

Cache Logistics Trust

Bear with the initial pain of portfolio rebalancing strategy



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SINGAPORE | REAL ESTATE (REIT) | 1Q18 RESULTS

26 April 2018

- Gross revenue and DPU were within our expectation
- Gross revenue and DPU met 24% and 24% respectively, of consensus FY18 estimates
- Key events after the reporting period are the conversion of CWT Commodity Hub (April 12) and the pending divestment of Hi-Speed Logistics Centre
- Maintain Accumulate; unchanged target price of \$0.91

Results at a glance

(SGD mn)	1Q18	1Q17	YoY	Comments
Gross revenue	29.0	27.1	7.3%	Nine Australia warehouses acquired on Feb 15 and 51 Alps Ave rental top-up
Net property income	22.9	20.8	10.0%	1.8% lower property expenses
Distributable income	16.1	16.2	-0.6%	1Q17 includes capital distribution of \$0.929mn, underlying DI from operations is 5.5% higher; 1Q18 DI is after \$0.89mn distribution to perpetual securities holders (1Q17: Nil)
DPU, actual (cents)	1.507	1.800	-16.3%	19% larger unit base following Rights Issue in Oct 2017, 1Q17 includes capital distribution of 0.103 cents
DPU, restated (cents)	1.507	1.723	-12.5%	1Q17 restated for Rights Issue

Source: Company, PSR

The Positives

- Portfolio WALE lengthened QoQ from 3.4 years to 3.5 years.** This is the effect of the nine Australia properties that were acquired in February 2018. The nine Australia properties had a combined WALE of 5.0 years, as at Dec 31, 2017.
- Renewal risk for 2018 limited to 6.7% of GRI.** Furthermore, there are no master leases expiring for the rest of year. The next master lease expiry in the portfolio is at Precise Two (15 Gul Way) on March 31, 2019.
- Current aggregate leverage of 38.5% to be further reduced to 35.2%.** Hi-Speed Logistics Centre (40 Alps Ave) is pending divestment for S\$73.8mn and net proceeds will be used to repay current portion of borrowings. At 35.2% aggregate leverage, we estimate a debt headroom of S\$108mn available (assume 40% gearing) to grow the *pro forma* AUM of S\$1.32bn by 8%.

The Negatives

- Updated portfolio occupancy as at April 12 is lower than the 97.3% reported as at March 31.** This is due to the conversion of CWT Commodity Hub from master lease to multi-tenancy on April 12. Committed occupancy at the property is 86%, with CWT retaining 61%. Committed occupancy of 86% was below our expectation and we had lowered our estimates accordingly in our most recent [update report](#) (April 13).
- Distribution income to unitholders was eroded by distribution to perpetual securities holders.** Underlying distributable income was only 5.5% higher YoY, despite 10% higher net property income. We highlighted in an earlier [update report](#) (Jan 19) that the use of perpetual securities would give only slight DPU accretion, despite a much larger AUM.

Outlook

The outlook is stable. While the manager did not disclose the rental reversions during the quarter, we think it is reasonable to assume it was high single-digit negative or worse. Nonetheless, the portfolio is expected to be stable for the remainder of the year, with renewal risk limited to 6.7% of GRI against a backdrop of tapering supply of new space. Positive catalyst from the utilisation of available debt headroom to acquire; and negative surprise from worse than expected demand for space, delaying the recovery in rents.

Maintain Accumulate; unchanged target price of \$0.91

No changes to our estimates. Our target price represents an implied 1.28x FY18e P/NAV multiple.

Accumulate (Maintain)

LAST CLOSE PRICE	SGD 0.830
FORECAST DIV	SGD 0.060
TARGET PRICE	SGD 0.910
TOTAL RETURN	16.9%

COMPANY DATA

BLOOMBERG CODE:	CACHE SP
O/S SHARES (MN):	1070
MARKET CAP (USD mn / SGD mn):	669 / 888
52 - WK HI/LO (SGD):	0.91 / 0.78
3M Average Daily T/O (mn):	177

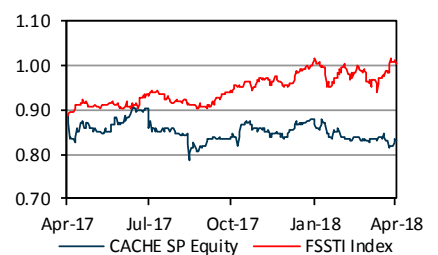
MAJOR SHAREHOLDERS (%)

EASTSPING INVESTMENTS SINGAPORE	5.0%
VANGURAD GROUP INC	2.6%
DIMENSIONAL FUND ADVISORS LP	2.2%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.6	(3.5)	19
STIRETURN	4.8	(0.3)	17.7

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	117.2	118.1
NPI (SGD mn)	88.0	87.3	91.4	92.1
Dist. Inc. (SGD mn)	66.9	64.4	65.7	65.1
P/E (x)	N.A.	34.4	15.8	16.0
P/NAV (x)	1.04	1.16	1.18	1.19
DPU, adj (cents)	7.73	6.58	6.05	5.97
Distribution Yield (%)	9.5	7.9	7.2	7.2

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 fairly valued relative to logistics peers in terms of P/NAV multiple. But it has a higher than average trailing yield, which suggests that there is room for yield to compress.

Peer relative data (arranged by Mkt. Cap.)

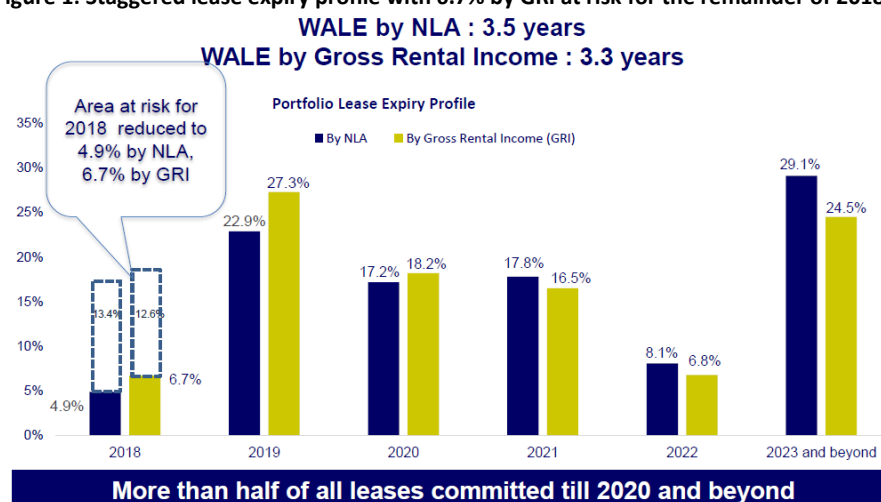
	Mkt. Cap. (\$\$ mn)	Price (\$\$)	Trailing P/NAV (x)	12M trailing yield (%)	* Total Debt to Total Assets (%)
Mapletree Logistics Trust	3,792	1.240	1.19	6.1	38.4
Frasers Logistics & Industrial Trust	1,597	1.050	1.14	6.7	29.0
Cache Logistics Trust	888	0.830	1.16	8.0	36.2
Average			1.16	6.9	34.5

Source: Bloomberg (Updated: 25 April 2018), PSR

* Total Debt to Total Assets as at 31 December 2017

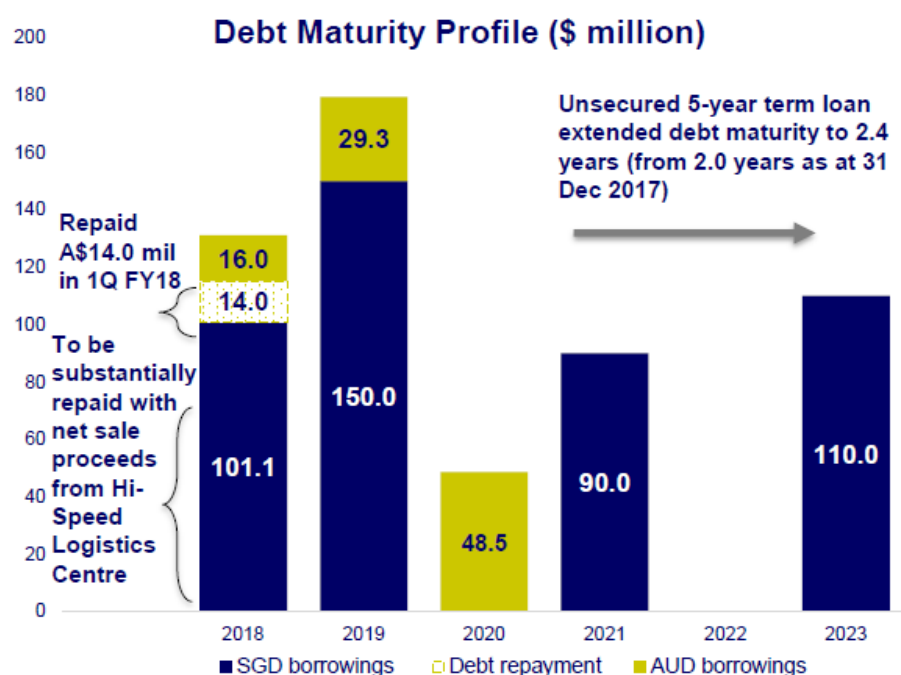
Appendix

Figure 1: Staggered lease expiry profile with 6.7% by GRI at risk for the remainder of 2018



Source: Company 1Q FY18 results presentation, 25 April 2018

Figure 2: 2018 borrowings to be substantially paid down with divestment proceeds



Source: Company 1Q FY18 results presentation, 25 April 2018

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	117.2	118.1
Property expenses	(13.6)	(23.3)	(24.7)	(25.8)	(26.0)
Net property income	76.2	88.0	87.3	91.4	92.1
Net Finance (Expense)/Inc.	(14.1)	(19.5)	(18.6)	(17.8)	(18.6)
Manager's fees	(7.5)	(6.5)	(6.3)	(7.9)	(8.1)
Other items	(1.6)	(3.1)	(2.8)	(2.0)	(1.9)
Exceptional items	-	-	-	-	-
Net income	53.0	57.6	58.0	63.6	63.6
FV change, Invmnt. properties	(64.7)	(80.7)	(31.8)	-	-
Total Return Before Tax	(11.7)	(23.2)	25.2	63.6	63.6
Taxation	(0.6)	(0.8)	(1.3)	(1.4)	(1.4)
Total Return After Tax	(12.3)	(24.0)	23.9	62.2	62.2
Distribution adjustments	75.2	90.9	40.5	3.5	2.9
Income available for distribution	62.9	66.9	64.4	65.7	65.1
Portion of sales proceeds	5.1	2.4	1.6	-	-
Income distributed	68.0	69.3	66.0	65.7	65.1

Per share data (cents)

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV	88.0	78.0	72.0	70.8	70.2
EPU	(1.47)	(2.67)	2.43	5.30	5.21
DPU	8.50	7.73	6.58	6.05	5.97

*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	63.6	63.6
Adjustments	20.0	26.3	25.2	24.5	25.2
WC changes	2.7	(1.7)	0.2	0.2	(0.4)
Cash generated from ops	75.7	82.2	83.4	88.4	88.3
Others	(0.6)	(0.9)	(1.0)	(1.4)	(1.4)
Cashflow from ops	75.1	81.3	82.4	87.0	86.9
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)	51.0	10.0
Dividends	(74.2)	(63.1)	(65.6)	(65.9)	(64.6)
Others	(14.2)	(18.5)	(19.6)	79.9	(24.1)
Cashflow from financing	184.7	(68.7)	(78.4)	65.0	(78.7)
Net change in cash	(3.2)	5.5	1.1	20.9	8.1
Effects of exchange rates	(0.0)	0.0	0.3	-	-
Ending cash	8.1	13.6	15.0	35.9	44.0

Source: Company, Phillip Securities Research (Singapore) Estimates

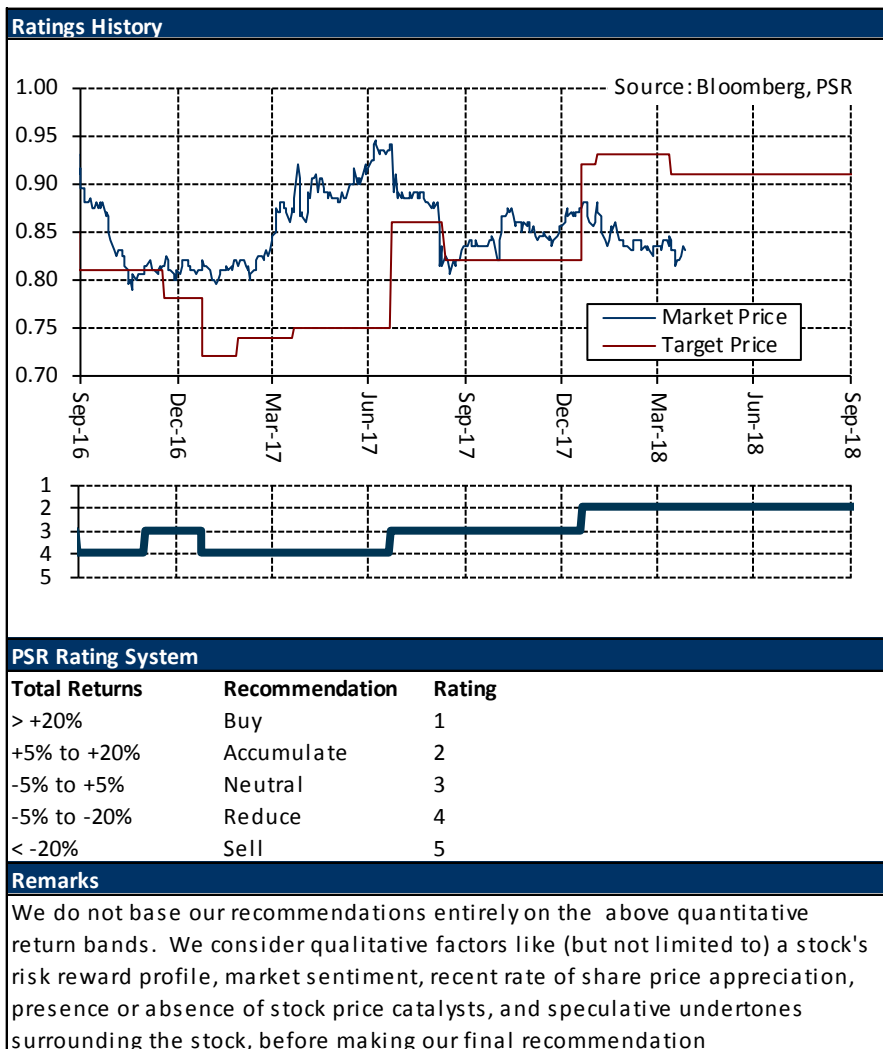
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

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	35.9	44.0
Trade receivables	5.0	5.4	4.8	5.7	5.5
Others	0.4	25.3	69.0	0.0	0.0
Total current assets	13.4	44.2	88.8	41.6	49.5
Total Assets	1,326	1,258	1,229	1,381	1,389
LIABILITIES					
Trade payables	14.3	13.9	15.2	16.4	15.7
Borrowings	8.3	4.6	125.0	56.0	56.0
Others	-	0.02	1.07	1.07	1.07
Total current liabilities	22.6	18.5	141.2	73.4	72.8
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	515	525
Net assets	787	701	766	866	864
Represented by:					
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.	34.4	15.8	16.0
P/NAV (x)	1.00	1.04	1.16	1.18	1.19
P/DPU (x)	10.36	10.52	12.68	13.81	13.98
Distribution Yield (%)	9.65	9.50	7.88	7.24	7.15
NPI yield (%)	6.47	6.99	7.43	7.38	6.89
Growth & Margins (%)					
Growth					
Revenue	8.3%	24.0%	0.6%	4.7%	0.8%
Net property income (NPI)	-2.4%	15.6%	-0.8%	4.7%	0.8%
Distributable income	-6.0%	6.4%	-3.8%	2.0%	-0.9%
DPU	-	-9.1%	-14.8%	-8.1%	-1.3%
Margins					
NPI margin	84.9%	79.1%	78.0%	78.0%	78.0%
Key Ratios					
Net Debt or (Net Cash)	515.4	525.3	429.7	459.8	461.7
Aggregate Leverage (%)	39.5%	42.8%	36.2%	35.9%	36.4%



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