

# Cache Logistics Trust

First uplift after strengthening balance sheet

SINGAPORE | REAL ESTATE (REIT) | UPDATE

- Acquisition of a portfolio of nine properties in Australia for A\$177.6mn (S\$188.3mn)
- Funded by debt and perpetual securities, making it DPU accretive to unitholders
- Maintain Accumulate; slightly higher target price of \$0.93 (previously \$0.92)

## What is the news?

Cache Logistics Trust has announced the proposed acquisition of a portfolio of nine logistics properties with a gross lettable area of 142,103 sqm on the eastern seaboard of Australia for A\$177.6mn (S\$188.3mn) at an initial net property income (NPI) yield of 6.4%. The logistics properties are in Melbourne, Victoria (6 properties), Sydney, New South Wales (1 property) and Brisbane, Queensland (2 properties). The acquisition is expected to be 0.33 cents DPU accretive on a pro-forma basis over FY17's DPU, after factoring the divestment of 40 Alps Ave. (Proposed divestment of 40 Alps Ave was announced on 18 January.)

## How do we view this?

The choice of acquiring in Australia (instead of Singapore) does not come as a surprise, as the manager had repeatedly articulated its portfolio rebalancing strategy of acquiring in Australia. In our recent [results report](#) on 19 January, we had also opined that the manager is now in a better position to execute that strategy, following the recapitalisation of the balance sheet.

## The Positives

- Freehold lease in Australia, resulting in a more stable asset value.** This is in contrast to Singapore, where industrial land leases are 30 years or less – which has the effect of declining property valuations as the remaining land lease shortens.
- Improves diversification of income source by geography, tenant and properties.** Australia contributed 16% of gross rental income (GRI) in FY17. On a pro-forma basis, this will increase to 24% following the acquisition of the nine properties. The top 10 tenants contributed 80.4% of GRI and will be lowered to 68.5%. Overall portfolio value increases from S\$1.21bn across 19 properties to S\$1.40bn across 28 properties.
- Extension of portfolio WALE.** The nine properties have a weighted average lease expiry (WALE) of 5.0 years (by GRI), which extends Cache's existing portfolio WALE from 3.2 years to 3.4 years.
- DPU accretive to unitholders.** There will not be any new units created, as the acquisition will be funded by S\$110mn term loan facility and S\$100mn 5.5% p.a. perpetual security.

## The Negatives

- Only slight DPU accretion, despite portfolio value growing by 15.6%.** NPI will receive a boost (~S\$12.05mn), but income available for distribution to unitholders will face leakage of S\$5.5mn p.a. due to the coupon of the perpetual security. Interest expense and manager's fees are also expected to be S\$4.6mn higher, resulting in less than S\$2mn actually flowing down to unitholders after withholding tax. Nonetheless, gearing remains manageable, as we estimate it at 35.8%, following this acquisition and proposed divestment of 40 Alps Ave. (Gearing as at end of FY17 was 36.3%.) We also estimate ~\$96mn debt headroom (assuming 40% cap), which can be used to further grow the portfolio.

## Maintain Accumulate; slightly higher target price of \$0.93 (previously \$0.92)

We have raised our FY18e/FY19e revenue assumption by 10.8%/12.4%, and DPU assumption by 1.4%/1.7%. Our FY18e DPU assumption is still -6.8% YoY despite the acquisition, due to the combined effects of the larger unit base from the 18-for-100 Rights Issue in 4Q17, absence of income due to the divestment of 40 Alps Ave, conversion of CWT Commodity Hub to multi-tenancy lease, and negative reversions along the backdrop of ongoing softness in the Singapore rental market.



StocksBnB.com

2 February 2018

## Accumulate (Maintain)

LAST CLOSE PRICE	SGD 0.880
FORECAST DIV	SGD 0.061
TARGET PRICE	SGD 0.930
TOTAL RETURN	12.7%

## COMPANY DATA

BLOOMBERG CODE:	CACHE SP
O/S SHARES (MN):	1070
MARKET CAP (USD mn / SGD mn):	717 / 941
52 - WK HI/LO (SGD):	0.91/ 0.76
3M Average Daily T/O (mn):	175

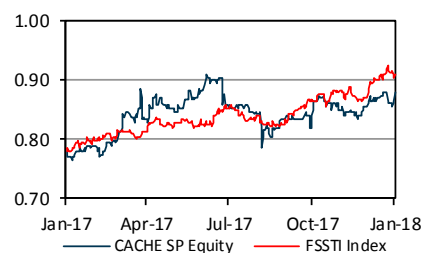
## MAJOR SHAREHOLDERS (%)

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

## PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.0	7.4	22.6
STIRETURN	3.9	5.1	19.8

## PRICE VS. STI



Source: Bloomberg, PSR

## KEY FINANCIALS

Y/E Dec	FY 16	FY 17	FY 18e	FY 19e
Gross Rev. (SGD mn)	1113	12.0	118.4	119.4
NPI (SGD mn)	88.0	87.3	92.4	93.1
Dist. Inc. (SGD mn)	66.9	64.4	66.7	66.0
P/E (x)	N.A.	35.6	16.1	16.3
P/NAV (x)	104	120	122	123
DPU, adj (cents)	7.73	6.58	6.14	6.06
Distribution Yield (%)	9.5	7.6	7.1	7.0

Source: Company Data, PSR est.

## VALUATION METHOD

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

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### 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. (\$\$ mn)	Price (\$\$)	Trailing P/NAV (x)	12M trailing yield (%)	* Total Debt to Total Assets (%)
Mapletree Logistics Trust	4,066	1.330	1.27	5.6	38.4
Frasers Logistics & Industrial Trust	1,764	1.160	1.26	6.0	29.0
Cache Logistics Trust	941	0.880	1.23	7.5	36.2
<b>Average</b>			<b>1.25</b>	<b>6.4</b>	<b>34.5</b>

Source: Bloomberg (Updated: 1 February 2018), PSR

\* Total Debt to Total Assets as at 31 December 2017

### Appendix

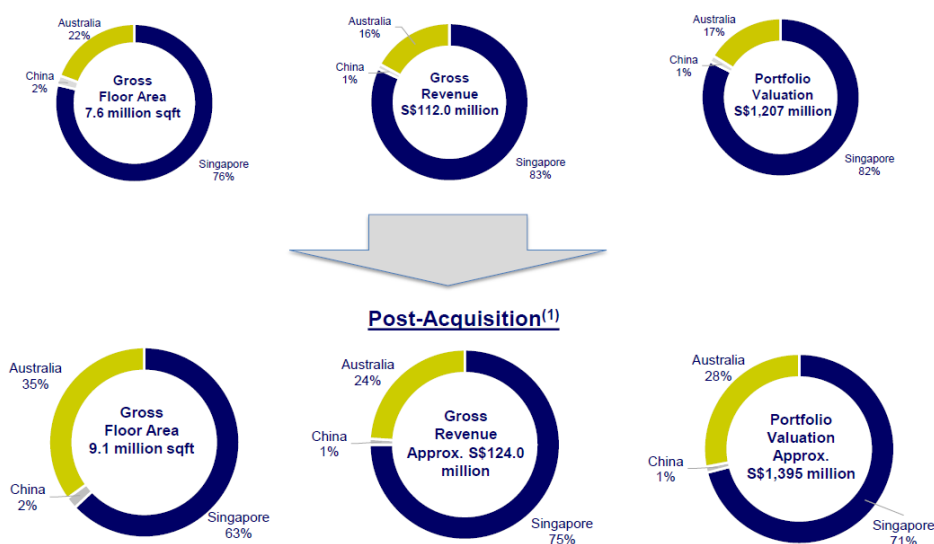
Figure 1: Transaction overview

No.	State	Property	GLA (sqm)	Land Area (sqm)	WALE by Income (years)	Year Built	Occupancy	No. of Tenants	Valuation (\$)
1	VIC	16-24 William Angliss Drive, Laverton North	16,324	32,000	3.4	Early 2000's (refurbished mid 2008)	100.0%	3	\$18,700,000
2	VIC	151-155 Woodlands Drive, Braeside	11,074	24,000	8.3	Early 2000's	100.0%	1	\$16,000,000
3	VIC	41-51 Mills Road, Braeside	32,053	53,000	3.0	1985 (extended in 1996)	91.5%	2	\$29,400,000
4	VIC	67-93 National Boulevard, Campbellfield	22,608	51,000	4.8	2007	100.0%	2	\$27,900,000
5	VIC	41-45 Hydrive Close, Dandenong South	8,720	30,000	6.1	1999	100.0%	1	\$11,900,000
6	VIC	76-90 Link Drive, Campbellfield	10,441	21,000	9.7	Original Warehouse: 2002 New Warehouse: 2007	100.0%	1	\$12,600,000
7	NSW	3 Sanitarium Drive, Berkeley Vale	27,762	65,000	5.8	2001	100.0%	1	\$34,000,000
8	QLD	11-19 Keller Street, Berrinba	7,412	17,000	1.9	2008	100.0%	1	\$12,200,000
9	QLD	196 Viking Drive, Wacol	5,709	34,000	4.5	2008	100.0%	1	\$14,900,000
<b>Total</b>			<b>142,103</b>	<b>328,000</b>	<b>5.0</b>		<b>98.1%</b>	<b>13</b>	<b>\$177,600,000</b>

Source: Company presentation, 31 January 2018

Figure 2: Transaction effects on Cache's portfolio

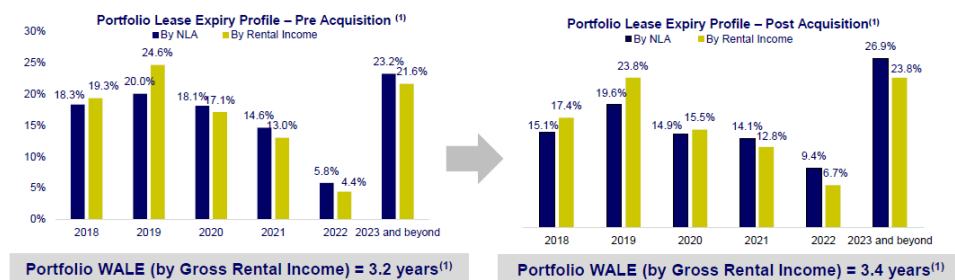
Pre-Acquisition (as at 31 December 2017)<sup>(1)</sup>



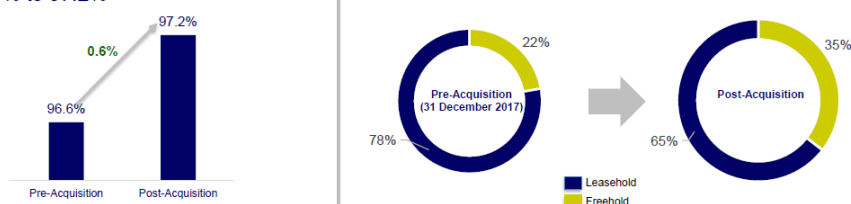
Source: Company presentation, 31 January 2018

**Figure 3: Transaction effects on portfolio's operational metrics**

- Portfolio WALE extends from 3.2 years (as at 31 December 2017) to 3.4 years



- Portfolio occupancy increases from 96.6% to 97.2%<sup>(1)</sup>



Source: Company presentation, 31 January 2018

## 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>118.4</b>	<b>119.4</b>
Property expenses	(13.6)	(23.3)	(24.7)	(26.1)	(26.3)
<b>Net property income</b>	<b>76.2</b>	<b>88.0</b>	<b>87.3</b>	<b>92.4</b>	<b>93.1</b>
Net Finance (Expense)/Inc.	(14.1)	(19.5)	(18.6)	(17.8)	(18.6)
Manager's fees	(7.5)	(6.5)	(6.3)	(8.0)	(8.1)
Other items	(1.6)	(3.1)	(2.8)	(2.0)	(1.9)
Exceptional items	-	-	-	-	-
<b>Net income</b>	<b>53.0</b>	<b>57.6</b>	<b>58.0</b>	<b>64.5</b>	<b>64.5</b>
FV change, Invmnt. 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>64.5</b>	<b>64.5</b>
Taxation	(0.6)	(0.8)	(1.3)	(1.4)	(1.4)
<b>Total Return After Tax</b>	<b>(12.3)</b>	<b>(24.0)</b>	<b>23.9</b>	<b>63.1</b>	<b>63.1</b>
Distribution adjustments	75.2	90.9	40.5	3.5	2.9
<b>Income available for distribution</b>	<b>62.9</b>	<b>66.9</b>	<b>64.4</b>	<b>66.7</b>	<b>66.0</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>66.7</b>	<b>66.0</b>

### Per share data (cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV	88.0	78.0	72.0	70.9	70.3
EPU	(1.47)	(2.67)	2.43	5.38	5.30
DPU	8.50	7.73	6.58	6.14	6.06

\*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	64.5	64.5
Adjustments	20.0	26.3	25.2	24.6	25.2
WC changes	2.7	(1.7)	0.2	0.4	(0.4)
Cash generated from ops	75.7	82.2	83.4	89.5	89.2
Others	(0.6)	(0.9)	(1.0)	(1.4)	(1.4)
<b>Cashflow from ops</b>	<b>75.1</b>	<b>81.3</b>	<b>82.4</b>	<b>88.0</b>	<b>87.8</b>
<b>CFI</b>					
CAPEX, net	(80.5)	(7.2)	22.5	(0.1)	(0.1)
Purchase of Inv. Propty., net	(183)	-	(25.4)	(200.0)	-
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>(131.1)</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)	51.0	10.0
Dividends	(74.2)	(63.1)	(65.6)	(66.6)	(65.6)
Others	(14.2)	(18.5)	(19.6)	79.9	(24.1)
<b>Cashflow from financing</b>	<b>184.7</b>	<b>(68.7)</b>	<b>(78.4)</b>	<b>64.3</b>	<b>(79.7)</b>
<b>Net change in cash</b>	<b>(3.2)</b>	<b>5.5</b>	<b>1.1</b>	<b>21.2</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>36.2</b>	<b>44.3</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

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

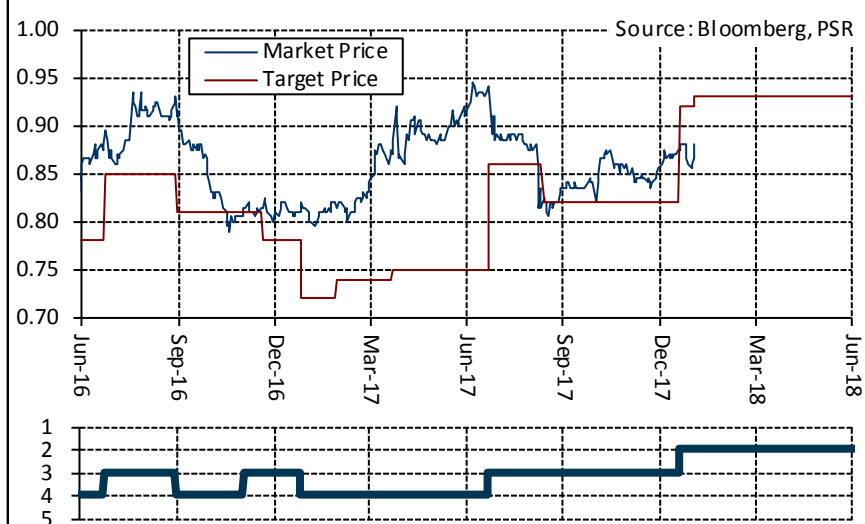
### Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
<b>ASSETS</b>					
Investment properties	1,308	1,211	1,138	1,338	1,338
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>1,340</b>	<b>1,339</b>
Cash	8.1	13.6	15.0	36.2	44.3
Trade receivables	5.0	5.4	4.8	5.8	5.6
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>42.0</b>	<b>49.9</b>
<b>Total Assets</b>	<b>1,326</b>	<b>1,258</b>	<b>1,229</b>	<b>1,382</b>	<b>1,389</b>
<b>LIABILITIES</b>					
Trade payables	14.3	13.9	15.2	16.5	15.9
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>73.6</b>	<b>73.0</b>
Borrowings	515	534	320	440	450
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>442</b>	<b>452</b>
<b>Total Liabilities</b>	<b>540</b>	<b>557</b>	<b>463</b>	<b>516</b>	<b>525</b>
<b>Net assets</b>	<b>787</b>	<b>701</b>	<b>766</b>	<b>866</b>	<b>864</b>
<b>Represented by:</b>					
Unitholders' funds	787	701	766	763	761
Perp. Securities holders	-	-	-	103	103

### Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	N.A.	N.A.	35.6	16.1	16.3
P/NAV (x)	1.00	1.04	1.20	1.22	1.23
P/DPU (x)	10.39	10.51	13.14	14.10	14.27
Distribution Yield (%)	9.62	9.51	7.61	7.09	7.01
NPI yield (%)	6.47	6.99	7.43	7.46	6.96
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	8.3%	24.0%	0.6%	5.8%	0.8%
Net property income (NPI)	-2.4%	15.6%	-0.8%	5.8%	0.8%
Distributable income	-6.0%	6.4%	-3.8%	3.5%	-0.9%
DPU	-	-9.1%	-14.8%	-6.8%	-1.2%
<b>Margins</b>					
NPI margin	84.9%	79.1%	78.0%	78.0%	78.0%
<b>Key Ratios</b>					
Net Debt or (Net Cash)	515.4	525.3	429.7	459.5	461.3
Aggregate Leverage (%)	39.5%	42.8%	36.2%	35.9%	36.4%

# 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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