

Keppel DC REIT

Bulking up on SGP



StocksBnB.com

SINGAPORE | REAL ESTATE (REIT) | UPDATE

8 May 2018

- Acquisition of data centre in Singapore, which will be renamed KDC SGP 5
- Launch of Private Placement to fund the acquisition
- Upgrade to Accumulate; higher target price of \$1.51 (previously \$1.47)

What is the news?

- Launch of Private Placement of 224mn New Units to raise gross proceeds of S\$303.07mn.** The issue price of each New Unit is S\$1.353, which is a 4.9% discount to the volume weighted average price of S\$1.422 for trades done on 4 May 2018. Approximately S\$298.9mn will be used to partially fund the acquisition and S\$4.2mn to pay estimated fees and expenses. Remaining S\$10.7mn of acquisition cost to be funded from the balance of proceeds of the Preferential Offering launched in October 2016.
- Advanced Distribution of 2.75 cents.** The Advanced Distribution will be declared, in connection with the Private Placement. This is to distribute to existing unitholders their pro rata entitlement of DPU, before the New Units are issued (estimated on 16 May).
- Acquisition of 99% interest in property located at 13 Sunview Way by way of acquiring 99% interest in Kingsland Data Centre Pte Ltd.** The property is a five-storey, colocation data centre with three tenants from the internet enterprise and IT services trade sectors.

How do we view this?

The Positives

- + DPU accretive on a pro forma basis for FY17, if the acquisition was completed on 1 January 2017.** The manager expects +4.3% accretion if tax transparency is granted and +0.6% accretion if tax transparency is not granted. This is assuming that the acquisition is fully-funded by equity.
- + Paying down debt and lowering gearing from 37.4% to 32.1%.** Gross proceeds from the Private Placement will be used to acquire the property at 13 Sunview Way and repay debt of Kingsland Data Centre Pte Ltd. No new debt will be used and the acquisition is effectively fully-funded by equity.
- + Growing the AUM from \$1.66bn to \$1.97bn and strengthening foothold in Singapore.** Upon completion of the acquisition, the Singapore contribution to AUM will increase from 40.6% to 49.8% of total portfolio.

The Negatives

- Committed occupancy of 84.2% is lower than portfolio occupancy of 93.7%.** The current occupancy is 67.7% and there is an agreement in place for the two of the three tenants to ramp-up their space requirements, bringing committed occupancy to 84.2%. The remaining vacant space is the office component in the property. We expect some hurdles in securing a tenant for the office space since it resides within the data centre, and will not be able to be marketed like a typical office space.
- Short WALE of 3.6 years for the property.** The WALE includes the effect of the ramp-in in occupancy by the tenants. The WALE of the property is shorter than the existing portfolio WALE of 9.6 years as at 30 March 2018.

Upgrade to Accumulate (from Neutral); higher target price of \$1.51 (previously \$1.47)

We have adjusted FY18e/FY19e DPU -10.3%/+3.1% from previous. The long-term demand drivers for data centres remain intact, but downside risk arises from the rich valuation that is an implied 1.42 times FY18e P/NAV multiple.

Accumulate (Upgrade)

LAST CLOSE PRICE	SGD 1.430
FORECAST DIV	SGD 0.071
TARGET PRICE	SGD 1.510
TOTAL RETURN	10.5%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	1.127
MARKET CAP (USD mn / SGD mn):	1255 / 1646
52 - WK HI/LO (SGD):	148 / 121
3M Average Daily T/O (mn):	2.50

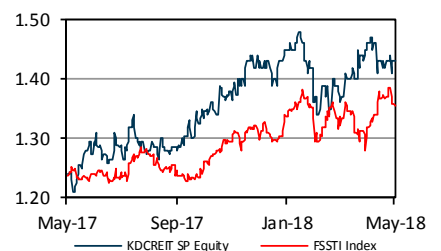
MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	35.3%
SUMITOMO MITSUBISHI ASSET MGMT CO	5.0%
COHEN & STEERS INC	2.3%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(14)	0.7	19.5
STIRETURN	7.1	17	13.4

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	169.9	186.0
NPI (SGD mn)	90.9	125.1	152.3	166.8
Dist. Inc. (SGD mn)	61.0	82.3	90.3	112.5
P/E (x)	18.2	17.6	19.0	16.8
P/NAV (x)	1.06	1.05	1.35	1.35
DPU, adj (cents)	6.44	7.12	7.05	8.32
Distribution Yield (%)	6.0	7.0	4.9	5.8

Source: Company Data, PSR est.

VALUATION METHOD

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

Richard Leow, CFA, CFTe, FRM (+65 6212 1848)

Investment Analyst

ricleow@phillip.com.sg

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	165.6	181.8
Other income	1.7	2.0	4.4	4.3	4.3
Gross revenue	107.7	99.1	139.1	169.9	186.0
Property expenses	(16.4)	(8.2)	(13.9)	(17.6)	(19.3)
Net property income	91.3	90.9	125.1	152.3	166.8
Net Finance (Expense)/Inc	(12.1)	(11.5)	(13.3)	(17.5)	(18.5)
Manager's fees	(8.7)	(8.6)	(11.3)	(14.4)	(15.9)
Other items	(1.8)	0.9	(14.4)	(9.6)	(0.3)
Exceptional items	-	-	-	-	-
FV change, Invmnt. properties	41.1	(14.0)	(8.5)	-	-
Total Return Before Tax	109.8	57.7	77.6	110.7	132.0
Taxation	(5.6)	(6.7)	(7.3)	(10.4)	(11.8)
Total Return After Tax	104.2	50.9	70.3	100.4	120.2
Unitholders	104.2	50.9	65.2	95.3	114.7
Non-controlling interest	0.04	0.01	5.05	5.10	5.55
Distribution adjustments	(43.8)	10.1	17.1	(5.0)	(2.2)
Income available for distribution	60.4	61.0	82.3	90.3	112.5
Income distributed	60.4	61.0	82.3	90.3	112.5

Per share data

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV (S\$)	0.92	0.95	0.97	1.06	1.06
EPU (cents)	11.80	5.58	5.77	7.52	8.49
DPU (cents)	6.84	6.14	7.12	7.05	8.32

*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	100	120
Adjustments	(23)	33	32	28	30
WC changes	(24)	(7)	20	(2)	(5)
Cash generated from ops	56	77	123	126	145
Others	(0)	(1)	(5)	(10)	(12)
Cashflow from ops	56	76	118	116	134
CFI					
CAPEX, net	(9)	(10)	(12)	(7)	(13)
Purchase of Inv. Propty.	(477)	(111)	(293)	(417)	-
Others	(48)	-	-	-	-
Cashflow from investments	(533)	(121)	(305)	(424)	(13)
CFF					
Share issuance, net	507	279	-	303	-
Loans, net of repayments	364	189	357	117	-
Dividends	(57)	(58)	(74)	(87)	(115)
Others	(306)	(108)	(273)	(18)	(19)
Cashflow from financing	507	302	10	315	(133)
Net change in cash	30	257	(178)	8	(13)
Effects of exchange rate	(1)	(0)	(0)	-	-
Ending cash	37	294	116	124	111

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	2,007	2,020
Inv. Propty. Under Devmnt.	-	-	-	-	-
Intangibles	-	4	-	-	-
Others	17	15	15	2	2
Total non-current assets	1,120	1,245	1,585	2,009	2,022
Cash	37	298	118	126	113
Trade receivables	53	39	56	69	76
Others	1	2	1	1	1
Total current assets	91	338	175	196	190
Total Assets	1,211	1,583	1,760	2,204	2,212
LIABILITIES					
Trade payables	18	28	48	59	61
Borrowings	34	7	4	4	4
Others	0	0	1	1	1
Total current liabilities	52	35	53	64	66
Borrowings	338	464	576	693	693
Others	8	10	18	18	18
Total non-current liabilities	346	474	594	711	711
Total Liabilities	398	509	647	775	776
Net assets	813	1,074	1,113	1,430	1,435
Represented by:					
Unitholders' funds	813	1,074	1,090	1,405	1,411
Non-controlling interest	0	0	24	24	25

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	8.6	18.2	17.6	19.0	16.8
P/NAV (x)	1.10	1.06	1.05	1.35	1.35
P/DPU (x)	14.8	16.5	14.3	20.3	17.2
Distribution Yield (%)	6.74	6.05	7.01	4.93	5.82
NPI yield (%)	8.28	7.81	8.95	8.52	8.28

Growth & Margins (%)

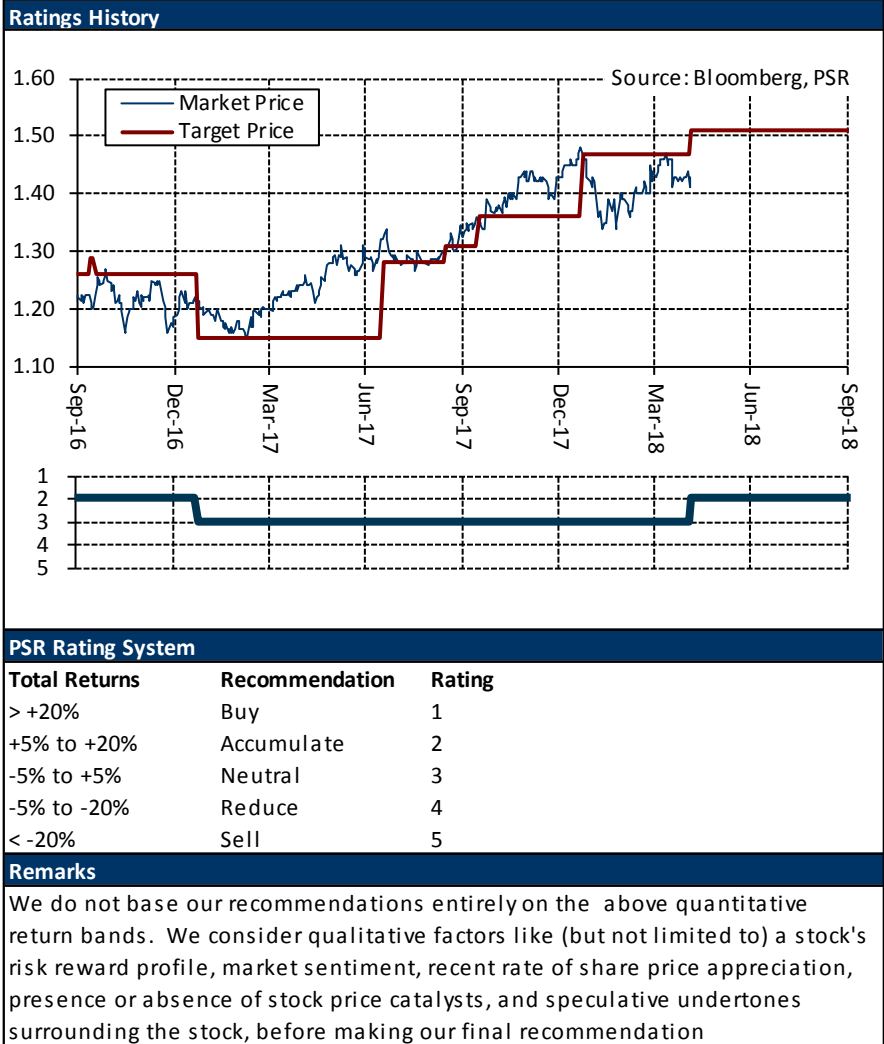
Growth					
Revenue	-7.9%	40.3%	22.2%	9.5%	
Net property income (NPI)	-0.4%	37.6%	21.7%	9.5%	
Distributable income	1.1%	34.8%	9.6%	24.6%	
DPU	-10.2%	16.0%	-1.0%	18.0%	

Margins

NPI margin	84.8%	91.7%	90.0%	89.6%	89.6%
------------	-------	-------	-------	-------	-------

Key Ratios

Net Debt or (Net Cash)	334.8	172.7	461.1	570.4	583.1
Gearing (%)	30.7%	29.7%	32.9%	31.6%	31.5%



Head of Research Paul Chew – paulchewkl@phillip.com.sg	Contact Information (Singapore Research Team) Research Associate Alvin Chia - alvinchiawy@phillip.com.sg	Research Operations Officer Mohamed Amiruddin - amiruddin@phillip.com.sg
Consumer Healthcare Soh Lin Sin - sohls@phillip.com.sg	Oil & Gas Energy Chen Guangzhi - chengz@phillip.com.sg	Macro Pei Sai Teng - peist@phillip.com.sg
Transport REITs (Industrial) Richard Leow - richardleowwt@phillip.com.sg	REITs (Commercial, Retail, Healthcare) Property Dehong Tan - tandh@phillip.com.sg	Technical Analysis Jeremy Ng - jeremyngch@phillip.com.sg
REITs (Commercial, Retail, Healthcare) Property Tara Wong - tarawongjsi@phillip.com.sg	US Equity Ho Kang Wei - hokw@phillip.com.sg	

Contact Information (Regional Member Companies)**SINGAPORE**

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre, #61-64,
Norodom Blvd Corner Street 306, Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poems.com.my

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited
2nd Floor, Lakshmans Building,
No. 321, Galle Road,
Colombo 03, Sri Lanka
Tel: (94) 11 2429 100
Fax: (94) 11 2429 199
Website: www.ashaphillip.net

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGEX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's licence under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.