

Keppel DC REIT

Valuations speak for fundamentals



SINGAPORE | REAL ESTATE (REIT) | FY21 RESULTS

27 January 2022

- FY21 DPU of 9.851 Scts (+7.4% YoY) was in line, forming 100.3% of our forecast. FY21 revenue increased due to acquisitions, completion of redevelopment at Intellicentre 3 and various AELs in Ireland and Singapore.
- S\$386mn in investments made in FY21 could provide more than 4% in DPU accretion for KDC.
- Maintain BUY on earnings stability and attractive entry price for future-ready DC assets. FY22e-25e have been lowered by 0.9-4.1% on the anticipated rising cost of borrowing. Our DDM-based TP dips from S\$3.03 to S\$2.81 on lower DPU estimates and assumption of higher cost of equity of 5.88% (previous 5.75%). The current share price implies FY22e/23e DPU yields of 4.8%/4.9%.

Results at a glance

(SGD mn)	2H21	2H20	YoY	FY21	FY20	YoY	Comments
Gross revenue	135.9	141.6	-4.0%	271.1	265.6	2.1%	FY21 revenue increased due to full year contribution from Kelsterbach DC and Amsterdam DC (acquired in May 20 and Dec 20), acquisition of Eindhoven Campus in Sep 21, completion of Intellicentre 3 development in Jul 21 and AELs at Dub1, Dub2 and DC1. 2H20 revenue fell due to absence of c.S\$10mn in one-off income in 2H21 as well as lower revenue from iSeek DC which was divested on 1 Sep 21.
Net property inc.	124.3	129.9	-4.3%	248	244	1.6%	OPEX increased due to higher operational capacity post-AEL at Dub 1 and Dub2
Distributable inc.	87.4	81.9	6.6%	171.6	156.9	9.4%	
DPU (cents)	4.93	4.80	2.8%	9.85	9.17	7.4%	

Source: Company, PSR

The Positives

+ Portfolio occupancy up 0.5ppts YoY, from 97.8% to 98.3%. This was due to the acquisition of fully-leased Guangdong DC and occupancy improvements at KDC1 and Dub1. Occupancy at KDC1 inched up 2.0ppts to 93.1%, while occupancy at Dub1 saw a 1.1ppt improvement, at 82.3%.

+ Portfolio valuation up 8.9%, or S\$213mn, on a same-store basis, largely driven by cap rate compressions. Singapore properties accounted for 83% of the valuation uplift, with cap rate range compressing approximately 55-82bps YoY, from 4.95%-10.12% to 5.25%-9.31%. Intellicentre Campus in Australia accounted for 17% of the valuation uplift after the TOP of Intellicentre 3 in Jul 21, while Cardiff DC in the UK took a 7% haircut owing to more conservative assumption following a change of valuer.

+ S\$386mn in investments to secure FY22 DPU growth. KDC announced S\$386mn in investments in FY21 which carry an average EBITDA yield of 7.1% (Figure 1). Given the timing of legal completion, these investments will contribute more meaningfully towards FY22 earnings.

The Negative

- KDC4 and Basis Bay DC leases ticking down to expiry. 18.7% of leases by GRI are up for renewal in FY22, likely from KDC4 and Basis Bay DC given the shorter WALEs of 0.7 years and 0.5 years at these assets. The manager is still in the midst of renewal discussions but remains open to divesting if offer prices are compelling.

Outlook

KDC completed the acquisition of its newest asset, London DC, on 11 Jan 22. The S\$105.5mn shell and core asset is located in Bracknell within Greater London. Bracknell is dubbed the Silicon Valley of the UK due to its large concentration of multinational technology companies

BUY (Maintained)

LAST CLOSE PRICE	SGD 2.190
FORECAST DIV	SGD 0.104
TARGET PRICE	SGD 2.810
TOTAL RETURN	33.1%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN) :	1,716
MARKET CAP (USD mn / SGD mn) :	2782 / 3757
52 - WK HI/LO (SGD) :	3.04 / 2.16
3M Average Daily T/O (mn) :	5.52

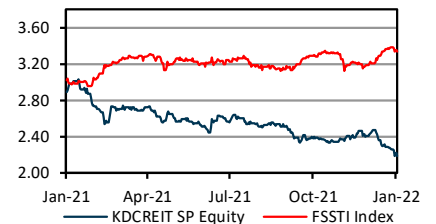
MAJOR SHAREHOLDERS (%)

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(7.9)	(6.7)	(10.1)
STI RETURN	5.3	2.6	4.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Gross Rev. (SGD mn)	266	271	308	317
NPI (SGD mn)	244	248	285	294
Dist. Inc. (SGD mn)	157	172	188	194
P/NAV (x)	1.80	1.61	1.58	1.55
DPU, adj (cents)	9.17	9.85	10.45	10.78
Dist. Yield	4.2%	4.5%	4.8%	4.9%

Source: Company Data, PSR

VALUATION METHOD

DDM (Cost of Equity: 5.88%; Terminal g: 2.0%)

Natalie Ong (+65 6212 1849)

Research Analyst
natalieongpf@phillip.com.sg

and conglomerates. It is fully leased to telecommunications company, Vodafone, on a triple-net lease until 2039. We estimate yield to be 3.8-4.4% assuming annual rental escalations of 1.5%-4.0% from last known NPI. This is KDC's priciest acquisition yet. However, the management is optimistic that Bracknell is poised to benefit from spillover demand from neighbouring supply-scarce London in the long term. The acquisition will lengthen WALE from 7.7 years to 8.1 years and push gearing from 36.4% to 38.2%. Post-acquisition, shell and core assets will account for 20.9% of AUM, up from 18.3%.

Figure 1: Summary of investments announced in FY21

	NPI Yield/ Interest	Completion	Purchase Consideration (S\$mn)	Full year EBITDA Contribution (S\$mn)
Eindhoven Campus -Shell&Core	5.7%	6-Sep-21	59.9	3.4
Guangdong DC - Tripple net	8.8%	13-Dec-21	132.0	11.6
NetCo Bonds*	9.17%	22-Dec-21	88.7	8.1
London DC - Tripple net	3.8% - 4.4%	11-Jan-22	105.5	4.3
	7.1%		386.1	27.5

Source: Company, PSR

* Taxable at 17% if qualifying project debt securities (QPDS) status is not approved

Including the acquisition of London DC, KDC's AUM grew 16.7% since Dec 20. KDC continues to source for acquisitions in key DC markets such as UK, Amsterdam, Paris, Germany and the US, with a preference for larger acquisitions. KDC also has a ROFR on the remaining five data centres located within the Bluesea Intelligence Valley from the vendor of Guangdong DC.

There are still no updates on Singapore's moratorium on data centres which was rumoured to be lifted in 2021. The lack of absence of new supply in the interim saw a small uptick in occupancy at KDC1, but FY21 rental growth remained "stable" as the management preserved landlord-tenant relationships during lease discussions. The management is of the view that the lifting of the moratorium will be an eventuality but the new supply could take 2-4 years to come onto the market. However, stickiness of data-centre tenants and Keppel's track record as a data-centre operator should help it retain tenants.

Maintain BUY with a lower DDM TP of S\$2.81 (prev. S\$3.03)

FY22e-25e DPUs have been lowered by 0.9-4.1% on the anticipated rising cost of borrowing. Our DDM-based TP dips from S\$3.03 to S\$2.81 on lower DPU estimates and higher cost of equity of 5.88% assumption (prev. 5.75%). The current share price implies FY22e/23e DPU yields of 4.8%/4.9%.

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Gross revenue	195	266	271	308	317
Property expenses	(18)	(21)	(23)	(23)	(23)
Net property income	177	244	248	285	294
Net Finance (Expense)/Inc	(15)	(18)	(21)	(26)	(30)
Manager's fees	(16)	(22)	(24)	(28)	(28)
Other items	(6)	(12)	(3)	(8)	(8)
FV change, Inv. Properties	(16)	1	151	-	-
Total Return Before Tax	124	193	351	231	236
Taxation	(13)	(21)	(29)	(12)	(12)
Total Return After Tax	111	172	322	219	224
Unitholders	107	168	314	211	217
Non-controlling interest	5	4	8	8	8
Distribution adjustments	7	(11)	(142)	(23)	(22)
Income available for distribution	113	157	172	188	194

Per unit data

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
NAV (\$\$)	1.17	1.21	1.36	1.39	1.41
DPU (cents)	7.61	9.17	9.85	10.45	10.78

Cash Flow

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Total Return After Tax	111	172	322	219	224
Adjustments	41	56	(102)	32	37
WC changes	19	16	(22)	31	1
Cash generated from ops	171	244	198	282	262
Others	(16)	(9)	(8)	(12)	(12)
Cashflow from ops	155	235	190	271	250

CFI

Purchase of Inv. propty., net	(586)	(134)	(196)	(108)	-
Capex, net	(57)	(83)	(113)	(27)	(28)
Others	(27)	8	-	8	8
Cashflow from investments	(669)	(209)	(308)	(127)	(20)

CFF

Share issuance, net	478	-	204	-	-
Net borrowings	383	371	551	370	170
Distributions	(141)	(121)	(205)	(203)	(216)
Others	(189)	(183)	(416)	(166)	(181)
Cashflow from financing	531	67	135	1	(227)
Net change in cash	17	93	17	145	3
Effects of exchange rate	(2)	(5)	(1)	-	-
Ending cash	156	244	196	344	350

Source: Company, Phillip Securities Research (Singapore) estimates

Balance Sheet

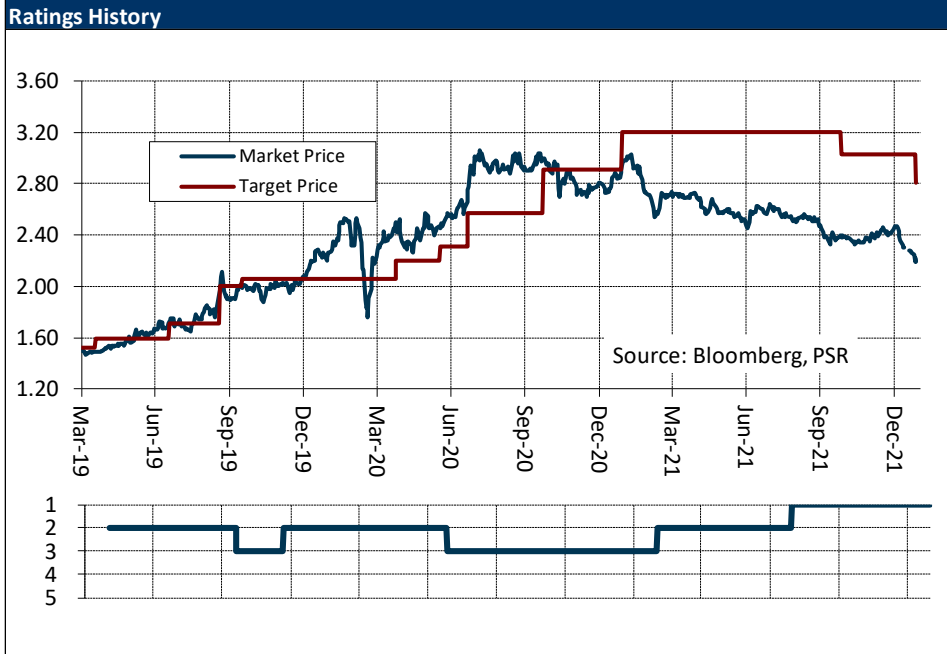
Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Investment properties	2,637	3,005	3,401	3,536	3,565
Inv. Propty. Under Devmnt.	-	25	-	-	-
Others	11	19	117	114	110
Total non-current assets	2,648	3,048	3,518	3,650	3,675
Cash	156	244	196	344	350
Trade receivables	96	54	50	65	67
Others	28	3	16	16	16
Total current assets	280	302	262	425	433
Total Assets	2,928	3,350	3,780	4,075	4,108
LIABILITIES					
Borrowings	40	144	163	178	68
Trade payables	60	80	50	96	98
Others	8	9	7	7	7
Total current liabilities	108	234	221	281	173
Borrowings	880	1,044	1,136	1,332	1,439
Others	37	-	88	82	76
Total non-current liabilities	917	1,044	1,224	1,414	1,515
Total Liabilities	1,025	1,277	1,444	1,695	1,688
Net assets	1,903	2,073	2,336	2,379	2,420
Represented by:					
Unitholders' funds	1,868	1,945	2,293	2,331	2,367
Non-controlling interest	35	38	42	48	54

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	1.88	1.80	1.61	1.58	1.55
Distribution Yield	3.5%	4.2%	4.5%	4.8%	4.9%
NPI yield	9.2%	8.7%	7.7%	8.2%	8.3%

Growth & Margins (%)

Growth					
Revenue	80.9%	36.3%	2.1%	13.7%	2.8%
Net property income (NPI)	94.2%	37.7%	1.6%	14.8%	3.3%
Distributable income	87.5%	38.6%	9.4%	9.8%	3.2%
DPU	11.3%	20.5%	7.4%	6.0%	3.2%
Investment Property	115.1%	14.0%	13.2%	4.0%	0.8%
Margins					
NPI margin	91.0%	91.9%	91.5%	92.4%	92.8%
Key Ratios					
Gearing (%)	31.4%	35.5%	34.4%	37.1%	36.7%



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

Contact Information (Singapore Research Team)
Head of ResearchPaul Chew – paulchewkl@phillip.com.sg**Research Admin**Qystina Azli - qystina@phillip.com.sg**Consumer | Industrial | Conglomerates**Terence Chua – terencechuatl@phillip.com.sg**Property | REITs**Natalie Ong – natalieongpf@phillip.com.sg**Banking & Finance**Glenn Thum – glenthumjc@phillip.com.sg**Small-Mid Cap**Vivian Ye – yeqw@phillip.com.sg**US Technology Analyst (Hardware)**Timothy Ang – timothyang@phillip.com.sg**US Technology Analyst (Internet)**Jonathan Woo – jonathannwookj@phillip.com.sg**Technical Analyst**Chua Wei Ren – chuawr@phillip.com.sg

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

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

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

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

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

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

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

15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website 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

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

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

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

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

INDIA**PhillipCapital (India) Private Limited**

No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kada m Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapiatal.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.phillipcapiatal.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

Important Information

This report is prepared and/or distributed by Phillip Securities Research Pte Ltd ("Phillip Securities Research"), which is a holder of a financial adviser's license under the Financial Advisers Act, Chapter 110 in Singapore.

By receiving or reading this report, you agree to be bound by the terms and limitations set out below. Any failure to comply with these terms and limitations may constitute a violation of law. This report has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this report by mistake, please delete or destroy it, and notify the sender immediately.

The information and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this report has been obtained from public sources which Phillip Securities Research believes to be reliable. However, Phillip Securities Research does not make any representation or warranty, express or implied that such information or Research is accurate, complete or appropriate or should be relied upon as such. Any such information or Research contained in this report is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this report are as of the date indicated and are subject to change at any time without prior notice. Past performance of any product referred to in this report is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This report should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this report has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this report is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this report involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this report should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this report, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this report.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this report. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, which is not reflected in this report, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this report.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

This report is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this report may not be suitable for all investors and a person receiving or reading this report should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This report is not intended for distribution, publication to or use by any person in any jurisdiction outside of Singapore or any other jurisdiction as Phillip Securities Research may determine in its absolute discretion.

IMPORTANT DISCLOSURES FOR INCLUDED RESEARCH ANALYSES OR REPORTS OF FOREIGN RESEARCH HOUSES

Where the report contains research analyses or reports from a foreign research house, please note:

- (i) recipients of the analyses or reports are to contact Phillip Securities Research (and not the relevant foreign research house) in Singapore at 250 North Bridge Road, #06-00 Raffles City Tower, Singapore 179101, telephone number +65 6533 6001, in respect of any matters arising from, or in connection with, the analyses or reports; and
- (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, Phillip Securities Research accepts legal responsibility for the contents of the analyses or reports.