



**Securities Investors Association (Singapore)**

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**Issuer:** ARA Trust Management (Cache) Limited

**Security:** Cache Logistics Trust

**Meeting details:**

Date: 22 April 2019

Time: 10.00 a.m.

Venue: Level 3,

Meeting Rooms 331 - 332, Suntec Singapore International Convention & Exhibition Centre,  
1 Raffles Boulevard, Suntec City, Singapore 039593

**Company Description**

Listed on the Singapore Exchange on 12 April 2010, Cache Logistics Trust is a real estate investment trust ("REIT") that invests in quality income-producing industrial real estate used for logistics purposes, as well as real estate-related assets, in Asia Pacific. As at 31 December 2018, Cache's portfolio comprised 26 high quality logistics warehouse properties strategically located in established logistics clusters in Singapore, Australia and China. The portfolio has a total gross floor area of approximately 8.6 million square feet valued at approximately S\$1.3 billion.

(Source: [http://www.sgx.com/wps/portal/sgxweb/home/company\\_disclosure/stockfacts?code=K2LU](http://www.sgx.com/wps/portal/sgxweb/home/company_disclosure/stockfacts?code=K2LU))

1. With the addition of the 9-property Australian portfolio in February 2018, the REIT's gross revenue increased by 8.6% to \$121.5 million for the financial year ended 31 December 2018 even though certain assets (namely 40 Alps Avenue and Jinshan Warehouse) were divested.

Net property income (NPI) increased by 4.2% but income available for distribution slipped by (3.9)% to \$63.4 million. This consisted of income available for distribution from operations amounting of \$62.24 million and income available for distribution from capital of \$1.17 million.

Would the board/REIT manager provide unitholders with better clarity on the following operational matters? Specifically:

- (i) **CWT Commodity Hub:** The property was converted from a master lease to a multi-tenancy lease structure. For the second year running, the lower NPI of the REIT was attributed to the conversion of a master lease to a multi-tenancy lease structure. **How much notice does the master lessee have to provide to the REIT? What are the lessons gleaned by the manager from the conversions to multi-tenancy lease structures? How does the REIT manager minimise the impact and disruption to the REIT's earnings and cash flow should master leases not be extended?**
- (ii) **Hi-Speed Logistics Centre (40 Alps Avenue):** In the sale of 40 Alps Avenue, the REIT provided the buyer with an income support of up to \$1.38 million. As at 31 December 2018, \$0.716 million was utilised by the purchaser. **Can the REIT manager help unitholders understand the necessity of providing the income support?**
- (iii) **Distribution per unit (DPU):** DPU slipped to 5.903 cents per unit, down 10.3% from a year ago. This was partly due to an enlarged unit base due to the rights issue in 3Q17 and the distribution of \$5.03 million to perpetual securities holders in FY2018. DPU has been on a clear and steep downward trend since FY2013 when the DPU was 8.644 cents per unit. **Given the current portfolio of assets, what are the opportunities/low hanging fruits to improve the group's net property income/distributable income? How is the manager addressing the issue of falling DPU?**

2. On 1 December 2017, the manager announced that the group had established a S\$1,000,000,000 Multicurrency Debt Issuance Programme. On 1 February 2018, the trust completed the first issue of a S\$100,000,000 in aggregate principal amount of 5.50 per cent. subordinated perpetual securities comprised in Series 001.

The Perpetual Securities confer a right to receive distribution payments at a rate of 5.50% per annum, with the first distribution rate reset falling on 1 February 2023 and subsequent resets occurring every five years thereafter.

In FY2017, the group carried out a rights issue to raise gross proceeds of approximately S\$102.7 million.

- (i) Has the board/REIT manager reviewed the optimal capital structure? What were the factors that led the REIT manager to issue a perpetual security?
- (ii) Can management confirm that, in the calculation of the trust's aggregate leverage, the perpetual securities will be treated as equity?
- (iii) Has the board estimated the trust's cost of capital?
- (iv) How will the trust's DPU be affected, if any, due to the issuance of the \$100 million 5.5% perpetual securities? Has the board carried out a sensitivity analysis on the trust's distributable income and on DPU given that more than \$5.5 million will be required to be distributed to the perpetual securities holders?
- (v) The REIT's all-in financing cost was 3.25% in FY2015, 3.6% in FY2016 and 3.56% in FY2017. At the end of FY2018, the all-in financing cost has increased to 3.71% for the full year and 3.81% for the quarter. The interest coverage ratio is at 3.7x, down from the 6.3x-6.8x range in FY13-14 and was at 4.8x in FY2015. The 5-year performance highlight is shown on page 6 of the annual report and reproduced below:

#### 5-YEAR FINANCIAL HIGHLIGHTS

	FY2014	FY2015	FY2016	FY2017	FY2018
<b>Income Statement &amp; Distribution Data</b>					
Gross Revenue (S\$'000)	82,852	89,721	111,271	111,960	<b>121,540</b>
Net Property Income (S\$'000)	78,000	76,156	88,014	87,291	<b>90,924</b>
Distributable Income (S\$'000)	66,880	67,960 <sup>1</sup>	69,318 <sup>1</sup>	66,015 <sup>1</sup>	<b>63,409<sup>1</sup></b>
Distribution Per Unit (Singapore cents)	8.573	8.500 <sup>2</sup>	7.725 <sup>2</sup>	6.583 <sup>3</sup>	<b>5.903<sup>4</sup></b>
<b>Key Financial Ratios</b>					
Distribution Yield (%) <sup>7</sup>	7.4	9.3	9.5	7.7	<b>8.5</b>
Aggregate Leverage Ratio (%) <sup>8</sup>	31.2	39.8	43.1	36.3	<b>36.2</b>
Interest Coverage Ratio (times) <sup>9</sup>	6.8	4.8	4.0	4.2	<b>3.9</b>
All-in Financing Cost (%) <sup>10</sup>	3.30	3.25	3.60	3.56	<b>3.71</b>
Units in Issue (million) <sup>11</sup>	781.8	893.5	900.5	1,069.7	<b>1,077.9</b>
Market Capitalisation (in S\$ million) <sup>12</sup>	906.8	813.1	729.4	914.6	<b>749.1</b>

**Has the manager reviewed the reasons for the increasing cost of debt to the REIT? How much of it was due to market movement and how much of the increase was due to specific factors relating to the REIT? It is observed that a comparable listed REIT in the logistics sector had financing cost of only 2.7%. What can the manager do to reduce the trust's average financing costs?**

3. During the financial year, the manager of the REIT was renamed to ARA Trust Management (Cache) Limited due to changes in the shareholding of the manager itself.

- (i) **Can the manager help unitholders understand the role of CWT Limited (“CWT”) going forward?** CWT was a partner in the joint-venture REIT management company between ARA and CWT.

In addition, as shown on page 7 of the annual report, the REIT has under-performed the FTSE REIT Index and the FTSE ST Index significantly. Over a 5-year period, the total return of the REIT lagged behind the FTSE REIT Index by more than 50%.

#### RELATIVE PERFORMANCE

Performance of Cache compared with major indices <sup>1</sup>	1 Year		3 Year		5 Year	
	Price Change	Total Return	Price Change	Total Return	Price Change	Total Return
Cache Logistics Trust	-18.7%	-12.2%	-20.7%	0.8%	-35.3%	-3.5%
FTSE REIT Index	-9.2%	-3.7%	11.7%	34.3%	8.9%	48.6%
FTSE ST Index	-9.8%	-6.5%	6.5%	18.4%	-3.1%	15.0%

Source: Bloomberg

- (ii) **Does the board consider it opportune to carry out a strategic review to evaluate the REIT, including its assets and operations, and the REIT manager so as to further finetune its strategy to create long term, sustainable value for all unitholders?**