

Cambridge Industrial Trust (CREIT SP)

 Target price: **SGD0.590** (from SGD0.580)

 Share price (24 Jan): **SGD0.560** | Up/downside: **+5.3%**

 5 4 3 **2** 1

Outperform
 (unchanged)

Possibly more opportunities with ESR on board

- 4Q16 results in line; no major changes to our DPU forecasts
- ESR, the new 80% owner of the REIT manager, is a positive tail risk
- Reiterating Outperform (2) rating; raising TP marginally to SGD0.59

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What's new: Cambridge announced its 4Q16 results on 25 January and held a conference call for analysts. The results were in line with our forecasts, but the focus of the call was mostly on what the new controlling owner of Cambridge's REIT manager might bring to Cambridge.

What's the impact: Cambridge announced on 18 January 2017 that e-Shang Redwood (ESR) had acquired an 80% stake in Cambridge's REIT manager. In terms of real estate capabilities, we believe ESR is a clear upgrade from previous owners, but it is too early to conclude that ESR will necessarily do wonders for Cambridge.

ESR is a pan-Asia logistics real estate developer, owner and operator with 6.5m sq m of projects in China, Japan and South Korea. ESR is backed by private-equity interests including Warburg Pincus, and has an immediate logistics pipeline in North Asia. However, it is unclear if it is ESR's intention to use Cambridge as a platform to monetise its existing assets. ESR's network of contacts could help Cambridge to identify acquisition opportunities, but it has no projects (as far as we can see) in Singapore or Australia, the 2 developed markets in which Cambridge management appears to have the most interest. Cambridge management also reaffirmed its commitment to asset recycling. Over the next 12 months, we believe investors should remain cautious and scrutinise Cambridge's future strategy and deals (especially those, if any, with ESR involvement).

We make minor changes to our 2017-18E DPU forecasts and introduce our 2019E forecasts. We raise our DDM-derived target price marginally to SGD0.59 from SGD0.58. With the ESR upgrade, our valuation now assumes an effective cap rate of 7% vs. 7.5% previously, the same rate that we apply to the large Singapore-focused industrial REITs.

What we recommend: We reiterate our Outperform (2) rating. We believe that the worst of the YoY DPU decline is likely over (after cutting our DPU forecasts several times in 2016) and valuations (high yield and trading at a discount to book value of SGD0.634/unit) are undemanding. We are uncertain on ESR's intentions for Cambridge, but a few positive deals could be transformational for Cambridge, in our opinion. A risk to our rating would be Cambridge entering into dilutive and value destructive acquisitions.

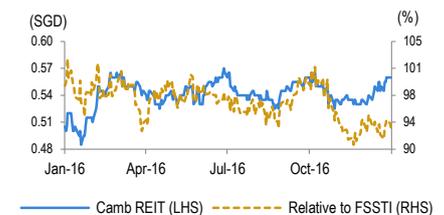
How we differ: We are among 2 of 5 brokers on Bloomberg with a positive rating for Cambridge, and our Outperform (2) rating is based on attractive valuations with a positive tail risk that ESR could help land some sizable and quality acquisitions.

Forecast revisions (%)

Year to 31 Dec	17E	18E	19E
Revenue change	(0.6)	(1.2)	n.a.
Net-property-income chg	(0.8)	(1.6)	n.a.
DPU change	0.5	(0.5)	n.a.

Source: Daiwa forecasts

Share price performance



12-month range	0.485-0.570
Market cap (USDbn)	0.51
3m avg daily turnover (USDm)	0.51
Shares outstanding (m)	1,304
Major shareholder	Jinquan Tong (18.5%)

Financial summary (SGD)

Year to 31 Dec	17E	18E	19E
Revenue (m)	112	113	115
Net property income (m)	83	84	86
Distribution (m)	55	58	59
DPU	0.043	0.044	0.045
DPU change (%)	1.9	3.8	2.1
Daiwa vs Cons. DPU (%)	1.2	5.0	(8.0)
DPU yield (%)	7.6	7.9	8.0
PER (x)	13.7	13.3	13.0
Core EPU (fully-diluted)	0.041	0.042	0.043
P/BV (x)	0.9	0.9	0.9
ROE (%)	6.4	6.7	6.8

Source: FactSet, Daiwa forecasts

Cambridge: quarterly results summary

SGDm	4Q15	3Q16	4Q16	4Q16	Var	% var
Revenue	28.49	27.64	27.78	27.07	0.72	3
NPI	21.61	19.92	19.70	20.20	(0.50)	(2)
Distribution	14.78	12.89	13.00	12.78	0.22	2
DPU (S¢)	1.139	0.988	0.996	0.980	0.02	2

Source: Cambridge, Daiwa forecasts

Cambridge: Daiwa DDM valuation

Weighted-average remaining leasehold (years)	35
Cost of equity	8.5%
Long-term growth rate	1.5%
Effective cap rate	7.0%
PV of 10-year DPU forecasts (SGD)	0.32
PV of terminal value (SGD)	0.28
PV of debt obligation (SGD)	(0.02)
DDM valuation (SGD)	0.59

Source: Daiwa estimates

Financial summary

Key assumptions

Year to 31 Dec	2012	2013	2014	2015	2016	2017E	2018E	2019E
Funds from operations (SGDm)	45	34	51	55	52	53	55	56
FFO per unit (SGD)	0.038	0.028	0.040	0.043	0.040	0.041	0.042	0.043
Gross debt to assets (%)	38.6	28.7	34.8	36.9	37.5	36.8	37.3	37.6

Profit and loss (SGDm)

Year to 31 Dec	2012	2013	2014	2015	2016	2017E	2018E	2019E
Total revenue	89	96	99	112	112	112	113	115
Operating expenses	(13)	(16)	(22)	(26)	(30)	(29)	(29)	(29)
Net property income	76	80	78	86	82	83	84	86
Other income	0	0	0	0	0	0	0	0
Management fees	(10)	(20)	(8)	(7)	(7)	(7)	(7)	(7)
Other operating expenses	(2)	(2)	(1)	(2)	(2)	(2)	(2)	(2)
Depreciation and amortisation	0	0	0	0	0	0	0	0
EBIT	65	58	68	77	73	74	76	77
Net-int. income/(expenses)	(20)	(24)	(18)	(22)	(21)	(21)	(21)	(21)
Share of associates	0	0	0	0	0	0	0	0
Revaluation gains/(loss)	42	34	(8)	(3)	(46)	0	0	0
Except./other inc./(exp.)	2	37	2	0	1	0	0	0
Profit before tax	89	105	45	52	7	53	55	56
Taxation	0	(0)	(0)	0	0	0	0	0
Min. int./pref. div./others	0	0	0	0	0	0	0	0
Net profit	89	105	45	52	7	53	55	56
Total return	89	119	45	53	7	53	55	56
Adjustments	(32)	(58)	18	9	47	2	3	3
Distributable income	58	61	63	62	54	55	58	59
Distribution rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Distribution	58	61	63	62	54	55	58	59
EPU (SGD)	0.040	0.058	0.042	0.043	0.041	0.041	0.042	0.043
DPU (SGD)	0.048	0.050	0.050	0.048	0.042	0.043	0.044	0.045

Cash flow (SGDm)

Year to 31 Dec	2012	2013	2014	2015	2016	2017E	2018E	2019E
Profit before tax	89	105	45	52	7	53	55	56
Depreciation and amortisation	0	0	0	0	0	0	0	0
Net-interest expenses	20	24	18	22	21	21	21	21
Share of associate	0	0	0	0	0	0	0	0
Change in working capital	1	4	(4)	(0)	(5)	0	0	0
Tax paid	0	0	0	(0)	(0)	0	0	0
Other operating CF items	(44)	(71)	9	5	45	(2)	(2)	(2)
Cash flow from operation	66	62	67	79	69	72	74	75
Capex	(174)	(129)	(203)	(51)	(6)	(6)	(6)	(6)
Net investment and sale of FA	61	257	8	0	27	22	0	0
Other investing CF items	0	0	1	1	1	0	0	0
Cash flow from investing	(113)	129	(194)	(50)	22	16	(6)	(6)
Change in debt	137	(142)	118	37	(16)	(14)	9	6
Equity raised/(repaid)	0	0	0	0	0	0	0	0
Distribution paid	(41)	(44)	(43)	(48)	(53)	(55)	(57)	(58)
Other financing CF items	(19)	(22)	(16)	(21)	(21)	(19)	(19)	(19)
Cash flow from financing	78	(207)	59	(33)	(90)	(88)	(67)	(72)
Forex effect/others	0	0	0	0	0	0	0	0
Change in cash	31	(16)	(67)	(3)	1	0	1	(2)

Source: FactSet, Daiwa forecasts

Financial summary continued ...

Balance sheet (SGDm)

As at 31 Dec	2012	2013	2014	2015	2016	2017E	2018E	2019E
Cash & cash equivalent	90	74	6	3	4	4	5	3
Accounts receivable	2	7	11	10	9	9	9	9
Other current assets	0	7	12	41	22	0	0	0
Total current assets	91	88	29	54	35	13	15	12
Investment properties	1,195	1,133	1,335	1,377	1,332	1,338	1,343	1,349
Fixed assets	0	0	0	0	0	0	0	0
Associates	0	16	16	0	0	0	0	0
Goodwill and intangible assets	0	0	0	0	0	0	0	0
Other long-term assets	19	24	0	0	0	0	0	0
Total assets	1,305	1,261	1,380	1,431	1,367	1,351	1,358	1,361
Short-term debt	0	0	0	0	0	0	0	0
Accounts payable	22	43	39	33	30	30	30	30
Other current liabilities	3	1	0	0	0	0	0	0
Total current liabilities	25	44	39	33	30	30	30	30
Long-term debt	494	355	475	525	510	496	505	511
Other non-current liabilities	0	0	0	0	0	0	0	0
Total liabilities	519	399	514	558	540	526	535	541
Unitholders' funds	787	862	866	873	827	825	823	820
Minority interests	0	0	0	0	0	0	0	0
Total equity & liabilities	1,305	1,261	1,380	1,431	1,367	1,351	1,358	1,361
Book Value per unit	0.647	0.695	0.681	0.673	0.634	0.632	0.631	0.629

Key ratios (%)

Year to 31 Dec	2012	2013	2014	2015	2016	2017E	2018E	2019E
Total revenue (YoY)	10.7	8.4	3.0	13.0	(0.1)	(0.4)	1.4	2.0
Net property income (YoY)	10.3	5.5	(3.2)	10.7	(4.5)	0.7	1.9	2.0
Net profit (YoY)	37.9	48.7	(25.9)	4.4	(3.7)	0.5	3.0	2.2
Distribution (YoY)	14.2	6.4	2.9	(1.9)	(11.9)	1.8	3.8	2.1
EPU (YoY)	32.6	45.1	(27.4)	1.9	(5.2)	0.4	3.0	2.2
DPU (YoY)	12.9	4.0	0.6	(4.2)	(12.9)	1.9	3.8	2.1
ROE	6.3	8.6	6.1	6.3	6.2	6.4	6.7	6.8
ROA	4.0	5.5	4.0	3.9	3.8	3.9	4.0	4.1
ROCE	5.5	4.6	5.4	5.6	5.4	5.6	5.7	5.8
ROIC	6.0	5.0	5.6	5.7	5.4	5.6	5.7	5.8
Debt to asset	37.8	28.1	34.4	36.7	37.3	36.7	37.2	37.5
Net debt to equity	51.3	32.7	54.2	59.9	61.2	59.6	60.7	61.8
Effective tax rate	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0

Source: FactSet, Daiwa forecasts

Company profile

Listed on 25 July 2006, Cambridge is an independent REIT in the Singapore industrial-property space. As at 31 December 2016, Cambridge owned 49 properties, all in Singapore, with a total gross floor area of 8.4m sq ft and a property value of SGD1.35bn.

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Source: Daiwa

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- In addition to the purchase price of a financial instrument, we will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction.
- In some cases, we may also charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident of Japan.
- For derivative and margin transactions etc., we may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by us.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants. *The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with us.

Corporate Name: Daiwa Securities Co. Ltd.
 Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.108
 Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan
 Japan Securities Investment Advisers Association
 Type II Financial Instruments Firms Association