

Singapore Company Update

Keppel DC REIT

Bloomberg: KDCREIT SP | Reuters: KEPE.SI

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

25 Jan 2022

BUY

Last Traded Price (24 Jan 2022): S\$2.25 (STI : 3,283.35)
Price Target 12-mth: S\$2.80 (25% upside) (Prev S\$2.80)

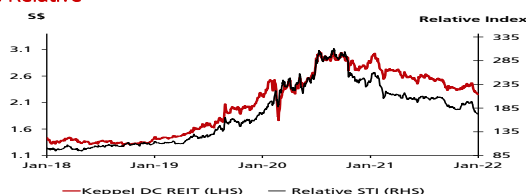
Analyst

Dale LAI +65 66823715 dalelai@dbs.com
Derek TAN +65 6682 3716 derektan@dbs.com

What's New

- Strong FY21 earnings driven by contributions from Asset Enhancement Initiatives (AEIs) and acquisitions
- Singapore portfolio reported >11% uplift in valuations due to improved earnings and tightening cap rates
- Concluded c.S\$400m of accretive acquisitions and investments in FY21 despite stiff competition for data centres
- Maintain BUY with a revised TP of S\$2.80

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2021A	2022F	2023F	2024F
Gross Revenue	271	318	343	349
Net Property Inc	248	272	293	299
Total Return	314	192	205	208
Distribution Inc	172	193	205	209
EPU (S cts)	9.70	11.2	11.7	11.7
EPU Gth (%)	(5)	16	5	0
DPU (S cts)	9.85	10.7	11.0	11.2
DPU Gth (%)	7	9	3	2
NAV per shr (S cts)	134	134	138	138
PE (X)	23.2	20.1	19.2	19.2
Distribution Yield (%)	4.4	4.8	4.9	5.0
P/NAV (x)	1.7	1.7	1.6	1.6
Aggregate Leverage (%)	34.4	35.5	36.9	36.9
ROAE (%)	7.7	8.4	8.6	8.5

Distn. Inc Chng (%)	0	0	0
Consensus DPU (S cts)	10.6	11.2	12.3
Other Broker Recs:	B: 8	S: 0	H: 6

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Every byte counts

Investment Thesis

Resuming growth trajectory. The recent completion of the Guangdong Data Centre and London Data Centre has reignited optimism on KDCREIT's growth trajectory. In addition, an ROFR has been granted for the other five data centres within the Guangdong Data Centre campus. However, we have revised down our acquisition yield assumptions given the rapid cap rate compressions seen in data centre assets globally.

DPU growth CAGR of c.6% over the next two years. DPU is expected to grow by a CAGR of c.6% from now till FY23, driven by recent acquisitions, organic growth from past AEIs and developments, and further potential acquisitions by the end of FY22. Given its debt headroom, we have assumed S\$300m worth of acquisitions at an implied yield of c.5% by the end of FY22 in our estimates.

Market dynamics supportive of further growth. KDCREIT's current portfolio occupancy of more than 98% is the highest since its IPO in 2014. The continued strong demand for data centre capacity amid the prolonged COVID-19 outbreak and rise of the digital economy would support higher occupancies and revenues across its portfolio in the foreseeable future.

Valuation:

Our target price of S\$2.80 is based on DCF, assuming a WACC of 5.8% (risk free rate of 2.5%). We have pencilled in S\$300m of acquisitions by end of FY22.

Where we differ:

Execution of pipeline. We have assumed a total of S\$300m worth of deals in our estimates as its acquisition growth strategy resumes, driving a DPU CAGR of c.6% from FY21 to 23F.

Key Risks to Our View:

Competition from larger third-party data centre players. KDCREIT may face higher barriers to entry and stiffer competition from international operators/funds that are also looking to grow their footprint and attract tenants.

At A Glance

Issued Capital (m shrs)	1,715
Mkt. Cap (S\$m/US\$m)	3,859 / 2,869
Major Shareholders (%)	
Keppel Corp Ltd	20.4
BlackRock Inc	7.6
Free Float (%)	67.3
3m Avg. Daily Val (US\$m)	9.0
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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WHAT'S NEW

Every byte counts

Revenues and NPI increase driven by acquisitions and AEs. Despite the divestment of Iseek Data Centre in Brisbane, KDCREIT reported a 1.6% y-o-y increase in FY21 NPI to S\$248.2m. The increase was mainly driven by the additional income from AEs in Dublin and Singapore. In addition, FY21 included full-year income contributions from Kelsterbach DC and Amsterdam DC. To a smaller extent, the acquisitions of Eindhoven DC and Guangdong DC towards the end of FY21 also contributed to the increase in earnings.

FY21 DPU of 9.85 Scts was a 7.4% increase y-o-y.

KDCREIT reported a 7.4% y-o-y increase in DPU mainly due to the AEs and acquisitions mentioned above. This was, however, slightly lower than our previous estimates, as there was a delay in the completion of the acquisition of the Guangdong Data Centre.

Strong revaluation gains for Singapore portfolio. The overall portfolio recorded a relatively strong uplift in valuations, and this was mainly contributed by the Singapore portfolio. The six data centres in Singapore recorded a c.11.2% or c.S\$189m uplift in valuation, which was mainly due to improved earnings from AEs at several properties, as well as cap rate compressions. For the rest of KDCREIT's portfolio, valuations were mostly up, except for Basis Bay in Malaysia, and Cardiff Data

Centre and GV7 in the UK. The higher portfolio valuations also led to a very healthy aggregate leverage of 34.6%.

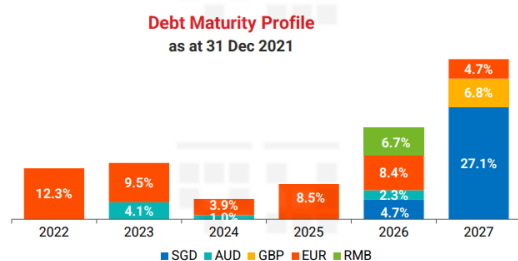
Close to S\$400m of acquisitions were concluded in FY21.

Despite concerns of a slowdown in acquisitions, KDCREIT concluded c.S\$400m worth of acquisitions and investments in FY21. This includes the acquisitions of Eindhoven Campus, Guangdong Data Centre, the M1 network assets investment, and the recently completed London Data Centre. In addition, KDCREIT also completed the AEI works at DC1, Keppel DC Dublin 2, and the development of Intellicentre 3 East Data Centre during the year.

All-in borrowing costs maintained at 1.6%. In 4Q21, KDCREIT extended two loans by two and five years respectively. Despite the rising interest rate environment, KDCREIT was able to maintain its all-in borrowing cost at 1.6%. Looking ahead, there will only be a c.S\$160m Euro-denominated debt expiring in FY22, and although there may be a risk of a marginal increase in overall borrowing costs, 74% of KDCREIT's debt has been hedged to fixed rates, mitigating any material spike in costs. We have, however, taken a prudent approach to revise our assumptions for KDCREIT's long-term borrowing costs to be at 2.0%.

Well-diversified debt maturity profile

- In 4Q 2021, Keppel DC REIT:
 - Extended loans of S\$275m by 2 years until 2027; and GBP 11.2m for 5 years until 2027
 - Obtained 1 revolving credit facility of S\$150m for 6 years and 1 loan of RMB400m for 5 years



As at 31 Dec 2021

Available Facilities ~\$481.5m of undrawn credit facilities

Aggregate Leverage¹ 34.6%

Average Cost of Debt² 1.6%

Debt Tenor 3.9 years

Interest Coverage (ICR) 10.8 times

Borrowings on fixed rates 74%

Keppel DC REIT

1. Computed based on gross borrowings and deferred payment as a percentage of deposited properties, both of which do not consider the lease liabilities pertaining to land rent options.

2. Including amortisation of upfront debt financing costs and excluding lease charges.

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Source: Keppel DC REIT

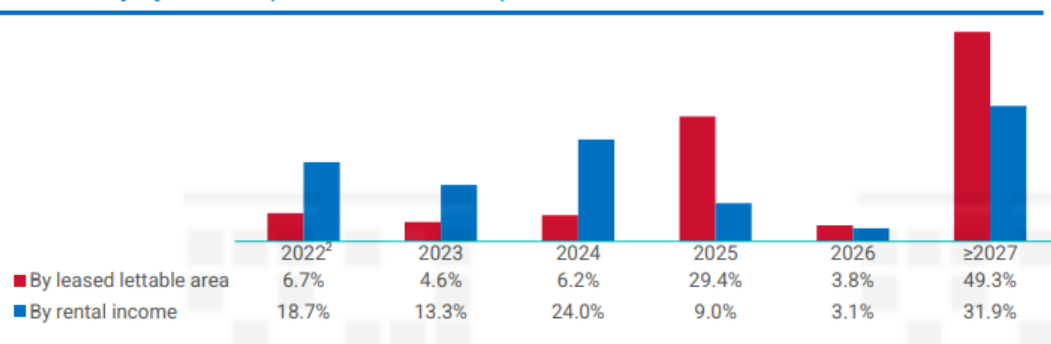
High portfolio occupancy and well-staggered lease expiry.

In FY22, only 18.7% of leases (by rental income) will be due to expire. Given the continued demand for data centres, we expect KDCREIT to be able to renew expiring

leases at healthy rental rates. Moreover, its high portfolio occupancy rate of 98.3% and long WALE of 7.5 years will ensure income stability going forward.

Well-staggered lease expiry profile

Lease Expiry Profile (as at 31 Dec 2021)



Source: Keppel DC REIT

Our views

Maintained acquisition assumptions for FY22 but revised acquisition yields down.

We have maintained our acquisition assumptions of S\$300m by the end of FY22 as KDCREIT continues to demonstrate their ability to acquire despite the rapid cap rate compressions globally. However, as seen in its latest acquisition of the London Data Centre at a yield of c.4.5%, we have revised our yield assumptions for future acquisitions. For the S\$300m of future acquisitions in our assumptions, we have revised the projected yields down by 50bps to 5.0%.

Marginal increase in WACC as we assume a higher long-term cost of borrowing.

As a prudent step, we have revised the long-term cost of borrowings for KDCREIT up to 2.0% to account for any potential increase in borrowings costs. This led a slight increase in KDCREIT's WACC to our current projection of 5.8%.

DPU growth is still intact with an estimated CAGR of c.6% over the next two years. Despite the downward revision in our projections due to the tightening yields of assumed acquisitions and a higher long-term cost of debt, KDCREIT is still expected to generate a DPU CAGR of c.6% over the next two years. At its current trading price, this implies a

very attractive forward yield of c.4.8% and c.4.9% for FY22 and FY23 respectively.

With the ROFR in place for the five remaining data centres in Guangdong, as well as KDCREIT's continued hunt for more accretive acquisitions, there is a potential for the REIT to surprise on the upside by delivering larger acquisitions with higher yields.

Based on our revised earnings projections and a more conservative WACC, we have revised our TP down to **S\$2.80**. This implies a c.24% upside to its current share price and we will be maintaining our **BUY** recommendation.

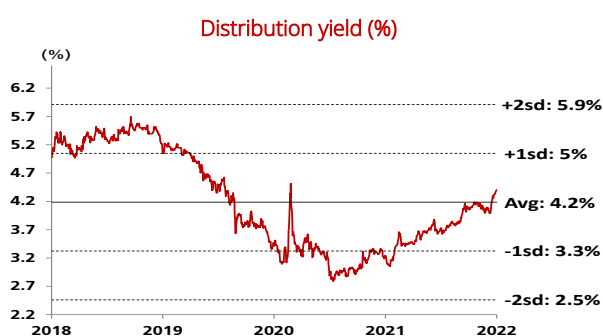
Company Background

KDC REIT (KDC REIT) is a Singapore-based real estate investment trust (REIT). It was established with the principal investment strategy of investing, directly or indirectly, in a portfolio of income-producing real estate assets that are used primarily for data centre purposes, with an initial focus on Asia Pacific and Europe.

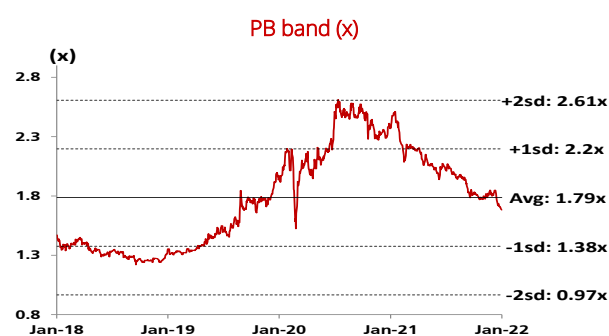
Interim Income Statement (\$m)

FY Dec	2H2020	1H2021	2H2021	% chg_yoy	% chg_qoq
Gross revenue	142	135	136	(4.0)	0.6
Property expenses	(11.7)	(11.3)	(11.6)	(0.6)	2.5
Net Property Income	130	124	124	(4.3)	0.4
Other Operating expenses	(18.1)	(14.4)	(12.5)	(30.5)	(12.8)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	(1.0)	nm	nm
Net Interest (Exp)/Inc	(8.8)	(10.1)	(10.6)	(19.9)	(5.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	103	99.4	100	(2.8)	0.8
Tax	(16.3)	(9.1)	(20.1)	23.3	121.4
Minority Interest	(1.8)	(1.6)	(6.3)	(253.5)	288.1
Net Income after Tax	85.0	88.7	73.8	(13.2)	(16.8)
Total Return	85.6	87.5	226	164.1	158.4
Non-tax deductible Items	(3.7)	(3.3)	(139)	3,666.1	4,142.7
Net Inc available for Dist.	81.9	84.3	87.4	6.6	3.7
Ratio (%)					
Net Prop Inc Margin	91.8	91.6	91.5		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

Historical Dividend yield and PB band


Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Income Statement (\$\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Gross revenue	266	271	318	343	349
Property expenses	(21.4)	(22.9)	(45.9)	(49.4)	(50.4)
Net Property Income	244	248	272	293	299
Other Operating expenses	(32.7)	(31.3)	(23.6)	(26.1)	(26.5)
Other Non Opg (Exp)/Inc	(1.1)	4.40	0.0	0.0	0.0
Associates & JV Inc	0.0	(1.0)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(18.3)	(20.7)	(24.1)	(28.9)	(29.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	192	200	224	238	243
Tax	(21.0)	(29.2)	(23.5)	(25.0)	(25.5)
Minority Interest	(3.6)	(7.9)	(8.3)	(8.6)	(9.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income after Tax	168	162	192	205	208
Total Return	168	314	192	205	208
Non-tax deductible Items	(11.2)	(142)	0.30	0.30	0.30
Net Inc available for Dist.	157	172	193	205	209
Growth & Ratio					
Revenue Gth (%)	36.3	2.1	17.2	7.9	1.9
N Property Inc Gth (%)	37.7	1.6	9.6	7.9	1.9
Net Inc Gth (%)	36.8	(3.0)	18.4	6.3	1.9
Dist. Payout Ratio (%)	94.6	94.7	95.2	95.4	95.4
Net Prop Inc Margins (%)	91.9	91.5	85.6	85.6	85.6
Net Income Margins (%)	63.1	59.9	60.6	59.7	59.7
Dist to revenue (%)	59.1	63.3	60.7	59.8	59.8
Managers & Trustee's fees	12.3	11.6	7.4	7.6	7.6
ROAE (%)	8.8	7.7	8.4	8.6	8.5
ROA (%)	5.3	4.6	5.0	5.1	5.0
ROCE (%)	6.2	5.3	5.9	6.0	5.9
Int. Cover (x)	11.6	10.5	10.3	9.2	9.3

NPI to be driven by full-year contributions from the c.S\$400m worth of acquisition and investments concluded over the past few months.

Interim Income Statement (\$\$m)

FY Dec	1H2020	2H2020	1H2021	2H2021
Gross revenue	124	142	135	136
Property expenses	(9.7)	(11.7)	(11.3)	(11.6)
Net Property Income	114	130	124	124
Other Operating	(15.7)	(18.1)	(14.4)	(12.5)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	(1.0)
Net Interest (Exp)/Inc	(9.4)	(8.8)	(10.1)	(10.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Net Income	89.1	103	99.4	100
Tax	(4.7)	(16.3)	(9.1)	(20.1)
Minority Interest	(1.8)	(1.8)	(1.6)	(6.3)
Net Income after Tax	30.2	85.0	88.7	73.8
Total Return	82.5	85.6	87.5	226
Non-tax deductible Items	(7.6)	(3.7)	(3.3)	(139)
Net Inc available for Dist.	75.0	81.9	84.3	87.4
Growth & Ratio				
Revenue Gth (%)	N/A	14	(5)	1
N Property Inc Gth (%)	nm	14	(5)	0
Net Inc Gth (%)	nm	3	4	(17)
Net Prop Inc Margin (%)	92.1	91.8	91.6	91.5
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0

Source: Company, DBS Bank

Balance Sheet (\$\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Investment Properties	3,005	3,401	3,468	3,780	3,792
Other LT Assets	40.2	117	117	117	117
Cash & ST Invt	244	196	125	136	153
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	54.4	50.4	127	137	140
Other Current Assets	5.79	15.9	15.9	15.9	15.9
Total Assets	3,350	3,780	3,852	4,186	4,217
ST Debt	144	163	163	163	163
Creditor	80.0	50.1	21.2	22.8	23.3
Other Current Liab	9.35	7.43	24.4	25.9	26.4
LT Debt	1,044	1,136	1,203	1,380	1,392
Other LT Liabilities	90.4	87.6	87.6	87.6	87.6
Unit holders' funds	1,945	2,293	2,302	2,447	2,457
Minority Interests	37.6	42.4	50.7	59.3	68.3
Total Funds & Liabilities	3,350	3,780	3,852	4,186	4,217
Non-Cash Wkg. Capital	(29.1)	8.68	97.3	104	106
Net Cash/(Debt)	(944)	(1,103)	(1,241)	(1,407)	(1,402)
Ratio					
Current Ratio (x)	1.3	1.2	1.3	1.4	1.5
Quick Ratio (x)	1.3	1.1	1.2	1.3	1.4
Aggregate Leverage (%)	35.5	34.4	35.5	36.9	36.9

Assumed S\$300m of future acquisitions done in end-FY22.

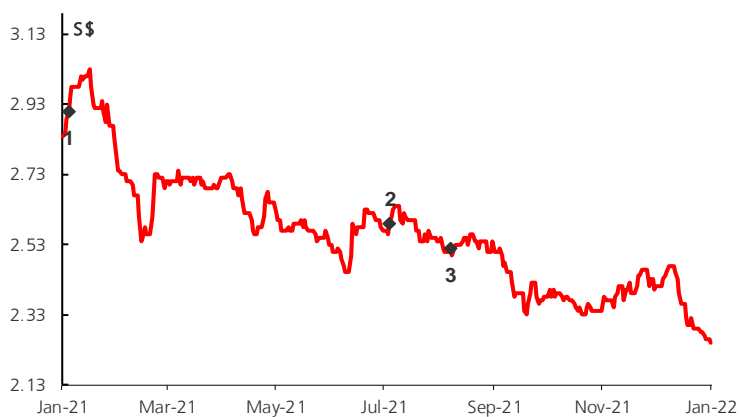
Source: Company, DBS Bank

Cash Flow Statement (\$\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Income	192	200	224	238	243
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(7.9)	(7.0)	(6.5)	(23.5)	(25.0)
Associates & JV Inc/(Loss)	0.0	1.00	0.0	0.0	0.0
Chg in Wkg.Cap.	15.8	(21.9)	(106)	(8.3)	(2.1)
Other Operating CF	34.9	(142)	0.30	0.30	0.30
Net Operating CF	235	29.7	112	207	216
Net Invt in Properties	(209)	(282)	(66.6)	(312)	(12.2)
Other Invt (net)	0.0	(26.4)	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(89.7)	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	23.6	0.0	0.0	0.0
Net Investing CF	(209)	(374)	(66.6)	(312)	(12.2)
Distribution Paid	(107)	(185)	(183)	(195)	(199)
Chg in Gross Debt	243	143	66.6	177	12.2
New units issued	0.0	202	0.0	135	0.0
Other Financing CF	(69.6)	0.0	0.0	0.0	0.0
Net Financing CF	66.9	160	(117)	117	(187)
Currency Adjustments	(4.5)	(0.5)	0.0	0.0	0.0
Chg in Cash	88.5	(185)	(71.2)	11.3	17.0
Operating CFPS (S cts)	13.4	3.08	12.7	12.3	12.3
Free CFPS (S cts)	1.60	(15.1)	2.66	(6.0)	11.5

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Jan 21	2.91	2.80	HOLD
2:	27 Jul 21	2.59	3.00	BUY
3:	30 Aug 21	2.52	3.00	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Dale LAI

Derek TAN

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 25 Jan 2022 10:47:26 (SGT)

Dissemination Date: 25 Jan 2022 10:50:00 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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DBS Regional Research Offices

HONG KONG

DBS (Hong Kong) Ltd

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvhk@dbs.com

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com
Co. Regn No. 198401015984 (128540-U)

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaesearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanukul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand