

Cache Logistics Trust

Portfolio rebalancing: work in progress



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SINGAPORE | REAL ESTATE (REIT) | 2Q18 RESULTS

31 July 2018

Neutral (Downgraded)

LAST CLOSE PRICE	SGD 0.785
FORECAST DIV	SGD 0.057
TARGET PRICE	SGD 0.820
TOTAL RETURN	11.7%

COMPANY DATA

BLOOMBERG CODE:	CACHE SP
O/S SHARES (MN):	1071
MARKET CAP (USD mn / SGD mn):	618 / 841
52 - WK HI/LO (SGD):	0.89 / 0.75
3M Average Daily T/O (mn):	148

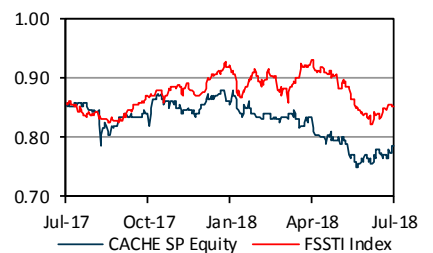
MAJOR SHAREHOLDERS (%)

EASTSPRING INVESTMENTS SINGAPORE	5.0%
DIMENSIONAL FUND ADVISORS LP	15%
NORGES BANK INVESTMENT MGMT	15%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	19	(4.2)	(3.2)
STIRETURN	16	(7.3)	2.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 16	FY 17	FY 18e	FY 19e
Gross Rev. (SGD mn)	1113	112.0	119.2	120.6
NPI (SGD mn)	88.0	87.3	87.5	86.2
Dist. Inc. (SGD mn)	66.9	64.4	55.6	59.0
P/E (x)	N.A.	32.3	16.2	16.7
P/NAV (x)	104	109	111	112
DPU, adj (cents)	7.73	6.58	5.65	5.41
Distribution Yield (%)	9.5	8.4	7.2	6.9

Source: Company Data, PSR est.

VALUATION METHOD

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

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- 2Q18 Gross revenue within expectation; DPU 6.8% lower than forecast due to higher than expected property expenses – we had under-estimated the impact from the conversion of CWT Commodity Hub to multi-tenancy lease
- 1H18 revenue and DPU met 50.4% and 48.4% respectively, of our full year FY18 estimate
- Portfolio WALE remains unchanged QoQ at 3.5 years by NLA
- Downgrade to Neutral; new target price of \$0.82 (previously \$0.91)

Results at a glance

(SGD mn)	2Q18	2Q17	YoY	Comments
Gross revenue	30.0	27.9	7.7%	Nine Australia warehouses acquired on Feb. 15, 51 Alps Ave rental top-up and higher revenue from DSC ARC; offset by lower contribution from DC2, Pandan Logistics Hub and divestment of 40 Alps Ave (May 18)
Net property income	21.6	21.7	-0.1%	34.6% higher property expenses
Distributable income	15.2	16.3	-6.3%	2Q18 includes capital distribution of \$0.408mn, 2Q17 includes capital distribution of \$0.118mn; underlying DI from operations is 8.1% lower
DPU, (cents)	1.419	1.800	-21.2%	Effect of 19% larger unit base following Rights Issue in Oct 2017; 2Q18 includes capital distribution of 0.038 cents, 2Q17 includes capital distribution of 0.013 cents

Source: Company, PSR

The Positives

- QoQ lower gearing from 38.5% to 35.3%.** This was expected, and we had commented in previous reports on the use of proceeds from the divestment of 40 Alps Ave to pare down debt. We estimate a debt headroom now of ~\$110 mn, which can potentially be used to growth the AUM by 8%.
- Higher than expected occupancy at CWT Commodity Hub.** Committed occupancy is 92.7%, which is higher than the 86% in April 2018 when it was converted to a multi-tenancy lease structure, and also higher than the 88.5% for island-wide warehouse space according to JTC. However, the higher occupancy was at the expense of shorter leases. Also, Cache's overall portfolio committed occupancy is lower QoQ from 97.3% to 96.8%.
- Limited vacancy risk remains for 2H 2018.** Only 3.1% of leases by rental income is expiring in 2H 2018. However, the lease expiry of 28% of the portfolio by rental income in 2019 is a concern.

The Negatives

- YoY lower NPI despite YoY higher gross revenue.** Lower net property income (NPI) was due to the higher property expenses, mainly in relation to the conversion of CWT Commodity Hub to multi-tenancy lease structure in April 2018.
- YoY lower DI underpinned by lower underlying DI from operations.** Underlying distributable income (DI) is \$1.315 mn or 6.3% lower YoY, in part due to the lower NPI, and mainly negatively impacted by \$1.371 mn paid to perpetual securities holders. There was no payment to perpetual securities holders in 2Q17, as they were issued in January 2018 in relation to the acquisition of nine Australian properties.
- Portfolio rental reversion of -4.0% for the quarter.** This is effectively the Singapore portfolio, as the Australia portfolio is mainly on long multi-year leases. We expect reversions to continue to be negative for the rest of the year, as overhang of space continues to be absorbed. The manager is optimistic on rents to bottom by the end of the year.

Outlook

The outlook is negative. Negative rent reversions expected to persist till the end of 2018, at the very least. The 2019 lease expiry of 28% of the portfolio by rental income poses a significant renewal risk. Moreover, some leases at Commodity Hub are currently above market rent, so there is scope for negative reversion at that asset in 2019. Non-renewal of other master leases in 2019 could put additional pressure on distributable income. Utilisation of the debt headroom to make accretive acquisitions would make us turn more positive towards the stock.

Downgrade to Neutral; new target price of \$0.82 (previously \$0.91)

The most significant change to our forecast is an increase to property expenses estimate. Our FY18e/FY19e DPU estimate is 6.5%/9.4% lower than previous. Our target price represents an implied 1.16x FY18e P/NAV multiple.

Relative valuation

Cache Logistics Trust is fairly valued relative to logistics peers in terms of P/NAV multiple. But it has a higher than average trailing yield.

Peer relative data (arranged by Mkt. Cap.)

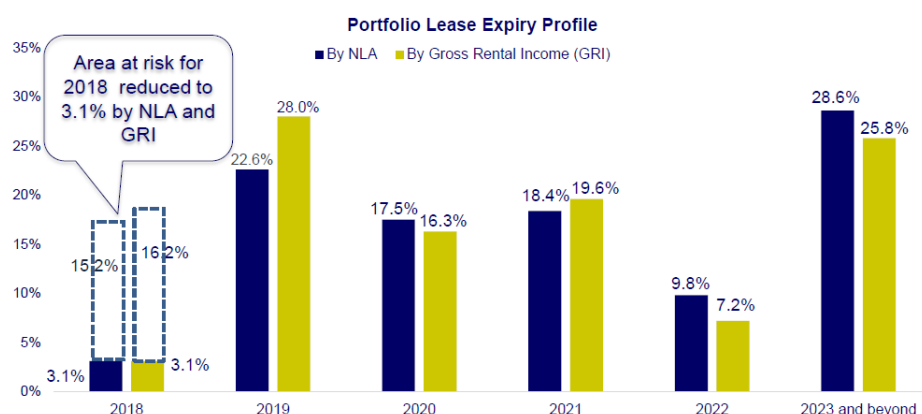
	Mkt. Cap. (\$ mn)	Price (\$)	Trailing P/NAV (x)	12M trailing yield (%)
Mapletree Logistics Trust	4,087	1.260	1.12	6.1
Frasers Logistics & Industrial Trust	2,107	1.050	1.17	6.7
Cache Logistics Trust	841	0.785	1.11	8.1
Average			1.14	7.0

Source: Bloomberg (Updated: 31 July 2018), PSR

Appendix

Figure 1: 28.0% by GRI up for renewal in 2019

WALE by NLA : 3.5 years
WALE by Gross Rental Income : 3.3 years



Source: Company 2Q FY18 results presentation, 31 July 2018

Key takeaways for 2019 lease expiries

- Most of the expiries are in 1H 2019, with the peak in 2Q because leases expiring end-April
- Significant contributor to the expiries is Commodity Hub (46% of 2019 expiries)
- Three single-tenanted leases will be expiring: Precise Two (4.7% of FY17 GRI), Air Market Logistics Centre (0.9% of FY17 GRI) and one of the smaller Australia assets
- Quite a few forward leases at Commodity Hub were signed at better than market

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Gross revenue	89.7	111.3	112.0	119.2	120.6
Property expenses	(13.6)	(23.3)	(24.7)	(31.7)	(34.4)
Net property income	76.2	88.0	87.3	87.5	86.2
Net Finance (Expense)/Inc.	(14.1)	(19.5)	(18.6)	(18.1)	(18.2)
Manager's fees	(7.5)	(6.5)	(6.3)	(8.1)	(8.0)
Other items	(1.6)	(3.1)	(2.8)	(2.5)	(2.0)
Net income	53.0	57.6	58.0	54.0	58.0
FV change, Invmnt. properties	(64.7)	(80.7)	(31.8)	-	-
Total Return Before Tax	(11.7)	(23.2)	25.2	57.6	58.0
Taxation	(0.6)	(0.8)	(1.3)	(1.6)	(1.6)
Total Return After Tax	(12.3)	(24.0)	23.9	56.0	56.4
Distribution adjustments	75.2	90.9	40.5	4.6	8.1
Distribution to perp holders	-	-	-	(5.0)	(5.5)
Income available for distribution	62.9	66.9	64.4	55.6	59.0
Portion of sales proceeds	5.1	2.4	1.6	0.4	-
Income distributed	68.0	69.3	66.0	56.0	59.0

Per share data (cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV	88.0	78.0	72.0	70.5	69.9
EPU	(1.47)	(2.67)	2.43	4.84	4.71
DPU	8.50	7.73	6.58	5.65	5.41

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

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Net income	53.0	57.6	58.0	54.0	58.0
Adjustments	20.0	26.3	25.2	24.9	24.7
WC changes	2.7	(1.7)	0.2	0.4	(0.4)
Cash generated from ops	75.7	82.2	83.4	79.3	82.4
Others	(0.6)	(0.9)	(1.0)	(1.6)	(1.6)
Cashflow from ops	75.1	81.3	82.4	77.8	80.8
CFI					
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	-
Cashflow from investments	(263)	(7.2)	(2.9)	(131.1)	(0.1)
CFF					
Share issuance, net	100.0	-	102.7	-	-
Loans, net of repayments	173.1	13.0	(95.9)	42.0	10.0
Dividends	(74.2)	(63.1)	(65.6)	(63.2)	(58.4)
Others	(14.2)	(18.5)	(19.6)	83.2	(23.7)
Cashflow from financing	184.7	(68.7)	(78.4)	62.0	(72.2)
Net change in cash	(3.2)	5.5	1.1	8.7	8.5
Effects of exchange rates	(0.0)	0.0	0.3	-	-
Ending cash	8.1	13.6	15.0	23.7	32.2

Source: Company, Phillip Securities Research (Singapore) Estimates

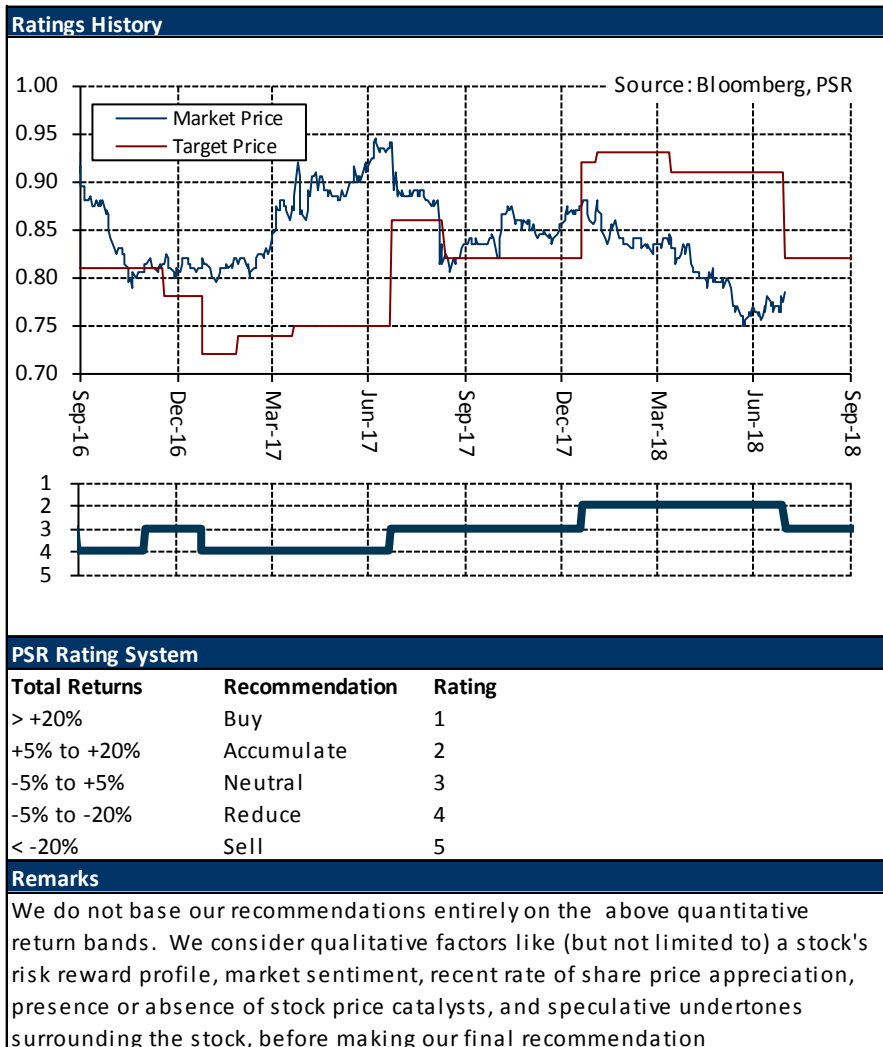
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
ASSETS					
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	-	-	-
Total non-current assets	1,313	1,214	1,140	1,340	1,339
Cash	8.1	13.6	15.0	23.7	32.2
Trade receivables	5.0	5.4	4.8	5.8	5.6
Others	0.4	25.3	69.0	0.0	0.0
Total current assets	13.4	44.2	88.8	29.6	37.9
Total Assets	1,326	1,258	1,229	1,369	1,377
LIABILITIES					
Trade payables	14.3	13.9	15.2	16.6	16.1
Borrowings	8.3	4.6	125.0	47.0	47.0
Others	-	0.02	1.07	1.07	1.07
Total current liabilities	22.6	18.5	141.2	64.7	64.1
Borrowings	515	534	320	440	450
Others	2.1	4.4	2.4	2.4	2.4
Total non-current liabilities	517	539	322	442	452
Total Liabilities	540	557	463	507	516
Net assets	787	701	766	862	861
Represented by:					
Unitholders' funds	787	701	766	760	758
Perp. Securities holders	-	-	-	103	103

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	N.A.	N.A.	32.3	16.2	16.7
P/NAV (x)	1.00	1.04	1.09	1.11	1.12
P/DPU (x)	10.36	10.52	11.92	13.88	14.51
Distribution Yield (%)	9.65	9.50	8.39	7.20	6.89
NPI yield (%)	6.47	6.99	7.43	7.07	6.44
Growth & Margins (%)					
Growth					
Revenue	8.3%	24.0%	0.6%	6.5%	1.1%
Net property income (NPI)	-2.4%	15.6%	-0.8%	0.3%	-1.5%
Distributable income	-6.0%	6.4%	-3.8%	-13.7%	6.2%
DPU	-	-9.1%	-14.8%	-14.1%	-4.3%
Margins					
NPI margin	84.9%	79.1%	78.0%	73.4%	71.5%
Key Ratios					
Net Debt or (Net Cash)	515.4	525.3	429.7	463.0	464.4
Aggregate Leverage (%)	39.5%	42.8%	36.2%	35.5%	36.1%



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