Singapore Company Focus

Daiwa House Logistics Trust

Bloomberg: DHLT SP | Reuters: DAIW.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Jan 2022

BUY

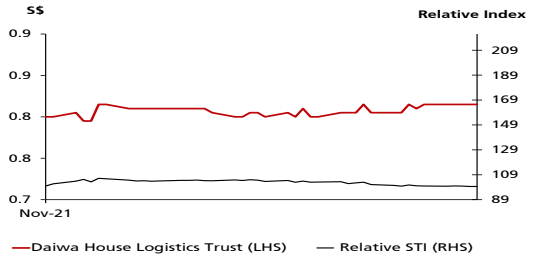
(Initiating Coverage)

Last Traded Price (21 Jan 2022): S$0.815 (**STI:** 3,294.86)
Price Target 12-mth: S$0.95 (17% upside)

Potential Catalyst: Earlier than expected acquisition growth

Analyst
Dale LAI +65 66823715 dalelai@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2021F	2022F	2023F	2024F
Gross Revenue	67.1	67.6	68.1	68.6
Net Property Inc	52.5	52.9	53.2	53.7
Total Return	146	27.8	32.9	33.2
Distribution Inc	34.0	35.8	35.9	36.3
EPU (S cts)	4.58	4.75	4.85	4.89
EPU Gth (%)	0	4	2	1
DPU (S cts)	5.03	5.29	5.30	5.34
DPU Gth (%)	(23)	5	0	1
NAV per shr (S cts)	92.8	91.6	91.1	90.6
PE (X)	17.8	17.2	16.8	16.7
Distribution Yield (%)	6.2	6.5	6.5	6.6
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	45.9	43.2	43.3	43.3
ROAE (%)	5.4	5.2	5.3	5.4
Other Broker Recs:		B: 2	S: 0	H: 0

GICW industry: Real Estate
GIC sector: Equity Real Estate Investment (REITs)
Principal business: DHLT is a real estate investment trust that primarily invests in income-producing logistics and industrial real estate assets located across Asia.

Source of all data on this page: DBS Bank, Company, Bloomberg Finance L.P.

Rising Asian logistics specialist

- Initiate with a BUY, TP of S$0.95, offering a c.17% upside
- Pure play logistics REIT with a portfolio of modern facilities in Japan with solid fundamentals
- Visible timeline for lowering of leverage that will provide ample debt headroom to embark on acquisitions
- Backed by leading real estate developer in Japan that has provided a ROFR pipeline valued at more than S$1.5bn

Initiate with BUY, TP: S$0.95. We initiate coverage of Daiwa House Logistics Trust ("DHLT") with a target price of S$0.95. Catalysts we see emerging for DHLT include (i) c.12% upside to portfolio valuations, (ii) enlarged debt headroom that could support more than S$200m of debt-funded acquisitions, and (iii) ROFR pipeline from a sponsor that is valued at more than S$1.5bn

Pure play modern logistics portfolio located in cities with limited supply. The portfolio of 14 modern logistics facilities is newly built with an average age of only 3.7 years. Being in cities where supply of modern logistics facilities are limited, DHLT's portfolio enjoys high occupancy rates of 96.3% and a long WALE of 7.2 years.

Gearing expected to improve in the near term, making it conducive to tap into sponsor's pipeline. With gearing expected to improve to c.33.1% by the end of 1H22, DHLT will potentially have a debt headroom of more than S$200m, providing it with the firepower to tap into its sponsor's pipeline of newly built modern logistics facilities that are valued at more than S$1.5bn. The sponsor has provided DHLT with a ROFR to a portfolio of 28 assets in Japan as well as in Southeast Asia.

Valuation:

Our target price of S$0.95 is based on DCF valuation method with a WACC of 5.2% (risk-free rate of 1.5%). This implies a target yield of 5.5%-5.6%. We have not assumed any acquisitions in our projections.

Key Risks to Our View:

Key risks to our view would be a smaller than anticipated revaluation gain and a delay in the refund of the consumption tax.

At A Glance

Issued Capital (m shrs)	675.0
Mkt. Cap (Sm/USm)	550.1 / 409.0
Major Shareholders (%)	
Daiwa House Industry Co Ltd	10.2
Metro Holdings Ltd/Singapore	7.7
Hazelview Securities Inc	6.0
Free Float (%)	76.1
3m Avg. Daily Val (US$m)	0.78

ed: BM/ sa: PY, CS

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Investment Summary

Initiate with BUY, TP: S$0.95. We initiate our coverage of Daiwa House Logistics Trust ("DHLT") with a target price of S$0.95. Some of the catalysts we see emerging are (i) c.12% upside to portfolio valuations, (ii) enlarged debt headroom that could support more than S$200m in debt-funded acquisitions, and (iii) ROFR pipeline from a sponsor that is valued at more than S$1.5bn.

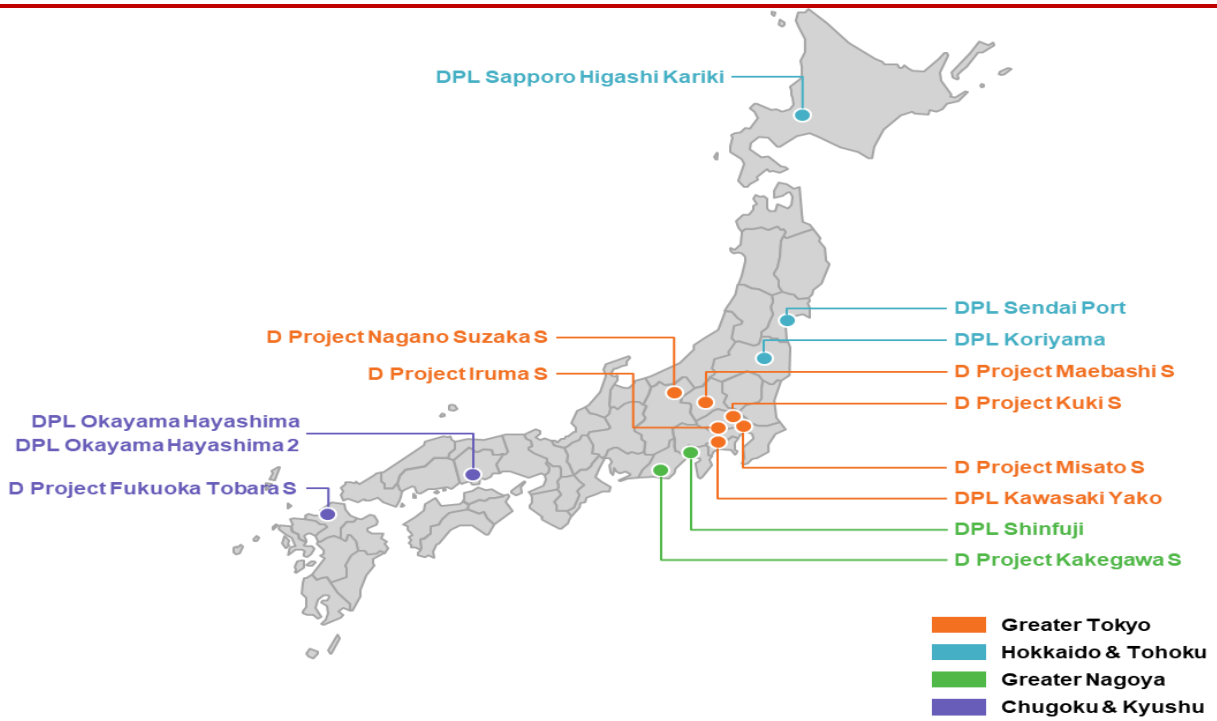
Initial portfolio of modern logistics properties spread across Japan. DHLT holds a mandate to invest directly or indirectly in income-producing logistics and industrial real estate assets located across Asia. While DHLT's initial portfolio is anchored by stabilised Japanese properties, the REIT's investment focus will be to invest in assets across Asia that have stable incomes, high occupancies, and are DPU accretive to unitholders.

Its initial portfolio will comprise of 14 logistics properties with an appraised value of c.S$979.0m (JPY80,570m) as at 30 June 2021, and have an aggregate NLA of approximately 420,920 sqm. The recently built modern logistics properties have been built to high specifications and have a weighted average age of only about 3.7 years by NLA. The assets are spread across the Greater Tokyo area and the other core regional markets in Japan with strong production and consumption activity, and are anchored by 27 tenants from the 3PL, e-commerce, retail, and manufacturing sectors, many of which are blue-chip tenants that are listed on the Tokyo Stock Exchange. As at 1 October 2021, all of the assets were fully occupied, with the exception of the DPL Sendai Port, and the overall portfolio occupancy rate stands at 96.3%.

Resilient cashflow underpinned by long WALE and blue-chip tenant base. Of the 14 properties in the initial portfolio, seven are built-to-suit facilities that are single tenanted and have a WALE ranging from 3.1 years to 16.5 years. The remaining seven properties are multi-tenanted facilities that tend to have leases that are shorter and typically range from two to five years. Despite this, the WALEs of the seven multi-tenanted properties range from 1.4 years to 11.8 years. On average, DHLT's overall portfolio has a relatively long WALE of 7.2 years.

More than 70% of the portfolio's NLA is anchored by blue-chip tenants that are listed on the Tokyo Stock Exchange. As such, we expect its earnings to remain resilient and risks of pre-termination should remain low. With the relatively young age of the properties as well as the high specifications and high green ratings, we believe that DHLT would be able to retain its existing tenants while appealing to new ones, as such quality logistics facilities in the areas it operates in remain scarce.

Summary of the portfolio



Source: Company

Portfolio acquired at a 11.8% discount to appraised value. To show its commitment towards DHLT, the portfolio will be acquired at S$863.5m (JPY71,068.5m) from its sponsor, translating to a c.11.8% discount to its appraised value. As the properties have been developed by the sponsor on greenfield sites, it has the unique ability to offer tangible support for the REIT. Although portfolio leverage based on deposited properties may seem high initially at c.43.8%, we believe that it will improve to c.39.3% once the portfolio is revalued to its appraised value, and further fall to c.33.1% once consumption taxes are repaid (estimated to be refunded by end-June 2022). Given how cap rates for quality logistics properties globally have continued to compress, we do not rule out a possibility of an even higher portfolio valuation that is above its appraised value (on 30 June 2021).

We believe that the potential for valuations to see an uplift of c.13% as soon as their 31 December 2021 portfolio revaluation is announced, would give DHLT a boost to its NAV and additional debt headroom to pursue debt-funded acquisitions.

Potential to fully debt-fund AUM growth by more than 20% and generating a 6%-10% accretion. DHLT will undertake a temporary loan of c.S$68m for consumption taxes to be paid. However, we understand that the consumption tax will be refunded by the end of 2Q22, and the proceeds will be used to repay the S$68m loan. With the potential portfolio revaluation uplift once its 31 December 2021 revaluation exercise is announced, and the subsequent consumption tax refund, DHLT's portfolio leverage is expected to improve to c.33.1%.

With a lower leverage of c.33.1% as well as a very attractive all-in borrowing cost of c.1.155% per annum, we believe that DHLT can embark on fully debt-funded acquisitions that would bring its gearing to a more optimal level of 40-45%. We estimate that with a debt headroom of S$120m - S$230m, DHLT has the opportunity to grow its AUM by more than 20% and create DPU accretion of 7%-14%.

Sponsor pipeline could lead to c.2.5x growth in DHLT's portfolio. DHLT will be granted a ROFR over its sponsor's logistics and industrial properties across Asia. Currently, there are 28 pipeline assets which meet the ROFR criteria across Japan, Indonesia, Vietnam, and Malaysia, and we estimate that it will be worth c.S$1.5bn. Within this pipeline, 10 of the assets have been completed, and the remaining 18 properties will be gradually completed over the next three years. We believe that when completed, the ROFR for the 17 properties in Japan have an estimated value of c.S$1bn, the four properties in Indonesia are worth c.S$300m, and the four assets in Vietnam and three in Malaysia have a total value of c.S$150m each.

Of the 28 pipeline assets, the Japanese portfolio is relatively new with four facilities recently completed in the past year, while the remaining 12 are still under construction. As six of the 13 assets in Southeast Asia have already been completed, some since FY17 and FY18, they are likely to be stabilised and achieve a higher occupancy rate earlier than the pipelines in Japan. In our view, several of the pipeline assets in Malaysia, Indonesia, and Vietnam would be acquisition candidates in the near term.

Backed by reputable sponsor with strong commitment to the REIT. DHLT's sponsor, Daiwa House Industry Co. Ltd. ("DHI"), is listed on the Tokyo Stock Exchange and it is one of the largest construction and real estate development companies in Japan with a market capitalisation of c.S$26.3bn as of 30 June 2021. From the onset, DHLT's sponsor demonstrated its commitment to the success of the REIT by offering the initial portfolio at a 11.8% discount to appraised value. It will further demonstrate its commitment by holding an interest of more than 20% in the REIT.

It will hold a 14.0% stake through unitholdings in the REIT, and a further c.JPY3bn (equivalent to c.6.6% of the REIT) interest though perpetual securities. These perpetual securities will (i) have no fixed redemption, (ii) be subordinated to other creditors of DHLT, (iii) not be redeemable at the will of the sponsor, and (iv) carry no voting rights. In addition, the perpetual securities will carry an initial fixed distribution rate of c.2.956%.

The sponsor is highly experienced in real estate fund management, and is currently also the manager of a listed REIT in Japan (Daiwa House REIT) and two unlisted private funds with a combined AUM of c.S$18bn. In addition to having one of the largest stockpiles of Japan logistics assets, the sponsor has established a network of subsidiary logistics service providers which offer a wide range of services that will be complementary to its tenants' operations. Its full suite of logistics systems, platforms, a vehicle management system, and carriage robotics gives the sponsor an edge over its competitors. We believe that the ability to provide a one-stop solution in logistics operations will help build tenant loyalty for DHLT and attract new tenants as well.

SWOT Analysis

Strengths	Opportunities
• **Initial portfolio with a focus on logistics assets in Japan at a discount to the appraised value.** DHLT has an initial portfolio of 14 young, modern logistics assets in Japan with an aggregate NLA of 423,920 sqm. The aggregate purchase consideration of JPY71.1b (S$863.5m) is a 11.8% discount to the appraised value of JPY80.6b (S$979.0m), which is based on the average of two independent valuations. This allows an upside to NAVs in our view if the portfolio is "marked to market" in the medium term. • **Riding on growth of the regional markets in Japan.** The initial portfolio is diversified across the Greater Tokyo Area (c.39% by NLA) and core regional markets (59%). According to the independent market consultant, these core regional markets are attractive to end users (and tenants) and these markets enjoy supportive demand-supply dynamics, driving resilience in the logistics sector. • **Attractive WALE offers strong income visibility.** The initial portfolio has a weighted average lease expiry (WALE) of 7.2 years, broken down into the single-tenanted built-to-suit (BTS) projects signed on a longer WALE of 11.2 years (as of Jun 21), while the multi-tenanted properties have a WALE of 5.9 years as of Jun 21. With 75.2% of the NLA being multi-tenanted properties, the expiry of leases within these properties in the coming two years offer the opportunity for the manager to potentially raise rentals upon renewals or tenant replacements. • **Attractive ESG metrics.** Close to 95.7% of the initial portfolio by NLA is certified green by the DBJ Green Building Certification Programme, and according to the manager, properties certified "green" under this programme demonstrate high environment and social awareness. In addition, 10 properties in the initial portfolio are equipped with solar power generation systems installed by Daiwa Energy with an aggregate capacity of 13.5MWp. • **Strong sponsor.** The sponsor is a well-established household name in Japan that has demonstrated its strong commitment to the growth of DHLT, supporting the REIT as it charts its growth in the future.	• **Leveraging on sponsor to expand its footprint in Asia.** Sponsor has provided the REIT with a right of first refusal (ROFR) for 28 properties, of which 11 properties are located across ASEAN with a total GLA of 523,863 sqm and 17 properties located within Japan with a GLA of 583,527 sqm. This allows DHLT to tap on this pipeline for acquisition opportunities in the medium term and to ride on high growth assets, especially in developing markets in ASEAN. • **Ample debt headroom for accretive acquisition.** In our estimates, we estimate that DHLT will have a debt-funded headroom of S$120m to a 40% and S$230m to a 45% gearing limit. This implies an increase in portfolio AUM by 12%-21% and acquisition could be 6% to 10% accretive based on our estimates. • **COVID-19 a driver for demand for logistics properties.** According to CBRE's June 2020 survey of the longer term impact of COVID-19 for occupiers, c.30% of respondents had elected to shore up inventory levels in preparation for unforeseen circumstances in the future. In addition, c.17% of respondents had also preferred to accelerate automation of warehouse work, resulting in more investments in automation technology. These trends, in our view, where occupiers are moving their inventory strategies from "just in time" to "just in case", will underpin strong demand for logistics properties in the future.
Weaknesses	**Threats**
• **Balanced portfolio of freehold and leasehold land lease.** The portfolio has a balanced mix of freehold land and leasehold properties with land tenures, with the latter contributing c.52% of NLA. The longer term question is on the ability to renew those leases in the medium term when leases expire. That said, these land tenures are long, with only c.7.8% of NLA that are <20years. • **High tenant concentration risks.** While good-quality key tenants are essential, any adverse impact on key tenants may impact DHLT's earnings. DHLT's top three tenants and top 10 tenants contribute c.36% and c.71% of NPI, respectively. • **Conflicts of interest with other REITs within the sponsor group.** Given the large size of the sponsor group of companies with other listed REITs in Japan, there could be conflicts of interest. However, we understand from the manager that in order to mitigate any conflicts, there will be separate management teams and the investment profile of DHLT is different compared to other platforms within the sponsor group.	• **Low organic growth if timing of inorganic growth is uncertain.** While DHLT has strong resilient assets, organic growth is low if the timing of inorganic growth is uncertain or delayed. • **Natural disasters such as earthquakes in Japan.** As Japan is located in the Circum-Pacific Mobile Belt, which is subject to constant seismic and volcanic activities, earthquake risks in Japan could be a concern.

Source: DBS Bank

An emerging Asian logistics REIT

Initial portfolio with a focus on logistics assets in Japan but with an eye to expand its footprint in Asia. DHLT will be established with the principal investment strategy of investing in a portfolio of income-producing logistics and industrial real estate assets located across Asia.

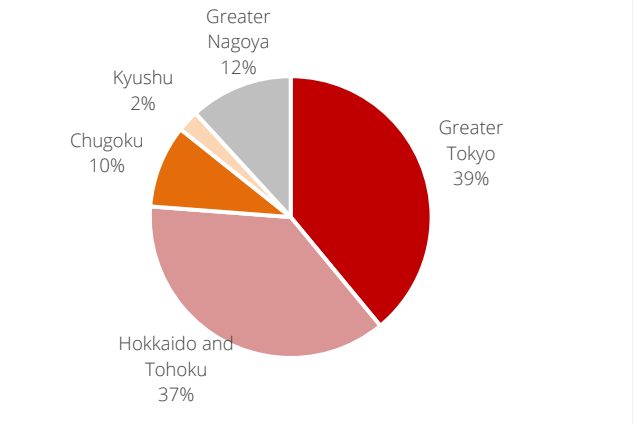
The initial portfolio comprises 14 logistics assets in Japan with an aggregate net lettable area (NLA) of 423,920 sqm and a total land area of 420,393 sqm. The aggregate purchase consideration is JPY 71,068.5m (S$863.5m), which is a c.11.8% discount to the appraised value of JPY 80,570m (S$979.0m), which is based on the average of two independent valuations.

Geographically diversified across key regional markets in Japan. The initial portfolio is diversified across the Greater Tokyo area and core regional markets in Japan. In terms of appraised value, which is based on the average of the two independent valuations, we note that c.39% of the initial portfolio by NLA is located in Greater Tokyo, c.37% in Hokkaido and Tohoku, c.12% in Greater Nagoya, c.12% in Chugoku and Kyushu.

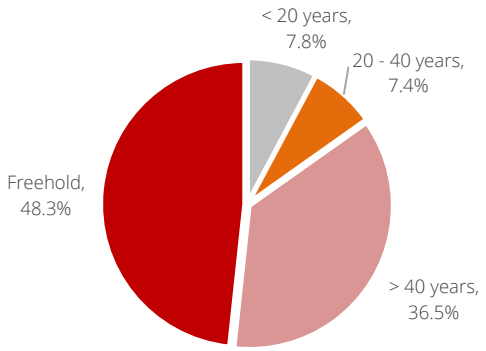
We note that close to 61% of the portfolio (by appraised value) is in the regional markets of Japan, outside of greater Tokyo, which, according to the independent market consultant, will continue to see supportive demand-supply dynamics driving resilience in the logistics sector there.

Balance of freehold and leasehold land lease. We see a balance of properties on freehold land (48.3% of NLA) and leasehold properties (51.7% of NLA). That said, we note that a c.70.6% of leasehold land (by NLA) has land tenures that are in excess of 40 years. While freehold properties are generally preferred, given its longer term NAV sustainability in our view, we understand that leasehold properties tend to offer more efficient yields and returns on investment.

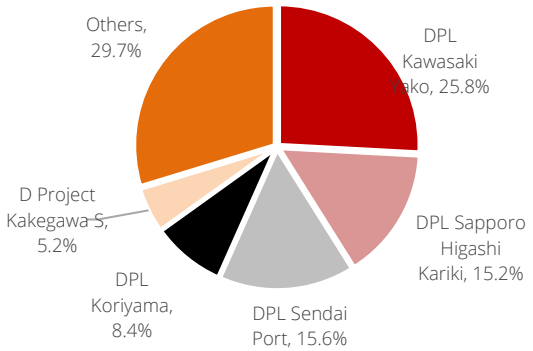
Portfolio breakdown by NLA



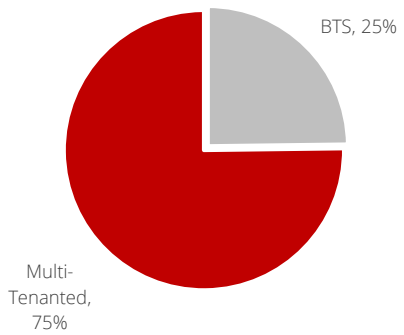
Portfolio breakdown by Land status (by NLA)



Top five properties (by appraised value)



Initial portfolio breakdown by tenant type (by NLA)



Source: Company, DBS Bank

Salient details of portfolio

Name of Property	Geographic Area	Freehold/ Leasehold (LH)	Completion Year	Occupancy as at 1 Oct 2021	WALE by Occupied NLA years
DPL Sapporo Higashi Kariki	Hokkaido and Tohoku	Freehold	Feb-18	83.8%	2.3
DPL Sendai Port	Hokkaido and Tohoku	Freehold	Mar-17	100%	1.8
DPL Koriyama	Hokkaido and Tohoku	Freehold	Sep-19	82.3%	1.4
D Project Maebashi S	Greater Tokyo	Freehold	Nov-18	100%	12.3
D Project Kuki S	Greater Tokyo	LH 2034	Aug-14	100%	3.1
D Project Misato S	Greater Tokyo	LH 2045	Feb-15	100%	13.6
D Project Iruma S	Greater Tokyo	LH 2048	Dec-17	100%	16.5
DPL Kawasaki Yako	Greater Tokyo	LH 2067	Jun-17	100%	11.8
D Project Nagano Suzaka S	Greater Tokyo	Freehold	Sep-18	100%	7.3
DPL Shinfuji	Greater Nagoya	LH 2065	Sep-17	100%	9.7
D Project Kakegawa S	Greater Nagoya	Freehold	May-19	100%	12.8
DPL Okayama Hayashima	Chugoku	LH 2067	Sep-17	100%	6.0
DPL Okayama Hayashima 2	Chugoku	LH (30 years from acquisition by DHLT)	Oct-17	100%	3.5
D Project Fukuoka Tobara S	Kyushu	LH2068	Feb-19	100%	13.1
Total / Average		38.3	`	96.3%	7.2

Source: Company, DBS Bank

Salient details of portfolio

Name of Property	SLB/MTB*	Net Lettable Area (sq m)	Independent Valuation by CBRE (JPY million)	Independent Valuation by Savills (JPY million)	Purchase Consideration (JPY million)
DPL Sapporo Higashi Kariki	MTB	60,347	12,400	12,100	10,520
DPL Sendai Port	MTB	63,119	12,900	12,300	11,580
DPL Koriyama	MTB	34,174	6,770	6,890	5,350
D Project Maebashi S	SLB	14,736	3,430	3,380	3,170
D Project Kuki S	SLB	18,257	1,380	1,390	1,346
D Project Misato S	SLB	14,877	2,350	2,390	1,668
D Project Iruma S	SLB	14,582	2,370	2,440	2,430
DPL Kawasaki Yako	MTB	93,159	20,500	21,000	18,770
D Project Nagano Suzaka S	SLB	9,810	2,650	2,610	2,400
DPL Shinfuji	MTB	27,537	3,560	3,800	3,194
D Project Kakegawa S	SLB	22,523	4,240	4,170	3,980
DPL Okayama Hayashima	MTB	23,541	4,400	4,510	3,650
DPL Okayama Hayashima 2	MTB	16,750	2,400	2,140	1,750
D Project Fukuoka Tobara S	SLB	10,508	1,340	1,330	1,260
Total/ Average		423,920	80,690	80,450	71,068

**SLB: Single leased building/MTB: multi-tenanted building*
Source: Company, DBS Bank

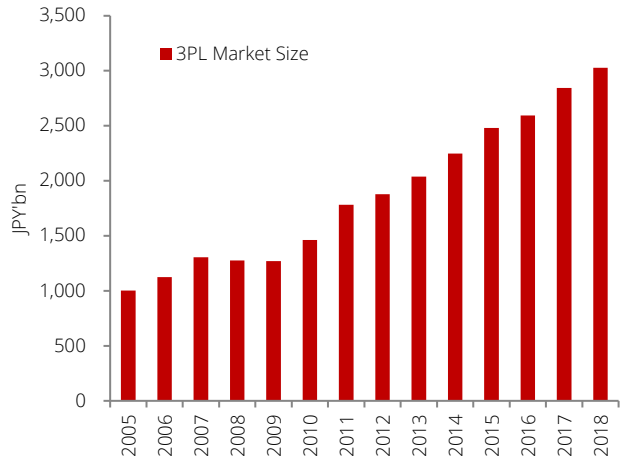
Attractive market dynamics

Modern logistics remains the preferred real estate sector. The logistics subsector is a fast-growing sector in Japan, growing to almost 26.4m sqm in 2019, but we noted that most of the new supply are in the metropolitan markets, especially those built to modern logistics specifications that are fuelled by robust demand for e-commerce and the proliferation of third-party logistics (3PL). The e-commerce players within Japan are an important demand source, according to CBRE, where the market size for retail e-commerce has grown four-fold since 2006, reaching JPY 20tn in 2019. In addition, the acceleration in demand for daily necessities and other goods with the COVID-19 pandemic will drive demand for logistics space. We believe this will be positive for DHLT, which is well positioned to capitalise on this trend with DPL Sapporo Higashi Kariki occupied by a leading global e-commerce player and with the ability to tap into the sponsor's ability in advanced management, and the robotic sorting system will position other properties within the initial portfolio to capture demand from e-commerce players, if they look to expand.

With companies continuing to engage 3PL to handle their logistics functions (including inventory management, warehousing, and fulfilment), demand for logistics space from 3PL will be a key growth driver going forward. With respect to the initial portfolio, 3PL generates the bulk of the revenue, contributing to c.74% of NLA. These 3PL providers are located across their single-tenanted and multi-tenanted properties and the relationships are well established with the sponsor, who has either worked closely to develop built-to-suit projects for them or through offering extensive logistics support, which will be a key reason for increased stickiness going forward.

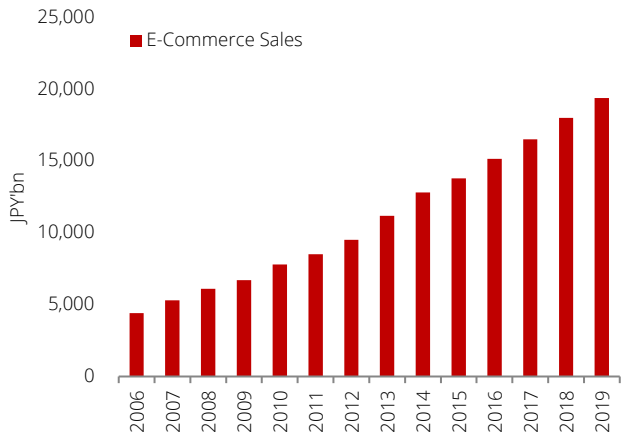
Delayed replacement cycle in favour of modern logistics properties. According to CBRE, the modern logistics sector has been developed mainly in the metropolitan areas and has growth rapidly due to the rise in online shopping. Most of the stock was developed in the 1970s and is 40 to 50 years old and nearing the end of useful life and may need to be redeveloped. Therefore, according to CBRE, the undersupply in modern logistics will be driven by both robust demand for logistics facilities coupled with the slow replacement rate for properties with older specifications. With structural growth post COVID due to a distributed workforce as companies adopt a more flexible work arrangement, CBRE believes that businesses will likely expand their bases, resulting in higher demand for logistics properties.

3PL market size (JPY bn)



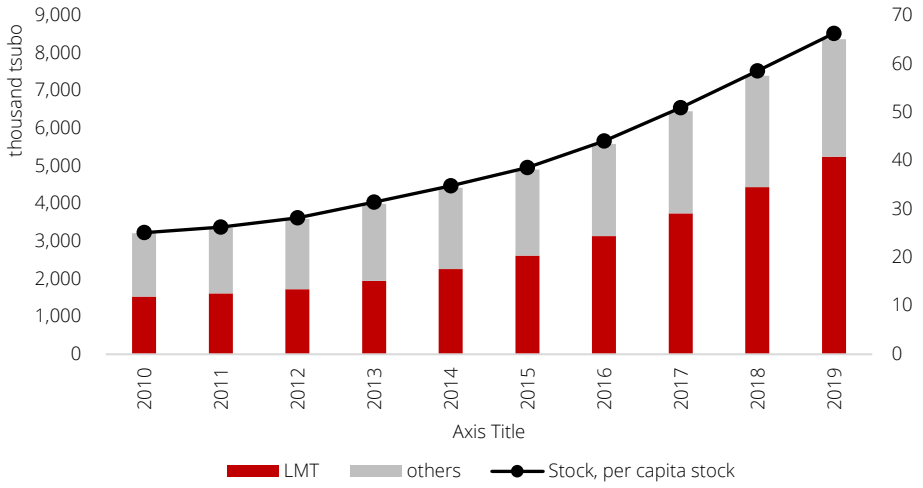
Source: CBRE

E-commerce market size (JPY bn)



Source: CBRE

Japan Logistics Space Stock

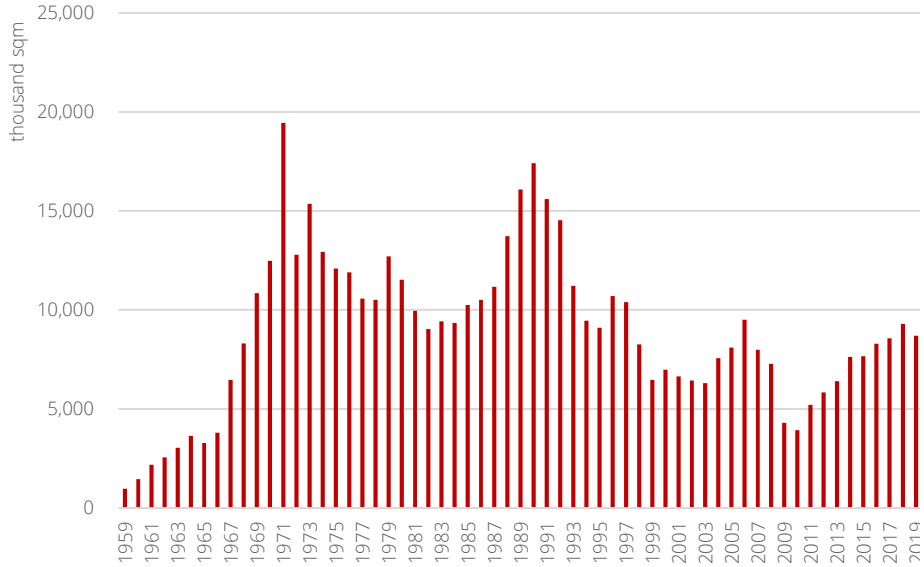


Source: CBRE

Remarks

- Robust growth in logistics stock over time.
- Modern logistics only account for 3%-4% of the stock.

Japan Logistics Asset Construction



Source: CBRE

Remarks

- Construction cycle seems to suggest that most of the current logistics facilities are 40-50 years old and ageing.
- More replacement demand needed.

Logistics properties located in markets with attractive demand-supply attributes. According to the manager, the initial portfolio is attractive to the end tenants, as the properties act as a base of distribution and fulfilment for large captive population centres living in close proximity to the properties. We understand that several tenants in the regional markets have manufacturing facilities nearby and utilise the warehouse space for their goods (finished products, work-in-progress goods, etc.), which implies that the properties remain key facilities supporting their tenants' operations. In addition, according to CBRE's Logistics Occupier Survey, a large number of respondents indicated a preference for distribution centres in satellite cities which are adjacent to metropolitan areas, implying that there is likely to be a strong demand for their properties from end users and occupiers, in our view.

According to CBRE, we understand that regional markets are strong bases supported by a limited supply outlook while large population bases support demand from end tenants. This trend has driven overall occupancy rates to remain fairly resilient for end tenants of logistics properties in the regional markets. According to CBRE, the average occupancy rates across the various markets where DHLT's properties are located remain high, at close to 99.0% to 100%. Average occupancy rates in Greater Nagoya have been lower (at 91.6%) mainly due to absorption of past supply completions.

Strong accessibility and in populous regions. The initial portfolio is also well placed within the Greater Tokyo area and regional markets, which serve large population catchments, which are captive demand, lending support to resilient demand from end tenants, in our view. In addition, the initial portfolio is located near transportation and shipping networks which is a key feature supporting demand from 3PL, e-commerce, and other tenants, according to the manager.

Region	% of Portfolio (by NLA)	Region Overview and Logistics Facility Demand & Supply
Greater Tokyo	39.0%	• Concentrated logistics areas include Tokyo Bay, Gaikan Expressway, Route 16, and Ken-O Expressway, due to their proximity to Central Tokyo • Demand and supply have primarily been concentrated in the Route 16 area, however the areas around the Ken-O Expressway have expanded due to improvements to the public transportation networks and the easing of restrictions on industrial developments • Supply and absorption: Though many new logistics developments have come online, vacancy rates have remained low at 1.0% as at 1Q2021 • Rental rates: Since 2019, rents have tended to increase with limited large-scale vacancies for tenants to take up
Hokkaido and Tohoku	37.2%	• In Hokkaido, there is a concentration of logistics facilities in Shiroishi and Higashi, serving as distribution hubs for Sapporo, the main consumption base in Hokkaido - Though there are large-scale distribution complexes in the region, there are few facilities for rent - Most new developments have consisted of BTS assets • In the Tohoku region, there is a concentration of logistics facilities in the Sendai area, with ready access to the Sendai Port and the Tohoku Expressway • The market for logistics facilities is still immature with a shortage of versatile assets in terms of size and specifications • Supply and absorption: In Tohoku, no new supply has come online since 2019, with properties enjoying full occupancy as of 1Q2021 • Rental rates: Asking rental rates have been increasing since 2016, and the trend is expected to continue, given the lack of vacancies
Greater Nagoya	11.8%	• Greater Nagoya represents the third-largest region for consumption after Greater Tokyo and Greater Osaka • Logistics facilities are concentrated in inland areas around the Komaki and Kasugai cities, and around the Nagoya Port • New supply of logistics facilities has not grown relative to demand due to restrictions and urbanisation controls; furthermore, the stock of existing warehouses has aged and will need to be revitalised • Supply and absorption: Despite an increase in supply of large-scale multi-tenanted logistics spaces from 2017 onwards, vacancy rates have remained low, currently at 8.4% as of 1Q2021 • Rental rates: There is a moderate upward trend in rental rates, with a widening gap between newly built high-specification facilities and existing older warehouses
Chugoku	9.5%	• Logistics facilities are concentrated in Hiroshima Bay, around the densely populated Hiroshima city • Development of large-scale facilities to be rented has been limited, with most new supply being small and medium-scale BTS assets • Development of new assets is also challenging given the mountainous terrain, creating difficulties in securing flat and developable land for logistics facilities • Supply and absorption: With the scarcity of large parcels of flat land, large-scale logistics asset investment has been limited. Most new facilities are BTS, with roughly equal levels of supply and demand, resulting in high occupancy
Kyushu	2.5%	• In the Greater Kyushu region, logistics assets are concentrated in the Fukuoka area where the largest population resides, in close proximity to the Fukuoka Interchange, Kyushu Expressway, Hakata Port, and the Tosu Interchange • A market for large-scale logistics assets emerged in the region around 2007, however there was a sharp decline in demand during the GFC, which has been recovering since 2012 • Supply and absorption: Vacancy rates have remained low, with new supplies of multi-tenant facilities generating their own demand, since 2019 vacancy rates have remained at 0% as of 1Q2021 • Rental rates: Average asking rent has been on an upward trend, with newer large-scale facilities experiencing an even greater increase in rent

Source: Company, DBS Bank

Attractive portfolio attributes

Modern logistics portfolio with strong occupancy trends. The initial portfolio is a young modern portfolio with an average age of only 3.7 years (by NLA) and built to high specifications. Occupancy rates have been resilient, and all properties are fully occupied with the exception of DPL Sapporo Higashi Kariki and DPL Koriyama.

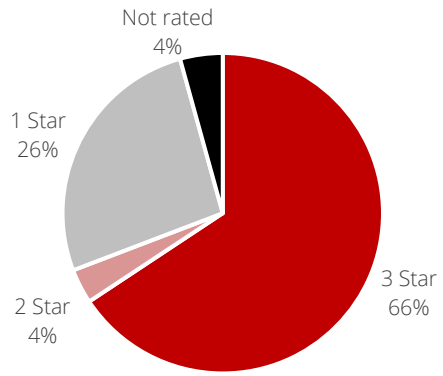
Attractive WALE offers strong income visibility. The initial portfolio has a weighted average lease expiry of 7.2 years, broken down into the single-tenanted built-to-suit (BTS) projects signed on longer WALE of 11.2 years (as of June 2021) while the multi-tenanted properties have a WALE of 5.9 years as of Jun 21. With 75.2% of the NLA being multi-tenanted properties, the expiry of leases within these properties in the coming two years offers the opportunity for the manager to potentially raise rentals upon renewals or tenant replacements.

COVID-19 has a positive effect on demand for logistics properties. According to CBRE's June 2020 survey of the longer term impact of COVID-19 for occupiers, c.30% of respondents had elected to shore up inventory levels, in preparation for unforeseen circumstances in the future. In addition, c.17% of respondents had also preferred to accelerate automation of warehouse work, resulting in more investments in automation technology. These trends, in our view, where occupiers are moving their inventory strategies from "just in time" to "just in case", will underpin strong demand for logistics properties in the future.

In addition, we understand that there have not been any requests for any form of rental relief or abatements throughout the COVID-19 pandemic, which further underpins the resilience of the portfolio.

ESG a key strategy. Close to 95.7% of the initial portfolio by NLA is certified green by the DBJ Green Building Certification Programme, and according to the manager, properties certified "green" under this programme demonstrate high environment and social awareness. In addition, 10 properties in the initial portfolio are equipped with solar power generation systems installed by Daiwa Energy with an aggregate capacity of 13.5MWp. The manager's strategy is to further equip the initial portfolio with more solar or other renewables by leasing rooftops and/or available spaces to renewable energy operators (including solar power) to reduce the environmental impact of the properties.

More than 65.7% of NLA is rated 3-star by DBJ Green Building Certification programme



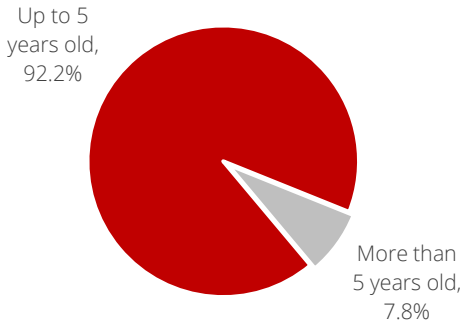
Source: Company, DBS Bank

Solar capacity at selected properties

	Property	Installed power (MW)
1	DPL Sendai Port	2.6
2	DPL Koriyama	3.0
3	D Project Maebashi S	1.4
4	DPL Kawasaki Yako	1.2
5	D Project Nagano Suzaka S	0.9
6	DPL Shinfuji	1.2
7	D Project Kakegawa S	0.7
8	DPL Okayama Hayashima	1.4
9	DPL Okayama Hayashima 2	0.7
10	D Project Fukuoka Tobara S	0.5
	Total	13.5

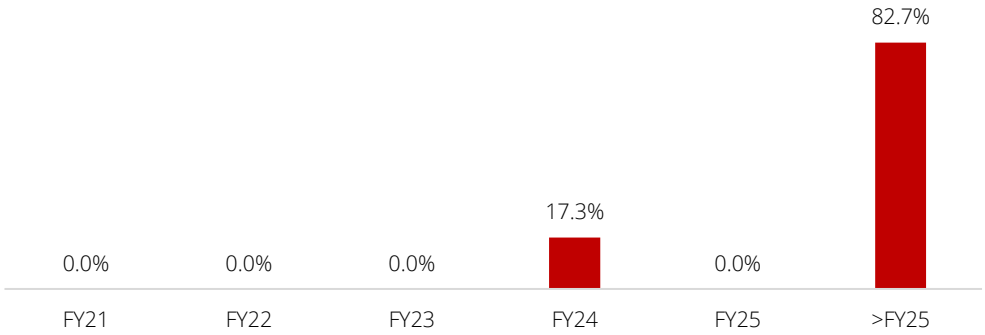
Source: Company, DBS Bank

Age of initial portfolio (by NLA)



Source: Company, DBS Bank

Lease expiry profile by occupied NLA – Single tenanted properties

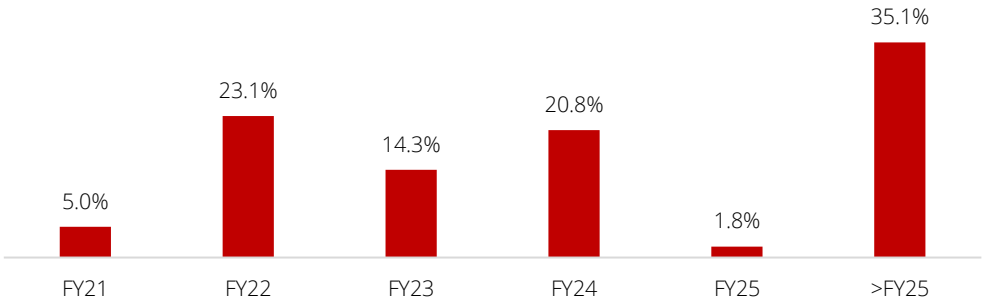


Source: Company, DBS Bank

Remarks

- Minimal expiries in the near term with only major expiries in FY24.

Lease expiry profile by occupied NLA – Multi tenanted properties -



Source: Company, DBS Bank

Remarks

- Expiries ranging from 1.8% to c.23% over the next few years allow the manager to potentially manage the tenant exposure and yield up the properties.

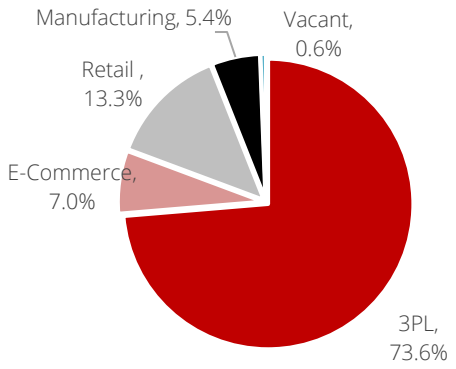
Quality and diversified tenant base

The initial portfolio is leased to 27 tenants and, given the strong sponsor's track record and network in the logistics space, there is a strong relationship built with the tenants within the initial portfolio. At 30 Jun 21, 70.6% of the tenant base by NLA are occupied by TSE-listed companies, their parents, and/or their subsidiaries.

We understand that the multi-tenanted assets within the portfolio are built to high specifications under the sponsor's DPL brand format and have a strong edge against competition, according to the manager. The single-tenanted properties (or BTS assets) are customised to the needs of the end tenants and are also built to high quality specifications to the D Project brand format. We understand that there is flexibility and that it can be refitted to meet the needs of a new tenant should the existing tenants choose not to renew their leases.

The portfolio tenant base is diversified across many end industries, implying that there is minimal concentration risk to the performance of any industry. According to the manager, the tenant base is diversified across multiple sectors including 3PL, e-commerce, retail, and manufacturing, with 3PL representing the highest proportion at c.73.6% by NLA. In terms of net property income, the top 10 tenants contribute c.70.8% with the remaining tenants contributing c.29.2%.

Initial portfolio by Tenant Trade Sector (by NLA)



Source: Company, DBS Bank

Contribution from top 10 tenants to net property income

Tenant	Tenant Description	Trade Sector	% of NPI
Mitsubishi Shokuhin Co., Ltd.	TSE-listed food products wholesaler to retailers and restaurants; also provides 3PL services	3PL	20.1%
Suntory Logistics Ltd.	Distribution subsidiary of leading global F&B company	3PL	8.4%
Nippon Express Co., Ltd.	TSE-listed global logistics services provider	3PL	7.4%
Tenant A	Warehouse, distribution, and logistics service provider	3PL	7.1%
Nitori Co., Ltd.	TSE-listed leading furniture and home accessories retailer in Japan	Retail	5.9%
Tenant B	TSE-listed cargo logistics transportation and warehousing company	3PL	4.8%
Create SD Co., Ltd.	TSE-listed pharmaceuticals and cosmetics retailer	Retail	4.5%
Tokyo Logistics Factory Co., Ltd.	Warehousing and cargo handling logistics service provider	3PL	4.5%
Chuo Bussan Co., Ltd.	TSE-listed provider of wholesale, warehouse, and distribution services	3PL	4.3%
Tenant C	Fortune 500 global e-commerce company	E-commerce	3.9%
Top 10 tenants			70.8%
Other tenants			29.2%

Source: Company, DBS Bank

Sponsor with strong brand equity in Japan

One of the most recognisable logistics developers in Japan. The sponsor is Daiwa House Industry Co. Ltd., a well-established Japanese real estate conglomerate listed on the Tokyo Stock Exchange (TSE) with extensive experience in property development and fund management; it is also the principal company of the Daiwa House Group. Founded in 1955, the sponsor is one of the largest construction and real estate development companies in Japan, with a market capitalisation of JPY2.1tn (S$26.8 bn) as of 14 June 21. In a survey conducted by *The Nikkei* in June 2021, the sponsor was shown to be the most recognisable logistics asset brand and developer in Japan.

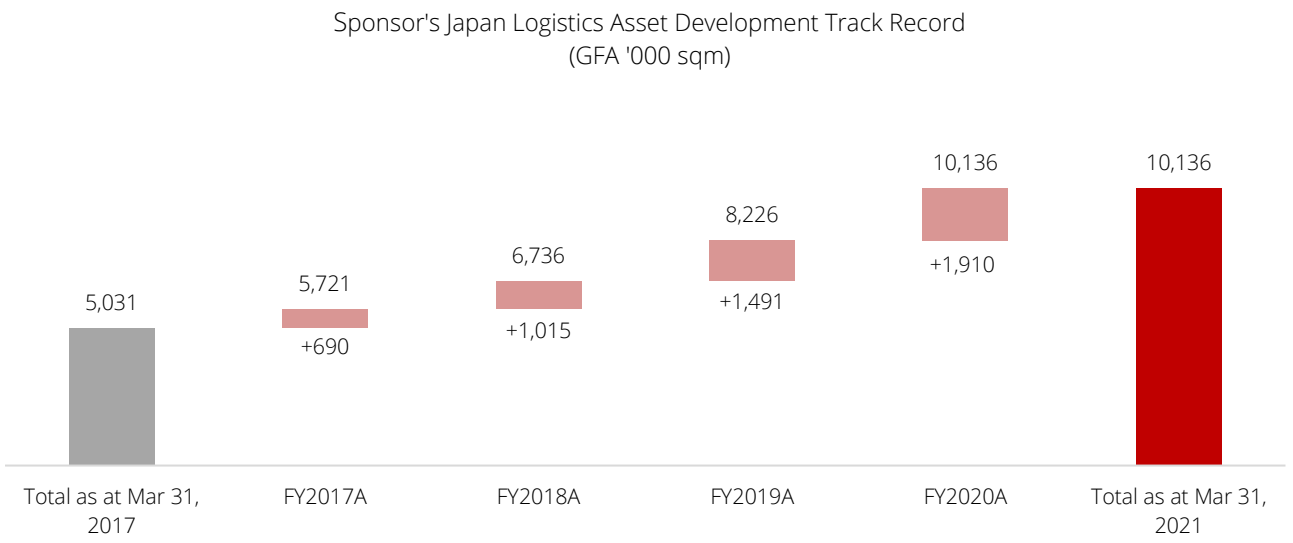
The sponsor holds an extensive track record of asset construction across a variety of real estate. The sponsor is one of the largest logistics real estate developers in Japan by both the number of properties and gross floor area.

Leveraging on the sponsor's experience and relationships. DHLT may benefit from its sponsor's extensive experience in real estate fund management and growth, as well as their deep experience in the logistics space. Within this asset class, the sponsor has a track record of developing over 290 logistics properties, encompassing around 10 million sqm of total GFA. Furthermore, the sponsor has a healthy development pipeline of logistics facilities, and in support of transaction, has granted a ROFR ("Sponsor ROFR") to the Trustee, allowing DHLT to tap into the sizeable portfolio of high-quality logistics assets, either already completed or currently under development by the sponsor. Given that the logistics asset class is a core area of focus for the sponsor, both in Japan and across Southeast Asia, this potential pipeline of available assets is expected to remain strong moving forward.

In addition, the sponsor has invested significant resources in establishing a network of subsidiaries and group companies to provide supporting services for its assets, which DHLT is well positioned to take advantage of. Most notably, the property manager and Japanese asset manager for DHLT is Daiwa House Property Management Co. Ltd. ("DHPM") and Daiwa House Real Estate Investment Management Co. Ltd. ("DHREIM" or "Japan Asset Manager"), respectively, being wholly owned subsidiaries of the sponsor. As at July 20, DHPM manages 148 properties globally with a total GFA of 5.3m sqm. DHREIM manages 46 funds with an aggregate AUM of JPY627 bn as at 31 Mar 21.

Pivot into the ASEAN region. The sponsor has announced plans to pursue development opportunities more aggressively in the logistics asset class, with the ASEAN region being a key area of focus given the demand for overseas logistics and manufacturing bases, particularly from Japanese-based tenants, and has developed a pipeline of 11 completed and in-development logistics properties which may be offered to DHLT to acquire in the medium term.

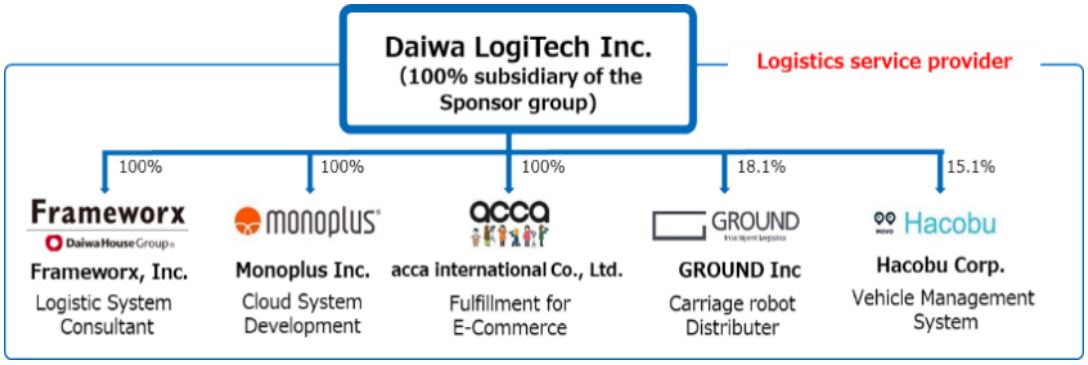
Sponsor's Japan Logistics Asset Development Track Record



Source: Company (as at 31 March 2021)

Tech-driven approach to meet tenants' needs. The sponsor's group of companies, through its wholly owned subsidiary Daiwa LogiTech Inc., offer specialised value-added services addressing the needs of logistics tenants in the areas of logistics systems, cloud systems, e-commerce fulfilment, robotics and automation, and vehicle management. According to CBRE's Logistics Occupier Survey conducted in March 2021, such needs of logistics tenants may become increasingly important as 64% of the respondents stated that they were prioritising the introduction of mechanisation and automation over the next three years.

Sponsor's Technology arm



Sponsor Group Company Service Provider	Logistics support services that may be offered to DHLT's tenants
FRAMEWORX, Inc.	Automated picking and carrying robots inside warehouse
Monoplus Inc.	Cloud-based system for improving operational efficiency
Acca International Co., Ltd.	Fulfilment services for e-commerce and warehouse control system with robots
GROUND Inc.	Automated picking and carrying robots inside warehouse
Hacobu Corp.	Vehicle management system to optimise waiting time for trucks

Source: Company

Attractive acquisition pipeline

Sizable portfolio for acquisition. The sponsor has provided the REIT with an ROFR for selected assets located in Asia held by the sponsor or its subsidiaries, allowing DHLT to tap into this pipeline for acquisition opportunities in the medium term.

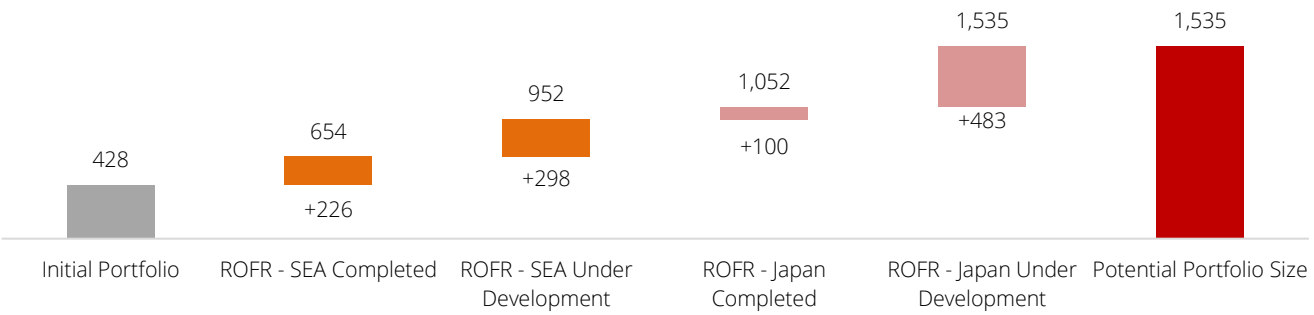
Some of these properties include developed and/or developing assets. They are: 11 properties across ASEAN with a total GLA of 523,863 sqm and 17 properties located within Japan with a GLA of 586,810 sqm. In entirety, the pipeline of close to 1.1m sqm will be approximately 2.6 times the initial portfolio, in terms of GLA.

DHLT has the opportunity to tap into the pipeline of close to 326,172 sqm GFA of completed logistics properties and 781,217 sqm GFA of logistics properties under development across Japan and Southeast Asia.

Ample headroom for accretive acquisition; potential upside ranging from 6% to 10% to distributions. In our estimates, we estimate that DHLT will have a debt-funded headroom of S$120m to a 40% and S$230m to a 45% gearing limit. This implies an increase in portfolio AUM by 12%-21%. Assuming an NPI yield of 6.5% and funding cost of 2%, we estimate a 6%-10% increase in distributable income assuming the debt-funded acquisitions are executed on.

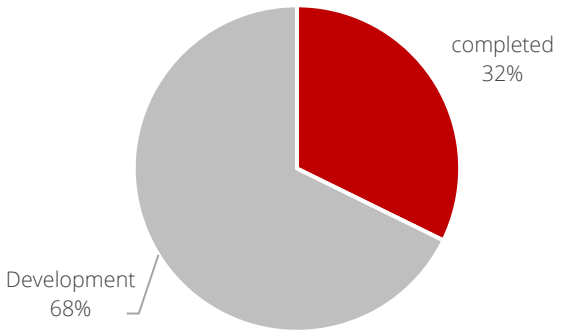
Pipeline growth may increase initial portfolio by up to 2.6 times

DHLT's Potential Acquisition Pipeline (GFA '000sqm)



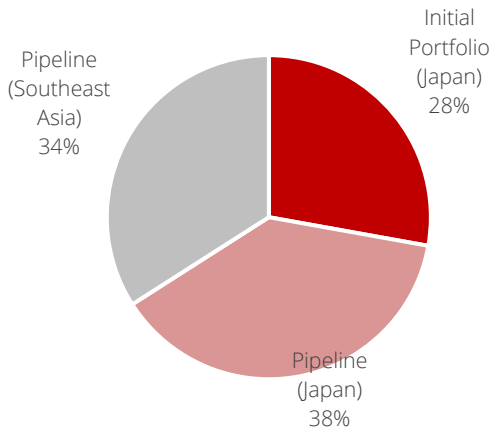
Source: Company, DBS Bank

Pipeline properties by development status (1.1m sqm)



Source: Company, DBS Bank

Potential portfolio size by geography (1.5m sqm)



Source: Company, DBS Bank

Pipeline properties based in South-East Asia

Long Duc Rental Factory (Vietnam)

DHML 2(Malaysia) (Rendering)

DMLP 1 (Indonesia)

#	Project	Country	Type	GFA (sq m)	Land Type	Est. Completion
1	Long Duc Rental Factory	Vietnam	Rental Factory	27,253	Leasehold	2017
2	DPL Loc An - Binh Son 1	Vietnam	Multi-tenanted	36,860	Leasehold	2019
3	DPL Loc An - Binh Son 2	Vietnam	Multi-tenanted	31,891	Leasehold	2021
4	DPL Long Duc	Vietnam	Multi-tenanted	24,345	Leasehold	2022
5	DHML 1	Malaysia	Multi-tenanted	16,500	Leasehold	2020
6	DHML 2	Malaysia	Multi-tenanted	20,000	Leasehold	2021
7	DHML 3	Malaysia	Multi-tenanted	85,000	Freehold	2023
8	DMLP 1	Indonesia	Multi-tenanted	59,040	Leasehold	2018
9	DMLP 2	Indonesia	Multi-tenanted	54,294	Leasehold	2020
10	DMLP 3	Indonesia	Multi-tenanted	64,582	Leasehold	2023
11	DMLP 4	Indonesia	Multi-tenanted	104,098	Leasehold	N.A.
	Total			523,863		

Source: Company, DBS Bank

Pipeline properties based in Japan

DPL Tosu

DPL Tomigusuku 2

DPL Sendai Rifu 1

#	Name	Type	Land Type	GFA (sqm)	Est. Completion
1	DPL Toyama Imizu	Multi-tenanted	Freehold	22,889	2021
2	DPL Iwate Hanamaki	Multi-tenanted	Freehold	13,666	2021
3	DPL Maebashi	Multi-tenanted	Freehold	12,972	2021
4	DPL Tosu	Multi-tenanted	Leasehold	50,807	2021
5	DPL Tsukuba Yatabe	Multi-tenanted	Freehold	41,487	2021
6	DPL Gunma Fujioka	Multi-tenanted	Freehold	23,755	2021
7	DPL Iwate Kitakami 3	Multi-tenanted	Freehold	10,803	2021
8	DPL Kakegawa	Multi-tenanted	Freehold	58,192	2022
9	DPL Sendai Rifu 1	Multi-tenanted	Freehold	48,860	2022
10	DPL Nagano Chikuma	Multi-tenanted	Freehold	42,780	2022
11	DPL Okayama Airport South	Multi-tenanted	Freehold	33,301	2022
12	DPL Iwate Kanegasaki	Multi-tenanted	Freehold	20,286	2022
13	DPL Koriyama 2	Multi-tenanted	Freehold	19,693	2022
14	DPL Ibaraki Yuki	Multi-tenanted	Freehold	11,519	2022
15	DPL Tomigusuku 2	Multi-tenanted	Leasehold	79,916	2022
16	DPL Tsukuba Ami 3	Multi-tenanted	Freehold	76,750	2023
17	DPL Sendai Rifu 2	Multi-tenanted	Freehold	15,851	2323
	Total			583,527	

Source: Company, DBS Bank

Valuation & Peer Comparison

We have assessed DHLT's fair value using the cashflow and dividend discounting method given its relatively stable and visible cashflows, in our view. DHLT's initial portfolio comprises assets which are set to benefit from the continued growth of the logistics sector. Its high portfolio occupancy rate of 96.3% (as at 1 October 2021) and relatively long WALE of 7.2 years provides the REIT with stable and visible income. Given the relatively young age of its properties and the modern specifications, we do not expect any major capital expenditure in the foreseeable future. In addition to the high specifications of its properties, 10 out of 14 of the properties are equipped with solar power generation that has an aggregate capacity of 13.5MWp. The solar power that is generated not only reduces electricity expenses for the properties, but it also provides an avenue for additional income, as DHLT leases out the rooftops of its properties to renewable energy operators.

Our DCF analysis has factored in a conservative risk-free rate of 1.5%, market return of 9.4%, beta of 0.75x (relatively similar to SG-listed peers with assets on long WALEs), post-tax cost of debt of 1.5%, and cost of equity of 7.4%. With an estimated gearing of c.37%, our WACC is 5.2%.

Assuming terminal growth rate of 1.5%-2.0%, we derive a fair value of S$0.95 using DCF. This implies an annualised dividend yield of 5.5% and 5.6% for FY22 and FY23, respectively.

In terms of sensitivity to changes in terminal growth, DHLT's valuation is sensitive to changes in WACC. For every 1ppt movement in WACC, our DCF valuation would move by c.45% while a 1ppt shift in terminal growth would result in a c.14% shift in DCF value.

DCF Analysis

FY Dec (S$m)	FY22F	FY23F	Terminal Value
EBIT	46.9	47.1	
Non-Cash Adjustment	7.6	3.2	
Tax	(4.7)	(4.8)	
Capex	(2.7)	(2.0)	
Chgs to Wkg Cap	68.0	0.0	
FCF to the Firm	68.0	0.0	626.0
PV of FCF	453.8		
PV of Terminal Value	626.0		
Perpetual	(35.5)		
Net Cash /(Debt)	(389.2)		
Equity Value (S$'m)	655.2		
Risk Free Rate (Rf)	1.5%		
Market Return	9.4%		
Beta	0.75		
Cost of Equity (Ke)	7.4%		
% debt financing	37.0%		
After-tax cost of debt	1.5%		
WACC	5.2%		
Terminal growth	1.5%		

Source: DBS Bank estimates

Sensitivity of DCF to Chgs in Terminal Growth

		Terminal Cash flow growth rate		
		1.0%	1.5%	2.0%
		Equity Value (S$'m)		
WACC	3.2%	1.95	2.52	3.54
	4.2%	1.22	1.44	1.76
	5.2%	0.84	0.96	1.10
	6.2%	0.62	0.69	0.76
	7.2%	0.48	0.52	0.56

Source: DBS Bank estimates

Selected peer comparison (yields and yield spread)

REIT	Price	Market Cap	Current Yield		P/NAV	Target Yield		Target P/NAV	10-Year Yields	Yield Spread	Target Spread
	(18 Jan 2022)	(S$m)	FY21	FY22	(x)	FY21	FY22	(x)		FY22	FY22
Singapore Logistics/Industrial REITs											
Ascendas REIT	2.90	12,174	5.6%	5.8%	1.3	4.0%	4.2%	1.8	1.8%	3.9%	2.4%
Mapletree Industrial Trust	2.64	7,023	5.2%	5.4%	1.5	4.1%	4.3%	1.9	1.8%	3.6%	2.5%
Mapletree Logistics Trust	1.77	8,551	4.7%	4.8%	1.3	3.6%	3.6%	1.8	1.8%	3.0%	1.8%
Frasers Logistics & Commercial Trust	1.46	5,382	5.3%	5.4%	1.3	4.2%	4.3%	1.6	1.8%	3.6%	2.4%
AIMS APAC REIT	1.44	1,025	6.5%	7.0%	1.1	5.8%	6.3%	1.2	1.8%	5.1%	4.4%
Sabana REIT	0.45	476	6.9%	7.4%	0.9	6.2%	6.7%	0.9	1.8%	5.6%	4.9%
Average			5.8%	6.1%	1.23	4.9%	5.1%	1.51	1.8%	4.2%	3.3%
Average (Logistics-focused)			5.3%	5.4%	1.31	4.3%	4.4%	1.63	1.8%	3.6%	2.6%
Average (Mid cap)			6.5%	6.8%	1.10	5.8%	6.1%	1.24	1.8%	5.0%	4.2%
S-REITs Average			5.3%	5.7%	1.2						
Hong Kong Logistics REITs											
SF REIT	3.34	2,672	5.2%	5.8%	0.7	3.1%	4.9%	1.1	1.8%	6.4%	3.1%
Japan Logistics REITs	(JPY'000)	(JPY'm)	** AFFO-adjusted*								
Nippon Prologis	352	939,963	3.8%	3.7%	1.4	2.5%	2.4%	1.6	0.1%	3.5%	2.3%
GLP J-REIT	177	795,244	3.9%	3.7%	1.4	2.7%	2.5%	1.6	0.1%	3.5%	2.4%
LaSalle LOGIPORT REIT	180	321,300	3.8%	3.7%	1.3	3.1%	3.1%	1.4	0.1%	3.6%	2.9%
Mitsui Fudosan Logistics	574	311,108	3.9%	4.0%	1.5	2.3%	2.4%	1.6	0.1%	3.9%	2.3%
Average			3.8%	3.8%	1.4	2.7%	2.6%	1.6	0.1%	3.6%	2.5%

Source: Bloomberg Finance L.P., DBS Bank

Key Risks

Country risks. DHLT is exposed to country risks including economic changes, political changes, or policy changes in Japan, where its initial portfolio is located. As the Japanese economy is affected by global economic conditions, a change in the strength of the global economy might result in a downturn of the economy in Japan, which might negatively affect tenant demand for DHLT's properties. This, in turn, could negatively impact income and distributions to unitholders of DHLT, in our opinion.

However, we believe that most of these risks should be mitigated with its portfolio's long WALE and strong tenant profile, as these should somewhat insulate the income generation capabilities from economic volatility.

Risk to impact of natural disasters. Japan is located in the Circum-Pacific Mobile Belt, which is subject to constant seismic and volcanic activities and earthquake risks. While all the initial properties were built in accordance with earthquake resistance building codes, the frequent changes and updates could expose DHLT to liabilities arising from earthquakes and other natural disasters. That said, we understand that the Probable Maximum Loss (PML) rating for the initial properties is very low at 1.6% and the risk of a significant impact to the building structure is deemed to be remote. The PML is a measure of the extent of damage that may be caused by a big earthquake.

Tenant-concentrated risk. While key tenants of DHLT are important anchors for DHLT's business performance and comprise of good credit, quality tenants, key tenants generally occupy larger spaces under long-term leases. In addition, DHLT relies on a master lessee with the key tenants, such as the top three key tenants of DHLT which contribute c.36% of NPI and top 10 tenants contributing c.71% of NPI. Any adverse impact on key tenants' underlying business and financial performance could affect their ability to maintain rents. While the risks are partially mitigated by long-term lease agreements with only limited termination rights and security deposits, some of DHLT's initial properties have shorter term leases that may be subject to vacancy risks during this challenging environment.

Leasehold land/repurchase rights. Eight out of DHLT's initial portfolio of 14 properties are on leasehold land titles. While the majority of the land lease tenures are still long, with the shortest land lease being c.13 years, non-renewals or termination of these land leases could be a risk to DHLT's long-term usage of the land.

Key issues in relation to leasehold land titles.

- Government/authorities require the land. If the land is an ordinary property held by an ordinary local public entity as defined under Japanese law, the head of the ordinary local public entity may exercise its right to terminate the lease agreement in the event that the Japanese Government, the local public entity, or other public entities require the use of the land for public use or common use.
- Demolish building to return land to landowner. In some instances, such as the case of DPL Okayama Hayashima, the owner of the building will have to demolish the building and return the land in the event that the leasehold term expires and is not renewed.
- Repurchase rights. The Civil Code allows the seller to reserve the right to repurchase the real estate if the seller and the purchaser so agree. The repurchase price would be the purchase consideration of the property in the original acquisition or some other amount to which the seller and the purchaser may agree upon in advance.

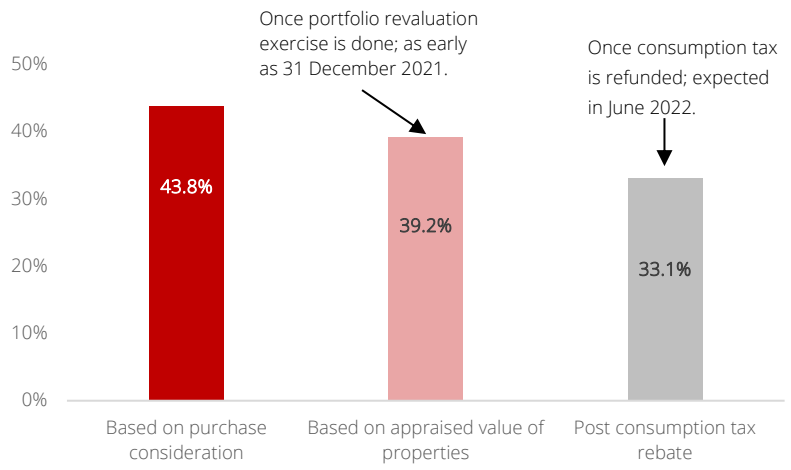
Interest rate risks. While interest rates remain low in Japan, which DHLT could leverage on, the potential pressure on rising interest rates could impact borrowing costs in the medium term. In addition, as DHLT expands into Southeast Asian countries, depending on the debt structure, interest rates could drive the cost of borrowings higher-than-expected levels.

Foreign currency risks. As DHLT's assets and liabilities are in Japan, its financials are reported in JPY and distributions to unitholders are in SGD by default, and investors will be exposed to fluctuations in the JPY/SGD FX rates. If DHLT were to expand into Southeast Asian countries, it would be exposed to more currencies and the respectively volatility, which may have adverse impact on earnings.

Regulatory risks. Should there be any changes in tax laws in either Singapore or Japan (such as a reduced withholding tax rate under the Singapore-Japan Avoidance of Double Taxation Agreement), this may affect the current REIT structure and ability to repatriate cash in a tax-efficient manner from Japan, potentially negatively affecting distributions paid to unitholders, in our opinion.

Critical Factors

Aggregate leverage to improve to c.33%



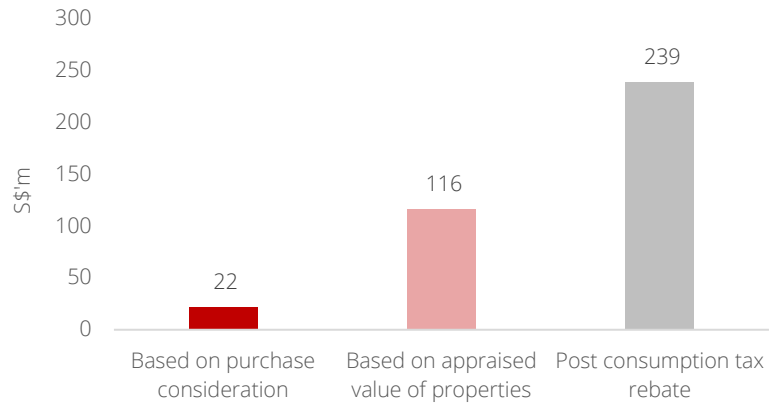
Source: Bloomberg Finance L.P., DBS Bank

Remarks

Initial leverage of 43.8% appears to be high, as it is calculated based on the purchase consideration (c.12% discount to valuation), as well as the temporary loan taken to fund the consumption tax (c.S$68m).

However, leverage can potentially improve to 39.2% once the portfolio is revalued to the appraised value, as soon as the 31 December 2021 valuation exercise is completed. It will improve further to 33.1% once the consumption tax is refunded, and the temporary loan is repaid.

Debt headroom to gradually increase



Remarks

DHLT's debt headroom will gradually increase as the portfolio is revalued and when the consumption tax is repaid by the end of June 2022.

Based on an aggregate leverage of 45%, DHLT's debt headroom will increase to c.S$240m by the end of June 2022. This provides DHLT with the opportunity to embark on debt-funded acquisitions, and will potentially drive DPU up by more than 10%.

Source: Company, DBS Bank

Financials

Long leases provide earning stability. DHLT's relatively long WALE of 7.2 years provides earning stability and the high credibility of its tenant base, which comprises mostly of publicly listed companies, ensures that risks of pre-termination are minimised. As supply of quality modern logistics facilities where DHLT operates in is limited, DHLT's relatively new properties that are built to high specifications are expected to command better rental rates as leases are renewed.

In Japan, long leases do not have built-in rental escalations as seen in many other markets. However, the fixed rentals throughout the entire lease term ensures income stability and protects it against any deflationary risks in Japan. In the event of deflation, it could, in turn, provide an upside to DHLT, as it could lead to savings in property expenses.

Properties well spread out across Japan

Region	Percentage of portfolio (by NLA)	Market occupancy rate
Greater Tokyo	39.0%	99.0%
Hokkaido/ Tohoku	37.2%	100.0%
Greater Nagoya	11.8%	91.6%
Chugoku / Kyushu	12.0%	100.0%

Source: Company, DBS Bank estimates

Low borrowing costs. As DHLT's debt will be taken onshore entirely in Japan, it enjoys a low, all-in interest rate of c.1.155% per annum. Its debt is also very well spread out, with a weighted average debt tenure of c.3.5 years, excluding the temporary consumption tax loan. The entire consumption tax loan of S$68m is a temporary loan that will be repaid once consumption taxes are refunded by the end of June 2022.

We believe that there is an efficient tax structure. The effective tax rate for corporations with a paid-in capital of more than JPY100m is approximately 30.62%. However, the TMK structure is a special purpose corporation specifically designed for the purpose of issuing asset-backed securities under the TMK Law. Making use of this special tax structure, we understand that the effective tax rate applicable on DHLT will be c.12.7%, which is much more efficient than the standard corporate tax rates on Japanese corporations.

50% of fees payable in units until FY22F. For FY21F and FY22F, DHLT has elected to receive 50% of its base management, performance management, and acquisition fees in units, and the remaining 50% in cash. In our projections, we also assumed that DHLT will continue to receive 50% of such fees in units, and 50% in cash.

Sponsor to own DHLT through a c.14% equity stake and perpetual securities. As part of its structure, the sponsor will hold c.14.0% of the issued capital of DHLT, while a further JPY3bn (equivalent to c.6.6% of enlarged equity base of DHLT) in holdings of the REIT will be through subordinated perpetual securities. These perpetual securities will generate a coupon rate of only 2.956% per annum, significantly lower than the projected dividend yield of DHTL, leaving a larger proportion of distributions for unitholders and lowering the cost of capital for DHLT.

11.8% discount to appraised value. The initial portfolio comprises of 14 properties valued at c.S$979.0m as of 30 June 2021. To demonstrate its support in DHLT, the portfolio is being acquired at a very attractive 11.8% (or c.S$863.5) discount to appraised value. As the initial portfolio has been developed on greenfield sites by the sponsor, it is able to offer this tangible support that highlights its strong commitment to DHLT.

When the portfolio undergoes its revaluation exercise at the end of the financial year (31 December 2021), we expect to see an immediate uplift to its portfolio valuations by c.S$114.5m. If cap rates for logistics properties in Japan continue to compress, we could see an even larger uplift to portfolio valuations. The uplift in valuations will not only increase NAV, but would also lead to a lowering of aggregate leverage and increase in debt headroom.

Leverage to improve by at least 10% in FY22. DHLT's seemingly high aggregate leverage of c.43.8% would only be temporary, and it is expected to be lowered by at least 10% to c.33.1%. The two main drivers in the lowering of portfolio leverage will come from the portfolio valuation uplift at the end of FY21, followed by the lowering of gross borrowings by c.S$68.0m by June 2022.

Assuming DHLT's portfolio sees a valuation uplift to its current appraised value of S$979.0m on 30 June 2021, leverage will be lowered to 39.3%. The consumption tax refund is expected to be completed by the end of June 2022, and portfolio leverage will improve further to c.33.1% once the S$68.0m consumption tax loan is repaid.

Estimated movements in portfolio leverage

Aggregate leverage	Initial leverage	31 Dec 2021	30 Jun 2022
Assuming no change	43.8%	43.8%	43.8%
Valuation uplift to appraised value	43.8%	39.3%	39.3%
Consumption tax refund	43.8%	43.8%	37.0%
Valuations uplift to appraised value and consumption tax refund	43.8%	39.3%	**33.1%**

Source: Company, DBS Bank

Strong interest coverage ratio of 10.3x. Given the low all-in cost of borrowings of c.1.155% per annum, DHLT is expected to have a very strong ICR of 10.3x in FY22F. The weighted average debt tenor is also very healthy at c.3.5 years currently and is expected to improve slightly when the consumption tax loan is repaid in June 2022. Aside from the consumption tax loan, DHLT will not have any debt expiry until FY24.

Key Debt Metrics

S$m	Current
Total Borrowings	432.6
Weighted Average Debt Tenure	3.5 years
Weighted Average Borrowing Cost	1.155% p.a.
Interest Coverage Ratio *	10.3x

** Estimated ICR in FY22F*
Source: Company, DBS Bank

Capex requirements. For FY21F and FY22F, an aggregate S$2.7m in capex has been estimated. This translates to 0.3% of the appraised value of DHLT's portfolio. No capex is expected in at least the first six months from the listing date. We estimate that c.S$2.7m in capex is expected to be sufficient for periodic refurbishment, renovation for improvements, and development in order to remain competitive or be income-producing.

As the properties are generally new and have an average age of only 3.7 years, the company does not expect any major capex requirements in the medium-term.

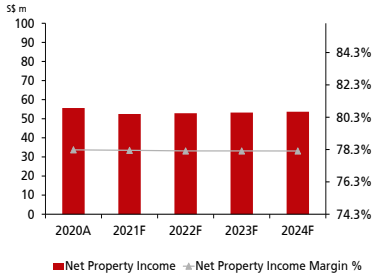
Income Statement (S$m)

FY Dec	2021F	2022F	2023F	2024F
Gross revenue	67.1	67.6	68.1	68.6
Property expenses	(14.6)	(14.7)	(14.8)	(15.0)
Net Property Income	**52.5**	**52.9**	**53.2**	**53.7**
Other Opg expenses	(6.6)	(6.0)	(6.2)	(6.2)
Other Non Opg	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(9.2)	(8.9)	(8.4)	(8.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Net Income	**36.7**	**37.9**	**38.7**	**39.0**
Tax	(4.7)	(4.7)	(4.7)	(4.7)
Minority Interest	0.0	0.0	0.0	0.0
Preference Dividend	(1.1)	(1.1)	(1.1)	(1.1)
Net Income After Tax	**31.0**	**32.1**	**32.9**	**33.2**
Total Return	146	27.8	32.9	33.2
Non-tax deductible	(112)	8.01	3.04	3.08
Net Inc available for	34.0	35.8	35.9	36.3
Growth & Ratio				
Revenue Gth (%)	(5.6)	0.8	0.7	0.8
N Property Inc Gth (%)	(5.6)	0.8	0.7	0.8
Net Inc Gth (%)	0.3	3.8	2.3	1.0
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0
Net Prop Inc Margins	78.3	78.2	78.2	78.2
Net Income Margins (%)	46.2	47.5	48.3	48.4
Dist to revenue (%)	50.7	52.9	52.8	52.9
Managers & Trustee's fees to sales %)	9.8	8.9	9.0	9.1
ROAE (%)	5.4	5.2	5.3	5.4
ROA (%)	2.4	2.5	2.6	2.6
ROCE (%)	3.2	3.2	3.3	3.3
Int. Cover (x)	5.0	5.2	5.6	5.6

Source: DBS Bank estimates

Lower interest expense expected as the S$68m temporary consumption tax loan is repaid in 2H22.

Net Property Income and Margins



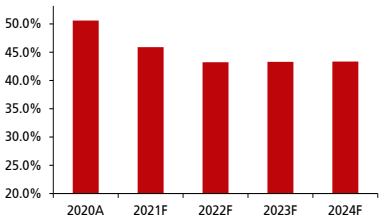
Balance Sheet (S$m)

FY Dec	2021F	2022F	2023F	2024F
Investment Properties	1,184	1,182	1,184	1,186
Other LT Assets	0.0	0.0	0.0	0.0
Cash & ST Invts	74.3	69.2	65.5	61.7
Inventory	0.0	0.0	0.0	0.0
Debtors	2.24	2.25	2.27	2.29
Other Current Assets	77.4	9.35	9.35	9.35
Total Assets	1,338	1,263	1,261	1,259
ST Debt	69.7	69.7	69.7	69.7
Creditor	6.71	6.76	6.81	6.86
Other Current Liab	4.68	4.68	4.68	4.68
LT Debt	544	476	476	476
Other LT Liabilities	50.2	50.2	50.2	50.2
Unit holders' funds	662	655	654	652
Minority Interests	0.0	0.0	0.0	0.0
Total Funds & Liabilities	1,338	1,263	1,261	1,259
Non-Cash Wkg. Capital	68.2	0.17	0.14	0.10
Net Cash/(Debt)	(540)	(477)	(480)	(484)
Ratio				
Current Ratio (x)	1.9	1.0	0.9	0.9
Quick Ratio (x)	0.9	0.9	0.8	0.8
Aggregate Leverage (%)	45.9	43.2	43.3	43.3

Source: DBS Bank estimates

We have assumed that the portfolio will be revalued to its appraised value by the end of FY21.

Aggregate Leverage



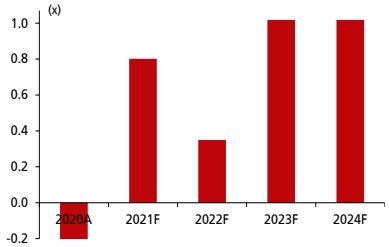
Cash Flow Statement (S$m)

FY Dec	2021F	2022F	2023F	2024F
Pre-Tax Income	36.7	37.9	38.7	39.0
Dep. & Amort.	0.0	0.0	0.0	0.0
Tax Paid	0.0	(4.7)	(4.7)	(4.7)
Associates &JV	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	4.47	68.0	0.03	0.04
Other Operating CF	1.20	1.23	1.27	1.29
Net Operating CF	**42.4**	**102**	**35.3**	**35.7**
Net Invt in Properties	0.0	(2.7)	(2.0)	(2.0)
Other Invts (net)	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0
Net Investing CF	**0.0**	**(2.7)**	**(2.0)**	**(2.0)**
Distribution Paid	(34.0)	(35.8)	(35.9)	(36.3)
Chg in Gross Debt	0.0	(68.0)	0.0	0.0
New units issued	0.0	0.0	0.0	0.0
Other Financing CF	(1.1)	(1.1)	(1.1)	(1.1)
Net Financing CF	**(35.1)**	**(105)**	**(37.0)**	**(37.4)**
Currency Adjustments	0.0	0.0	0.0	0.0
Chg in Cash	7.31	(5.1)	(3.7)	(3.8)

Source: DBS Bank estimates

Repayment of S$68m temporary consumption tax loan.

Distribution Paid / Net Operating CF



Company Background

Portfolio of modern logistics properties spread across Japan. DHLT holds a mandate to invest directly or indirectly in income-producing logistics and industrial real estate assets located across Asia. The initial portfolio is anchored by 14 Japanese logistics properties with an appraised value of c.S$979.0m (JPY80,570m) as at 30 June 2021, and has an aggregate NLA of approximately 420,920 sqm. The recently built modern logistics properties have been built to high specifications and have a weighted average age of only about 3.7 years by NLA. As at 1 October 2021, the portfolio enjoys a very healthy occupancy rate of 96.3%.

Resilient cashflow underpinned by long WALE and blue-chip tenant base. More than 70% of the portfolio's NLA is anchored by blue-chip tenants that are listed on the Tokyo Stock Exchange. Given the concentration of publicly listed tenants that have strong credibility, we expect its earnings to remain resilient and risks of pre-termination should remain low. With the relatively young age of the properties as well as the high specifications and high green ratings, we believe that DHLT would be able to retain its existing tenants while appealing to new ones, as such quality logistics facilities in the areas it operates in remain scarce.

Sponsor pipeline could lead to c.2.5x growth in DHLT's portfolio. DHLT will be granted a ROFR over its sponsor's logistics and industrial properties across Asia. Currently, there are 28 pipeline assets which meet the ROFR criteria across Japan, Indonesia, Vietnam, and Malaysia, and we estimate that it will be worth c.S$1.5bn. Within this pipeline, 10 of the assets have been completed, and the remaining 18 properties will be gradually completed over the next three years. We believe that when completed, the ROFR for the 17 properties in Japan have an estimated value of c.S$1bn, the four properties in Indonesia are worth c.S$300m, and the four assets in Vietnam and three in Malaysia have a total value of c.S$150m each.

In Southeast Asia, the sponsor has successfully developed logistics real estate in partnership with existing Japanese tenants who are looking to expand internationally. Again, this is something that will be unique to DHLT, which will be looking to continue growing through its sponsor's pipeline, and will only be made possible with its sponsor's well-established reputation and standing as one of the largest developers in Japan.

Backed by reputable sponsor with strong commitment to the REIT. DHLT's sponsor, Daiwa House Industry Co. Ltd. ("DHI"), is listed on the Tokyo Stock Exchange and it is one of the largest construction and real estate development companies in Japan with a market capitalisation of c.S$26.3bn as of 30 June 2021. From the onset, DHLT's sponsor demonstrated its commitment to the success of the REIT by offering the initial portfolio at a 11.8% discount to appraised value. It will further demonstrate its commitment by holding an interest of more than 20% in the REIT.

It will hold a 14.0% stake through unitholdings in the REIT, and a further c.JPY3bn (equivalent to c.6.6% of the REIT) interest though perpetual securities. These perpetual securities will (i) have no fixed redemption, (ii) be subordinated to other creditors of DHLT, (iii) not be redeemable at the will of the sponsor, and (iv) carry no voting rights. In addition, the perpetual securities will carry an initial fixed distribution rate of c. 2.956%.

Key Management Team

Executive Officers

Name	Position	Summary
Mr. Takeshi Fujita	Executive Director and Chief Executive Officer	• Joined Sumitomo Mitsui Trust Bank Ltd. in 1986 and started his career in the corporate finance business field until 2000. Then, pursued a career in the real estate business field, such as brokerage, investment advisory, and property fund management, in Sumitomo Mitsui Trust Bank Ltd. and fund management companies including Daiwa House Asset Management Co. Ltd., and as the manager of the Daiwa House REIT • During his service in Daiwa House Asset Management Co. Ltd. from 2008 to 2011, when he was its Chief Executive Officer, AUM increased to JPY200.5bn from JPY55.5b, and market capitalisation jumped to JPY73.1bn from JPY15.7bn • One of his achievements was the acquisition of a TSE-listed REIT, which was under a civil rehabilitation process but had struggled to get an approval of the recovery plan from creditors. He worked with the Daiwa House REIT's sponsor, DHI, to get the majority vote at the creditors' meeting and subsequently obtained court approval for the rehabilitation plan, of which the core strategy was the acquisition. • Following his term in DHAM as its Chief Executive Officer in 2011, he took key management positions in Sumitomo Mitsui Trust Bank Ltd. from 2011 to 2020, where he succeeded in raising a private real estate fund with a French insurance company and several separate accounts with institutional investors, including corporate pension funds, formulated and implemented global business and alliance strategies, and was responsible for planning and promoting cross-border real estate investment businesses • He holds a Bachelor of Arts in Economics from Kwansei Gakuin University, Japan, and a Master of Business Administration in Finance and Investment from the George Washington University, USA. He is a licensed real estate transaction agent in Japan and a licensed representative of the condominium management sector in Japan
Ms. Chua Tai Hua Anne	Chief Financial Officer	• Despite having joined the manager for less than six months, Ms. Chua Tai Hua Anne is adequately familiar with the business and operations, accounting practices, and policies of DHLT coupled with over 30 years of experience in financial reporting, fundraising, property investment, mergers and acquisitions, and treasury risk management • Prior to joining the manager, she was the Chief Financial Officer of CapitaLand Commercial Trust Management Limited, the manager of CapitaLand Commercial Trust ("CCT"), a real estate investment trust listed on the SGX-ST, for 13 years • She holds a Bachelor of Business Administration from the National University of Singapore, a Master of Applied Finance from Macquarie University of Australia (where she was the joint top graduand), and a Master of Professional Accounting from the Singapore Management University

Name	Position	Summary
Mr. Toru Aoki	Chief Risk Officer	• Joined SMTB in 1986 and started his career in the fields of real estate finance and corporate finance • From 1994 to 2018, he had been responsible for global finance and global real estate-related businesses in Tokyo, Hong Kong, Singapore, and New York • From September 2018, he moved to the Internal Audit Department where he conducted risk assessments and internal audits for various business departments, overseas branches, and subsidiaries of the bank, until he left SMTB in April 2020 • From May 2020 until the date he joined the Manager, Mr. Toru Aoki was the Deputy Department Manager in the Business Development Department in DHI, where he is responsible for promoting real estate securitisation of assets and the overseas mergers and acquisitions business of the company • He holds a Bachelor of Arts in Economics from Hitotsubashi University, Japan, and is a Certified Internal Auditor registered in the Institute of Internal Auditors. He is a licensed real estate transaction agent in Japan
Mr. Jun Yamamura	Head of Planning	• From April 2021 until the date he joined the manager, Mr. Jun Yamamura was the Senior Chief in the Business Development Department in DHI • Prior to that, he joined Marubeni Corp. ("Marubeni"), one of the largest general trading companies in Japan, in 1999. During his 22 years serving Marubeni, he expanded his career in the field of real estate development and investment • He was involved in mergers of TSE-listed REITs, including the acquisition of Nippon Commercial Investment Corporation by United Urban Investment Corporation ("United Urban"), which is managed by Marubeni's subsidiary, in December 2010 • Mr. Yamamura also contributed to the initial public offering of United Urban in 2003 and secondary offering in 2004 as an acquisition manager and in corporate planning as a general manager from 2017 to 2020 • He has a Bachelor of Arts in Economics from the University of Tokyo, Japan, and a Master of Business Administration in Finance and Real Estate from the University of North Carolina at Chapel Hill, USA. He is a Certified Member Analyst of the Securities Analysts Association of Japan (inactive), a Certified Master of the Association for Real Estate Securitisation (inactive), a Certified Building Manager of Japan Building Management Institute (inactive), and a licensed real estate transaction agent in Japan (inactive)

Source: Company

DBS Bank recommendations are based an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return i.e. > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

Share price appreciation + dividends

Completed Date: 24 Jan 2022 06:26:29 (SGT)
Dissemination Date: 24 Jan 2022 08:05:25 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

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1. DBS Bank Ltd, DBS HK, DBS Vickers Securities (Singapore) Pte Ltd ("DBSVS") or their subsidiaries and/or other affiliates have proprietary positions in Ascendas REIT, Mapletree Industrial Trust, Mapletree Logistics Trust, Frasers Logistics & Commercial Trust, AIMS AMP Capital Industrial REIT, SF Real Estate Investment Trust, recommended in this report as of 31 Dec 2021.

2. DBS Bank Ltd, DBS HK, DBSVS, their subsidiaries and/or other affiliates have a net long position exceeding 0.5% of the total issued share capital in Ascendas REIT, Mapletree Industrial Trust, Mapletree Logistics Trust, Frasers Logistics & Commercial Trust, recommended in this report as of 31 Dec 2021.

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DBS Regional Research Offices

HONG KONG
DBS (Hong Kong) Ltd
Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA
AllianceDBS Research Sdn Bhd
Contact: Wong Ming Tek
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com
Co. Regn No. 198401015984 (128540-U)

SINGAPORE
DBS Bank Ltd
Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA
PT DBS Vickers Sekuritas (Indonesia)
Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaresearch@dbs.com

THAILAND
DBS Vickers Securities (Thailand) Co Ltd
Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand