

Singapore Company Update

EC World REIT

Bloomberg: ECWREIT SP | Reuters: ECWO.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Feb 2022

BUY

Last Traded Price (23 Feb 2022): S\$0.755 (STI : 3,393.00)
Price Target 12-mth: S\$0.85 (13% upside) (Prev S\$0.90)

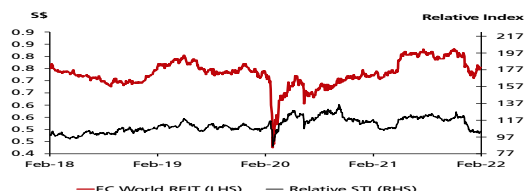
Analyst

Dale LAI +65 66823715 dalelai@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Revenues and NPI increased 14.4% and 12.7% y-o-y respectively due mainly to rental rebates given in FY20
- FY21 DPU higher by 16.9% to 6.263 Scts, c.2% above our estimates
- Organic growth in earnings to offset absence of income from the expropriation of Fu Zhuo Industrial
- Maintain BUY with a revised TP of S\$0.85

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2021A	2022F	2023F	2024F
Gross Revenue	125	126	128	128
Net Property Inc	113	114	115	116
Total Return	24.5	48.0	49.5	50.2
Distribution Inc	51.9	53.9	55.6	56.4
EPU (S cts)	6.72	5.90	6.04	6.06
EPU Gth (%)	108	(12)	2	0
DPU (S cts)	6.26	6.30	6.44	6.47
DPU Gth (%)	17	1	2	0
NAV per shr (S cts)	92.9	92.9	92.9	92.9
PE (X)	11.2	12.8	12.5	12.5
Distribution Yield (%)	8.3	8.3	8.5	8.6
P/NAV (x)	0.8	0.8	0.8	0.8
Aggregate Leverage (%)	38.1	37.6	37.4	37.3
ROAE (%)	7.4	6.4	6.5	6.5

Distn. Inc Chng (%):	(5)	(4)	17
Consensus DPU (S cts):	23.5	26.2	29.0
Other Broker Recs:	B: 9	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Organic growth to the rescue

Investment Thesis

Revising our TP to reflect divestment of Fu Zhuo Industrial. ECWREIT has demonstrated its portfolio resilience by reporting improving earnings and higher occupancy rates. However, Fu Zhuo Industrial will undergo a compulsory expropriation by the local government and will be vacated by 31 March 2022. Although built-in rental escalations from its master leases will more than offset the absence of income, there will be a c.S\$1.8m income void going forward.

Leveraged on e-commerce. Earnings to remain robust as its portfolio caters to the fast-growing logistics and e-commerce sector; 50% of assets are e-commerce logistics and 25% each in port logistics and specialised logistics.

Inherent organic growth in the portfolio underpinned by master leases. With built-in rental escalations ranging from an average of 1.0% to 2.5% for its master leases, this ensures organic growth to ECWREIT's earnings. Moreover, its multi-tenanted assets that cater to the fast-growing logistics industry also have the potential deliver revenue growth.

Valuation:

Our target price of S\$0.85 is based on DCF with an assumed discount rate of 7.9% (risk-free rate of 3.0%). Our target price implies 7.4% yield and a P/NAV of 0.95x.

Where we differ:

We have assumed that ECWREIT maintains a dividend payout ratio of 95% going forward. An increase in payout ratio will be an upside risk to our projections.

Key Risks to Our View:

Key risks include those that are sponsor-related such as failure to extend master-lease agreements and challenges in underlying occupancy.

At A Glance

Issued Capital (m shrs)	809
Mkt. Cap (S\$m/US\$m)	610 / 454
Major Shareholders (%)	
Temasek Holdings Pte Ltd	49.5
Vanguard Group Inc/The	2.6
Dimensional Fund Advisors LP	1.1
Free Float (%)	46.8
3m Avg. Daily Val (US\$m)	0.29
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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ed: JS/ sa: YM, PY, CS



Live more, Bank less

WHAT'S NEW**ORGANIC GROWTH TO THE RESCUE**

FY21 revenues and NPI increased 14.4% and 12.7% respectively. With the absence of one-off rental rebates given in FY20, as well as the strengthening of RMB, ECWREIT's FY21 revenues increased by 14.4% to S\$125.5m. Consequently, NPI increased by 12.7% y-o-y to S\$113.0m. Excluding the effects of the RMB appreciation, revenues and NPI were also up 9.8% and 8.2% respectively.

DPU increased by 16.9% y-o-y to 6.263 Scts. This was mainly attributed to the absence of rental rebates in FY21, as well as the repayment of c.S\$2.0m of retained distribution in 2Q21. To a lesser extent, two other factors also contributed to the higher DPU in FY21, being i) voluntary one-off waiver of Manager's performance fee to the extent of rental rebates given in FY20 (c.S\$0.8m), and ii) distribution of 100% of distributable income for 4Q21 as compared to a payout ratio of either 90% or 95% in previous quarters. In FY21, ECWREIT's payout ratio was c.93.8% compared to a payout ratio of only 91.3% in FY20.

Strong portfolio occupancy of 99.2%. Occupancy at Wuhan Meiluote increased by c.5.3% q-o-q, and this led to ECWREIT's overall portfolio occupancy inching up by 0.2% to 99.2%. Looking ahead, we believe ECWREIT will be able to maintain a high portfolio occupancy rate, as only 8.1% (by GRI) of leases are due to expire in FY22. There are no master leases expiring in FY22.

Compulsory expropriation of Fu Zhuo Industrial. In January 2022, ECWREIT received a formal notice from the local government pertaining to the compulsory expropriation of Fu Zhuo Industrial. We understand that the local government has earmarked the site in Hangzhou for the Grand Canal National Cultural Park. ECWREIT is entitled to receive compensation based on the expropriation valuation of the property and is in discussions with the government on the compensation amount. Vacating of the property is targeted for 31 March 2022.

Although this will lead to the absence of c.S\$1.8m in NPI (1.6% of FY21 NPI) on an annual basis, we believe that the built-in rental escalations for its master-leases are more than sufficient to offset the drop-off in income contribution from Fu Zhuo Industrial. This however will lower overall earnings growth for ECWREIT in FY22.

Portfolio valuations saw a 3.1% uplift. In SGD terms, ECWREIT's portfolio valuations increased 3.1% or c.S\$50m (c.4.8% appreciation in the RMB). However, valuation in RMB terms was a 1.6% decline, mainly due to a change in valuers. We understand that cap rates remained relatively stable as compared to FY20, and the decline in valuations in RMB terms was mainly due to the different assumptions adopted by the valuers. In the FY21 valuation conducted by Colliers, only Hengde Logistics saw a slight gain in valuations, while the rest of the properties saw a change in y-o-y valuations of between 0% and -2.7%.

Based on its latest valuation, Fu Zhuo Industrial which will be expropriated was valued at c.S\$25m.

Aggregate leverage maintained at 38.2%. Gearing remained at a healthy level of 38.2% and all-in interest rate was maintained at 4.1%. ECWREIT has commenced refinancing plans as its weighted average debt maturity is currently at 0.63 years. We believe that borrowing costs are likely to remain around current levels. Although offshore borrowing costs are likely to have inched up, onshore borrowing costs could potentially see some decline.

3.1% increase in portfolio valuations due to appreciation of RMB against SGD

	FY2020 Savills Valuation (RMB 'mil)	FY2021 Colliers Valuation (RMB 'mil)	YoY Change (%)	FY2020 Savills Valuation (SGD 'mil)	FY2021 Colliers Valuation (SGD 'mil)	YoY Change (%)
E-Commerce Logistics Assets						
Fuheng Warehouse	609	593	-2.6%	123	126	2.4%
Fuzhou E-Commerce	1,290	1,256	-2.6%	261	267	2.3%
Stage 1 Properties of Bei Gang	1,271	1,251	-1.6%	257	265	3.1%
Wuhan Meiluote	180	180	-	37	38	2.7%
Specialised Logistics Assets						
Hengde Logistics	1,426	1,438	0.8%	289	305	5.5%
Port Logistics Assets						
Chongxian Port Investment	2,265	2,216	-2.2%	458	470	2.6%
Chongxian Port Logistics	864	841	-2.7%	175	178	1.7%
Fu Zhuo Industrial	117	117	-	24	25	4.2%
Total	8,022	7,892	-1.6%	1,624	1,674	3.1%

Source: EC World REIT

Our thoughts

Although the compulsory expropriation of Fu Zhuo Industrial is a dampener, we continue to like ECWREIT for its resilient cash flows and very high occupancy rates. Moreover, we believe that **rental escalations for several of its master leases will be more than sufficient to offset the absence of income**. We have however revised our projections to assume that Fu Zhuo Industrial will only have one quarter of income contribution in FY21 before the property is vacated and expropriated.

Despite the lack of revenue contribution from Fu Zhuo Industrial going forward, we are still **projecting a slight uptick of 0.6% in DPU for FY22**. Based on current price, ECWREIT is expected to generate a forward yield more than 8.3%.

However, due to the lack of visibility in acquisition growth plans, we have revised our target price slightly downwards in anticipation of a dip in NAV once Fu Zhuo Industrial is expropriated. **Any visibility on future growth plans will be a potential upside risk to earnings and TP.**

As such, we continue to maintain our **BUY** recommendation based on valuations, with a revised TP of **\$S0.85**.

Company Background

ECW is the first specialised and e-commerce logistics REIT listed on the SGX. It has a portfolio of quality properties in China, located within one of the largest e-commerce clusters of Hangzhou in the Yangtze River Delta and Wuhan.

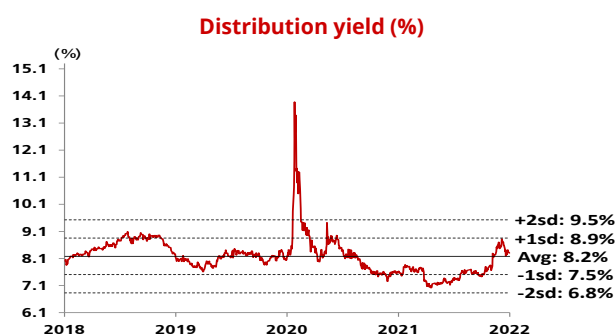
EC World REIT

Quarterly / Interim Income Statement (\$m)

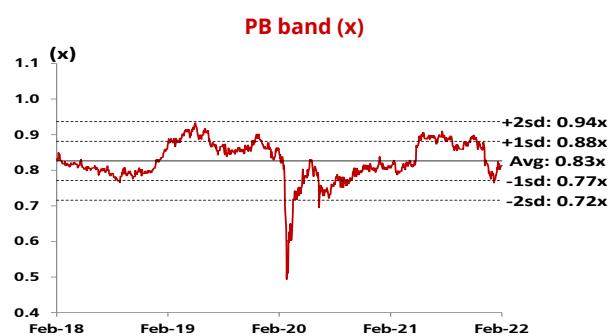
FY Dec	4Q2020	3Q2021	4Q2021	% chg yoy	% chg hoh
Gross revenue	29.5	31.6	31.9	8.2	1.2
Property expenses	(2.3)	(3.0)	(3.1)	34.4	5.7
Net Property Income	27.2	28.6	28.8	5.9	0.8
Other Operating expenses	0.74	(2.6)	(2.0)	nm	(22.7)
Other Non Opg (Exp)/Inc	(2.7)	2.49	0.88	nm	(64.7)
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(9.3)	(9.5)	(9.6)	(2.8)	(1.2)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	15.9	19.0	18.1	13.3	(4.8)
Tax	(8.0)	(5.2)	(2.9)	(63.7)	(44.2)
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	7.91	13.7	15.1	91.5	10.2
Total Return	(2.7)	13.7	(14.6)	(445.3)	N/A
Non-tax deductible Items	15.5	0.41	27.1	75.1	6,572.4
Net Inc available for Dist.	12.8	14.1	12.4	(2.7)	(12.0)
Ratio (%)					
Net Prop Inc Margin	92.1	90.6	90.2		
Dist. Payout Ratio	90.0	90.0	91.0	95.0	100.0

Source of all data: Company, DBS Bank

Historical Dividend yield and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

EC World REIT

Income Statement (\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Gross revenue	99.1	110	125	126	128
Property expenses	(9.4)	(9.4)	(12.5)	(12.6)	(12.8)
Net Property Income	89.7	100	113	114	115
Other Operating expenses	(6.5)	(5.7)	(9.6)	(9.4)	(9.6)
Other Non Opg (Exp)/Inc	(4.3)	(9.3)	8.55	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(31.1)	(37.2)	(37.6)	(40.2)	(39.5)
Exceptional Gain/(Loss)	0.0	0.09	0.0	0.0	0.0
Net Income	47.8	48.2	74.4	64.0	66.0
Tax	(32.9)	(22.2)	(20.2)	(16.0)	(16.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	14.9	26.0	54.3	48.0	49.5
Total Return	65.2	15.4	24.5	48.0	49.5
Non-tax deductible Items	(16.4)	31.8	27.4	5.93	6.10
Net Inc available for Dist.	48.9	47.2	51.9	53.9	55.6
Growth & Ratio					
Revenue Gth (%)	3.0	10.7	14.4	0.6	1.3
N Property Inc Gth (%)	2.7	11.8	12.7	0.5	1.3
Net Inc Gth (%)	(57.4)	74.8	108.6	(11.6)	3.2
Dist. Payout Ratio (%)	98.7	91.3	90.0	95.0	95.0
Net Prop Inc Margins (%)	90.5	91.4	90.1	90.0	90.0
Net Income Margins (%)	15.0	23.7	43.2	38.0	38.7
Dist to revenue (%)	49.3	43.0	41.4	42.7	43.5
Managers & Trustee's fees	6.5	5.2	7.6	7.5	7.5
ROAE (%)	2.2	3.7	7.4	6.4	6.5
ROA (%)	0.9	1.5	2.9	2.6	2.7
ROCE (%)	1.6	3.0	4.2	4.3	4.3
Int. Cover (x)	2.7	2.5	2.8	2.6	2.7

Assumed only one quarter of income contribution from Fu Zhuo Industrial.

Source: Company, DBS Bank

EC World REIT

Quarterly Income Statement (\$\$m)

FY Dec	4Q2020	1Q2021	2Q2021	3Q2021	4Q2021
Gross revenue	29.5	30.8	31.2	31.6	31.9
Property expenses	(2.3)	(3.1)	(3.2)	(3.0)	(3.1)
Net Property Income	27.2	27.7	27.9	28.6	28.8
Other Operating	0.74	(3.3)	(1.7)	(2.6)	(2.0)
Other Non Opg (Exp)/Inc	(2.7)	4.54	0.64	2.49	0.88
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(9.3)	(9.2)	(9.3)	(9.5)	(9.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	15.9	19.8	17.6	19.0	18.1
Tax	(8.0)	(4.9)	(7.1)	(5.2)	(2.9)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	7.91	14.9	10.5	13.7	15.1
Total Return	(2.7)	14.9	10.5	13.7	(14.6)
Non-tax deductible Items	15.5	(1.2)	3.08	0.41	27.1
Net Inc available for Dist.	12.8	13.7	13.6	14.1	12.4
Growth & Ratio					
Revenue Gth (%)	4	4	1	1	1
N Property Inc Gth (%)	4	2	1	2	1
Net Inc Gth (%)	(9)	88	(29)	31	10
Net Prop Inc Margin (%)	92.1	89.9	89.6	90.6	90.2
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Investment Properties	1,568	1,624	1,674	1,650	1,652
Other LT Assets	0.0	0.0	0.0	0.0	0.0
Cash & ST Invts	119	152	169	193	199
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	36.9	40.3	52.1	10.5	10.7
Other Current Assets	0.11	0.01	0.0	0.0	0.0
Total Assets	1,724	1,816	1,895	1,854	1,861
ST Debt	67.9	91.0	708	683	683
Creditor	34.1	30.0	33.5	10.5	10.7
Other Current Liab	16.0	33.2	21.4	21.4	21.4
LT Debt	587	593	13.2	13.2	13.2
Other LT Liabilities	335	353	367	367	367
Unit holders' funds	684	716	752	759	766
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	1,724	1,816	1,895	1,854	1,861
Non-Cash Wkg. Capital	(13.2)	(22.9)	(2.8)	(21.4)	(21.4)
Net Cash/(Debt)	(535)	(532)	(552)	(503)	(498)
Ratio					
Current Ratio (x)	1.3	1.2	0.3	0.3	0.3
Quick Ratio (x)	1.3	1.2	0.3	0.3	0.3
Aggregate Leverage (%)	38.0	37.7	38.1	37.6	37.4

Assumed that proceeds from Fu Zhuo Industrial used to partially repay loans.

Source: Company, DBS Bank

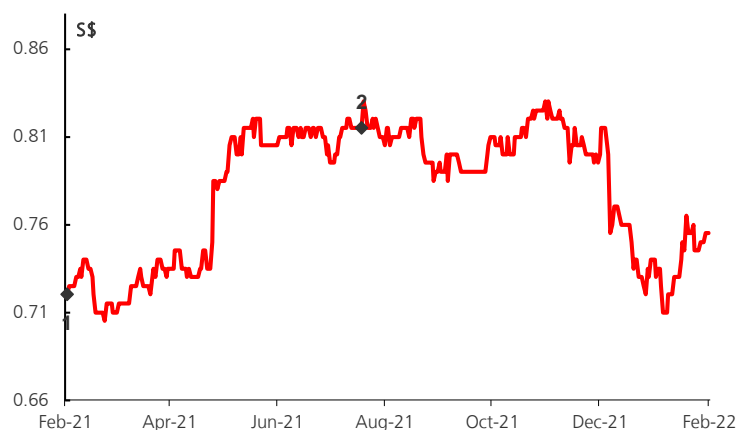
EC World REIT

Cash Flow Statement (\$\$m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Income	47.8	48.2	74.4	64.0	66.0
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	17.7	8.35	(6.7)	(16.0)	(16.5)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	18.2	(3.4)	(8.2)	18.6	0.0
Other Operating CF	8.59	27.9	10.7	4.13	4.30
Net Operating CF	92.3	81.1	70.2	70.7	53.8
Net Invnt in Properties	(156)	0.0	0.0	23.5	(1.5)
Other Invnts (net)	0.0	1.06	(0.4)	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(156)	1.06	(0.4)	23.5	(1.5)
Distribution Paid	(48.5)	(43.7)	(49.7)	(51.2)	(52.9)
Chg in Gross Debt	104	(36.3)	(36.3)	(25.0)	0.0
New units issued	4.63	4.98	5.91	5.93	6.10
Other Financing CF	(4.6)	(5.0)	(5.9)	0.0	0.0
Net Financing CF	55.4	(80.0)	(86.0)	(70.3)	(46.8)
Currency Adjustments	(14.2)	30.1	33.7	0.0	0.0
Chg in Cash	(22.7)	32.2	17.6	23.9	5.58
Operating CFPS (S cts)	9.31	10.5	9.71	6.41	6.56
Free CFPS (S cts)	(8.0)	10.1	8.69	11.6	6.38

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Feb 21	0.72	0.80	BUY
2:	10 Aug 21	0.82	0.90	BUY

Source: DBS Bank

Analyst: Dale LAI

Derek TAN

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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DBS Regional Research Offices

HONG KONG**DBS (Hong Kong) Ltd**

Contact: Carol Wu
 13th Floor One Island East,
 18 Westlands Road,
 Quarry Bay, Hong Kong
 Tel: 852 3668 4181
 Fax: 852 2521 1812
 e-mail: dbsvhk@dbs.com

MALAYSIA**AllianceDBS Research Sdn Bhd**

Contact: Wong Ming Tek
 19th Floor, Menara Multi-Purpose,
 Capital Square,
 8 Jalan Munshi Abdullah 50100
 Kuala Lumpur, Malaysia.
 Tel.: 603 2604 3333
 Fax: 603 2604 3921
 e-mail: general@alliancedbs.com
 Co. Regn No. 198401015984 (128540-U)

SINGAPORE**DBS Bank Ltd**

Contact: Janice Chua
 12 Marina Boulevard,
 Marina Bay Financial Centre Tower 3
 Singapore 018982
 Tel: 65 6878 8888
 e-mail: groupresearch@dbs.com
 Company Regn. No. 196800306E

INDONESIA**PT DBS Vickers Sekuritas (Indonesia)**

Contact: Maynard Priajaya Arif
 DBS Bank Tower
 Ciputra World 1, 32/F
 Jl. Prof. Dr. Satrio Kav. 3-5
 Jakarta 12940, Indonesia
 Tel: 62 21 3003 4900
 Fax: 6221 3003 4943
 e-mail: indonesiaesearch@dbs.com

THAILAND**DBS Vickers Securities (Thailand) Co Ltd**

Contact: Chanpen Sirithanarattanakul
 989 Siam Piwat Tower Building,
 9th, 14th-15th Floor
 Rama 1 Road, Pathumwan,
 Bangkok Thailand 10330
 Tel. 66 2 857 7831
 Fax: 66 2 658 1269
 e-mail: research@th.dbs.com
 Company Regn. No 0105539127012
 Securities and Exchange Commission, Thailand