

Cache Logistics Trust

Schenker dispute resolved



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SINGAPORE | REAL ESTATE (REIT) | UPDATE

1 November 2017

- Amicable resolution achieved, with discontinuation of legal proceedings
- New single-net lease agreement with Schenker agreed upon
- Lump-sum payment of \$8,233,334 to Trustee as part of amicable resolution

What is the news?

Cache Logistics Trust has [announced](#) a favourable resolution to the 51 Alps Avenue rental dispute with its Tenant, Schenker Singapore Pte Ltd ("Schenker"). The \$8.23 mn lump-sum payment will be used to make good associated costs, top-up to market rent the payment received "under protest" during the holding period arrangement (1 September 2016 to 31 October 2017) and to top-up to market rent the rental received for the new lease signed (1 November 2017 to 31 August 2021).

How do we view this?

Certain aspects of the disclosure remains confidential, such as the identity of the party that will be making the \$8.23 mn lump-sum payment. Nonetheless, unitholders can take comfort knowing that the shortfall in DPU over the holding period will be made good; and 51 Alps Avenue will be income-producing at market rent.

The positives

- Unitholders made good; one-off boost to 4Q17 DPU "likely":** There will be a one-off boost to DPU, to substantially offset the associated cost of the dispute and to top-up to market rent the payment received "under protest" during the 14-months holding period arrangement. No commitment was given on when the one-off distribution will be made, but the manager is "likely" to distribute it with the 4Q17 distribution.
- Portfolio WALE extended from 3.3 years to 3.6 years, as at 30 September 2017:** The new lease signed is for a period of 46-months and the property will be fully leased to Schenker on a single-net basis with the landlord paying the land rent and property tax. The long lease provides income visibility and stability for the property. There is no option to renew, but manager is open to Schenker renewing. The manager guided that the resolution of the dispute does not impact the property valuation.

The negatives

- Rental level for the new lease is likely to be lower than the holding period:** In light of the 4.9% YoY decline in warehouse rent for 3Q17 (Source: JTC), we believe that the market rent being negotiated for the new lease is lower than the market rent for the holding period.
- Pro forma DPU suggests a signing market rent at the low end of guidance given:** The manager guided that the signing rent ranges between \$1.30 psf/month and \$1.40 psf/month. The 9M17 pro forma DPU indicates an additional 0.313 cents DPU that corresponds to the top-up for the holding period, which translates to a top-up of ~\$2.8 mn. Based on 439,956 sq ft NLA of the property, this works out to an *effective* top up of about \$0.49 psf/month on the \$0.77 psf/month payment received "under protest".

Maintain Neutral; unchanged target price of \$0.82

We now estimate a one-off payment of \$2.8 mn in 4Q17, which translates to 0.31 cents DPU boost. Our previous assumption was for \$4.5 mn top-up in FY18, mainly due to a higher rental assumption and 15-months holding period assumption (instead of 14-months actual). We had also previously assumed a higher rent post-resolution and this causes us to lower our revenue forecast from FY18e onwards. Our FY17e/FY18e revenue estimate is now +0.5%/-0.4% from previous, and DPU forecast +4.8%/-5.3% from previous.

The significant change in estimated DPU from previous is mainly due to the one-off payment being brought forward to 4Q17.

Our target price represents an implied FY17e P/NAV multiple of 1.09x.

Neutral (Maintain)

LAST CLOSE PRICE	SGD 0.820
FORECAST DIV	SGD 0.070
TARGET PRICE	SGD 0.820
TOTAL RETURN	8.5%

COMPANY DATA

BLOOMBERG CODE:	CACHE SP
O/S SHARES (MN):	1067
MARKET CAP (USD mn / SGD mn):	661/ 902
52 - WK HI/LO (SGD):	0.91/ 0.76
3M Average Daily T/O (mn):	2.78

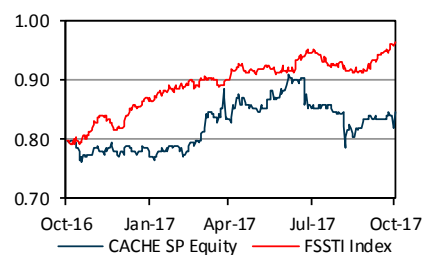
MAJOR SHAREHOLDERS (%)

EASTSPING INVESTMENTS SINGAPORE	5.0%
VANGUARD GROUP INC	3.4%
PRUDENTIAL FINANCIAL INC	2.0%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.0	(2.0)	11.4
STIRETURN	4.8	2.6	23.9

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	110.7	112.1
NPI (SGD mn)	76.2	88.0	85.6	86.3
Dist. Inc. (SGD mn)	62.9	66.9	68.7	67.2
P/E (x)	N.A.	N.A.	13.6	15.0
P/NAV (x)	1.00	1.05	1.09	1.11
DPU, adj (cents)	8.50	7.73	6.97	6.16
Distribution Yield (%)	9.6	9.4	8.5	7.5

Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 6.8%; Terminal g: 0.0%)

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Relative valuation

Cache Logistics Trust is slightly under-valued relative to logistics peers in terms of P/NAV multiple. We believe a reason for the lower relative valuation is due to Cache's smaller portfolio (market capitalisation) and larger exposure to the Singapore market which is facing an over-supply situation into 2018.

Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S\$mn)	Price (S\$)	Trailing P/NAV (x)	12M-trailing yield (%)
Mapletree Logistics Trust	3,923	1.285	1.25	5.7
Frasers Logistics & Industrial Trust	1,685	1.115	1.21	N.A.*
Cache Logistics Trust	902	0.845	1.10	8.0
Average			1.18	6.9

Source: Bloomberg (Updated: 1 November 2017), PSR

* Frasers Logistics & Industrial Trust does not have a 12 month track-record.

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	110.7	112.1
Property expenses	(4.9)	(13.6)	(23.3)	(25.1)	(25.8)
Net property income	78.0	76.2	88.0	85.6	86.3
Net Finance (Expense)/Inc.	(12.3)	(14.1)	(19.5)	(18.0)	(16.2)
Manager's fees	(6.7)	(7.5)	(6.5)	(7.5)	(7.5)
Other items	(1.9)	(1.6)	(3.1)	(0.7)	(3.3)
Exceptional items	-	-	-	-	-
Net income	57.1	53.0	57.6	59.3	59.3
FV change, Invmnt. properties	9.0	(64.7)	(80.7)	-	-
Total Return Before Tax	66.1	(11.7)	(23.2)	59.3	59.3
Taxation	(0.3)	(0.6)	(0.8)	(1.2)	(0.8)
Total Return After Tax	65.8	(12.3)	(24.0)	58.1	58.5
Distribution adjustments	1.1	75.2	90.9	9.0	8.7
Income available for distribution	66.9	62.9	66.9	68.7	67.2
Portion of sales proceeds	-	5.1	2.4	1.6	-
Income distributed	66.9	68.0	69.3	70.3	67.2

Per share data (cents)

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
NAV	98.0	88.0	78.0	75.0	74.1
EPU	8.45	(1.47)	(2.67)	6.02	5.46
DPU	8.57	8.50	7.73	6.97	6.16

*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	59.3	59.3
Adjustments	17.5	20.0	26.3	24.7	22.9
WC changes	(0.5)	2.7	(1.7)	5.8	(2.7)
Cash generated from ops	74.1	75.7	82.2	89.8	79.6
Others	(0.3)	(0.6)	(0.9)	(1.2)	(0.8)
Cashflow from ops	73.8	75.1	81.3	88.6	78.7
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	-	102.7	-
Loans, net of repayments	42.2	173.1	13.0	(99.9)	10.0
Dividends	(66.7)	(74.2)	(63.1)	(65.6)	(69.2)
Others	(15.5)	(14.2)	(18.5)	(18.0)	(16.2)
Cashflow from financing	(40.1)	184.7	(68.7)	(80.8)	(75.4)
Net change in cash	(29.5)	(3.2)	5.5	5.7	2.1
Effects of exchange rates	0.0	(0.0)	0.0	-	-
Ending cash	11.3	8.1	13.6	19.2	21.3

Source: Company, Phillip Securities Research (Singapore) Estimates

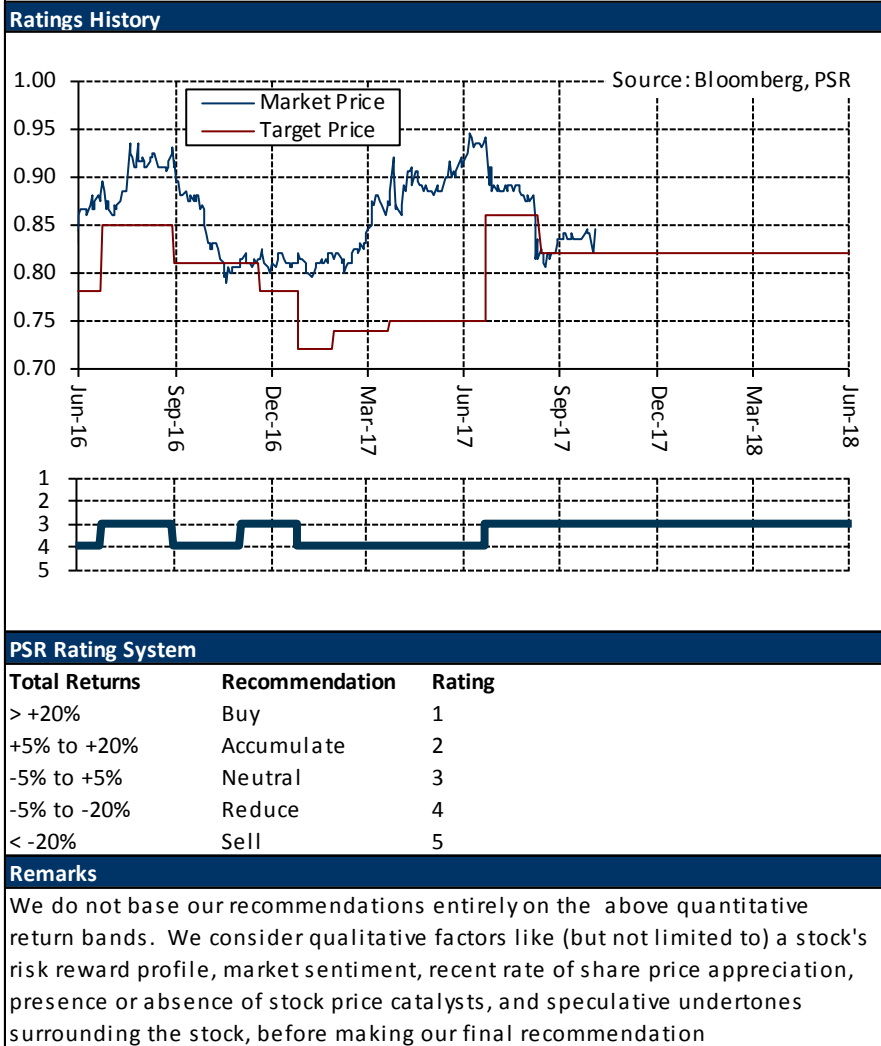
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

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	19.2	21.3
Trade receivables	3.5	5.0	5.4	5.4	5.7
Others	0.1	0.4	25.3	-	-
Total current assets	14.8	13.4	44.2	24.6	27.0
Total Assets	1,137	1,326	1,258	1,265	1,267
LIABILITIES					
Trade payables	20.5	14.3	13.9	19.6	17.2
Borrowings	6.6	8.3	4.6	219.6	219.6
Others	-	-	0.02	0.02	0.02
Total current liabilities	27.1	22.6	18.5	239.2	236.9
Borrowings	343	515	534	219	229
Others	0.4	2.1	4.4	4.4	4.4
Total non-current liabilities	343	517	539	224	234
Total Liabilities	370	540	557	463	471
Net assets	767	787	701	802	797
Represented by:					
Unitholders' funds	767	787	701	802	797

Valuation Ratios

Y/E Dec	FY14	FY15	FY16	FY17e	FY18e
P/NAV (x)	1.20	1.00	1.05	1.09	1.11
P/DPU (x)	13.68	10.39	10.61	11.77	13.32
Distribution Yield (%)	7.31	9.62	9.42	8.50	7.51
NPI yield (%)	7.50	6.47	6.99	6.99	6.98
Growth & Margins (%)					
Growth					
Revenue	2.3%	8.3%	24.0%	-0.5%	1.2%
Net property income (NPI)	1.5%	-2.4%	15.6%	-2.8%	0.8%
Distributable income	2.0%	-6.0%	6.4%	2.7%	-2.2%
DPU	-	-0.9%	-9.1%	-9.8%	-11.6%
Margins					
NPI margin	94.1%	84.9%	79.1%	77.3%	77.0%
Key Ratios					
Net Debt or (Net Cash)	338.0	515.4	525.3	419.7	427.7
Aggregate Leverage (%)	31.2%	40.0%	44.5%	35.5%	36.3%



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