

Cache Logistics Trust

Dominant position among Industrial REITs maintained

28 January 2015

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- Marginally lower full year FY14 DPU of 8.573 Cents (FY13: 8.644 Cents) was below consensus estimates of a higher y-o-y DPU; but in line with our lower estimate of 8.53 Cents.
- Cache maintained its dominant position in the Industrial REITs sector with second highest occupancy (97.9%) and second longest WALE of 4.1 years.
- We roll our valuation forward; maintaining "Accumulate" rating with higher DDM valuation of S\$1.30. (Previous S\$1.27)

What is the news?

Cache Logistics Trust ("Cache") announced its Full Year FY14 (Y/E Dec) results on 27 January after trading hours. Cache delivered a stable performance with 2.3% y-o-y growth in Gross Revenue to S\$82.9 million and marginally lower 0.8% y-o-y DPU of 8.573 Cents.

Analyst briefing key takeaways

- Lower FY14 DPU due to enlarged Unit base** – Enlarged Unit base associated with the DHL Supply Chain Advanced Regional Centre (DSC ARC), which is still under construction and expected to yield returns from Jan 2016.
- Manager will utilise the balance sheet; expect further gearing beyond 35%** – Cache ended FY14 at 31.2% gearing, and expected to reach 34.9% at the end of FY15 when DSC ARC is completed. The Manager is looking to take advantage of low interest rates, lock in new loans and fully utilise the balance sheet to gear up further.
- Leasing efforts progressing well** – Only 11% of portfolio lettable area is up for renewal in 2015 and remains uncommitted. The Manager is confident of the quality of the warehouses and ability to fill the space.
- Expect one-off costs associated with rolling from Master-lease to Multi-tenant lease** – These include leasing commissions, incentives to retain existing tenants or attract new tenants. However, these costs will be offset by inbuilt rental escalations from other tenants within the portfolio.
- Ramp-up type warehouses to outshine cargo lift type** – The Manager opined that warehouses of the ramp-up type will outshine those of the legacy cargo-lift design in the wake of upcoming warehouse supply.

How do we view this

- Dominant position maintained** – Second highest occupancy (97.9%) and second longest weighted average lease expiry (WALE) (4.1 years) for the Industrial REITs sector is testament to the quality of the portfolio of properties.
- Optimistic outlook on lease renewals** – Aggregate portfolio occupancy dipped slightly to 97.9% (from 3QFY14: 99.5%), but we take comfort knowing that only 11% and 16% of portfolio lettable area up for renewal in 2015 and 2016 respectively remains uncommitted.
- Stable performance into FY15** – Portfolio of properties with good locations (near to ports and airport) and superior design (ramp-up type) expected to remain resilient.

Investment Actions

- Attractive forecasted dividend yield of more than 7% and expect stable distributable income from high quality portfolio of properties.
- Maintain our "Accumulate" rating, with higher DDM valuation of S\$1.30. (Previous S\$1.27)

ACCUMULATE (Maintained)

CLOSING PRICE	SGD 1.195
FORECAST DIV	SGD 0.083
TARGET PRICE	SGD 1.300
TOTAL RETURN	15.7%

COMPANY DATA

O/S SHARES (MN) :	781
MARKET CAP (USD mn / SGD mn) :	695 / 933
52 - WK HI/LO (SGD) :	124 / 108
3M Average Daily T/O (mn) :	104

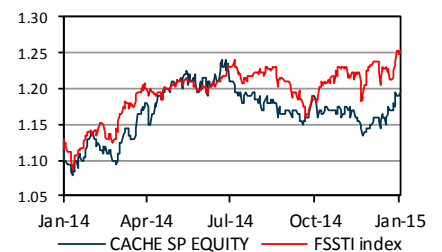
MAJOR SHAREHOLDERS (%)

CWT LTD	7.2%
BANK OF NEW YORK MELLON CORP	6.4%
CAPITAL RESEARCH GLOBAL INVESTOR	5.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	3.5	18	13.3
STI RETURN	13	5.8	13.9

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	87.2	94.7
NPI (SGD mn)	76.8	78.0	82.5	89.6
Dist. Inc. (SGD mn)	65.6	66.9	70.0	76.1
P/NAV (x)	1.13	1.19	1.22	1.24
DPU, adj (Cents)	8.64	8.57	8.92	9.63
Distribution Yield, %	7.8	7.3	7.5	8.1

Source: Company Data, PSR est.

Valuation Method

DDM (Cost of Equity: 7.9%; Terminal g: 0.5%)

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Results at a glance

(SGD mn)	4Q14	4Q13	y-y (%)	FY14	FY13	y-y (%)	Comments
Gross revenue	20.6	20.7	(0.4)	82.9	81.0	2.3	FY14 growth from reversions & escalations.
Net property income	19.4	19.6	(1.0)	78.0	76.8	1.5	NPI increased, despite higher expenses.
Distributable income	16.8	16.6	1.0	66.9	65.6	2.0	Increase in NPI and lower financing costs.
DPU (Cents)	2.146	2.137	0.4	8.573	8.644	(0.8)	Marginal decline due to increased Unit base.

Source: Company, Phillip Securities Research (Singapore)

Table 1. Occupancy across Industrial REITs sector

Rank		Occupancy (%)
1	Soilbuild Business Space REIT	100
2	Cache Logistics Trust	97.9
3	Mapletree Logistics Trust	97.2
4	AIMS AMP Capital Industrial REIT	96.6
5	Cambridge Industrial Trust	96.0
6	Mapletree Industrial Trust	90.8
7	Sabana REIT	90.7
8	Ascendas REIT	86.8
9	Viva Industrial Trust	80.5
	Average	92.9

Source: Various REITs, PSR est.

Maintained position: Second highest occupancy for the Industrial REITs sector.

High occupancy results in high income-generation by the portfolio.

Table 2. WALE across Industrial REITs sector

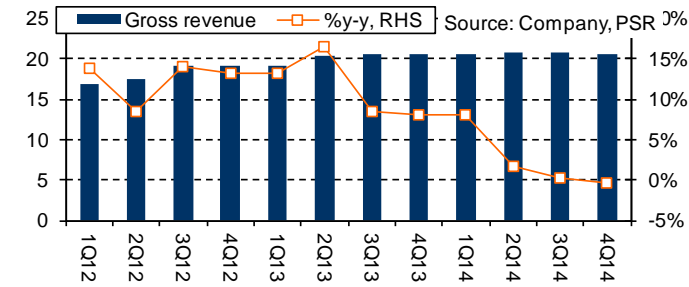
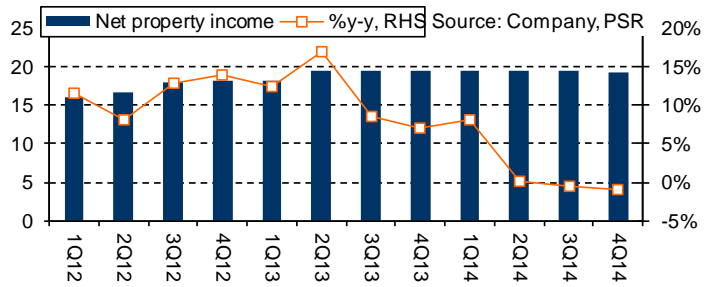
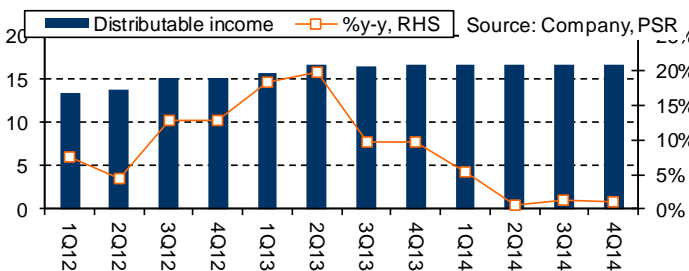
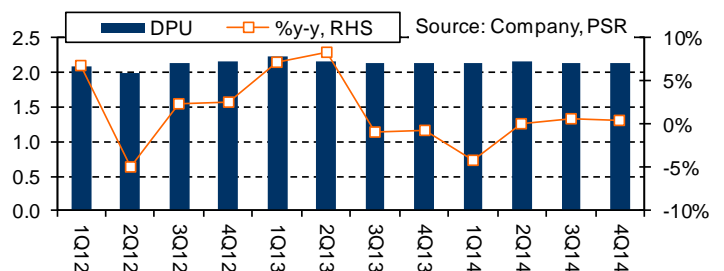
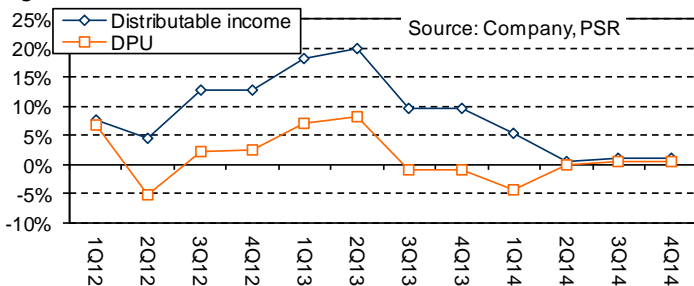
Rank		WALE (Years)	weighted by
1	Mapletree Logistics Trust	4.4	NLA
2	Cache Logistics Trust	4.1	GFA
3	Soilbuild Business Space REIT	4.0	NLA
-	Cambridge Industrial Trust	4.0	rental income
5	Ascendas REIT	3.9	rental income
6	Viva Industrial Trust	3.8	rental income
7	AIMS AMP Capital Industrial REIT	3.6	rental income
8	Mapletree Industrial Trust	2.6	rental income
9	Sabana REIT	2.5	rental income
	Average	3.7	

Source: Various REITs, PSR est.

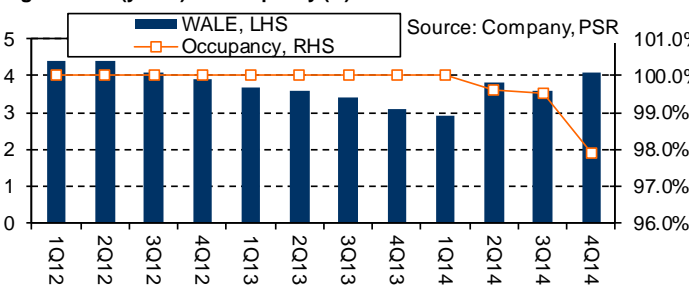
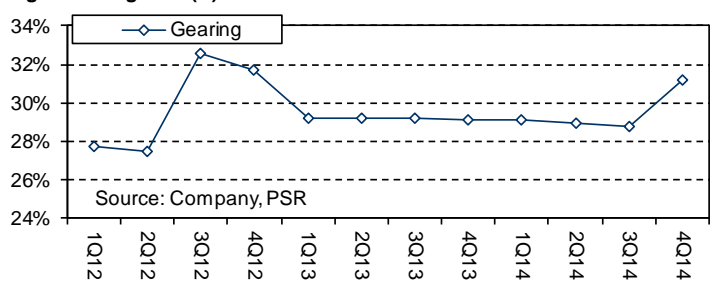
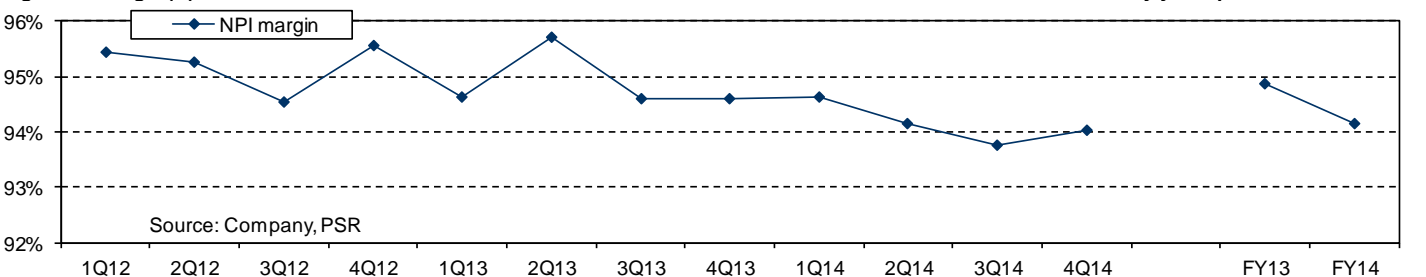
Maintained position: Second longest WALE for the Industrial REITs sector.

Long WALE results in predictability to income flow.

Quarterly Revenue and Profitability data

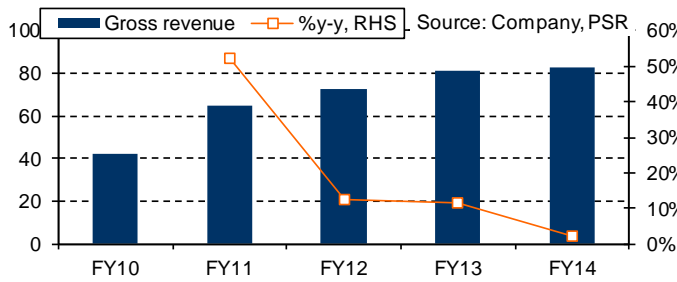
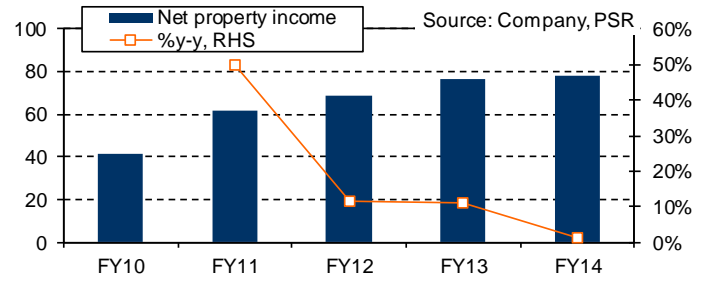
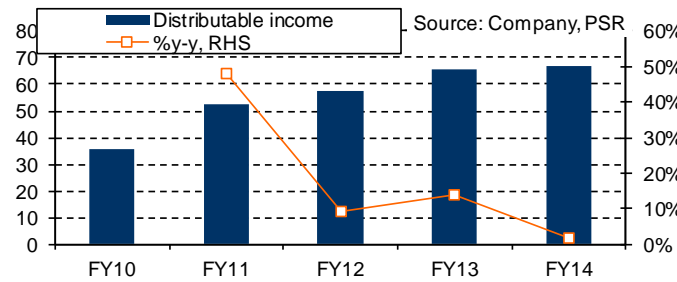
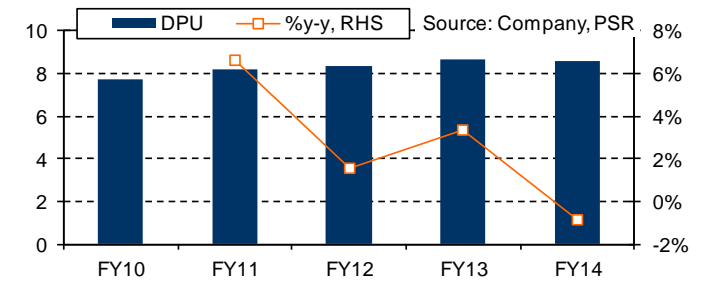
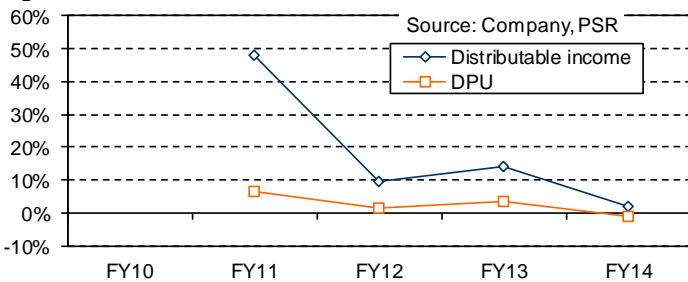
Fig 1. Gross revenue (\$\$ mn)

Fig 2. Net property income (\$\$ mn)

Fig 3. Distributable income (\$\$ mn)

Fig 4. Unitholder Returns (Cents)

Fig 5. Growth: Distributable income & DPU


Quarterly Operational Indicators

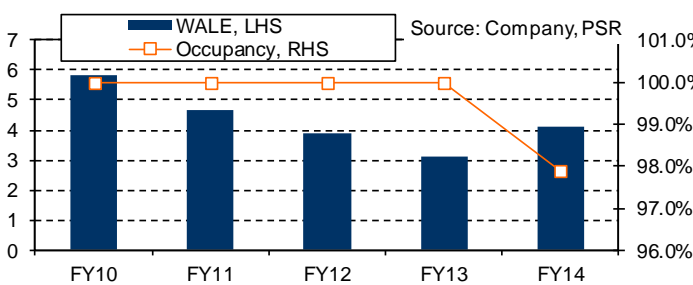
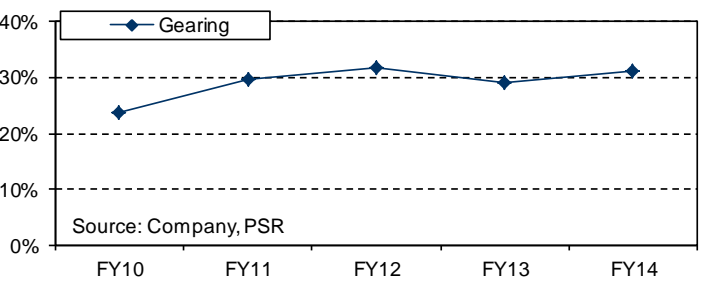
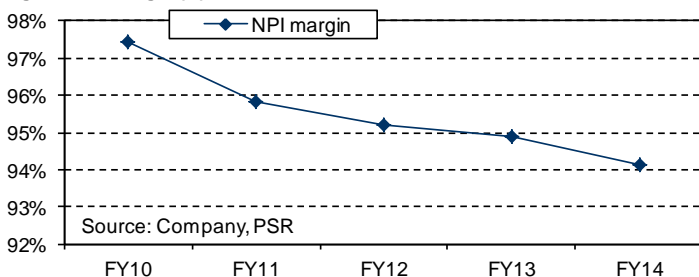
Fig 6. WALE (years) & Occupancy (%)

Fig 7. Gearing ratio (%)

Fig 8. NPI margin (%)


y-y comparison for YTD FY14

Full Year Revenue and Profitability data

Fig 9. Gross revenue (S\$ mn)

Fig 10. Net property income (S\$ mn)

Fig 11. Distributable income (S\$ mn)

Fig 12. Unitholder Returns (Cents)

Fig 13. Growth: Distributable income & DPU


Full Year Operational Indicators

Fig 14. WALE (years) & Occupancy (%)

Fig 15. Gearing ratio (%)

Fig 16. NPI margin (%)


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	87.2	94.7
Property expenses	(3.5)	(4.1)	(4.9)	(4.7)	(5.0)
Net property income	69.1	76.8	78.0	82.5	89.6
Net Finance (Expense)/Inc.	(20.8)	(10.8)	(12.3)	(11.4)	(12.3)
Manager's fees	(5.7)	(6.5)	(6.7)	(6.9)	(7.3)
Other items	(2.2)	(2.0)	(1.9)	(2.2)	(2.3)
Exceptional items	-	-	-	-	-
Net income	40.4	57.4	57.1	61.9	67.7
FV change, Invmnt. properties	26.2	6.7	9.0	-	-
Total Return Before Tax	66.6	64.2	66.1	61.9	67.7
Taxation	(0.2)	(0.5)	(0.3)	(0.3)	(0.3)
Total Return After Tax	66.4	63.7	65.8	61.6	67.4
Distribution adjustments	(8.9)	1.9	1.1	8.4	8.6
Income available for distribution	57.5	65.6	66.9	70.0	76.1
Income distributed	57.5	65.6	66.9	70.0	76.1

Per share data (Cents)

Y/E Dec	FY12	FY13	FY14	FY15e	FY16e
NAV	96.0	98.0	98.0	97.6	96.6
EPU	9.68	8.40	8.45	7.87	8.57
DPU	8.37	8.64	8.57	8.92	9.63

Cash Flow

Y/E Dec, SGD mn	FY12	FY13	FY14	FY15e	FY16e
CFO					
Net income	40.4	57.4	57.1	61.9	67.7
Adjustments	25.1	15.7	17.5	16.9	18.1
WC changes	(0.5)	(0.7)	(0.5)	(6.1)	4.4
Cash generated from ops	65.0	72.5	74.1	72.7	90.2
Others	(0.2)	(0.2)	(0.3)	(0.3)	(0.3)
Cashflow from ops	64.9	72.3	73.8	72.4	89.9
CFI					
CAPEX, net	(0.8)	(0.4)	(63.5)	(44.5)	(0.2)
Purchase of Inv. Propty.	(102)	(56)	-	-	-
Others	0.0	0.1	0.2	-	-
Cashflow from investments	(103)	(56)	(63.3)	(44.5)	(0.2)
CFF					
Share issuance, net	59.1	86.8	-	-	-
Loans, net of repayments	60.0	-	42.2	61.8	-
Dividends	(55.7)	(64.1)	(66.7)	(70.0)	(76.1)
Others	(24.3)	(11.3)	(15.5)	(11.4)	(12.3)
Cashflow from financing	39.1	11.4	(40.1)	(19.6)	(88.4)
Net change in cash	1.1	27.6	(29.5)	8.3	1.3
Effects of exchange rates	0.1	(0.1)	0.0	-	-
Ending cash	13.3	40.8	11.3	19.6	20.9

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	1,164	1,164
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	1,166	1,166
Cash	13.3	40.8	11.3	19.6	20.9
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	21.9	24.1
Total Assets	987	1,077	1,137	1,188	1,190
LIABILITIES					
Trade payables	5.3	4.6	20.5	13.2	18.4
Borrowings	-	-	6.6	6.6	6.6
Others	-	-	-	-	-
Total current liabilities	5.3	4.6	27.1	19.8	25.1
Borrowings	308.4	310.1	342.6	404.4	404.4
Others	1.4	0.7	0.4	0.4	0.4
Total non-current liabilities	309.8	310.8	343.0	404.8	404.8
Total Liabilities	315.1	315.5	370.2	424.7	429.9
Net assets	671.9	761.8	766.9	763.7	760.6
Represented by:					
Unitholders' funds	671.9	761.8	766.9	763.7	760.6

Valuation Ratios

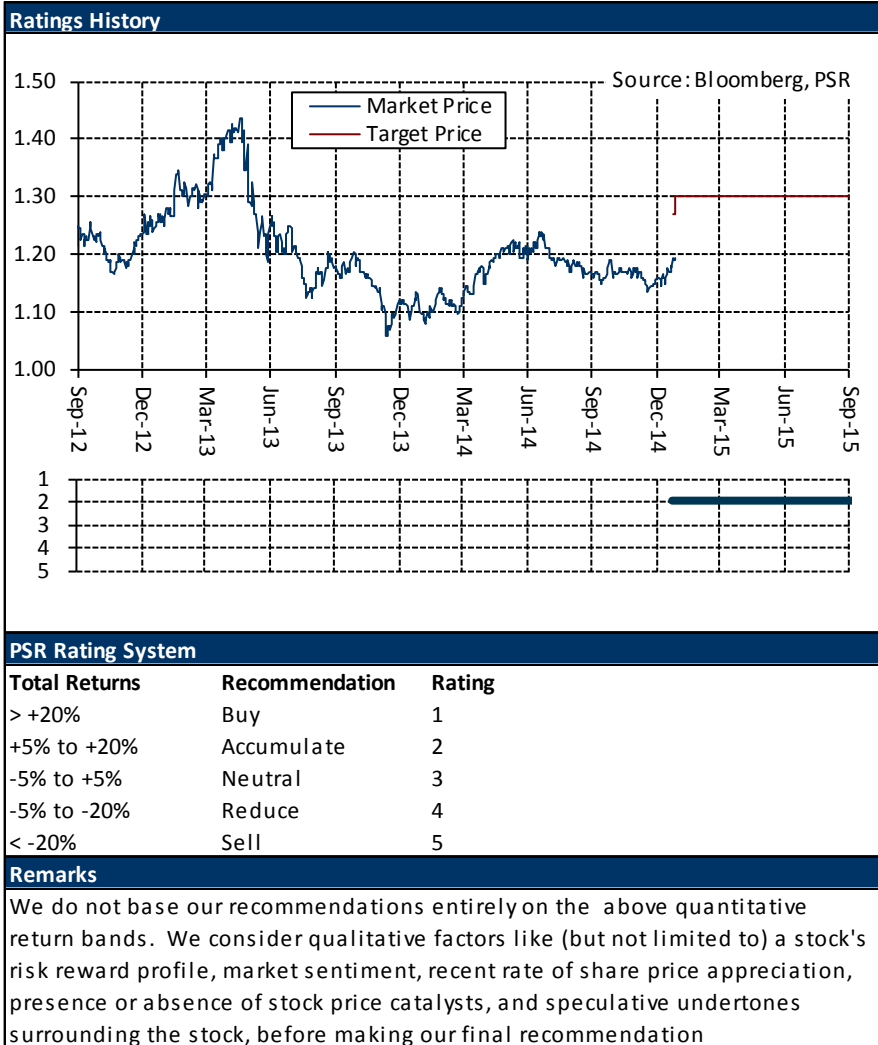
Y/E Dec	FY12	FY13	FY14	FY15e	FY16e
P/NAV (x)	1.31	1.13	1.19	1.22	1.24
P/DPU (x)	15.01	12.83	13.64	13.40	12.40
Distribution Yield (%)	6.66	7.79	7.33	7.46	8.06
NPI yield (%)	7.62	7.66	7.50	7.47	7.70

Growth & Margins (%)

Growth					
Revenue	12.4%	11.4%	2.3%	5.2%	8.6%
Net property income (NPI)	11.7%	11.1%	1.5%	5.8%	8.7%
Distributable income	9.5%	14.1%	2.0%	4.7%	8.7%
DPU		3.3%	-0.8%	4.0%	8.0%
Margins					
NPI margin	95.2%	94.9%	94.1%	94.6%	94.7%

Key Ratios

Net Debt or (Net Cash)	295.2	269.3	338.0	391.5	390.2
Gearing (%)	31.2%	28.8%	30.7%	34.6%	34.5%



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