



CHINA
DEVELOPMENT
FINANCIAL

EC World REIT (ECWREIT SP/BWCU.SI)

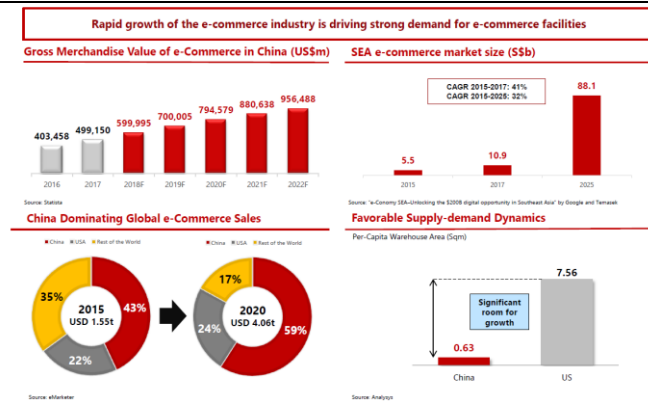
Site Visit Note

KGI Research / 65 6202 1194 / sgp.kgi-research@kgi.com

- We visited EC World REIT in Hangzhou recently.
- Sites Covered: Fu Heng, Heng De, Fu Zhou (ROFR), Chongxian Logistics/Chongxian Port Investment, Bei Gang Stage 1

Pure play e-commerce Chinese REIT. The company's portfolio consists of 7 assets in port logistics and specialised logistics, as well as e-commerce logistics, an area which is experiencing strong demand due to the explosive growth of e-commerce in China. According to eMarketer, e-commerce sales is expected to grow from 43% to 59% of Global E-Commerce Sales by 2020.

Figure 1: Growth of E-Commerce Industry driving logistic demand



Source: Company Presentation, KGI Research

E-Commerce acquisitions continue - Wuhan MeiLuoTe. In April 2018, the REIT made its first acquisition since listing in July 2016 with Mei Luo Te in Wuhan, an e-commerce logistics asset with 82.2% occupancy at the time of acquisition. Since the acquisition, occupancy has improved to 88.2% and the company is expecting further rental escalation between 4.5% to 5% per annum for Mei Luo Te. Key tenants of the facility include JD.com and DangDang.com.

Figure 2: Mei Luo Te Property in Wuhan



Source: Company Presentation, KGI Research

Not Rated		
Price as of 29 Oct 18 (SGD)	0.69	Performance (Absolute)
12M TP (\$)	-	1 Month (%) -2.1
Previous TP (\$)	-	3 Month (%) -0.6
Upside, incl div (%)	-	12 Month (%) -3.5
Trading data		Perf. vs STI Index (Red)
Mkt Cap (\$mn)	545	
Issued Shares (mn)	790	
Vol - 3M Daily avg (mn)	0.3	
Val - 3M Daily avg (\$mn)	0.2	
Free Float (%)	41.6%	
Major Shareholders		Previous Recommendations
Forchn Holdings	43.9%	-
China Cinda	12.0%	-

Strong support from sponsor and collaboration with RuYiCang. The REIT's sponsor is Forchn Holdings, which co-founded mainland logistics provider Cainiao, together with Alibaba. Forchn also owns RuYiCang, an omni-channel logistics services platform that provides operations and management for e-commerce platforms.

By working closely with Ruyicang, EC World REIT benefits from an available stream of clients as Ruyicang serves blue chip e-commerce marketplaces (JD.com, DangDang.com, Alibaba), brand owners (P&G, Pepsi, Unilever) and last mile service providers (ZTO Express, Yunda, EMS).

Diversified Portfolio with expected rental escalations. The REIT's portfolio is well diversified across port, specialised and e-commerce logistics assets which are strategically located in Hangzhou and Wuhan with high income visibility and growth potential.

Figure 3: Lease Terms and Rental Escalation

Property	Type	NLA (sq m)	Lease term	Rental Escalation
Stage 1 Properties of Bei Gang Logistics	E-commerce Logistics	120,449	Master lease: From 1 Nov 2015 to 31 Oct 2020	1% on 1 st Jan 2019 and 2020
Fu Heng		94,287	Master lease: 1 Jan 2016 to 31 Dec 2020	4.0% and 3.0% on 1 st Jan 2019 and 2020 respectively
Wuhan Mei Luo Te (1)		48,695	Multi-tenanted	Between 4.5% to 5% per annum
Hengde Logistics	Specialised Logistics	238,032	1) 15 Oct 2015 to 14 Oct 2020 2) 9 May 2016 to 8 May 2021	2 main leases. Up to 10% upon renewal
Chongxian Port Investment	Port Logistics	112,726	Master lease: 1 Jan 2016 to 31 Dec 2020	4.0% and 3.0% on 1 st Jan 2019 and 2020 respectively
Chongxian Port Logistics		125,856	Multi-tenanted	For 72% of leases: increase of 10% in first 3 years, 12% from Year 4
Fu Zhuo Industrial		7,128	1) 25 Apr 2015 to 24 Apr 2020 2) 8 Oct 2014 to 7 Oct 2029	1) 10% in first 3 years, 15% from Year 4 2) 7.5% every 3 years
Total		747,173		

Source: Company Presentation, KGI Research

Site Visit

Fu Heng. Our first visit was to Fu Heng Warehouse, an e-commerce logistics asset, which is 100% occupied with NLA of 94,287 sqm. The master lease expires on 31 December 2020 and the firm is currently expecting rental escalation of 4% and 3% in 2019 and 2020 respectively.

The property offers the entire suite of physical facilities supporting e-commerce logistics and we understand from management that Fu Heng is a highly coveted property in the area due to a lack of comparable projects. It is also well-positioned to benefit from the local government’s efforts to attract e-commerce companies.

Figure 4: Fu Heng



Source: Company Presentation, KGI Research

Fu Zhou (ROFR). ROFR asset Fu Zhou E-Commerce Properties, which we also visited, sits right next to Fu Heng. Compared to Fu Heng, Fu Zhou E-Commerce is a much larger building with a GFA of 215,643 sqm that comes with warehousing and office facilities for the e-commerce industry. Fu Zhou will be operated and managed by RuYiCang.

From our site visit, we believe this will be a key asset that EC World can potentially acquire given the demand for e-commerce logistics assets. With gearing ~30% on the balance sheet, we believe the firm is able to make a debt-funded acquisition for Fu Zhou should it become available for the right valuation.

Figure 5: Fu Zhou



Source: Company Presentation, KGI Research

Heng De. A high specification warehouse built to meet requirements of high value consumer goods such as tobacco, wine and cosmetics, Heng de is currently leased to state-owned China Tobacco Zhejiang industrial Company for the storage of tobacco and accounts for a significant portion of total tobacco leaves storage area in the Zhejiang Province.

Figure 6: Heng De



Source: Company Presentation, KGI Research

Chongxian Logistics/Chongxian Port Investment. Chongxian Port Investment houses a logistics complex that integrates port operations, logistics distribution and storage processing for steel products with a dominant market share exceeding 50%.

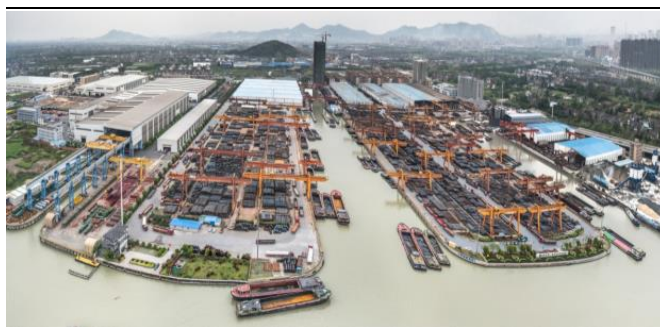
Chongxian Port Logistics is located within the vicinity of Chongxian Port Investment and the facility includes warehouses and office buildings that supports companies with operations in Chongxian Port Investment. The facility offers easy access to waterway and road network due to its strategic location next to Beijing-Hangzhou Canal.

Figure 7: Chongxian Port Logistics



Source: Company Presentation, KGI Research

Figure 8: Chongxian Port Investment

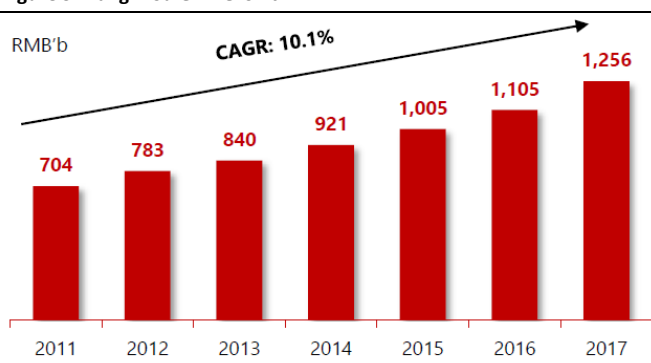


Source: Company Data, KGI Research

One for the shortlist. We believe EC World REIT is an interesting REIT that investors should keep on their watchlist given their diversified portfolio of assets focused on the e-commerce sector. Moreover, the tenants within the portfolio serve primarily domestic businesses which are focused on domestic consumption and should have minimal impacts from the escalating Sino-US Trade tension.

Strategically located. EC World’s assets are strategically located in 2 cities, Hangzhou and Wuhan. Hangzhou is a core city in the Yangtze River Delta Economic Zone and is being positioned as an economic, cultural, science and education centre with GDP growth rates expected to exceed the national average. In 2017 alone, the E-commerce industry in Hangzhou expanded 36.6%.

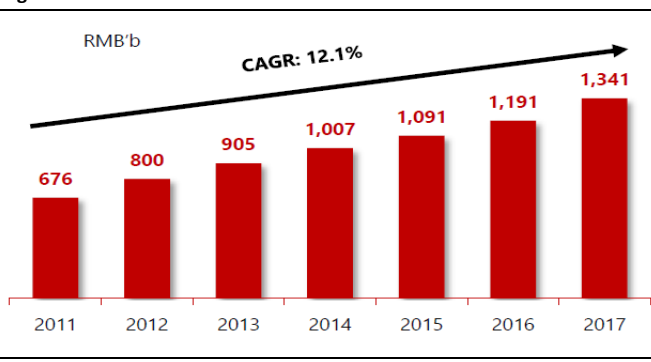
Figure 9: Hangzhou GDP Growth



Source: Company Presentation, KGI Research

Similarly, Wuhan is one of the core cities in central China, positioned as a critical transport and logistics hub with 1H2018 GDP growth at 8.2% compared against the national average of 6.8%

Figure 10: Wuhan GDP Growth

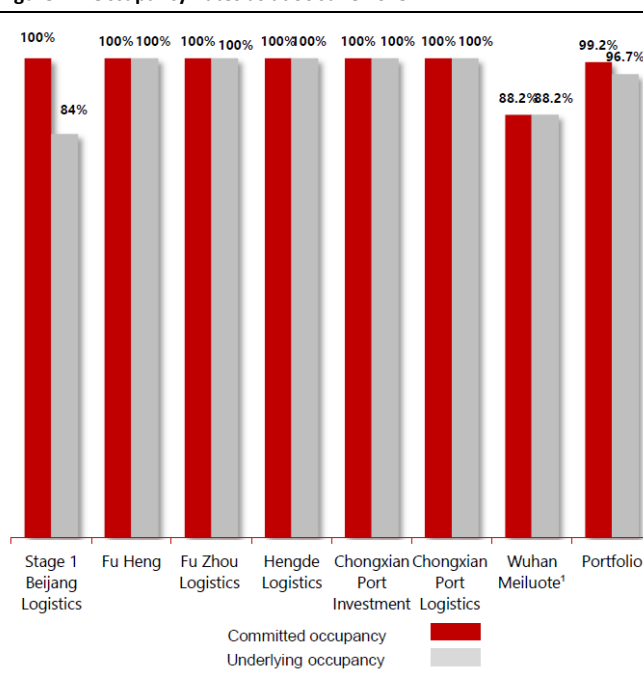


Source: Company Presentation, KGI Research

Healthy balance sheet leaves room for acquisitions. The company’s portfolio has growth consecutively for 2 years with strong occupancy. Given its healthy balance sheet with ~29% gearing ratio, the company has significant debt headroom for yield-accretive acquisitions such as Fu Zhou e-commerce properties to help lift its DPU in the next 12 months.

On the acquisition front, YCH Group and the Sponsor, Forchn Holdings, has issued a press release in April 2018 concerning the signing of a framework agreement on various strategic initiatives, including securing the opportunity for ECW to assess for consideration a portfolio of 13 logistics real estate assets in China and Southeast Asia.

Figure 11: Occupancy Rates as at 30 June 2018



Source: Company Presentation, KGI Research

Based on FY17’s DPU of 6 SG cents, the REIT is currently trading at 8.7% yield based on its current price, which is attractive considering its potential acquisitions and rental escalations.

Acquisitions however, might be tough considering the demand for good quality, yield-accretive assets. While the REIT was able to acquire Mei Luo Te in Wuhan, the acquisition environment remains tough. If the firm fails to outbid competitors for quality assets, future profits would become solely dependent on organic growth.

Key Risks. Economic slowdown in China. Changes in government regulations. EC World REIT hedges the majority of projected distributions on a 6-month rolling basis but major depreciation of RMB against SGD might still affect DPU.

Figure 12: Portfolio Assets

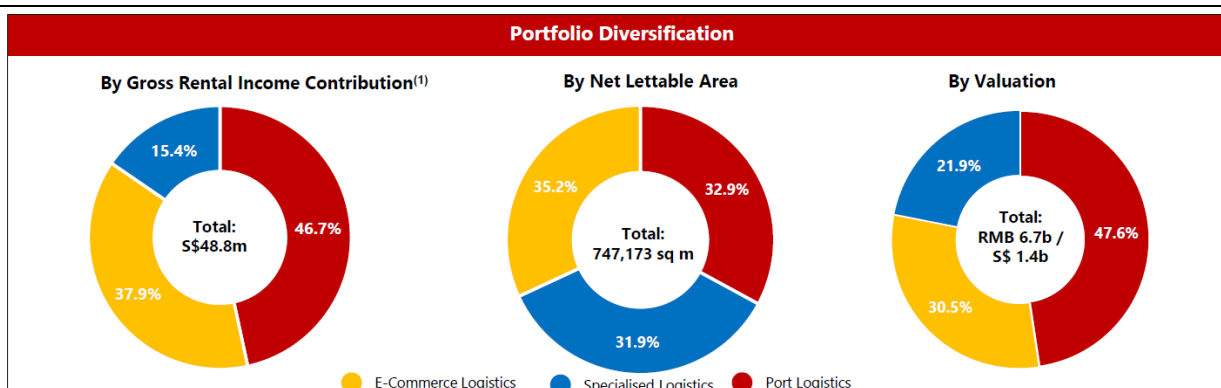
Property	Type	NLA (sq m)	Type of Lease	Remaining Land Lease Tenure (years) ⁽¹⁾	Independent Valuation (RMB m) ⁽²⁾
1 Chongxian Port Investment	Port Logistics	112,726	Master leased ⁽³⁾	38	2,218.0
2 Chongxian Port Logistics	Port Logistics	125,856	Multi-tenanted	Complex 1 & 2: 38 & 42	854.0
3 Fu Zhuo Industrial	Port Logistics	7,128	Multi-tenanted	38	114.0
4 Stage 1 Properties of Bei Gang Logistics	E-commerce Logistics	120,449	Master leased ⁽⁴⁾	34	1,296.0
5 Fu Heng	E-commerce Logistics	94,287	Master leased ⁽³⁾	41	577.0
6 Wuhan Mei Luo Te ⁽⁵⁾	E-commerce Logistics	48,695	Multi-tenanted	47	171 ⁽⁶⁾
7 Hengde Logistics	Specialised Logistics	238,032	Multi-tenanted	Complex 1 & 2: 35 & 41	1,463.0
Total / Average		747,173		39	6,693.0
Total (SGD m)					1,380.1⁽⁷⁾



(1) Based on land leases as at 30 Jun 2018
 (2) As at 31 Dec 2017 appraised by Savills

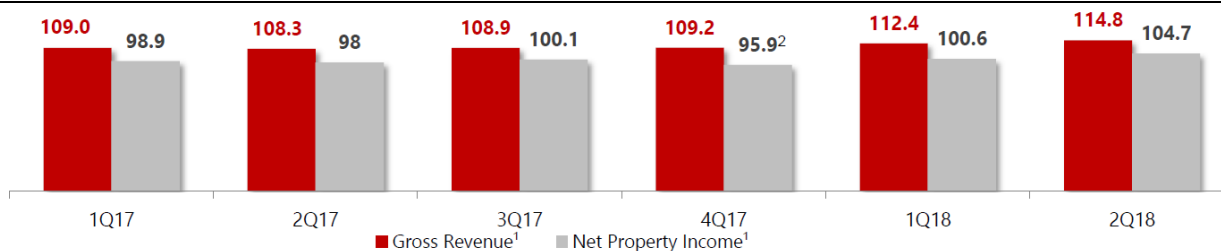
Source: Company Data, KGI Research

Figure 13: Portfolio Diversification



Source: Company Data, KGI Research

Figure 14: Operating Performance (RMB'm)



(1) Excluding straight-line and security deposit accretion accounting adjustments
 (2) Including a provision of impairment (RMB5.2m) of receivables at Fu Zhuo. There was no impact to DPU for FY2017

Source: Company Data, KGI Research

KGI's Ratings

Rating	Definition
	KGI Securities Research's recommendations are based on an Absolute Return rating system.
BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

Disclaimer

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities. This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. You should independently evaluate particular investments and consult an independent financial adviser before dealing in any securities mentioned in this report.

This report is confidential. This report may not be published, circulated, reproduced or distributed and/or redistributed in whole or in part by any recipient of this report to any other person without the prior written consent of KGI Securities. This report is not intended for distribution and/or redistribution, publication to or use by any person in any jurisdiction outside Singapore or any other jurisdiction as KGI Securities may determine in its absolute discretion, where the distribution, publication or use of this report would be contrary to applicable law or would subject KGI Securities and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by KGI Securities to be reliable. However, KGI Securities makes no representation as to the accuracy or completeness of such sources or the Information and KGI Securities accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. KGI Securities and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of KGI Securities and its connected persons are subject to change without notice. KGI Securities reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) KGI Securities, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) KGI Securities, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; and (3) the officers, employees and representatives of KGI Securities may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business".)

However, as of the date of this report, neither KGI Securities nor its representative(s) who produced this report (each a "research analyst"), has any proprietary position or material interest in, and KGI Securities does not make any market in, the securities which are recommended in this report.

Each research analyst of KGI Securities who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of KGI Securities or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including KGI Securities' total revenues, a portion of which are generated from KGI Securities' business of dealing in securities.

Copyright 2018. KGI Securities (Singapore) Pte. Ltd. All rights reserved.