

Keppel DC REIT

Preferential Offering to fund acquisition of Keppel DC Singapore 3

SINGAPORE | REAL ESTATE (REIT) | RESULTS

18 October 2016

- S\$22.66mn Gross revenue missed our forecast of S\$24.82mn by 8.7%
- 1.90 cents DPU exceeded our forecast of 1.72 cents by 10.5%
- Adjusting for one-off refund, 1.67 cents DPU was in line with our forecast of 1.72 cents
- Acquisition of 90% interest in Keppel DC Singapore 3 for S\$202.5mn announced
- 274-for-1,000 Preferential Offering to raise c.\$275.3mn

Results at a glance

(SGD mn)	3Q16	3Q15	yoy (%)	Comments
Gross revenue	22.66	25.74	↓12.0	Client at Dublin 1 downsized in 1Q16, one-off non-csah downward adjustment at Almere, drop in variable income at Singapore Properties, depreciation of GBP and MYR against SGD
Net property income	22.70	21.37	↑6.2	Lower property operating expenses
Distributable income	16.78	14.48	↑15.9	Higher unrealised foreign exchange gains, lower other expenses and higher finance income
DPU (cents)	1.90	1.64	↑15.9	Includes one-off distributable income arising from net property tax refund
DPU, adj. (cents)	1.67	1.64	↑1.8	Adjusted for one-off refund of 0.23 cents

Source: Company, Phillip Securities Research (Singapore)

Higher portfolio occupancy (92.3% → 92.7%), but at the expense of negative reversions

Higher occupancy at Keppel DC Singapore 1 (KDC SGP 1) from 85.7% to 87.6%, as disclosed in the previous quarter where a client signed a forward renewal to expand by 6,800 sq ft in two phases (half in 2HFY16, half in 2HFY17). The client was given a negative rental reversion, such that rental income in the first year would be lower than the preceding rental income, and then higher in 2HFY17.

Occupancy at Keppel DC Singapore 2 (KDC SGP 2) was maintained at 100%, with a major client renewing for more than five years, thus lengthening the weighted average lease expiry (WALE) to 4.2 years from 1.2 years. However, the client was given -8% rental reversion, on account of being a major client throughout the portfolio. Inferring from the quarter-on-quarter (qoq) difference in lease expiry profile for 2016 (from 7.2% to 1.3%), we estimate that this tenant occupies c.75% of KDC SGP 2. We do not view this development favourably, as it appears that client concentration has resulted in the client having significant bargaining power over rental negotiations.

Occupancy at Keppel DC Dublin 1 (KDC DUB 1) remained largely unchanged qoq, from 55.3% to 55.8%. The Manager maintains its effort in raising occupancy at the data centre.

Acquisition of 90% interest in Keppel DC Singapore 3 (KDC SGP 3), targeted for December
Unitholder approval for the acquisition will be sought at an Extraordinary General Meeting. The property is located at 27 Tampines Street 92 and has a lettable area of 50,245 sq ft. The property has been fully-committed to two clients. We view the acquisition favourably for the stability of the income from the property, which is underpinned by the SGD-denominated income and long WALE of 5.7 years.

274-for-1,000 PO to raise c.\$279.5mn, increasing Unitholder base by 27%

Use of the proceeds from the Preferential Offering (PO) is to acquire 90% interest in KDC SGP 3 for c.\$208.6mn, pay off existing short-term debt of c.\$33.4mn associated with the acquisition of Intellicentre 2, c.\$33.3mn to repay loans, for capital expenditure and/or future acquisitions, with the remaining c.\$4.2mn for fees and expenses incurred in connection with the Preferential Offering.

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 1.225
FORECAST DIV	SGD 0.070
TARGET PRICE	SGD 1.260
TOTAL RETURN	8.6%

COMPANY DATA

O/S SHARES (MN) :	883
MARKET CAP (USD mn / SGD mn) :	779 / 1082
52 - WK HI/LO (SGD) :	124 / 0.96
3M Average Daily T/O (mn) :	178

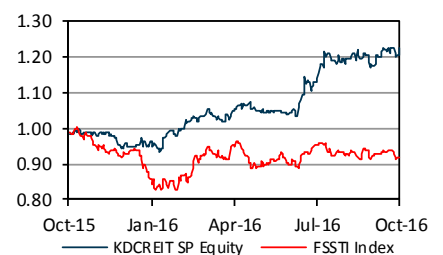
MAJOR SHAREHOLDERS (%)

KEPPEL CORLLTD	35.0%
COHEN & STEERS CAPITAL MANAGEMENT	3.6%
MORGAN STANLEY	3.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.0	6.8	22.5
STIRETURN	0.3	(15)	(2.0)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16e	FY 17e	FY 18e
Gross Rev. (SGD mn)	107.7	100.4	129.4	127.9
NPI (SGD mn)	913	90.6	111.9	110.7
Dist. Inc. (SGD mn)	60.4	63.6	86.0	83.9
P/NAV (x)	1.10	1.22	1.22	1.20
DPU, adj (cents)	6.84	7.00	7.64	7.19
Distribution Yield (%)	6.74	5.81	6.34	5.97

Source: Company Data, PSR est.

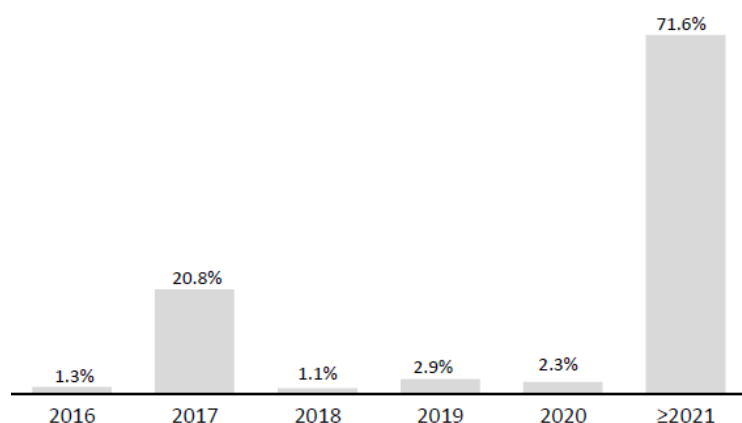
VALUATION METHOD

DDM (Cost of Equity: 6.7% Terminal g: 10%)

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Lease expiry profile¹

As at 30 September 2016

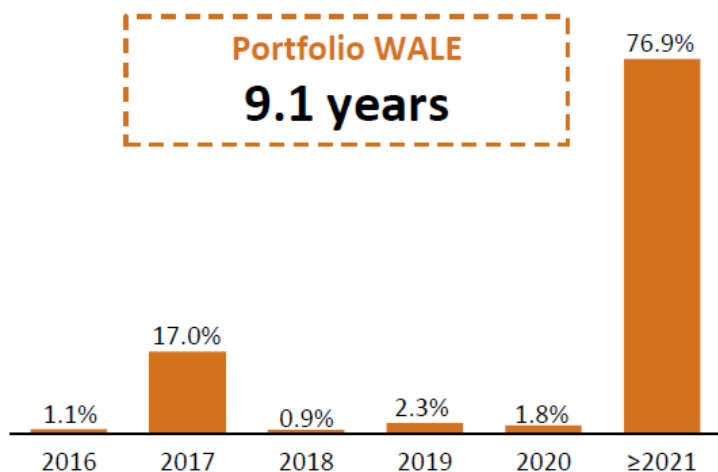


Source: Company 3QFY16 Results Presentation, 17 October 2016

20.8% of leased lettable area up for renewal in 2017

Management shared that this comes from three major leases – one in Singapore and two overseas. Management shared in a previous quarter that one of the overseas assets is the Basis Bay Data Centre, which is in Malaysia, and the other overseas asset, we believe is KDC DUB 1. Management shared that the Basis Bay tenant has indicated it will be renewing the lease.

Lease Expiry Profile Post Transaction^{1,2}



Source: "Proposed Acquisition of 90% Interest in Keppel DC Singapore 3" Presentation, 17 October 2016

Acquisition of KDC SGP 3 extends portfolio WALE to 9.1 years

Post-acquisition, only 2017 will see significant lease expiry. There is negligible vacancy risk from 2018 to 2020 (subject to tenures of the renewals in 2017). The rest of the leases will be expiring five years from today in 2021 onwards.

Maintain "Accumulate" rating with lower target price of S\$1.26 (previous: S\$1.29)

We have trimmed our forecasts for KDC SGP 2, on account of the -8% rental reversion given to the client that occupies c.75% of the data centre, by our estimate. We estimate the acquisition of KDC SGP 3 to add c.18%/c.14% to FY17e/FY18e portfolio Gross revenue. The lower target price reflects both the enlarged portfolio and the highly dilutive PO that increases the Unitholder base by 27%.

Relative valuation

KDCREIT is trading at a premium to Australia Stock Exchange (ASX)-listed peer Asia Pacific Data Centre in terms of P/NAV multiple and with a lower 12M-trailing yield.

Peer comparison (arranged by Mkt. Cap.)

	Currency	Price (LCY\$)	Mkt. Cap. (S\$ mn)	Mkt. Cap. (US\$ mn)	Trailing P/NAV (x)	12M-trailing yield (%)
Keppel DC REIT	SGD	1.225	1,082	779	1.33	5.4
Asia Pacific Data Centre	AUD	1.53	185	133	1.07	6.3

Source: Bloomberg (Updated: 17 October 2016), Phillip Securities Research (Singapore)

Financials

FY15 = 12 December 2014 to 31 December 2015

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16e	FY17e	FY18e
Gross rental income	105.9	99.0	128.2	126.9
Other income	1.7	1.5	1.1	1.0
Gross revenue	107.7	100.4	129.4	127.9
Property expenses	(16.4)	(9.8)	(17.4)	(17.3)
Net property income	91.3	90.6	111.9	110.7
Net Finance (Expense)/Inc	(12.1)	(11.6)	(12.5)	(13.0)
Manager's fees	(8.7)	(9.5)	(11.1)	(11.4)
Other items	(1.8)	7.1	7.1	7.1
Exceptional items	-	-	-	-
FV change, Invmnt. properties	41.1	-	-	-
Total Return Before Tax	109.8	76.7	95.4	93.3
Taxation	(5.6)	(4.2)	(4.6)	(4.6)
Total Return After Tax	104.2	72.5	90.8	88.8
Unitholders	104.2	72.5	90.8	88.8
Non-controlling interest	0.04	0.03	0.03	0.03
Distribution adjustments	(43.8)	(8.9)	(4.8)	(4.8)
Income available for distribution	60.4	63.6	86.0	83.9
Income distributed	60.4	66.1	86.0	84.0

Per share data

Y/E Dec	FY15	FY16e	FY17e	FY18e
NAV (\$\$)	0.92	0.98	0.99	1.00
EPU (Cents)	11.80	7.94	8.06	7.67
DPU (Cents)	6.84	7.00	7.64	7.19

*Forward EPU does not include change in Fair Value of Investment Properties

Cash Flow

Y/E Dec, SGD mn	FY15	FY16e	FY17e	FY18e
CFO				
Total return	104.2	72.5	90.8	88.8
Adjustments	(23.4)	15.7	17.1	17.6
WC changes	(24.4)	2.3	(9.8)	0.4
Cash generated from ops	56.4	90.6	98.1	106.8
Others	(0.2)	(4.2)	(4.6)	(4.6)
Cashflow from ops	56.3	86.5	93.5	102.3
CFI				
CAPEX, net	(8.8)	(4.0)	(2.0)	(2.0)
Purchase of Inv. Propty.	(477)	(328)	-	(117)
Others	(47.6)	-	-	-
Cashflow from investments	(533)	(332)	(2)	(119)
CFF				
Share issuance, net	507	280	-	91
Loans, net of repayments	364	86.3	-	27
Dividends	(57.5)	(58.5)	(84.6)	(82.4)
Others	(306)	(12)	(12)	(13)
Cashflow from financing	507	296	(97)	23
Net change in cash	30.3	50.6	(5.6)	6.1
Effects of exchange rate	(1)	-	-	-
Ending cash	37.2	87.8	82.1	88.3

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16e	FY17e	FY18e
ASSETS				
Investment properties	1,103	1,434	1,436	1,568
Inv. Propty. Under Devmnt.	-	-	-	-
Others	17.3	17.3	17.3	4.5
Total non-current assets	1,120	1,452	1,454	1,573
Cash	37.2	87.8	82.1	88.3
Trade receivables	53.1	49.6	64.2	63.6
Others	1.0	1.0	1.0	1.0
Total current assets	91.2	138.3	147.4	152.8
Total Assets	1,211	1,590	1,601	1,725
LIABILITIES				
Trade payables	17.8	16.6	21.5	21.3
Borrowings	33.6	0.2	153.2	130.2
Others	0.1	0.1	0.1	0.1
Total current liabilities	51.6	17.0	174.9	151.7
Borrowings	338.3	458.0	305.0	355.3
Others	7.8	7.8	7.8	7.8
Total non-current liabilities	346.1	465.8	312.8	363.1
Total Liabilities	397.7	482.8	487.7	514.8
Net assets	813.5	1,107	1,113	1,211
Represented by:				
Unitholders' funds	813.1	1,107	1,113	1,210
Non-controlling interest	0.37	0.38	0.38	0.39

Valuation Ratios

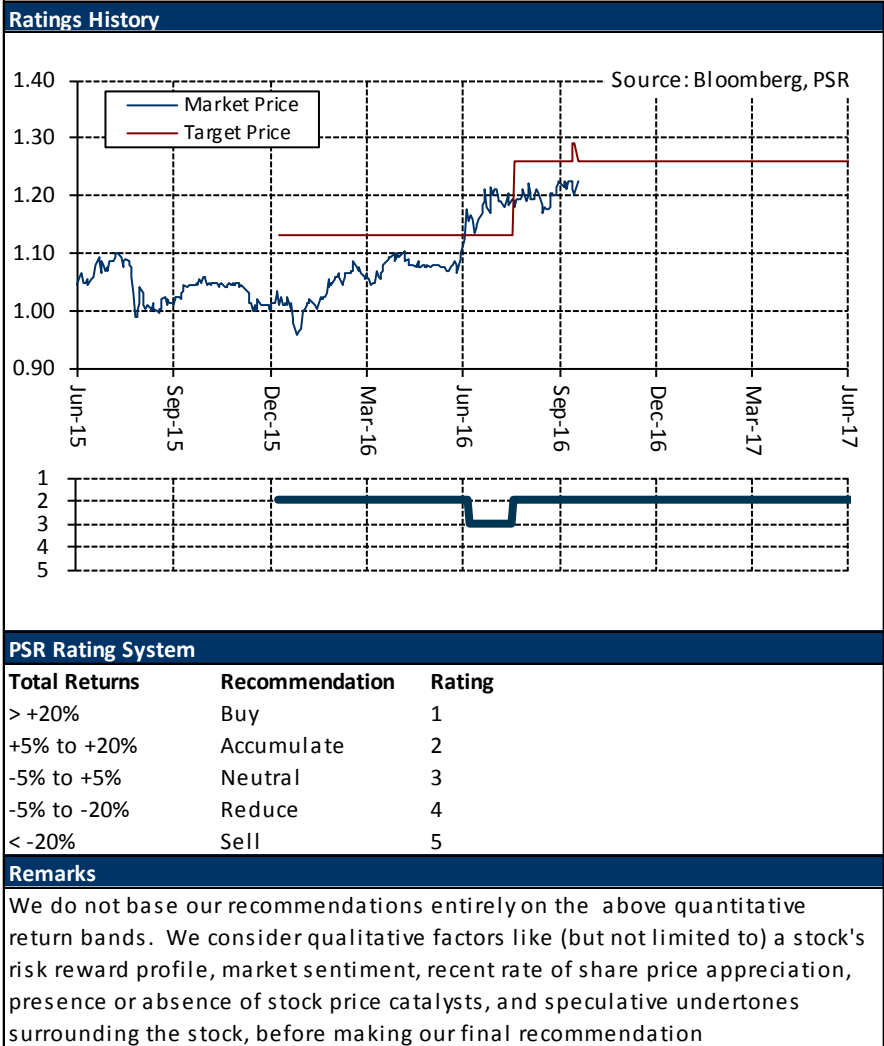
Y/E Dec	FY15	FY16e	FY17e	FY18e
P/NAV (x)	1.10	1.22	1.22	1.20
P/DPU (x)	14.8	17.2	15.8	16.8
Distribution Yield (%)	6.74	5.81	6.34	5.97
NPI yield (%)	8.28	7.15	7.80	7.37

Growth & Margins (%)

Growth				
Revenue	-6.8%	28.8%	-1.1%	
Net property income (NPI)	-0.7%	23.5%	-1.1%	
Distributable income	5.3%	35.2%	-2.4%	
DPU	2.3%	9.1%	-5.9%	
Margins				
NPI margin	84.8%	90.3%	86.5%	86.5%

Key Ratios

Net Debt or (Net Cash)	334.8	370.5	376.1	397.3
Gearing (%)	30.7%	28.8%	28.6%	28.1%



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