

Cache Logistics Trust (CACHE SP)

An Improved Equilibrium

Raised DPUs, TP 6% to SGD0.90

We raised FY18/19 DPU estimates by 6-9% following Cache's better-than-expected 4Q/FY17 results. While NPI was in line, DPUs were lifted from lower interest costs as borrowings were repaid from its Oct 2017 SGD102.7m rights issuance. We raised DDM-based TP 6% to SGD0.90 (WACC: 8.0%, LTG: 1.5%), and believe its improved balance sheet - helped by the Hi-Speed Logistics Centre divestment - could lend support to further deals. With a sector recovery in sight, we however prefer AREIT (AREIT SP, BUY, TP SGD3.00) and MINT (MINT SP, BUY, TP SGD2.10) for their Singapore business parks/ hi-specs exposure. Maintain HOLD.

Results ahead of MKE, in line with street

Cache's 4Q17 performance, with revenue and NPI up 7.8% YoY and 10.2% YoY, respectively, was largely supported by a rental top-up in relation to 51 Alps Ave, following a resolution of its lease dispute reported on 31 Oct 2017. DPU rose 3.6% YoY to \$1.60cts, given the enlarged units base from its SGD102.7m (18-for-100) rights issuance. Portfolio occupancy fell marginally QoQ to 96.6%, while rental reversion was -3.7% in 4Q, and -6.7% for FY17, according to management. There was no capital distribution, as management said sales proceeds from its Kim Heng warehouse divestment had been fully exhausted.

Improved balance sheet metrics

Aggregate leverage rose QoQ to 36.3%, but fell YoY from 43.1%, as the bulk of its rights issuance were used to repay borrowings. As a result interest costs fell 12.1% YoY/ 5.5% QoQ, while financing costs were stable at 3.56%. Cache's debt headroom has increased to 193.4m (at the 45% gearing threshold) as at end-Dec 2017. Its balance sheet should be further strengthened by SGD73.8m in sales proceeds from the proposed divestment of its Hi-Speed Logistics Centre (74% occupied) at 7% above valuation. Management continues to eye acquisition growth opportunities from Australian third-party assets - with longer land leases, higher yields.

Recovery in sight, AREIT and MINT better placed

We revised our estimates to factor in the proposed divestment and lower borrowing costs. While we cut NPIs by 1-2%, our DPUs rise 6-9%. We believe Cache is fairly valued at a DPU yield of 7.0% (FY18E), 1SD below its historical mean, and see more compelling value in AREIT and MINT, for their stronger balance sheets and assets geared to a sector recovery.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	111	112	108	110	113
Net property income	88	87	88	89	91
Core net profit	67	64	66	68	70
Core EPU (cts)	4.8	2.3	6.1	6.3	6.4
Core EPU growth (%)	(26.8)	(52.8)	170.5	2.6	1.7
DPU (cts)	7.4	6.6	6.1	6.3	6.4
DPU growth (%)	(13.2)	(10.9)	(6.6)	2.6	1.7
P/NTA (x)	1.1	1.2	1.1	1.1	1.1
DPU yield (%)	8.4	7.5	7.0	7.2	7.3
ROAE (%)	(3.2)	3.3	8.2	8.0	8.0
ROAA (%)	5.2	5.2	5.4	5.5	5.5
Debt/Assets (x)	0.43	0.36	0.30	0.30	0.29
Consensus DPU	-	-	6.5	6.5	na
MKE vs. Consensus (%)	-	-	(5.1)	(3.4)	na

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HOLD

Share Price	SGD 0.88
12m Price Target	SGD 0.90 (+3%)
Previous Price Target	SGD 0.85

Company Description

Cache Logistics Trust invests in income-producing real estate used for logistics purposes, as well as real estate-related assets, in Asia-Pacific.

Statistics

52w high/low (SGD)	0.91/0.77
3m avg turnover (USDm)	1.1
Free float (%)	93.0
Issued shares (m)	900
Market capitalisation	SGD787.9M USD596M

Major shareholders:

Newton Investment Management Ltd.	4.3%
CWT Ltd.	4.1%
The Vanguard Group, Inc.	2.3%

Price Performance



	-1M	-3M	-12M
Absolute (%)	4	5	13
Relative to index (%)	0	(2)	(4)

Source: FactSet

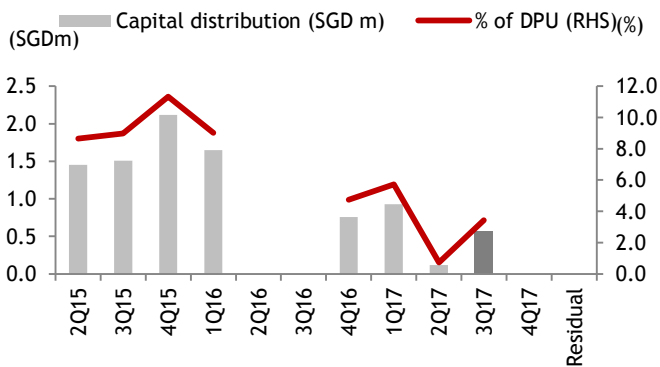
Fig 1: Summary financials 4Q/FY17A comparison

FYE 31 Dec	4Q16 (SGD m)	3Q17 (SGD m)	4Q17 (SGD m)	Change		YTD17 (SGD m)	% of FY	FY17E (SGD m)
				(YoY %)	(QoQ %)			
Property income	27.3	27.4	29.6	8.5	7.8	112.0	102.8	108.9
Property expenses	(5.9)	(6.1)	(6.1)	2.2	(0.6)	(24.7)	112.7	(21.9)
Net property income	21.3	21.3	23.5	10.2	10.2	87.3	100.3	87.0
Borrowing costs	(5.1)	(4.8)	(4.5)	(12.1)	(5.5)	(18.6)	95.0	(19.6)
Distributable income to unitholders	16.7	15.9	17.1	2.5	7.5	66.0	110.3	59.8
Distribution per unit (SGD cts)	1.77	1.54	1.60	(9.8)	3.6	6.58	115.7	5.69
NAV per unit (SGD)	0.78	0.77	0.72					
Aggregate leverage (%)^	43.1	35.7	36.3	(680)	60			
All-in financing cost (%)^	3.52	3.46	3.56	4	10			
Occupancy (%)^	96.4	97.3	96.6	20	(70)			
NPI margin (%)^	78.3	77.8	79.5	126	174			

^Change in basis points

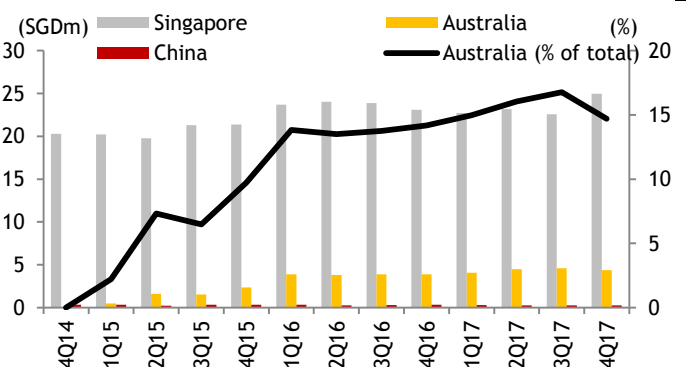
Source: Company data, Maybank Kim Eng

Fig 2: Capital distribution profile - fully exhausted



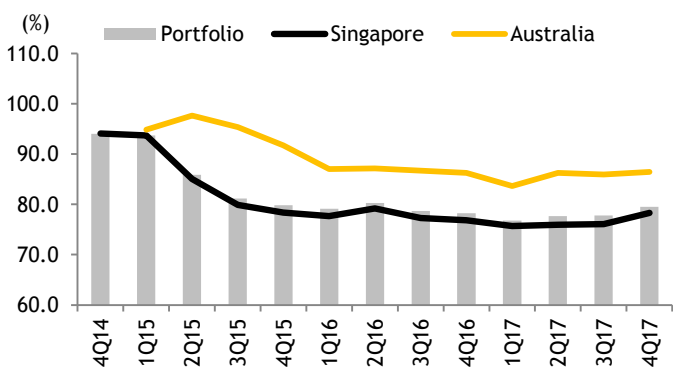
Source: Company data

Fig 3: Australia revenue contribution continues to rise



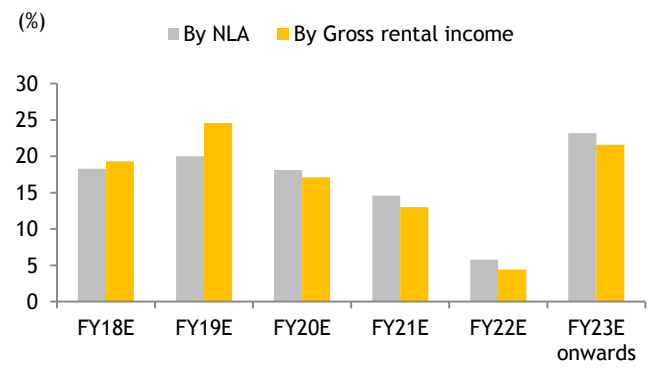
Source: Company data

Fig 4: NPI margins have stabilised



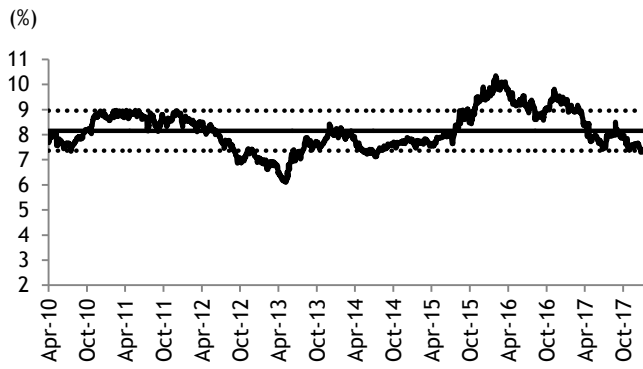
Source: Company data

Fig 5: Expiring leases well-staggered (as of end-Dec 2017)



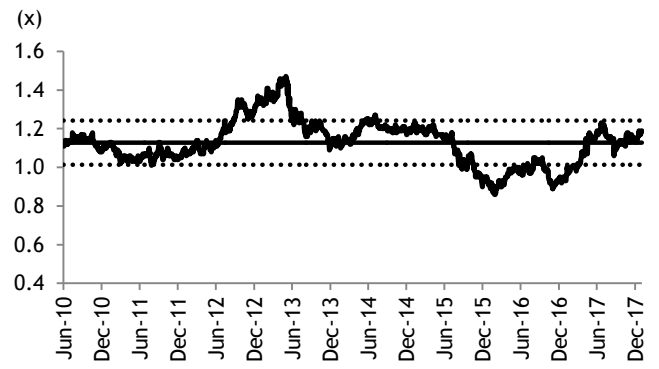
Source: Company data

Fig 6: Div yield



Source: Bloomberg, Maybank Kim Eng

Fig 7: P/BV



Source: Bloomberg, Maybank Kim Eng

Fig 8: Forecast changes

	FY18E (old)	FY19E (old)	FY18E	FY19E	FY18E (% change)	FY19E (% change)
Revenue (SGDm)	111.3	113.7	108.2	110.5	-2.8	-2.8
NPI (SGDm)	89.0	90.9	87.6	89.4	-1.5	-1.6
DPU (SGD)	5.8	5.8	6.1	6.3	6.2	8.7

Source: Maybank Kim Eng

Fig 9: S-REIT valuation comparison

Company	Rating	Price (SGD)	TP (SGD)	Upside (%)	Yield (%)	Total return (%)	MC (SGD b)	ADTV (SGD m)	Free Float (%)	BVPS (SGD)	P/BV (x)	Dividend yield (%)				Gearing (D/A) (%)
												16	17E	18E	19E	
Retail							13.7	28.8			1.03	5.6	5.6	5.7	5.8	31
CapitaLand Mall (CMT)	Hold	2.04	2.15	5.4	5.5	10.8	7.2	22.1	63	1.95	1.05	5.4	5.4	5.5	5.5	35
Frasers Ctr Trust (FCT)	Buy	2.28	2.45	7.5	5.4	12.9	2.1	2.2	58	2.03	1.12	5.2	5.2	5.4	5.6	30
Starhill Global REIT	Sell	0.78	0.70	(9.7)	6.4	(3.3)	1.7	2.4	63	0.92	0.84	6.7	6.4	6.4	6.5	35
SPH REIT	Hold	1.05	1.00	(4.8)	5.4	0.6	2.7	2.1	25	0.94	1.11	5.2	5.3	5.4	5.4	26
Retail & Office							10.6	19.1			1.12	4.9	5.0	4.9	5.0	36
Suntec REIT	Hold	2.19	1.89	(13.7)	4.4	(9.3)	5.8	12.1	79	2.12	1.03	4.6	4.6	4.4	4.4	36
Mapletree Comm. (MCT)	Sell	1.65	1.45	(12.1)	5.4	(6.7)	4.8	7.0	66	1.37	1.20	5.2	5.4	5.4	5.6	36
Office							13.6	28.8			0.94	5.8	5.5	5.4	5.4	37
CapitaLand Comm. (CCT)	Hold	1.92	1.80	(6.2)	4.6	(1.7)	6.9	21.1	73	1.84	1.04	4.6	4.7	4.6	4.7	36
Keppel REIT	Hold	1.29	1.19	(7.8)	4.7	(3.0)	4.3	5.6	56	1.42	0.91	4.9	4.7	4.7	4.7	39
Frasers Comm. (FCOT)	NR	1.51					1.2	1.9	73	1.60	0.94	6.5	6.5	6.3	6.3	36
OUE Comm. (OUECT)	NR	0.74					1.1	0.2	17	0.85	0.87	7.0	6.3	6.2	6.0	36
Industrial							22.5	45.3			1.16	7.1	6.6	6.6	6.8	36
Ascendas REIT	Buy	2.77	3.00	8.3	6.2	14.5	8.0	21.7	80	2.12	1.30	5.7	5.9	6.2	6.4	34
Mapletree Ind. (MIT)	Buy	2.11	2.10	(0.5)	6.1	5.6	4.0	6.7	68	1.41	1.50	5.4	5.4	6.1	6.2	30
Mapletree Log. (MLT)	Hold	1.36	1.25	(8.1)	5.8	(2.3)	4.2	8.3	64	1.03	1.32	5.4	5.7	5.8	6.0	39
Cache Logistics Trust	Hold	0.88	0.90	2.9	7.0	9.9	0.9	1.5	100	0.77	1.14	8.5	7.5	7.0	7.2	36
Viva Industrial Trust	Buy	0.94	1.00	6.4	7.2	13.6	0.9	1.1	43	0.79	1.19	7.4	7.2	7.2	7.4	39
AIMS AMP	Buy	1.36	1.60	17.6	8.3	26.0	0.9	1.0	81	1.37	1.00	8.2	8.3	8.3	8.3	36
Keppel DC REIT	NR	1.47					1.7	2.6	65	0.96	1.53	4.2	5.0	5.2	5.4	28
ESR REIT	NR	0.58					0.8	0.6	69	0.71	0.82	7.2	6.7	7.1	7.2	38
Soilbuild BS REIT	NR	0.70					0.7	1.4	65	0.64	1.10	8.7	8.0	6.8	6.7	38
Sabana SC Ind. REIT	NR	0.41					0.4	0.5	78	0.57	0.71	10.3	n.a.	n.a.	n.a.	37
Hospitality & Residential							10.3	9.5			1.03	6.0	5.6	5.8	5.9	35
Ascott Residence Trust	NR	1.25					2.7	2.7	59	1.24	1.01	6.4	5.5	5.8	5.9	32
CDL HT (CDLHT)	NR	1.80					2.2	2.6	63	1.47	1.22	5.3	5.1	5.6	5.7	39
OUE HT (OUEHT)	NR	0.89					1.6	1.6	52	0.76	1.17	5.2	5.7	5.7	5.8	38
Far East HT (FEHT)	NR	0.74					1.4	1.0	41	0.89	0.82	5.9	5.4	5.6	5.9	33
Frasers HT	NR	0.81					1.5	0.8	39	0.82	0.99	7.0	6.2	6.2	6.2	34
Ascendas HT	NR	0.88					1.0	0.7	65	0.89	0.99	6.3	n.a.	n.a.	n.a.	33
Offshore REITs							14.7	17.6			1.03	7.0	6.9	6.7	6.9	33
Mapletree Greater China	NR	1.25					3.5	4.4	66	1.25	1.00	5.8	5.9	6.0	6.0	39
CapitaLand Retail China	NR	1.66					1.6	2.0	63	1.63	1.02	6.1	6.2	6.5	7.0	35
Fortune REIT (HKD)	NR	9.80					3.2	0.5	72	13.39	0.73	5.0	n.a.	n.a.	n.a.	28
Lippo Malls Ind. RT	NR	0.41					1.1	2.0	64	0.35	1.14	8.4	8.8	8.5	8.6	31
Manulife REIT (USD)	NR	0.97					1.3	2.7	95	0.84	1.15	6.0	5.9	6.4	6.5	30
Keppel_KBS US REIT	NR	0.92					0.8	n.a.	47	0.84	1.09	n.a.	n.a.	6.5	6.9	36
IREIT Global	NR	0.79					0.5	0.4	33	0.67	1.18	12.1	n.a.	n.a.	n.a.	41
BHG Retail REIT	NR	0.77					0.4	0.0	34	0.83	0.93	7.1	n.a.	n.a.	n.a.	32
Frasers Log. & Ind. (FLT)	NR	1.14					1.7	5.2	71	0.94	1.22	5.3	6.8	6.2	6.4	29
EC World REIT	NR	0.78					0.6	0.2	51	0.93	0.83	n.a.	7.7	n.a.	n.a.	29
Healthcare							2.9	3.0			1.56	5.1	5.3	5.2	5.3	34
Parkway Life REIT	NR	2.97					1.8	1.7	54	1.72	1.73	4.1	4.6	4.2	4.4	37
First REIT	NR	1.41					1.1	1.3	67	1.01	1.39	6.0	6.1	6.2	6.3	31
Total REITs							88	152			1.09	6.3	6.1	6.0	6.2	34
S-REIT yield spread																
FSTREI Index															3.1	
SGS 10Y bond yield															5.2	
															2.1	

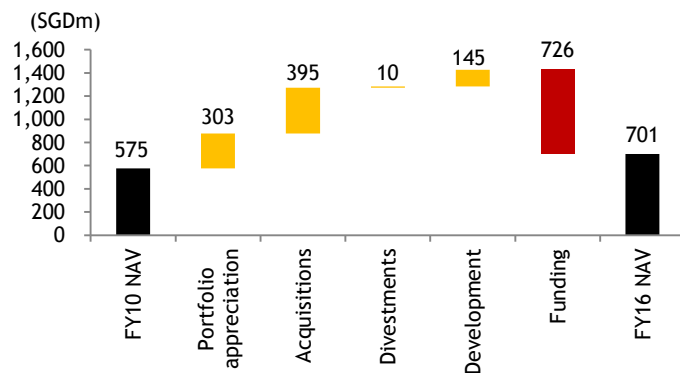
Prices as of 18 Jan 2018. NR = Not Rated.

Source: Bloomberg, FactSet, Companies, Maybank Kim Eng

Value Proposition

- Portfolio comprises 19 modern logistics warehouse properties in Singapore (75% of NLA), Australia (23%) and China (2%).
- Sponsored by Singapore-listed logistics player CWT and externally managed by an ARA-CWT JV, with leverage on ARA's market relationships, fund management expertise.
- The properties have built-in rental escalation (0-1% for Singapore, 3-4% for Australia) which can help partly offset the soft industrial sector fundamentals in its key markets.
- Completed first SGD147.2m build-to-suit (BTS) warehouse for DHL's Supply Chain Advanced Regional Centre in Jul 2015, on an initial 10-year lease term.

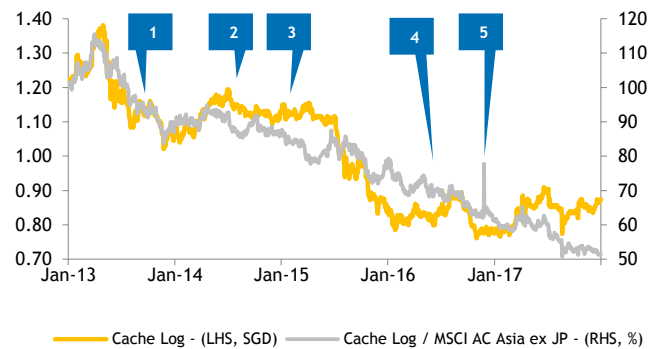
NAV growth (FY10-16)



Source: Company

Price Drivers

Historical share price trend



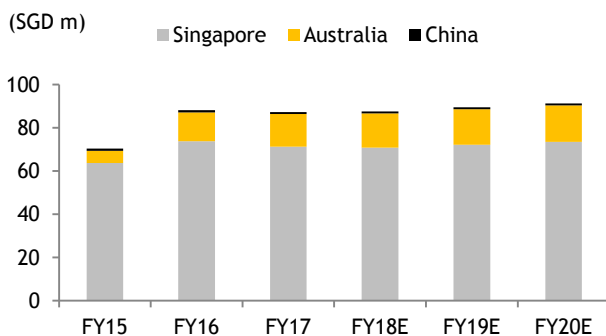
Source: Company, Maybank Kim Eng

- May-13: Market anticipates occupancy declines due to single-to-multi tenant conversions. 2Q13 also sees the start of a strong supply cycle that is set to end in 2016.
- Apr-14: Announced first BTS development project for DHL, with fixed-price contract minimising execution risk.
- Feb-15: Marked entry into Australia with acquisition of three distribution warehouses for AUD70m (WALE of 9.7 years and fixed 3-3.5% annual rent escalations).
- May-16: Received summons from Schenker for lease renewal at 51 Alps Ave at unfavourable pre-agreed rate.
- Dec-16: Announced divestment of Changi Districentre 3, an asset with a remaining land lease term of 17 years for SGD25.5m, in line with valuation.

Financial Metrics

- DPU's to rise 2% as we assumed rental top-ups at 51 Alps Ave following the resolution of the C&P-Schenker lease dispute will offset absence of Hi-Speed Logistics Centre following its divestment in 1Q18. We also see steady ramp-up in occupancy for the DHL BTS from 77% at end-2016 to 100% in 2020.
- We expect its Singapore properties to generate about 80% of its NPI from FY18-20E and for its Australian contribution to rise from 17% in FY17 to 19% by FY20E.

NPI growth profile



Source: Company

Swing Factors

Upside

- Earlier-than-expected pick-up in leasing demand driving improvement in occupancy.
- Better-than-anticipated rental reversion trend.
- Accretive acquisitions.

Downside

- Prolonged slowdown in economic activity could reduce demand for industrial space, resulting in lower occupancy and rental rates.
- Termination of long-term leases contributing to weaker portfolio tenant retention rate.
- Sharper-than-expected rise in interest rates could increase cost of debt and negatively impact earnings, with higher cost of capital lowering valuations.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Metrics					
Price/DPU(x)	11.8	13.3	14.2	13.9	13.6
P/BV (x)	1.1	1.2	1.1	1.1	1.1
P/NTA (x)	1.1	1.2	1.1	1.1	1.1
DPU yield (%)	8.4	7.5	7.0	7.2	7.3
FCF yield (%)	10.2	8.9	8.8	8.9	9.0
INCOME STATEMENT (SGD m)					
Revenue	111.3	112.0	108.2	110.5	112.8
Net property income	88.0	87.3	87.6	89.4	91.4
Management and trustee fees	(8.3)	(8.1)	(7.8)	(8.0)	(8.2)
Net financing costs	(19.5)	(18.6)	(16.2)	(15.8)	(16.1)
Associates & JV	0.0	0.0	0.0	0.0	0.0
Exceptionals	(80.8)	(33.1)	5.5	5.6	5.7
Other pretax income/expenses	0.0	0.0	0.0	0.0	0.0
Pretax profit	(23.2)	25.2	66.8	69.0	70.6
Income tax	(0.8)	(1.3)	(0.8)	(0.9)	(0.9)
Minorities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Total return avail to unitholders	(24.0)	23.9	66.0	68.1	69.8
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Distributable inc to unitholders	69.3	66.0	66.0	68.1	69.8
BALANCE SHEET (SGD m)					
Cash & Short Term Investments	13.6	15.0	14.3	14.3	14.3
Accounts receivable	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	3.1	2.3	2.3	2.3	2.3
Investment properties	1,236.2	1,206.9	1,204.6	1,230.4	1,256.8
Intangible assets	0.0	0.0	0.0	0.0	0.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	5.5	4.8	4.8	4.8	4.8
Total assets	1,258.3	1,229.0	1,225.9	1,251.7	1,278.1
ST interest bearing debt	0.0	0.0	0.0	0.0	0.0
Accounts payable	13.9	15.2	15.2	15.2	15.2
LT interest bearing debt	538.9	444.7	372.5	372.5	372.5
Other liabilities	4.4	3.5	3.5	3.5	3.5
Total Liabilities	557.2	463.3	391.2	391.2	391.2
Shareholders Equity	701.1	765.7	834.7	860.5	886.9
Minority Interest	0.0	0.0	0.0	0.0	0.0
Total shareholder equity	701.1	765.7	834.7	860.5	886.9
Total liabilities and equity	1,258.3	1,229.0	1,225.9	1,251.7	1,278.1
CASH FLOW (SGD m)					
Cash flow from operations	81.3	82.4	82.3	84.1	85.9
Capex	(1.2)	(0.1)	(0.1)	(0.1)	(0.1)
Acquisitions & investments	(6.0)	(2.8)	71.4	0.0	0.0
Disposal of FA & investments	0.0	0.0	0.0	0.0	0.0
Dividend income from associates	0.0	0.0	0.0	0.0	0.0
Other investing cash flow	0.0	0.0	0.0	0.0	0.0
CF from investing activities	(7.2)	(2.9)	71.3	(0.1)	(0.1)
Dividends paid	(63.1)	(65.6)	(66.0)	(68.1)	(69.8)
Interest expense	(17.7)	(17.0)	(16.2)	(15.8)	(16.1)
Change in debt	12.2	(95.9)	(72.1)	0.0	0.0
Equity raised / (purchased)	0.0	100.1	0.0	0.0	0.0
Other financial activities	0.0	0.0	0.0	0.0	0.0
CF from financing activities	(68.7)	(78.4)	(154.3)	(84.0)	(85.8)
Effect of exchange rate changes	0.0	0.3	0.0	0.0	0.0
Net cash flow	5.5	1.4	(0.7)	0.0	0.0

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
Key Ratios					
Growth ratios (%)					
Revenue growth	24.0	0.6	(3.4)	2.1	2.1
Net property income growth	15.6	(0.8)	0.3	2.1	2.1
Core net profit growth	(1.5)	(3.8)	2.4	3.3	2.4
Distributable income growth	2.0	(4.8)	(0.1)	3.3	2.4
Profitability ratios (%)					
Net property income margin	79.1	78.0	80.9	80.9	81.0
Core net profit margin	60.1	57.5	61.0	61.6	61.8
Payout ratio	nm	nm	100.0	100.0	100.0
DuPont analysis					
Total return margin (%)	nm	21.4	61.0	61.6	61.8
Gross revenue/Assets (x)	0.1	0.1	0.1	0.1	0.1
Assets/Equity (x)	1.8	1.6	1.5	1.5	1.4
ROAE (%)	(3.2)	3.3	8.2	8.0	8.0
ROAA (%)	5.2	5.2	5.4	5.5	5.5
Leverage & Expense Analysis					
Asset/Liability (x)	2.3	2.7	3.1	3.2	3.3
Net gearing (%) (excl. perps)	74.9	56.1	42.9	41.6	40.4
Net interest cover (x)	4.0	4.1	4.8	5.0	5.0
Debt/EBITDA (x)	7.0	5.8	4.8	4.7	4.6
Capex/revenue (%)	1.1	0.1	0.1	0.1	0.1
Net debt/ (net cash)	525.3	429.7	358.3	358.3	358.3
Debt/Assets (x)	0.43	0.36	0.30	0.30	0.29

Source: Company; Maybank

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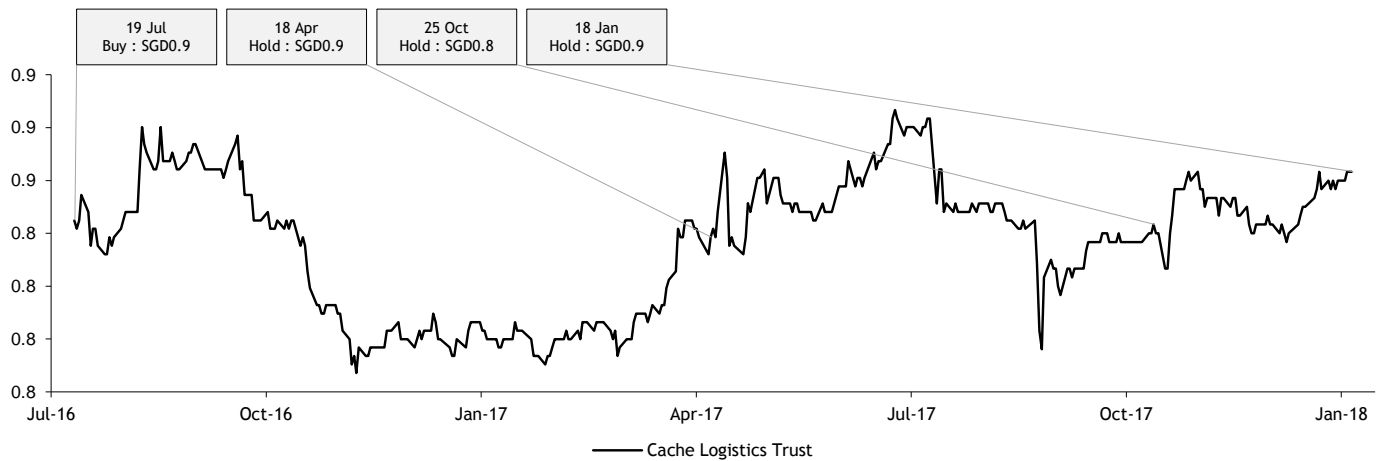
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