

# Cache Logistics Trust

Fuelled and ready



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## SINGAPORE | REAL ESTATE (REIT) | FY17 RESULTS

- FY17 gross revenue in line with our estimate
- FY17 DPU 5.6% lower than expected due to temporary retention of \$1.9mn from 51 Alps Ave rental top-up, pending assessment for tax treatment
- 4Q17 DPU of 1.597 cents to be paid on Feb 27 (4Q16: 1.770 cents)
- Announced the divestment of 40 Alps Ave for \$73.8mn, at 7% above valuation
- Upgrade to Accumulate; higher target price of \$0.92 (previously \$0.82)

### Results at a glance

(SGD mn)	FY17	FY16	YoY	Comments
Gross revenue	112.0	111.3	0.6%	51 Alps Ave rental top-up, and higher revenue from DSC ARC, Cache Cold Centre and Australia, offset by divestment of Cache Changi DC 3 in Jan 17
Net property income	87.3	88.0	-0.8%	6.1% higher property expenses, from master lease conversions, mainly attributable to 51 Alps Ave and 40 Alps Ave
Distributable income	66.0	69.3	-4.8%	FY17/FY16: \$1.61mn/\$2.40mn capital distribution Operationally, FY17/FY16: \$64.4mn/\$66.9mn
DPU (cents)	6.583	7.725	-14.8%	Effect of Rights Issue completed in 4Q17 on DI

Source: Company, PSR

### The positives

- Occupancy as at end of FY17 remained stable at 96.6%.** Average occupancy across the four quarters was 97.4%; occupancy a year ago at end of FY16 was 96.4%.
- Current aggregate leverage of 36.3% set to be lowered further.** Current gearing is after the 18-for-100 Rights Issue that was used to repay borrowings; lower than 43.6% in 3Q17. Gearing will move lower as divestment proceeds from Hi-Speed Logistics Centre (40 Alps Ave) will be used to pare down debt (see overleaf).

### The negatives

- \$31.8mn fair value loss to investment properties, resulting in NAV per Unit drop QoQ from \$0.77 to \$0.72.** Singapore cap rate assumption remained at 6.4% YoY, and revaluation losses were due to lower spot rent assumptions and shorter land tenure. Cap rate for Australia had tightened YoY from 7.2% to 6.9%; and the Australia portfolio had a modest 2.4% appreciation on a like for like basis. The overall portfolio value now stands at \$1.14bn, excluding \$69mn for Hi-Speed Logistics Centre (40 Alps Ave) which has been reclassified as asset held for sale.
- Operationally, reversions were negative in 4Q17 and FY17.** Reversions were -3.7% and -6.7% for 4Q17 and FY17, respectively. The manager expects reversions to be negative in 2018.

### Outlook

The outlook is stable. Rental market is expected to be soft, with oversupply of warehouse space in the market and negative reversions in 2018. All things held equal, expect to see two more quarters (1Q18 and 2Q18) of double-digit YoY lower DPU due to the Rights Issue in 4Q17. FY18e DPU also lower due to divestment of 40 Alps Ave. The main domestic hurdle that the manager has to overcome now is the master lease expiry of CWT Commodity Hub (see overleaf). The overarching positive for Cache now is the successful recapitalisation of its balance sheet.

### Upgrade to Accumulate (from Neutral); higher target price of \$0.92 (previously \$0.82)

We estimate gearing to be lowered even further to 32.4%, and new headroom of almost \$270mn (based on 45% limit) after the divestment proceeds from 40 Alps Ave is used to repay debt. The manager will be in a better position to execute its rebalancing strategy and acquire in Australia. We have raised our terminal growth assumption to 1.0% (from 0%) on account of the better financial position and ability to grow the portfolio inorganically.

19 January 2018

### Accumulate (Upgrade)

LAST CLOSE PRICE	SGD 0.875
FORECAST DIV	SGD 0.061
TARGET PRICE	SGD 0.920
TOTAL RETURN	12.1%

### COMPANY DATA

BLOOMBERG CODE:	CACHE SP
O/S SHARES (MN):	1067
MARKET CAP (USD mn / SGD mn):	707 / 934
52 - WK HI/LO (SGD):	0.91 / 0.76
3M Average Daily T/O (mn):	177

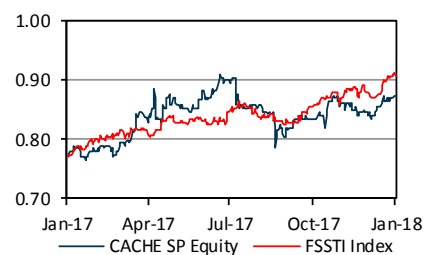
### MAJOR SHAREHOLDERS (%)

EASTSPING INVESTMENTS SINGAPORE	5.0%
DIMENSIONAL FUND ADVISORS LP	12%
PRUDENTIAL FINANCIAL INC	12%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.6	6.8	22.6
STIRETURN	3.8	6.7	214

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec	FY 16	FY 17	FY 18e	FY 19e
Gross Rev. (SGD mn)	111.3	112.0	106.9	106.2
NPI (SGD mn)	88.0	87.3	82.3	81.8
Dist. Inc. (SGD mn)	66.9	64.4	65.7	64.9
P/E (x)	N.A.	36.0	16.2	16.4
P/NAV (x)	1.04	1.22	1.23	1.24
DPU, adj (cents)	7.73	6.58	6.05	5.96
Distribution Yield (%)	9.5	7.5	6.9	6.8

Source: Company Data, PSR est.

### VALUATION METHOD

DDM (Cost of Equity: 6.8%; Terminal g: 10%)

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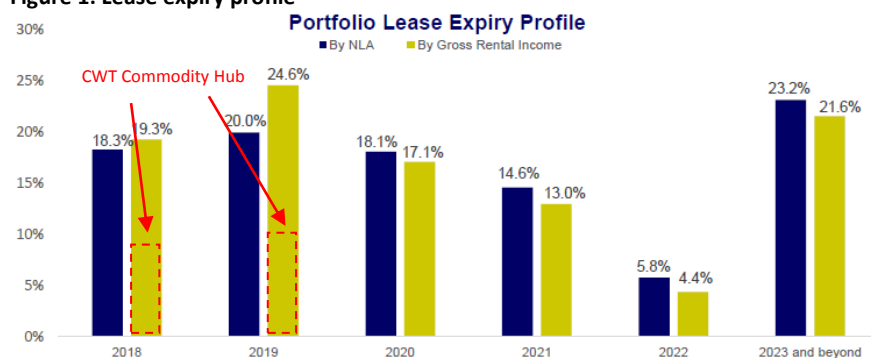
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### Ongoing developments

- **Proposed divestment of Hi-Speed Logistics Centre (40 Alps Ave).** This was [announced](#) in conjunction with FY17 financial results. The property is currently 74% occupied. It was acquired in April 2010 (during the initial public offering) for \$69.5mn. And was recently valued at \$69.0mn as at end FY17. The proposed divestment is for \$73.8mn, 7% above valuation. Divestment expected to be completed in 1Q18.
- **Expiry of CWT Commodity Hub master lease in April 2018.** The manager has been actively engaging the underlying tenants and has secured about two-thirds commitment. As such we do not expect a rental cliff, should the master lease not be renewed. In the immediate term, the underlying tenants make up about 9% and 10% of portfolio NLA in 2018 and 2019.

Figure 1: Lease expiry profile



Source: Company FY17 results presentation, 18 January 2018

### Relative valuation

Cache Logistics Trust is under-valued relative to logistics peers in terms of P/NAV multiple. Its above peer-average trailing yield suggests that there is room for yield to compress.

#### Peer relative data (arranged by Mkt. Cap.)

	Mkt. Cap. (S\$ mn)	Price (S\$)	Trailing P/NAV (x)	12M trailing yield (%)
Mapletree Logistics Trust	4,157	1.360	1.32	5.4
Fraser's Logistics & Industrial Trust	1,732	1.140	1.22	6.1
Cache Logistics Trust	934	0.875	1.14	7.8
<b>Average</b>			<b>1.22</b>	<b>6.4</b>

Source: Bloomberg (Updated: 18 January 2018), PSR

## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>Gross revenue</b>	<b>89.7</b>	<b>111.3</b>	<b>112.0</b>	<b>106.9</b>	<b>106.2</b>
Property expenses	(13.6)	(23.3)	(24.7)	(24.6)	(24.4)
<b>Net property income</b>	<b>76.2</b>	<b>88.0</b>	<b>87.3</b>	<b>82.3</b>	<b>81.8</b>
Net Finance (Expense)/Inc.	(14.1)	(19.5)	(18.6)	(14.3)	(14.5)
Manager's fees	(7.5)	(6.5)	(6.3)	(6.9)	(6.9)
Other items	(1.6)	(3.1)	(2.8)	(1.9)	(1.7)
Exceptional items	-	-	-	-	-
<b>Net income</b>	<b>53.0</b>	<b>57.6</b>	<b>58.0</b>	<b>59.3</b>	<b>58.7</b>
FV change, Invmt. properties	(64.7)	(80.7)	(31.8)	-	-
<b>Total Return Before Tax</b>	<b>(11.7)</b>	<b>(23.2)</b>	<b>25.2</b>	<b>59.3</b>	<b>58.7</b>
Taxation	(0.6)	(0.8)	(1.3)	(1.3)	(1.3)
<b>Total Return After Tax</b>	<b>(12.3)</b>	<b>(24.0)</b>	<b>23.9</b>	<b>58.0</b>	<b>57.4</b>
Distribution adjustments	75.2	90.9	40.5	7.7	7.5
<b>Income available for distribution</b>	<b>62.9</b>	<b>66.9</b>	<b>64.4</b>	<b>65.7</b>	<b>64.9</b>
Portion of sales proceeds	5.1	2.4	1.6	-	-
<b>Income distributed</b>	<b>68.0</b>	<b>69.3</b>	<b>66.0</b>	<b>65.7</b>	<b>64.9</b>

### Per share data (cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV	88.0	78.0	72.0	70.9	70.4
EPU	(1.47)	(2.67)	2.43	5.40	5.32
DPU	8.50	7.73	6.58	6.05	5.96

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

### Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>CFO</b>					
Net income	53.0	57.6	58.0	59.3	58.7
Adjustments	20.0	26.3	25.2	20.2	20.2
WC changes	2.7	(1.7)	0.2	(0.7)	(0.5)
Cash generated from ops	75.7	82.2	83.4	78.8	78.4
Others	(0.6)	(0.9)	(1.0)	(1.3)	(1.3)
<b>Cashflow from ops</b>	<b>75.1</b>	<b>81.3</b>	<b>82.4</b>	<b>77.5</b>	<b>77.1</b>
<b>CFI</b>					
CAPEX, net	(80.5)	(7.2)	22.5	(0.1)	(0.1)
Purchase of Inv. Propty., net	(183)	-	(25.4)	-	-
Others	0.1	0.0	0.0	69.0	-
<b>Cashflow from investments</b>	<b>(263)</b>	<b>(7.2)</b>	<b>(2.9)</b>	<b>68.9</b>	<b>(0.1)</b>
<b>CFF</b>					
Share issuance, net	100.0	-	102.7	-	-
Loans, net of repayments	173.1	13.0	(95.9)	(59.0)	10.0
Dividends	(74.2)	(63.1)	(65.6)	(65.9)	(64.4)
Others	(14.2)	(18.5)	(19.6)	(14.3)	(14.5)
<b>Cashflow from financing</b>	<b>184.7</b>	<b>(68.7)</b>	<b>(78.4)</b>	<b>(139.2)</b>	<b>(68.9)</b>
<b>Net change in cash</b>	<b>(3.2)</b>	<b>5.5</b>	<b>1.1</b>	<b>7.2</b>	<b>8.1</b>
Effects of exchange rates	(0.0)	0.0	0.3	-	-
<b>Ending cash</b>	<b>8.1</b>	<b>13.6</b>	<b>15.0</b>	<b>22.2</b>	<b>30.3</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

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

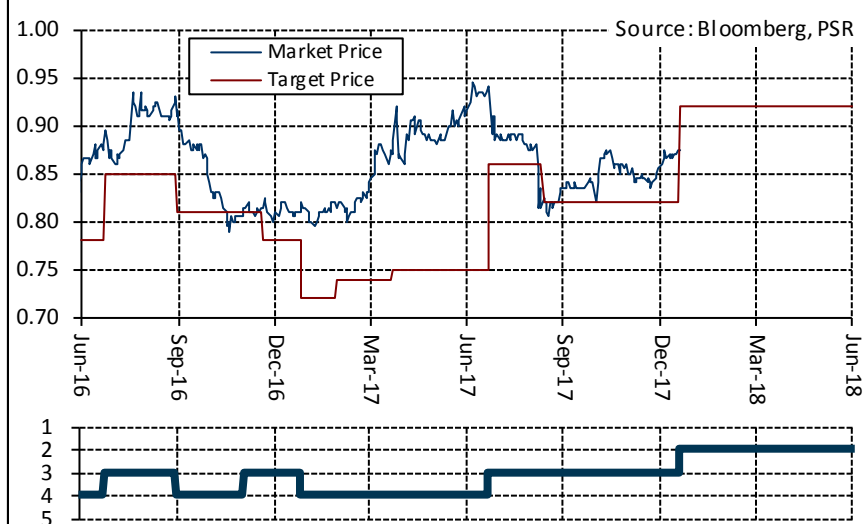
### Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
Investment properties	1,308	1,211	1,138	1,138	1,138
Inv. Propty. Under Devmnt.	-	-	-	-	-
PPE	3.0	3.1	2.3	1.6	1.1
Others	1.8	0.0	-	-	-
<b>Total non-current assets</b>	<b>1,313</b>	<b>1,214</b>	<b>1,140</b>	<b>1,140</b>	<b>1,139</b>
Cash	8.1	13.6	15.0	22.2	30.3
Trade receivables	5.0	5.4	4.8	5.2	5.0
Others	0.4	25.3	69.0	0.0	0.0
<b>Total current assets</b>	<b>13.4</b>	<b>44.2</b>	<b>88.8</b>	<b>27.4</b>	<b>35.3</b>
<b>Total Assets</b>	<b>1,326</b>	<b>1,258</b>	<b>1,229</b>	<b>1,167</b>	<b>1,174</b>
<b>LIABILITIES</b>					
Trade payables	14.3	13.9	15.2	14.9	14.1
Borrowings	8.3	4.6	125.0	56.0	56.0
Others	-	0.02	1.07	1.07	1.07
<b>Total current liabilities</b>	<b>22.6</b>	<b>18.5</b>	<b>141.2</b>	<b>72.0</b>	<b>71.2</b>
Borrowings	515	534	320	330	340
Others	2.1	4.4	2.4	2.4	2.4
<b>Total non-current liabilities</b>	<b>517</b>	<b>539</b>	<b>322</b>	<b>332</b>	<b>342</b>
<b>Total Liabilities</b>	<b>540</b>	<b>557</b>	<b>463</b>	<b>404</b>	<b>413</b>
<b>Net assets</b>	<b>787</b>	<b>701</b>	<b>766</b>	<b>763</b>	<b>761</b>
<b>Represented by:</b>					
<b>Unitholders' funds</b>	<b>787</b>	<b>701</b>	<b>766</b>	<b>763</b>	<b>761</b>

### Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	N.A.	N.A.	36.0	16.2	16.4
P/NAV (x)	1.00	1.04	1.22	1.23	1.24
P/DPU (x)	10.39	10.51	13.29	14.46	14.67
Distribution Yield (%)	9.62	9.51	7.52	6.92	6.82
NPI yield (%)	6.47	6.99	7.43	7.24	7.19
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	8.3%	24.0%	0.6%	-4.5%	-0.7%
Net property income (NPI)	-2.4%	15.6%	-0.8%	-5.7%	-0.7%
Distributable income	-6.0%	6.4%	-3.8%	2.0%	-1.3%
DPU	-	-9.1%	-14.8%	-8.1%	-1.5%
<b>Margins</b>					
NPI margin	84.9%	79.1%	78.0%	77.0%	77.0%
<b>Key Ratios</b>					
Net Debt or (Net Cash)	515.4	525.3	429.7	363.5	365.4
Aggregate Leverage (%)	40.0%	44.5%	39.1%	33.9%	34.8%

# Ratings History



## 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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