

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

21 Nov 2022

FULLY VALUED (Downgrade from BUY)

Last Traded Price (18 Nov 2022): S\$0.485 (STI: 3,272.23)
Price Target 12-mth: S\$0.40 (18% downside) (Prev S\$0.55)

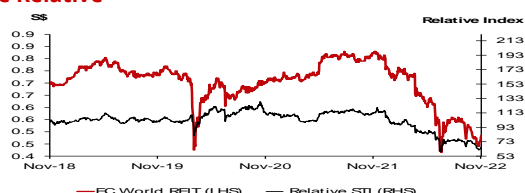
Analyst

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

What's New

- Divestments to face potential delay with Purchaser's failure to obtain Transaction Financing
- A delay in divestment implies a breach in conditions to refinance expiring loans
- Worst case scenario a termination of the divestment and a need for equity fund raising
- Downgrade to FULLY VALUED on uncertainties surrounding ECWREIT; lower TP of S\$0.40

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2021A	2022F	2023F	2024F
Gross Revenue	125	125	83.1	84.6
Net Property Inc	113	113	76.5	77.9
Total Return	24.5	44.3	24.6	25.6
Distribution Inc	51.9	44.3	24.6	25.6
EPU (S cts)	6.72	5.47	3.04	3.16
EPU Gth (%)	108	(19)	(44)	4
DPU (S cts)	6.26	5.31	2.89	3.00
DPU Gth (%)	17	(15)	(46)	4
NAV per shr (S cts)	92.9	81.8	81.7	81.6
PE (X)	7.2	8.9	15.9	15.4
Distribution Yield (%)	12.9	10.9	6.0	6.2
P/NAV (x)	0.5	0.6	0.6	0.6
Aggregate Leverage (%)	38.1	33.3	33.4	33.4
ROAE (%)	7.4	6.3	3.7	3.9

Distn. Inc Chng (%):	0	0	0
Consensus DPU (S cts):	6.10	6.10	6.20
Other Broker Recs:	B: 2	S: 0	H: 1

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

Throwing a spanner in the works

Investment Thesis

Fresh doubts cast on its ability to refinance loans. It was recently announced that the proposed divestments of two of its assets may potentially be delayed. A delay in the divestments could lead to a breach by ECWREIT's lenders to refinance both offshore and onshore loans due on 30 April 2023. We have adjusted our TP and recommendation to account for this uncertainty.

Will the proposed divestment to sponsor pass the shareholder test? With the manager entering into an MOU with the sponsor for the sale of two assets totalling about S\$432.8m (at last valuation), funds received by the REIT will be more than sufficient to pare down its loans (25% by end-Dec 22) and pay a special dividend to unitholders. Given that it's an interested party transaction (IPT), we envision unitholders only accepting a deal that is valued close to NAV.

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

Valuation:

Our TP of S\$0.40 is based on a DCF valuation and considers ECWREIT's historical P/NAV multiple and risks arising from uncertainties in refinancing outstanding loans.

Where we differ:

In addition to the one-off pre-termination compensation to be paid in FY22, we have also assumed a slight increase in all-in financing costs when maturing loans are refinanced next year.

Key Risks to Our View:

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

At A Glance

Issued Capital (m shrs)	810
Mkt. Cap (\$m/US\$m)	393 / 285
Major Shareholders (%)	
Forchn Holdings Grou	44.5
China Cinda Asset Ma	10.1
DAZHONG CAPITAL	5.4
Free Float (%)	40.0
3m Avg. Daily Val (US\$m)	0.11
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	

WHAT'S NEW

Throwing a spanner in the works

What happened?

It was previously believed that ECWREIT was on track to complete the divestments of Beigang Logistics Stage 1 and Chongxian Port Logistics by the end of this year. The divestments were necessary for ECWREIT to raise funds to repay at least 25% of its outstanding debt (c.S\$707.6m), and the preconditions set by its lenders before it would refinance ECWREIT's loans due to expire on 30 April 2023.

However, ECWREIT just announced that the Purchaser (entities linked to its Sponsor) had missed the deadline to finalise the financing of the proposed divestments and enter into the Transaction Financing Documents with its lenders. We understand that the delay in obtaining the financing due to the prolonged COVID-19 controls in China, as well as the PRC National Day holiday and the 20th National Congress of the Communist Party of China.

What implications does this have?

In its announcement, ECWREIT highlighted three potential courses of actions which are available to the REIT:

- 1) Proceed with the divestments despite the Purchaser missing the long-stop date to procure the Transaction Financing Documents
- 2) Proceed with the divestments without entering any Transaction Financing
- 3) Terminate the proposed divestments with the Purchaser

It is understood that Transaction Financing is not a condition necessary for the divestments, and failure to do so is also not a ground for termination of the proposed divestments. However, the failure to enter into the Transaction Financing by the long-stop date may affect the completion date of the proposed divestments and could be a potential delay to after 31 December 2022.

If the completion of the divestments is indeed delayed beyond 31 December 2022, it calls into question if ECWREIT will still be able to meet the conditions set by its lenders in order to refinance the loans due 30 April 2023.

Our thoughts?

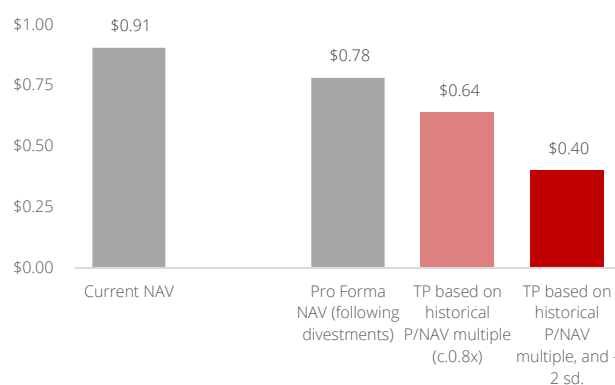
This has put a huge dent in our earlier optimism for ECWREIT to complete the proposed divestments on time and proceed with the refinancing of its offshore and onshore loans that are due on 30 April 2023. Although the

EGM for the proposed divestments is scheduled to proceed (early-December 2022) despite the failure of the Purchaser to obtain the Transaction Financing documents, this could **potentially lead to a delay in the completion of the divestments.**

As mentioned earlier, the delay in the completion of the divestments would lead to **a breach in the conditions set by ECWREIT's lenders with regards to the refinancing of its loans due on 30 April 2023.** At this point, it is unsure if ECWREIT's lenders are willing to provide the REIT with another temporary loan extension beyond 30 April 2023.

If the lenders do not agree on a further loan extension, or if the proposed divestments fall through, we believe ECWREIT will have to conduct a Rights Offering to raise capital for the refinancing of its loans. Doing so will be severely dilutive to existing unitholders, especially given they are currently already trading at a steep discount to NAV (c.37% discount to NAV). Moreover, current market conditions may make it even more difficult to raise capital.

Our revised valuation



Source: EC World REIT, DBS Bank estimates

Given the lack of details and uncertainties surrounding the proposed divestments and ECWREIT's ability to refinance its loans due on 30 April 2023, we will be revising our TP and recommendation. With the proposed divestments, the pro forma NAV of ECWREIT will fall to 78.16 Scts. We also took into account that ECWREIT has historically been trading at a P/NAV multiple of c.0.8x, and applied a further -2 standard deviation (to account for the uncertainties in refinancing).

Another potential pitfall we foresee would be questions raised on its Sponsor’s financial standing. Although ECWREIT highlighted that the failure to obtain the Transaction Financing was due to logistical delays (due to the prolonged COVID-19 controls and public holidays), it will undoubtedly lead to concerns on its Sponsor’s financial standing as another possible reason. We note that currently, the majority of ECREIT’s earnings are from master leases with its Sponsor (c.85% of NPI). Any negative impact on its master leases with its Sponsor will severely pose a downside risk to ECWREIT’s earnings.

With these, our **TP will be lowered to S\$0.40**, and recommendation will be **downgraded to FULLY VALUED**. We

will revisit our projections and recommendations only when we receive further details on the proposed divestments, and confirmation that ECWREIT will be able to meet its obligations in refinancing its outstanding loans that are due on 30 April 2023.

Company Background

ECW is the first specialised 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.

Historical PE and PB band



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



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

Income Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Gross revenue	110	125	125	83.1	84.6
Property expenses	(9.4)	(12.5)	(12.5)	(6.6)	(6.7)
Net Property Income	100	113	113	76.5	77.9
Other Operating expenses	(5.7)	(9.6)	(9.4)	(6.6)	(6.8)
Other Non Opg (Exp)/Inc	(9.3)	8.55	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(37.2)	(37.6)	(40.4)	(37.0)	(37.0)
Exceptional Gain/(Loss)	0.09	0.0	(4.1)	0.0	0.0
Net Income	48.2	74.4	59.0	32.9	34.1
Tax	(22.2)	(20.2)	(14.8)	(8.2)	(8.5)
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	26.0	54.3	44.3	24.6	25.6
Total Return	15.4	24.5	44.3	24.6	25.6
Non-tax deductible Items	31.8	27.4	0.0	0.0	0.0
Net Inc available for Dist.	47.2	51.9	44.3	24.6	25.6
Growth & Ratio					
Revenue Gth (%)	10.7	14.4	(0.1)	(33.7)	1.7
N Property Inc Gth (%)	11.8	12.7	(0.1)	(32.2)	1.8
Net Inc Gth (%)	74.8	108.6	(18.4)	(44.3)	3.8
Dist. Payout Ratio (%)	91.3	90.0	95.0	95.0	95.0
Net Prop Inc Margins (%)	91.4	90.1	90.0	92.1	92.1
Net Income Margins (%)	23.7	43.2	35.3	29.6	30.2
Dist to revenue (%)	43.0	41.4	35.3	29.6	30.2
Managers & Trustee's fees	5.2	7.6	7.5	8.0	8.0
ROAE (%)	3.7	7.4	6.3	3.7	3.9
ROA (%)	1.5	2.9	2.5	1.6	1.6
ROCE (%)	3.0	4.2	4.6	3.4	3.4
Int. Cover (x)	2.5	2.8	2.6	1.9	1.9

Beigang Stage 1 and Chongxian Port Logistics expected to cease income contribution from FY23.

Source: Company, DBS Bank

Balance Sheet (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Investment Properties	1,624	1,674	1,255	1,257	1,258
Other LT Assets	0.0	0.0	0.0	0.0	0.0
Cash & ST Invt	152	169	324	322	320
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	40.3	52.1	10.5	6.93	7.05
Other Current Assets	0.01	0.0	0.0	0.0	0.0
Total Assets	1,816	1,895	1,590	1,586	1,585
ST Debt	91.0	708	516	516	516
Creditor	30.0	33.5	10.5	6.93	7.05
Other Current Liab	33.2	21.4	21.4	21.4	21.4
LT Debt	593	13.2	13.2	13.2	13.2
Other LT Liabilities	353	367	367	367	367
Unit holders' funds	716	752	662	661	661
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	1,816	1,895	1,590	1,586	1,585
Non-Cash Wkg. Capital	(22.9)	(2.8)	(21.4)	(21.4)	(21.4)
Net Cash/(Debt)	(532)	(552)	(205)	(207)	(209)
Ratio					
Current Ratio (x)	1.2	0.3	0.6	0.6	0.6
Quick Ratio (x)	1.2	0.3	0.6	0.6	0.6
Aggregate Leverage (%)	37.7	38.1	33.3	33.4	33.4

Assuming the divestments of the two properties will be completed at the end of FY22.

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Income	48.2	74.4	59.0	32.9	34.1
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	8.35	(6.7)	(14.8)	(8.2)	(8.5)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(3.4)	(8.2)	18.6	0.0	0.0
Other Operating CF	27.9	10.7	(1.8)	(1.8)	(1.8)
Net Operating CF	81.1	70.2	61.1	22.8	23.8
Net Invnt in Properties	0.0	0.0	419	(1.5)	(1.5)
Other Invnts (net)	1.06	(0.4)	0.0	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	1.06	(0.4)	419	(1.5)	(1.5)
Distribution Paid	(43.7)	(49.7)	(132)	(23.4)	(24.3)
Chg in Gross Debt	(36.3)	(36.3)	(193)	0.0	0.0
New units issued	0.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
Net Financing CF	(80.0)	(86.0)	(325)	(23.4)	(24.3)
Currency Adjustments	30.1	33.7	0.0	0.0	0.0
Chg in Cash	32.2	17.6	155	(2.1)	(2.0)
Operating CFPS (S cts)	10.5	9.71	5.25	2.82	2.94
Free CFPS (S cts)	10.1	8.69	59.2	2.64	2.75

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 22	0.75	0.85	BUY
2:	17 May 22	0.62	0.70	BUY
3:	12 Jul 22	0.52	0.70	BUY
4:	10 Nov 22	0.44	0.55	BUY

Source: DBS Bank

Analyst: Dale LAI

Derek TAN

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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: Dennis Lam
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

SINGAPORE

DBS Bank Ltd

Contact: Paul Yong
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: indonesiaresearch@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