

Keppel DC REIT

Acquisition of KDC SGP 7 and 8



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SINGAPORE | REAL ESTATE (REIT) | UPDATE

25 November 2024

- KDCREIT is proposing to acquire Keppel DC Singapore 7 (SGP 7) and Keppel DC Singapore 8 (SGP 8), situated at Genting Lane, for a total consideration of c.S\$1.438bn (including 10-year land lease tenure extension).
- The transaction is 8.1% accretive based on 1H24 pro-forma DPU, assuming the extension of the land lease and tax transparency is achieved.
- We maintain NEUTRAL with an unchanged TP of S\$2.16, post rights issue, our target price is S\$2.14. While the transaction will provide immediate accretion to DPU, we believe there will be a share price overhang in the near term from the private placement new shares (c.15% of total units currently outstanding) of S\$2.09. The current FY24e/25e DPU yields are 4.3%/4.7% (before acquisition).

Transaction Highlights

KDCREIT announced the proposed acquisition of Keppel DC Singapore 7 (SGP 7) and Keppel DC Singapore 8 (SGP 8), situated at Genting Lane, for a total acquisition cost of c.S\$1.438bn. This transaction will be done in three phases:

1. Acquisition of a 99.49% economic interest in SGP 7 and SGP 8 through a notes structure for S\$1.025bn.
2. Acquisition of the remaining 0.51% economic interest for S\$5mn (expected to be done in 2H25). After this, KDCREIT will have 100% ownership in SGP 7 and SGP 8. KDCREIT will then collapse the notes structure and apply for tax transparency.
3. Extension of land tenure for another 10 years for c.S\$365mn.

This transaction is to be funded by:

1. A private placement at S\$2.09 to raise c.S\$700mn. The private placement (including the upside option) was 3.4 times covered.
2. A preferential offering at S\$2.03 based on 86 new units for every 1,000 existing units to raise S\$301mn.
3. Sponsor subscription at S\$2.09 to raise S\$85mn.
4. The balance is to be funded by debt.

This transaction is 11.1% accretive before the 10-year land tenure lease extension payment of S\$365mn, based on pro-forma 1H24 DPU. After the lease extension payment and assuming tax transparency is achieved, DPU accretion is 8.1%. KDCREIT's AUM in Singapore will rise to 65.5% from 53.1% following the transaction, capitalising on strong demand and limited supply in the market. There is also potential for strong rental uplifts as currently contracted rents at SGP 7 and SGP 8 are 15%-20% below current market colocation rents. The new units from the private placement will not be eligible to participate in the preferential offering.

NEUTRAL (Maintained)

LAST CLOSE PRICE	SGD 2.220
FORECAST DIV	SGD 0.095
TARGET PRICE	SGD 2.160
TOTAL RETURN	1.6%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	1,725
MARKET CAP (USD mn / SGD mn):	2842 / 3830
52 - WK HI/LO (SGD):	2.36 / 1.6
3M Average Daily T/O (mn):	6.45

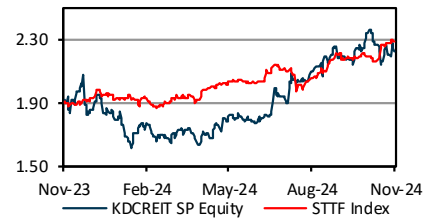
MAJOR SHAREHOLDERS (%)

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

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	(3.9)	5.7	19.4
STTF RETURN	4.7	11.3	21.3

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)	1.58	1.65	1.66	1.66
DPU, adj (cents)	10.21	9.38	9.49	10.54
Dist. Yield	4.6%	4.2%	4.3%	4.7%

Source: Company Data, PSR

VALUATION METHOD

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

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Financials

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)	1.66	1.58	1.65	1.66	1.66
Distribution Yield	4.4%	4.6%	4.2%	4.3%	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

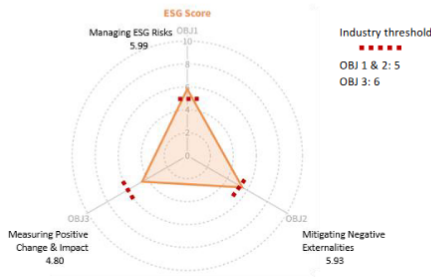
NPI margin	91.5%	91.1%	87.1%	85.1%	90.0%
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Key Ratios

Gearing (%)	34.4%	35.9%	37.0%	39.1%	38.8%
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KDC	ESG Rating	Oct 2024	A-
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SGX: AJBU | Keppel DC REIT



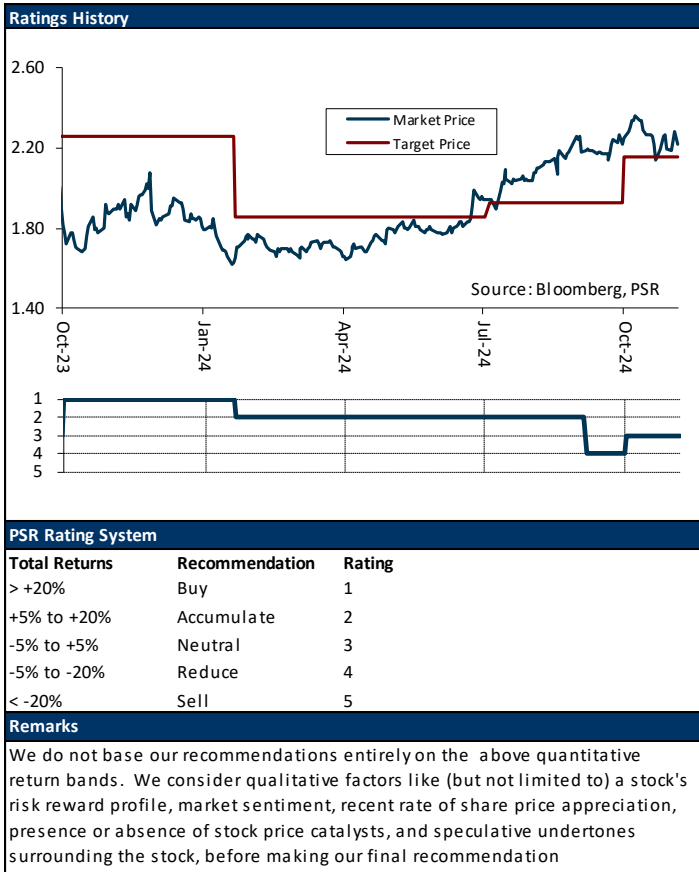
PhillipCapital Global Sustainability
Company ESG Risk Rating Report



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:
 1. Disclosure of financial impacts of physical climate risks.
 2. Slight increase (1%) in renewables use to 17% from 2022 to 2023.
 3. Reductions across Scope 1, 2 and 3 emissions.



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