

**BUY**

TP: SGD 0.88

▲ 32.5%

## EC World REIT

ECWREIT.SP

### Boosted by maiden acquisition

**EC World REIT (ECW) reported its 2Q18 results within expectations. 2Q18 revenue +7.6% YoY and NPI +8.2% YoY, driven by contribution from maiden acquisition Wuhan Meiluote. There is potential for ECW to bridge the gap with its positioning by increasing e-commerce asset exposure from i) ROFR assets under Sponsor (Fuzhou e-commerce asset is acquisition ready) ii) YCH partnership iii) 3rd party acquisitions. Maintain BUY with TP \$0.88/unit.**

- ➔ **2Q18 results within expectations:** 2Q18 gross revenue +7.6% YoY to S\$24.9m, NPI +8.2% YoY to S\$22.8m, mainly driven by contributions from ECW's first acquisition Wuhan Meiluote. Distribution income of S\$12.4m (99.3% payout) +3.1% YoY; DPU of S\$1.57c +1.9% YoY; +6.9% QoQ as 1Q18 results incurred withholding tax expenses from cash repatriation. Portfolio occupancy is firm at 96.7% (committed occupancy: 99.2%) as of 2Q18. Gearing stands at 29.5%, leaving ample debt headroom for acquisitions.
- ➔ **Wuhan Meiluote occupancy upside materialized:** While we believe there may have been market concerns on tight acquisition yield of Wuhan Meiluote at 4.9%, we have previously highlighted upside to the asset post stabilization. Existing tenant JD.com expanded within by taking up c.2,900 sqm more space, bringing occupancy up to 88.2% from 82.2% at acquisition and illustrating strong tenant covenants.
- ➔ **Reiterate potential of visible acquisition roadmap:** We maintain that ECW possess the potential of bridging the gap to its e-commerce REIT positioning with a visible acquisition roadmap. In the near term, Fu Zhou e-commerce ROFR asset has commenced operations and primed for acquisition; in the longer term, partnership with YCH could bring potential pipeline assets for acquisition consideration.
- ➔ **Maintain BUY:** We maintain BUY rating and a TP of S\$0.88/unit on ECW, in view of yield compression potential as investors gradually digest the inorganic growth trajectory and rising exposure to logistics e-commerce sector. ECW REIT offers attractive FY19E yield of 9.14% and currently trades at undemanding 0.79x P/B.

#### Financial highlights

Y/E 31 Dec (SGD m)	FY17A	FY18E	FY19E	FY20E	FY21E
Revenue	91	101	106	109	111
Distribution income	47	49	52	54	56
Outstanding shares (M)	785	792	800	808	816
DPU (SGD cts)	6.0	6.1	6.5	6.7	6.8
DPU growth (%)	NA	2.4%	5.5%	3.5%	1.5%
Yield (%)	8.5%	8.7%	9.1%	9.5%	9.6%
BV per share	0.91	0.91	0.90	0.89	0.88
P/B (x)	0.78	0.78	0.79	0.80	0.81

Source: Company, SCCM Research; as of 7 Aug 2018



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PRICE CLOSE (7 Aug 2018)

SGD 0.71

MARKET CAP

SGD 559.8 mln

USD 410.6 mln

SHARES O/S

788.5 mln

FREE FLOAT

41.9%

3M AVG DAILY VOLUME/VALUE

SGD 0.255 mln / USD 0.187 mln

52 WK HIGH

SGD 0.805

52 WK LOW

SGD 0.695

Target Price

SGD 0.88

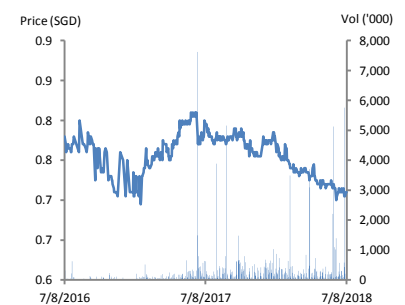
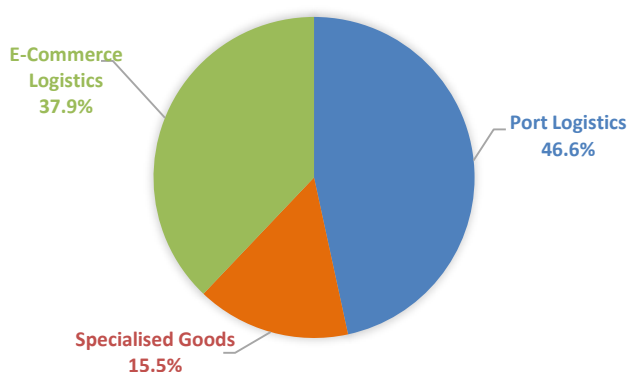


Fig 1 - Results summary

FY 31Dec (S\$m)	2Q18	2Q17	YoY	1Q18	QoQ	Comments
Gross Revenue	24.9	23.2	7.6%	23.9	4.1%	Mainly due to strengthening of RMB and contribution from the newly acquired Wuhan Meiluote.
Net Property Income	22.8	21.1	8.2%	21.5	6.1%	In line with flow-through from Gross Revenue
Interest Expense	6.8	6.5	5.9%	6.8	0.7%	Mainly due to higher borrowings YoY
Exceptional Gains /(Losses)	+1.6	-1.9	183.4%	-0.7	329.9%	Comprised of net change in fair value of financial derivatives and FX Gains /(Losses)
Net Income	15.1	12.7	18.8%	12.4	21.8%	In line with flow-through from Gross Revenue
Invt Income available for distribution	12.5	12.0	3.9%	11.6	7.9%	In line with flow-through from Gross Revenue

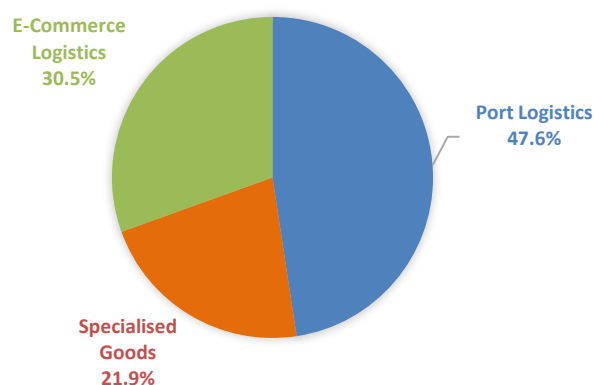
Source: SCCM Research, Company

Fig 2 - Portfolio breakdown by gross rental income



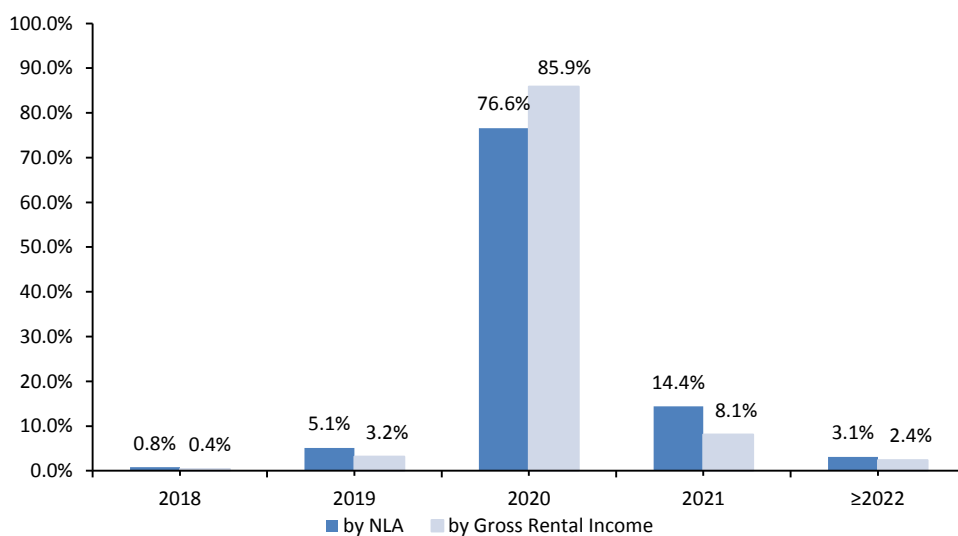
Source: SCCM Research, Company

Fig 3 - Portfolio breakdown by valuation



Source: SCCM Research, Company

Fig 4 - Lease expiry profile



Source: SCCM Research, Company

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## Financial Statements

## Income Statement

Y/E 31 Dec (in SGD'm)	FY17A	FY18E	FY19E	FY20E	FY21E
Gross Revenue	91.4	101.0	105.8	109.1	111.1
<b>Gross Revenue Growth Rate</b>		<b>10.5%</b>	<b>4.8%</b>	<b>3.1%</b>	<b>1.9%</b>
Property Expenses	(8.7)	(9.5)	(10.2)	(10.4)	(10.6)
Net Property Income	82.7	91.5	95.5	98.7	100.5
Other Operating Income	(5.3)	(5.2)	(5.9)	(5.9)	(5.8)
Trustee-Manager's fees	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Trustee's fee	(1.5)	(1.4)	(1.4)	(1.4)	(1.4)
Trust and administrative expenses	(5.3)	(5.2)	(5.9)	(5.9)	(5.8)
<b>EBIT</b>	<b>75.7</b>	<b>84.6</b>	<b>88.0</b>	<b>91.1</b>	<b>93.0</b>
<b>EBIT Margin</b>	<b>82.8%</b>	<b>83.8%</b>	<b>83.2%</b>	<b>83.5%</b>	<b>83.7%</b>
Non-Operating Income					
Interest Income	1.5	0.2	0.2	0.2	0.2
Interest Expense	(25.8)	(25.8)	(25.8)	(25.8)	(25.8)
Exceptional Gains/(Losses)	(1.6)	0.0	0.0	0.0	0.0
<b>Net Income</b>	<b>49.7</b>	<b>59.0</b>	<b>62.3</b>	<b>65.4</b>	<b>67.4</b>
Tax	(23.8)	(15.4)	(16.3)	(17.1)	(17.6)
Minority Interests					
<b>Net Income</b>	<b>25.9</b>	<b>43.5</b>	<b>46.1</b>	<b>48.4</b>	<b>49.9</b>
Net Gains from revaluation of properties	21.7	0.0	0.0	0.0	0.0
<b>Total Return for the year</b>	<b>47.6</b>	<b>43.5</b>	<b>46.1</b>	<b>48.4</b>	<b>49.9</b>
<b>Invnt Income available for distribution</b>	<b>47.1</b>	<b>48.7</b>	<b>51.9</b>	<b>54.2</b>	<b>55.6</b>
<b>DPU (cents)</b>	<b>6.0</b>	<b>6.1</b>	<b>6.5</b>	<b>6.7</b>	<b>6.8</b>
<b>DPU Growth Rate</b>		<b>2.4%</b>	<b>5.5%</b>	<b>3.5%</b>	<b>1.5%</b>

## Balance Sheet

Y/E 31 Dec (in SGD'm)	FY17A	FY18E	FY19E	FY20E	FY21E
Cash	138.6	112.8	113.1	113.4	113.7
Trade Receivables	35.6	39.3	41.2	42.5	43.3
Current Assets	174.2	152.1	154.3	155.9	157.0
Investment Properties	1,337.0	1,367.3	1,367.3	1,367.3	1,367.3
Other LT Assets	0.2	0.2	0.2	0.2	0.2
Non-Current Assets	1,337.2	1,367.4	1,367.4	1,367.4	1,367.4
<b>Total Assets</b>	<b>1,511.4</b>	<b>1,519.6</b>	<b>1,521.7</b>	<b>1,523.4</b>	<b>1,524.4</b>
Trade Payables	24.6	27.2	28.5	29.4	29.9
OD & ST Debt	40.1	40.1	40.1	40.1	40.1
Tax Provision	9.9	15.4	16.3	17.1	17.6
Other ST Liabilities	1.3	1.3	1.3	1.3	1.3
Current Liabilities	75.9	84.1	86.2	87.9	88.9
LT Debt	395.4	395.4	395.4	395.4	395.4
Deferred Payments (over 12 months)	263.2	263.2	263.2	263.2	263.2
Other LT Liabilities	59.3	59.3	59.3	59.3	59.3
Non-Current Liabilities	717.9	717.9	717.9	717.9	717.9
<b>Total Liabilities</b>	<b>793.8</b>	<b>802.0</b>	<b>804.1</b>	<b>805.8</b>	<b>806.8</b>
Total Unitholders' Equity	717.6	717.6	717.6	717.6	717.6
<b>Total Liabilities and Equity</b>	<b>1,511.4</b>	<b>1,519.6</b>	<b>1,521.7</b>	<b>1,523.4</b>	<b>1,524.4</b>

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**Cash Flow Statement**

Y/E 31 Dec (in SGD'm)	FY17A	FY18E	FY19E	FY20E	FY21E
Pre-tax Profit	49.7	59.0	62.3	65.4	67.4
Tax Paid	(10.8)	(9.9)	(15.4)	(16.3)	(17.1)
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	14.2	5.1	5.9	5.9	5.8
Changes in Non-Cash Work Cap	7.9	(1.2)	(0.6)	(0.4)	(0.2)
Cash From Operations	61.0	53.1	52.2	54.6	55.8
Net Change in Property Investments	(2.1)	0.0	0.0	0.0	0.0
Net Change In Investments	0.0	(30.3)	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	7.7	0.0	0.0	0.0	0.0
Cash from Investing Activities	5.6	(30.3)	0.0	0.0	0.0
Distribution to Unit Holders	(46.7)	(48.7)	(51.9)	(54.2)	(55.6)
Net Change in Gross Debt	35.8	0.0	0.0	0.0	0.0
Issue of Units (net of Expenses)	0.1	0.0	0.0	0.0	0.0
Other Financing Activities	(61.7)	0.0	0.0	0.0	0.0
Cash from Financing Activities	(72.5)	(48.7)	(51.9)	(54.2)	(55.6)
<b>Net Changes in Cash</b>	<b>(7.2)</b>	<b>(25.8)</b>	<b>0.3</b>	<b>0.4</b>	<b>0.2</b>

**Per Share Data**

Y/E 31 Dec (SGD)	FY17A	FY18E	FY19E	FY20E	FY21E
Reported EPU	0.06	0.05	0.06	0.06	0.06
Adjusted EPU	0.06	0.05	0.06	0.06	0.06
DPU	0.06	0.06	0.07	0.07	0.07
BVPU	0.91	0.91	0.90	0.89	0.88

**Valuation Ratios**

Y/E 31 Dec (x)	FY17A	FY18E	FY19E	FY20E	FY21E
P/E	11.7	12.9	12.3	11.8	11.6
P/B	0.78	0.78	0.79	0.80	0.81

**Financial Ratios**

Y/E 31 Dec	FY17A	FY18E	FY19E	FY20E	FY21E
<b>Profitability &amp; Return Ratios (%)</b>					
EBITDA margin	82.8	83.8	83.2	83.5	83.7
EBIT margin	82.8	83.8	83.2	83.5	83.7
Net profit margin	28.3	43.1	43.5	44.4	44.9
ROE	3.6	6.1	6.4	6.7	6.9
ROCE	2.7	4.2	4.4	4.6	4.7
<b>Working Capital &amp; Liquidity Ratios</b>					
Receivables (days)	142	142	142	142	142
Payables (days)	98	98	98	98	98
Current ratio (x)	2.3	2.3	2.3	2.3	2.3
<b>Turnover &amp; Leverage Ratios (x)</b>					
Total asset turnover	0.06	0.07	0.07	0.07	0.07
Gearing Ratio	0.29	0.29	0.29	0.29	0.29

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