

17 May 2022

Property | REITS

EC World REIT (ECWREIT SP)

Neutral (Maintained)

In Rough Seas

- **Keep NEUTRAL, new SGD0.65 TP from SGD0.76, 5% upside.** 1Q DPU was below due to the incurring of withholding taxes for income repatriated from China. Key risk hanging over the stock: The pending refinancing of debts due in May/July, but management reiterated this was in the final stages of completion. China's zero-COVID-19 stance poses headwinds too, although operations remain unaffected so far. Key catalyst: The likely positive announcement of successful debt refinancing.
- **1Q DPU was down 10% YoY/QoQ**, mainly due to the incurring of additional withholding taxes (c.5%) for cash repatriated during the quarter. In addition, there was also a provision of SGD1.2m (CNY5.8m) – this is 30% of the expected pre-termination compensation for third-party tenants at Fu Zhuo Industrial (FZ) as a result of a compulsory expropriation exercise. The 70% balance of the provision will be incurred upon receiving full settlement from the Chinese Government. Management noted that the total pre-termination compensation of CNY19.2m (18% of government compensation proceeds of CNY108.5m) was for third-party tenants in FZ – agreed upon as part of their earlier tenancy agreements. In addition, there will also be income tax charges on disposal, which is likely to result in a final available amount of c.CNY80m for FZ, in our view, or about 30% below the latest valuation.
- **Expects debt refinancing to be completed in the coming weeks.** Management reiterated it is in final stages of refinancing debts (98%) due in May/July and that banks remain supportive. EC World REIT's onshore borrowings of SGD181m are due in end May while offshore borrowings of SGD416m are due in July. Its current blended interest rates are at 4.2% pa, and we believe a potential refinancing – when completed – could come with 30-100bps higher interest costs, ie depending on mix and tenure.
- **Operations are running normally so far** across all assets, as Hangzhou is currently not facing any form of lockdowns. However, management noted there had been some slowdowns in business operations and a rise in testing procedures. It does not expect or see any need to offer rental assistance to tenants for now. About 5% of leases by rental income are pending renewal in FY22, mainly at Chongxian Port Logistics, for which management expects leases to be rolled over for another year under similar terms. Gearing is modest at 37.3%, but we do not see any acquisitions in the pipeline for the current year due to challenging market conditions in China.
- **We lower our FY22F-24F DPU by 5-6%**, factoring in additional withholding taxes and provisions. We have also raised COE assumptions by 50bps to factor in refinancing risks. We derive an ESG score of 2.6 out of 4.0 based on our proprietary in-house methodology. As this score is four notches below the country median, we applied an 8% ESG discount to the TP.

Target Price (Return): SGD0.65 (4.8%)
Price (Market Cap): SGD0.62 (USD357m)
ESG score: 2.60 (out of 4)
Avg Daily Turnover (SGD/USD) 0.46m/0.34m

Analysts

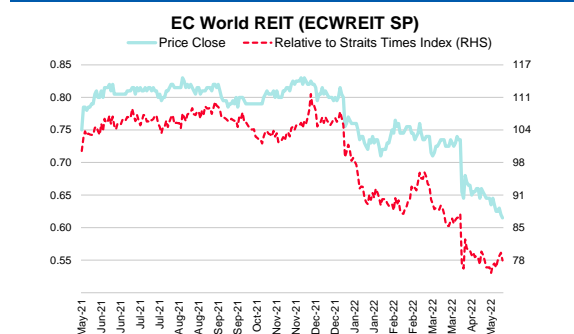
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(20.1)	(8.2)	(18.6)	(25.0)	(17.5)
Relative	(22.3)	(3.7)	(11.7)	(23.8)	(19.7)
52-wk Price low/high (SGD)	0.62 – 0.83				



Source: Bloomberg

Overall ESG Score: 2.60 (out of 4)

E: GOOD

The REIT set a 5-year target in 2017 to gradually reduce energy consumption in its properties over five years. Since that time, EC World REIT has achieved an overall reduction of 29% in total energy consumption across its properties, although this was in part due to COVID-19 lockdowns. These targets and efforts are still comparably low when compared with other S-REITs under our coverage.

S: GOOD

EC World REIT has a workplace health and 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 berths at one of its facilities in 2021, but no injuries were reported.

G: GOOD

EC World REIT has adopted a diverse range of policies on regulatory compliance to prevent corruption and other illegal practices. An ex-CIO did face Monetary Authority of Singapore investigations in 2020, but had been immediately placed on leave of absence. The individual has since left the REIT. EC World REIT has also formulated an incentive policy to employees who bring positive economic, environmental, or social values via innovation in their work or projects.

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	121	122	124
Net property income (SGDm)	100	113	110	111	112
Reported net profit (SGDm)	15.4	24.5	32.9	42.0	43.3
Total distributable income (SGDm)	47.2	51.9	47.1	47.8	48.7
DPS (SGD)	0.05	0.06	0.06	0.06	0.06
DPS growth (%)	(11.1)	16.8	(7.2)	1.2	1.5
P/B (x)	0.69	0.66	0.68	0.69	0.69
Dividend Yield (%)	8.7	10.2	9.4	9.5	9.7
Return on average equity (%)	2.2	3.3	4.4	5.7	6.0
Return on average assets (%)	0.9	1.3	1.7	2.2	2.3

Source: Company data, RHB

Financial Exhibits

Asia	Financial summary	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS (SGD)	0.02	0.03	0.04	0.05	0.05
Property	EPS (SGD)	0.02	0.03	0.04	0.05	0.05
EC World REIT	DPS (SGD)	0.05	0.06	0.06	0.06	0.06
ECWREIT SP	BVPS (SGD)	0.89	0.93	0.91	0.89	0.89
Neutral	Return on average equity (%)	2.2	3.3	4.4	5.7	6.0
	Weighted avg adjusted shares (m)	803.26	809.49	812.02	814.38	816.77
Valuation basis	Valuation metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
DDM methodology	Recurring P/E (x)	32.04	20.33	15.19	11.94	11.61
	P/E (x)	32.04	20.33	15.19	11.94	11.61
Key drivers	P/B (x)	0.7	0.7	0.7	0.7	0.7
i. Rising e-commerce trend in China resulting in increased logistics sector demand;	FCF Yield (%)	16.6	14.0	20.6	15.7	15.7
ii. Increasing domestic consumption;	Dividend Yield (%)	8.7	10.2	9.4	9.5	9.7
iii. Sponsor-backed master leases that provide rental stability.	EV/EBITDA (x)	-	6.25	-	5.81	-
	EV/EBIT (x)	-	6.25	-	5.81	-
Key risks	Income statement (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Downside risks:	Total turnover	110	125	121	122	124
i. Inability to refinance debts in a timely manner and higher cost of debts;	EBITDA	95	107	104	106	107
ii. Deep and prolonged economic impact from COVID-19 lockdowns;	Operating profit	95	107	104	106	107
iii. Prolonged global tensions leading to a slowdown in economic activity.	Net interest	(37)	(38)	(39)	(39)	(39)
	Pre-tax profit	38	45	56	66	68
Upside risks:	Taxation	(22)	(20)	(23)	(24)	(24)
i. Successful refinancing of debt;	Recurring net profit	15	24	33	42	43
ii. Chinese government policy support.	Cash flow (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Change in working capital	(15)	(33)	(23)	(23)	(24)
Company Profile	Cash flow from operations	81	70	79	80	81
EC World REIT 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.	Capex	1	(0)	24	(2)	(2)
	Cash flow from investing activities	1	(0)	24	(2)	(2)
	Dividends paid	(44)	(50)	(47)	(48)	(49)
	Cash flow from financing activities	(80)	(86)	(108)	(86)	(85)
	Cash at beginning of period	119	152	169	184	187
	Net change in cash	2	(16)	(5)	(7)	(5)
	Ending balance cash	123	136	164	177	181
	Balance sheet (SGDm)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Total cash and equivalents	152	169	184	187	191
	Total investments	1,624	1,674	1,642	1,644	1,645
	Total assets	1,816	1,895	1,880	1,885	1,893
	Short-term debt	91	708	50	50	50
	Total long-term debt	593	13	656	664	661
	Total liabilities	1,100	1,144	1,140	1,159	1,166
	Shareholders' equity	716	752	740	727	727
	Total equity	716	752	740	727	727
	Net debt	532	552	522	528	520
	Total liabilities & equity	1,816	1,895	1,880	1,885	1,893
	Key metrics	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
	Revenue growth (%)	10.7	14.4	(3.5)	0.8	1.4
	Recurrent EPS growth (%)	(76.6)	57.6	33.8	27.3	2.8
	Operating EBITDA margin (%)	86.6	84.9	86.1	86.7	86.7
	Net profit margin (%)	14.1	19.5	27.1	34.4	34.9
	Dividend payout ratio (%)	279.6	206.7	143.3	113.9	112.5
	Capex/sales (%)	(1.0)	0.3	(19.4)	1.2	1.2
	Interest cover (x)	2.43	2.68	2.51	2.52	2.57

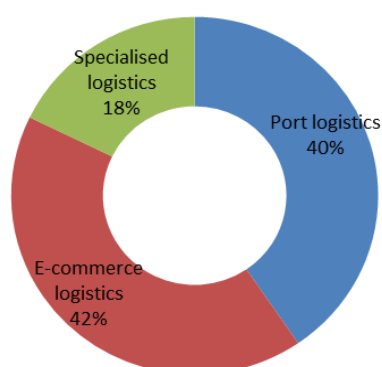
Source: Company data, RHB

Figure 1: EC World REIT's fair value is based on DDM

	FY22F	FY23F	FY23F	FY24F	Terminal value
DPU (SGD)	5.8	5.9	6.0	6.0	76.3
Intrinsic value (SGD)	0.71				
ESG premium/(discount) (SGD)	-0.06				
TP (SGD)	0.65				
Current price (SGD)	0.62				
Price upside	4.8%				
Distribution yield	9.4%				
Total returns (%)	14.2%				
Assumptions					
Risk-free rate (%)	4.5%				
Beta	1.0				
Cost of equity (%)	10.0%				
Terminal growth (%)	2.0%				

Source: RHB

Figure 2: Asset value breakdown by segment



Source: Company

Figure 3: Portfolio lease expiry profile*



Note: *Assuming Fuzhou Industrial compulsory expropriation was completed on 31 Mar 2022

Source: Company

Figure 4: Asset overview

E-Commerce Logistics Assets			
Asset	Lease Structure	Occupancy ¹	Key Highlight
Fu Heng	Master Lease: 1 Jan 2016 to 31 Dec 2024 Rental escalation of 2.0% annually from 1 st Jan 2021.	100%	Coveted property; entire suite of facilities supporting e-commerce fulfilment
Fuzhou E-Commerce	Master Lease: 8 Aug 2019 to 7 Aug 2024 Rental escalation of 2.25% per annum	100%	Situated next to Fu Heng. A sizable integrated e-commerce logistics asset
Stage 1 Properties of Bei Gang	Master lease: 1 Nov 2015 to 31 Oct 2024 Annual rental escalation of 1% from Nov 2020 to Oct 2024	100%	One of the largest e-commerce developments in the region
Wuhan Meiliute	Multi Tenanted	78.8%	First acquisition in 2018. Houses mainly e-commerce players
Specialized Logistics Asset			
Asset	Lease Structure	Occupancy	Key Highlight
Hengde Logistics	Multi Tenanted.	100%	Customised environment control warehouse space for major SOE tenant China Tobacco
Port Logistics Assets			
Asset	Lease Structure	Occupancy	Key Highlight
Chongxian Port Investment	Master lease: 1 Jan 2016 to 31 Dec 2024 Rental escalation of 2.0% annually from 1 st Jan 2021	100%	Leading river port with 60% market share for steel products in Hangzhou
Chongxian Port Logistics	Multi Tenanted	97.8%	Integrated operations , storage processing and logistics distribution for steel products
Fu Zhuo Industrial	N.A.	100%	Asset is subject to compulsory expropriation and will no longer be income producing from 1 April 2022

Source: Company

Recommendation Chart

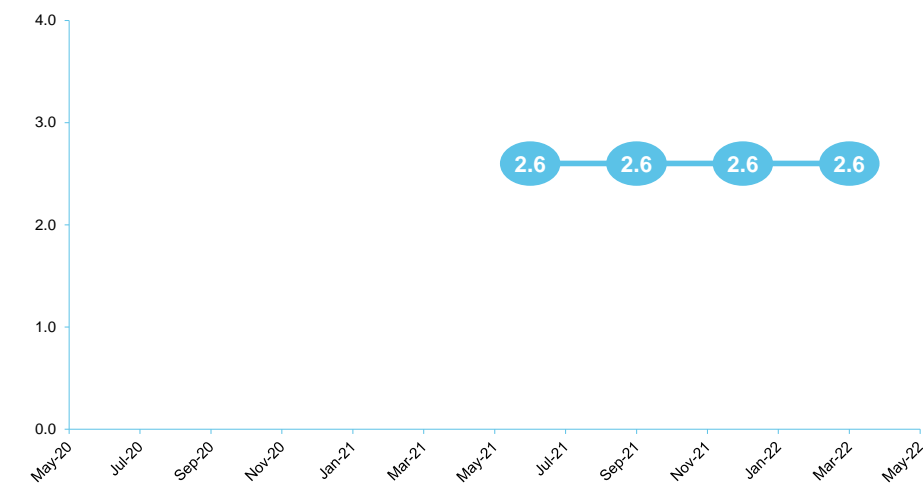


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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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