

# Keppel DC REIT

Visible and stable income from a unique asset class

## SINGAPORE | REAL ESTATE (REIT) | RESULTS

24 January 2017

- FY16 Gross revenue of S\$99.14mn in line with our forecast of S\$98.95mn; and missed consensus expectation of S\$104.1mn by 4.8%
- FY16 DPU of 6.14 cents missed our forecast of 7.00 cents by 12%; and missed consensus expectation of 6.60 cents by 7.0%
- DPU of 2.80 cents declared for 2HFY16 (2HFY15: 3.28 cents)

**Keppel DC REIT (KDCREIT) offers investors access to a unique asset class of data centres. Underlying growth drivers come from the explosive growth in data creation and data storage needs. Newly acquired Milan DC, Cardiff DC and KDC SGP 3 to bolster gross revenue growth by 30% in 2017. However, geographical diversification also introduces country risk and currency risk exposure.**

### Results at a glance

(SGD mn)	FY16	FY15	yoy (%)	Comments
Gross revenue	99.14	102.46	↓(3.2)	Client downsize at Dublin DC in 1Q16
Net property income	90.94	86.87	↑4.7	One-off S\$2.7mn ppty tax refund in 3Q16
Distributable income	61.05	57.44	↑6.3	Higher finance income and realised foreign exchange gains
DPU (cents)	6.14	6.51	↓(5.7)	Effect of pro-rata Preferential Offering, no income from KDC SGP 3 for 1.5 months and ppty tax refund in 3Q16
DPU, adj. (cents)	6.68	6.51	↑2.6	Adjusted for above effects

Source: Company, Phillip Securities Research (Singapore)

### FY16 DPU missing the Street's expectations was not due to portfolio weakness

In fact, the manager reportedly signed a major 5-year lease at approximately 3% higher than the preceding rent. While the headline FY16 6.14 cents DPU appears to have missed the Street's expectations of 6.60 cents, we believe this is nothing to be alarmed. 3QFY16's DPU of 1.90 cents was not distributed and was likely not adjusted by the Street to account for the Preferential Offer in 4QFY16. KDCREIT makes distributions on a half-yearly basis, so the new Preferential Units created in 4QFY16 are also entitled to 3QFY16's distribution for the 2HFY16 distribution. Had the Street made the adjustment, consensus expectations would have been closer to 6.19 cents, in line with the actual 6.14 cents declared.

### Income visibility from limited vacancy risk for the next four years

Lease expiry profile for 2017, 2018, 2019 and 2020 stands at 14.6%, 0.6%, 2.1% and 1.6% respectively of by leased lettable area. Vacancy risk in 2018 to 2020 is negligible, in our view. 2017 expiries come from four leases expiring in 1H2017. The manager has already come to in principle agreements with three of the tenants to renew (one in Singapore and two overseas), and is in the final documentation stage. The fourth lease is from the Basis Bay full-fitted lease, which accounts for 5.4% of portfolio lettable area.

### Income stability from limited foreign currency and interest rate uncertainties

As a reminder, KDCREIT's foreign currency policy is to hedge its expected foreign currency cash flow two years out. As such, the manager has already hedged forecasted foreign cash flow up to the end of 2018. Interest rate exposure has been mitigated by fixing 83% of borrowing costs; only 17% remaining floating. Only 0.7% of debt matures in 2017, but we expect to see some debt refinancing activity this year, as the manager tackles the 34.9% of debt maturing in 2018.

### Downgrade to "Neutral" rating with lower target price of S\$1.15 (previous: S\$1.26)

As the portfolio has increased its exposure to Western Europe, we have included a country risk premium component into our cost of equity estimate, but increased our terminal growth assumption. We believe that the attractiveness of the asset class has been adequately priced in. Our target price is 1.21x FY17e P/NAV.

## Neutral (Downgraded)

LAST CLOSE PRICE	SGD 1.215
FORECAST DIV	SGD 0.064
TARGET PRICE	SGD 1.150
TOTAL RETURN	-0.1%

### COMPANY DATA

O/S SHARES (MN):	1.25
MARKET CAP (USD mn / SGD mn):	963 / 1367
52 - WK HI/LO (SGD):	1.28 / 0.94
3M Average Daily T/O (mn):	2.34

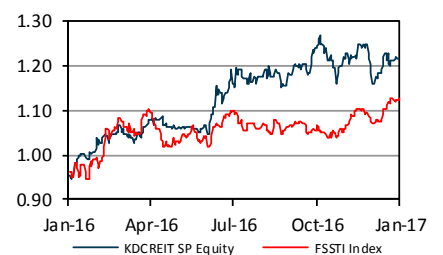
### MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	35.0%
SUMITOMO MITSUBISHI ASSET MGMT CO	2.8%
COHEN & STEERS CAPITAL MANAGEMENT	2.7%

### PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	0.0	(12)	28.9
STIRETURN	3.4	6.3	22.2

### PRICE VS. STI



Source: Bloomberg, PSR

### KEY FINANCIALS

Y/E Dec	FY15	FY16	FY17e	FY18e
Gross Rev. (SGD mn)	107.7	99.1	129.4	131.9
NPI (SGD mn)	91.3	90.9	115.2	117.5
Dist. Inc. (SGD mn)	60.4	61.0	71.3	71.0
P/NAV (x)	1.10	1.06	1.28	1.25
DPU, adj (cents)	6.84	6.14	6.39	6.19
Distribution Yield (%)	6.74	6.05	5.26	5.09

Source: Company Data, PSR est.

### VALUATION METHOD

DDM (Cost of Equity: 6.99%; Terminal g: 15%)

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## Financials

FY15 = 12 December 2014 to 31 December 2015

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e
<b>Gross rental income</b>	<b>105.9</b>	<b>97.2</b>	<b>128.2</b>	<b>130.9</b>
Other income	1.7	2.0	1.1	1.0
<b>Gross revenue</b>	<b>107.7</b>	<b>99.1</b>	<b>129.4</b>	<b>131.9</b>
Property expenses	(16.4)	(8.2)	(14.1)	(14.4)
<b>Net property income</b>	<b>91.3</b>	<b>90.9</b>	<b>115.2</b>	<b>117.5</b>
Net Finance (Expense)/Inc	(12.1)	(11.5)	(15.8)	(16.0)
Manager's fees	(8.7)	(8.6)	(10.7)	(11.7)
Other items	(1.8)	0.9	(4.9)	(0.9)
Exceptional items	-	-	-	-
FV change, Invmnt. properties	41.1	(14.0)	-	-
<b>Total Return Before Tax</b>	<b>109.8</b>	<b>57.7</b>	<b>83.8</b>	<b>88.9</b>
Taxation	(5.6)	(6.7)	(8.0)	(9.1)
<b>Total Return After Tax</b>	<b>104.2</b>	<b>50.9</b>	<b>75.8</b>	<b>79.8</b>
Unitholders	104.2	50.9	75.7	79.8
Non-controlling interest	0.04	0.01	0.04	0.04
Distribution adjustments	(43.8)	10.1	(4.4)	(8.7)
<b>Income available for distribution</b>	<b>60.4</b>	<b>61.0</b>	<b>71.3</b>	<b>71.0</b>
<b>Income distributed</b>	<b>60.4</b>	<b>61.0</b>	<b>71.8</b>	<b>72.2</b>

### Per share data

Y/E Dec	FY15	FY16	FY17e	FY18e
NAV (S\$)	0.92	0.95	0.95	0.97
EPU (Cents)	11.80	5.58	6.73	6.89
DPU (Cents)	6.84	6.14	6.39	6.19

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

### Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e
<b>CFO</b>				
Total return	104.2	50.9	75.8	79.8
Adjustments	(23.4)	33.0	27.8	25.1
WC changes	(24.4)	(7.0)	(3.4)	(0.3)
Cash generated from ops	56.4	76.9	100.1	104.6
Others	(0.2)	(1.2)	(8.0)	(9.1)
<b>Cashflow from ops</b>	<b>56.3</b>	<b>75.7</b>	<b>92.1</b>	<b>95.5</b>
<b>CFI</b>				
CAPEX, net	(8.8)	(9.8)	(15.0)	(2.0)
Purchase of Inv. Propty.	(477)	(111)	(208)	(117)
Others	(47.6)	-	-	-
<b>Cashflow from investments</b>	<b>(533)</b>	<b>(121)</b>	<b>(223)</b>	<b>(119)</b>
<b>CFF</b>				
Share issuance, net	507	279	-	91
Loans, net of repayments	364	188.8	-	27
Dividends	(57.5)	(58.5)	(74.2)	(69.6)
Others	(306)	(108)	(16)	(16)
<b>Cashflow from financing</b>	<b>507</b>	<b>302</b>	<b>(90)</b>	<b>33</b>
<b>Net change in cash</b>	<b>30.3</b>	<b>257.0</b>	<b>(220.9)</b>	<b>9.2</b>
Effects of exchange rate	(1)	(0)	-	-
<b>Ending cash</b>	<b>37.2</b>	<b>294.0</b>	<b>73.1</b>	<b>82.3</b>

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	FY16	FY17e	FY18e
<b>ASSETS</b>				
Investment properties	1,103	1,226	1,449	1,581
Inv. Propty. Under Devmnt.	-	-	-	-
Intangibles	-	4.0	-	-
Others	17.3	14.8	14.8	1.8
<b>Total non-current assets</b>	<b>1,120</b>	<b>1,245</b>	<b>1,464</b>	<b>1,583</b>
Cash	37.2	298.0	73.1	82.3
Trade receivables	53.1	38.7	51.1	52.1
Others	1.0	1.7	1.7	1.7
<b>Total current assets</b>	<b>91.2</b>	<b>338.3</b>	<b>125.8</b>	<b>136.1</b>
<b>Total Assets</b>	<b>1,211</b>	<b>1,583</b>	<b>1,590</b>	<b>1,719</b>
<b>LIABILITIES</b>				
Trade payables	17.8	28.0	36.9	37.7
Borrowings	33.6	6.7	159.7	136.7
Others	0.1	0.5	0.5	0.5
<b>Total current liabilities</b>	<b>51.6</b>	<b>35.1</b>	<b>197.1</b>	<b>174.9</b>
Borrowings	338.3	464.0	311.0	361.3
Others	7.8	10.0	10.0	10.0
<b>Total non-current liabilities</b>	<b>346.1</b>	<b>474.0</b>	<b>321.0</b>	<b>371.3</b>
<b>Total Liabilities</b>	<b>397.7</b>	<b>509.1</b>	<b>518.1</b>	<b>546.2</b>
<b>Net assets</b>	<b>813.5</b>	<b>1,074</b>	<b>1,071</b>	<b>1,173</b>
<b>Represented by:</b>				
<b>Unitholders' funds</b>	<b>813.1</b>	<b>1,074</b>	<b>1,071</b>	<b>1,172</b>
Non-controlling interest	0.37	0.34	0.34	0.35

### Valuation Ratios

Y/E Dec	FY15	FY16	FY17e	FY18e
P/NAV (x)	1.10	1.06	1.28	1.25
P/DPU (x)	14.8	16.5	19.0	19.6
Distribution Yield (%)	6.74	6.05	5.26	5.09
NPI yield (%)	8.28	7.81	8.61	7.76

### Growth & Margins (%)

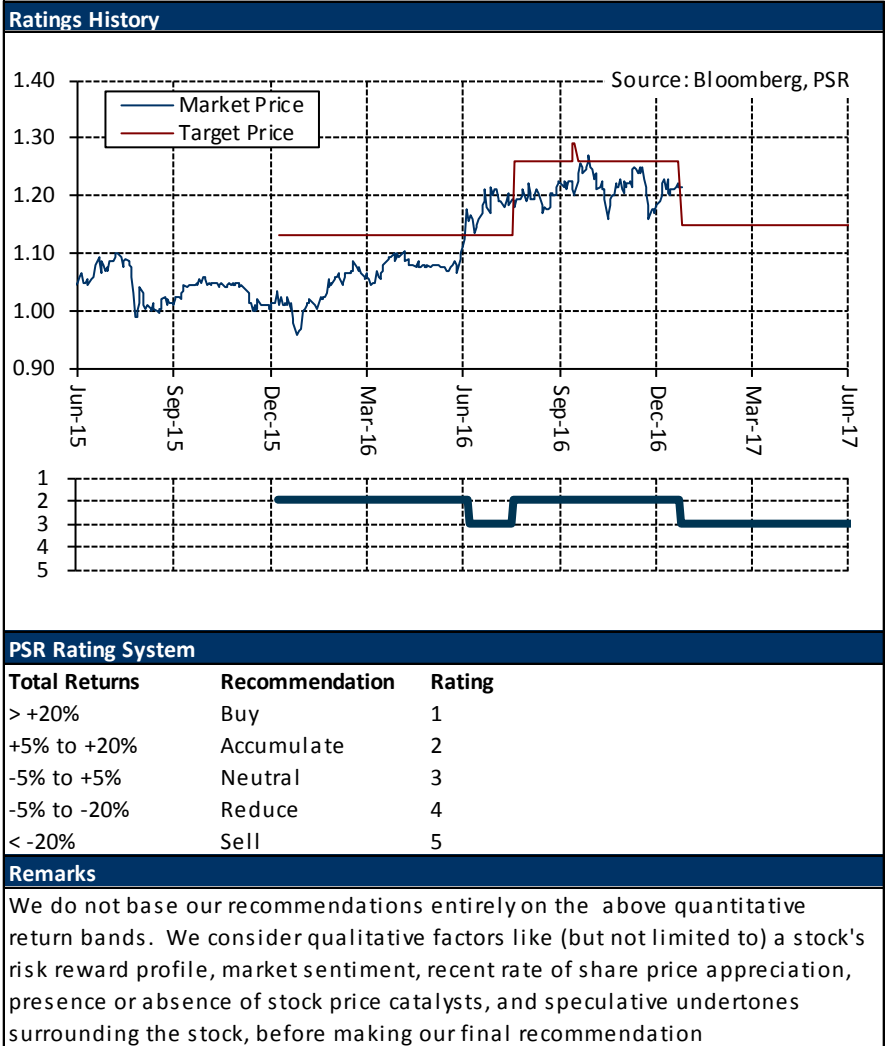
Growth			
Revenue	-7.9%	30.5%	2.0%
Net property income (NPI)	-0.4%	26.7%	2.0%
Distributable income	1.1%	16.8%	-0.4%
DPU	-10.2%	4.1%	-3.1%

### Margins

NPI margin	84.8%	91.7%	89.1%	89.1%
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### Key Ratios

Net Debt or (Net Cash)	334.8	172.7	397.6	415.7
Gearing (%)	30.7%	29.7%	29.6%	29.0%



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