

Keppel DC REIT

Acquisition of ROFR asset soon

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- S\$24.87mn Gross revenue missed consensus expectations of S\$26.3mn by 5.4%; and missed our forecast of S\$25.7mn by 3.2%
- 1.67 cents DPU in line with consensus expectations of 1.6 cents; and in line with our forecast of 1.64 cents
- Portfolio occupancy of 92.3% likely to be maintained or improved

Results at a glance

(SGD mn)	2Q16	2Q15	y-y (%)	Comments
Gross revenue	24.87	26.03	↓(4.5)	Client at Dublin 1 downsized in 1Q16, depreciation of AUD and GBP vs. SGD, lower power revenue
Net property income	22.11	21.93	↑0.8	Lower repairs & maintenance costs
Distributable income	14.75	14.27	↑3.3	Higher unrealised foreign exchange gains, lower other expenses and higher finance
DPU (Cents)	1.67	1.62	↑3.1	In line with higher distributable income

Source: Company, Phillip Securities Research (Singapore)

Renaming of colocation Data Centres to strengthen collective branding

The colocation assets were renamed, with the exception of Gore Hill Data Centre, as approximately half of the asset is a colocation facility while the other half is on a triple-net lease structure.

Renamed colocation assets

Asset	Formerly known as
Keppel DC Dublin 1	Citadel 100 Data Centre
Keppel DC Singapore 1	S25
Keppel DC Singapore 2	T25
Keppel DC Singapore 3	T27 [ROFR asset]
Keppel DC Singapore 4	T20 [ROFR asset]

Source: Company, Phillip Securities Research (Singapore)

2017 forward renewal signed for more than five years with negative reversion at one of the Singapore Properties

The renewal was signed with a major client that has committed to expand by 6,800 sq ft in two phases (half in 2HFY16, half in 2HFY17). We believe this to be at Keppel DC Singapore 1 as it is the only Singapore property where there is vacancy. The client's expansion could potentially push occupancy at the property to >90% from the current 85.7%. Management shared that rental income in the first year will be lower than the current rental income (in spite of the first phase expansion), thus leading us to conclude that there was a negative reversion. Management also shared however, that rental income in the second year onwards will be higher than the existing rent due to the contribution from the second phase expansion.

Dublin lease renewed at last preceding rent

One contract at Keppel DC Dublin 1 was renewed for five years at the last preceding rent, with additional 1,600 sq ft of space taken up. Rental escalation is typically within 2%~4%. This has edged occupancy up slightly to 55.3% compared to 52.8% in 1QFY16.

Maintain at "Neutral" rating with unchanged target price of S\$1.13

While we maintain our "Neutral" rating, we are highlighting the near-term catalyst of the acquisition of Keppel DC Singapore 3 (formerly known as T27). We await more clarity on the terms and capital structure of the acquisition.

19 July 2016

Neutral (Maintained)

LAST CLOSE PRICE	SGD 1.170
FORECAST DIV	SGD 0.067
TARGET PRICE	SGD 1.130
TOTAL RETURN	2.3%

COMPANY DATA

O/S SHARES (MN) :	883
MARKET CAP (USD mn / SGD mn) :	765 / 1033
52 - WK HI/LO (SGD) :	1.18 / 0.96
3M Average Daily T/O (mn) :	190

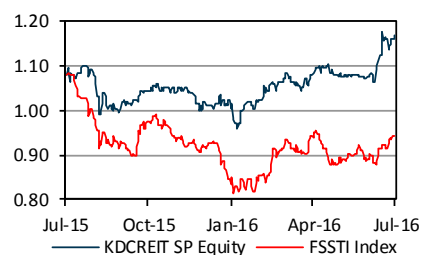
MAJOR SHAREHOLDERS (%)

KEPPEL CORLLTD	35.0%
COHEN & STEERS CAPITAL MANAGEMENT	3.5%
MORGAN STANLEY	3.4%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	8.4	7.4	16.9
STIRETURN	5.4	15	(9.2)

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY15	FY16e	FY17e	FY18e
Gross Rev. (SGD mn)	107.7	102.5	102.6	105.7
NPI (SGD mn)	913	88.3	86.6	89.1
Dist. Inc. (SGD mn)	60.4	58.1	56.4	57.9
P/NAV (x)	1.10	1.25	1.25	1.22
DPU, adj (Cents)	6.84	6.63	6.38	6.25
Distribution Yield, %	6.74	5.72	5.50	5.39

Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 6.7%; Terminal g: 10%)

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Final negotiations to acquire Keppel DC Singapore 3

This is pending a tax transparency ruling with IRAS. As this is an Interested Party Transaction, three valuations will be required for the REIT Manager, Trustee and Sponsor.

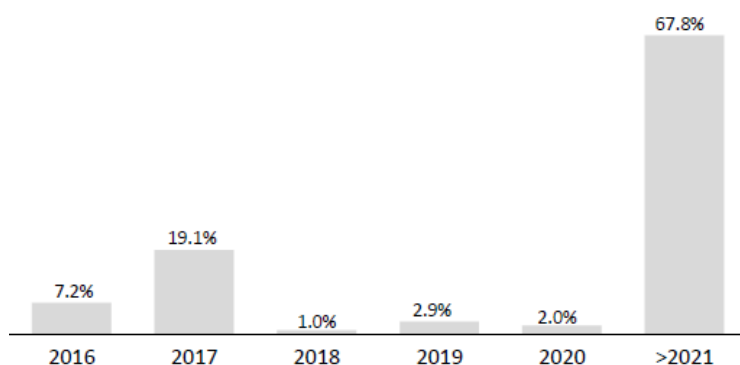
Update on property tax appeal

KDCREIT will be recognising a one-time gain of S\$2mn in 3QFY16 for the refund of excess property tax previously paid to IRAS. This will be paid out in as part of 3QFY16 distribution. This will have the effect of raising DPU by about 0.23 cents, based on 883.1mn units as of the end of 2QFY16.

At the same time, annual value of the Singapore Properties will be reduced. This revised annual value will result in an adjustment to the purchase price of the Singapore Properties. As a result, KDCREIT will have to pay the sum of S\$6mn to Keppel T&T under the purchase agreement. This additional payment to Keppel T&T will be made in 2HFY16. The Manager will be raising the cash through debt or an equity fund raising. We believe this will be done in conjunction with the acquisition of Keppel DC Singapore 3 (formerly known as T27).

Lease expiry profile

As at 30 June 2016



Source: Company 2QFY16 Results Presentation, 18 July 2016

7.2% of leased lettable area up for renewal in 2016

70%~80% of the 7.2% comes from a client at a Singapore property. This lease will be expiring in 3QFY16, and the Manager shared that a temporary lease until the end of the year has been signed with this client. Negotiations to renew the lease for another five years are in its final stages. The remainder of the expiry in 2016 is from a tenant at the Dublin 1 property, where the lease renewal is being finalised.

19.1% of leased lettable area up for renewal in 2017

Management shared that this comes from three major leases – one in Malaysia (Basis Bay Data Centre, double-net, fully fitted), one in Singapore, and one in an overseas asset. The Basis Bay tenant is operating a data centre business at the property and the business is stable. Management believes that the tenant will renew the lease. The other two tenants (Singapore and overseas asset) are not ready to negotiate a renewal as their lease expiries are more than 12-months out.

Relative valuation

KDCREIT is trading at a slightly higher premium compared to Australia Stock Exchange (ASX)-listed peer Asia Pacific Data Centre, with a lower 12M trailing yield.

Peer comparison (arranged by Mkt. Cap.)

	Currency	Price (\$)	Mkt. Cap. (\$\$ mn)	Mkt. Cap. (US\$ mn)	trailing P/NAV (x)	12M trailing yield (%)
Keppel DC REIT	SGD	1.170	1,033	767	1.30	5.6
Asia Pacific Data Centre	AUD	1.56	183	136	1.25	6.1

Source: Bloomberg (Updated: 18 July 2016)

Financials

FY15 = 12 December 2014 to 31 December 2015

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16e	FY17e	FY18e
Gross rental income	105.9	98.9	100.0	103.2
Other income	1.7	3.7	2.6	2.5
Gross revenue	107.7	102.5	102.6	105.7
Property expenses	(16.4)	(14.2)	(15.9)	(16.5)
Net property income	91.3	88.3	86.6	89.1
Net Finance (Expense)/Inc	(12.1)	(11.7)	(11.8)	(12.3)
Manager's fees	(8.7)	(8.6)	(8.6)	(8.9)
Other items	(1.8)	(1.8)	(1.8)	(1.8)
Exceptional items	-	-	-	-
FV change, Invmnt. properties	41.1	-	-	-
Total Return Before Tax	109.8	66.2	64.4	66.1
Taxation	(5.6)	(3.9)	(3.6)	(3.7)
Total Return After Tax	104.2	62.2	60.8	62.3
Unitholders	104.2	62.2	60.8	62.3
Non-controlling interest	0.04	0.04	0.04	0.04
Distribution adjustments	(43.8)	(4.1)	(4.3)	(4.4)
Income available for distribution	60.4	58.1	56.4	57.9
Income distributed	60.4	59.1	56.4	57.9

Per share data

Y/E Dec	FY15	FY16e	FY17e	FY18e
NAV (\$\$)	0.92	0.93	0.93	0.95
EPU (Cents)	11.80	7.04	6.88	6.81
DPU (Cents)	6.84	6.63	6.38	6.25

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

Cash Flow

Y/E Dec, SGD mn	FY15	FY16e	FY17e	FY18e
CFO				
Total return	104.2	62.2	60.8	62.3
Adjustments	(23.4)	16.7	16.4	17.3
WC changes	(24.4)	(6.3)	1.1	(4.4)
Cash generated from ops	56.4	72.7	78.3	75.2
Others	(0.2)	(3.9)	(3.6)	(3.7)
Cashflow from ops	56.3	68.7	74.7	71.5
CFI				
CAPEX, net	(8.8)	(4.0)	(2.0)	(2.0)
Purchase of Inv. Propty.	(477)	(3)	-	(117)
Others	(47.6)	-	-	-
Cashflow from investments	(533)	(7)	(2)	(119)
CFF				
Share issuance, net	507	-	-	91
Loans, net of repayments	364	(0.1)	-	40
Dividends	(57.5)	(58.5)	(58.4)	(54.9)
Others	(306)	(13)	(13)	(14)
Cashflow from financing	507	(71)	(71)	63
Net change in cash	30.3	(9.7)	1.5	15.0
Effects of exchange rate	(1)	-	-	-
Ending cash	37.2	27.5	29.0	44.0

Source: Company, Phillip Securities Research (Singapore) Estimates

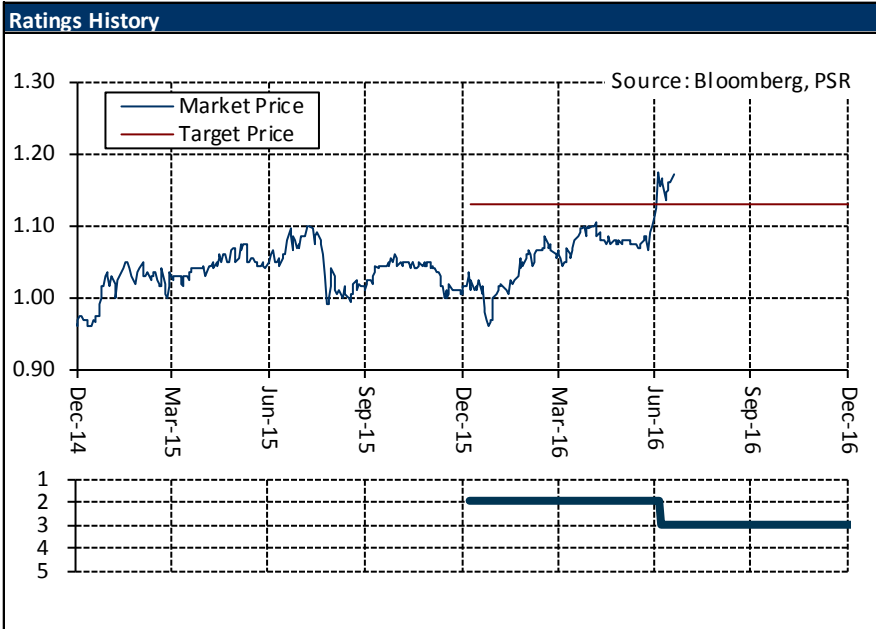
*Forward multiples & yields based on current market price; historical multiples & yields based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY15	FY16e	FY17e	FY18e
ASSETS				
Investment properties	1,103	1,110	1,112	1,244
Inv. Propty. Under Devmnt.	-	-	-	-
Others	17.3	17.3	17.3	4.5
Total non-current assets	1,120	1,127	1,129	1,248
Cash	37.2	29.5	31.0	46.0
Trade receivables	53.1	57.8	56.7	62.9
Others	1.0	1.0	1.0	1.0
Total current assets	91.2	88.4	88.7	109.9
Total Assets	1,211	1,216	1,218	1,358
LIABILITIES				
Trade payables	17.8	16.3	16.2	18.0
Borrowings	33.6	3.5	156.5	133.5
Others	0.1	0.1	0.1	0.1
Total current liabilities	51.6	20.0	172.9	151.7
Borrowings	338.3	368.3	215.3	278.3
Others	7.8	7.8	7.8	7.8
Total non-current liabilities	346.1	376.1	223.1	286.1
Total Liabilities	397.7	396.1	396.0	437.8
Net assets	813.5	819.4	821.8	920.3
Represented by:				
Unitholders' funds	813.1	819.0	821.4	919.9
Non-controlling interest	0.37	0.39	0.39	0.40

Valuation Ratios

Y/E Dec	FY15	FY16e	FY17e	FY18e
P/NAV (x)	1.10	1.25	1.25	1.22
P/DPU (x)	14.8	17.5	18.2	18.6
Distribution Yield (%)	6.74	5.72	5.50	5.39
NPI yield (%)	8.28	7.98	7.80	7.57
Growth & Margins (%)				
Growth				
Revenue	-4.8%	0.0%	3.0%	
Net property income (NPI)	-3.3%	-1.9%	2.9%	
Distributable income	-3.8%	-2.9%	2.6%	
DPU	-3.1%	-3.8%	-2.0%	
Margins				
NPI margin	84.8%	86.1%	84.5%	84.3%
Key Ratios				
Net Debt or (Net Cash)	334.8	342.3	340.9	365.8
Gearing (%)	30.7%	30.6%	30.5%	30.3%



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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