Securities Investors Association (Singapore)
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Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

REIT: EC World REIT
(Manager: EC World Asset Management Pte. Ltd.)

Stock code: BWCU

Meeting details:
Date: 9 June 2020
Time: 10.00 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

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Q1. The REIT expanded its portfolio with the acquisitions of Wuhan Meiluote in April 2018 and Fuzhou E-Commerce in August 2019. In May 2019, it renewed the Master Lease Agreements for Chongxian Port Investment, Stage 1 Properties of Bei Gang Logistics and Fu Heng Warehouse with the sponsor.

To fund the acquisitions, the REIT has increased its borrowings from $474.7 million as at 31 December 2018 to $654.5 million as at 31 December 2019.

The financial highlight of the REIT is shown on page 3 of the annual report (extract reproduced below).

Balance Sheet	As at 31.12.2019 S$ Million	As at 31.12.2018 S$ Million	As at 31.12.2017 S$ Million	As at 31.12.2016[1] S$ Million
Investment properties	1,567.6	1,335.0	1,337.0	1,333.3
Total liabilities	1,040.1	827.3	793.6	756.2
Net assets	683.9	688.6	717.6	726.1

Key Financial Indicator	As at 31.12.2019	As at 31.12.2018	As at 31.12.2017	As at 31.12.2016
Gross borrowings / Total assets	38.7%	31.5%	29.2%	27.6%
Interest cover ratio (times)[2]	3.7	4.4	4.3	5.9
Weighted average debt maturity	2.6 years	0.5 years	1.5 years	2.6 years
Annualised all-in interest rate	5.4%	5.2%	5.3%	5.4%
Annualised all-in blended running interest rate[3]	4.5%	4.3%	4.4%	4.4%

(Source: 2019 annual report)

It is observed that the net asset of the REIT has declined steadily from 2016 to 2019. As at 31 December 2019, the REIT has a higher leverage, lower interest cover ratio and the annualised all-in blended running interest rate has increased marginally from 4.4% to 4.5%. Given that the outstanding borrowings are now higher, the annual finance costs have increased to $32.9 million in FY2019.

Distribution per unit has also been flat – DPU was 6.025 cents in 2017, 6.179 cents in 2018 and 6.047 cents in 2019.

NAV per unit was $0.85 as at 31 December 2019. NAV per unit was as high as $0.93 as at 31 December 2016.

(i) **Given the above, can the manager help unitholders understand if the acquisitions have been accretive and they resulted in the REIT realising a sustainable positive growth trajectory?**

(ii) **Has the board set an internal limit on the aggregate leverage?** The current aggregate leverage is 38.7%.

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(iii) The offshore facilities (in SGD) amounting to approximately $199 million was refinanced and increased to $408 million as total borrowings increased from $474.7 million to $654.5 million. **Would the board elaborate further on the currency mismatch risks? Would the REIT be increasingly using SGD sources of funding to acquire long-term assets in RMB that generate cash flows in RMB?**

Q2. In May 2019, the REIT announced that the manager had entered into New Master Lease Agreements in relation to Stage 1 Properties of Bei Gang Logistics, Chongxian Port Investment and Fu Heng Warehouse. The broad details of the lease terms can be found on page 15 of the annual report.

In the REIT's announcement dated 10 May 2020, the REIT did not provide details to the terms of the new master leases. From the prospectus, it was noted that the REIT received RMB10,300,000 per month for Stage 1 Properties of Bei Gang Logistics for 5 years starting from 1 November 2015 with 1% rental escalation every year.

For Chongxian Port Investment, the terms in the original master lease were:

5 years starting from 1 January 2016. Master lease amount of RMB11,409,687 per month in Forecast Period 2016, paid monthly. Rental escalation of 6.0%, 5.0%, 4.0% and 3.0% on 1st January of 2017, 2018, 2019 and 2020 respectively.

And for Fu Heng Warehouse:

5 years starting from 1 January 2016. Master lease amount of RMB3,429,118 per month in Forecast Period 2016, paid monthly Rental escalation of 6.0%, 5.0%, 4.0% and 3.0% on 1st January of 2017, 2018, 2019 and 2020 respectively.

(i) **Can the manager disclose the terms under the new master lease agreements?**

(ii) **In particular, were there any terms that were revised downwards (i.e. less favourable to the REIT) in the new master leases?**

(iii) **Are the master lease arrangements considered interested party transactions?**

(iv) **What is the amount of security deposit collected from each of the master lessees?** It was announced that the sponsor has entered into corporate guarantees with each of the master leasees pursuant to which the Sponsor will guarantee the payment obligations of Hangzhou Fu Gang Supply Chain Co., Ltd. and Hangzhou Fuyang Yunton E-Commerce Co., Ltd. under the New Chongxian Master Lease Agreement and the New Fu Heng Master Lease Agreement.

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On page 16 of the annual report, in the section titled Property portfolio overview, the manager has stated that, during 2019, gross revenue of the portfolio was S$99.1 million and the DPU for the full year was 6.047 Singapore cents. Without the master leases, the gross revenue would have been S$85.7 million and the corresponding DPU would have been 5.075 Singapore cents per unit.

There appears to be a shortfall in the underlying performance of the assets of up to $13.4 million.

(v) **What are the underlying occupancy rates of the properties that are under master leases?**

Q3. As disclosed on page 132, the REIT entered into related party transactions during the financial year ended 31 December 2019 with the following parties:

- EC World Asset Management Pte Ltd
- Forchn Holdings Group Co. Ltd. and its subsidiaries
- DBS Trustee Limited

In particular, there was a "waiver of penalty fees" transaction with Forchn Holdings Group Co. Ltd. and its subsidiaries amounting to S$6.64 million in 2019. In 2018, there was also a payment of S$5.80 million pay to the same party for the same reason.

(i) **Would the board elaborate in greater detail the nature/reasons for the penalty fees and why was there a waiver of the penalty fees?**

(ii) **And if there was a waiver of penalty fees, why were payments still being made to the interested person for the penalty fees?**

^Amid the global COVID-19 outbreak, issuers who choose to proceed with the AGM before 30 April 2020 must provide opportunities for shareholders to ask questions. Shareholders are encouraged to read the annual report and submit any questions they might have to the companies in advance. Issuers would then publicly address the questions at the general meeting via the issuer's website, through "live" webcast and on SGXNet.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can't attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on SIAS website

^ Joint Statement by Accounting and Corporate Regulatory Authority, Monetary Authority of Singapore and Singapore Exchange Regulation dated 31 Mar 2020 (https://www.sgx.com/media-centre/20200331-acra-mas-and-sgx-regco-update-guidance-general-meetings)

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