3 May 2016

Property | REITS

Cambridge Industrial Trust

A Misunderstood REIT

Buy (Maintained)

Target Price:	SGD0.64
Price:	SGD0.55
Market Cap:	USD528m
Bloomberg Ticker:	CREIT SP

Cambridge is a compelling investment as we see value emerging – it is trading at a high FY16F dividend yield of c.9%, and at a c.18% discount to its FY15 book value. We re-initiate coverage on the stock with a BUY recommendation and a SGD0.64 TP (16% upside).

We like the REIT for the following reasons:

1. **Its earnings are resilient as it owns a highly-diversified portfolio;**
2. **Potential to unlock a huge sum of cash via its divestments;**
3. **Proceeds from divestments could be invested in high-yielding assets.**

Crown jewel among the industrial REITs space. Cambridge Industrial Trust (Cambridge) is the crown jewel among the industrial SREITs sector, despite the general weakness in the overall industrial space. We think that there has been an overreaction to its share price in the past one year (-22.2%), which posts a golden opportunity for investors. The REIT is currently trading at a high FY16F dividend yield of 8.9%, against its peers' average of 8.2%. Additionally, we like Cambridge mainly due to its highly-diversified portfolio and high growth potential via acquiring high-quality assets in Australia.

The most defensive among its kind. Cambridge is one of the most resilient industrial REITs that an investor could own, as it has one of the most diversified portfolios. It owns a total of 50 industrial assets in Singapore, across different asset classes. In addition, we note that its risk is further mitigated, as its rental income is the least exposed (37%) to its top 10 tenants, compared to those of its peers. In the current general weakness of the industrial business, we urge investors to look out for risk mitigation via a wide diversification.

Full steam ahead in Australia. A huge amount of cash – over SGD161m (23% of its market cap) – could potentially be unlocked as management is well-committed to divesting its non-core assets. We have identified a total of eight assets, which could be divested with a significant return of c.119%. We think that this would allow Cambridge to recycle its proceeds into high-yielding assets in Australia, without raising new equity. Additionally, we think that foraying into the Australian market would strengthen its portfolio, as we expect warehouses to benefit from the booming e-commerce business.

Deep, deep value. We use a highly-conservative terminal growth of 0% with a cost of equity (CoE) of 7.9% to derive our DDM-derived TP. This implies a c.18% discount to its FY15 book value, and a FY16 dividend yield of 8.9%. The different valuation metrics suggest that Cambridge is deeply-valued with great growth potential. We re-initiate coverage on the stock with a TP of SGD0.64, representing a total return of 25.3%.

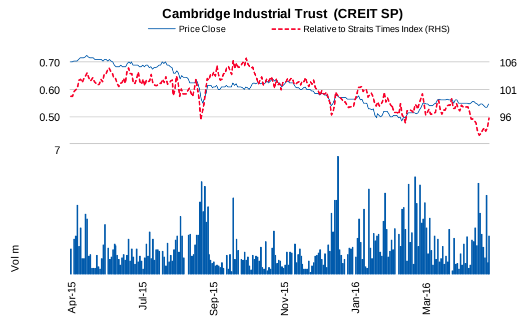
Key risk to our call is weakness in the overall industrial leasing market.

Share Data	
Avg Daily Turnover (SGD/USD)	1.00m/0.73m
52-wk Price low/high (SGD)	0.49 - 0.73
Free Float (%)	73
Shares outstanding (m)	1,304
Estimated Return	16%

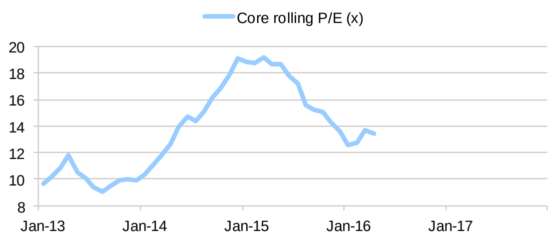
Shareholders (%)	
Tong Jinquan	16.3
Chan Wai Kheong	5.4
Credit Suisse Group	5.0

Share Performance (%)	YTD	1m	3m	6m	12m
Absolute	(3.5)	(3.5)	4.8	(12.8)	(22.2)
Relative	(2.8)	(4.6)	(6.9)	(6.9)	(4.1)

Source: Bloomberg



Source: Bloomberg



Source: Bloomberg

Forecasts and Valuations	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover (SGDm)	99	112	104	104	106
Net property income (SGDm)	77.8	86.2	77.8	78.8	82.0
Reported net profit (SGDm)	45	53	50	68	107
Total distributable income (SGDm)	57.6	59.7	58.2	58.7	61.3
DPS (SGD)	0.05	0.05	0.05	0.05	0.05
DPS growth (%)	0.2	(3.9)	1.5	2.6	1.6
Recurring P/E (x)	15.5	13.3	14.4	10.6	6.8
P/B (x)	0.80	0.81	0.82	0.79	0.76
Dividend Yield (%)	9.1	8.7	8.9	9.1	9.2
Return on average equity (%)	5.2	6.0	5.7	7.6	11.5
Return on average assets (%)	3.4	3.7	3.5	4.9	7.5
Interest cover (x)	3.86	3.45	3.74	3.68	3.72

Source: Company data, RHB

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Financial Exhibits

Financial model updated on 2016-04-25.

Asia
Singapore
Property
Cambridge Industrial Trust
Bloomberg CREIT SP
Buy

Valuation basis

- Cost of equity: 7.9%
- Terminal growth: 0.0%
- DDM-derived TP of SGD0.64

Key drivers

- Divestment of non-core assets
- Reinvest divestment proceeds in high-yielding assets in Australia
- Diversified portfolio to mitigate risks

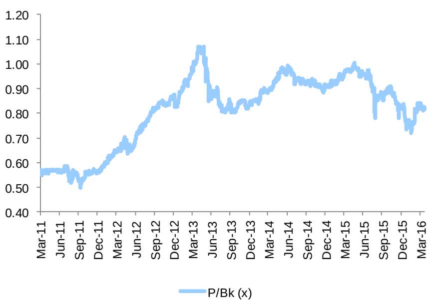
Key risks

- Weakness in the overall industrial leasing market
- Broad economic and interest rate risks may weaken market sentiment

Company Profile

Cambridge Industrial Trust is a real estate investment trust. The trust invests in industrial income-producing real estate and related assets.

Cambridge trading at c.18% to its FY15 book value



Financial summary	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Recurring EPS (SGD)	0.04	0.04	0.04	0.05	0.08
EPS (SGD)	0.04	0.04	0.04	0.05	0.08
DPS (SGD)	0.05	0.05	0.05	0.05	0.05
BVPS (SGD)	0.68	0.67	0.66	0.69	0.71
Weighted avg adjusted shares (m)	1,255	1,285	1,311	1,314	1,320

Valuation metrics	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Recurring P/E (x)	15.5	13.3	14.4	10.6	6.8
P/E (x)	15.1	13.3	14.4	10.6	6.8
P/B (x)	0.80	0.81	0.82	0.79	0.76
FCF Yield (%)	9.8	11.3	12.9	10.4	5.9
Dividend Yield (%)	9.1	8.7	8.9	9.1	9.2
EV/EBITDA (x)	(2.74)	(1.90)	(2.34)	(2.77)	(3.12)
EV/EBIT (x)	(2.74)	(1.90)	(2.34)	(2.77)	(3.12)

Income statement (SGDm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total turnover	99	112	104	104	106
EBITDA	68	77	67	68	71
Operating profit	68	77	67	68	71
Net interest	(18)	(22)	(18)	(18)	(19)
Income from associates & JVs	0	0	0	0	0
Exceptional income - net	1	0	0	0	0
Pre-tax profit	45	53	50	68	107
Taxation	(0)	0	0	0	0
Recurring net profit	44	53	50	68	107

Cash flow (SGDm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Change in working capital	(4)	(0)	0	(1)	(0)
Cash flow from operations	67	79	92	75	43
Cash flow from investing activities	(194)	(50)	0	0	0
Dividends paid	(43)	(48)	(55)	(56)	(58)
Cash flow from financing activities	59	(33)	(73)	(74)	(77)

Balance sheet (SGDm)	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Total cash and equivalents	6	3	5	5	6
Total investments	1,352	1,377	1,351	1,369	1,423
Total other assets	0	0	0	0	0
Total assets	1,380	1,431	1,378	1,396	1,452
Short-term debt	50	0	50	50	50
Other liabilities	12	9	0	0	0
Total liabilities	514	558	499	498	497
Shareholders' equity	866	873	879	898	954
Total equity	866	873	879	898	954
Net debt	469	523	471	471	470
Total liabilities & equity	1,380	1,431	1,378	1,396	1,452

Key metrics	Dec-14	Dec-15	Dec-16F	Dec-17F	Dec-18F
Revenue growth (%)	3.0	13.0	(7.6)	0.0	2.7
Recurrent EPS growth (%)	(48.4)	15.9	(7.4)	36.1	56.7
Operating EBITDA margin (%)	68.6	68.3	65.0	65.9	66.7
Net profit margin (%)	45.6	46.8	47.8	65.2	100.1
Dividend payout ratio (%)	139.1	117.7	129.0	95.5	63.2
Interest cover (x)	3.86	3.45	3.74	3.68	3.72

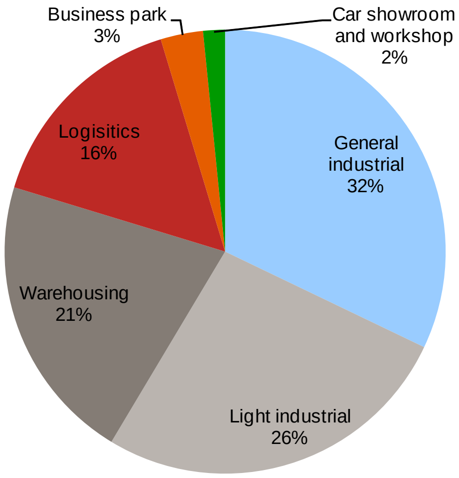
Source: Company data, RHB

Investment Merits

Most diversified and stable portfolio among its peers. Excluding the major industrial REITs, Cambridge owns the largest number of properties with a total of 50 industrial assets.

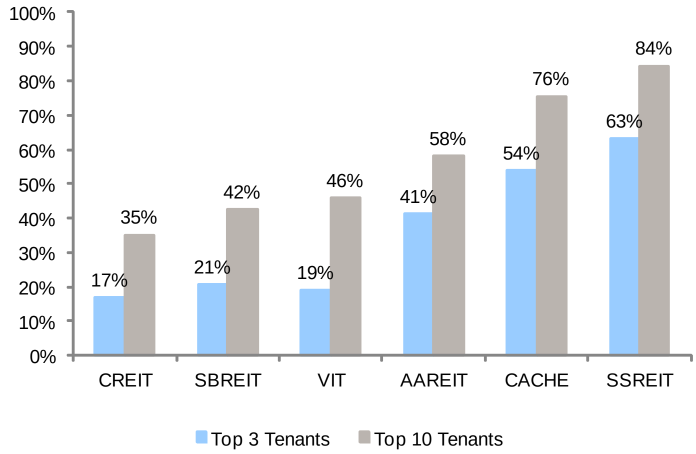
This provides high stability in its income distribution to unitholders, as no single asset constitutes more than 8% of its overall portfolio, in term of valuations.

Figure 1: Well-diversified across different asset classes



Source: Company data

Figure 2: Least concentration risk among its tenant mix (by rental income)



Source: Company data

Likewise, the REIT is broadly-diversified across various asset classes, namely logistics, warehousing, light industrial and general industrial (Figure 1).

In addition, we think that Cambridge has the least concentration risk among its peers, as its top tenants do not constitute a substantial portion of its rental income (Figure 2).

Thus, due to its management's portfolio diversification strategy, we believe that Cambridge is one of the most resilient industrial REITs that investors can own.

Huge potential in unlocking value. We met up with management and understand that Cambridge would focus on divesting its non-core assets and recycling its divestment proceeds into higher-yielding assets, both in Singapore and overseas.

We have identified a total of eight non-core assets for which the REIT may explore the possibility of divesting, as we note that these assets have gained substantially in capital value (up to c.119%) over the years (Figure 3).

Figure 3: Cambridge could potentially reinvest SGD162m into higher-yielding assets

Address	Tenant	NLA (sqft)	Acq. Date	% of FY16F GRI	Px Price/Dev Cost (SGDm)	Latest Valuation (SGDm)	Divestment gains	Upside from purchase px
25 Changi South Avenue 2	Wan Tai and Company	72,998	Jul-06	1.0%	7.3	13.7	6.4	87.7%
9 Tuas View Crescent	C M R (Far East)	71,581	Jul-06	0.9%	5.6	11.4	5.8	103.6%
31 Kian Teck Way	Donald Mcarthy Trading	33,088	Jul-06	0.3%	3.2	5.7	2.5	78.1%
45 Changi South Avenue 2	Chung Shan Plastics	73,684	Jul-06	0.7%	8.3	14.0	5.8	69.7%
2 Tuas South Avenue 2	Soon Wing Investments	217,351	Jul-06	2.3%	23.0	36.0	13.0	56.5%
31 Changi South Avenue 2	Presscrete Engineering Pte Ltd	50,644	Jul-07	0.5%	5.8	11.2	5.4	93.1%
21B Senoko Loop	Tellus Marine Engineering Pte Ltd	170,589	Jan-08	1.3%	14.7	31.5	16.8	114.7%
3 Tuas South Avenue 4	Agila Specialties Global	315,522	Mar-13	1.8%	20.0	38.3	18.3	91.5%
					Total	**161.8**	**74.0**	118.7%

Source: RHB, Company data

Aligned with its strategy, the REIT has recently proposed the divestment of one of its non-core assets – a 4-storey warehouse building along Tuas Avenue 10 for SGD16.5m – representing a remarkable c.93% return on its initial purchase price, as at 11 Apr.

Assuming all assets in Figure 3 are sold at their latest valuations (as at 31 Dec 2015), the REIT would gain a total sum of SGD74m. This handsome divestment gain would translate to a significant return of c.119% over the total purchase price.

What would Cambridge do with the huge cash load? It could potentially acquire higher-yielding assets in Australia, in short. We think that the REIT is likely to focus its resources on the Australian industrial property market, as the latter offers high property yields and stable property income.

Cambridge could also pare down its debt and gearing level with its proceeds, but since its gearing ratio is at a healthy level of 36.9% (as at Dec 2015), it certainly would not focus heavily in doing so.

Australia to be the next growth engine. We have many reasons to be optimistic about the Australian market, as stated below:

i. High-yielding assets;

ii. It would further diversify its portfolio;

iii. Provides higher stability in income;

iv. Complementary to its Singapore assets, as the Australian economy and industrial real estate market are matured;

v. Poised to benefit from the e-commerce market growth;

vi. Projected low supply of industrial properties in Australia in 2016;

vii. Cambridge's CEO has rich experience in the Australian industrial market.

As shown in Figure 4 below, industrial asset acquisitions in Australia have been heating up since 2015. Many industrial REITs in Singapore have made their maiden acquisitions in Australia in recent years, acquiring assets with cap rates as high as 8.9%.

Figure 4: Acquisitions made in Australia by industrial SREITs (2015)

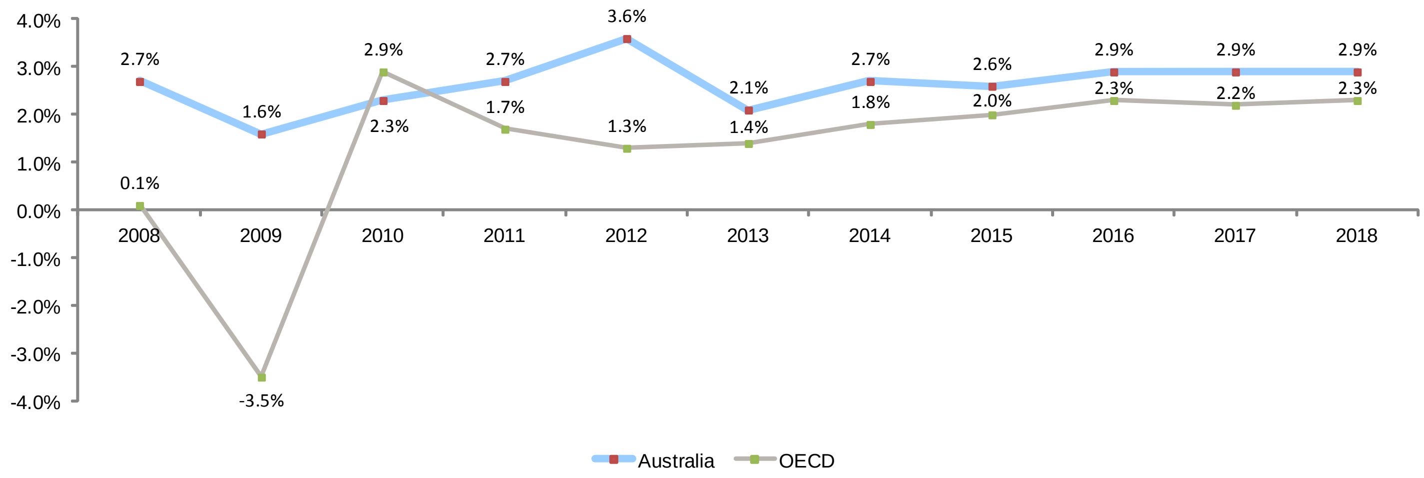
Date	REIT	Property type	State	GFA (sqm)	Purchase price	Rental escalation p.a.	Cap rate
24-Dec-15	AREIT	Warehouse	New South Wales	38,579	AUD76.6m	3.50% to 4.00%	7.10%
4-Dec-15	CACHE	Warehouse	Adelaide	58,795	AUD57.3m	Pegged to inflation	8.90%
27-Nov-15	CACHE	Warehouse	Queensland	6,276	AUD9.575m	4.00%	7.10%
23-Oct-15	CACHE	Warehouse	Brisbane	13,363	AUD27.0m	4.00%	7.00%
18-Sep-15	AREIT	Warehouse	Sydney, Melbourne,	630,946	AUD1,013.0m	3.30%	6.40%
30-Jun-15	MLT	Warehouse	New South Wales	55,395	AUD253.0m	3.00% to 4.00%	5.60%
9-Feb-15	CACHE	Warehouse	New South Wales	25,830	AUD37.0m	3.25%	7.30%
9-Feb-15	CACHE	Warehouse	Victoria	21,279	AUD22.3m	3.50%	7.30%
9-Feb-15	CACHE	Warehouse	Queensland	9,492	AUD10.7m	3.00%	7.30%

Source: RHB, Company data

Assuming Cambridge makes its maiden acquisition in Australia this year, this would further diversify its portfolio geographically. The assets, which have step-up rental escalation, should provide sustainable and stable income for the REIT, given their long weighted average lease expiry (WALE).

To complement local industrial property market. We also think that the acquisitions, if materialise, will likely complement its Singapore portfolio, as Australia's economy is expected to remain stable and strong from now till 2018.

Figure 5: GDP growth rate in Australia expected to remain robust

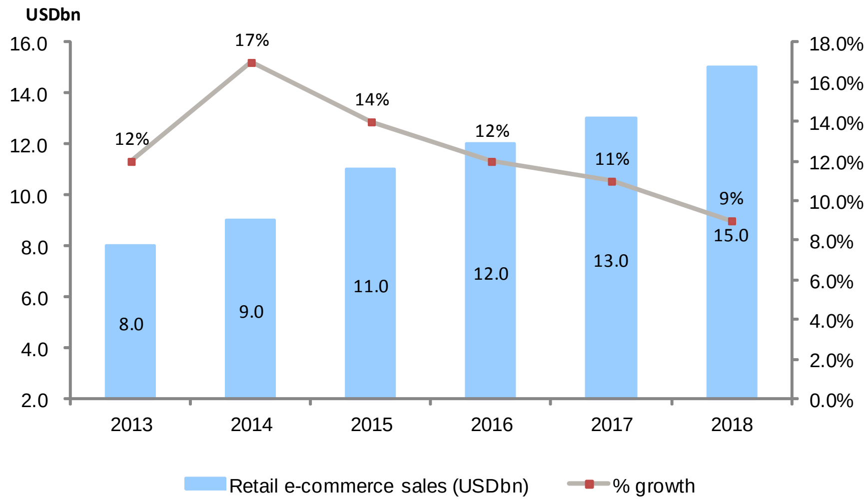


Source: The Economist Intelligence Unit

According to The Economist Intelligence Unit (Figure 5), Australia's GDP growth rate is expected to be robust, increasing to 2.9% in 2016 and sustaining at this level till 2018. In addition, inflation in Australia is expected to remain stable at 2.6-2.8% from 2016 to 2018.

The rise of e-commerce could spur Australia's industrial property market. The e-commerce business could also be a catalyst for Australian industrial assets. According to eMarketer, retail e-commerce sales are expected to continue to grow to USD15bn in 2018 from USD11bn in 2015 (Figure 6).

Figure 6: E-commerce business set to increase demand for industrial properties in Australia

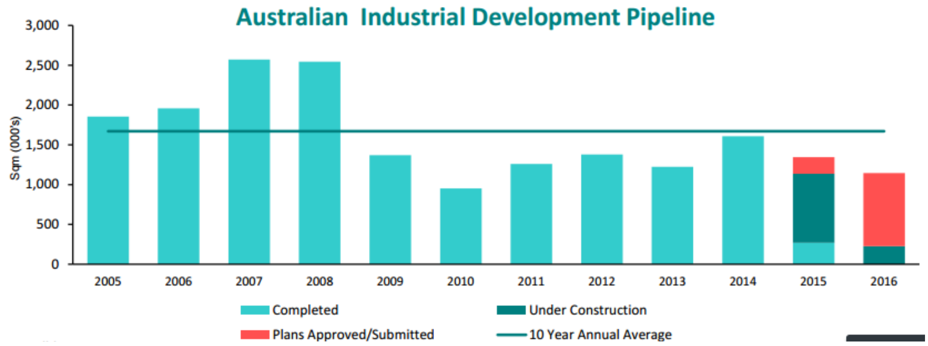


Source: eMarketer

As the e-commerce business in Australia continues to grow, demand for industrial properties would be increasingly high as the industry is likely to require an excellent distribution system across Australia.

Industrial property prices to benefit from low supply. Jones Lang LaSalle (JLL) expects the supply of industrial properties in Australia to remain below average this year (Figure 7). Hence, we think that the occupancy rate for the overall industrial portfolio would remain high.

Figure 7: Supply of industrial properties expected to be soft in 2016



Source: Acendas REIT, JLL

Given the supply shortage of industrial properties in Australia, we expect demand to be high, moving forward. This would provide an opportunity for Cambridge to move into the market.

CEO capable of executing intelligent acquisitions in Australia. Cambridge's CEO Philip Levin, who joined the team since Mar 2014, has close to 30 years of regional experience and was active within the Australian real estate market. Back in 2009, he set up operations of a private equity (PE) investment company (Blackstone) in Australia.

Being a native of Australia, we certainly think that he would be able to tap into a wide network in the country, benefiting the REIT via yield-accretive acquisitions in Australia.

Management has clear strategy for its soon-to-expire leases. We were impressed with management's strategy in handling its portfolio's leases that will expire this year. It has set out the measures below for its eight single-tenanted properties (represents 13.0% of overall rental income) (Figure 8) which will expire this year:

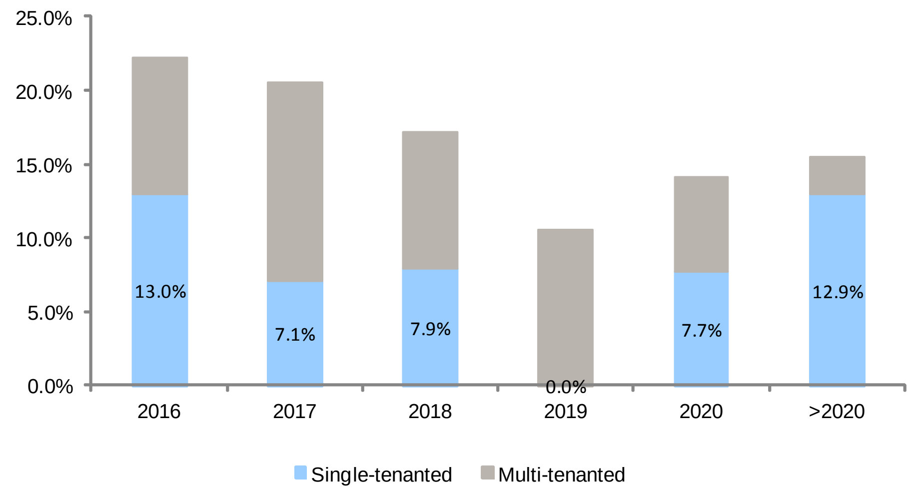
i. Only one of the eight properties would be converted to a multi-tenanted property;

ii. One property is slated to undergo an asset enhancement initiative (AEI);

iii. Two assets are planned for divestment;

iv. The remaining four leases are intended for renewal.

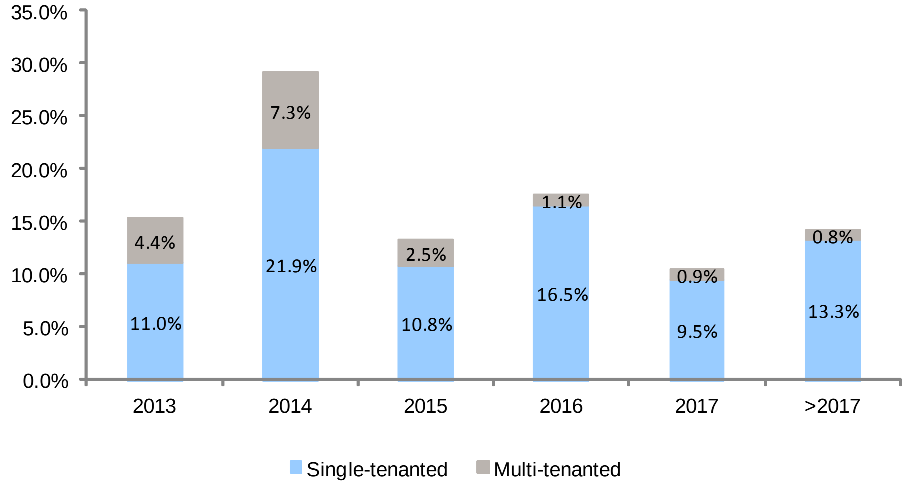
Figure 8: Single-tenanted leases as a percentage of total rental income



Source: Company data

Management has rich experience in asset conversion. Cambridge has a proven track record in asset conversion as it had converted most of its single-tenanted properties to multi-tenanted properties (Figure 9) back in 2014.

Figure 9: Most single-tenanted conversions were done in 2014 (lease expiry profile as at 4Q12)



Source: Company data

Therefore, despite some concerns raised, we are confident that management would be able to execute its strategy as it has been through a similar scenario back in 2014.

Valuations

DDM-derived SGD0.64 TP, with CoE of 7.9%. We value Cambridge using DDM, given the REIT's stable cash flow.

Our TP is SGD0.64 with a FY16F dividend yield of 8.9%, which implies a c.18% discount to its FY15 book value. This represents a total return of 25.3% from the current price of SGD0.55.

For Cambridge's DDM valuation, our assumptions are:

i. Risk-free rate of 3%, for the 10-year Singapore government bond;

ii. Equity risk premium of 6%;

iii. Beta of 0.85;

iv. TG rate of 0.0%.

Figure 10: Cambridge's DDM valuation

SGDm	FY16F	FY17F	FY18F	FY19F	FY20F	FY21F	FY22F	FY23F	FY24F	FY25F
Gross revenue	103.7	103.7	106.5	107.9	109.3	110.6	112.0	113.4	114.8	116.2
Property expenses	-25.9	-24.9	-24.5	-27.0	-27.3	-27.7	-28.0	-28.4	-28.7	-29.0
Net property income	77.8	78.8	82.0	80.9	81.9	83.0	84.0	85.1	86.1	87.1
Total return for the year	49.6	67.7	106.6	31.8	69.3	70.2	71.1	72.0	72.9	73.8
Add/(less): Distribution adjustments	8.6	-9.0	-45.3	27.8	-8.6	-8.5	-8.4	-8.3	-8.2	-8.0
Net income available for distribution to Unitholders	58.2	58.7	61.3	59.6	60.7	61.7	62.7	63.7	64.7	65.7
Other distributions	5.8	5.9	6.1	6.3	6.5	6.7	6.9	7.1	7.3	7.5
Total amount available for distribution	64.0	64.6	67.4	65.9	67.1	68.3	69.6	70.8	72.0	73.2
Less: Distributions to unitsholders	-55.3	-55.8	-58.2	-56.7	-57.6	-58.6	-59.5	-60.5	-61.5	-62.4
Weighted average number of units ('000)	1,323.7	1,303.5	1,337.0	1,316.5	1,350.3	1,329.7	1,363.8	1,343.0	1,377.5	1,356.4
DPU (SGD cents)	**4.83**	**4.96**	**5.04**	**5.01**	**4.97**	**5.14**	**5.10**	**5.27**	**5.23**	**5.40**
Terminal value (SGD cents)										**68.50**
Assumptions:										
Cost of equity	7.9%									
Terminal growth rate (%)	0.0%									
Present value (SGD)	0.32									
Terminal valute (SGD)	0.32									
Target price (SGD)	**0.64**									

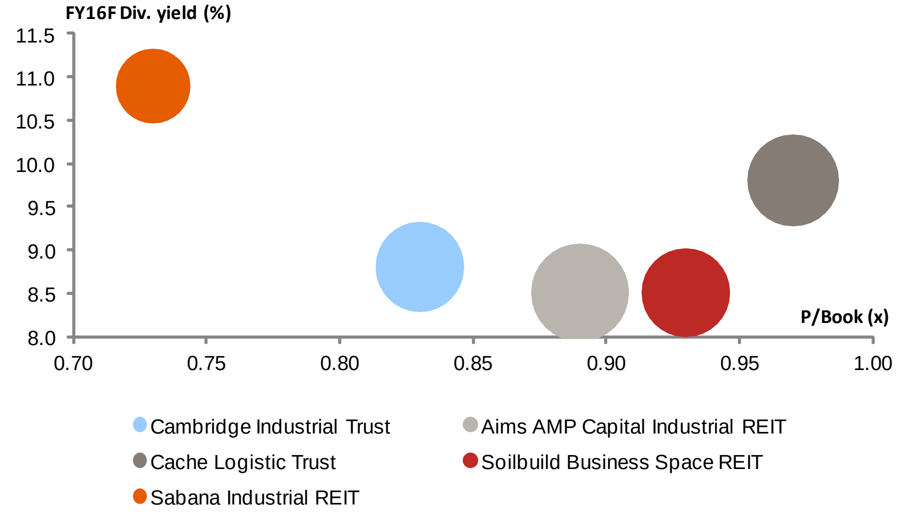
Source: RHB

Figure 11: Industrial SREITs peer comparison

REITs	Bloomberg Ticker	Price as at 13 Apr 16 (SGD)	Mkt Cap (USDm)	Price / Book (x)	Gearing (%)	Dividend Yield (%)	
						FY16	FY17
Cambridge Industrial Trust	CREIT SP	0.56	538	0.83	36.9%	8.9	9.1
Ascendas REIT	AREIT SP	2.44	4,664	1.18	37.3%	6.1	6.6
Mapletree Industrial Trust	MINT SP	1.62	2,162	1.22	29.3%	6.7	6.8
Mapletree Logistic Trust	MLT SP	1.02	1,888	1.00	39.0%	7.8	7.8
Keppel DC REIT	KDCREIT SP	1.08	706	1.17	29.2%	6.4	6.6
Aims AMP Capital Industrial REIT	AAREIT SP	1.36	640	0.89	31.5%	8.5	8.5
Cache Logistic Trust	CACHE SP	0.86	568	0.97	39.8%	9.8	9.8
Soilbuild Business Space REIT	SBREIT SP	0.75	520	0.93	36.0%	8.5	8.7
Sabana Industrial REIT	SSREIT SP	0.65	355	0.73	41.7%	10.9	10.9
Viva Industrial Trust	VIT SP	0.72	462	0.89	38.6%	N.M	N.M
			Simple average	**0.98**	**35.9%**	**8.2**	**8.3**
			Simple average (w/o) CREIT	**1.00**	**35.8%**	**8.1**	**8.2**

Source: RHB, Bloomberg, Companies data

Figure 12: Cambridge is one of the most attractively-priced REITs among its peers



**Note that the size of the circle denotes the size of the individual REIT's market cap size*

Source: RHB, Bloomberg

We think that Cambridge has one of the best values among Singapore industrial REITs as it offers a high dividend yield (8.9%) and is trading at a wide discount (c.18%) to its last reported book value (Figure 12).

We are also cautious that Sabana Shariah Compliant Industrial REIT (SSREIT SP, NR) may be a value trap for investor, given its poor performance outlook mainly due to the following:

i. Almost a quarter (c.22%) of its portfolio's NLA consists of master leases due to expire this year;

ii. The highest-geared REIT within the SREIT sector at 41.7%;

iii. High vacancy rate of 12.3%.

Key Risks

Conversion of single-tenanted building to multi-tenancy may be more challenging than anticipated. Cambridge has eight single-tenanted properties, one of which is slated for conversion to multi-tenancy. The conversion could give rise to higher vacancy of business space, leading to rising property expenses, lower rental income and margin compression, which are unfavourable for the REIT.

Headwinds in industrial property to persist. Due to the Singapore Government's ongoing restructuring efforts coupled with higher supply of industrial space coming into the market in the coming years, the industrial property space as a whole may remain soft. As tenants continue to be cost-sensitive, any worsening in the industry's demand-supply dynamics may lead to a decline in occupancy and rental rates. Note that about 3.8m sqm of general industrial space would be completed and be available by end-2016. This upcoming supply could lower occupancy and rental rates and in turn, affect topline growth.

Growth strategy relies heavily on overseas expansion. Considering Cambridge's lack of track record overseas, there may be execution risks involved in overseas operations which may hinder its growth drivers. Although many industrial SREITs have ventured overseas to seek growth opportunities outside the domestic market, and Cambridge's management has highlighted similar intentions, these may not be easy due to foreign real estate market conditions and different regulations or policies governing other countries.

Broad economic and interest rate risks may weaken market sentiment. Given the current sluggish global economic growth and the diverging monetary policies adopted by the world's largest economies, we see risks in the uncertain global economic climate. Although Cambridge is in a strong position to weather the economic volatility, it would likely still be affected by broad market movements. While management has reduced exposure to floating interest rates, any potential rate hikes may significantly impact investor confidence in the market.

Industry Overview

We think that the supply-demand dynamics within the factory and warehouse subsectors are rather fragile, in view of the following factors:

i. Large supply of warehouses and factories;

ii. Demand is expected to remain weak due to a slowdown in trade and industrial production;

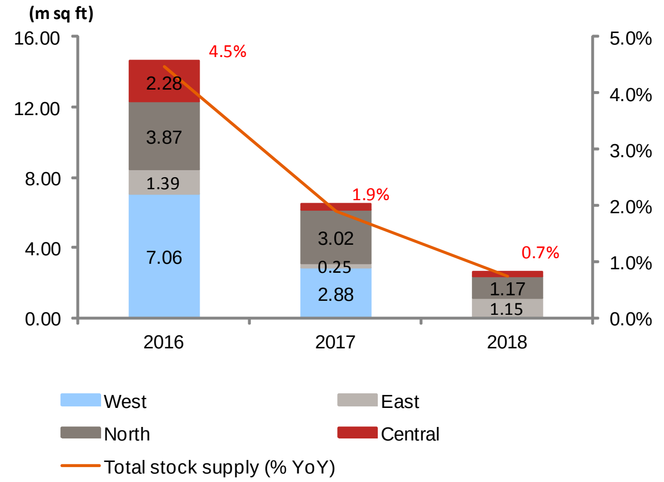
iii. Landlords should continue to maintain or marginally decrease their rates to retain tenants.

For 2016, we forecast rental rates to remain stable at 1-2% from current levels for both factory and warehouse spaces (4Q15: SGD1.76 and SGD1.75 psf per month for factory and warehouse respectively).

Supply likely higher than last year's levels. Based on CBRE's latest report, factory supply is expected to grow 4.5% in 2016, surpassing 2015's growth rate of c.3.8%. Likewise, the warehouse supply growth rate is expected to accelerate to 6.9% in 2016 from c.5.7% in 2015 (Figure 14).

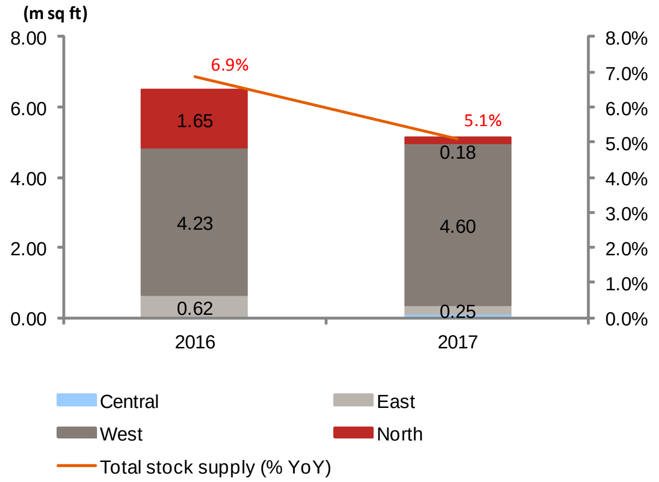
Given that landlords had managed to keep rental rates relatively stable in 2015 amid large supply growth, we are expecting landlords to adopt a similar approach this year by either maintaining or marginally reducing their rental rates to retain tenants.

Figure 13: Factory supply pipeline (2016-2018)



Source: RHB, CBRE

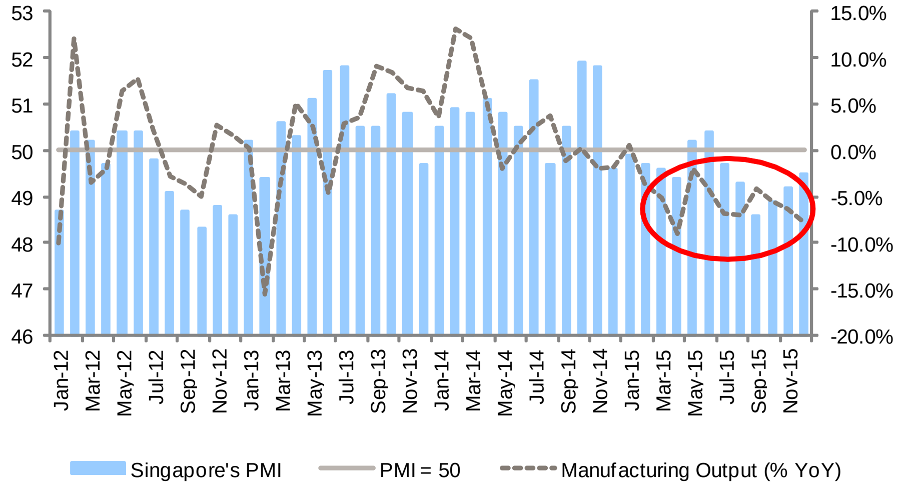
Figure 14: Warehouse supply pipeline (2016-2017)



Source: RHB, CBRE

For 2016, we are of the view that more landlords are likely to reduce rental rates than maintaining them. We expect demand for both warehouse and factory space to be weak.

Figure 15: Manufacturing sector remains lacklustre – PMI has been below 50 over the past six consecutive months



Source: RHB, CBRE, Economic Development Board (EDB), Singapore Institute Of Purchasing & Materials Management (SIPMM)

Based on Figure 15, Singapore's Purchasing Managers' Index (PMI) had been weak – having contracted consistently from Jul-Sep 2015. Likewise, manufacturing output had also slowed down. We think that this was due to the weakening of the ASEAN and Chinese economies, and it could persist this year. As a result, factory rental rates could be negatively impacted as tenants would find it difficult to pay higher rents.

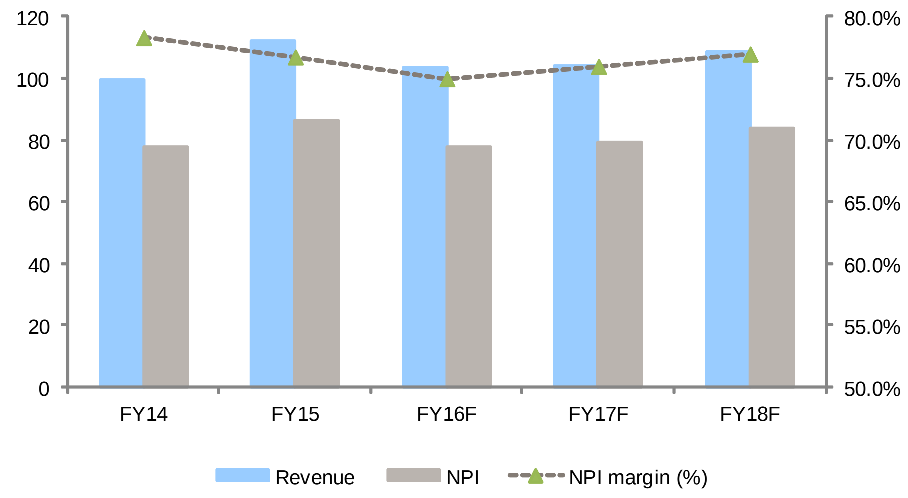
Weak oil & gas industry hits industrial landlords. Lastly, we caution investors to avoid industrial REITs with high exposure to the oil & gas industry. In comparison, Cambridge is mainly exposed to the wholesale retail trade (c.28%), transportation and storage (c.26%) and the manufacturing sector (c.25%).

Among the industrial SREITs universe, we note that Soilbuild Business Space REIT (SBREIT SP, NR) should be impacted the most. This is because more than a quarter of its portfolio is exposed to the oil & gas and marine offshore sectors.

Tenants with high exposure to the oil & gas industry may face difficulties, including defaulting on their rents in a worst-case scenario. Therefore, amid the weak oil & gas environment, we prefer REITs with minimal exposure to the oil & gas sector.

Financial Analysis

Figure 16: We expect NPI margins to improve in the longer term as Cambridge converts more single-user buildings to multi-tenancy



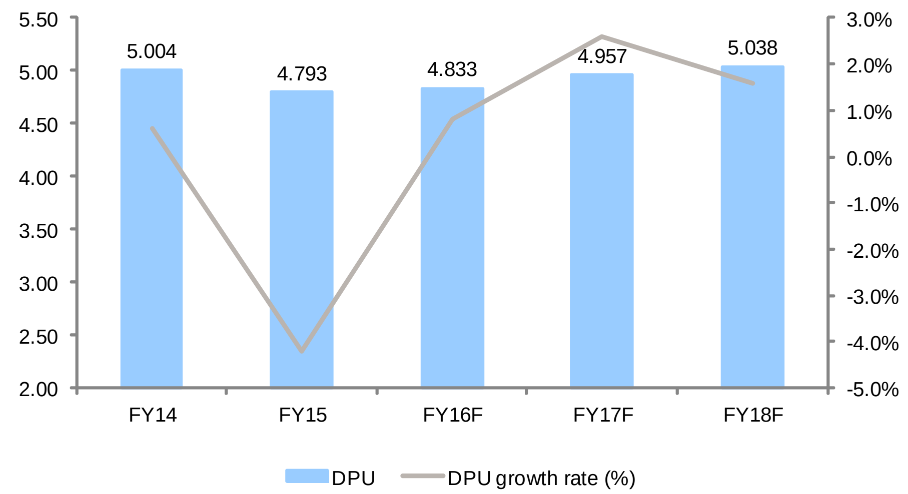
Source: RHB, Company data

We expect a slide in rental revenue in FY16 mainly due to divestments of non-core assets and ongoing asset enhancement initiatives (AEIs) on various assets. Thereafter, we expect revenue growth to normalise at c.4% pa in both FY17 and FY18.

Additionally, we project net property income (NPI) margins to be compressed slightly to 75.0% in FY16 (from 76.8% in FY15), due to the conversion of one of its single-tenanted buildings to multi-tenancy.

However, in the longer run from FY17-18, we forecast NPI margins to inch up to 76.0% and 77.0% respectively.

Figure 17: Gradual DPU growth ahead

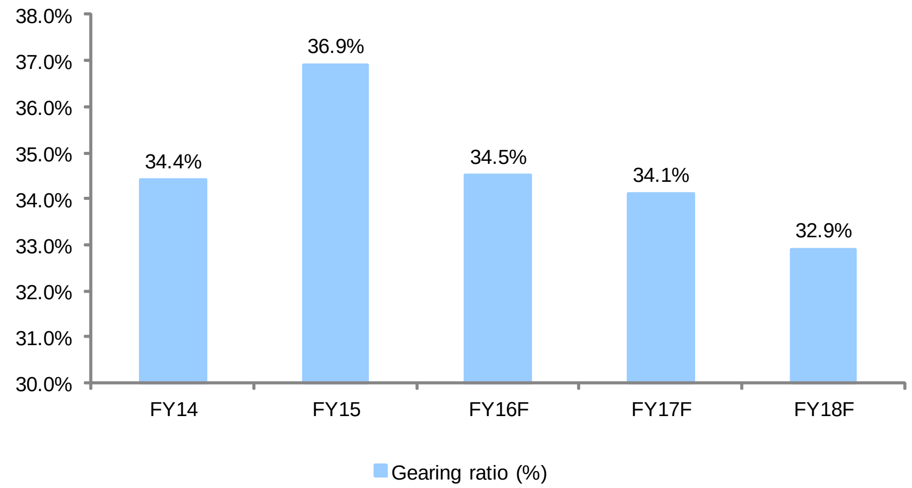


Source: RHB, Company

We expect a gradual DPU growth ahead with an average growth rate of 1.4% pa from FY16-18. The DPU growth would be underpinned by improved operational efficiency such as NPI margins and a 1-3% increase in rental rates on expired leases.

We would also like to highlight that the decline in FY15 DPU was mainly due to the lack of capital gain distribution. We understand from management that it has no intention of topping up its DPU via capital distribution in the foreseeable future.

Figure 18: We expect Cambridge to pare down its debt with its divestment proceeds



Source: RHB, Company

We expect Cambridge's gearing ratios to decline for FY16-18 as management is committed to reducing its debt levels.

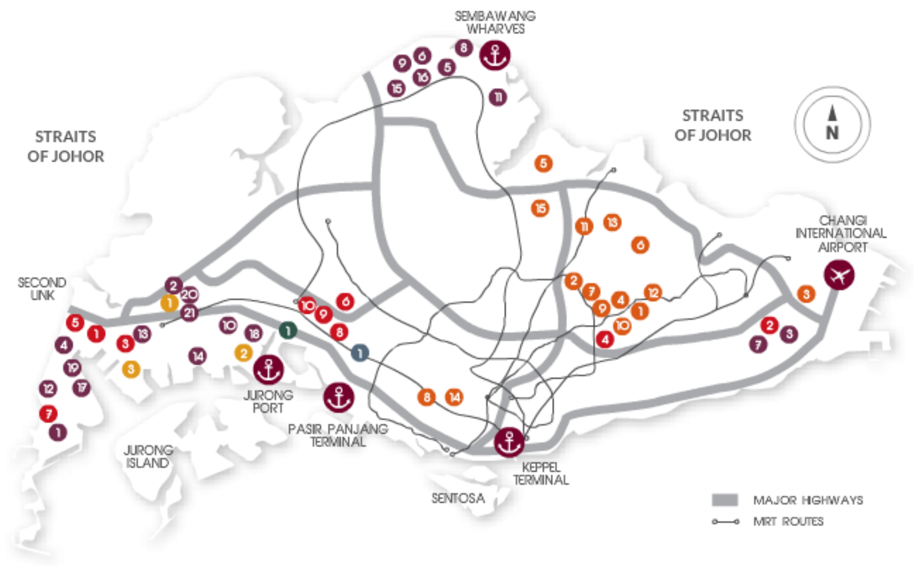
With the phasing in of a new regulatory framework limiting gearing to 45.0%, we believe the projected gearing levels of 32.9-34.5% for FY16F-18F are still at healthy levels.

This would allow considerable debt headroom for the REIT to execute opportunistic acquisitions in line with its pursuit of accretive inorganic growth in its businesses.

Company Background

Cambridge is a Singapore-based REIT that aims to provide a stable and secure income stream through the management of its property portfolio.

Figure 19: Cambridge owns 50 assets island-wide



Note: Yellow: logistics, red: warehouse, orange: light industrials, purple: general industrials.
Source: Company

The REIT was listed on 25 Jul 2006 and currently owns 50 income-producing industrial properties across Singapore. These properties include logistics, warehousing, light industrial, car showrooms and business park properties. Most of these properties are also located around major transportation hubs and key industrial zones.

Property Manager

Cambridge's property manager is Cambridge Industrial Trust Management Limited (CITM), which is indirectly owned by three shareholders, namely National Australian Bank (NAB) Group (56%), Oxley Group (24%), and Mitsui & Co Ltd (20%):

i. NAB is one of Australia's four largest banks. It is an international financial services group that provides a comprehensive and integrated range of financial products and services;

ii. Oxley Group is an innovative private investment firm specialising in real estate and private equity investments across Asia-Pacific;

iii. Mitsui is one of the largest corporate conglomerates in Japan and is listed on the Tokyo Stock Exchange. It is also one of the largest publicly-traded companies in the world. Mitsui developed the publicly-listed REIT in Japan – Japan Logistics Fund Inc.

The acquisition of the major ownership of CITM by the joint venture partners took place on Aug 2008.

SWOT Analysis

S

- Widely-diversified with 50 assets
- Does not have a high concentration risk among its tenant mix
- High earnings visibility

T

- The overall weakness in the Singapore economy, which would in turn affect the overall manufacturing market
- Prolonged weakness in oil prices may hinder some of the industrial businesses

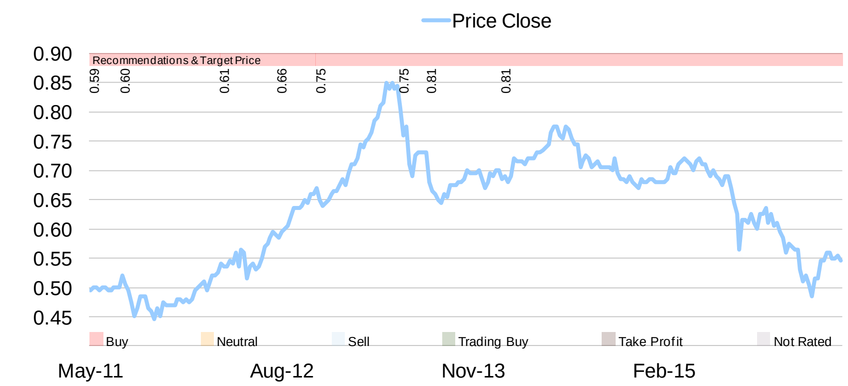
O

- Potential acquisitions in overseas market, such as Australia and Japan
- Possibility to unlock value in various non-core assets
- Additional gross floor area (GFA) to its portfolio via more AEIs.

W

- Concentrated risk within the Singapore industrial market at the moment

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2014-01-20	Buy	0.81	0.70
2013-07-25	Buy	0.81	0.74
2013-05-20	Buy	0.75	0.86
2012-12-06	Buy	0.75	0.65
2012-12-03	Buy	0.75	0.65
2012-11-01	Buy	0.75	0.67
2012-09-17	Buy	0.66	0.65
2012-07-30	Buy	0.66	0.60
2012-07-05	Buy	0.61	0.58
2012-05-25	Buy	0.61	0.54

Source: RHB, Bloomberg

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