16 April 2018

**BUY**

**TP: SGD 0.88**

▲ 19.7%

# EC World REIT

ECWREIT SP

## Prime Beneficiary of Hangzhou Logistics Boom

**Listed on the SGX in Jul'16, EC World REIT ("ECW") offers exposure to high-specification e-commerce warehouses in China. Through its sponsor's network and growth trajectory, we believe ECW is well-positioned to benefit from China's growing e-commerce market (~29% exposure), while its specialized logistics assets anchor its steady distribution yield. We initiate coverage with BUY and a DDM-based TP of S$0.88/unit.**

- **Maiden acquisition in Wuhan:** ECW signed its first deal since listing with the acquisition of a third party asset Wuhan MeiLuoTe property in Feb 2018. While acquisition yield is 4.9%, we expect the stabilized yield to reach 6.3% by FY18E. Post-acquisition, gearing remains low at 29%, implying S$224m of debt headroom (40% optimal gearing) for future acquisitions.
- **Sponsor's ROFR asset is ripe for harvest:** The sponsor, Forchn Holdings Group ("Forchn"), offers ECW inorganic growth opportunities through right of first refusal (ROFR) for two pipeline assets. In our view, phase 3 of the Fu Zhou e-commerce properties is now ripe for injection after commencing operations in 2017, which could increase ECW's underlying asset GFA by 34%.
- **Leveraging on Sponsor's growth trajectory:** Forchn's integrated smart warehousing and logistics services platform, RuYiCang, is growing rapidly nationwide. ECW is able to leverage on RuYiCang's rising growth trajectory by acquiring assets with RuYiCang as the operator (asset-light business model). We expect ECW's exposure to the e-commerce sector to rise in the near-term to 40%, from 29% currently.
- **Initiate with BUY:** With rising exposure to e-commerce sector and yield anchored by steady master-leased assets (~60% of GRI), we initiate coverage with a BUY rating and a TP of S$0.88/unit. ECW REIT offers attractive FY18E yield of 8.4% with 3.8% DPU CAGR from FY17-20E. It currently trades at sector-lowest 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 (%) | 8.2% | 8.4% | 8.8% | 9.1% | 9.3% |
| BV per share | 0.91 | 0.90 | 0.88 | 0.87 | 0.85 |
| P/B (x) | 0.8 | 0.8 | 0.8 | 0.9 | 0.9 |

Source: Company, SCCM, Prices as of 13 Apr 2018

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PRICE CLOSE (13 Apr 2018)
SGD 0.735

MARKET CAP
SGD 577
USD 440

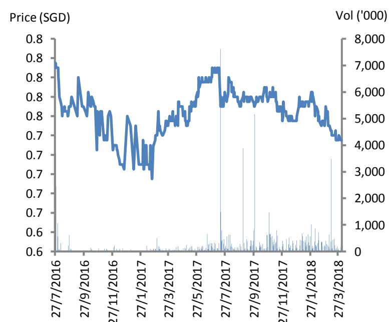
SHARES O/S
785 mln

FREE FLOAT
41.2%

3M AVG DAILY VOLUME/VALUE
SGD 0.2 mln / USD 0.2 mln

52 WK HIGH SGD0.81
52 WK LOW SGD0.73

Target Price SGD0.88



# Key Catalysts and Risks

**Fig 1 -** Catalysts and risks

| Catalysts | Comments |
|---|---|
| Exposure to the thriving e-commerce sector | Hangzhou, home to e-commerce giants such as Alibaba Group, has the most number of e-commerce parks in China. With a large market catchment area, ECW could potentially benefit from underlying sector fundamentals, which are positive in a secular uptrend. Amid tight supply of compatible logistics facilities, there is a potential for ECW's e-commerce logistics properties to see further rental reversion in the future. |
| Port assets to anchor distribution income | Chongxian Port Investment, Hangzhou's largest steel port and related warehouses, makes up c.34% of the portfolio's valuation, backed by a long-term master lease. As the asset continues to see high utilization, we expect the underlying business at this property to remain sound, and income from the asset to remain stable. We are cautiously optimistic that this may imply room for potential rental reversion when the master lease expires in end-2020. We expect ECW to maintain a blended occupancy of >95% over the next 3 years. |
| Organic growth locked in with rental escalation via master leases | Within ECW's current portfolio, three assets are backed by master-leases with built-in rental escalation incorporated into the leases. As these master leases contribute to 60% of gross rental income (GRI), it provides stability and organic growth for ECW's distribution income, while the multi-tenanted assets enjoy positive rental reversions. We expect a blended +4-5% pa rental reversion on ECW's portfolio over the next 3 years. |
| Strong backing from established sponsor | We are of the view that the sponsor, Forchn, is well established and fund management initiatives at the Sponsor level eg. JV with Cinda may provide a good pipeline of assets for injection in the long-term. In the near term, there is already a pipeline visibility for inorganic growth opportunities, with ROFR assets spanning over 300,000 sqm (two assets) of income-producing assets by gross floor area (GFA), from the sponsor. While we believe acquisition prospects for Stage 2 of Bei Gang Logistics remain hazy at this point, we are of the view that Fuzhou e-commerce properties phase 3 is ripe for injection, which would expand ECW's portfolio GFA by ~34%. Furthermore, there will likely be acquisition opportunities for e-commerce assets as ECW as the asset owner rides on rapid growth in Ruiyicang, the sponsor's integrated smart warehousing and logistics services platform. |
| **Risks** | **Comments** |
| Exposure to policies in China | ECW has a pure-play strategy in China. Given that most of the sectors in China are heavily influenced by governmental policies, any change to policies could potentially affect the sectors that ECW's underlying tenants are exposed to, hence indirectly affecting rental rates. However, with the E-commerce sector highly valued by the Chinese government, any possible risks related to government policy is likely minimal. We understand the Sponsor has better access to land due to government's positive view on e-commerce projects of which otherwise securing land for development is scarce. |
| Interest rate risks | Being a REIT, ECW is highly dependent on financing for its operations and acquisitions. In the event of higher-than-expected interest rate hikes, we could see a negative impact on returns, NAV of the units and cash flows of the REIT. 100% of ECW's offshore SGD facilities are on fixed rate to counter this risk, while potentially seeking to fix onshore debt tranche as well. |
| Competition | Given the competitive market for good quality, yield-accretive assets, there is no assurance that ECW would be able to make highly yield accretive acquisitions to achieve strong inorganic growth. |
| Currency risk | ECW's cash flows from operations are denominated in RMB, while dividends are distributed in SGD. This exposes investors to the risk of currency fluctuations in RMB against SGD, which may in turn affect the performance of the REIT. To mitigate this risk, ECW will maintain a rolling 6-month FX hedging strategy moving forward for its RMB sourced income. |

Source: SCCM Research

## Company Profile

- EC World REIT ("ECW"), listed on the SGX in Jul'16, is an SREIT with an initial portfolio of six specialized properties. The properties span across e-commerce properties, specialized logistics facilities, and port assets, as listed in Fig 2. The initial portfolio properties are located in Hangzhou with total appraisal value of RMB6.52bn (S$1.34bn) as at 31 Dec 2017. On top of that, ECW has recently acquired its maiden acquisition, Wuhan MeiLuoTe property for RMB171m. Post completion of the acquisition, the portfolio summary of ECW is as follows:

**Fig 2 - Portfolio summary**

| Name | Type | Value^ (RMB m) | NPI yield (%) | NLA (sqm) | Land lease expiry | Lease Type |
|---|---|---|---|---|---|---|
| Chongxian Port Investment | Port | 2,128 | 6.3% | 112,726 | 2055 | Master Lease |
| Chongxian Port Logistics | Port Warehouse | 854 | 5.6% | 125,856 | 2055-2060 | Multi-Tenant |
| Fu Zhou Industrial | Port | 114 | 2.0% | 7,128 | 2055 | Multi-Tenant |
| Stage 1 Properties of Bei Gang Logistics | E-commerce Logistics | 1,296 | 4.6% | 120,449 | 2051 | Master Lease |
| Fu Heng Warehouse | E-commerce Logistics | 577 | 8.3% | 94,287 | 2058 | Master Lease |
| Hengde Logistics | Specialized Logistics | 1,463 | 6.8% | 238,032 | 2053-2059 | Multi-Tenant |
| Wuhan MeiLuoTe | E-commerce Logistics | 171* | 4.9% | 48,695 | 2065 | Multi-Tenant |
| **Portfolio** | | **6,603** | **6.1%** | **747,173** | | |

Source: SCCM Research, Company; (^) as of FY17; (*) acquisition price RMB145m

**Fig 3 - Chongxian Port Investment**

Source: SCCM Research

**Fig 4 - Bei Gang Logistics**

Source: SCCM Research

**Fig 5 - Fu Heng Warehouse**

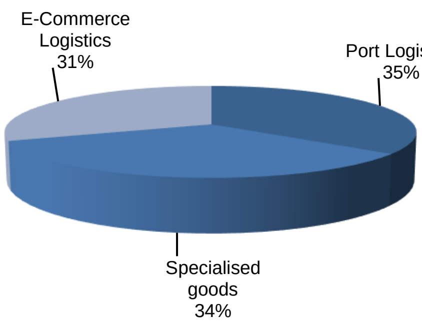

Source: SCCM Research

**Fig 6 - Hengde Logistics**

Source: SCCM Research

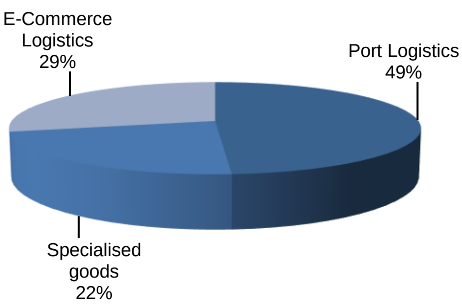
- Prior to completion of the Wuhan MeiLuoTe acquisition, the portfolio WALE (by gross rental income) stands as 3 years with underlying portfolio end-tenant occupancy of 97.5%, as of FY17. In terms of the complexion of the portfolio, we are positive on e-commerce asset Fu Heng Warehouse, from which e-commerce exposure is expected to grow with ROFR asset providing visible pipeline as well as other potential sponsor e-commerce logistics assets in the future.
- Currently, specialized logistics facilities (Hengde Logistics) and port assets (Chongxian Port Investment, Port Logistics and Fu Zhou Industrial) anchor the portfolio at this stage. The breakdown of the portfolio before completion of Wuhan MeiLuoTe acquisition is as follows:

**Fig 7 - Breakdown of portfolio by NLA**




Source: SCCM Research, Company

**Fig 8 - Breakdown of portfolio by valuation**




Source: SCCM Research, Company

## Investment Thesis

### Maiden acquisition kicks off inorganic growth path

- **Small maiden deal, but third party deal illustrates execution capability:** ECW signed its first deal since listing with the acquisition of third party asset Wuhan MeiLuoTe property. The acquisition price is RMB145m fully funded by cash and is expected to bring accretion of c.0.8% to the REIT based on acquisition yield of 4.9%. While this maiden acquisition is small which brings about marginal accretion, we see this third party deal illustrating ECW's deal execution capability of which marks the commencement of ECW's inorganic growth path moving forward.

**Fig 9 - Wuhan MeiLuoTe asset summary**

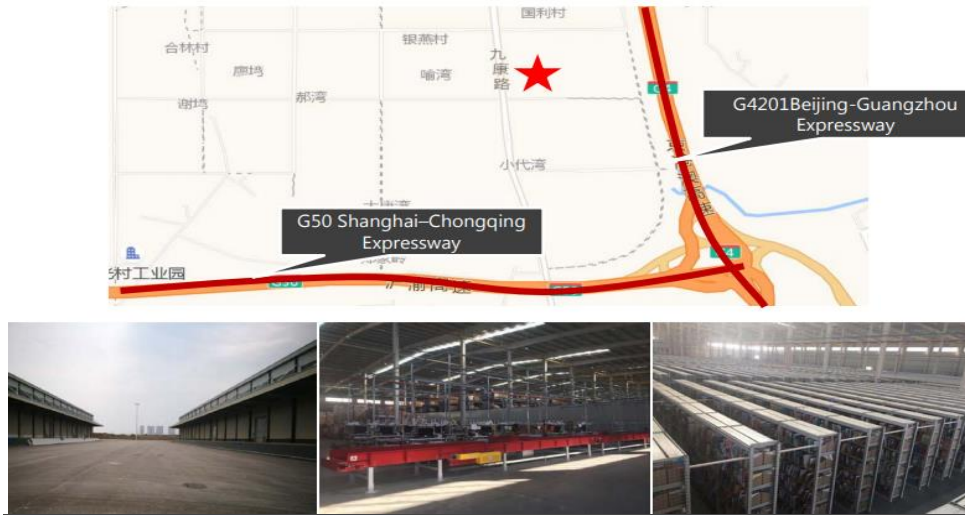
| | |
|---|---|
| Location | Wuhan City, Hubei Province |
| Completion year | 2017 |
| Remaining land tenure | 48 years (expiring 2065) |
| GFA / NLA | 49,861 sqm / 48,695 sqm |
| WALE (GRI / NLA) | 2.3 yrs / 2.4 yrs |
| Occupancy | 82.2% |
| NPI yield | 4.9% |

Source: Company, SCCM Research

- **Wuhan MeiLuoTe property:** The property is a new asset located in industrial city Wuhan of which commenced operations recently in May 2017. Tenant covenants is strong with the asset mainly leased to e-commerce players JD.com and dangdang.com with current occupancy at 82%.

**Headline acquisition yield is low, but we estimate higher stabilised yield of 6.3% post uptick in occupancy in the near term**

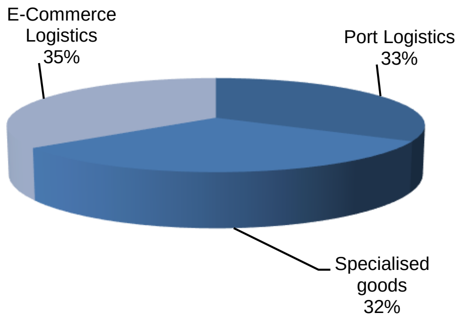
**Fig 10 - Wuhan MeiLuoTe property**




Source: Company

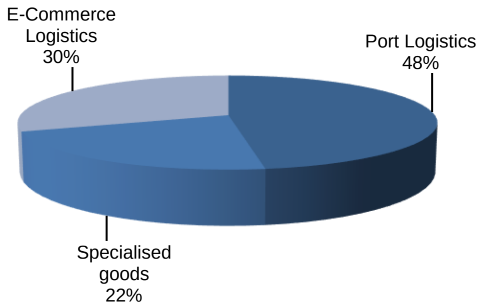
- **Potential uptick in occupancy may raise asset yield:** While headline asset NPI yield at 4.9% appears undemanding, there is upside to asset yield with potential uptick in occupancy levels. We understand the remaining space is under active leasing with onboarding of tenants for the remaining space likely bring occupancy up to c.90% levels. We estimate the initial stabilized yield of the acquisition to be at c.6.3% which would bring more accretion to ECW than the initial acquisition yield.

**Fig 11 - Breakdown by NLA post acquisition**




Source: SCCM Research, Company

**Fig 12 - Breakdown by valuation post acquisition**




Source: SCCM Research, Company

## ROFR asset ripe for injection, e-commerce exposure set to rise

- ECW's sponsor, Forchn Group, offers ECW inorganic growth opportunities through right of first refusal (ROFR). Two of the sponsor's income-producing assets, covering 300,000sqm by GFA, can be potentially acquired by ECW and grow the portfolio by 54.8%. We believe acquisition prospects for Stage 2 of Bei Gang Logistics remain hazy at this point. However, having visited phase 3 of the Fu Zhou e-commerce properties, we think that the asset ripe for injection after commencing operations in 2017.

**We visited phase 3 of the Fu Zhou e-commerce properties and is of the view that this asset now ripe for injection**

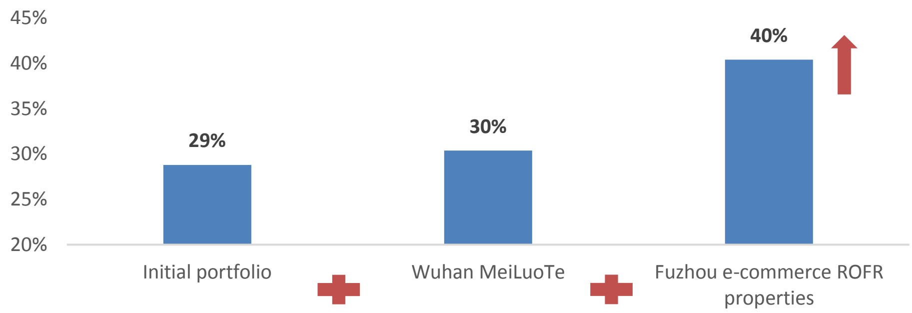
**Fig 13 - ROFR pipeline**

| No | Property | GFA (sqm) | Status | Sponsor's effective interest (%) |
|---|---|---|---|---|
| 1 | Fu Zhou E-Commerce Properties | 215,643 | **Property is completed and operating from 2017** | 58 |
| 2 | Phase 2 of Bei Gang Logistics (No. 9 to No.17) | 100,777 | **No. 9 to 14**<br>Building completed & Sponsor is deliberating strategy for the asset<br>**No.15 to 17**<br>Buildings are still under construction. | 100 |

Source: SCCM Research, Company

- This would increase ECW's underlying asset GFA by c.34% in the near term, as well as potentially increasing ECW's e-commerce exposure to c.40% based on our estimates, assuming a 6% acquisition yield. In our view, the rising e-commerce exposure would bode well with investors, with the potential for yield compression for the REIT. We have not factored in the potential yield accretion from the Fuzhou e-commerce ROFR properties into our estimates pending fruition and transaction details.

**Fig 14 - Portfolio e-commerce exposure (by valuation)**



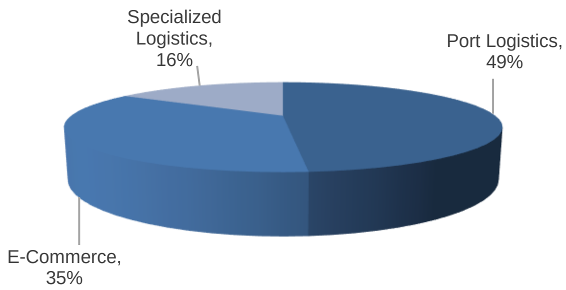

Source: SCCM Research, Company

## Port and specialized logistics assets anchor portfolio income

**The specialized logistics and port assets are embedded with organic growth that would anchor distribution income**

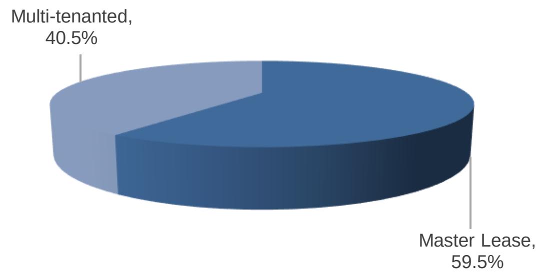
- While the portfolio enjoys rides on growth through its favourable e-commerce exposure on an upward trajectory, in the meantime ECW's REIT distribution income anchored by a portfolio of port and logistics assets (70% of portfolio value, est. 65% of revenue) which would provide stability to the portfolio.

**Fig 15 - FY18E Revenue Contribution by Segment**




Source: SCCM Research, Company

**Fig 16 - FY18E Revenue Contribution by Lease Type**



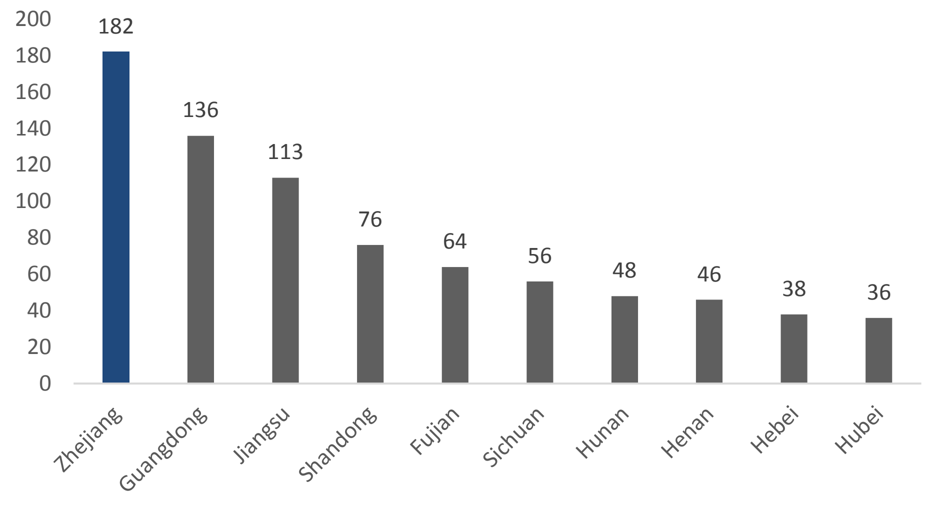

Source: SCCM Research, Company

- Among the ECW portfolio, we expect Chongxian Port Investment (est. 32% of revenue) to continue enjoying full utilization, which would bode well for rental reversions when the master lease expires in 2020, while continuing to enjoy built-in ~3-5% pa rental escalations in the current lease and 100% committed occupancy.
- Demand for space in Chongxian Port Logistics is high, based on our takeaways from site visit, and the REIT manager will progressively seek to reduce the lease tenure to enjoy higher rental reversions. We estimate a ~5-10% pa rental escalations and 100% occupancy over the next 3 years.
- Hengde Logistics is a high-specification warehouse, which is leased to China Tobacco Zhejiang industrial Co., for the storage of over RMB10bn value of tobacco leaves in a controlled environment. We expect the asset to enjoy 100% occupancy over the next 3 years. From our on-the-ground checks, we understand the stored tobacco leaves generally require 2 years of curing by storage in the warehouse, which has the capability to control temperature and humidity. With the high storage value of goods, which require long storage time, we expect stable underlying lease income and renewal prospects to be high on expiry on the back of strong tenant covenants.

# Key Strengths and opportunities

## Exposure to thriving e-commerce sector

**Fig 17 - China e-commerce parks distribution in top 10 provinces**




Source: Savills, Note: ECW's 2 key e-commerce assets: Fu Heng Warehouse and Beigang Logistics are located in Hangzhou, Zhejiang

- Demand for integrated e-commerce hubs would be high, and coupled with limited supply of compatible logistics facilities ECW's e-commerce/logistics properties would benefit from potential for rental reversion.
- We understand with favourable underlying sector fundamentals, government policies are also supportive to promote the development of the e-commerce and logistics industries as the sector outlook remains positive in the long term. ECW, along with the Sponsor would be able to capture market share in the Hangzhou market for potential e-commerce projects.

## Strong backing from an established Sponsor

**Sponsor's fund initiatives may provide pipeline assets for ECW in the long term**

- ECW is sponsored by the Forchn Group, a renowned integrated property group in China with a strong e-commerce logistics presence and capabilities. Besides e-commerce, Forchn specializes in various sectors such as real estate, industrials, logistics and finance. It has over 20 years of experience in operating port facilities in China. This includes investments in and the construction of the Chongxian Port facility – recognized as a key construction project by the PRC government at both provincial and national levels and ranked among the top three inland ports by scale (excluding those on the Yangtze River) in the PRC.
- Forchn is also among the operators of the Chongxian Port facility. It played a key role in the strategic restructuring of existing operations, both in industrial properties and port logistics, into an e-commerce model. ECW is thus able to tap into its sponsor's knowledge, experience and competency in the e-commerce field, as well as its business networks and market reach when initiating property development.
- The Sponsor has also embarked on fund initiatives for investment in e-commerce logistics and warehousing assets, which may serve to provide acquisition pipeline for ECW in the long term. Forchn has just recently announced in Mar 2018 the signing of

MOU with supply chain management company YCH to jointly explore the launch of a US$150m BRI Logistics Real Estate Private Equity Fund which is targeted to invest in warehousing and logistics assets across China and South-east Asia.

## RuYiChang the pivotal "content" advantage

- **Strong integrated platform:** Forchn expanded its operations in China's growing e-commerce market three years ago by launching Ruyicang, an integrated smart warehousing and logistics services platform, which caters to manufacturers, traders and e-commerce players at different tiers. Ruyicang is a leading domestic professional e-commerce warehousing logistics operator, which provides professional and efficient packaging services, and warehouse and distribution services for e-commerce clients through a self-developed warehousing logistics system of which fills a key void towards last mile delivery to end customers.

**Fig 18 - Symbiotic relationship with Sponsor**


Source: Company

**"Content" is key for projects, Sponsor backing with Ruyicang as ready operator a key advantage**

- **Symbiotic relationship with Ruyicang:** Ruyicang, the sponsor's integrated smart warehousing and logistics services platform which caters to manufacturers, traders and e-commerce players at different tiers, is growing rapidly and is expected to require an additional 20-30 sites per year (each estimated at c.30,000sqm) over the next few years. In this symbiotic relationship, Ruyicang is the asset operator (asset-light) and ECW is the asset owner.

- As Ruyicang grows on the back of the e-commerce boom, ECW can ride on the growth by stepping in as the asset owner that houses Ruyicang's operations. Generally, the key challenge to developing projects or acquiring assets is injecting the "content" for the projects. This is where we see ECW having the pivotal "content" advantage by having strong Sponsor backing with a high growth asset operator ready to fill the assets.

- In addition, Forchn is one of the founding members of Cainiao Network Technology Co., a joint venture between the Alibaba Group, Intime Retail (Group) Company, Fosun Group, Forchn Holdings Group Co., and five other logistics companies (SF Express, STO Express, ZTO Express, YTO Express and YunDa Express). Cainiao Network Technology Co. operates the China Smart Logistics Network, established to help transform China's logistics infrastructure through the creation of an open, transparent and shared data platform to serve e-commerce businesses, logistics companies, warehouse companies, third party logistics service providers and supply chain managers in China.

## Robust balance sheet with headroom for acquisitions

**Ample debt headroom ready for ROFR acquisition, in our view**

- ECW is delivering healthy yield above 8% on a reasonably low leverage of 29.2% as at 31 Dec 2017, which implies the high yield is not boosted by adopting higher leverage but mainly through underlying asset yield. Assuming a target 40% leverage ratio, we estimate debt headroom of c.RMB1.4bn to fund future acquisitions without requiring a cash call. This also allows ECW to be more nimble in pursuing deals with internal cash or debt funding, especially third party transactions that require shorter exclusivity period for due diligence and execution.

- With the debt headroom available, in our view ECW is now well positioned to potentially acquire ROFR asset phase 3 of the Fu Zhou e-commerce properties fully by debt, which would also raise ECW's e-commerce exposure as discussed. We believe the potential increase in e-commerce exposure would bode well with investors and may lead to yield compression for the REIT.

## Management team with cross-border track-records

- ECW's management team is experienced with prior track record in managing cross-border SREITs and overseas assets, as well as the associated risks emanating from volatile forex movements. Of note, acting CEO Mr. Goh Toh Sim has many years of experience in China's property market and Mr. Johnnie Tng has extensive experience as CFO of several listed companies with underlying overseas properties.

  - **Mr. Goh Toh Sim, Chief Executive Officer,** has over 20 years of experience in management of industrial parks, real estate development and business management in China. In the past, Mr. Goh held the following positions: Chief Representative in China for Keppel Corporation, CEO of Evergro Properties and Ascendas (China), and Deputy CEO of China-Singapore Suzhou Industrial Park Development Group.

  - **Mr. Johnnie Tng, Chief Financial Officer,** has over 25 years of extensive financial experience in the real estate sector. Previously, Mr. Tng was the CFO at Keppel REIT, Ying Li International Real Estate and Ascendas India Trust. Apart from his deep insight in handling the finances of a REIT, Mr. Tng also has rich experience in managing forex fluctuations. He has also held senior management positions at Silk Route Holdings, Freight Link Express Holdings and RGM International.

  - **Mr. Jinbo Li, Head of Investment, Asset Management and Investor Relations,** is responsible for corporate development activities for EC World REIT including acquisitions, divestments as well as asset management. Mr Li also serves as the main contact point between the REIT Manager and the investment community focusing on maintaining and strengthening relationships with institutional, retail investors as well as research analysts and media. Prior to joining the Manager in January 2017, Mr Li worked as an investment banker with Deutsche Bank and Standard Chartered.

# Financials

## FY17 results review – Maiden full year results inline

- ECW recently released FY2017 results reporting gross revenue of S$91.4m and NPI of S$82.7m, slightly above IPO forecast. The slight gross revenue outperformance is mainly attributable to the additional rental income from asset enhancement initiative at Chongxian Port Investment (construction of sheltered warehouse). The positive variance in NPI is in tandem with the strengthening RMB.

- We think that ECW is off to a good start in terms of delivering on its forecasts. Given the strong pipeline, backing of an established sponsor and ~60% of rental income contributed from master lease, we have reasonable comfort in the growth trajectory of the vehicle is sustainable.

**Fig 19 - ECW's FY17 results and IPO forecast comparison**

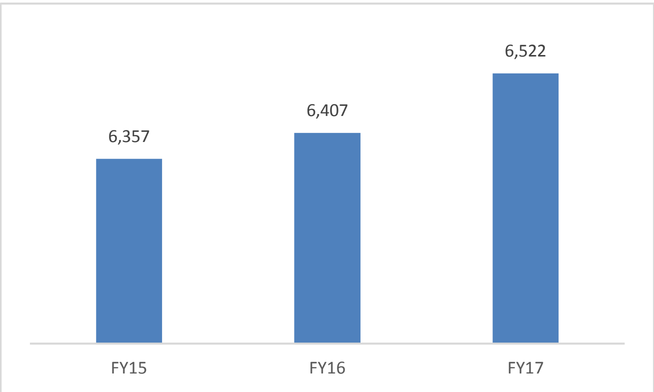
| Period | FY17 |
|---|---|
| Gross Revenue (S$m) | 91.4 (+1.0% variance) |
| NPI (S$m) | 82.7 (+0.9% variance) |
| DPU (S$ c) | 6.025 (+1.5% variance) |
| NAV per Unit (S$) | 0.91 |
| P/B | 0.84x |
| Occupancy | 100% (Underlying lease occupancy 97.5%) |
| Leverage | 29.2% |
| Cost of Debt | 5.3% |

Source: SCCM Research, Company

- In terms of operating performance, portfolio occupancy remains at 100% with underlying end-tenant occupancy at 97.5%, portfolio WALE stands at 3.0 years (by gross income). With the slight topline outperformance, distributable income and DPU are +1.3% and +1.5% above IPO forecast, respectively.

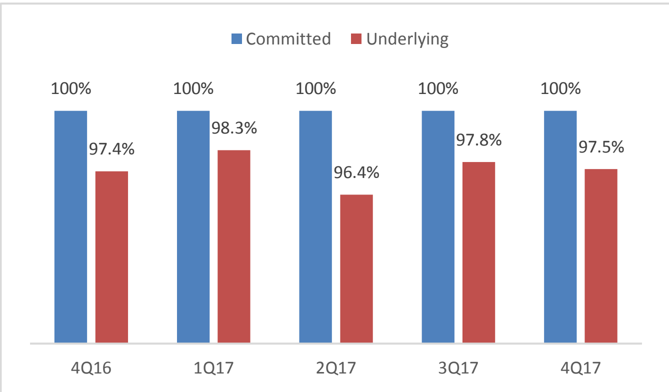
- Portfolio valuation appreciated +1.8% YoY in RMB terms to RMB6,522m (+2.8% YoY in SGD terms) for the year, a reflection of expectation of higher market rental rates and in line with the slightly improved operating performance. ECW has delivered a DPU of S$6.025c in FY2017, translating to annualized yield of 7.9% based on 2017 year end closing price of $0.76/unit.

**Fig 20 - Portfolio Value in RMB'm**




Source: Company

**Fig 21 - Portfolio Occupancy**




Source: Company

- ECW maintains a very under-demanding level of leverage of 29.2% which leaves plenty of gearing headroom of S$224m for asset injections in its pipeline. We think that its current balance sheets allows ECW to be nimble in terms of seeking out opportunistic acquisitions as well.
- As of FY17, the vehicle has RMB993.6m of onshore debt facilities and $238m of offshore facilities all denominated in SGD. 100% of offshore SGD facilities are on fixed rate. The company has entered FX forward contracts to lock in SGDRMB for its income source. The annualized all-in interest costs is 5.3%.

## Forecasts and Assumptions

- The core assumptions for the P&L are as follows:
  - Our model assumes +4-5% rental escalations for the portfolio assets from FY18E to FY20E. We applied a flat escalation for multi-tenanted properties but applied the contracted rental escalation for master-leased properties.
  - Portfolio occupancy to be above 95% at least for the next 3 years. Occupancy to improve progressively as Fu Heng Warehouse matures.
  - We expect Gross Revenue and Net Property Income to grow by 6.1% CAGR and DPU to grow by 3.8% CAGR from FY17-20E.

**We expect portfolio assets to be stable in the near term with strong upside potential from possible pipeline injections.**

**Fig 22 - Consolidated P&L**

| Y/E 31 Dec (in SGD'm) | FY17A | FY18E | FY19E | FY20E | FY21E |
|---|---|---|---|---|---|
| Gross Revenue | 91.4 | 101.0 | 105.8 | 109.1 | 111.1 |
| ***Gross Revenue Growth Rate*** | | ***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 | | | | | |
| Trustee-Manager's fees | (5.3) | (5.2) | (5.9) | (5.9) | (5.8) |
| Trustee's fee | (0.3) | (0.3) | (0.3) | (0.3) | (0.3) |
| Trust and administrative expenses | (1.5) | (1.4) | (1.4) | (1.4) | (1.4) |
| Other Expenses | | | | | |
| **EBIT** | **75.7** | **84.6** | **88.0** | **91.1** | **93.0** |
| ***EBIT Margin*** | ***82.8%*** | ***83.4%*** | ***83.2%*** | ***83.2%*** | ***83.5%*** |
| | | | | | |
| 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) |
| Share of Associates' or JV Income | | | | | |
| Exceptional Gains/(Losses) | (1.6) | | | | |
| **Net Income** | **49.7** | **59.0** | **62.3** | **65.4** | **67.4** |
| Tax | (23.8) | (15.4) | (16.3) | (17.1) | (17.6) |
| Minority Interests | | | | | |
| **Net Income** | **25.9** | **43.5** | **46.1** | **48.4** | **49.9** |
| Net Gains from revaluation of properties | 21.7 | | | | |

| | | | | | |
|---|---|---|---|---|---|
| **Total Return for the year** | **47.6** | **43.5** | **46.2** | **48.4** | **49.9** |
| | | | | | |
| **Invt Income available for distribution** | **47.1** | **48.7** | **51.8** | **54.2** | **55.6** |
| | | | | | |
| **DPU (cents)** | **6.0** | **6.1** | **6.5** | **6.7** | **6.8** |
| ***DPU Growth Rate*** | | ***2.4%*** | ***5.5%*** | ***3.5%*** | ***1.5%*** |

Source: SCCM Research

- The core assumptions for the B/S are as follows:
  - Our model assumes that share base will expand from 784.7m in FY17 to 808.1m in FY20E. This is on the basis that 100% of the manager's fees are payable in units.
  - Our model accounts for the Wuhan MeiLuoTe acquisition starts to impact ECW's Investment properties by FY18E. The acquisition price is RMB145m fully funded by cash.
  - We expect gearing to remain stable at around 29% for the foreseeable future. Our model has yet to factor any major acquisitions after Wuhan MeiLuoTe.

**We think that the Wuhan MeiLuoTe acquisition is just an initial step to its growth story**

**Fig 23 - Balance Sheet**

| **Y/E 31 Dec (in SGD'm)** | **FY17A** | **FY18E** | **FY19E** | **FY20E** | **FY21E** |
|---|---|---|---|---|---|
| Cash | 138.6 | 117.5 | 111.9 | 106.5 | 101.0 |
| Trade Receivables | 35.6 | 39.3 | 41.2 | 42.5 | 43.3 |
| Current Assets | 174.2 | 156.9 | 153.1 | 148.9 | 144.2 |
| 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 |
| **Total Assets** | **1,511.4** | **1,524.3** | **1,520.6** | **1,516.4** | **1,511.7** |
| | | | | | |
| 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 | | 15.4 | 16.3 | 17.1 | 17.6 |
| Other ST Liabilities | 11.2 | 11.2 | 11.2 | 11.2 | 11.2 |
| Current Liabilities | 75.9 | 93.9 | 96.1 | 97.7 | 98.8 |
| 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 |
| **Total Liabilities** | **793.8** | **811.8** | **813.9** | **815.6** | **816.7** |
| | | | | | |
| Total Unitholders' Equity | 717.6 | 712.5 | 706.6 | 700.8 | 695.0 |
| **Total Liabilities and Equity** | **1,511.4** | **1,524.3** | **1,520.6** | **1,516.4** | **1,511.7** |

Source: SCCM Research

## Valuation – Initiate with BUY and TP S$0.88/unit

**Our TP of S$0.88/unit implies 20% upside; initiate with BUY**

- From our perspective, the value of a REIT is derived from its distribution income as a perpetual vehicle. For this reason, we use a DDM-based model to value ECW REIT. Applying a conservative terminal growth rate of 1%, a discount rate of 8.4%, a risk-free rate of 3.8%, 0.8 beta and 5.9% equity risk premium, we arrive at a target price of S$0.88/unit, of which translates to our estimated forward FY19E yield of 7.4%, which is undemanding, in our view.

**Fig 24 - DDM Valuation**

| | 2018E | 2019E | 2020E | 2021E | 2022E | Terminal Value |
|---|---|---|---|---|---|---|
| Year | 1 | 2 | 3 | 4 | 5 | |
| DPU (S$) | 0.06 | 0.06 | 0.07 | 0.07 | 0.07 | |
| Discounted DPU (RMB) | 0.30 | 0.31 | 0.32 | 0.33 | 0.33 | |
| | 0.27 | 0.26 | 0.25 | 0.24 | 0.22 | 4,450 |
| Terminal Growth | 1.0% | | | | | |
| Cost of Equity | 8.5% | | | | | |
| PV of terminal value (RMB) | 2.96 | | | | | |
| Total Equity Value (RMB) | 4.20 | | | | | |
| Target Price (SGD) | 0.88 | | | | | |
| | | | | | | |
| CN Risk Free Rate (China 10 yrs) | 3.8% | | | | | |
| China Equity Risk Premium | 5.9% | | | | | |
| Beta | 0.8 | | | | | |

Source: SCCM Research

- Our DDM-based derived target price of S$0.88/unit implies 19.7% upside based on closing price of $0.74, as well as the current trading yield for ECW at 8.2% which is attractive. We initiate coverage on ECW with a BUY rating

**Fig 25 - Sensitivity analysis**

| Cost of Equity \ Terminal growth | 0.50% | 0.75% | 1.00% | 1.25% | 1.50% |
|---|---|---|---|---|---|
| 5.5% | 1.34 | 1.40 | 1.47 | 1.54 | 1.62 |
| 6.5% | 1.12 | 1.16 | 1.20 | 1.25 | 1.30 |
| 7.5% | 0.96 | 0.98 | 1.01 | 1.05 | 1.08 |
| 8.5% | 0.84 | 0.86 | 0.88 | 0.90 | 0.93 |
| 9.5% | 0.74 | 0.76 | 0.77 | 0.79 | 0.81 |
| 10.5% | 0.67 | 0.68 | 0.69 | 0.71 | 0.72 |
| 11.5% | 0.61 | 0.62 | 0.63 | 0.64 | 0.65 |

Source: SCCM Research

- All in all, our main takeaways on ECW is as follows:

**We are positive on the e-commerce exposure of which is expected to increase to 40% of portfolio value**

  - ➢ ECW is a REIT with underlying portfolio comprising of E-commerce properties, port assets and specialized logistics properties. E-commerce properties is the segment of the portfolio where we are bullish. However while e-commerce exposure (29% by value) is not majority of the portfolio currently, in our view ECW's e-commerce exposure is likely to be on the uptrend for the longer term. We believe the market should converge to our positive view on ECW's e-commerce exposure and lead to yield compression for the REIT after ECW executes successfully in increasing e-commerce exposure through inorganic growth and establishes a successful track record.

- In addition, we believe that the increase in e-commerce exposure is imminent in the near term. From our site visit takeaways, we believe in the near term phase 3 of the Fu Zhou e-commerce properties is ripe for acquisition by ECW after commencing operations in 2017. This is coupled with the point that ECW has dry powder on its balance sheet with debt headroom available for the acquisition. This would increase ECW's e-commerce exposure to c.40% based on our estimates in the immediate term.

- Aside from the rising e-commerce exposure in the horizon, in the meantime the specialized logistics facilities and port assets would anchor distribution income which in itself is embedded with organic growth with stepped rent increases structured into leases.

## Comparables

- In comparison to the industrial REIT peers, while not an exact like-for-like comparison due to ECW's underlying property assets in China, ECW is now trading at c.0.8 P/B delivering yield above 8% on relatively low leverage about 30% which is undemanding in our view while recognizing that ECW is a smaller REIT by market cap. This is compared to other industrial S-REITs trading at an average FY18 yield of 6.5%.

**Fig 26 - Singapore REITs peer comparison**

| Ticker | Short Name | P/B (x) | Market Cap (US$ m) | FY17-20E DPU Growth (%) | Dividend yield (%) | |
|---|---|---|---|---|---|---|
| | | | | | **FY18E** | **FY19E** |
| **ECWREIT SP** | **EC WORLD REIT** | **0.79** | **441.3** | **3.8** | **8.37** | **8.83** |
| AREIT SP | ASCENDAS REAL ES | 1.29 | 5,983.8 | 2.8 | 5.97 | 6.19 |
| AAREIT SP | AIMS AMP CAPITAL | 1.03 | 724.3 | (0.2) | 7.41 | 7.91 |
| CACHE SP | CACHE LOGISTICS | 1.16 | 676.9 | 1.1 | 7.59 | 7.83 |
| MINT SP | MAPLETREE INDUST | 1.43 | 2,917.8 | 4.8 | 5.91 | 6.21 |
| MLT SP | MAPLETREE LOG TR | 1.21 | 2,961.2 | 3.0 | 5.98 | 6.22 |
| SBREIT SP | SOILBBUILD BUSIN | 1.05 | 533.5 | (3.1) | 7.52 | 7.52 |
| KDCREIT SP | KEPPEL DC REIT | 1.51 | 1,254.8 | 5.7 | 5.34 | 5.48 |
| **Average (excl. ECWREIT)** | | **1.18** | | **2.0** | **6.53** | **6.77** |

Source: SCCM Research, Bloomberg, Prices as of 13 Apr

**Fig 27 - Chinese REITs (listed in Singapore) peer comparison**

| Ticker | Short Name | P/B (x) | Market Cap (US$ m) | FY17-20E DPU Growth (%) | Dividend yield (%) | |
|---|---|---|---|---|---|---|
| | | | | | **FY18E** | **FY19E** |
| **ECWREIT SP** | **EC WORLD REIT** | **0.79** | **434.7** | **3.8** | **7.80** | **8.28** |
| CRCT SP | CAPITALAND RETAIL | 0.95 | 1,133.2 | 2.9 | 6.84 | 7.04 |
| DASIN SP | DASIN RETAIL | 0.58 | 373.9 | N.A. | 11.01 | 10.11 |
| BHGREIT SP | BHG RETAIL | 0.93 | 290.7 | N.A. | N.A. | N.A. |
| SASSR SP | SASSEUR REAL | 1.02 | 716.4 | N.A. | N.A. | N.A. |
| **Average (excl. ECWREIT)** | | **0.87** | | **2.9** | **8.88** | **8.53** |

Source: SCCM Research, Bloomberg, Prices as of 13 Apr

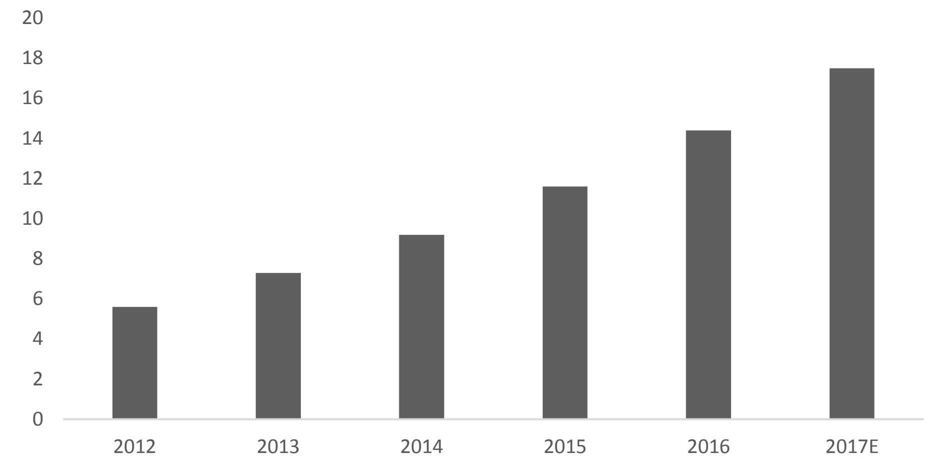
# Appendix: E-commerce outlook

## China e-commerce continues to grow

**E-commerce will the backbone supporting growth in China's Logistic space and ECW is well positioned to capture the trend**

- The overall China B2B e-commerce market has been growing tremendously and still maintaining its steady growth. Enterprise trends going towards from offline to online and B2B online services are becoming the standard as part of the industrial chain. On the back of this secular shift in trend, the transaction volume of the e-commerce market in China has reached c. RMB14.4tn on annual growth rate of 23.9% and expected to grow 22.1% YoY to RMB 17.5tn in 2017.

**Fig 28 - Overall Transaction volume of China's B2B E-commerce (RMB tn)**




Source: China's EC B2B Market Analysis, Savills

- Small-medium B2B enterprises and large B2B enterprises continue to be the largest segment in the overall e-commerce market, with large B2B enterprises dominating with c.60.8% market share by 7 core B2B enterprises. Unsurprisingly, Alibaba ranks first with largest market share of 43%, ahead of the other 6 core B2B enterprises.

**Fig 29 - China's 7 core B2B enterprises**

| Rank | Enterprise | Market Share | Business Focus |
|---|---|---|---|
| 1 | 阿里巴巴 Alibaba.com | 43% | Comprehensive, including clothes, beauty, medicine, baby care, etc. |
| 2 | 慧聪网 | 7.5% | Comprehensive, including clothes, medicine, electrical appliances, etc. |
| 3 | 环球资源 global sources | 4.1% | Multiple channels B2B media company, focus on foreign trade. |
| 4 | 焦点科技 | 2.6% | Comprehensive, platform for global enterprises searching business. |
| 5 | 我的钢铁 Mysteel.com | 1.4% | Focus on steel and related business trades. |
| 6 | 环球市场 | 1.2% | Comprehensive, including furniture, auto parts, electrical appliances, etc. |
| 7 | Toocle 生意宝 | 1% | Focus on computer and related IT services. |

Source: China's EC B2B Market Analysis, Savills

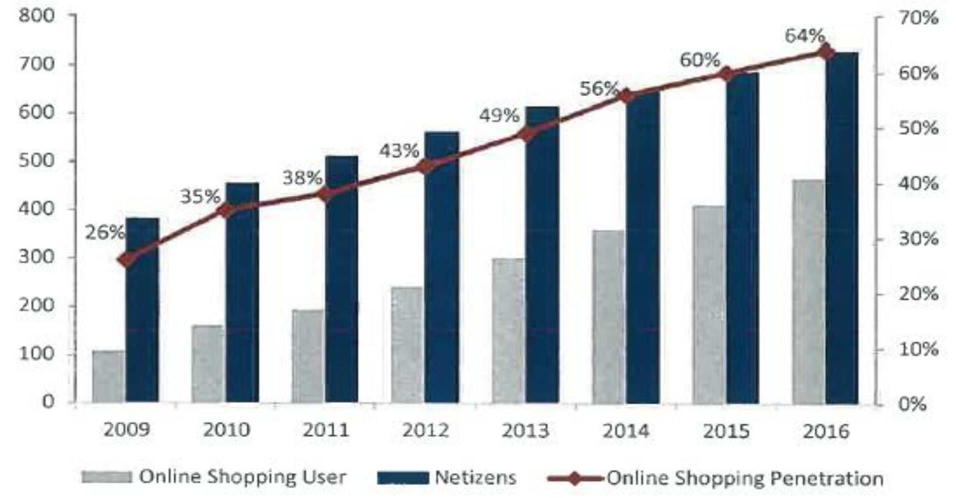
- While the rate of increase of companies entering the B2B industry eased significantly as the industry stabilizes, enterprises continue to develop in-depth on operational precisions, regional development and industrial chain service building which continues to increase operational income at a high speed.

## E-consumer penetration remains robust with rising netizen numbers

**The growth of the netizen community underpins B2B, B2C and C2C commercial activities. We can expect robust growth in the e-commerce space in the near term**

- The surge in internet penetration and rapid growth of middle-income families has led to tremendous growth in the China e-commerce market during the last few years. China netizens growth increased 43 million to reach 731 million in 2016, with the number of online shopping netizens reaching 467 million and proportion of netizens rising from 28% in 2009 to 64% in 2016. Nonetheless, there is still room for growth. As consumers in Tier 1 and Tier 2 cities become increasingly savvy online shoppers, large potential is still present for online sales particularly in Tier 3 and 4 cities. The online shopper base in Tier 3 and 4 cities is c.257m, one of the largest in the world. This remains a huge potential for growth.

**Fig 30 - China Netizen Numbers**

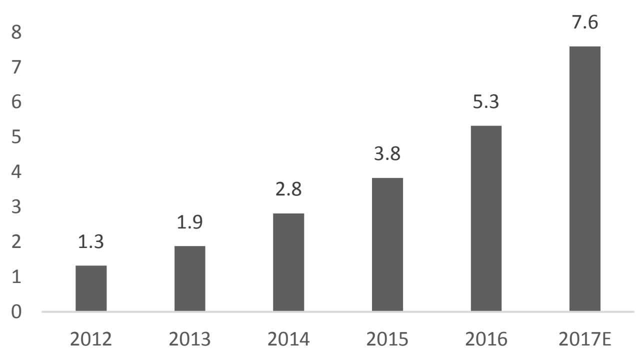



Source: China's EC B2B Market Analysis, Savills

- This has translated to rising proportion of China online retail to total retail sales with the proportion increasing from 1.1% in 2008 to 16.6% in 2016. Though relatively new to online shopping, Chinese consumers already make up for almost half of global online retail sales, and are only growing in numbers. All-in-all, with the development of the e-commerce industry, the B2b e-commerce industry is at a high growth stage which will also influence and bring about a paradigm change for the traditional manufacturing industry and its related economic chain.

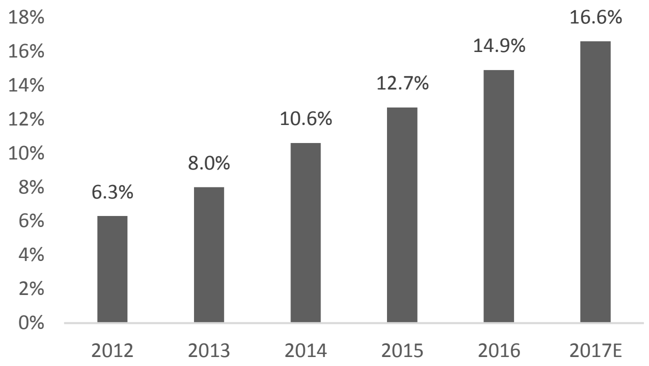
- New concepts and buzzwords will evolve to become the norm, with ubiquitous channel (online and offline channel) strategies and the use of big-data moving forward. E-commerce is also replacing shopping in physical marketplaces, with hypermarkets such as Carrefour and Walmart have shut down a number of stores with consumers accessing products from online shopping including those that are not available in stores (e.g. organic foods, luxury products from overseas).

**Fig 31 - Volume of online retail market (RMB tn)**




Source: EC Research, Savills

**Fig 32 - % of online to total retail sales**




Source: EC Research, Savills

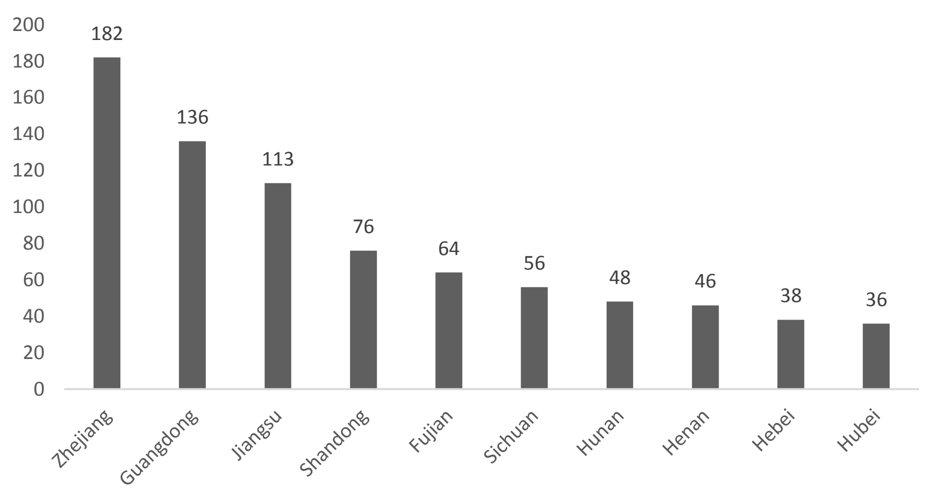
- The e-commerce industry is maturing alongside online shopping penetration with category expansion, after-sales services upgrade and logistics as well as focus on product and service quality. China's amazing growth in online shopping reflects increasing incomes, higher education, and more sophisticated consumption patterns of the typical consumer. Due to the expansion of online retail shopping and the necessary logistical services, e-commerce has become the frontier of consumption growth in China.

## Well positioned in the "Capital of China's e-commerce"

- The tremendous growth in e-commerce has boosted demand for e-commerce parks. According to AliResearch, the number of e-commerce parks has grown tremendously by 120% YoY to 1,122 e-commerce parks in 1Q16 and e-commerce park construction is still on an upward trajectory. In terms of concentration, more than 70% of the e-commerce parks are situated in 5 main provinces, namely Zhejiang, Guangdong, Jiangsu, Fujian and Shandong. Hangzhou, capital city of Zhejiang Province touted as the "Capital of China's e-commerce" and home to the largest number of 182 e-commerce parks.

**We think that ECW strategic portfolio helps it bridge the uneven infrastructure and the explosive growth of netizens and consequent e-commerce in Tier 3 & 4 cities**

**Fig 33 - China e-commerce parks distribution in top 10 provinces**




Source: China's EC B2B Market Analysis, Savills

- ECW, with its logistics and e-commerce assets in Hangzhou, is well positioned to ride on the e-commerce growth and demand for e-commerce parks in the "Capital of China's e-commerce".

## In the sweet spot as asset owner for e-commerce enterprises

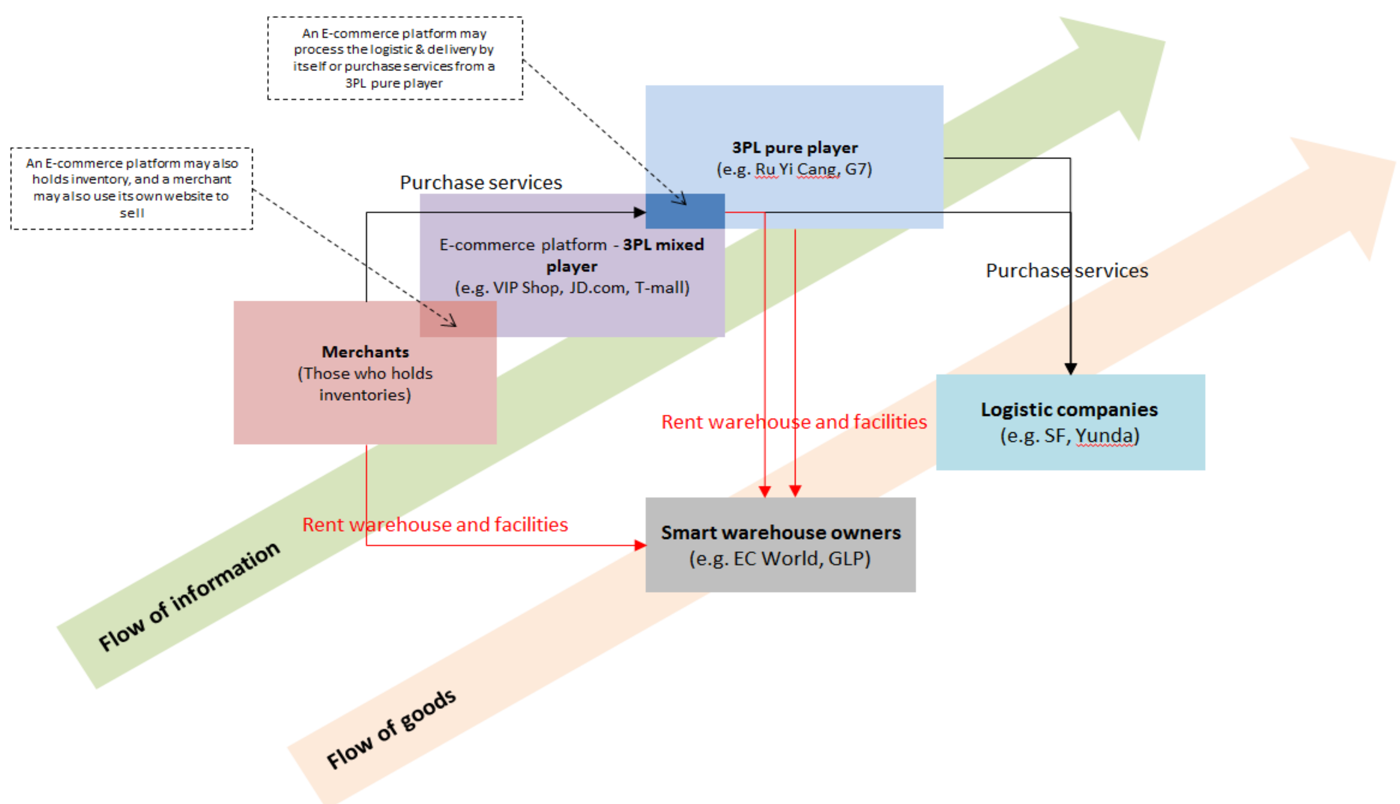
**We think that ECW's focus on e-commerce logistics and specialized logistics will help in creating a sustainable growth story**

- To cope with growing demand for e-commerce transactions, B2B, B2C and C2C e-commerce platform providers have increasingly partnered with third-party logistics service providers to ensure more efficient deliveries to end users. By leveraging on the logistic service providers' infrastructure and network outreach, e-commerce companies will also be able to ensure the delivery of bulk orders, and more importantly, orders of small quantities, at more affordable costs.

- Aside from partnerships with logistics service providers, Chinese B2B e-commerce platform providers are exploring the possibility of integrating their business downstream by providing warehousing and logistics services. While for B2C and C2C companies, they generally make use of four types of logistics distribution methods, namely the self-built system, a combination of a self-built system with network of physical stores, the use of third-party providers, and the formation of logistics alliances. Either way, investments into logistic infrastructure to secure contracts from e-commerce enterprises are expected in the near future. This is the sweet spot where ECW operates to ride on this secular trend as the asset owner for the e-commerce enterprises which would deliver both organic and inorganic growth.

**Fig 34 - Growing demand of smart logistic facilities from 3PLs**

"3PL" = Third party logistic player




Source: SCCM Research

# Appendix: Cashflow Statements

**Fig 35 - Cashflow 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 | | 0.0 | (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 | 4.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Changes in Non-Cash Work Cap | 7.3 | (1.2) | (0.6) | (0.4) | (0.2) |
| Cash From Operations | 61.0 | 57.8 | 46.3 | 48.8 | 50.1 |
| | | | | | |
| Net Change in Property Investments | (2.1) | (30.3) | 0.0 | 0.0 | 0.0 |
| Net Change In Investments | | 0.0 | 0.0 | 0.0 | 0.0 |
| Net Change in Invmts in Assoc & JVs | | 0.0 | 0.0 | 0.0 | 0.0 |
| Dividends rec'vd from Associates & JVs | | 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 | | | | |
| 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) |
| | | | | | |
| **Net Changes in Cash** | **(7.2)** | **(21.1)** | **(5.6)** | **(5.5)** | **(5.5)** |

Source: SCCM Research

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|---|---|
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