



CHINA  
DEVELOPMENT  
FINANCIAL

# EC World REIT

(ECWREIT SP/BWCU.SI)

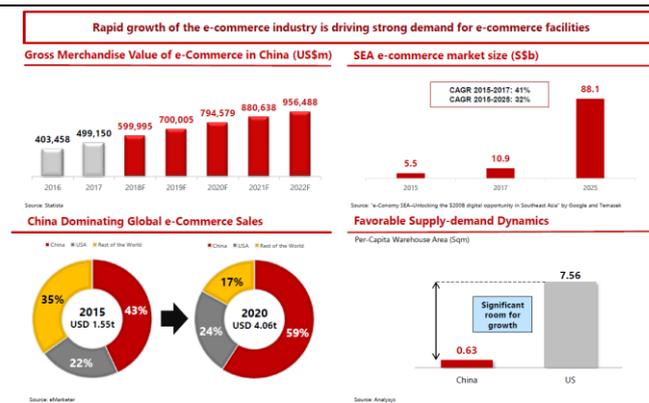
## Site Visit Note

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- 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	<b>Performance (Absolute)</b>
12M TP (\$)	-	1 Month (%) -2.1
Previous TP (\$)	-	3 Month (%) -0.6
Upside, incl div (%)	-	12 Month (%) -3.5
<b>Trading data</b>		<b>Perf. vs STI Index (Red)</b>
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%	
<b>Major Shareholders</b>		<b>Previous Recommendations</b>
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 <sup>st</sup> Jan 2019 and 2020
Fu Heng		94,287	Master lease: 1 Jan 2016 to 31 Dec 2020	4.0% and 3.0% on 1 <sup>st</sup> 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 <sup>st</sup> 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 Zhou 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
<b>Total</b>		<b>747,173</b>		

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**

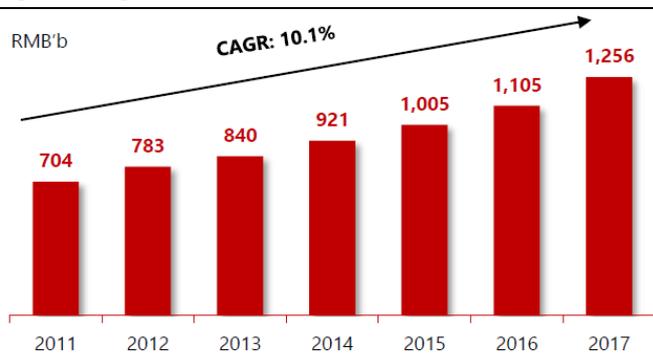


Source: Company Data, KGI Research

**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%.

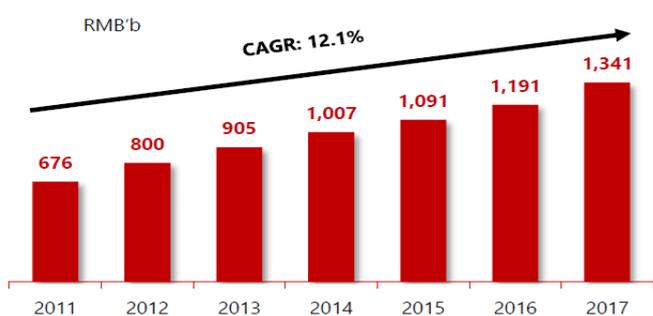
Figure 9: HangZhou GDP Growth



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

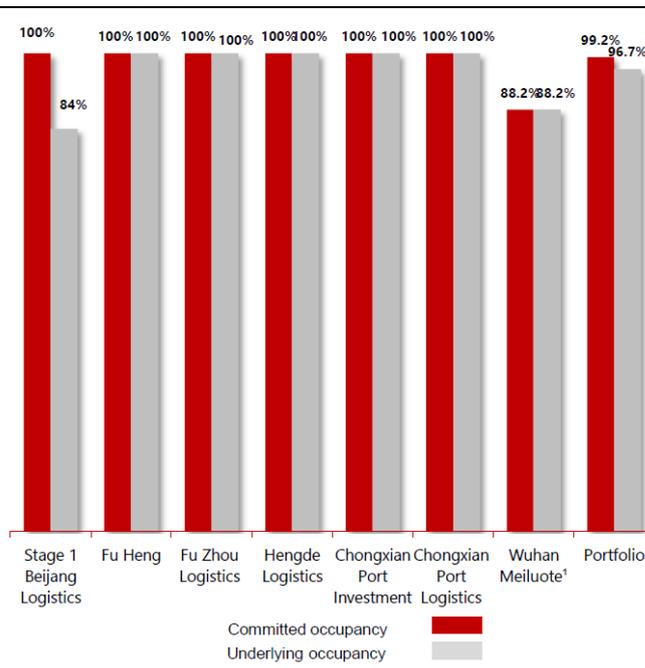


Source: Company Presentation, KGI Research

**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

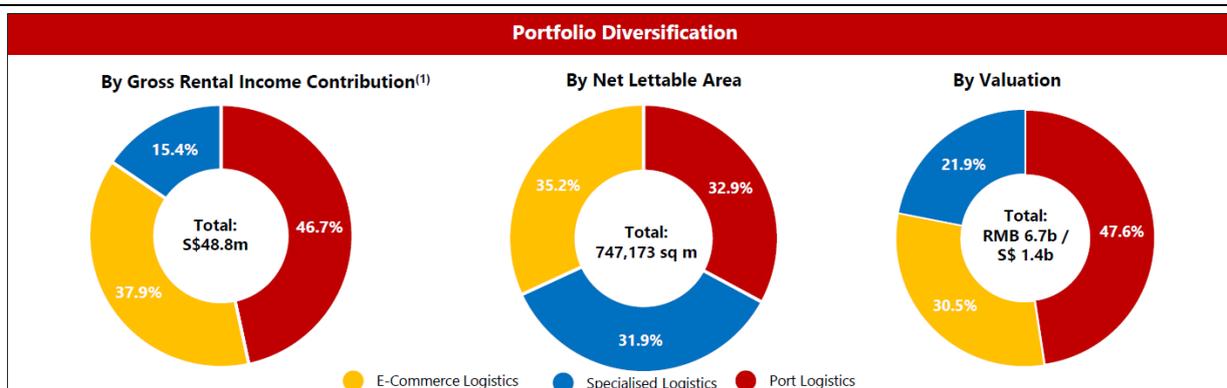
	Property	Type	NLA (sq m)	Type of Lease	Remaining Land Lease Tenure (years) <sup>(1)</sup>	Independent Valuation (RMB m) <sup>(2)</sup>
1	Chongxian Port Investment	Port Logistics	112,726	Master leased <sup>(3)</sup>	38	2,218.0
2	Chongxian Port Logistics	Port Logistics	125,856	Multi-tenanted	Complex 1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



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

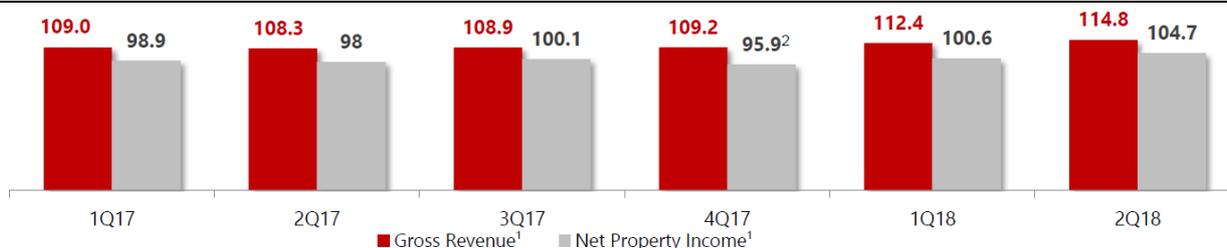
Source: Company Data, KGI Research

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

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

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