

# Keppel DC REIT

Premium for a future-ready asset class



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## SINGAPORE | REAL ESTATE(REIT) | 1H20 RESULTS

22 July 2020

- 1H20 DPU of 4.375 cents was in line, forming 49% of FY20e DPU estimates.
- Portfolio metrics healthy – long WALE of 7.4 years, portfolio occupancy at 96.1% and AElS to drive revenue growth.
- Reiterate NEUTRAL with a higher target price of \$2.57 (previously \$2.31). We raised our terminal growth rate assumption from 1.5% to 2.0% to better reflect KDC acquisition-driven 5-year DPU CAGR of 2.7%. While we like KDC for its strong portfolio metrics and future-ready asset class, we think that upside is limited given the strong rally in prices and yields at c.3%, which are not compelling.

### NEUTRAL (Maintained)

LAST CLOSE PRICE	SGD 2.750
FORECAST DIV	SGD 0.090
TARGET PRICE	SGD 2.570
TOTAL RETURN	-3.3%

#### COMPANY DATA

BLOOMBERG CODE:	KDCREIT.SP
O/S SHARES (MN):	1,633
MARKET CAP (USD mn / SGD mn):	3246 / 4491
52 - WK HI/LO (SGD):	2.75 / 1.6
3M Average Daily T/O (mn):	6.74

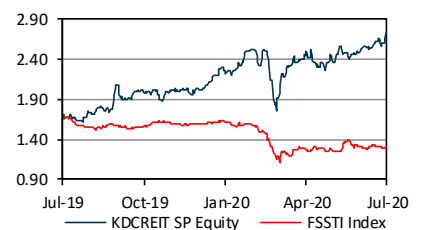
#### MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	23.4%
SUMITOMO MITSUI ASSET MGMT CO	7.8%
COHEN & Steers inc	5.1%

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	7.7	8.6	61.0
STI RETURN	(0.6)	2.7	(19.0)

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec	FY18	FY19	FY20e	FY21e
Gross Rev. (SGD mn)	176	195	260	287
NPI (SGD mn)	158	177	229	245
Dist. Inc. (SGD mn)	96	113	147	156
P/NAV (x)	1.34	1.16	2.26	2.23
DPU, adj (cents)	7.32	7.61	8.99	9.55
Dist. Yield (%)	5.1	5.6	3.3	3.5

Source: Company Data, PSR

#### VALUATION METHOD

DDM (Cost of Equity: 5.75%; Terminal g: 2.0%)

Natalie Ong (+65 6212 1849)

Research Analyst  
natalieongpf@phillip.com.sg

#### Results at a glance

(SGD mn)	1H20	1H19	YoY	Comments
Gross revenue	124.0	95.5	29.8%	Due to contribution from KDC SGP 4 (acquired 31 Oct 19), DC1 (acquired 21 Nov 2019) AND Kelsterbach acquired 1 May 2020)
Net property income	114.2	86.5	32.1%	
Distributable income	75.0	54.4	37.9%	
DPU (cents)	4.375	3.85	13.6%	

Source: Company, PSR

#### The Positives

- No out-of-pocket rental rebate to tenants** but passed on the property tax rebates by the government to Singapore tenants. All tenants remain current with rents.
- \$2.8mn tax savings p.a. upon attainment of tax transparency for KDC 4.** KDC 4 attained of tax transparency status on 25 May 2020, which will result in some \$2.8mn worth in tax savings. An extended land lease title at KDC 4 by 30 years till June 2050 (cost \$5mn). Despite some anticipated delays, the tax transparency status was attained within c.7 months after acquisition on 31 October 2019, within the estimated 6 to 9-month gauge based on past application.
- Early lease renewal negotiations reduced FY21 expiries from 10.75 to 6.2% by NLA as at end-June 2020.** The REIT has 2.6% of total net lettable area (NLA) up for renewal in 2H 2020. The Manager has started engaging clients for early renewals and brought down the total NLA due for expiry in 2021 from 10.7% as at end 2019 to 6.2% as at 30 June 2020.

#### The Negatives

- Delay in AEI and development timelines due to lockdowns.** KDC has several AEIs ongoing – Dub 1 (increase energy efficiency, TBC 2H20), KDC SG 5 (conversion of 15.8% NLA from non-DC space to DC), DC1 (fit out of shell & core space, TBC 1H21) and the development of Intellicentre 3 (delayed from 4Q20 to 1H21). AEIs for Dub 1 and Dub 2 have resumed following a 2-month lockdown, however construction works in Singapore remain suspended due to government policies on foreign workers residing in dormitories. While development works in Australia were allowed to continue through the pandemic, delay in certain supplies may result in delays.
- Gearing increased from 30.7% to 34.5%** as at 30 June 2020, as expected, due to acquisition of Kelsterbach DC (Germany, TBC 1H20) and the balance of the 999-year land lease for KDC Dub 1. However, with KDC's strong balance sheet and high-interest coverage ratio of 12.8x, we view this utilisation of gearing headroom favourably.

## Outlook

**Acquisition timeline thwarted by travel restrictions.** KDC is negotiating several third-party deals, some of which are in advanced stages. However, travel restrictions have made asset viewing impossible. Increase in potential buyers may lead to bidding-up of prices.

**Figure 1: Ongoing AEI and developments**

Est. Completion	Asset	Cost	Details
1H20	KDC Dub 1 (Occ 61.8%)	S\$20m	Increase energy efficiency
1H21	Intellicentre 3 (Aust)	A\$26-A\$36m	Development of S&C DC, fully committed
2H20	KDC SG 5	S\$29.9m	Convert vacant non-DC space, 15.8% of NLA
3Q20	DC1	S\$56.6m	Convert from 2 floors of S&C space to FF

Source: Company, PSR

Note: S&C and FF stand for Shell & Core and Fully Fitted respectively

## Maintain NEUTRAL with a higher target price of \$2.57 (previously \$2.31)

In the 5 years since listing, KDC has grown DPU at a CAGR of 2.7%. Our previous DDM assumptions incorporated a 1.5% terminal growth rate which is below the historical pace of DPU growth. Our change in TP is attributed to a higher terminal growth of 2.0% incorporated (prev. 1.5%). In light of the increased competition for assets, we have assumed a more tapered terminal growth rate of 2.0% (vs. the historical CAGR or 2.7%). Based on our FY20e DPU of S\$0.90, DPU yield of 3.3% is on the low side while P/NAV of 2.26x is \_.

## Financials

### Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
<b>Gross revenue</b>	<b>139</b>	<b>176</b>	<b>195</b>	<b>260</b>	<b>287</b>
Property expenses	(14)	(18)	(18)	(31)	(41)
<b>Net property income</b>	<b>125</b>	<b>158</b>	<b>177</b>	<b>229</b>	<b>245</b>
Net Finance (Expense)/Inc	(13)	(16)	(15)	(20)	(20)
Manager's fees	(11)	(14)	(16)	(22)	(23)
Other items	(14)	(9)	(6)	(10)	(9)
FV change, Inv. Properties	(9)	33	(16)	-	-
<b>Total Return Before Tax</b>	<b>78</b>	<b>151</b>	<b>124</b>	<b>178</b>	<b>193</b>
Taxation	(7)	(5)	(13)	(14)	(15)
<b>Total Return After Tax</b>	<b>70</b>	<b>146</b>	<b>111</b>	<b>165</b>	<b>178</b>
Unitholders	65	142	107	160	173
Non-controlling interest	5	4	5	5	5
Distribution adjustments	17	(46)	7	(13)	(17)
<b>Income available for distribution</b>	<b>82</b>	<b>96</b>	<b>113</b>	<b>147</b>	<b>156</b>

### Per unit data

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
NAV (\$\$)	0.97	1.07	1.17	1.22	1.23
DPU (cents)	7.12	7.32	7.61	8.99	9.55

### Cash Flow

Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
<b>CFO</b>					
<b>Total Return After Tax</b>	<b>70</b>	<b>146</b>	<b>111</b>	<b>165</b>	<b>178</b>
Adjustments	51	(2)	41	43	45
WC changes	1	(30)	19	(14)	(5)
<b>Cash generated from ops</b>	<b>123</b>	<b>114</b>	<b>171</b>	<b>194</b>	<b>218</b>
Others	(5)	(2)	(16)	(14)	(15)
<b>Cashflow from ops</b>	<b>118</b>	<b>112</b>	<b>155</b>	<b>181</b>	<b>203</b>

### CFI

Purchase of Inv. propty., net	(293)	(413)	(586)	(173)	(28)
Capex, net	(12)	(34)	(33)	(5)	(29)
Others	-	(1)	(27)	-	-
<b>Cashflow from investments</b>	<b>(305)</b>	<b>(448)</b>	<b>(645)</b>	<b>(178)</b>	<b>(57)</b>

### CFF

Share issuance, net	-	303	478	-	-
Net borrowings	357	231	383	110	19
Distributions	(74)	(85)	(129)	(150)	(159)
Others	(273)	(102)	(189)	(20)	(20)
<b>Cashflow from financing</b>	<b>10</b>	<b>347</b>	<b>543</b>	<b>(59)</b>	<b>(160)</b>
<b>Net change in cash</b>	<b>(178)</b>	<b>11</b>	<b>53</b>	<b>(56)</b>	<b>(14)</b>
Effects of exchange rate	(0)	1	(2)	-	-
<b>Ending cash</b>	<b>116</b>	<b>128</b>	<b>180</b>	<b>123</b>	<b>110</b>

Source: Company, Phillip Securities Research (Singapore) estimates

### Balance Sheet

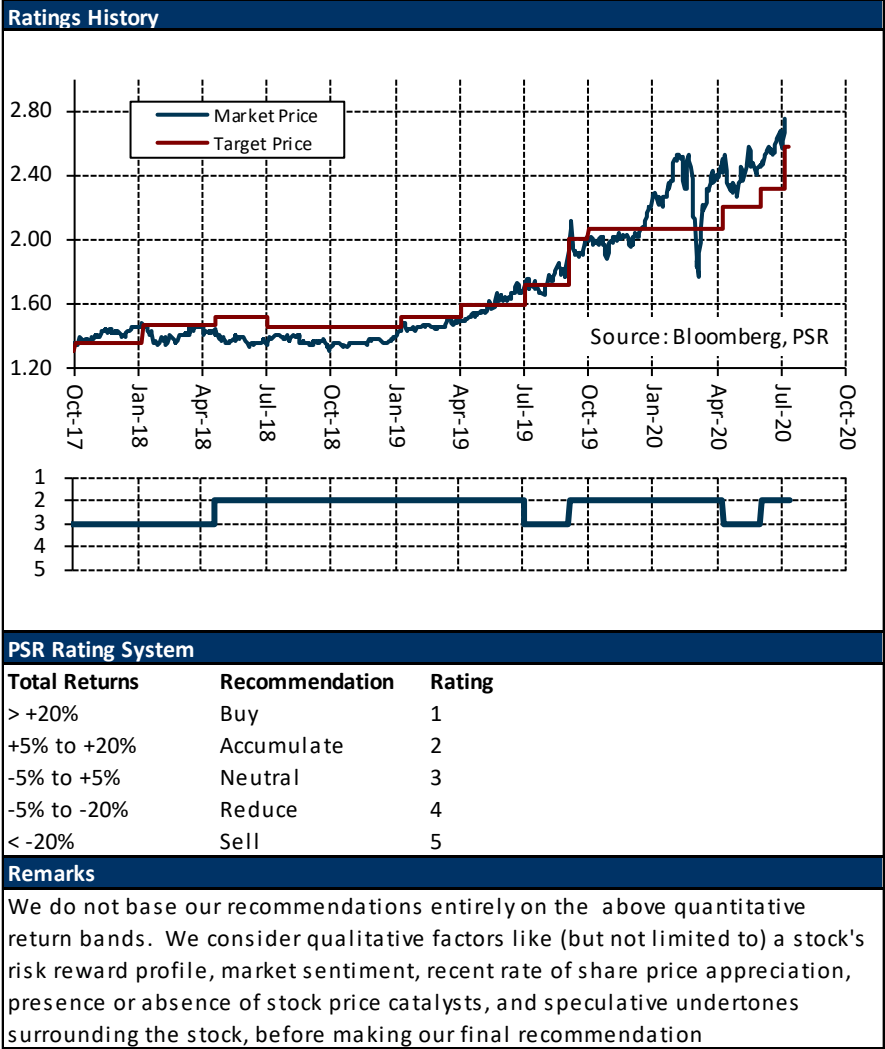
Y/E Dec, SGD mn	FY17	FY18	FY19	FY20e	FY21e
<b>ASSETS</b>					
Investment properties	1,570	2,029	2,637	2,872	2,928
Inv. Propty. Under Devmnt.	-	-	-	-	-
Others	15	4	11	11	11
<b>Total non-current assets</b>	<b>1,585</b>	<b>2,033</b>	<b>2,648</b>	<b>2,883</b>	<b>2,939</b>
Cash	118	128	156	100	86
Trade receivables	56	86	96	132	145
Others	4	6	28	28	28
<b>Total current assets</b>	<b>178</b>	<b>220</b>	<b>280</b>	<b>260</b>	<b>259</b>
<b>Total Assets</b>	<b>1,763</b>	<b>2,253</b>	<b>2,928</b>	<b>3,142</b>	<b>3,199</b>
<b>LIABILITIES</b>					
Borrowings	4	134	40	104	156
Trade payables	48	36	60	82	91
Others	1	17	8	8	8
<b>Total current liabilities</b>	<b>53</b>	<b>187</b>	<b>108</b>	<b>194</b>	<b>254</b>
Borrowings	576	573	880	927	895
Others	18	-	37	37	37
<b>Total non-current liabilities</b>	<b>594</b>	<b>573</b>	<b>917</b>	<b>964</b>	<b>931</b>
<b>Total Liabilities</b>	<b>647</b>	<b>760</b>	<b>1,025</b>	<b>1,158</b>	<b>1,186</b>
<b>Net assets</b>	<b>1,117</b>	<b>1,493</b>	<b>1,903</b>	<b>1,984</b>	<b>2,013</b>
<b>Represented by:</b>					
<b>Unitholders' funds</b>	<b>1,090</b>	<b>1,445</b>	<b>1,868</b>	<b>1,881</b>	<b>1,898</b>
Non-controlling interest	27	31	35	36	38

### Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/NAV (x)	1.22	1.34	1.16	2.26	2.23
Distribution Yield (%)	6.0	5.1	5.6	3.3	3.5
NPI yield (%)	8.9	8.8	7.6	8.3	8.5

### Growth & Margins (%)

<b>Growth</b>					
Revenue	29.1%	26.2%	11.0%	33.6%	10.1%
Net property income (NPI)	37.0%	26.0%	12.4%	29.3%	7.0%
Distributable income	36.3%	16.7%	17.8%	29.6%	6.2%
DPU	4.1%	2.8%	4.0%	18.1%	6.2%
Investment Property	28%	29%	30%	9%	2%
<b>Margins</b>					
NPI margin	90.0%	89.8%	91.0%	88.0%	85.6%
<b>Key Ratios</b>					
Gearing (%)	32.9%	31.4%	31.4%	32.8%	32.8%



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**Contact Information (Singapore Research Team)**
**Head of Research**Paul Chew – [paulchewkl@phillip.com.sg](mailto:paulchewkl@phillip.com.sg)**Research Admin**Siti Nursyazwina – [svazwina@phillip.com.sg](mailto:svazwina@phillip.com.sg)**Property | REITs**Natalie Ong – [natalieongpf@phillip.com.sg](mailto:natalieongpf@phillip.com.sg)**Small-Mid Cap**Tan Jie Hui – [tanjh@phillip.com.sg](mailto:tanjh@phillip.com.sg)**Banking & Financial**Tay Wee Kuang – [taywk@phillip.com.sg](mailto:taywk@phillip.com.sg)**Technical Analyst**Chua Wei Ren – [chuawr@phillip.com.sg](mailto:chuawr@phillip.com.sg)**Credit Analyst**Timothy Ang – [timothyang@phillip.com.sg](mailto:timothyang@phillip.com.sg)


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**Contact Information (Regional Member Companies)**
**SINGAPORE****Phillip Securities Pte Ltd**

Raffles City Tower  
250, North Bridge Road #06-00  
Singapore 179101  
Tel +65 6533 6001  
Fax +65 6535 6631  
Website: [www.poems.com.sg](http://www.poems.com.sg)

**MALAYSIA****Phillip Capital Management Sdn Bhd**

B-3-6 Block B Level 3 Megan Avenue II,  
No. 12, Jalan Yap Kwan Seng, 50450  
Kuala Lumpur  
Tel +603 2162 8841  
Fax +603 2166 5099  
Website: [www.poems.com.my](http://www.poems.com.my)

**HONG KONG****Phillip Securities (HK) Ltd**

11/F United Centre 95 Queensway  
Hong Kong  
Tel +852 2277 6600  
Fax +852 2868 5307  
Websites: [www.phillip.com.hk](http://www.phillip.com.hk)

**JAPAN****Phillip Securities Japan, Ltd.**

4-2 Nihonbashi Kabuto-cho Chuo-ku,  
Tokyo 103-0026  
Tel +81-3 3666 2101  
Fax +81-3 3666 6090  
Website: [www.phillip.co.jp](http://www.phillip.co.jp)

**INDONESIA****PT Phillip Securities Indonesia**

ANZ Tower Level 23B,  
Jl Jend Sudirman Kav 33A  
Jakarta 10220 – Indonesia  
Tel +62-21 5790 0800  
Fax +62-21 5790 0809  
Website: [www.phillip.co.id](http://www.phillip.co.id)

**CHINA****Phillip Financial Advisory (Shanghai) Co Ltd**

No 550 Yan An East Road,  
Ocean Tower Unit 2318,  
Postal code 200001  
Tel +86-21 5169 9200  
Fax +86-21 6351 2940  
Website: [www.phillip.com.cn](http://www.phillip.com.cn)

**THAILAND****Phillip Securities (Thailand) Public Co. Ltd**

15th Floor, Vorawat Building,  
849 Silom Road, Silom, Bangkok,  
Bangkok 10500 Thailand  
Tel +66-2 6351700 / 22680999  
Fax +66-2 22680921  
Website [www.phillip.co.th](http://www.phillip.co.th)

**FRANCE****King & Shaxson Capital Limited**

3rd Floor, 35 Rue de la Bienfaisance 75008  
Paris France  
Tel +33-1 45633100  
Fax +33-1 45636017  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED KINGDOM****King & Shaxson Capital Limited**

6th Floor, Candlewick House,  
120 Cannon Street,  
London, EC4N 6AS  
Tel +44-20 7426 5950  
Fax +44-20 7626 1757  
Website: [www.kingandshaxson.com](http://www.kingandshaxson.com)

**UNITED STATES****Phillip Capital Inc**

141 W Jackson Blvd Ste 3050  
The Chicago Board of Trade Building  
Chicago, IL 60604 USA  
Tel +1-312 356 9000  
Fax +1-312 356 9005  
Website: [www.phillipusa.com](http://www.phillipusa.com)

**AUSTRALIA****Phillip Capital Limited**

Level 10, 330 Collins Street  
Melbourne, Victoria 3000, Australia  
Tel +61-03 8633 9803  
Fax +61-03 8633 9899  
Website: [www.phillipcapital.com.au](http://www.phillipcapital.com.au)

**CAMBODIA****Phillip Bank Plc**

Ground Floor of B-Office Centre, #61-64,  
Norodom Blvd Corner Street 306, Sangkat  
Boeung Keng Kang 1, Khan Chamkamorn,  
Phnom Penh, Cambodia  
Tel: 855 (0) 7796 6151/855 (0) 1620 0769  
Website: [www.phillipbank.com.kh](http://www.phillipbank.com.kh)

**INDIA****PhillipCapital (India) Private Limited**

No.1, 18th Floor, Urmi Estate  
95, Ganpatrao Kadam Marg  
Lower Parel West, Mumbai 400-013  
Maharashtra, India  
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969  
Website: [www.phillipcapital.in](http://www.phillipcapital.in)

**TURKEY****PhillipCapital Menkul Degerler**

Dr. Cemil Bengü Cad. Hak Is Merkezi  
No. 2 Kat. 6A Caglayan  
34403 Istanbul, Turkey  
Tel: 0212 296 84 84  
Fax: 0212 233 69 29  
Website: [www.phillipcapital.com.tr](http://www.phillipcapital.com.tr)

**DUBAI****Phillip Futures DMCC**

Member of the Dubai Gold and  
Commodities Exchange (DGCX)  
Unit No 601, Plot No 58, White Crown Bldg,  
Sheikh Zayed Road, P.O.Box 212291  
Dubai-UAE  
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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