

EC World REIT (ECWREIT SP) : BUY

Mkt. Cap: US\$453m | 3m Avg. Daily Val: US\$0.24m

Last Traded Price (10 May 2019): S\$0.78

Price Target 12-mth: S\$0.86 (10% upside) (Prev S\$0.86)

Analyst

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Proposed acquisition of Fuzhou E-commerce enhances yield

- EC World REIT has proposed to acquire Fuzhou E-Commerce for RMB 1,112.5m from its Sponsor, which will be fully funded by debt
- Strategic M&A to further anchor the REIT's dominance in Hangzhou's booming e-commerce sector
- Backed by 5+5 year master leases, the transaction is estimated to boost pro-forma DPU by c.1.6%
- BUY recommendation and \$0.86 TP unchanged pending unitholders' approval at the upcoming EGM

Forecasts and Valuation

FY Dec (\$m)	2017A	2018A	2019F	2020F
Gross Revenue	91.4	96.2	97.5	99.9
Net Property Inc	82.7	87.3	88.8	91.0
Total Return	47.6	46.9	42.7	43.4
Distribution Inc	47.1	49.0	49.2	49.9
EPU (S cts)	3.31	4.41	5.36	5.41
EPU Gth (%)	24	33	22	1
DPU (S cts)	6.02	6.18	6.18	6.23
DPU Gth (%)	145	3	0	1
NAV per shr (S cts)	91.4	86.9	86.6	86.3
PE (X)	23.6	17.7	14.5	14.4
Distribution Yield (%)	7.7	7.9	7.9	8.0
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	28.8	31.3	31.6	31.5
ROAE (%)	3.6	5.0	6.2	6.3

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

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

Proposed acquisition of Fuzhou E-commerce in Hangzhou.

EC World REIT has proposed to acquire Fuzhou E-commerce, an integrated E-commerce logistics asset from its Sponsor. Located in Hangzhou, the 214,284 sqm property comprises of a three-storey warehouse with a single-storey basement and two fourteen-storey office and support buildings which are primarily office spaces for auxiliary use for dormitory purposes. The asset sits on 88,000 sqm of land with land tenure of a further c.40 years, ending 2 May 2059.

Through master leases back to the Sponsor's entities Fuyang Yuntong and Zhejiang Yuntong for an initial term of 5+5 years, the acquired properties will come fully pre-committed with fixed rent escalations of 2.25% p.a., which ensures steady income growth for the REIT.

The acquisition price of RMB 1,112.5m (S\$223.6m) represents a c.7.5% discount to the average property valuation (with master lease agreement) by Colliers and Knight Frank of RMB1,203m. Excluding the master lease agreement, the effective discount would have been closer to 6.3% of average valuation of RMB1,187m. We understand that the acquisition will be fully funded by debt.



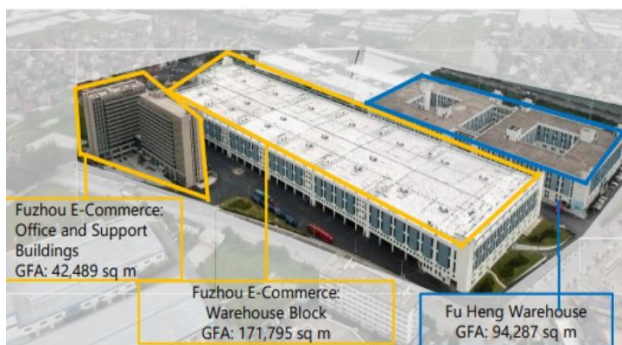
Flash Note

Our Thoughts

Anchoring its position as a leading e-commerce player in Hangzhou. The asset is adjacent to one of the REIT's existing assets – Fu Heng Warehouse - which is also focused on e-commerce related fulfilment activities, creating a 308,571sqm logistics hub. Through the acquisition of Fuzhou E-commerce, which is nearly twice the scale of Fu Heng Warehouse, allows the group to unlock operational efficiencies and further enhance its proposition in Hangzhou's (and the Greater China) booming e-commerce industry.

According to industry experts, Hangzhou's e-commerce sector expanded by c.17.5% in 2018, while online retail sales in China grew 23.9%.

Amalgamation into 308,571 sqm logistics hub



Source: Company

Located within Dongzhou Industrial Zone, the site enjoys convenient water transportation provided by Fuchun rivers and connectivity to downtown Hangzhou. This catchment is also well supported by demand from a wide spectrum of e-commerce players – ranging from brand manufacturers, online market places to last mile delivery companies, as well as other auxiliary facilities.

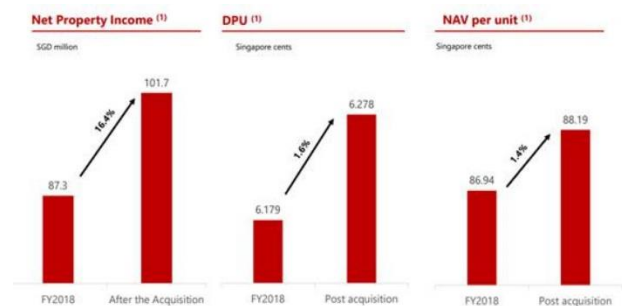
The warehouse is operated by Ruyicang (a wholly-owned subsidiary of the Sponsor), a leading omni-channel logistics service provider in China and one of the earliest key partners and service providers of Cainiao network (Alibaba's logistics arm). Ruyicang currently operates more than 30 warehouses in China across 25 cities, with a footprint of over 1m sqm of warehouse space, processing more than 1.5m orders each day.

Enhanced e-commerce exposure, which is on a rapid growth trend. The proposed acquisition will boost ECW REIT's e-commerce exposure by NLA from c.35.3% in FY18 to c.49.7%, and c.36.7% to c.45.6% in NPI terms. Taking into account the new proposed master lease agreements for the acquisition, portfolio WALE will also be lengthened significantly from 1.8 to 4.8 years.

While we acknowledge that a majority of its income is derived from the Sponsor, which we estimate to be c.74% of GRI post-acquisition vs c.69% currently, this is balanced against improved income visibility to unitholders.

Earnings and DPU accretion to kick in as the REIT gears up to undertake the acquisition. With an estimated initial yield of c.6.4% and ample gearing headroom, the acquisition is projected to be earnings accretive to the REIT. Pro-forma DPU is projected to increase by c. 1.6% on the back of an increase in gearing to c.38%. Post-acquisition, EC World REIT's gearing will be more optimal and further acquisitions could entail potential fund raisings.

Yield-accretive Transaction



Source: Company

Quick take on 1Q19 results; 1.501 Scts DPU largely in line. EC World REIT reported a 2.2% increase in 1Q19 DPU to 1.501 Scts (vs 1.469 Scts a year ago). This was despite a slight 1.4% dip in net property income to S\$21.2m due to exchange differences. In RMB terms, NPI would be 1.9% higher y-o-y.

Meanwhile finance cost was higher due to higher loan quantum compared to a year ago. Overall, Distributable Income increased 3.1% y-o-y mainly due the absence of higher withholding taxes which were incurred in 1Q18.

Flash Note
Quarterly / Interim Income Statement (\$m)

FY Dec	1Q2018	4Q2018	1Q2019	% chg yoy	% chg qoq
Gross revenue	23.9	23.5	23.9	(0.3)	1.6
Property expenses	(2.4)	(2.6)	(2.7)	9.1	1.5
Net Property Income	21.5	20.8	21.2	(1.4)	1.7
Other Operating expenses	(2.7)	(0.7)	(2.6)	(4.7)	254.4
Other Non Opg (Exp)/Inc	0.51	0.0	0.25	(51.8)	nm
Net Interest (Exp)/Inc	(6.4)	(6.5)	(6.5)	(2.8)	(0.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	12.9	13.6	12.3	(4.8)	(9.1)
Tax	(4.2)	(7.4)	(4.3)	1.7	(41.7)
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	8.70	6.16	8.01	(7.9)	30.0
Total Return	8.70	11.7	8.01	(7.9)	(31.7)
Non-tax deductible Items	2.87	0.71	3.92	36.7	448.6
Net Inc available for Dist.	11.6	12.4	11.9	3.1	(4.2)
Ratio (%)					
Net Prop Inc Margin	89.8	88.8	88.8		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

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

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

Source: DBS Bank

Analyst: Carmen Tay
Derek TAN

Flash Note

DBS Bank recommendations are based on 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 catalysts within this time frame)

Share price appreciation + dividends

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