

Keppel DC REIT

Lifted by acquisitions and more to come



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SINGAPORE | REAL ESTATE (REIT) | FY17 RESULTS

23 January 2018

- Gross revenue and DPU were within expectations
- 3.49 cents DPU declared for 2H17 to be paid on Feb 28 (2H16: 2.80 cents)
- Maintain Neutral, higher target price of \$1.47 (previously \$1.36)

Results at a glance

(SGD mn)	FY17	FY16	YoY	Comments
Gross revenue	139	99	40.3%	Acquisitions of KDC DUB 2, Milan DC, Cardiff DC and the 90.0% interest in KDC SGP 3
Net property income	125	91	37.6%	69.8% higher property expenses
Distributable income	82.3	61.0	34.8%	FY17 includes S\$1.7mn one-off capital distribution in 1Q17, in relation to Keppel DC SGP 3 acquisition
DPU (cents)	7.12	6.14	16.0%	Effect of 274-for-1,000 Preferential Offering on 3Q16 and 4Q16 DPU, and one-off capital distribution equivalent to 0.15 cent in 1Q17
DPU, adj. (cents)	6.97	6.68	4.3%	Adjusted for one-off capital distribution and effect of Preferential Offering

Source: Company, PSR

The positives

- Portfolio WALE remains long at 9.1 years**, albeit marginally lower QoQ from 9.2 years.
- Aggregate leverage remains unchanged QoQ at 32.1%**, affording a debt headroom of ~\$210mn (based on the manager's internal cap of 40% gearing). Weighted average debt maturity has been extended to 3.8 years from 2.5 years in 3Q17; and no debt maturing in 2018.

The negatives

- QoQ lower portfolio occupancy from 93.4% to 92.6%**. This is due to lower occupancy at KDC SGP 1 and KDC DUB 1. Portfolio WALE is also marginally lower QoQ from 9.2 years to 9.1 years.
- Key tenant renewed at -4.5% reversion**. This was for a key client in Gore Hill, who takes up multiple spaces within the portfolio. The tenant took up more space in this renewal and was given a bulk discount. No annual step-up embedded in the lease.
- \$8.52mn revaluation loss that came mainly from four properties**. Cap rates remained relatively unchanged YoY, and valuations were impacted mainly by lower incomes. Properties of particular interest are Gore Hill (key tenant with -4.5% reversion, compounded by depreciated AUD), KDC SGP 2 (bulk discount given to another key customer), Basis Bay (client returned one floor of space when lease expired) and KDC DUB 1 (valuer revised rental projection).

Outlook

The outlook is stable to positive. Income visibility due to negligible renewal risk with only 2.2% and 2.3% of leased area for renewal in 2018 and 2019. The next debt maturity is in 2019, thus avoiding impact from any interest rate hikes in 2018. The low gearing and available debt headroom are favourable for growing the portfolio inorganically. The investment properties are currently valued at \$1.54bn, and the manager is working towards achieving the \$2bn AUM target in 2018.

Maintain Neutral, higher target price of \$1.47 (previously \$1.36)

We expect higher revenue and DPU in FY18e on the back of full year contribution from KDC DUB 2 (acquired in September 2017) and partial contribution from maincubes Data Centre (expected from 2Q18 onwards). We have factored in issuance of new units to partially fund the acquisition of maincubes Data Centre. We like the growth story for the stock, but opine that valuation appears to be rich at an implied 1.45 times FY18e P/NAV multiple.

Neutral (Maintained)

LAST CLOSE PRICE	SGD 1.470
FORECAST DIV	SGD 0.071
TARGET PRICE	SGD 1.470
TOTAL RETURN	4.8%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	127
MARKET CAP (USD mn / SGD mn):	1256 / 1657
52 - WK HI/LO (SGD):	148 / 116
3M Average Daily T/O (mn):	185

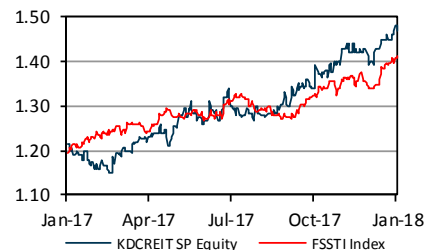
MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	35.3%
SUMITOMO MITSUBISHI ASSET MGMT CO	5.0%
COHEN & STEERS INC	2.5%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1Y R
COMPANY	4.2	10.4	27.6
STIRETURN	4.3	6.8	21.9

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	161.1	161.4
NPI (SGD mn)	90.9	125.1	135.9	145.2
Dist. Inc. (SGD mn)	61.0	82.3	89.8	96.1
P/E (x)	18.2	17.6	18.8	18.0
P/NAV (x)	106	105	146	146
DPU, adj (cents)	6.14	7.12	7.73	8.03
Distribution Yield (%)	6.0	7.0	5.2	5.4

Source: Company Data, PSR est.

VALUATION METHOD

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

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- **Update on maincubes Data Centre.** With the commencement of 15-year triple-net master lease, income visibility for the REIT should be improved and extending WALE further out from the current 9.1 years.

Figure 1: Update on maincubes Data Centre



Legal completion of maincubes Data Centre targeted in 2Q 2018

- Development of data centre is close to completion in Offenbach am Main, Germany
- Data centre is undergoing fit out before commencement of 15-year triple-net master lease
- Income contribution upon legal completion of the deal expected in 2Q 2018

Source: Company FY17 Financial Results presentation, 22 January 2018

Figure 2: Portfolio update

Asia Pacific									
	Location	Interest	Attributable lettable area (sq ft)	No. of clients ¹	Occupancy rate (%)	Valuation ² (\$m)	Lease type	WALE (years)	Land lease title
	Keppel DC Singapore 1	Singapore	100%	109,721	17	84.6	286.0	Keppel lease / Colocation	4.1 Leasehold (Expiring 30 Sep 2025, with option to extend by 30 years)
	Keppel DC Singapore 2	Singapore	100%	37,098	4	100.0	166.0	Keppel lease / Colocation	3.3 Leasehold (Expiring 31 Jul 2021, with option to extend by 30 years)
	Keppel DC Singapore 3	Singapore	90%	49,433	2	100.0	223.5	Keppel lease / Colocation	4.4 Leasehold (Expiring 31 Jan 2022, with option to extend by 30 years)
	Basis Bay Data Centre	Cyberjaya, Malaysia	99%	48,193	1	63.1	31.0	Colocation	4.5 Freehold
	Gore Hill Data Centre	Sydney, Australia	100%	90,955	3	100.0	204.0	Triple-net (Shell & core) / Colocation	7.3 Freehold
	Intellicentre 2 Data Centre	Sydney, Australia	100%	87,930	1	100.0	51.3	Triple-net (Shell & core)	17.6 Freehold
	iseek Data Centre	Brisbane, Australia	100%	12,389	1	100.0	34.2	Double-net ³ (Fully fitted)	8.5 Leasehold (Expiring 29 Jun 2040, with option to extend by 7 years)
Europe									
	Location	Interest	Attributable lettable area (sq ft)	No. of clients ¹	Occupancy rate (%)	Valuation ² (\$m)	Lease type	WALE (years)	Land lease title
	GV7 Data Centre	London, United Kingdom	100%	24,972	1	100.0	68.3	Triple-net (Fully fitted)	9.1 Leasehold (Expiring 28 Sep 2183)
	Cardiff Data Centre	Cardiff, United Kingdom	100%	79,439	1	100.0	61.9	Triple-net (Shell & core)	13.5 Freehold
	Almere Data Centre	Almere, Netherlands	100%	118,403	1 ³	100.0	143.6	Double-net (Fully fitted)	10.7 Freehold
	Keppel DC Dublin 1	Dublin, Ireland	100%	68,118	15	56.6	77.2	Colocation	1.9 Leasehold (Expiring 11 Apr 2041)
	Keppel DC Dublin 2 (f.k.a. B10 Data Centre)	Dublin, Ireland	100%	25,200	4	87.3	108.9	Colocation	10.7 Leasehold (Expiring 31 Dec 2997)
	Milan Data Centre	Milan, Italy	100%	165,389	1	100.0	58.5	Double-net (Shell & core)	10.0 Freehold
Pending Legal Completion									
	Location	Interest	Attributable lettable area (sq ft)	No. of clients	Occupancy rate (%)	Purchase price (\$m)	Lease type	WALE (years)	Land lease title
	maincubes Data Centre ⁴ (expected completion in 2018)	Offenbach am Main, Germany	100%	126,800	1	100.0 (upon legal completion)	134.7	Triple-net lease (Fully fitted)	15 Freehold

Source: Company FY17 Financial Results presentation, 22 January 2018

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.

Global 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	1.47	1,657	1,256	1.53	4.4
Asia Pacific Data Centre	AUD	2.06	250	190	1.25	4.8

Source: Bloomberg (Updated: 23 November 2017), 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	146.8	157.2
Other income	1.7	2.0	4.4	4.3	4.3
Gross revenue	107.7	99.1	139.1	151.1	161.4
Property expenses	(16.4)	(8.2)	(13.9)	(15.2)	(16.3)
Net property income	91.3	90.9	125.1	135.9	145.2
Net Finance (Expense)/Inc	(12.1)	(11.5)	(13.3)	(15.6)	(16.0)
Manager's fees	(8.7)	(8.6)	(11.3)	(13.0)	(13.6)
Other items	(1.8)	0.9	(14.4)	(0.2)	(0.3)
Exceptional items	-	-	-	-	-
FV change, Invmnt. properties	41.1	(14.0)	(8.5)	-	-
Total Return Before Tax	109.8	57.7	77.6	107.0	115.3
Taxation	(5.6)	(6.7)	(7.3)	(10.0)	(10.5)
Total Return After Tax	104.2	50.9	70.3	97.0	104.8
Unitholders	104.2	50.9	65.2	90.9	98.4
Non-controlling interest	0.04	0.01	5.05	6.13	6.42
Distribution adjustments	(43.8)	10.1	17.1	(1.1)	(2.3)
Income available for distribution	60.4	61.0	82.3	89.8	96.1
Income distributed	60.4	61.0	82.3	89.8	96.1

Per share data

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
NAV (S\$)	0.92	0.95	0.97	1.01	1.02
EPU (cents)	11.80	5.58	5.77	7.88	8.22
DPU (cents)	6.84	6.14	7.12	7.73	8.03

*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	97	105
Adjustments	(23)	33	32	26	27
WC changes	(24)	(7)	20	(1)	(4)
Cash generated from ops	56	77	123	122	127
Others	(0)	(1)	(5)	(10)	(11)
Cashflow from ops	56	76	118	112	117
CFI					
CAPEX, net	(9)	(10)	(12)	(2)	(2)
Purchase of Inv. Propty.	(477)	(111)	(293)	(117)	-
Others	(48)	-	-	-	-
Cashflow from investments	(533)	(121)	(305)	(119)	(2)
CFF					
Share issuance, net	507	279	-	91	-
Loans, net of repayments	364	189	357	27	-
Dividends	(57)	(58)	(74)	(89)	(101)
Others	(306)	(108)	(273)	(16)	(16)
Cashflow from financing	507	302	10	13	(117)
Net change in cash	30	257	(178)	6	(2)
Effects of exchange rate	(1)	(0)	(0)	-	-
Ending cash	37	294	116	122	120

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	1,703	1,705
Inv. Propty. Under Devmnt.	-	-	-	-	-
Intangibles	-	4	-	-	-
Others	17	15	15	2	2
Total non-current assets	1,120	1,245	1,585	1,704	1,706
Cash	37	298	118	124	122
Trade receivables	53	39	56	61	66
Others	1	2	1	1	1
Total current assets	91	338	175	186	188
Total Assets	1,211	1,583	1,760	1,890	1,894
LIABILITIES					
Trade payables	18	28	48	53	53
Borrowings	34	7	4	4	4
Others	0	0	1	1	1
Total current liabilities	52	35	53	58	58
Borrowings	338	464	576	603	603
Others	8	10	18	18	18
Total non-current liabilities	346	474	594	621	621
Total Liabilities	398	509	647	678	679
Net assets	813	1,074	1,113	1,212	1,216
Represented by:					
Unitholders' funds	813	1,074	1,090	1,188	1,191
Non-controlling interest	0	0	24	24	24

Valuation Ratios

Y/E Dec	FY15	FY16	FY17	FY18e	FY19e
P/E (x)	8.6	18.2	17.6	18.8	18.0
P/NAV (x)	1.10	1.06	1.05	1.46	1.46
P/DPU (x)	14.8	16.5	14.3	19.1	18.4
Distribution Yield (%)	6.74	6.05	7.01	5.22	5.43
NPI yield (%)	8.28	7.81	8.95	8.31	8.52

Growth & Margins (%)

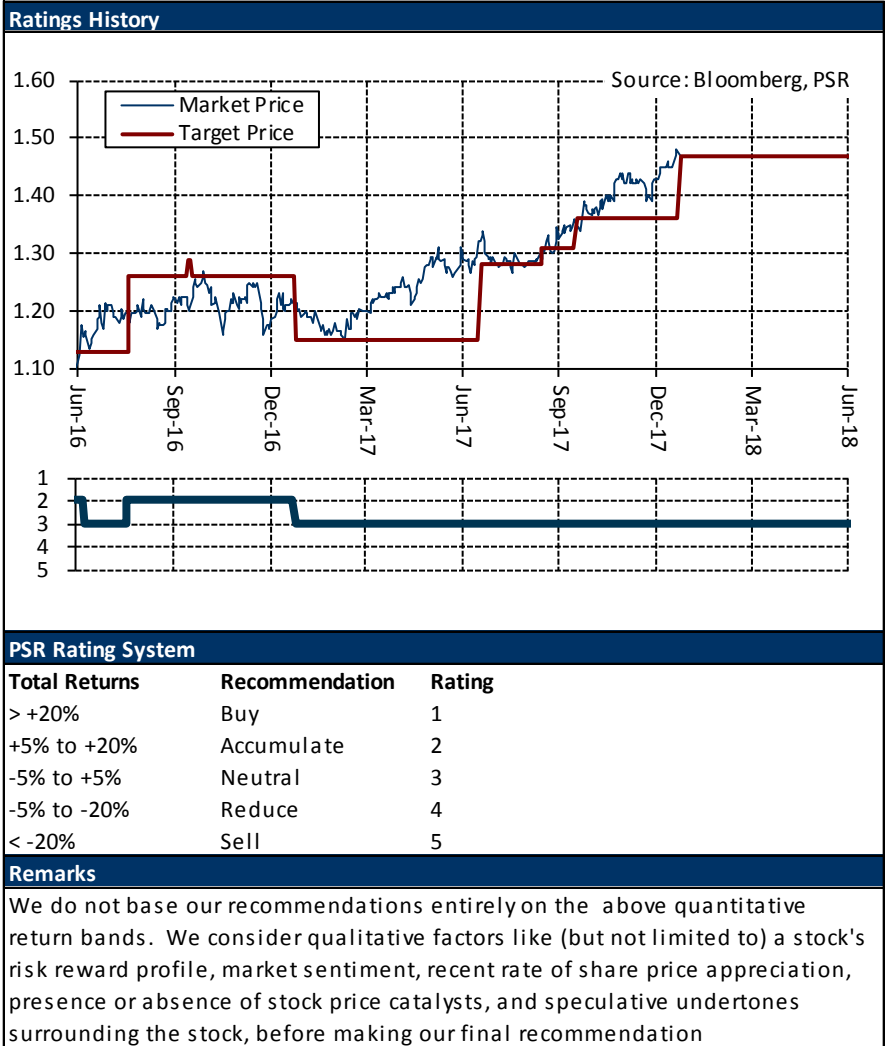
	FY15	FY16	FY17	FY18e	FY19e
Growth					
Revenue	-7.9%	40.3%	8.7%	6.9%	
Net property income (NPI)	-0.4%	37.6%	8.6%	6.8%	
Distributable income	1.1%	34.8%	9.1%	7.0%	
DPU	-10.2%	16.0%	8.6%	3.9%	

Margins

	FY15	FY16	FY17	FY18e	FY19e
NPI margin	84.8%	91.7%	90.0%	89.9%	89.9%

Key Ratios

	FY15	FY16	FY17	FY18e	FY19e
Net Debt or (Net Cash)	334.8	172.7	461.1	482.2	484.7
Gearing (%)	30.7%	29.7%	32.9%	32.1%	32.0%



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