

EC World REIT

An accretive acquisition and longer WALE



SINGAPORE | REAL ESTATE (REIT) | 1Q19 RESULTS

14 May 2019

- 1Q19 NPI and DPU were in line with our forecast.
- WALE by GRI extended from 1.8 to 4.7 years due to the extension of master leases.
- Proposed yield accretive acquisition of ROFR asset with 5+5 year master leases expected to increase FY19e/FY20e DPU by 0.64% and 6.17% respectively.
- 100% of debt maturing in July 2019; refinanced debt maturity profile will be lumpy.
- Maintain Buy with higher TP of S\$0.87 (prev. S\$0.85) to factor in the proposed acquisition.

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.790
FORECAST DIV	SGD 0.063
TARGET PRICE	SGD 0.872
TOTAL RETURN	18.3%

COMPANY DATA

BLOOMBERG CODE:	EREIT SP
O/S SHARES (MN):	794
MARKET CAP (USD mn / SGD mn):	458 / 627
52 - WK HI/LO (SGD):	0.8 / 0.68
3M Average Daily T/O (mn):	0.45

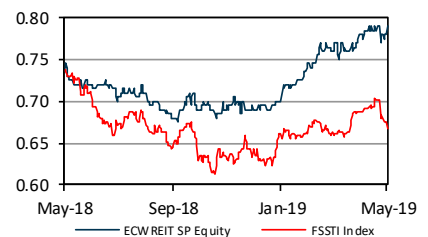
MAJOR SHAREHOLDERS (%)

FORCHN HOLDINGS GROUP	44.44
CHINA CINDA ASSET MANAGEMENT	11.97
PROVIDENNCE WORLD	8.40

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.6	8.3	15.6
STI RETURN	(0.2)	4.0	(3.7)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 17	FY 18	FY 19e	FY 20e
Gross Rev. (SGD m)	91	96	106	118
NPI (SGD mn)	83	87	95	107
Dist. Inc. (SGD mn)	47	49	51	56
P/NAV (x)	0.87	0.91	0.93	0.96
DPU, adj (cents)	6.03	6.18	6.32	6.88
Distribution Yield	7.6%	7.8%	8.0%	8.7%

Source: Company Data, PSR est.

VALUATION METHOD

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

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Results at a glance

(SGD mn)	1Q19	1Q18	YoY	Comments
Gross revenue	23.9	23.9	-0.3%	Mainly due to exchange rate differences. In RMB terms, gross revenue grew 3.0% YoY due to built in rental escalations and contributions from acquisition of Wuhan Meilute (Apr 2018).
Net property income	21.2	21.5	-1.4%	NPI grew 1.9% YoY in RMB terms.
Distributable income	11.9	11.6	3.1%	
DPU (cents)	1.501	1.469	2.2%	

Source: Company, PSR

The Positives

+ WALE by GRI extended from 1.8 to 4.7 years due to extension of master leases. 99.3% of shareholders voted in favour of accepting the master leases on Chongxian Port, Beigang Stage 1 and Fuheng warehouse at the EGM held on 22 April 2019.

+ Proposed yield-accretive acquisition of ROFR asset with 5+5 year master leases. On a pro-forma basis, the 6.4% acquisition yield on Fuzhou e-commerce will lift NPI and DPU by 16.4% and 1.6% respectively. However, the acquisition will push gearing from 31.3% to 41.1%, which is slightly above the 40% gearing targeted by management. The asset is located beside ECW's e-commerce asset, Fu Heng warehouse, and will be leased out to 2 master lessees on a 5+5 year term, with built-in rental escalation of 2.25% p.a. Acquisition is expected to be completed in 3Q19. Assuming full funding by debt, we expect FY19e/FY20e DPU to increase by 0.6%/6.17%.

The Negatives

- 100% of debt maturing in July 2019; refinanced debt maturity profile will be lumpy. The Management shared that they are in the final stages of concluding the refinancing of all loans. It is likely a maturity of 3 years. Refinancing this batch of loans will once again lead to a lumpy debt maturity profile.

Outlook

Extended WALE of 4.7 years and committed portfolio occupancy of 99.97% provides much income visibility. This is important in the context of the current global geopolitical tensions and economic uncertainty. Key risk is the depreciation of the RMB, which is partially mitigated by the rolling 6-month hedging strategy implemented on 75% of the distributable income.

Maintain Buy with higher TP of S\$0.87 (prev. S\$0.85)

We raise our target price to S\$0.87 to incorporate the proposed yield-accretive acquisition of the Fuzhou E-Commerce asset. EC World trades at an attractive yield of 8% and a P/NAV of 0.93x.

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Details of proposed acquisition of Fuzhou E-Commerce

The Fuzhou E-commerce asset has an NPI yield of 6.4 and is located right next to its existing asset, Fu Heng warehouse. One of the master tenants is Ruyicang, which is an affiliate of Alibaba.

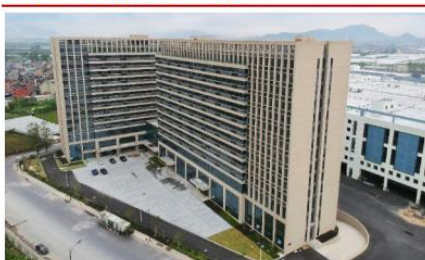
Figure 1: Details of asset

Overview of Fuzhou E-Commerce

A Rare Sizable Integrated E-Commerce Logistics Asset	
Asset Overview	Warehouse Block
Location	No. 9, Mingxing Road, Dongzhou Sub-District, Fuyang District, Hangzhou, PRC
Year of completion	June 2017
The Property	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> Warehouse: 171,795 sq m Office and Support Buildings: 42,489 sq m Total: 214,284 sq m
Land area	88,000 sq m
Land tenure	Expiry on 3 May 2059
Master Leases	<ul style="list-style-type: none"> Two master leases for warehouse and office components Tenure: 5 + 5 years Escalation: 2.25% per annum
Committed Occupancy	100%
End-tenant Occupancy	100%



Office and Support Buildings



Source: Company

Figure 2: Together with Fu Heng warehouse, the adjacent sites form the largest e-commerce fulfilment warehouse in Hangzhou.

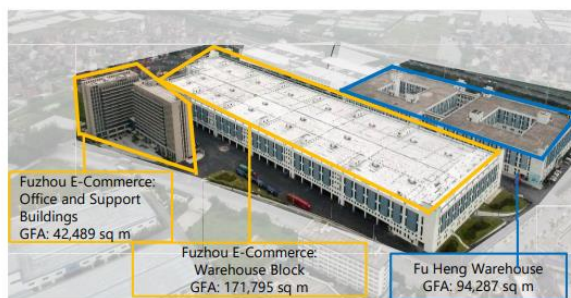
2 Ownership of a Rare Sizable Integrated E-Commerce Logistics Asset

Strategically Located E-Commerce Logistics and Fulfillment Centre

- Adjacent to** one of EC World REIT's existing assets, **Fu Heng Warehouse**, which is also focused on e-commerce related fulfilment activities → enhancing **operational efficiency**
- Creation of a **combined 308,571 sq m logistics hub** catering to the fulfilment of the rapidly expanding e-commerce demand in Hangzhou and China
- Convenient access and transportation:** located within Dongzhou Industrial Zone which is **connected to downtown Hangzhou via Highway G25** and enjoys **convenient water transportation** provided by Fuchun rivers



- Well supported** by industry participants such as online market places, brand manufacturers, last mile delivery companies as well as office space and other auxiliary facilities



Fuzhou E-Commerce: Office and Support Buildings
GFA: 42,489 sq m

Fuzhou E-Commerce: Warehouse Block
GFA: 171,795 sq m

Fu Heng Warehouse
GFA: 94,287 sq m

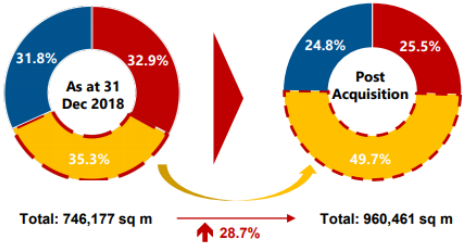
Source: Company

Figure 3: Acquisition increases proportion of revenue sourced from e-commerce sector

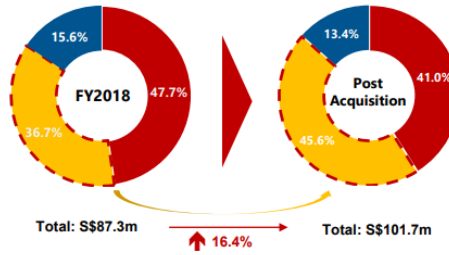
4 Enlarged Portfolio with Enhanced Focus on the E-Commerce Logistics Sector

Larger Portfolio with Increased Exposure to E-Commerce Logistics

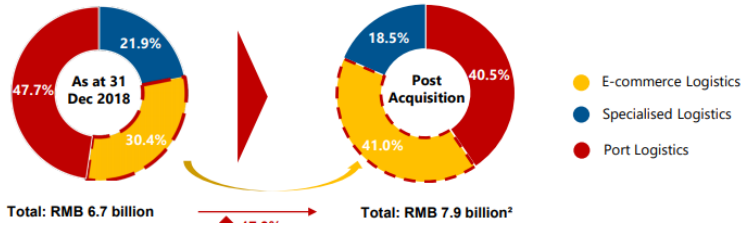
Breakdown by NLA



Breakdown by Net Property Income¹



Valuation (in RMB)



- E-commerce Logistics
- Specialised Logistics
- Port Logistics

Source: Company

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Gross revenue	96	91	96	106	118
Property expenses	(12)	(9)	(9)	(10)	(11)
Net property income	84	83	87	95	107
Net Finance (Expense)/Inc	(20)	(24)	(26)	(33)	(41)
Manager's fees	(2)	(5)	(5)	(7)	(6)
Other items	(72)	(84)	(87)	(3)	(2)
Net income	75	52	57	53	58
Other gains and FV changes	(2)	20	13	0	-
Total Return Before Tax	73	71	70	53	58
Taxation	(17)	(24)	(23)	(19)	(20)
Total Return After Tax	56	48	47	34	38
Distribution adjustments	(37)	(0)	2	16	19
Income available for distribut	19	47	49	51	56
DPU	-	6.03	6.18	6.32	6.88

Per share data (cents)

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
NAV	93.00	91.18	86.69	84.69	82.19
DPU	nm	6.03	6.18	6.32	6.88

*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	34.4	37.5
Adjustments	38.2	33.1	37.2	58.5	64.7
WC changes	52.4	(3.8)	(4.9)	6.9	7.8
Income tax paid	(5.0)	(16.0)	(15.9)	(16.7)	(18.2)
Cashflow from ops	141.5	61.0	63.4	83.1	91.9
CFI					
Purchase of investment propert	(8.3)	(2.2)	(1.5)	(223.6)	-
Others	(237.8)	7.7	(28.9)	-	-
Cashflow from investments	(246)	6	(30)	(224)	-
CFF					
Loans, net of repayments	141.3	35.8	41.7	251.9	-
Dividends	(7.7)	(46.7)	(48.1)	(50.6)	(56.4)
Others	48.8	(61.6)	(69.3)	(34.5)	(42.5)
Cashflow from financing	182.5	(72.5)	(75.7)	166.8	(98.9)
Net change in cash	77.9	(5.9)	(42.7)	26.4	(7.0)
Ending cash	94.3	87.2	43.7	70.1	63.0
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	1,559	1,559
Others	1,333	-	-	-	-
Total non-current assets	1,333	1,337	1,335	1,559	1,559
Cash and cash equivalent:	104	139	142	168	161
Trade and other receivable	36	36	38	43	48
Others	8	-	0	-	-
Total current assets	147	174	181	211	209
Total assets	1,481	1,511	1,516	1,770	1,768
LIABILITIES					
Trade payables	26	25	23	26	29
Borrowings	2	40	475	-	-
Others	(28)	11	9	11	13
Total current liabilities	-	76	507	37	42
Deferred income tax liabilities		263	262	262	262
Borrowings	397	395	-	727	727
Others	63	59	58	58	58
Total non-current liabilities	459	718	320	1,047	1,047
Total liabilities	459	794	827	1,083	1,088
Net assets	1,021	718	689	687	680
Represented by:					
Unitholders' funds	785	788	689	687	680
FX translation reserve	(59)	(71)	-	-	-

Valuation Ratios

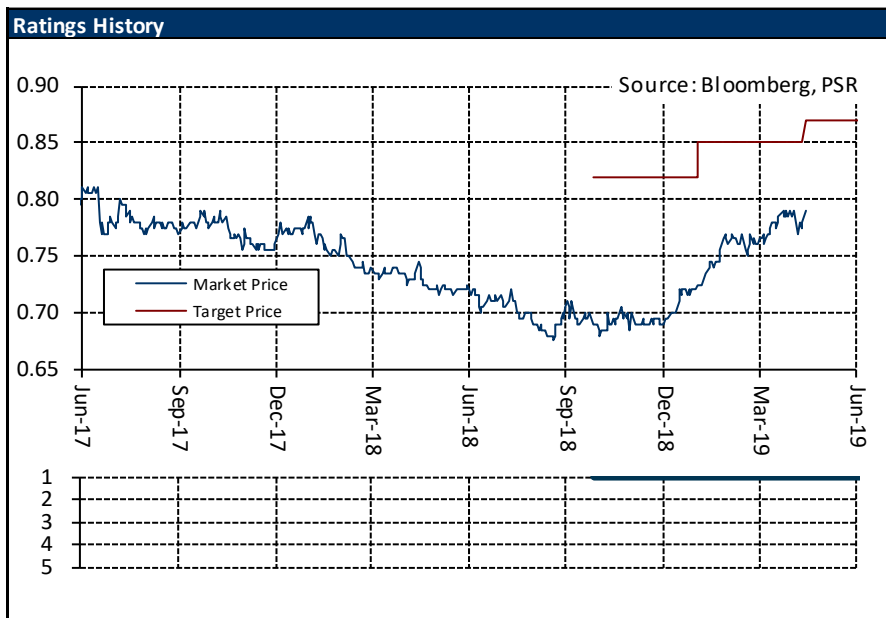
Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/NAV (x)	nm	0.87	0.91	0.93	0.96
Distribution Yield (%)	nm	7.6%	7.8%	8.0%	8.7%
NPI yield (%)	6.3%	6.2%	6.5%	6.1%	6.9%

Growth & Margins (%)

	FY16	FY17	FY18	FY19e	FY20e
Growth					
Revenue	nm	-4.4%	5.3%	9.9%	11.6%
Net property income (NPI)	nm	-1.4%	5.6%	9.1%	12.1%
DPU	nm	nm	2.6%	2.3%	8.9%
Margins					
NPI Margins	87.8%	90.5%	90.8%	90.1%	90.5%
Net Income Margin	78.0%	56.4%	59.2%	49.7%	48.9%

Key Ratios

	FY16	FY17	FY18	FY19e	FY20e
Gearing	26.9%	31.3%	31.3%	41.1%	41.1%
ROA	7.5%	3.2%	3.1%	2.1%	2.1%
ROE	14.2%	6.1%	6.4%	5.0%	5.5%



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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