

12 August 2020

Property | REITS

## EC World REIT (ECWREIT SP)

**Buy** (Maintained)

**Steady As It Goes; Keep BUY**

Target Price (Return): SGD0.76 (+15%)  
 Price: SGD0.66  
 Market Cap: USD383m  
 Avg Daily Turnover (SGD/USD) 0.63m/0.45m

- **Maintain BUY, TP of SGD0.76, 15% upside with c.8% FY20F yield.** EC World REIT's 1H20 results are in line. We hosted Management for a post-results investor briefing. Key takeaways: a gradual resumption of normal operations across all its assets, increased demand for e-commerce logistics assets post COVID-19, and a cautiously optimistic outlook. Valuations are attractive, at 0.8x P/BV, with a stable and high yield of >8%.
- **Stable 1H20 DPU; barring one-off rebates and retention, 2H20 should be stronger.** 2Q20 distributable income rose 0.5% YoY, mainly due to the contribution from Fuzhou E-Commerce, which the REIT acquired in Aug 2019. Distributable income rose 26.4% QoQ on the absence of one-off rental rebates given in 1Q20. ECWREIT retained 10% of distributable income during the quarter, in light of uncertainties. We expect 2H20 DPU to increase by 10% HoH, with the absence of rental rebates and steady contributions from master leases and other assets.
- **No impact from investigations on ex-chief investment officer (CIO).** On 2 Jul, ECWREIT announced that its then-CIO Li Jinbo was under investigation by the Commercial Affairs Department and the Monetary Authority of Singapore, pursuant to Section 20 of the Criminal Procedure Code. It confirmed that the investigation was conducted at the personnel level, and has no implications on the REIT. Li has since left the firm.
- **Expect majority of 2H20 leases to be renewed.** About 13% of leases by gross rental income (23% by NLA) are due for renewal in 2H20, with the majority coming from the expiry of leases at Hengde Logistics. Management noted the good progress on ongoing discussions with underlying tenant China Tobacco Zhejiang Industrial, and expects the tenant to stay. However, due to the challenging market conditions, it does not expect any rental uplift from the asset. The other lease expiries are for Chongxian Port Logistics, for which it still sees good demand – but weakness is expected in Wuhan Meiluote (WML), located in the city most impacted by COVID-19. WML accounts for <2% of NPI, so the earnings impact is minimal.
- **E-commerce asset acquisitions likely in 2021.** ECWREIT's focus in 2H20 will be on operations, but also sees the possibility of acquiring some e-commerce and other logistics assets from its sponsor, in 2021. While China will remain its key market, it has also started to explore Australia and Europe for potential opportunities. The REIT manager reiterated that DPU and yield accretion will be the key criteria for any acquisition. Gearing is at a modest 39.1%, well below the new 50% cap.
- **No refinancing needed until 2022.** ECWREIT's combination of onshore (33%) and offshore debt (66%) facilities are only due for refinancing in Jun 2022. 100% of onshore facilities are fixed. The REIT also manages FX risks by using FX options to lock in 6-month forward income.

### Analyst

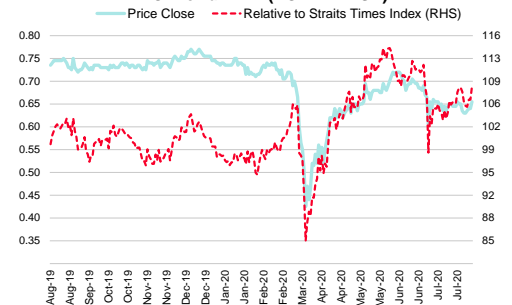
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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(12.1)	0.0	(5.8)	(10.3)	(10.9)
Relative	9.0	4.1	(3.2)	9.6	8.8
52-wk Price low/high (SGD)				0.43	– 0.77

### EC World REIT (ECWREIT SP)



Source: Bloomberg

Forecasts and Valuation	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Total turnover (SGDm)	96	99	106	113	115
Net property income (SGDm)	87	90	96	103	104
Reported net profit (SGDm)	46.9	65.2	34.1	48.4	49.3
Total distributable income (SGDm)	49.0	48.9	44.2	47.5	48.5
DPS (SGD)	0.06	0.06	0.05	0.06	0.06
DPS growth (%)	2.4	(2.1)	(11.6)	10.8	1.6
P/B (x)	0.75	0.77	0.77	0.76	0.74
Dividend Yield (%)	9.4	9.2	8.2	9.0	9.2
Return on average equity (%)	6.7	9.5	5.0	7.0	7.0
Return on average assets (%)	3.1	4.0	2.0	2.8	2.8

Source: Company data, RHB

### Note:

Small cap stocks are defined as companies with a market capitalization of less than USD1bn.

## Financial Exhibits

Asia	Financial summary	Dec-18	Dec-19	Dec-20F	Dec-21F	Dec-22F
Singapore	Recurring EPS (SGD)	0.06	0.08	0.04	0.06	0.06
Property	EPS (SGD)	0.06	0.08	0.04	0.06	0.06
<b>EC World REIT</b>	DPS (SGD)	0.06	0.06	0.05	0.06	0.06
ECWREIT SP	BVPS (SGD)	0.87	0.85	0.85	0.87	0.88
Buy	Return on average equity (%)	6.7	9.5	5.0	7.0	7.0
	Weighted avg adjusted shares (m)	787.74	795.15	798.41	802.17	806.07
<b>Valuation basis</b>						
DDM						
<b>Key drivers</b>	<b>Valuation metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
i. Rising e-commerce trend in China resulting in increased logistics sector demand;	Recurring P/E (x)	10.99	7.99	15.33	10.86	10.71
ii. Earnings-accretive acquisitions;	P/E (x)	10.99	7.99	15.33	10.86	10.71
iii. Sponsor-backed master leases that provide rental stability.	P/B (x)	0.8	0.8	0.8	0.8	0.7
	FCF Yield (%)	12.0	17.1	13.9	14.4	14.6
	Dividend Yield (%)	9.4	9.2	8.2	9.0	9.2
	EV/EBITDA (x)	- 5.87	- 5.96	- 5.48	- 5.36	- 5.52
	EV/EBIT (x)	- 5.87	- 5.96	- 5.48	- 5.36	- 5.52
<b>Key risks</b>	<b>Income statement (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
i. Deep and prolonged economic impact of the COVID-19 pandemic;	Total turnover	96.2	99.1	105.7	113.2	114.7
ii. Prolonged trade tensions leading to a slowdown in economic activity;	EBITDA	81.9	84.5	91.4	97.5	98.8
iii. Rise in tenant defaults.	Operating profit	81.9	84.5	91.4	97.5	98.8
	Net interest	(25.9)	(31.1)	(38.7)	(38.8)	(38.9)
	Pre-tax profit	70.2	98.2	51.4	72.8	74.2
	Taxation	(23.3)	(32.9)	(17.2)	(24.4)	(24.9)
	Recurring net profit	46.9	65.2	34.1	48.4	49.3
<b>Company Profile</b>	<b>Cash flow (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
EC World REIT was established with the 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	(20)	5	(18)	(21)	(21)
	Cash flow from operations	63	92	74	77	78
	Capex	(1)	(3)	(2)	(2)	(2)
	Cash flow from investing activities	(30)	(156)	(2)	(2)	(2)
	Dividends paid	(48)	(49)	(43)	(48)	(49)
	Cash flow from financing activities	(76)	55	(83)	(98)	(94)
	Cash at beginning of period	139	142	119	120	130
	Net change in cash	(43)	(8)	(10)	(22)	(17)
	Ending balance cash	95	133	109	98	113
	<b>Balance sheet (SGDm)</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Total cash and equivalents	142	119	120	130	141
	Total investments	1,335	1,568	1,569	1,586	1,604
	Total assets	1,516	1,724	1,728	1,756	1,785
	Short-term debt	475	68	68	68	68
	Total long-term debt	0	587	590	593	596
	Total liabilities	827	1,040	1,042	1,055	1,069
	Shareholders' equity	689	684	685	701	717
	Total equity	689	684	685	701	717
	Net debt	333	535	537	531	523
	Total liabilities & equity	1,516	1,724	1,728	1,756	1,785
	<b>Key metrics</b>	<b>Dec-18</b>	<b>Dec-19</b>	<b>Dec-20F</b>	<b>Dec-21F</b>	<b>Dec-22F</b>
	Revenue growth (%)	5.3	3.0	6.6	7.1	1.4
	Recurrent EPS growth (%)	(2.2)	37.7	(47.9)	41.1	1.4
	Operating EBITDA margin (%)	85.1	85.3	86.4	86.1	86.1
	Net profit margin (%)	48.8	65.8	32.3	42.8	43.0
	Dividend payout ratio (%)	104.4	73.9	125.1	98.2	98.4
	Capex/sales (%)	1.5	3.4	1.4	1.3	1.3
	Interest cover (x)	2.99	2.57	2.28	2.42	2.44

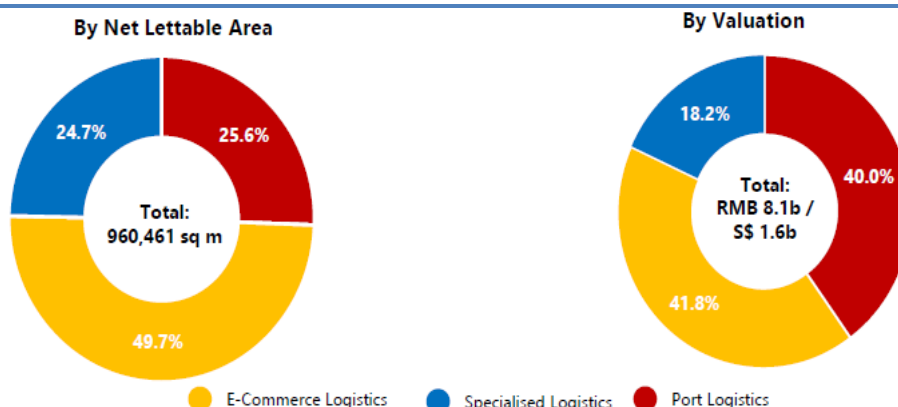
Source: Company data, RHB

Figure 1: EC World – fair value based on a DDM calculation

	FY20F	FY21F	FY22F	FY23F	FY24F	Terminal Value
DPU (SGD)	5.3	5.9	6.0	6.2	6.3	84.3
Target price (SGD)	0.76					
Current Price (SGD)	0.66					
Price Upside	15.2%					
Distribution Yield	8.2%					
Total returns (%)	23.4%					
<b>Assumptions</b>						
Risk-free rate (%)	4.5%					
Beta	0.9					
Cost of equity (%)	9.5%					
Terminal growth (%)	2.0%					

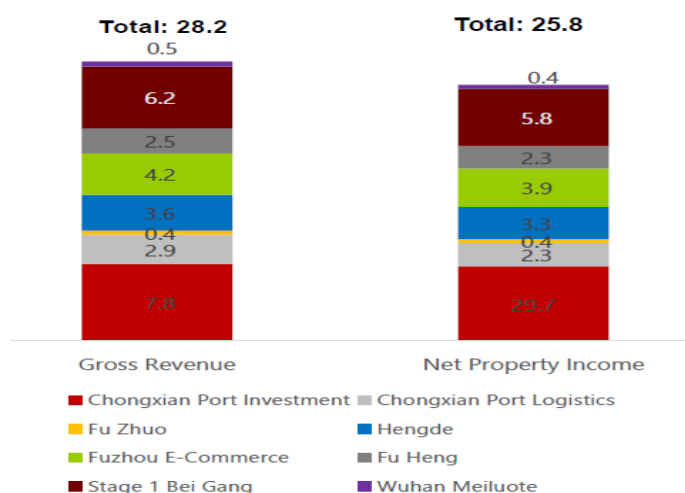
Source: RHB

Figure 2: Asset class breakdown by NLA and valuation



Source: Company data

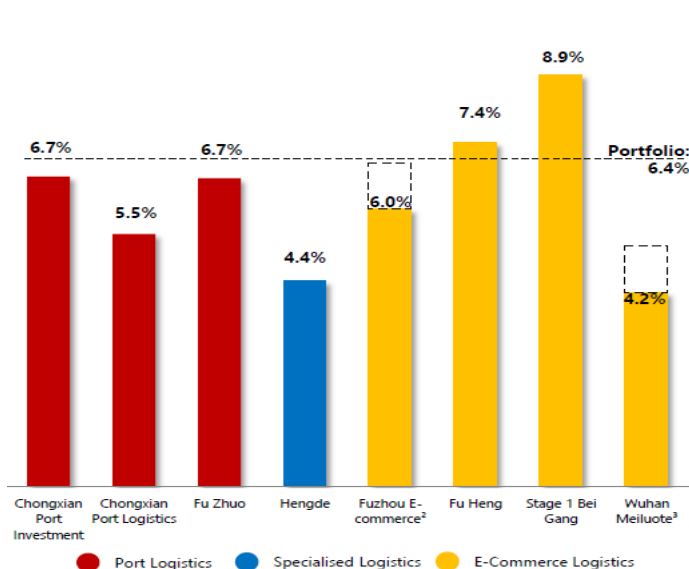
Figure 3: Revenue and NPI by asset (2Q20)



(1) In RMB terms. Annualised based on 2QFY2020 NPI  
 (2) Using acquisition price of RMB1,112.5 million, NPI yield would be 7.0%  
 (3) Using acquisition price of RMB145 million, NPI yield will be 5.2%

Source: Company data

Figure 4: NPI yields by asset (2Q20)

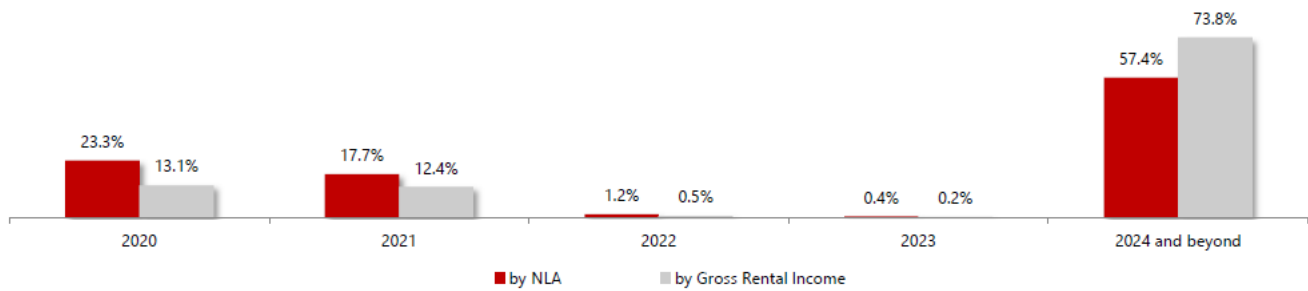


Source: Company data

Figure 5: Portfolio lease expiry profile

WALE by NLA: 2.7 years

WALE by Gross Rental Income: 3.6 years



Source: Company Data

### Recommendation Chart



Date	Recommendation	Target Price	Price
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

Source: RHB, Bloomberg

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