

Keppel DC REIT

Waiting for acquisitions



StocksBnB.com

SINGAPORE | REAL ESTATE (REIT) | 3Q23 UPDATE

18 October 2023

- 3Q23 DPU of 2.492 Singapore cents (-3.6% YoY) was in line with our expectations. It formed 25.1% of our FY23e forecast.
- 3Q23 revenue/NPI growth of 0.5%/0.8% YoY, driven by contributions from acquisitions and positive income reversions and escalations, was more than offset by higher finance costs (+56.9% YoY) and less favourable forex hedges.
- Upgrade from NEUTRAL to BUY with an unchanged DDM-derived target price of S\$2.26 due to the recent share price performance. DPU growth catalysts include more accretive acquisitions and lower-than-expected interest costs. Organic growth will stem from renewals in FY24e (27.7% of leases expire in 2024). We expect revenue growth of c.4% for FY24e, barring contributions from potential acquisitions. The current share price implies FY23e/24e DPU yields of 5.2%/5.4%. No change to our forecasts.

BUY (Upgraded)

LAST CLOSE PRICE	SGD 1.910
FORECAST DIV	SGD 0.099
TARGET PRICE	SGD 2.260
TOTAL RETURN	23.5%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	1,721
MARKET CAP (USD mn / SGD mn):	2401 / 3287
52 - WK HI/LO (SGD):	2.3 / 1.6
3M Average Daily T/O (mn):	3.14

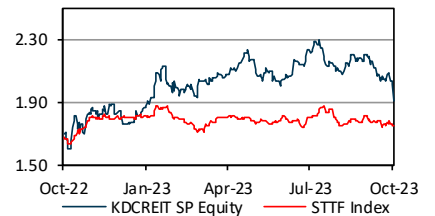
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(8.6)	(7.8)	19.1
STTF RETURN	(3.5)	(1.2)	0.9

PRICE VS. STTF



Source: Bloomberg, PSR

Results at a glance

(SGD mn)	3Q23	3Q22	YoY	Comments
Gross revenue	70.7	70.3	0.5%	Higher due to contributions from acquisitions, positive income reversions and escalations. Partially offset by net lower contributions from some Singapore co-location assets arising from higher facilities expenses including electricity costs.
Net property inc.	64.6	64.1	0.8%	
Finance costs	(12.8)	(8.2)	56.9%	Higher finance costs from refinanced loans and floating rate loans.
Distributable inc.	43.9	46.9	-6.5%	Lower due to higher finance costs and less favourable forex hedges.
DPU (cents)	2.49	2.59	-3.6%	

Source: Company, PSR

The Positives

+ Maintained high portfolio occupancy of 98.3% (dipped by 0.2% QoQ), with a portfolio WALE of 7.8 years. 27.7% of leases by rental income will expire in 2024, with only 1% expiring for the rest of 2023. Leases signed in 3Q23 were in Singapore, Australia, Ireland and the Netherlands, and were at positive rental reversions. Additionally, some of the leases signed were restructured into power pass-through leases, which should improve NPI margins.

+ Prudent capital management, with 72% of debt on fixed rate. Average cost of debt increased 0.2ppts QoQ to 3.5% in 3Q23, and ICR remains healthy at 5.4x. Only 4.2% of debt is up for refinancing in 2024 with the majority of debt expiring from 2026 and beyond. However, gearing increased 90bps QoQ to 37.2%. A 100bps increase in interest rates would lower DPU by c.2.4%. Forecast foreign sourced income is also substantially hedged till June 2024.

The Negatives

- Nil

Outlook

There is a final payment of c.S\$142mn upon the completion of Guangdong Data Centre 3, which was originally scheduled for 3Q23, but has been delayed due to COVID-related supply chain disruptions. According to our estimates, gearing would still remain below 40% even if this was fully funded by debt. However, equity fund-raising could be an option, especially if KDCREIT were to combine this final payment with an acquisition. The most likely contender

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)	1.43	1.36	1.31	1.31
DPU, adj (cents)	9.85	10.21	9.91	10.29
Dist. Yield	5.2%	5.3%	5.2%	5.4%

Source: Company Data, PSR

VALUATION METHOD

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

Darren Chan (+65 6212 1849)
Senior Research Analyst
darrenchanrx@phillip.com.sg

would be its sponsor's Keppel DC Singapore 7 (KDC SGP 7) asset situated at Genting Lane, which is currently being fitted-out by the tenant after its completion in 2Q23.

Upgrade from NEUTRAL to BUY with an unchanged DDM TP of S\$2.26

KDCREIT's NPI yield of 7.2% and long WALE of 7.8 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 34% of rental income. Catalysts include more accretive acquisitions and lower-than-expected interest costs. The current share price implies FY23e/24e DPU yields of 5.2%/5.4%.

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)	1.60	1.43	1.36	1.31	1.31
Distribution Yield	4.8%	5.2%	5.3%	5.2%	5.4%
NPI yield	11.5%	7.7%	7.2%	7.0%	7.1%

Growth & Margins (%)

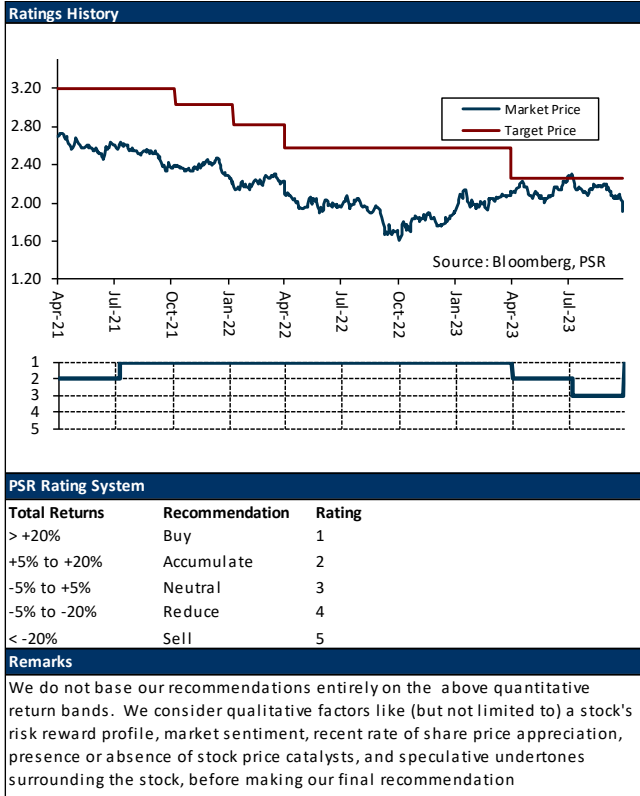
Growth					
Revenue	146.6%	2.1%	2.3%	4.0%	4.0%
Net property income (NPI)	167.4%	1.6%	1.8%	3.6%	4.0%
Distributable income	159.8%	9.4%	7.7%	-3.7%	4.0%
DPU	34.1%	7.4%	3.7%	-3.0%	3.9%
Investment Property	145.1%	13.2%	7.0%	5.0%	0.8%

Margins

NPI margin	91.9%	91.5%	91.1%	90.7%	90.7%
------------	-------	-------	-------	-------	-------

Key Ratios

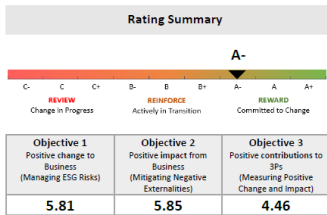
Gearing (%)	35.5%	34.4%	35.9%	35.0%	34.8%
-------------	-------	-------	-------	-------	-------



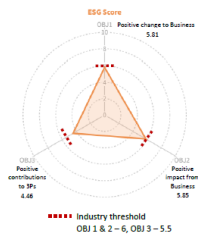
Keppel DC REIT

SGX: A1BU

Oct 2023



The PGM ESG Research Objectives are guided by our Sustainable Investing philosophy, principles, and position



Contact Information (Singapore Research Team)

Head of Research

Paul Chew – paulchewkl@phillip.com.sg

Research Admin

Qystina Azli – qystina@phillip.com.sg

Technical Analyst

Zane Aw – zaneawyx@phillip.com.sg

Property | REITs

Darren Chan – darrenchanrx@phillip.com.sg

Banking & Finance

Glenn Thum – glennthumjc@phillip.com.sg

Credit Analyst

Shawn Sng – shawnsngkh@phillip.com.sg

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

Conglomerate | Transport

Peggy Mak – peggymak@phillip.com.sg

US Technology Analyst (Hardware & Marketplaces)

Maximilian Koeswoyo – maximilian@phillip.com.sg

US Technology Analyst (Digital Media & Entertainment)

Jonathan Woo – jonathanwookj@phillip.com.sg

US Technology Analyst (Software/Services)

Ambrish Shah – amshah@phillipventuresifsc.in

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
25-2, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.

4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangkok,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc

141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapiatal.in

MALAYSIA

Phillip Capital Management Sdn Bhd

B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia

ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited

3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited

Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapiatal.com.au

TURKEY

PhillipCapital Menkul Degerler

Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapiatal.com.tr

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd

No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited

6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

CAMBODIA

Phillip Bank Plc

Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

DUBAI

Phillip Futures DMCC

Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.