

Singapore Company Guide

Cache Logistics Trust

Edition 1 Version 1 | Bloomberg: CACHE SP | Reuters: CALT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

12 Oct 2015

HOLD

Last Traded Price: S\$1.04 (STI : 2,998.50)

Price Target : S\$1.11 (7% upside) (Prev S\$1.09)

Potential Catalyst: Acquisitions/developments

Where we differ: We are more conservative in our forecasts as we have assumed vacancies for S'pore properties in our estimates

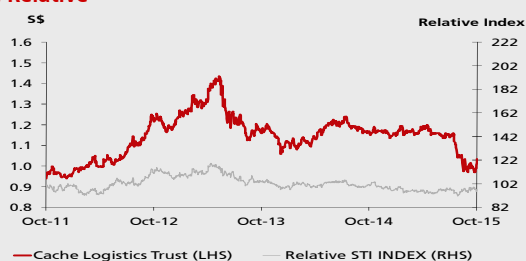
Analyst

Derek Tan +65 6682 3716 derektan@dbs.com

Mervin Song +65 6682 3715 mervinsong@dbs.com

Rachael TAN +65 6682 3713 rachaeltan@dbs.com

Price Relative



Forecasts and Valuation

FY Dec (\$ m)	2014A	2015F	2016F	2017F
Gross Revenue	83	91	116	121
Net Property Inc	78	83	92	96
Total Return	66	55	63	64
Distribution Inc	67	67	69	71
EPU (S cts)	7.3	7.0	7.9	8.1
EPU Gth (%)	(6)	(4)	14	2
DPU (S cts)	8.5	8.5	8.8	9.0
DPU Gth (%)	(1)	0	3	2
NAV per shr (S cts)	98.1	96.7	96.0	95.3
PE (X)	14.3	14.8	13.0	12.7
Distribution Yield (%)	8.3	8.2	8.5	8.7
P/NAV (x)	1.1	1.1	1.1	1.1
Aggregate Leverage (%)	31.1	39.6	40.4	40.6
ROAE (%)	7.4	7.2	8.2	8.5

Distn. Inc Chng (%)	-	-	-
Consensus DPU (S cts)	8.4	9.0	9.2
Other Broker Recs:	B: 5	S: 0	H: 5

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

DRIVEN BY RECENT ACQUISITIONS

Maintain HOLD, TP S\$1.11

While yields of >8.0% are attractive in our view, we believe that Cache's high gearing of close to 40%, will be a key overhang for investors as further acquisition capacity is likely to be capped. As such, we believe the stock will likely range trade till there is further clarity on this aspect.

Recent acquisitions to drive earnings

Cache's Singapore portfolio is expected to see rental pressure from (i) conversions of single-user properties to multi-tenanted properties, (ii) heightened competition due to new supply. As such, growth will mainly be driven from its recent acquisitions such as the four properties in Australia. We believe Australia is an attractive target market given its long leases and the weak AUD-SGD exchange rate, which could present upside if the AUD strengthens in the medium term.

Limited acquisition capacity as gearing nears 40%

Gearing is expected to head towards c.39% by end FY15 after accounting for its latest acquisition. We note this to be at the higher end of management's comfortable range of 35%-40% and thus further debt capacity is likely to be limited. This leads us to imply that further acquisitions are likely to be funded through a mix of debt and equity

Valuation:

Our target price is adjusted to S\$1.11 as we include the latest acquisition in Australia. Our HOLD call is premised on limited upside to our target price. A yield of 8.5% is likely to limit downside to current share price.

Key Risks to Our View:

Interest rate risk. Higher interest cost is expected to eat into distributions. We note that the Manager has locked in close to 67% of its debt into fixed-rates.

At A Glance

Issued Capital (m shrs)	784
Mkt. Cap (S\$m/US\$m)	812 / 582
Major Shareholders	
Bank of New Mellon Corp (%)	6.0
CWT Ltd (%)	5.0
Capital Group Companies Inc (%)	5.0
Free Float (%)	84.0
3m Avg. Daily Val (US\$m)	1.4

ICB Industry : Real Estate / Real Estate Investment Trusts

CRITICAL DATA POINTS TO WATCH

Earnings Drivers:

Well spread lease profile offering strong income visibility.

Cache Logistics Trust (Cache) offers investors strong income visibility supported by a weighted average lease to expiry (WALE) of 4.6 years by GFA which is staggered across the years. The Trust has secured approximately 70% of leases expiring in FY2015 with more than 40% of GFA committed from 2019 and beyond. In addition, Cache has a much healthier average occupancy rate of 99.1% as compared to similar S-REITs. This provides strong earnings stability and visibility in both the near and medium term.

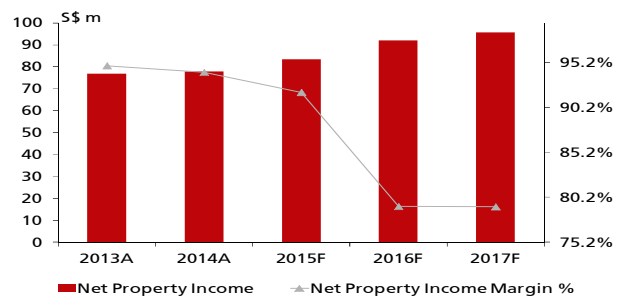
Strong and diverse tenancy mix. MNCs make up the majority of the type of tenants that lease Cache’s space by GFA at 79%, followed by Small Medium Enterprises at 21%. The trade sectors that tenants are from are relatively diverse, from industries such as Industrial & Consumer Goods, Commodity & Chemical, Healthcare and Food & Cold Storage. Demand from a large and diverse tenant mix has resulted in higher underlying occupancy rates which bode well for the Trust’s earning capability.

Deepening its presence in Australia to diversify and grow earnings stream. Following the maiden purchase of three warehouses in Australia in 1Q15, Cache announced the acquisition of a warehouse in Brisbane for A\$27.0m (S\$S\$27.1), deepening its presence in Australia to four properties. The target asset is a modern one-storey warehouse with an ancillary two-storey office and is leased to Western Star Trucks Australia Pty Ltd (WSTA) with average lease tenure of 7.9 years. WSTA is a wholly-owned subsidiary of Penske Automotive Group (PAG) which is listed on the New York Stock Exchange, and is the exclusive importer and distributor of trucks and other commercial vehicles in Australia.

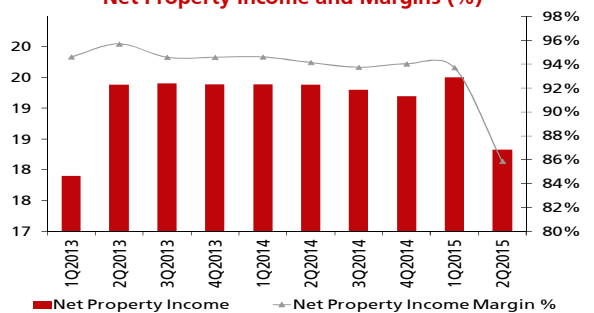
The deal is accretive to distributions. Initial yield is estimated to be c. 7.0% and the purchase will be fully funded by debt at an assumed cost of 4.5%. The lease comes with annual rental escalation of 4% per annum, until August 2023, offering stability in returns.

DHL project to underpin growth from FY16 onwards. A strategic partnership with its Sponsor, CWT Ltd, to embark on a build-to-suit development of the DSC ARC for DHL Supply Chain Singapore Pte Ltd achieved completion in Jul-15. Contribution from DHL is expected to start from FY16 onwards and is expected to be a key driver of growth.

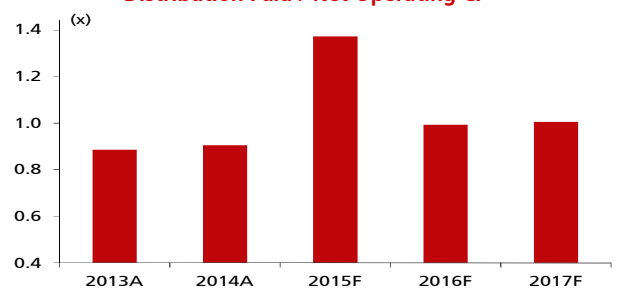
Net Property Income and Margins (%)



Net Property Income and Margins (%)



Distribution Paid / Net Operating CF



Source: Company, DBS Bank

Balance Sheet:

Gearing rises to 39.2%; limited capacity to acquire further.

Upon completion of the acquisition of the warehouse in Australia, Cache's gearing will increase to 39.2%. We note that this is at the higher end of management's comfortable range of 35%-40%, and will likely mean that further acquisition capacity will be limited. However, given more acquisition opportunities on the horizon, we believe that new deals will be partly funded by raising new equity.

No refinancing required for 2 years. Cache has a weighted average debt to maturity of 3.5 years with no refinancing requirements till 2017. 67% of its borrowings is hedged into fixed rates.

Share Price Drivers:

Acquisitions of assets in its ROFR. Cache has been granted the Rights of First Refusal ('ROFR') to 15 properties by its Sponsor (CWT) and C&P in the Asia Pacific. These 15 properties can approximately contribute 5.7m sq ft in GFA which when acquired, is expected to significantly increase its portfolio size, earnings and thus providing uplift to share price.

Beating market outlook. While the warehouse market is expected to see a deluge of new supply completing over 2015-2016, a majority of Cache's leases are MNCs and 3PLs, and hence we believe occupancy rates should remain steady. Higher rents achieved given its quality portfolio could beat market expectations that rents would moderate.

Key Risks:

Interest rate risk

Any increase in interest rates will result in higher interest payments for the REIT, hence reducing the income available for distribution, which will result in lower distribution per unit (DPU) for unitholders.

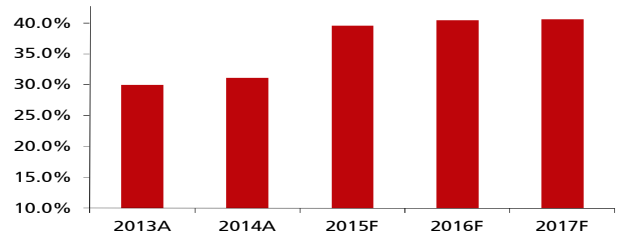
Economic risk

A weaker economic outlook could have a negative impact on industrial rents and occupancies as companies cut back on production and require less space. Industrial rents have a strong historical correlation with GDP growth.

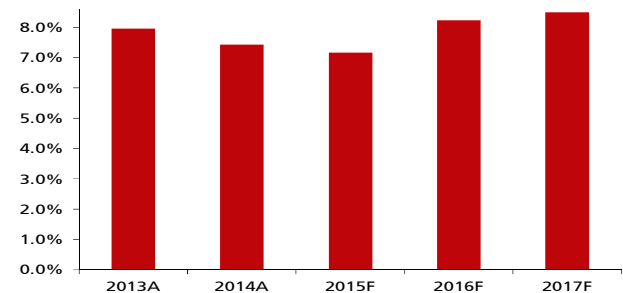
COMPANY BACKGROUND

Cache is a REIT investment mandate is to invest primarily in logistics properties located in the Pan Pacific region.

Aggregate Leverage (%)



ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

Income Statement (\$\$ m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Gross revenue	81	83	91	116	121
Property expenses	(4)	(5)	(7)	(24)	(25)
Net Property Income	77	78	83	92	96
Other Operating expenses	(9)	(9)	(12)	(10)	(10)
Other Non Opg (Exp)/Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(11)	(12)	(16)	(19)	(20)
Exceptional Gain/(Loss)	0	0	0	0	0
Net Income	57	57	55	63	65
Tax	0	0	(1)	(1)	(1)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Income After Tax	57	57	55	63	64
Total Return	64	66	55	63	64
Non-tax deductible Items	2	1	11	6	6
Net Inc available for Dist.	66	67	67	69	71
Growth & Ratio					
Revenue Gth (%)	11.4	2.3	9.5	28.1	4.0
N Property Inc Gth (%)	11.1	1.5	6.9	10.4	3.9
Net Inc Gth (%)	39.8	(0.4)	(3.6)	14.4	3.0
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	94.9	94.1	91.9	79.2	79.2
Net Income Margins (%)	70.4	68.5	60.3	53.8	53.3
Dist to revenue (%)	81.0	80.6	73.8	59.5	58.9
Managers & Trustee's fees to sales %)	10.6	10.3	12.8	8.4	8.2
ROAE (%)	7.9	7.4	7.2	8.2	8.5
ROA (%)	5.5	5.1	4.6	4.9	5.0
ROCE (%)	6.6	6.3	6.0	6.4	6.6
Int. Cover (x)	6.3	5.7	4.4	4.3	4.2

Growth in topline and net property income is driven by Cache's acquisition of four warehouses in Australia and completion of DHL development project in 2H15.

Source: Company, DBS Bank

Quarterly / Interim Income Statement (\$\$ m)

FY Dec	2Q2014	3Q2014	4Q2014	1Q2015	2Q2015
Gross revenue	21	21	21	21	22
Property expenses	(1)	(1)	(1)	(1)	(3)
Net Property Income	20	19	19	20	19
Other Operating expenses	(2)	(2)	(2)	(2)	(2)
Other Non Opg (Exp)/Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(3)	(3)	(4)	(2)	(3)
Exceptional Gain/(Loss)	0	0	0	0	0
Net Income	15	14	13	15	14
Tax	0	0	0	0	0
Minority Interest	0	0	0	0	0
Net Income after Tax	15	14	13	15	13
Total Return	15	14	22	15	13
Non-tax deductible Items	2	2	(5)	2	3
Net Inc available for Dist.	17	17	17	17	17
Growth & Ratio					
Revenue Gth (%)	0	0	(1)	2	3
N Property Inc Gth (%)	0	0	(1)	2	(6)
Net Inc Gth (%)	(1)	(2)	(10)	17	(11)
Net Prop Inc Margin (%)	94.2	93.8	94.0	93.7	85.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

Balance Sheet (\$\$ m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Investment Properties	1,035	1,122	1,247	1,277	1,277
Other LT Assets	1	0	0	0	0
Cash & ST Invt	41	11	12	6	7
Inventory	0	0	0	0	0
Debtors	1	3	1	2	2
Other Current Assets	0	0	0	0	0
Total Assets	1,077	1,137	1,261	1,285	1,287
ST Debt	0	7	7	7	7
Creditor	5	21	6	8	8
Other Current Liab	0	0	1	1	1
LT Debt	310	343	487	510	512
Other LT Liabilities	1	0	0	0	0
Unit holders' funds	762	767	760	759	759
Minority Interests	0	0	0	0	0
Total Funds & Liabilities	1,077	1,137	1,261	1,285	1,287
Non-Cash Wkg. Capital	(4)	(17)	(5)	(7)	(7)
Net Cash/(Debt)	(269)	(338)	(481)	(510)	(511)
Ratio					
Current Ratio (x)	9.0	0.5	1.0	0.5	0.6
Quick Ratio (x)	9.0	0.5	1.0	0.5	0.6
Aggregate Leverage (%)	30.0	31.1	39.6	40.4	40.6
Z-Score (X)	2.1	1.9	1.5	1.5	1.6

Gearing is estimated to increase to c.40%

Source: Company, DBS Bank

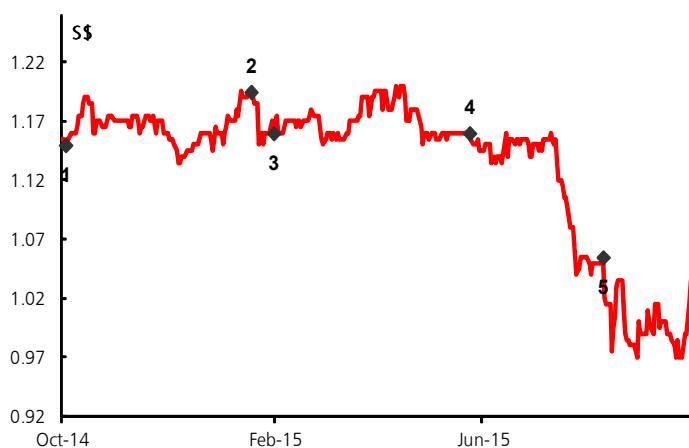
Cash Flow Statement (\$\$ m)

FY Dec	2013A	2014A	2015F	2016F	2017F
Pre-Tax Income	57	57	55	63	65
Dep. & Amort.	0	0	0	0	0
Tax Paid	0	0	0	(1)	(1)
Associates & JV Inc/(Loss)	0	0	0	0	0
Chg in Wkg.Cap.	(1)	13	(12)	1	0
Other Operating CF	16	3	6	6	6
Net Operating CF	72	74	49	70	71
Net Invnt in Properties	(56)	(63)	(125)	(30)	(1)
Other Invnts (net)	0	0	0	0	0
Invnts in Assoc. & JV	0	0	0	0	0
Div from Assoc. & JVs	0	0	0	0	0
Other Investing CF	0	0	0	0	0
Net Investing CF	(56)	(63)	(125)	(30)	(1)
Distribution Paid	(64)	(67)	(67)	(69)	(71)
Chg in Gross Debt	0	42	144	23	2
New units issued	85	0	0	0	0
Other Financing CF	(9)	(16)	0	0	0
Net Financing CF	11	(40)	77	(46)	(69)
Currency Adjustments	0	0	0	0	0
Chg in Cash	27	(29)	1	(6)	1
Operating CFPS (S cts)	9.9	7.8	7.8	8.7	8.9
Free CFPS (S cts)	2.2	1.3	(9.8)	5.1	8.8

FY15F : acquisition of 3 Australian properties
FY16F: assumed completion of acquisition of the latest Australian property.

Source: Company, DBS Bank

Target Price & Ratings History



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

S.No.	Date	Closing Price	Target Price	Rating
1:	13 Oct 14	1.15	1.37	BUY
2:	28 Jan 15	1.20	1.28	BUY
3:	10 Feb 15	1.16	1.29	BUY
4:	03 Jun 15	1.16	1.28	BUY
5:	19 Aug 15	1.06	1.09	HOLD

Source: DBS Bank

DBS Bank recommendations are based on 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 catalysts within this time frame)

Share price appreciation + dividends

GENERAL DISCLOSURE/DISCLAIMER

This report is prepared by DBS Bank Ltd. This report is solely intended for the clients of DBS Bank Ltd and DBS Vickers Securities (Singapore) Pte Ltd, its respective connected and associated corporations and affiliates (collectively, the "DBS Vickers Group") only and no part of this document may be (i) copied, photocopied or duplicated in any form or by any means or (ii) redistributed without the prior written consent of DBS Bank Ltd.

The research set out in this report is based on information obtained from sources believed to be reliable, but we (which collectively refers to DBS Bank Ltd., its respective connected and associated corporations, affiliates and their respective directors, officers, employees and agents (collectively, the "DBS Group")) do not make any representation or warranty as to its accuracy, completeness or correctness. Opinions expressed are subject to change without notice. This document is prepared for general circulation. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees, who should obtain separate independent legal or financial advice. The DBS Group accepts no liability whatsoever for any direct, indirect and/or consequential loss (including any claims for loss of profit) arising from any use of and/or reliance upon this document and/or further communication given in relation to this document. This document is not to be construed as an offer or a solicitation of an offer to buy or sell any securities. The DBS Group, along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this document. The DBS Group may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

Any valuations, opinions, estimates, forecasts, ratings or risk assessments herein constitutes a judgment as of the date of this report, and there can be no assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments. The information in this document is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company (or companies) referred to in this report.

The valuations, opinions, estimates, forecasts, ratings or risk assessments described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. It can be expected that one or more of the estimates on which the valuations, opinions, estimates, forecasts, ratings or risk assessments were based will not materialize or will vary significantly from actual results. Therefore, the inclusion of the valuations, opinions, estimates, forecasts, ratings or risk assessments described herein IS NOT TO BE RELIED UPON as a representation and/or warranty by the DBS Group (and/or any persons associated with the aforesaid entities), that:

- (a) such valuations, opinions, estimates, forecasts, ratings or risk assessments or their underlying assumptions will be achieved, and
- (b) there is any assurance that future results or events will be consistent with any such valuations, opinions, estimates, forecasts, ratings or risk assessments stated therein.

Any assumptions made in this report that refers to commodities, are for the purposes of making forecasts for the company (or companies) mentioned herein. They are not to be construed as recommendations to trade in the physical commodity or in the futures contract relating to the commodity referred to in this report.

DBS Vickers Securities (USA) Inc ("DBSVUSA"), a U.S.-registered broker-dealer, does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months.

ANALYST CERTIFICATION


The research analyst primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report. As of the date the report is published, the analyst and his/her spouse and/or relatives who are financially dependent on the analyst, do not hold interests in the securities recommended in this report ("interest" includes direct or indirect ownership of securities).

COMPANY-SPECIFIC / REGULATORY DISCLOSURES

1. DBS Bank Ltd., DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), their subsidiaries and/or other affiliates have a proprietary position in Cache Logistics Trust in this report as of 31 Aug 2015.
2. DBS Bank Ltd., DBSVS, DBSVUSA, their subsidiaries and/or other affiliates may beneficially own a total of 1% of any class of common equity securities of the company mentioned as of 31 Aug 2015.
3. **Compensation for investment banking services:**
 DBS Bank Ltd., DBSVS, DBSVUSA, their subsidiaries and/or other affiliates may have received compensation, within the past 12 months, and within the next 3 months may receive or intends to seek compensation for investment banking services from the company mentioned.

DBSVUSA does not have its own investment banking or research department, nor has it participated in any investment banking transaction as a manager or co-manager in the past twelve months. Any US persons wishing to obtain further information, including any clarification on disclosures in this disclaimer, or to effect a transaction in any security discussed in this document should contact DBSVUSA exclusively.

RESTRICTIONS ON DISTRIBUTION

General	This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.
Australia	This report is being distributed in Australia by DBS Bank Ltd. ("DBS") or DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS"), both of which are exempted from the requirement to hold an Australian Financial Services Licence under the Corporation Act 2001 ("CA") in respect of financial services provided to the recipients. Both DBS and DBSVS are regulated by the Monetary Authority of Singapore under the laws of Singapore, which differ from Australian laws. Distribution of this report is intended only for "wholesale investors" within the meaning of the CA.
Hong Kong	This report is being distributed in Hong Kong by DBS Vickers (Hong Kong) Limited which is licensed and regulated by the Hong Kong Securities and Futures Commission.
Indonesia	This report is being distributed in Indonesia by PT DBS Vickers Securities Indonesia.
Malaysia	This report is distributed in Malaysia by AllianceDBS Research Sdn Bhd ("ADBSR"). Recipients of this report, received from ADBSR are to contact the undersigned at 603-2604 3333 in respect of any matters arising from or in connection with this report. In addition to the General Disclosure/Disclaimer found at the preceding page, recipients of this report are advised that ADBSR (the preparer of this report), its holding company Alliance Investment Bank Berhad, their respective connected and associated corporations, affiliates, their directors, officers, employees, agents and parties related or associated with any of them may have positions in, and may effect transactions in the securities mentioned herein and may also perform or seek to perform broking, investment banking/corporate advisory and other services for the subject companies. They may also have received compensation and/or seek to obtain compensation for broking, investment banking/corporate advisory and other services from the subject companies.  Wong Ming Tek, Executive Director, ADBSR
Singapore	This report is distributed in Singapore by DBS Bank Ltd (Company Regn. No. 196800306E) or DBSVS (Company Regn No. 198600294G), both of which are Exempt Financial Advisers as defined in the Financial Advisers Act and regulated by the Monetary Authority of Singapore. DBS Bank Ltd and/or DBSVS, may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, DBS Bank Ltd accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact DBS Bank Ltd at 6327 2288 for matters arising from, or in connection with the report.
Thailand	This report is being distributed in Thailand by DBS Vickers Securities (Thailand) Co Ltd. Research reports distributed are only intended for institutional clients only and no other person may act upon it.
United Kingdom	This report is being distributed in the UK by DBS Vickers Securities (UK) Ltd, who is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
Dubai	This research report is being distributed in The Dubai International Financial Centre ("DIFC") by DBS Bank Ltd., (DIFC Branch) having its office at PO Box 506538, 3 rd Floor, Building 3, East Wing, Gate Precinct, Dubai International Financial Centre (DIFC), Dubai, United Arab Emirates. DBS Bank Ltd., (DIFC Branch) is regulated by The Dubai Financial Services Authority. This research report is intended only for professional clients (as defined in the DFSA rulebook) and no other person may act upon it.
United States	Neither this report nor any copy hereof may be taken or distributed into the United States or to any U.S. person except in compliance with any applicable U.S. laws and regulations. It is being distributed in the United States by DBSVUSA, which accepts responsibility for its contents. Any U.S. person receiving this report who wishes to effect transactions in any securities referred to herein should contact DBSVUSA directly and not its affiliate.
Other jurisdictions	In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

DBS Bank Ltd.

12 Marina Boulevard, Marina Bay Financial Centre Tower 3
Singapore 018982
Tel. 65-6878 8888
Company Regn. No. 196800306E