

Keppel DC REIT

Acquisition-driven growth; core results in line

SINGAPORE | REAL ESTATE (REIT) | RESULTS

- 1Q gross revenue and core recurring DPU (adjusted) were in line with our forecasts
- Actual DPU exceeded our forecast by 11%, due to one-off capital distribution

Results at a glance

(SGD mn)	1Q17	1Q16	yoy (%)	Comments
Gross revenue	32.22	24.77	↑30.1	Contribution from 90% interest in Keppel DC SGP 3, Cardiff DC and Milan DC, appreciation of AUD vs. SGD; offset by client downsizing at Keppel DC Dublin 1 in 1Q16, and depreciation of GBP, EUR and MYR vs. SGD
Net property income	28.84	21.19	↑36.1	5.7% lower property operating expenses
Distributable income	21.77	14.75	↑47.6	1Q17 includes S\$1.7mn one-off capital distribution in relation to Keppel DC SGP3 acquisition
DPU (cents)	1.89	1.67	↑13.2	Effect of 274-for-1,000 Preferential Offering and one-off capital distribution equivalent to 0.15 cent in 1Q17
DPU, adj. (cents)	1.74	1.67	↑4.2	Adjusted for one-off capital distribution

Source: Company, Phillip Securities Research (Singapore)

Outlook for new demand remains encouraging until 2021

BroadGroup Consulting forecasts up to 2021 that new demand across the ten locations where Keppel DC REIT (KDCREIT) has a presence in to experience growth. The highest growth regions are Singapore, Australia and Malaysia, where the new demand compounded annual growth rate (CAGR) is expected to range from mid-teens to low-twenties. New demand at the European locations (London, Amsterdam, Dublin, Frankfurt, Milan and Cardiff) is expected to be slower, ranging from high-single-digit to high-teens. Of particular relevance are the locations where KDCREIT's data centres operate as colocation or with impending lease expiry: Singapore (23.6% CAGR), Cyberjaya, Malaysia (15.8% CAGR), Sydney, Australia (14.4% CAGR) and Dublin (15.2% CAGR). KDCREIT's biggest single-country exposure is to Singapore, where new supply is expected to put pressure on utilisation in 2017, but long term improvement in utilisation remains intact.

Three major leases expiring (<10% of total lease) in 2017 still in negotiations

Portfolio weighted average lease expiry (WALE) by leased lettable area stands at 9.2 years with 10% expiring in 2017. Occupancy at KDC SGP 1 improved quarter-on-quarter to 87.3% from 84.7%, as vacant space was leased out to a new tenant. Of the four major expiries in 2017, one colocation lease in a SGP DC was renewed at a marginally higher rate than previous. The three remaining expiries are located overseas, and renewal negotiations are ongoing. These expiries are likely to be at Gore Hill, Basis Bay and Dublin 1.

Target gearing remains unchanged at 30% for now

KDCREIT's gearing stands at 27.9% – one of the lowest within the S-REITs universe. The Manager outlined its strategy of utilising the debt headroom to make acquisitions first, then pare it down through an equity fund raising exercise as gearing approaches 40%. This 30% target gearing could be relaxed in future, as the asset base of the REIT grows.

Maintain "Neutral" rating with unchanged target price of S\$1.15

Our gross rental income assumptions have been tweaked as we refresh foreign currency exchange rate assumptions after FY18e. We have also updated our non-controlling interest estimates in relation to KDC SGP 3. The relatively low gearing of 27.9% warrants KDCREIT to trade at a premium to NAV, in our view. Our target price represents an implied forward 1.2x FY17e P/NAV. We have a "Neutral" rating on the stock as we believe that the attractiveness of the asset class (data centre) has been adequately priced-in.

18 April 2017

Neutral (Maintained)

LAST CLOSE PRICE	SGD 1.225
FORECAST DIV	SGD 0.066
TARGET PRICE	SGD 1.150
TOTAL RETURN	-0.7%

COMPANY DATA

O/S SHARES (MN) :	1.27
MARKET CAP (USD mn / SGD mn) :	989 / 1381
52 - WK HI/LO (SGD) :	128 / 104
3M Average Daily T/O (mn) :	2.07

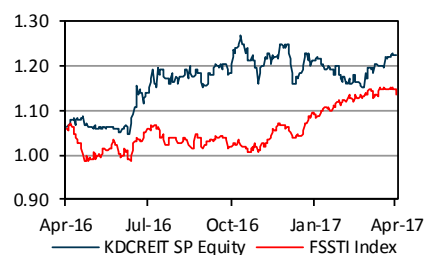
MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	34.9%
SUMITOMO MITSUBISHI ASSET MGMT CO	2.7%
MORGAN STANLEY	2.6%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	3.4	3.6	23.1
STIRETURN	0.9	5.2	14.1

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY 15	FY 16	FY 17e	FY 18e
Gross Rev. (SGD mn)	107.7	99.1	129.3	131.9
NPI (SGD mn)	91.3	90.9	116.1	118.3
Dist. Inc. (SGD mn)	60.4	61.0	74.2	70.5
P/NAV (x)	1.10	1.06	1.28	1.26
DPU, adj (cents)	6.84	6.14	6.61	6.04
Distribution Yield (%)	6.74	6.05	5.40	4.93

Source: Company Data, PSR est.

VALUATION METHOD

DDM (Cost of Equity: 6.99%; Terminal g: 15%)

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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.

Peer 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	1.225	1,381	989	1.28	5.0
Asia Pacific Data Centre	AUD	1.53	186	134	1.07	6.4

Source: Bloomberg (Updated: 17 April 2017), Phillip Securities Research (Singapore)

Financials

FY15 = 12 December 2014 to 31 December 2015

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e
Gross rental income	105.9	97.2	127.9	130.9
Other income	1.7	2.0	1.4	1.0
Gross revenue	107.7	99.1	129.3	131.9
Property expenses	(16.4)	(8.2)	(13.2)	(13.6)
Net property income	91.3	90.9	116.1	118.3
Net Finance (Expense)/Inc	(12.1)	(11.5)	(14.1)	(16.0)
Manager's fees	(8.7)	(8.6)	(10.7)	(11.7)
Other items	(1.8)	0.9	1.1	(0.0)
Exceptional items	-	-	-	-
FV change, Invmnt. properties	41.1	(14.0)	-	-
Total Return Before Tax	109.8	57.7	92.3	90.6
Taxation	(5.6)	(6.7)	(8.6)	(9.1)
Total Return After Tax	104.2	50.9	83.7	81.5
Unitholders	104.2	50.9	81.4	79.2
Non-controlling interest	0.04	0.01	2.28	2.28
Distribution adjustments	(43.8)	10.1	(7.3)	(8.7)
Income available for distribution	60.4	61.0	74.2	70.5
Income distributed	60.4	61.0	74.5	70.6

Per share data

Y/E Dec	FY15	FY16	FY17e	FY18e
NAV (S\$)	0.92	0.95	0.95	0.97
EPU (cents)	11.80	5.58	7.23	6.83
DPU (cents)	6.84	6.14	6.61	6.04

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

Cash Flow

Y/E Dec, SGD mn	FY15	FY16	FY17e	FY18e
CFO				
Total return	104.2	50.9	83.7	81.5
Adjustments	(23.4)	33.0	26.8	25.1
WC changes	(24.4)	(7.0)	(3.4)	(0.3)
Cash generated from ops	56.4	76.9	107.1	106.3
Others	(0.2)	(1.2)	(8.6)	(9.1)
Cashflow from ops	56.3	75.7	98.5	97.1
CFI				
CAPEX, net	(8.8)	(9.8)	(15.0)	(2.0)
Purchase of Inv. Propty.	(477)	(111)	(208)	(117)
Others	(47.6)	-	-	-
Cashflow from investments	(533)	(121)	(223)	(119)
CFF				
Share issuance, net	507	279	-	91
Loans, net of repayments	364	188.8	-	27
Dividends	(57.5)	(58.5)	(78.6)	(70.5)
Others	(306)	(108)	(14)	(16)
Cashflow from financing	507	302	(93)	32
Net change in cash	30.3	257.0	(217.3)	9.9
Effects of exchange rate	(1)	(0)	-	-
Ending cash	37.2	294.0	76.7	86.6

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	FY17e	FY18e
ASSETS				
Investment properties	1,103	1,226	1,449	1,581
Inv. Propty. Under Devmnt.	-	-	-	-
Intangibles	-	4.0	-	-
Others	17.3	14.8	14.8	1.8
Total non-current assets	1,120	1,245	1,464	1,583
Cash	37.2	298.0	76.7	86.6
Trade receivables	53.1	38.7	50.9	52.1
Others	1.0	1.7	1.7	1.7
Total current assets	91.2	338.3	129.3	140.4
Total Assets	1,211	1,583	1,593	1,723
LIABILITIES				
Trade payables	17.8	28.0	36.8	37.7
Borrowings	33.6	6.7	159.7	136.7
Others	0.1	0.5	0.5	0.5
Total current liabilities	51.6	35.1	197.0	174.9
Borrowings	338.3	464.0	311.0	361.3
Others	7.8	10.0	10.0	10.0
Total non-current liabilities	346.1	474.0	321.0	371.3
Total Liabilities	397.7	509.1	518.0	546.2
Net assets	813.5	1,074	1,075	1,177
Represented by:				
Unitholders' funds	813.1	1,074	1,074	1,176
Non-controlling interest	0.37	0.34	0.50	0.81

Valuation Ratios

Y/E Dec	FY15	FY16	FY17e	FY18e
P/NAV (x)	1.10	1.06	1.28	1.26
P/DPU (x)	14.8	16.5	18.5	20.3
Distribution Yield (%)	6.74	6.05	5.40	4.93
NPI yield (%)	8.28	7.81	8.68	7.81

Growth & Margins (%)

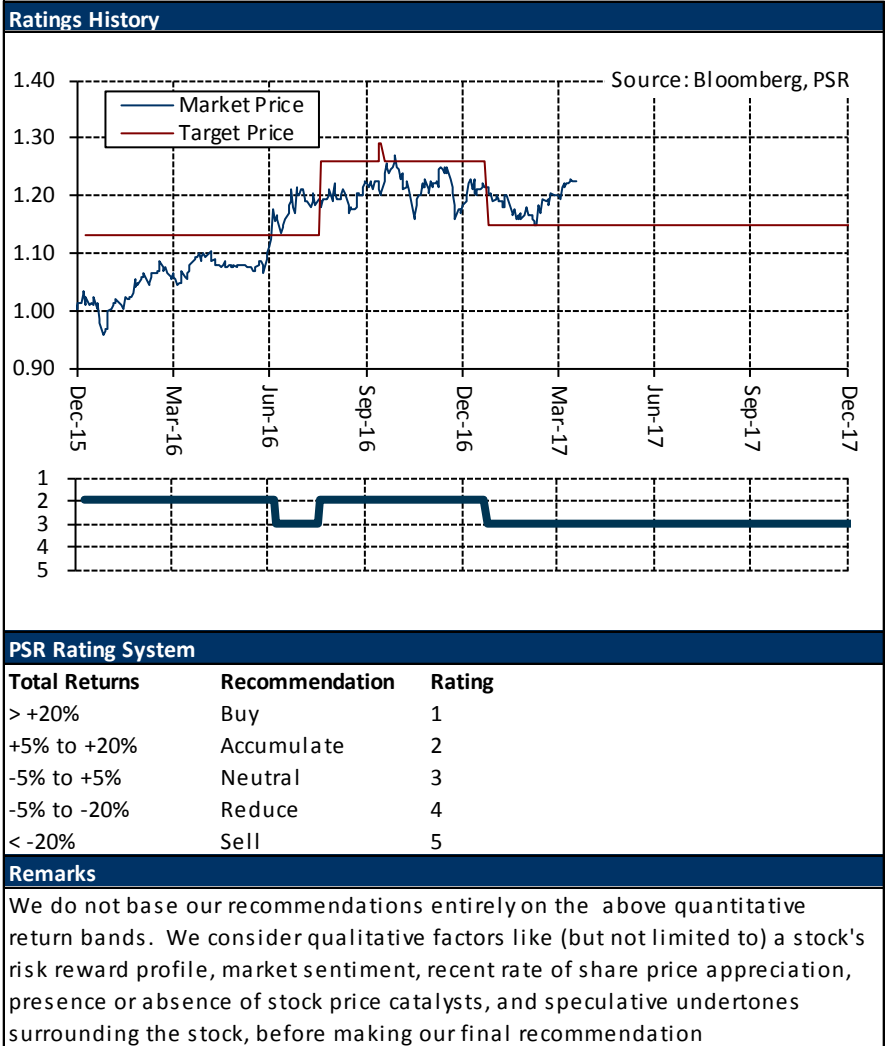
Growth			
Revenue	-7.9%	30.4%	2.0%
Net property income (NPI)	-0.4%	27.7%	1.9%
Distributable income	1.1%	21.5%	-4.9%
DPU	-10.2%	7.7%	-8.6%

Margins

NPI margin	84.8%	91.7%	89.8%	89.7%
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Key Ratios

Net Debt or (Net Cash)	334.8	172.7	394.0	411.3
Gearing (%)	30.7%	29.7%	29.5%	28.9%



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