

EC World REIT

Optimistic about the outlook



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SINGAPORE | REAL ESTATE (REIT) | FY18 RESULTS

1 March 2019

- NPI and DPU were in line with our forecast. 5.3% and 5.6% YoY boost in gross revenue and NPI, respectively, driven by the acquisitions of Wuhan Meiluote in 2Q17.
- Wuhan asset performing well after acquisition; slow ramp-up of occupancy at Beigang.
- Early renewal of master lease on favourable terms, pending shareholder vote at an EGM to be convened.
- Maintain Buy with higher TP of S\$0.85 (prev. S\$0.82).

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.760
FORECAST DIV	SGD 0.063
TARGET PRICE	SGD 0.851
TOTAL RETURN	20.2%

COMPANY DATA

BLOOMBERG CODE:	EREIT SP
O/S SHARES (MN) :	3,170
MARKET CAP (USD mn / SGD mn) :	1220 / 1648
52 - WK HI/LO (SGD) :	0.59 / 0.47
3M Average Daily T/O (mn) :	3.03

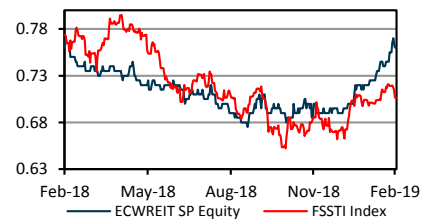
MAJOR SHAREHOLDERS (%)

FORCHN HOLDINGS GROUP	44.2%
CHINA CINDA ASSET MANAGEMENT	12.0%
PROVIDENCE WORLD	8.4%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	6.3	11.8	11.0
STI RETURN	1.6	5.5	(4.8)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Gross Rev. (SGD mn)	91	96	99	103
NPI (SGD mn)	83	87	90	93
Dist. Inc. (SGD mn)	47	49	51	54
P/NAV (x)	0.83	0.88	0.84	0.80
DPU, adj (cents)	6.03	6.18	6.28	6.48
Distribution Yield (%)	7.9%	8.1%	8.3%	8.5%

Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 9.2%; Terminal g: 1.5%)

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Results at a glance

(SGD mn)	FY18	FY17	YoY	Comments
Gross revenue	96.2	91.4	5.3%	Increase in revenue mainly due to contributions from Wuhan Meiluote, organic growth from built-in rental escalations, positive rental reversions on new leases signed
Net property income	87.3	82.7	5.6%	
Distributable income	49.0	47.1	4.0%	
DPU (cents)	6.179	6.025	2.6%	Increased due to better operational performance, offset by higher finance cost due to renewal of SBLC and increased borrowings

Source: Company, PSR

The Positives

+ **Wuhan asset performing well after acquisition.** Occupancy has ramped up from c.60% to c.86% since acquisition in April 2018, owing to the efforts of the Manager.

The Negatives

- **Slow ramp-up of occupancy at Beigang.** Occupancy for this asset has increased from 55.3% to 84% over the last 3.6 years. As this asset is currently under master lease with the sponsor, there is income support provided by the master lease which gives the Manager a finite runway to work on boosting vibrancy of the property.

Outlook

All ECW's master-leased assets - Chongxian Port, Beigang Stage 1 and Fuheng warehouse - are up for renewal in 4Q20. The rents from these three properties represent 70% of EC World's revenue. If the terms are accepted by shareholders, portfolio WALE will increase from 2.0 to 4.8 years, providing stable earnings visibility. The master leases will now have built-in annual rental escalation of 1-2% (vs 1-3% rental growth rates for warehouses in Hangzhou), and will be renewed at existing prices. We also note that that Fuheng's rents are currently already c.50% above market (c.RMB3.91psf vs c.RMB2.60psf).

100% of debt will be expiring in July 2019 comprising 50:50 onshore and offshore debt, and 89% of revolving credit facilities have been drawn down.

Maintain Buy with higher TP of S\$0.85 (prev. S\$0.82)

We raise our target price to S\$0.85 due to changes in our rental assumptions and early lease renewals with positive reversions in 4Q18. Our TP translates to a FY19e yield of 20.2% and a P/NAV of 0.84x.

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Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Gross revenue	96	91	96	99	103
Property expenses	(12)	(9)	(9)	(9)	(9)
Net property income	84	83	87	90	93
Net Finance (Expense)/Inc	(20)	(24)	(26)	(27)	(30)
Manager's fees	(2)	(5)	(5)	(5)	(6)
Other items	(72)	(84)	(87)	(2)	(2)
Net income	75	52	57	56	57
Other gains and FV changes	(2)	20	13	-	-
Total Return Before Tax	73	71	70	56	57
Taxation	(17)	(24)	(23)	(15)	(15)
Total Return After Tax	56	48	47	41	42
Distribution adjustments	(37)	(0)	2	10	12
Income available for distribution	19	47	49	51	54
DPU	-	6.03	6.18	6.28	6.48

Per share data (cents)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
NAV	93.00	91.18	86.69	90.45	95.52
DPU	nm	6.03	6.18	6.28	6.48

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

Cash Flow

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Total return	55.8	47.6	46.9	40.7	41.8
Adjustments	38.2	33.1	37.2	48.2	49.6
WC changes	52.4	(3.8)	(4.9)	(0.4)	5.3
Income tax paid	(5.0)	(16.0)	(15.9)	-	-
Cashflow from ops	141.5	61.0	63.4	88.5	96.8
CFI					
Purchase of investment properties	(8.3)	(2.2)	(1.5)	-	-
Others	(237.8)	7.7	(28.9)	-	-
Cashflow from investments	(246)	6	(30)	-	-
CFF					
Loans, net of repayments	141.3	35.8	41.7	(0.7)	-
Dividends	(7.7)	(46.7)	(48.1)	(50.2)	(52.2)
Others	48.8	(61.6)	(69.3)	(9.5)	(0.4)
Cashflow from financing	182.5	(72.5)	(75.7)	(60.4)	(52.6)
Net change in cash	77.9	(5.9)	(42.7)	28.0	44.2
Ending cash	94.3	87.2	43.7	71.7	116.0
Security deposits	9.3	51.5	98.4	98.4	98.4

Source: Company, PSR

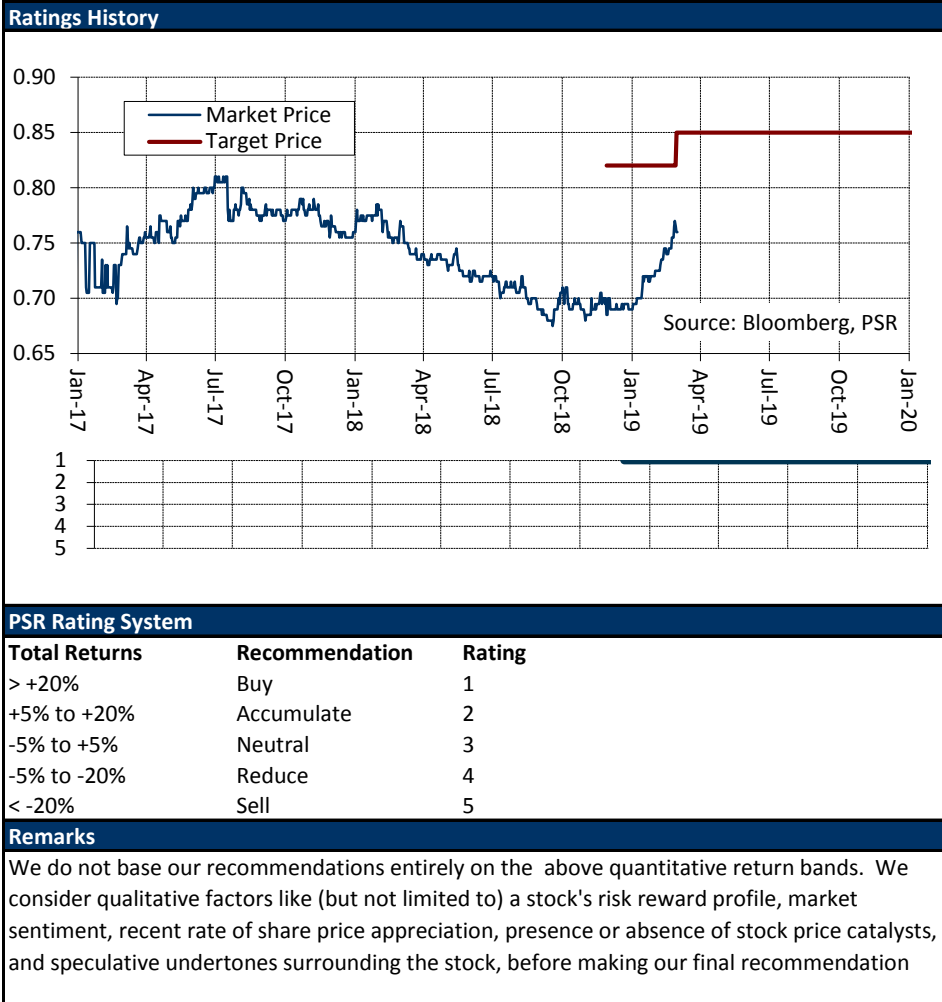
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
Investment properties	-	1,337	1,335	1,335	1,335
Others	1,333	-	-	-	-
Total non-current assets	1,333	1,337	1,335	1,335	1,335
Cash and cash equivalents	104	139	142	170	214
Trade and other receivables	36	36	38	37	42
Others	8	-	0	-	-
Total current assets	147	174	181	208	256
Total assets	1,481	1,511	1,516	1,543	1,591
LIABILITIES					
Trade payables	26	25	23	24	25
Borrowings	2	40	475	-	-
Others	(28)	11	9	0	0
Total current liabilities	-	76	507	24	25
Deferred income tax liabilities		263	262	262	262
Borrowings	397	395	-	474	474
Others	63	59	58	58	58
Total non-current liabilities	459	718	320	794	794
Total liabilities	459	794	827	818	819
Net assets	1,021	718	689	725	772
Represented by:					
Unitholders' funds	785	788	689	725	772
Foreign currency translation	(59)	(71)	-	-	-

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/NAV (x)	0.73	0.83	0.88	0.84	0.80
Distribution Yield (%)	nm	7.9%	8.1%	8.3%	8.5%
NPI yield (%)	6.3%	6.2%	6.5%	6.7%	7.0%
Growth & Margins (%)					
Growth					
Revenue	nm	-4.4%	5.3%	2.4%	4.3%
Net property income (NPI)	nm	-1.4%	5.6%	2.5%	4.3%
DPU	nm	nm	2.6%	1.7%	3.1%
Margins					
NPI Margins	87.8%	90.5%	90.8%	90.9%	90.9%
Net Income Margin	78.0%	56.4%	59.2%	56.4%	55.1%
Key Ratios					
Gearing	26.9%	31.3%	36.7%	36.0%	34.9%
ROA	7.5%	3.2%	3.1%	2.7%	2.7%
ROE	14.2%	6.1%	6.4%	5.8%	5.6%



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