

Keppel DC REIT

Portfolio remains stable



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SINGAPORE | REAL ESTATE (REIT) | 3Q18 RESULTS

17 October 2018

- 3Q18 revenue was 5.3% higher than expected, due to higher rental top up which is recognised periodically
- 3Q18 DPU was 4.1% lower than expected, due to Capex Reserves set aside for KDC SGP 3 and KDC SGP 5
- 9M18 revenue and DPU met 79% and 73% respectively, of consensus FY18 expectation
- Maintain Accumulate; unchanged target price of \$1.45

Results at a glance

(SGD mn)	3Q18	3Q17	YoY	Comments
Gross revenue	47.6	35.5	34.0%	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	43.0	32.3	33.4%	40% higher property-related expenses from the acquisition of KDC SGP 5 and KDC DUB 2
Distributable income	28.5	20.2	41.0%	
DPU (cents)	1.85	1.74	6.3%	20% larger unit base, effect of Private Placement in May 2018

Source: Company, PSR

The Positives

- Operationally stable.** Portfolio occupancy inched up QoQ to 93.1% from 92.0%, mainly due to higher occupancy at KDC SGP 5 and KDC DUB 1. Portfolio weighted average lease expiry (WALE) of 8.5 years is the longest among industrial S-REITs.
- Stable and predictable cash flow due to limited renewal risk until 2020 and hedging of foreign-sourced distributions.** Only 0.1% of leased area is up for renewal in the remainder of 2018; and less than 5% of leased space is at risk in 2019 and 2020 individually. Foreign-sourced distributions have been hedged till 1H 2020.
- Low aggregate leverage of 32.0% and no refinancing risk for the remainder of 2018.** We estimate debt headroom of S\$270mn (40% target gearing), which can be used to grow the existing AUM of S\$2bn by 13.5%. The next refinancing is in 2019 for the SGD-denominated borrowings that accounts for 19% of total debt. 86% of debt has been hedged on fixed-rate.

The Negatives

- Cash available for distribution to unitholders has been lowered by Capex Reserves.** Capex Reserves are set aside as a percentage of rental income from KDC SGP 3 and KDC SGP 5. The amount of Capex Reserves set aside YTD has come up to S\$2mn. There is currently no near-term capex commitment for either of the properties.

Outlook

The outlook is positive. Data centre demand remains robust. The manager increased demand especially from cloud service providers. These clients tend to be larger, requiring both more space and more power. The manager says the over-supply situation in Singapore applies only to smaller boutique operators; the larger players such as KDCREIT are experiencing healthy occupancy.

The AUM target of S\$2bn for 2018 has been achieved. The manager does not have an AUM target for 2019, but intends to maintain the pace of acquisitions.

Maintain Accumulate; unchanged target price of \$1.45

While the long-term demand drivers for data centre remains 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 1.340
FORECAST DIV	SGD 0.070
TARGET PRICE	SGD 1.450
TOTAL RETURN	13.5%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	1351
MARKET CAP (USD mn / SGD mn):	1315 / 1811
52 - WK HI/LO (SGD):	148 / 128
3M Average Daily T/O (mn):	3.96

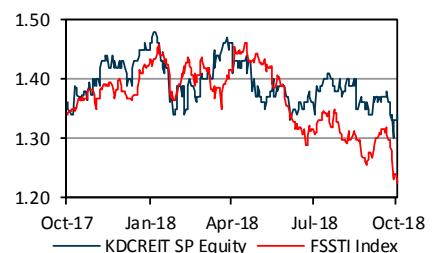
MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	29.4%
SUMITOMO MITSUI ASSET MGMT CO	4.8%
VANGUARD GROUP INC	1.8%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	(0.7)	(16)	2.8
STIRETURN	(3.6)	(5.1)	(4.8)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 16	FY 17	FY 18e	FY 19e
Gross Rev. (SGD mn)	99	139	173	186
NPI (SGD mn)	91	125	156	168
Dist. Inc. (SGD mn)	61	82	91	99
P/E (x)	18.2	17.6	16.2	15.1
P/NAV (x)	1.06	1.05	1.25	1.23
DPU, adj (cents)	6.44	7.12	7.04	7.35
Distribution Yield (%)	6.0	7.0	5.3	5.5

Source: Company Data, PSR est.

VALUATION METHOD

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

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Relative valuation

KDCREIT trades at a higher P/NAV multiple compared to its Australia Stock Exchange (ASX)-listed peer, Asia Pacific Data Centre. KDCREIT is also trades at a lower 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	1.34	1,811	1,315	1.33	5.3
Asia Pacific Data Centre	AUD	2.00	226	164	0.99	6.8

Source: Bloomberg (Updated: 16 October 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	106	97	135	167	182
Other income	2	2	4	6	4
Gross revenue	108	99	139	173	186
Property expenses	(16)	(8)	(14)	(17)	(18)
Net property income	91	91	125	156	168
Net Finance (Expense)/Inc	(12)	(11)	(13)	(16)	(17)
Manager's fees	(9)	(9)	(11)	(14)	(16)
Other items	(2)	1	(14)	(6)	(0)
Exceptional items	-	-	-	-	-
FV change, Invmnt. properties	41	(14)	(9)	-	-
Total Return Before Tax	110	58	78	120	135
Taxation	(6)	(7)	(7)	(12)	(13)
Total Return After Tax	104	51	70	108	122
Unitholders	104	51	65	105	119
Non-controlling interest	0	0	5	3	3
Distribution adjustments	(44)	10	17	(14)	(20)
Income available for distribution	60	61	82	91	99

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	8.20	8.80
DPU (cents)	6.84	6.14	7.12	7.04	7.35

*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	108	122
Adjustments	(23)	33	32	28	30
WC changes	(24)	(7)	20	(2)	(5)
Cash generated from ops	56	77	123	134	147
Others	(0)	(1)	(5)	(12)	(13)
Cashflow from ops	56	76	118	122	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)	(91)	(100)
Others	(306)	(108)	(273)	(16)	(17)
Cashflow from financing	507	302	10	238	(117)
Net change in cash	30	257	(178)	(78)	3
Effects of exchange rate	(1)	(0)	(0)	-	-
Ending cash	37	294	116	38	42

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	40	44
Trade receivables	53	39	56	69	76
Others	1	2	4	4	4
Total current assets	91	338	178	114	123
Total Assets	1,211	1,583	1,763	2,137	2,160
LIABILITIES					
Trade payables	18	28	48	60	61
Borrowings	34	7	4	4	4
Others	0	0	1	1	1
Total current liabilities	52	35	53	65	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	1,437	1,458
Represented by:					
Unitholders' funds	813	1,074	1,090	1,409	1,431
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	15.1
P/NAV (x)	1.10	1.06	1.05	1.25	1.23
P/DPU (x)	14.8	16.5	14.3	18.9	18.1
Distribution Yield (%)	6.74	6.05	7.01	5.29	5.53
NPI yield (%)	8.28	7.81	8.95	8.69	8.30

Growth & Margins (%)

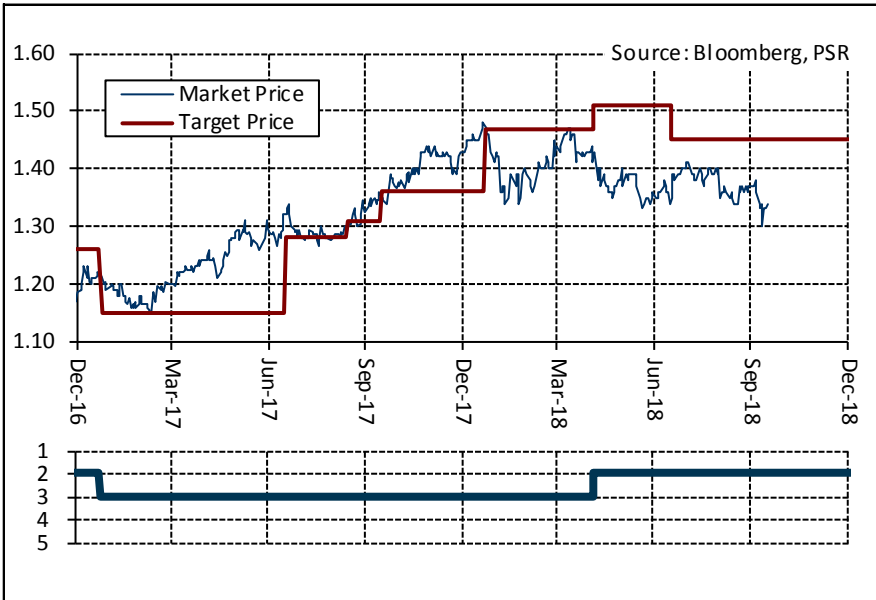
	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	-7.9%	40.3%	24.2%	7.7%	
Net property income (NPI)	-0.4%	37.6%	24.7%	7.9%	
Distributable income	1.1%	34.8%	10.8%	9.0%	
DPU	-10.2%	16.0%	-1.1%	4.4%	

Margins

	FY15	FY16	FY17	FY18e	FY19e
NPI margin	84.8%	91.7%	90.0%	90.4%	90.5%

Key Ratios

	FY15	FY16	FY17	FY18e	FY19e
Net Debt or (Net Cash)	334.8	172.7	461.1	580.9	577.4
Gearing (%)	30.7%	29.7%	32.9%	29.1%	28.8%



PSR Rating System		
Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
< -20%	Sell	5

Remarks
 We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

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