

# EC WORLD REIT

## (ECWREIT SP)

### Buoyant in rough waters, but keeping a life jacket for ease of mind

Amirah Yusoff / 65 6202 1195 / [Amirah.Yusoff@kgi.com](mailto:Amirah.Yusoff@kgi.com)

- **Maintain OUTPERFORM and maintain 12M TP of S\$0.73.**

Revenue and NPI for 1H20 were in line with expectations, making up approximately 50% of our full year forecasts. 2Q20 DPU increased 20% from 1Q20 to 1.386 Singapore cents, representing an annualised distribution yield of 7.4%.

- **China expected to dodge a second wave with faster, better prepared response to virus spread.** We do not expect China to face a second wave of the Covid-19 pandemic, given that it is now much better prepared and ready, in every capacity, to fight any further clusters of outbreaks, just as it did earlier in June/July in Beijing.

- **Flat reversions for renewals, but organic growth intact.** Despite flat reversions, management have been proactive in protecting unitholders' interests by shortening renewed leases. Stipulated yearly contractual rental escalations with master lessees will also continue to support DPU growth.

**1H20 review.** Revenue and NPI for 1H20 were in line with expectations, making up approximately 50% of our full year forecasts. 2Q20 NPI increased by more than 20% as compared to 1Q20, due to rental rebates totalling S\$4.72mn that were offered to tenants in the last quarter. This quarter, management has retained 10% of distributable income (DI) (1Q20: 5% DI retained; still unused as of 2Q20) for prudence and cash flow management in the coming quarters, given the highly uncertain and fluid situation as Covid-19 continues to haunt. As of 1H20, the total amount retained is S\$1.72mn, which we think will likely be redistributed to unitholders by the end of 2021 at the latest.

We doubt there will be a second wave of the pandemic in China, given its formidable response to the mini-outbreak in its capital city earlier in June. Lockdowns of high-risk neighbourhoods (41 of 7,000 in Beijing) were swiftly enforced, aggressive contact tracing followed by mass quarantine and mass testing. Some residents were allegedly ordered to take virus tests after authorities used security camera footage of car license plates to determine who had been in the vicinity of the market. Within a week, some 2.3 million people had undergone testing for the virus, and by the end of June, local cases were already down to single digits; from July 7<sup>th</sup>, there were no more local cases. As Dr Leong Hoe Nam, an infectious disease specialist at Singapore's Mount Elizabeth Novena Hospital told AFP, "Nobody has the resources, capabilities, determination and financial ability, and of course social capital, to do this except China"; we take a similar view and are thus confident that a second wave in China is highly unlikely, and ECW's performance should take no further hits for the rest of FY20.

**Lease renewals.** As previously noted, the lease with DangDang accounting for approximately 25,000sqm, or about 50% of Wuhan Meiluote's NLA, will not be renewed

Outperform - Maintain				
Price as of 11 Aug 20 (SGD)	0.66	Performance (Absolute)		
12M TP (SGD)	0.73	1 Month (%)	0.8	
Previous TP (SGD)	0.82	3 Month (%)	0.1	
Upside, incl div (%)	18.1%	12 Month (%)	-2.5	
<b>Trading data</b>		Perf. vs STI Index (Red)		
Mkt Cap (USD mn)	531			
Issued Shares (mn)	804			
Vol - 3M Daily avg (mn)	1.0			
Val - 3M Daily avg (SGD mn)	0.7			
Free Float (%)	53.1			
<b>Major Shareholders</b>		Previous Recommendations		
Forchn Holdings Group Co Ltd	44.1%	14-May-20	OP S\$0.73	
China Cinda Asset Mgmt	10.2%	2-Mar-20	OP S\$0.82	
Bocom Intl Global Inv Ltd	7.7%	25-Nov-19	OP S\$0.84	
<b>Financials &amp; Key Operating Statistics</b>				
YE Dec SGD mn	2018	2019	2020F	2021F
Gross revenue	96.2	99.1	102.6	104.9
Net property income	87.3	89.7	94.0	96.0
Distributable income	49.0	48.9	45.0	46.6
DPU (SGD cents)	6.2	6.0	5.4	5.7
DPU growth (%)	2.2	-1.8	-10.9	5.4
Div Yield (%)	9.3	9.2	8.2	8.6
NAV (\$)	0.9	0.9	0.8	0.8
Price / Book (x)	0.8	0.8	0.8	0.8
NPI Margin (%)	90.8	90.5	91.6	91.5
Net Margin (%)	48.8	65.8	33.1	33.1
Gearing (%)	-	37.4	37.3	37.3
ROE (%)	6.6	6.8	9.5	5.0

Source: ECW, KGI Research

after expiry this quarter. Management has also seen that lease uptake at Wuhan Meiluote, whose occupancy will drop to just over 30% in the next quarter after the lease expiry, is expected to remain subdued for the rest of the year, as cautiousness seems to loom over the city where the Covid-19 pandemic first broke out. Overall portfolio occupancy is expected to drop to 96.1% from current 98.7%.

Renewal of the Hengde Logistics master lease with state-owned enterprise China Tobacco Zhejiang Industrial Co., Ltd expiring in October is expected to be completed by September, although reversions are likely to be flat, similarly as all other lease renewals during FY2020. However, management have shortened leases in response, to enable renewals again in a year or two when the economic situation and outlook improves. Also, rental escalations that have been built into lease contracts will continue to apply and take effect as and when due.

**Valuation & Action:** **Maintain OUTPERFORM based on fair value of S\$0.73.** We remain optimistic about the FY20 performance of ECW as recovery in China continues to be on track. Our TP represents a total upside of 18.1% (incl. FY20F div. yield of 8.2%).

**Risks:** Second wave of infections in China; indirect impact of US elections at year end, and ongoing US-China trade tensions on tenants' businesses and operations; CNY/SGD currency fluctuations.

**Figure 1: DDM valuation**

Fiscal year ending December 31	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Distribution per unit (SGD cents)	6.16	6.05	5.39	5.68	5.75	6.01	6.10	6.19	8.29
Terminal Growth (%)								1.5%	
Terminal value per unit (SGD cents)								92.27	
Cost of equity	10.48%								
<b>Target price (\$\$)</b>	<b>0.73</b>								
Capital appreciation	9.9%								
FY20F distribution yield	8.2%								

Source: KGI Research

**Figure 2: Peer comparison**

BB ticker	Company Name	Last Price (local \$)	Currency Adj. Market Cap (\$\$ m)	Dividend Yield (%)				P/B (x)		6M Average daily trading volume (\$\$ '000)	YTD Price Performance (%)	1YR Price Performance (%)
				Current	FY19	FY20F	Current	FY19F	FY20F			
ECWREIT SP	EC World Real Estate Investment Trust	SGD 0.66	387	8.1	0.0	0.0	0.7	0.8	0.8	784	-1.4	-0.2
<b>SINGAPORE LISTED INDUSTRIAL REITS (Avg)</b>												
AREIT SP	Ascendas Real Estate Investment Trust	SGD 3.42	9,021	5.3	4.5	4.5	1.6	1.6	1.6	55,291	-5.2	-3.5
MINT SP	Mapletree Industrial Trust	SGD 3.11	5,321	5.0	4.0	4.0	1.9	1.8	2.0	26,524	-9.6	-38.8
MLT SP	Mapletree Logistics Trust	SGD 2.07	5,738	5.2	4.0	3.9	1.7	1.7	-	43,867	-9.0	-36.2
FLT SP	Frasers Logistics & Commercial Trust	SGD 1.32	3,283	5.5	5.5	5.5	1.3	1.3	1.3	13,745	-0.9	-12.8
ERET SP	ESR-REIT	SGD 0.39	990	7.7	7.5	7.5	0.9	0.9	0.9	8,428	-27.4	-25.8
AAREIT SP	AIMS APAC REIT	SGD 1.17	602	9.1	8.3	8.8	0.9	0.9	0.9	2,239	-18.2	-9.9
ALLT SP	ARA LOGOS Logistics Trust	SGD 0.66	520	7.7	7.5	7.5	1.1	1.1	1.1	1,561	-8.4	-10.9
SBREIT SP	Soilbuild Business Space REIT	SGD 0.41	379	7.7	-	-	0.7	-	-	769	-21.2	-29.8
SSREIT SP	Sabana Shari'ah Compliant Industrial Re:	SGD 0.37	280	7.7	7.1	7.1	0.6	0.7	0.7	622	-20.7	-28.9
<b>SINGAPORE LISTED CHINA RETAIL REITS (Avg)</b>												
SASSR SP	Sassuer Real Estate Investment Trust	SGD 0.76	665	7.4	7.9	7.9	0.8	0.9	0.9	2,030	-4.1	-5.6
BHGREIT SP	BHG Retail REIT	SGD 0.60	221	5.6	-	-	0.7	-	-	551	-3.1	-3.8
CRCT SP	CapitaLand Retail China Trust	SGD 1.13	1,007	7.7	7.1	-	0.7	1.0	1.0	5,529	-29.8	-25.2
DASIN SP	Dasin Retail Trust	SGD 0.79	441	7.7	6.4	6.4	0.6	-	-	193	-6.0	-9.2

Source: Bloomberg, KGI Research

**Financials**

FYE 31 December					
INCOME STATEMENT (SGD mn)	2018A	2019A	2020F	2021F	2022F
Gross revenue	96.2	99.1	102.6	104.9	106.7
Property expenses	(8.9)	(9.4)	(8.6)	(8.9)	(9.0)
<b>Net property income</b>	<b>87.3</b>	<b>89.7</b>	<b>94.0</b>	<b>96.0</b>	<b>97.7</b>
Manager's fees	(5.1)	(4.9)	(4.5)	(5.3)	(5.1)
Trustee fees	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net interest expense	(19.4)	(23.2)	(29.8)	(29.8)	(30.4)
Other expenses	(0.9)	(1.7)	(1.5)	(1.6)	(1.6)
<b>Net profit/(loss)</b>	<b>56.9</b>	<b>52.1</b>	<b>52.3</b>	<b>53.4</b>	<b>54.6</b>
Change in fair value - investment ppty	12.0	50.3	0.0	0.0	0.0
<b>Total return before tax</b>	<b>70.2</b>	<b>98.2</b>	<b>52.3</b>	<b>53.4</b>	<b>54.6</b>
Income tax	(23.3)	(32.9)	(18.3)	(18.7)	(19.1)
Total return after tax	46.9	65.2	34.0	34.7	35.5
<b>Distributable income</b>	<b>49.0</b>	<b>48.9</b>	<b>45.0</b>	<b>46.6</b>	<b>47.2</b>
BALANCE SHEET (SGD mn)	2018A	2019A	2020F	2021F	2022F
Cash and cash equivalents	142.1	119.5	130.0	134.3	138.7
Trade and other receivables	38.3	36.9	39.7	40.5	41.3
Other current assets	329.0	110.0	-	-	-
<b>Total current assets</b>	<b>180.8</b>	<b>156.5</b>	<b>169.7</b>	<b>174.9</b>	<b>179.9</b>
Investment properties	1,335.0	1,567.6	1,568.6	1,569.6	1,570.6
Intangibles, others	-	-	-	-	-
<b>Total assets</b>	<b>1,515.8</b>	<b>1,724.0</b>	<b>1,738.3</b>	<b>1,744.5</b>	<b>1,750.5</b>
Trade and other payables	23.4	34.1	29.3	29.9	30.5
Other current liabilities	484.0	83.9	75.5	75.5	75.5
<b>Total current liabilities</b>	<b>507.3</b>	<b>118.1</b>	<b>104.7</b>	<b>105.4</b>	<b>105.9</b>
LT Borrowings	0.0	586.6	585.1	585.1	585.1
Other non-current liabilities	320.0	335.4	367.3	378.9	390.6
<b>Total liabilities</b>	<b>827.3</b>	<b>1,040.1</b>	<b>1,057.1</b>	<b>1,069.4</b>	<b>1,081.6</b>
Unitholders' funds and reserves	688.6	683.9	681.2	675.1	668.9
<b>Total liabilities and equity</b>	<b>1,515.8</b>	<b>1,724.0</b>	<b>1,738.3</b>	<b>1,744.5</b>	<b>1,750.5</b>
CASH FLOW STATEMENT (SGD mn)	2018A	2019A	2020F	2021F	2022F
<b>Total return before tax</b>	<b>70.2</b>	<b>98.2</b>	<b>52.3</b>	<b>53.4</b>	<b>54.6</b>
Change in fair value - investment ppty	(12.0)	-	-	-	-
Management fees payable in units	5.1	4.9	4.5	5.3	5.1
Changes in working capital	(4.9)	18.2	(2.0)	1.5	1.2
Taxes paid	(15.9)	(15.2)	(15.6)	(15.6)	(15.6)
<b>Cash flows from operations</b>	<b>73.2</b>	<b>105.8</b>	<b>92.6</b>	<b>96.1</b>	<b>97.8</b>
Capital expenditure	(1.5)	(3.4)	(1.0)	(1.0)	(1.0)
Acquisition of investment properties	(28.9)	(152.8)	-	-	-
Other investing cashflow	-	-	-	-	-
<b>Cash flows from investing</b>	<b>(30.4)</b>	<b>(156.2)</b>	<b>(1.0)</b>	<b>(1.0)</b>	<b>(1.0)</b>
Borrowings raised / (repaid)	41.7	130.7	-	-	-
Equity raised / (bought back)	-	-	-	-	-
Distributions paid	(48.1)	(48.5)	(43.7)	(46.6)	(47.6)
Other financing cashflow	(69.3)	(26.8)	(30.2)	(30.2)	(30.8)
<b>Cash flows from financing</b>	<b>(75.7)</b>	<b>55.4</b>	<b>(73.8)</b>	<b>(76.7)</b>	<b>(78.4)</b>
FX Effects, Others	(0.7)	-	-	-	-
<b>Net increase/(decrease) in cash</b>	<b>(47.6)</b>	<b>(8.4)</b>	<b>3.7</b>	<b>4.3</b>	<b>4.3</b>
Beginning Cash	87.2	43.7	34.7	38.4	42.7
<b>Ending cash</b>	<b>43.7</b>	<b>34.7</b>	<b>38.4</b>	<b>42.7</b>	<b>47.1</b>
KEY RATIOS	2018A	2019A	2020F	2021F	2022F
DPU (SGD cents)	6.2	6.0	5.4	5.7	5.8
Dividend yield (%)	9.3	9.2	8.2	8.6	8.7
NAV per stapled security (S\$)	0.9	0.9	0.8	0.8	0.8
Price/NAV (x)	0.8	0.8	0.8	0.8	0.8
Profitability (%)					
NPI Margin	90.8	90.5	91.6	91.5	91.5
Net Margin	48.8	65.8	33.1	33.1	33.3
ROE	6.6	6.8	9.5	5.0	5.1
ROA	3.2	3.1	3.8	2.0	2.0
Financial Structure					
Interest Coverage (x)	3.9	3.7	2.7	2.8	2.8
Gearing (%)	0.0	37.4	37.3	37.3	37.3

Source: Company, KGI Research

<b>KGI's Ratings</b>	<b>Rating</b>	<b>Definition</b>
	<b>Outperform (OP)</b>	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
	<b>Neutral (N)</b>	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
	<b>Underperform (U)</b>	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon
	<b>Not Rated (NR)</b>	The stock is not rated by KGI Securities.
	<b>Restricted (R)</b>	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

**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 2020. KGI Securities (Singapore) Pte. Ltd. All rights reserved.