

Cache Logistics Trust

Decent performance against challenging environment

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- S\$28.09mn gross revenue exceeded our expectations of S\$26.7mn by 5.2%
- 1.989 cents DPU in line with our expectations of 2.016 cents
- Some success during the quarter, with forward renewals and new leases
- No update on Schenker Megahub as the case is ongoing

Results at a glance

(SGD mn)	2Q16	2Q15	y-y (%)	Comments
Gross revenue	28.09	21.55	↑30.3	Contributions from six Australian properties acquired in 1Q15 and 4Q15, and DHL Supply Chain Advanced Regional Centre (DSC ARC)
Net property income	22.55	18.51	↑21.9	Higher property tax, property maintenance expenses, lease commissions and expenses associated with the conversion of master-leases to multi-tenancies
Distributable income	17.83	16.78	↑6.2	S\$1.63mn higher net financing cost
DPU (cents)	1.989	2.140	↓(7.1)	14.3% larger unit base - 896.4mn in 1Q16 vs. 784.1mn in 1Q15
DPU, adj. (cents)	1.989	1.955	↑1.7	Adjusting for partial capital distribution of 0.185 cents from Kim Heng Warehouse in 2Q15

Source: Company, Phillip Securities Research (Singapore)

- **Core-DPU had y-o-y growth, after adjusting out capital distribution contribution**
Our forecast for 2QFY16 DPU was 2.016 cents, which includes 0.166 cents capital distribution from Kim Heng Warehouse, in our assumption. However, actual 2QFY16 DPU did not include any partial capital distribution. Actual 2QFY16 DPU of 1.989 cents exceeded our expectations of core DPU of 1.85 cents by 7.5%. After adjusting out the non-recurring 0.185 cents from the Kim Heng Warehouse distribution, 2QFY15 core DPU is 1.955 cents. On a core-DPU basis, 2QFY16 DPU is actually 1.7% higher y-o-y.
- **Successful new leases and forward renewals done during the quarter, inching up portfolio occupancy to 95.8% from 94.2%; portfolio WALE now 4.1 years**
Over 125,000 sqft of new leases were secured over spaces that were previously vacant. This comes from small pockets of spaces in Cache Cold Centre, Pandan Logistics Hub and notably Block 2 of DHL Supply Chain Advanced Regional Centre (DSC ARC). Block 2 had been slow to fill up, but is now about half-filled, by our estimates. Half of level 2 of Block 2 has been leased out, with negotiations ongoing for the other half with another potential tenant. Level 1 of Block 2 has been partially leased out on short-term leases. Management shared that the occupancy at the DSC ARC property is now at 89% (Block 1 100% occupied). Forward lease commitments in 2018 were from CWT Commodity Hub.
- **Conversion of Hi-Speed Logistics Centre to multi-tenanted; negative impact to NPI**
The lease of the existing master lease expires in mid-October 2016. The property represents about 5% (by NLA) of the Singapore portfolio. An existing end-user, Nippon Express, will take up 77% of the property. The remaining 23% of the property has been leased to a 3PL user. While gross revenue for the property is likely to be higher, that will be offset by higher property expenses associated with the conversion from a triple-net to multi-tenancy. We believe that on the whole, the property will contribute a lower net property income (NPI) post-conversion.

Upgrade to "Neutral" rating with higher DDM valuation of S\$0.85 (previous: S\$0.78)

We have been overly-pessimistic on the ability of the portfolio to retain tenants and fill vacant space. As a result of the successful leasing activity, we have re-jigged our forecasts, consequently lifting FY16/FY17/FY18 DPU by 4.5%/10.4%/10.8% from previous. New target price is 9.0% higher from previous, but we still see lower y-o-y DPU, going forward.

25 July 2016

Neutral (Upgraded)

CLOSING PRICE	SGD 0.895
FORECAST DIV	SGD 0.080
TARGET PRICE	SGD 0.850
TOTAL RETURN	3.9%

COMPANY DATA

O/S SHARES (MN):	895
MARKET CAP (USD mn / SGD mn):	590 / 801
52 - WK HI/LO (SGD):	1.16 / 0.81
3M Average Daily T/O (mn):	186

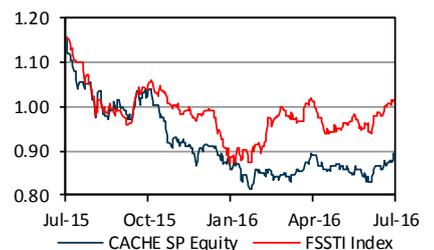
MAJOR SHAREHOLDERS (%)

BANK OF NEW YORK MELLON CORP	4.4%
CWT LTD	4.4%
CAPITAL GROUP COMPANIES INC	4.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	6.5	2.9	(5.2)
STIRETURN	5.7	15	(9.1)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16e	FY 17e	FY 18e
Gross Rev. (SGD mn)	89.7	111.3	110.9	110.7
NPI (SGD mn)	76.2	88.3	86.5	86.3
Dist. Inc. (SGD mn)	62.9	72.3	66.0	65.5
P/NAV (x)	1.00	1.03	1.05	1.06
DPU, adj (Cents)	8.50	8.03	7.14	6.97
Distribution Yield, %	9.6	9.0	8.0	7.8

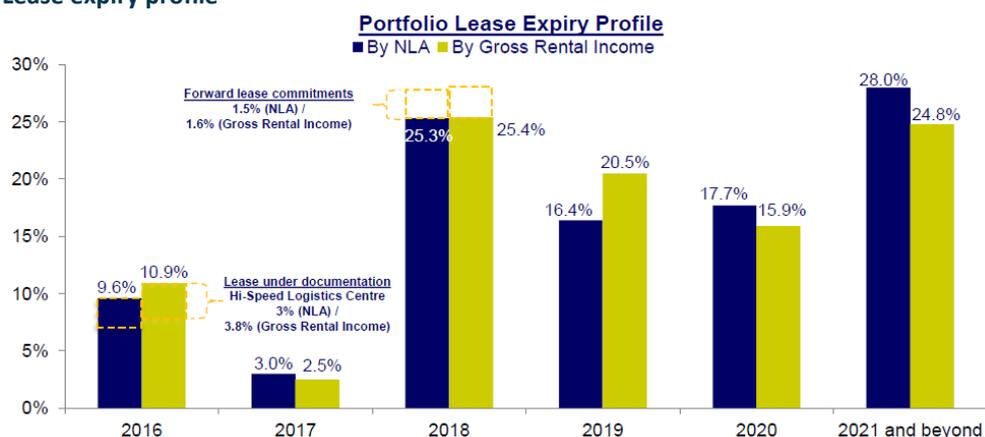
Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 7.8%; Terminal g: 0.0%)

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Lease expiry profile



Source: Company 2QFY16 Results Presentation, 21 July 2016

9.6% of leased lettable area up for renewal in FY16

The expiries are substantially from two properties: Schenker Megahub (31 August) and Hi-Speed Logistics Centre (15 October). The 3% by NLA of "lease under documentation" in 2016 refers to Nippon Express, which we highlighted earlier. The lease has been agreed upon and just needs to be signed. Following that, 2016 lease expiry by NLA will be down to 6.6%, of which is substantially Schenker Megahub.

3.0% of leased lettable area up for renewal in FY17

The leases expiring do not pose a material threat to the overall portfolio. They come from multi-tenancies; and there are no master leases expiring during the year.

25.3% of leased lettable area up for renewal in FY18

This arises primarily from the master lease of CWT Commodity Hub which will be expiring in April. Some forward lease commitments were signed during the quarter, with the end-users at CWT Commodity Hub. While there is not much new supply of space coming on-stream in 2018, Management is cautious of new space from 2016 and 2017 that remain vacant going into 2018.

Peer relative valuation

Cache Logistics Trust is on par with its nearest peer in terms of trailing P/NAV multiple, and has a higher 12M trailing yield.

Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S\$m)	Price (S\$)	trailing P/NAV (x)	12M trailing yield (%)
Mapletree Logistics Trust	2,605	1.045	1.03	7.1
Cache Logistics Trust	801	0.895	1.03	9.4

Source: Bloomberg (Updated: 22 July 2016)

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
Gross revenue	82.9	89.7	111.3	110.9	110.7
Property expenses	(4.9)	(13.6)	(23.0)	(24.4)	(24.3)
Net property income	78.0	76.2	88.3	86.5	86.3
Net Finance (Expense)/Inc.	(12.3)	(14.1)	(19.2)	(20.0)	(21.0)
Manager's fees	(6.7)	(7.5)	(8.0)	(8.0)	(8.0)
Other items	(1.9)	(1.6)	(2.6)	(2.6)	(2.5)
Exceptional items	-	-	-	-	-
Net income	57.1	53.0	58.6	56.0	54.8
FV change, Invmnt. properties	9.0	(64.7)	-	-	-
Total Return Before Tax	66.1	(11.7)	58.6	56.0	54.8
Taxation	(0.3)	(0.6)	(1.0)	(0.8)	(0.8)
Total Return After Tax	65.8	(12.3)	57.5	55.2	54.0
Distribution adjustments	1.1	75.2	10.2	10.8	11.5
Portion of sales proceeds	-	5.1	4.6	-	-
Income available for distribution	66.9	62.9	72.3	66.0	65.5
Income distributed	66.9	62.9	72.3	66.0	65.5

Per share data (Cents)

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
NAV	98.0	88.0	86.7	85.5	84.4
EPU	8.45	(1.47)	6.41	6.11	5.94
DPU	8.57	8.50	8.03	7.14	6.97

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

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
CFO					
Net income	57.1	53.0	58.6	56.0	54.8
Adjustments	17.5	20.0	26.1	27.4	29.0
WC changes	(0.5)	2.7	3.9	2.6	(2.4)
Cash generated from ops	74.1	75.7	88.6	86.0	81.5
Others	(0.3)	(0.6)	(1.0)	(0.8)	(0.8)
Cashflow from ops	73.8	75.1	87.6	85.2	80.7
CFI					
CAPEX, net	(63.5)	(80.5)	(2.2)	(3.1)	(4.2)
Purchase of Inv. Propty.	-	(182.5)	-	-	-
Others	0.2	0.1	-	-	-
Cashflow from investments	(63)	(263.0)	(2.2)	(3.1)	(4.2)
CFF					
Share issuance, net	-	100.0	-	-	-
Loans, net of repayments	42.2	173.1	10.0	10.0	10.0
Dividends	(66.7)	(74.2)	(72.9)	(66.3)	(63.8)
Others	(15.5)	(14.2)	(19.2)	(20.0)	(21.0)
Cashflow from financing	(40.1)	184.7	(82.1)	(76.2)	(74.7)
Net change in cash	(29.5)	(3.2)	3.3	5.9	1.7
Effects of exchange rates	0.0	(0.0)	-	-	-
Ending cash	11.3	8.1	11.3	17.2	18.9

Source: Company, Phillip Securities Research (Singapore) Estimates

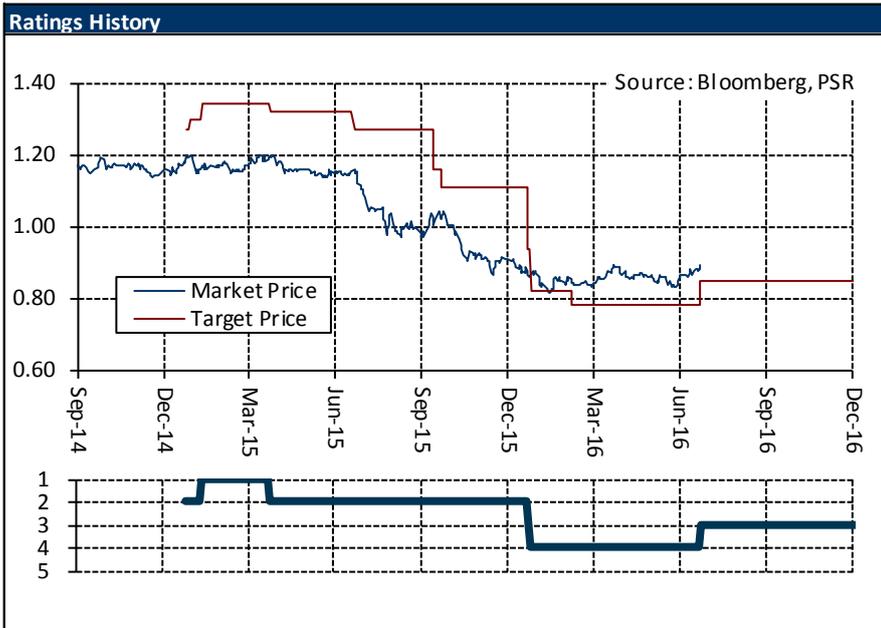
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16e	FY17e	FY18e
ASSETS					
Investment properties	1,044	1,308	1,308	1,308	1,308
Inv. Propty. Under Devmnt.	75.7	-	-	-	-
PPE	1.8	3.0	4.3	5.9	8.1
Others	0.2	1.8	1.8	1.8	1.8
Total non-current assets	1,122	1,313	1,314	1,316	1,318
Cash	11.3	8.1	11.3	17.2	18.9
Trade receivables	3.5	5.0	4.0	4.9	5.0
Others	0.1	0.4	0.4	0.4	0.4
Total current assets	14.8	13.4	15.8	22.5	24.3
Total Assets	1,137	1,326	1,330	1,338	1,342
LIABILITIES					
Trade payables	20.5	14.3	17.2	20.7	18.5
Borrowings	6.6	8.3	8.3	8.3	8.3
Others	-	-	-	-	-
Total current liabilities	27.1	22.6	25.5	29.0	26.8
Borrowings	343	515	525	535	545
Others	0.4	2.1	2.1	2.1	2.1
Total non-current liabilities	343	517	527	537	547
Total Liabilities	370	540	553	566	574
Net assets	767	787	777	772	768
Represented by:					
Unitholders' funds	767	787	777	772	768

Valuation Ratios

Y/E Dec	FY14	FY15	FY16e	FY17e	FY18e
P/NAV (x)	1.20	1.00	1.03	1.05	1.06
P/DPU (x)	13.68	10.39	11.14	12.53	12.84
Distribution Yield (%)	7.31	9.62	8.98	7.98	7.79
NPI yield (%)	7.50	6.47	6.75	6.61	6.60
Growth & Margins (%)					
Growth					
Revenue	2.3%	8.3%	24.0%	-0.4%	-0.2%
Net property income (NPI)	1.5%	-2.4%	16.0%	-2.1%	-0.2%
Distributable income	2.0%	-6.0%	15.0%	-8.8%	-0.7%
DPU	-	-0.9%	-5.5%	-11.1%	-2.4%
Margins					
NPI margin	94.1%	84.9%	79.4%	78.0%	78.0%
Key Ratios					
Net Debt or (Net Cash)	338.0	515.4	522.1	526.3	534.5
Gearing (%)	30.7%	39.5%	40.1%	40.6%	41.2%



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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