

Keppel DC REIT

Delivering, as expected



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SINGAPORE | REAL ESSTATE(REIT) | UPDATE

16 October 2019

- 3Q19 NPI and DPU were in line with our estimates. 9M DPU formed 74.2% of our FY19 estimates
- Portfolio metrics healthy; occupancy crept up 0.7% ppts and while post-acquisition gearing will settle at 30.3% (historical average 30.7%)
- Maintain ACCUMULATE with a higher target price of \$2.06 (previously \$2.00). We raise our estimates by 2% to reflect the tightening DC market which will help provide support for rents

Results at a glance

(SGD mn)	3Q19	3Q18	YoY	Comments
Gross revenue	46.4	47.6	-2.5%	Higher rental income from KDC SGP 5 (acquired 12 June 2018) was partially offset by lower overseas contribution (from depreciation of AUD, EUR, GBP and MYR), and absence of rental support
Net property income	42.3	43.0	-1.8%	Lower operating expenses at Gore Hill and KDC Dub 1
Distributable income	27.4	26.0	5.4%	+S\$1.5mn due to settlement of FX hedges and lower tax expense from attainment of tax transparency status of KDC SG 5 (Jan 19)
DPU (cents)	1.93	1.85	4.3%	Higher DPU despite enlarged share base

Source: Company, PSR

The Positives

- Ramp-up in operations was more than able to make up for the income support falling off.** The rental support for KDC SG 5, KDC Dub 2 and Milian DC were fully utilised as at 2Q19. Management commented that the ramp-up stabilisation of these assets surpasses the rental support previously drawn.
- Portfolio occupancy improved 0.3ppts QoQ from 93.2% to 93.6%.** This was due to new leases signed at KDC SG 1 (+0.7ppts) and KDC Dub 1 (+3.9ppts). Post-retrofitting, KDC Dub 2's occupancy increased 9.3ppts to 100%.
- Refinanced all loans maturing in 2019 with a 6 year term loans.** All-in cost of borrowing expected to be unchanged at c.1.7%.

The Negatives

- No improvement in stubborn vacancy rate at Basis Bay DC (Malaysia).** Occupancy has remained at 63.1% for the last 10 consecutive quarters.

Outlook

Vacant, non-DC NLA poses potential for conversion to data centre (DCs), making KDC a beneficiary of tapering DC supply in Singapore. Currently, 22,178 sqft of NLA - 6.4% and 15.8% from KDC SG 1 and KDC SG 5 - are non DC space. KDC is in the midst of getting government approval to bring more IT power onsite to convert the space at KDC SG 5 to DC space.

Maintain ACCUMULATE with a higher target price of \$2.06 (previously \$2.00)

We raise our estimates by 2% to reflect the strong demand for DCs amidst the tightening DC supply. Our TP of \$2.06 implies a 3.8%/4.46% FY19e/FY20e DPU yield.

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 1.990
FORECAST DIV	SGD 0.078
TARGET PRICE	SGD 2.060
TOTAL RETURN	7.4%

COMPANY DATA

BLOOMBERG CODE:	KDCREITSP
O/S SHARES (MN):	1,487
MARKET CAP (USD mn /SGD mn):	2158 / 2960
52 - WK HI/LO (SGD):	2.09 / 1.3
3M Average Daily T/O (mn):	7.46

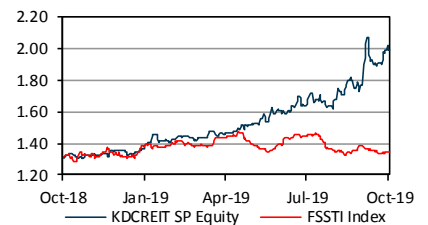
MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	25.4%
SUMITOMO MITSUI ASSET MGMT CO	4.8%
TMB ASSET MANAGEMENT	2.6%

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	15.2	27.0	63.6
STI RETURN	(2.7)	(5.6)	5.8

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY17	FY18	FY19e	FY20e
Gross Rev. (SGD mn)	139	176	198	256
NPI (SGD mn)	125	158	180	234
Dist. Inc. (SGD mn)	82	96	115	155
P/NAV (x)	1.47	1.26	1.68	1.66
DPU, adj (cents)	7.12	7.32	7.79	9.50
Dist. Yield (%)	5.0	5.4	3.8	4.6

Source: Company Data, PSR

VALUATION METHOD

DDM (Cost of Equity: 7.0%; Terminal g: 1.5%)

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Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
Gross revenue	99	139	176	198	256
Property expenses	(8)	(14)	(18)	(18)	(23)
Net property income	91	125	158	180	234
Net Finance (Expense)/Inc	(11)	(13)	(16)	(15)	(15)
Manager's fees	(9)	(11)	(14)	(16)	(21)
Other items	1	(14)	(9)	(7)	(9)
FV change, Inv. Properties	(14)	(9)	33	-	-
Total Return Before Tax	58	78	151	141	187
Taxation	(7)	(7)	(5)	(10)	(12)
Total Return After Tax	51	70	146	131	175
Unitholders	51	65	142	127	171
Non-controlling interest	0	5	4	3	4
Distribution adjustments	10	17	(46)	(13)	(16)
Income available for distribution	61	82	96	115	155

Per unit data

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
NAV (\$\$)	0.95	0.97	1.07	1.23	1.24
DPU (cents)	6.14	7.12	7.32	7.79	9.50

Cash Flow

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
CFO					
Total Return After Tax	51	70	146	131	175
Adjustments	33	51	(2)	25	27
WC changes	(7)	1	(30)	(8)	(7)
Cash generated from ops	77	123	114	149	196
Others	(1)	(5)	(2)	(10)	(12)
Cashflow from ops	76	118	112	139	184

CFI

Purchase of Inv. propty., net	(111)	(293)	(413)	(585)	-
Capex, net	(10)	(12)	(34)	(24)	(19)
Others	-	-	(1)	-	-
Cashflow from investments	(121)	(305)	(448)	(609)	(19)

CFF

Share issuance, net	279	-	303	484	-
Net borrowings	189	357	231	122	-
Distributions	(58)	(74)	(85)	(105)	(146)
Others	(108)	(273)	(102)	(15)	(15)
Cashflow from financing	302	10	347	486	(161)
Net change in cash	257	(178)	11	16	3
Effects of exchange rate	(0)	(0)	1	-	-
Ending cash	294	116	128	144	148

Source: Company, Phillip Securities Research (Singapore) estimates

Balance Sheet

Y/E Dec, SGD mn	FY16	FY17	FY18	FY19e	FY20e
ASSETS					
Investment properties	1,226	1,570	2,029	2,652	2,671
Inv. Propty. Under Devmnt.	-	-	-	-	-
Others	19	15	4	4	4
Total non-current assets	1,245	1,585	2,033	2,656	2,675
Cash	298	118	128	144	148
Trade receivables	39	56	86	99	131
Others	2	4	6	6	6
Total current assets	338	178	220	249	285
Total Assets	1,583	1,763	2,253	2,906	2,961
LIABILITIES					
Borrowings	7	4	134	14	126
Trade payables	28	48	36	42	68
Others	0	1	17	17	17
Total current liabilities	35	53	187	72	211
Borrowings	464	576	573	815	702
Others	10	-	17	17	17
Total non-current liabilities	474	576	590	832	720
Total Liabilities	509	629	777	905	930
Net assets	1,074	1,134	1,476	2,001	2,030
Represented by:					
Unitholders' funds	1,074	1,090	1,445	1,963	1,992
Non-controlling interest	0	27	31	38	39

Valuation Ratios

Y/E Dec	FY16	FY17	FY18	FY19e	FY20e
P/NAV (x)	1.24	1.47	1.26	1.68	1.66
Distribution Yield (%)	5.2	5.0	5.4	3.8	4.6
NPI yield (%)	7.4	8.9	8.8	7.7	8.8

Growth & Margins (%)

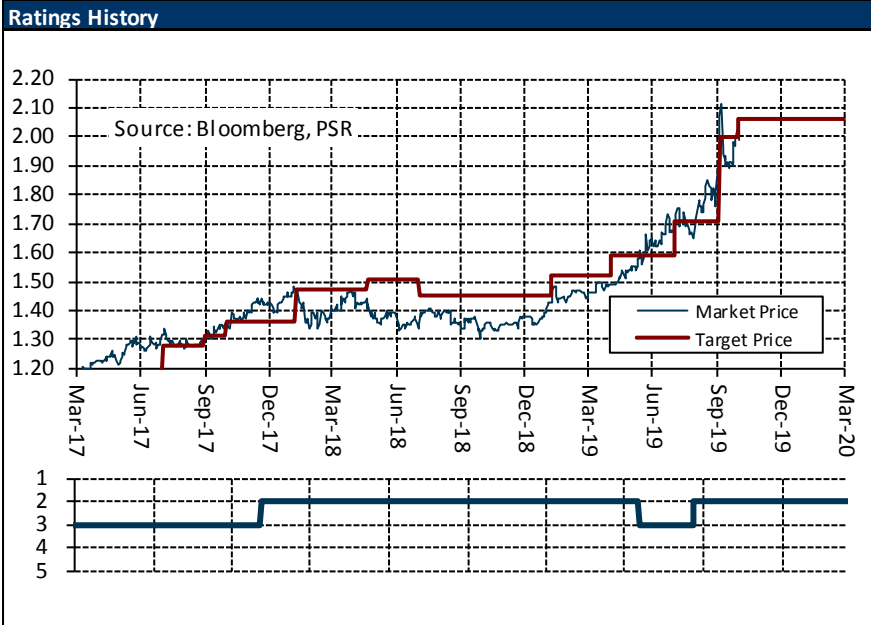
Growth					
Revenue	-7.9%	40.3%	26.2%	12.6%	29.8%
Net property income (NPI)	-0.4%	37.6%	26.0%	13.9%	30.0%
Distributable income	1.1%	34.8%	16.7%	19.3%	35.3%
DPU	-10.2%	16.0%	2.8%	6.4%	22.0%

Margins

NPI margin	91.7%	90.0%	89.8%	90.9%	91.1%
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Key Ratios

Gearing (%)	29.7%	32.9%	31.4%	28.5%	28.0%
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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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