

EC World REIT

Protected by master leases



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SINGAPORE | REAL ESTATE (REIT) | FY19 RESULTS

5 March 2020

- 4Q19 and FY19 NPI and DPU were in line with our forecast
- High income visibility due to portfolio occupancy of 99.9% and WALE of 4.1 years
- FY19 DPU down 2.1% YoY; accretion from Fuzhou E-commerce acquisition wiped out due to FX and timing lag between drawdown of loans and acquisition
- Maintain BUY with a lower TP of S\$0.83 (prev S\$0.84). Our TP translates to a FY20e DPU yield of 8.7%

BUY (Maintained)

LAST CLOSE PRICE	SGD 0.720
FORECAST DIV	SGD 0.063
TARGET PRICE	SGD 0.827
TOTAL RETURN	23.6%

COMPANY DATA

BLOOMBERG CODE:	EREIT SP
O/S SHARES (MN) :	801
MARKET CAP (USD mn / SGD mn) :	407 / 565
52 - WK HI/LO (SGD) :	0.81 / 0.7
3M Average Daily T/O (mn) :	2.04

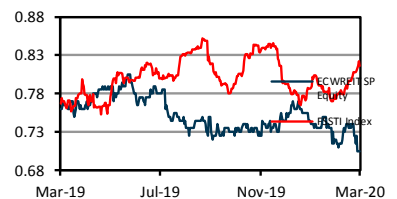
MAJOR SHAREHOLDERS (%)

FORCHN HOLDINGS GROUP	44.88
CHINA CINDA ASSET MANAGEMENT	10.18
BOCOM INTERNATIONAL	7.70

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	(2.1)	(5.4)	0.5
STI RETURN	(4.4)	(5.4)	(2.3)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY18	FY19	FY20e	FY21e
Gross Rev. (SGD mn)	96	99	115	120
NPI (SGD mn)	87	90	101	105
Dist. Inc. (SGD mn)	49	49	51	54
P/NAV (x)	0.83	0.84	0.82	0.82
DPU, adj (cents)	6.18	6.05	6.27	6.59
Distribution Yield	9.0%	8.4%	8.7%	9.2%

Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 9.2%; Terminal g: 1.5%)

Natalie Ong (+65 6212 1849)

natalieongpf@phillip.com.sg

Results at a glance

(SGD mn)	4Q19	4Q18	YoY	FY19	FY18	YoY	Comments
Gross revenue	25.9	23.5	10.2%	99.1	96.2	3.0%	Higher due to Fuzhou E-commerce (acquired 8 Aug 2019) which contributed S\$4.3 and S\$6.6mn in 4Q19 and FY19, excluding which revenue would have fallen 8.1% and 3.8%, due to depreciation of RMB
Net property income	24.5	20.8	17.4%	89.7	87.3	2.7%	Fuzhou E-commerce contributed S\$3.9mn and S\$6mn in 4Q19 and FY19, excluding which NPI fell 11.1%
Distributable income	12.7	12.4	2.4%	48.9	49.0	-0.3%	
DPU (cents)	1.51	1.57	-3.8%	6.05	6.18	-2.1%	Lower payout ratio of 95% (prev. 100%) as DI was retained for working capital and unforeseen contingencies

Source: Company, PSR

The Positives

+ Solid portfolio to weather turbulence. High income visibility due to portfolio occupancy of 99.9%, and WALE by GRI of 4.1 years. Post-acquisition of Fuzhou E-Commerce, 84.4% of FY20e revenue is secured through 4 master leases to the Sponsor, with build-in rental escalations ranging 1% to 3%. Hengde Logistics, the specialised logistic asset customized for and leased to a state-owned tobacco company, contributes c.8% to NPI. This brings the percentage of "stable" leases to 91%.

The Negatives

- Accretion from the acquisition of Fuzhou E-commerce wiped out. DPU -3.8%/-2.1% in 4Q19/FY19 due to FX and higher finance expense and 5% retention of distributable income (DI) in 4Q19. Higher finance expense was due to the timing mismatch of drawdown of loans and the acquisition of Fuzhou E-Commerce and the higher loan quantum. Acquisition financing for Fuzhou E-commerce (completed on 8 August 2019) was done in conjunction with the refinancing of the IPO loans (28 June and 8 August). DPU would have been 6.13 cents if 100% of 4Q19 DI was paid out, but this would still have been 0.8% lower than FY18 DPU of 6.18cents. 5% of DI was retained for working capital purposed and unforeseen circumstances.

Outlook

The management received notification of non-renewal of 24,929sqm of space on a lease expiring in 2Q20 at Wuhan Meiluote. This represents 50% of Wuhan Meiluote's NLA of 48,695sqm. Occupancy is expected to fall from 97.7% to 46.7%. This asset contributes 1.6% to gross rental income (GRI) and will not affect DPU materially. Muted leasing demand is expected in the near term.

15.7% of leases by GRI is up for renewal in FY20. One of the leases expiring is for space at Hengde Logistics which is leased out to a state-owned tobacco company at below-market rentals. With the country in a state of flux, brought on by the Covid-19 outbreak, management is guiding for flattish rental reversions on leases expiring in FY20.

Key risk to our valuation remains the weakening of the RMB. The manager has revised its hedging strategy from a put spread to a plain vanilla call option. The previous hedging strategy employed would only protect ECW if FX fluctuated within a collar - exchange movements outside of the collar would mean that ECW would have to take the prevailing market rate. The amended strategy effectively locks in a worst-case exchange rate.

Maintain BUY with lower TP of S\$0.83 (prev. S\$0.84).

We maintain our BUY call with a marginally lower TP of S\$0.83. This translates to a FY20e/FY21e DPU yield of 8.9%/9.3%.

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
Gross revenue	91	96	99	115	120
Property expenses	(9)	(9)	(9)	(14)	(14)
Net property income	83	87	90	101	105
Net Finance (Expense)/Inc	(24)	(26)	(31)	(37)	(37)
Manager's fees	(5)	(5)	(5)	(6)	(6)
Other items	(84)	(87)	(2)	(2)	(2)
Net income	52	57	52	56	60
Other gains and FV changes	20	13	46	-	-
Total Return Before Tax	71	70	98	56	60
Taxation	(24)	(23)	(33)	(19)	(21)
Total Return After Tax	48	47	65	36	39
Distribution adjustments	(0)	2	(16)	14	15
Income available for distribution	47	49	49	51	54
DPU	6.03	6.18	6.05	6.27	6.59

Per share data (cents)

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
NAV	0.91	0.87	0.85	0.87	0.88
DPU	6.03	6.18	6.05	6.27	6.59

*Forward EPU does not include change in Fair Value of Investment Properties

Cash Flow

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
CFO					
Total return	47.6	46.9	65.2	36.2	38.7
Adjustments	33.1	37.2	24.1	63.3	65.2
WC changes	(3.8)	(4.9)	18.2	(19.6)	10.7
Income tax paid	(16.0)	(15.9)	(15.2)	(17.5)	(18.7)
Cashflow from ops	61.0	63.4	92.3	62.4	95.8
CFI					
Purchase of investment properties	(2.2)	(1.5)	(3.4)	-	-
Others	7.7	(28.9)	(152.8)	-	-
Cashflow from investments	6	(30)	(156)	-	-
CFF					
Loans, net of repayments	35.8	41.7	130.7	-	-
Dividends	(46.7)	(48.1)	(48.5)	(50.5)	(53.7)
Others	(61.6)	(69.3)	(11.1)	(20.7)	(20.7)
Cashflow from financing	(72.5)	(75.7)	71.1	(71.2)	(74.3)
Net change in cash	(5.9)	(42.7)	7.3	(8.8)	21.4
Ending cash	87.2	43.7	34.7	25.9	47.3
Security deposits	51.5	98.4	98.4	98.4	98.4

Source: Company, PSR

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
ASSETS					
Investment properties	1,337	1,335	1,568	1,568	1,568
Others	-	-	-	-	-
Total non-current assets	1,337	1,335	1,568	1,568	1,568
Cash and cash equivalents	139	142	119	124	146
Trade and other receivables	36	38	37	50	41
Others	-	0	0	-	-
Total current assets	174	181	156	174	186
Total assets	1,511	1,516	1,724	1,742	1,754
LIABILITIES					
Trade payables	25	23	34	28	29
Borrowings	40	475	68	68	68
Others	11	9	16	18	20
Total current liabilities	76	507	118	114	117
Deferred income tax liabilities	-	262	271	271	271
Borrowings	395	-	587	587	587
Others	59	58	64	64	64
Total non-current liabilities	455	320	922	922	922
Total liabilities	531	827	1,040	1,036	1,039
Net assets	981	689	684	706	715
Represented by:					
Unitholders' funds	788	689	684	706	715
FX translation reserve	(71)	-	-	-	-

Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/NAV (x)	nm	0.81	0.83	0.81	0.80
Distribution Yield (%)	0.11	9.0%	8.6%	8.9%	9.3%
NPI yield (%)	6.2%	6.5%	5.7%	6.4%	6.7%
Growth & Margins (%)					
Growth					
Revenue	(0.04)	5.3%	3.0%	15.7%	4.4%
Net property income (NPI)	(0.01)	5.6%	2.7%	12.6%	4.4%
DPU	nm	2.6%	-2.1%	3.8%	5.0%
Margins					
NPI Margins	90.5%	90.8%	90.5%	88.1%	88.1%
Net Income Margin	56.4%	59.2%	52.6%	48.5%	49.7%
Key Ratios					
Gearing	31.3%	31.3%	38.0%	37.6%	37.3%
ROA	3.2%	3.1%	4.0%	2.1%	2.2%
ROE	6.1%	6.4%	9.5%	5.2%	5.4%



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Head of ResearchPaul Chew – paulchewkl@phillip.com.sg**Research Admin**Siti Nursyazwina - syazwina@phillip.com.sg**Property | REITs**Natalie Ong - natalieongpf@phillip.com.sg**Small-Mid Cap**Tan Jie Hui - tanjh@phillip.com.sg**Banking & Financials | Healthcare**Tay Wee Kuang - taywk@phillip.com.sg**Technical Analyst**Chua Wei Ren – chuawr@phillip.com.sg**China/HK Equity**Zheng Jieyuan – zhengjy@phillip.com.sg**Credit Analyst (Bonds)**Timothy Ang – timothyang@phillip.com.sg**Contact Information (Regional Member Companies)****SINGAPORE****Phillip Securities Pte Ltd**

Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN**Phillip Securities Japan, Ltd.**

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND**Phillip Securities (Thailand) Public Co. Ltd**

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES**Phillip Capital Inc**

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA**PhillipCapital (India) Private Limited**

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA**Phillip Bank Plc**

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA**Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA**PT Phillip Securities Indonesia**

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE**King & Shaxson Capital Limited**

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA**Phillip Capital Limited**

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY**PhillipCapital Menkul Degerler**

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG**Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA**Phillip Financial Advisory (Shanghai) Co Ltd**

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM**King & Shaxson Capital Limited**

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA**Asha Phillip Securities Limited**

No. 60, 5th Lane,
Colombo 3, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI**Phillip Futures DMCC**

Member of the Dubai Gold and
Commodities Exchange (DGCC)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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