

Cache Logistics Trust

Significant occupancy risk next year, mitigated by acquisitions and completion of BTS project

SINGAPORE | REAL ESTATE (REIT) | UPDATE

14 October 2015

- Only 2% of portfolio NLA is up for lease renewal in the remainder of this year.
- Australia portfolio expands to fourth warehouse.
- Three master leases expiring in 2016, with visible pipeline of new warehouse space.

What is the news?

- Cache Logistics Trust (Cache) will be announcing its 3Q FY15 (Y/E Dec) results on 21 October after trading hours. We highlight the weak 3Q manufacturing indicators in a sector [update](#) and give an update of what to expect for 3Q15.
- Cache had announced last week the acquisition of its fourth warehouse in Wacol, Queensland, Australia.

Outlook

- Minimal impact for now.** We believe from weak Industrial activity during 3Q FY15 is minimal as only 2% of portfolio NLA is up for renewal in the remainder of 2015. However, there are three master-leases expiring in 2016. The three properties are Schenker Megahub (Aug 2016), Hi-Speed Logistics Centre (Oct 2016) and Air Market Logistics Centre (Aug 2016). The three properties account for c.12% of portfolio NLA.
- Large supply of new warehouse space coming on stream in 2016, will put pressure on properties with master leases expiring.** The master leases expiring in 2016 will coincide with the supply of new warehouses coming on stream. 0.65 million sqm of new warehouse space in 2016 will be added on to an estimated 8.76 million sqm (as at end of 2015), increasing the supply by c.7.4%. Expect the Manager to have to give generous rental incentives in order to retain tenants.
- Balance of divestment proceeds still available for distribution.** Kim Heng warehouse was divested in June 2015 for S\$9.7 million and a partial distribution of S\$1.45 million from the divestment was paid out in the 2Q FY15 distribution. There is a balance of S\$8.25 million that is available for distribution or other uses.
- Support to DPU will come in 1Q FY16 from acquisition and completion of Build-to-suit project.** The fourth Australian warehouse (Wacol) will begin contributing in November 2015, while the BTS DHL Supply Chain Advanced Regional Centre (DSC ARC) will start contributing in January 2016. These additional properties should boost the portfolio income, offsetting the divestment of the Kim Heng warehouse and uncertainties in the master lease expiries.
- Prudent debt expiry management; equity fund raising (EFR) is on the cards.** While gearing is expected to rise to 39.4% from 38% due to the acquisition of the Wacol warehouse, there is no refinancing requirement until 2017. At the same time, the Manager had said previously of its willingness to utilise the balance sheet and push gearing to 40%. With gearing now at 39.4%, we see EFR as a possibility.

Investment Actions

We make the following adjustments to our financial model:

- Pushed the initial DSC ARC contribution to commence in 1Q FY16, instead of 4Q FY15 as originally assumed to be in conjunction with property receiving TOP.
- Incorporate the acquisition of the Wacol warehouse.
- Lower our expectations for FY16, in view of the expiry of master leases together with large supply of new warehouse space.

We see valuation close to historical low and yield close to historical high. We maintain our "Accumulate" rating on Cache, with lower DDM valuation of S\$1.16 (Previous: S\$1.27), giving an implied forward P/NAV of 1.2x.

Accumulate (Maintained)

CLOSING PRICE	SGD 1.005
FORECAST DIV	SGD 0.081
TARGET PRICE	SGD 1.160
TOTAL RETURN	23.5%

COMPANY DATA

O/S SHARES (MN) :	784
MARKET CAP (USD mn / SGD mn) :	563 / 788
52 - WK HI/LO (SGD) :	121/ 0.94
3M Average Daily T/O (mn) :	191

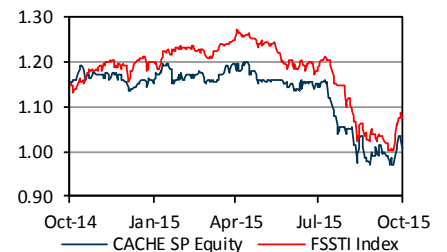
MAJOR SHAREHOLDERS (%)

BANK OF NEW YORK MELLON CORP	6.0%
CWT LTD	5.0%
CAPITAL GROUP COMPANIES INC	4.9%
PRUDENTIAL FINANCIAL INC	3.1%
VANGUARD GROUP INC	1.5%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	3.5	(9.2)	(4.5)
STI RETURN	5.1	(6.3)	(2.8)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 13	FY 14	FY 15e	FY 16e
Gross Rev. (SGD mn)	81.0	82.9	85.7	95.5
NPI (SGD mn)	76.8	78.0	79.1	88.2
Dist. Inc. (SGD mn)	65.6	66.9	63.8	68.1
P/NAV (x)	1.13	1.20	1.03	1.04
DPU, adj (Cents)	8.64	8.57	8.12	8.61
Distribution Yield, %	7.8	7.3	8.1	8.6

Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 7.2%; Terminal g: 0.5%)

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Relative valuation

The closest peer to Cache is Mapletree Logistics Trust (MLT), which is the only other Industrial S-REIT that holds a portfolio of properties comprised exclusively of warehouses.

Cache is over-valued relative to MLT on P/NAV basis, but with a higher trailing yield.

Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S\$m)	Price (S\$)	P/NAV (x)	yield (%)
Mapletree Logistics Trust	2,516	1.015	1.01	7.3
Cache Logistics Trust	788	1.005	1.03	8.5

Source: Bloomberg (Updated: 13 October 2015)

Historical valuation

- P/NAV is currently at about -1 historical std dev of 1.06x.
- Current yield is in excess of 8% and should offer some cushion to further price downside.

Figure 1. Historical P/NAV (x) with SD bands

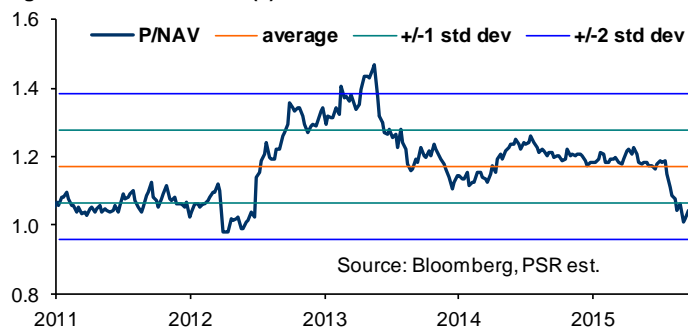
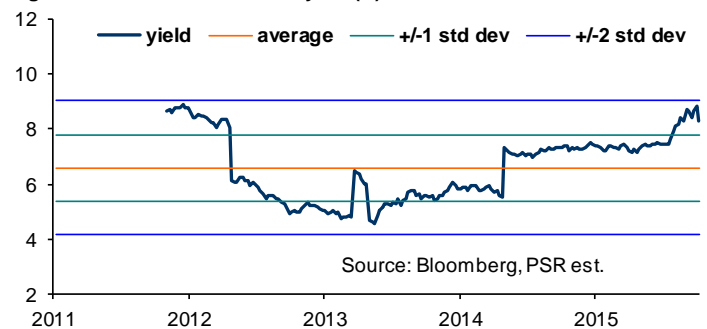


Figure 2. Historical distribution-yield (%) with SD bands



Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
Gross revenue	72.6	81.0	82.9	85.7	95.5
Property expenses	(3.5)	(4.1)	(4.9)	(6.6)	(7.3)
Net property income	69.1	76.8	78.0	79.1	88.2
Net Finance (Expense)/Inc.	(20.8)	(10.8)	(12.3)	(14.3)	(18.6)
Manager's fees	(5.7)	(6.5)	(6.7)	(6.9)	(7.8)
Other items	(2.2)	(2.0)	(1.9)	(1.5)	(2.4)
Exceptional items	-	-	-	-	-
Net income	40.4	57.4	57.1	56.4	59.4
FV change, Invmnt. properties	26.2	6.7	9.0	-	-
Total Return Before Tax	66.6	64.2	66.1	56.4	59.4
Taxation	(0.2)	(0.5)	(0.3)	(0.3)	(0.3)
Total Return After Tax	66.4	63.7	65.8	56.1	59.1
Distribution adjustments	(8.9)	1.9	1.1	9.1	9.0
Income available for distribution	57.5	65.6	66.9	65.2	68.1
Income distributed	57.5	65.6	66.9	65.2	68.1

Per share data (Cents)

Y/E Dec	FY12	FY13	FY14	FY15e	FY16e
NAV	96.0	98.0	98.0	97.4	96.3
EPU	9.68	8.40	8.45	7.17	7.49
DPU	8.37	8.64	8.57	8.30	8.61

*Forward EPU does not include change in Fair Value of Investment Properties

Cash Flow

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
CFO					
Net income	40.4	57.4	57.1	56.4	59.4
Adjustments	25.1	15.7	17.5	19.1	24.8
WC changes	(0.5)	(0.7)	(0.5)	(6.2)	4.4
Cash generated from ops	65.0	72.5	74.1	69.2	88.6
Others	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Cashflow from ops	64.9	72.3	73.8	69.0	88.3
CFI					
CAPEX, net	(0.8)	(0.4)	(63.5)	(44.5)	(0.2)
Purchase of Inv. Propty.	(102)	(55.9)	-	(96.7)	-
Others	0.0	0.1	0.2	-	-
Cashflow from investments	(103)	(56.2)	(63.3)	(141)	(0.2)
CFF					
Share issuance, net	59.1	86.8	-	-	-
Loans, net of repayments	60.0	-	42.2	168.2	-
Dividends	(55.7)	(64.1)	(66.7)	(65.2)	(68.1)
Others	(24.3)	(11.3)	(15.5)	(14.3)	(18.6)
Cashflow from financing	39.1	11.4	(40.1)	88.7	(86.8)
Net change in cash	1.1	27.6	(29.5)	16.5	1.3
Effects of exchange rates	0.1	(0.1)	0.0	-	-
Ending cash	13.3	40.8	11.3	27.7	29.1

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
ASSETS					
Investment properties	972	1,035	1,044	1,262	1,262
Inv. Propty. Under Devmnt.	-	-	75.7	-	-
PPE	0.3	0.6	1.8	1.8	1.7
Others	-	-	0.2	0.2	0.2
Total non-current assets	972	1,036	1,122	1,264	1,264
Cash	13.3	40.8	11.3	27.7	29.1
Trade receivables	1.5	0.9	3.5	2.3	3.1
Others	-	-	0.1	0.1	0.1
Total current assets	14.8	41.6	14.8	30.1	32.3
Total Assets	987	1,077	1,137	1,294	1,296
LIABILITIES					
Trade payables	5.3	4.6	20.5	13.1	18.4
Borrowings	-	-	6.6	6.6	6.6
Others	-	-	-	-	-
Total current liabilities	5.3	4.6	27.1	19.7	25.0
Borrowings	308.4	310.1	342.6	510.8	510.8
Others	1.4	0.7	0.4	0.4	0.4
Total non-current liabilities	309.8	310.8	343.0	511.2	511.2
Total Liabilities	315.1	315.5	370.2	530.9	536.2
Net assets	671.9	761.8	766.9	763.0	759.8
Represented by:					
Unitholders' funds	671.9	761.8	766.9	763.0	759.8

Valuation Ratios

Y/E Dec	FY12	FY13	FY14	FY15e	FY16e
P/NAV (x)	1.31	1.13	1.20	1.03	1.04
P/DPU (x)	15.01	12.83	13.68	12.11	11.68
Distribution Yield (%)	6.66	7.79	7.31	8.26	8.56
NPI yield (%)	7.62	7.66	7.50	6.86	6.99

Growth & Margins (%)

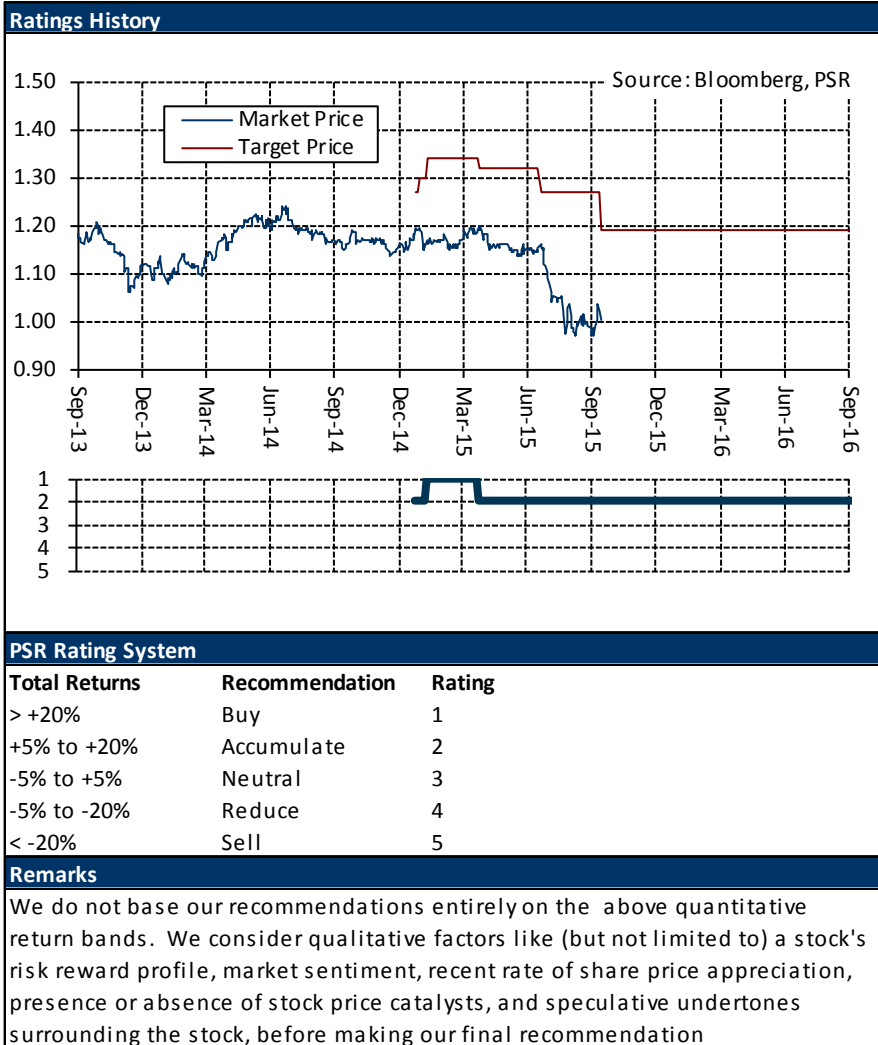
Growth					
Revenue	12.4%	11.4%	2.3%	3.4%	11.4%
Net property income (NPI)	11.7%	11.1%	1.5%	1.4%	11.5%
Distributable income	9.5%	14.1%	2.0%	-2.5%	4.5%
DPU		3.3%	-0.8%	-3.2%	3.7%

Margins

NPI margin	95.2%	94.9%	94.1%	92.3%	92.4%
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Key Ratios

Net Debt or (Net Cash)	295.2	269.3	338.0	489.7	488.4
Gearing (%)	31.2%	28.8%	30.7%	40.0%	39.9%



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