

Keppel DC REIT

A steady quarter with stable DPU



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SINGAPORE | REAL ESTATE (REIT) | 1H23 RESULTS

26 July 2023

- 1H23 DPU of 5.051 Singapore cents (unchanged YoY) was in line and formed 51% of our FY23e forecast.
- Contributions from the acquisitions of Guangdong Data Centre 2 and 3, along with renewals, income escalations, and tax savings resulting from the approval of the NetCo Bonds as Qualifying Project Debt Securities, or QPDS, were offset by higher facilities expenses including increased electricity costs at some of its Singapore co-location assets, and higher finance costs due to refinanced loans, as well as floating interest rate loans.
- Downgrade from ACCUMULATE to NEUTRAL due to the recent share price performance. DDM derived target price remains unchanged at S\$2.26. Catalysts include more accretive acquisitions and lower-than-expected interest costs. The current share price implies FY23e/24e DPU yields of 4.4%/4.5%.

NEUTRAL (DOWNGRADED)

LAST CLOSE PRICE	SGD 2.260
FORECAST DIV	SGD 0.099
TARGET PRICE	SGD 2.260
TOTAL RETURN	4.4%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN) :	1,721
MARKET CAP (USD mn / SGD mn) :	2927 / 3888
52 - WK HI/LO (SGD) :	2.3 / 1.6
3M Average Daily T/O (mn) :	5.04

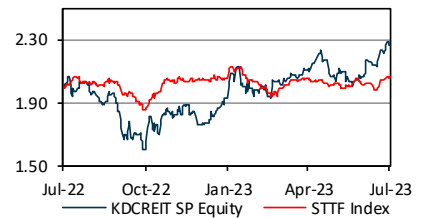
MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	20.2%
BLACKROCK INC	6.8%
VANGUARD GROUP INC	3.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	9.7	7.1	31.5
STTF RETURN	2.1	(0.2)	2.4

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY21	FY22	FY23e	FY24e
Gross Rev. (SGD mn)	271	277	288	300
NPI (SGD mn)	248	253	262	272
Dist. Inc. (SGD mn)	172	185	178	185
P/NAV (x)	1.69	1.61	1.55	1.55
DPU, adj (cents)	9.85	10.21	9.91	10.29
Dist. Yield	4.4%	4.5%	4.4%	4.6%

Source: Company Data, PSR

VALUATION METHOD

DDM (Cost of Equity: 6.6%; Terminal g: 2%)

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Results at a glance

(SGD mn)	1H23	1H22	YoY	Comments
Gross revenue	140.5	135.5	3.6%	Due to contributions from the acquisitions of Guangdong Data Centre 2 & building shell of Guangdong Data Centre 3, positive reversions from renewals and income escalations. Offset by lower government incentives for investments in Guangdong.
Net property inc.	127.4	123.2	3.3%	Higher facilities expenses including electricity costs at some of the Singapore co-location assets.
Distributable inc.	91.3	91.2	0.2%	Tax savings from NetCo Bonds qualifying as QPDS, offset by higher finance costs.
DPU (cents)	5.05	5.05	0.0%	

Source: Company, PSR

The Positives

+ Maintained high portfolio occupancy of 98.5% (unchanged YoY), with a portfolio WALE of 8 years. 12.2% of leases by rental income will expire in 2023. Leases renewed in 1H23 were in Singapore, Ireland and the Netherlands with overall positive rental reversions. In our view, the likelihood of lease renewal is high due to the high costs of tenant re-location; and 54% of its assets are located in Singapore. Cyxtera, the client at GV7 which filed for Chapter 11 bankruptcy, remains current on its rent payments with nothing owed.

+ Prudent capital management, with 73% of debt on fixed rate. Average cost of debt increased from 2.8% in 1Q23 to 3.3% in 2Q23 after refinancing all loans due in 2023 in Apr23, with the bulk of debt expiring from 2026 and beyond. A 100bps increase in interest rates would lower DPU by c.2.2%. Gearing improved 50bps from 36.8% in 1Q23 to 36.3%. Forecast foreign sourced income is also substantially hedged till June 2024. EU accounts for c.23% of income.

The Negative

- Potential Equity Fund Raising. There is a final payment of c.S\$142mn upon the completion of Guangdong Data Centre 3, expected to take place in 3Q23. If this is funded by a cash call, the new shares in the market might be a near term overhang to share price.

Outlook

Data centre demand continues to be driven by hyperscale expansion, with growth of generative AI applications such as ChatGPT and Bard accelerating demand for data centers and pushing for facilities with higher power density. Keppel DC REIT stands to benefit as it is located at key DC hubs where demand is still outstripping supply.

Keppel DC REIT is on the lookout for acquisitions, including off-market transactions across Asia and Europe. Japan is a potential target market, where acquisition cap rates are around 5% and interest rates remain low. The sponsor also has >\$2bn worth of data centre assets under development and management that KDCREIT could potentially acquire.

Downgrade from ACCUMULATE to NEUTRAL with an unchanged DDM TP of S\$2.26

KDCREIT's NPI yield of 7.2% and long WALE of 8 years is still superior to other asset classes. Its largest tenants are some of the biggest internet enterprises in the world, with its largest contributing 35.2% of rental income. Catalysts include more accretive acquisitions and lower-than-expected interest costs. The current share price implies FY23e/24e DPU yields of 4.4%/4.5%.

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
Gross revenue	266	271	277	288	300
Property expenses	(21)	(23)	(25)	(27)	(28)
Net property income	244	248	253	262	272
Net Finance (Expense)/Inc	(18)	(21)	(22)	(32)	(35)
Manager's fees	(22)	(24)	(26)	(29)	(29)
Other items	(12)	(3)	1	(8)	(8)
FV change, Inv. Properties	1	151	68	-	-
Total Return Before Tax	193	351	265	193	200
Taxation	(21)	(29)	(31)	(10)	(10)
Total Return After Tax	172	322	234	183	190
Unitholders	168	314	231	180	187
Non-controlling interest	4	8	3	3	3
Distribution adjustments	(11)	(142)	(46)	(2)	(2)
Income available for distribution	157	172	185	178	185

Per unit data

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
NAV (S\$)	1.19	1.34	1.40	1.45	1.46
DPU (cents)	9.17	9.85	10.21	9.91	10.29

Cash Flow

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
CFO					
Total Return After Tax	172	322	234	183	190
Adjustments	56	(102)	(2)	44	48
WC changes	16	(22)	(4)	27	1
Cash generated from ops	244	198	228	255	239
Others	(9)	(8)	(10)	(10)	(10)
Cashflow from ops	235	190	218	245	229

CFI

Purchase of Inv. propty., net	(134)	(196)	(247)	(153)	-
Capex, net	(83)	(113)	(48)	(29)	(31)
Others	8	(66)	(4)	11	11
Cashflow from investments	(209)	(374)	(299)	(171)	(20)

CFF

Share issuance, net	-	204	-	150	-
Net borrowings	371	551	518	170	60
Distributions	(121)	(205)	(178)	(214)	(218)
Others	(183)	(416)	(256)	(181)	(70)
Cashflow from financing	67	135	84	(75)	(228)

Net change in cash	93	(49)	3	(1)	(18)
Effects of exchange rate	(5)	(1)	(9)	-	-
Ending cash	244	196	190	189	171

Source: Company, Phillip Securities Research (Singapore) estimates

Balance Sheet

Y/E Dec, SGD mn	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Investment properties	3,005	3,401	3,639	3,822	3,852
Inv. Propty. Under Devmnt.	25	-	-	-	-
Others	19	117	206	126	123
Total non-current assets	3,048	3,518	3,845	3,948	3,975
Cash	244	196	190	189	171
Trade receivables	54	50	61	61	63
Others	3	16	11	11	11
Total current assets	302	262	263	261	245
Total Assets	3,350	3,780	4,108	4,208	4,220
LIABILITIES					
Borrowings	144	163	175	65	111
Trade payables	80	50	63	90	93
Others	9	7	7	7	7
Total current liabilities	234	221	245	161	211
Borrowings	1,044	1,136	1,300	1,407	1,357
Others	90	-	106	94	87
Total non-current liabilities	1,134	1,136	1,406	1,500	1,444
Total Liabilities	1,368	1,357	1,651	1,661	1,655
Net assets	1,982	2,423	2,457	2,547	2,565
Represented by:					
Unitholders' funds	1,945	2,293	2,414	2,502	2,518
Non-controlling interest	38	42	43	45	47

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/NAV (x)	1.91	1.70	1.62	1.56	1.55
Distribution Yield	4.0%	4.3%	4.5%	4.4%	4.5%
NPI yield	11.5%	7.7%	7.2%	7.0%	7.1%

Growth & Margins (%)

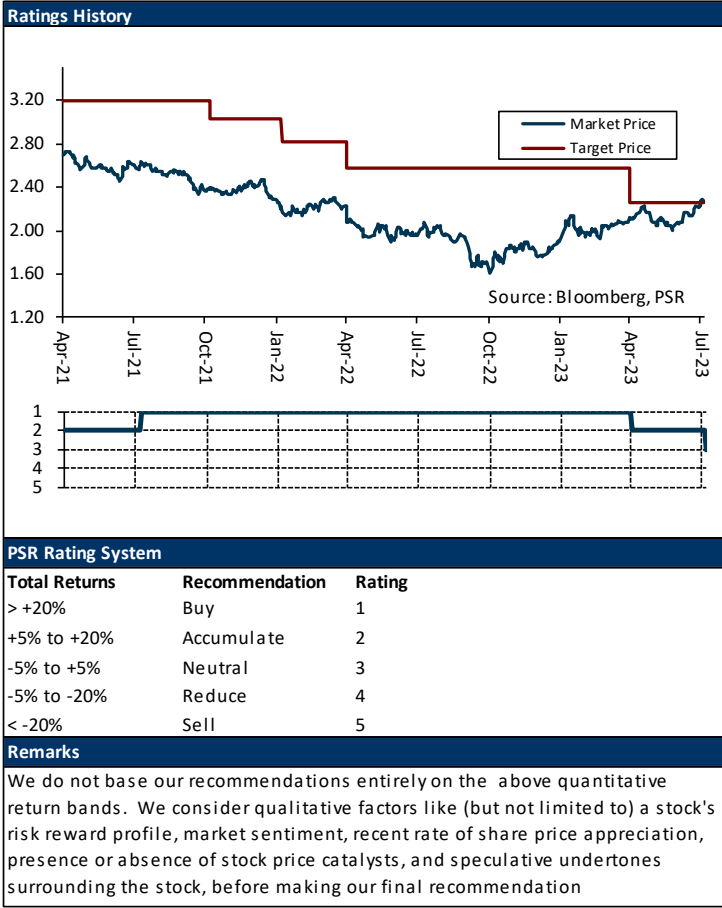
Growth					
Revenue	146.6%	2.1%	2.3%	4.0%	4.0%
Net property income (NPI)	167.4%	1.6%	1.8%	3.6%	4.0%
Distributable income	159.8%	9.4%	7.7%	-3.7%	4.0%
DPU	34.1%	7.4%	3.7%	-3.0%	3.9%
Investment Property	145.1%	13.2%	7.0%	5.0%	0.8%

Margins

NPI margin	91.9%	91.5%	91.1%	90.7%	90.7%
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Key Ratios

Gearing (%)	35.5%	34.4%	35.9%	35.0%	34.8%
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