

Keppel DC REIT

Harvest time



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SINGAPORE | REAL ESTATE(REIT) | 1Q21 UPDATE

- 1Q21 DPU of 2.46 Scts, up 18.1% YoY, was in line, at 25.0% of our estimate.
- Earnings improved following acquisition of Amsterdam DC and completed AEIs at DC1 and KDC Dub 2.
- Maintain ACCUMULATE and DDM-based TP of S\$3.20 (COE 5.75%). TP includes S\$500mn of acquisition assumptions for FY21.

Results at a glance

(SGD mn)	1Q21	1Q20	YoY	Comments
Gross revenue	66.7	60.3	10.6%	Mainly due to contribution from Amsterdam DC (acquired 24 Dec 20) and Kelsterbach (acquired 1 May 2020), and completion of AEIs at Dub 2 and DC1
Net property income	61.0	55.4	10.0%	
Distributable income	42.0	35.8	17.5%	
DPU (cents)	2.46	2.09	18.1%	

Source: Company, PSR

+ Positives

+ 1Q21 NPI and DPU grew 10.0% and 18.1% YoY respectively, led by Kelsterbach DC in Germany acquired on 1 May 2020 and Amsterdam DC acquired on 24 Dec 2020. There were also contributions from completed AEIs at DC1 and Dub 2. At DC1, KDC converted two floors from shell & core to fully-fitted space. At Dub 2, additional IT power was brought on upon full commitment by tenants.

+ Practical completion or Intellicentre 3; 20-year lease signed. Intellicentre 3 in Sydney Australia achieve practical completion in 1Q21. It is on track for completion in 1H21. KDC has signed a 20-year triple net master lease with Macquarie Data Centres for Intellicentre 2 and Intellicentre 3. This will commence upon completion of the development.

- Negative

- Gearing inched up QoQ from 36.2% to 37.2%. This followed debt drawn for AEI payments. As KDC values its properties on an annual basis, valuation uplift from its completed AEIs has not yet been reflected in its books. This implies gearing may be slightly overstated. Nonetheless, gearing still well under the 50% regulatory limit and is backed by KDC's high interest coverage of 13.1x and high-quality tenants.

Outlook

Demand-supply gap to push up market rents. About 27.9% of its leases by GRI or 6.9% of NLA will expire in 2021. Most of the leases will be from Singapore and Malaysia colocation assets, which have shorter WALEs of 1.2-1.8 years. Singapore is KDC's core market, accounting for 56% of its AUM. Given the moratorium on data centres in Singapore, there is a strong likelihood that market rents will be bid up in the coming two years, coinciding with its lease expiries. While KDC has not started engaging tenants in renewal negotiations, DCs' tenant stickiness and limited alternatives imply potentially high retention rates for KDC.

Competition for assets compressing cap rates. KDC is still evaluating acquisitions. It was previously studying several piecemeal and portfolio acquisitions with cap rates of 5-7%. It now shares that cap rates have been compressed by 50-75bps YoY, with some deals coming in at sub-5% yields.

22 April 2021

ACCUMULATE (Maintained)

LAST CLOSE PRICE	SGD 2.690
FORECAST DIV	SGD 0.098
TARGET PRICE	SGD 3.200
TOTAL RETURN	22.6%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN) :	1,633
MARKET CAP (USD mn / SGD mn) :	3305 / 4394
52 - WK HI/LO (SGD) :	3.16 / 2.22
3M Average Daily T/O (mn) :	5.84

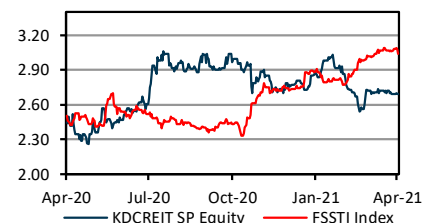
MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	20.9%
COHEN & STEERS INC	5.0%
DAIWA SECURITIES	4.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(1.1)	(4.8)	(2.7)
STI RETURN	2.2	7.0	12.8

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY19	FY20	FY21e	FY22e
Gross Rev. (SGD mn)	195	266	306	344
NPI (SGD mn)	177	244	267	302
Dist. Inc. (SGD mn)	113	157	172	198
P/NAV (x)	2.31	2.22	1.93	1.96
DPU, adj (cents)	7.61	9.17	9.85	11.31
Dist. Yield	2.8%	3.4%	3.7%	4.2%

Source: Company Data, PSR

VALUATION METHOD

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

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Maintain ACCUMULATE and DDM-based TP of S\$3.20

No change in our estimates. Our TP assumes S\$500mn worth of acquisitions in 4Q21 (NPI yields 6% and LTV 30%). We are forecasting FY21e/22e DPU yields of 3.7% and 4.2%.

KDC is trading at 2.2x P/B. Dividend yield spread of 188bps is close to its 5-year average of 200bps. This is attractive against its 2019/20 average yield spread of 100bps.

Stock catalysts are expected from acquisitions and higher 5G, smartphone and cloud adoption.

Figure 1: KDC's historical yield spread over 10YSGS

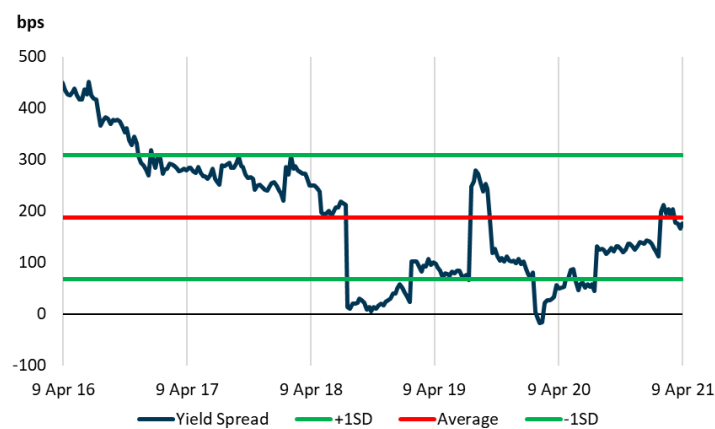
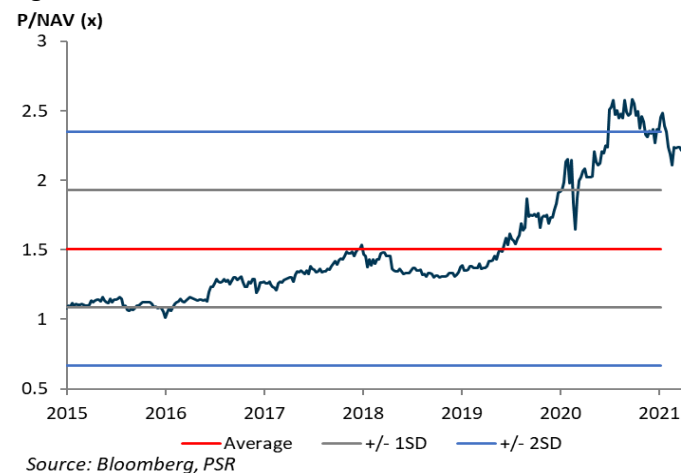


Figure 2: KDC's historical P/NAV



Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
Gross revenue	176	195	266	306	344
Property expenses	(18)	(18)	(21)	(39)	(42)
Net property income	158	177	244	267	302
Net Finance (Expense)/Inc	(16)	(15)	(18)	(18)	(19)
Manager's fees	(14)	(16)	(22)	(26)	(28)
Other items	(9)	(6)	(12)	(10)	(11)
FV change, Inv. Properties	33	(16)	1	-	-
Total Return Before Tax	151	124	193	214	244
Taxation	(5)	(13)	(21)	(15)	(17)
Total Return After Tax	146	111	172	199	227
Unitholders	142	107	168	195	223
Non-controlling interest	4	5	4	4	4
Distribution adjustments	(46)	7	(11)	(23)	(25)
Income available for distribution	96	113	157	172	198

Per unit data

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
NAV (\$\$)	1.07	1.17	1.21	1.39	1.38
DPU (cents)	7.32	7.61	9.17	9.85	11.31

Cash Flow

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
CFO					
Total Return After Tax	146	111	172	199	227
Adjustments	(2)	41	56	35	38
WC changes	(30)	19	16	5	4
Cash generated from ops	114	171	244	238	269
Others	(2)	(16)	(9)	(15)	(17)
Cashflow from ops	112	155	235	223	252

CFI

Purchase of Inv. propty., net	(413)	(586)	(134)	(500)	-
Capex, net	(34)	(57)	(83)	(39)	(36)
Others	(1)	(27)	8	-	-
Cashflow from investments	(448)	(669)	(209)	(539)	(36)

CFF

Share issuance, net	303	478	-	350	-
Net borrowings	231	383	371	310	200
Distributions	(85)	(141)	(121)	(192)	(218)
Others	(102)	(189)	(183)	(148)	(205)
Cashflow from financing	347	531	67	320	(224)
Net change in cash	11	17	93	5	(8)
Effects of exchange rate	1	(2)	(5)	-	-
Ending cash	128	156	244	249	241

Source: Company, Phillip Securities Research (Singapore) estimates

Balance Sheet

Y/E Dec, SGD mn	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
Investment properties	2,029	2,637	3,005	3,569	3,604
Inv. Propty. Under Devmnt.	-	-	25	-	-
Others	4	11	19	19	19
Total non-current assets	2,033	2,648	3,048	3,587	3,623
Cash	128	156	244	249	241
Trade receivables	86	96	54	65	73
Others	6	28	3	3	3
Total current assets	220	280	302	316	317
Total Assets	2,253	2,928	3,350	3,904	3,940
LIABILITIES					
Borrowings	134	40	144	165	179
Trade payables	36	60	80	95	107
Others	17	8	9	9	9
Total current liabilities	187	108	234	269	295
Borrowings	573	880	1,044	1,146	1,145
Others	17	-	90	48	90
Total non-current liabilities	590	880	1,134	1,194	1,236
Total Liabilities	777	989	1,368	1,463	1,531
Net assets	1,476	1,939	1,982	2,440	2,409
Represented by:					
Unitholders' funds	1,445	1,868	1,945	2,400	2,367
Non-controlling interest	31	35	38	40	43

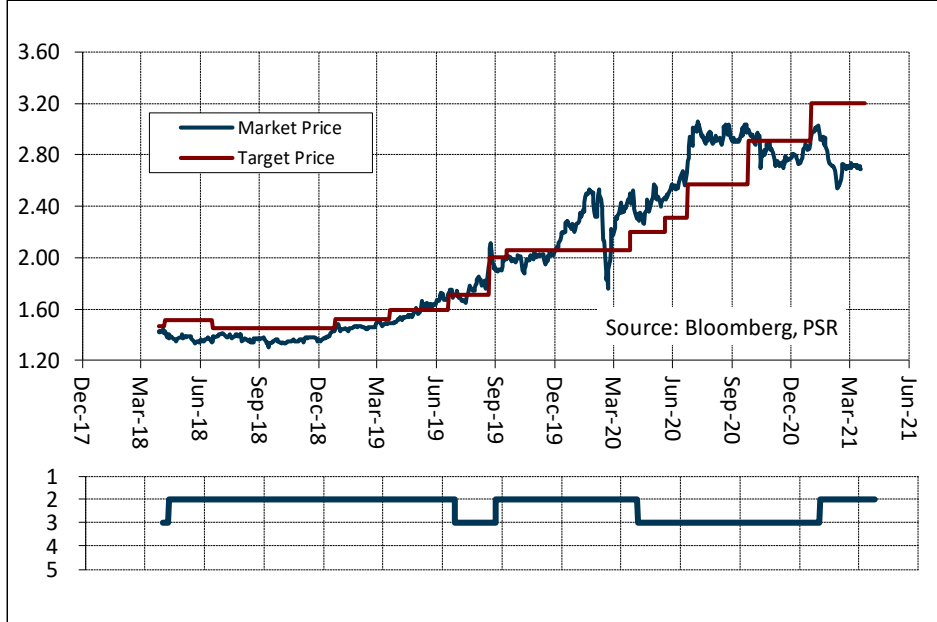
Valuation Ratios

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/NAV (x)	2.51	2.31	2.22	1.93	1.96
Distribution Yield	2.7%	2.8%	3.4%	3.7%	4.2%
NPI yield	9.7%	7.6%	8.7%	8.1%	8.4%

Growth & Margins (%)

Growth					
Revenue	63.0%	11.0%	36.3%	15.2%	12.4%
Net property income (NPI)	72.7%	12.4%	37.7%	9.5%	12.9%
Distributable income	59.1%	17.8%	38.6%	9.9%	14.9%
DPU	7.0%	4.0%	20.5%	7.4%	14.9%
Investment Property	65.5%	30.0%	14.0%	18.8%	1.0%
Margins					
NPI margin	89.8%	91.0%	91.9%	87.4%	87.8%
Key Ratios					
Gearing (%)	31.4%	31.4%	35.5%	33.6%	33.6%

Ratings History



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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