

Cache Logistics Trust (CACHE SP)

Property - REITS

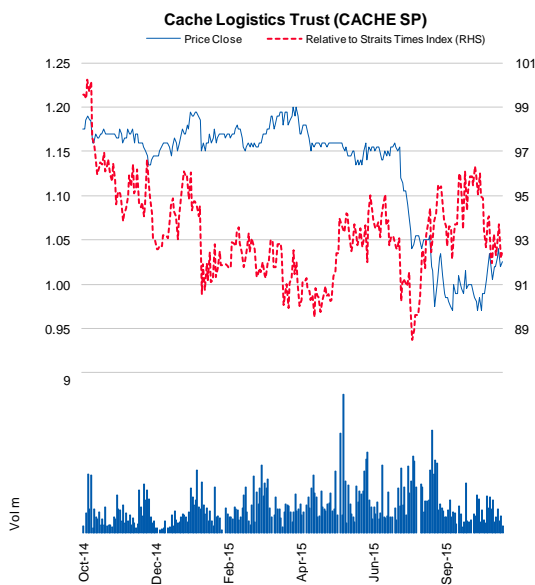
Market Cap: USD579m

Neutral (Maintained)

 Target Price: **SGD0.97**

 Price: **SGD1.03**

Cheerless Quarter

 Macro
 Risks
 Growth
 Value


Source: Bloomberg

Avg Turnover (SGD/USD)	1.80m/1.31m
Cons. Upside (%)	24.3
Upside (%)	-5.4
52-wk Price low/high (SGD)	0.97 - 1.20
Free float (%)	85
Share outstanding (m)	784
Shareholders (%)	
Bank of New York Mellon	5.0
CWT Ltd	5.0
Capital Group Companies Inc	4.9

Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(11.6)	3.0	(11.3)	(13.9)	(12.8)
Relative	(1.5)	(2.0)	(1.0)	(0.1)	(7.3)

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3Q/9M15 results were within our expectations as Cache Logistics Trust maintained DPU of 6.425/2.140 cents. Overall occupancy declined further to 95.2% as it continues to be impacted by conversions of single-tenanted leases to multi-tenancies. We remain cautious over Cache as its gearing level slowly creeping up towards 40%. In addition, we take a view of a difficult leasing market within the local warehouse industry. Maintain NEUTRAL with a TP of SGD0.97.

- ◆ **3Q/9M15 results were within our expectations.** Cache Logistics Trust maintained 9M/3Q15 DPU of 6.425/2.140 cents which meets 77% of our full year estimates. We note that its overall portfolio occupancy declined further from 98.3% to 95.2% as it was impacted by conversions of Pandan Logistics Hub from master lease to multi-tenancy in July 15 and interim space available for lease at the recently-completed DHL Supply Chain Advanced Regional Centre.
- ◆ **Cache extended its footprint in Australia in 3Q15.** Earlier this month, the REIT announced its fourth acquisition in Australia, involving a warehouse located at 203 Viking Drive, Wacol in Queensland (Australia). Cache is looking to purchase the asset for a sum of AUD27.0m (SGD27.1m), translating to a cap rate of 7.0%. The property will be fully master-leased to Western Star Trucks Australia Pty Ltd (WSTA), with an annual rental escalation of 4.0% per annum. The acquisition will be fully funded via debt.
- ◆ **What is the impact of the Australian acquisition?** We are expecting the acquisition to be accretive as it is fully funded by debt. Its borrowings will be fully Australian-denominated, and hence 100% naturally hedged. We like the fact that it is accretive for the portfolio, however, average leverage ratio is expected to increase from 38.3% to 39.4%, which we deem on the high side.
- ◆ **Maintain NEUTRAL with TP of SGD0.97.** We increased our FY15/16 DPU estimates by 0.4% and 2.4% respectively, as we factor in the ongoing acquisition of the warehouse in Australia. However, in view of a difficult leasing market within the Singapore warehouse industry, we remain cautious and maintain neutral with a TP of SGD0.97.

Forecasts and Valuations	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover (SGDm)	81	83	89	100	106
Net property income (SGDm)	76.8	78.0	82.6	93.3	98.2
Reported net profit (SGDm)	63.7	65.8	61.0	71.6	76.1
Total distributable income (SGDm)	65.6	66.9	65.9	76.4	81.4
DPS (SGD)	0.09	0.09	0.08	0.10	0.10
DPS growth (%)	3.3	(0.8)	(2.4)	15.2	5.6
Recurring P/E (x)	11.8	12.1	13.1	11.2	10.7
P/B (x)	1.04	1.04	1.05	1.05	1.05
Dividend Yield (%)	8.5	8.4	8.2	9.5	10.0
Return on average equity (%)	8.9	8.6	8.0	9.3	9.9
Return on average assets (%)	6.2	5.9	5.0	5.5	5.8
Interest coverage ratio (x)	6.32	5.65	3.91	4.41	4.64

Source: Company data, RHB

Figure 1: Summary of CACHE's 3QFY3/15 results

(SGDm)	3Q14	2Q15	3Q15	%QoQ	%YoY	Comments
Gross revenue	20.8	21.5	23.1	7.4	11.3	Gross Revenue was SGD23.1m, up 11.3% YoY. Full quarter's revenue contribution from the 3 Australian properties acquired in Feb 15
Operating expenses	(1.3)	(3.0)	(4.4)	43.1	235.7	
NPI	19.5	18.5	18.8	1.5	(3.6)	Net Property Income fell marginally by 3.6% YoY to SGD18.8m primarily due to the conversion of several properties from master lease to multitenancy in 2015, leading to a slight increase in vacancy and Cache assuming direct obligation for property expenses
Other income	(0.0)	0.4	0.0	(99.5)	nm	
Manager's fees	(1.7)	(1.9)	(1.9)	2.6	14.3	
Trustee fees	(0.1)	(0.1)	(0.1)	(2.5)	40.2	
Other expenses	(0.5)	(0.3)	(0.0)	(99.3)	(99.6)	
Net income before financing cost & tax	17.2	16.6	16.8	0.8	(2.3)	
Net financing costs	(2.7)	(3.0)	(4.1)	36.2	51.9	
EBT	14.5	13.6	12.7	(7.0)	(12.5)	
Gains from revaluation	0.0	0.0	0.0	nm	nm	
Total return before tax	14.5	13.6	12.7	(7.0)	(12.5)	
Tax	(0.0)	(0.1)	(0.2)	48.9	465.7	
Total return - reported	14.4	13.5	12.5	(7.6)	(13.6)	
Total return (ex exceptionals)	14.4	13.5	12.5	(7.6)	(13.6)	
Total return after taxation before distribution	14.4	13.5	12.4	(7.7)	(13.7)	
Add-back: Non tax deductibles	2.3	1.9	2.9	54.2	25.2	
Income available for distribution	16.7	15.3	15.3	(0.2)	(8.4)	Distributable Income in 3Q15 amounted to SGD16.8m, up 0.6% from the corresponding period last year. This included a partial capital distribution of SGD1.51m received from the proceeds from the divestment of 4 Penjuru Lane Singapore
Distributable income	16.7	16.8	16.8	0.1	0.6	
Number of units 'm (end of period)	781	784	786	0.2	0.6	
DPU (SGD-cts)	2.140	2.140	2.139	(0.0)	(0.0)	
NAV	0.97	0.97	0.97	0.3	0.3	
Payout ratio (%)	100.0	109.5	109.9	0.4 ppt	9.9 ppt	
NPI margins (%)	93.8	85.9	81.2	(4.7) ppt	(12.6) ppt	

Source: RHB

Figure 2: Summary of CACHE's 9MFY3/15 results

(SGDm)	9M14	9M15	%Change	RHB FY15F	% of FY15F	Comments
Gross revenue	62.2	65.7	5.5	88.9	73.9	Gross revenue for the nine month year ended was SGD65.7m, an increase of SGD3.5m or 5.5% higher than the same period in 2014.
Operating expenses	(3.6)	(8.7)	140.5	(6.2)	140.1	
NPI	58.6	57.0	(2.8)	82.6	69.0	The decrease in NPI is mainly due to vacancies, land rent, property tax, property maintenance expenses, lease commissions and other property-related expenses as some master leases were converted to multi-tenanted leases.
Other income	(0.1)	0.4	nm	0.0	nm	
Manager's fees	(4.9)	(5.6)	13.1	(7.2)	77.8	
Trustee fees	(0.2)	(0.4)	45.7	(0.3)	101.4	
Other expenses	(1.3)	(0.6)	(56.2)	(1.8)	31.9	
Net income before financing cost & tax	52.1	50.9	(2.3)	73.4	69.4	
Net financing costs	(8.0)	(9.4)	17.8	(18.6)	50.4	The increase is due to borrowings drawn relating to the acquisitions of Australian properties and working capital as well as financing expenses incurred for DSC ARC that was not capitalised after it obtained its TOP. All-in-financing cost averaged 3.12% for the nine months ended.
EBT	44.1	41.5	(6.0)	54.7	75.8	
Gains from revaluation	0.0	0.0	nm	6.5	nm	
Total return before tax	44.1	41.5	(6.0)	61.2	67.8	
Tax	(0.2)	(0.4)	88.2	0.0	nm	
Total return - reported	43.9	41.1	(6.4)	61.2	67.2	
Total return (ex exceptionals)	43.9	41.1	(6.4)	54.7	75.1	
Total return after taxation before distribution	43.9	41.1	(6.4)	61.2	67.2	
Add-back: Non tax deductibles	6.2	6.4	2.7	4.8	131.9	
Income available for distribution	50.1	47.4	(5.3)	66.0	71.9	
Distributable income	50.1	47.4	(5.3)	66.0	71.9	
Number of units 'm (end of period)	781	786	0.6	787	99.8	
DPU (SGD-cts)	6.427	6.425	(0.0)	8.385	76.6	
NAV	0.97	0.97	0.3	0.98	99.3	
Payout ratio (%)	100.0	100.0	0.0 ppt	100.0		
NPI margins (%)	94.2	86.7	(7.4) ppt	93.0		

Source: RHB

Figure 3: Key Metrics Performance

Operating Performance:	3Q14	4Q14	1Q15	2Q15	3Q15
Portfolio Occupancy: (%)	99.5	97.9	99.1	98.3	95.2
Rental Reversion: (%)	NA	NA	NA	NA	NA
DPU (SG cts)	2.140	2.146	2.146	2.140	2.140
	FY-1	FY-2	FY-3	FY-4	FY-5
Lease Expiry Profile: (GFA %)	1.0	15.0	4.0	32.0	13.0
Capital Management:	3Q14	4Q14	1Q15	2Q15	3Q15
All-in cost of borrowing: (%)	3.48	3.30	2.77	3.11	3.40
Aggreg. Leverage: (%)	35.0	34.9	36.6	38.0	38.3
Term of Debt: (yrs)	1.6	4.1	3.8	3.5	3.3

Source: Company

Figure 4: Changes to RHB DPU estimates

(SGD cts)	FY10	FY11	FY12	FY13	FY14	FY15F	FY16F	FY17F	CAGR FY14-17F
DPU - new	5.59	8.23	8.37	8.64	8.57	8.38	9.65	10.19	5.9
Growth %		47.4	1.6	3.3	(0.8)	(2.2)	15.1	5.6	
DPU - old						8.33	9.41	9.95	5.1
Difference (%)						0.6	2.5	2.4	

Source: RHB

Figure 5: CACHE's TP based on Dividend Discount Model (DDM)

	FY15F	FY16F	FY17F	FY18F	Terminal value
DPU (SGD cts)	8.38	9.65	10.19	10.34	95.18
Fair value (SGD)	0.97				
Current price (SGD)	1.03				
Price upside (%)	(5.4)				
Distribution yield (%)	8.2				
Total return (%)	2.8				
Assumptions					
Risk-free rate: (%)	3.0				
Beta	0.97				
Cost of equity (%)	9.3				

Source: RHB

Financial Exhibits

Profit & Loss (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total turnover	81	83	89	100	106
Property operating expenses	(4)	(5)	(6)	(7)	(7)
Net property income	77	78	83	93	98
Management fees	(7)	(7)	(7)	(8)	(9)
Trust expenses	(2)	(2)	(2)	(2)	(3)
Operating EBIT	68	69	73	83	87
Depreciation of fixed assets	(0)	(0)	-	-	-
Operating EBITDA	68	70	73	83	87
Net income from investments	7	9	6	8	8
Other recurring income	(0)	(0)	-	-	-
Interest expense	(11)	(12)	(19)	(19)	(19)
Pre-tax profit	64	66	61	72	76
Taxation	(0)	(0)	-	-	-
Profit after tax & minorities	64	66	61	72	76
Reported net profit	64	66	61	72	76
Adjustment for distributable income	2	1	5	5	5
Total distributable income	66	67	66	76	81

Source: Company data, RHB

Cash flow (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Operating profit	68	69	73	83	87
Depreciation & amortisation	0	0	-	-	-
Other operating cash flow	(6)	(7)	(13)	(13)	(12)
Operating cash flow	62	62	60	70	75
Interest paid	11	12	19	19	19
Tax paid	(0)	(0)	-	-	-
Cash flow from operations	73	74	79	89	94
Capex	-	(1)	-	-	-
Other new investments	(56)	-	(190)	-	-
Other investing cash flow	(0)	(62)	0	0	0
Cash flow from investing activities	(56)	(63)	(190)	0	0
Dividends paid	(64)	(67)	(67)	(74)	(80)
Proceeds from issue of shares	87	-	-	-	-
Increase in debt	-	42	152	(2)	(2)
Other financing cash flow	(9)	(16)	(16)	(16)	(16)
Cash flow from financing activities	14	(40)	69	(93)	(99)
Cash at beginning of period	13	41	11	28	25
Total cash generated	30	(29)	(42)	(4)	(5)
Forex effects	(0)	0	-	-	-
Implied cash at end of period	44	12	(31)	24	20

Source: Company data, RHB

Financial Exhibits

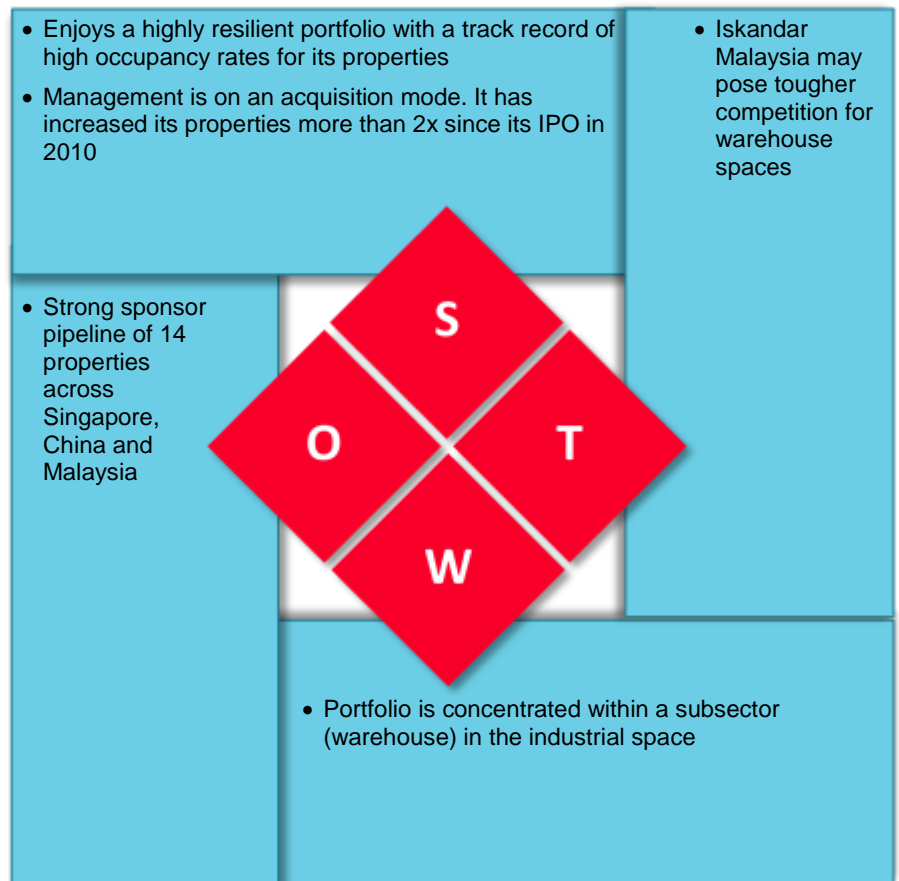
Balance Sheet (SGDm)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Total cash and equivalents	41	11	28	25	20
Accounts receivable	1	3	1	1	1
Other current assets	0	-	-	-	-
Total current assets	42	15	29	26	22
Total investments	1,035	1,044	1,272	1,279	1,287
Total other assets	1	78	1	1	0
Total non-current assets	1,036	1,122	1,272	1,280	1,287
Total assets	1,077	1,137	1,301	1,306	1,309
Short-term debt	-	7	-	-	-
Accounts payable	5	21	7	8	8
Total current liabilities	5	27	7	8	8
Total long-term debt	310	343	500	500	500
Other liabilities	1	0	27	27	27
Total non-current liabilities	311	343	528	528	528
Total liabilities	315	370	534	535	536
Share capital	762	767	767	771	773
Shareholders' equity	762	767	767	771	773
Other equity	-	(0)	-	-	-
Total equity	762	767	767	771	773
Total liabilities & equity	1,077	1,137	1,301	1,306	1,309

Source: Company data, RHB

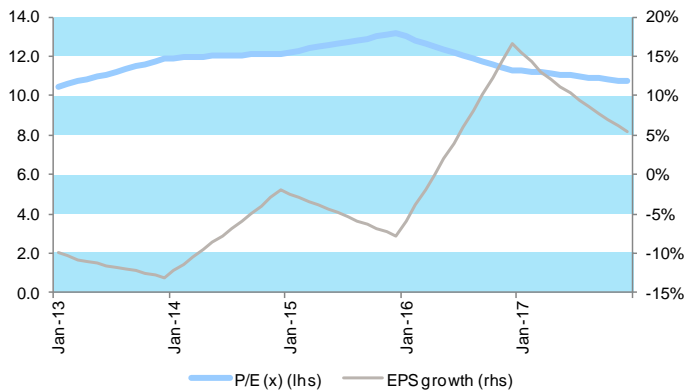
Key Ratios (SGD)	Dec-13	Dec-14	Dec-15F	Dec-16F	Dec-17F
Revenue growth (%)	11.4	2.3	7.2	12.9	5.3
Net profit growth (%)	(4.1)	3.3	(7.2)	17.4	6.2
EPS growth (%)	(13.1)	(1.9)	(7.9)	16.6	5.4
BVPS growth (%)	2.7	(0.1)	(0.6)	(0.2)	(0.5)
Net profit margin (%)	78.7	79.4	68.7	71.4	72.0
Return on average assets (%)	6.2	5.9	5.0	5.5	5.8
Return on average equity (%)	8.9	8.6	8.0	9.3	9.9
Net debt to equity (%)	35.4	44.1	61.6	61.6	62.1
DPS	0.09	0.09	0.08	0.10	0.10
Recurrent cash flow per share	0.10	0.10	0.10	0.11	0.12

Source: Company data, RHB

SWOT Analysis

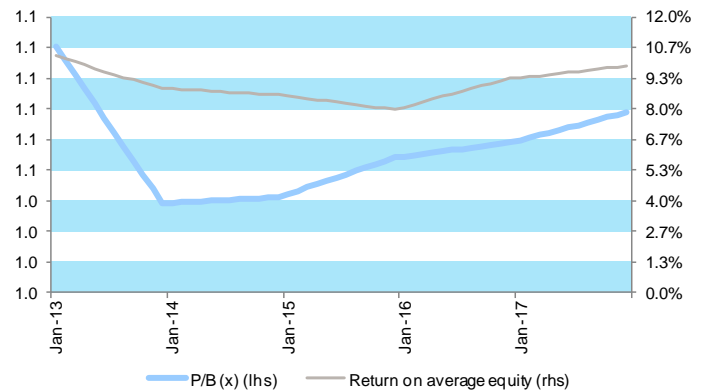


P/E (x) vs EPS growth



Source: Company data, RHB

P/BV (x) vs ROAE



Source: Company data, RHB

Company Profile

Cache Logistics Trust is a Singapore-based REIT. The REIT invests in income-producing real estate used for logistics purposes in Asia-Pacific, as well as real estate-related assets.

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2015-09-01	Neutral	0.97	0.99
2015-07-21	Neutral	1.18	1.16
2015-02-10	Neutral	1.22	1.16
2015-01-27	Neutral	1.21	1.20
2014-10-23	Neutral	1.21	1.19
2013-07-25	Buy	1.42	1.24

Source : RHB, Bloomberg

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