

27 June 2022

Property | REITS

EC World REIT (ECWREIT SP)

Neutral (Maintained)

Onerous Loan Refinancing Terms

- **Keep NEUTRAL, new SGD0.55 TP from SGD0.65, 0% upside.** EC World REIT's recent refinancing outcome was disappointing – it was only granted a temporary extension with an added condition of paring down 25% of offshore facilities by end 2022. ECWREIT has since entered into a MoU with a sponsor to divest two assets, which should result in a dividends drop and size reduction. With this news in the price, we see limited catalysts – except for the REIT's possible privatisation.
- **Loan extension terms indicate banks' concerns over China assets.** ECWREIT has currently secured onshore borrowing facilities of SGD300m and USD 87m (due June). It has entered into an amendment & restatement agreement to extend the maturity date of the offshore facilities to 30 Apr 2023, but this comes with a condition: 25% or c.SGD100m of loans to be repaid by end 2022. ECWREIT also has onshore borrowings of CNY907m that are due for refinancing this month – except a CNY64m portion of debt that expires in Jul 2029 – and is currently in talks to extend the maturity till Apr 2023. These onerous refinancing terms come despite repeated earlier management assurances that banks remain supportive. It also indicates a widespread impact of the Chinese Government's policy measures in the real estate sector. It could have a possible ramifications on other Chinese listed S-REITs in Singapore that have debts to be refinanced, in our view.
- **Interest costs likely to inch higher.** The REIT did not provide data on the likely updated refinancing costs, but we expect it to be 30-100bps higher than existing blended interest rates of 4.2% pa. More importantly, we believe the maturing of the all the loans at the same time continues to pose future risks and limits ECWREIT's negotiating capabilities.
- **In discussions to sell two assets.** Subsequent to the loan extension, the REIT announced a non-binding MoU for sale of Beigang Logistics Stage 1 (BLS1) and Chongxian Port Logistics (CPL) to a sponsor. These assets were valued at CNY1,251m (SGD265m) and CNY841m (SGD178m) for BLS1 and CPL as at end FY21. They account for 16% (BLS1) and 11% (CPL) of total asset value, as well as c.30% of total income. While a sale at book value could lighten the gearing, which stands at 37.3%, we think it will further decrease the REIT's size (currently at SGD1.7bn), thereby drying up liquidity and further widening the yield gap vis-à-vis the larger REITs.
- **We cut our ESG score by two notches to 2.4 out of 4** on lower transparency and governance scores. As this score is six notches below the country median, we apply a 12% discount to the DDM-derived TP. We have also lowered our FY22F-24F DPU by 6-8%, factoring in higher interest costs and the slowing economy. We have also raised our COE assumptions by 50bps to factor in increased company and macro risks.

Target Price (Return):	SGD0.55 (0.0%)
Price (Market Cap):	SGD0.55 (USD318m)
ESG score:	2.40 (out of 4)
Avg Daily Turnover (SGD/USD)	0.49m/0.36m

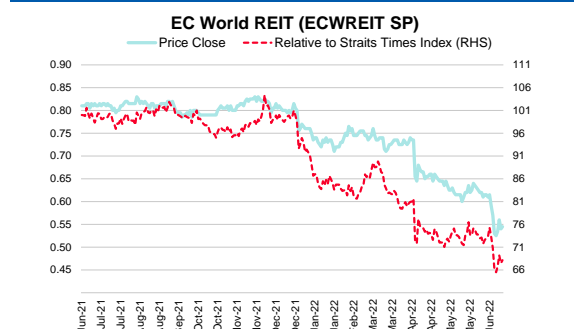
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(29.2)	(12.1)	(25.9)	(31.9)	(32.3)
Relative	(28.2)	(8.3)	(17.8)	(31.8)	(31.5)
52-wk Price low/high (SGD)	0.53 – 0.83				



Source: Bloomberg

Overall ESG Score: 2.40 (out of 4)

E: GOOD

The REIT set a 5-year target in 2017 to gradually reduce energy consumption at its properties over a 5-year period. Since then, ECWREIT has achieved an overall reduction of 29% of its total energy consumption across its properties, although this was in part due to COVID-19 lockdowns. These targets and efforts are still comparably low vis-à-vis other S-REITs under coverage.

S: GOOD

ECWREIT has a Workplace Health & Safety Promotion Plan to monitor and support employee health. There were zero cases of work-related injuries recorded in FY20, although there was a collapse of a berth in 2021 at one of its facilities, but there were no injuries reported.

G: MODERATE

ECWREIT has adopted a diverse range of policies on regulatory compliance to prevent corruption and other illegal practices. However we see more room for the REIT to increase transparency on master lease agreements, loan maturities, and earnings disclosures. ECWREIT, in our view, lags behind its peers in this aspect.

Note:

Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

Forecasts and Valuation	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	110	125	118	117	119
Net property income (SGDm)	100	113	107	107	108
Reported net profit (SGDm)	15.4	24.5	24.1	33.3	35.0
Total distributable income (SGDm)	47.2	51.9	44.7	44.9	45.5
DPS (SGD)	0.05	0.06	0.06	0.06	0.06
DPS growth (%)	(11.1)	16.8	(11.9)	0.1	1.0
P/B (x)	0.61	0.59	0.59	0.61	0.61
Dividend Yield (%)	9.8	11.5	10.1	10.1	10.2
Return on average equity (%)	2.2	3.3	3.2	4.5	4.8
Return on average assets (%)	0.9	1.3	1.3	1.8	1.9

Source: Company data, RHB

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Financial Exhibits

Asia	Financial summary	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS (SGD)	0.02	0.03	0.03	0.04	0.04
Property	EPS (SGD)	0.02	0.03	0.03	0.04	0.04
EC World REIT	DPS (SGD)	0.05	0.06	0.06	0.06	0.06
ECWREIT SP	BVPS (SGD)	0.89	0.93	0.93	0.90	0.89
Neutral	Return on average equity (%)	2.2	3.3	3.2	4.5	4.8
	Weighted avg adjusted shares (m)	803.26	809.49	812.25	814.97	817.26
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
DDM methodology.	Recurring P/E (x)	28.39	18.02	18.35	13.33	12.74
	P/E (x)	28.39	18.02	18.35	13.33	12.74
Key drivers	P/B (x)	0.6	0.6	0.6	0.6	0.6
i. Rising e-commerce trends in China resulting in increased logistics sector demand;	FCF Yield (%)	18.8	15.8	24.1	17.2	17.1
ii. Increasing domestic consumption;	Dividend Yield (%)	9.8	11.5	10.1	10.1	10.2
iii. Sponsor-backed master leases that provide rental stability.	EV/EBITDA (x)	-	6.84 -	6.83 -	6.75 -	6.80
	EV/EBIT (x)	-	6.84 -	6.83 -	6.75 -	6.80
Key risks	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
i. Inability to continue to refinance its debt in a timely manner and higher cost of debt;	Total turnover	110	125	118	117	119
ii. Deep and prolonged economic impact from COVID-19 lockdowns;	EBITDA	95	107	101	101	103
iii. Prolonged global tensions leading to a slowdown in economic activity.	Operating profit	95	107	101	101	103
	Net interest	(37)	(38)	(39)	(40)	(39)
	Pre-tax profit	38	45	44	61	64
	Taxation	(22)	(20)	(20)	(27)	(29)
	Recurring net profit	15	24	24	33	35
Company Profile	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
ECWREIT was established with the investment strategy of investing principally – directly or indirectly – in a diversified portfolio of income-producing real estate. The latter assets are used primarily for e-commerce, supply-chain management, and logistics purposes. The REIT also focuses on real estate-related assets. The initial geographical focus is the People's Republic of China.	Change in working capital	(15)	(33)	(17)	(22)	(23)
	Cash flow from operations	81	70	83	78	78
	Capex	1	(0)	24	(2)	(2)
	Cash flow from investing activities	1	(0)	24	(2)	(2)
	Dividends paid	(44)	(50)	(45)	(45)	(46)
	Cash flow from financing activities	(80)	(86)	(116)	(83)	(81)
	Cash at beginning of period	119	152	169	180	183
	Net change in cash	2	(16)	(9)	(7)	(5)
	Ending balance cash	123	136	160	173	178
	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	152	169	180	183	188
	Total investments	1,624	1,674	1,634	1,635	1,637
	Total assets	1,816	1,895	1,867	1,873	1,881
	Short-term debt	91	708	50	50	50
	Total long-term debt	593	13	631	639	626
	Total liabilities	1,100	1,144	1,115	1,142	1,150
	Shareholders' equity	716	752	753	731	732
	Total equity	716	752	753	731	732
	Net debt	532	552	501	506	488
	Total liabilities & equity	1,816	1,895	1,867	1,873	1,881
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	10.7	14.4	(6.3)	(0.2)	1.4
	Recurrent EPS growth (%)	(76.6)	57.6	(1.8)	37.7	4.7
	Operating EBITDA margin (%)	86.6	84.9	85.8	86.4	86.7
	Net profit margin (%)	14.1	19.5	20.5	28.4	29.4
	Dividend payout ratio (%)	279.6	206.7	185.5	134.9	130.1
	Capex/sales (%)	(1.0)	0.3	(20.0)	1.3	1.3
	Interest cover (x)	2.43	2.68	2.42	2.38	2.48

Source: Company data, RHB

Figure 1: ECWREIT – fair value based on DDM

	FY22F	FY23F	FY23F	FY24F	Terminal value
DPU (SGD)	5.5	5.5	5.6	5.6	66.8
Intrinsic value (SGD)	0.63				
ESG premium/(discount) (SGD)	(0.08)				
TP (SGD)	0.55				
Current price (SGD)	0.55				
Price upside	0%				
Distribution yield	10.0%				
Total returns (%)	10.6%				
Assumptions					
Risk-free rate (%)	4.5%				
Beta	1.0				
Cost of equity (%)	10.6%				
Terminal growth (%)	2.0%				

Source: RHB

Recommendation Chart

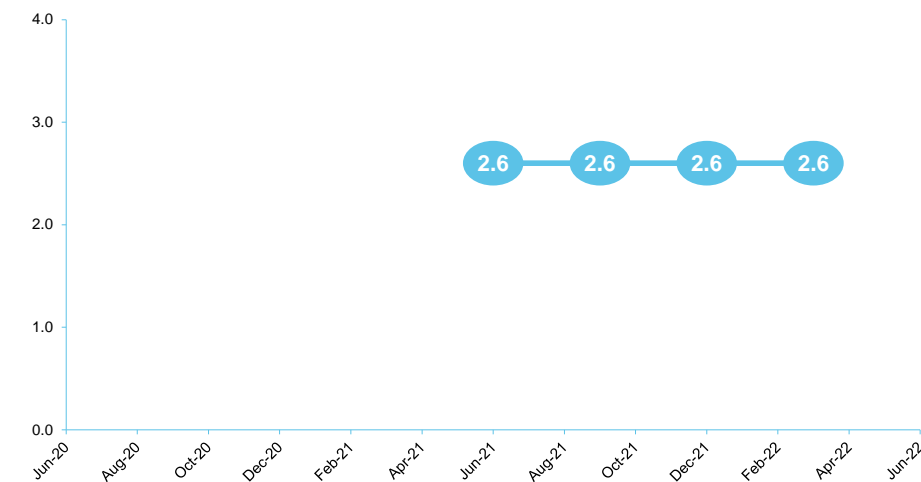


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2022-05-16	Neutral	0.65	0.62
2022-02-25	Neutral	0.76	0.75
2021-11-10	Trading Buy	0.87	0.82
2021-05-18	Trading Buy	0.83	0.79
2021-03-04	Neutral	0.76	0.73
2020-05-13	Buy	0.76	0.68
2020-03-02	Buy	0.78	0.71
2019-08-08	Buy	0.82	0.74
2019-05-14	Buy	0.85	0.79
2019-02-25	Buy	0.84	0.77
2019-01-08	Buy	0.81	0.70
2018-10-24	Not Rated	na	0.70

Source: RHB, Bloomberg

ESG Rating History



Source: RHB

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