

Keppel DC REIT

Acquisition driven growth



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SINGAPORE | REAL ESTATE (REIT) | 3Q17 RESULTS

17 October 2017

- Gross revenue beat our forecast by 7.5%, on higher than expected gross rental and one-off other income
- DPU in line with our forecast.
- Headline 16.8% YoY DPU growth overstated; historical 3Q16 DPU was 1.90 cents.
- Portfolio remains stable with no major surprises.

Results at a glance

(SGD mn)	3Q17	3Q16	YoY	Comments
Gross revenue	35.5	22.7	56.6%	Contribution from Milan DC, Cardiff DC, B10 DC and 90% interest in KDC SGP 3; offset by lower Basis Bay DC. Appreciation of GBP, EUR and AUD vs. SGD; depreciation of MYR vs. SGD
Net property income	32.3	22.7	42.1%	Absence of one-off net property tax refund recorded in 3Q16
Distributable income	20.2	16.8	20.2%	16.6% higher finance costs and 27% higher manager's fees
DPU (cents)	1.74	1.90	-8.4%	Effect of 274-for-1,000 Preferential Offering
DPU, adj. (cents)	1.74	1.49	16.8%	Adjusted for Preferential Offering
DPU, adj. (cents)	1.74	1.67	4.2%	Adjusted for one-off net property tax refund

Source: Company, PSR

The positives

- Portfolio WALE remains long, despite shortening QoQ from 9.4 years to 9.2 years: We expect weighted average lease expiry (WALE) to be further extended, after the two major tenants in the Singapore properties renew their leases by the end of the year. No change in status since the previous quarter, in that the leases have been agreed upon in-principle and are pending finalisation of lease documentation. The two tenants are expected to retain the same amount space.
- Portfolio occupancy inches up marginally from 93.1% to 93.4%: This was from slightly better occupancy at KDC SGP 1 and KDC Dublin 1.
- Aggregate leverage remains low at 32.1%, despite rising QoQ from 27.7%: Higher aggregate leverage following the drawdown of ~€66 mn (~\$101 mn) short-term loan to fully fund the acquisition of B10 Data Centre in Dublin in mid-September. Weighted average debt maturity stands at 2.5 years, but this should be extended out as the manager intends to refinance 2017's debt to a 5-year loan.

The negatives

- KDC Dublin 1 is still under-utilised: 57.6% occupancy is slightly higher than the 56.3% a quarter ago. Upgrading of the DC's power supply is scheduled to commence in 4Q17, but no timeline has been given for completion. It should be easier to backfill the DC after the upgrade is completed.

Outlook

The possibility of an equity fund raising exercise soon is at the back of our mind. Current aggregate leverage of 32.1% is close to the historical high of c.32.5% after the acquisition of the Milan DC in October 2016. Shortly after, a Preferential Offering was completed in November 2016 in conjunction with the acquisition of KDC SGP 3. The price of KDCREIT has made a good run, and the current price is 1.41x P/NAV. The conditions are ripe to raise new equity with the next acquisition.

Maintain Neutral, higher target price of \$1.36 (previously \$1.31)

We raise our FY17e/FY18e DPU forecast by 6.5%/10.9% as we tweak our revenue assumptions. Our target price represents an implied FY17e P/NAV multiple of 1.42x.

Neutral (Maintain)

LAST CLOSE PRICE	SGD 1.350
FORECAST DIV	SGD 0.074
TARGET PRICE	SGD 1.360
TOTAL RETURN	6.2%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	127
MARKET CAP (USD mn / SGD mn):	126 / 152
52 - WK HI/LO (SGD):	136 / 115
3M Average Daily T/O (mn):	2.29

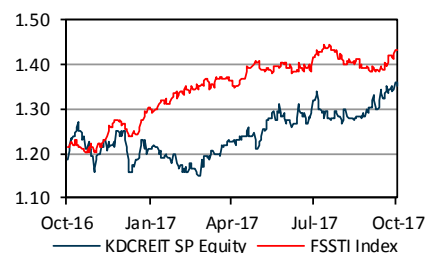
MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	35.3%
SUMITOMO MITSUBISHI ASSET MGMT CO	5.0%
VANGUARD GROUP	3.2%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	5.4	8.0	21.2
STIRETURN	2.8	3.9	22.3

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	136.8	143.1
NPI (SGD mn)	913	90.9	123.8	129.8
Dist. Inc. (SGD mn)	60.4	61.0	82.9	85.6
P/E (x)	8.6	18.2	18.1	17.5
P/NAV (x)	1.0	1.06	1.42	1.39
DPU, adj (cents)	6.84	6.14	7.36	7.31
Distribution Yield (%)	6.7	6.0	5.4	5.4

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	1.350	1,522	1,126	1.40	4.8
Asia Pacific Data Centre	AUD	1.96	239	177	1.18	3.7

Source: Bloomberg (Updated: 16 October 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	133.7	140.8
Other income	1.7	2.0	3.1	2.2
Gross revenue	107.7	99.1	136.8	143.1
Property expenses	(16.4)	(8.2)	(12.9)	(13.2)
Net property income	91.3	90.9	123.8	129.8
Net Finance (Expense)/Inc	(12.1)	(11.5)	(13.4)	(16.2)
Manager's fees	(8.7)	(8.6)	(11.3)	(12.5)
Other items	(1.8)	0.9	(6.1)	(2.6)
Exceptional items	-	-	-	-
FV change, Invmnt. properties	41.1	(14.0)	-	-
Total Return Before Tax	109.8	57.7	93.1	98.5
Taxation	(5.6)	(6.7)	(5.6)	(5.7)
Total Return After Tax	104.2	50.9	87.4	92.7
Unitholders	104.2	50.9	84.7	89.8
Non-controlling interest	0.04	0.01	2.79	2.92
Distribution adjustments	(43.8)	10.1	(1.7)	(4.2)
Income available for distribution	60.4	61.0	82.9	85.6
Income distributed	60.4	61.0	82.9	85.6

Per share data

Y/E Dec	FY15	FY16	FY17e	FY18e
NAV (S\$)	0.92	0.95	0.96	0.98
EPU (cents)	11.80	5.58	7.51	7.75
DPU (cents)	6.84	6.14	7.36	7.31

*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	87.4	92.7
Adjustments	(23.4)	33.0	25.2	24.3
WC changes	(24.4)	(7.0)	(4.0)	(0.8)
Cash generated from ops	56.4	76.9	108.6	116.3
Others	(0.2)	(1.2)	(5.6)	(5.7)
Cashflow from ops	56.3	75.7	103.0	110.5
CFI				
CAPEX, net	(8.8)	(9.8)	(15.0)	(2.0)
Purchase of Inv. Propty.	(477)	(111)	(309)	(117)
Others	(47.6)	-	-	-
Cashflow from investments	(533)	(121)	(324)	(119)
CFF				
Share issuance, net	507	279	-	91
Loans, net of repayments	364	188.8	101	27
Dividends	(57.5)	(58.5)	(79.6)	(83.2)
Others	(306)	(108)	(13)	(16)
Cashflow from financing	507	302	8	19
Net change in cash	30.3	257.0	(213.0)	10.4
Effects of exchange rate	(1)	(0)	-	-
Ending cash	37.2	294.0	80.9	91.3

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	FY16	FY17e	FY18e
ASSETS				
Investment properties	1,103	1,226	1,550	1,682
Inv. Propty. Under Devmnt.	-	-	-	-
Intangibles	-	4.0	1.8	(0.5)
Others	17.3	14.8	14.8	1.8
Total non-current assets	1,120	1,245	1,567	1,683
Cash	37.2	298.0	80.9	91.3
Trade receivables	53.1	38.7	53.3	56.1
Others	1.0	1.7	1.7	1.7
Total current assets	91.2	338.3	135.9	149.1
Total Assets	1,211	1,583	1,703	1,833
LIABILITIES				
Trade payables	17.8	28.0	38.5	40.6
Borrowings	33.6	6.7	(90.3)	39.7
Others	0.1	0.5	0.5	0.5
Total current liabilities	51.6	35.1	(51.3)	80.7
Borrowings	338.3	464.0	662.3	559.6
Others	7.8	10.0	10.0	10.0
Total non-current liabilities	346.1	474.0	672.3	569.6
Total Liabilities	397.7	509.1	621.0	650.3
Net assets	813.5	1,074	1,082	1,182
Represented by:				
Unitholders' funds	813.1	1,074	1,081	1,181
Non-controlling interest	0.37	0.34	0.57	0.88

Valuation Ratios

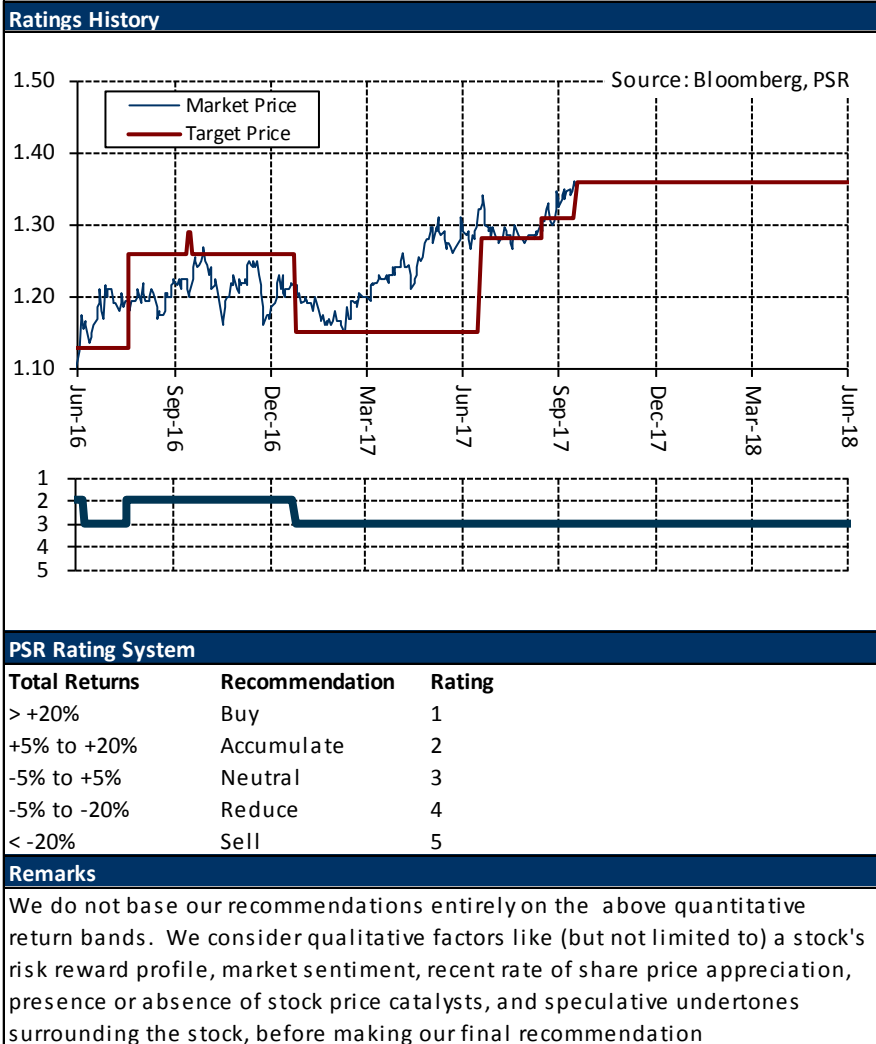
Y/E Dec	FY15	FY16	FY17e	FY18e
P/NAV (x)	1.10	1.06	1.42	1.39
P/DPU (x)	14.8	16.5	18.5	18.6
Distribution Yield (%)	6.74	6.05	5.41	5.38
NPI yield (%)	8.28	7.81	8.92	8.03

Growth & Margins (%)

Growth				
Revenue	-7.9%	38.0%	4.6%	
Net property income (NPI)	-0.4%	36.2%	4.8%	
Distributable income	1.1%	35.8%	3.3%	
DPU	-10.2%	19.9%	-0.7%	
Margins				
NPI margin	84.8%	91.7%	90.5%	90.7%

Key Ratios

Net Debt or (Net Cash)	334.8	172.7	491.0	508.0
Gearing (%)	30.7%	29.7%	33.6%	32.7%



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