Asia Credit Research

OCBC Bank

Cache Logistics Trust
New Credit Review

Monday, July 01, 2019

Recommendations Summary

Issuer Profile:	**Perpetual Recommendation:**	
Neutral (4)	CACHE 5.5%-PERP	Overweight
Fundamental Analysis Consideration • Highly manageable interest coverage • Adjusted aggregate leverage on the high side amidst portfolio repositioning to Australia • Improved financial flexibility with a higher proportion of unsecured debt • While counterparty credit risk has reduced, CWT SG is still the largest tenant • The consolidating Industrial REIT sector is a medium term event risk	Technical Analysis Consideration • Subordinated perpetuals • Dividend stopper is a positive, especially as REITs regularly pay out dividends to its unitholders • Reasonably well recognised via the association with CWT and ARA • Lack of external credit rating • No explicit change of control clause on the perpetuals • No delisting put • No step-up margin	

Ticker: **CACHE**

Treasury Advisory
Corporate FX & Structured Products
Tel: 6349-1888 / 1881
Interest Rate Derivatives
Tel: 6349-1899
Investments & Structured Products
Tel: 6349-1886

GT Institutional Sales
Tel: 6349-1810

Ezien Hoo, CFA
+65 6722 2215
EzienHoo@ocbc.com

Key credit considerations

- **Highly manageable interest coverage:** In 1Q2019, NPI increased by 4.0% y/y to SGD23.8mn. This was mainly due to the full quarter contribution from the nine properties in Australia acquired, though offset by divestments and the conversion of CWT Commodity Hub from a master lease to a multi-tenancy lease Resultant EBITDA was 4.6% higher y/y at SGD21.8mn in 1Q2019 while EBITDA/Interest coverage (not including interest on lease liabilities) was 4.8x, slightly higher versus the 4.7x seen in 1Q2018. This was despite a 2.5% y/y increase in interest expense, driven by an increase in all-in-financing cost. Assuming CACHE pays out SGD5.5mn in perpetual distribution payment per year and we take 50% of this as interest, we find EBITDA/ (Interest and 50% perpetual distribution) at 4.2x, still healthy.

- **Adjusted aggregate leverage on the high side though REIT aggregate leverage capped at 45%:** As at 31 March 2019, CACHE's reported aggregate leverage was 37.4%, higher versus the 36.2% as at end-2018. The main reason for this was a SGD23.6mn drawdown in debt to in part fund the new acquisition in Australia (acquired in April 2019). With the acquisition, we estimate that CACHE's aggregate leverage would be ~37%.Perpetuals was SGD100mn as at 31 March 2019, taking 50% of this as debt, we estimate adjusted aggregate leverage at CACHE would be ~41%, on the high side versus our REIT coverage universe.

- **Improved financial flexibility since October 2018:** As at 31 March 2019, CACHE faced short term debt due of SGD85.4mn, representing 17% of gross debt which is manageable in our view. In 3Q2018, secured borrowings were significantly higher at 21% of total assets (similarly for periods prior to that). As at 31 March 2019, secured borrowings only made up 5% of total assets, leaving significant room for CACHE to raise secured financing again if need be. In October 2018, CACHE successfully raised a 5.5-year SGD265mn unsecured term loan facility. This amount is material given gross debt of SGD478.5mn as at 30 September 2018). We take this as a signal of improved bank loan market access for CACHE, despite being a small Industrial REIT. Under the facility, a mandatory prepayment would be triggered if CACHE's REIT Manager ceases to be an indirect subsidiary of ARA. While CACHE perpetual holders have no direct protection from a Change of Control ("CoC") provision, the existence of a CoC on CACHE's important loan facility provides some comfort over the commitment level of ARA towards CACHE.

- **Exposure to largest tenant CWT SG reduced overtime:** At IPO, CACHE was fully exposed to the counterparty credit risk of CWT SG and C&P (then largest shareholder of CWT SG). In 2010, CWT SG made up 65.7% of gross rental income though this has declined overtime with CACHE buying new properties in Australia and the conversion of master leased properties by CWT SG into multi-tenanted properties. In 2015, the proportion contribution from CWT SG had declined to 37.9% and subsequently to 20.6% in 2018. By April 2019, CACHE's exposure to CWT SG had fallen to 16.5%.

- **……though still an evolving situation:** Historically, the concentration risk towards CWT SG was less of an issue, with CWT SG being a leading integrated logistics provider. However, after CWT SG was sold to CWT International Ltd (majority owned by HNA) and subsequently delisted, CWT SG's financial standing had been questioned by the market from time to time, including us at OCBC Credit Research. Most recently, due to the inability of CWTI to fulfil debt obligations, CWT SG had been put under receivership (stakes in CWT SG used by CWTI as collateral). Currently, the day-to-day operations of CWT SG are understood to be intact though this situation is still evolving where a sale of CWT SG, including in parts, is still possible in the near term unless CWTI manages to refinance. We take some comfort that the exposure of CACHE to CWT SG had fallen and CWT SG has not defaulted in its rental payments to any REIT as of April 2019.

- **Early foresight to expand into Australia:** We estimate that as at 1 July 2019, the weighted average year to expiry is ~18 years (weighted by net lettable area). This is low in our view, which also limits the ability of CACHE to redevelop these properties. While Singapore still makes up a significant part of valuation, we think this proportion will decline both organically (with time decay of Singapore properties) as well as CACHE's continuous expansion in Australia. CACHE has been an early proponent of expanding into Australia among the Industrial REITs. All 17 of CACHE's Australia-located properties (including the latest one bought in April 2019) are freehold in status. There is some balance sheet currency mismatch with CACHE's exposure to Australia though for now we expect the aggregate leverage impact of a weakening AUD against the SGD to be contained at less than 1% in the next 12 months.

I) Company Background

Cache Logistics Trust ("CACHE") is structured as a real estate industrial trust ("REIT") and listed on the Singapore Stock Exchange ("SGX") with a market cap of ~SGD852n as at 1 July 2019 with total asset of SGD1.41bn as at 31 March 2019. CACHE focuses on logistics warehouse properties and as of report date, its properties are located across Singapore and Australia. CACHE principally invest in income-producing real estate used for logistics purposes in Asia-Pacific (defined as Singapore, Malaysia, Indonesia, the Philippines, Thailand, Vietnam, China, India, Hong Kong, Macau, Taiwan, Japan, South Korea, Australia and New Zealand), as well as real estate-related assets in Asia-Pacific.

CACHE is managed by ARA Trust Management (Cache) Limited ("REIT Manager", formerly known as ARA-CWT Trust Management (Cache) Limited) while the Property Manager is Cache Property Management Pte Ltd. Both of these entities are indirectly 100%-owned by ARA Asset Management Limited ("ARA").

ARA is a privately held company with shareholders including: private equity fund manager Warburg Pincus, Straits Trading Co. Ltd, AVIC Trust Co., Ltd ("AVIC Trust"), Mr. John Lim (CEO/Founder) and CK Asset Holdings Limited ("CK Asset", formerly Cheung Kong Property Holdings Limited). Other listed REITs managed by ARA include Suntec REIT (Issuer profile: Neutral (4)), Fortune REIT, Hui Xian REIT, Prosperity REIT and recently-listed ARA US Hospitality Trust.

Oversea-Chinese Banking Corporation Limited ("OCBC Bank") has an indirect ownership stake in ARA via the bank's 19.9988%-ownership stake in AVIC Trust.

At time of CACHE's initial public offering in April 2010, CACHE's Sponsor was CWT Limited (now CWT Pte Ltd, "CWT SG"). CWT SG is a leading integrated logistics provider headquartered in Singapore. Both the REIT Manager and the Property Manager was then jointly owned by ARA and CWT SG. 60% of the REIT Manager was owned by ARA, with the remaining 40% owned by CWT SG. The Property Manager was 60% owned by the CWT SG and the remaining 40% was owned by ARA.

The REIT's initial portfolio of six assets was all acquired from CWT SG, C&P Holdings Pte Ltd ("C&P", then largest shareholder of CWT SG) and their subsidiaries, with the properties leased back to the vendors. Immediately post IPO, CWT SG owned a ~12.2%-stake in CACHE while ARA (through its indirect wholly-owned subsidiary) owned a ~1.9%-stake in CACHE.

In September 2017, CWT SG was sold to new owners, triggered by C&P selling its stake to CWT International Ltd ("CWTI", indirectly majority owned by HNA) which saw CWT SG being delisted. On 2 July 2018, CWT SG completed the sale of its stakes in both the REIT Manager and property manager to ARA and subsequently in September 2018, CWT SG also sold its remaining 43.66mn units in CACHE to ARA, exiting fully as unitholder of the REIT. As at 7 March 2019, ARA is CACHE's largest shareholder holding a ~9.6%-stake in CACHE.

At IPO, CWT SG and C&P granted right of first refusal to CACHE over properties that they owned respectively though these rights have since lapsed as (1) C&P is no longer the controlling shareholder of CWT SG and (2) CWT SG is no longer the controlling shareholder of the REIT Manager. CWT SG still remains as a significant tenant of CACHE, although this significance had also declined in the past three years.

The issuer of the CACHE 5.5%-PERP is HSBC Institutional Trust Services (Singapore) Limited (in its capacity as trustee of CACHE). This is in a similar vein to other REIT issuances, where legally the issuer is the trustee of the REIT. For the avoidance of doubt, the CACHE 5.5%-PERP is not guaranteed by its Sponsor and sponsor-related entities.

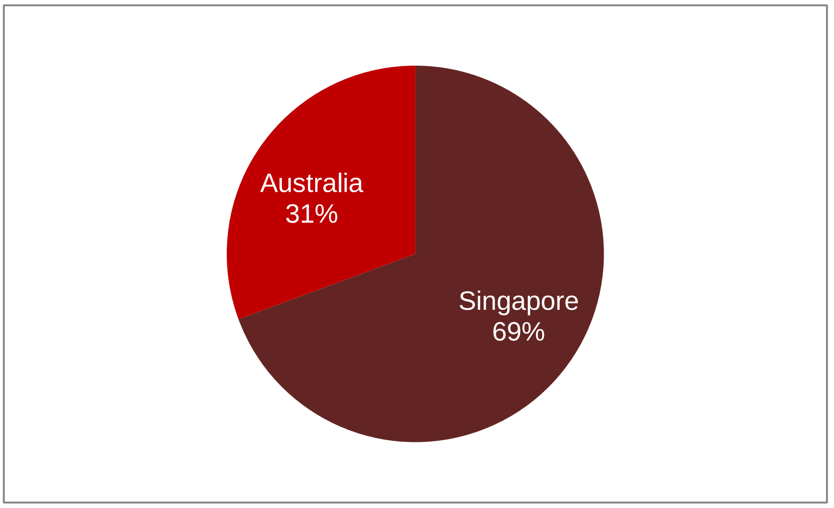
Figure 1: CACHE's Investment Portfolio

Asset	State / Country	Type	Lease Structure	Underlying Land Lease[1]	2018 Gross Revenue	Valuation SGDmn[2]	Committed Occupancy (%)[3]
CWT Commodity Hub	Singapore	Ramp-up	Multi-tenanted	16	33.6	307.3	86
Cache Cold Centre	Singapore	Ramp-up	Multi-tenanted	16	11.0	130.2	91
Schenker Megahub	Singapore	Ramp-up	Single-tenant	16	6.5	82.6	100
Cache Changi Districentre 1	Singapore	Ramp-up	Multi-tenanted	16	8.2	95.8	100
Cache Changi Districentre 2	Singapore	Cargo lift	Multi-tenanted	7	0.6	15.9	66
Air Market Logistics Centre	Singapore	Cargo lift	Single-tenant	18	1.0	11.4	100
Pan Asia Logistics Centre	Singapore	Ramp-up	Single-tenant	21	3.2	34.6	100
Pandan Logistics Hub	Singapore	Ramp-up	Multi-tenanted	20	4.9	43.3	92
Precise Two	Singapore	Ramp-up	Single-tenant	14	5.4	33.4	100
DHL Supply Chain Advanced Regional Centre	Singapore	Ramp-up	Multi-tenanted	25	16.1	151.3	100
127 Orchard Road	Chester Hill, New South Wales ("NSW")	Single storey	Single-tenant	Freehold	3.4	42.5	100
16-28 Transport Drive	Somerton, Victoria ("VIC")	Single storey	Single-tenant	Freehold	2.1	24.5	100
51 Musgrave Road	Coopers Plains, Queensland ("QLD")	Single storey	Multi-tenanted	Freehold	0.5	8.1	92
203 Viking Drive	Wacol, QLD	Single storey	Single-tenant	Freehold	2.3	27.8	100
223 Viking Drive	Wacol, QLD	Single storey	Single-tenant	Freehold	0.9	11	100
404 – 450 Findon Road	Kidman Park, South Australia	Single storey	Single-tenant	Freehold	6.5	56.6	100
217-225 Boundary Road	Laverton North, VIC	Single storey	Single-tenant	Freehold	1.9	21.9	100
11-19 Kellar Street	Berrinba, QLD	Single storey	Single-tenant	Freehold	0.8	11.6	100
3 Sanitarium Drive	Berkeley Vale, NSW	Single storey	Single-tenant	Freehold	1.9	32.6	100
67- 93 National Boulevard	Campbellfield, VIC	Single storey	Multi-tenanted	Freehold	1.5	26.9	100
41 – 51 Mills Road	Braeside, VIC	Single storey	Multi-tenanted	Freehold	2	28.3	95
41 – 45 Hydrive Close	Dandenong South, VIC	Single storey	Single-tenant	Freehold	0.8	11.4	100
76 – 90 Link Drive	Campbellfield, VIC	Single storey	Single-tenant	Freehold	0.7	12.1	100
196 Viking Drive	Wacol, QLD	Single storey	Single-tenant	Freehold	1.0	14.6	100
16 – 24 William Angliss Drive	Laverton North, VIC	Single storey	Multi-tenanted	Freehold	1.2	18	100
151 – 155 Woodlands Drive	Braeside, VIC	Single storey	Single-tenant	Freehold	1.1	15.4	100
182 – 198 Maidstone St[4]	Altona, VIC	Single storey	Single-tenant	Freehold	NA	39.7	76

Source: CACHE annual report 2018, company announcements, OCBC Credit Research
Note:
(1) OCBC Credit Research estimates as at 26 June 2019
(2) As at 31 December 2018
(3) Committed occupancy as at 31 December 2018

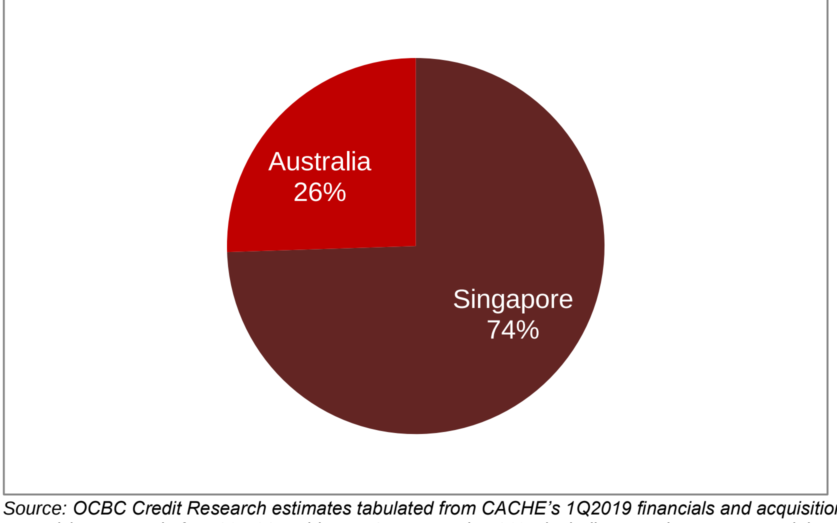
(4) Valuation as at 15 January 2019; CACHE completed the acquisition of this property in April 2019. The property is currently occupied by one anchor tenant though the vendor has provided a rental guarantee on the remaining 24% of space that is vacant.
(5) CACHE holds a 100% interest in all of its investment properties

Figure 2: Estimated Breakdown of Investment Properties (by Value)



Source: OCBC Credit Research estimates tabulated from CACHE's portfolio valuation as at 31 December 2018 and acquisition of 182-198 Maidstone St in Australia

Figure 3: Estimated Breakdown of Investment Properties (by Gross Revenue)



Source: OCBC Credit Research estimates tabulated from CACHE's 1Q2019 financials and acquisition of 182-198 Maidstone St in Australia
Note: (1) NPI margin for 182-198 Maidstone St assumed at 86%, including rental guarantee and the rental incentive reimbursement provided by the vendor

From a portfolio of all-Singapore located properties, CACHE started its' rebalancing and expansion strategy into Australia when it completed the acquisition of its first assets in Australia in February 2015. Three properties (one in New South Wales, Victoria and Queensland respectively) was bought for a purchase price of ~SGD73.4mn, Since then, CACHE had focused on buying more in Australia, with another three more warehouses bought later that year, one bought in 2017 and a portfolio of nine warehouses in February 2018 for a total purchase price of SGD188.3mn.

Since the completion of a built-to-suit property in Greenwich Drive, Singapore for DHL Supply Chain Singapore Pte Ltd in July 2015, CACHE had reduced its exposure to Singapore and China. In mid-2015, the REIT surrendered its lease at 4 Penjuru Lane back to JTC for SGD9.7mn, even though the underlying land lease still had ~27 years to go. In May 2018, CACHE sold Hi-Speed

Logistics Centre (40 Alps Avenue) for SGD73.8mn. This was an asset that was part of its initial portfolio. In December 2018, CACHE sold Jinshan Chemical Warehouse located in Jinshan District, Shanghai ("Jinshan") for RMB87.0mn (~SGD17.8mn), thus exiting the China market. China though has not historically been an important market for CACHE, with this sole property bought from CWT SG.

On 5 July 2018, CWT SG proposed the sale of five significant warehouses in Singapore to Mapletree Logistics Trust ("MLT", Issuer profile: Neutral (4)), a competing, albeit significantly larger REIT to CACHE. We surmised that CACHE had declined to buy these properties even though it held a right of first refusal on most (if not all) of these properties. All in, we expect CACHE to continue expanding into Australia, with the contribution of Singapore to asset values and income generation to continue declining.

As at 31 March 2019, CACHE owns 26 logistics warehouse properties, all of which are fully owned with an aggregate investment portfolio of SGD1.35bn. 10 of the properties are located in Singapore (five were part of the initial IPO portfolio) while 16 are located in Australia. Post quarter-end on 29 April 2019, CACHE completed the purchase of 182 – 198 Maidstone St in Altona (13km southwest of Melbourne's Central Business District) which we think would have increase investment portfolio value to SGD1.39bn.

II) Ownership and Management

Figure 4: Major unitholders as at 7 March 2019

Unitholder	Shares	Deemed interest
ARA Real Estate Investors V Limited (indirect wholly-owned subsidiary of ARA)	103,708,931	9.6%
Other public unitholders	974,172,444	90.4%

Source: Annual report

Unlike larger Industrial REIT peers who have an anchor unitholder (typically its Sponsor) with a 19 - 32%-stake in the REIT, ARA, the largest unitholder of CACHE only holds a 9.6%-stake in CACHE. ARA wholly owns the REIT Manager and Property Manager. As ARA's core business is in asset management (rather than property development), it has been its' *modus operandi* to hold (at best) small stakes in the REITs which it manages. In practice, what this means is there is lack of a pipeline of logistics warehouse assets that may be injected into CACHE.

For the time being, other assets owned and/or managed by ARA (including those managed under private funds) are in the commercial, retail and hospitality segments. From the perspective of bondholders and perpetual holders (who prefer stability), we do not see this as a significant issue. Barring an outright merger with another REIT, not having a property developer as an anchor unitholder also means that CACHE is reliant on acquiring properties from third parties, which based on our experience, tends to be more disciplined.

The remaining 90.4% is held by public unitholders including a 6.1%-stake held by Eastpring Investments, an institutional investor. Directors of the board and the CEO/Founder of ARA in aggregate hold a small 0.2% stake in CACHE.

Mr Daniel Cerf, the Chief Executive Officer ("CEO") of the REIT Manager has been CEO since listing. Immediately prior to CACHE, Mr Cerf was Deputy CEO of what is today known as Keppel REIT Management Limited (the REIT Manager of Keppel REIT) and has an extensive experience in real estate investment, development and related management consulting services. Similarly, Mr Ho Jiann Ching has also been Director & Head of Investment since listing. Prior to CACHE, Mr Ho was Director of Business Development at Ayala International Holdings Limited ("Ayala") and

Head of Transaction Review for ARCH Asian Partners Fund (a private equity real estate fund sponsored by Ayala).

III) Company Overview & Analysis

CWT SG influence reduced overtime: CACHE's initial portfolio of six properties were all from CWT SG and CWT SG's then single largest shareholder, C&P (holding ~36% stake) with CACHE holding right of first refusal over CWT SG and C&P's logistics warehouse properties. CWT SG was Sponsor to CACHE, substantial unitholder and also joint owner of CACHE's REIT Manager and Property Manager though this is no longer the case. The relationship between CWT SG and CACHE now is that of a tenant and landlord. In 2010, CWT SG made up 65.7% of CACHE's gross rental income. At that time, CWT SG was the master lessee of two assets (largest two by valuation out of the initial portfolio. C&P and two of its subsidiaries were the master lessee of the remaining four assets, collectively contributing 34.3% of the remaining gross rental income. Effectively, CACHE was fully concentrated to CWT SG and C&P then. With the expansion of CACHE into Australia, the proportion contribution from CWT SG had declined to 37.9% in 2015 and subsequently to 20.6% in 2018. Exposure to C&P had also declined (eg: conversion of properties into multi-tenanted and Schenker Megahub leased to Shenker Singapore (Pte Ltd) directly). In 2017, CWT Commodity Hub, the largest asset within the portfolio was still master leased to CWT SG although the lease expired in April 2018 (base five year lease term and renewed for a further three years in 2015). In April 2018, CWT Commodity Hub converted into a multi-tenanted property. The expiry of leases along with CACHE buying new properties in Australia had reduced CACHE's concentration risk to CWT SG. By April 2019, CACHE's exposure to CWT SG had fallen to 16.5%. Beyond CWT SG, DHL is the second largest tenant of CACHE, by gross rental income this was ~13% for 2018.

……although this is still an evolving situation: Historically, the concentration risk towards CWT SG was less of an issue given CWT SG's stature as a publicly listed entity and well regarded integrated logistics services provider. However, post change of ownership and delisting, CWT SG's financial standing had been questioned by the market from time to time, among various reasons (1) increase in cost of funding at CWT SG (2) association with CWTI, a highly levered entity and (3) CWT SG sale of significant assets to MLT without bondholders' approval, culminating in limited access to capital markets. Most recently, due to the inability of CWT SG's parent company, namely CWTI to fulfil debt obligations, CWT SG had been put under receivership (stakes in CWT SG used by CWTI as collateral). Currently, the day-to-day operations of CWT SG are understood to be intact with CWT SG successfully redeeming the SGD100mn CWTSP 3.9% '19s in April 2019. This is though still an evolving situation where a sale of CWT SG, including in parts, is still possible in the near term unless CWTI manages to refinance. As of report date, CWTI is still trying to refinance and is in advanced negotiations with a possible financier. While we take some comfort that the exposure of CACHE to CWT SG had fallen to 16.5% and CWT SG has not defaulted in its rental payments to any REIT as of April 2019, CWT SG is still the largest tenant of CACHE. CACHE has the highest concentration among Industrial REITs to CWT SG (eg: concentration to MLT: 9.2%, AIMS APAC REIT: 8.8% as at 31 March 2019).

Contracts with end-users plausible but not a "plug-and-play": One saving grace from the CWT SG exposure is that end-users and clients of CWT SG take up almost all of the area leased by CWT SG. Per CACHE, management is able to negotiate directly with end-users to take over the space. Until such time CACHE signs a direct contract with these end-users there is no direct contractual relationship with end-users of the master lesses (or single tenants eg: in the case of Schenker Megahub). In our view, this is a plausible solution and still puts CACHE in a better situation versus the underlying space being vacant. However, we think it is still more realistic to assume that CACHE would need to find another third-party logistics provider who are willing to provide services to the end-users, particularly smaller end-users who are now in these properties because they actually want the logistics services provided by and/or do not want to tie up a long term contract with a landlord. Master leases such as CWT SG provide essential services such as bundling, packaging, reverse logistics, transportation, inventory management and freight, business activities which are restricted to be undertaken by REITs such as CACHE.

Concentration risk to three Singapore properties: CWT Commodity Hub was valued at SGD307.3mn as at 31 December 2018 while Cache Cold Centre was valued at SGD130.2mn as at 31 December 2018. Collectively, we estimate that the two properties make up 33% of total investment property value (taking into account the new Australian property) at CACHE. In end-2018, the valuation of CWT Commodity Hub had dropped 3.4% from end-2017, we think much was due to the expiry of master lease which led to reduction in committed occupancy and net property income ("NPI") margin compression. Aside from counterparty credit risk issues in relation to CWT SG, we think tenants would continue to be attracted to the property in view of the large floor plate, ramp-up nature and location within a key industrial cluster in Jurong. That being said, we think time decay of the underlying land lease will lead to a reduction in valuation going forward, even assuming committed occupancy holds up at 86%. There is no extension option on the underlying land lease at CWT Commodity Hub (expires in 2035). Cache Cold Centre is a cold storage warehouse appealing to a niche though defensive food sector (its major tenants include a large supermarket chain and a major distributor of meats). Its committed occupancy of 91% is also higher than the sector average of 89.2% for warehouses. For Cache Cold Centre, the underlying land lease expires also in 2035 though there is another 30 year extension option (likely a top up payment will be required if this is extended). Barring CWT SG, net-net we think rental on these two properties will continue to hold up in the next 12 months, though we expect valuation of the property to be flat in end-2019. A third property DHL Supply Chain Advanced Regional Centre makes up ~12% of investment property value. We see this property as less of an issue though as this property has a longer underlying land lease until 2044 and has DHL as the major tenant under a ten year lease until 2025 (initial ten years plus options for renewal until one day before the end of the 30 year underlying land lease).

Early foresight to expand into Australia to compensate for declining land lease in Singapore: The remaining underlying land leases of CACHE's Singapore property have seven to 25 years left before expiring, assuming extension options are not exercised on those with extension options. We estimate that as at 1 July 2019, the weighted average year to expiry is ~18 years (weighted by net lettable area). This is low in our view, which also limits the ability of CACHE to redevelop these properties. Simplistically if we take a 6% required return on a hypothetical redevelopment project, this implies a payback period of ~17 years. While Singapore still makes up a significant part of valuation (which we estimate at 69% including the recently acquired 182 – 198 Maidstone St), we think this proportion will decline both organically (with time decay of Singapore properties) as well as CACHE's continuous expansion in Australia. Among the mid-cap and smaller Industrial REITs, CACHE has been the earliest proponent of expanding outside of Australia. All 17 of CACHE's Australia-located properties are freehold in status.

Consolidation in Industrial REIT sector on-going: The Industrial REITs sector is relatively fragmented beyond the largest three REITs, though have started consolidating in 2018 with the combination of ESR-REIT ("EREIT", Issuer profile: Neutral (4)) with VIVA Industrial Trust. In June 2019, ESR Cayman Limited ("ESR"), the Sponsor of ESR-REIT bought additional stakes in the REIT Manager and Property Manager of Sabana Shari'ah Compliant Industrial REIT ("SSREIT", Issuer profile: Unrated), bringing its indirect ownership in the managers to more than 90%. Additionally, ESR had also bought additional units in SSREIT itself (ESR now holds a ~20%-stake in SSREIT). EREIT and SSREIT itself has not announced a combination though effectively EREIT and SSREIT are now "sister-REITs" managed by ESR and it is not farfetched to expect an eventual combination between SSREIT and EREIT. EREIT and CACHE are two separate REITs, though similar to ARA, ESR, also has Warburg Pincus, the private equity asset manager as a significant shareholder. In our view, the remaining smaller Industrial REITs with total assets of sub-SGD1.5bn such as CACHE may start organising themselves into an alternative REIT or at the very least think about the impact of this changing market dynamic and pursue measures to improve their bargaining power. This is especially more so as capital markets (both equity and debt) increasingly favour Singapore-listed REITs that have scale.

IV) Financial Analysis

Low refinancing risk with improved financial flexibility since October 2018: As at 31 March 2019, CACHE faced short term debt due of SGD85.4mn, representing 17% of gross debt which is manageable in our view. This includes two AUD-denominated bank loans that are coming due amounting to AUD64.3mn (~SGD61.8mn) and SGD23.6mn drawn down from CACHE's committed revolving credit facility ("RCF) to help fund the purchase of the new Australian property. We think the unutilised outstanding amount on the RCF would have fallen to SGD41.4mn. In 3Q2018, secured borrowings were significantly higher at 21% of total assets (similarly for periods prior to that). As at 31 March 2019, secured borrowings only made up 5% of total assets, leaving significant room for CACHE to raise secured financing again if need be. In October 2018, CACHE successfully raised a 5.5-year SGD265mn unsecured term loan facility. This amount is material given gross debt of SGD478.5mn as at 30 September 2018). We take this as a signal of improved bank loan market access for CACHE, despite being a small Industrial REIT. Under the facility, a mandatory prepayment would be triggered if CACHE's REIT Manager ceases to be an indirect subsidiary of ARA. While CACHE perpetual holders have no direct protection from a Change of Control ("CoC") provision, the existence of a CoC on CACHE's important loan facility provides some comfort over the commitment level of ARA towards CACHE.

Adjusted aggregate leverage on the high side though REIT aggregate leverage capped at 45%: As at 31 March 2019, CACHE's reported aggregate leverage was 37.4%, higher versus the 36.2% as at end-2018. The main reason for this was a SGD23.6mn drawdown in debt though bulk of the facility was unused by quarter end. The SGD23.6mn was drawn down to in part fund the new acquisition in Australia (182 – 198 Maidstone St subsequently acquired in April 2019). With the acquisition, we estimate that CACHE's aggregate leverage would be ~37%. Perpetuals was SGD100mn as at 31 March 2019, taking 50% of this as debt, we estimate adjusted aggregate leverage at CACHE would be ~41%, on the high side versus our REIT coverage universe.

Highly manageable interest coverage: In 1Q2019, NPI increased by 4.0% y/y to SGD23.8mn.. This was mainly due to the full quarter contribution from the nine properties in Australia acquired, though offset by (1) Hi-Speed Logistics Centre and Jinshan which were sold in May and December 2018 respectively (2) conversion of CWT Commodity Hub from a master lease (with 100% committed occupancy) to a multi-tenancy lease (committed occupancy of 86% in end-2018). The conversion of CWT Commodity Hub had led to a higher top line (we think as tenants pay more in gross rent) but lower NPI due to higher property expenses. When it was a master lease, CWT Commodity Hub was likely under a triple-net structure where gross revenue to CACHE was after land rent, property tax, insurance and day-to-day maintenance. Resultant EBITDA was 4.6% higher y/y at SGD21.8mn in 1Q2019 while EBITDA/Interest coverage was 4.8x (not including interest on lease liabilities), slightly higher versus the 4.7x seen in 1Q2018. This was despite a 2.5% y/y increase in interest expense (we exclude lease payments), we think predominantly due to an increase in all-in-financing cost to 3.87% for 1Q2019 versus 3.50% in 1Q2018. Assuming CACHE pays out SGD5.5mn in perpetual distribution payment per year and we take 50% of this as interest, we find EBITDA/ (Interest and 50% perpetual distribution) at 4.2x, still healthy.

Some balance sheet currency mismatch: As at 31 December 2018, 28.6% of CACHE's investment portfolio by value (~SGD363mn) is located in Australia against AUD-denominated debt amounting to ~SGD74.5mn. This means that as the AUD weakens to the SGD, we would find aggregate leverage ratio increasing. Comparing 2018 against 2017, among the seven properties in Australia that was in existence as at 31 December 2017, all have shown stable to improved underlying valuation in AUD terms although the weakened AUD wiped out such gains when translated into SGD terms. YTD, the AUD has continued to weaken against the SGD, down 1.3%. We estimate that the aggregate leverage ratio may increase marginally to 36.3% from 36.2% as at 31 December 2018 should the AUD depreciate against SGD to the lowest rate seen in the past one year of AUD1.0663 per SGD. For this point, we took end-2018 information to disregard the impact of FRS 116 which was effective since 1 January 2019.

V) Perpetual structure and perpetual holders protection

Perpetual structure

Step-up/reset and call date: 5 year to first call date in February 2023 which matches reset date. Similar to other REIT perpetuals, there is no step up margin on the CACHE 5.5%-PERP.

Deferred distribution: Issuer can elect not to pay distributions on the perpetuals. Deferred distribution payments are not cumulative.

Dividend stopper: If distribution payments are deferred, a dividend stopper would restrict CACHE from declaring or paying dividends to its unitholders (ie: common equity holders). CACHE would also be restricted from redeeming, reducing, cancelling, buying-back to redeem, reduce, cancel, buy-back common equity. Given that CACHE is a REIT whose common equity valuation is reliant on its ability to regularly pay dividends to unitholders, the dividend stopper encourages timely and continued distributions to perpetual holders in our view.

Seniority: CACHE 5.5%-PERP are subordinated perpetuals - senior to common equity though junior to straight debt. CACHE's multicurrency debt issuance programme allows the flexibility for CACHE to issue senior perpetual although to date no senior perpetuals have been issued.

VI) Technical Considerations

Positive

- Dividend stopper encourages timely and consistent distribution payments to perpetual holders especially as REITs regularly pay out dividends to its unitholders
- Reasonably well recognised via the association with ARA

Negatives

- Lack of external credit rating
- No explicit change of control clause on the perpetuals
- No delisting put
- No step-up margin

Figure 5: Relative Value

Bond	Call Date	Aggregate leverage[1]	Ask YTC	Ask YTM[2]	I-spread to call
CACHE 5.5%-PERP	1 February 2023	37.4%	5.26%	5.62%	359bps
EREIT 4.6%-PERP	3 November 2022	42.0%	5.63%	4.81%	397bps
MLTSP 3.65%-PERP	28 March 2023	37.7%	3.84%	3.81%	216bps

Source: Bloomberg
Note: (1) Unadjusted aggregate leverage per latest available financial statements
(2) YTM per Bloomberg assumes a 149 years to maturity; proxy of yield in perpetuity

In our view, the closest comparable to CACHE under our coverage is EREIT (Issuer profile: Neutral (4)). EREIT has a total asset size of SGD3.3bn as at 31 March 2019, more than double that of CACHE and has less concentration risk, although CACHE's credit metrics are stronger versus EREIT's. We also hold Mapletree Logistics Trust ("MLT") at an issuer profile of Neutral (4), though MLT has a significantly larger scale and has assets across the Asia-Pacific region. The MLTSP curve historically trades closer to the Big Three Industrial REITs and other large cap REIT peers as opposed to smaller Industrial REITs and as such for relative value purposes is at best a secondary reference point in our view.

Despite the ~40bps higher headline Ask YTC and the three months shorter to first call of EREIT 4.6%-PERP versus the CACHE 5.5%-PERP, we still prefer the CACHE 5.5%-PERP as we think this perpetual has a lower risk of non-call in February 2023. Based on current information, we think a hypothetical replacement perpetual for CACHE with the same structure would be priced at 5.5% - 5.7% come February 2023, which implies an up to 20bps cost savings should it choose to not call. CACHE management would need to consider the impact of reduced financial flexibility by not calling the perpetual at first call against an up to 20bps cost savings.

In contrast, we think a hypothetical replacement perpetual for EREIT may price at ~5.3% - 5.5%. This makes the probability of a call at first call low in our view, as EREIT is able to save 70 - 90 bps by not calling. Comparing both the yield in perpetuity for CACHE 5.5%-PERP and EREIT 4.6%-PERP, we find that CACHE 5.5%-PERP is yielding higher. This means that in the off chance that both do not call at first call, investors are still better off holding the CACHE 5.5%-PERP. Both are similarly trading at a spread of ~200bps tighter than their equity dividend yield.

We think the CACHE 5.5%-PERP trading at a YTC of 5.26% is attractive relative to its REIT peers and are overweight the perpetual.

VII) Conclusion & Recommendation

CACHE is an Industrial REIT focused on logistics warehouse assets. Despite a concentrated profile to three properties in Singapore while facing headwinds from short underlying land lease in Singapore, CACHE has shown foresight by expanding into Australia to reposition its asset base since early 2015 while maintaining an acceptable capital structure. Constraining its credit profile is the evolving situation at CWT SG, which is still CACHE's largest credit counterparty and its small scale amidst a consolidating industrial REIT sector. We are initiating CACHE with a Neutral (4) issuer profile though may lower this should the situation at CWT SG deteriorate and have a negative impact on CACHE.

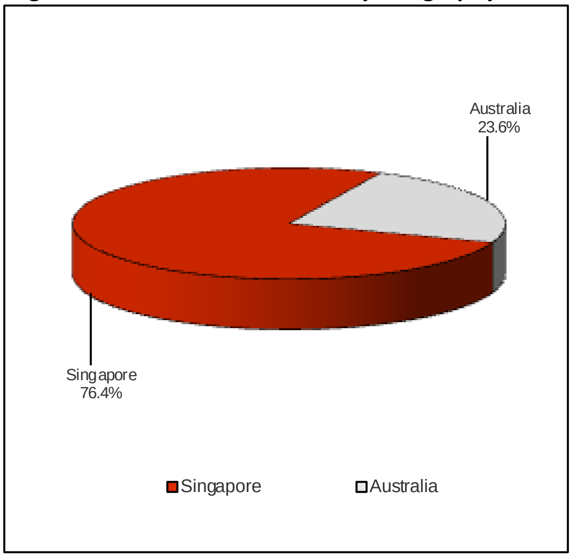
Cache Logistics Trust

Table 1: Summary Financials

Year Ended 31st Dec	FY2017	FY2018	1Q2019
Income Statement (SGD'mn)			
Revenue	112.0	121.5	30.8
EBITDA	80.0	82.8	21.8
EBIT	79.1	82.1	21.6
Gross interest expense	18.7	18.6	5.3
Profit Before Tax	25.2	32.2	15.2
Net profit	23.9	29.7	14.6
Balance Sheet (SGD'mn)			
Cash and bank deposits	15.0	33.3	52.4
Total assets	1,229.0	1,309.7	1,412.7
Short term debt	125.0	28.1	88.5
Gross debt	444.7	470.2	574.5
Net debt	429.7	436.8	522.0
Shareholders' equity	765.7	814.7	812.5
Cash Flow (SGD'mn)			
CFO	82.4	80.5	20.8
Capex	2.8	5.6	0.5
Acquisitions	25.4	193.8	0.0
Disposals	25.3	89.0	0.0
Dividends	65.6	67.0	19.0
Interest paid	17.0	14.8	5.1
Free Cash Flow (FCF)	79.6	74.9	20.3
Key Ratios			
EBITDA margin (%)	71.46	68.16	70.66
Net margin (%)	21.36	24.43	47.36
Gross debt to EBITDA (x)	5.56	5.68	6.59
Net debt to EBITDA (x)	5.37	5.27	5.99
Gross Debt to Equity (x)	0.58	0.58	0.71
Net Debt to Equity (x)	0.56	0.54	0.64
Gross debt/total asset (x)	0.36	0.36	0.41
Net debt/total asset (x)	0.35	0.33	0.37
Cash/current borrowings (x)	0.12	1.19	0.59
EBITDA/Total Interest (x)	4.29	4.46	4.10

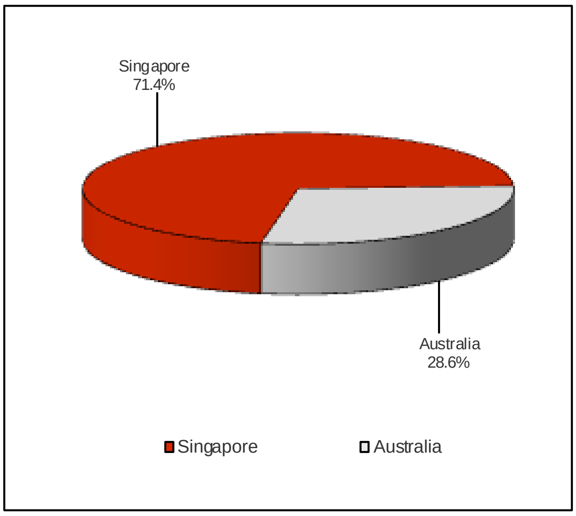
Source: Company, OCBC estimates

Figure 1: Revenue breakdown by Geography - 1Q2019



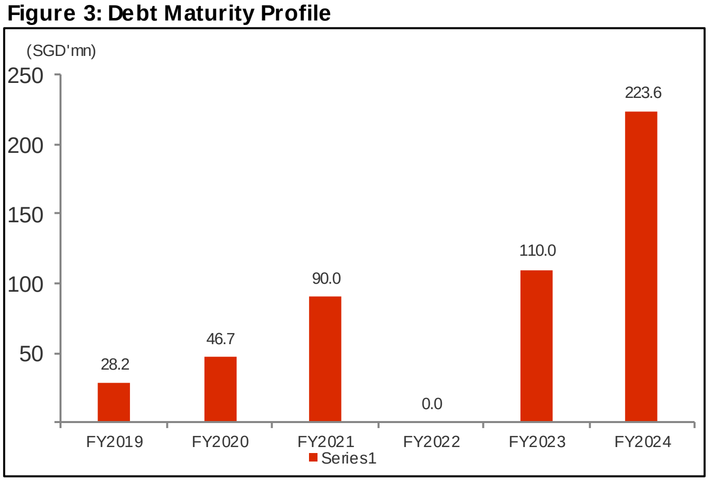
Source: Company

Figure 2: Portfolio Valuation By Geography - 1Q2019



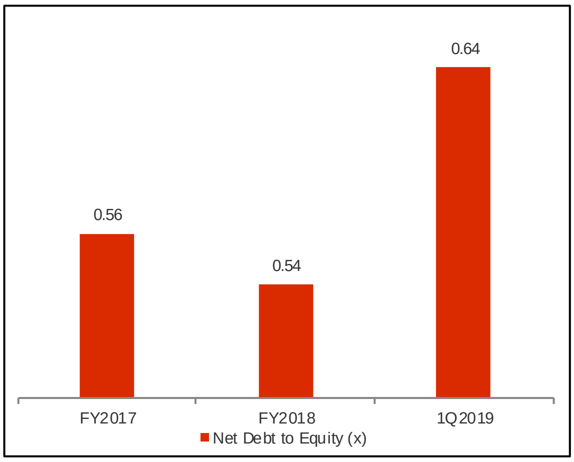
Source: Company

Figure 3: Debt Maturity Profile



Source: Company

Figure 4: Net Debt to Equity (x)



Source: Company, OCBC estimates

OCBC Bank

OCBC Global Treasury	
Treasury Advisory **Corporate FX & Structured Products** Tel: 6349-1888 / 1881 **Interest Rate Derivatives** Tel: 6349-1899 **Investments & Structured Products** Tel: 6349-1886 **GT Institutional Sales** Tel: 6349-1810	**Credit Research** **Andrew Wong** +65 6530 4736 WongVKAM@ocbc.com **Ezien Hoo, CFA** +65 6722 2215 EzienHoo@ocbc.com **Wong Hong Wei, CFA** +65 6722 2533 wonghongwei@ocbc.com **Seow Zhi Qi** +65 6530 7348 ZhiQiSeow@ocbc.com

Explanation of Issuer Profile Rating ("IPR") / Issuer Profile Score ("IPS")

Positive ("Pos") – The issuer's credit profile is either strong on an absolute basis, or expected to improve to a strong position over the next six months.

Neutral ("N") – The issuer's credit profile is fair on an absolute basis, or expected to improve / deteriorate to a fair level over the next six months.

Negative ("Neg") – The issuer's credit profile is either weaker or highly geared on an absolute basis, or expected to deteriorate to a weak or highly geared position over the next six months.

To better differentiate relative credit quality of the issuers under our coverage, we have further sub-divided our Issuer Profile Ratings ("IPR") into a 7 point Issuer Profile Score ("IPS") scale.

IPR	Positive		Neutral			Negative	
IPS	1	2	3	4	5	6	7

Explanation of Bond Recommendation

Overweight ("OW") – The performance of the issuer's specific bond is expected to outperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Neutral ("N") – The performance of the issuer's specific bond is expected to perform in line with the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Underweight ("UW") – The performance of the issuer's specific bond is expected to underperform the issuer's other bonds, or the bonds of other issuers either operating in the same sector or in a different sector but with similar tenor over the next six months.

Other

Suspension – We may suspend our issuer rating and bond level recommendation on specific issuers from time to time when OCBC is engaged in other business activities with the issuer. Examples of such activities include acting as a joint lead manager or book runner in a new issue or as an agent in a consent solicitation exercise. We will resume our coverage once these activities are completed.

Withdrawal ("WD") – We may withdraw our issuer rating and bond level recommendation on specific issuers from time to time when corporate actions are announced but the outcome of these actions are highly uncertain. We will resume our coverage once there is sufficient clarity in our view on the impact of the proposed action.

Analyst Declaration
The analyst(s) who wrote this report and/or her or his respective connected persons did not hold financial interests in the above-mentioned issuer or company as at the time of the publication of this report.

Co.Reg.no.:193200032W