Singapore Company Guide

EC World REIT

Version 1 | Bloomberg: ECWREIT SP | Reuters: ECWO.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

11 Nov 2019

BUY

Last Traded Price (11 Nov 2019): S$0.74 (**STI :** 3,240.65)
Price Target 12-mth: S$0.86 (16% upside)

Analyst
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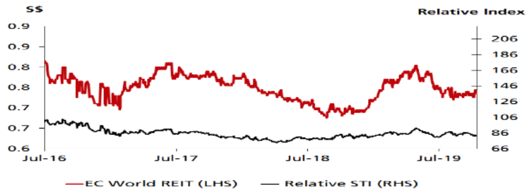
What's New

- Completed acquisition of Fuzhou E-Commerce property; c.1.6% accretion to DPU
- Fuzhou E-Commerce property on 5-year master lease with 2.25% annual escalations
- Manager remains on the lookout for more acquisitions
- DPU of 1.489 Scts; 73% of our FY19 estimates

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2018A	2019F	2020F	2021F
Gross Revenue	96.2	101	113	115
Net Property Inc	87.3	92.2	104	106
Total Return	46.9	42.8	43.4	43.7
Distribution Inc	49.0	49.3	50.0	50.3
EPU (S cts)	4.41	5.38	5.41	5.40
EPU Gth (%)	33	22	1	0
DPU (S cts)	6.18	6.20	6.23	6.22
DPU Gth (%)	3	0	1	0
NAV per shr (S cts)	86.9	86.6	86.3	86.0
PE (X)	16.7	13.7	13.6	13.6
Distribution Yield (%)	8.4	8.4	8.5	8.5
P/NAV (x)	0.8	0.8	0.9	0.9
Aggregate Leverage (%)	31.3	40.4	40.3	40.2
ROAE (%)	5.0	6.2	6.3	6.3
Distn. Inc Chng (%):		-	-	(1)
Consensus DPU (S cts):		6.40	6.70	6.70
Other Broker Recs:		B: 4	S: 0	H: 0

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

Netting another e-commerce asset

Maintain BUY and TP of S$0.86. We maintain our BUY call and TP of S$0.86. We like EC World REIT ("ECW") for its portfolio of e-commerce logistics properties that are mostly on master leases with annual rental escalations. The recent acquisition of yet another property on master lease will provide further income stability and visibility. However, persistent weakness in the RMB has been limiting ECW from achieving its full potential.

Where we differ: On the back of the Fuzhou E-Commerce acquisition that was fully funded by borrowings and cash, we see this as a positive for ECW despite the increase in gearing to 39.6%. We believe that ECW does not need any equity fund-raising to pare down gearing, and it will only be done in conjunction with an accretive acquisition.

Scaling the e-commerce ladder. ECW completed the acquisition of the Fuzhou E-Commerce property in August 2019. The 5-year master lease on the asset has built-in rental escalations of 2.25% annually. From 4Q19, the new asset is expected to contribute c.S$3.6m to quarterly NPI; c.1.6% accretion to DPU. With this acquisition, ECW currently has a portfolio of S$1.5bn worth of properties in the e-commerce logistics sector.

Valuation:

Our DCF-based TP is maintained at S$0.86.

Key Risks to Our View:

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

At A Glance

Issued Capital (m shrs)	797
Mkt. Cap (Sm/USm)	590 / 434
Major Shareholders (%)	
Forchn Holdings Group Co Ltd	44.1
China Cinda Asset Management	10.2
Bocom Int'l	7.7
Free Float (%)	32.2
3m Avg. Daily Val (US$m)	0.49
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	

DBS
Live more, Bank less

WHAT'S NEW

E-commerce powering growth

(+) Acquisition of the Fuzhou E-Commerce property was completed in August 2019, and a partial contribution was recognised in 3Q19. The initial yield of 6.4% will boost NPI by c.S$14.4m annually, with a 2.25% annual escalation for the next five years.

The property consists of a 171,795-sqm warehouse and two office buildings totaling 42,489 sqm. The master lease provides the tenant with the option to extend the lease for a further five years upon the expiry of the first.

The S$223.6m acquisition was funded by additional borrowings and cash.

(+) The Fuzhou E-Commerce property is adjacent to ECW's existing property, Fu Heng Warehouse. The acquisition will create a logistics hub with a combined 308,571 sqm that focuses on e-commerce-related fulfilment activities, and further enhances operational efficiency.

(+) The acquisition will create an additional c.1.6% to DPU, and c.1.4% accretion to NAV.

(+) Gross revenue of S$73.3m was 0.7% higher compared to 9M18, due mainly to in-built rental escalations and contribution from Fuzhou E-Commerce property that was partially offset by a weaker RMB. NPI of S$65.2m was 1.9% lower compared to 9M18, mainly due to a weaker RMB. In RMB terms, the gross revenue and NPI were 4.3% and 1.7% higher respectively.

(-) Finance cost of S$23.2m was 13.4% higher compared to 9M18. This was mainly due to higher borrowings undertaken for the acquisition.

Overall borrowing costs inched up by 0.1% q-o-q to 4.6% and gearing currently stands at 39.6%. This is still within management's long-term gearing limit of 40%, and we believe that the company would not need any equity fund-raising unless it makes an acquisition.

(+) Approximately 65% of borrowings are offshore RMB loans due to significantly lower borrowing costs (c.1.3% lower). The bulk of these offshore facilities have been swapped into fixed rates.

(-) DPU was S$36.1m, representing a 0.7% decrease compared to 9M18 mainly due to technical timing difference between the loan drawdown and completion of acquisition of Fuzhou E-Commerce and FX differences. However, DPU should improve in 4Q19 with the full quarter's contribution from Fuzhou E-Commerce property, and further hedging of distributable income.

(+) At least 75% of income has been hedged on a rolling 6-month basis with the use of a FX put strategy that lowers hedging costs. Management is currently looking into hedging its interest payments to mitigate FX volatility on costs as well.

(+) Occupancy at Wuhan Meiluote dipped slightly by 0.7% to 85.1% q-o-q mainly due to higher vacancies at the workers' dormitory at the property. However, the dormitory segment has a very low and insignificant contribution to earnings.

(+) Only 2.6% of leases (by GRI) remain to be renewed for FY19. These leases are mainly at the Chongxian Port Logistics, and ECW is confident of renewing them.

(-)(+) Approximately 75% of the leases expiring in 2020 (14.9% of GRI) are attributed to China Tobacco's lease at Hengde Logistics. Despite engaging with the tenant early, ECW expects negotiations to take some time especially given that China Tobacco is a state-owned enterprise. However, early negotiations appear to be positive and we expect China Tobacco to renew its lease.

(+) With the acquisition of the Fuzhou E-Commerce property, ECW's portfolio WALE has been extended to 4.3 years, and overall portfolio occupancy stands at 99.2%.

(+) The sponsor, Forchn Group, has recently entered into a RMB5bn JV to create a platform to invest in the development of logistics properties throughout China. Approximately 14 of the properties in the platform will be ready in the next 12-18 months and could be a potential pipeline for ECW.

These properties have an average price tag of RMB500-700m which translates into a range of RMB3,000-5,000 psqm. We believe that these properties will potentially be accretive for ECW.

(+)(-) We maintain our BUY call on ECW with a similar TP of S$0.86. A strengthening of the RMB will directly improve earnings and create further upside.

Quarterly / Interim Income Statement (S$m)

FY Dec	3Q2018	2Q2019	3Q2019	% chg yoy	% chg qoq
Gross revenue	23.9	23.7	25.7	7.5	8.2
Property expenses	(1.7)	(2.6)	(2.8)	62.8	6.9
Net Property Income	22.2	21.2	22.9	3.2	8.3
Other Operating expenses	0.07	(0.3)	(3.3)	nm	925.2
Other Non Opg (Exp)/Inc	0.0	(0.1)	(0.2)	nm	67.2
Net Interest (Exp)/Inc	(6.5)	(6.6)	(8.7)	(33.3)	(32.5)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	15.8	14.2	10.8	(31.6)	(23.9)
Tax	(4.0)	(3.9)	(7.8)	93.2	96.5
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	11.7	10.2	3.01	(74.3)	(70.5)
Total Return	11.7	10.2	17.8	51.5	74.1
Non-tax deductible Items	0.79	2.10	(5.9)	nm	nm
Net Inc available for Dist.	12.5	12.3	11.9	(5.2)	(3.6)
Ratio (%)					
Net Prop Inc Margin	92.9	89.1	89.3		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

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 4.3 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

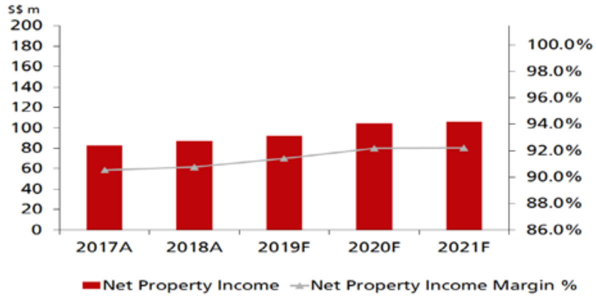
E-commerce in China is expected to continue its strong growth, with online retail sales in 2018 growing 25.4%, outstripping the growth in Chinese retail sales of consumer goods (9.0%) according to China National Bureau of Statistics.

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 ECO 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.

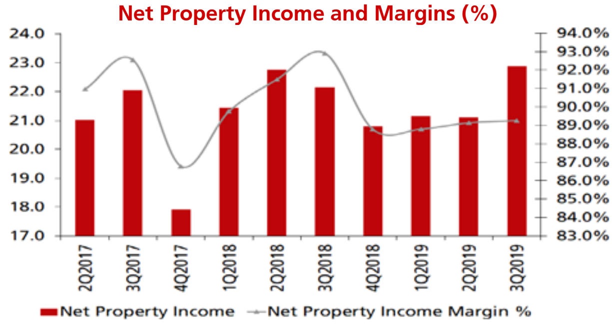
Proactive capital management

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.

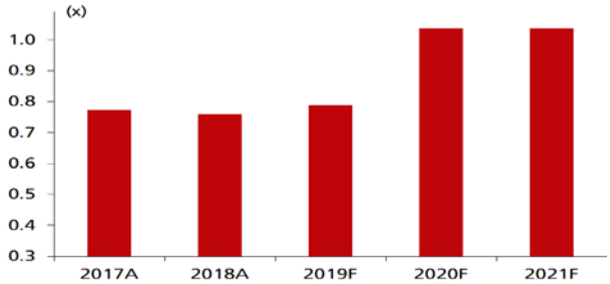
Net Property Income and Margins (%)



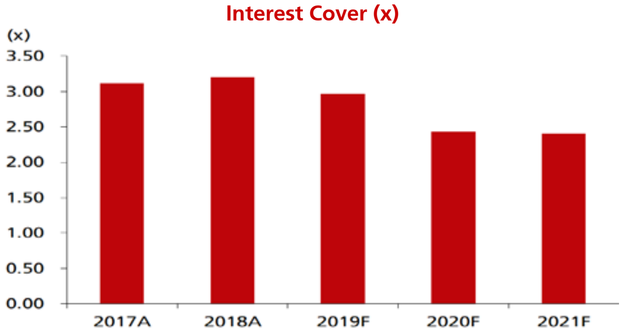
Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Interest Cover (x)



Source: Company, DBS Bank

Balance Sheet:

Gearing maintained within targets. Following the acquisition in FY19, gearing is currently 39.6%. This is well within management's long-term target of keeping leverage at the optimal level of around 40%. Given the headroom before hitting the leverage limit of 45%, 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 4.6% currently. The savings in borrowing costs were mainly due to the mix of onshore and offshore RMB borrowings. Currently, approximately 65% 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.

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.

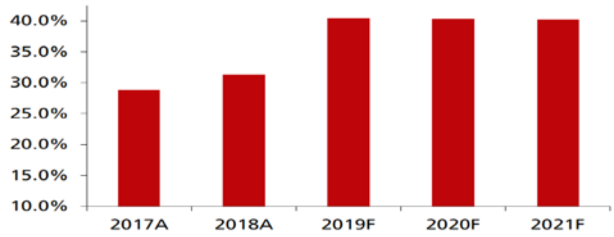
Environment, Social, Governance:

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.

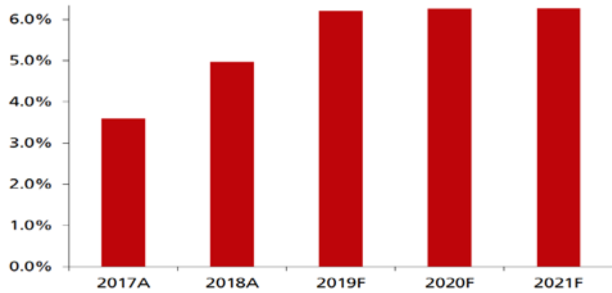
Company Background

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 (%)

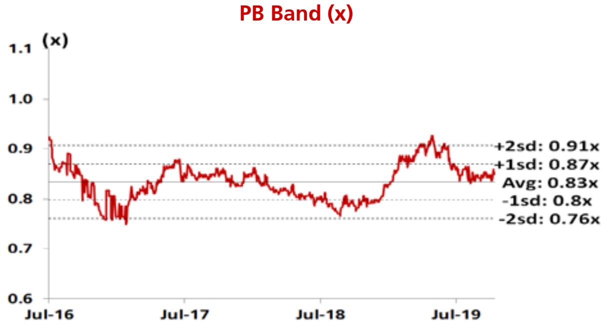


ROE (%)



Distribution Yield (%)

PB Band (x)



Source: Company, DBS Bank

Income Statement (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Gross revenue	91.4	96.2	101	113	115
Property expenses	(8.7)	(8.9)	(8.7)	(8.9)	(9.0)
Net Property Income	**82.7**	**87.3**	**92.2**	**104**	**106**
Other Operating expenses	(6.8)	(4.5)	(6.1)	(6.2)	(6.2)
Other Non Opg (Exp)/Inc	(1.9)	1.26	0.0	0.0	0.0
Net Interest (Exp)/Inc	(24.4)	(25.9)	(29.0)	(40.4)	(41.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**49.6**	**58.2**	**57.1**	**57.9**	**58.3**
Tax	(23.8)	(23.3)	(14.3)	(14.5)	(14.6)
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**	**42.8**	**43.4**	**43.7**
Total Return	47.6	46.9	42.8	43.4	43.7
Non-tax deductible Items	(0.5)	2.07	6.51	6.58	6.62
Net Inc available for Dist.	47.1	49.0	49.3	50.0	50.3
Growth & Ratio					
Revenue Gth (%)	121.9	5.3	4.8	12.4	1.4
N Property Inc Gth (%)	125.0	5.6	5.5	13.3	1.4
Net Inc Gth (%)	24.9	34.9	22.5	1.5	0.7
Dist. Payout Ratio (%)	100.0	99.6	100.0	100.0	100.0
Net Prop Inc Margins (%)	90.5	90.8	91.4	92.2	92.2
Net Income Margins (%)	28.3	36.3	42.4	38.3	38.0
Dist to revenue (%)	51.6	50.9	48.9	44.1	43.8
Managers & Trustee's fees	7.5	4.7	6.1	5.5	5.4
ROAE (%)	3.6	5.0	6.2	6.3	6.3
ROA (%)	1.7	2.3	2.6	2.5	2.5
ROCE (%)	2.7	3.4	4.0	4.3	4.4
Int. Cover (x)	3.1	3.2	3.0	2.4	2.4

Source: Company, DBS Bank

Fuzhou E-Commerce property contributes only two months of income in FY19.

Due to additional loans taken to fund Fuzhou E-Commerce acquisition.

Lower rental escalations of between 1% and 3% taken into account.

Quarterly / Interim Income Statement (S$m)

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019
Gross revenue	23.9	23.5	23.9	23.7	25.7
Property expenses	(1.7)	(2.6)	(2.7)	(2.6)	(2.8)
Net Property Income	22.2	20.8	21.2	21.2	22.9
Other Operating expenses	0.07	(0.7)	(2.6)	(0.3)	(3.3)
Other Non Opg (Exp)/Inc	0.0	0.0	0.25	(0.1)	(0.2)
Net Interest (Exp)/Inc	(6.5)	(6.5)	(6.5)	(6.6)	(8.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	**15.8**	**13.6**	**12.3**	**14.2**	**10.8**
Tax	(4.0)	(7.4)	(4.3)	(3.9)	(7.8)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	**11.7**	**6.16**	**8.01**	**10.2**	**3.01**
Total Return	11.7	11.7	8.01	10.2	17.8
Non-tax deductible Items	0.79	0.71	3.92	2.10	(5.9)
Net Inc available for Dist.	12.5	12.4	11.9	12.3	11.9
Growth & Ratio					
Revenue Gth (%)	(4)	(2)	2	(1)	8
N Property Inc Gth (%)	(3)	(6)	2	0	8
Net Inc Gth (%)	41	(48)	30	28	(70)
Net Prop Inc Margin (%)	92.9	88.8	88.8	89.1	89.3
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Timing difference between loan drawdown and completion of acquisition impacted Net Income.

Balance Sheet (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Investment Properties	1,337	1,335	1,560	1,562	1,563
Other LT Assets	0.17	0.0	0.0	0.0	0.0
Cash & ST Invts	139	142	159	161	162
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	35.6	38.3	8.40	9.45	9.58
Other Current Assets	0.0	0.33	0.33	0.33	0.33
Total Assets	**1,511**	**1,516**	**1,728**	**1,732**	**1,735**
ST Debt	40.1	475	475	475	475
Creditor	24.6	23.4	8.40	9.45	9.58
Other Current Liab	11.2	9.25	9.25	9.25	9.25
LT Debt	395	0.0	224	224	224
Other LT Liabilities	323	320	320	320	320
Unit holders' funds	718	689	692	695	698
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	**1,511**	**1,516**	**1,728**	**1,732**	**1,735**
Non-Cash Wkg. Capital	(0.2)	6.06	(8.9)	(8.9)	(8.9)
Net Cash/(Debt)	(297)	(333)	(539)	(538)	(536)
Ratio					
Current Ratio (x)	2.3	0.4	0.3	0.3	0.3
Quick Ratio (x)	2.3	0.4	0.3	0.3	0.3
Aggregate Leverage (%)	28.8	31.3	40.4	40.3	40.2

Source: Company, DBS Bank

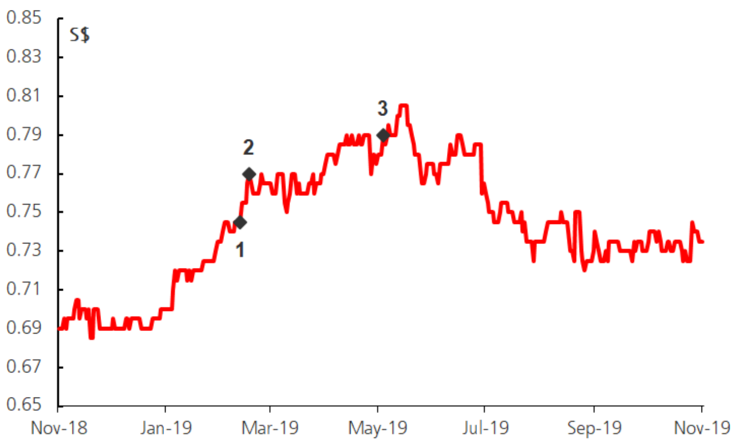
Cash Flow Statement (S$m)

FY Dec	2017A	2018A	2019F	2020F	2021F
Pre-Tax Income	49.6	58.2	57.1	57.9	58.3
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(23.8)	7.36	(14.3)	(14.5)	(14.6)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	6.95	(4.9)	15.0	0.0	0.0
Other Operating CF	28.1	2.66	4.71	4.78	4.82
Net Operating CF	**61.0**	**63.4**	**62.5**	**48.2**	**48.5**
Net Invt in Properties	5.57	(30.4)	(225)	(1.5)	(1.5)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts 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)**	**(225)**	**(1.5)**	**(1.5)**
Distribution Paid	(47.1)	(48.1)	(49.3)	(50.0)	(50.3)
Chg in Gross Debt	35.8	(27.6)	224	0.0	0.0
New units issued	0.0	4.87	5.01	5.08	5.12
Other Financing CF	(61.2)	(4.9)	0.0	0.0	0.0
Net Financing CF	**(72.5)**	**(75.7)**	**179**	**(44.9)**	**(45.2)**
Currency Adjustments	40.9	46.2	0.0	0.0	0.0
Chg in Cash	35.0	3.48	16.7	1.78	1.82
Operating CFPS (S cts)	6.90	8.61	5.97	6.01	6.00
Free CFPS (S cts)	8.50	4.16	(20.4)	5.82	5.81

Source: Company, DBS Bank

Recognition of Fuzhou E-Commerce acquisition in FY19.

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	21 Feb 19	0.75	0.86	BUY
2:	26 Feb 19	0.77	0.86	BUY
3:	13 May 19	0.79	0.86	BUY

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

Source: DBS Bank

Analyst: Derek TAN

Singapore Research Team

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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*

Completed Date: 11 Nov 2019 17:42:45 (SGT)
Dissemination Date: 11 Nov 2019 18:03:44 (SGT)

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

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

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