

BUY

TP: SGD 0.93

▲ 17.7%

EC World REIT

ECWREIT.SP

ROFR acq boosting growth and portfolio quality

ECWREIT (ECW) announced the long-awaited acquisition of the Fuzhou ROFR asset, with DPU accretion of 1.6% (funded by debt & cash) with a 5+5 yr master lease (2.25% pa escalation) and a significant increase in ecommerce exposure from 36.7% to 45.6% by NPI, improving overall portfolio quality. We expect the upside to offset the ongoing pressures from unfavourable FX and interest rates. Maintain BUY, w/ revised TP S\$0.93/unit.

- ➔ **1Q19 results came in below**, with DPU at 23.8% of our FY19E estimates (+2.2% YoY, mainly due to absence of Withholding tax in 1Q18). The marginal decline of 0.3% and 1.4% YoY, in revenue and NPI, respectively, was mainly due to unfavourable FX difference (+3.0% and +1.9% YoY in RMB). Committed portfolio occupancy improved to 99.97% from 99.2% in 4Q18, and gearing is currently at 31.3% with 4.1% running cost of debt (4.9% incl upfront debt-issuance fee).
- ➔ **DPU accretive acquisition of Fuzhou E-Commerce Properties:** The proposal for the awaited ROFR injection has been announced with the results. We are positive on this long-awaited catalyst with a DPU accretion of 1.6%, NPI yield of ~6.4%, funded by debt and cash. The acquisition price is at a 7.5% discount to valuation. The addition increases NLA and NPI by 28.7% and 16.4%, respectively. The expected completion is at ~3Q19, and we estimate gearing to be at ~39% in FY19E.
- ➔ **Acquisition further improves portfolio quality:** The acquired asset adds on to portfolio stability with its 5+5 years' master lease structure with 2.25% pa rental escalation for 5 years, with the 6th year renewal at 5th year rate or higher. The acquisition also increases ECW's exposure to the thriving China e-commerce from 36.7% to 45.6% by NPI. Post-acquisition and the newly-approved master lease, WALE by GRI will also improve to ~4.8yrs from ~1.8yrs as at 1Q19.
- ➔ **Maintain BUY:** We have factored in the ROFR acquisition, adjusted SGD/RMB assumptions from 4.97 to 5.01, adjusted down revenue of Chongxian Port Logistics as 1Q results are below estimates and adjusted effective interest rate from 5.9% to 5.2-5.3% pa for the next 5 yrs. Maintain BUY with revised TP of S\$0.93/unit. ECW currently trades at 8.01% FY19E yield and 0.90x P/B.

Financial highlights

Y/E 31 Dec (SGD m)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	96	107	120	125	128
Distribution income	49	50	54	57	59
Outstanding shares (M)	792	796	801	807	812
DPU (SGD cts)	6.2	6.3	6.7	7.1	7.3
DPU growth (%)	2.6%	2.4%	6.4%	5.2%	2.9%
Yield (%)	7.8%	8.0%	8.5%	9.0%	9.2%
BV per share	0.9	0.9	0.9	0.9	0.9
P/B (x)	0.9	0.9	0.9	0.9	0.9

Source: Company, SCCM Research; as of 13 May 2019

13 May 2019



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PRICE CLOSE (13 May 2019)

SGD 0.790

MARKET CAP

SGD 627.4 mln

USD 459.0 mln

SHARES O/S

794.2 mln

FREE FLOAT

41.3%

3M AVG DAILY VOLUME/VALUE

SGD 0.216 mln / USD 0.158 mln

52 WK HIGH

SGD 0.795

52 WK LOW

SGD 0.675

Target Price

SGD 0.93



Fuzhou E-commerce acquisition for next stage of growth

- Sizable e-commerce asset with potential operating synergies with existing portfolio asset:** Fuzhou E-commerce is an integrated E-commerce logistics ROFR asset. It is a sizable asset of 214,284sqm (+ 28.7% to portfolio NLA) consisting of a warehouse with office and support buildings. The Property is adjacent to one of EC World REIT's existing assets, Fu Heng Warehouse, providing potential operating synergies. Together, they will create a combined 308,571sqm e-commerce logistics hub. The warehouse is operated by Ruyicang, a wholly-owned subsidiary of Sponsor, which operates more than 30 warehouses (>1m sqm) in 25 cities, processes more than 1.5m orders every day.

Ruyicang provides services for not only E-Commerce platforms like Alibaba, JD and VIP.com, but also brands like Coca-Cola, MARS and Unilever. They are one of the earliest key partners and service providers of Cainiao network (Alibaba's logistic arm).

Fig 1 - Fuzhou e-commerce asset details

	Description
Location	No. 9, Mingxing Road, Dongzhou Sub-District, Fuyang District, Hangzhou, PRC
Year of completion	June 2017
The Property	-One 3-storey warehouse building with a single storey basement for warehouse use -Two 14-storey office buildings with a single storey basement for car park use
GFA	-Warehouse: 171,795sqm -Office and Support Buildings: 42,489sqm Total: 214,284sqm
Land area	88,000 sq m
Land tenure	Expiry on 3 May 2059
Master Leases	-Two master leases for warehouse and office components -Tenure: 5 + 5 years -Escalation: 2.25% per annum
Committed Occupancy	100%
End-tenant Occupancy	100%

Source: Company

Fig 2 - Fuzhou e-commerce transaction details

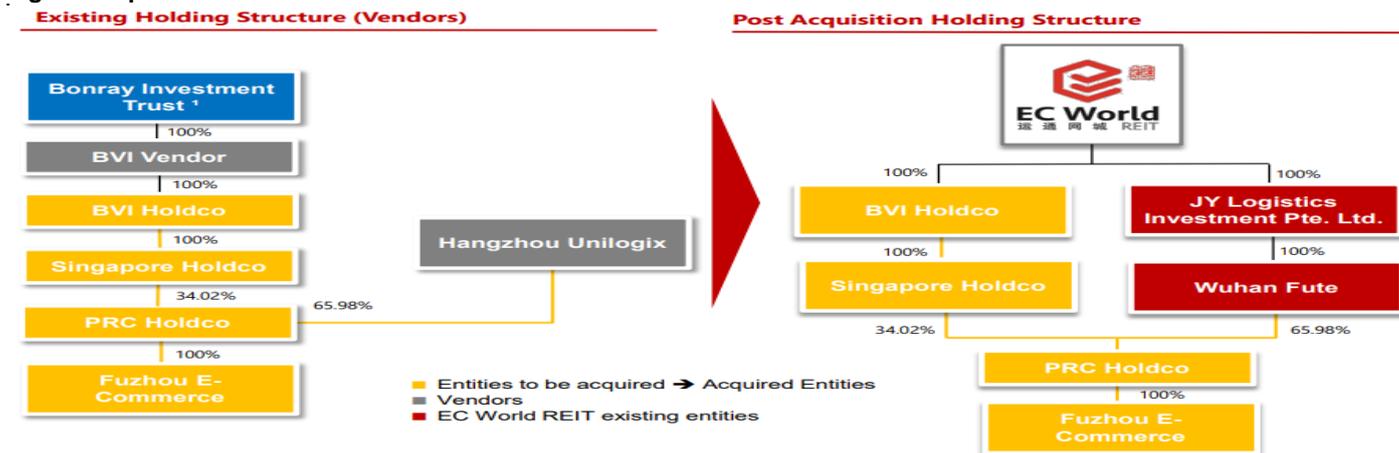
	Description
Vendors	-Fultric Investments Limited - 34.02% -Hangzhou Unilogix - 65.98%
Purchase consideration	-Property Purchase Price: RMB1,112.5m (S\$223.6m) (6.3% discount to valuation w/o master lease, 7.5% discount to valuation w master lease) Comprising -BVI Purchase Consideration: RMB 769.5m -Estimated BVI Borrowings*: RMB 563.3m -PRC Purchase Consideration: RMB 343.0m -Total Purchase Consideration (purchase price – est BVI borrowings): RMB549.2m (S\$110.4m)
Acquisition expenses	-Acquisition fee of RMB8.3m (S\$1.7m) payable to the REIT Manager in units -Estimated professional and other expenses (including upfront finance costs): RMB38.6m (S\$7.8m)
Proposed funding structure	-Combination of secured debt financing facilities from banks and/or cash
Approvals required	-Unitholders' approval at an Extraordinary General Meeting -Relevant regulatory approvals

Source: Company, *see entities involved in restructuring below

- DPU accretive acquisition, priced at a discount to valuation:** The acquisition is done at price with 7.5% discount to valuation, ~6.4% NPI yield, a DPU accretion of 1.6%, funded by debt and cash (excl. mgmt. fee paid in units ~S\$1.7m) The addition increases NLA and NPI by 28.7% and 16.4%, respectively. The expected completion is at ~3Q19, and we estimate gearing to be at ~39% at end-FY19E.

Property purchase price is still at a 6.3% discount to valuation of the property without master lease agreements.

Fig 3 - Proposed transaction structure



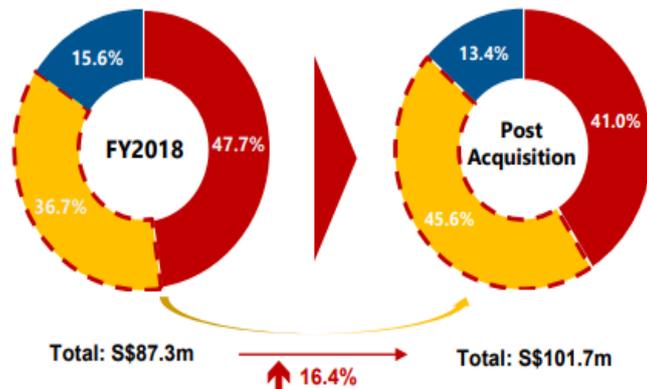
Source: Company, 1) A private trust whose sole beneficiary is Wang Guoli. Wang Guoli is the spouse of Zhang Guobiao who is a controlling unitholder of EC World REIT through his 80.0% equity interest in the Sponsor

Acquisition further improves portfolio quality

- The acquired asset adds on to portfolio stability**, with its 5+5 years' master lease structure with 2.25% pa rental escalation for 5 years, with the 6th year renewal at 5th year rate or higher. Portfolio WALE by GRI is at 1.8yrs as at 1Q19, and will improve to 2.3yrs post transaction. Post-acquisition and the newly-approved master lease, WALE by GRI will improve to ~4.8yrs.
- We note that the underlying leases are below market rent, albeit we do not think it raises concerns as ECW does not undertake risks of vacancy from underlying tenants. In addition, the Master Lessees Fuyang Yuntong and Zhejiang Yuntong are e-commerce operators which specializes in supply-chain management functions and charges a service fee to underlying tenants which outsource certain operations to them. Mgmt discloses that this fully offsets the difference between underlying and market rent, albeit the figure is not disclosed due to confidentiality obligations. In addition, the independent valuers expect underlying rents to catch up with market rent within 4-5 years.
- Increase in exposure to the thriving E-commerce landscape in China:** We are also positive as the acquisition increases exposure to the thriving China e-commerce from 36.7% to 45.6% by NPI. NLA and asset valuation increases from 35.3% to 49.7%, and 30.4% to 41.0%, respectively. In addition, as previously mentioned, it forms a large e-commerce hub with the existing e-commerce asset in the portfolio. Hangzhou E-commerce, in particular had a strong CAGR of 47.7% since 2011.

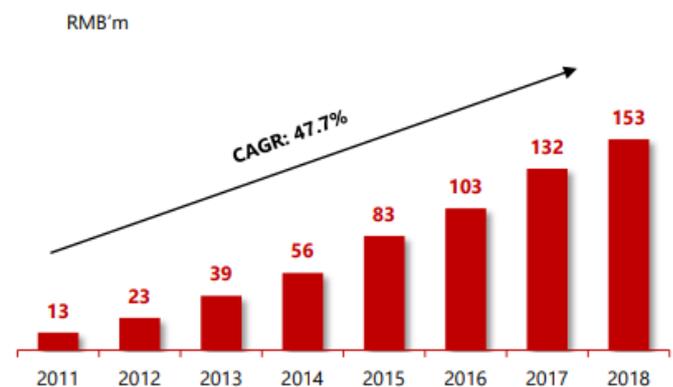
Mgmt plans to continue to focus on e-commerce properties moving forward, while maintaining a level of diversification to other industrial sectors. The Sponsor is currently amidst of the building of funds to acquire assets in China and SEA, which adds to ECW's future pipeline.

Fig 4 - NPI Breakdown before and after transaction



Source: Company, Yellow- E-commerce, Blue- Specialised Logistics, Red- Port Logistics

Fig 5 - Hangzhou E-commerce sector growth



Source: Company

1Q19 results below FY19E estimates

- 1Q19 results came in below, with DPU at 23.8% of our FY19E estimates:** The marginal decline of 0.3% and 1.4% YoY, in revenue and NPI, respectively, was mainly due to unfavourable FX difference.
- Fundamentals remain stable:** Revenue and NPI in RMB increased 3.0% and 1.9% YoY, respectively due to underlying rental escalations and a new tenant taking up a vacant space in Wuhan Meiluote in the quarter. The 2.2% YoY increase in DPU despite the decline in revenue and NPI is mainly due to absence of withholding tax in 1Q18. Committed portfolio occupancy improved to 99.97% from 99.2% in 4Q18.

- We also adjusted down revenue of Chongxian Port Logistics as 1Q results are below estimates by ~\$4m SGD when annualized. We see little issues with the trend of results of this asset as its results have been flattish over the past 5 quarters (1Q19 flat YoY) and are revising down given that we have overestimated its contribution.
- We also adjusted effective interest rate down from 5.9% to 5.2-5.3% pa for the next 5 yrs. The 5.9% was based on the average effective interest rate calculation in FY18, however we decided to revise the rate downwards given that FY19's cost of debt in 1Q of 4.1% running cost of debt (4.9% upfront cost of debt) and the average cost of debt for the Fuzhou acquisition is at ~4.6%-4.9% (which is the main reason for change in interest expense as we update the model). In view of 1Q results, we also adjusted SGD/RMB assumptions from 4.97 to 5.01.
- Hence, we arrived at our revised TP of S\$0.93/unit, maintain BUY. ECW currently trades at 8.01% FY19E yield and 0.90x P/B.

Fig 6 - Results summary

FY 31Dec (\$m)	1Q19	1Q18	YoY %	4Q18	QoQ %	FY19E	% of forecast
Gross Revenue	23.9	23.9	-0.3%	23.5	1.6%	105.8	22.6%
Operating Expenses	-2.7	-2.4	9.1%	-2.6	1.5%	-10.2	26.1%
NPI	21.2	21.5	-1.4%	20.8	1.7%	95.5	22.2%
Trustee-Manager's fees	-1.2	-1.1	9.6%	-1.3	-9.5%	-5.3	22.5%
Trustee's Expenses	-0.1	-0.1	0.0%	-0.7	-90.0%	-0.3	24.0%
FX gain/ (loss)	-0.9	-1.2	-21.3%	0.6	-252.0%	0.0	NM
Other Expenses	-0.4	-0.3	NM	0.0	NM	-1.3	NM
Net income before financing cost & tax	18.6	18.8	-0.9%	20.1	-7.5%	87.3	21.3%
Interest Income	0.4	0.4	-0.5%	0.4	1.2%	1.5	28.6%
Borrowing Costs	-7.0	-6.8	2.6%	-6.9	0.3%	-28.2	24.7%
Net Income	12.1	12.4	-2.8%	13.6	-11.2%	60.6	19.9%
Revaluations of investment properties	0.0	0.0	NM	5.6	NM	0.0	NM
Net change in Fair Value of Financial Derivatives	0.2	0.5	-51.8%	0.0	NM	0.0	NM
Net income before Tax	12.3	12.9	-4.8%	19.1	-35.6%	60.6	20.3%
Tax	-4.3	-4.2	1.7%	-7.4	-41.7%	-15.9	27.2%
Net income aft Tax	8.0	8.7	-7.9%	11.7	-31.7%	44.8	17.9%
Income Available for Distribution	11.9	11.6	3.1%	12.4	-4.2%	44.8	26.6%
# of units, end of period (m)	794.2	786.9	0.9%	792.0	0.3%	793.8	100.1%
DPU (\$c)	1.501	1.469	2.2%	1.570	-4.4%	6.312	23.8%

Source: SCCM Research, Company

Financial Statements

Income Statement

Y/E 31 Dec (in SGD'm)	FY18A	FY19E	FY20E	FY21E	FY22E
Gross Revenue	96.2	107.3	119.6	124.8	127.8
Gross Revenue Growth Rate	5.3%	11.5%	11.4%	4.4%	2.4%
Property Expenses	(8.9)	(10.9)	(12.6)	(13.1)	(13.4)
Net Property Income	87.3	96.4	107.0	111.8	114.5
Other Operating Income	0.0	(1.7)	0.0	0.0	0.0
Trustee-Manager's fees	(5.1)	(6.7)	(6.2)	(6.4)	(6.3)
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	86.1	98.9	103.5	106.3
EBIT Margin	84.2%	80.2%	82.7%	82.9%	83.1%
Non-Operating Income					
Interest Income	1.5	1.5	1.8	1.8	1.9
Interest Expense	(27.4)	(30.6)	(36.5)	(37.2)	(37.2)
Exceptional Gains/(Losses)	3.1	18.2			
Net Income	58.2	75.2	64.2	68.1	71.0
Tax	(23.3)	(19.5)	(16.7)	(17.7)	(18.4)
Net Income	34.9	55.7	47.4	50.4	52.5
Net Gains from revaluation of properties	12.0				
Total Return for the year	46.9	55.7	47.4	50.4	52.5
Invnt Income available for distribution	49.0	50.3	53.9	57.1	59.2
DPU (cents)	6.18	6.33	6.73	7.08	7.29
DPU Growth Rate	2.6%	2.4%	6.4%	5.2%	2.9%

Balance Sheet

Y/E 31 Dec (in SGD'm)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash	142.1	166.5	168.5	175.2	181.9
Trade Receivables	38.3	41.8	46.6	48.6	49.8
Other Current Assets	0.3	0.3	0.3	0.3	0.3
Current Assets	180.8	208.6	215.4	224.2	232.0
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	1,785.5	1,792.2	1,801.0	1,808.9
Trade Payables	23.4	28.9	32.2	33.6	34.4
OD & ST Debt	474.7	40.1	40.1	40.1	40.1
Current Tax Liabilities	9.2	19.5	16.7	17.7	18.4
Other ST Liabilities	0.1	0.1	0.1	0.1	0.1
Current Liabilities	507.3	88.6	89.2	91.6	93.1
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	1,070.3	1,070.8	1,073.2	1,074.7
Total Unitholders' Equity	688.6	715.2	721.4	727.8	734.1
Total Liabilities and Equity	1,515.8	1,785.5	1,792.2	1,801.0	1,808.9

Cash Flow Statement

Y/E 31 Dec (in SGD'm)	FY18A	FY19E	FY20E	FY21E	FY22E
Pre-tax Profit	58.2	75.2	64.2	68.1	71.0
Tax Paid	(15.9)	(9.2)	(19.5)	(16.7)	(17.7)
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	(5.4)	6.5	6.7	6.6
Changes in Non-Cash Work Cap	(4.9)	2.1	(1.5)	(0.6)	(0.4)
Cash From Operations	63.4	62.8	49.7	57.4	59.5
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)	(50.3)	(53.9)	(57.1)	(59.2)
Net Change in Gross Debt	41.7	227.1	0.0	0.0	0.0
Issue of Units (net of Expenses)		8.4	6.2	6.4	6.3
Other Financing Activities	(69.3)	0.0	0.0	0.0	0.0
Cash from Financing Activities	(75.7)	185.2	(47.7)	(50.7)	(52.8)
Net Changes in Cash	(42.7)	24.4	2.0	6.8	6.7

Per Share Data

Y/E 31 Dec (SGD)	FY18A	FY19E	FY20E	FY21E	FY22E
EPU	0.06	0.07	0.06	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	13.3	11.2	13.3	12.6	12.2
P/B	0.90	0.88	0.88	0.88	0.87

Financial Ratios

Y/E 31 Dec	FY18A	FY19E	FY20E	FY21E	FY22E
Profitability & Return Ratios (%)					
EBITDA margin	84.2	80.2	82.7	82.9	83.1
EBIT margin	84.2	80.2	82.7	82.9	83.1
Net profit margin	36.3	51.9	39.7	40.3	41.1
ROE	5.0%	7.9%	6.6%	7.0%	7.2%
ROCE	3.5%	4.9%	4.3%	4.5%	4.6%
Working Capital & Liquidity Ratios					
Receivables (days)	142	142	142	142	142
Payables (days)	98	98	98	98	98
Current ratio (x)	0.4	2.4	2.4	2.4	2.5
Turnover & Leverage Ratios (x)					
Total asset turnover	0.06	0.06	0.07	0.07	0.07
Gearing Ratio	0.31	0.39	0.39	0.39	0.39

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