INITIATION

REIT ▪ Singapore

EC World REIT

(ECWREIT SP)

E-*Commerce taking over the* World

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- EC World REIT is the only specialized and e-commerce logistics S-REIT that provides investment access into China's booming e-commerce industry. c.40% of its investment assets (by AUM valuation) are also quality port logistics assets with prime and coveted access to the Beijing-Hangzhou Grand Canal due to recent UNESCO Heritage Site zonings.
- EC World REIT also has the established and capable Forchn Holdings Group co as its sponsor, who was also one of the founding members of Cainiao Network Tech Co Ltd., along with partners Alibaba Group and Fosun Group. We believe that with the support and guidance of its sponsor, there is still a long runway for future growth and expansion.
- We initiate coverage on EC World REIT (ECW) with an OUTPERFORM recommendation. Our target price of SGD$0.84 represents a total upside of 23.4%, inclusive of FY20F dividend yield of 9.1%.

Investment Thesis

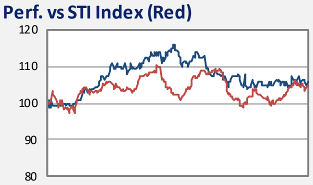
High income visibility. ECW's portfolio is well-diversified into the three main logistics segments: Port, Specialised, and E-Commerce logistics, lending stability to its income. They have also proven stable 99%-100% occupancy levels since IPO, and have a WALE of 4.3 years by net lettable area (NLA), as of 30 September 2019. Four of its eight properties are directly and indirectly master-leased to its sponsor (representing c.70% of gross rental income (GRI)), while another is leased to a China State-Owned-Enterprise (SOE), China Tobacco Zhejiang Industrial Co., Ltd.

Established, capable, & committed sponsor. The Sponsor, Forchn Holdings Group Co Ltd., is a well-established operator of port facilities in China with over 20 years of experience. It has both constructed and operated the Chongxian Port facility - a key construction project duly recognised by the China government. Alongside partners Alibaba Group, Fosun Group, and other key logistics companies, the Sponsor was also one of the founding members of Cainiao Network Technology Co., Ltd. (菜鸟网络科技有限公司).

Right time, right industries. China has quickly emerged as a global leader in e-commerce with the rise of technology. This inevitably translates into demand for e-commerce logistics assets, which represent 40% of ECW's portfolio. Demand is further amplified with insufficient supply, especially in Hangzhou, one of the largest e-commerce hubs in China, where some of the largest online retail platforms, including the Alibaba Group, are headquartered. With support, too, from the Chinese government to propel the e-commerce and technology space in the coming years, we believe that ECW's assets are well-positioned to capture the vast growth opportunities.

Outperform - Initiation

Price as of 25 Nov 19 (SGD)	0.74	**Performance (Absolute)**	
12M TP (SGD)	0.84	1 Month (%)	2.0
Previous TP (SGD)	-	3 Month (%)	1.4
Upside, incl div (%)	23.4%	12 Month (%)	16.4
Trading data		**Perf. vs STI Index (Red)**	
Mkt Cap (USD mn)	586		
Issued Shares (mn)	797		
Vol - 3M Daily avg (mn)	0.9		
Val - 3M Daily avg (SGD mn)	0.6		
Free Float (%)	50.0		
Major Shareholders		**Previous Recommendations**	
Forchn Holdings Group Co Ltd	44.1%		
China Cinda Asset Mgmt	10.2%		
Bocom Intl Global Inv Ltd	7.7%		



Financials & Key Operating Statistics

YE Dec SGD mn	2017	2018	2019F	2020F	2021F
Gross revenue	91.4	96.2	103.1	113.5	115.7
Net property income	82.7	87.3	94.8	105.8	107.8
Distributable income	47.1	49.0	49.3	53.6	54.8
DPU (SGD cents)	6.0	6.2	6.2	6.7	6.7
DPU growth (%)	-	2.2%	0.2%	7.8%	0.9%
Div Yield (%)	8.2	8.4	8.4	9.1	9.1
NAV (S$)	0.9	0.9	0.9	0.8	0.8
Price / Book (x)	0.8	0.8	0.9	0.9	0.9
NPI Margin (%)	90.5	90.8	92.0	93.2	93.2
Net Margin (%)	52.1	48.8	36.2	36.0	36.8
Gearing (%)	29.6	-	38.1	38.1	38.1
ROE (%)	7.1	6.6	6.8	5.5	6.1

Source: ECW, KGI Research

Valuation & Action

We initiate coverage on ECW with an OUTPERFORM recommendation. Our target price of SGD$0.84 represents a total upside of 23.4%, inclusive of FY20F dividend yield of 9.1%. We used the DDM methodology for the valuation with a cost of equity of 9.7% and terminal growth rate of 1.5%.

ECW currently trades at a FY19F/FY20F P/B ratio of 0.9x, a 25% discount to the average of its peers at 1.2x.

Key Risks

Key risks include high dependency on its sponsor for rental income; non-renewal of upcoming lease expiry with China Tobacco Zhejiang Industrial Co., Ltd.; CNY/SGD currency fluctuations given current geopolitical tensions; and a relatively higher gearing.

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INVESTMENT THESIS

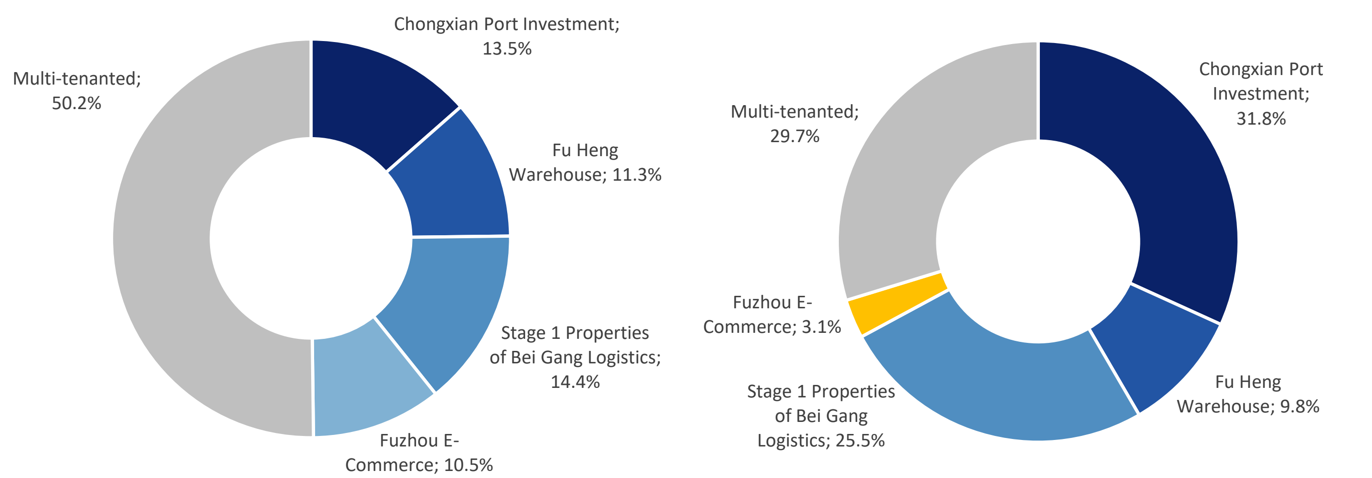
HIGH INCOME VISIBILITY

Stable 99% occupancy backed by defensive lease structures

All of ECW's assets are at 100% committed occupancy for the foreseeable future and has been since IPO, except Wuhan Meiluote, which was acquired in 2018, at 85.8%. This was due to JD.com recently vacating, but management has been in active discussion with several interested parties regarding the space, and are optimistic on filling occupancy by year-end.

Four of its eight properties (i.e. Chongxian Port Investment, Fu Heng Warehouse, Stage 1 Properties of Bei Gang Logistics and newly acquired Fuzhou E-commerce) are directly and indirectly master-leased to ECW's sponsor, Forchn Holdings Group Co., Ltd. These assets make up almost c.50% of net lettable area (NLA), and c.70% of gross rental income (GRI) for 9M19.

Figure 1: Master-leased properties' contribution to NLA (left) and GRI (right) for 9M19



Source: ECW, KGI Research
Note: Fuzhou E-Commerce's contribution is for the period 8 Aug – 30 Sept 2019

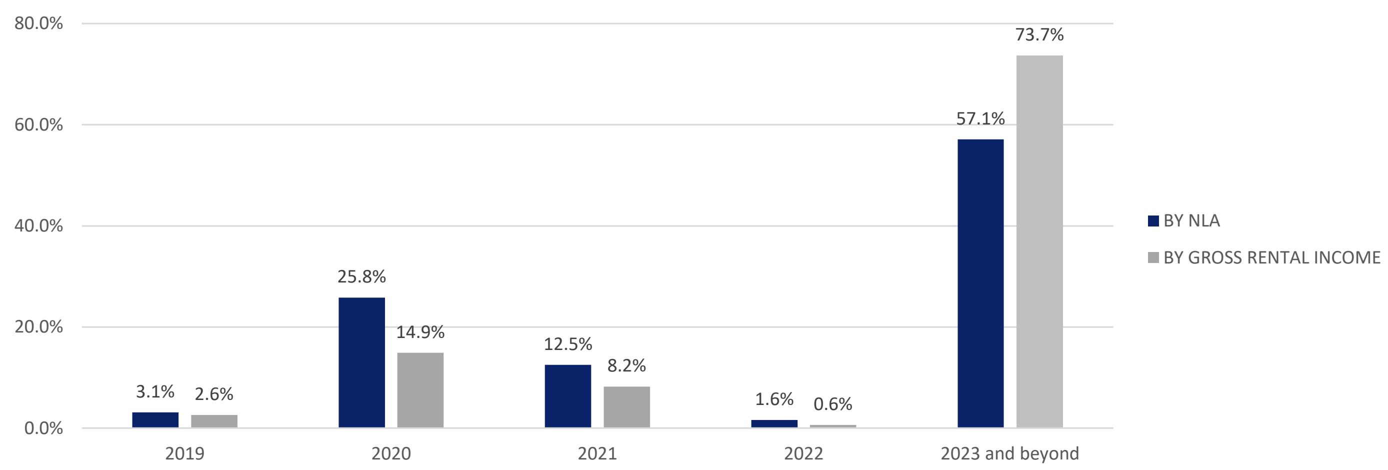
95% (by GRI) of Hengde Logistics is also leased to a state-owned tobacco company, China Tobacco Zhejiang Industrial Co., Ltd. (浙江中煙工業有限責任公司) and the asset consistently contributes to c.15% of total GRI. Hengde Logistics is ECW's only Specialized Logistics asset, and has been specially customized to cater to the special requirements of tobacco storage and other humidity and temperature sensitive products and perishable goods. In such a mutually beneficial setup, we believe that there is a high probability that the 2020-expiry lease will be renewed without any hiccups.

Rental escalations ranging between 1% and 4% are also built into all of its leases, providing more stable, predictable and reliable income projections.

Secure and consistent WALE of 4.3 years

Including Fuzhou E-Commerce that was acquired on 8 August 2019, weighted average lease expiry (WALE) stands at 3.4 years by NLA and 4.3 years by GRI, as of 30 September 2019.

Figure 2: Lease expiry profile as at 30 September 2019



Source: ECW, KGI Research

Figure 3: Details of ECW's portfolio leases

		Lease Structure	Lease Tenure	Rental Escalation	Committed Occupancy	Underlying Occupancy
Port Logistics	Chongxian Port Investment	Master lease	1 Jan 2016 to 31 Dec 2024	3.0% on 1 Jan 2020; 2% annually from 1st Jan 2021	100%	100%
	Chongxian Port Logistics Complex 1 Chongxian Port Logistics Complex 2	Multi-tenanted	-	For 72% of leases: increase of 10% in the first 3 years, 12% from Year 4	100%	100%
	Fu Zhuo Industrial	Multi-tenanted, 2 main leases	(1) 25 Apr 2015 to 24 Apr 2020; (2) 8 Oct 2014 to 7 Oct 2029	(1) 10% annually in the first 3 years, 15% annually from the 4th year; (2) 7.5% every 3 years	100%	100%
Specialised Logistics	Hengde Logistics Complex 1 Hengde Logistics Complex 2	Multi-tenanted, 2 main leases	(1) 15 Oct 2015 to 14 Oct 2020; (2) 9 May 2016 to 8 May 2021	Up to 10% over a lease term of 5 years (i.e. c.2.0% per annum)	100%	100%
E-Commerce Logistics	Fu Heng Warehouse	Master lease	1 Nov 2015 to 31 Oct 2024	3.0% on 1 Jan 2020; 2.0% annually from 1st Jan 2021	100%	100%
	Stage 1 Properties of Bei Gang Logistics	Master lease	1 Nov 2015 to 31 Oct 2024	1.0% on 1 Jan 2020; 1.0% annually from Nov 2020 to Oct 2024	100%	86.0%
	Wuhan Meiluote	Multi-tenanted	-	Up to 5% per annum	85.8%	85.8%
	Fuzhou E-Commerce	Master lease	1 Aug 2019 to 31 Jul 2024	2.25% per annum	100%	100%

Source: ECW, KGI Research

In addition to the master leases previously mentioned, a reasonable proportion of the multi-tenanted properties are, directly or indirectly, leased to wholly-owned subsidiaries of the Sponsor (e.g. 60-70% of Chongxian Port Logistics). Therefore, we think that WALE and occupancy should remain relatively secure and consistent, enhancing income visibility.

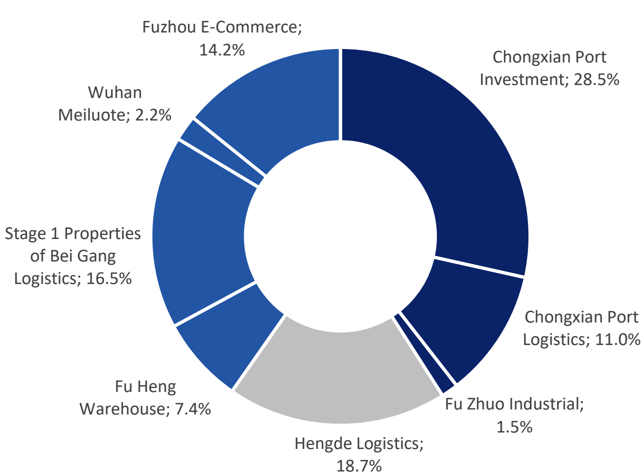
Diversified portfolio of 22 tenants in varying end-markets

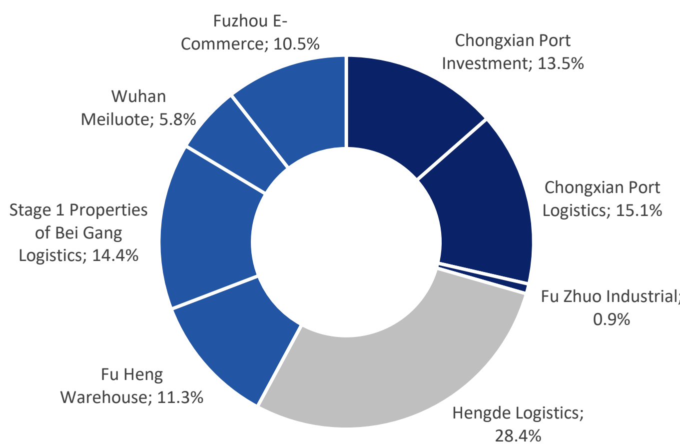
ECW's portfolio is well-diversified into three main logistics segments: Port Logistics, Specialised Logistics, and E-Commerce logistics.

The Port Logistics assets hold coveted statuses and prime access to the Beijing-Hangzhou Grand Canal due to UNESCO Heritage Site zonings, in addition to flanking National Highway No. 320 and the Jiaxing-Huzhou Expressway. Chongxian Port Investment and its supporting Chongxian Port Logistics currently hold the dominant market share on steel imports into the province, yet closures of local steel mills alongside China's Belt and Road Initiative are expected to further increase demand for port operations. The aforementioned UNESCO Heritage Site zoning also hinders any construction of new ports along the canal, intensifying demand for ECW's port logistics assets.

Chongxian Port Investment accounts for almost 30% of ECW's assets under management (AUM) and 32% of GRI for 9M19 (as previously shown in figure 1), despite only making up c.14% of total NLA.

Figure 4: AUM valuation (left) and NLA (right) breakdown (as at 30 Sept 2019) by asset and logistic segment





BY AUM VALUATION	
Port Logistics	40.9%
Specialised Logistics	18.7%
E-Commerce Logistics	40.3%

BY NLA	
Port Logistics	29.5%
Specialised Logistics	28.4%
E-Commerce Logistics	42.1%

Source: ECW, KGI Research

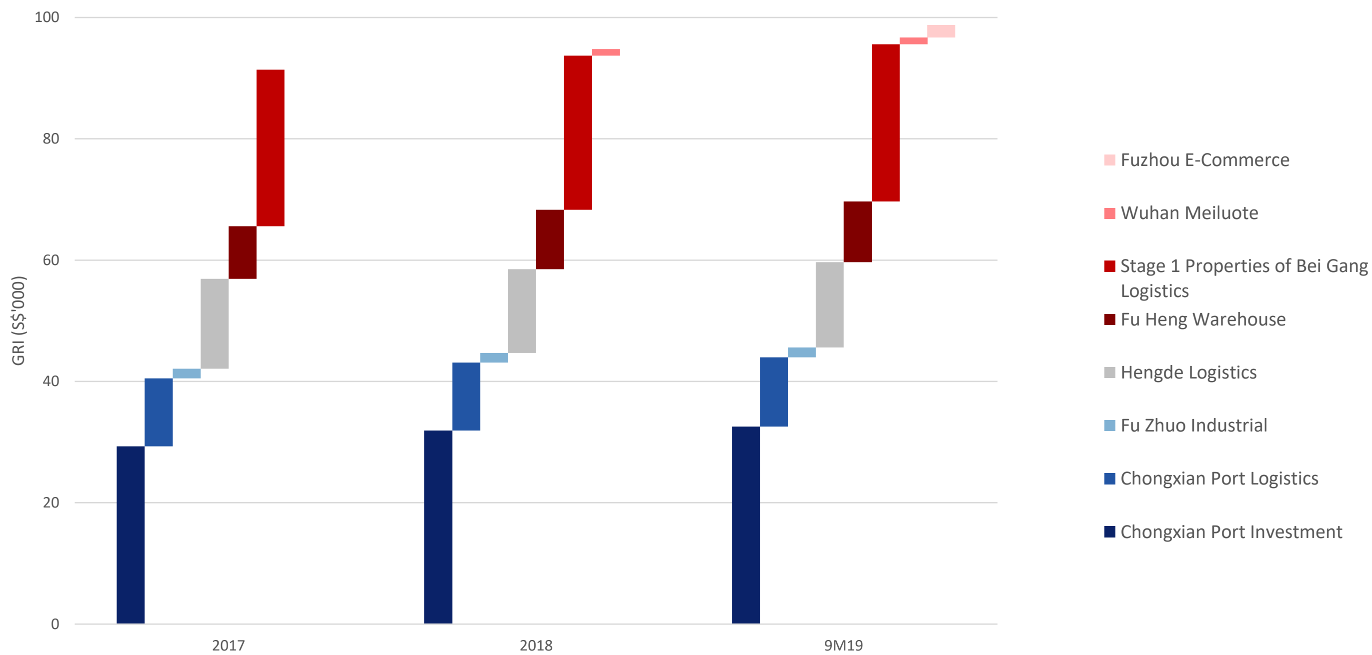
As previously mentioned, Hengde Logistics is ECW's only Specialised Logistics asset, and caters to government-backed China Tobacco Zhejiang Industrial Co. Ltd. As tobacco production requires aging of the tobacco leaves for two years in highly specific conditions, Hengde Logistics enjoys limited competition in the region. The facility houses an estimated RMB 10 billion worth of the tobacco stockpile for the Zhejiang province.

Finally, its E-Commerce Logistics assets allow for last-mile connectivity through warehousing, third-party logistics, and parcel producing and sorting. Its latest acquisition of Fuzhou E-Commerce, adjacent to its existing e-commerce related asset (Fu Heng Warehouse), will unlock operational efficiencies with the creation of a combined 308,571sqm logistics hub, catering to the fulfilment of the rapidly expanding e-commerce demand in Hangzhou and China. Located in Dongzhou Industrial Park, Fuyang District, Hangzhou, both these assets are also well-positioned to benefit from the local government's efforts to attract renowned e-commerce companies to the district.

Both Fuzhou E-Commerce and Fu Heng warehouses are operated by Ruyicang (a wholly-owned subsidiary of the Sponsor), a leading omni-channel logistics service provider in China and one of the earliest key partners and service providers of the Cainiao Network Technology Co. Ltd (菜鸟网络科技有限公司) – Alibaba's logistics arm. With the addition of Fuzhou E-Commerce, the E-commerce segment now accounts for c.50% of portfolio NLA (2018: c.42%) and c.40% of portfolio AUM (2018: c.30%).

For the nine months ended September 2019, Port Logistics segment was the biggest contributor to Gross Rental Income (46.2%), followed by E-Commerce Logistics (39.5%).

Figure 5: GRI breakdown (9M19) by asset



% GRI	2017	2018	9M19
Port Logistics	46.1%	47.1%	46.2%
Specialised Logistics	16.2%	14.6%	14.3%
E-Commerce Logistics	37.7%	38.3%	39.5%

Source: ECW, KGI Research

Note: Fuzhou E-Commerce's contribution is for the period 8 Aug – 30 Sept 2019

Besides the segmentation of ECW's logistic assets, the end-users of the portfolio's assets are also diversified and can be broadly classified into five of the following trade sector categories:

(1) Delivery, logistics and distribution
- Such as port and warehouse operators, tenants and third-party logistics providers

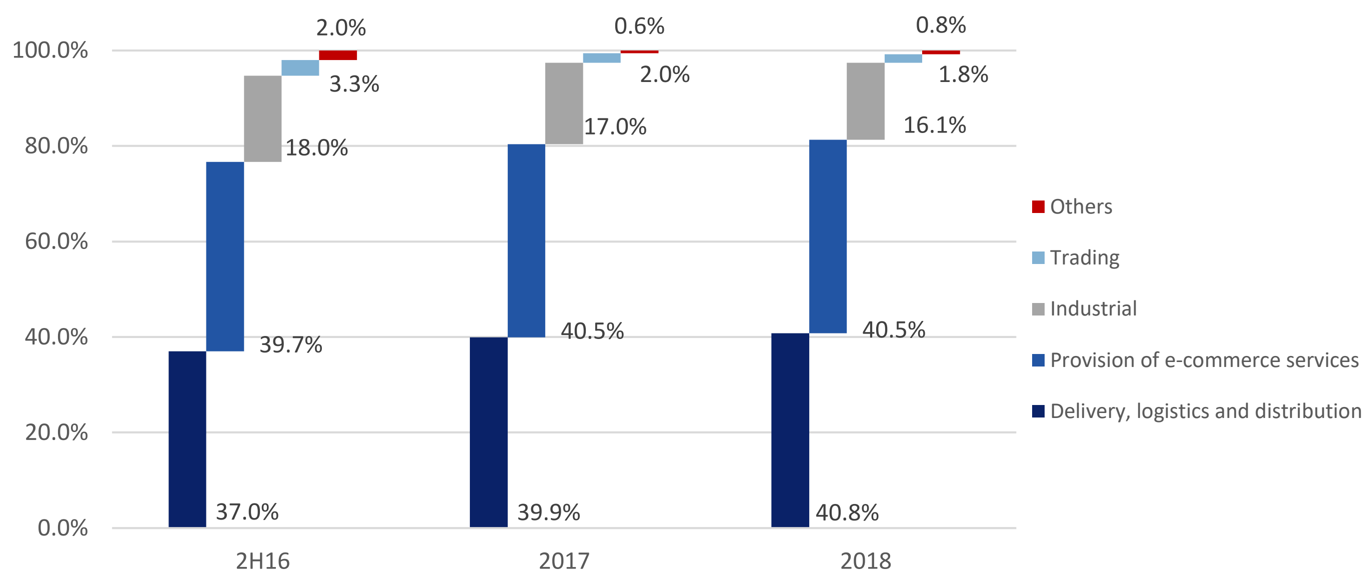
(2) Provision of e-commerce services
- Such as B2B and B2C online operators, O2O showrooms, intermediary service providers, start-up incubators

(3) Industrial
- Such as state-owned tobacco company, steel product manufacturers and traders

(4) Trading

(5) Others
- Including conglomerate, telecommunication, transport services and real estate)

Figure 6: Trade sector diversification of end markets, weighted on GRI contribution



Source: ECW, KGI Research

Overall, the comprehensive mix of logistic assets and trade sector end-markets ensures thorough diversification and reduces dependence of ECW's rental income on the performance of any single asset or trade sector. The recent acquisition of Fuzhou E-Commerce has also improved, and shows management's efforts to continuously improve, the balance of GRI between asset segments.

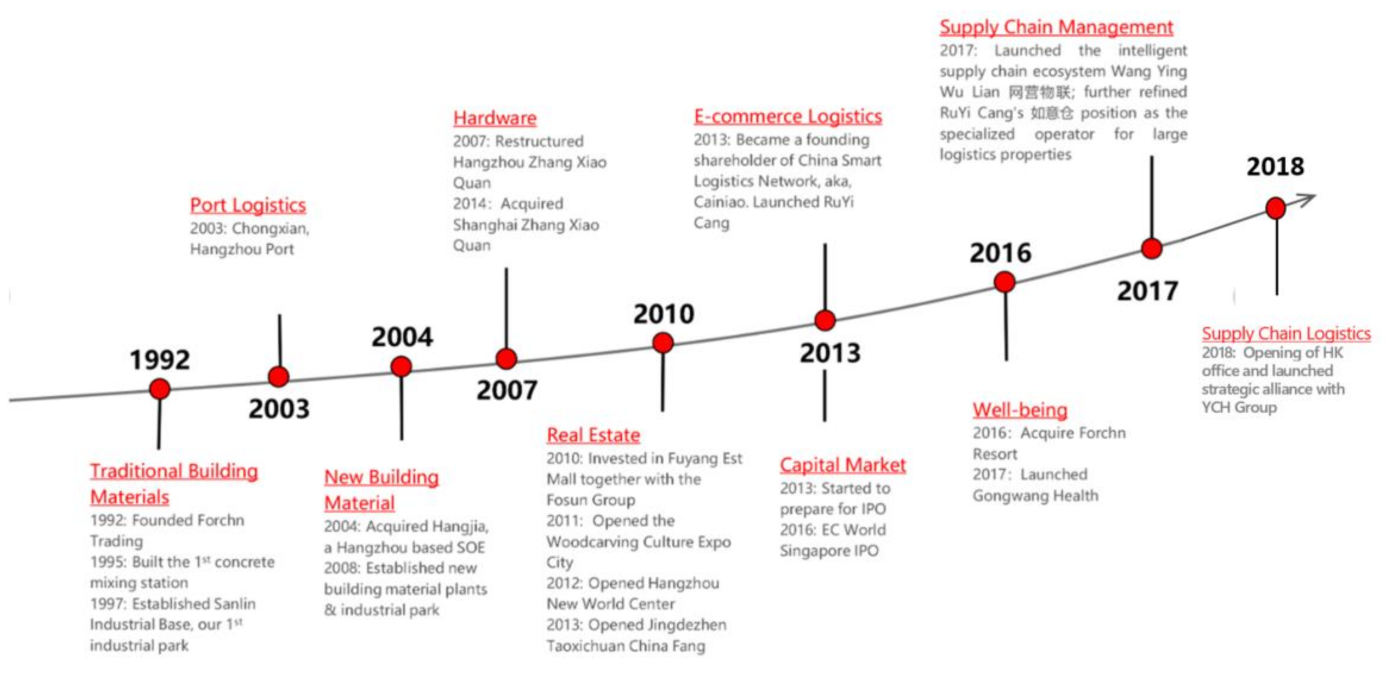
ESTABLISHED, CAPABLE, & COMMITTED SPONSOR

Leveraging on sponsor's experience and expertise

A Shanghai-based investment holding company established since 1992, Forchn Holdings Group Co. Ltd., is a leading diversified enterprise group with extensive construction and operational experience in the logistics industry, and strong business networks with leading e-retailers and logistics service providers in China.

The Sponsor is an established operator of port facilities in China with over 20 years of experience, and has both constructed and operated the Chongxian Port facility - a key construction project recognised by the China government at both provincial and national levels. Alongside partners Alibaba Group, Fosun Group, and other key logistics companies, the Sponsor was also one of the founding members of Cainiao Network Technology Co., Ltd. (菜鸟网络科技有限公司), a joint-venture established to transform China's logistics infrastructure.

Figure 7: Sponsor milestones



Source: Forchn Holdings Group Co. Ltd., KGI Research

In 2018, the Sponsor also entered into a partnership with YCH Group to leverage their network of assets across Asia Pacific. The Sponsor's interest in EC World REIT is aligned through ownership of a c.44% stake in the REIT. We think that EC World REIT stands to benefit from the Sponsor, Forchn Group's diversified businesses, market reach, industrial knowledge and business networks across the port, logistics and e-commerce sectors.

Leveraging on sponsor's wide network and strong trade alliances

In April 2018, the Sponsor, together with the YCH Group, signed a landmark framework agreement on three strategic initiatives:

1. Potential acquisition of 13 logistic assets by EC World REIT
2. Forchn-YCH Asia Logistics Private Equity Fund
3. Forchn-YCH Operational Synergies

Figure 8: Strategic alliances across high growth markets

Source: ECW, KGI Research

In 2019, the Sponsor also collaborated with Bank of Zhejiang, Fund Management Branch (浙商银行产融基金) to establish Hangzhou Unilogix (网营物联), with a total registered capital of RMB 5 billion to invest in logistic assets across key gateway cities in China.

ROFR to YCH's 13 logistic assets

Through a strategic alliance with leading logistics operator YCH Group, ECW has acquired a substantial ROFR pipeline of 13 logistics properties across the Asia-Pacific region, when the properties are available for divestment. YCH Group (YCH), a leading supply chain management partner and logistics solutions company with a presence in over 100 key cities across 16 countries, including China, India, ASEAN, Australia and Korea.

However, ECW's management has emphasised that these acquisitions will not happen, despite the standing ROFRs, if they are not DPU-accretive, and if no agreement can be reached on the purchase price or lease terms. Further, with its debt headroom being squeezed after its recent Fuzhou E-Commerce acquisition, any future acquisitions would have to be partially funded by equity.

US$150mn Private Equity Fund for Forchn-YCH Belt & Road Initiative

A logistics real estate private equity fund was launched in 2H18, with the aim of leveraging on Forchn's strong track record of real estate investment and development in China and YCH's extensive experience in B2B and B2C to uncover attractive development and acquisition opportunities of logistics warehouses in key cities in Southeast Asia and China.

In September 2019, the Sponsor completed its first acquisition in Indonesia, marking its official first step into the Southeast Asian logistics warehouse market. It entered into a land transfer agreement with 3M Company, a world-famous manufacturing company based in Jakarta. The 37,535sqf plot of industrial land is located in Java Island, which has a population density of more than 60% of Indonesia's total population and makes up 58% of Indonesia's GDP.

Figure 9: Opportunities Presented by the Belt Road Initiative

Source: ECW, KGI Research

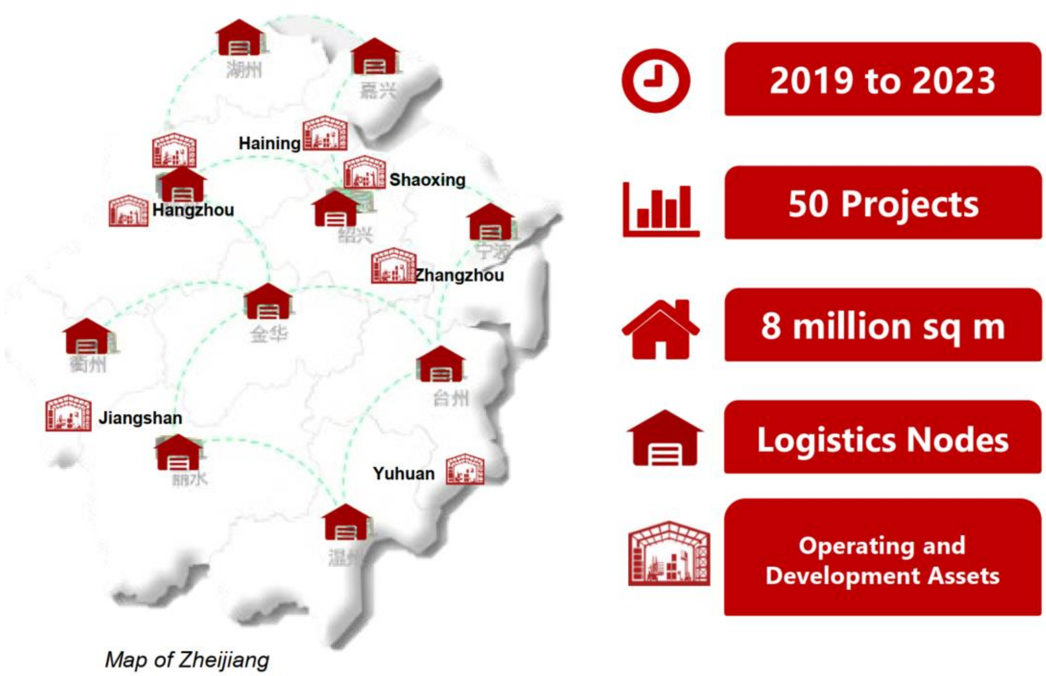
Forchn-YCH Operational Synergies

YCH and Forchn will leverage on each other's competencies to capture opportunities in Southeast Asia. Riding on Forchn's China network of Ruyicang E-Commerce Services, YCH will introduce cutting-edge supply chain management technologies and practices to enhance customer service.

Hangzhou Unilogix

The Hangzhou Unilogix 5-year Expansion Plan (2019 to 2023) aims to establish a supply chain network to enhance efficiency through development of strategically located logistics assets across major consumer cities, and promote social and economic development within Zhejiang. The Sponsor and Bank of Zhejiang have since invested RMB 5 billion to support 50 projects, spanning 8 million square metres, across 40-50 industrial clusters. Of those, 12 projects will be completed by the end of the year, with a GFA of 1.8-2sqm.

Figure 10: Hangzhou Unilogix's 5 Year Expansion Plan



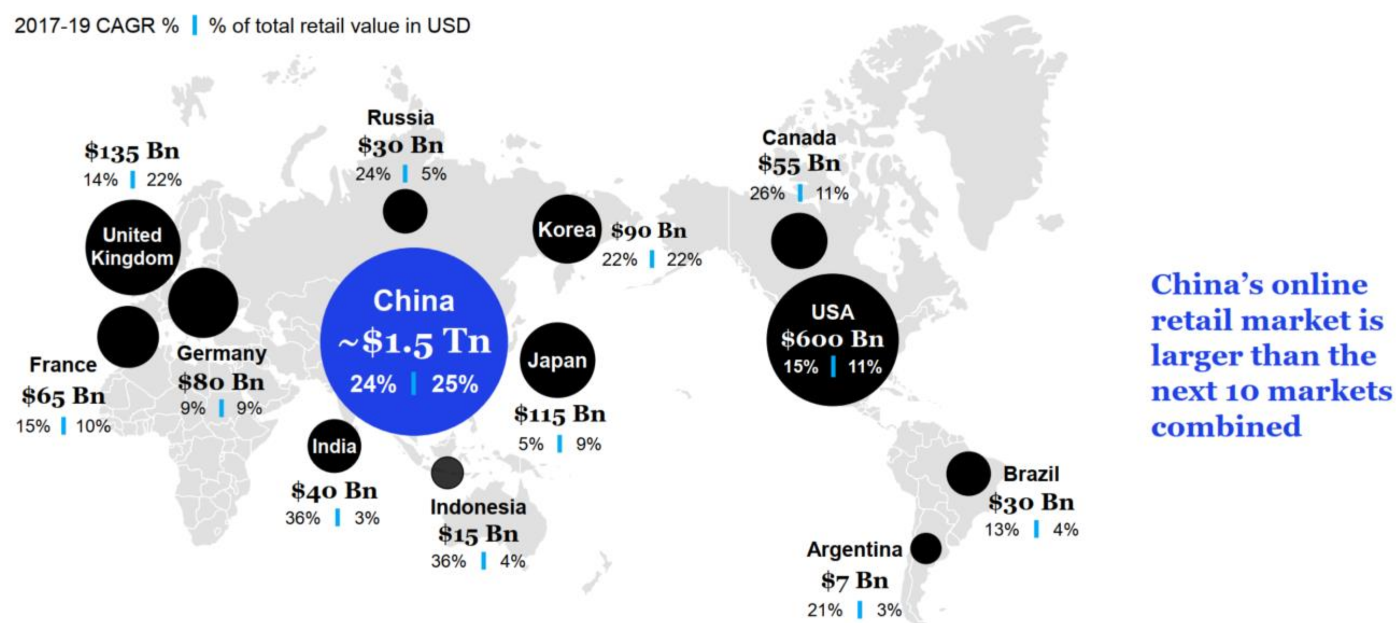
Source: ECW, KGI Research

RIGHT TIME, RIGHT INDUSTRY

E-commerce sales going strong

China has quickly risen to become a global leader in e-commerce, as its 855 million digital consumers prove to be some of the most avid users of mobile phones and social media in the world. According to the McKinsey Global Institute, online retail sales are expected to swell to $1.5 trillion for FY2019, representing a quarter of China's total retail sales volume, and more than the retail sales of the ten next largest markets in the world combined.

Figure 11: 2019 forecast for online retail transaction value, for B2C and C2C markets

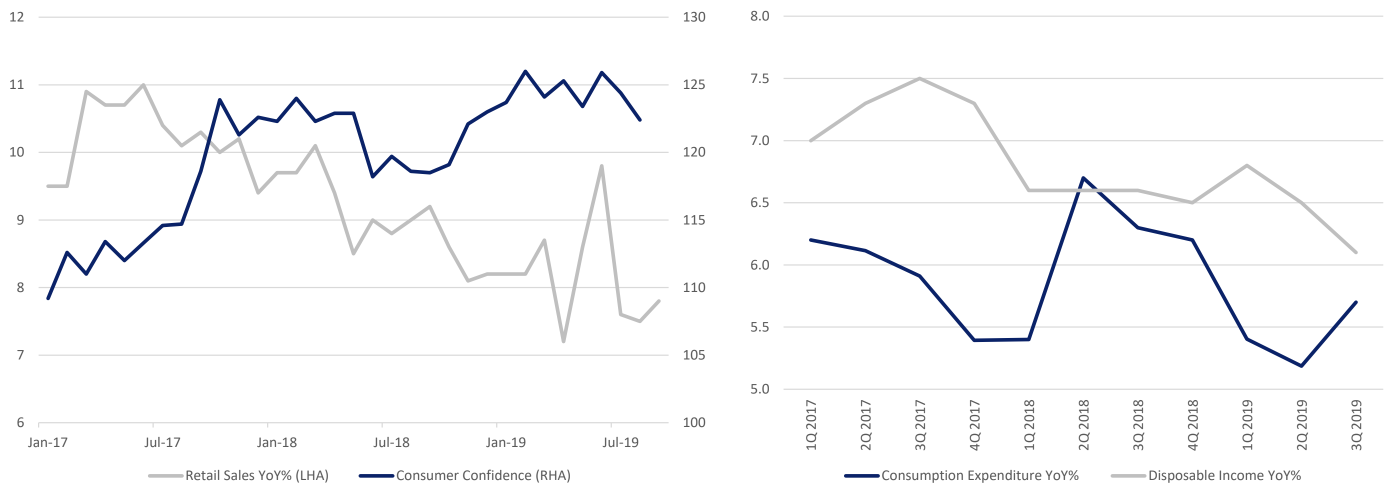


Source: McKinsey China Digital Consumer Trends 2019, KGI Research

This inevitably translates into demand for e-commerce logistics assets, and we that believe its ecommerce assets – Stage 1 Properties at Bei Gang Logistics, Fu Heng Warehouse and Fuzhou E-commerce in Hangzhou – are well-positioned to ride the local e-commerce industry's rapid growth. Hangzhou is one of the largest e-commerce hubs in China, where some of the largest online retail platforms, including the Alibaba Group, are headquartered.

Furthermore, despite recent trade war tensions resulting in China's economic growth slowing further to 6.0% in 3Q19 from a year earlier, retail sales in September picked up 7.8% YoY. Chinese consumers are also remaining relatively optimistic, with consumer confidence only dipping slightly after rising to 125.9 in June 2019. Additionally, despite sliding disposable income growth, personal consumption expenditure growth expanded by 0.5% to 5.7% in 3Q19. Unemployment as reported in July 2019 has also been at an all-time low at 3.61%.

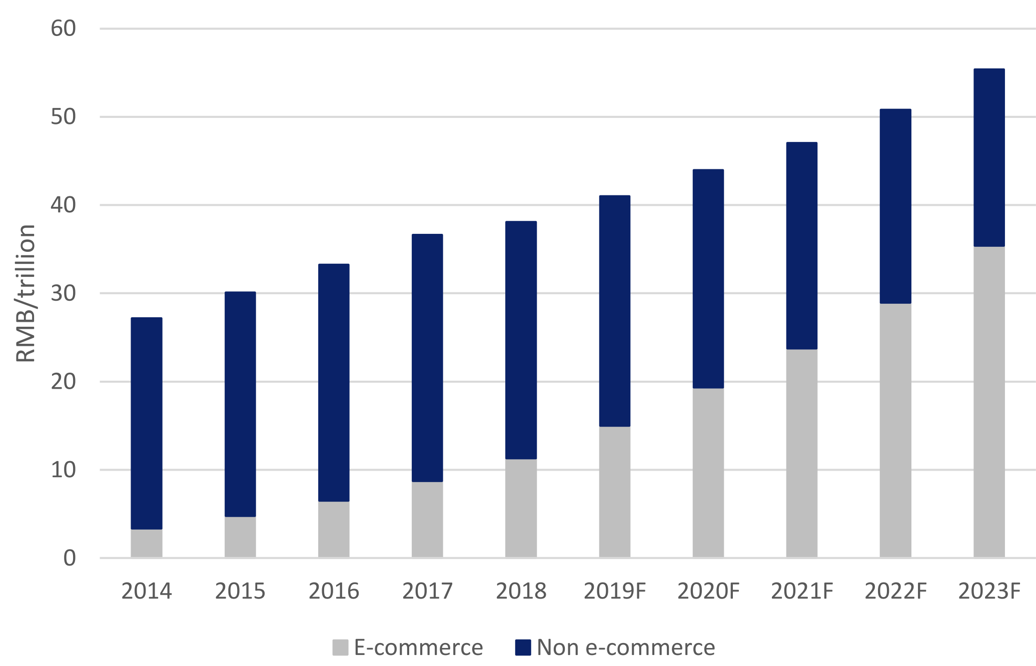
Figure 12: Retail sales YoY % growth and Consumer confidence, Jan 2017 – Sep 2019 (Left);
Nationwide personal consumption expenditure and disposable income YoY real growth, per capita, 1Q 2017 to 3Q 2019 (Right)



Source: Trading Economics, Bloomberg, National Bureau of Statistics of China (NBSC), KGI Research

According to the National Bureau of Statistics of China (NBSC), the total retail sales of consumer goods reached RMB19,521 billion in 1H 2019, up by 8.4% YoY, while national online retail sales of goods and services was RMB4,816.1 billion yuan, an increase of 17.8% YoY.

Figure 13: Total retail sales of consumer goods



Source: CEIC, Statista, NBSC, KGI Research

Underpinned by strong government support

The Chinese government has played a key role in developing an ideal environment for e-commerce to thrive, by putting in place regulations and policies to support e-commerce and its logistics sector. Among its most recent initiatives are:

(1) The recent crackdown on '*daigou*' (代购) moves to strengthen e-commerce regulations and to support legitimate, domestic channels such as Alibaba's Tmall Global and NetEase's Kaola. Since January 1, 2019, *daigou* merchants are obligated to formally register as businesses, obtain licenses and pay taxes.

(2) China's Civil Aviation Administration approved commercial drone delivery networks in rural areas such as Jiangsu, Shan'xi and Sichuan provinces. The drones have a maximum payload of about 30 kg – more than enough for the delivery of everything from fresh food to clothing and electronics.

(3) In support of the above, the National Strategic Plan for Rural Vitalization from 2018 to 2022 aims to boost rural incomes and living standards, closing a widening wealth gap and boosting a slowing economy. With such government backing through job creation and regulated programmed development, some former rural-to-urban migrants are moving back to the countryside. These returning migrants help spread the influence of e-commerce in rural areas through their familiarity with such platforms from their time in Chinese cities, thus increasing demand in these regions.

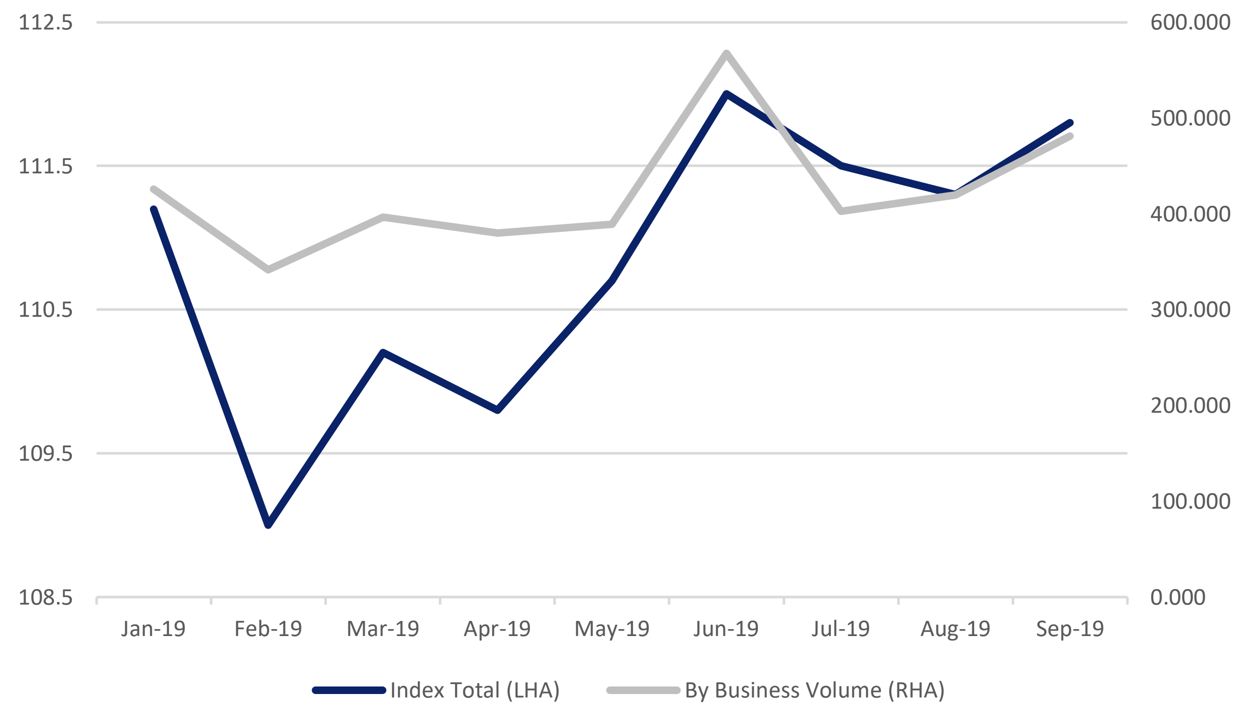
Yet insufficient supply for growing demand

Based on the E-commerce Logistics Index (份电商物流指数) for September by CFLP, demand for e-commerce logistics has risen steadily since February. The index is based on nine sub-indices including business volume, logistics timeliness, cost and satisfaction index. Unmistakeably, the industry's yearly "Golden September and Silver 10" peak season is on schedule as observable by the total index rebounding for two consecutive months, reaching close to the highest in the middle of the year.

We believe that the demand for e-commerce logistics during this period could be due to companies' preparations for the annual 11.11 sale. Every year, the shopping event on November 11 scales greater than before - in 2019, Alibaba is said to have brought in a record US$38 billion, up 23% from US$31 billion in 2018 (as compared to 2018 Black Friday sales in the US of around US$6 billion).

We also analysed general logistics warehousing demand – based on the China Warehouse Index (中国仓储指数) by CFLP. The index is based on one composite index and 11 individual sub-indices, including inventory levels of 21 categories such as steel products and production chemicals, new orders, turnover efficiencies and operating costs. Despite falling slightly in September, the warehousing industry continues to expand and maintain rapid growth.

Figure 14: China E-Commerce Logistics Index: Total (LHA); By business volume (RHA)

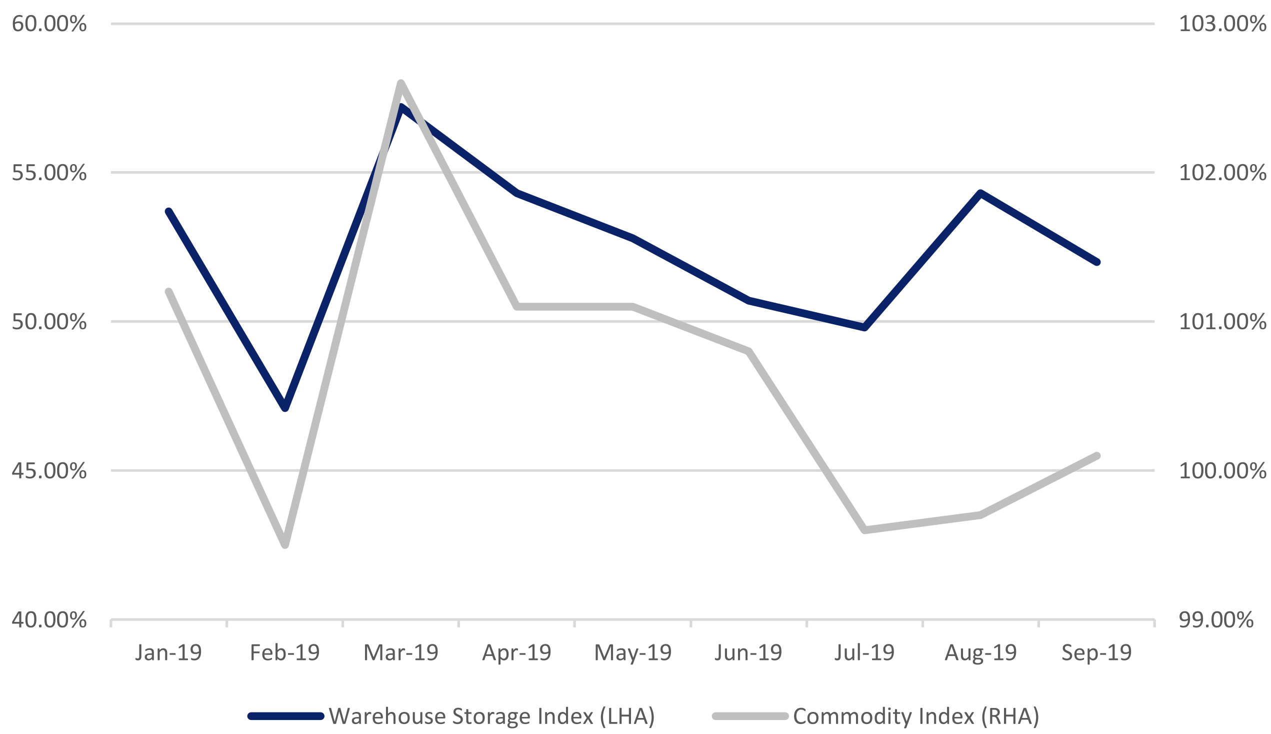


Source: China Federation of Logistics & Purchasing (CFLP), KGI Research

On the back of the recent policies implemented, the growth rate of infrastructure investment has accelerated, driving demand for bulk commodities such as steel and building materials to rebound significantly. CFLP has also noted that the price of warehousing services has risen sharply in September 2019, reflecting the current shortage of supply of warehouse spaces as a result of tightening land policies, especially in Tier 1 cities.

The commodity market had also faced significant downward pressure in July as the summer season reduced construction, in addition to intensive advocating of environmental protection policies nationwide. However, commodity prices have also since shown signs of recovery in August and September 2019, along with demand for warehousing, as demand increases also due to the arrival of the traditional construction season and increase infrastructure investments.

Figure 15: China Warehouse Index (LHA); China Commodity Index (RHA)



Source: CFLP, KGI Research

Whether for its e-commerce logistics or general logistics assets, we believe that ECW's assets are primed to benefit from the rapid growth and demand of the logistics industry. In the short term especially, we may see higher rental reversions as supply growth lags in comparison to demand growth.

In the long term, we believe that ECW's assets will be able to remain competitive due to its superior assets locations and quality, and strong government support pushing for the development and expansion of e-commerce and technology.

VALUATION

We derive a target price of S$0.84 based on DDM valuations. Our target price represents an upside of 23.4%, inclusive of a forward 2020 dividend yield forecast of 9.1%.

Revenues: We expect gross revenue to grow from SGD 103mn in 2019F to SGD 113mn in 2020F as Fuzhou E-Commerce will fully contribute next year. As Fuzhou E-Commerce was only acquired on 8 August 2019, 2019F will only see less than 5 months of contributions from the asset. Our forecasts have factored in individual rental escalations across all assets, as much as possible, and have assumed renewal of all current leases as the fall due.

Borrowings: We assume a constant borrowing of SGD c.600mn, and the successful refinancing of its loans at the end of the three-year term. We have also factored in a slightly higher interest rate after 2022, to stay on the conservative end.

Capital expenditures: We have assumed a SGD 1mn capex spend for maintenance and light asset enhancement works, as most of the renovations or improvements are taken on by the master lessee of the respective assets.

Distributable income: Without factoring in fair value changes in its investment properties, nor currency fluctuations, our forecasted income available for distribution increased to SGD 53.6mn for FY2020F.

DPU: Assuming a 100% payout ratio, forecasted DPU for FY2020F stands at 6.65 SGD cts, representing a distribution yield of 9.1% (based on last price of 73.50 SGD cts). Distributions are made on a semi-annual basis, and declared in SGD.

Cost of equity: We used an all in cost of equity rate of 9.7%, which factored in a 1% country risk premium as ECW's assets are located and operated in China, and a risk-free rate of 1.7%.

Figure 16: Dividend Discount Model

Fiscal year ending December 31	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Distribution per unit (SGD cents)	6.16	6.17	6.65	6.71	6.76	6.87	6.98	7.08	8.29
YoY Growth (%)				*0.9%*	*0.8%*	*1.6%*	*1.5%*	*1.5%*	*1.5%*
Terminal value per unit (SGD cents)								101.30	
Cost of equity	9.68%								
Target price (S$)	**0.84**								
Capital appreciation	14.3%								
FY20F distribution yield	8.4%								

Source: KGI Research

PEER COMPARISON

We compare ECW to other Singapore listed industrial REITS and Singapore listed REITS holding retail malls in China.

We note that at its forward P/B ratio of 0.9x, ECW trades at a discount compared to other industrial S-REITs averaging at about 1.2x. In addition, ECW's FY20 dividend yield is significantly higher at 9.1% compared to its peers' average at 6.7%.

We also see its investments in e-commerce assets as a potential key driver for revenue and DPU growth, just as its most recent acquisition Fuzhou E-Commerce is already estimated to contribute more than S$13m in revenues per year.

However, we note that its gearing is on the higher end compared to its peers, and that it would have to conduct an equity capital raising exercise to fund any future acquisitions.

Figure 17: Peer comparisons

BB ticker	Company Name	Last Price (local $)	Currency Adj. Market Cap (S$ m)	Dividend Yield (%)			P/B (x)			6M Average daily trading volume (S$ '000)	YTD Price Performance (%)	1YR Price Performance (%)
				Current	FY19F	FY20F	Current	FY19F	FY20F			
ECWREIT SP	EC World Real Estate Investment Trus	SGD 0.74	433	9.0	8.4	9.1	0.9	0.9	0.9	979	7.2	5.7
	SINGAPORE LISTED INDUSTRIAL REITS (Avg)		**20,971**	**6.7**	**6.9**	**6.7**	**1.2**	**1.2**	**1.2**	**9,614.7**	**13.2**	**14.2**
AREIT SP	Ascendas Real Estate Investment Tru:	SGD 2.93	6,796	5.5	-	5.5	1.4	1.3	1.3	37,364	16.2	16.6
MINT SP	Mapletree Industrial Trust	SGD 2.53	4,082	5.8	5.0	4.9	1.6	1.6	1.6	12,982	32.5	36.0
MLT SP	Mapletree Logistics Trust	SGD 1.65	4,593	5.4	4.9	4.9	1.4	1.4	-	18,468	31.0	36.4
FLT SP	Frasers Logistics & Industrial Trust	SGD 1.22	2,020	5.5	-	5.5	1.3	1.3	1.3	8,362	18.4	17.3
AAREIT SP	AIMS APAC REIT	SGD 1.43	731	7.2	7.2	7.2	1.1	1.1	1.1	3,004	7.5	4.4
CACHE SP	Cache Logistics Trust	SGD 0.71	559	7.7	8.2	8.4	1.1	1.1	1.1	1,112	1.4	4.4
SBREIT SP	Soilbuild Business Space REIT	SGD 0.52	476	7.7	9.3	9.1	0.9	0.8	0.8	810	-11.1	-12.6
SSREIT SP	Sabana Shari'ah Compliant Industrial	SGD 0.47	359	7.7	5.8	6.2	0.8	0.8	0.8	412	19.2	17.7
EREIT SP	ESR-REIT	SGD 0.53	1,355	7.7	7.9	8.3	1.1	1.1	1.1	4,016	4.1	7.2
	SINGAPORE LISTED CHINA RETAIL REITS (Avg)		**2,784**	**7.6**	**7.4**	**8.5**	**0.8**	**1.0**	**1.0**	**5,029.1**	**10.4**	**11.0**
SASSR SP	Sasseur Real Estate Investment Trust	SGD 0.86	753	7.9	7.7	8.0	0.9	1.0	1.0	1,237	32.3	23.7
BHGREIT SP	BHG Retail REIT	SGD 0.70	260	7.2	-	-	0.8	-	-	575	-2.1	6.9
CRCT SP	CapitaLand Retail China Trust	SGD 1.55	1,374	7.7	6.4	-	1.0	1.0	1.0	3,117	14.1	15.0
DASIN SP	Dasin Retail Trust	SGD 0.84	396	7.7	8.2	8.9	0.6	-	-	100	-2.9	-1.8

Source: Bloomberg, KGI Research

KEY RISKS

HIGH DEPENDENCY ON SPONSOR

ECW is highly dependent on its Sponsor for more than 70% of its rental income. Four of eight of its assets – being Chongxian Port Investment, Fu Heng Warehouse, Stage 1 Properties of Bei Gang Logistics and newly acquired Fuzhou E-commerce - are directly and indirectly master-leased to ECW's Sponsor, Forchn Holdings Group Co., Ltd.

The REIT is therefore subject to the liquidity and the financial strength of its Sponsor to continue paying rent. Any adverse changes in the Sponsor's and underlying tenant's financial position could impact the REIT's income, its ability to make distributions to unitholders, and potentially its ability to renew the master leases related to the Sponsor.

NON-RENEWAL OF LEASE WITH CHINA TOBACCO ZHEJIANG INDUSTRIAL CO., LTD

As at 30 September 2019, ECW has not made progress on renewing its lease agreement with SOE China Tobacco Zhejiang Industrial Co., Ltd (in relation to Hengde Logistics Complex 1 and 2), that is expiring in October 2020. Should ECW be unable to renew the lease on the asset, it could materially impact its future income, as Hengde Logistics is a Specialised Logistics asset and its tenant is not easily replaceable.

China Tobacco Zhejiang Industrial Co., Ltd accounts for c.95% of the c.15% GRI contribution by the Hengde Logistics Complexes.

NON-RENEWAL OF LAND-USE RIGHTS

The underlying land-use rights of ECW's eight properties will expire within the 2052-2065 period. There are no freehold land titles in China, as all land ultimately belongs to the state. Given the close and favourable relationships of the REIT's Sponsor with the Chinese government, it is likely that extensions will be granted. However, therein still lies uncertainty as to whether extensions will be granted, and if there will be any additional conditions that will be imposed on ECW.

FOREIGN CURRENCY FLUCTUATIONS AND EXCHANGE RATE RISK

The entirety of the REIT's financial position – income, distributions and assets valuations, may be adversely impacted by CNY/SGD fluctuations, despite the REIT Manager maintaining a rolling 6-month FX hedging strategy for its income distributions, and some onshore debt. This is especially a risk with intensifying geopolitical tensions.

We have not factored in any currency volatilities in our forecasts.

SUSCEPTIBILITY TO LOCAL REGULATIONS AND TRADE CONDITIONS

As EC World REIT's properties cater primarily to the ecommerce and logistics sectors, the success and sustainability of the REIT's performance could be affected by local policy changes

GEARING APPROACHING LIMIT OF 45%

Since its recent acquisition of Fuzhou E-Commerce was fully funded by debt, ECW's gearing ratio has increased to 38%, leaving less of a headroom for any future acquisitions to be funded by debt. ECW then would have to either look to divest any non-performing assets or raise more equity through a rights issue.

E-COMMERCE GOING INDEPENDENT WITH SELF-BUILT WAREHOUSES

Many e-commerce companies are increasingly purchasing land to develop their own warehouses and logistics facilities. CBRE estimates show that China's six largest e-commerce companies have been purchasing large areas of land since 2009, to develop more than 40 million square metres of storage space nationwide. Of this, 3.8 million square metres will be completed in 16 major cities between 2019-2020, and will be most pronounced in Chengdu, Hangzhou, Wuhan and Qingdao.

Figure 18: New supply of self-built warehouses and leasing warehouses in 16 major cities (2019-2020)

Source: CREIS, CBRE, KGI Research

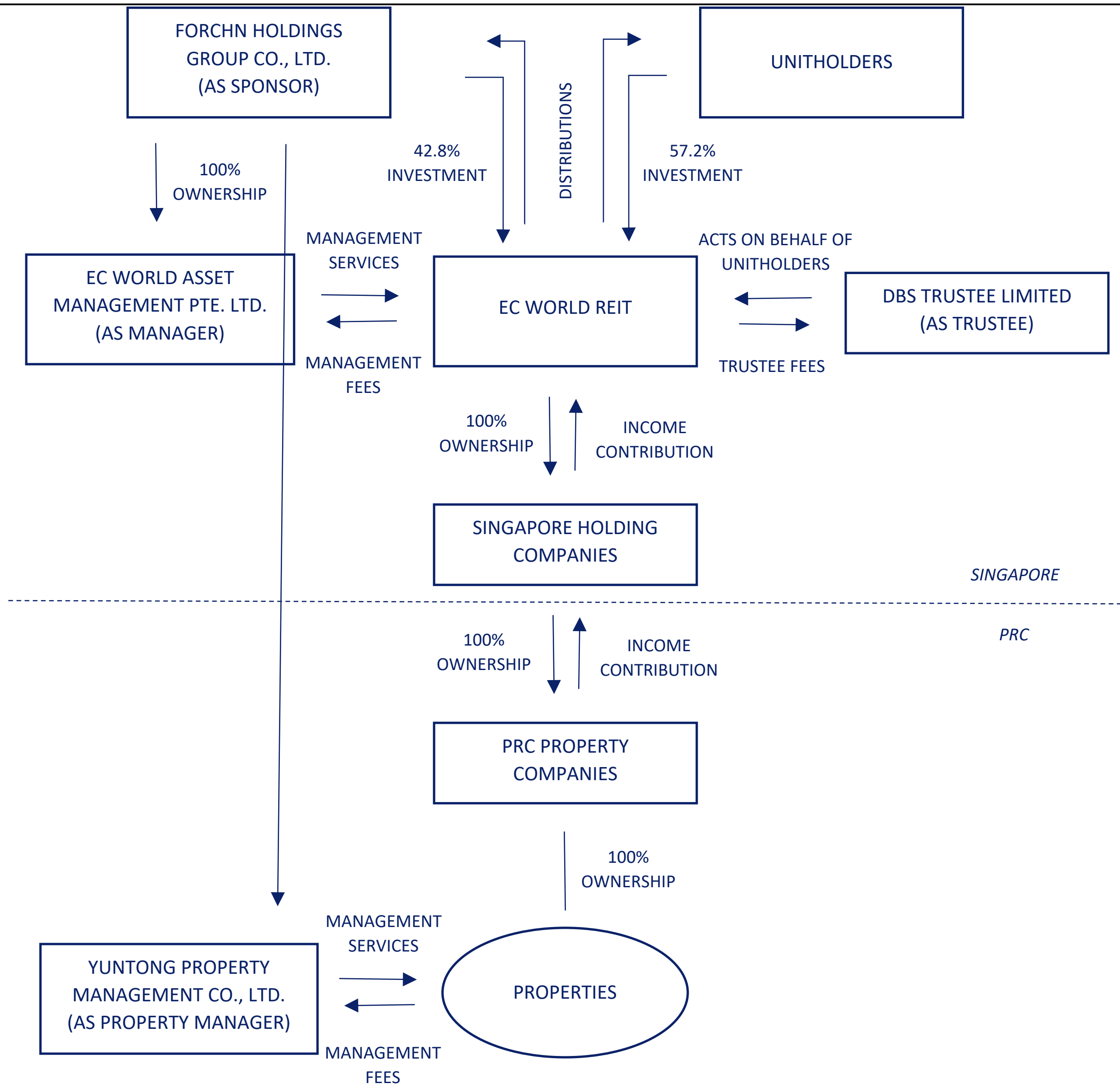
Note: Includes Alibaba, JD.com, VIP.com, Suning, SF Express and Gome

We see that ECW's properties are mostly concentrated in Hangzhou, and this trend would most definitely impact ECW's occupancy rates should it become widespread. However, we still believe that its e-commerce assets will still cater to and attract small, medium and large companies the same as investments self-built warehouses would require significant amounts of capital, especially those that are of Grade A and also incorporate smart, AI-enabled features. Land tightening policies would also limit the amounts of land space that e-commerce companies are able to purchase for logistics purposes.

COMPANY OVERVIEW

Listed on 28 July 2016, EC World REIT (ECW) is the first specialised and e-commerce logistics REIT listed on SGX. Its portfolio comprises of eight quality properties located in the People's Republic of China (PRC) within one of the largest e-commerce clusters of Hangzhou in the Yangtze River Delta, and Wuhan. As at 30 September 2019, ECW's portfolio covers an aggregate NLA of 834,177 square metres and has a valuation of approximately RMB 7.9bn.

Figure 19: Structure of EC World REIT



Source: ECW, KGI Research

STRUCTURE OF EC WORLD REIT

The Manager: EC World Asset Management Pte. Ltd

ECW is managed by EC World Asset Management Pte. Ltd, a wholly owned subsidiary of Forchn Holdings Group Co., Ltd. – EC World REIT's sponsor. The board of directors of the Manager comprises individuals who collectively have extensive and in-depth experience in areas including, but not limited to, real estate development and management, fund management, accounting, banking, finance and logistics operations, with each individual having more than 10 years' experience in their respective field of specialisation or industry.

Figure 20: The Management Team

FROM LEFT MR JINBO LI, MR JOHNNIE TNG CHIN HWEE, MR GOH TOH SIM AND MR WANG FENG

MR JINBO LI; Head of Investment, Asset Management and Investor Relations	***MR JOHNNIE TNG CHIN HWEE; Chief Financial Officer***	***MR GOH TOH SIM; Executive Director and Chief Executive Officer***	***MR WANG FENG; Senior Manager, Risk Management and Compliance***
Mr Li is responsible for corporate development activities for ECW including acquisitions, divestments as well as asset management. Mr Li also serves as the main contact point between the Manager and the investment community. *Prior to joining the Manager in January 2017, Mr Li worked as an investment banker with Deutsche Bank and Standard Chartered.* *Mr Li graduated from National University of Singapore with a degree (Honours) in Industrial & Systems Engineering.*	*Mr Tng spent the initial ten years of his career with the Monetary Authority of Singapore, SBC Warburg and Nomura, where he was largely involved in investment banking and private equity investments.* *Prior to joining the Manager, Mr Tng had been the Chief Financial Officer of Ying Li International Real Estate Limited, Keppel REIT and Ascendas India Trust. Before joining Ascendas in 2006, Mr Tng was Vice President - Corporate Finance at RGM International, an Indonesian conglomerate involved in resource-based industries.* *Mr Tng holds a Bachelor of Accountancy (Honours) degree from the Nanyang Technological University of Singapore.*	*Refer below to his profile under The Board of Directors.*	*Mr Wang is responsible for internal audit, risk management and compliance with requirements under the Securities and Futures Act and the Code on Collective Investment Schemes for ECW and the Manager.* *Prior to joining the Manager, Mr Wang was an Audit Manager with KPMG Singapore. In addition, Mr Wang had more than 12 years' experience as a project manager in real estate development industry before joining KPMG.* *Mr Wang is currently a member of Association of Chartered Certified Accountants in United Kingdom, a member of Chartered Accountants in Singapore and a Certified Internal Auditor accredited by the Institute of Internal Auditors.*

Source: ECW, KGI Research

Figure 21: The Board of Directors

MR ZHANG GUOBIAO; Chairman and Non-Executive Director

Mr Zhang is the Chairman of the Sponsor, Forchn Holdings Group Co., Ltd. since June 1998. He is also the founder of Forchn Trading Co., the predecessor of Forchn Holdings Group Co., Ltd., which was incorporated in 1992 as a construction materials company in Shanghai. Under his leadership, the small construction materials firm grew into a conglomerate with diversified businesses in supply chain management, manufacturing, real estate, wellness and finance.

Under the leadership of Mr Zhang, Forchn Group became one of the founders for Cainiao Network in 2013. At the same time, Ruyicang, an e-commerce omni-channel warehousing and distribution platform is a key business in the Forchn Group to support the online and offline integration and development of e-commerce businesses. Mr Zhang also led the expansion of the Forchn Group in late 2016 into the hospitality sector with the acquisition of an award-winning luxury resort, Fuchun Resort, located in Hangzhou. The resort has received numerous international awards since 2006, including China's Leading Resort Awards for 9 years.

As the Executive Vice Chairman of Zhejiang Chamber of Commerce in Shanghai, Mr Zhang is an active community leader in promoting corporate social responsibility, social welfare and civic responsibility.

Mr Zhang has completed the "China CEO Program" jointly organised by Cheung Kong Graduate School of Business, Centre for Management Development at London Business School, Columbia Business School and IMB International. He also completed the "Global CEO Program for China" jointly organised by Harvard Business School, China Europe International Business School and IESE Business School.

MR CHAN HENG WING; Independent Non-Executive Director and Lead Independent Director

Mr Chan currently serves as the Non-Resident Ambassador of Singapore to the Republic of Austria. Mr Chan is an independent non-executive director of Banyan Tree Holdings Limited, Frasers Property Limited and Fraser and Neave Limited. He is also a director of Precious Treasure Pte. Ltd. and Precious Quay Pte. Ltd. which owns and operates Fullerton Hotel and Fullerton Bay Hotel respectively. Mr Chan is the Senior Advisor of the Milken Institute Asia Center, a non-profit think tank which is based in the United States and Singapore.

Mr Chan was previously the Ambassador to Thailand and Consul-General to Hong Kong and Shanghai. He later joined Temasek Holdings (Private) Limited as Chief Representative in China and Managing Director for International Relations in Temasek International (Singapore) Pte. Ltd.

Mr Chan was awarded the Public Administration Medal (Silver) in 1980 by the Singapore Government. He holds a Master of Science from the Columbia Graduate School of Journalism and a Bachelor of Arts and a Master of Arts from the University of Singapore.

DR DAVID WONG SEE HONG; Independent Non-Executive Director

Dr Wong is currently the Chairman of Halftime Limited, Hong Kong, and a Finance Management Committee Member of the Hong Kong Management Association. He also serves as the independent non-executive director of China Merchant Bank Co., Limited, Frasers Hospitality Asset Management Pte. Ltd., Frasers Hospitality Trust Management Pte. Ltd., and Tahoe Life Insurance Company Limited.

Dr Wong was the Deputy Chief Executive of the Bank of China (Hong Kong) Group from 2008 to 2013, with overall responsibility for the financial market businesses which include Global Transaction Banking, Investment Management, Insurance, Asset Management and other capital market-related businesses. He was also a Director of BOC Group Life Assurance Company Limited from 2008 to 2013 and concurrently the Chairman of BOC International Prudential Trustee Limited.

Dr Wong graduated from the University of Singapore with a Bachelor's Degree in Business Administration and was awarded a Master's Degree in Science in Investment Management by the Hong Kong University of Science and Technology, and a Doctorate degree in Transformation Leadership from the Bethel Bible Seminary.

MR CHIA YEW BOON; Independent Non-Executive Director

Mr Chia has more than 30 years of experience working in various fields such as investments, business consultancy and corporate finance. He is the founding Managing Director of Catalyst Advisors Private Ltd. and Catalyst Advisors International Private Limited, both private equity investment and venture capital business consultancy firms. Concurrently, he is also a Senior Advisor of Atlas Financial Solutions, a Paris-based corporate finance advisory firm specialising in mid-cap company mergers and acquisitions.

In September 2011, Mr Chia was appointed as an Independent Non-Executive Director of Technovator International Limited, a leading company in energy management systems, solutions and services; it is part of the Tsinghua Tongfang group of companies.

From July 2005 to June 2007, Mr Chia was the Director of Business Development at SGX-listed Boustead Singapore Limited, and concurrently the Chief Executive Officer of a Boustead subsidiary, ASX-listed EasyCall International Ltd. Prior to that, from January 1999 to June 2005, Mr Chia served as Senior Vice President of GIC Special Investments Pte Ltd., the venture capital and private equity arm of GIC, the sovereign wealth fund of Singapore. Mr Chia holds a Diplôme d'Ingénieur (equivalent to a Master's Degree in Engineering) from L'École Nationale Supérieure de Chimie de Strasbourg, France.

MR LI GUOSHENG; Independent Non-Executive Director

Mr Li is the managing director of Horizonline Pte Ltd, a company involved in the import and wholesale of security products and systems, since December 2006. He is also the managing director of Ningbo Horizonline Technologies Co. Ltd., a PRC manufacturing company, since December 2009.

Mr Li began his career in 1988 as an electrical engineer with Beilungang Thermal Power Plant Engineering Co. Ltd., a PRC company which constructed thermal power plants. Mr Li has been the President of the Zhejiang (S) Entrepreneurs Association, a non-profit association for people with links to the Zhejiang Province, since 2013. In addition, Mr Li is also a Director for Sanhua International Singapore Pte. Ltd. and Sanhua Trading Pte. Ltd., subsidiaries of Sanhua Holding Group, a leading manufacturer of HVAC&R controls components and parts with a global footprint and 30 years of experience.

Mr Li holds a Bachelor Degree in Automation of Electrical Power System from Shanghai Jiaotong University, Shanghai, PRC, and a Master of Business Administration from the National University of Singapore.

MR GOH TOH SIM; Executive Director and Chief Executive Officer

Prior to his appointment as Executive Director and Chief Executive Officer on 23 March 2018, Mr Goh was the Executive Director and President of Investment & Asset Management of the Manager and the Chief Executive Officer of Forchn International Pte Ltd, before being appointed as the Executive Director and Acting Chief Executive Officer of the Manager.

Mr Goh has over 20 years of experience in the management of industrial parks, real estate development and business management in China. Prior to joining the Manager, he was the Chief Representative in China for Keppel Corporation Limited where he was responsible for government relations and business development, from July 2006 to November 2009.

Mr Goh also served as the Chief Executive Officer of Ascendas (China) Pte Ltd from January 2004 to June 2006, where he was responsible for developing and managing Ascendas' businesses in China. He initiated the development of Ascendas' businesses in several cities in China including Shanghai, Hangzhou, Dalian, Xian, and Nanjing.

Mr Goh holds a Diplôme d' Ingénieur (French engineering degree which is equivalent to a Master's degree) in Telecommunications from the Ecole Nationale Supérieure des Télécommunications, Paris, France, and a Master of Business Administration from INSEAD, Fontainebleau, France.

Source: ECW, KGI Research

The Sponsor: Forchn Holdings Group Co., Ltd.

Established in 1992 and headquartered in Shanghai, the Sponsor is a diversified enterprise group specialising in the real estate sector, industrial sector, e-commerce, logistics and finance.

The Sponsor has extensive construction and operational experience in the logistics industry. In particular, the Sponsor has invested in, constructed and continues to operate the Chongxian Port facility, which is recognised as a key construction project by the PRC Government at both provincial and national levels. In addition, the Sponsor has actively engaged in the strategic restructuring of its existing operations in industrial properties and port logistics to an e-commerce model.

In recent years, the Sponsor has adopted a unique integrated e-commerce business model that enhances the competitive advantages of its industrial, warehousing and port logistics properties. The Sponsor has also acquired know-how in the B2B and B2C e-commerce models, and integrated solution of warehousing and logistics service tailored for e-commerce, thereby enabling it to efficiently cater for commercial transactions with businesses (B2B) as well as end-consumers (B2C).

Alongside partners Alibaba Group, Fosun Group, and other key logistics companies, the Sponsor was also one of the founding members of Cainiao Network Technology Co., Ltd. (菜鸟网络科技有限公司), a joint-venture established to transform China’s logistics infrastructure. The Sponsor has an established presence in the e-commerce logistics sector through Ruyicang (如意仓), its integrated smart warehousing and third party logistics services platform.

The Property Manager: Yuntong Property Management Co., Ltd.

Yuntong Property Management Co., Ltd., is a subsidiary of the Sponsor, and responsible for providing property and lease management services, marketing services and property maintenance and repair services for the properties in ECW’s portfolio. They are a team of skilled, experienced and dedicated professionals who have had experience in managing well-known real estate developments in China such as Wanda Commercial Complex, Transfar Road Port and Hundsun Science & Technology Park.

The NDRC has granted accreditation to the Property Manager under the Internet Plus Key Project (互聯網+重大項目) and this accreditation allows the Property Manager to provide value-added services to the tenants of the Properties. Examples of such services include the outsourcing of registration and application activities, dealing of logistics and supply chain management solutions and online community services. The Property Manager will be responsible for the costs of such outsourcing.

PROPERTY PORTFOLIO

The eight PRC property companies that own the properties are:

- Hangzhou Chongxian Port Investment Co., Ltd., which owns Chongxian Port Investment;
- Hangzhou Chongxian Port Logistics Co., Ltd. (a wholly-owned subsidiary of Hangzhou Chongxian Port Investment Co., Ltd.), which owns Chongxian Port Logistics;
- Hangzhou Fu Zhuo Industrial Co., Ltd., which owns Fu Zhuo Industrial;
- Hangzhou Bei Gang Logistics Co., Ltd., which owns Stage 1 Properties of Bei Gang Logistics;
- Hangzhou Fu Heng Warehouse Co., Ltd, which owns Fu Heng Warehouse;
- Zhejiang Hengde Sangpu Logistics Co., Ltd., which owns Hengde Logistics;
- Wuqiao Zhonggong Merlot (Hubei) Logistics Co., Ltd. which owns Wuhan Meiluote; and
- Zhejiang Fuzhou E-commerce Co., Ltd which owns Fuzhou E-commerce.

ECW has a diversified portfolio comprising 8 income-producing logistic assets, used primarily for e-commerce, supply chain management and logistics purposes. All its properties are located in the People's Republic of China (PRC), with 7 located in Hangzhou, and 1 in Wuhan. They are classified into three different logistics segments: (1) Port logistics; (2) Specialised logistics; (3) E-commerce logistics.

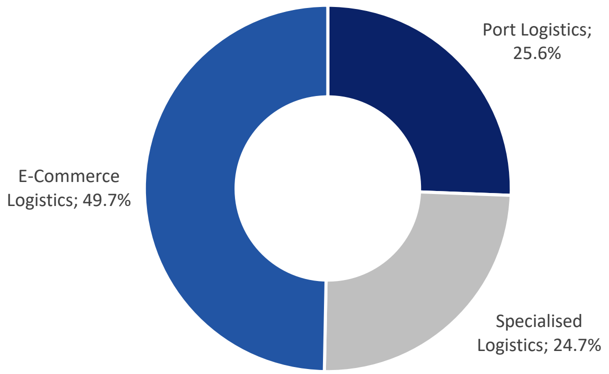
Figure 22: Overview of ECW's properties

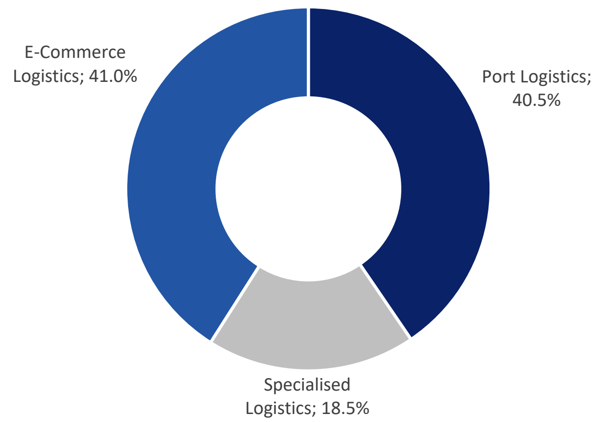
		Date of Acquisition	Commencement of Operations	GFA (sqm)	NLA (sqm)	Land Tenure	WALE (years) [1]	Valuation (RMB 'mn) [2]
Port Logistics	Chongxian Port Investment	Aug-15	Aug-08	- [3]	112,726	30-Dec-55	5.5	2,235.0
	Chongxian Port Logistics Complex 1	Aug-15	Jan-10	121,217	125,826	30-Dec-55	1.2	862.0
	Chongxian Port Logistics Complex 2		Jan-10			9-Sep-60		
	Fu Zhuo Industrial	Aug-15	Oct-14	2,302	7,128	30-Dec-55	3.9	114.0
Specialised Logistics	Hengde Logistics Complex 1	Nov-15	Nov-10	238,032	237,066	28-Jul-53	1.5	1,470.0
	Hengde Logistics Complex 2		Apr-13			29-Jul-59		
E-Commerce Logistics	Fu Heng Warehouse	Sep-15	Feb-15	95,072	94,287 [4]	3-May-59	5.8	580.0
	Stage 1 Properties of Bei Gang Logistics	Aug-15	Jun-15	120,449	120,449 [5]	14-Mar-52	5.4	1,297.0
	Wuhan Meiluote	Apr-18	May-17	49,861	48,695	29-Jun-65	1.6	171.0
	Fuzhou E-Commerce	Aug-19	Jul-17	214,284	88,000	3-May-59	5.0	1,112.5 [6]

Source: ECW, KGI Research

(1) By gross rental income as at 30 June 2019
(2) As at 31 Dec 2018, per JLL valuation
(3) According to the Standard in Calculating the Floor Area of Building Works (《建筑工程建筑面积计算规范》) set by the Ministry of Housing and Urban-Rural Development of China, the storage yard is classified into the category of "building structure" (构筑物), for which there is no GFA figure measured and defined. However, the field area of the storage yard can be measured and leased to tenants as the "net lettable area".
(4) Includes underground space of 22,852 sqm
(5) Include underground carpark space of 29,848 sqm
(6) Based on acquisition price of RMB 1,112.5

Figure 23: Diversification of assets across segments, by NLA (left) and AUM valuation (right)





Source: ECW, KGI Research

Port Logistics

The port logistic assets are strategically located in the north of Hangzhou, on the east bank of the Beijing-Hangzhou Grand Canal and next to the National Highway No. 320 and Jiaxing-Huzhou Expressway.

Chongxian Port Investment

Chongxian Port Investment (CXI) is one of China's key inland ports, being part of an inland port in Hangzhou known as Chongxian Port. Chongxian Port is the largest inland port in Hangzhou in terms of the total number of berths and the scale of annual throughput, and Chongxian Port Investment has been ranked as one of the top inland ports in Hangzhou for the transportation of steel products.

In 2014, the Grand Canal was designated as a UNESCO World Heritage Site, making CXI one of the few inland ports along the Yangtze River Delta that has a coveted status and with prime canal access to Beigang. Wholly servicing China's domestic market, this port brings in 80% of Hangzhou's steel supply used to fulfil the province's infrastructure, manufacturing and construction needs. Recent closure of steel mills in Hangzhou will also enable increased volume throughput at the port.

CXI is a quality river port asset, with growing annual throughput, providing income stability to the portfolio. It is master leased to Hangzhou Fu Gang Supply Chain Co. Ltd (杭州富港供應鏈有限公司), the port operator and a subsidiary of the Sponsor.

Chongxian Port Logistics

Chongxian Port Logistics (CXL) is located next to CXI. It is an integrated complex with warehouses and office buildings which support the operations of Chongxian Port Investment by providing temporary storage for steel imports, and is one of the largest metal warehouse and logistics developments in the Yangtze River Delta.

CXL being the largest port in Hangzhou has close to a monopoly on steel imports into the province, as most steel imports from Northern China are transported through vessel, since it is economically unviable to transport it any other way. The aforementioned UNESCO Heritage Site zoning also hinders any construction of new ports along the canal.

The first and second complexes comprising Chongxian Port Logistics have remaining lease tenures of 40 and 45 years respectively. Its largest tenant is also Hangzhou Fu Gang Supply Chain Co. Ltd (杭州富港供應鏈有限公司).



Fu Zhuo Industrial

Fu Zhuo Industrial is strategically located north of Hangzhou, also next to CXI, and therefore is well-positioned to benefit from increases in the port's throughput. It sees the import of various building materials in the Hangzhou region.

Fu Zhuo Industrial is one of the ports in Yuhang Area and comprises two berths, a sand and stone warehouse, a repair workshop, a storage yard and a two-storey office building.

According to Colliers, due to its favourable location and berth quality, Fu Zhuo Industrial is able to command rents which are higher than market rate. Furthermore, as reported by Colliers, the Yuhang area has received increasing attention from the local government, and is likely to become one of the main transportation hubs along the Beijing-Hangzhou Grand Canal for the shipping of steel, coal, sand, containerised goods and hazardous materials.



Specialised Logistics

Hengde Logistics

Hengde Logistics (HL) is located in Dongzhou Industrial Park, Hangzhou City, and is mainly leased to the state-owned enterprise - China Tobacco Zhejiang Industrial Co., Ltd.. With its temperature and humidity control systems, as well as pest management system for the 2-year curing process of tobacco, HL is specially customized to cater to the special requirements of tobacco storage and other humidity and temperature sensitive products and perishable goods.

HL consists of 2 clusters of warehouses with its own power generator onsite and an isolated power grid to reduce any risks of electrical blackouts affecting the buildings. The two complexes are equipped with cargo lifts which are spacious and capable of accommodating forklifts. In addition, there are containment areas and docking bays which facilitate efficient and effective loading and unloading of goods for transportation.

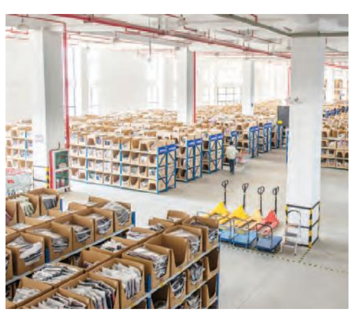


E-commerce Logistics

Fu Heng Warehouse

Located in Dongzhou Industrial Park, Fuyang District, Hangzhou, Fu Heng Warehouse serves as a full capability e-commerce centre. Using Ruyicang's omnichannel logistic platform, the warehouse boasts an integrated and highly developed system of storage and warehousing, inventory control, pick-and-pack services and express delivery capabilities, to serve all different clients' and suppliers' needs.

Fu Heng Warehouse comprises two four-storey buildings housing e-commerce merchant offices, online-to-offline ("O2O") businesses, retail outlets, and warehouse space.


Wuhan Meiluote

Wuhan Meiluote is the only property located in Caidian District in Wuhan, China. It comprises three two-storey warehouses, one five-storey multi-purpose building and one six-storey dormitory building.

Approximately 6km away from the Beijing-Guangzhou Expressway and Shanghai–Chongqing Expressway, Wuhan Meiluote is leased to top logistics and e-commerce tenants in the PRC including Dangdang, a leading integrated online shopping platform in China with a strong market position in books, cosmetics and apparel products, and JD. JD.Com is one of the largest e-commerce company in China, recording net revenue and gross merchandize value of RMB260.1 billion and RMB658.2 billion in 2016. It is also listed on Nasdaq with a market capitalization of approximately USD 70 billion.



Stage 1 Properties of Bei Gang Logistics

Stage 1 of Bei Gang Logistics ("BL") is located in North Hangzhou. BL is one of the largest e-commerce Developments in the Yangtze River Delta. BL offers an e-commerce ecosystem to its tenants who enjoy access to related services, logistics, trade and exhibition, O2O office, talent training and financial services within the premises.

The Stage 1 Properties comprise eight buildings (Buildings No. 1 to No. 8), and are divided by themes and the tenant allocation for each building is based on the theme of the building. For example, Buildings No. 7 and No. 8 focus on the aggregation and procurement of toys, and Building No. 4 focuses on cross-border e-commerce businesses.

Advanced logistics management systems and equipment installed in the facilities, coupled with the synergy derived from the eco-system of e-commerce service providers, add value to its tenants and provide opportunities for rental growth in the medium term. The National Development and Reform Commission (the "NDRC") has granted accreditation to Hangzhou Beigang Logistics Co., Ltd. under the National Key Logistics Project 2015.



Fuzhou E-commerce

Fuzhou E-commerce is adjacent to Fu Heng Warehouse in Dongzhou Industrial Park, Hangzhou City, creating synergies that help cater to the fulfilment of the rapidly expanding e-commerce demand in Hangzhou and China. It comprises a 3-storey warehouse building with a single storey basement for warehouse use, and two 14-storey office buildings also with single storey basements for car park use.

Fuzhou E-Commerce warehouse is also operated by Ruyicang (a wholly-owned subsidiary of the Sponsor), a leading omni-channel logistics service provider in China and one of the earliest key partners and service providers of the Cainiao Network Technology Co. Ltd (菜鸟网络科技有限公司) – Alibaba's logistics arm. Ruyicang currently operates more than 30 warehouses in China across 25 cities, with a footprint of over one million sqm of warehouse space, processing more than 1.5m orders each day.



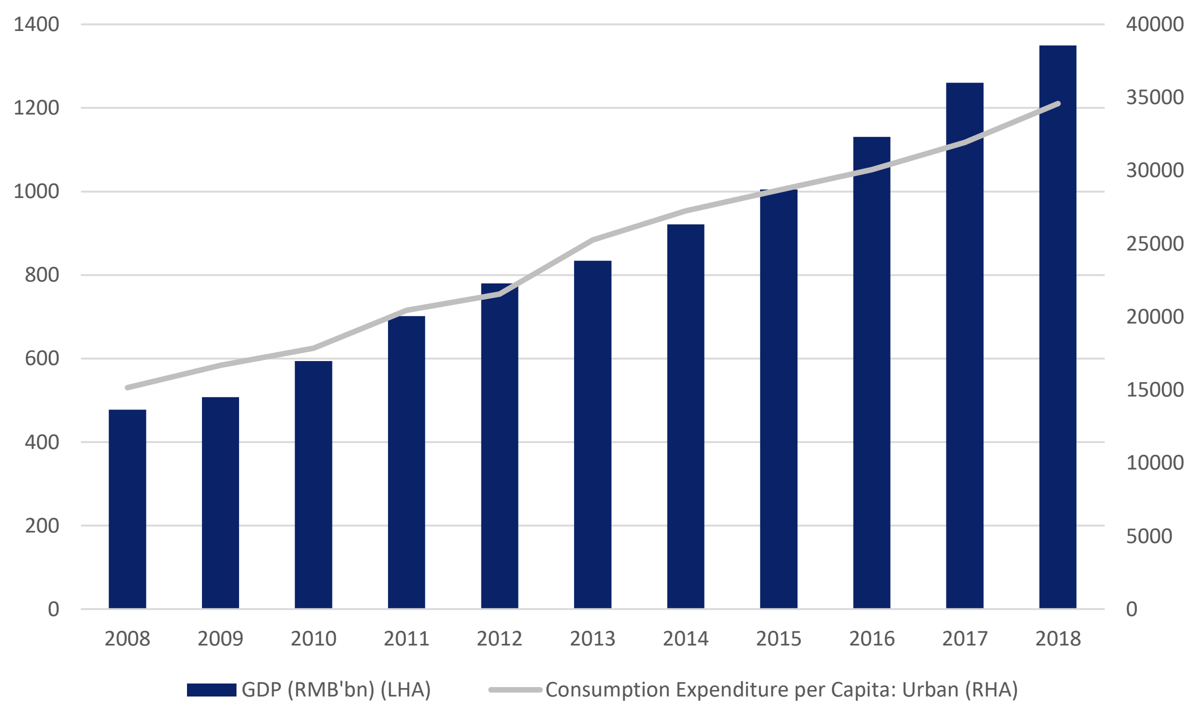
China Economy Outlook

Hangzhou

Hangzhou is the capital of East China's Zhejiang province. In the last 70 years, it has dramatically grown and transformed into an emerging city with a strong digital economy. According to the Cyberspace Administration of China, Hangzhou's digital economy reached RMB335.6 billion (S$65.12 billion) in 2018, accounting for 24.8% of the city's GDP.

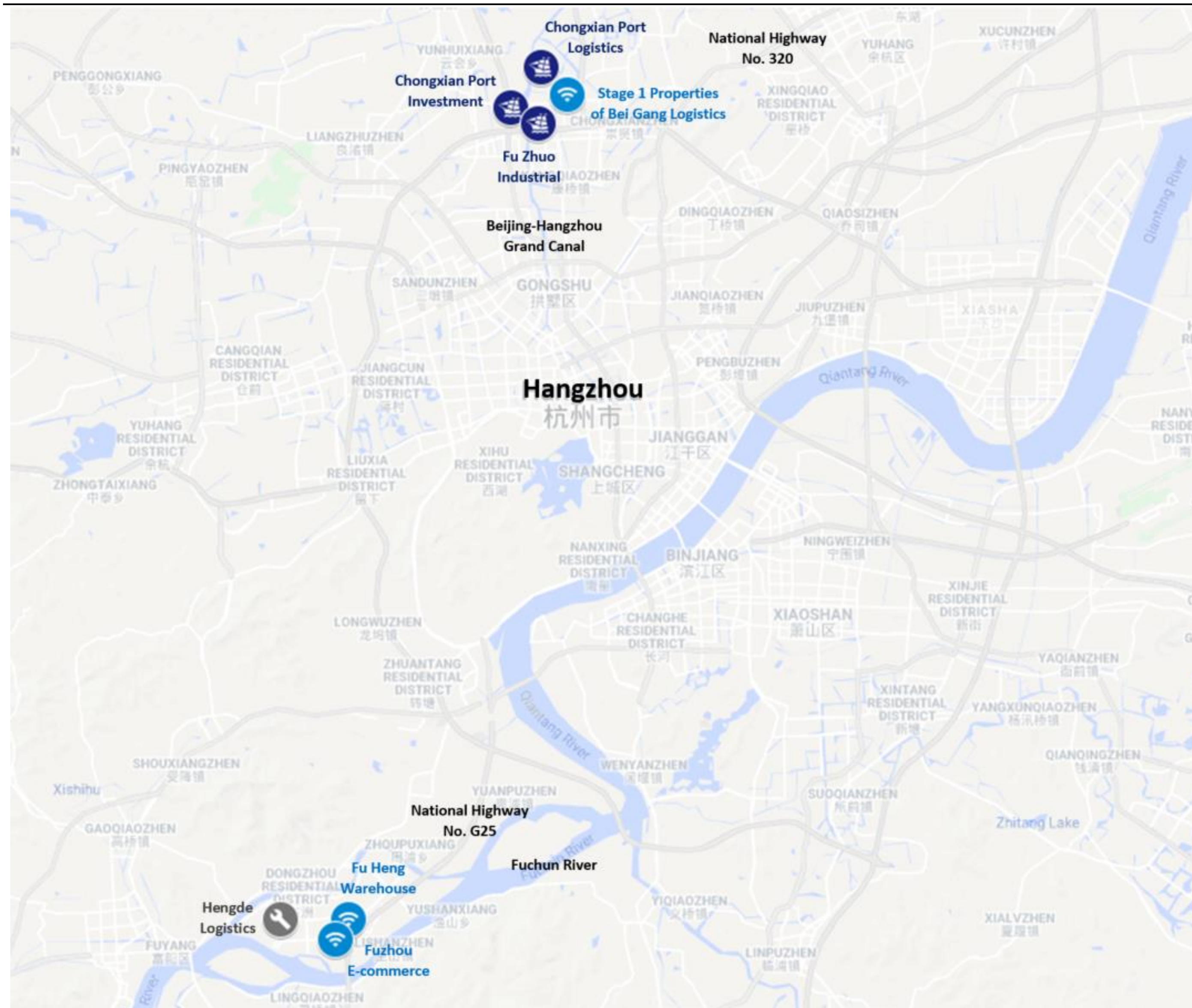
In addition to and as a result of its booming digital economy, Hangzhou also witnessed strong growth in its regional GDP 1.35 trillion yuan in 2018, making it the 10th Chinese city to join the trillion-yuan GDP club last year. Hangzhou also announced its ambition to become the Republic's foremost city in terms of its digital economy, in 2018, – through its pursuit of industrialization of digital resources, and digitalization of industries and urban areas.

Figure 24: China Hangzhou, Zhejiang: GDP (RMB'bn) (LHA); Consumption Expenditure per Capita (Urban) (RHA)



Source: NBSC, KGI Research

Figure 25: Locations of ECW's properties in and around Hangzhou



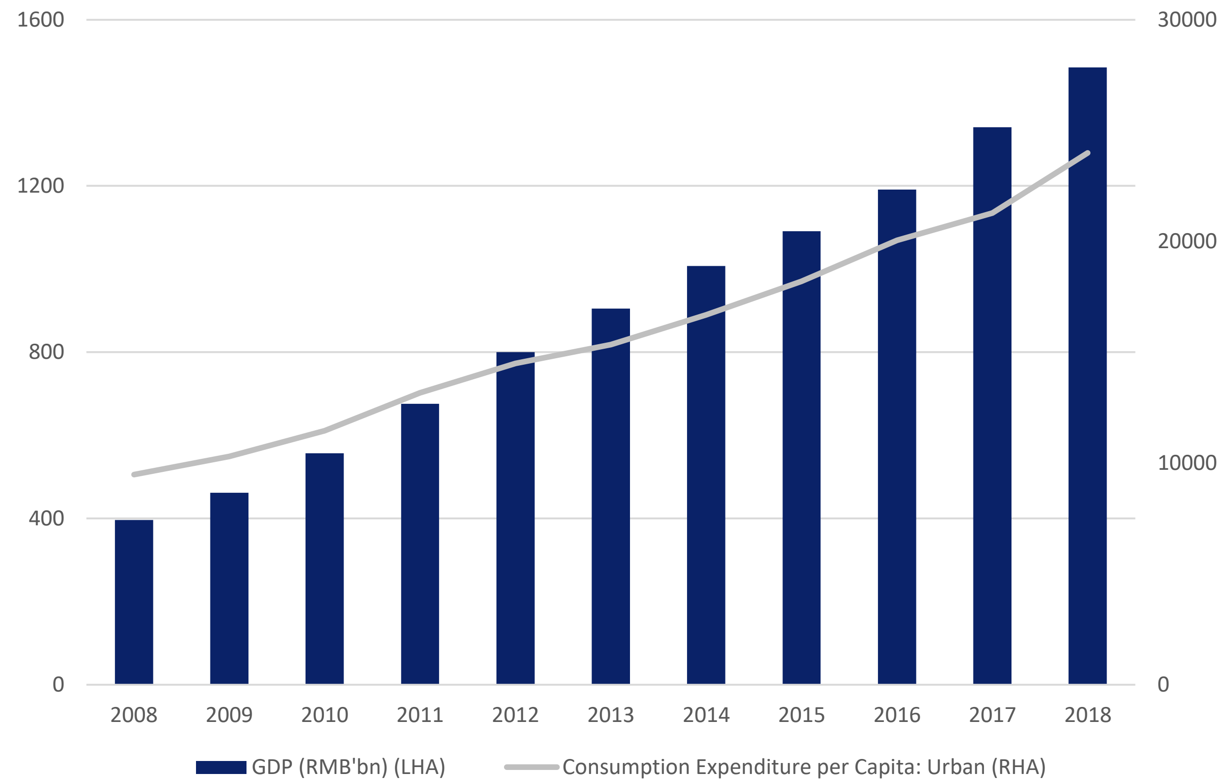
Source: ECW, KGI Research

Wuhan

Wuhan's GDP expanded almost 8% YoY in the first three quarters of 2019, in line with its GDP growth targets, but outstripping the national average of 6.2%. The logistics industry is the main economic pillar of Central China's Hubei province, with the "100-billion grade" (千亿级) service industry driving the city's economic growth.

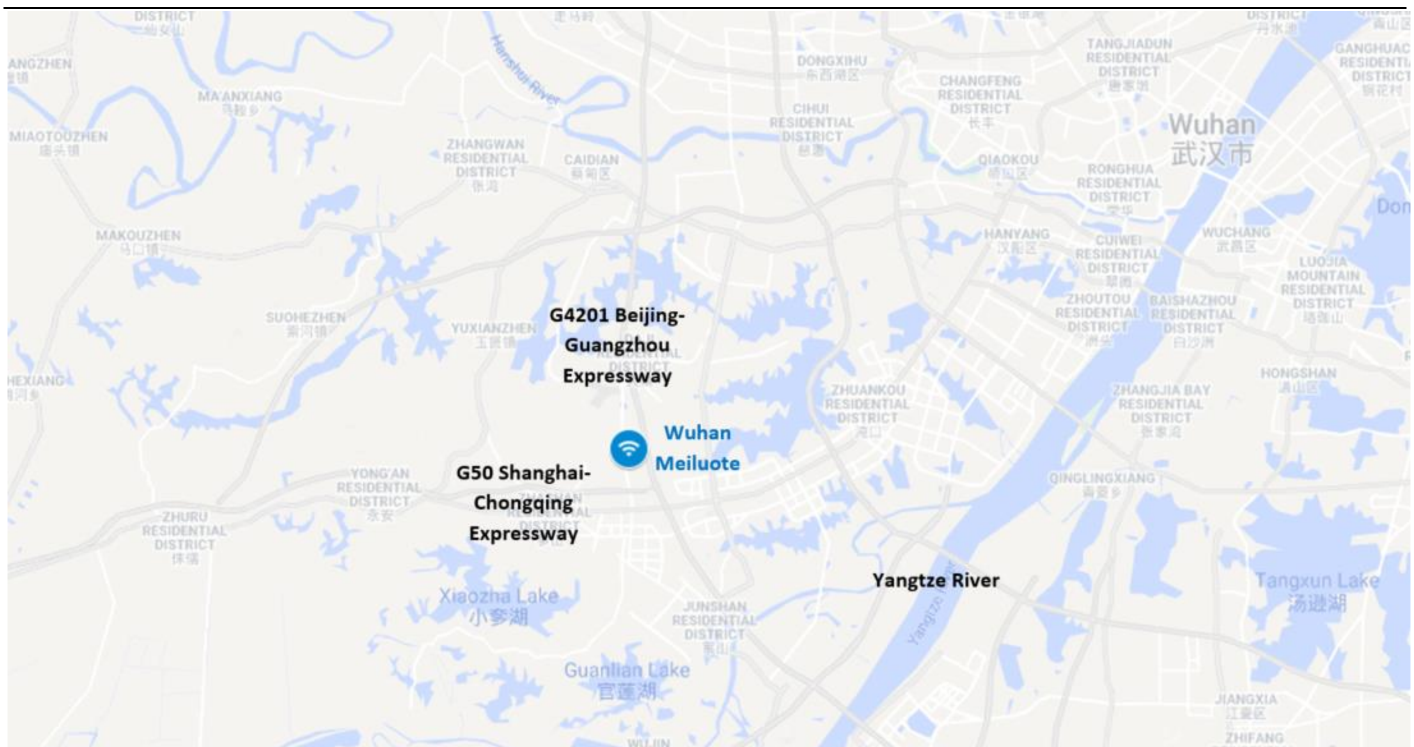
Earlier in 2019, Mayor Zhou Xianwang of Wuhan had also announced the prioritization of the construction of its new highland for the development of world-class industrial clusters – in optoelectronic information, automobiles and parts, biomedicine and medical equipment, and environmental protection – to accelerate its internationalization.

Figure 26: China Hangzhou, Zhejiang: GDP (RMB'bn) (LHA); Consumption Expenditure per Capita (Urban) (RHA)



Source: NBSC, KGI Research

Figure 27: Location of Wuhan Meiluote

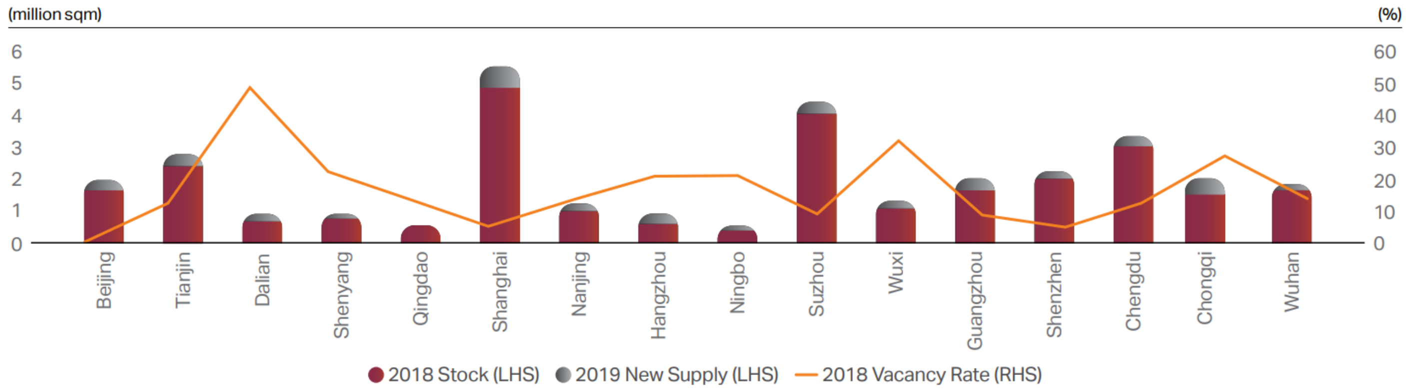


Source: ECW, KGI Research

Warehouse supply and demand

CBRE has estimated for approximately 4.3 million square metres of new high-standard warehouse supply to be completed in 2019 in the major cities, but most of the new stock is concentrated in the Northern and Midwestern china, with Chongqing, Chengdu and Beijing accounting for almost 40% of total new supply. Cities in Eastern and South China, including Hangzhou on the other hand, will continue to see a decline in supply.

Figure 28: 2019 China warehouse supply in 16 major cities

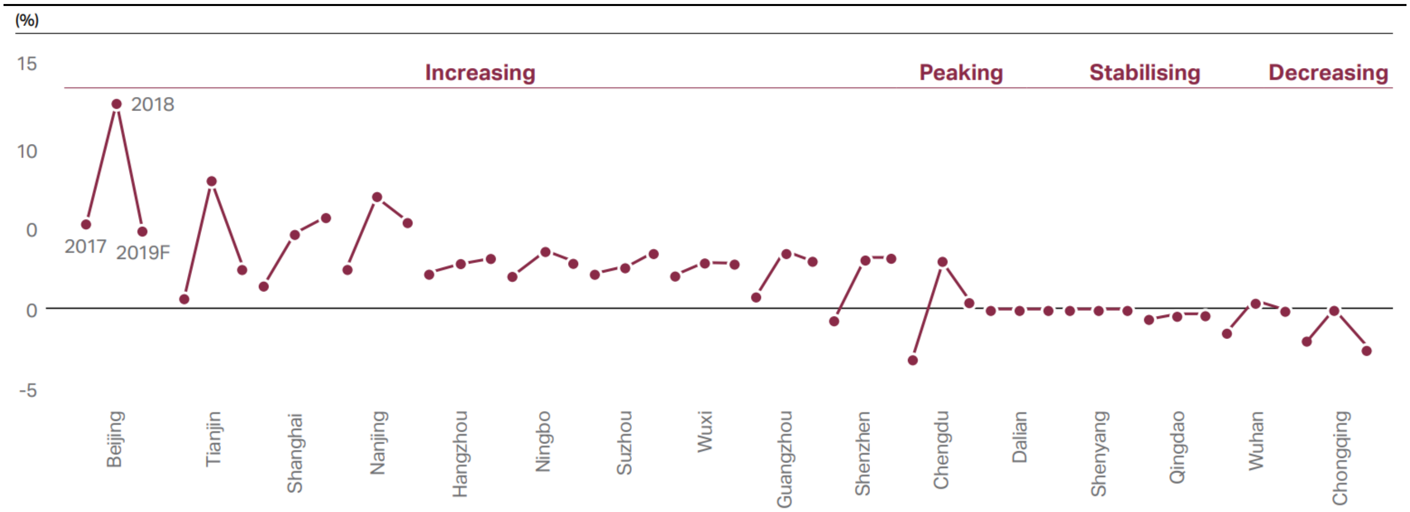


Source: CBRE, KGI Research

Due to the scarcity of available warehouses and land supply for the logistics sector in Tier 1 cities, the very strong demand for logistics space is spilling over into adjoining or surrounding cities and markets. Furthermore, the government's aim to improve efficiencies in urban land usage in top-tiered cities, has led several cities to tighten local policies on industrial land use rights, which may further lower future industrial land supply.

This has recently resulted in commercial property prices reaching an all-time high in Hangzhou in 2018, and is likely to further accelerate the spillover trend from Tier 1 cities to lower-tier cities where new supply is available with more opportunities for land development.

Figure 29: China warehouse rental forecast in 16 major cities



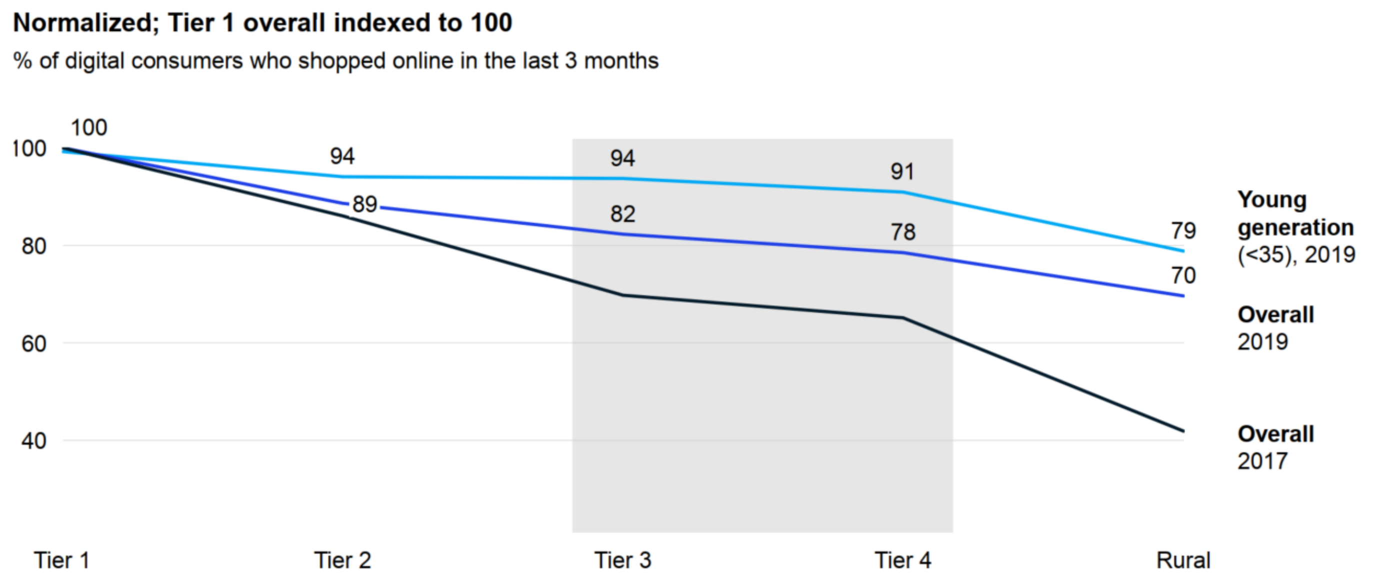
Source: CBRE, KGI Research

Untapped E-Commerce Potential

China still has a large, untapped market – in its lower-tier cities – that can further accelerate rapid, large-scale commercialization of digital business models. In 2018, according to McKinsey Global Institute, China already had more than 800 million internet users, more than the EU and the United States combined, and 95% of users accessed the internet via mobile. Nearly one in five internet users in China relies exclusively on mobile, compared with just 5% in the United States, and the mobile share of e-commerce sales in China is around 70%, compared with 30% in the United States.

However, according to QuestMobile, Tier 3 and below cities house over 670 million mobile internet users, which is more than half of China's total. Of these, 72 percent are below the age of 35 - and the high online readiness of younger consumers in China's lower-tier cities represent a big opportunity as they are currently under-served due to inaccessibility.

Figure 30: Digital consumers' online shopping adoption by city tier



Source: McKinsey China Digital Consumer Trends 2019, KGI Research

Over the last few years, online platforms have recognised this and begun to provide lower tier cities accessibility to brands that lack footprints in their area, especially for premium and luxury brands that have not yet entered lower tier cities. In some product categories, where access to physical stores is more limited, the online purchasing rate of small town youth are sometimes even higher than consumers in higher tier cities. Data released by Tmall following the most recent "618" shopping holiday event in June 2019, has showed a 50 percent increase in young luxury shoppers aged below 25, with 70 percent of them living in tier 3 and below cities.

With greater government support to strengthen e-commerce regulations in an effort to better endorse legitimate, domestic e-commerce channels, and more widespread reach to those in lower-tier cities through its National Strategic Plan for Rural Vitalization from 2018 to 2022, we believe that the China e-commerce industry still has quite a runway ahead of itself.

FINANCIAL FORECASTS

FYE 31 December

INCOME STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F
Gross revenue	91.4	96.2	103.1	113.5	115.7
Property expenses	(8.7)	(8.9)	(8.3)	(7.7)	(7.8)
Net property income	**82.7**	**87.3**	**94.8**	**105.8**	**107.8**
Manager's fees	(5.3)	(5.1)	(4.9)	(6.1)	(5.6)
Trustee fees	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)
Net interest expense	(17.7)	(19.4)	(24.6)	(28.7)	(28.7)
Other expenses	(1.5)	(0.9)	(1.5)	(1.7)	(1.7)
Net profit/(loss)	**51.5**	**56.9**	**57.5**	**62.9**	**65.5**
Change in fair value - investment ppty	21.7	12.0	0.0	0.0	0.0
Total return before tax	**71.4**	**70.2**	**57.5**	**62.9**	**65.5**
Income tax	(23.8)	(23.3)	(20.1)	(22.0)	(22.9)
Total return after tax	47.6	46.9	37.3	40.9	42.5
Distributable income	**47.1**	**49.0**	**49.3**	**53.6**	**54.8**

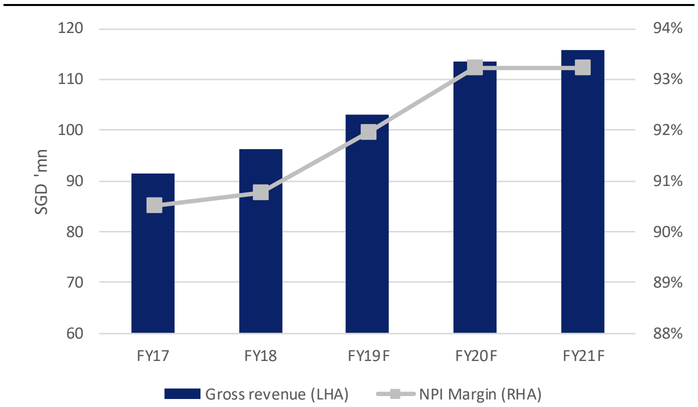
BALANCE SHEET (SGD mn)	2017A	2018A	2019F	2020F	2021F
Cash and cash equivalents	138.6	142.1	119.4	139.1	148.3
Trade and other receivables	35.6	38.3	40.5	44.6	45.4
Other current assets	-	329.0	-	-	-
Total current assets	**174.2**	**180.8**	**159.9**	**183.6**	**193.7**
Investment properties	1,337.0	1,335.0	1,559.6	1,560.6	1,561.6
Intangibles, others	-	-	-	-	-
Total assets	**1,511.2**	**1,515.8**	**1,719.5**	**1,744.3**	**1,755.4**
Trade and other payables	24.6	23.4	27.5	30.2	30.8
Other current liabilities	51.3	484.0	75.1	75.1	75.1
Total current liabilities	**75.9**	**507.3**	**102.6**	**105.4**	**105.9**
LT Borrowings	395.4	0.0	594.5	594.5	594.5
Other non-current liabilities	322.4	320.0	340.9	368.6	385.6
Total liabilities	**793.6**	**827.3**	**1,038.0**	**1,068.5**	1,086.0
Unitholders' funds and reserves	717.6	688.6	681.5	675.7	669.3
Total liabilities and equity	**1,511.2**	**1,515.8**	**1,719.5**	**1,744.3**	**1,755.4**

CASH FLOW STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F
Total return before tax	71.4	**70.2**	**57.5**	**62.9**	**65.5**
Change in fair value - investment ppty	(21.7)	(12.0)	-	-	-
Management fees payable in units	5.3	5.1	4.9	6.1	5.6
Changes in working capital	(3.8)	(4.9)	6.3	6.8	1.5
Taxes paid	(16.0)	(15.9)	(15.9)	(15.9)	(15.9)
Cash flows from operations	**71.9**	**73.2**	**105.5**	**118.2**	**108.9**
Capital expenditure	(2.2)	(1.5)	(1.0)	(1.0)	(1.0)
Acquisition of investment properties	-	(28.9)	(154.5)	-	-
Other investing cashflow	7.7	-	-	-	-
Cash flows from investing	**5.6**	**(30.4)**	**(155.5)**	**(1.0)**	**(1.0)**
Borrowings raised / (repaid)	35.8	41.7	132.0	-	-
Equity raised / (bought back)	-	-	-	-	-
Distributions paid	(46.7)	(48.1)	(49.3)	(53.6)	(54.8)
Other financing cashflow	(61.6)	(69.3)	(25.4)	(29.1)	(29.1)
Cash flows from financing	**(72.5)**	**(75.7)**	**57.2**	**(82.8)**	**(83.9)**
FX Effects, Others	(1.3)	(0.7)	-	-	-
Net increase/(decrease) in cash	**(9.7)**	**(47.6)**	**(7.5)**	**19.7**	**9.2**
Beginning Cash	105.0	94.0	45.7	38.2	57.9
Ending cash	**94.0**	**45.7**	**38.2**	**57.9**	**67.2**

KEY RATIOS

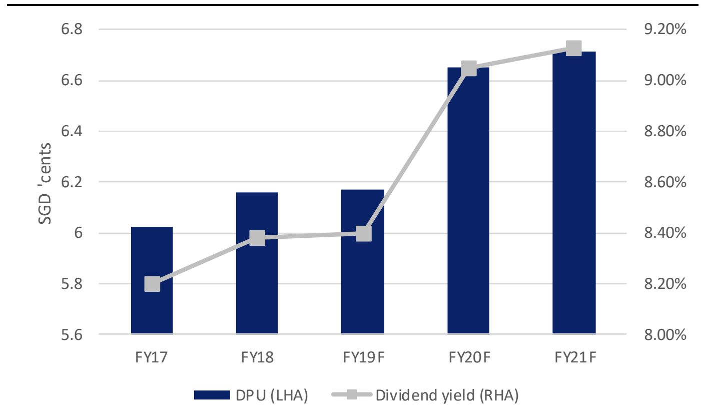
KEY RATIOS	2017A	2018A	2019F	2020F	2021F
DPU (SGD cents)	6.0	6.2	6.2	6.7	6.7
Dividend yield (%)	8.2	8.4	8.4	9.1	9.1
NAV per stapled security (S$)	0.9	0.9	0.9	0.8	0.8
Price/NAV (x)	0.8	0.8	0.9	0.9	0.9
Profitability (%)					
NPI Margin	90.5	90.8	92.0	93.2	93.2
Net Margin	52.1	48.8	36.2	36.0	36.8
ROE	7.1	6.6	6.8	5.5	6.1
ROA	3.8	3.2	3.1	2.2	2.3
Financial Structure					
Interest Coverage (x)	3.7	3.9	3.3	3.1	3.2
Gearing (%)	29.6	0.0	38.1	38.1	38.1

Figure 31: Revenue (SGD 'mn) vs NPI margin (%)



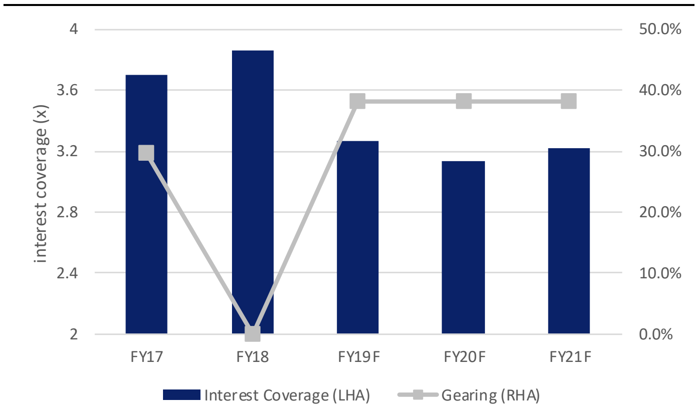
Source: ECW, KGI Research

Figure 32: DPU (SGD cents) vs Dividend yield (%)



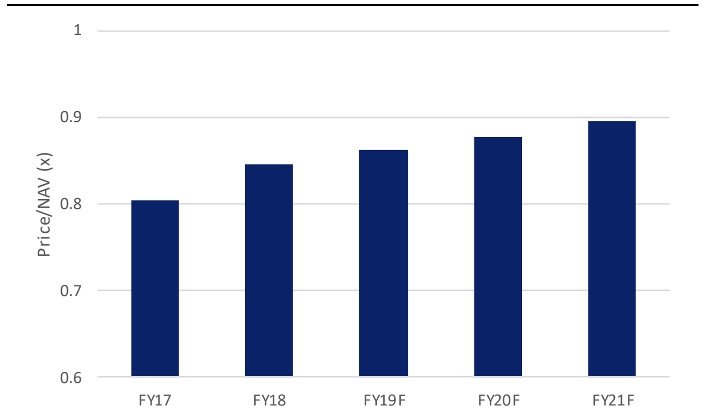
Source: ECW, KGI Research

Figure 33: Interest coverage (x) vs Gearing (%)



Source: ECW, KGI Research

Figure 34: Price/NAV (x)



Source: ECW, KGI Research

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Rating	Definition
Outperform (OP)	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.
Neutral (N)	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.
Underperform (U)	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
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	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.

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