

Keppel DC REIT

Strong rental growth expected in 2025



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SINGAPORE | REAL ESTATE (REIT) | FY24 RESULTS

27 January 2025

- FY24 DPU of 9.451 Singapore cents (+0.7% YoY) met our FY24e expectations. This was driven by the distribution of the DXC settlement sum of S\$11.2mn, exceptionally strong positive portfolio rental reversions of 39% in FY24, and the contribution from the acquisition of Tokyo DC 1. However, it was partially offset by loss allowances for the Guangdong DCs and the depreciation of foreign currencies against the SGD.
- Completed the acquisition of a 99.49% economic interest in Keppel DC Singapore 7 & 8 (KDC SGP 7 & 8) in December. These AI-ready hyperscale data centres strengthen KDCREIT's foothold in Singapore's thriving data centre market, characterised by strong demand and constrained supply.
- We maintain NEUTRAL with a higher DDM-derived target price of S\$2.25 from S\$2.16. We lower our FY25e DPU estimates by 4% as we roll forward our forecasts, incorporating recent acquisitions, the expanded share base from the equity fund raising, and the continued non-collection of rental income from the Guangdong DCs. We expect rental reversions to remain strong, exceeding 30% for most of the 15.4% of leases due for renewal in FY25 by rental income, primarily from Singapore colocation renewals. The collection of overdue rentals from Bluesea remains potential catalyst. The share is currently trading at an FY25e DPU yield of 4.5%.

Results at a glance

(SGD mn)	2H24	2H23	YoY	FY24	FY23	YoY	Comments
Gross revenue	153.1	140.7	8.8%	310.3	281.2	10.3%	Strong rental reversions and escalations across the portfolio and contribution from the acquisition of Tokyo DC 1, partially offset by the divestment of Intellicentre Campus.
Net property inc.	127.6	117.6	8.5%	260.3	245.0	6.3%	
Finance costs	(25.6)	(25.8)	-0.8%	(51.5)	(48.5)	6.2%	Lower interest costs and interest savings from loan repayments in 2H24, partially offset by acquisitions.
Distributable inc.	91.9	76.4	20.2%	172.7	167.7	3.0%	Distribution of the DXC settlement sum of c.S\$5.6mn in 2H24 (FY24: S\$11.2mn).
DPU (cents)	4.90	4.33	13.2%	9.45	9.38	0.7%	Loss allowance in relation to the Guangdong DCs impacted 4Q24 DPU by 0.254 cents.

Source: Company, PSR

The Positives

+ Maintained high portfolio occupancy of 97.2% (3Q24: 97.6%) with strong portfolio rent reversion of over 30% in 4Q24 (FY24: 39%). 15.4% of leases are up for renewal in FY25, most of which are Singapore colocation leases. We expect rental reversions to remain at similar levels, supported by Singapore's strong demand and constrained supply, which provide landlords with significant bargaining power.

+ Stronger balance sheet. Aggregate leverage improved 820bps QoQ to 31.5% due to the recent equity fund raising exercise to raise S\$1.1bn to acquire SGP 7 & 8 and the fair value uplift in investment properties. The average cost of debt improved to 3.1% (3Q24: 3.3%), with 66% of debt on a fixed rate. We expect the cost of debt to remain at similar levels in FY25e. Most of the foreign-sourced income is hedged until the end of 2025.

NEUTRAL (Maintained)

LAST CLOSE PRICE	SGD 2.270
FORECAST DIV	SGD 0.095
TARGET PRICE	SGD 2.250
TOTAL RETURN	3.3%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	2,209
MARKET CAP (USD mn / SGD mn):	3693 / 5015
52 - WK HI/LO (SGD):	2.36 / 1.58
3M Average Daily T/O (mn):	8.35

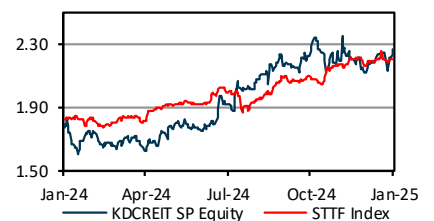
MAJOR SHAREHOLDERS (%)

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

TOTAL RETURN (%)

	1MTH	3MTH	YTD
COMPANY	5.2	2.0	2.3
STTF RETURN	1.8	5.2	0.9

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY23	FY24	FY25e	FY26e
Gross Rev (SGD mn)	281	310	413	435
NPI (SGD mn)	245	260	359	383
Dist. Inc. (SGD mn)	168	173	237	257
P/NAV (x)	1.69	1.49	1.49	1.48
DPU, adj (cents)	9.38	9.45	10.15	11.03
Dist. Yield	4.1%	4.2%	4.5%	4.9%

Source: Company Data, PSR

VALUATION METHOD

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

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+ Growth in valuations. With the recent acquisitions, KDCREIT's portfolio value increased 34.1% YoY to S\$4.83bn. Excluding the acquisitions and divestments, the growth was 3.4% YoY. The portfolio valuation uplift was supported by the Singapore portfolio, which grew 10.4% (+S\$204.6mn) on a same-store basis, offsetting valuation declines in Germany, the Netherlands, and the UK.

The Negative

- Rentals continue to be owed by the master lessee at Guangdong DCs. To date, Bluesea owes over S\$30mn overdue rent.

Outlook

The data centre sector is experiencing substantial growth globally, fuelled by digitalization, AI adoption, cloud computing, and the expansion of 5G networks. The new supply of data centres in Johor, Malaysia, is unlikely to significantly impact Singapore, as they target different market segments. Singapore's data centres focus on high-value AI computing workloads, rather than training, which is more prevalent in Johor.

Maintain NEUTRAL with a higher DDM TP of S\$2.25

KDCREIT's largest tenants are some of the biggest internet enterprises in the world, with its largest contributing 39.2% of rental income. The current share price implies an FY25e DPU yield of 4.5%.

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY22	FY23	FY24	FY25e	FY26e
Gross revenue	277	281	310	413	435
Property expenses	(25)	(36)	(50)	(54)	(52)
Net property income	253	245	260	359	383
Net Finance (Expense)/Inc	(22)	(38)	(36)	(34)	(36)
Manager's fees	(26)	(27)	(28)	(37)	(38)
Other items	1	(7)	(8)	(14)	(14)
FV change, Inv. Properties	68	(28)	121	-	-
Total Return Before Tax	265	138	341	274	295
Taxation	(31)	(16)	(27)	(25)	(27)
Total Return After Tax	234	122	314	249	268
Unitholders	231	119	301	236	255
Non-controlling interest	3	4	13	13	13
Distribution adjustments	(46)	49	(128)	1	2
Income available for distribution	185	168	173	237	257

Per unit data

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
NAV (\$\$)	1.40	1.34	1.53	1.52	1.53
DPU (cents)	10.21	9.38	9.45	10.15	11.03

Cash Flow

Y/E Dec, SGD mn	FY22	FY23	FY24	FY25e	FY26e
CFO					
Total Return After Tax	234	122	314	249	268
Adjustments	(2)	111	(55)	71	75
WC changes	(4)	(14)	(12)	(77)	6
Cash generated from ops	228	220	247	243	349
Others	(10)	(9)	(23)	(25)	(27)
Cashflow from ops	218	211	224	219	322

CFI

Acquisitions	(247)	-	(1,097)	-	-
Capex, net	(48)	(26)	(58)	(39)	(40)
Others	(4)	11	89	11	11
Cashflow from investments	(299)	(15)	(1,066)	(28)	(29)

CFF

Share issuance, net	-	-	1,001	-	-
Distributions	(178)	(226)	(206)	(267)	(286)
Others	261	(11)	206	(17)	(12)
Cashflow from financing	84	(236)	1,001	(284)	(299)

Net change in cash

Effects of exchange rate	(9)	0	(1)	-	-
Ending cash	190	150	311	217	212

Source: Company, Phillip Securities Research (Singapore) estimates

Balance Sheet

Y/E Dec, SGD mn	FY22	FY23	FY24	FY25e	FY26e
ASSETS					
Investment properties	3,639	3,656	4,904	4,943	4,983
Others	206	141	191	187	183
Total non-current assets	3,845	3,797	5,096	5,130	5,166
Cash	190	150	317	217	212
Trade receivables	61	54	106	144	151
Others	11	6	25	8	8
Total current assets	263	209	448	369	372
Total Assets	4,108	4,007	5,543	5,499	5,538
LIABILITIES					
Borrowings	175	72	87	87	87
Trade payables	63	70	287	248	261
Others	7	6	12	12	12
Total current liabilities	245	149	387	347	360
Borrowings	1,300	1,408	1,628	1,628	1,628
Others	106	96	101	94	87
Total non-current liabilities	1,406	1,504	1,730	1,723	1,715
Total Liabilities	1,651	1,653	2,116	2,069	2,076
Net assets	2,457	2,354	3,427	3,430	3,462
Represented by:					
Unitholders' funds	2,414	2,311	3,372	3,366	3,389
Non-controlling interest	43	43	55	64	73

Valuation Ratios

Y/E Dec	FY22	FY23	FY24	FY25e	FY26e
P/NAV (x)	1.62	1.69	1.49	1.49	1.48
Distribution Yield	4.5%	4.1%	4.2%	4.5%	4.9%
NPI yield	7.2%	6.7%	6.1%	7.3%	7.7%

Growth & Margins (%)

Growth					
Revenue	2.3%	1.4%	10.3%	33.0%	5.4%
Net property income (NPI)	1.8%	-3.0%	6.3%	37.9%	6.6%
Distributable income	7.7%	-9.3%	3.0%	37.4%	8.4%
DPU	3.7%	-8.1%	0.7%	7.3%	8.7%
Investment Property	7.0%	0.5%	34.1%	0.8%	0.8%

Margins

NPI margin	91.1%	87.1%	83.9%	87.0%	88.0%
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Key Ratios

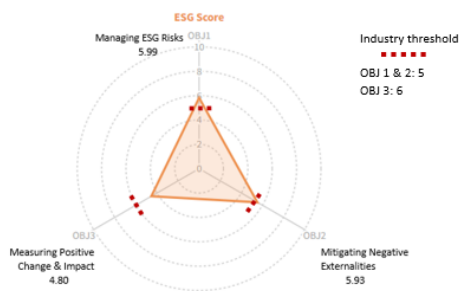
Gearing (%)	35.9%	37.0%	30.9%	31.2%	31.0%
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KDC	ESG Rating	Jan 2025	A-
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SGX: AJBU | Keppel DC REIT



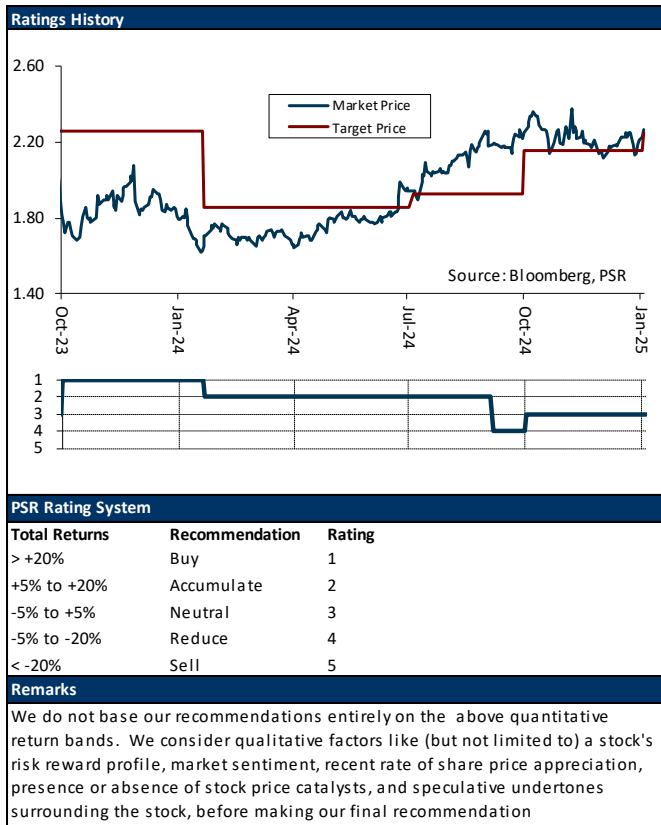
Company ESG Risk Rating Report



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:
 1. Disclosure of financial impacts of physical climate risks.
 2. Energy optimisation measures to reduce energy consumption, identify and prevent leakage.
 3. Reductions across Scope 1, 2 and 3 emissions.



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