Singapore Company Update

Daiwa House Logistics Trust

Bloomberg: DHLT SP | Reuters: DAIW.SI

Refer to important disclosures at the end of this report

However, DBS Group Research . Equity

28 Feb 2024

BUY

Last Traded Price (28 Feb 2024): S$0.640 **(STI :** 3,138.93)
Price Target 12-mth: S$0.75 (17% upside) (Prev S$0.80)

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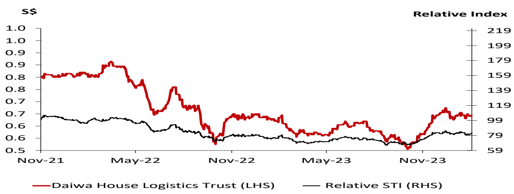
What's New

- FY23 DPU of 5.22 Scts driven by acquisitions in FY22; above our projections
- Accretive acquisitions and support from Sponsor enabled DHLT to maintain stable DPU despite weakening JPY
- Optimising gearing by delivering on acquisitions in Vietnam and another property in Japan, with total value of >S$50m
- Maintain BUY with slightly lower TP of S$0.75

Price Relative



Forecasts and Valuation

FY Dec (S$m)	2022A	2023A	2024F	2025F
Gross Revenue	68.7	59.9	64.4	66.5
Net Property Inc	53.0	45.3	50.3	51.9
Total Return	140	42.5	32.9	34.0
Distribution Inc	38.6	36.4	36.5	36.7
EPU (S cts)	2.75	4.45	4.72	4.86
EPU Gth (%)	(40)	62	6	3
DPU (S cts)	5.70	5.22	5.23	5.25
DPU Gth (%)	14	(8)	0	0
NAV per shr (S cts)	79.7	74.4	73.9	73.5
PE (X)	23.3	14.4	13.5	13.2
Distribution Yield (%)	8.9	8.2	8.2	8.2
P/NAV (x)	0.8	0.9	0.9	0.9
Aggregate Leverage (%)	47.6	46.9	49.6	49.5
ROAE (%)	3.2	5.8	6.4	6.6
Distn. Inc Chng (%):			2	1
Consensus DPU (S cts):			5.50	5.50
Other Broker Recs:		B: 3	S: 0	H: 0

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

Optimising gearing for growth

Investment Thesis:

Pure-play, modern logistics portfolio located in cities with limited supply. Daiwa House Logistics Trust (DHLT) owns a portfolio of 14 modern logistics facilities that are newly built with an average age of only c.6 years. With a presence in cities where the 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 better alternatives.

Gearing optimisation to drive earnings growth. DHLT recently utilised its debt headroom to acquire two high-quality logistics facilities in Vietnam and Japan. The acquisition in Vietnam will be DHLT's first foray outside of Japan, delivering on management's promise to diversify its portfolio outside of Japan and into the ASEAN region. The acquisitions are expected to generate an accretion of c.3%, again delivering on the team's promise to optimise its gearing to pursue accretive acquisitions. The five acquisitions since IPO have been executed through its pipeline, and its Sponsor's support has been key in delivering attractive accretion for the REIT.

Strong operating fundamentals and long portfolio WALE. DHLT continues to enjoy strong operating fundamentals with a high portfolio occupancy rate and a long WALE of c.6 years. However, DHLT has suffered from translation losses, as the JPY has been weakening against the SGD in the past year. In our projections, we have assumed an exchange rate of S$1:JPY105 for FY24/25F.

Maintain BUY with a TP of S$0.75 (vs. S$0.80 previously). Our TP of S$0.75 is based on the DCF valuation method with a WACC of 5.6% (risk-free rate of 3.5%). This implies a target yield of c.7%. We have not assumed any acquisitions in our projections other than those that have already been announced.

Key Risks

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

At A Glance

Issued Capital (m shrs)	694
Mkt. Cap (Sm/USm)	444 / 330
Major Shareholders (%)	
Free Float (%)	94.9
3m Avg. Daily Val (US$m)	0.18

GIC Industry : Real Estate / Equity Real Estate Investment (REITs)

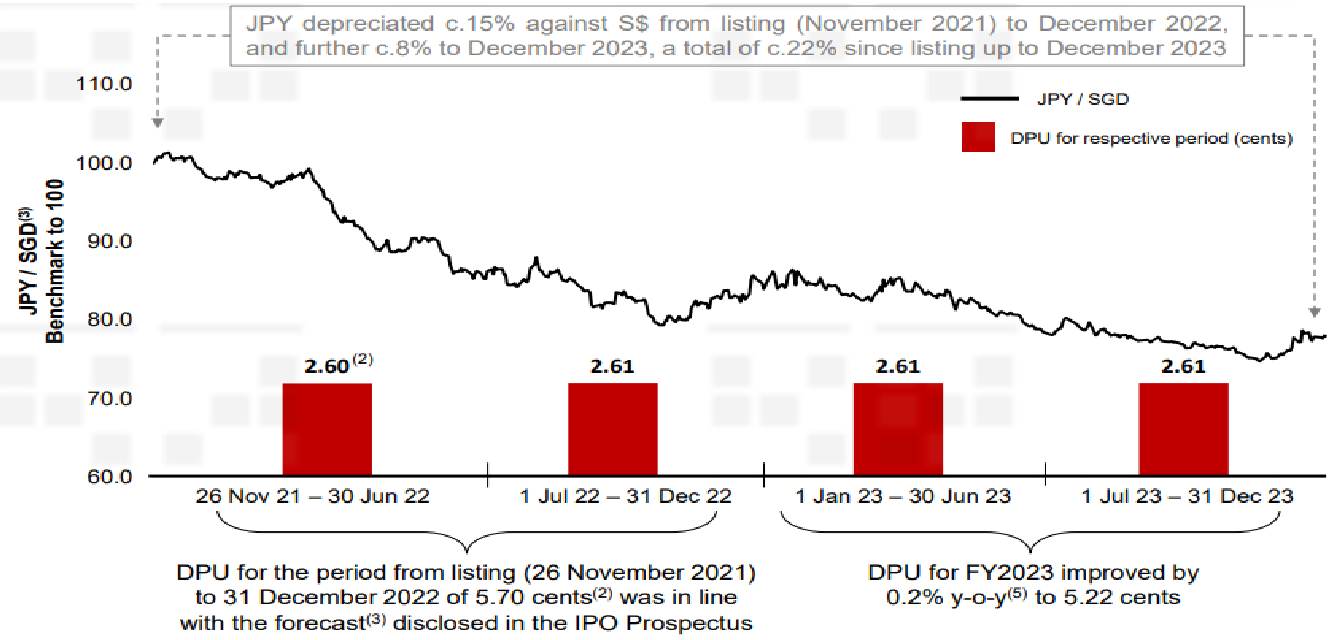
WHAT'S NEW

Optimising gearing for growth

Revenues and NPI higher y-o-y in JPY terms. In FY23, revenues and NPI, denominated in JPY terms, recorded a notable increase of 4.7% and 4.6% y-o-y, respectively. This growth was primarily attributed to the full-year contribution from properties acquired in December 2022, namely DPL Iwakuni 1 & 2, and D Project Matsuyama S. The acquisitions were estimated to have added c.S$2.2m in revenues during the year. However, when converted to SGD, revenues and NPI saw a decline of 3.7% and 5.0% y-o-y, respectively, as the weaker JPY offset the additional contribution from acquisitions.

FY23 DPU of 5.22 Scts came in above our projections. Despite the lower FY23 NPI in SGD terms, distributable income showed a 3.1% increase y-o-y, amounting to S$36.4m. This growth was primarily attributed to realised gains from hedging activities, and it is estimated that DHLT achieved an average hedge rate of approximately SGD1:JPY100 during FY23. Furthermore, the FY23 DPU of 5.22 Scts exceeded our projections by c.2.4%, mainly due to the favourable hedge rates achieved compared to our assumptions. FY23 DPU also exhibited a slight increase of 0.2% y-o-y, while 2H23 DPU of 2.61 Scts was similar to 1H23.

Maintained steady DPU despite the JPY depreciating by c.22% since IPO



Source: Daiwa House Logistics Trust

Achieved 100% occupancy and retention rate. DHLT's portfolio maintained full occupancy in 4Q23, successfully renewing four leases that expired during the year with a 100% retention rate, contributing to a long WALE of 6.2 years. Looking forward, attention is directed towards the c.23.4% of leases expiring in FY24, with c.19.7% coming from multi-tenanted properties and c.3.7% from Build-to-Suit (BTS) properties. In the first quarter of 2024, there will be two major leases expiring at DPL Kawasaki Yako (c.2% of NLA), and DPL Koriyama (c.1% of NLA), which will be vacated. Management is confident that they will be able to quickly backfill the impending vacancies and could even expect to see higher rents signed.

For the BTS expiry in FY24 (c.3.7% of GRI), we understand that DHLT is currently in advanced negotiations for the renewal of the lease at D Project Kuki S, which is set to expire in July 2024.
In FY23, rent renewals have been mostly flat to positive. Given the limited supply in some of the regions and the high-quality assets within DHLT's portfolio, we anticipate that rent reversions in FY24 will remain in positive territory.

Portfolio valuations improved c.2% y-o-y in JPY, but translation losses led to a c.6% decline in SGD terms. In JPY terms, DHLT's portfolio valuations showed a positive trajectory, increasing by 1.8% y-o-y. Based on our estimates, this improvement is attributed to a c.5bps compression in property cap rates, resulting in a JPY1.6bn increase in valuations. However, when translated into SGD terms, portfolio valuations experienced a decline of 5.9% y-o-y. This decrease is primarily due to translation losses incurred as the JPY weakened against the SGD by approximately 7.6% throughout the year. The weaker JPY was also a key factor contributing to the decline in NAV from S$0.80 to S$0.74.

DHLT's blended cap rate for its entire portfolio stands at c.5.2%-5.3%, and we believe there will be room for further cap rate compressions in the coming year as more investors continue to compete for high-quality properties throughout Japan. Just a week ago, Daiwa House REIT (DHLT's sister REIT listed in Japan) acquired a logistics facility in the Chiba prefecture at an estimated cap rate of 3.5%, demonstrating continued cap rate compressions for quality logistics assets.

Gearing remained healthy at 35.2%. In 4Q23, DHLT's gearing remained healthy at 35.2%, a slight improvement from the 36.2% reported in 3Q23. This improvement is attributed, in part, to the higher portfolio valuations in JPY terms. Notably, 100% of all loans remain hedged to fixed rates, ensuring stability in financing costs. However, gearing is expected to increase to c.39.1% upon the completion of the two acquisitions, D Project Tan Duc 2 and DPL Ibaraki Yuki, in 1Q24. These acquisitions, totalling S$50.6m, are anticipated to be fully funded by debt and are estimated to contribute to a DPU accretion of around 3%.

The current all-in borrowing cost stands at 0.99% but is anticipated to rise once loans due in FY24 are refinanced. A loan of S$93.4m (JPY10.0bn) is set to mature at the end of November 2024, and the refinancing of this loan is expected to contribute to an increase in borrowing costs. Additionally, new loans secured to fund the two acquisitions that will be completed in 1Q24 will also lead to higher borrowing costs, albeit with a smaller impact, given the quantum of these loans. Based on our estimates, we project DHLT's all-in borrowing cost will expand by c.20-30bps by the end of FY24.

Our views.

Overall, we remain upbeat about DHLT's results and its DPU that has came in slightly above our estimates. Operating metrics remain steady with full occupancy and 100% retention rate. However, we remain slightly cautious about the c.23.4% of leases that are expiring in FY24, especially as two BTS tenants will be vacating their spaces in March 2024 (c.3% of NLA). Although both leases only account for a small proportion of DHLT's overall portfolio, we expect the backfilling of BTS properties could potentially take more time.

Although borrowing costs are expected to inch up during the year, the refinancing will only happen in November 2024, limiting the impact to earnings in FY24. New loans taken to fund the acquisitions will lead to higher financing costs as well, but the impact will be relatively muted given the quantum of loans required. Moreover, we believe the upcoming completion of the two acquisitions totalling c.S$50.6m and generating c.3% accretion will help defend DHLT's earnings against the rising borrowing costs, as well as the continued weakness in the JPY.

Despite some of the challenges highlighted above, we believe that DHLT's portfolio will continue to deliver strong and stable earnings in the medium term through management's various proactive initiatives, including the optimisation of debt headroom by tapping into accretive acquisitions from its Sponsor. Furthermore, DHLT's Sponsor has consistently demonstrated their support and commitment to the REIT, which we deem as a highly crucial plus-point compared to some of its peers.

We have rolled forward our valuations and revised our projections to account for the two upcoming acquisitions, as well as assumed a weaker JPY (SGD1:JPY105). We also continue to see value in DHLT given the very attractive forward yields of c.8.2% and P/NAV multiple of only 0.86x. At the same time, we are also cognisant that the weak JPY continues to be an overhang for DHLT, but we believe the REIT will immediately trade back up to its intrinsic value once there are signs of the JPY strengthening.

As such, we are maintaining our BUY rating and slightly lower our TP to S$0.75.

Areas to watch: (i) Lease expiries in FY24, (ii) cost of borrowing after additional loans are taken to fund the acquisitions, and (iii) SGD/JPY exchange rate.

Company Background

Daiwa House Logistics Trust (DHLT) is a Singapore real estate investment trust (REIT) listed on 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 logistics and industrial real estate assets in Asia, especially within Japan, as well as in the ASEAN region.

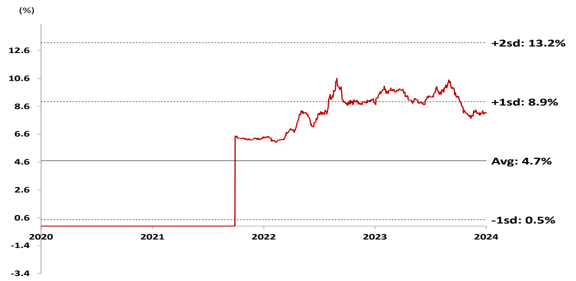
Interim Income Statement (S$m)

FY Dec	2H2022	1H2023	2H2023	% chg yoy	% chg hoh
Gross revenue	29.8	30.9	29.0	(2.9)	(6.3)
Property expenses	(6.9)	(7.8)	(6.8)	(1.6)	(13.0)
Net Property Income	23.0	23.1	22.2	(3.3)	(4.1)
Other Operating expenses	0.0	0.0	0.0	-	-
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(3.2)	(3.3)	(3.1)	3.4	7.2
Exceptional Gain/(Loss)	0.87	1.31	(0.5)	nm	nm
Net Income	19.4	19.8	18.4	(5.1)	(7.0)
Tax	(4.1)	(2.3)	(4.1)	(1.8)	74.7
Minority Interest	0.0	0.0	0.0	-	-
Net Income after Tax	14.8	17.0	13.9	(5.9)	(18.2)
Total Return	28.2	15.5	0.83	(97.1)	(94.6)
Non-tax deductible Items	(10.5)	2.63	(8.7)	(16.9)	nm
Net Inc available for Dist.	17.7	18.1	(7.9)	(144.6)	(143.6)
Ratio (%)					
Net Prop Inc Margin	77.0	74.9	76.7		
Dist. Payout Ratio	102.2	100.0	100.0		

Source of all data: Company, DBS Bank Ltd

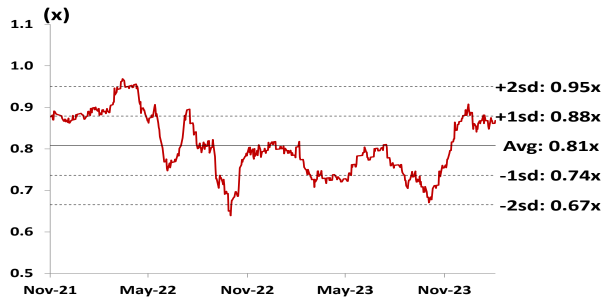
Historical Distribution Yield and PB band

Distribution yield (%)



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

PB band (x)



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

Income Statement (S$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Gross revenue	67.1	68.7	59.9	64.4	66.5
Property expenses	(14.6)	(15.7)	(14.5)	(14.2)	(14.7)
Net Property Income	52.5	53.0	45.3	50.3	51.9
Other Operating expenses	(6.7)	(4.8)	(1.7)	(1.7)	(1.8)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(9.2)	(8.0)	(6.4)	(10.0)	(10.2)
Exceptional Gain/(Loss)	0.0	0.87	0.87	0.0	0.0
Net Income	36.6	41.0	38.1	38.6	39.8
Tax	(4.7)	(21.2)	(6.4)	(4.8)	(5.0)
Minority Interest	0.0	0.0	0.0	0.0	0.0
Preference Dividend	(1.1)	(1.0)	(0.9)	(0.9)	(0.9)
Net Income After Tax	30.9	18.8	30.9	32.9	34.0
Total Return	146	140	42.5	32.9	34.0
Non-tax deductible Items	(112)	(102)	(6.1)	3.55	2.66
Net Inc available for Dist.	33.9	38.6	36.4	36.5	36.7
Growth & Ratio					
Revenue Gth (%)	(5.6)	2.5	(12.9)	7.6	3.3
N Property Inc Gth (%)	(5.6)	1.0	(14.5)	10.9	3.2
Net Inc Gth (%)	(0.1)	(39.0)	64.3	6.6	3.2
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	78.3	77.1	75.7	78.0	77.9
Net Income Margins (%)	46.0	27.4	51.6	51.1	51.1
Dist to revenue (%)	50.5	56.2	60.8	56.6	55.1
Managers & Trustee's fees	10.0	7.0	2.8	2.7	2.7
ROAE (%)	5.4	3.2	5.8	6.4	6.6
ROA (%)	2.4	1.5	2.7	2.9	2.9
ROCE (%)	3.1	1.9	3.2	3.8	3.8
Int. Cover (x)	5.0	6.0	6.8	4.9	4.9

Realised foreign exchange gains from forward contracts amounting to c.S$3.7m were recognised under "Other Income"

Interim Income Statement (S$m)

FY Dec	1H2022	2H2022	1H2023	2H2023
Gross revenue	38.9	29.8	30.9	29.0
Property expenses	(8.9)	(6.9)	(7.8)	(6.8)
Net Property Income	30.0	23.0	23.1	22.2
Other Operating	0.0	0.0	0.0	0.0
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	(4.8)	(3.2)	(3.3)	(3.1)
Exceptional Gain/(Loss)	0.0	0.87	1.31	(0.5)
Net Income	21.7	19.4	19.8	18.4
Tax	(17.0)	(4.1)	(2.3)	(4.1)
Minority Interest	0.0	0.0	0.0	0.0
Net Income after Tax	4.04	14.8	17.0	13.9
Total Return	112	28.2	15.5	0.83
Non-tax deductible Items	(91.2)	(10.5)	2.63	(8.7)
Net Inc available for Dist.	20.9	17.7	18.1	(7.9)
Growth & Ratio				
Revenue Gth (%)	N/A	(23)	4	(6)
N Property Inc Gth (%)	nm	(24)	1	(4)
Net Inc Gth (%)	nm	266	15	(18)
Net Prop Inc Margin (%)	77.2	77.0	74.9	76.7
Dist. Payout Ratio (%)	99.9	102.2	100.0	(230.0)

Slight decline in portfolio valuations in SGD terms due to translation losses. Portfolio valuations in JPY were actually up c.1.8%

Source: Company, DBS Bank Ltd

Balance Sheet (S$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Investment Properties	1,184	1,076	1,006	1,065	1,067
Other LT Assets	0.0	0.0	0.0	0.0	0.0
Cash	22.7	48.9	45.8	37.8	34.7
ST Investment	51.6	45.8	42.4	42.4	42.4
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	2.24	0.35	0.67	2.15	2.22
Other Current Assets	77.4	6.28	6.62	6.62	6.62
Total Assets	1,338	1,177	1,102	1,154	1,153
ST Debt	69.7	2.79	96.0	96.0	96.0
Creditor	6.71	10.3	9.80	6.44	6.65
Other Current Liab	4.66	0.0	3.78	4.83	5.01
LT Debt	544	509	376	432	432
Other LT Liabilities	50.2	65.8	63.0	63.0	63.0
Unit holders' funds	662	589	553	551	550
Minority Interests	0.0	0.0	0.0	0.0	0.0
Total Funds & Liabilities	1,338	1,177	1,102	1,154	1,153
Non-Cash Wkg. Capital	68.2	(3.7)	(6.3)	(2.5)	(2.8)
Net Cash/(Debt)	(540)	(417)	(384)	(448)	(451)
Perpetuals	35.5	35.8	35.8	35.8	35.8
Ratio					
Current Ratio (x)	1.9	7.8	0.9	0.8	0.8
Quick Ratio (x)	0.9	7.3	0.8	0.8	0.7
Aggregate Leverage (%)	51.9	47.6	46.9	49.6	49.5

Includes the two acquisitions in Vietnam and Japan, which are valued at c.S$50.6m and expected to be completed in 1Q24

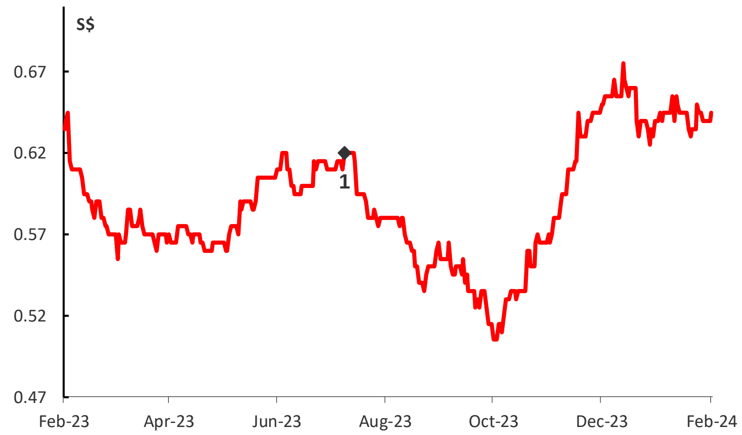
Source: Company, DBS Bank Ltd

Cash Flow Statement (S$m)

FY Dec	2021A	2022A	2023A	2024F	2025F
Pre-Tax Income	36.6	41.0	38.1	38.6	39.8
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	0.0	0.0	(0.1)	(4.8)
Associates &JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	4.47	9.70	(0.8)	(8.6)	0.14
Other Operating CF	1.19	8.55	7.16	1.27	1.33
Net Operating CF	42.3	59.3	44.5	31.3	36.5
Net Invt in Properties	0.0	(886)	(0.2)	(58.6)	(2.0)
Other Invts (net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	(0.1)	0.0	0.0
Net Investing CF	0.0	(886)	(0.3)	(58.6)	(2.0)
Distribution Paid	(33.9)	(20.9)	(35.9)	(36.5)	(36.7)
Chg in Gross Debt	0.0	409	0.0	56.6	0.0
New units issued	0.0	527	0.0	0.0	0.0
Other Financing CF	(1.1)	(25.8)	0.24	(0.9)	(0.9)
Net Financing CF	(35.0)	890	(35.6)	19.3	(37.5)
Currency Adjustments	0.0	(4.5)	(3.2)	0.0	0.0
Chg in Cash	7.29	58.7	5.34	(8.1)	(3.0)
Operating CFPS (S cts)	5.60	7.24	6.51	5.71	5.20
Free CFPS (S cts)	6.26	(121)	6.36	(3.9)	4.94

Source: Company, DBS Bank Ltd

Target Price & Ratings 12-mth 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:	04 Aug 23	0.62	0.80	BUY

Source: DBS Bank Ltd

Analysts: Dale LAI

Derek TAN

DBS Group Research recommendations are based on 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 share price catalysts within this time frame)

**Share price appreciation + dividends*

Completed Date: 29 Feb 2024 06:40:05 (SGT)
Dissemination Date: 29 Feb 2024 06:51:43 (SGT)

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

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