55
EPU Gth (%)	33	(58)	166	12
DPU (S cts)	6.18	6.05	5.67	6.30
DPU Gth (%)	3	(2)	(6)	11
NAV per shr (S cts)	86.9	85.4	85.4	85.2
PE (X)	15.3	36.1	13.6	12.2
Distribution Yield (%)	9.2	9.0	8.4	9.3
P/NAV (x)	0.8	0.8	0.8	0.8
Aggregate Leverage (%)	31.3	38.0	38.4	38.3
ROAE (%)	5.0	2.2	5.8	6.5

Distn. Inc Chng (%): (9) 0
Consensus DPU (S cts): 6.2 6.3
Other Broker Recs: B: 5 S: 0 H: 0

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Business as usual

Maintain BUY with a TP of S\$0.80. EC World REIT (ECW) voluntarily gave half a month of rental rebates to its tenants due to disruption in operations caused by COVID-19. The RMB23.7m in rebates affected revenues and distributable income despite the relatively stable operating performance. Going forward, we understand that tenant operations may be slower and demand for logistics space may be muted. Thus, we have assumed slightly lower occupancy rates and flat rental reversions for its multi-tenanted properties. Despite this, full-year contribution from Fuzhou E-Commerce and rental escalations for master leases would help mitigate some of the weakness in earnings.

Where we differ: Despite the weaker performance in 1Q20 due to the rental rebates, we expect ECW to report strong earnings for the rest of FY20. We have rolled forward our DCF-based valuation and thus maintain our TP of S\$0.80.

Stronger-than-expected growth in the e-commerce sector will be a catalyst. With the COVID-19 pandemic potentially slowing the growth trajectory of China's economy, we moderated our occupancy and rental rate projections for the rest of FY20. However, if the e-commerce sector rebounds faster and stronger than we anticipate, it would be a catalyst for our earnings projections and valuation.

Valuation:

We maintain our BUY call and DCF-based TP of S\$0.80.

Key Risks to Our View:

Key risks include those that are sponsor-related such as failure to extend master-lease agreements and challenges in underlying occupancy.

At A Glance

Issued Capital (m shrs)	803
Mkt. Cap (\$m/US\$m)	542 / 382
Major Shareholders (%)	
Forchn Holdings Group Co Ltd	45.0
China Cinda Asset Management	10.2
Bocom International Global Investment	7.7
Free Float (%)	37.1
3m Avg. Daily Val (US\$m)	0.65
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



Live more, Bank less

WHAT'S NEW

Business as usual

Revenues lowered by rental rebates

- 1Q20 revenues and NPI fell to S\$23.5m and S\$21.1m respectively
 - o 9.0% and 13.6% declines in revenues and NPI mainly due to one-off rental rebates
 - o RMB23.7m rebates given to tenants due to impact of COVID-19; equivalent to half month of rent
- On a y-o-y basis, revenues and NPI declined by a smaller 1.4% and 0.2% respectively
 - o Declines were mainly due to rental rebates given and weaker RMB y-o-y
 - o However, contribution from Fuzhou E-Commerce acquired in August 2019 helped mitigate the decline
- DPU of 1.158 Scts was 23.3% lower q-o-q
 - o 5% of distributable income was retained as a prudent measure and to maintain some financial flexibility
 - o Excluding rental rebates, DPU would have increased 1.3% q-o-q (1.529 Scts)
- NAV increased S\$0.05 q-o-q to S\$0.90; mainly due to stronger RMB in 1Q20

Improved capital structure

- Gearing improved marginally by 0.1ppt q-o-q to 38.6%; mainly due to stronger RMB
- All-in borrowing costs fell 0.1ppt to 4.3%
- Weighted average debt expiry of 2.37 years with an ICR of 2.85x
 - o No refinancing due until FY22
- Continues to maintain a 6-month forward income hedging

Portfolio operations back to normal

- 1Q20 operations were impacted by the extended Spring Holidays followed by the lockdown due to COVID-19

- Tenant operations were also impacted by a delay in migrant workers travelling back for work
- However, all tenants had resumed operations by the end of March
- Portfolio occupancy fell 0.87ppt q-o-q to 99.1%
 - o Fall in occupancy at Wuhan Meiluote (93.3%) and Chongxian Port Logistics (95.5%)
 - o WALE remained healthy at 3.8 years
- 26.2% of portfolio leases will be expiring in FY20
 - o Approximately half of expiries due to China Tobacco's lease at Hengde Logistics expiring in the later part of FY20
 - o Rest of expiries at Wuhan Meiluote and Chongxian Port Logistics
 - o Focused on retaining tenants, rent reversions likely to remain flat
 - o In advanced negotiations with China Tobacco to extend its lease

Our Views

We continue to like ECW for its stable portfolio metrics and long WALE that provides earnings visibility. Since the easing of COVID-19 containment measures in March 2020, tenant operations have ramped up very quickly and are mostly back to normal.

Looking ahead, ECW will continue to seek opportunities within China and Europe. However, given its relatively high gearing, we believe that any acquisition will be accompanied by equity-raising.

To further align their interest with stakeholders, the directors and management of ECW will voluntarily take a 10% reduction in remuneration for 2Q20.

We have a BUY call with a TP of S\$0.80.

EC World REIT
Quarterly / Interim Income Statement (S\$m)

FY Dec	1Q2019	4Q2019	1Q2020	% chg yoy	% chg qoq
Gross revenue	23.9	25.9	23.5	(1.4)	(9.0)
Property expenses	(2.7)	(1.4)	(2.4)	(10.3)	72.7
Net Property Income	21.2	24.5	21.1	(0.2)	(13.6)
Other Operating expenses	(2.6)	(0.3)	(5.4)	111.4	1,672.0
Other Non Opg (Exp)/Inc	0.25	(4.2)	0.84	240.9	(120.0)
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(6.5)	(9.4)	(9.4)	(43.6)	(0.1)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	12.3	10.6	7.15	(42.0)	(32.4)
Tax	(4.3)	(16.9)	(3.8)	(11.7)	(77.5)
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	8.01	(6.4)	3.34	(58.3)	nm
Total Return	8.01	29.2	3.34	(58.3)	(88.6)
Non-tax deductible Items	3.92	(16.5)	6.45	64.6	nm
Net Inc available for Dist.	11.9	12.7	9.79	(17.9)	(23.2)
Ratio (%)					
Net Prop Inc Margin	88.8	94.6	89.8		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

EC World REIT

CRITICAL DATA POINTS TO WATCH

Critical Factors

Sponsor-backed growth

ECW's sponsor, Forchn Holdings Group Co., Ltd., is a Shanghai investment holding company which specialises in e-commerce logistics services, e-commerce real estate, health and wellness, manufacturing and investment management. Forchn Group has strategic partnerships with leading logistics giants such as Alibaba, JD, etc.

These strategic long-term partnerships allow the sponsor to undertake master leases on properties that it develops, and to provide ECW with assets that have strong and stable cashflows. The sponsor also has an investment management arm and has recently entered into a JV for a platform of up to RMB5bn. The platform develops warehouses and logistic facilities throughout China, and some of the 14 assets will be completed within the next 12-18 months. These platforms will provide ECW with an added avenue for future growth.

Organic growth provides earnings visibility

The majority of the properties are on a master lease with annual rental escalations averaging 1-2% per annum. The most recent acquisition, Fuzhou E-Commerce property, is on a 5-year master lease with annual rental escalations of 2.25%.

These master-lease structures provide the REIT with cashflow stability and visibility. The current portfolio WALE of 3.8 years ensures long-term stability to portfolio occupancy as well. Meanwhile, the multi-tenanted properties are mostly backed by main leases to tenants such as JD.com and China Tobacco, a state-owned enterprise. The remaining space is leased out to smaller tenants and provides ECW with some flexibility to benefit from any increase in market rents.

Riding on the growth in domestic e-commerce

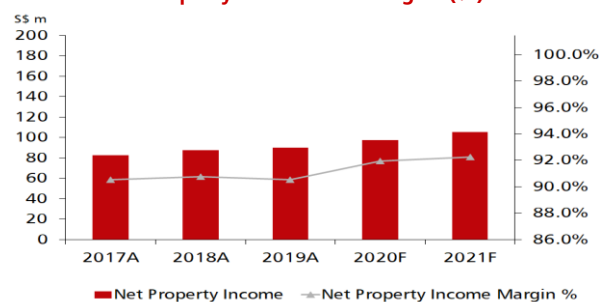
E-commerce in China is expected to continue its strong growth, with online retail sales in 2018 growing 25.4%, outstripping the growth in Chinese retail sales of consumer goods (9.0%) according to China National Bureau of Statistics.

Despite the ongoing trade wars, ECW's port logistics assets are inland ports which cater to tenants who handle domestic businesses with almost no exposure to international trade. We believe that ECW will be mostly insulated from any uncertainty in trade and will continue to ride on the rapidly growing e-commerce segment in the domestic market.

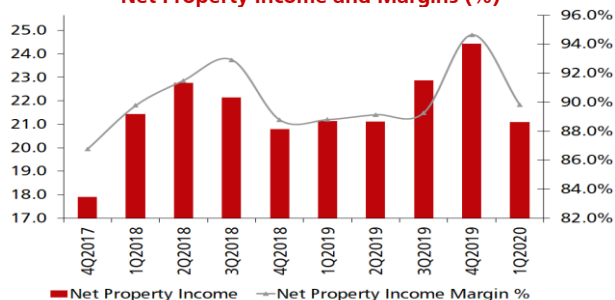
Proactive capital management

The weak RMB is currently creating a drag on ECW in terms of earnings and financing. However, the management is proactively looking at ways to mitigate these impacts by constantly relooking into its FX hedging strategy. In our view, the increasing forward hedge of income, and mix of onshore and offshore debt help mitigate volatility in FX.

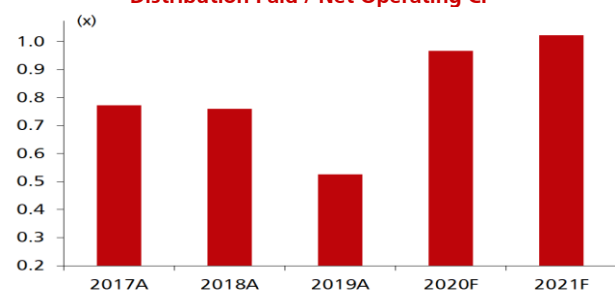
Net Property Income and Margins (%)



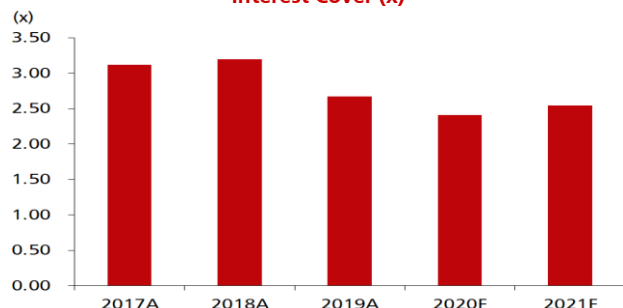
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

EC World REIT

Balance Sheet:

Gearing maintained within targets. Following the acquisition in FY19, gearing is currently 38.6%. This is well within management’s long-term target of keeping leverage at the optimal level of around 40%. Given the recent increase in regulatory gearing limit to 50%, we believe that ECW is unlikely to do any opportunistic equity fund-raising, unless it is coupled with an acquisition.

Efficient management of borrowing costs. Approximately S\$400m of borrowings taken at IPO has been refinanced and overall costs have come down from 5.4% to 4.3% currently. The savings in borrowing costs were mainly due to the mix of onshore and offshore RMB borrowings. Currently, more than c.70% of borrowings are offshore debt with a significantly lower cost as compared to onshore debt. Going forward, management will also be working on hedging its interest repayment obligations to further mitigate FX fluctuations.

Share Price Drivers:

Acquisitions

ECW also has the ability to grow inorganically with future pipeline from the sponsor, and the strategic partnerships forged by the sponsor that will provide a further acquisition pipeline and the ability to attract major e-commerce tenants. ECW will also be on the lookout for third-party acquisitions outside of China.

Key Risks:

Further weakening of RMB

While ECW is proactively managing FX volatility through the hedging of income and costs, any significant weakening of the RMB will put pressure on distributions.

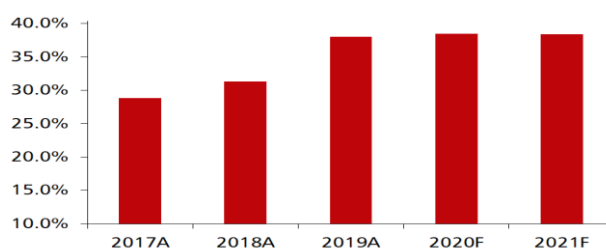
Environment, Social, Governance:

ECW published its inaugural sustainability report in December 2018. ECW’s approach towards ESG is fully endorsed and actively supported by the board, sponsor and manager. Led by the Chief Executive Officer and senior representatives from key departments, the manager employs a top-down approach in the decision-making process, assessment and execution of the ESG initiatives and best practices to ensure that ECW follows the guidelines set by SGX, GRI and CRESS.

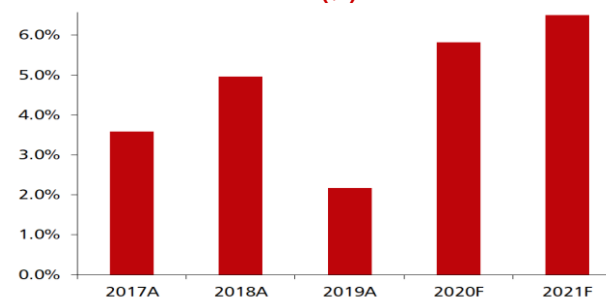
Company Background

ECW is the first specialised and e-commerce logistics REIT listed on the SGX. It has a portfolio of quality properties that are located in China, within one of the largest e-commerce clusters of Hangzhou in the Yangtze River Delta and Wuhan.

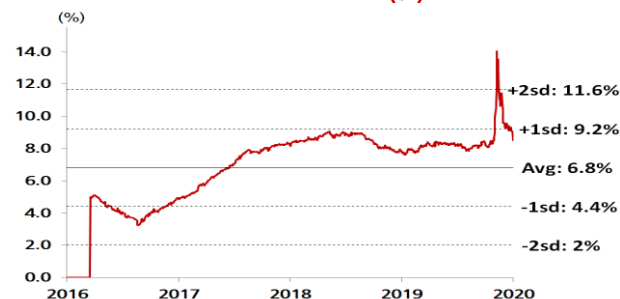
Aggregate Leverage (%)



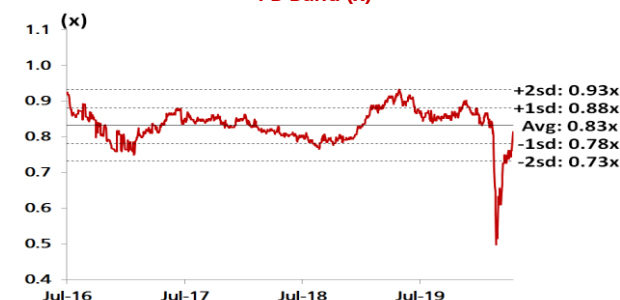
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

EC World REIT

Income Statement (\$\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Gross revenue	91.4	96.2	99.1	106	114
Property expenses	(8.7)	(8.9)	(9.4)	(8.5)	(8.9)
Net Property Income	82.7	87.3	89.7	97.3	105
Other Operating expenses	(6.8)	(4.5)	(6.5)	(6.3)	(6.9)
Other Non Opg (Exp)/Inc	(1.9)	1.26	(4.3)	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(24.4)	(25.9)	(31.1)	(37.8)	(38.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	49.6	58.2	47.8	53.2	59.8
Tax	(23.8)	(23.3)	(32.9)	(13.3)	(14.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	25.9	34.9	14.9	39.9	44.8
Total Return	47.6	46.9	65.2	39.9	44.8
Non-tax deductible Items	(0.5)	2.07	(16.4)	6.22	6.78
Net Inc available for Dist.	47.1	49.0	48.9	46.1	51.6
Growth & Ratio					
Revenue Gth (%)	121.9	5.3	3.0	6.7	8.0
N Property Inc Gth (%)	125.0	5.6	2.7	8.4	8.4
Net Inc Gth (%)	24.9	34.9	(57.4)	168.1	12.4
Dist. Payout Ratio (%)	100.0	99.6	98.7	98.7	98.7
Net Prop Inc Margins (%)	90.5	90.8	90.5	91.9	92.2
Net Income Margins (%)	28.3	36.3	15.0	37.7	39.2
Dist to revenue (%)	51.6	50.9	49.3	43.6	45.2
Managers & Trustee's fees	7.5	4.7	6.5	6.0	6.0
ROAE (%)	3.6	5.0	2.2	5.8	6.5
ROA (%)	1.7	2.3	0.9	2.3	2.6
ROCE (%)	2.7	3.4	1.6	4.1	4.4
Int. Cover (x)	3.1	3.2	2.7	2.4	2.5

Adjusted for the
RMB23.7m in rental
rebates in 1Q20

Source: Company, DBS Bank

EC World REIT

Quarterly / Interim Income Statement (\$m)

FY Dec	1Q2019	2Q2019	3Q2019	4Q2019	1Q2020
Gross revenue	23.9	23.7	25.7	25.9	23.5
Property expenses	(2.7)	(2.6)	(2.8)	(1.4)	(2.4)
Net Property Income	21.2	21.2	22.9	24.5	21.1
Other Operating expenses	(2.6)	(0.3)	(3.3)	(0.3)	(5.4)
Other Non Opg (Exp)/Inc	0.25	(0.1)	(0.2)	(4.2)	0.84
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(6.5)	(6.6)	(8.7)	(9.4)	(9.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	12.3	14.2	10.8	10.6	7.15
Tax	(4.3)	(3.9)	(7.8)	(16.9)	(3.8)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	8.01	10.2	3.01	(6.4)	3.34
Total Return	8.01	10.2	17.8	29.2	3.34
Non-tax deductible Items	3.92	2.10	(5.9)	(16.5)	6.45
Net Inc available for Dist.	11.9	12.3	11.9	12.7	9.79
Growth & Ratio					
Revenue Gth (%)	2	(1)	8	1	(9)
N Property Inc Gth (%)	2	0	8	7	(14)
Net Inc Gth (%)	30	28	(70)	(311)	(153)
Net Prop Inc Margin (%)	88.8	89.1	89.3	94.6	89.8
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Decline in revenues mainly due to the RMB23.7m in rental rebates

Balance Sheet (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Investment Properties	1,337	1,335	1,568	1,569	1,571
Other LT Assets	0.17	0.0	0.0	0.0	0.0
Cash & ST Invt	139	142	119	124	127
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	35.6	38.3	36.9	8.82	9.52
Other Current Assets	0.0	0.33	0.11	0.11	0.11
Total Assets	1,511	1,516	1,724	1,702	1,707
ST Debt	40.1	475	67.9	67.9	67.9
Creditor	24.6	23.4	34.1	8.82	9.52
Other Current Liab	11.2	9.25	16.0	16.0	16.0
LT Debt	395	0.0	587	587	587
Other LT Liabilities	323	320	335	335	335
Unit holders' funds	718	689	684	687	692
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	1,511	1,516	1,724	1,702	1,707
Non-Cash Wkg. Capital	(0.2)	6.06	(13.2)	(15.9)	(15.9)
Net Cash/(Debt)	(297)	(333)	(535)	(530)	(528)
Ratio					
Current Ratio (x)	2.3	0.4	1.3	1.4	1.5
Quick Ratio (x)	2.3	0.4	1.3	1.4	1.5
Aggregate Leverage (%)	28.8	31.3	38.0	38.4	38.3

Source: Company, DBS Bank

EC World REIT

Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F
Pre-Tax Income	49.6	58.2	47.8	53.2	59.8
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(23.8)	7.36	17.7	(13.3)	(14.9)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	6.95	(4.9)	18.2	2.74	0.0
Other Operating CF	28.1	2.66	8.59	4.42	4.98
Net Operating CF	61.0	63.4	92.3	47.1	49.8
Net Invnt in Properties	5.57	(30.4)	(156)	(1.5)	(1.5)
Other Invnts (net)	0.0	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	5.57	(30.4)	(156)	(1.5)	(1.5)
Distribution Paid	(47.1)	(48.1)	(48.5)	(45.5)	(50.9)
Chg in Gross Debt	35.8	(27.6)	104	0.0	0.0
New units issued	0.0	4.87	4.63	4.72	5.28
Other Financing CF	(61.2)	(4.9)	(4.6)	0.0	0.0
Net Financing CF	(72.5)	(75.7)	55.4	(40.8)	(45.6)
Currency Adjustments	40.9	46.2	(14.2)	0.0	0.0
Chg in Cash	35.0	3.48	(22.7)	4.77	2.66
Operating CFPS (S cts)	6.90	8.61	9.31	5.52	6.16
Free CFPS (S cts)	8.50	4.16	(8.0)	5.67	5.98

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	13 May 19	0.79	0.86	BUY
2:	11 Nov 19	0.74	0.86	BUY
3:	28 Feb 20	0.71	0.80	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Dale LAI

Derek TAN

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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