

Daiwa House Logistics Trust

Bloomberg: DHLT SP | Reuters: DAIW.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Aug 2022

BUY

Last Traded Price (3 Aug 2022): S\$0.750 (STI : 3,252.06)

Price Target 12-mth: S\$0.88 (18% upside) (Prev S\$0.95)

Analyst

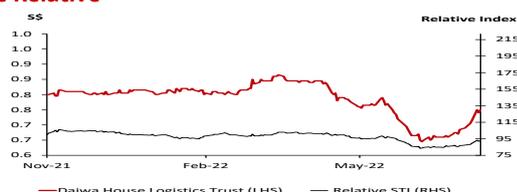
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What's New

- Operating metrics remain strong in 1H22, with high occupancy rates of c.99% and positive rental reversions of 3.1%
- We expect DHLT's FY22 earnings to have a c.9% downside impact from weaker JPY
- Revised down our DPU projections to account for weaker JPY despite strong underlying operations
- Maintain BUY; TP lowered to S\$0.88

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2020A	2021A	2022F	2023F
Gross Revenue	71.0	67.1	63.0	60.1
Net Property Inc	55.6	52.5	49.3	47.0
Total Return	26.0	146	24.9	27.8
Distribution Inc	36.0	34.0	32.2	30.5
EPU (S cts)	4.58	4.58	4.32	4.11
EPU Gth (%)	nm	0	(6)	(5)
DPU (S cts)	6.55	5.03	4.76	4.50
DPU Gth (%)	nm	(23)	(6)	(5)
NAV per shr (S cts)	76.2	92.8	91.7	91.3
PE (X)	16.4	16.4	17.4	18.3
Distribution Yield (%)	8.7	6.7	6.3	6.0
P/NAV (x)	1.0	0.8	0.8	0.8
Aggregate Leverage (%)	38.2	38.2	35.0	35.0
ROAE (%)	N/A	5.4	4.7	4.5

Distn. Inc Chng (%):		(10)	(15)
Consensus DPU (S cts):		5.1	5.1
Other Broker Recs:	B: 4	S: 0	H: 0

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

Stellar operations overshadowed by weak JPY

Investment Thesis

Maintain BUY, revised TP: S\$0.88. Daiwa House Logistics Trust ("DHLT") continues to enjoy strong operating fundamentals with a high portfolio occupancy rate and a long WALE of c.7 years. However, the JPY has been weakening against the SGD in the past few months. As DHLT's entire portfolio is in Japan and entirely earned in JPY, we have revised our estimates to account for the weaker JPY.

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 is limited, DHLT's portfolio continues to enjoy high occupancy rates and its tenants are expected to continue renewing their leases due to lack of alternatives.

Healthy gearing provides ample debt headroom. With gearing currently only at 34.0%, DHLT has a debt headroom of c.S\$100m, 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 revised TP of S\$0.88 is based on DCF valuation method with a WACC of 5.2% (risk-free rate of 3.0%). This implies a target yield of 5.4%-5.5%. We have not assumed any acquisitions in our projections.

Where we differ:

We have assumed that the weaker JPY will have the highest impact to earnings in FY23, before gradually rebounding from FY24 onwards.

Key Risks to Our View:

Key risks to our view would be a further weakening of the JPY, leading to further impact to earnings and inching up of its gearing.

At A Glance

Issued Capital (m shrs)	675
Mkt. Cap (S\$m/US\$m)	507 / 367
Major Shareholders (%)	
Daiwa House Industry Co Ltd	10.2
Metro Holdings Ltd/Singapore	7.6
Hazelview Securities Inc	5.0
Free Float (%)	77.2
3m Avg. Daily Val (US\$m)	0.78
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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WHAT'S NEW

Stellar operations overshadowed by weaker JPY

1H22 revenues and NPI slightly below forecasts due to weaker JPY

In JPY terms, revenues would have been c.0.4% higher than IPO forecasts. The higher revenues were due to higher utilities income recoverable from tenants, and other income. However, as the JPY has weakened against the SGD, revenues and NPI for 1H22 (26 Nov 2021 – 30 June 2022) were 3.6% and 4.5% lower than forecasts.

In addition to the weaker JPY, NPI was also impacted by higher depreciable assets. Depreciable asset tax is calculated based on allocation of fixed assets, and the asset manager is currently applying for the Japan tax authority to change the basis of allocation.

Distributable income was in line with forecasts

Despite the weaker JPY, distributable income and DPU were in line with forecasts due to some savings and higher capital returns. Finance expenses were lower than forecast due to DHLT securing loans at lower costs, the slightly earlier than projected repayment of consumption tax loan, and the weaker JPY. Trust expenses were also lower than forecast due to lower Group operating expenses. This contributed to a total savings of more than S\$0.9m in 1H22.

Portfolio operating metrics remain strong; positive rental reversions of 3.1%

Portfolio occupancy remained stable at 98.6% as all leases that expired in 1H22 were renewed. The only vacancy remained at DPL Koriyama (c.6,000 sqft.). At IPO, c.23.1% of leases were due to expire in FY22, and it has now been lowered to only c.8.4% for the rest FY22. Lease expiries over the next two years will come from multi-tenanted assets, and the first lease expiry for single-tenanted assets will only be due in FY24.

For all the leases renewed in 1H22, there were no rent reductions, and the average positive rental reversions were 3.1%. The average lease terms of leases that were signed and renewed in 1H22 was approximately four years. This has enabled DHLT to maintain a healthy portfolio WALE of c.6.8 years.

S\$0.7m in repair works expected to be incurred in coming quarters

As reported in March 2022, the earthquake in northeast Japan led to some damages at DPL Sendai Port and DPL Koriyama. The sponsor has carried out restoration works to DPL Sendai Port at its own expense. However, there are

additional repair works at both properties that will have to be borne by DHLT. Such repair works are estimated to be JPY65m or c.S\$0.7m, and are expected to be incurred over the coming three quarters.

Gearing inched up to 34.0% due to translation losses

Gearing inched up from 33.2% to 34.0% due to translation losses of its portfolio arising from the weaker JPY. All-in financing costs remained stable at 0.9% as 100% of its loans have been hedged to fixed rates. DHLT's first loan maturity will only begin in FY24.

Based on an aggregate leverage of 40% and 45%, DHLT has a debt headroom of c.S\$90m and c.S\$180m, respectively.

Earnings increasingly exposed to weaker JPY

DHLT continues to systematically hedge distributable income on a one-year forward rolling basis. As such, we understand that its FY22 income has previously already been hedged at a more favourable exchange rate as compared to current spot rates of S\$1: JPY96.7.

However, we expect earnings to be increasingly exposed to the weaker JPY as DHLT continues to forward hedge its earnings one-year ahead. We have revised our estimates to account for the impact of the weaker JPY on future earnings. Based on our revised estimates, there could be a potential c.8.9% downside to DPU in FY22 entirely due to the weaker JPY. The downside to DPU estimates will increase to more than 15.2% for FY23, before gradually reversing from FY24 onwards.

In our estimates, we have assumed that DHLT's FY22 income has been hedged at an average of S\$1: JPY90.0, based on the average exchange rates from its IPO (November 2022) until today. With the spot rates hitting a high of S\$1: JPY97.6 in June 2022, and gradually improving to S\$1: JPY96.7 currently, we have assumed an average exchange rate of S\$1: JPY 95.0 for DHLT's hedges in FY23. For our earnings projections in FY24 and beyond, we have further assumed that the JPY will gradually revert to its historical average rate, leading to a rebound in DPU. As we do not take a view on FX rates, our assumptions are entirely based on an arithmetic averaging approach.

Our thoughts

We expect DHLT to continue reporting strong portfolio operating metrics with high occupancy rates and positive

rental reversions. Although a large supply of logistics space is expected to come online in Japan in FY22 and FY23, we believe DHLT's portfolio will continue to remain resilient given its long WALE of c.6.8 years and the quality of its portfolio. Moreover, a large portion of the new supply is believed to have already been pre-committed and businesses in Japan are expected to continue expanding, especially for businesses in the logistics sector.

Unlike its S-REIT peers, DHLT is largely insulated from cost inflation and rising interest rates. Its operating and utility costs are mostly passed on to tenants, and its loans are entirely hedged to fixed rates until at least FY24. However, the depreciating JPY against the SGD will be the major overhang for DHLT.

We have revised our estimates to consider the impact of the weaker JPY to earnings. Based on our assumptions, there

will be a c.9% downside in FY22 DPU, entirely due to the depreciating JPY against SGD. We project that the impact to earnings will worsen to c.15% by FY23, before gradually reversing from FY24 onwards.

Although DHLT could potentially bolster its earnings through acquisitions, we have not priced in any acquisition assumptions into our estimates as there is still no clear guidance on growth plans in the near term. With a healthy gearing of only 34.0%, **DHLT has a debt headroom of c.\$90m (gearing of 40%) that they could tap on to fund an acquisition and surprise on the upside.**

Based on our restated projections, we will be lowering our TP to **\$0.88** but maintaining our **BUY** recommendation on a valuation basis.

10-year historical SGD/JPY exchange rate of 80.4



Source: Bloomberg Finance L.P.

Revised estimates to account for weaker JPY

Currency forecasts	FY22	FY23	FY24	FY25	Remarks
SGD/JPY (Previous)	83.83	83.83	83.83	83.83	IPO forecasts
SGD/JPY (Revised)	90.0	95.0	90.0	85.0	Revised estimates
Comments on revised estimates	Avg. since IPO in Nov 2022	Assume hedging done at today's rate	Assume rates gradually revert	Assume rates continue to improve back to IPO levels, still above historical 10-year avg.	

DPU estimates (Scts.)	FY22	FY23	FY24	FY25
DPU (Previous)	5.22	5.30	5.34	5.38
DPU (Revised)	4.76	4.50	4.87	5.29
% change in DPU	-8.9%	-15.2%	-8.8%	-1.7%

Source: DBS Bank estimates

Company Background

Daiwa House Logistics Trust (DHLT) is a Singapore real estate investment trust (REIT) listed on the Singapore Exchange Securities Trading Limited (SGX-ST). The REIT was established with the investment strategy of principally

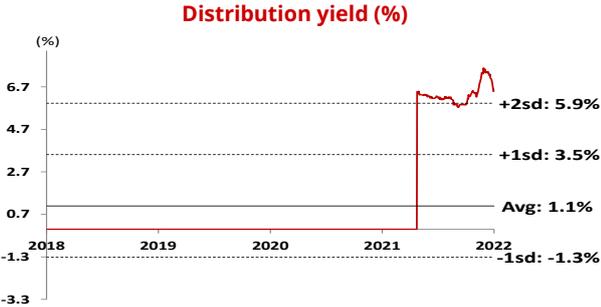
investing, directly or indirectly, in a portfolio of income-producing logistics and industrial real estate assets located across Asia. DHLT's investment focus will be to invest in logistics and industrial real estate assets in Asia, especially within Japan, as well as in the ASEAN region.

Interim Income Statement (S\$m)

FY Dec	1H2022 (IPO forecast)	1H2022	Variance (%)
Gross revenue	40.4	38.9	(3.6)
Property expenses	(8.9)	(8.9)	(0.3)
Net Property Income	31.5	30.0	(4.5)
Other Operating expenses	0.0	0.0	-
Other Non Opg (Exp)/Inc	0.0	0.0	-
Associates & JV Inc	0.0	0.0	-
Net Interest (Exp)/Inc	(5.6)	(4.8)	(13.4)
Exceptional Gain/(Loss)	0.0	0.0	-
Net Income	22.1	21.7	(2.1)
Tax	(2.8)	(17.0)	Nm
Minority Interest	0.0	0.0	-
Net Income after Tax	18.7	4.04	Nm
Total Return	16	112	Nm
Non-tax deductible Items	4.7	(91.2)	nm
Net Inc available for Dist.	20.9	20.9	nm
Ratio (%)			
Net Prop Inc Margin	78.0	77.2	
Dist. Payout Ratio	100	100	

Source of all data: Company, DBS Bank

Historical Dividend yield and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Daiwa House Logistics Trust

Income Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F
Gross revenue	71.0	67.1	63.0	60.1
Property expenses	(15.4)	(14.6)	(13.7)	(13.1)
Net Property Income	55.6	52.5	49.3	47.0
Other Operating expenses	(9.0)	(6.6)	(5.7)	(5.6)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(9.6)	(9.2)	(8.9)	(8.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Net Income	37.0	36.7	34.6	33.0
Tax	(5.0)	(4.7)	(4.3)	(4.1)
Minority Interest	0.0	0.0	0.0	0.0
Preference Dividend	(1.1)	(1.1)	(1.1)	(1.1)
Net Income After Tax	30.9	31.0	29.2	27.8
Total Return	26.0	146	24.9	27.8
Non-tax deductible Items	10.0	(112)	7.29	2.68
Net Inc available for Dist.	36.0	34.0	32.2	30.5
Growth & Ratio				
Revenue Gth (%)	N/A	(5.6)	(6.1)	(4.6)
N Property Inc Gth (%)	nm	(5.6)	(6.2)	(4.6)
Net Inc Gth (%)	nm	0.3	(5.6)	(4.8)
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	78.3	78.3	78.2	78.2
Net Income Margins (%)	43.5	46.2	46.4	46.3
Dist to revenue (%)	50.7	50.7	51.1	50.8
Managers & Trustee's fees	12.6	9.8	9.1	9.3
ROAE (%)	N/A	5.4	4.7	4.5
ROA (%)	N/A	2.4	2.2	2.2
ROCE (%)	N/A	3.2	3.0	2.9
Int. Cover (x)	4.8	5.0	4.9	4.9

Lower revenues due to weaker JPY against SGD.

Source: Company, DBS Bank

Daiwa House Logistics Trust

Balance Sheet (\$m)

FY Dec	2020A	2021A	2022F	2023F
Investment Properties	1,069	1,184	1,182	1,184
Other LT Assets	0.0	0.0	0.0	0.0
Cash & ST Invt	67.0	74.3	69.1	65.0
Inventory	0.0	0.0	0.0	0.0
Debtors	0.0	2.24	2.10	2.00
Other Current Assets	77.4	77.4	9.35	9.35
Total Assets	1,213	1,338	1,263	1,260
ST Debt	69.7	69.7	69.7	69.7
Creditor	0.0	6.71	6.30	6.01
Other Current Liab	0.0	4.68	4.28	4.05
LT Debt	544	544	476	476
Other LT Liabilities	50.2	50.2	50.2	50.2
Unit holders' funds	549	662	656	654
Minority Interests	0.0	0.0	0.0	0.0
Total Funds & Liabilities	1,213	1,338	1,263	1,260
Non-Cash Wkg. Capital	77.4	68.2	0.88	1.30
Net Cash/(Debt)	(547)	(540)	(477)	(481)
Ratio				
Current Ratio (x)	2.1	1.9	1.0	1.0
Quick Ratio (x)	1.0	0.9	0.9	0.8
Aggregate Leverage (%)	50.6	51.9	46.2	46.1

Reduction due to the refund of consumption tax in April 2022 (c.S\$68m).

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F
Pre-Tax Income	39.5	36.7	34.6	33.0
Dep. & Amort.	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	(4.7)	(4.3)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(72.8)	4.47	67.7	(0.2)
Other Operating CF	2.34	1.20	1.07	0.99
Net Operating CF	(31.0)	42.4	98.7	29.5
Net Invnt in Properties	(853)	0.0	(2.7)	(2.0)
Other Invnts (net)	0.0	0.0	0.0	0.0
Invnts 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	(9.1)	0.0	0.0	0.0
Net Investing CF	(862)	0.0	(2.7)	(2.0)
Distribution Paid	(15.6)	(34.0)	(32.2)	(30.5)
Chg in Gross Debt	441	0.0	(68.0)	0.0
New units issued	564	0.0	0.0	0.0
Other Financing CF	(59.3)	(1.1)	(1.1)	(1.1)
Net Financing CF	930	(35.1)	(101)	(31.6)
Currency Adjustments	(2.6)	0.0	0.0	0.0
Chg in Cash	34.0	7.31	(5.2)	(4.1)
Operating CFPS (S cts)	6.20	5.62	4.58	4.38
Free CFPS (S cts)	(131)	6.28	14.2	4.06

Source: Company, DBS Bank

Target Price & Ratings History

Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Jan 22	0.81	0.95	BUY

Source: DBS Bank

Analyst: Dale LAI

Derek TAN

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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 share price catalysts within this time frame)

*Share price appreciation + dividends

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