NOMURA

GLP J-REIT 3281.T 3281 JP

EQUITY: JAPAN REIT

16/8: acquisitions and rent hikes made as planned

Planning annual investment of ¥40-50bn and aiming for 2-3% or more average rent increase

Investment stance: still Buy, no change to risk premium in our TP calculation

In September the REIT used the proceeds from an equity offering to fund the acquisition of GLP Atsugi II and four other logistics facilities for ¥58.2bn, equivalent to a weighted average NOI yield of 4.9%. GLP REIT still has a deep pipeline for acquisitions, including 17 Global Logistics Properties (GLP) assets valued at roughly ¥200bn (with NOI yield around 4.8%) on which it holds preemptive rights and 26 properties valued at just over ¥500bn either developed or operated by GLP through a fund. Based on the existence of these properties, GLP REIT plans to continue acquiring properties at an annual pace of ¥40-50bn. GLP developed ¥120bn in logistics facilities in Japan in 2015 and plans to continue such development at a pace of ¥70-100bn annually. And property management operations are robust at GLP REIT, with portfolio occupancy at 99.2% at end-16/8 and projected to be over 99% in 17/2 and 17/8 as well. Rent increases averaged 11.3% in 16/2 and 10.3% in 16/8. We use a fair-value dividend yield of 3.25% and fair-value cap rate of 3.75% to calculate our target price. We continue to value the REIT using discount rates that are around 50bp lower than the respective weighted averages for 36 REITs under our coverage.

REIT views 2-4% rent hikes as sustainable, LTV high but sees scope for lower interest rates

Rents were revised on 10% of the portfolio's net rentable area (NRA) in 16/8, with rents hiked on 78% of that area at an average increase of 10.3%. That said, rent increases averaged 2-3% from 13/8 to 15/8. Recognizing this, management considers 2-4% a sustainable range. In both 17/2 and 17/8 roughly 7-8% of portfolio NRA is up for rent revisions. Even if the average rent increase for 17/2 is higher than the 2-4% range, it could return to the pace considered sustainable by management from 17/8 onward. The overall rent gap (versus market rent) of the portfolio is about 3%. We estimate that LTV is currently 48.5%, with low probability of increase. According to the REIT, 39% of interest-bearing debt needs to be rolled over from 18/2 to 20/2 and if all of it was refinanced at the same interest rate as new borrowings on 1 September, the interest expense savings would equate to full-year DPU of ¥154.

Parent	16/8			17/2E			17/8E		18/2E
Currency: JPY	Actual	Old	New	Co's	Old	New	Old	New
Ope revenues (mn)	12,278	12,267	14,030	14,015	12,291	14,086	N/A	14,101
Ope profits (mn)	6,328	6,298	7,402	7,388	6,294	7,298	N/A	7,291
EPU	2,024.0	2,015.8	2,179.3	2,174.0	2,018.3	2,141.1	N/A	2,144.5
P/E (x)	32.5	32.6	30.1	N/A	32.6	30.7	N/A	30.6
P/B (x)	1.8	1.8	1.7	N/A	1.8	1.7	N/A	1.7
Dividend yield (%)	3.5	3.5	3.8	N/A	3.5	3.7	N/A	3.7

Source: Company data, Nomura estimates

Key company data: See next page for company data and detailed price/index chart.

Global Markets Research

13 October 2016

Rating Remains	**Buy**
Target Price Reduced from 161,000	JPY 150,300
Closing price 13 October 2016	JPY 131,400
Potential upside	+14.4%

Anchor themes

Substantial quantities of new large-scale distribution centers continue to be added to supply, especially in the greater Tokyo and greater Osaka areas. Even compared to the large volume of supply added in 2015, the volume (based on square footage) of new large-scale facilities to be added in 2016 is 11.3% higher. That said, demand remains high, with tenants set (as of June 2016) for 59.4% of logistics facilities slated for completion in 2016, up from 50.7% at the same juncture in 2015.

Catalyst

We focus on the sustainability of acquiring at an annual pace of ¥40-50bn and of steady increases in rent.

Research analysts

Japan REIT

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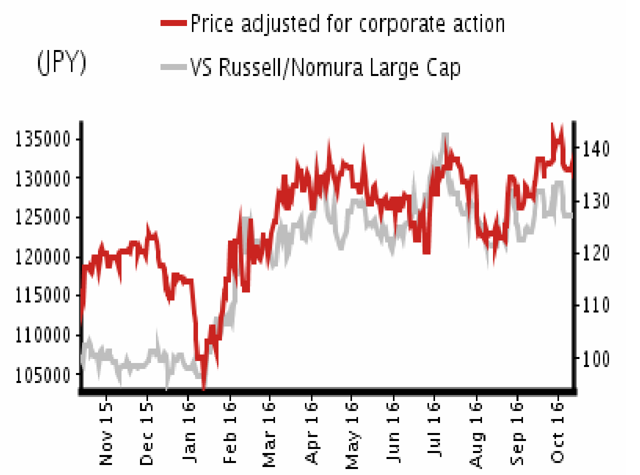
Key data on GLP J-REIT

Rating

Stock	Buy

Relative performance chart



Source: ThomsonReuters, Nomura research

Performance

(%)	1M	3M	12M
Absolute	1.5	0.1	13.7
Relative to Russell/Nomura Large Cap	0.4	-3.1	25.1

Stock price data

Current stock price (JPY)	131,400
Market capitalization (JPY bn)	374.9
52-week low stock price (JPY)	104,100
52-week high stock price (JPY)	135,500
Shares out (mn)	2.9

Source: ThomsonReuters, Nomura research

Valuation and ratio analysis

(JPY)	16/8	17/2E	17/8E	18/2E
EPS	2,024.0	2,179.3	2,141.1	2,144.5
BPU or NAV per unit	71,900	76,192	75,848	75,545
DPU	2,321.0	2,485.4	2,447.4	2,450.8
Capital adequacy ratio (%)	48.1	48.4	48.7	48.6
ROE (%)	5.6	6.2	5.6	5.7

Income statement

(JPY mn)	16/8	17/2E	17/8E	18/2E
Operating revenues	12,278	14,030	14,086	14,101
Operating profits	6,328	7,402	7,298	7,291
Pretax profits	5,252	6,219	6,110	6,119
Minority interest	-	-	-	-
Net profits	5,250	6,218	6,109	6,118

Balance sheet

(JPY mn)	16/8	17/2E	17/8E	18/2E
Total assets	387,848	448,859	444,589	443,735
Total liabilities	201,354	231,478	228,190	228,199
Net assets	186,494	217,382	216,399	215,535

Source: Company data, Nomura estimates

Fig. 1: GLP J-REIT [3281]: parent financial data

(¥mn, except where noted)

	15/8	% vs prev term	16/2	% vs prev term	16/8	% vs prev term	17/2E	% vs prev term	17/8E	% vs prev term	18/2E	% vs prev term
No. of properties (term-end)	54		58		58		63		63		63	
Total acquisition price	346,041		384,644		384,644		442,854		442,854		442,854	
Total appraisal value (1)	385,580		440,252		446,333		N/A		N/A		N/A	
Total book value (2)	340,033		376,792		374,788		N/A		N/A		N/A	
Unrealized gains (1) - (2)	45,547		63,460		71,545		N/A		N/A		N/A	
As % of book value	(13.4)		(16.8)		(19.1)		N/A		N/A		N/A	
Income statement												
Operating revenue	11,075	1	12,332	11	12,278	-0	14,030	14	14,086	0	14,101	0
Leasing business income	11,075	1	12,252	11	12,278	0	14,030	14	14,086	0	14,101	0
Profits on sale of real estate	-	-	80	-	-	-	-	-	-	-	-	-
Operating expenses	5,341	3	5,821	9	5,949	2	6,628	11	6,789	2	6,810	0
Leasing business expenses	4,149	2	4,474	8	4,606	3	5,115	11	5,216	2	5,232	0
Taxation	958	29	959	0	1,066	11	1,066	-0	1,226	15	1,226	0
Other expenses	829	-15	913	10	967	6	1,138	18	1,077	-5	1,093	1
Depreciation	2,361	1	2,602	10	2,573	-1	2,911	13	2,913	0	2,913	0
Asset management fees	1,097	5	1,219	11	1,236	1	1,365	10	1,425	4	1,430	0
Other operating expenses	96	-0	128	34	108	-16	148	37	148	0	148	0
Leasing business profits	6,927	-0	7,778	12	7,672	-1	8,915	16	8,871	-0	8,869	-0
Leasing business margin (%)	(62.5)		(63.5)		(62.5)		(63.5)		(63.)		(62.9)	
Real estate NOI	9,288	0	10,380	12	10,245	-1	11,826	15	11,784	-0	11,782	-0
Operating profits	5,733	-1	6,510	14	6,328	-3	7,402	17	7,298	-1	7,291	-0
Nonoperating revenue	1	19	1	-6	4	349	1	-75	1	0	1	0
Nonoperating expenses	1,085	-2	1,151	6	1,080	-6	1,185	10	1,189	0	1,172	-1
Interest paid, loan-related cost	925	-2	979	6	954	-3	1,037	9	1,070	3	1,053	-2
Interest on corporation bonds	61	72	64	5	65	2	65	-1	65	0	65	0
Amortized investment unit delivery costs	90	0	78	-13	51	-35	46	-10	46	0	46	0
Amortized corporation bonds issuing costs	8	34	8	4	8	0	8	0	8	0	8	0
Listing fee, stock- issuing expense	1	-97	21	-	1	-95	28	-	-	-	-	-
Other	1	20	1	-	1	18	1	1	1	0	1	0
Recurring profits	4,649	-1	5,360	15	5,252	-2	6,219	18	6,110	-2	6,119	0
Pre-tax profit	4,649	-1	5,360	15	5,252	-2	6,219	18	6,110	-2	6,119	0
Corporate, inhabitant and enterprise taxes	1	68	1	-52	1	-	1	-30	1	0	1	0
Net profits	4,648	-1	5,360	15	5,250	-2	6,218	18	6,109	-2	6,118	0
Total dividends	5,356	-1	6,139	15	6,020	-2	7,091	18	6,982	-2	6,992	0
(of which optimal payable distribution)	(708)		(778)		(770)		(873)		(874)		(874)	
(optimal payable distribution vs depreciation)	(30%)		(30%)		(30%)		(30%)		(30%)		(30%)	

Note: NOI (net operating income) = leasing business profits + depreciation expenses.

Source: Company data, Nomura estimates

Fig. 2: GLP J-REIT [3281]: parent financial data

(¥mn, except where noted)

Balance sheet

	15/8	16/2	16/8	17/2E	17/8E	18/2E
Current assets	11,751	11,825	11,627	16,760	14,891	16,439
Cash & deposits	11,157	10,536	10,456	15,422	13,547	15,094
Other	594	1,289	1,171	1,338	1,343	1,345
Long-term assets	341,091	378,141	376,048	431,910	429,563	427,215
Property, plant & equipment	340,107	376,859	374,924	430,786	428,439	426,090
Intangible long-term assets	-	-	-	-	-	-
Investments, other assets	984	1,283	1,125	1,125	1,125	1,125
Deferred assets	227	232	173	189	135	81
Investment unit issuance costs	133	146	95	119	73	27
Corporation bonds issuance costs	94	86	78	70	62	54
Total assets	353,068	390,197	387,848	448,859	444,589	443,735
Current liabilities	29,470	30,922	29,525	16,993	37,805	35,915
Short-term borrowings	1,700	-	-	3,500	3,500	3,500
Corporate bonds maturing within 1 year	-	-	-	-	-	6,000
L-T borrowings due within 1 year	23,800	27,000	24,700	8,000	28,800	20,900
Deposits & guarantees within 1 year	186	299	265	282	273	278
Other	3,784	3,623	4,560	5,211	5,232	5,237
Long-term liabilities	158,607	171,893	171,829	214,485	190,385	192,285
Corporation bonds	18,500	18,500	18,500	18,500	18,500	12,500
Long-term borrowings	132,580	145,630	145,630	187,810	163,710	171,610
Deposits & guarantees	7,527	7,763	7,699	8,175	8,175	8,175
Other	-	-	-	-	-	-
Total liabilities	188,077	202,815	201,354	231,478	228,190	228,199
Unitholders' equity	160,342	182,020	181,242	211,164	210,291	209,417
Capital surplus	4,650	5,363	5,252	6,218	6,109	6,118
Unappropriated retained earnings	4,650	5,363	5,252	6,218	6,109	6,118
Net assets	164,991	187,382	186,494	217,382	216,399	215,535
Total liabilities and net assets	353,068	390,197	387,848	448,859	444,589	443,735

Financial indicators

	15/8	16/2	16/8	17/2E	17/8E	18/2E
Investment units out (units)	2,390,731	2,593,784	2,593,784	2,853,078	2,853,078	2,853,078
EPU (¥)	1,944	2,067	2,024	2,179	2,141	2,144
DPU (¥)	2,240	2,367	2,321	2,485	2,447	2,451
(of which optimal payable distribution, ¥)	(296)	(300)	(297)	(306)	(306)	(306)
BPU (¥)	69,013	72,243	71,900	76,192	75,848	75,545
NAV (BPU + unrealized property gain/ unit, ¥)	88,064	96,709	99,483	N/A	N/A	N/A
FFO	7,009	7,881	7,823	9,129	9,022	9,031
AFFO	6,605	7,324	7,254	8,566	8,456	8,467
Capital expenditures	404	557	569	563	566	565
FFO/unit (¥)	2,932	3,039	3,016	3,200	3,162	3,165
AFFO/unit (¥)	2,763	2,824	2,797	3,002	2,964	2,968
Payout ratio (AFFO basis) (%)	81.1	83.8	83.0	82.8	82.6	82.6
EBITDA	8,094	9,112	8,901	10,313	10,211	10,204
NOI	9,330	10,477	10,376	11,826	11,784	11,782
NCF	8,926	9,920	9,807	11,263	11,218	11,217
NOI yield (%)	5.5	5.8	5.5	5.9	5.5	5.5
NOI yield after depreciation (%)	4.1	4.1	4.1	4.1	4.1	4.2
NCF yield (%)	5.3	5.5	5.2	5.6	5.2	5.3
ROA (%)	2.6	2.7	2.7	2.8	2.7	2.8
ROE (%)	5.6	6.1	5.6	6.2	5.6	5.7
Interest-bearing debt	176,580	191,130	188,830	217,810	214,510	208,510
LTV (i) (book value basis, %)	50.0	49.0	48.7	48.5	48.2	47.0
LTV (ii) (incl deposits and guarantees, %)	52.1	51.0	50.7	50.3	50.1	48.8
LTV (iii) (appraisal value basis, %)	44.3	42.1	41.1	41.6	41.2	39.9

Note: (1) NOI (net operating income) = leasing business profits + depreciation expenses; NOI yield = NOI ÷ real estate book value. (2) NCF (net cash flow) = NOI - capital expenditures; NCF yield = NCF ÷ real estate book value. (3) FFO (funds from operation) = net profits + depreciation ± gains/losses on sale of real estate; AFFO = FFO – capital expenditures. (4) LTV (loan to value) (i) = total interest-bearing debt ÷ total assets. (5) LTV (ii) = (total interest-bearing debt + deposits & guarantees) ÷ total assets. (6) LTV (iii) = total interest-bearing debt ÷ (total assets + unrealized gains based on appraised value).

Source: Company data, Nomura estimates

Appendix A-1

Analyst Certification

I, Tomohiro Araki, hereby certify (1) that the views expressed in this Research report accurately reflect my personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of my compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

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Materially mentioned issuers

Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
GLP J-REIT	3281 JP	JPY 131,400	13-Oct-2016	Buy	N/A	A4,A5,A6,A7,A8,A11

A4 The Nomura Group had an investment banking services client relationship with the issuer during the past 12 months.

A5 The Nomura Group has received compensation for investment banking services from the issuer in the past 12 months.

A6 The Nomura Group expects to receive or intends to seek compensation for investment banking services from the issuer in the next three months.

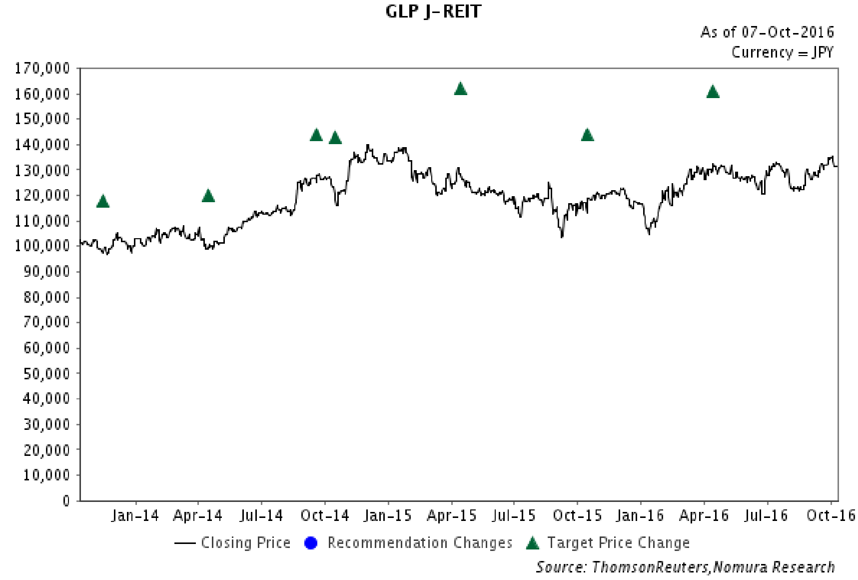
A7 The Nomura Group has managed or co-managed a public or Rule 144A offering of the issuer's securities in the past 12 months.

A8 Nomura Securities Co., Ltd., has lead managed a public offering of equity or equity linked securities of the issuer in the past 12 months.

A11 The Nomura Group holds 1% or more of any class of common equity securities of the issuer.

GLP J-REIT (3281 JP) **JPY 131,400 (13-Oct-2016)** Buy (Sector rating: N/A)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
13-Apr-16		161,000	129,900
14-Oct-15		144,000	113,100
14-Apr-15		162,000	128,400
15-Oct-14		143,000	120,700
18-Sep-14		144,000	125,300
15-Apr-14		120,000	99,200
13-Nov-13		118,000	97,200

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology For REITs, our target price is the simple average of two theoretical prices derived from the fair-value dividend yield and the fair-value cap rate (in this case, ¥152,900 and ¥147,600, respectively). Our target price for GLP REIT is ¥150,300, based on a fair-value dividend yield of 3.25%, a fair-value cap rate of 3.75%, and earnings forecasts for 17/2 and 17/8. The discount rates we use are around 50bp lower than the weighted-average dividend yield of 3.66% and weighted-average implied cap rate of 4.24% (as of 13 October) for the 36 REITs under our coverage.

Risks that may impede the achievement of the target price Risks that could cause the unit price to come in well below our target price include a worsening in rental income on the portfolio as a result of the departure of major tenants or substantial reductions in rents. We should also note the possibility of capital losses or writeoffs on properties that are sold or rebuilt. Other risks include higher financing costs as a result of rising interest rates and a rise in yield demanded by REIT market participants. As factors that could cause the unit price to substantially outperform our target price, we note the possibility of major improvements in rental income, large and effective reshuffling of assets with the sponsor, and a lower risk premium generally on real estate assets, including REITs.

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As at 30 September 2016.
**The Nomura Group as defined in the Disclaimer section at the end of this report.*
** As defined by the EU Market Abuse Regulation

Explanation of Nomura's equity research rating system in Europe, Middle East and Africa, US and Latin America, and Japan and Asia ex-Japan from 21 October 2013

The rating system is a relative system, indicating expected performance against a specific benchmark identified for each individual stock, subject to limited management discretion. An analyst’s target price is an assessment of the current intrinsic fair value of the stock based on an appropriate valuation methodology determined by the analyst. Valuation methodologies include, but are not limited to, discounted cash flow analysis, expected return on equity and multiple analysis. Analysts may also indicate expected absolute upside/downside relative to the stated target price, defined as (target price - current price)/current price.

STOCKS

A rating of **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months. A rating of **'Neutral'**, indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months. A rating of **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months. A rating of **'Suspended'**, indicates that the rating, target price and estimates have been suspended temporarily to comply with applicable regulations and/or firm policies. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies. Benchmarks are as follows: **United States/Europe/Asia ex-Japan**: please see valuation methodologies for explanations of relevant benchmarks for stocks, which can be accessed at: http://go.nomuranow.com/research/globalresearchportal/pages/disclosures/disclosures.aspx; **Global Emerging Markets (ex-Asia)**: MSCI Emerging Markets ex-Asia, unless otherwise stated in the valuation methodology; **Japan:** Russell/Nomura Large Cap.

SECTORS

A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next 12 months. A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next 12 months. A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months. Sectors that are labelled as **'Not rated'** or shown as **'N/A'** are not assigned ratings. Benchmarks are as follows: **United States:** S&P 500; **Europe:** Dow Jones STOXX 600; **Global Emerging Markets (ex-Asia):** MSCI Emerging Markets ex-Asia. **Japan/Asia ex-Japan:** Sector ratings are not assigned.

Explanation of Nomura's equity research rating system in Japan and Asia ex-Japan prior to 21 October 2013

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc. A **'Buy'** recommendation indicates that potential upside is 15% or more. A **'Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%. A **'Reduce'** recommendation indicates that potential downside is 5% or more. A rating of **'Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company. Securities and/or companies that are labelled as **'Not rated'** or shown as **'No rating'** are not in regular research coverage of the Nomura entity identified in the top banner. Investors should not expect continuing or additional information from Nomura relating to such securities and/or companies.

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Target Price

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When Japanese government bonds (JGBs) for individual investors are purchased via public offerings, only the purchase price shall be paid, with no sales commission charged. As a rule, JGBs for individual investors may not be sold in the first 12 months after issuance. When JGBs for individual investors are sold before maturity, an amount calculated via the following formula will be subtracted from the par value of the bond plus accrued interest: (1) for 10-year variable rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used, (2) for 5-year and 3-year fixed rate bonds, an amount equal to the two preceding coupon payments (before tax) x 0.79685 will be used.

When inflation-indexed JGBs are purchased via public offerings, secondary distributions (uridashi deals), or other OTC transactions with Nomura Securities, only the purchase price shall be paid, with no sales commission charged. Inflation-indexed JGBs carry the risk of losses, as prices fluctuate in line with changes in market interest rates and fluctuations in the nationwide consumer price index.The notional principal of inflation-indexed JGBs changes in line with the rate of change in nationwide CPI inflation from the time of its issuance. The amount of the coupon payment is calculated by multiplying the coupon rate by the notional principal at the time of payment. The maturity value is the amount of the notional principal when the issue becomes due. For JI17 and subsequent issues, the maturity value shall not undercut the face amount.

Purchases of investment trusts (and sales of some investment trusts) are subject to a purchase or sales fee of up to 5.4% of the transaction amount. Also, a direct cost that may be incurred when selling investment trusts is a fee of up to 2.0% of the unit price at the time of redemption. Indirect costs that may be incurred during the course of holding investment trusts include, for domestic investment trusts, an asset management fee (trust fee) of up to 5.4% (annualized basis) of the net assets in trust, as well as fees based on investment performance. Other indirect costs may also be incurred. For foreign investment trusts, indirect fees may be incurred during the course of holding such as investment company compensation.

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In interest rate swap transactions and USD/JPY basis swap transactions (“interest rate swap transactions, etc.”), only the agreed transaction payments shall be made on the settlement dates. Some interest rate swap transactions, etc. may require pledging of margin collateral. In some of these cases, transaction payments may exceed the amount of collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the transaction. Interest rate swap transactions, etc. carry the risk of losses owing to fluctuations in market prices in the interest rate, currency and other markets, as well as reference indices. Losses incurred as such may exceed the value of margin collateral, in which case margin calls may be triggered. In the event that both parties agree to enter a replacement (or termination) transaction, the interest rates received (paid) under the new arrangement may differ from those in the original arrangement, even if terms other than the interest rates are identical to those in the original transaction. Risks vary by transaction. Please thoroughly read the written materials provided, such as documents delivered before making a contract and disclosure statements.

In OTC transactions of credit default swaps (CDS), no sales commission will be charged. When entering into CDS transactions, the protection buyer will be required to pledge or entrust an agreed amount of margin collateral. In some of these cases, the transaction payments may exceed the amount of margin collateral. There shall be no advance notification of required collateral value or collateral ratios as they vary depending on the financial position of the protection buyer. CDS transactions carry the risk of losses owing to changes in the credit position of some or all of the referenced entities, and/or fluctuations of the interest rate market. The amount the protection buyer receives in the event that the CDS is triggered by a credit event may undercut the total amount of premiums that he/she has paid in the course of the transaction. Similarly, the amount the protection seller pays in the event of a credit event may exceed the total amount of premiums that he/she has received in the transaction. All other conditions being equal, the amount of premiums that the protection buyer pays and that received by the protection seller shall differ. In principle, CDS transactions will be limited to financial instruments business operators and qualified institutional investors.

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