

Cache Logistics Trust

Conversions are a drag

22 October 2015

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- 2.140 Cents DPU, unchanged from previous year and preceding quarter.
- High portfolio occupancy of 95.2%, with long WALE of 4.3 years.
- Dividend yield of >8% remains attractive.

What is the news?

Cache Logistics Trust (Cache) announced its 3Q FY15 (Y/E Dec) results on 21 October, after trading hours. *Cache will trade ex-dividend on 27 October.*

Results at a glance

(SGD mn)	3Q15	3Q14	y-y (%)	Comments
Gross revenue	23.14	20.78	↑11.3	Contributions from three Australian properties acquired in 1Q15
Net property income	18.78	19.48	↓(3.6)	Higher expenses associated with the conversion of 4 master-leases to multi-tenancies
Distributable income	16.81	16.71	↑0.6	Includes a partial capital distribution from proceeds of divestment of Kim Heng Warehouse
DPU (Cents)	2.140	2.140	-	

Source: Cache, Phillip Securities Research (Singapore)

How do we view this?

- YTD four master-leases have been converted to multi-tenanted.** Effect of the conversion can be seen as property expenses have increased q-o-q since 2Q FY15, as tenancies convert from triple-net-lease to gross lease. As gross revenue increases, so does property expenses. This has the effect of lowering the NPI-margin.

YTD master-leases converted to multi-tenanted

Property	Formerly known as	Converted
Cache Cold Centre	CWT Cold Hub	2Q FY15
Cache Changi Districentre 1	C&P Changi Districentre	2Q FY15
Cache Changi Districentre 2	C&P Changi Districentre 2	2Q FY15
Pandan Logistics Hub	-	3Q FY15

Source: Cache Logistics Trust, Phillip Securities Research (Singapore)

- Divestment proceeds from Kim Heng warehouse is supporting DPU in the interim.** Kim Heng warehouse was divested in June 2015 for S\$9.7 million and a total distribution of S\$2.96 million from the divestment has been paid out so far in 2Q FY15 and 3Q FY15. There is a balance of S\$6.74 million that is available for distribution or other uses.
- Inorganic growth from acquisition and completion of Build-to-suit (BTS) project should stabilise DPU.** While we project a marginally lower DPU for FY16 compared to FY15, but the fourth Australian warehouse (Wacol), which will begin contributing in November 2015, and the BTS DHL Supply Chain Advanced Regional Centre (DSC ARC) will start contributing in January 2016. These additional properties should provide support, offsetting the divestment of the Kim Heng warehouse and uncertainties in the master lease expiries.

Investment Actions

We underestimated Gross revenue and Property expenses relating to properties rolling-off to multi-tenancies. We make adjustments to our estimates. Maintain "Accumulate" rating on Cache, with slightly lower DDM valuation of S\$1.11. (Previous: S\$1.16) Dividend yield of >8% remains attractive.

Accumulate (Maintained)

CLOSING PRICE	SGD 1.025
FORECAST DIV	SGD 0.084
TARGET PRICE	SGD 1.110
TOTAL RETURN	16.5%

COMPANY DATA

O/S SHARES (MN) :	784
MARKET CAP (USD mn / SGD mn) :	577 / 804
52 - WK HI/LO (SGD) :	121/ 0.94
3M Average Daily T/O (mn) :	187

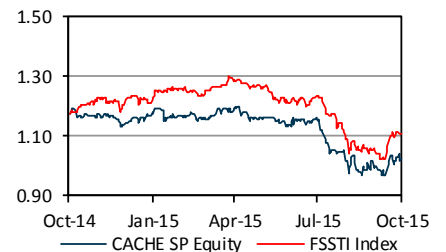
MAJOR SHAREHOLDERS (%)

BANK OF NEW YORK MELLON CORP	6.0%
CWT LTD	5.0%
CAPITAL GROUP COMPANIES INC	4.9%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	0.5	(10.4)	(5.7)
STI RETURN	4.9	(9.3)	(19)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 13	FY 14	FY 15e	FY 16e
Gross Rev. (SGD mn)	810	82.9	88.5	99.2
NPI (SGD mn)	76.8	78.0	75.8	84.8
Dist. Inc. (SGD mn)	65.6	66.9	66.2	66.4
P/NAV (x)	1.13	1.20	1.06	1.07
DPU, adj (Cents)	8.64	8.57	8.43	8.39
Distribution Yield, %	7.8	7.3	8.2	8.2

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 slightly over-valued relative to MLT, but Cache has a higher yield.

Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (\$\$mn)	Price (\$\$)	P/NAV (x)	yield (%)
Mapletree Logistics Trust	2,528	1.020	1.00	7.3
Cache Logistics Trust	804	1.025	1.05	8.4

Source: Bloomberg (Updated: 21 October 2015)

Historical valuation

Cache is now trading around 1 standard deviation below its historical average P/NAV, while yield is about 1.5 standard deviations above its historical average. There is still room for yield compression.

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

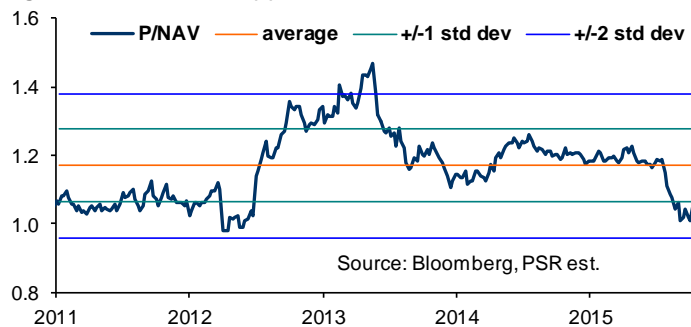
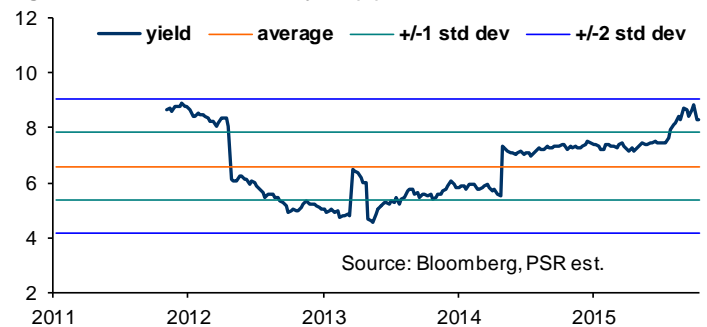


Figure 2. Historical distribution-yield (%) with SD bands



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	88.5	99.2
Property expenses	(3.5)	(4.1)	(4.9)	(12.7)	(14.4)
Net property income	69.1	76.8	78.0	75.8	84.8
Net Finance (Expense)/Inc.	(20.8)	(10.8)	(12.3)	(14.3)	(17.1)
Manager's fees	(5.7)	(6.5)	(6.7)	(6.8)	(7.7)
Other items	(2.2)	(2.0)	(1.9)	(1.6)	(2.4)
Exceptional items	-	-	-	-	-
Net income	40.4	57.4	57.1	53.1	57.6
FV change, Invmnt. properties	26.2	6.7	9.0	-	-
Total Return Before Tax	66.6	64.2	66.1	53.1	57.6
Taxation	(0.2)	(0.5)	(0.3)	(0.2)	(0.3)
Total Return After Tax	66.4	63.7	65.8	52.8	57.4
Distribution adjustments	(8.9)	1.9	1.1	9.0	9.0
Portion of sales proceeds	-	-	-	4.4	-
Income available for distribution	57.5	65.6	66.9	66.2	66.4
Income distributed	57.5	65.6	66.9	66.2	66.4

Per share data (Cents)

Y/E Dec	FY12	FY13	FY14	FY15e	FY16e
NAV	96.0	98.0	98.0	96.9	95.8
EPU	9.68	8.40	8.45	6.75	7.28
DPU	8.37	8.64	8.57	8.43	8.39

*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	53.1	57.6
Adjustments	25.1	15.7	17.5	19.0	23.2
WC changes	(0.5)	(0.7)	(0.5)	(6.0)	4.8
Cash generated from ops	65.0	72.5	74.1	66.1	85.6
Others	(0.2)	(0.2)	(0.3)	(0.2)	(0.3)
Cashflow from ops	64.9	72.3	73.8	65.8	85.3
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)	(66.2)	(66.4)
Others	(24.3)	(11.3)	(15.5)	(14.3)	(17.1)
Cashflow from financing	39.1	11.4	(40.1)	87.7	(83.4)
Net change in cash	1.1	27.6	(29.5)	12.3	1.7
Effects of exchange rates	0.1	(0.1)	0.0	-	-
Ending cash	13.3	40.8	11.3	23.5	25.2

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	23.5	25.2
Trade receivables	1.5	0.9	3.5	2.3	3.2
Others	-	-	0.1	0.1	0.1
Total current assets	14.8	41.6	14.8	25.9	28.5
Total Assets	987	1,077	1,137	1,290	1,292
LIABILITIES					
Trade payables	5.3	4.6	20.5	13.3	19.0
Borrowings	-	-	6.6	6.6	6.6
Others	-	-	-	-	-
Total current liabilities	5.3	4.6	27.1	19.9	25.7
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	531.2	536.9
Net assets	671.9	761.8	766.9	758.6	755.4
Represented by:					
Unitholders' funds	671.9	761.8	766.9	758.6	755.4

Valuation Ratios

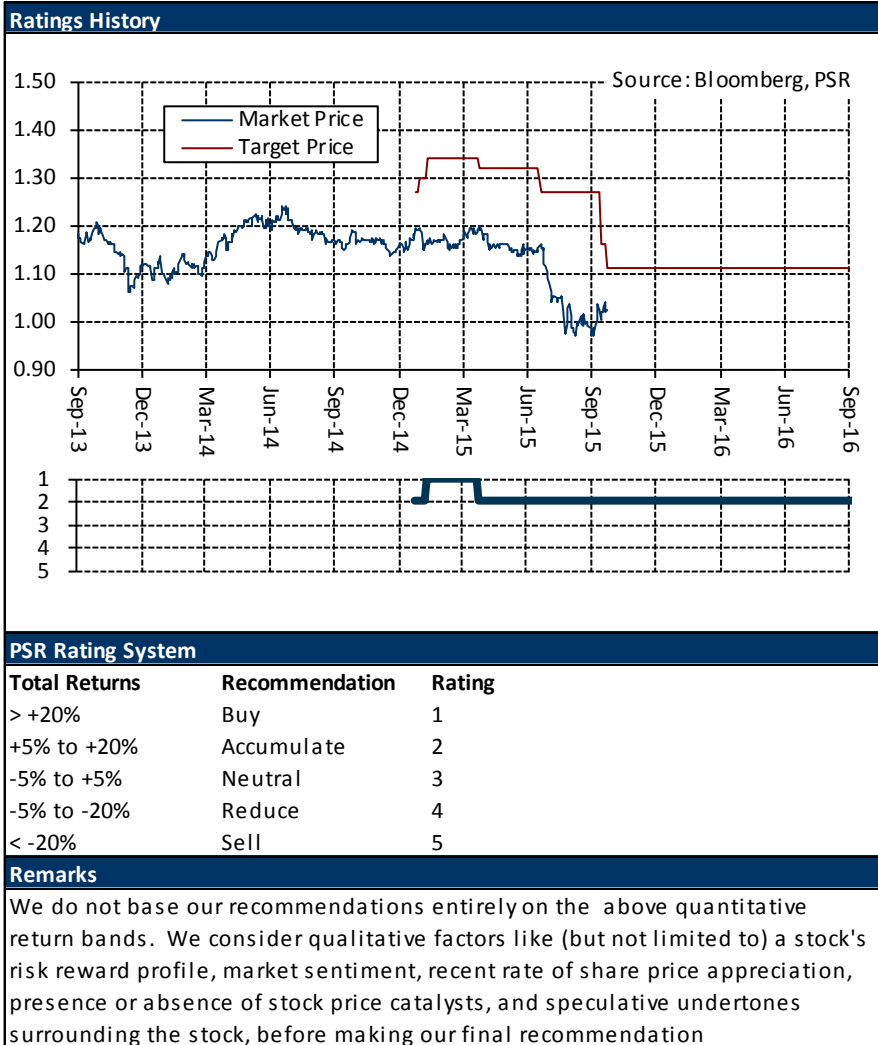
Y/E Dec	FY12	FY13	FY14	FY15e	FY16e
P/NAV (x)	1.31	1.13	1.20	1.06	1.07
P/DPU (x)	15.01	12.83	13.68	12.16	12.22
Distribution Yield (%)	6.66	7.79	7.31	8.23	8.18
NPI yield (%)	7.62	7.66	7.50	6.57	6.72

Growth & Margins (%)

Growth					
Revenue	12.4%	11.4%	2.3%	6.8%	12.1%
Net property income (NPI)	11.7%	11.1%	1.5%	-2.8%	11.9%
Distributable income	9.5%	14.1%	2.0%	-0.9%	0.2%
DPU		3.3%	-0.8%	-1.6%	-0.5%
Margins					
NPI margin	95.2%	94.9%	94.1%	85.7%	85.5%

Key Ratios

Net Debt or (Net Cash)	295.2	269.3	338.0	493.9	492.2
Gearing (%)	31.2%	28.8%	30.7%	40.1%	40.0%



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