

**BUY**
**TP: SGD 0.88**
**▲ 18.9%**

# EC World REIT

ECWREIT.SP

## 1Q18 tax drag; rising visibility on acquisition roadmap

**EC World REIT (ECW) reported its 1Q18 results slightly below expectations. 1Q18 revenue and NPI stable, albeit distribution income down 3.8% YoY and DPU down 4.7% YoY as 1Q18 results are dragged by WHT. We see an increasingly visible acquisition roadmap in place as ROFR asset deal seems imminent, as well as potential \$400m YCH portfolio under acquisition due diligence. Maintain BUY with TP of S\$0.88.**

- ➔ **1Q18 results dragged by WHT, underlying performance stable:** 1Q18 gross revenue +1.2% YoY to \$23.9m, NPI -0.5% YoY to \$21.5m (+2.5% w/o effective rent adjustment) as underlying performance remains stable. DPU of S\$1.469c -4.7% YoY; -2.3% QoQ as 1Q18 is dragged by withholding tax (WHT) for cash repatriation from PRC asset companies, ECW has guided for no further repatriation for rest of FY18. Gearing stands at 28.9%, leaving ample debt headroom for acquisitions.
- ➔ **Wuhan Meiluote acquisition completed, Sponsor's ROFR asset imminent:** Maiden acquisition Wuhan Meiluote (RMB145m, anchored by e-commerce tenants Jing Dong and Dang Dang) was completed on 28 Feb 18. We reiterate our view that Sponsor ROFR asset, phase 3 of the Fu Zhou e-commerce properties is ripe for injection after commencing operations, which could increase ECW's underlying asset GFA by 34%.
- ➔ **YCH Group (YCH) partnership a visible acquisition roadmap:** The sponsor is jointly exploring with YCH to invest in logistics assets across China and South East Asia. i) Near term, YCH will bring a portfolio of 13 logistics assets c.\$400m and spanning 280,000sqm GFA for potential acquisition with YCH lessee and operator ii) Longer horizon, ECW and YCH is expected to launch a US\$150m logistics PERE fund in 2H18.
- ➔ **Maintain BUY:** ECW may enjoy yield compression as investors gradually digest the potential steepening of the inorganic growth trajectory and rising exposure to logistics e-commerce sector. Maintain BUY rating and a TP of S\$0.88/unit. ECW REIT offers attractive FY18E yield of 8.3% and currently trading at undemanding 0.8x 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 (%)	8.1%	8.3%	8.8%	9.1%	9.2%
BV per share	0.91	0.91	0.90	0.89	0.88
P/B (x)	0.8	0.8	0.8	0.8	0.8

Source: Company, SCCM Research; as of 11 May 2018

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PRICE CLOSE (11 May 2018)

SGD 0.74

MARKET CAP

SGD 582.3 mln

USD 439.7 mln

SHARES O/S

786.9 mln

FREE FLOAT

42.1%

3M AVG DAILY VOLUME/VALUE

SGD 0.204 mln / USD 0.154 mln

52 WK HIGH

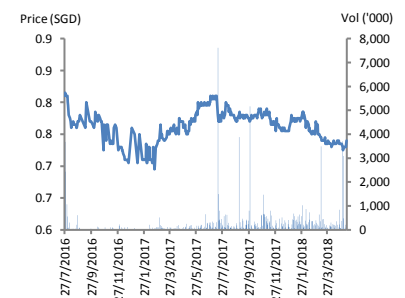
SGD 0.81

52 WK LOW

SGD 0.725

Target Price

SGD0.88



## 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
<i>Gross Revenue Growth Rate</i>		10.5%	4.8%	3.1%	1.9%
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>
<i>EBIT Margin</i>	<i>82.8%</i>	<i>83.8%</i>	<i>83.2%</i>	<i>83.5%</i>	<i>83.7%</i>
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>
<i>DPU Growth Rate</i>		2.4%	5.5%	3.5%	1.5%

## 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>

## 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	12.2	13.5	12.8	12.3	12.1
P/B	0.8	0.8	0.8	0.8	0.8

## 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	6.5	6.9	7.1
ROCE	2.7	4.3	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
Net gearing	0.29	0.28	0.28	0.28	0.28

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