

Keppel DC REIT

Stable portfolio to start the year



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SINGAPORE | REAL ESTATE (REIT) | 1Q18 RESULTS

17 April 2018

- Gross revenue 4.8% higher than we expected and DPU 10.4% lower than we expected, due to net tax and adjustments
- Gross revenue and DPU met 25% and 23% respectively, of consensus FY18 estimates
- Acquisition of maincubes Data Centre in Germany was completed on March 30, growing the portfolio QoQ from S\$1.51bn to S\$1.66bn
- Maintain Neutral; unchanged target price of \$1.47

Results at a glance

(SGD mn)	1Q18	1Q17	YoY	Comments
Gross revenue	38.0	32.2	17.9%	Full quarter income from KDC DUB 2 (acquired in Sep 2017) and KDC SGP 3 (acquired in Jan 2017)
Net property income	34.1	28.8	18.2%	16% higher property-related expenses
Distributable income	20.9	21.8	-4.1%	One-off capital distribution of \$1.7mn in 1Q17
DPU (cents)	1.80	1.89	-4.8%	Excluding one-off capital distribution of 0.15 cents in 1Q17, DPU would have been 3.4% higher YoY

Source: Company, PSR

The Positives

- Portfolio WALE remains long at 9.6 years.** Portfolio weighted average lease expiry (WALE) increased QoQ from 9.1 years, due to effect of the acquisition of maincubes Data Centre on March 30. Maincubes Data Centre is on a 15-year triple-net master lease.
- Marginally higher QoQ portfolio occupancy from 92.6% to 93.7%,** mainly due to inclusion of maincubes Data Centre. Occupancy at Keppel DC Dublin 1 (KDC DUB 1) and Dublin 2 (KDC DUB 2) were also marginally higher. KDC DUB 2 is currently 90.7% occupied and the Manager reported that one of the existing tenants has committed to taking up the rest of the space. Negotiations for the take up of space is ongoing, and KDC DUB 2 should be fully leased by 2H 2018.
- Effectively no more debt maturing in 2018.** S\$93.1mn of short term loans as at 1Q18 has already substantially been refinanced to 2023 and a small balance to be repaid during 2Q18.

The Negatives

- Occupancy remains a drag at Basis Bay Data Centre (63.1%) and KDC DUB 1 (57.2%).** The Manager feedback that the difficulty at Basis Bay is finding the right tenant who wants to lease this space. The Manager was more optimistic on KDC DUB 1. The AEI at KDC DUB 1 to improve the power supply efficiency has just commenced, and it will take 18 months to complete at a cost of S\$20mn. The Manager expects to see take up of space as the AEI is nearing completion. For context, Basis Bay Data Centre and KDC DUB 1 account for 4.6% and 6.5% of portfolio NLA, respectively.
- Gearing is higher QoQ from 32.1% to 37.4%.** This was due to loans drawn to fund the 90% balance payment of maincubes Data Centre.

Outlook

The outlook is stable. The long WALE of 9.6 years provides income visibility, and renewal risk is manageable with only 1.8% and 1.9% of leased area for renewal in 2018 and 2019 respectively. The recent acquisition of maincubes Data Centre in Germany will contribute positively from April 1 onwards. The current AUM stands at S\$1.66bn and the Manager reiterated the target of growing it to S\$2bn this year. The strategy of a long-term target gearing of 30% remains unchanged.

Maintain Neutral; unchanged target price of \$1.47

We like the growth story for the stock, but opine that valuation appears to be rich at an implied 1.44 times FY18e P/NAV multiple.

Neutral (Maintained)

LAST CLOSE PRICE	SGD 1.460
FORECAST DIV	SGD 0.079
TARGET PRICE	SGD 1.470
TOTAL RETURN	6.1%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	127
MARKET CAP (USD mn / SGD mn):	1255 / 1646
52 - WK HI/LO (SGD):	148 / 121
3M Average Daily T/O (mn):	2.50

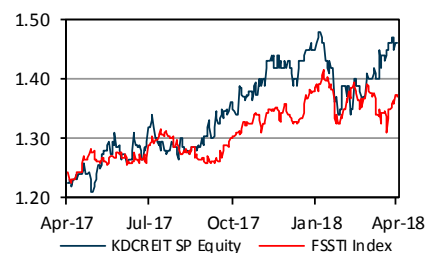
MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	35.3%
SUMITOMO MITSUBISHI ASSET MGMT CO	5.0%
COHEN & STEERS INC	2.5%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	3.5	3.1	25.5
STIRETURN	(13)	(0.2)	14.0

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 16	FY 17	FY 18e	FY 19e
Gross Rev. (SGD mn)	99.1	139.1	154.2	161.4
NPI (SGD mn)	90.9	125.1	138.7	145.2
Dist. Inc. (SGD mn)	61.0	82.3	90.8	96.0
P/E (x)	18.2	17.6	18.3	17.7
P/NAV (x)	106	105	143	143
DPU, adj (cents)	6.14	7.12	7.86	8.07
Distribution Yield (%)	6.0	7.0	5.4	5.5

Source: Company Data, PSR est.

VALUATION METHOD

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

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Completed acquisition of maincubes Data Centre on March 30, 2018

- **10% deposit was paid in 2015**
The property was acquired for €84.0mn (approximately S\$130mn). A 10% deposit was paid in 2015 with the balance 90% to be paid on completion of the acquisition.
- **Acquisition was completed earlier than expected**
We had previously assumed the acquisition to be completed in the late part of 2Q 2018. Instead, the acquisition was completed at the end of 1Q 2018 and will have a full quarter contribution from 2Q 2018. We have adjusted our revenue assumption accordingly.
- **Acquisition was completed with balance 90% fully-paid using debt instead of an debt-equity mix**
The balance 90% of the property was acquired with debt, making the acquisition yield-accrative. We had previously assumed an equity fund raising (EFR) in conjunction with the balance payment. We had assumed a 30-70 debt-equity capital structure for the acquisition. 30% is the long-term target gearing that the Manager has repeatedly articulated.
- **Our target price remains largely unchanged, despite no dilutive EFR for now**
The current gearing stands at 37.4% and an EFR is inevitable with the strategy to grow the AUM to S\$2bn by the end of 2018. We have factored an EFR of S\$91mn (70% of S\$130m acquisition price) at the end of the year, to move towards the long-term target of 30% gearing.

Figure 1: Completion of maincubes Data Centre acquisition

- Expansion of the REIT's footprint in Europe with its first German acquisition completed on 30 March 2018
- The four-storey fully-fitted data centre has energy-efficient features and has been certified by TÜV as a Level 3 Highly Available data centre
- Commencement of 15-year triple-net lease lengthens the REIT's portfolio WALE and strengthens the REIT's income stream



maincubes Data Centre completed on schedule

Location	Offenbach am Main, Germany
Land Tenure	Freehold
Lettable Area	126,800 sq ft
Occupancy Rate	100.0%
Lease Type	15-year triple-net master lease
Agreed Value	€84.0 million

Source: Company 1Q FY18 Financial Results presentation, 16 April 2018

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. KDCREIT is also trading at a tighter yield.

Global data centre REITs 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	1.46	1,646	1,255	1.51	4.9
Asia Pacific Data Centre	AUD	1.80	211	161	1.09	5.2

Source: Bloomberg (Updated: 16 April 2018), PSR

Financials

FY15 = 12 December 2014 to 31 December 2015

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
Gross rental income	105.9	97.2	134.6	149.9	157.2
Other income	1.7	2.0	4.4	4.3	4.3
Gross revenue	107.7	99.1	139.1	154.2	161.4
Property expenses	(16.4)	(8.2)	(13.9)	(15.5)	(16.3)
Net property income	91.3	90.9	125.1	138.7	145.2
Net Finance (Expense)/Inc	(12.1)	(11.5)	(13.3)	(17.3)	(16.0)
Manager's fees	(8.7)	(8.6)	(11.3)	(13.1)	(13.7)
Other items	(1.8)	0.9	(14.4)	(0.2)	(0.3)
Exceptional items	-	-	-	-	-
FV change, Invmnt. properties	41.1	(14.0)	(8.5)	-	-
Total Return Before Tax	109.8	57.7	77.6	108.1	115.2
Taxation	(5.6)	(6.7)	(7.3)	(10.0)	(10.5)
Total Return After Tax	104.2	50.9	70.3	98.1	104.7
Unitholders	104.2	50.9	65.2	92.0	98.3
Non-controlling interest	0.04	0.01	5.05	6.13	6.42
Distribution adjustments	(43.8)	10.1	17.1	(1.1)	(2.3)
Income available for distribution	60.4	61.0	82.3	90.8	96.0
Income distributed	60.4	61.0	82.3	90.8	96.0

Per share data

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV (S\$)	0.92	0.95	0.97	1.02	1.02
EPU (cents)	11.80	5.58	5.77	7.99	8.26
DPU (cents)	6.84	6.14	7.12	7.86	8.07

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

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17	FY18e	FY19e
CFO					
Total return	104	51	70	98	105
Adjustments	(23)	33	32	27	27
WC changes	(24)	(7)	20	(1)	(4)
Cash generated from ops	56	77	123	124	127
Others	(0)	(1)	(5)	(10)	(11)
Cashflow from ops	56	76	118	114	117
CFI					
CAPEX, net	(9)	(10)	(12)	(7)	(13)
Purchase of Inv. Propty.	(477)	(111)	(293)	(117)	-
Others	(48)	-	-	-	-
Cashflow from investments	(533)	(121)	(305)	(124)	(13)
CFF					
Share issuance, net	507	279	-	91	-
Loans, net of repayments	364	189	357	26	-
Dividends	(57)	(58)	(74)	(92)	(100)
Others	(306)	(108)	(273)	(17)	(16)
Cashflow from financing	507	302	10	8	(116)
Net change in cash	30	257	(178)	(1)	(12)
Effects of exchange rate	(1)	(0)	(0)	-	-
Ending cash	37	294	116	115	103

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	FY17	FY18e	FY19e
ASSETS					
Investment properties	1,103	1,226	1,570	1,707	1,720
Inv. Propty. Under Devmnt.	-	-	-	-	-
Intangibles	-	4	-	-	-
Others	17	15	15	2	2
Total non-current assets	1,120	1,245	1,585	1,709	1,722
Cash	37	298	118	117	105
Trade receivables	53	39	56	63	66
Others	1	2	1	1	1
Total current assets	91	338	175	180	171
Total Assets	1,211	1,583	1,760	1,889	1,893
LIABILITIES					
Trade payables	18	28	48	54	53
Borrowings	34	7	4	4	4
Others	0	0	1	1	1
Total current liabilities	52	35	53	59	58
Borrowings	338	464	576	602	602
Others	8	10	18	18	18
Total non-current liabilities	346	474	594	620	620
Total Liabilities	398	509	647	678	677
Net assets	813	1,074	1,113	1,211	1,216
Represented by:					
Unitholders' funds	813	1,074	1,090	1,187	1,191
Non-controlling interest	0	0	24	24	24

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	8.6	18.2	17.6	18.3	17.7
P/NAV (x)	1.10	1.06	1.05	1.43	1.43
P/DPU (x)	14.8	16.5	14.3	18.6	18.1
Distribution Yield (%)	6.74	6.05	7.01	5.38	5.53
NPI yield (%)	8.28	7.81	8.95	8.46	8.47

Growth & Margins (%)

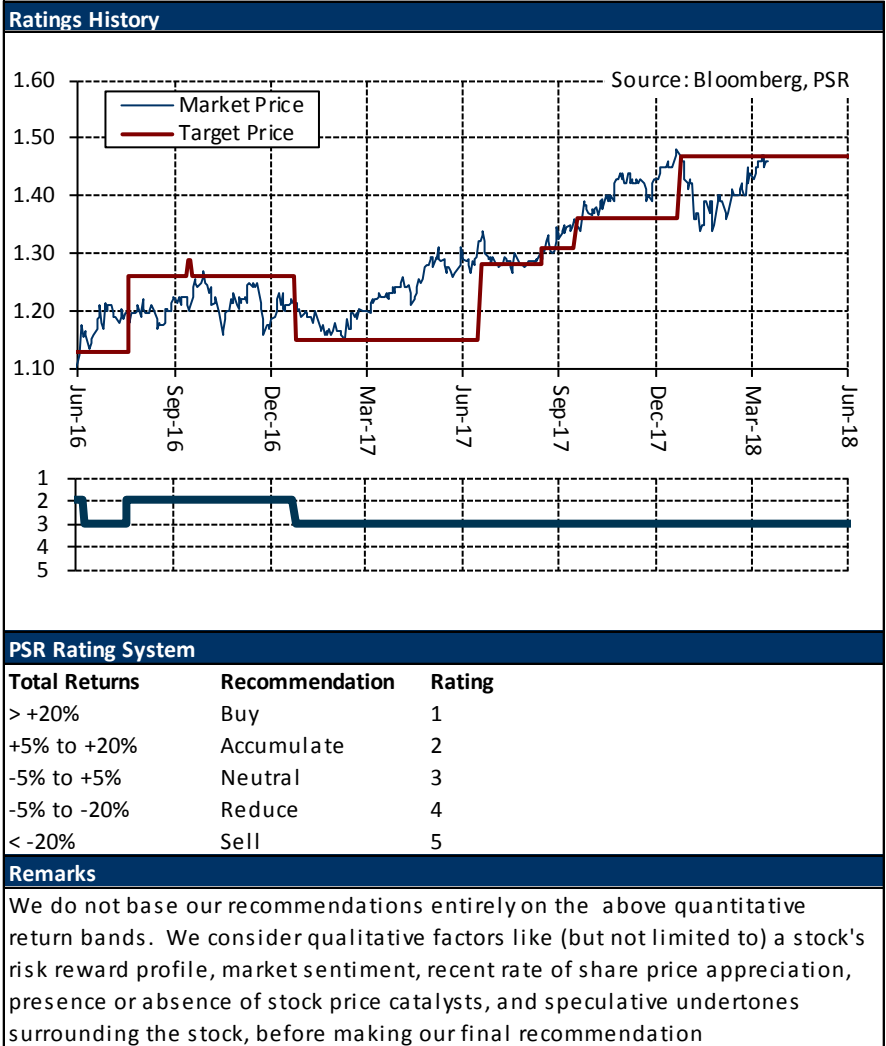
	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	-7.9%	40.3%	10.9%	4.7%	
Net property income (NPI)	-0.4%	37.6%	10.9%	4.7%	
Distributable income	1.1%	34.8%	10.3%	5.7%	
DPU	-10.2%	16.0%	10.4%	2.7%	

Margins

	FY15	FY16	FY17	FY18e	FY19e
NPI margin	84.8%	91.7%	90.0%	89.9%	89.9%

Key Ratios

	FY15	FY16	FY17	FY18e	FY19e
Net Debt or (Net Cash)	334.8	172.7	461.1	488.1	500.6
Gearing (%)	30.7%	29.7%	32.9%	32.0%	32.0%



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