

7 August 2019

BUY

TP: SGD 0.91

▲ 23.0%

EC World REIT

ECWREIT.SP

Upcoming boost from acquisition

ECWREIT (ECW) 2Q results were dragged by unfavourable FX differences. However, we expect DPU to grow in 2H19 as contributions from accretive acquisition Fuzhou E-commerce to flow in mid-3Q (+1.6% DPU accretion, 2.25% pa escalation), while underlying portfolio remains resilient with master leases & rental escalations. Mgmt is reviewing the hedging strategy to mitigate FX impact moving forward. Reiterate BUY, at revised TP S\$0.91/unit.

- ➔ **1H19 results came in below:** 1H19 results came in below, where DPU is at 48.2% of our FY19E estimates, mainly due to our expectations for Fuzhou E-commerce acquisition contributions to come in starting Jul2019. Similar to 1Q, the main drag for 2Q results was due to FX difference, as revenue and NPI in SGD decreased by 4.8% and 7.2% YoY. In RMB terms, revenue and NPI grew by a healthy 3.6% and 3.4% YoY, respectively, due to rental escalations, and contribution from Wuhan Meiluote. 2Q DPU was -1.5% YoY, while 1H DPU increased by 0.3% YoY.
- ➔ **Fuzhou E-commerce to boost FY19E & beyond:** Mgmt updates that the Fuzhou asset acquisition is expected to complete in mid-3Q19. We expect DPU to grow from 2H19 onwards, while underlying portfolio remains resilient with its master leases and rental escalations. The acquisition is 1.6% DPU accretive with 2.25% pa rental escalation. Gearing will increase from 32.4% in 2Q to ~39% post acquisition. ECW's ave all-in running i/r increased to 4.5% (4.1% in 1Q19, 4.4% in 2Q18), mgmt does not expect significant increase in the rate moving forward.
- ➔ **Management is re-evaluating FX hedging strategy:** ECWREIT currently hedges 75% of RMB income for distribution on a 6mth rolling basis. The hedging is done through a put spread, hence there was negative impact on ECW when SGD/CNY exceeded the limit of 5.055. Mgmt is re-evaluating the hedging structure and considering a more aggressive policy moving forward.
- ➔ **Reiterate BUY:** We have adjusted the Fuzhou property acquisition to contribute 4mths in FY19E (from previous assumption of 6mths), and changed SGD/RMB assumptions from 5.01 to 5.1 as a conservative measure. Reiterate BUY with revised TP of S\$0.91/unit, ~4.0% FY18-21E DPU CAGR. ECWREIT currently trades at attractive valuations of 8.99% FY20E yield and 0.8x P/B.

Financial highlights

Y/E 31 Dec (SGD m)	FY18A	FY19E	FY20E	FY21E	FY22E
Revenue	96	103	117	122	124
Distribution income	49	49	53	56	58
Outstanding shares (M)	792	795	800	805	810
DPU (SGD cts)	6.2	6.2	6.6	7.0	7.1
DPU growth (%)	2.6%	0.5%	6.4%	5.3%	2.1%
Yield (%)	8.4%	8.4%	9.0%	9.5%	9.7%
BV per share	0.9	0.9	0.9	0.9	0.9
P/B (x)	0.8	0.8	0.8	0.8	0.8

Source: Company, SCCM Research; as of 7 August 2019



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PRICE CLOSE (7 Aug 2019)

SGD 0.735

MARKET CAP

SGD 584.9 mln

USD 422.9 mln

SHARES O/S

795.8 mln

FREE FLOAT

49.6%

3M AVG DAILY VOLUME/VALUE

SGD 0.548 mln / USD 0.396 mln

52 WK HIGH

SGD 0.805

52 WK LOW

SGD 0.675

Target Price

SGD 0.91



1H19 estimates below as Fuzhou acquisition contribution has yet to flow in

- 1H19 results came in below at 48.2% of our FY19E estimates, mainly due to our expectations for Fuzhou E-commerce acquisition contributions to come in starting July 2019. 2Q19 revenue and NPI decreased by 4.8% and 7.2% YoY, respectively. In RMB terms, gross revenue and NPI in RMB terms were 3.6% and 3.4% higher YoY, respectively. The healthy underlying growth was due to rental escalations, and contribution from Wuhan Meiluote.

Fig 1 - Results summary vs previous FY19E estimates

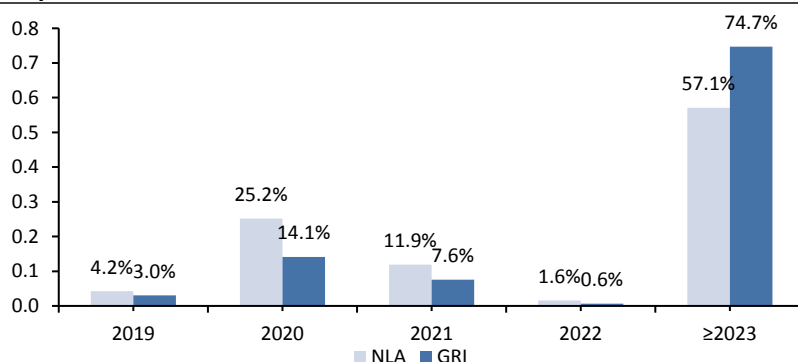
FY 31Dec (\$m)	2Q19	2Q18	YoY %	1Q19	QoQ %	1H19	FY19E	% of forecast
Gross Revenue	23.7	24.9	-4.7%	23.9	-0.5%	47.6	107.3	44.4%
Operating Expenses	-2.6	-2.1	21.6%	-2.7	-3.6%	-5.2	-10.9	48.2%
NPI	21.2	22.8	-7.2%	21.2	-0.1%	42.4	96.4	43.9%
Trustee-Manager's fees	-1.2	1.4	-190.6%	-1.2	3.3%	-2.4	-6.7	35.9%
Trustee's Expenses	-0.1	-0.1	-1.4%	-0.1	0.0%	-0.1	-0.3	48.0%
Other Trust Expenses	-0.4	-0.5	-30.5%	-0.4	-2.7%	-0.7	-1.6	46.0%
Net income before financing cost & tax	19.5	20.9	-6.5%	19.6	-0.3%	39.0	87.8	44.5%
Interest Income	0.4	0.3	30.1%	0.4	1.6%	0.9	1.5	56.2%
Borrowing Costs	-7.0	-6.8	2.1%	-7.0	0.3%	-14.0	-30.6	45.6%
Net Income	12.9	14.4	-9.8%	13.0	-0.5%	26.0	58.7	44.2%
Net income aft Tax	10.2	14.8	-30.9%	8.0	27.6%	18.2	55.7	32.7%
Income Available for Distribution	12.3	12.5	-1.3%	11.9	3.3%	24.2	50.3	48.1%
# of units, end of period (m)	795.8	788.5	0.9%	794.2	0.2%	795.8	795.6	100.0%
DPU (\$c)	1.547	1.570	-1.5%	1.501	3.1%	3.048	6.328	48.2%

Source: SCCM Research, Company

- Transient marginal decline in occupancy:** Overall portfolio occupancy remained resilient at 99.1% in 2Q19 (99.97% in 1Q19 and 99.2% in 2Q18). This mainly due to transitional vacancy of 85.8% (the only property with occupancy <100%). Mgmt is confident in leasing out the space and expects its occupancy to rise back up to ~>90% in 2H19.
- Next major lease expiry in 2020, mgmt. is confident in lease renewal:** Mgmt shared that the next major lease expiry (2020:14.1% of GRI) will be from Hengde asset, which they expect high chance of renewal. **While mgmt. expect positive reversions (previously up to 10% for 5 years, ~2% pa) they cautioned that their negotiating power with SOE is relatively weaker to other tenants.** We maintain our assumptions and expect Hengde to be successfully leased out at ~ave 2% pa escalations.

Mgmt shared that they will be starting talks with Hengde tenant on 2020 lease expiry soon

Fig 2 - Proposed transaction structure



Source: Company, as at 2Q19

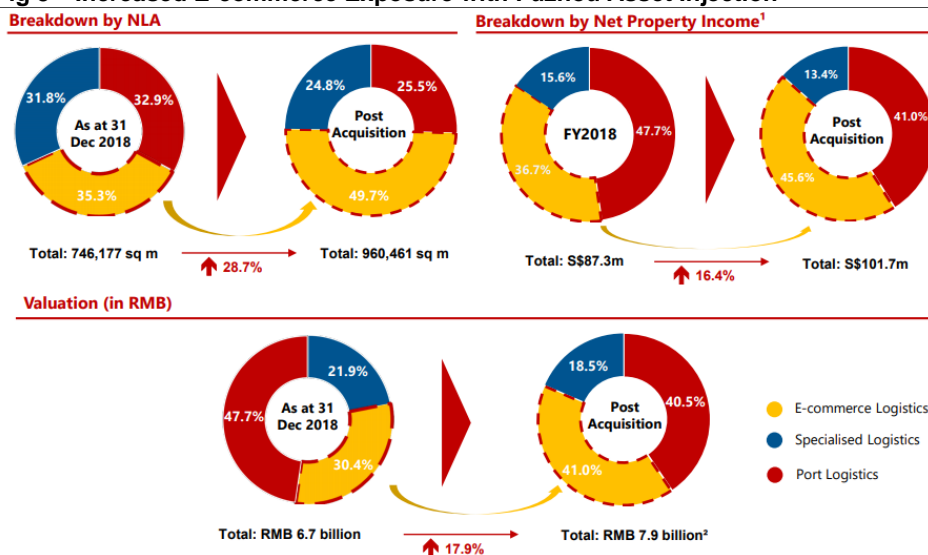
- Reiterate BUY:** We have adjusted the Fuzhou property acquisition to contribute 4mths in FY19E (from 6mth assumption), and changed SGD/RMB assumptions from 5.01 to 5.1 as a conservative measure. Reiterate BUY with revised TP of S\$0.91/unit. We estimate a ~4.0% FY18-21E CAGR.

Fuzhou E-commerce to boost performance in FY19E & beyond

- Accretive acquisition with annual escalations:** The Fuzhou e-commerce asset injection is 1.6% DPU accretive NPI yield of ~6.4%, funded by debt and cash. It has a 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. **In addition, it increases ECW's exposure to China's e-commerce from 36.7% to 45.6% by NPI.**

Mgmt expects resilience /benefits from the ongoing US-China trade war as domestic consumption will be increasingly encouraged. (ECW's exposure to ecommerce is fully domestic)

Fig 3 - Increased E-commerce Exposure with Fuzhou Asset Injection



Source: Company, Pro-forma data for FY18

- Contributions incoming in mid-3Q19:** Mgmt updates that the Fuzhou asset acquisition is expected to complete in 3Q19. The timing of acquisition is not due to a delay, but was intentionally set by mgmt at a suitable timing for their debt refinancing in order to streamline the process. We have adjusted our model to price in 4mths of contributions in FY19E instead of 6mths of contribution.
- Gearing will increase from 32.4% in 2Q to ~39% post acquisition. ECW's ave all-in running i/r increased to 4.5% (4.1% in 1Q19, 4.4% in 2Q18), mgmt does not expect significant increase in the rate moving forward.

Including amortized upfront fee, the all-in interest rate is 5.3%

Management is re-evaluating FX hedging strategy

- ECWREIT currently hedges 75% of RMB income for distribution on a 6mth rolling basis. The hedging is done through a put spread (buy CNH put at 5.025, sell CNH put at 5.055), hence there was negative impact on ECW when SGD/CNY exceeded 5.055. Mgmt is re-evaluating the hedging structure and considering a more aggressive policy moving forward.

Financial Statements

Income Statement

Y/E 31 Dec (in SGD'm)	FY18A	FY19E	FY20E	FY21E	FY22E
Gross Revenue	96.2	103.1	117.0	121.6	124.0
Gross Revenue Growth Rate	5.3%	7.1%	13.4%	4.0%	2.0%
Property Expenses	(8.9)	(11.4)	(12.9)	(13.3)	(13.5)
Net Property Income	87.3	91.7	104.1	108.3	110.6
Trustee-Manager's fees	(5.1)	(5.9)	(5.7)	(5.9)	(5.6)
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	82.2	96.5	100.6	103.1
EBIT Margin	84.2%	79.8%	82.5%	82.7%	83.1%
Non-Operating Income					
Interest Income	1.5	1.5	1.8	1.8	1.9
Interest Expense	(27.4)	(30.3)	(37.3)	(37.2)	(37.2)
Exceptional Gains/(Losses)	3.1	18.2			
Net Income	58.2	71.7	61.0	65.2	67.8
Tax	(23.3)	(21.1)	(18.3)	(19.6)	(20.3)
Net Income	34.9	50.5	42.7	45.6	47.4
Net Gains from revaluation of properties	12.0				
Total Return for the year	46.9	50.5	42.7	45.6	47.4
Invnt Income available for distribution	49.0	49.4	52.9	56.0	57.6
DPU (cents)	6.18	6.21	6.61	6.96	7.11
DPU Growth Rate	2.6%	0.5%	6.4%	5.3%	2.1%

Balance Sheet

Y/E 31 Dec (in SGD'm)	FY18A	FY19E	FY20E	FY21E	FY22E
Cash	142.1	167.8	169.0	175.6	181.7
Trade Receivables	38.3	40.2	45.6	47.4	48.3
Other Current Assets	0.3	0.3	0.3	0.3	0.3
Current Assets	180.8	208.3	214.9	223.2	230.3
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	1,785.1	1,791.7	1,800.1	1,807.1
Trade Payables	23.4	27.8	31.5	32.7	33.4
OD & ST Debt	474.7	40.1	40.1	40.1	40.1
Current Tax Liabilities	9.2	21.1	18.3	19.6	20.3
Other ST Liabilities	0.1	0.1	0.1	0.1	0.1
Current Liabilities	507.3	89.1	90.0	92.5	94.0
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	1,070.8	1,071.7	1,074.2	1,075.6
Total Unitholders' Equity	688.6	714.4	720.0	725.9	731.5
Total Liabilities and Equity	1,515.8	1,785.1	1,791.7	1,800.1	1,807.1

Cash Flow Statement

Y/E 31 Dec (in SGD'm)	FY18A	FY19E	FY20E	FY21E	FY22E
Pre-tax Profit	58.2	71.7	61.0	65.2	67.8
Tax Paid	(15.9)	(9.2)	(21.1)	(18.3)	(19.6)
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	(1.2)	10.2	10.4	10.1
Changes in Non-Cash Work Cap	(4.9)	2.6	(1.7)	(0.6)	(0.3)
Cash From Operations	63.4	63.9	48.4	56.7	58.0
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	(1.4)	(223.6)	0.0	0.0	0.0
Net Change in Gross Debt	(28.9)	0.0	0.0	0.0	0.0
Issue of Units (net of Expenses)	0.0	0.0	0.0	0.0	0.0
Other Financing Activities	(69.3)	0.0	0.0	0.0	0.0
Cash from Financing Activities	(75.7)	185.3	(47.2)	(50.1)	(51.9)
Net Changes in Cash	(42.7)	25.7	1.2	6.6	6.1

Per Share Data

Y/E 31 Dec (SGD)	FY18A	FY19E	FY20E	FY21E	FY22E
EPU	0.06	0.06	0.05	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	12.2	11.4	13.5	12.8	12.3
P/B	0.8	0.8	0.8	0.8	0.8

Financial Ratios

Y/E 31 Dec	FY18A	FY19E	FY20E	FY21E	FY22E
Profitability & Return Ratios (%)					
EBIT margin	84.2	79.8	82.5	82.7	83.1
Net profit margin	36.3	49.0	36.5	37.5	38.2
ROE	5.0%	7.2%	6.0%	6.3%	6.5%
ROCE	3.5%	4.5%	4.0%	4.1%	4.2%
Working Capital & Liquidity Ratios					
Receivables (days)	142	142	142	142	142
Payables (days)	98	98	98	98	98
Current ratio (x)	0.4	2.3	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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