

Keppel DC REIT

Awaiting more acquisitions



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SINGAPORE | REAL ESTATE (REIT) | 2Q17 RESULTS

18 July 2017

- 2Q17 gross revenue exceeded our forecast by 5.4%.
- 2Q17 DPU in line with our forecast.
- 3.63 cents declared for 1H 2017 semi-annual distribution

Results at a glance

(SGD mn)	2Q17	2Q16	YoY	Comments
Gross revenue	34.5	24.9	38.8%	Contribution from 90% interest in Keppel DC SGP 3, Cardiff DC and Milan DC, appreciation of AUD vs. SGD; offset by depreciation of GBP, EUR and MYR vs. SGD
Net property income	31.4	22.1	41.9%	Growth in gross revenue out-paced the 14.2% increase in property expenses
Distributable income	20.1	14.7	36.5%	
DPU (cents)	1.74	1.67	4.2%	Effect of 274-for-1,000 Preferential Offering

Source: Company, PSR

The positives

- + YoY growth in gross revenue driven by inorganic growth: 90% interest in Keppel DC SGP 3 acquired in January 2017, Cardiff DC and Milan DC both acquired in October 2016.
- + QoQ longer weighted average lease expiry (WALE) from 9.2 years to 9.4 years: Client at Basis Bay Data Centre in Malaysia renewed the lease for another five years.
- + Aggregate leverage of 27.7% is among the lowest in the S-REITs universe: This affords a debt headroom of ~\$300 million (based on 40% aggregate leverage), potentially growing the portfolio by ~20%.

The negatives

- QoQ lower occupancy from 95.1% to 93.1%: Client at Basis Bay Data Centre only renewed two of the three data centre floors. However, limited impact to the portfolio, as Basis Bay Data Centre contributes less than 3% of FY17e gross revenue, by our estimate. The manager will start marketing the vacant floor soon.
- Keppel DC Dublin 1 is still under-utilised: Occupancy is 56.3% and we believe it will continue to be challenging to find tenants to take up the remaining space until the power supply has been upgraded. S\$15 million upgrading works are scheduled to commence and complete in 4Q 2017. After which, we believe the data centre will be more attractive to prospective tenants, and should be easier to backfill.

Outlook

The outlook remains stable. The two remaining major leases that are due for expiry in 2017 have been agreed in-principle and are pending finalisation of lease documentation. However, 3Q17 DPU could be lower YoY, as there was a one-off distribution of 0.23 cents arising from net property tax refund in 3Q16. It has been a dry spell in terms of acquisitions in 1H 2017. Any pick up in deals in 2H 2017 would be a favourable development to drive inorganic growth.

Maintain Neutral with higher target price of \$1.28 (previous \$1.15)

We raised our FY17e/FY18e DPU forecast by 3.5%/6.0% as we tweak our revenue and property expenses assumptions. Our target price represents an implied forward 1.35x FY17e P/NAV.

Neutral (Maintained)

LAST CLOSE PRICE	SGD 1.320
FORECAST DIV	SGD 0.068
TARGET PRICE	SGD 1.280
TOTAL RETURN	2.1%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	127
MARKET CAP (USD mn / SGD mn):	1087 / 1488
52 - WK HI/LO (SGD):	133 / 114
3M Average Daily T/O (mn):	2.38

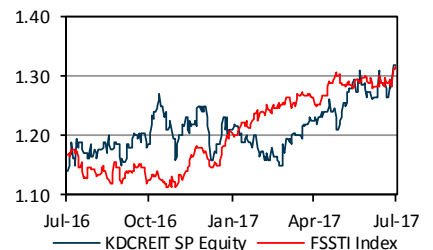
MAJOR SHAREHOLDERS (%)

KEPPEL CAPITAL HOLDINGS PTE LTD	34.8%
COHEN & STEERS CAPITAL MANAGEMENT	3.1%
SUMITOMO MITSUBISHI ASSET MGMT CO	2.8%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	4.3	7.8	21.8
STIRETURN	10	4.9	17.3

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Gross Rev. (SGD mn)	107.7	99.1	131.7	133.5
NPI (SGD mn)	91.3	90.9	119.0	120.7
Dist. Inc. (SGD mn)	60.4	61.0	76.7	74.8
P/NAV (x)	1.10	1.06	1.39	1.36
DPU, adj (cents)	6.84	6.14	6.84	6.40
Distribution Yield (%)	6.7	6.0	5.2	4.8

Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 7.0%; Terminal g: 15%)

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Relative valuation

KDCREIT is relatively over-valued in terms of trailing P/NAV, in comparison to its Australia Stock Exchange (ASX)-listed peer, Asia Pacific Data Centre.

Peer relative data (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	1.320	1,488	1,087	1.40	4.6
Asia Pacific Data Centre	AUD	1.78	219	160	1.25	5.5

Source: Bloomberg (Updated: 17 July 2017), PSR

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
Gross rental income	105.9	97.2	129.2	131.0
Other income	1.7	2.0	2.6	2.6
Gross revenue	107.7	99.1	131.7	133.5
Property expenses	(16.4)	(8.2)	(12.8)	(12.8)
Net property income	91.3	90.9	119.0	120.7
Net Finance (Expense)/Inc	(12.1)	(11.5)	(12.8)	(13.9)
Manager's fees	(8.7)	(8.6)	(10.7)	(11.8)
Other items	(1.8)	0.9	(4.7)	(2.2)
Exceptional items	-	-	-	-
FV change, Invmnt. properties	41.1	(14.0)	-	-
Total Return Before Tax	109.8	57.7	90.8	92.8
Taxation	(5.6)	(6.7)	(8.4)	(8.8)
Total Return After Tax	104.2	50.9	82.4	84.0
Unitholders	104.2	50.9	79.6	81.0
Non-controlling interest	0.04	0.01	2.85	3.04
Distribution adjustments	(43.8)	10.1	(2.9)	(6.2)
Income available for distribution	60.4	61.0	76.7	74.8
Income distributed	60.4	61.0	77.0	74.8

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	7.06	6.99
DPU (cents)	6.84	6.14	6.84	6.40

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

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e
CFO				
Total return	104.2	50.9	82.4	84.0
Adjustments	(23.4)	33.0	23.2	24.7
WC changes	(24.4)	(7.0)	(3.5)	(0.2)
Cash generated from ops	56.4	76.9	102.0	108.5
Others	(0.2)	(1.2)	(8.4)	(8.8)
Cashflow from ops	56.3	75.7	93.6	99.7
CFI				
CAPEX, net	(8.8)	(9.8)	(15.0)	(2.0)
Purchase of Inv. Propty.	(477)	(111)	(208)	(117)
Others	(47.6)	-	-	-
Cashflow from investments	(533)	(121)	(223)	(119)
CFF				
Share issuance, net	507	279	-	91
Loans, net of repayments	364	188.8	-	27
Dividends	(57.5)	(58.5)	(79.8)	(74.4)
Others	(306)	(108)	(13)	(14)
Cashflow from financing	507	302	(93)	30
Net change in cash	30.3	257.0	(221.9)	10.8
Effects of exchange rate	(1)	(0)	-	-
Ending cash	37.2	294.0	72.0	82.8

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
ASSETS				
Investment properties	1,103	1,226	1,449	1,581
Inv. Propty. Under Devmnt.	-	-	-	-
Intangibles	-	4.0	2.0	0.0
Others	17.3	14.8	14.8	1.8
Total non-current assets	1,120	1,245	1,466	1,583
Cash	37.2	298.0	72.0	82.8
Trade receivables	53.1	38.7	51.4	52.2
Others	1.0	1.7	1.7	1.7
Total current assets	91.2	338.3	125.1	136.6
Total Assets	1,211	1,583	1,591	1,719
LIABILITIES				
Trade payables	17.8	28.0	37.2	37.7
Borrowings	33.6	6.7	159.7	136.7
Others	0.1	0.5	0.5	0.5
Total current liabilities	51.6	35.1	197.4	174.9
Borrowings	338.3	464.0	311.0	361.3
Others	7.8	10.0	10.0	10.0
Total non-current liabilities	346.1	474.0	321.0	371.3
Total Liabilities	397.7	509.1	518.4	546.2
Net assets	813.5	1,074	1,072	1,173
Represented by:				
Unitholders' funds	813.1	1,074	1,072	1,172
Non-controlling interest	0.37	0.34	0.44	0.79

Valuation Ratios

Y/E Dec	FY15	FY16	FY17e	FY18e
P/NAV (x)	1.10	1.06	1.39	1.36
P/DPU (x)	14.8	16.5	19.3	20.6
Distribution Yield (%)	6.74	6.05	5.18	4.85
NPI yield (%)	8.28	7.81	8.90	7.97

Growth & Margins (%)

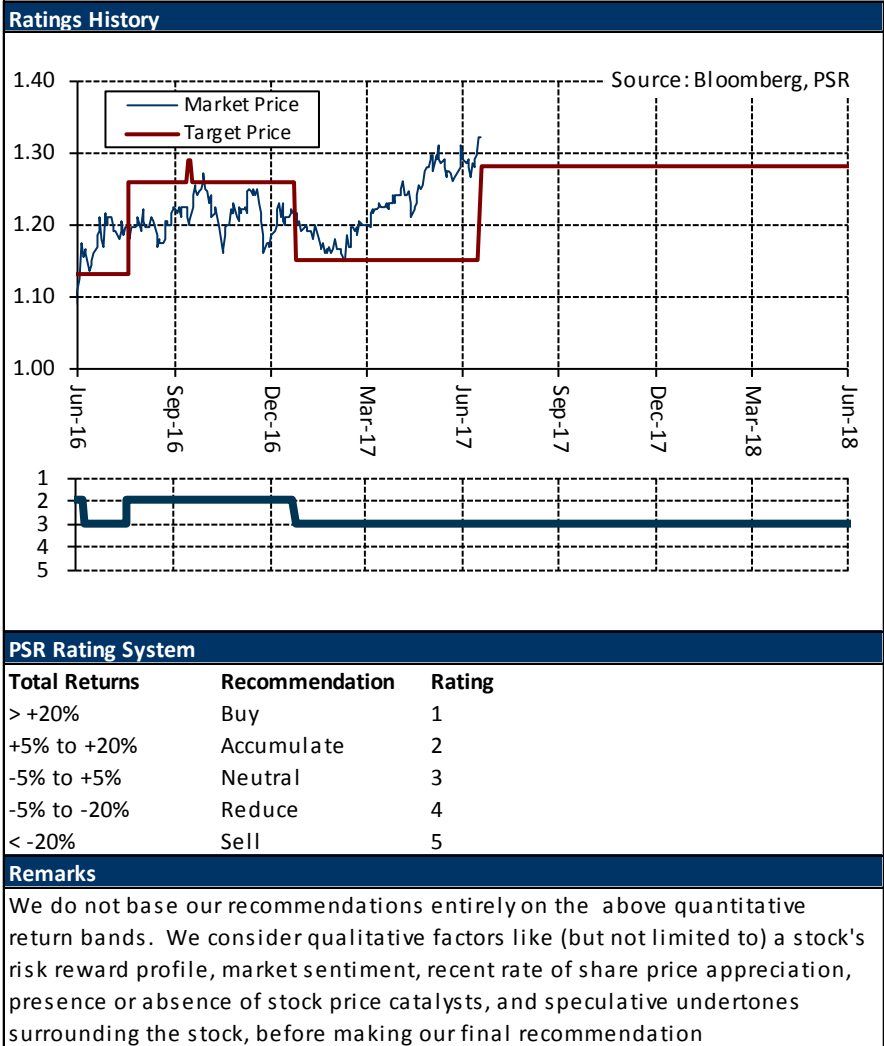
Growth			
Revenue	-7.9%	32.9%	1.4%
Net property income (NPI)	-0.4%	30.8%	1.5%
Distributable income	1.1%	25.6%	-2.5%
DPU	-10.2%	11.4%	-6.4%

Margins

NPI margin	84.8%	91.7%	90.3%	90.4%
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Key Ratios

Net Debt or (Net Cash)	334.8	172.7	398.6	415.2
Gearing (%)	30.7%	29.7%	29.6%	29.0%



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