MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first-time Baa3 rating to Cambridge Industrial Trust; outlook stable

Global Credit Research - 16 Nov 2015

Singapore, November 16, 2015 -- Moody's Investors Service has assigned a first-time issuer rating of Baa3 to Cambridge Industrial Trust (CIT), a Singapore real estate investment trust, and a provisional (P)Baa3 rating to the SGD500 million multi-currency medium term note (MTN) program of Cambridge-MTN Pte. Ltd.

The program was established by CIT through its wholly owned subsidiary -- Cambridge-MTN Pte. Ltd. -- and is unconditionally and irrevocably guaranteed by RBC Investor Services Trust Singapore Limited, in its capacity as the trustee of CIT.

At the same time, Moody's has assigned a definitive Baa3 rating to all three outstanding series of senior unsecured notes totaling SGD315 million drawn down under the MTN program.

The outlook on all ratings is stable.

RATINGS RATIONALE

"CIT's Baa3 ratings are underpinned by its diversified portfolio of well-located industrial assets in Singapore, which provides the trust with income diversification across industrial sub-segments and tenant base, as well as its good operating track record of maintaining stable and resilient earnings," says Rachel Chua, a Moody's Analyst.

As of 30 September 2015, CIT had a portfolio of 51 industrial properties with a total appraised value of SGD1.4 billion, located near major air and sea transportation hubs, and industrial zones across the island.

Apart from a diversified portfolio across five industrial sub-segments, the trust also faces minimal tenant concentration risk as no single tenant accounts for more than 7% of monthly rental income.

Moreover, CIT's earnings have grown substantially since its listing in 2006, largely driven by portfolio growth through yield-accretive asset acquisitions as well as stable organic growth supported by positive rental reversions and asset enhancement initiatives. The trust reported net property income of SGD64.5 million for the nine months to 30 September 2015 compared to SGD45.8 million for the full year in 2007.

"At the same time, the ratings are constrained by (1) CIT's small asset portfolio; (2) our expectation of lower occupancy rates over the next 12-18 months as it converts some master-leased assets to multi-tenanted buildings; and (3) event risk from its portfolio growth strategy, which will likely result in higher borrowings and in turn pressure credit metrics," adds Chua, who is also Moody's Lead Analyst for CIT.

The rating also takes into account CIT's moderate financial profile, with adjusted debt to total deposited assets of 39.6% and EBITDA/interest coverage of 3.8x as of 30 September 2015. Moody's calculations incorporate our standard adjustments for operating leases. On an unadjusted basis, CIT's reported debt to deposited assets ratio based on S-REIT regulatory standards was 37.2%.

"CIT's management has shown its commitment over the past 12 months to reduce its reliance on secured funding and asset encumbrances, which improves the trust's financial flexibility and highlights its ability to access the capital markets," says Chua.

CIT's secured debt-to-deposited assets ratio declined to below 10% as of 30 September 2015 from historical levels of 25%-35%.

CIT is managed by Cambridge Industrial Trust Management Limited (CITM), which is ultimately owned by National Australian Bank Limited (NAB, Aa2 stable) with a 56% stake, Oxley Group (unrated) with a 24% stake and Mitsui & Co. Ltd (A2 stable) with the remaining 20% stake.

Although CIT is an independent trust without a property developer as its sponsor, NAB has a demonstrated track record of providing financial support to the trust in the event of distress. In 2008, NAB together with two other banks syndicated a SGD390.1 million term loan to refinance all of CIT's debt, including SGD337 million maturing within five months.

In October 2015, the trust announced that NAB and Oxley had both received non-binding expressions of interest for their shareholdings in CITM from one or more undisclosed parties. The proposed transaction creates uncertainty for CIT as a change in ownership at the manager level could result in a change in strategy, financial policy and risk appetite.

CIT had cash and cash equivalents of SGD8.6 million and total gross debt of SGD533.7 million as of 30 September 2015. It has SGD11.7 million of debt due in March 2016, beyond which it has no near-term debt maturities until April 2017, when its SGD100 million secured term loan facility comes due.

We expect the trust will maintain its proactive approach towards capital management, such that it refinances its debt maturities ahead of time.

The rating outlook is stable, reflecting our expectation that CIT will continue to generate stable cash flows from its current portfolio and maintain its credit profile while pursuing growth.

The rating could be upgraded if CIT expands its asset size to SGD2.0-2.5 billion through organic growth or prudently funded acquisitions, and improves its credit profile such that its adjusted debt-to-deposited assets ratio falls below 35% and adjusted EBITDA/interest coverage improves above 4x.

The maintenance of a long-dated debt maturity profile and access to committed funding will also be beneficial for the rating.

Downward rating pressure could emerge if: (1) the operating environment deteriorates, leading to higher vacancy levels and lower operating cash flow; (2) CIT's financial metrics deteriorate such that adjusted debt/total deposited assets exceeds 45% or adjusted EBITDA/interest coverage falls below 3x on a sustained basis; or (3) CIT's reliance on secured borrowings increases such that secured debt to deposited assets exceeds 15%-20%.

The principal methodology used in this rating was Global Rating Methodology for REITs and Other Commercial Property Firms published in July 2010. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

Cambridge Industrial Trust is an industrial Singapore-based real estate investment trust listed on the Singapore Stock Exchange in July 2006. As of 30 September 2015, it had a portfolio of 51 industrial properties in Singapore with a total appraised value of SGD1.4 billion.

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Rachel Chua
Analyst
Corporate Finance Group
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

Laura Acres
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077

Releasing Office:
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: (852) 3758 -1350
SUBSCRIBERS: (852) 3551-3077