

Cache Logistics Trust

Balance sheet substantially weakened

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- FY16 Gross revenue of S\$111.3mn in line with our forecast of S\$111.3mn; and in line with consensus expectation of S\$111.1mn
- FY16 DPU of 7.725 cents in line with our forecast of 7.592 cents; and missed consensus expectation of 8.10 cents by 4.6%
- DPU of 1.850 cents declared for 4QFY16 (4QFY15: 2.074 cents)

The price of Cache Logistics Trust had shed 11% during 2016, to close at S\$0.81 at the end of the year. Unitholders would have received 7.922 cents DPU for the 12-month holding period from January to December 2016, arising from 4QFY15 to 3QFY16 (2.047, 2.039, 1.989 and 1.847 cents) distributions. For 2017, we view the high gearing of 43.1% as the key idiosyncratic impediment to inorganic growth. New units created through an equity fund raising will likely put DPU under pressure again, as what happened in 2016.

Results at a glance

(SGD mn)	FY16	FY15	yoy (%)	
Gross revenue	111.3	89.7	↑24.0	Australian properties acquired in 1Q15 and 4Q15, and DHL Supply Chain Advanced Regional Centre (DSC ARC), offset by lower income from Schenker Megahub
Net property income	88.0	76.2	↑15.6	Higher property related expenses due to conversions to multi-tenanted leases
Distributable income	69.3	68.0	↑2.0	Partial capital distribution of S\$2.40mn and S\$5.08mn in FY16 and FY15 respectively, from divestment proceeds of Kim Heng Warehouse
DPU (cents)	7.725	8.500	↓(9.1)	Larger unit base (+12% weighted average) Includes capital distribution of 0.268 cents and 0.614 cents in FY16 and FY15 respectively
DPU, adj. (cents)	7.457	7.886	↓(5.4)	DPU from operations only, excludes from capital

Source: Company, Phillip Securities Research (Singapore)

Singapore portfolio battered 7%, aggregate leverage raised to 43.1%

S\$80.74mn fair value loss in investment properties for the full year was effectively by the Singapore portfolio. There was a S\$36.1mn fair value loss in 3QFY16 in relation to 51 Alps Avenue (Schenker Megahub). The remaining S\$44.6mn loss in 4QFY16 was mainly due to four properties – CWT Commodity Hub, Cache Cold Centre, Hi-Speed Logistics Hub and Pandan Logistics Hub. In contrast, the Australia portfolio appreciated a modest 1.7% year-on-year (yoy) to A\$168.6mn. Overall, NAV/share is lower by 10 cents yoy to 78 cents.

51 Alps Avenue remains unresolved, Cache Changi Districentre 3 divested

The manager remains confident of its position in the tenancy dispute at 51 Alps Avenue and expects a positive outcome from the court proceedings. Divestment of Cache Changi Districentre 3 was completed on January 23, for S\$25.3mn. The manager has not specified how the cash proceeds will be deployed, but we believe the immediate consideration would be to lower aggregate leverage by retiring debt, followed by making an acquisition and lastly stabilising DPU by paying out capital as distributions.

Leases expiring in FY17 not a major concern, but FY18 has concentration risk

4.9% of leases by gross revenue will be expiring in FY17; none of them are master leases. Thus they will not pose a major impact to the portfolio. However, FY18 will see 22% of leases expiring – split between CWT Commodity Hub master lease (13%) and others (9%). More than 60% of the space in Commodity Hub has been forward renewed.

Downgrade to "Reduce" rating with lower DDM valuation of S\$0.73 (previous: S\$0.78)

Confronted with the dim prospects for inorganic growth without further unitholder dilution, and track record of yoy lower DPU from operations, we now use -1.5% as our terminal growth assumption. Our target price is an implied 0.95x FY17e P/NAV.

25 January 2017

Reduce (Downgraded)

LAST CLOSE PRICE	SGD 0.820
FORECAST DIV	SGD 0.077
TARGET PRICE	SGD 0.730
TOTAL RETURN	-1.6%

COMPANY DATA

O/S SHARES (MN)	898
MARKET CAP (USD mn / SGD mn)	512 / 727
52 - WK HI/LO (SGD)	0.95 / 0.79
3M Average Daily T/O (mn)	186

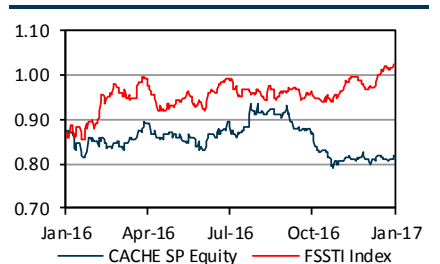
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	(18)	(6.0)	0.4
STIRETURN	3.4	6.3	22.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Gross Rev. (SGD mn)	89.7	111.3	105.9	108.0
NPI (SGD mn)	76.2	88.0	81.7	82.1
Dist. Inc. (SGD mn)	62.9	66.9	59.3	64.1
P/NAV (x)	1.00	1.05	1.06	1.08
DPU, adj (cents)	8.50	7.73	6.44	6.91
Distribution Yield (%)	9.6	9.4	7.9	8.4

Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 6.8%; Terminal g: -15%)

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Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
Gross revenue	82.9	89.7	111.3	105.9	108.0
Property expenses	(4.9)	(13.6)	(23.3)	(24.2)	(25.9)
Net property income	78.0	76.2	88.0	81.7	82.1
Net Finance (Expense)/Inc.	(12.3)	(14.1)	(19.5)	(20.4)	(20.4)
Manager's fees	(6.7)	(7.5)	(6.5)	(7.3)	(7.3)
Other items	(1.9)	(1.6)	(3.1)	(3.3)	1.0
Exceptional items	-	-	-	-	-
Net income	57.1	53.0	57.6	50.7	55.4
FV change, Invmnt. properties	9.0	(64.7)	(80.7)	-	-
Total Return Before Tax	66.1	(11.7)	(23.2)	50.7	55.4
Taxation	(0.3)	(0.6)	(0.8)	(0.7)	(0.8)
Total Return After Tax	65.8	(12.3)	(24.0)	50.0	54.6
Distribution adjustments	1.1	75.2	90.9	9.3	9.4
Portion of sales proceeds	-	5.1	2.4	-	-
Income available for distribution	66.9	62.9	66.9	59.3	64.1
Income distributed	66.9	62.9	66.9	59.3	64.1

Per share data (cents)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
NAV	98.0	88.0	78.0	77.0	76.2
EPU	8.45	(1.47)	(2.67)	5.53	6.00
DPU	8.57	8.50	7.73	6.44	6.91

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

Cash Flow

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
CFO					
Net income	57.1	53.0	57.6	50.7	55.4
Adjustments	17.5	20.0	26.3	26.9	27.0
WC changes	(0.5)	2.7	(1.7)	5.2	(2.5)
Cash generated from ops	74.1	75.7	82.2	82.7	79.9
Others	(0.3)	(0.6)	(0.9)	(0.7)	(0.8)
Cashflow from ops	73.8	75.1	81.3	82.0	79.1
CFI					
CAPEX, net	(63.5)	(80.5)	(7.2)	(1.2)	(1.3)
Purchase of Inv. Propty.	-	(182.5)	-	25.3	-
Others	0.2	0.1	0.0	-	-
Cashflow from investments	(63)	(263.0)	(7.2)	24.1	(1.3)
CFF					
Share issuance, net	-	100.0	-	-	-
Loans, net of repayments	42.2	173.1	13.0	-	10.0
Dividends	(66.7)	(74.2)	(63.1)	(60.6)	(62.8)
Others	(15.5)	(14.2)	(18.5)	(20.4)	(20.4)
Cashflow from financing	(40.1)	184.7	(68.7)	(80.9)	(73.2)
Net change in cash	(29.5)	(3.2)	5.5	25.1	4.7
Effects of exchange rates	0.0	(0.0)	0.0	-	-
Ending cash	11.3	8.1	13.6	38.7	43.4

Source: Company, Phillip Securities Research (Singapore) Estimates

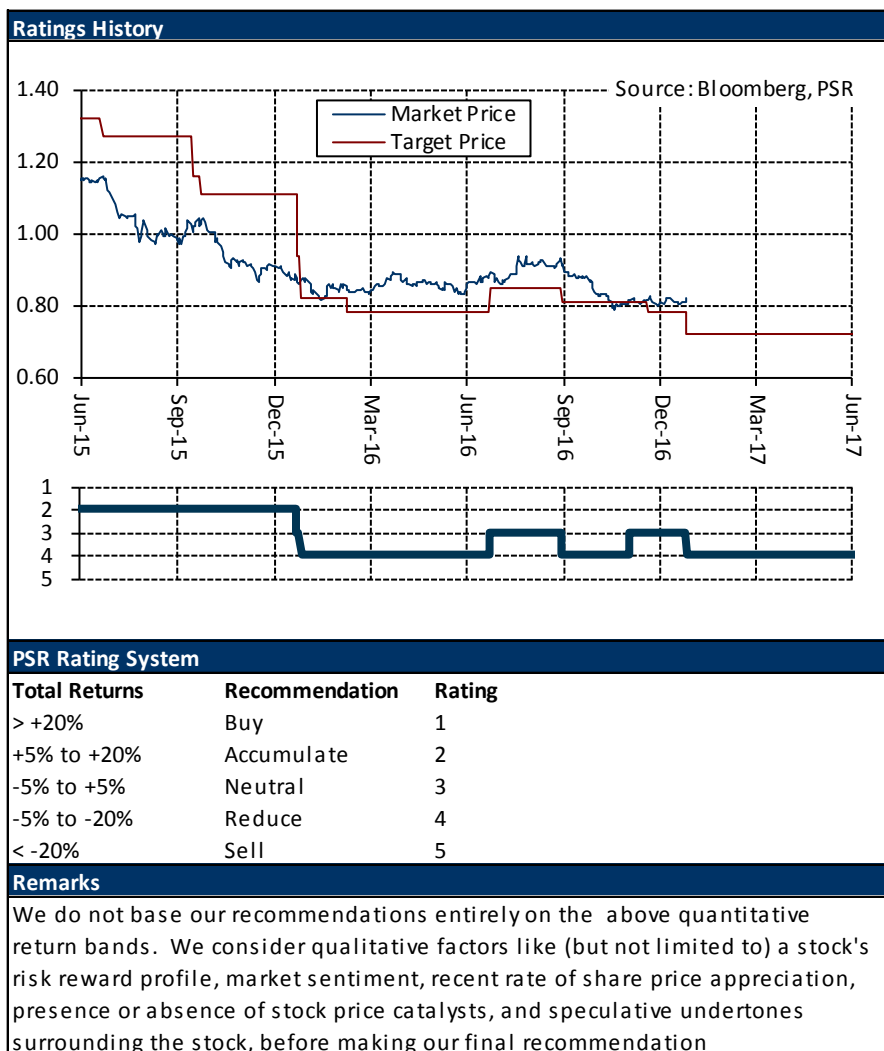
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
Investment properties	1,044	1,308	1,211	1,211	1,211
Inv. Propty. Under Devmnt.	75.7	-	-	-	-
PPE	1.8	3.0	3.1	3.3	3.4
Others	0.2	1.8	0.0	0.0	0.0
Total non-current assets	1,122	1,313	1,214	1,214	1,214
Cash	11.3	8.1	13.6	38.7	43.4
Trade receivables	3.5	5.0	5.4	5.1	5.5
Others	0.1	0.4	25.3	-	-
Total current assets	14.8	13.4	44.2	43.8	48.9
Total Assets	1,137	1,326	1,258	1,258	1,263
LIABILITIES					
Trade payables	20.5	14.3	13.9	18.7	16.6
Borrowings	6.6	8.3	4.6	9.6	9.6
Others	-	-	0.0	0.0	0.0
Total current liabilities	27.1	22.6	18.5	28.4	26.2
Borrowings	343	515	534	529	539
Others	0.4	2.1	4.4	4.4	4.4
Total non-current liabilities	343	517	539	534	544
Total Liabilities	370	540	557	562	570
Net assets	767	787	701	696	693
Represented by:					
Unitholders' funds	767	787	701	696	693

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/NAV (x)	1.20	1.00	1.05	1.06	1.08
P/DPU (x)	13.68	10.39	10.61	12.74	11.87
Distribution Yield (%)	7.31	9.62	9.42	7.85	8.43
NPI yield (%)	7.50	6.47	6.99	6.74	6.78
Growth & Margins (%)					
Growth					
Revenue	2.3%	8.3%	24.0%	-4.8%	2.0%
Net property income (NPI)	1.5%	-2.4%	15.6%	-7.2%	0.5%
Distributable income	2.0%	-6.0%	6.4%	-11.4%	8.1%
DPU	-	-0.9%	-9.1%	-16.7%	7.3%
Margins					
NPI margin	94.1%	84.9%	79.1%	77.1%	76.0%
Key Ratios					
Net Debt or (Net Cash)	338.0	515.4	525.3	500.2	505.5
Aggregate Leverage (%)	31.2%	40.0%	44.5%	44.5%	45.3%



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