

Keppel DC REIT

Strengthened balance sheet to fuel inorganic growth



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SINGAPORE | REAL ESTATE (REIT) | 2Q18 RESULTS

18 July 2018

- 3.62 cents DPU declared for 1H18, comprising 2.77 cents advance distribution (1 January to 15 May) and 0.85 cents post private placement (16 May to 30 June)
- 1H18 revenue and DPU met 50% and 47% respectively, of consensus FY18 expectation
- Maintain Accumulate; new target price of \$1.45 (previously \$1.51)

Results at a glance

(SGD mn)	2Q18	2Q17	YoY	Comments
Gross revenue	41.9	34.5	21.5%	Contribution from KDC SGP 5 (acquired June 12, 2018), maincubes DC (acquired March 30, 2018) and KDC DUB 2 (acquired Sept. 13, 2017)
Net property income	38.1	31.4	21.4%	22% higher property-related expenses from the acquisition of KDC DUB 2
Distributable income	23.1	20.1	14.6%	
DPU (cents)	1.82	1.74	4.6%	

Source: Company, PSR

The Positives

- Recent acquisitions have contributed positively to revenue and DPU.** YoY DPU growth was achieved, notwithstanding the dilution from the private placement launched on May 7. The new units were issued on May 16 and increased the total number of units in issue by almost 20%.
- Aggregate leverage lowered to 31.7% from 37.4%, after the private placement.** Debt headroom is now about S\$290mn (40% target gearing), potentially growing portfolio AUM by ~14%.
- No refinancing risk for the remainder of 2018 and interest rate exposure has been further hedged.** The next refinancing is in 2019 for the SGD-denominated borrowings that accounts for ~19% of total debt. The percentage of debt that has been hedged on fixed-rate is now 86%; from 80% in the previous quarter.

The Negatives

- Acquisition of KDC SGP 5 dragged down portfolio WALE and occupancy.** KDC SGP 5 (16% of portfolio by valuation) was acquired in May. While portfolio WALE remains long at 8.8 years, it was shortened by the addition of KDC SGP 5 which has a WALE of 3.3 years. KDC SGP 5 is 73.9% occupied, thus contributing to the QoQ lower portfolio occupancy from 93.7% to 92.0%. Nonetheless, the tenants have committed to ramp-up their space requirements and bring occupancy to 84%. None of the office space in the property has been leased out; and we previously opined to expect hurdles in securing a tenant for the office space since it resides within a data centre and the space cannot be marketed like a typical office space.

Outlook

The outlook is stable. Operationally, the long WALE of 8.8 years provides income visibility, and renewal risk is minimal with only 1.2% and 2.1% of leased area up for renewal in 2H 2018 and 2019 respectively. The recent acquisitions of maincubes Data Centre and KDC SGP 5 will continue to drive YoY distributable income growth for the next four quarters.

The current AUM stands at S\$1.94bn and the Manager is still looking to grow the portfolio through acquisitions. In terms of Sponsor pipeline, Almere Data Centre 2 is not stabilised yet, and it is not in the Manager's acquisition plan for 2018.

Maintain Accumulate; new target price of \$1.45 (previously \$1.51)

After incorporating 1H18 actual data into our forecasts, our new target price is due to change in our assumptions for distribution adjustments. While the long-term demand drivers for data centres remain intact, downside risk arises from the rich valuation that is an implied 1.36 times FY18e P/NAV multiple.

Accumulate (Maintained)

LAST CLOSE PRICE	SGD 1.350
FORECAST DIV	SGD 0.071
TARGET PRICE	SGD 1.450
TOTAL RETURN	12.7%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	1351
MARKET CAP (USD mn / SGD mn):	1339 / 1824
52 - WK HI/LO (SGD):	148 / 127
3M Average Daily T/O (mn):	3.22

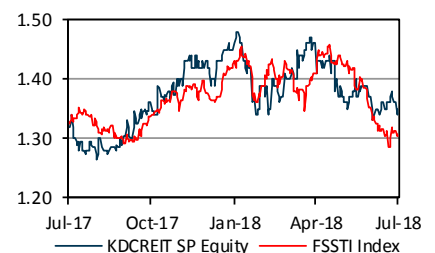
MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	29.4%
SUMITOMO MITSUBISHI ASSET MGMT CO	4.8%
VANGUARD GROUP INC	18%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(2.2)	(6.4)	9.1
STIRETURN	(3.7)	(6.3)	17

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	170.3	186.0
NPI (SGD mn)	90.9	125.1	153.7	168.1
Dist. Inc. (SGD mn)	61.0	82.3	91.2	101.0
P/E (x)	18.2	17.6	16.2	15.3
P/NAV (x)	1.06	1.05	1.26	1.24
DPU, adj (cents)	6.14	7.12	7.12	7.48
Distribution Yield (%)	6.0	7.0	5.3	5.6

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

richardleowwt@phillip.com.sg

Update on KDC DUB 1 AEI

Status at KDC DUB 1 remains unchanged from previous quarter. Occupancy remains on the low side at 56.8% and the asset enhancement initiative (AEI) to improve the power supply is ongoing. No change to the expected capex of S\$20 million. However, the AEI could now "take anything from 18 to 24 months"; from the previous estimate of 18 months.

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, but at a higher yield.

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	1.35	1,824	1,340	1.34	5.3
Asia Pacific Data Centre	AUD	1.88	218	160	1.14	5.1

Source: Bloomberg (Updated: 18 July 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	166.0	181.8
Other income	1.7	2.0	4.4	4.3	4.3
Gross revenue	107.7	99.1	139.1	170.3	186.0
Property expenses	(16.4)	(8.2)	(13.9)	(16.6)	(17.9)
Net property income	91.3	90.9	125.1	153.7	168.1
Net Finance (Expense)/Inc	(12.1)	(11.5)	(13.3)	(15.3)	(16.5)
Manager's fees	(8.7)	(8.6)	(11.3)	(14.2)	(16.0)
Other items	(1.8)	0.9	(14.4)	(3.1)	(0.3)
Exceptional items	-	-	-	-	-
FV change, Invmnt. properties	41.1	(14.0)	(8.5)	-	-
Total Return Before Tax	109.8	57.7	77.6	121.0	135.3
Taxation	(5.6)	(6.7)	(7.3)	(11.3)	(12.2)
Total Return After Tax	104.2	50.9	70.3	109.7	123.0
Unitholders	104.2	50.9	65.2	105.5	118.3
Non-controlling interest	0.04	0.01	5.05	4.26	4.68
Distribution adjustments	(43.8)	10.1	17.1	(14.3)	(17.3)
Income available for distribution	60.4	61.0	82.3	91.2	101.0
Income distributed	60.4	61.0	82.3	91.2	101.0

Per share data

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV (S\$)	0.92	0.95	0.97	1.06	1.08
EPU (cents)	11.80	5.58	5.77	8.25	8.76
DPU (cents)	6.84	6.14	7.12	7.12	7.48

*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	110	123
Adjustments	(23)	33	32	27	29
WC changes	(24)	(7)	20	(2)	(5)
Cash generated from ops	56	77	123	134	147
Others	(0)	(1)	(5)	(11)	(12)
Cashflow from ops	56	76	118	123	134
CFI					
CAPEX, net	(9)	(10)	(12)	(21)	(13)
Purchase of Inv. Propty.	(477)	(111)	(293)	(417)	-
Others	(48)	-	-	-	-
Cashflow from investments	(533)	(121)	(305)	(438)	(13)
CFF					
Share issuance, net	507	279	-	303	-
Loans, net of repayments	364	189	357	42	-
Dividends	(57)	(58)	(74)	(92)	(103)
Others	(306)	(108)	(273)	(15)	(17)
Cashflow from financing	507	302	10	238	(120)
Net change in cash	30	257	(178)	(77)	2
Effects of exchange rate	(1)	(0)	(0)	-	-
Ending cash	37	294	116	39	41

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	2,022	2,035
Inv. Propty. Under Devmnt.	-	-	-	-	-
Intangibles	-	4	-	-	-
Others	17	15	15	2	2
Total non-current assets	1,120	1,245	1,585	2,023	2,036
Cash	37	298	118	41	43
Trade receivables	53	39	56	69	76
Others	1	2	4	4	4
Total current assets	91	338	178	114	122
Total Assets	1,211	1,583	1,763	2,138	2,159
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	618	618
Others	8	10	18	18	18
Total non-current liabilities	346	474	594	636	636
Total Liabilities	398	509	647	700	701
Net assets	813	1,074	1,117	1,438	1,457
Represented by:					
Unitholders' funds	813	1,074	1,090	1,410	1,429
Non-controlling interest	0	0	27	27	28

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	8.6	18.2	17.6	16.2	15.3
P/NAV (x)	1.10	1.06	1.05	1.26	1.24
P/DPU (x)	14.8	16.5	14.3	18.8	17.9
Distribution Yield (%)	6.74	6.05	7.01	5.31	5.58
NPI yield (%)	8.28	7.81	8.95	8.56	8.29

Growth & Margins (%)

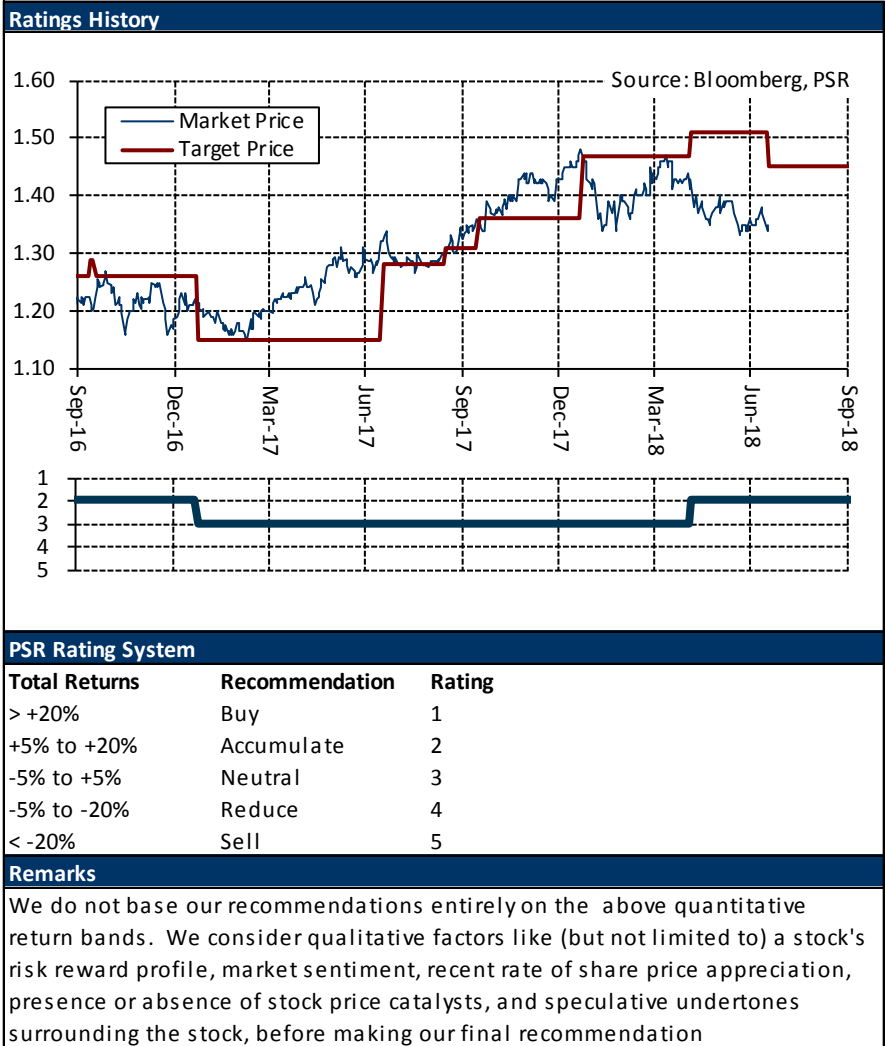
Growth					
Revenue	-7.9%	40.3%	22.5%	9.2%	
Net property income (NPI)	-0.4%	37.6%	22.8%	9.4%	
Distributable income	1.1%	34.8%	10.8%	10.8%	
DPU	-10.2%	16.0%	0.0%	5.1%	

Margins

NPI margin	84.8%	91.7%	90.0%	90.3%	90.4%
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Key Ratios

Net Debt or (Net Cash)	334.8	172.7	461.1	580.0	578.4
Gearing (%)	30.7%	29.7%	32.9%	29.1%	28.8%



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 - tarawongsj@phillip.com.sg	US Equity Ho Kang Wei - hokw@phillip.com.sg	Banking and Finance Tin Min Ying – tinmy@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

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