

14 May 2019

Property | REITs

## EC World REIT (ECWREIT SP)

**Buy** (Maintained)

### Accretive Acquisition Of FEC; Keep BUY

Target Price (Return)	SGD0.85(+8%)
Price:	SGD0.79
Market Cap:	USD459m
Avg Daily Turnover (SGD/USD)	0.2m/0.1m

- **Maintain BUY with new TP of SGD0.85 from SGD0.84, 8% upside plus 8% yield.** 1Q results met expectations. The proposed accretive acquisition of FEC logistic asset should further enhance the REIT's positioning to the favourable Chinese e-commerce sector. This, combined with the recent master lease extensions (for four years), provides strong income visibility. Valuations are still attractive with the stock trading at 0.9x P/BV (sector: 1.1x P/BV).

- **Minimal impact from trade tensions as assets cater mainly for domestic consumption.** About 80% of tenants operate in the delivery, logistics & distribution, and e-commerce service spaces, which have been seeing strong growth. With assets catering largely to the domestic market, we see minimal impact from rising US-China trade tensions, and on the other hand, could potentially benefit from the Government's push to boost domestic growth.

- **Proposed acquisition of FEC.** Fuzhou E-commerce (FEC) is located adjacent to its existing Fu Heng warehouse in Hangzhou, and comprises of a warehouse (80% of total GFA) as well as office and support buildings (20%). The vendors are the sponsor and its related entities, with the property having a remaining 40 years land tenure. The acquisition price of CNY1,113m (SGD 223.6m) is at a 6.3% and 7.5% discount to its average independent valuation without and with master lease agreements. The transaction is subject to unitholders approval and expected to be completed latest by 3Q19.

- **Long master leases with organic rent growth.** The asset will be master-leased to sponsor for a tenure of five years (with option to extend for another five years), and comes with an initial NPI yield of 6.4%. There is also a built in rent-escalation of 2.25% pa.

Management noted that while standalone underlying rents are below that of master lease implied rents, the master lessee remains profitable as it charges a service fee for the underlying tenants, which makes up a substantial portion of the revenue. The acquisition is accretive to both pro-forma DPU (+1.6%) and NAV (+1.4%). We like the transaction as it increases its portfolio exposure to favourable e-commerce sector, lengthens portfolio WALE and provides organic rental growth.

- **Gearing to move closer to 39%.** The acquisition is expected to be funded by a combination of debt and cash. Post transaction gearing is expected to be around c.39% (from 31%), leaving little debt headroom for future acquisitions. Management also noted that debt cost is expected to be around 4.6%, excluding the upfront 3% funding costs.

- **Earnings adjustments.** We have revised our FY19F-21F DPU up by 1-2% factoring in above acquisitions. Key risks are FX fluctuations, and adverse regulatory/policy changes impacting its assets and trust structure.

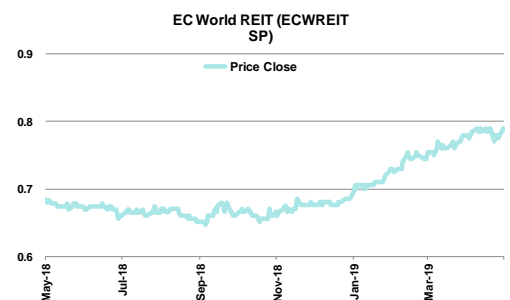
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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	14.5	1.3	6.0	13.7	6.8
Relative	9.1	4.2	6.4	7.8	16.2
52-wk Price low/high (SGD)	0.68 – 0.80				



Source: Bloomberg

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	91.4	96.2	97.3	100.0	104.1
Net property income (SGDm)	82.7	87.3	96.7	106.7	110.8
Reported net profit (SGDm)	47.6	46.9	56.6	61.6	64.4
Distributable income (SGDm)	47.1	49.0	50.8	52.5	55.3
DPS (SGD - cents)	6.0	6.2	6.4	6.5	6.8
DPS growth (%)	5.4	2.4	3.5	2.3	4.5
P/BV (x)	0.9	0.9	0.9	0.9	0.9
Dividend Yield (%)	7.7	7.9	8.1	8.3	8.7
Return on average equity (%)	6.0	5.9	7.0	7.5	7.7
Return on average assets (%)	3.2	3.1	3.3	3.6	3.7
Interest coverage (x)	3.0	3.1	2.7	2.5	2.6

Source: Company data, RHB

## Results And Operations Review

**1Q19 DPU up 2%YoY, results in line.** Revenue and NPI for the quarter were lower 0.3% and 1.4%YoY in SGD terms, but were up 3% and 1.4% in CNY terms. Finance costs rose 2.6% YoY, mainly due to higher SBLC loan quantum. The results were in line with 1Q19 DPU accounting for 24% of our estimates.

**Advanced negotiations for debt refinancing.** The REITs entire debt of c.SGD475m comprising onshore and offshore loans are due to mature in Jul 2019. The manager is currently in advanced discussions with the bank, and expects the refinancing exercise to be completed soon. We have currently factored in a 25-bp increase in interest cost compared to the current all-in interest rate of 5.2% pa (includes amortised upfront fee).

**Long WALE post new master lease agreements.** EC World's new master lease agreements were overwhelmingly approved by unit holders, which should lengthen the WALE to 4.7 years from 1.8 years and provides income stability. Only about 4% lease by rental income is due for renewal this year. We expect mid-single digit positive rent reversions.

**High occupancy maintained.** Committed occupancy improved to 99.97% in 1Q19 (4Q18 (99.2%) with occupancy improvements coming, mainly from Wuhan MeiLuo Te.

Figure 1: Results summary

FYE Dec (SGDm)	1Q19	4Q18	QoQ (%)	1Q18	YoY (%)	Comments
Revenue	23.9	23.5	1.6	23.9	-0.3	Lower due to CNY depreciation; In CNY terms revenue was higher 3%YoY
<b>NPI</b>	<b>21.2</b>	<b>20.8</b>	<b>1.7</b>	<b>21.5</b>	<b>-1.4</b>	<b>Same as above; In CNY terms NPI was higher 1.4%YoY</b>
NPI (%)	88.8%	88.8%	-	89.8%	-1.0ppt	
Distributable Income	11.9	12.4	-4.2	11.6	3.1	Lower QoQ due to higher withholding taxes
Unitholders distribution	11.9	12.4	-4.2	11.6	3.1	100% payout maintained
<b>DPU (cents)</b>	<b>1.50</b>	<b>1.57</b>	<b>-4.4</b>	<b>1.47</b>	<b>2.2</b>	
Committed occupancy (%)	99.97	99.2	0.7ppt	100	-	

Source: RHB

Figure 2: EC World – fair value based on DDM

	FY19F	FY20F	FY21F	FY22F	FY23F	Terminal Value
DPU (SGD)	6.4	6.5	6.8	7.0	7.1	94.5
Target price (SGD)	0.85					
Current Price (SGD)	0.79					
Price Upside	8%					
Distribution Yield FY18F	8.1%					
<b>Assumptions</b>						
Risk-free rate (%)	4.5%					
Beta	0.9					
Cost of equity (%)	9.6%					
Terminal growth (%)	2.0%					

Source: Company data, RHB

Figure 3: Fuzhou E-Commerce



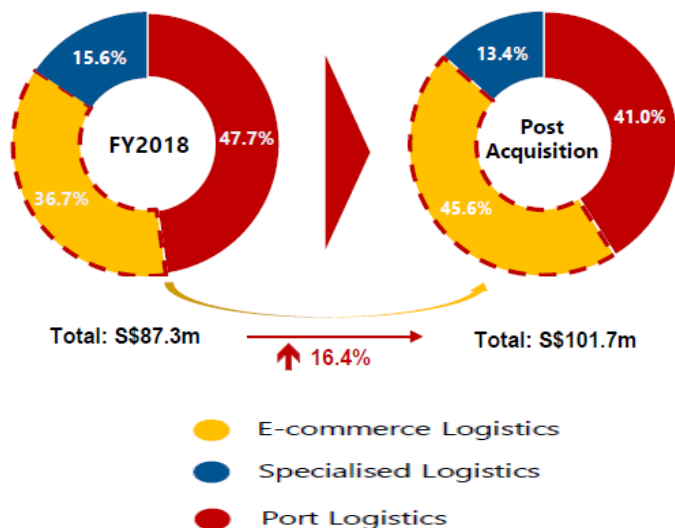
Source: Company data

Figure 4: Asset overview

<b>Location</b>	No. 9, Mingxing Road, Dongzhou Sub-District, Fuyang District, Hangzhou, PRC
<b>Year of completion</b>	June 2017
<b>The Property</b>	<ul style="list-style-type: none"> <li>One 3-storey warehouse building with a single storey basement for warehouse use</li> <li>Two 14-storey office buildings with a single storey basement for car park use</li> </ul>
<b>GFA</b>	<ul style="list-style-type: none"> <li>Warehouse: 171,795 sq m</li> <li>Office and Support Buildings: 42,489 sq m</li> <li>Total: 214,284 sq m</li> </ul>
<b>Land area</b>	88,000 sq m
<b>Land tenure</b>	Expiry on 3 May 2059
<b>Master Leases</b>	<ul style="list-style-type: none"> <li>Two master leases for warehouse and office components</li> <li>Tenure: 5 + 5 years</li> <li>Escalation: 2.25% per annum</li> </ul>
<b>Committed Occupancy</b>	100%
<b>End-tenant Occupancy</b>	100%

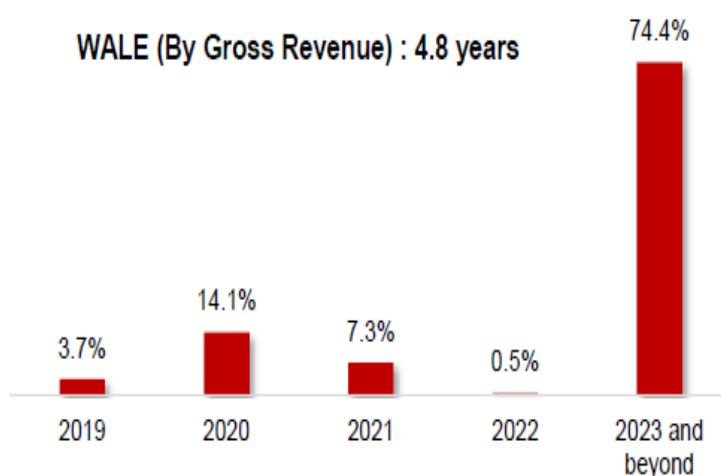
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Figure 5: NPI contribution by sectors



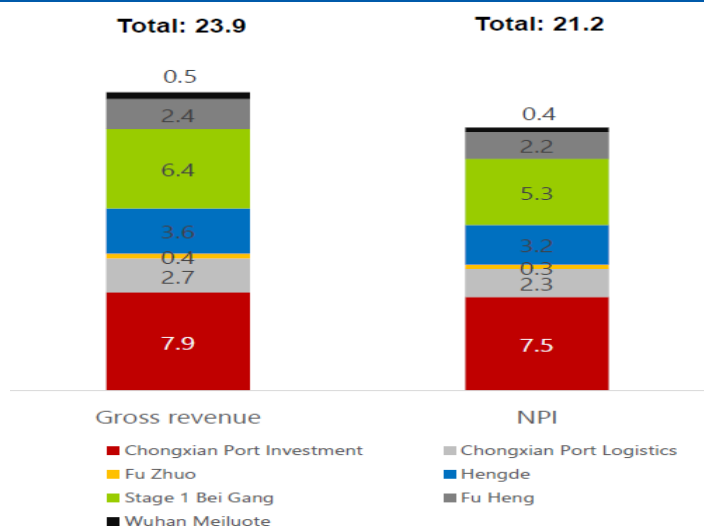
Source: Company data

Figure 6: WALE – post acquisition and new master leases



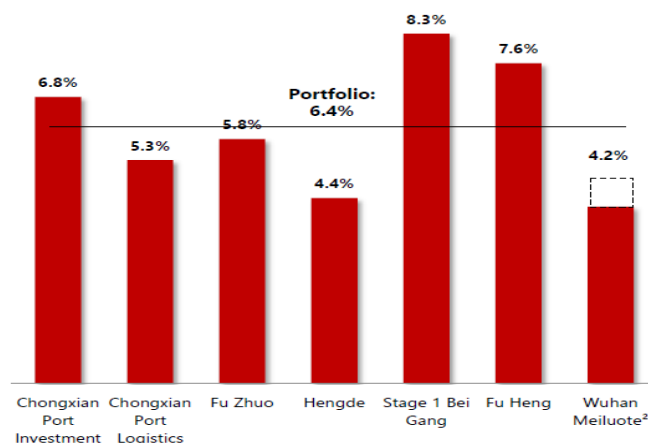
Source: Company data

Figure 7: 1Q19 Revenue and NPI breakdown by properties



Source: Company data

Figure 8: NPI yield by properties (1Q19)



Source: Company data

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