

# Singapore Company Guide

# Cambridge Industrial Trust

Version 6 | Bloomberg: CREIT SP | Reuters: CMIT.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

26 Jan 2017

**BUY** (upgrade from HOLD)

Last Traded Price ( 25 Jan 2017): S\$0.57 (STI : 3,039.94)

Price Target 12-mth: S\$0.60 (5% upside plus 7% yield)  
(Prev S\$0.54)

**Potential Catalyst:** Accretive acquisitions

**Where we differ:** We are more optimistic than consensus about the potential synergy brought by the new sponsor

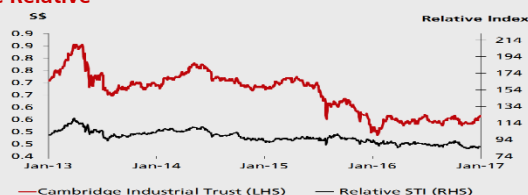
**Analyst**

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## What's New

- **FY16 DPU down 12.9% due to efficiency loss from lease conversions, and lack of capital distributions**
- **Divestment of 2 Ubi View has been completed while that for 55 Ubi Ave 3 is in progress**
- **Upgrade to BUY with higher TP of S\$0.60 due to potential synergy introduced by the new Sponsor**

## Price Relative



## Forecasts and Valuation

FY Dec (S\$m)	2015A	2016A	2017F	2018F
Gross Revenue	112	112	110	111
Net Property Inc	86.2	82.3	79.1	79.6
Total Return	52.5	7.09	51.5	51.8
Distribution Inc	61.8	54.5	52.0	52.3
EPU (S cts)	4.33	4.09	3.95	3.98
EPU Gth (%)	3	(6)	(3)	1
DPU (S cts)	4.79	4.17	3.99	4.01
DPU Gth (%)	(4)	(13)	(4)	1
NAV per shr (S cts)	67.7	63.5	63.4	63.3
PE (X)	13.1	13.8	14.3	14.2
Distribution Yield (%)	8.5	7.4	7.1	7.1
P/NAV (x)	0.8	0.9	0.9	0.9
Aggregate Leverage (%)	36.7	37.3	37.0	37.2
ROAE (%)	6.3	6.2	6.2	6.3

Distn. Inc Chng (%):		(4)	(3)
Consensus DPU (S cts):		4.20	4.30
Other Broker Recs:	B: 3	S: 0	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

## Huat Ah! A Prosperous Sponsor

**Raised TP to S\$0.60, upgrade to BUY.** Cambridge Industrial Trust (CREIT) remains in the midst of a portfolio repositioning in the downtown of the industrial space. Stable occupancy rate has been a tradeoff of declining rents. Some roadbumps ahead include: (i) the termination of the JV by its Australian partner, putting a pause to plans to grow its Australian business; and (ii) more potential downside to DPUs on the back of single-to-multi tenant conversions. On the bright side, some optimism is infused from its new Sponsor e-Shang Redwood. Given its position as a leading logistics developer and operator in North Asia, we believe synergy could be created. As such, we raised our TP by 11.9% to S\$0.60 (0.95x P/NAV). Upgrade to BUY.

**Asset recycling to redeploy capital; looking to Australia.** CREIT has been focusing on optimising its portfolio performance through strategic asset enhancement initiatives (AEIs) and divestments to redeploy capital to higher-yielding sources. While its Australia JV partner has ceased the partnership, the Manager remains committed to actively explore acquisition opportunities.

**Ongoing process of strategic review key to re-rating.** The Manager is conducting a strategic review of CREIT's business and operations to fulfil its strategy of maximising value for its unitholders and has appointed Goldman Sachs (Singapore) Pte to assist in its analysis. Subsequent to the acquisition of the new Sponsor, the strategic review could open up more activities. Any incremental steps taken by the Manager to drive value should be well received by investors.

## Valuation:

We raised our DCF-backed TP to S\$0.60 by reducing the risk factor, accounting for the takeover uncertainty. Upgrade to BUY for total potential return of over 12%.

## Key Risks to Our View:

**Interest rate risk.** Any increase in interest rates will result in higher interest payments which will reduce income available for distribution and DPUs.

## At A Glance

Issued Capital (m shrs)	1,304
Mkt. Cap (S\$m/US\$m)	737 / 522
Major Shareholders (%)	
Jinquan Tong	17.84
Chan Wai Kheong	5.39
Credit Suisse Group AG	5.00
Free Float (%)	71.77
3m Avg. Daily Val (US\$m)	0.49

ICB Industry : Real Estate / Real Estate Investment Trust

**WHAT'S NEW****FYDPU down due to loss of efficiency from lease conversions and lack of capital distribution****Lease conversion from master to multi brought down NPI.**

4Q16 gross revenue was S\$27.8m, down 2.5% y-o-y, mainly attributed to the loss in efficiency from several lease conversions from master to multi-tenanted as well as divestment of properties. As the number of multi-tenanted buildings in the portfolio increased from 20 to 23 over FY16, this has also resulted in an increase in property tax, land rental and other property expenses by 17.5% to S\$8.01m. 4Q16 NPI was down by 8.8% to S\$19.7m. DPU was 0.996 Scts, 12.6% lower y-o-y.

**FY16 DPU declined by 12.9% due to loss of efficiency and lack of capital distribution.** Due to the same reasons above, FY16 gross revenue was down by 0.1% to S\$112.1m, and property expenses increased by 14.3% to S\$29.8m. NPI declined by 4.5% to S\$82.3m. DPU for FY16 was 4.17 Scts, down 12.9% y-o-y and represents 101.6% of our forecast, in line with our expectations. Excluding the S\$2.1m distribution from capital in FY15, DPU would have declined by a smaller magnitude of 8.8%.

**Revaluation loss is expected.** Revaluation of investment assets resulted in a lower fair value of c.S\$44.2m, down 3.2% y-o-y, bringing investment property value to S\$1.35bn and NAV down to S\$0.63 from S\$0.67. This revaluation loss was mainly attributed by four properties, namely 4&6 Clementi Loop (down S\$11.8m or 18.7%), 511 Yishun Industrial Park A (down S\$5.7m or 22.4%), 3 Pioneer Sector 3 (down S\$5.2m or 4.6%) and 15 Jurong Port Road (down S\$2.5m or 6.0%), on the back of weaker earnings outlook after the master-to-multi conversion. We understand that there has been little change in the cap rate applied by the valuers. Nonetheless, we have already factored in the expected lower valuation in our model. Gearing has consequently increased to 37.5% from 36.9%, still at a comfortable level.

**88% tenant retention rate.** Despite the loss in efficiency while converting some of the master leases to multi-tenanted, the c.1.7m sqft of leases or 22% of portfolio NLA signed in FY16 achieved a high tenant retention rate of 88.0% which is a testament of the property quality from the clients in a tough environment. Portfolio occupancy increased by 1.1% over FY16 to 94.7%.

**6% of rental income due in 1H17 is subject to master lease.**

WALE remains steady at 3.7 years. 31.5% of leases by rental income will be due in FY17, out of which, 15.5% are from master leases and 6.0% are multi-tenanted. Master leases

due in 1H17 comprises only 6% of the portfolio rental income and so far the Manager has not received indications from the tenants of converting into multi.

**2 Ubi View divestment:** Completed divestment and the sales proceeds of S\$10.5m (6% above book value) will be used to repay debt.

**55 Ubi Ave 3 divestment:** Announced proposed divestment in January 2017 for a sales consideration of S\$22.1m (0.5% above end-December 2016 book value of S\$22.0m). To recap, this property is a 5-storey light industrial building with 141,135 sqft of GFA and c.39 years of land tenure remaining. The target completion date is May 2017.

**Capital Management stays stable.** 90.7% of interest rates are fixed for the next three years. Average cost of debt is 3.71%, inching up slightly from 3.67% a year ago. Weighted average debt expiry stays at around three years. No major refinancing until 2H2018.

**New Sponsor found.** 80% of the Trust Manager of CIT was acquired by e-Shang Redwood Group (ESR) in January 2016. ESR is a leading pan-Asia logistics real estate developer, owner and operator with a focus on warehouses in China, Japan and South Korea. We are positive on this acquisition as CIT is now backed by a Sponsor with a large asset portfolio and a strong pipeline. Please find our comment on this acquisition published [here](#).

**OUR VIEW**

**Upgrade to BUY. TP raised to S\$0.60.** We have raised our TP by 11.9% to S\$0.60 (0.95x P/NAV) from S\$0.54 (0.81x P/previous-NAV), as the trust manager acquisition removed some of the overhanging takeover risk. At present, four assets have been identified for potential divestments and the Manager is still keen to look for acquisition opportunities, particularly in Australia. Further potential re-rating is possible once a detailed blueprint from its new Sponsor is communicated to the investors given the Sponsor's large asset portfolio in North Asia. We are still cautious on the rental outlook for its master leases hence forecasting flattish DPU in the next couple of years.

Upgrade to BUY with total potential return of over 12% based on latest traded price of S\$0.57.

**Quarterly / Interim Income Statement (S\$m)**

FY Dec	4Q2015	3Q2016	4Q2016	% chg yoy	% chg qoq
Gross revenue	28.5	27.6	27.8	(2.5)	0.5
Property expenses	(6.9)	(7.7)	(8.1)	17.5	4.6
Net Property Income	21.6	19.9	19.7	(8.8)	(1.1)
Other Operating expenses	(2.2)	(2.3)	(2.2)	1.8	(1.9)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	N/A	N/A
Net Interest (Exp)/Inc	(5.3)	(5.5)	(5.1)	3.0	6.1
Exceptional Gain/(Loss)	(0.2)	0.0	0.53	N/A	N/A
<b>Net Income</b>	<b>14.0</b>	<b>12.2</b>	<b>12.9</b>	<b>(7.6)</b>	<b>5.7</b>
Tax	0.0	0.0	0.0	N/A	N/A
Minority Interest	0.0	0.0	0.0	N/A	N/A
<b>Net Income after Tax</b>	<b>14.0</b>	<b>12.2</b>	<b>12.9</b>	<b>(7.6)</b>	<b>5.7</b>
Total Return	12.5	12.9	(32.2)	nm	nm
Non-tax deductible Items	2.30	0.0	45.2	nm	nm
Net Inc available for Dist.	14.8	12.9	13.0	(12.0)	0.9
<b>Ratio (%)</b>					
Net Prop Inc Margin	75.8	72.0	70.9		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

**CRITICAL DATA POINTS TO WATCH**

**Earnings Drivers:**

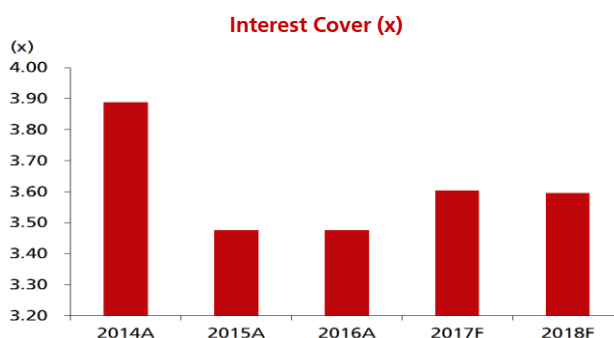
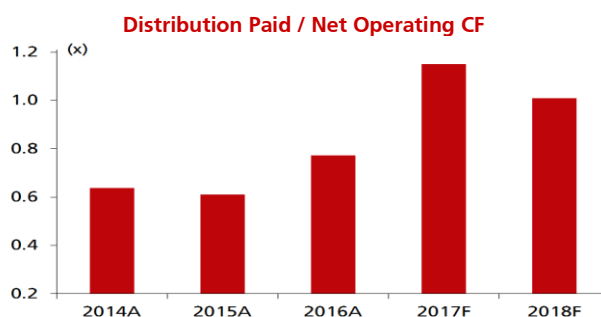
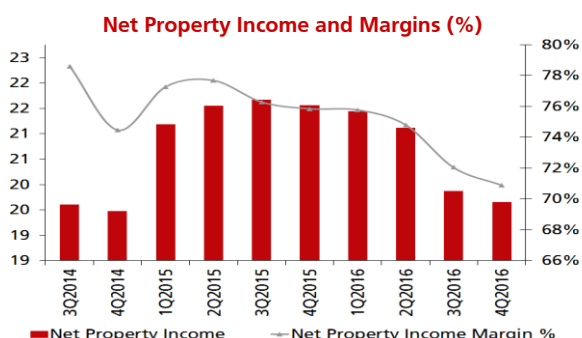
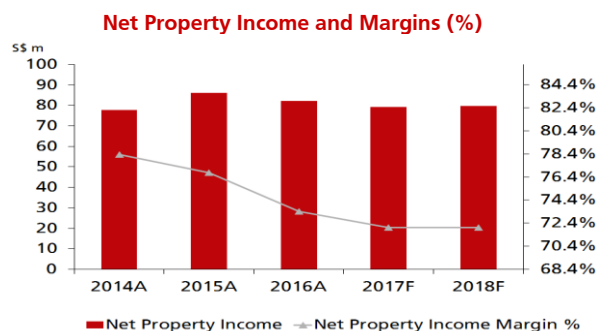
**Property conversions to cause headwinds to occupancy rates.** While we note that CREIT offers strong income visibility with a relatively long weighted average lease expiry close to four years, possible property conversions (from single-tenanted properties to multi-tenanted ones when the leases expire) which account for 15.5% and 15.3% of revenues over FY17-18F will translate to near-term pressure to top line. This is due to the loss of property efficiency and higher vacancy rates when these conversions take place. However, the pace of conversions is expected to taper off from FY17 onwards, hence further downside in vacancy rates will likely be limited.

In view of the competitive environment, the Manager is focusing on maintaining occupancy rates and thus rental reversionary rates are likely to turn slightly negative over these two years.

**Optimal gearing level implies that upside from acquisitions is likely to be limited.** Gearing level of c.37% is within management's comfortable range of 35-40% and is optimal, in our view. This is likely to mean that while the Manager remains keen to grow the portfolio via acquisitions and is looking to venture overseas for potential opportunities, there is a cap to the number of deals it can look at.

**Asset rejuvenation strategy.** Post the divestment of 23 Tuas ave 10 (5% above book value), the REIT has recently completed the sale of 2 Ubi View (6% above book value) and has proposed to divest 55 Ubi ave 3. The Manager will be embarking on asset enhancement initiative at 120 Pioneer Road (completing in 3Q17) which will increase the property's attractiveness to end-users.

**Strategic review.** The Manager is conducting a strategic review of CREIT's business and operations to fulfil its strategy of maximising value for unitholders and has appointed Goldman Sachs (Singapore) Pte to assist in its analysis.



Source: Company, DBS Bank

**Balance Sheet:**

**Gearing remains stable** Looking ahead, there is limited capacity to pursue acquisition opportunities with gearing at c.37%.

**Pro-active capital management.** CREIT has refinanced most of its loans expiring and has no refinancing due till 2H18. In addition, the Manager has fixed c.88% of its interest rates over the next c.3 years, meaning that volatility from a hike in interest rates should have a marginal impact on distributions.

**Share Price Drivers:**

**Pick-up in occupancy rate.** We believe that expected vacancies and earnings weakness arising from property conversions from single-tenanted to multi-tenanted could be an overhang on the stock. The ability to retain tenants will alleviate such risks and may result in higher prices.

**Acquisitions likely to be beyond Singapore.** The Manager remains keen to grow the portfolio through acquisitions. Given limited accretive deals in Singapore, CREIT has broadened its investment focus to Australia, Japan and Malaysia, which the Manager has identified as having similar sovereign risks and transparency characteristics with Singapore.

**Blueprint from new Sponsor.** The Trust Manager has been acquired by a new Sponsor, ESR, with 80% indirect interest. Given the Sponsor's large portfolio and leading position in North Asia, exciting synergy could be created with the REIT. No detailed plans have been communicated to investors so far.

**Key Risks:**

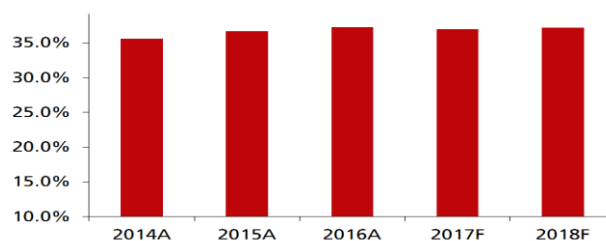
**Interest rate risk.** Any increase in interest rates will result in higher interest payments which will reduce income available for distribution and result in lower distribution per unit (DPU) to unitholders. That said, CREIT has substantially hedged its interest rate exposure.

**Economic risk.** A deterioration in the economic outlook could have a negative impact on industrial rents and occupancies as companies cut back production and require less space. Industrial rents have a strong correlation with GDP growth.

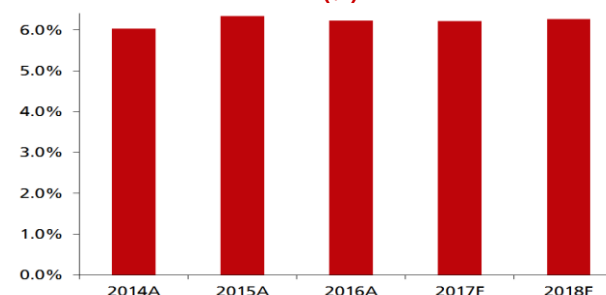
**Company Background**

Cambridge Industrial Trust (CREIT) is a real estate investment trust which invests primarily in income-producing industrial assets located in Singapore.

Aggregate Leverage (%)



ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank

## Income Statement (\$m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Gross revenue	99.3	112	112	110	111
Property expenses	(21.5)	(26.1)	(29.8)	(30.8)	(31.0)
<b>Net Property Income</b>	<b>77.8</b>	<b>86.2</b>	<b>82.3</b>	<b>79.1</b>	<b>79.6</b>
Other Operating expenses	(9.7)	(9.4)	(8.9)	(7.9)	(7.8)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(17.5)	(22.1)	(21.1)	(19.8)	(20.0)
Exceptional Gain/(Loss)	1.14	0.40	0.74	0.0	0.0
<b>Net Income</b>	<b>52.3</b>	<b>55.2</b>	<b>53.0</b>	<b>51.5</b>	<b>51.8</b>
Tax	(0.1)	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Income After Tax</b>	<b>52.2</b>	<b>55.2</b>	<b>53.0</b>	<b>51.5</b>	<b>51.8</b>
Total Return	45.3	52.5	7.09	51.5	51.8
Non-tax deductible Items	12.3	7.20	47.4	0.50	0.50
Net Inc available for Dist.	63.0	61.8	54.5	52.0	52.3
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	3.0	13.0	(0.1)	(2.0)	0.7
N Property Inc Gth (%)	(3.2)	10.7	(4.5)	(3.9)	0.7
Net Inc Gth (%)	4.2	5.8	(4.0)	(2.9)	0.7
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	78.3	76.8	73.4	72.0	72.0
Net Income Margins (%)	52.5	49.1	47.3	46.8	46.9
Dist to revenue (%)	63.5	55.1	48.6	47.3	47.3
Managers & Trustee's fees	9.7	8.4	8.0	7.2	7.1
ROAE (%)	6.0	6.3	6.2	6.2	6.3
ROA (%)	3.9	3.9	3.8	3.8	3.9
ROCE (%)	5.3	5.6	5.3	5.3	5.4
Int. Cover (x)	3.9	3.5	3.5	3.6	3.6

Source: Company, DBS Bank

Lower distributable income due to divestment of assets whose sales proceeds are used to repay debt

**Quarterly / Interim Income Statement (S\$m)**

FY Dec	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Gross revenue	28.5	28.4	28.3	27.6	27.8
Property expenses	(6.9)	(6.9)	(7.1)	(7.7)	(8.1)
Net Property Income	21.6	21.5	21.2	19.9	19.7
Other Operating expenses	(2.2)	(2.3)	(2.3)	(2.3)	(2.2)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(5.3)	(5.0)	(5.5)	(5.5)	(5.1)
Exceptional Gain/(Loss)	(0.2)	(0.4)	(0.9)	0.0	0.53
<b>Net Income</b>	<b>14.0</b>	<b>13.8</b>	<b>12.5</b>	<b>12.2</b>	<b>12.9</b>
Tax	0.0	0.0	0.0	0.0	0.0
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Income after Tax</b>	<b>14.0</b>	<b>13.8</b>	<b>12.5</b>	<b>12.2</b>	<b>12.9</b>
Total Return	12.5	13.8	12.5	12.9	(32.2)
Non-tax deductible Items	2.30	0.73	1.53	0.0	45.2
Net Inc available for Dist.	14.8	14.5	14.1	12.9	13.0
<b>Growth &amp; Ratio</b>					
Revenue Gth (%)	0	0	0	(2)	1
N Property Inc Gth (%)	(1)	(1)	(2)	(6)	(1)
Net Inc Gth (%)	(5)	(1)	(9)	(3)	6
Net Prop Inc Margin (%)	75.8	75.8	74.8	72.0	70.9
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0

**Balance Sheet (S\$m)**

FY Dec	2014A	2015A	2016A	2017F	2018F
Investment Properties	1,335	1,377	1,332	1,312	1,314
Other LT Assets	16.4	0.0	0.0	0.0	0.0
Cash & ST Invt	6.10	2.66	3.70	1.90	4.44
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	10.9	9.65	9.28	1.69	1.70
Other Current Assets	11.9	41.2	22.0	22.0	22.0
<b>Total Assets</b>	<b>1,381</b>	<b>1,431</b>	<b>1,367</b>	<b>1,338</b>	<b>1,342</b>
ST Debt	50.0	0.0	0.0	0.0	0.0
Creditor	26.4	24.0	21.5	7.58	7.63
Other Current Liab	0.0	0.0	0.0	0.0	0.0
LT Debt	426	525	510	495	500
Other LT Liabilities	12.3	8.74	8.89	8.89	8.89
Unit holders' funds	866	873	827	827	826
Minority Interests	0.0	0.0	0.0	0.0	0.0
<b>Total Funds &amp; Liabilities</b>	<b>1,381</b>	<b>1,431</b>	<b>1,367</b>	<b>1,338</b>	<b>1,342</b>
Non-Cash Wkg. Capital	(3.6)	26.9	9.81	16.1	16.1
Net Cash/(Debt)	(469)	(523)	(506)	(493)	(495)
<b>Ratio</b>					
Current Ratio (x)	0.4	2.2	1.6	3.4	3.7
Quick Ratio (x)	0.2	0.5	0.6	0.5	0.8
Aggregate Leverage (%)	35.6	36.7	37.3	37.0	37.2
Z-Score (X)	1.0	1.0	1.1	1.1	1.1

Source: Company, DBS Bank

Gearing remain optimal below 40% to fund potential acquisitions

## Cambridge Industrial Trust

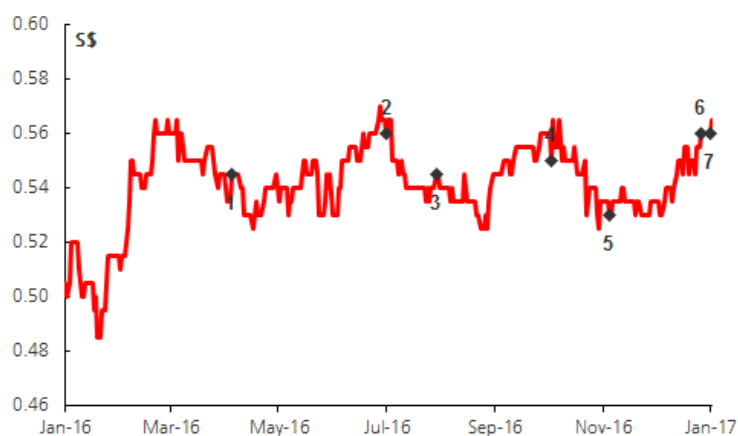
## Cash Flow Statement (\$m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Income	52.3	55.2	53.0	51.5	51.8
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	(0.1)	(0.1)	0.0	0.0
Associates & JV Inc/(Loss)	(0.5)	(0.1)	0.0	0.0	0.0
Chg in Wkg.Cap.	(4.2)	(0.3)	0.30	(6.3)	0.04
Other Operating CF	19.3	24.5	15.3	0.0	0.0
<b>Net Operating CF</b>	<b>66.9</b>	<b>79.1</b>	<b>68.6</b>	<b>45.2</b>	<b>51.9</b>
Net Invnt in Properties	(195)	(40.6)	21.2	20.0	(2.0)
Other Invnts (net)	0.0	(10.6)	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.82	1.08	1.25	0.0	0.0
<b>Net Investing CF</b>	<b>(194)</b>	<b>(50.1)</b>	<b>22.5</b>	<b>20.0</b>	<b>(2.0)</b>
Distribution Paid	(42.6)	(48.4)	(52.9)	(52.0)	(52.3)
Chg in Gross Debt	102	16.1	(36.9)	(15.0)	5.00
New units issued	(0.2)	(0.3)	(0.2)	0.0	0.0
Other Financing CF	0.0	0.0	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>59.4</b>	<b>(32.6)</b>	<b>(90.0)</b>	<b>(67.0)</b>	<b>(47.3)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	(67.9)	(3.6)	1.04	(1.8)	2.54
Operating CFPS (S cts)	5.73	6.23	5.26	3.95	3.98
Free CFPS (S cts)	(10.3)	3.02	6.92	5.00	3.83

Source: Company, DBS Bank

Divestment proceeds are used to repay debt

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	28 Apr 16	0.55	0.56	HOLD
2:	25 Jul 16	0.56	0.60	HOLD
3:	22 Aug 16	0.55	0.60	HOLD
4:	26 Oct 16	0.55	0.54	HOLD
5:	28 Nov 16	0.53	0.54	HOLD
6:	19 Jan 17	0.56	0.54	HOLD
7:	24 Jan 17	0.56	0.54	HOLD

Source: DBS Bank

Analyst: Singapore Research Team  
Derek TAN



DBS Bank recommendations are based on an Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

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