

COMPANY UPDATE

Daiwa House Logistics Trust (DHLT SP)

Growth From Logistics Assets In Japan And Southeast Asia

DHLT owns 17 logistics properties in Japan with total NLA of 4.9m sf. It benefits from the growth of the third-party logistics and e-commerce sectors, which accounted for 75.7% and 8.1% of its GRI respectively. DHLT is expanding in Japan and Southeast Asia by tapping its sponsor pipeline. It made its maiden foray overseas by acquiring cold storage facility D Project Tan Duc 2 in Vietnam for VND483b (S\$26.5m). DHLT trades at an attractive 2024 distribution yield of 9.0% and P/NAV of 0.82x.

WHAT'S NEW

- **Anchored in Japan while expanding in Southeast Asia.** Daiwa House Logistics Trust (DHLT) was listed on the Main Board of SGX on 26 Nov 21. Its initial portfolio comprises 14 logistics properties in Japan. Today, it has expanded to 17 high-quality logistics properties with NLA of 4.9m sf. Its portfolio of logistics properties has an average age of only 6.3 years. DHLT has seven logistics properties located in Greater Tokyo, which accounted for 42% of its portfolio valuation, with a long WALE of 7.4 years weighted by gross rental income (GRI). Freehold properties accounted for 60% of its portfolio valuation, while the average leasehold land tenure is 39.3 years.
- **Latent potential for sustainable growth in Japan.** All of DHLT's multi-tenanted logistics properties, which accounted for 77% of its portfolio valuation, are built to modern specifications. This is in stark contrast to the broader market in Japan, where the proportion of modern logistics facilities is still small at 15%. Growth is supported by third-party logistics and e-commerce, which accounted for 75.7% and 8.1% of DHLT's GRI respectively. There is huge room for growth as e-commerce penetration remains low at 9% in Japan.
- **Backed by strong and supportive sponsor.** Sponsor Daiwa House Industry (DHI) is one of the largest construction and real estate development companies in Japan. It has developed 231 single-tenanted and 81 multi-tenanted logistics properties in Japan. The sponsor manages real estate funds with an aggregate asset under management (AUM) of S\$19.6b, comprising Tokyo Stock Exchange-listed Daiwa House REIT, two unlisted REITs and private funds. Sponsor DHI has a substantial pipeline of logistics properties in Japan and is growing in Southeast Asian countries, such as Malaysia, Indonesia and Vietnam. DHLT has the right of first refusal (ROFR) over the sponsor's logistics properties in Asia with a total floor area of 6.1m sf.
- **Growing via acquisitions from sponsor pipeline.** Sponsor DHI is supportive of DHLT's growth. DHLT completed its maiden acquisition of DPL Iwakuni 1 & 2 in Chugoku and D Project Matsuyama S in Shikoku and underlying freehold land of D Project Iruma S in Greater Tokyo from DHI for ¥4,676m (S\$47.7m), which is at an 11.8% discount to valuation, in Dec 22. The two properties provided NPI yield of 6.5% and DPU accretion of 1.3%. DHLT has also has entered into an agreement to acquire DPL Ibaraki Yuki in Ibaraki Prefecture, Greater Tokyo from DHI for ¥2,640m (S\$24.1m), which is at an 18.1% discount to valuation, in Jan 24. The entire property is leased to Mitsubishi Shokuhin, one of the largest food distributors in Japan. The acquisition provides NPI yield of 5.4% and DPU accretion of 1.2%.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2019	2020	2021	2022	2023
Net turnover	n.a.	n.a.	n.a.	69	60
EBITDA	n.a.	n.a.	n.a.	47	39
Operating profit	n.a.	n.a.	n.a.	47	39
Net profit (rep./fact.)	n.a.	n.a.	n.a.	140	42
Net profit (adj.)	n.a.	n.a.	n.a.	18	30
EPS (S\$ cent)	n.a.	n.a.	n.a.	2.6	4.3
PE (x)	n.a.	n.a.	n.a.	21.8	13.1
P/B (x)	n.a.	n.a.	n.a.	0.7	0.8
EV/EBITDA (x)	n.a.	n.a.	n.a.	14.5	17.3
Dividend yield (%)	n.a.	n.a.	n.a.	10.1	9.2
Net margin (%)	n.a.	n.a.	n.a.	204.2	71.0
Net debt/(cash) to equity (%)	n.a.	n.a.	n.a.	49.1	48.5
Interest cover (x)	n.a.	n.a.	n.a.	6.8	17.8
ROE (%)	n.a.	n.a.	n.a.	23.8	7.4
Consensus net profit (S\$ cent)	-	-	-	-	-
UOBKH/Consensus (x)	-	-	-	-	-

Source: Daiwa House Logistics Trust, Bloomberg, UOB Kay Hian

NOT RATED

Share Price	S\$0.565
Target Price	n.a.
Upside	n.a.

COMPANY DESCRIPTION

DHLT invests in a portfolio of income-producing logistics and industrial real estate assets located across Asia. It is managed by Daiwa House Asset Management Asia, a wholly-owned subsidiary of its sponsor Daiwa House Industry.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	DHLT SP
Shares issued (m):	697.0
Market cap (S\$m):	393.8
Market cap (US\$m):	290.9
3-mth avg daily t'over (US\$m):	0.2

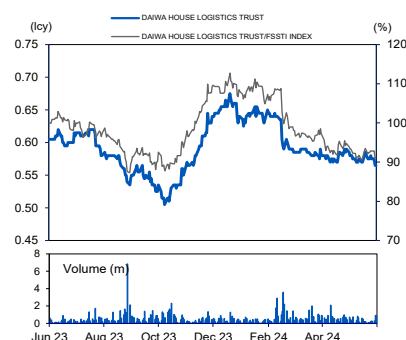
Price Performance (%)

52-week high/low	S\$0.675/S\$0.505			
1mth	3mth	6mth	1yr	YTD
(4.2)	(4.2)	(10.3)	(6.6)	(13.7)

Major Shareholders

	%
Daiwa House Industry Co Ltd	9.1
NAV/Share (S\$)	0.69
Net Debt/Share (S\$)	0.39

PRICE CHART

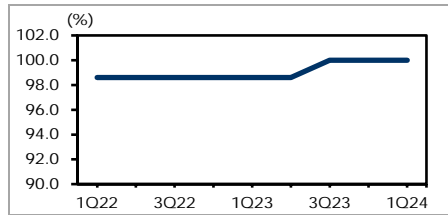


Source: Bloomberg

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PORTFOLIO OCCUPANCY



Source: DHLT

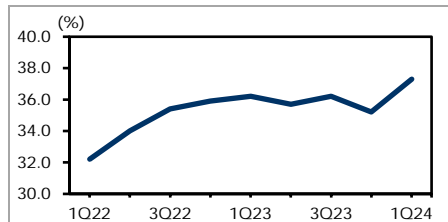
D PROJECT TAN DUC 2



Source: DHLT

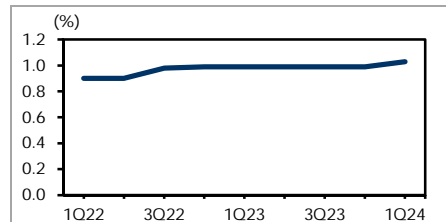
- Expansion into Southeast Asia.** DHLT has entered into an agreement to acquire built-to-suit cold storage facility D Project Tan Duc 2 located in Long An Province, Vietnam from DH Asia Investment for VND483b (\$S\$26.5m), which is at a 3% discount to valuation, in Jan 24. Long An is one of the key hubs for cold storage logistics facilities near Ho Chi Minh City. The property is leased to a cold chain logistics company that specialises in frozen and chilled food for 20 years starting Oct 23. The acquisition provides NPI yield of 8.3% and DPU accretion of 1.9%. Vietnam is expected to account for 3.2% of DHLT's portfolio valuation after the acquisition is completed in Jun 24.
- Benefitting from lower interest rates in Japan.** Aggregate leverage inched higher by 2.1ppt qoq to 37.3% as of Mar 24 after DHLT completed the acquisition of DPL Ibaraki Yuki. Interest coverage ratio was preserved at 12.0x in 1Q24. Its average cost of debt remains low at 1.03%. 100% of its loans are hedged with fixed interest rates.
- Tapping funding in Singapore.** DHLT's loans are denominated in Japanese yen (JPY) to provide natural hedge. The acquisition of D Project Tan Duc 2 in Vietnam would be funded by JPY-denominated loan of ¥3.0b at a cost of debt of about 2%.

AGGREGATE LEVERAGE



Source: DHLT

AVERAGE COST OF DEBT



Source: DHLT

STOCK IMPACT

- Continued growth from Japan.** NPI grew 4.6% yoy in JPY terms in 1Q24 due to: a) portfolio occupancy improving 1.4ppt yoy to 100.0%, b) contribution from newly acquired DPL Ibaraki Yuki, and c) the absence of repair expenses due to damages caused by an earthquake in 1Q23. NPI in Singapore dollar (SGD) terms was affected as the JPY weakened 11% yoy against the SGD. Distributable income grew by a smaller 0.6% yoy.
- Long WALE provides stability.** DHLT had a long WALE of 5.9 years weighted by GRI (built-to-suit: 8.6 years, multi-tenanted: 5.0 years) as of Mar 24. Built-to-suit property D Project Kuki S was renewed for 10 years in Apr 24.
- Working on backfilling vacant space.** DHLT's portfolio was fully occupied as of Mar 24. Occupancy has slipped 3.4ppt to 96.6% in Apr 24 due to the expiry of two leases at DPL Kawasaki Yako and DPL Koriyama, which take up a total NLA of 167,670sf. Management is in advanced negotiations with a potential replacement tenant, a 3PL provider, to backfill the vacant space at DPL Kawasaki Yako.

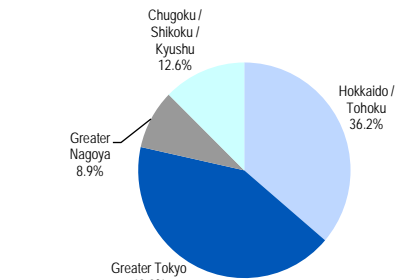
VALUATION/RECOMMENDATION

- DHLT trades at distribution yield of 9.0%** based on consensus 2024F DPU of 5.1 S cents (Nippon Prologis REIT: 4.1%, GLP J-REIT: 4.4%). Yield spread is attractive at 8.1% above 10-year Japanese government bond yield of 0.9%. P/NAV is attractive at 0.82x.

SHARE PRICE CATALYST

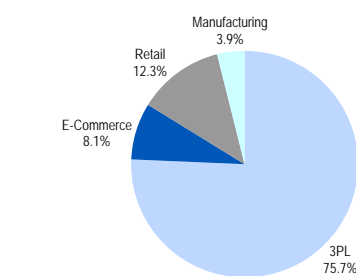
- Growth from 3PL and e-commerce in Japan and Southeast Asia.
- Acquisitions in Japan and Southeast Asia tapping on sponsor pipeline.

PORTFOLIO VALUATION BY REGION



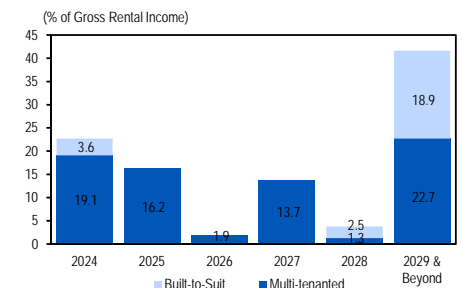
Source: DHLT

GROSS RENTAL INCOME BY TRADE SECTOR



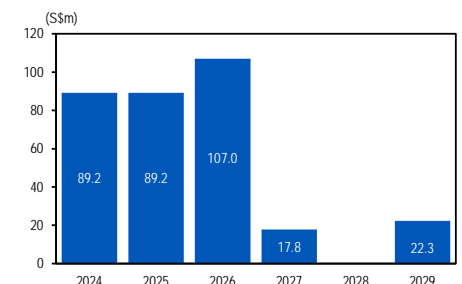
Source: DHLT

LEASE EXPIRY PROFILE



Source: DHLT

DEBT MATURITY PROFILE



Source: DHLT

PROFIT & LOSS

Year to 31 Dec (\$\$m)	2020	2021	2022	2023
Net turnover	n.a.	n.a.	68.7	59.9
EBITDA	n.a.	n.a.	47.0	39.5
Deprec. & amort.	n.a.	n.a.	0.0	0.0
EBIT	n.a.	n.a.	47.0	39.5
Net interest income/(expense)	n.a.	n.a.	(6.9)	(2.2)
Pre-tax profit	n.a.	n.a.	162.5	49.7
Tax	n.a.	n.a.	(21.2)	(6.4)
Preferred dividends	n.a.	n.a.	(1.0)	(0.8)
Net profit	n.a.	n.a.	140.3	42.5
Net profit (adj.)	n.a.	n.a.	17.9	30.0

CASH FLOW

Year to 31 Dec (\$\$m)	2020	2021	2022	2023
Operating	n.a.	n.a.	59.3	44.5
Pre-tax profit	n.a.	n.a.	162.5	49.7
Tax	n.a.	n.a.	0.0	(0.0)
Deprec. & amort.	n.a.	n.a.	(0.7)	0.1
Working capital changes	n.a.	n.a.	9.7	(0.8)
Non-cash items	n.a.	n.a.	(119.6)	(9.7)
Other operating cashflows	n.a.	n.a.	7.4	5.2
Investing	n.a.	n.a.	(885.7)	(0.3)
Capex (growth)	n.a.	n.a.	(885.7)	(0.2)
Others	n.a.	n.a.	0.0	(0.1)
Financing	n.a.	n.a.	879.9	(44.1)
Distribution to unitholders	n.a.	n.a.	(20.9)	(35.8)
Issue of shares	n.a.	n.a.	552.4	0.0
Proceeds from borrowings	n.a.	n.a.	444.5	0.0
Others/interest paid	n.a.	n.a.	(96.1)	(8.2)
Net cash inflow (outflow)	n.a.	n.a.	53.4	0.1
Beginning cash & cash equivalent	n.a.	n.a.	0.0	48.9
Changes due to forex impact	n.a.	n.a.	(4.5)	(3.2)
Ending cash & cash equivalent	n.a.	n.a.	48.9	45.8

BALANCE SHEET

Year to 31 Dec (\$\$m)	2020	2021	2022	2023
Fixed assets	n.a.	n.a.	1,075.7	1,006.3
Other LT assets	n.a.	n.a.	0.0	0.0
Cash/ST investment	n.a.	n.a.	48.9	45.8
Other current assets	n.a.	n.a.	52.5	49.7
Total assets	n.a.	n.a.	1,177.0	1,101.7
ST debt	n.a.	n.a.	0.0	93.4
Other current liabilities	n.a.	n.a.	13.1	16.2
LT debt	n.a.	n.a.	338.3	220.9
Other LT liabilities	n.a.	n.a.	236.7	217.8
Shareholders' equity	n.a.	n.a.	589.0	553.5
Total liabilities & equity	n.a.	n.a.	1,177.0	1,101.7

KEY METRICS

Year to 31 Dec (%)	2020	2021	2022	2023
Profitability				
EBITDA margin	n.a.	n.a.	68.4	66.0
Pre-tax margin	n.a.	n.a.	236.5	83.1
Net margin	n.a.	n.a.	204.2	71.0
ROA	n.a.	n.a.	11.9	3.7
ROE	n.a.	n.a.	23.8	7.4
Growth				
Turnover	n.a.	n.a.	n.a.	(12.9)
EBITDA	n.a.	n.a.	n.a.	(16.1)
Pre-tax profit	n.a.	n.a.	n.a.	(69.4)
Net profit	n.a.	n.a.	n.a.	(69.7)
Net profit (adj.)	n.a.	n.a.	n.a.	67.4
EPU	n.a.	n.a.	n.a.	67.4
Leverage				
Debt to total capital	n.a.	n.a.	36.5	36.2
Debt to equity	n.a.	n.a.	57.4	56.8
Net debt/(cash) to equity	n.a.	n.a.	49.1	48.5
Interest cover (x)	n.a.	n.a.	6.8	17.8

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