

# EC World REIT

Against FX headwinds

## SINGAPORE | REAL ESTATE (REIT) | 3Q19 RESULTS

- 3Q19 NPI and DPU were in line with our forecast.
- High income visibility due to portfolio occupancy of 99.2% and WALE of 4.6 years
- DPU down 5.2% YoY. Accretion from Fuzhou E-commerce wiped out due to FX and timing lag between drawdown of loans and acquisition.
- Maintain BUY with a lower TP of S\$0.84. We lower our profit forecast due to the weakening of RMB against SGD.

### Results at a glance

(SGD mn)	3Q19	3Q18	YoY	Comments
Gross revenue	25.7	23.9	7.5%	Higher due to contributions from Fuzhou E-commerce (acquired on 8 Aug 2019), partially offset by depreciation of RMB against SGD
Net property income	22.9	22.2	3.2%	
Gross revenue (RMB mn)	131.0	115.4	13.5%	In RMB terms, revenue was higher due to built-in rental escalations and contributions from Fuzhou E-Commerce
Net property Income (RMB mn)	119.1	106.9	11.4%	
Distributable income	11.9	12.5	-5.2%	Lower due to higher finance expense attributed to timing lag in acquisition of Fuzhou E-commerce and drawdown of loan
DPU (cents)	1.489	1.570	-5.2%	Lower DPU was c.65% due to FX movement and c.35% due to timing lag

Source: Company, PSR

### The Positive

+ High income visibility due to portfolio occupancy of 99% (69%/72% of FY19e/FY20e revenue underpinned by master leases) and WALE by GRI of 4.6 years. 69% of revenue is secured by master leases to the Sponsor, Hengde Logistics, the specialised logistic asset customised and leased to a state-owned tobacco company, contributes c.15% to NPI. All assets are at 100% occupancy, except Wuhan Meiluote (85.1%), bringing portfolio occupancy to 99%.

### The Negatives

- Accretion from the acquisition of Fuzhou E-commerce was wiped out by the FX movement and timing lag between drawdown of loan and acquisition. The acquisition financing for Fuzhou E-commerce (completed on 8 August 2019) was done in conjunction with the refinancing of the IPO loans (28 June and 8 August). The lower DPU was 60-70% due to the unfavourable FX movement and 30-40% due to the timing lag on the acquisition.

- Occupancy at Wuhan Meiluote slipped 0.7ppts QoQ. This comes after a -13.8pps fall in occupancy in 2Q19 due to non-renewals. This asset contributes c.S\$0.7mn (1.7%) towards NPI and consists of a warehouse, auxiliary office building and a dormitory. c.6,000 sqm of warehouse space was vacated in 2Q19. Throughout the quarter, the asset was rented out on a short-term lease.



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8 August 2019

### BUY (Maintained)

LAST CLOSE PRICE	SGD 0.735
FORECAST DIV	SGD 0.060
TARGET PRICE	SGD 0.837
TOTAL RETURN	22.0%

### COMPANY DATA

BLOOMBERG CODE:	EREIT SP
O/S SHARES (MN):	797
MARKET CAP (USD mn / SGD mn):	431 / 586
52 - WK HI/LO (SGD):	0.81 / 0.68
3M Average Daily T/O (mn):	0.96

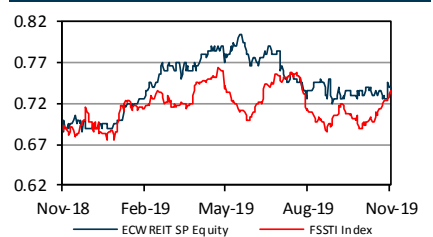
### MAJOR SHAREHOLDERS (%)

FORCHN HOLDINGS GROUP	44.13
CHINA CINDA ASSET MANAGEMENT	10.22
BOCOM INTERNATIONAL	7.74

### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	1.4	2.8	17.4
STI RETURN	6.1	4.1	11.4

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec	FY 17	FY 18	FY 19 e	FY 20 e
Gross Rev. (SGD m)	91	96	101	115
NPI (SGD mn)	83	87	90	103
Dist. Inc. (SGD mn)	47	49	47	53
P/NAV (x)	0.81	0.85	0.81	0.83
DPU, adj (cents)	6.03	6.18	5.95	6.64
Distribution Yield	10.8%	9.0%	8.1%	9.0%

Source: Company Data, PSR est.

### VALUATION METHOD

DDM (Cost of Equity: 9.2%; Terminal g: 15%)

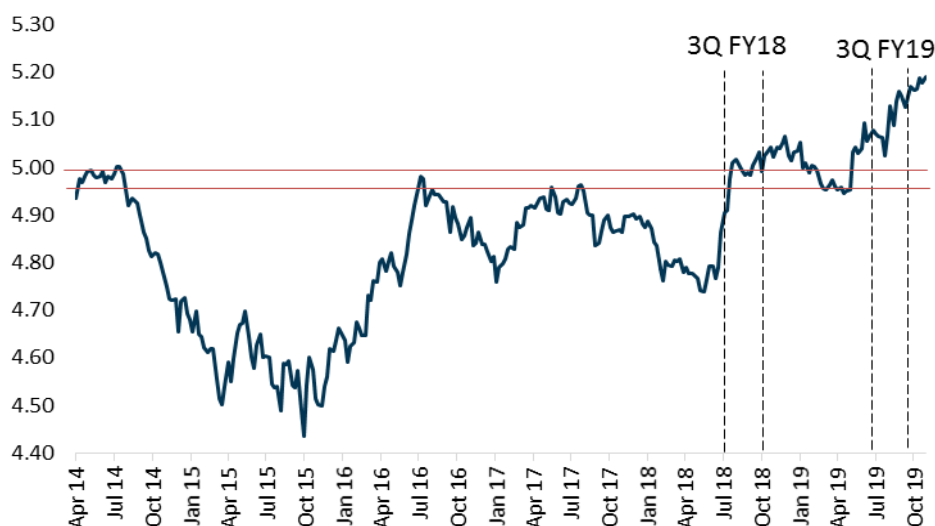
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## Outlook

Two leases with below-market rents will be up in 2020 and 2021 – one lease at the Hengde facility and the second lease to one of the anchor tenants at Wuhan Meiluote which is c.25% below market rent. Under market rents represent positive reversionary potential for the REIT.

A key risk to our valuation remains the weakening of the RMB. Figure 1 shows the prices that the SGDRMB pair has been trading at, with emphasis on the 3Q18 and 2Q19. The area between the red lines indicates the put spread hedge for the quarter ended September 2019.

**Figure 1: SGDRMB currency pair – RMB has depreciated 2.0% YoY against SGD**



Source: Bloomberg, PSR4,909

ECW hedges 75% of distributable income on a 6-month rolling hedge using put spreads. The hedging strategy employed means that the REIT will accept the FX fluctuations within a collar, and remain protected when the SGDRMB pair moves strongly against (as well as in favour of) them. The cost of implementing the put spread strategy is 50% the cost of the forward hedge strategy, however, it also takes away the upside potential when the currency moves in favour of them. The management is re-evaluating their FX hedging strategy.

### Maintain Buy with lower TP of S\$0.84 (prev. S\$0.87).

We maintain our BUY call with a lower TP of S\$0.84. We lowered our revenue forecasts to reflect the weaker RMB which has fallen 2% against SGD YoY. FY19e/FY20e DPU has been lowered from 6.38/6.83 cents to 5.98/6.76 cents. This translates to a FY19e/FY20e DPU yield of 8.1%/9.0% (prev. 8.7%/9.3%).

**Statement of Total Return and Distribution Statement**

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Gross revenue	96	91	96	101	115
Property expenses	(12)	(9)	(9)	(11)	(12)
Net property income	84	83	87	90	103
Net Finance (Expense)/Inc	(20)	(24)	(26)	(31)	(36)
Manager's fees	(2)	(5)	(5)	(5)	(6)
Other items	(72)	(84)	(87)	(3)	(2)
Net income	75	52	57	42	59
Other gains and FV changes	(2)	20	13	15	-
Total Return Before Tax	73	71	70	66	59
Taxation	(17)	(24)	(23)	(21)	(21)
Total Return After Tax	56	48	47	45	39
Distribution adjustments	(37)	(0)	2	2	15
Income available for distribut	19	47	49	47	53
<b>DPU</b>	-	6.03	6.18	5.95	6.64

**Per share data (cents)**

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
NAV	93.00	0.91	0.87	0.91	0.89
DPU	nm	6.03	6.18	5.95	6.64

\*Forward EPU does not include change in Fair Value of Investment Properties

**Cash Flow**

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>CFO</b>					
Total return	55.8	47.6	46.9	45.2	38.6
Adjustments	38.2	33.1	37.2	41.4	62.9
WC changes	52.4	(3.8)	(4.9)	0.1	(6.1)
Income tax paid	(5.0)	(16.0)	(15.9)	(18.9)	(18.7)
<b>Cashflow from ops</b>	<b>141.5</b>	<b>61.0</b>	<b>63.4</b>	<b>67.8</b>	<b>76.7</b>
<b>CFI</b>					
Purchase of investment propert	(8.3)	(2.2)	(1.5)	(0.9)	-
Others	(237.8)	7.7	(28.9)	(154.5)	-
<b>Cashflow from investments</b>	<b>(246)</b>	<b>6</b>	<b>(30)</b>	<b>(155)</b>	<b>-</b>
<b>CFF</b>					
Loans, net of repayments	141.3	35.8	41.7	234.3	-
Dividends	(7.7)	(46.7)	(48.1)	(47.4)	(53.2)
Others	48.8	(61.6)	(69.3)	(32.9)	(37.4)
<b>Cashflow from financing</b>	<b>182.5</b>	<b>(72.5)</b>	<b>(75.7)</b>	<b>154.1</b>	<b>(90.7)</b>
<b>Net change in cash</b>	<b>77.9</b>	<b>(5.9)</b>	<b>(42.7)</b>	<b>66.4</b>	<b>(14.0)</b>
<b>Ending cash</b>	<b>94.3</b>	<b>87.2</b>	<b>43.7</b>	<b>110.1</b>	<b>96.1</b>
Security deposits	9.3	51.5	98.4	98.4	98.4

Source: Company, PSR

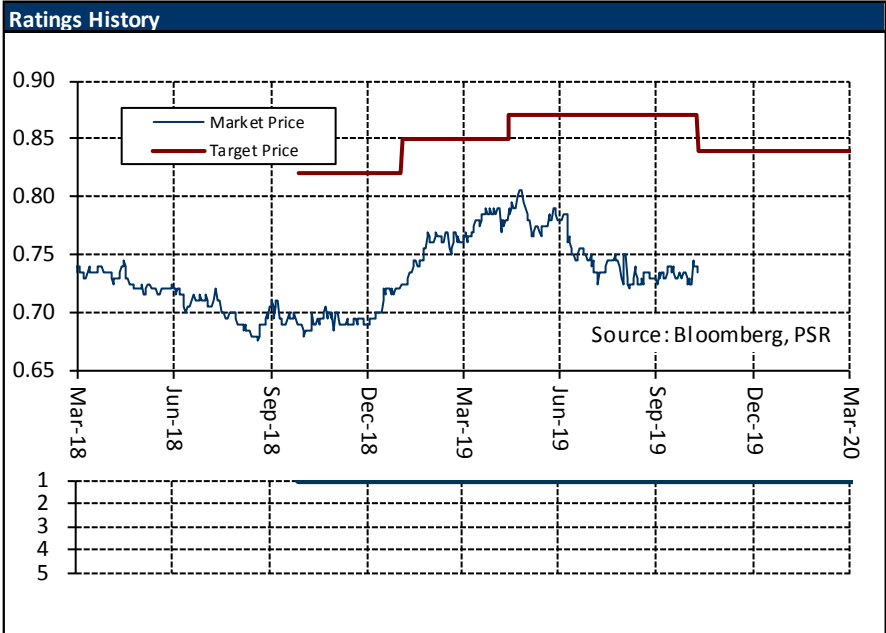
\*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

**Balance Sheet**

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
<b>ASSETS</b>					
Investment properties	-	1,337	1,335	1,490	1,490
Others	1,333	-	-	-	-
<b>Total non-current assets</b>	<b>1,333</b>	<b>1,337</b>	<b>1,335</b>	<b>1,490</b>	<b>1,490</b>
Cash and cash equivalent	104	139	142	209	195
Trade and other receivable	36	36	38	40	49
Others	8	-	0	-	-
<b>Total current assets</b>	<b>147</b>	<b>174</b>	<b>181</b>	<b>248</b>	<b>244</b>
<b>Total assets</b>	<b>1,481</b>	<b>1,511</b>	<b>1,516</b>	<b>1,738</b>	<b>1,734</b>
<b>LIABILITIES</b>					
Trade payables	26	25	23	25	28
Borrowings	2	40	475	65	65
Others	(28)	11	9	11	13
<b>Total current liabilities</b>	<b>-</b>	<b>76</b>	<b>507</b>	<b>101</b>	<b>106</b>
Deferred income tax liabilities	263	262	262	262	262
Borrowings	397	395	-	593	593
Others	63	59	58	58	58
<b>Total non-current liabilities</b>	<b>459</b>	<b>718</b>	<b>320</b>	<b>913</b>	<b>913</b>
<b>Total liabilities</b>	<b>459</b>	<b>794</b>	<b>827</b>	<b>1,013</b>	<b>1,019</b>
<b>Net assets</b>	<b>1,021</b>	<b>718</b>	<b>689</b>	<b>725</b>	<b>715</b>
<b>Represented by:</b>					
Unitholders' funds	785	788	689	725	715
FX translation reserve	(59)	(71)	-	-	-

**Valuation Ratios**

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/NAV (x)	nm	0.81	0.85	0.81	0.83
Distribution Yield (%)	nm	10.8%	9.0%	8.1%	9.0%
NPI yield (%)	6.3%	6.2%	6.5%	6.1%	6.9%
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	nm	-4.4%	5.3%	5.3%	13.7%
Net property income (NPI)	nm	-1.4%	5.6%	3.4%	13.9%
DPU	nm	nm	2.6%	-3.7%	11.6%
<b>Margins</b>					
NPI Margins	87.8%	90.5%	90.8%	89.1%	89.3%
<b>Net Income Margin</b>	<b>78.0%</b>	<b>56.4%</b>	<b>59.2%</b>	<b>41.0%</b>	<b>51.5%</b>
<b>Key Ratios</b>					
Gearing	26.9%	31.3%	31.3%	37.8%	37.9%
ROA	7.5%	3.2%	3.1%	2.8%	2.2%
ROE	14.2%	6.1%	6.4%	6.4%	5.4%



### PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

### Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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