

Keppel DC REIT

DXC settlement offers partial relief from uncollected rents



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SINGAPORE | REAL ESTATE (REIT) | 1Q24 UPDATE

22 April 2024

- 1Q24 DPU of 2.192 Singapore cents (-13.7% YoY) was in line with our expectations at 25.5% of FY24e forecast.
- The settlement sum of S\$13.3mn related to the dispute with DXC has been received in full. After deducting related expenses and GST, the remaining S\$11.2mn will be distributed equally across four quarters in FY24. This will partially offset the loss from the non-collection of three months of rent at the Guangdong DCs, which amounted to c.S\$5.3mn in 1Q24.
- Maintain ACCUMULATE with an unchanged DDM-derived target price of S\$1.86. Organic growth will stem from renewals in FY24e (26.7% of leases expire in 2024); we expect portfolio rental reversions of c.4% for FY24e. Our FY24e forecast already assumes no rental contribution from the Guangdong DCs, so further bad debts will not affect our forecast. Potential catalysts include accretive acquisitions and the collection of rental in arrears from Bluesea. The current share price implies FY24e/25e DPU yields of 5.2%/5.8%. There is no change in estimates.

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 1.640
FORECAST DIV	SGD 0.086
TARGET PRICE	SGD 1.860
TOTAL RETURN	18.6%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	1,723
MARKET CAP (USD mn / SGD mn):	2155 / 2928
52 - WK HI/LO (SGD):	2.3 / 1.6
3M Average Daily T/O (mn):	7.48

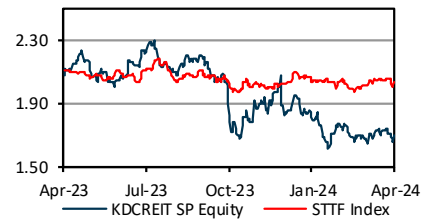
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(1.2)	(5.9)	(12.7)
STTF RETURN	0.2	1.4	(1.7)

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev. (SGD mn)	277	281	292	312
NPI (SGD mn)	253	245	245	261
Dist. Inc. (SGD mn)	185	168	156	173
P/NAV (x)	1.17	1.22	1.21	1.21
DPU, adj (cents)	10.21	9.38	8.57	9.52
Dist. Yield	6.2%	5.7%	5.2%	5.8%

Source: Company Data, PSR

VALUATION METHOD

DDM (Cost of Equity: 7%; Terminal g: 1.75%)

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Results at a glance

(SGD mn)	1Q24	1Q23	YoY	Comments
Gross revenue	83.4	70.4	18.4%	Higher due to settlement sum received in relation to the dispute with DXC (S\$13.3mn including GST) and positive reversions and escalations.
Net property inc.	71.0	63.9	11.2%	Guangdong DCs 1Q24 rental income recognised under gross revenue is net off via loss allowance in property expenses.
Finance costs	(13.0)	(10.5)	23.7%	
Distributable inc.	38.8	46.3	-16.3%	Settlement sum of c.S\$11.2mn (after related expenses and GST) from DXC will be distributed equally over four quarters in FY24.
DPU (cents)	2.19	2.54	-13.7%	Impact on 1Q24 DPU resulting from the non-collection of income from Guangdong DCs amounted to 0.326 Scts.

Source: Company, PSR

The Positives

+ Maintained high portfolio occupancy of 98.3% (unchanged QoQ), with a portfolio WALE of 7.4 years. 26.7% of leases by rental income will expire in 2024. Leases signed in 1Q24 were at positive rental reversions.

+ Steady capital management, with 1Q24 average cost of debt declining 0.1ppts QoQ to 3.5% and a healthy ICR at 4.7x. 73% of debt is on a fixed rate, and only 4% of debt is up for refinancing in 2024, with most of the debt expiring from 2026 and beyond. Gearing increased 20bps QoQ to 37.6%, still below KDCREIT's internal cap of 40%. The majority of foreign-sourced income is also hedged until December 2024.

The Negative

- **Rentals are owed by the master lessee at Guangdong DCs.** Currently, Bluesea owes c.8.5 months of rents totalling c.\$15.8mn. We are waiting to see how long before management decides to pull the plug and take over the property. KDCREIT reserves its rights to terminate the acquisition of GDC 3; there is currently a RMB100mn deposit on GDC 3. Additionally, there might be a risk of asset devaluations for the Guangdong DCs if KDCREIT cannot recover the overdue rent.

Divestment of Intellicentre Campus

KDCREIT is divesting Intellicentre Campus to Macquarie Data Centres Macquarie Park Property SubTrust at A\$174mn, translating to a 35.4% premium to the most recent valuation of A\$128.5mn and an exit cap rate of 3.6%. In conjunction with this divestment, KDCREIT will re-invest A\$90mn of the sales proceeds into an Australian Data Centre Note issued by Macquarie Data Centres Group, which pays a regular income stream starting at A\$6.3mn p.a. (6.97% initial yield), with annual CPI-linked escalation for a term of 8.5 years. Another A\$43.2mn of the sales proceeds will be used to repay existing loans for Intellicentre Campus. The balance proceeds of c.A\$22.3mn from the divestment will be used for repaying debt, funding acquisitions, capex, and/or working capital. This transaction is expected to be 0.7% DPU accretive in its totality, and leverage is expected to improve to 36.7% post-transaction.

Outlook

The global demand for data centre space is expected to continue growing due to cloud computing, digital transformation, artificial intelligence, big data, and the Internet of Things. This should benefit KDCREIT, which has a diversified portfolio of data centres in key markets. Potential inorganic growth opportunities could be the sponsor's Keppel DC Singapore 7 asset situated at Genting Lane, or Keppel DC Singapore 8, which topped up in March 24.

Maintain ACCUMULATE with an unchanged DDM TP of S\$1.86

KDCREIT's largest tenants are some of the biggest internet enterprises in the world, with its largest contributing 34.7% of rental income. Catalysts include more accretive acquisitions and the collection of rental in arrears from Bluesea. The current share price implies FY24e/25e DPU yields of 5.2%/5.8%.

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Gross revenue	271	277	281	292	312
Property expenses	(23)	(25)	(36)	(47)	(51)
Net property income	248	253	245	245	261
Net Finance (Expense)/Inc	(21)	(22)	(38)	(41)	(39)
Manager's fees	(24)	(26)	(27)	(27)	(28)
Other items	(3)	1	(7)	(8)	(8)
FV change, Inv. Properties	151	68	(28)	-	-
Total Return Before Tax	351	265	138	169	187
Taxation	(29)	(31)	(16)	(8)	(9)
Total Return After Tax	322	234	122	161	178
Unitholders	314	231	119	157	174
Non-controlling interest	8	3	4	4	4
Distribution adjustments	(142)	(46)	49	(1)	(1)
Income available for distribution	172	185	168	156	173

Per unit data

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
NAV (\$\$)	1.34	1.40	1.34	1.35	1.36
DPU (cents)	9.85	10.21	9.38	8.57	9.52

Cash Flow

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Total Return After Tax	322	234	122	161	178
Adjustments	(102)	(2)	111	57	55
WC changes	(22)	(4)	(14)	13	2
Cash generated from ops	198	228	220	230	235
Others	(8)	(10)	(9)	(8)	(9)
Cashflow from ops	190	218	211	221	225

CFI

Purchase of Inv. propty., net	(196)	(247)	-	-	-
Capex, net	(113)	(48)	(26)	(29)	(29)
Others	(66)	(4)	11	11	11
Cashflow from investments	(374)	(299)	(15)	(18)	(18)

CFF

Share issuance, net	204	-	-	-	-
Net borrowings	551	518	265	60	100
Distributions	(205)	(178)	(226)	(205)	(203)
Others	(416)	(256)	(275)	(63)	(110)
Cashflow from financing	135	84	(236)	(208)	(213)
Net change in cash	(49)	3	(41)	(5)	(6)
Effects of exchange rate	(1)	(9)	0	-	-
Ending cash	196	190	150	145	138

Source: Company, Phillip Securities Research (Singapore) estimates

Balance Sheet

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Investment properties	3,401	3,639	3,656	3,685	3,715
Others	117	206	141	138	120
Total non-current assets	3,518	3,845	3,797	3,823	3,835
Cash	196	190	150	145	138
Trade receivables	50	61	54	62	66
Others	16	11	6	6	6
Total current assets	262	263	209	212	210
Total Assets	3,780	4,108	4,007	4,035	4,045
LIABILITIES					
Borrowings	163	175	72	111	287
Trade payables	50	63	70	91	97
Others	7	7	6	6	6
Total current liabilities	221	245	149	208	389
Borrowings	1,136	1,300	1,408	1,357	1,171
Others		106	96	89	89
Total non-current liabilities	1,136	1,406	1,504	1,446	1,261
Total Liabilities	1,357	1,651	1,653	1,654	1,650
Net assets	2,423	2,457	2,354	2,381	2,395
Represented by:					
Unitholders' funds	2,293	2,414	2,311	2,336	2,347
Non-controlling interest	42	43	43	46	48

Valuation Ratios

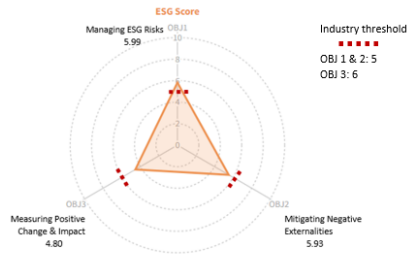
Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	1.27	1.21	1.27	1.26	1.25
Distribution Yield	5.8%	6.0%	5.5%	5.0%	5.6%
NPI yield	7.7%	7.2%	6.7%	6.7%	7.1%

Growth & Margins (%)

Growth					
Revenue	2.1%	2.3%	1.4%	3.9%	6.7%
Net property income (NPI)	1.6%	1.8%	-3.0%	0.1%	6.4%
Distributable income	9.4%	7.7%	-9.3%	-7.1%	11.0%
DPU	7.4%	3.7%	-8.1%	-8.7%	11.1%
Investment Property	13.2%	7.0%	0.5%	0.8%	0.8%
Margins					
NPI margin	91.5%	91.1%	87.1%	83.9%	83.7%
Key Ratios					
Gearing (%)	34.4%	35.9%	37.0%	36.4%	36.0%

KDC	ESG Rating	Apr 2024	A-
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SGX: AJBU | Keppel DC REIT



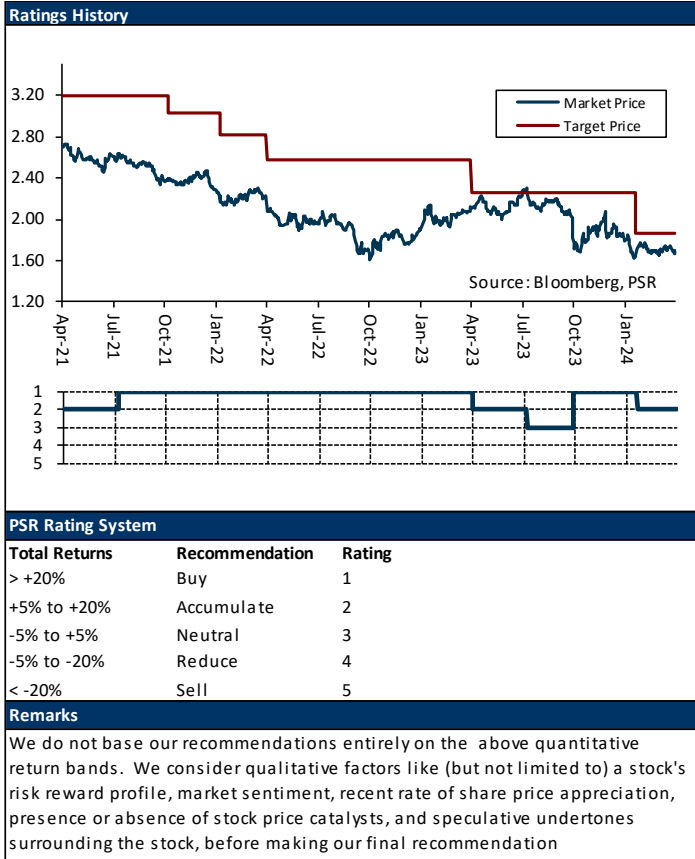
PhillipCapital Global Sustainability
Company ESG Risk Rating Report



Objective 1	Objective 2	Objective 3
Managing ESG Risks (Positive Input)	Mitigating Negative Externalities (Positive Influence)	Measuring Positive Change and Impact (Positive Impact)
5.99	5.93	4.80

Quarterly Update

- Top 3 ESG indicators that influence our rating. There have been improvements in the following:
 1. Financial impacts of physical climate risks.
 2. Increased use and new sources of renewable energy.
 3. Scope 1, 2 and 3 emissions reductions.



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