

EC World REIT

Foothold in Hangzhou's specialised logistics arena



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SINGAPORE | REAL ESTATE (REIT) | SITE VISIT NOTE

19 March 2018

We were in Hangzhou, Zhejiang province (China) to visit all six of EC World REIT's current portfolio assets as well as its two right of first refusal (ROFR) assets on 13 March 2018. In addition to port logistics and specialised logistics, the REIT's assets are in the e-commerce logistics sector, which is a pivotal sector in Hangzhou and where Alibaba's global HQ is located at.

Company Background

EC World REIT (ECW) listed on the SGX Mainboard on 28 July 2016 with six logistics assets in Hangzhou, relating to e-commerce, specialised logistics, and port logistics. Current portfolio valuation stands at S\$1.3 bn, with a ROFR pipeline of two e-commerce properties from its sponsor, Forchn Holdings Group. The REIT announced in February 2018 its maiden acquisition since IPO, of an e-commerce asset in Wuhan, Hubei Province (China).

Site Visit Highlights

1. Direct exposure to burgeoning e-commerce sector

- E-commerce logistics assets provide entire suite of physical facilities, through master tenant and Sponsor-owned proprietary service – RuYiCang, for clients such as JD.com and P&G
- Lack of like-for-like comparables due to unique offering (both B2B & B2C under one house) and sheer scale of assets
- Maiden acquisition of Wuhan MeiLuoTe property is expected to increase NLA of e-commerce logistics assets by up to 15%

2. Strong backing from sponsor

- Sponsor is Forchn Holdings Group, which owns RuYiCang and co-founded Cainiao Network Technology Co. Ltd.
- Trove of opportunities with Sponsor's focus in logistics sector – recently announcing a collaboration with supply chain management company YCH Group
- ROFR pipeline of two e-commerce related properties of over 300,000sqm GFA

3. Hangzhou key pillar of e-commerce logistics blueprint in China

- Known as China's "capital of e-commerce", Hangzhou clocked in a double-digit e-commerce growth of 40% in 2017 alone
- One of the core cities within the Yangtze River Delta Economic Zone, with GDP growth of 10.98% in 2017
- Increased growth in e-commerce market will call for an increase in demand for warehouse facilities

Investment Actions

No stock rating or price target provided, as we do not have coverage on ECW.

Peer Comparison – ECW has one of the highest dividend yields and lowest gearing levels among other listed S-REITs with assets exclusively located in China

Name	Mkt Cap (SGD mn)	Price (S\$)	Dvd Yld: D-1	Latest Gearing (%)	P/B	Avg cost of debt (%)
EC WORLD REIT	581	0.74	8.14	29.20	0.81	5.30
CAPITALAND RETAIL CHINA TRUST	1,542	1.59	6.36	28.40	0.99	2.49
BHG RETAIL REIT	383	0.77	7.20	32.20	0.93	3.70
DASIN RETAIL REIT	485	0.88	8.95	30.70	0.59	5.00
	748		7.66	30.13	0.83	4.12

Source: Bloomberg

Site Visit

LAST DONE PRICE SGD 0.74

COMPANY DATA

BLOOMBERG CODE:	ECWREIT SP
O/S SHARES (MN):	785
MARKET CAP (USD mn / SGD mn):	442 / 581
52 - WK HI/LO (SGD):	0.81 / 0.74
3M Average Daily T/O (mn):	0.35

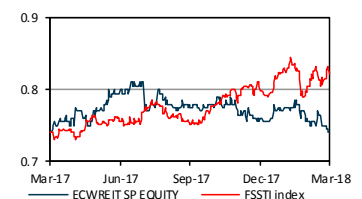
MAJOR SHAREHOLDERS (%)

FORCHN INTERNATIONAL PTE LTD	41.16%
CHINA CINDA ASSET MANAGEMENT	12.12%
FOSUN INTERNATIONAL HOLDINGS	9.76%
PROVIDENCE WORLD	8.5%
BOCOM INTERNATIONAL GLOBAL INVESTMENT LT	7.87%
YUQING HU	6.94%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(0.0)	(0.7)	8.1
STIRETURN	2.16	3.29	16.48

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGD*000	FY 16*	FY 17
Gross revenue	41,75	91,368
NPI	36,761	82,704
Dist Inc.	19,109	47,117
P/NAV (x)	0.80	0.81
ROE (%)	4%	7%
DPU (Cents) (Annualised)	5.7	6.03
Dist yield (%)	7.73%	8.14%

Source: Bloomberg, Company

*FY16 is from 28 Jul 2016 to 31 Dec 2016. ECW was constituted as a private fund from 5 Aug 2016 to 27 Jul 2016.

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Portfolio assets

Figure 1: ECW's current portfolio stands at S\$1.3 bn with a total NLA of 698,478 sqm

Property	Type	NLA (sq m)	Type of Lease / No. of Tenants ⁽¹⁾	Remaining Land Lease Tenure (years) ⁽¹⁾	Independent Valuation (RMB m) ⁽²⁾
1 Chongxian Port Investment	Port Logistics	112,726	Master leased ⁽³⁾	38	2,124.0
2 Chongxian Port Logistics	Port Logistics	125,856	Multi-tenanted / 27 tenants	Complex 1 & 2: 38 & 43	871.0
3 Fu Zhuo Industrial	Port Logistics	7,128	Multi-tenanted / 2 tenants	38	110.0
4 Stage 1 Properties of Bei Gang Logistics	E-commerce Logistics	120,449	Master leased ⁽⁴⁾	35	1,295.0
5 Fu Heng Warehouse	E-commerce Logistics	94,287	Master leased ⁽³⁾	42	551.0
6 Hengde Logistics	Specialised Logistics	238,032	Multi-tenanted / 2 tenants	Complex 1 & 2: 36 & 42	1,456.0
Total / Average		698,478		39	6,407.0
Total (SGD m)					1,303.2⁽⁵⁾

(1) Based on land leases as at 30 September 2017

(2) As at 31 December 2016 appraised by Colliers

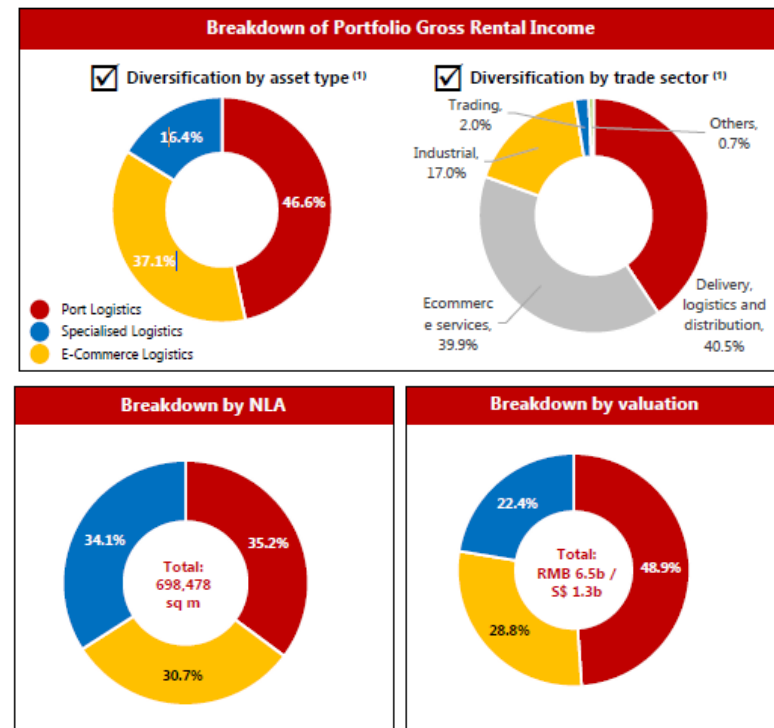
(3) Master leases with Sponsor commenced on 1 January 2016

(4) Master lease with Sponsor commenced on 1 November 2015

(5) Based on an exchange rate of S\$1.00 : RMB4.92

- Port Logistics
- Specialised Logistics
- E-Commerce Logistics

Figure 2: Breakdown of ECW's portfolio by Gross Rental Income (GRI), Net Leasable Area (NLA) and by valuation



Currently, majority of ECW's GRI is derived from its Port Logistics assets (46.6%), followed by its E-Commerce Logistics assets (37.1%) and Specialised Logistics assets (16.4%)

Source: Company

Maiden acquisition since IPO: Wuhan MeiLuoTe

- Wuhan MeiLuoTe is an e-commerce logistics asset with a current occupancy of 82.2%
- Third-party acquisition with purchase consideration at a 15.2% discount to valuation
- Key tenants include JD.com and DangDang.com

Figure 3: Details of transaction

Address	Hubei Province, Wuhan City, Cai Dian District, Yinyan Village, Nanwan Village, Daji Street, PR China
Completion year	May 2017
Remaining land tenure	c. 48 years (2065)
Purchase Consideration	RMB 145 million / S\$30.3 million ⁽¹⁾ , (15.2% discount to valuation)
Independent Valuation	RMB 171 million ⁽²⁾
Acquisition expenses	<ul style="list-style-type: none"> ▪ REIT Manager Acquisition Fee: S\$0.3m ▪ Estimated professional and other transaction fees: S\$0.4m
Proposed funding structure	Wholly funded by internal cash
Land area	68,219 sq m
GFA / NLA	49,861 sq m / 48, 695 sq m
Description	<ul style="list-style-type: none"> ▪ Three warehouse buildings ▪ One 5-storey auxiliary building ▪ One 6-storey dormitory
WALE by Gross Rental / NLA	2.3 years / 2.4 years
Occupancy	82.2%
NPI Yield ⁽³⁾	4.9%

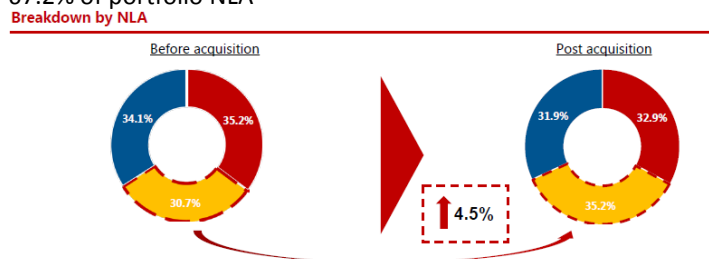
(1) Based on S\$1.00 to RMB 4.79 as at 27 February 2018
 (2) As at 31 December 2017 by Colliers International
 (3) Based on pro forma NPI assuming acquisition is done on 1 January 2017 and purchase consideration of RMB145m

Source: Company

Direct exposure to burgeoning e-commerce sector

- E-commerce logistics assets provide entire suite of physical facilities, through master tenant and Sponsor-owned proprietary service – RuYiCang, for clients such as JD.com and P&G
- RuYiCang is one of the top three service providers for Alibaba’s “new retail” concept, providing 30-40% of the warehouse space and generating 60% of the business, according to the company
- Lack of like-for-like comparables due to unique offering (both B2B & B2C under one house) and sheer scale of assets
- Maiden acquisition of Wuhan MeiLuoTe property is expected to increase NLA of e-commerce logistics assets by up to 15%

Figure 6: Post acquisition, e-commerce and specialised logistics assets will account for 67.2% of portfolio NLA



Source: Company

Figure 4: Wuhan MeiLuoTe property



Source: Company

Figure 5: Wuhan MeiLuoTe property



Source: Company

Strong backing from sponsor

- Sponsor is Forchn Holdings Group, which owns RuYiCang (PRC e-commerce logistics and supply chain management service provider) and co-founded Cainiao Network Technology Co. Ltd. (operator of China Smart Logistics Network)
- Trove of opportunities with Sponsor’s focus in logistics sector
 - Forchn and YCH had announced in March 2018 a collaboration with RuYiCang to jointly offer e-commerce and omni-channel logistics services in the Asean and China region.
- ROFR pipeline of two e-commerce related properties of over 300,000 sqm GFA

Figure 7: ECW’s sponsor has over two decades of experience within the logistics sector

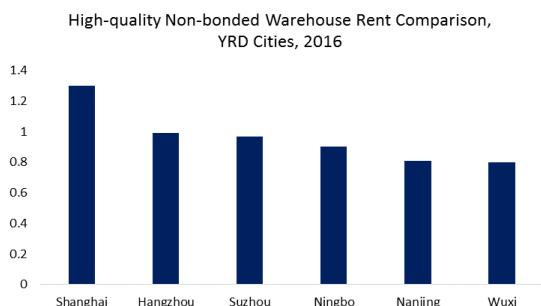


Source: Company

Hangzhou key pillar of e-commerce logistics blueprint in China

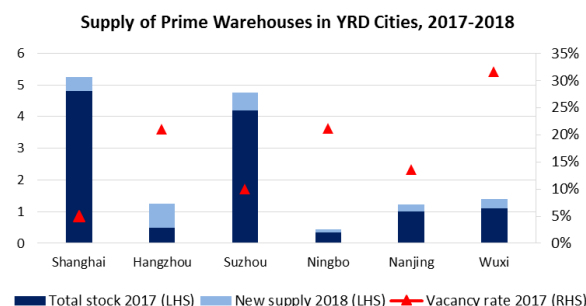
- Hangzhou, capital of Zhejiang Province, is known as China’s “capital of e-commerce”
 - Kick-started the “China Cross-Border E-Commerce Comprehensive Pilot Zone” programme. Home to Alibaba’s Global HQ and birthplace of Kuadi Dache.
 - One of the core cities within the Yangtze River Delta (YRD) Economic Zone, with a GDP growth of 10.98% in 2017.
- Double-digit e-commerce growth in Hangzhou, clocking 40% in 2017
- Increased growth in e-commerce market will call for an increase in demand for warehouse facilities

Figure 8: Hangzhou’s relatively higher rents are indicative of strong upgrade demand from firms willing to pay a premium for high-quality well-located distribution space (source: JLL)



Source: JLL Real Estate Intelligence Service (REIS), PSR

Figure 9: Scarcity of logistics land in Tier I & II cities (which includes YRD cities) has encouraged the creation of new development solutions (source: CBRE)



Source: CBRE 2018 Greater China Real Estate Market Outlook, PSR

A look at ECW’s assets

Port Logistics assets

All three port logistics assets are located at west Chongxian New City, north Hangzhou

1. Chongxian Port Investment

- Logistics complex that integrates port operations, storage processing and logistics distribution for steel products – according to the company, this facility handles 60% of Hangzhou’s province’s steel market share

Figure 10: Chongxian Port Investment



Source: PSR

2. Chongxian Port Logistics

- Warehouses and office buildings that support the operations of Chongxian Port Investment
- Underwent an asset enhancement initiative (AEI) in FY17 (addition of a building)

Figure 11: Chongxian Port Logistics



Source: PSR

3. Fu Zhou Industrial

- Cement plant producing precast concrete, sand and stone warehouse, storage yard and repair workshop

Figure 12: Fu Zhou Industrial



Source: PSR

Figure 13: ECW’s Port Logistics assets in the same cluster (from L-R: Fu Zhou Industrial, Chongxian Port Investment, Chongxian Port Logistics)



Source: PSR

E-commerce logistics

4. Stage 1 Properties of Bei Gang Logistics

- Eight buildings (Buildings No. 1 to No. 8) – first floor of each building is for B2B purposes, other levels are for SOHO use
- One of the largest e-commerce developments in the Yangtze River Delta
- ROFR option to acquire Stage 2 properties (Buildings No. 9 to No. 17)
- Located nearby the port logistics assets, in west Chongxian New City, north Hangzhou

Figure 14: Stage 1 Bei Gang Logistics



Source: PSR

Figure 15: Shopfronts on the first level



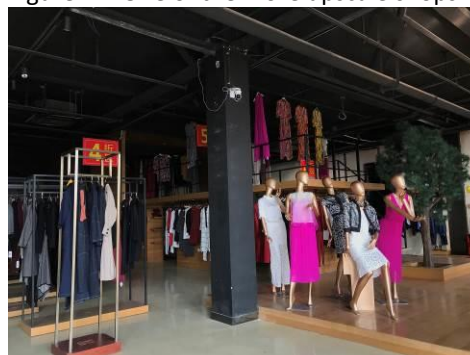
Source: PSR

Figure 16: Inside one of the shops in Stage 1 Bei Gang



Source: PSR

Figure 17: One of the more upscale shops



Source: PSR

Figure 18: Model of Bei Gang Logistics – Stage 1 comprises the first eight buildings and ROFR asset Stage 2 consists of the other nine buildings behind



Source: PSR

5. Fu Heng Warehouse

- Full capability e-commerce centre with integrated system of storage and warehousing, inventory control, pick-and-pack services and express delivery capabilities
- Two four-storey buildings housing e-commerce merchant offices, online-to-offline (O2O) businesses, retail outlets, and warehouse space
- Located at Min Lian village, Dongzhou Industrial Park, Fuyang District, Hangzhou City
- ROFR asset Fu Zhou E-commerce Properties is right next to Fu Heng Warehouse

Figure 19: Display sign of RuYiCang – master tenant of Fu Heng Warehouse



Source: PSR

Figure 20: Packaging and labelling process



Source: PSR

Figure 21: An e-commerce merchant office within the warehouse



Figure 22: Boxes with RuYiCang's logo



Source: PSR

Figure 23: Level 2 – which holds shoes and leather bags



Source: PSR

Figure 24: Best Freight, one of RuYiCang's last-mile fulfilment partners



Source: PSR

Figure 25: ROFR asset Fu Zhou E-commerce Properties, spanning 215,643 sqm



Source: PSR

Figure 26: Packing stations within Fu Zhou E-commerce Properties, which currently handles FMCG products



Source: PSR

Specialised logistics

6. Hengde Logistics

- Controlled temperature warehouse currently used for tobacco storage
- Master leased to state-owned enterprise China Tobacco Zhejiang Industrial Co., Ltd, which produces cigarettes under brands such as Hongtashan and Chunghwa
- RMB10bn worth of tobacco in the entire warehouse, which according to management, represents approximately half the market share of tobacco in entire Zhejiang province
- Located at Min Lian village in Dongzhou Industrial Park, Fuyang District, Hangzhou City

Figure 27: Truck approaching Hende Logistics



Source: PSR

Figure 28: Inside Hengde Logistics



Source: PSR

Figure 29: Unloading of boxes of tobacco leaves



Source: PSR

Figure 30: One of the boxes, that is bound for Shanghai



Source: PSR

Figure 31: Boxes with China Tobacco's logo



Source: PSR

Figure 32: Tobacco leaves, which need to be aged for a minimum of two years in the warehouse



Source: PSR

Figure 33: Controlled temperature and humidity for the warehouse



Source: PSR

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