17 June 2019

Property | REITS

Cache Logistics Trust (CACHE SP)

Buy (Maintained)

A Bumper 2Q19 Awaits; Keep BUY

Target Price (Return)	SGD0.83 (+8%)
Price:	SGD0.77
Market Cap:	USD607m
Avg Daily Turnover (SGD/USD)	2.3m/1.7m

- **Maintain BUY, new DDM-derived SGD0.83 TP** from SGD0.81, 8% upside with 8% yield. With tax transparency granted on the 51AA settlement sum, Cache Logistics Trust will pay a retained lump sum of ~SGD2.9m in 2Q, which should boost DPU. Market concerns over CWT master leases are also slightly overdone, as the leased space is backed by end-users/clients. Valuations remain attractive, with a FY19F dividend yield of 8% (~200 bps higher than S-REITs average), and P/BV of 1.1x.
- **Favourable resolution of 51AA tax matter will boost 2Q DPU.** In April, Cache announced that the Inland Revenue Authority of Singapore (IRAS) granted tax transparency on SGD7.4m, out of the total SGD8.2m settlement sum it received from CWT Pte Ltd (CWT) over lease disputes on 51 Alps Avenue (51AA). Of this sum, Cache will pay out ~SGD2.9m, which is the estimated rental shortfall that it has retained since 4Q16. The balance will then be evenly distributed (~SGD0.5m per quarter) over the remaining period until Aug 2021. The above top-up amount will result in a one-off 2Q DPU uplift of ~SGD0.0025 (16% of 1Q19 DPU).
- **Strengthening Australia exposure; possible Korean asset acquisitions in near term.** Cache recently completed the acquisition of a warehouse in Victoria, Australia, which it purchased for AUD41.2m. Rental contributions should kick in from 2Q19 onwards. The asset comes with an initial NPI yield of 6.8%, higher than its existing portfolio with inbuilt rental rate escalations of 3.25% pa. Post acquisition, Australia currently accounts for 31% of its total assets under management, with Singapore accounting for rest. Cache is now actively studying the South Korean logistics market, with the view of potentially acquiring ARA Asset Management's Korean logistics assets. With gearing currently at 37.4%, we believe the future acquisitions will be funded via a combination of debt and equity.
- **CWT leasing risk is manageable.** CWT International, the parent of CWT, defaulted on its interest payments in Apr 2019 – which prompted investor concerns over CWT's ability to fulfil its master lease agreement with Cache. We believe the leasing risks are manageable due to three reasons. First, the master lease space has been fully taken by end-users/clients, with whom Cache has been engaging with over time. Second, CWT has not defaulted on its rental payments so far, and Cache holds ~3 months of rental as a security deposit, which it can draw upon any default. Third, the weighted average lease expiry of CWT leases is short (<1 year). Cache has also been carefully managing CWT master lease risks over the years, with its exposure currently lowered to 16.5% of gross rental income vs 38% in FY15.
- **DPU adjustments.** We lift FY19-21F DPU by 1-4%, factoring in rental top-up payments from 51AA leases.

Forecasts and Valuation	Dec-17	Dec-18	Dec-19F	Dec-20F	Dec-21F
Total turnover (SGDm)	112.0	121.5	121.5	128.2	134.2
Net property income (SGDm)	87.3	90.9	89.9	94.8	99.3
Reported net profit (SGDm)	23.9	29.7	75.7	80.5	70.8
Distributable income (SGDm)	64.4	62.2	67.6	72.1	75.2
DPS (SGD - cents)	6.6	5.9	6.1	6.2	6.4
DPS growth (%)	(10.9)	(9.9)	2.9	2.7	3.1
P/BV (x)	1.1	1.2	1.1	1.1	1.1
Dividend Yield (%)	8.5	7.7	7.9	8.1	8.4
Return on average equity (%)	3.1	4.2	10.4	10.8	9.5
Return on average assets (%)	1.9	2.3	5.5	5.7	5.0
Interest coverage (x)	4.1	3.7	4.0	4.2	4.1

Source: Company data, RHB

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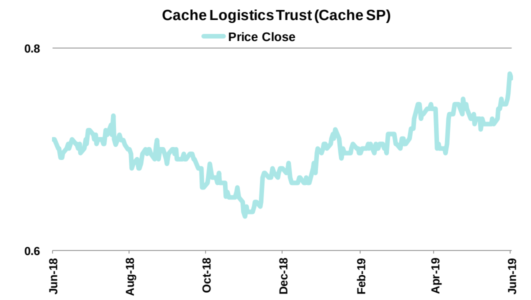
Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	10.8	5.5	6.9	8.5	0.0
Relative	5.8	5.5	6.2	3.7	4.0
52-wk Price low/high (SGD)					0.66 - 0.78



Source: Bloomberg

Financial Exhibits

Asia
Singapore
Property
Cache Logistics Trust
Bloomberg Cache SP

Valuation basis

We use DDM, with the following assumptions:

i. COE of 8.6%;
ii. Risk-free rate of 3%; and
iii. 1% terminal growth.

Key drivers

i. Reduction in logistics sector supply;
ii. Accretive acquisitions;
iii. Pick-up in logistics demand driving rental rates.

Key risks

i. Prolonged trade tensions leading to slowdown in industrial demand;
ii. Inability to retain key tenants.

Company Profile

Cache Logistics Trust is a Singapore-based REIT. The REIT invests in income-producing real estate used for logistics purposes in the Asia-Pacific, as well as real estate-related assets.

Financial summary	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Recurring EPS (SGD)	0.02	0.02	0.07	0.07	0.06
EPS (SGD)	0.02	0.02	0.07	0.07	0.06
DPS (SGD)	0.07	0.06	0.06	0.06	0.06
BVPS (SGD)	0.72	0.66	0.67	0.68	0.68
Weighted avg adjusted shares	981	1072	1086	1095	1104

Valuation metrics	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Recurring P/E (x)	31.3	33.5	11.0	10.5	12.0
P/E (x)	31.3	33.5	11.0	10.5	12.0
P/B (x)	1.1	1.2	1.1	1.1	1.1
FCF Yield (%)	10.5	9.1	9.6	10.0	10.4
Dividend Yield (%)	8.5	7.7	7.9	8.1	8.4
EV/EBITDA (x)	16.7	18.8	17.3	16.5	15.8
EV/EBIT (x)	16.7	18.8	17.3	16.5	15.8

Income statement (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Total turnover	112	122	122	128	134
Gross profit	87	91	90	95	99
EBITDA	77	69	78	83	87
Depreciation and amortisation	0	0	0	0	0
Operating profit	77	69	78	83	87
Net interest	(19)	(18)	(20)	(20)	(21)
Income from associates & JVs	0	0	0	0	0
Exceptional income - net	0	0	0	0	0
Pre-tax profit	25	28	78	83	74
Taxation	(1)	(3)	(2)	(3)	(3)
Minority interests	0	0	0	0	0
Recurring net profit (adj)	24	30	76	81	71

Cash flow (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Change in working capital	0	(3)	1	1	0
Cash flow from operations	82	80	83	87	91
Capex	(3)	(5)	(3)	(3)	(3)
Cash flow from investing	(3)	(110)	(43)	(3)	(3)
Dividends paid	(66)	(64)	(66)	(71)	(74)
Cash flow from financing	(78)	49	(58)	(81)	(86)
Cash at beginning of period	14	15	33	19	25
Net change in cash	1	19	(17)	4	3
Ending balance cash	15	33	19	25	31

Balance sheet (SGDm)	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Total cash and equivalents	15	33	19	25	31
Tangible fixed assets	1140	1270	1348	1370	1381
Intangible assets	0	0	0	0	0
Total investments	1140	1270	1348	1370	1381
Total other assets	74	6	6	6	7
Total assets	1229	1310	1372	1402	1419
Short-term debt	125	28	0	0	0
Total long-term debt	320	442	517	529	542
Other liabilities	19	25	25	26	26
Total liabilities	463	495	542	555	568
Shareholders' equity	766	713	729	745	749
Minority interests	0	0	0	0	0
Total equity	766	713	729	745	749
Net debt	430	437	498	504	511
Total liabilities & equity	1229	1208	1270	1300	1317

Key metrics	Dec-17	Dec 18	Dec 19F	Dec 20F	Dec 21F
Revenue growth (%)	0.6	8.6	(0.0)	5.5	4.7
Recurrent EPS growth (%)	(8.1)	(6.5)	203.0	5.5	(12.7)
Gross margin (%)	78.0	74.8	74.0	74.0	74.0
Operating EBITDA margin (%)	68.5	56.4	64.5	64.5	64.5
Net profit margin (%)	21.4	24.4	62.3	62.8	52.8
Dividend payout ratio (%)	100	100	100	100	100
Capex/sales (%)	2.4	4.2	2.2	2.1	2.0
Interest cover (x)	4.1	3.7	4.0	4.2	4.1

Source: Company data, RHB

Figure 1: Valuation based on DDM

	FY19F	FY20F	FY21F	FY22F	Terminal value
DPU (SGD cts)	6.1	6.2	6.4	6.5	86.3
Fair value (SGD)	**0.83**				
Current price (SGD)	0.77				
Price upside (%)	7.8				
Distribution yield (%)	7.9				
Assumptions					
Risk-free rate: (%)	3.0				
Beta	1.0				
Cost of equity (%)	8.6				
Terminal growth: (%)	1.0				

Source: Company data, RHB

Figure 2: Latest acquisition in Victoria, Australia

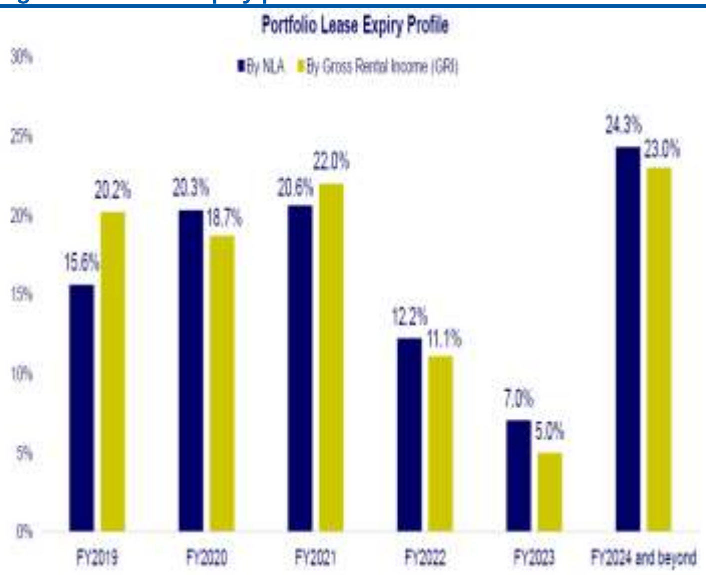
Property Profile: 182 – 198 Maidstone St.

Net Lettable Area	37,853 sqm (407,000 sq ft)
Land Tenure	Freehold
WALE	2.53 years (as of 28 Feb 2019)
Purchase Consideration	AUD 41.2 mil
Latest Valuation	AUD 41.2 mil[(1)]
Targeted Completion Date	end-Apr 2019

182-198 Maidstone St., Altona is located within a key established industrial precinct and is in close proximity to main roadways, the Port of Melbourne and Melbourne's central business district.

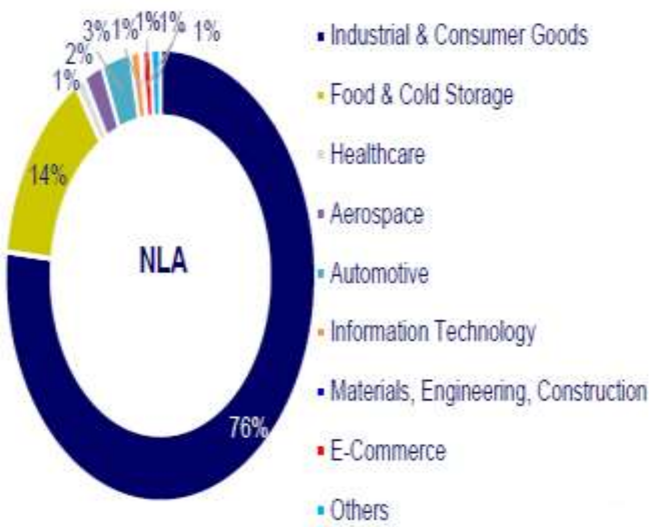
Source: Company data, RHB

Figure 3: Lease expiry profile



Source: JTC, Company data

Figure 4: End-users by industry



Source: Company data

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