

## NEW ISSUER REPORT

## Cambridge Industrial Trust

Singapore

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## Summary

- » **On 16 November 2015, we assigned a first-time Baa3 issuer rating to Cambridge Industrial Trust (CIT) with a stable outlook.** We also assigned a provisional (P)Baa3 rating to the trust's SGD500 million multi-currency medium term note (MTN) program and definitive Baa3 ratings to the senior unsecured notes drawn down under the MTN program.
- » **The key rating driver of CIT's credit profile is its portfolio of well-located industrial assets in Singapore supported by a diversified tenant base.** Despite its small portfolio of SGD1.4 billion, the trust has 51 properties located near major air and sea transportation hubs, as well as industrial zones across the island. CIT benefits from a diversified portfolio across five industrial sub-segments and also faces minimal tenant concentration risk with no single tenant accounting for more than 7% of monthly rental income as at 30 September 2015.
- » **The trust's ratings also reflect its good operating track record with stable and resilient earnings.** CIT's earnings have grown substantially since its listing in 2006, largely driven by (1) portfolio growth through yield-accretive asset acquisitions; and (2) stable organic growth supported by positive rental reversions and asset enhancement initiatives. The trust reported net property income (NPI) of SGD64.5 million for the nine months to 30 September 2015 compared to SGD45.8 million for the full year in 2007.
- » **We expect occupancy rates to come under pressure over the next 12-18 months.** With ten properties with master leases expiring in Q4 2015 and 2016, we expect CIT's portfolio occupancy will likely decline to around 93% in 2016 from 95.4% at 30 September 2015. While there is some, albeit low, execution risk involved, we recognize that CIT has built a good track record of successfully converting 13 such buildings with master leases since inception while maintaining healthy occupancy rates.
- » **Moderate financial profile with improved financial flexibility.** As of 30 September 2015, CIT had a moderate financial profile with adjusted debt to deposited assets of 39.6% and strong adjusted EBITDA/interest coverage of 3.8x, based on Moody's calculations which incorporates standard adjustment for operating leases. It has an improved liquidity profile after successfully refinancing its \$250 million secured credit facility with unsecured loan and notes in June 2015. It also has a manageable debt maturity profile with no material maturity until 2017 when its SGD100 million loan comes due.

## Key Rating Drivers

- » Small portfolio of well-located assets in Singapore supported by tenant base diversification
- » Good operating track record of stable and resilient earnings
- » Property conversions will likely pressure occupancy rates in 2015-16
- » Moderate financial profile with improved financial flexibility
- » Track record of financial sponsor support but potential ownership change creates uncertainty

## Corporate Profile

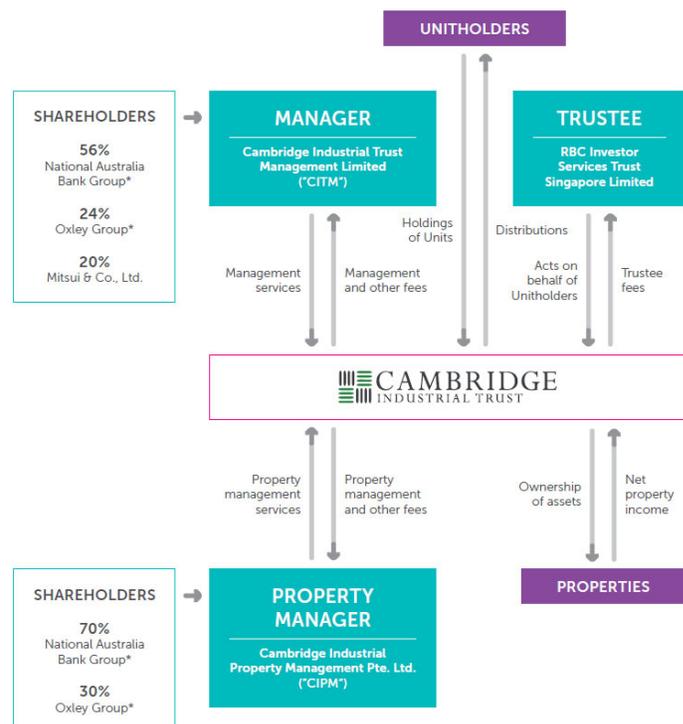
Cambridge Industrial Trust (CIT) is an industrial Singapore-based real estate investment trust (S-REIT) listed on the Singapore Stock Exchange in July 2006. It has a portfolio of 51 industrial properties located in Singapore, diversified across the sub-segments within the industrial space. As of 30 September 2015, its property portfolio of 8.5 million square feet in gross floor area (GFA) had a total appraised value of SGD1.4 billion.

CIT is managed by Cambridge Industrial Trust Management Limited (CITM) which is effectively owned by National Australia Bank Group (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.

Exhibit 1 shows the corporate structure of CIT.

EXHIBIT 1

### Cambridge Industrial Trust's Corporate Structure



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Source: Company data

## Summary Ratings Rationale

CIT's Baa3 issuer rating is underpinned by (1) its portfolio of well-located industrial assets in Singapore supported by a diversified tenant base; (2) good operating track record with stable and resilient earnings; (3) improved credit profile and financial flexibility following recent efforts to reduce asset encumbrance levels. Moreover, its long dated debt maturity profile with no material near-term maturity until 2017 also supports the rating.

At the same time, CIT's rating is constrained by its relatively small scale, lower occupancy rates over the next 12-18 months as it converts some master-leased assets to multi-tenanted buildings and event risk from its portfolio growth strategy which will likely result in higher borrowings and in turn pressure its credit metrics. The rating also reflects the inherent exposure to liquidity risks that all S-REITs face given their high dividend payout ratios and minimal cash balances.

## Rating Outlook

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

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### What could change the rating up

We could upgrade the rating if CIT expands its asset size to SGD2.0-2.5 billion through organic growth or prudently funded acquisitions, and improve its credit profile such that its adjusted debt/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.

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### What could change the rating down

Downward pressure could emerge rating 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/deposited assets exceeds 45% and adjusted EBITDA/interest coverage falls below 3x on a sustained basis; or (3) CIT's reliance on secured borrowings increase such that its secured debt/deposited assets exceeds 15%-20%.

## Detailed Rating Considerations

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### Small portfolio of well-located assets in Singapore supported by tenant base diversification

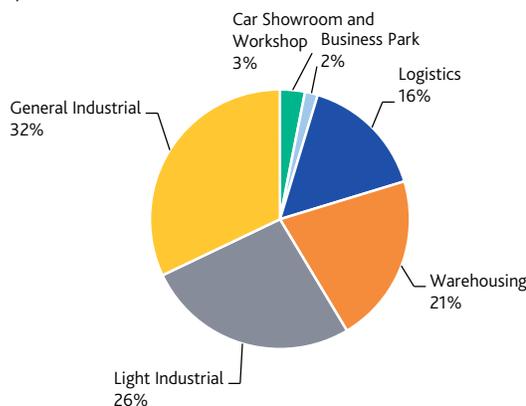
With its property portfolio valued at SGD1.4 billion, CIT is one of the smallest trusts by asset size in our rated S-REIT universe. The trust has 51 properties in Singapore located near major air and sea transportation hubs, as well as industrial zones across the island.

Despite its small operating scale, CIT benefits from its diversified portfolio within the industrial sub-segments. As of 30 September 2015, general industrial properties contributed 32% of rental income; light industrial properties contributed 27%; warehousing assets contributed 21%; logistics properties contributed 16%; car showroom and workshop contributed 3% while business parks made up the remaining 2% (see exhibit 2).

## EXHIBIT 2

**CIT's asset portfolio is well-diversified across industrial sub-segments**

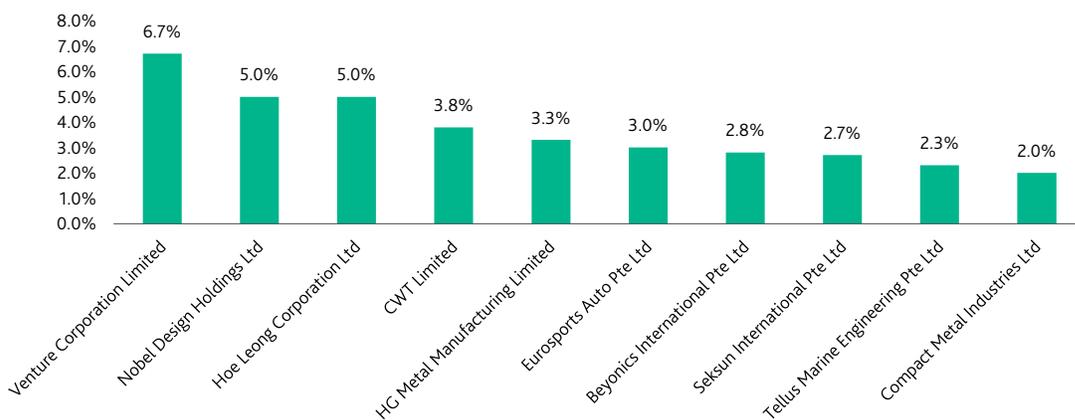
Segment Breakdown (By Rental Income)



Source: Company data

Given its diversified industrial portfolio, the trust has successfully attracted tenants from a wide array of trade sectors which have different growth drivers, thereby reducing the trust's exposure to the impact from slowdown from any one sector. As of 30 September 2015, while the top ten tenants accounted for around 37% of CIT's monthly rental income, there is minimal tenant concentration as no single tenant accounted for over 7% of monthly rental income (see exhibit 3).

## EXHIBIT 3

**CIT has minimal tenant concentration risk as no single tenant accounted for over 7% of monthly rental income**

[1] As at 30 September 2015

Source: Company data

At the same time, CIT's portfolio lacks geographical diversification given that all its assets are located in Singapore. We expect the trust will remain largely concentrated in Singapore over the next 12-18 months even as it looks for overseas acquisition opportunities. We also expect CIT to maintain a cautious attitude towards investments in new geographical markets given its lack of track record in other countries.

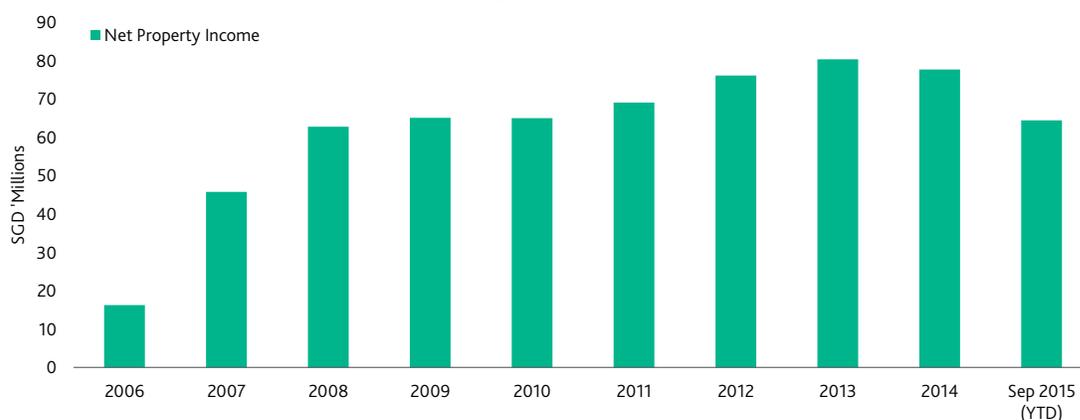
### Good operating track record of stable and resilient earnings

CIT's earnings have grown substantially since its listing in 2006, largely driven by (1) portfolio growth through yield-accretive asset acquisitions; and (2) stable organic growth supported by positive rental reversions and asset enhancement initiatives. The trust reported net property income (NPI) of SGD64.5 million for the nine months to 30 September 2015 compared to SGD45.8 million for the full year in 2007. As of 30 September 2015, CIT has a moderate weighted average lease expiry of 3.9 years, in line with the Singapore properties of its rated industrial peers, which provides good income visibility for the trust.

CIT's earnings in 2015 remain supported by contributions from assets acquired during 2014 as well as the higher average portfolio rents of SGD1.24 per square foot (psf) per month compared to SGD1.08 psf per month in 2014. These higher rents came on the back of 1) positive rental reversion of 8.5% for the leases renewed in 2015; 2) 2.5% average portfolio rental escalation built into the lease agreements; 3) higher rents following the completion of asset enhancement initiatives (AEI) at 3 Pioneer Sector 3, 21B Senoko Loop and 31 Changi South Ave 2.

EXHIBIT 4

#### CIT's NPI Has Grown Substantially Since Inception



Source: Company data

Assuming no new acquisitions, we expect the trust's NPI will fall marginally in 2016 compared to 2015 due to modestly lower portfolio occupancy rates as properties undergo conversion to multi-tenanted assets. This will be partially offset by 1) full-year earnings contribution from the recently completed acquisitions of 160A Gul Circle and the remaining 40% interest in 3 Tuas South Avenue 4 and 2) average portfolio positive rental escalation and reversions of around 2%-3%.

Through acquisitions, the trust's portfolio size has grown to 51 properties at 30 September 2015 from 27 at listing date. To date, CIT has not made a single large-scale acquisition, but has instead opted to acquire smaller industrial properties across the island. This minimizes the trust's concentration risk to any single asset in its portfolio.

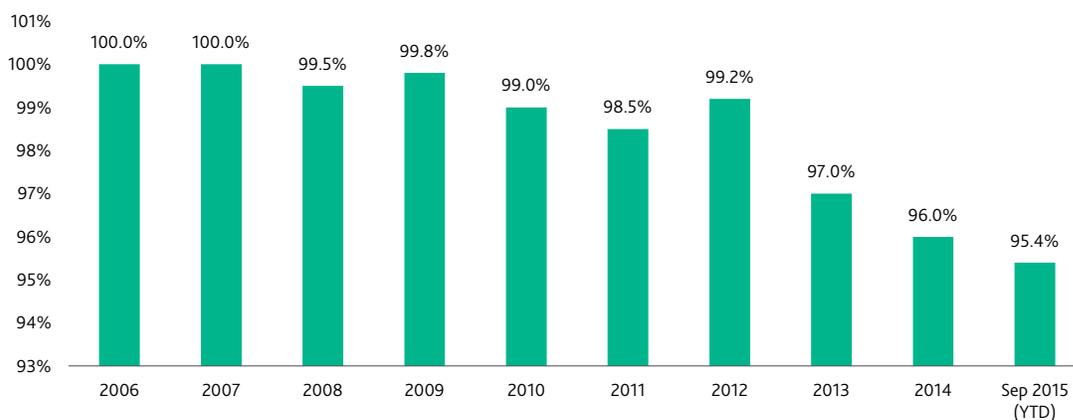
The trust has also been active in asset recycling where it divests non-core assets, usually to existing tenants of the building.

### Property conversions will likely pressure occupancy rates in 2015-16

CIT's occupancy rates have remained healthy since inception despite declining to around 95% in 2015 -- which still trends above island-wide average of 90.7% -- from near 100% levels from 2006-2012 (see exhibit 5).

EXHIBIT 5

#### Occupancy Rates Have Fallen, but Remain Above JTC's Industry Average of 90.7%



Source: Company data

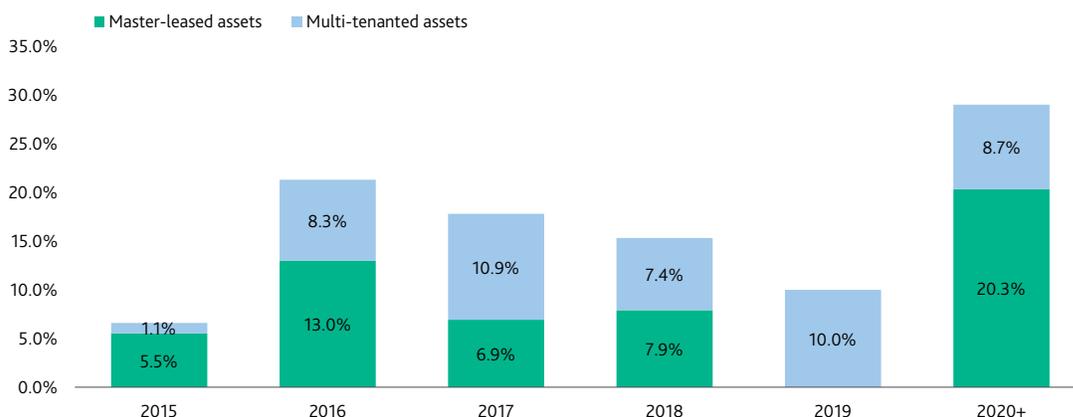
This decline is largely attributable to the conversion of some master-leased assets to multi-tenanted buildings. With another 10 properties with master leases expiring in Q4 2015 and 2016, we expect CIT's occupancy rate will likely fall to around 93% next year, which will be its lowest since inception but still remains above the island's industry average of 90.7%.

At the same time, we also recognize that CIT has built a good track record of successfully converting 13 such buildings with master leases since inception while maintaining healthy occupancy rates. We expect the trust will continue to focus on maintaining occupancy rates in this competitive environment.

Moreover, because of its diversified portfolio, each expiring master leased asset typically accounts for less than 5% of its total portfolio value. As of 30 September 2015, expiring master leases accounted for 5.5% and 13.0% of revenues in 2015 and 2016 respectively, as shown in exhibit 6.

EXHIBIT 6

#### Weighted Average Lease Expiry as at 30 September 2015



Source: Company data

### Moderate financial profile with improved financial flexibility

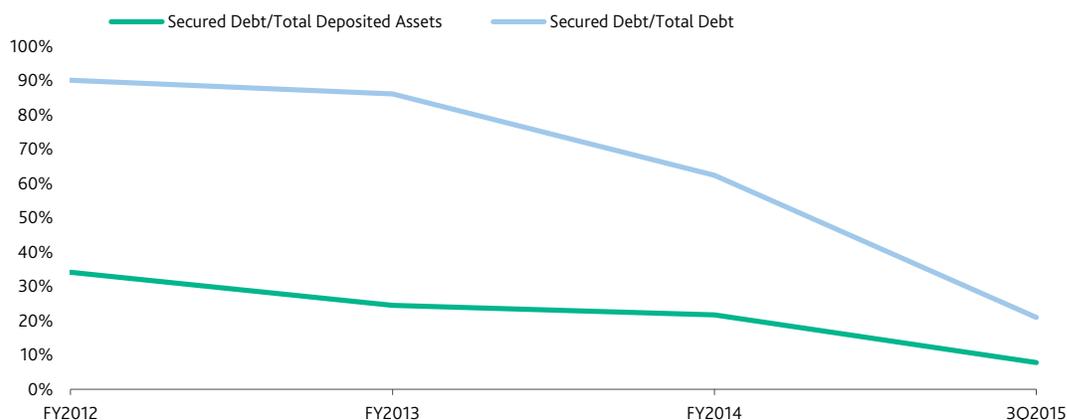
As of 30 September 2015, CIT had a moderate financial profile with adjusted debt to total deposited assets of 39.6% and adjusted EBITDA/interest coverage of 3.8x. Moody's calculations incorporate our standard adjustments for operating leases. On an unadjusted basis, CIT's reported debt to deposited assets ratio was 37.2%. The trust has a stated leverage policy of 30%-40% and is pro-actively working towards reducing its gearing to 35%.

The management has also shown its commitment over the past 12 months to reduce its reliance on secured funding and asset encumbrances. In June 2015, the trust successfully refinanced its SGD250 million secured club loan facility (SGD218 million drawn down at that point) with an issuance of 5-year SGD130 million unsecured notes under its MTN programme, SGD100 million of unsecured term loan from CIMB and SGD7 million from its committed unsecured revolving credit facility from CIMB. The balance was used to finance the acquisition of 160A Gul Circle.

Post-transaction, CIT has SGD111.7 million of secured borrowings and around 20% of its total assets are encumbered. Its secured debt to assets ratio has declined to below 10%, from historical levels of 25%-35%, highlighting the trust's improved financial flexibility and its ability to access the capital markets (see exhibit 7). We expect CIT to continue to refinance its secured debt with unsecured bonds or bank facilities.

EXHIBIT 7

#### CIT's Secured Debt Level Has Reduced over the Last Three Years



Source: Moody's Financial Metrics

### Track record of financial sponsor support but takeover offer creates uncertainty

Unlike many of the rated S-REITs, CIT is an independent trust which does not have a property developer as a sponsor. As a result, it has no strong brand name or right of first refusal over any asset and has to source for third party acquisition opportunities for growth.

At the same time, CIT's financial sponsor, NAB, has a track record of providing financial support to the REIT. NAB came onboard as a 56%-owner of CIT on 7 August 2008. At the end of that quarter (3Q 2008), CIT had total debt of SGD369.3 million, with SGD337 million maturing within 5 months (Feb 2009). NAB, together with two existing banks, syndicated a SGD390.1 million term loan to refinance all of CIT's outstanding debt.

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 of the trust. However, we note that CIT's MTN programme does not contain a change of control provision which would allow bondholders to exercise a put option in the event of a change in ownership.

### Liquidity Profile

Given the high dividend payout characteristics of S-REITs, CIT has to rely on refinancing and external funding for its expansion strategy.

The trust has an improved liquidity profile after it successfully completed the refinancing of its \$250 million secured credit facility with new unsecured loan and notes in June 2015. The new facilities comprises 5-year senior unsecured notes under its MTN programme of SGD130 million, a 4-year SGD100m term loan facility and a 4-year committed revolving credit facility of SGD50million. As of 30 September 2015, CIT had committed undrawn credit facilities of SGD43 million (see exhibit 8).

#### EXHIBIT 8

#### CIT's Debt Facilities as at 30 September 2015

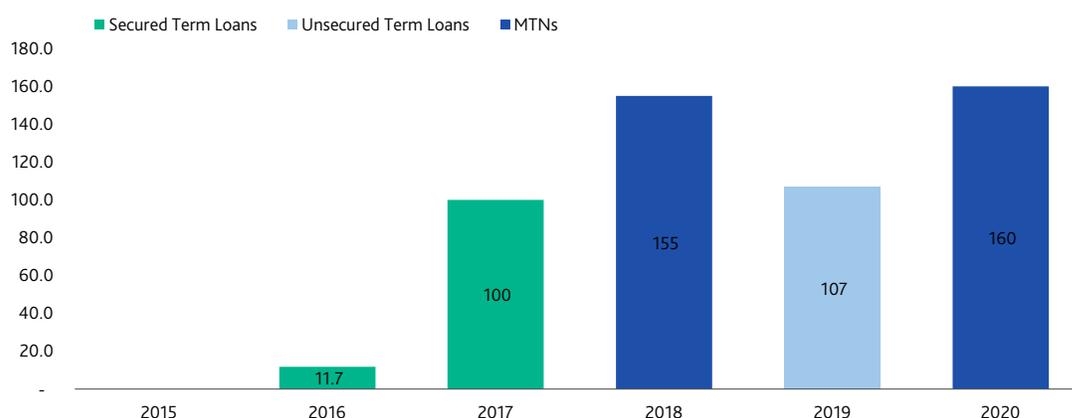
Debt Name	Maturity Date	Facility Amount	Amount Outstanding (SGD 'Millions)
Secured Term Loan Facility	Apr-17	100.0	100.0
Secured Term Loan Facility	Mar-16	11.7	11.7
Unsecured Loan Facility	Jun-19	150.0	107.0
4.10% Senior Unsecured Notes	Apr-20	500.0	30.0
3.50% Senior Unsecured Notes	Nov-18	-	155.0
3.95% Senior Unsecured Notes	May-20	-	130.0

Source: Company data

CIT had cash and cash equivalents of SGD8.6 million and total gross debt of SGD533.7 million as of 30 September 2015. The trust has plans in place to refinance the SGD11.7 million of debt maturing in March 2016, beyond which it has no near-term debt maturities until April 2017 when its SGD100 million comes due, as shown in exhibit 9. We expect the trust will maintain its proactive approach towards capital management, such that it refinances its debt maturities ahead of time.

#### EXHIBIT 9

#### CIT's Debt Maturity Profile as at 30 September 2015



Source: Company data

## Mapping to Moody's REITs and Other Commercial Firms Rating Methodology

According to Moody's "[Rating Methodology for REITs and Other Commercial Property Firms](#)," published in July 2010, CIT's credit profile maps broadly to the Baa range, due to its manageable debt maturity profile, low amount of asset encumbrances, low exposure to development projects and healthy margins which offsets its smaller operating scale and higher leverage profile (see Exhibit 10).

EXHIBIT 10

### Methodology Grid – REITs and Other Commercial Property Firms [1]

	Aaa-Aa	A	Baa	Ba	B	Caa-Ca
<b>Factor 1: Liquidity &amp; Funding (24.5%)</b>						
a) Liquidity Coverage				X		
b) Upcoming Debt Maturities		X				
c) FFO Payout Ratio				X		
d) Unencumbered Assets		X				
<b>Factor 2: Leverage &amp; Capital Structure (30.5%)</b>						
a) Debt + Preferred / Gross Assets			X			
b) Net Debt / EBITDA				X		
c) Secured Debt / Gross Assets		X				
d) Access to Capital				X		
<b>Factor 3: Market Position &amp; Asset Quality (22.0%)</b>						
a) Franchise / Brand Name				X		
b) Gross Assets (USD 'billion)				X		
c) Portfolio Diversity				X		
d) Development % Gross Assets	X					
e) Asset Quality			X			
<b>Factor 4: Cash Flow &amp; Earnings (23.0%)</b>						
a) EBITDA / Revenues		X				
b) EBITDA Margin Volatility				X		
c) Fixed Charge Coverage		X				
d) JV / Fund Business % Revenues	X					
<b>Rating:</b>						
Grid-Indicated Rating			X			
Actual Rating Assigned			Baa3			

[1] As of 30 September 2015

Source: Moody's Financial Metrics

## Appendix: Peer Comparison [1][2]

	Cambridge Industrial Trust	Ascendas REIT	Mapletree Logistics Trust	Cache Logistics Trust
Rating	Baa3	A3	Baa1	Baa3
Outlook	Stable	Stable	Stable	Stable
Number of Properties	51	104	119	16
Sector	Industrial	Industrial	Industrial	Industrial
Sponsor	None	Ascendas-Singbridge Pte Ltd	Mapletree Investments Pte Ltd	CWT Limited
Adjusted investment properties (SGD thousands)	1,471	8,044	5,020	1,292
Occupancy Rate	95.4%	89.0%	96.9%	95.2%
Weighted Average Lease to Expiry	3.9 years	3.6 years	4.8 years	4.1 years
Weighted Average Debt Maturity	3.2 years	3.6 years	3.4 years	3.3 years
<b>For the quarter ending 30 Sept 2015 (in SGD millions)</b>				
Revenue	28	183	87	23
Total Assets	1,490	8,285	5,142	1,284
Adjusted total debt	586	2,979	2,196	512
EBITDA / Interest Expense	3.6x	6.3x	5.2x	4.6x
Adj Debt / Annualized EBITDA	7.0x	5.5x	8.0x	6.9x
Adj Debt / Deposited Assets	39.6%	36.9%	42.8%	39.3%
Secured Debt / Deposited Assets	7.5%	4.3%	0.0%	37.5%
Secured Debt / Total Debt	18.9%	11.5%	0.0%	95.2%

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations. [2] As of 09/30/2015; Source: Moody's Financial Metrics

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