

Cache Logistics Trust

Soft DPU boosted by capital distribution

SINGAPORE | REAL ESTATE (REIT) | RESULTS

21 April 2017

- 1Q17 gross revenue in line with our forecast
- 1Q17 DPU from operations exceeded our forecast by 5.0%
- Quarter-on-quarter improvement in occupancy to 97.2% from 96.4%, but WALE continues to shorten to 3.6 years
- Adjusted our FY17e/FY18e revenue forecast higher by 1.6%/1.5%
- FY17e/FY18e DPU forecast adjusted higher by 3.9%/1.3%

Results at a glance

(SGD mn)	1Q17	1Q16	yoy (%)	Comments
Gross revenue	27.06	27.87	↓(2.9)	Lower income from Schenker Megahub and absence of Cache Changi Districentre 3 (divested in 1Q17, 23 Jan 17); offset by contribution from DSC ARC and Spotlight warehouse in Australia (acquired in 1Q17, 22 Mar 17)
Net property income	20.78	22.05	↓(5.8)	Higher property related expenses due to conversions to multi-tenanted leases
Distributable income	16.24	18.25	↓(11.0)	Includes partial capital distribution of S\$0.929mn and S\$1.647mn in 1Q17 and 1Q16 respectively, from divestment proceeds of Kim Heng Warehouse
DPU (cents)	1.80	2.04	↓(11.7)	Includes capital distribution of 0.103 cent and 0.184 cent in 1Q17 and 1Q16 respectively
DPU, adj. (cents)	1.697	1.855	↓(8.5)	DPU from operations only, excludes from capital

Source: Company, Phillip Securities Research (Singapore)

Manageable lease expiry profile for FY17; FY18 not out of the woods

None of the 4.7% of leases by net lettable area (NLA) expiring in FY17 are master leases, hence they do not pose a major threat to the portfolio. Of the 20.8% of leases by NLA expiring in FY18, expiry of the CWT Commodity Hub master lease accounts for ~13% and ~8% from the rest of the portfolio. According to JTC data as at December 2016, planned supply of warehouse space in 2017 is 58% higher than the net new supply in 2016. This could result in an overhang of vacant warehouse space going into 2018, thus impacting leasing for CWT Commodity Hub.

Business as usual, pending completion of takeover of CWT Ltd by HNA Holding Group

In terms of the right of first refusal (ROFR) agreement, CWT will grant the ROFR as long as ARA-CWT Trust Management (Cache) Limited remains the manager of the trust, and CWT holds at least 15% of the manager. Hence even after a takeover by HNA, CWT could continue to inject properties into Cache's portfolio. Going a step further, HNA may even inject its own properties into Cache after a takeover.

Unchanged view: high gearing is the key idiosyncratic impediment to inorganic growth

With aggregate leverage at 43.1%, our debt headroom estimate is ~S\$49mn; this is in comparison to property portfolio of S\$1.24bn. It is inevitable that new equity has to be raised, in order to grow the portfolio meaningfully, but it will be at the expense of dilution to DPU.

Maintain "Reduce" rating with slightly higher target price of \$0.75

The price of Cache Logistics Trust has appreciated 5.5% over the last month, compared to 3.5% for the FTSE REIT Index. We believe the out-performance has been driven by market optimism of a consolidation among the smaller capitalised REITs. However, we think the probability of a consolidation for Cache is lower compared to the other REITs, on account of its fragmented unitholder structure and absence of a substantial unitholder. Our target price is an implied FY17e P/NAV multiple of 0.98x.

Reduce (Maintained)

LAST CLOSE PRICE	SGD 0.870
FORECAST DIV	SGD 0.077
TARGET PRICE	SGD 0.750
TOTAL RETURN	-4.9%

COMPANY DATA

O/S SHARES (MN):	900
MARKET CAP (USD mn / SGD mn):	561 / 783
52 - WK HI/LO (SGD):	0.95 / 0.79
3M Average Daily T/O (mn):	2.13

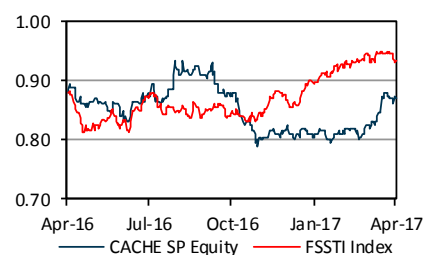
MAJOR SHAREHOLDERS (%)

BANK OF NEW YORK MELLON CORP	4.3%
CWT LTD	4.3%
VANGUARD GROUP	2.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	6.1	10.5	8.8
STIRETURN	(13)	4.4	10.2

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	107.6	109.6
NPI (SGD mn)	76.2	88.0	82.8	83.3
Dist. Inc. (SGD mn)	62.9	66.9	61.2	64.9
P/NAV (x)	1.00	1.12	1.14	1.15
DPU, adj (cents)	8.50	7.73	6.69	7.00
Distribution Yield (%)	9.6	8.8	7.6	8.0

Source: Company Data, PSR est.

VALUATION METHOD

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

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Relative valuation

Cache Logistics Trust (Cache) is trading approximately on par with its logistics peers in terms of P/NAV multiple.

Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S\$mn)	Price (S\$)	Trailing P/NAV (x)	12M-trailing yield (%)
Mapletree Logistics Trust	2,801	1.120	1.09	6.6
Frasers Logistics & Industrial Trust	1,415	0.990	1.08	N/A
Cache Logistics Trust	783	0.870	1.12	8.9
Average			1.09	7.7

Source: Bloomberg (Updated: 11 April 2017)

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	107.6	109.6
Property expenses	(4.9)	(13.6)	(23.3)	(24.8)	(26.3)
Net property income	78.0	76.2	88.0	82.8	83.3
Net Finance (Expense)/Inc.	(12.3)	(14.1)	(19.5)	(19.8)	(20.4)
Manager's fees	(6.7)	(7.5)	(6.5)	(7.4)	(7.4)
Other items	(1.9)	(1.6)	(3.1)	(3.6)	1.0
Exceptional items	-	-	-	-	-
Net income	57.1	53.0	57.6	52.0	56.5
FV change, Invmnt. properties	9.0	(64.7)	(80.7)	-	-
Total Return Before Tax	66.1	(11.7)	(23.2)	52.0	56.5
Taxation	(0.3)	(0.6)	(0.8)	(0.9)	(0.8)
Total Return After Tax	65.8	(12.3)	(24.0)	51.1	55.7
Distribution adjustments	1.1	75.2	90.9	9.2	9.2
Income available for distribution	66.9	62.9	66.9	61.2	64.9
Portion of sales proceeds	-	5.1	2.4	0.9	-
Income distributed	66.9	68.0	69.3	62.2	64.9

Per share data (cents)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
NAV	98.0	88.0	78.0	76.9	76.1
EPU	8.45	(1.47)	(2.67)	5.65	6.12
DPU	8.57	8.50	7.73	6.69	7.00

*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	52.0	56.5
Adjustments	17.5	20.0	26.3	26.4	27.1
WC changes	(0.5)	2.7	(1.7)	5.4	(2.6)
Cash generated from ops	74.1	75.7	82.2	83.8	81.0
Others	(0.3)	(0.6)	(0.9)	(0.9)	(0.8)
Cashflow from ops	73.8	75.1	81.3	82.9	80.2
CFI					
CAPEX, net	(63.5)	(80.5)	(7.2)	(1.2)	(1.3)
Purchase of Inv. Propty., net	-	(182.5)	-	(0.8)	-
Others	0.2	0.1	0.0	-	-
Cashflow from investments	(63)	(263.0)	(7.2)	(2.0)	(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)	(62.6)	(63.5)
Others	(15.5)	(14.2)	(18.5)	(19.8)	(20.4)
Cashflow from financing	(40.1)	184.7	(68.7)	(82.5)	(73.9)
Net change in cash	(29.5)	(3.2)	5.5	(1.6)	5.0
Effects of exchange rates	0.0	(0.0)	0.0	-	-
Ending cash	11.3	8.1	13.6	12.0	16.9

Source: Company, Phillip Securities Research (Singapore) Estimates

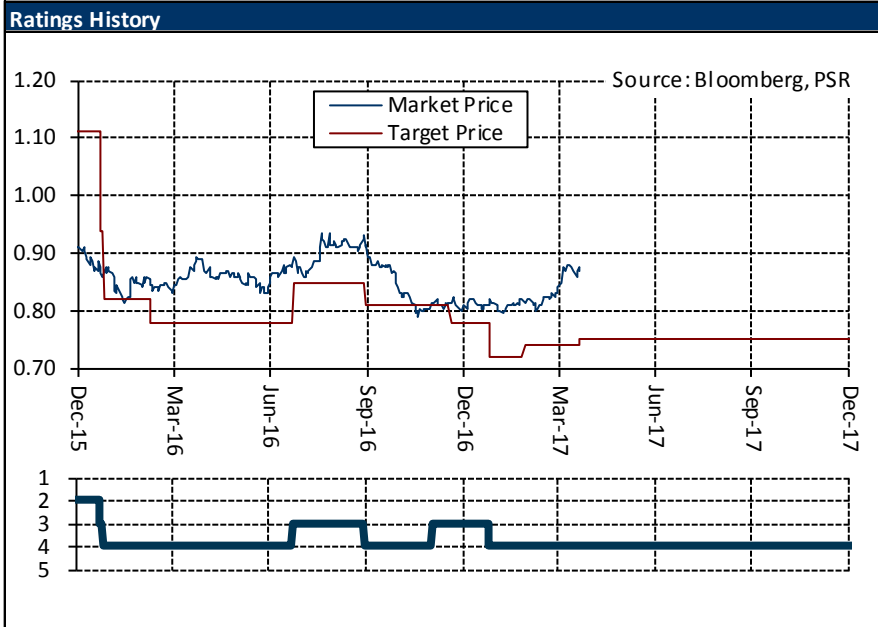
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY14	FY15	FY16	FY17e	FY18e
ASSETS					
Investment properties	1,044	1,308	1,211	1,237	1,237
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	1,240	1,240
Cash	11.3	8.1	13.6	12.0	16.9
Trade receivables	3.5	5.0	5.4	5.2	5.6
Others	0.1	0.4	25.3	-	-
Total current assets	14.8	13.4	44.2	17.2	22.5
Total Assets	1,137	1,326	1,258	1,258	1,263
LIABILITIES					
Trade payables	20.5	14.3	13.9	19.0	16.8
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	28.7	26.5
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	695	693
Represented by:					
Unitholders' funds	767	787	701	695	693

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/NAV (x)	1.20	1.00	1.12	1.14	1.15
P/DPU (x)	13.68	10.39	11.33	13.08	12.50
Distribution Yield (%)	7.31	9.62	8.83	7.64	8.00
NPI yield (%)	7.50	6.47	6.99	6.77	6.73
Growth & Margins (%)					
Growth					
Revenue	2.3%	8.3%	24.0%	-3.3%	1.8%
Net property income (NPI)	1.5%	-2.4%	15.6%	-5.9%	0.6%
Distributable income	2.0%	-6.0%	6.4%	-8.5%	5.9%
DPU	-	-0.9%	-9.1%	-13.4%	4.7%
Margins					
NPI margin	94.1%	84.9%	79.1%	76.9%	76.0%
Key Ratios					
Net Debt or (Net Cash)	338.0	515.4	525.3	526.9	531.9
Aggregate Leverage (%)	31.2%	40.0%	44.5%	43.6%	44.4%



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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