

Keppel DC REIT

Rental reversions remain robust in 3Q24



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SINGAPORE | REAL ESTATE (REIT) | 3Q24 Update

21 October 2024

- 3Q24 DPU of 2.501 Singapore cents (+0.4% YoY) exceeded our expectations, achieving 27% of our FY24e forecast. This was due to the exceptionally strong positive portfolio rental reversions, continuing the trend from 2Q24. A major contract renewal in Singapore secured a positive reversion of over 40%.
- Tokyo DC 1 has commenced contributions following the acquisition completion on 31 July 2024. The rental income from the Guangdong DCs continues to be net off via loss allowances, and the impact to 3Q24 DPU was 0.32 Scents.
- Upgrade to NEUTRAL from REDUCE with a higher DDM-derived target price of S\$2.16 from S\$1.93. We raise our FY24e/25e DPU estimates by 5%/9% after factoring in stronger positive rental reversions for the portfolio and lower finance costs. We lower our risk-free rate assumption to 2.5% from 3%, and as a result our cost of equity has fallen from 7% to 6.83%. We expect rental reversions to remain at similar levels, particularly the Singapore leases, given the strong demand and limited supply. Our FY24e forecast already assumes no rental contribution from the Guangdong DCs, so further loss allowances will not affect our forecasts. Potential catalysts include accretive acquisitions and the collection of rentals in arrears from Bluesea. Due to the recent share price rally, the FY24e/25e DPU yields are only at 4.2%/4.7%.

Results at a glance

(SGD mn)	3Q24	3Q23	YoY	Comments
Gross revenue	76.9	70.7	8.9%	Higher due to strong positive rental reversions and escalations across the portfolio and contribution from Tokyo DC 1, partially offset by the divestment of Intellicentre Campus.
Net property inc.	64.5	64.6	-0.2%	Guangdong DCs 3Q24 rental income recognised under gross revenue is net off via loss allowance in property expenses.
Finance costs	(13.0)	(12.8)	1.4%	Higher due to loans taken up to fund the acquisition of Tokyo DC 1, partially offset by interest savings from loan repayments.
Distributable inc.	44.7	43.9	1.9%	Partial distribution of the DXC settlement sum received in 1H24 of c.S\$2.8mn.
DPU (cents)	2.50	2.49	0.4%	Impact on 3Q24 DPU resulting from the non-collection of income from Guangdong DCs amounted to 0.32 Scts.

Source: Company, PSR

The Positives

+ Maintained high portfolio occupancy of 97.6% (2Q24: 97.5%) with exceptionally strong positive rental reversions. KDCREIT registered its seventh consecutive quarter of positive rent reversions in 3Q24, with a major contract renewal in Singapore achieving a reversion of over 40%. We expect positive rental reversions for the 11.5% of leases by GRI expiring in 4Q24, driven by similar levels of colocation renewals in Singapore.

+ Lower cost of debt, with 3Q24 average cost of debt at 3.3% (2Q24: 3.5%). 71% of debt is on a fixed rate, with no debt due in 2024, with most of the debt expiring from 2026 and beyond. Gearing increased 390bps QoQ to 39.7% as KDCREIT took on JPY debt to fund the acquisition of Tokyo DC 1. Most of the foreign-sourced income is hedged until June 2025.

NEUTRAL (Upgraded)

LAST CLOSE PRICE	SGD 2.250
FORECAST DIV	SGD 0.095
TARGET PRICE	SGD 2.160
TOTAL RETURN	0.2%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	1,725
MARKET CAP (USD mn / SGD mn):	2961 / 3882
52 - WK HI/LO (SGD):	2.28 / 1.6
3M Average Daily T/O (mn):	5.69

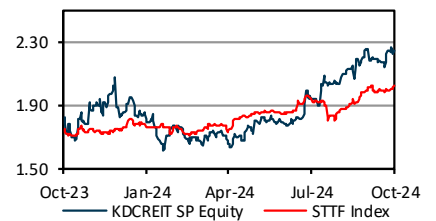
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(1.8)	15.8	19.4
STTF RETURN	1.0	6.0	16.9

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY22	FY23	FY24e	FY25e
Gross Rev. (SGD mn)	277	281	311	316
NPI (SGD mn)	253	245	265	284
Dist. Inc. (SGD mn)	185	168	171	190
P/NAV (x)	1.60	1.68	1.68	1.68
DPU, adj (cents)	10.21	9.38	9.49	10.54
Dist. Yield	4.5%	4.2%	4.2%	4.7%

Source: Company Data, PSR

VALUATION METHOD

DDM (Cost of Equity: 6.83%; Terminal g: 1.75%)

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

The Negative

- **Rentals continue to be owed by the master lessee at Guangdong DCs.** To date, Bluesea owes over a year in rental income totalling c.S\$26mn. Asset valuations at the Guangdong DCs are likely to be affected by the non-collection of rents.

Outlook

Rental reversions are expected to remain strong, particularly in Singapore, where strong demand and limited supply grant landlords significant bargaining power. The data centre sector is experiencing significant growth globally, driven by the need to power technologies such as generative artificial intelligence, streaming services, digital applications, big data, and the Internet of Things. KDCREIT stands to benefit, as it 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.

Upgrade to NEUTRAL from REDUCE with a higher DDM TP of S\$2.16

KDCREIT's largest tenants are some of the biggest internet enterprises in the world, with its largest contributing 42% of rental income. Catalysts include more accretive acquisitions and the collection of rentals in arrears from Bluesea. The current share price implies FY24e/25e DPU yields of 4.2%/4.7%.

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
Gross revenue	271	277	281	311	316
Property expenses	(23)	(25)	(36)	(47)	(32)
Net property income	248	253	245	265	284
Net Finance (Expense)/Inc	(21)	(22)	(38)	(37)	(37)
Manager's fees	(24)	(26)	(27)	(30)	(29)
Other items	(3)	1	(7)	(1)	(5)
FV change, Inv. Properties	151	68	(28)	-	-
Total Return Before Tax	351	265	138	198	214
Taxation	(29)	(31)	(16)	(22)	(19)
Total Return After Tax	322	234	122	176	195
Unitholders	314	231	119	172	191
Non-controlling interest	8	3	4	4	4
Distribution adjustments	(142)	(46)	49	(1)	(1)
Income available for distribution	172	185	168	171	190

Per unit data

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
NAV (\$\$)	1.34	1.40	1.34	1.34	1.34
DPU (cents)	9.85	10.21	9.38	9.49	10.54

Cash Flow

Y/E Dec, SGD mn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Total Return After Tax	322	234	122	176	195
Adjustments	(102)	(2)	111	70	69
WC changes	(22)	(4)	(14)	15	0
Cash generated from ops	198	228	220	260	264
Others	(8)	(10)	(9)	(22)	(19)
Cashflow from ops	190	218	211	239	245

CFI

Acquisitions	(196)	(247)	-	(202)	-
Capex, net	(113)	(48)	(26)	(29)	(30)
Others	(66)	(4)	11	11	11
Cashflow from investments	(374)	(299)	(15)	(220)	(19)

CFF

Share issuance, net	204	-	-	-	-
Net borrowings	551	518	265	262	100
Distributions	(205)	(178)	(226)	(212)	(224)
Others	(416)	(256)	(275)	(99)	(110)
Cashflow from financing	135	84	(236)	(49)	(234)
Net change in cash	(49)	3	(41)	(31)	(8)
Effects of exchange rate	(1)	(9)	0	-	-
Ending cash	196	190	150	119	110

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	3,772	3,802
Others	117	206	141	217	199
Total non-current assets	3,518	3,845	3,797	3,989	4,002
Cash	196	190	150	119	110
Trade receivables	50	61	54	66	67
Others	16	11	6	6	6
Total current assets	262	263	209	190	183
Total Assets	3,780	4,108	4,007	4,179	4,185
LIABILITIES					
Borrowings	163	175	72	111	287
Trade payables	50	63	70	97	98
Others	7	7	6	6	6
Total current liabilities	221	245	149	214	390
Borrowings	1,136	1,300	1,408	1,523	1,338
Others		106	96	89	89
Total non-current liabilities	1,136	1,406	1,504	1,612	1,427
Total Liabilities	1,357	1,651	1,653	1,826	1,817
Net assets	2,423	2,457	2,354	2,354	2,368
Represented by:					
Unitholders' funds	2,293	2,414	2,311	2,308	2,320
Non-controlling interest	42	43	43	46	48

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/NAV (x)	1.68	1.60	1.68	1.68	1.68
Distribution Yield	4.4%	4.5%	4.2%	4.2%	4.7%
NPI yield	7.7%	7.2%	6.7%	7.1%	7.5%

Growth & Margins (%)

Growth					
Revenue	2.1%	2.3%	1.4%	10.8%	1.5%
Net property income (NPI)	1.6%	1.8%	-3.0%	8.2%	7.3%
Distributable income	9.4%	7.7%	-9.3%	2.1%	10.9%
DPU	7.4%	3.7%	-8.1%	1.1%	11.1%
Investment Property	13.2%	7.0%	0.5%	3.2%	0.8%
Margins					
NPI margin	91.5%	91.1%	87.1%	85.1%	90.0%
Key Ratios					
Gearing (%)	34.4%	35.9%	37.0%	39.1%	38.8%

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

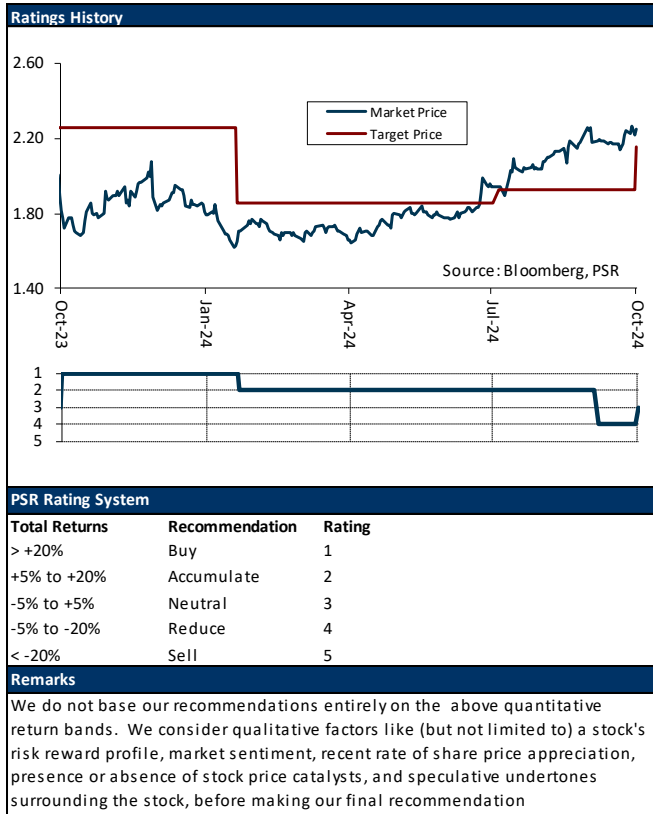



Company ESG Risk Rating Report


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

Quarterly Update

- Top 3 ESG indicators that influence our rating. We will continue to monitor for updates on the following:
 - Disclosure of financial impacts of physical climate risks.
 - Slight increase (1%) in renewables use to 17% from 2022 to 2023.
 - Reductions across Scope 1, 2 and 3 emissions.



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

Property | REITs

Liu Miaomiao – liumm@phillip.com.sg

Banking & Finance

Glenn Thum – glenthumjc@phillip.com.sg

US Tech Analyst (Digital Entertainment/Semicons)

Jonathan Woo – jonathanwookj@phillip.com.sg

US Tech Analyst (Software/Services)

Ambrish Shah – amshah@phillipventuresifsc.in

US Tech Analyst (Hardware/E-commerce/ETF)

Helena Wang – helenawang@phillip.com.sg

Construction

Yik Ban Chong (Ben) – chongyb@phillip.com.sg

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

Raffles City Tower
250, 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, Bangrak,
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.phillipcapital.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.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler

Esentepe Mah. Harman 1 Sk.
Nida Kule Kat 3-12 Levent-Şişli
34394, İstanbul Turkey
Tel: +90 (212) 239 10 00
Fax: 0212 233 69 29
Website: www.phillipcapital.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

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