

Singapore

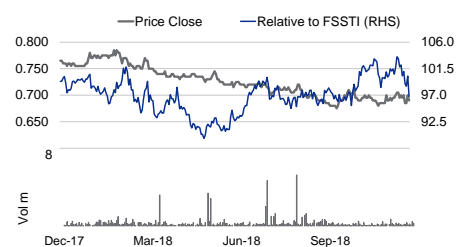


EC World REIT

Unique e-commerce landlord

NON RATED

Current price:	S\$0.69
Consensus Tgt Price:	S\$0.85
Up/downside:	N/A
Reuters:	ECWO.SI
Bloomberg:	ECWREIT SP
Market cap:	US\$398.9m
	S\$545.2m
Average daily turnover:	US\$0.09m
	S\$0.13m
Current shares o/s:	790.2m
Free float:	23.6%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.7	0	-9.8
Relative (%)	-1.7	0.5	-2.3

Major shareholders	% held
Forchn Holdings	44.3
China Cinda Asset Management	12.0

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Analyst(s)


LOCK Mun Yee

T (65) 6210 8606

E munyee.lock@cgs-cimb.com

- ECW has exposure to China's e-commerce and logistics sectors via its portfolio of seven well-located assets.
- Visible organic revenue growth drivers in the form of inbuilt rental escalations.
- The stock is trading at 8.8% annualised 9M18 dividend yield.

Exposure to China's e-commerce and logistics sectors

EC World REIT (ECW) owns seven assets in China (six in Hangzhou, one in Wuhan), valued at S\$1.33bn at end-3Q18, spread over 747,173 sq m of net lettable area. The largest asset by value is the Chongxian Port Investment, accounting for 33% of portfolio AUM and 46.8% of 9M19 net property income. This is followed by Hengde Logistics (22% of AUM) and Phase 1 Beigang Logistics (19% of AUM). In terms of asset value by trade sector, an estimated 47.6% of portfolio value is derived from port logistics, 30.5% from e-commerce and 21.9% from specialised logistics.

High portfolio occupancy

Portfolio occupancy stands at a high 99.2% and the see-through underlying portfolio occupancy is at 96.9% at end-3Q18. Three assets – Stage 1 Beigang Logistics, Chongxian Port Investment and Fu Heng are master leased to subsidiaries of Forchn Group Holdings. The remaining four properties – Hengde, Fuzhou Industrial, Wuhan Mei Luo Te, Chongxian Port Logistics are multi-tenanted.

Inbuilt organic growth

According to the company, all of its properties except Wuhan Mei Luo Te have inbuilt rental escalations in their rental structures until 2020-21 or 2029, giving the REIT visible earnings growth. The master lease assets have inbuilt rental step-ups of 1-4%. As at 3Q18, 37.8% of portfolio gross rental income, 35% of leasable area and 30.5% of valuation comprised e-commerce assets, making ECW uniquely exposed to the e-commerce sector in China. Management indicated that Wuhan Mei Luo Te is under-rented.

Strong sponsor

ECW's sponsor, Forchn Holdings Group (Unlisted), is a diversified enterprise group involved in the real estate, industrial, e-commerce, logistics, finance and health & wellness sectors. It has a 44.28% stake in ECW as at Mar 2018. The sponsor founded Ruyicang, a leading PRC e-commerce logistics and supply chain management services provider, in 2013 and is a founding shareholder of Alibaba's logistics platform Cainiao. Forchn's experience and local knowledge provide strong domain knowledge for ECW.

Trading at a high dividend yield of 8.9% in 9M18

Based on the annualised 9M18 DPU of 4.609 Scts, ECW is trading at 8.9% yield. The stock is also trading at 0.8x 9M18 P/BV. This represents a 5.42% spread over China's 10-year government bond yield of 3.38% and 6.4% over the Singapore government bond yield of 2.39%. ECW has been included in the FTSE ST China and FTSE Singapore Shariah indices. Distribution income has been hedged until 1HFY19, according to the company.

Financial summary

FYE (S\$m)	Dec-16**	Dec-17	9M18
Gross revenue	41.2	91.4	72.8
Net property income	36.8	82.7	66.5
Pre-tax profit	39.2	71.4	51.1
Net profit	29.3	47.6	35.2
Distributable income	19.1	47.1	36.4
EPS	3.77	6.1	4.48
YoY EPS growth (%)	na	nm	24.1
P/E (x)	7.7*	11.5	11.7*
DPS	2.45	6.03	4.61
Dividend yield (%)	8.4*	8.6	8.8*
BVPS	0.93	0.91	0.87
P/BV (x)	0.75	0.77	0.80
ROE (%)	9.7%*	6.6%	6.8%*

** For the period 28 Jul to 31 Dec 2016, * Annualised

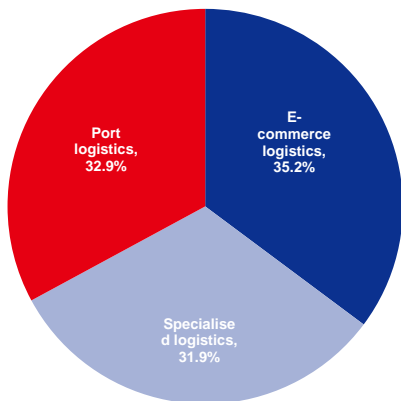
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Unique e-commerce landlord

High quality, differentiated portfolio

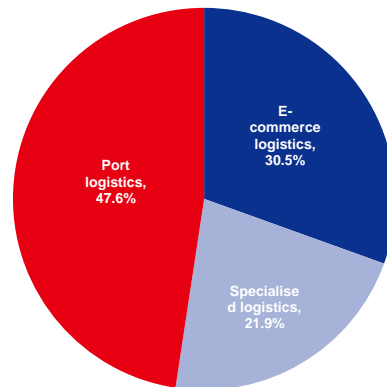
EC World REIT (ECW) has a diversified portfolio comprising port, specialised and e-commerce logistics assets. Its port logistics assets were the highest contributor to 9M18 gross rental income (46.5%) and asset value (47.6%), while e-commerce properties contributed 38.1% of 9M18 gross rental income and 30.5% of asset value.

Figure 1: Portfolio breakdown by NLA



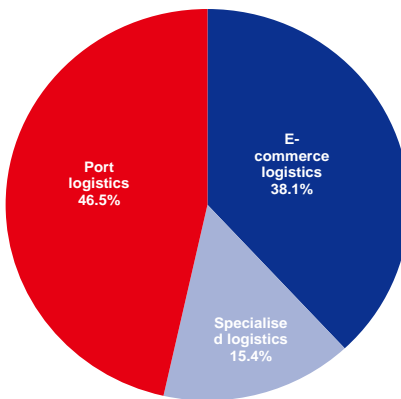
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: Portfolio breakdown by asset value



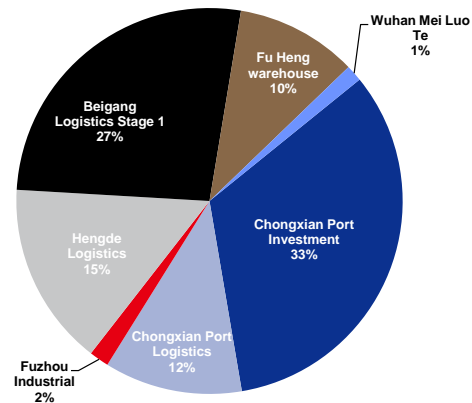
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: Portfolio breakdown by gross rental income



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: Portfolio breakdown by 9M18 asset gross revenue



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Well-located assets

ECW's assets are predominantly located in the Hangzhou area, with one asset in Wuhan that was acquired in May 2018. According to independent market research firm, Analysys Consulting Ltd, Hangzhou is the capital and largest city of the Zhejiang Province in China, known as the most important steel transportation hub along the Beijing-Hangzhou Grand Canal, and steel is one of the pillar industries of the Yangtze River Delta region. The steel market is a significant segment of the Hangzhou Port area, with steel throughput accounting for a substantial 13.6% of Hangzhou port's total volume in 2015. The demand for steel at Hangzhou is over 20m tonnes in 2015, according to Analysys. Based on in-house research by Analysys, the Chongxian Port ranked first among the ports in Hangzhou in terms of the volume of steel handled.

Figure 5: Location of portfolio assets in Hangzhou



Income stability with growth

ECW boasts strong portfolio occupancy with an occupancy of 99.2% and underlying occupancy of 96.9% in 3Q18. Master lease assets formed c.71% of the trust’s 9M18 net property income, providing stability to the trust. These comprise properties such as Beigang Logistics Stage 1, Fu Heng and Chongxian Port Investment. More importantly, these leases come with inbuilt rental escalation structures. For example, Fu Heng and Chongxian Port Investment’s leases have rental uplift of 4% and 3% built in from 1 Jan 2019 and 1 Jan 2020 respectively, while Beigang Logistics Stage 1 has 1% rental growth built in on 1 Jan 2019 and another 1% on 1 Jan 2020.

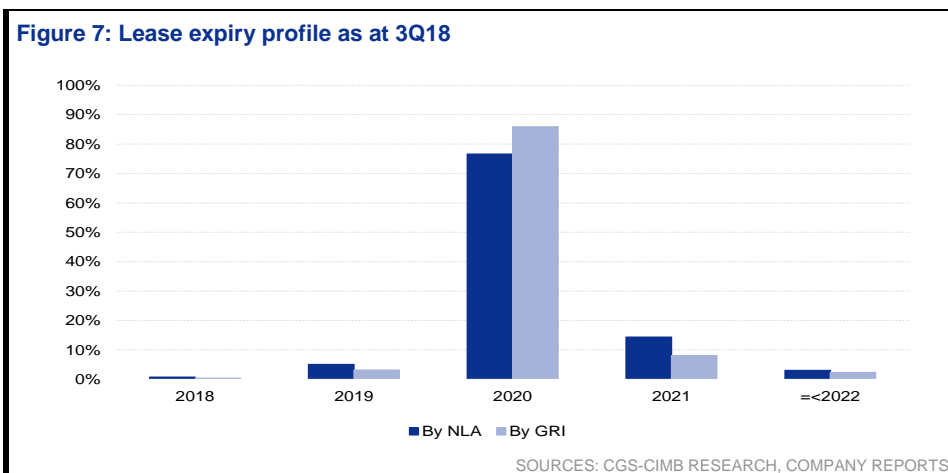
About 86% of ECW’s portfolio rental income is due to expire in 2020, coinciding with the expiry of the master leases.

Figure 6: Lease structure

Property	NLA (sqm)	Lease type	Lease term	Rental escalation
E-commerce Logistics				
Beigang Logistics Stage 1	120,449	Master lease	1 Nov 15 to 31 Oct 2020	1% on 1 Jan 2019 and 1 Jan 2020
Fu Heng	94,287	Master lease	1 Jan 2016 to 31 Dec 2020	4% and 3% on 1 Jan 2019 and 1 Jan 2020 respectively
Wuhan Mei Luo Te	48,695	Multi-tenanted		Between 4-5% p.a.
Specialised logistics				
Hengde Logistics	238,032	2 main leases	15 Oct 2015 to 14 Oct 2020, 9 May 2016 to 8 May 2021	Up to 10% on renewal
Port logistics				
Chongxian Port Investment	112,726	Master lease	1 Jan 2016 to 31 Dec 2020	4% and 3% on 1 Jan 2019 and 1 Jan 2020 respectively
Chongxian Port Logistics	125,856	Multi-tenanted		For 72% of leases: increase of 10% in first 3 years, 12% from Year 4
Fuzhou Industrial	7,128	Master lease	First lease: 25 Apr 2015 to 24 Apr 2020, Second lease: 8 Oct 2014 to 7 Oct 2029	First lease: 10% in first 3 years, 15% from Year 4, Second lease: 7.5% every 3 years

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 7: Lease expiry profile as at 3Q18



Low gearing provides debt headroom for new acquisitions

ECW's gearing stood at 30.7% at end-3Q18 with an all-in interest cost of 5.3%. Total debt drawdown as at Sep 2018 comprised Rmb983m onshore, S\$200m offshore and S\$61.9m revolving credit facility (RCF), which will mature in Jul 2019. 100% of its offshore S\$ facilities are on a fixed-rate basis. This significant gap between the allowable gearing ceiling of 45% and ECW's provides debt headroom for potential new acquisitions of both its sponsor's and third-party assets. Management indicated that Forchn manages four private funds, with a targeted AUM of US\$1.2bn, together with China Cinda Asset Management (1359 HK, Not Rated) and YCH Group (Unlisted), that could be injected into the REIT when ready. According to YCH's press release in Apr 2018, Forchn has secured an exclusive opportunity for ECW to consider an acquisition portfolio of 13 YCH logistics real estate assets.

Strong sponsor

ECW's sponsor, Forchn Holdings Group Co Ltd, was established by the Chairman of ECW's Board of Directors, Zhang Guobiao, in 1992. Forchn is a diversified enterprise group with businesses spanning the real estate, industrial, e-commerce, logistics, finance and health & wellness sectors. The sponsor founded Ruyicang (Unlisted), a leading People's Republic of China (PRC) e-commerce logistics and supply chain management services provider, in 2013. According to independent market research, Ruyicang is a leading domestic professional e-commerce warehousing logistics operator that provides professional and efficient packaging services and warehouse and distribution services for e-commerce clients through a self-developed warehousing logistics system. Forchn is also a founding shareholder of Alibaba's logistics platform Cainiao (Unlisted), together with Alibaba Group (BABA US, Not Rated), Intime Retail Group (Unlisted), Fosun Group (656 HK, Not Rated), and five other logistics companies.

Fee structure

ECW's management fee structure includes a base fee comprising 10% of distributable income p.a. and an annual performance fee amounting to 25% of the difference in the distribution per unit in the current year vs. the preceding financial year. For 9M18, it paid fees of S\$3.8m, equivalent to 5.7% of net property income. ECW also charges acquisition and divestment fees of 1% and 0.5% of asset value, respectively, similar to other SREITs.

Figure 8: ECW's fee structure

Management fee - base	10% p.a. of distributable income
Management fee - performance	25% of the difference in DPU in a financial year with the DPU in the preceding full financial year , multiplied by the weighted average number of units in issue
Trustee fee	0.1% of the value of deposited property
Acquisition fee	0.75% of property value for acquisitions from related parties, 1% for all other cases
Divestment fee	0.5% of property value

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Property details >

Chongxian Port Investment

Chongxian Port Investment is a large and comprehensive logistics complex that integrates port operation, storage processing and logistics distribution for steel products. It has a total of 23 berths and includes a storage yard. The asset is one of the key inland port operations in the PRC. It is located north of Hangzhou, to the west of Chongxian New City and on the east bank of the Beijing-Hangzhou Grand Canal. Management highlighted that this port facility had a 50% market share of the steel transported in Hangzhou in 2016.

In 3Q18, this property generated S\$7.9m of revenue and S\$6.9m of NPI and was the largest income contributor, making up 33%/31% of portfolio revenue/NPI.

Figure 9: Chongxian Port Investment



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 10: Property details (as at 31 Dec 2017)

NLA (sqm)	Port with 23 berths, 88,617.4 sqm of storage yard, 24,108.6 sqm of warehouse
Occupancy	100%
Number of tenants	1 (subsidiary of Sponsor)
Lease Terms	1 January 2016 – 31 December 2020
Rental Escalation	6%, 5%, 4% and 3% in 2017, 2018, 2019 and 2020 respectively
Land Use Expiry	Dec-55
Commencement of Operations	Aug-08
Valuation (as at 31 Dec 2017)	RMB 2,218m

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Chongxian Port Logistics

Chongxian Port Logistics is an integrated complex with warehouses and office buildings supporting the operations of Chongxian Port Investment. The asset is one of the largest metal warehouse and logistics developments in the Yangtze River Delta. It is located north of Hangzhou, to the west of Chongxian New City and on the east bank of the Beijing-Hangzhou Grand Canal. The manager undertook an asset enhancement initiative last year and added a new block.

This property accounted for 10.8% of ECW's 9M18 net property income.

Figure 11: Chongxian Port Logistics



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 12: Chongxian Port Logistics



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 13: Property details (as at 31 Dec 2017)

NLA (sqm)	125,856
Occupancy	100%
Number of tenants	22
Lease Terms	Multi-tenancy
Rental Escalation	For 72% of leases: 10% increase in first 3 years, 12% from 4th year
Land Use Expiry	First Complex: December 2055, Second Complex: September 2060
Commencement of Operations	Jan-10
Valuation (as at 31 Dec 2017)	RMB 854m

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Fu Zhou Industrial

Fu Zhou Industrial is located to the west of Chongxian New City on the east bank of the Beijing-Hangzhou grand canal. It is well connected due to its proximity to the National Highway No.320 and Jiaying-Huzhou Expressway. The property comprises two berths, a storage room, a sand and stone warehouse, a repair workshop, a gatehouse, a storage yard and a 2-storey building. Both tenants operate in the delivery, logistics and distribution trade sector.

Figure 14: Fuzhou Industrial



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 15: Fuzhou Industrial



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 16: Property details (as at 31 Dec 2017)

NLA (sqm)	7,128
Occupancy	100%
Number of tenants	2
Lease Terms	First lease: 25 April 2015 to 24 April 2020, Second lease: 8 Oct 2014 – 7 Oct 2029
Rental Escalation	First lease: 10% in first 3 years, 15% from 4th year, Second lease: 7.5% every 3 years
Land Use Expiry	Dec-55
Commencement of Operations	Oct-14
Valuation (as at 31 Dec 2017)	RMB 114m

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Beigang Logistics Stage 1

Beigang Logistics Stage 1 comprises eight buildings – a 15-storey building, a 4-storey building and six 5-storey buildings. The buildings are located to the west of Chongxian New City, north of Hangzhou and are part of one of the largest e-commerce developments in the Yangtze River Delta. The entire Stage 1 complex is master leased to the sponsor, Forchn Holdings Group Co Ltd, which has in turn, leased out the units to Zhejiang Yuntong E-Commerce Co Ltd (Unlisted) at market rents. Tenant allocation is based on the theme of each building; for example, tenants in Buildings No.7 and No.8 focus on the aggregation and procurement of toys, while tenants in Building No.4 focus on cross-border e-commerce businesses. This property contributed 26.3% of ECW's 9M18 net property income.

The REIT has a call option, granted by the sponsor, to acquire the right of use and economic benefits of the Stage 2 properties (nine buildings) for Rmb702.5m. ECW announced on 16 Oct 2018 that it had decided that the acquisition of this property at the stated price would not be in the best interest of ECW's unitholders as it would not be accretive to the REIT's DPU.

Figure 17: Beigang Logistics Stage 1


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 18: Beigang Logistics Stage 1


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 19: Property details (as at 31 Dec 2017)

NLA (sqm)	120,449
Occupancy	100% (Underlying 85%)
Number of tenants	1 (Sponsor)
Lease Terms	1 November 2015 – 31 October 2020
Rental Escalation	1% annually
Land Use Expiry	Mar-52
Commencement of Operations	Jun-15
Valuation (as at 31 Dec 2017)	RMB 1,296m

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Fu Heng

Fu Heng Warehouse comprises two 4-storey buildings housing e-commerce merchant offices, online-to-offline (O2O) businesses, retail outlets and warehouse space. The warehouse is located in Min Lian village in Dongzhou Industrial Park, Fuyang District, Hangzhou City. It has been master leased to Hangzhou Fuyang Yuntan E-Commerce Co Ltd (Unlisted), a subsidiary of ECW's sponsor since 1 Jan 2016. The master lessee is a provider of third-party warehousing services and an operator of integrated logistics services for e-commerce activities. Other services provided include order processing, e-parcel production, parcel delivery, regional warehousing and outsourcing of supply chain management.

Figure 20: Fu Heng Warehouse


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 21: Fu Heng Warehouse


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 22: Property details (as at 31 Dec 2017)

NLA (sqm)	94,287
Occupancy	100%
Number of Tenants	1 (subsidiary of Sponsor)
Lease Terms	1 January 2016 – 31 December 2020
Rental Escalation	6%, 5%, 4% and 3% in 2017, 2018, 2019 and 2020 respectively
Land Use Expiry	May-59
Commencement of Operations	Feb-15
Valuation (as at 31 Dec 2017)	RMB 577m

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Hengde Logistics

Hengde Logistics comprises 2 high-specification warehouse complexes with the ability to store temperature- and humidity-sensitive goods like tobacco. The first complex comprises six 5-storey blocks and a 6-storey block, while the second complex consists of two 5-storey blocks and one 3-storey block. The complexes are located in Min Lian village in the Dongzhou Industrial Park, Fuyang District, Hangzhou City. To reduce the risks of power blackouts, both complexes have their own power generators onsite with isolated power grids. There are also containment areas, docking bays and cargo lifts to facilitate efficient and effective loading and unloading of goods for transportation. The property is majority leased to China Tobacco Zhejiang Industrial (Unlisted) for tobacco storage. This property contributed 15.4% of ECW's 9M18 net property income.

Figure 23: Hengde Logistics



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 24: Hengde Logistics



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 25: Property details (as at 31 Dec 2017)

NLA (sqm)	238,032
Occupancy	100%
Number of Tenants	2
Lease Terms	First Complex: 25 April – 24 April 2020, Second Complex: 9 May 2016 – 8 May 2021
Rental Escalation	Up to 10% upon renewal
Land Use Expiry	First Complex: July 2053, Second Complex: July 2059
Commencement of Operations	First Complex: November 2010, Second Complex: April 2013
Valuation (as at 31 Dec 2017)	RMB 1,463m

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Wuhan Mei Luo Te

Wuhan Mei Luo Te comprises three warehouse buildings, a 5-storey auxiliary building and a 6-storey dormitory. This property was the maiden post-IPO acquisition by ECW for Rmb145m and was fully funded by internal cash. It is located in Yinyan Village, Cai Dian District of Wuhan City and is highly accessible, with the major Beijing-Guangzhou and Shanghai-Chongqing expressways approximately 6km away. This property is trading at 5.1% annualised 9M18 NPI yield, lower than ECW's portfolio NPI yield of 6.5%. According to the management, this property is under-rented by c.25%; hence, it expects to see healthy rental reversions from this property.

Figure 26: Wuhan Mei Luo Te



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 27: Wuhan Mei Luo Te



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 28: Property details (as at 31 Dec 2017)

NLA (sqm)	48,695
Occupancy	88.20%
Number of tenants	2 main tenants (JD.com and DangDang)
Lease Terms	Built-in reversions ranging from 4.5% to 5.0% p.a.
Land Use Expiry	Dec-65
Commencement of Operations	May-17
Valuation (as at 31 Dec 2017)	RMB 171m

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Financials

ECW reported 3Q18 DPU of 1.57 Scts, +9% yoy and flat qoq. This was underpinned by 0.1% yoy increase in revenue to S\$23.9m and 0.5% yoy improvement in NPI to S\$22.2m. Revenue growth was mainly driven by contributions from Wuhan Mei Luo Te, acquired in Apr 2018. According to management, in Rmb terms, excluding the effects of straight-lining and security deposit accretion accounting adjustments, 9M18 topline grew 6% yoy to Rmb115.4m, while NPI rose by a stronger 6.8% to Rmb106.9m; however, a weaker Rmb dragged revenue and NPI growth in S\$ terms. Distribution income grew by a stronger 10% yoy to S\$12.4m in 9M18, thanks to a dip in operating expenses and lower effective tax rate due to the absence of withholding taxes on repatriation of dividends.

The trust maintains a rolling 6-month forex-hedging strategy. According to the REIT, the hedges it put in place in 2Q-4Q18 are based on Rmb/US\$1 rates of 4.8634-5.05, for dividend distributions in 2HFY18-1HFY19.

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759 companies under coverage for quarter ended on 30 September 2018		
	Rating Distribution (%)	Investment Banking clients (%)
Add	60.5%	4.2%
Hold	25.8%	2.4%
Reduce	13.7%	0.4%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

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Add	The stock's total return is expected to exceed 10% over the next 12 months.
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Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
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Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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