

BUY

TP: SGD 0.91

▲ 22.6%

EC World REIT

ECWREIT.SP

Transitional quarter, new pipeline revealed

ECWREIT 3Q19 results were dragged by timing differences from the recent Fuzhou E-Commerce acq and RMB depreciation (upcoming change in hedging strategy). We expect DPU to increase with the incoming 4Q's full qtr contributions. Moving forward, we expect underlying portfolio's performance to remain resilient from master leases (w. escalations) and healthy leasing outlook, while ECWREIT looks to grow inorganically with a pipeline of 13-14 assets available over the next 12-18mths. Reiterate BUY, at TP S\$0.91/unit.

- ➔ **9M19 results came in below our estimates due to timing difference of acq and unfavorable FX:** 3Q19 DPU came down by 5.2% YoY despite an increase of 3.2% YoY in NPI (+11.4% YoY in RMB) from the Fuzhou acq completed in Aug 2019. This was mainly due to timing differences in acq completion as well as unfavourable FX movements (~60-70% of the decline). 9M19 results came in at 73.1% of our FY estimates but we expect 4Q results to have higher contributions. We have adjusted our FY19E estimates downwards slightly, changing the blended SGD/RMB assumptions for FY19E from 5.1 to 5.16.
- ➔ **Underlying performance to remain robust, FX- hedging strategy to change in the upcoming qtrs:** Mgmt notes that the lower QoQ contributions is almost purely due to FX changes, and the Fuzhou acquisition remains accretive, excluding the FX impact. They also expect upcoming expiries (2.6% remaining in FY19E and in FY20E - 15% from China Tobacco, to potentially register up to +10% reversions) to be leased out successfully. We have assumed China Tobacco to be renewed at 6-7% reversions moving forward. ECWREIT is currently revaluating their hedging strategy, potentially reducing FX volatility and making additional hedging for SGD loans.
- ➔ **13-14 pipeline assets available over the next 12-18mths:** The REIT's Sponsor is part of a RMB5bn fund, which is a platform to develop logistics warehouses across China. 13-14 assets with a total of 1.8-2m sqm at RMB3k-5k psm valuation, will be ready for injection within the next 12-18mths. The first few assets will be ready at end-2019.
- ➔ **Reiterate BUY:** We continue to like ECWREIT for its defensive lease structure with inbuilt escalations, coupled with renewed potential for inorganic growth from the sponsor's pipeline in the midterm. Reiterate BUY with TP of S\$0.91/unit. ECWREIT currently trades at attractive valuation of 8.94% FY20E yield and 0.88x P/B.

Financial highlights

Y/E 31 Dec (SGD m)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	96	102	117	122	124
Distribution income	49	49	53	56	58
Outstanding shares (M)	792	795	800	805	810
DPU (SGD cts)	6.2	6.1	6.6	7.0	7.1
DPU growth (%)	2.6%	-1.1%	8.3%	5.2%	2.1%
Yield (%)	8.4%	8.3%	8.9%	9.4%	9.6%
BV per share	0.9	0.9	0.9	0.9	0.9
P/B (x)	0.8	0.8	0.8	0.8	0.8

Source: Company, SCCM Research; as of 8 November 2019



8 November 2019

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PRICE CLOSE (7 Nov 2019)

SGD 0.74

MARKET CAP

SGD 590.1 mln

USD 434.8 mln

SHARES O/S

797.4 mln

FREE FLOAT

50.0%

3M AVG DAILY VOLUME/VALUE

SGD 0.815 mln / USD 0.601 mln

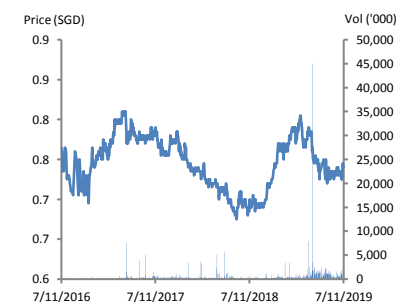
52 WK HIGH

SGD 0.805

52 WK LOW

SGD 0.680

Target Price SGD 0.91



9M19 results came in below, due to timing difference of acq and unfavorable FX

- 9M19 results came in below at 73.1% of our FY19E estimates:** 3Q19 DPU declined 5.2% YoY mainly due to RMB depreciation (mgmt estimates it contributes to 60-70% of the decline) and timing differences between Fuzhou E-commerce's acquisition and financing. 9M19 results came in below at 73.1% of our FY estimates for similar reasons as the 3Q DPU YoY decline.
- We expect 4Q results to have higher contributions, but also adjusted our FY19E estimates downwards slightly, changing the blended SGD/RMB assumptions for FY19E from 5.1 to 5.16. We maintained our assumption of ~5.1 SGD/RMB rate for FY20E onwards as the rate has come down from its peak at 5.2 in Oct2019. In addition, there is a potential partial lifting of China-US tariffs as well as the upcoming signing of the 'Phase One' deal, which we think lowers the chance of further drastic weakening of RMB. **Factoring in the adjustment, our TP remains relatively unchanged at S\$0.91/unit.**

Higher prop expense in this qtr is largely due to accounting differences to smooth out accrual expenses across the quarters. The expenses in FY18 were mainly concentrated in 1H18

Fig 1 - Results summary vs previous FY19E estimates

FY 31Dec (\$m)	3Q19	3Q18	YoY %	2Q19	QoQ %	9M19	FY19E	% of forecast
Gross Revenue	25.7	23.9	7.5%	23.7	8.1%	73.3	103.1	71.1%
Operating Expenses	-2.8	-1.7	62.8%	-2.6	6.9%	-8.0	-11.4	70.4%
NPI	22.9	22.2	3.2%	21.2	8.3%	65.3	91.7	71.1%
Trustee-Manager's fees	-1.2	-1.4	-12.8%	-1.2	-3.6%	-3.6	-5.9	61.1%
Trustee's Expenses	-0.1	-0.1	9.7%	-0.1	9.7%	-0.2	-0.3	74.3%
Other Trust Expenses	-0.5	-0.1	NM	-0.4	37.2%	-1.2	-1.6	77.2%
Net income before financing cost & tax	18.2	20.6	-12.0%	19.5	-6.9%	63.9	83.9	76.1%
Interest Income	0.6	0.3	76.6%	0.4	33.3%	1.4	1.5	94.0%
Borrowing Costs	-9.3	-6.8	35.4%	-7.0	32.6%	-23.2	-30.3	76.6%
Net Income	9.5	14.1	-32.9%	12.9	-26.8%	42.1	55.2	76.3%
Net income aft Tax	17.8	11.7	51.5%	10.2	74.1%	36.0	50.5	71.2%
Income Available for Distribution	11.9	12.5	-5.2%	12.3	-3.6%	36.1	49.4	73.1%
# of units, end of period (m)	797.4	790.2	0.9%	795.8	0.2%	797.4	798.1	99.9%
DPU (\$c)	1.489	1.570	-5.2%	1.547	-3.7%	4.537	6.210	73.1%

Source: SCCM Research, Company

Underlying performance to remain stable, FX- hedging strategy to change in the upcoming quarters

- Stable underlying performance of existing assets, outlook for lease renewals remains healthy:** Excluding the FX changes, the underlying operations remains healthy as mgmt notes that QoQ decline were almost purely due to FX differences, and the Fuzhou acquisition remains accretive.
- Mgmt also expect upcoming expiring spaces in FY19-20E to be leased out successfully, based on the ongoing talks thus far.** As of 3Q19, the remaining 2.6% of GRI expiring in FY19 mainly stems from Chong Xian Port Logistics and Fuzhuo Industrial, and mgmt does not expect issues with the leasing demand. The China Tobacco lease for Hengde Logistics contributes to 15% of ECWREIT's GRI and is currently rented at rates below mkt rents. As the tenant is an SOE, mgmt shared that they do not have high bargaining power, a reasonable tradeoff for minimal default chance of the tenant (which fits the portfolio profile that focuses on high stability). Mgmt expects the tenant to stay on based on talks thus far, expecting up to +10% reversions. They also shared that their last lease term was for a period of 5 yrs. We

maintain our conservative assumption that China Tobacco to be renewed at a positive 6-7% reversions moving forward.

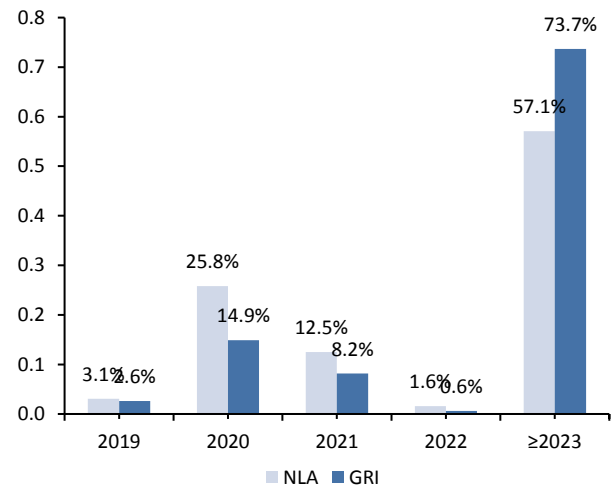
- Mgmt also shared that the slight decline in occupancy in Wuhan Meiluote from 85.8% in 2Q19 to 85.1% in 3Q19 is due to vacancies in the supporting building. The building is dormitory that contributes to a small part of the income for the asset and mgmt currently does not anticipate any issues with leasing demand for the property.

Fig 2 - Defensive lease structure

E-Commerce Logistics Assets		
Asset	Lease Structure	Occupancy
Fu Heng	Master Lease: 1 Jan 2016 to 31 Oct 2024 Rental escalation of 4.0% and 3.0% on 1st Jan 2019 and 2020 respectively, 2.0% annually from 1st Jan 2021.	100%
Fuzhou E-Commerce	Master Lease: 8 Aug 2019 to 8 Aug 2024 Rental escalation of 2.25% per annum	100%
Stage 1 Properties of Bei Gang	Master lease: 1 Nov 2015 to 31 Oct 2024 Rental escalation of 1% on 1st Jan 2019 and 2020, 1% from Nov 2020 to Oct 2024	100%
Wuhan Meiluote	Multi Tenanted	85.1%
Specialized Logistics Asset		
Asset	Lease Structure	Occupancy
Hengde Logistics	Multi Tenanted; 2 main leases.	100%
Port Logistics Assets		
Asset	Lease Structure	Occupancy
Chongxian Port Investment	Master lease: 1 Jan 2016 to 31 Dec 2024 Rental escalation of 4.0% and 3.0% on 1st Jan 2019 and 2020 respectively, 2.0% annually from 1st Jan 2021	100%
Chongxian Port Logistics	Multi Tenanted	100%
Fu Zhuo Industrial	Two main tenancies: (1) 10% annually in first 3 years, 15% from Year 4 from Oct 2015 to Oct 2020 and (2) 7.5% every 3 years from May 2016 to May 2021	100%

Source: Company, as at 3Q19

Fig 3 - Lease expiry profile as of 3Q



Source: Company

- Likely to switch hedging strategy in the upcoming quarters to reduce FX volatility:** ECWREIT is currently reevaluating their hedging strategy, potentially changing the existing structure of a Put option spread (for 75% of DI, on a 6-mth rolling basis) in the upcoming quarters. In addition, they are considering the option to go into additional hedging for SGD loans (55% of total borrowings).

13-14 pipeline assets available in the next 12-18mths

- Improved visibly of pipeline assets:** ECWREIT's Sponsor, Forchn Holdings Group is part of a RMB5bn fund, which is a platform to develop warehouses (e-commerce and general logistics) spanning different cities across China. There will be 13-14 assets with a total of 1.8-2m sqm of GLA, at RMB3k-5k psm valuation, ready for injection into the REIT within the next 12-18mths. The first few assets will be ready at end-2019, and they are located at Zezhou, Chongqing and Shaoxing. Although these are not ECWREIT's ROFR assets, mgmt understands from the Sponsor's stance that these assets are likely to be made available for purchase to ECWREIT first, before the offer is made any other potential buyers.
- As of 3Q19, ECWREIT's gearing is at 39.6%, and mgmt's intention is to only carry out EFR to reduce gearing when it is done in tandem with accretive acquisitions.

Financial Statements

Income Statement

Y/E 31 Dec (in SGD'm)	FY18A	FY19E	FY20E	FY21E	FY22E
Gross Revenue	96.2	101.9	117.0	121.6	124.0
Gross Revenue Growth Rate	5.3%	5.9%	14.8%	4.0%	2.0%
Property Expenses	(8.9)	(11.2)	(12.9)	(13.3)	(13.5)
Net Property Income	87.3	90.7	104.1	108.3	110.6
Trustee-Manager's fees	(5.1)	(5.8)	(5.9)	(5.9)	(5.6)
Trustee's fee	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Trust and administrative expenses	(0.9)	(1.6)	(1.6)	(1.6)	(1.6)
EBIT	81.0	81.3	96.3	100.6	103.1
EBIT Margin	84.2%	79.8%	82.4%	82.7%	83.1%
Non-Operating Income					
Interest Income	1.5	1.5	1.8	1.8	1.9
Interest Expense	(27.4)	(30.3)	(37.3)	(37.2)	(37.2)
Exceptional Gains/(Losses)	3.1	18.2			
Net Income	58.2	70.8	60.8	65.2	67.8
Tax	(23.3)	(20.9)	(18.2)	(19.6)	(20.3)
Net Income	34.9	49.9	42.6	45.6	47.4
Net Gains from revaluation of properties	12.0				
Total Return for the year	46.9	49.9	42.6	45.6	47.4
Invnt Income available for distribution	49.0	48.6	52.9	56.0	57.6
DPU (cents)	6.18	6.11	6.62	6.96	7.11
DPU Growth Rate	2.6%	-1.1%	8.3%	5.2%	2.1%

Balance Sheet

Y/E 31 Dec (in SGD'm)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash	142.1	167.5	169.0	175.6	181.7
Trade Receivables	38.3	39.7	45.6	47.4	48.3
Other Current Assets	0.3	0.3	0.3	0.3	0.3
Current Assets	180.8	207.6	214.9	223.3	230.4
Investment Properties	1,335.0	1,576.8	1,576.8	1,576.8	1,576.8
Non-Current Assets	1,335.0	1,576.8	1,576.8	1,576.8	1,576.8
Total Assets	1,515.8	1,784.4	1,791.7	1,800.1	1,807.2
Trade Payables	23.4	27.4	31.5	32.7	33.4
OD & ST Debt	474.7	40.1	40.1	40.1	40.1
Current Tax Liabilities	9.2	20.9	18.2	19.6	20.3
Other ST Liabilities	0.1	0.1	0.1	0.1	0.1
Current Liabilities	507.3	88.5	90.0	92.5	94.0
LT Debt	0.0	661.7	661.7	661.7	661.7
Deferred Payments (over 12 months)	262.4	262.4	262.4	262.4	262.4
Other LT Liabilities	57.5	57.5	57.5	57.5	57.5
Non-Current Liabilities	320.0	981.6	981.6	981.6	981.6
Total Liabilities	827.3	1,070.2	1,071.6	1,074.2	1,075.6
Total Unitholders' Equity	688.6	714.2	720.1	726.0	731.6
Total Liabilities and Equity	1,515.8	1,784.4	1,791.7	1,800.1	1,807.2

Cash Flow Statement

Y/E 31 Dec (in SGD'm)	FY18A	FY19E	FY20E	FY21E	FY22E
Pre-tax Profit	58.2	70.8	60.8	65.2	67.8
Tax Paid	(15.9)	(9.2)	(20.9)	(18.2)	(19.6)
Depreciation & Amortization	0.0	0.0	0.0	0.0	0.0
Associates & JVs Inc	0.0	0.0	0.0	0.0	0.0
Other Non-Cash Adjustments	25.9	(1.3)	10.4	10.4	10.1
Changes in Non-Cash Work Cap	(4.9)	2.7	(1.8)	(0.6)	(0.3)
Cash From Operations	63.4	63.0	48.5	56.8	58.0
Net Change in Property Investments	(1.4)	(223.6)	0.0	0.0	0.0
Net Change In Investments	(28.9)	0.0	0.0	0.0	0.0
Net Change in Invmts in Assoc & JVs	0.0	0.0	0.0	0.0	0.0
Dividends rec'vd from Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing Activities	(0.0)	0.0	0.0	0.0	0.0
Cash from Investing Activities	(30.4)	(223.6)	0.0	0.0	0.0
Distribution to Unit Holders	(48.1)	(48.6)	(52.9)	(56.0)	(57.6)
Net Change in Gross Debt	41.7	227.1	0.0	0.0	0.0
Issue of Units (net of Expenses)	0.0	7.5	5.9	5.9	5.6
Other Financing Activities	(69.3)	0.0	0.0	0.0	0.0
Cash from Financing Activities	(75.7)	186.0	(47.1)	(50.1)	(51.9)
Net Changes in Cash	(42.7)	25.4	1.4	6.6	6.1

Per Share Data

Y/E 31 Dec (SGD)	FY18A	FY19E	FY20E	FY21E	FY22E
EPU	0.06	0.06	0.05	0.06	0.06
DPU	0.06	0.06	0.07	0.07	0.07
BVPU	0.87	0.90	0.90	0.90	0.90

Valuation Ratios

Y/E 31 Dec (x)	FY18A	FY19E	FY20E	FY21E	FY22E
P/E	12.5	11.7	13.9	13.0	12.6
P/B	0.8	0.8	0.8	0.8	0.8

Financial Ratios

Y/E 31 Dec	FY18A	FY19E	FY20E	FY21E	FY22E
Profitability & Return Ratios (%)					
EBIT margin	84.2	79.8	82.4	82.7	83.1
Net profit margin	36.3	49.0	36.4	37.5	38.2
ROE	5.0%	7.1%	5.9%	6.3%	6.5%
ROCE	3.5%	4.4%	4.0%	4.1%	4.2%
Working Capital & Liquidity Ratios					
Receivables (days)	142	142	142	142	142
Payables (days)	98	98	98	98	98
Current ratio (x)	0.4	2.3	2.4	2.4	2.5
Turnover & Leverage Ratios (x)					
Total asset turnover	0.06	0.07	0.07	0.07	0.07
Gearing Ratio	0.39	0.39	0.39	0.39	0.39

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