

CHINA
DEVELOPMENT
FINANCIAL

EC WORLD REIT

(ECWREIT SP)

No need for panic

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- **Reiterate OUTPERFORM with 12M TP of S\$0.73.** We do not believe that the investigation into Mr Li Jinbo has any relation to the REIT or its Manager, and thus will not have any effect, operationally or otherwise, on the REIT's performance. CAD has made clear that neither the REIT nor its Manager is under investigation. However, we will continue to monitor the situation closely, and provide further updates as they arise.
- **Operationally steady.** All tenants are back to pre-Covid operation levels. The second wave of outbreak in Beijing has not affected any of the assets or tenants, and there has been no cases reported in Hangzhou. Lease renewal for Hengde Logistics, expiring in October 2020, is on track and in progress, although rental reversions are likely to be flat.

Joint investigation by CAD and MAS into Chief Investment Officer (CIO) Mr Li Jinbo. As per the announcement published on SGX on 2 July 2020, ECW has been required to provide certain information, documents and electronic devices (presumably items such as laptops) in relation to an investigation into Mr Li Jinbo. The investigation relates to an alleged offence under the Securities and Futures Act, Chapter 289, which refers to "the regulation of activities and institutions in the securities and derivatives industry, including leveraged foreign exchange trading, of financial benchmarks and of clearing facilities, and for matters connected therewith." We highlight that the CAD has indicated that ECW and its Manager are not under investigation, and have also received no further information or details regarding the investigation into Mr Li Jinbo.

We further note that should Mr Li have been involved in any unauthorised or illegal transactions in relation to any of the REIT's properties, the REIT and its Manager would have likely been included in the investigations by CAD. CAD's request for the provision of company documents and items relating to Mr Li's work is a common part of any investigation procedure relating to an individual. As a result, unless implicated by Mr Li, and pending further information by CAD, MAS or ECW, we remain doubtful that the investigation has any relation to the REIT or any of its properties. Management has also been forthcoming and proactive in communicating that they do not believe that the investigation is related to the REIT's activities and assets.

Mr Li joined the ECW in January 2017, and has been involved in investment, asset management, as well as investor relation matters since. Prior to this, Mr Li worked as an investment banker with Deutsche Bank and Standard Chartered. During his corporate advisory career, he advised clients across different industries on a multitude of capital raising and M&A transactions with a focus on real estate and REITs sector.

Outperform - Maintain		Performance (Absolute)	
Price as of 3 Jul 20 (SGD)	0.62	1 Month (%)	-15.3
12M TP (SGD)	0.73	3 Month (%)	21.8
Previous TP (SGD)	0.82	12 Month (%)	-16.5
Upside, incl div (%)	26.0%		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (USD mn)	482		
Issued Shares (mn)	804		
Vol - 3M Daily avg (mn)	1.0		
Val - 3M Daily avg (SGD mn)	0.6		
Free Float (%)	53.1		
Major Shareholders		Previous Recommendations	
Forchn Holdings Group Co Ltd	44.1%	14-May-20	OP S\$0.73
China Cinda Asset Mgmt	10.2%	2-Mar-20	OP S\$0.82
Bocom Intl Global Inv Ltd	7.7%	25-Nov-19	OP S\$0.84

Financials & Key Operating Statistics

	2018	2019	2020F	2021F	2022F
YE Dec SGD mn					
Gross revenue	96.2	99.1	102.6	104.9	106.7
Net property income	87.3	89.7	94.0	96.0	97.7
Distributable income	49.0	48.9	45.0	46.6	47.2
DPU (SGD cents)	6.2	6.0	5.4	5.7	5.8
DPU growth (%)	2.2	-1.8	-10.9	5.4	1.3
Div Yield (%)	9.9	9.8	8.7	9.2	9.3
NAV (S\$)	0.9	0.9	0.8	0.8	0.8
Price / Book (x)	0.7	0.7	0.7	0.8	0.8
NPI Margin (%)	90.8	90.5	91.6	91.5	91.5
Net Margin (%)	48.8	65.8	33.1	33.1	33.3
Gearing (%)	-	37.4	37.3	37.3	37.3
ROE (%)	6.6	6.8	9.5	5.0	5.1

Source: ECW, KGI Research

Business as usual. We understand that Mr Li's absence at this time will have no effect on the REIT's operations, nor negotiations for renewal of Hengde Logistics' lease with state-owned enterprise (SOE) China Tobacco Zhejiang Industrial Co., Ltd, as Mr Goh Toh Sim, CEO, as well as Mr Teo Kah Ming, VP for Investment and Asset Management, are more than able to take on Mr Li's responsibilities. The lease renewal negotiations are on track and is currently in the process of undergoing government checks and approvals (as the lessee is a SOE), and there are also no pending acquisitions or investments that require Mr Li's contribution.

All of ECW's assets are also 100% operational, and the second wave of outbreak in Beijing has been well-contained, according to management. There has been no cases reported in Hangzhou yet.

Valuation & Action: Maintain OUTPERFORM based on fair value of S\$0.73. We remain optimistic but conservative, due to the less than optimal macro outlook for China. We have factored a slower reversion rate and a slightly higher cost of capital into our valuations, and our TP represents a total upside of 25.7% (incl. FY20F div. yield of 8.7%).

Risks: Second wave of infections in China; fall-through of lease renewal of upcoming lease expiry with China Tobacco Zhejiang Industrial Co., Ltd. (Hengde Logistics – specialized logistics asset); CNY/SGD currency fluctuations.

Figure 2: ECW's portfolio details and valuations

		Lease Structure	Lease Tenure	Rental Escalation	FY19 Valuations (RMB 'mn)	FY18 Valuations (RMB 'mn)
Port Logistics	Chongxian Port Investment	Master lease	1 Jan 2016 to 31 Dec 2024	3.0% on 1 Jan 2020; 2% annually from 1st Jan 2021	2,265.00	2,235.00
	Chongxian Port Logistics Complex 1 Chongxian Port Logistics Complex 2	Multi-tenanted	-	For 72% of leases: increase of 10% in the first 3 years, 12% from Year 4	867.00	862.00
	Fu Zhuo Industrial	Multi-tenanted, 2 main leases	(1) 25 Apr 2015 to 24 Apr 2020; (2) 8 Oct 2014 to 7 Oct 2029	(1) 10% annually in the first 3 years, 15% annually from the 4th year; (2) 7.5% every 3 years	116.00	114.00
Specialised Logistics	Hengde Logistics Complex 1 Hengde Logistics Complex 2	Multi-tenanted, 2 main leases	(1) 15 Oct 2015 to 14 Oct 2020; (2) 9 May 2016 to 8 May 2021	Up to 10% over a lease term of 5 years (i.e. c.2.0% per annum)	1,479.00	1,470.00
	E-Commerce Logistics	Fu Heng Warehouse	Master lease	1 Nov 2015 to 31 Oct 2024	3.0% on 1 Jan 2020; 2.0% annually from 1st Jan 2021	613.00
Stage 1 Properties of Bei Gang Logistics		Master lease	1 Nov 2015 to 31 Oct 2024	1.0% on 1 Jan 2020; 1.0% annually from Nov 2020 to Oct 2024	1,309.00	1,297.00
Wuhan Meilute		Multi-tenanted	-	Up to 5% per annum	179.00	171.00
Fuzhou E-Commerce		Master lease	1 Aug 2019 to 31 Jul 2024	2.25% per annum	1,290.00	
Total Portfolio Valuation					8,118.00	6,729.00
Variance					20.6%	

Source: ECW, KGI Research

Figure 3: DDM valuation

Fiscal year ending December 31	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Distribution per unit (SGD cents)	6.16	6.05	5.39	5.68	5.75	6.01	6.10	6.19	8.29
Terminal Growth (%)									1.5%
Terminal value per unit (SGD cents)								92.27	
Cost of equity	10.48%								
Target price (\$\$)	0.73								
Capital appreciation	17.0%								
FY20F distribution yield	8.7%								

Source: KGI Research

Figure 4: Peer comparison

BB ticker	Company Name	Last Price (local \$)	Currency Adj. Market Cap (\$\$ m)	Dividend Yield (%)			P/B (x)		6M Average daily trading volume (\$\$ '000)	YTD Price Performance (%)	1YR Price Performance (%)	
				Current	FY19	FY20F	Current	FY19F				FY20F
ECWREIT SP	EC World Real Estate Investment Trus	SGD 0.62	354	8.1	9.8	8.7	0.7	0.7	1,010	-17.4	-21.7	
SINGAPORE LISTED INDUSTRIAL REITS (Avg)			24,523	6.8	6.9	6.9	1.2	1.1	1.1	16,389.5	(7.1)	(8.3)
AREIT SP	Ascendas Real Estate Investment Tru:	SGD 3.26	8,457	5.3	4.9	4.9	1.6	1.5	53,243	9.8	5.3	
MINT SP	Mapletree Industrial Trust	SGD 2.94	4,947	5.0	4.1	4.3	1.8	1.8	25,013	13.1	27.8	
MLT SP	Mapletree Logistics Trust	SGD 2.01	5,480	5.2	4.1	4.0	1.7	1.7	42,416	15.5	22.6	
FLT SP	Frasers Logistics & Commercial Trust	SGD 1.20	2,931	5.5	6.0	6.0	1.2	1.1	13,110	0.8	-3.2	
EREIT SP	ESR-REIT	SGD 0.40	999	7.7	8.4	8.4	0.9	0.9	8,565	-2.5	-26.7	
AAREIT SP	AIMS APAC REIT	SGD 1.23	623	9.1	8.1	8.4	0.9	0.9	2,329	-18.0	-16.9	
ALLT SP	ARA LOGOS Logistics Trust	SGD 0.58	448	7.7	9.0	9.0	1.0	1.0	1,401	-18.6	-26.8	
SBREIT SP	Soilbuild Business Space REIT	SGD 0.40	363	7.7	9.3	9.3	0.7	0.7	823	-23.1	-35.4	
SSREIT SP	Sabana Shari'ah Compliant Industrial	SGD 0.37	275	7.7	7.9	7.9	0.6	0.7	606	-20.7	-21.5	
SINGAPORE LISTED CHINA RETAIL REITS (Avg)			2,371	7.1	6.9	7.1	0.7	0.9	0.9	8,900.2	(12.3)	(11.1)
SASSR SP	Sasseur Real Estate Investment Trust	SGD 0.77	663	7.4	7.8	7.8	0.8	0.9	2,530	-13.0	-3.1	
BHGREIT SP	BHG Retail REIT	SGD 0.61	223	5.6	-	-	0.7	-	15	-10.9	-12.9	
CRCT SP	Capitaland Retail China Trust	SGD 1.27	1,113	7.7	6.5	-	0.8	1.0	6,108	-21.1	-19.5	
DASIN SP	Dasin Retail Trust	SGD 0.80	373	7.7	6.5	6.5	0.6	-	247	-4.2	-9.1	

Source: Bloomberg, KGI Research

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