

### COMPANY RESULTS

## Keppel REIT (KREIT SP)

2H21: Sustaining Positive Rental Reversion

**KREIT's property income and NPI grew 16.9% and 17.5% yoy respectively in 2H21 due to the acquisition of Pinnacle Office Park in Sydney (completed on 31 Dec 20) and Keppel Bay Tower in Singapore (completed on 18 May 21). Physical occupancy has improved as more employees are working from offices. Management plans to backfill transitional vacancy at OFC and MBFC and targets positive low-to-mid single-digit rental reversion in 2022. Maintain BUY with a target price of S\$1.52.**

### 2H21 RESULTS

Year to 31 Dec (S\$m)	2H21	yoy % chg	Remarks
Property Income	110.8	+16.9	Growth from Victoria Police Centre in Melbourne, Pinnacle Office
Net Property Income (Attributable)	79.9	+17.5	Park in Sydney and newly acquired Keppel Bay Tower in Singapore.
Associates and JVs	56.5	-10.9	Transitory vacancy at ORQ and MBFC.
Distributable Income	106.4	+6.6	Included capital gain distribution of S\$2m.
DPU (S cents)	2.88	-1.7	Private placement of 238.9m new units to raise S\$270m in Feb 21.

Source: KREIT, UOB Kay Hian

### RESULTS

- Keppel REIT (KREIT) reported 2H21 DPU of 2.88 S cents (-1.7% yoy), which is in line with our expectations.
- Growth from Singapore and Australia.** NPI attributable to unitholders increased 17.5% yoy in 2H21 due to contributions from Victoria Police Centre in Melbourne (practical completion on 9 Jul 20), Pinnacle Office Park in Sydney (acquisition completed on 31 Dec 20) and Keppel Bay Tower in Singapore (acquisition completed on 18 May 21), which were partially offset by the divestment of 275 George Street in Brisbane (divestment completed on 30 Jul 21). Contributions from associates and JVs decreased 10.9% yoy due to transitional vacancy at One Raffles Quay (ORQ) and Marina Bay Financial Centre (MBFC).
- Sustaining positive rental reversion.** Leases committed amounted to 888,600sf (attributable) and KREIT achieved positive rental reversion of 3% in 2021. Average signing rents for Singapore office leases was S\$10.56psf in 2021 (1H21: S\$10.73psf). New leasing demand and expansion were mainly from banking, insurance & financial services (29.3%), technology, media & telecommunications (23.1%) and manufacturing & distribution (14.9%). Retention rate was 62%. Rental collection was healthy at 99.6% in 2021.
- Portfolio committed occupancy dropped** 1.7ppt qoq to 95.4%. Occupancy at ORQ improved 1.3ppt qoq to 98.5% due to backfilling of space vacated by UBS. Occupancy at Ocean Financial Centre (OFC) and MBFC eased 2.5ppt and 2.1ppt qoq respectively to 94.6% and 95.5% as tenants rationalised their usage of office space. Occupancy for Chifley Square (2.8% of AUM) dropped 31.4ppt qoq to 68.6% due to lease expiry for Quantum. A quarter of the vacant space was backfilled by a financial institution and the remaining space is expected to be leased to smaller companies by 2H22.
- Weighted average lease expiry (WALE) is long at 6.1 years (top 10 tenants: 10.8 years).

### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	170	217	235	244	249
EBITDA	115	154	173	182	186
Operating profit	115	154	173	182	186
Net profit (rep./fact.)	20	276	218	220	234
Net profit (adj.)	180	193	218	220	234
EPU (S\$ cent)	5.3	5.3	5.8	5.8	6.1
DPU (S\$ cent)	5.7	5.8	5.9	5.8	6.4
PE (x)	21.8	22.1	19.8	19.9	18.9
P/B (x)	0.9	0.9	0.9	0.9	0.9
DPU Yld (%)	4.9	5.0	5.1	5.0	5.5
Net margin (%)	11.5	127.3	92.8	90.0	94.1
Net debt/(cash) to equity (%)	46.2	49.1	52.8	55.4	56.9
Interest cover (x)	3.5	4.3	11.2	7.4	7.3
ROE (%)	0.4	5.5	4.2	4.3	4.7
Consensus DPU (S\$ cent)	n.a.	n.a.	5.9	6.0	6.2
UOBKH/Consensus (x)	-	-	1.00	0.97	1.03

Source: Keppel REIT, Bloomberg, UOB Kay Hian

### BUY

(Maintained)

Share Price	S\$1.16
Target Price	S\$1.52
Upside	+31.0%

### COMPANY DESCRIPTION

Keppel REIT invests in quality income-producing commercial real estate. Its portfolio with AUM of S\$8.6b comprises predominantly of premium grade A office buildings located in prime business and financial districts in Singapore, Australia and South Korea.

### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	KREIT SP
Shares issued (m):	3,695.4
Market cap (S\$m):	4,286.7
Market cap (US\$m):	3,189.7
3-mth avg daily t'over (US\$m):	6.6

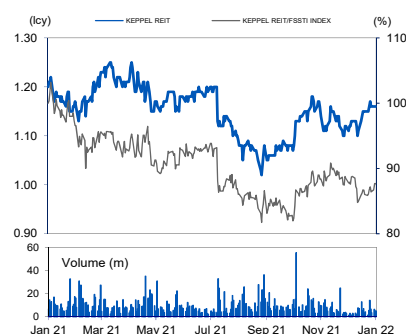
### Price Performance (%)

52-week high/low	S\$1.25/S\$1.02			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
3.6	7.4	(2.5)	(1.7)	2.7

### Major Shareholders

Keppel REIT Investment	40.3%
FY22 NAV/Share (S\$)	1.29
FY22 Net Debt/Share (S\$)	0.72

### PRICE CHART



Source: Bloomberg

### ANALYST(S)

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- Resilient balance sheet.** Aggregate leverage was 38.4% with 63% of borrowings on fixed interest rates as of end-Dec 21. All-in interest rate has improved 37bp yoy to 1.98%. KREIT has diversified its funding source with the issuance of S\$150m 7-year medium-term notes at 2.07% in Sep 21. Green loans account for 39% of total borrowings. The average term to maturity is 3.1 years and only 5% of its total borrowings are due for refinancing in 2022 (part of a bridging loan of S\$138m has already been repaid with a green loan facility that matures in 2025).

### STOCK IMPACT

- Leasing momentum turning more positive.** Working from home is no longer the default and 50% of employees have been allowed back to their offices since 1 Jan 22. Physical occupancy at office buildings has spiked to 50% in January. Leasing enquiries and viewings have picked up. Besides the technology companies and non-bank financial institutions, KREIT also saw demand from industrial and consumer companies. Multinational companies are also adding regional roles in Singapore.

- Grade A offices within core CBD benefitting from lack of supply.** According to CBRE, rents for Grade A core CBD offices increased 3.8% yoy and 1.4% qoq to S\$10.80psf/month in 4Q21, the third consecutive quarter of increase. Net absorption remains positive and increased 63% qoq to 336,919sf in 4Q21. Occupancy rates for Grade A core CBD has inched higher by 1.2ppt qoq to 93.3%. KREIT's average expiring rents are S\$10.35psf in 2022, S\$10.84psf in 2023 and S\$10.67psf in 2024. It targets to achieve positive low-to-mid single-digit rental reversion in 2022.

- Long WALE provides income stability Down Under.** Sydney and Melbourne have emerged from lockdowns and lifted COVID-19 restrictions in Oct 21. Leasing enquiries have picked up. However, rents could come under pressure due to the high nationwide CBD vacancy rate of 14% and new supply coming on-stream. Occupancy and rents for the Australia portfolio (18.1% of AUM) could come under some pressure but the negative impact is cushioned by a long WALE of 10.8 years.

- Increasing geographical diversification by scaling up in Australia.** KREIT has entered into an agreement to acquire Blue & William, a freehold Grade A office building with NLA of 14,133sqm under development in North Sydney for A\$327.7m. Blue & William is located 160m from the North Sydney Train Station. It is 350m from the upcoming Victoria Cross Metro Station, which will reduce commuting time to Barangaroo and Martin Place in the Sydney CBD to three minutes and five minutes respectively, when completed in 2024.

- Blue & William is being developed by Lendlease and will provide net property income (NPI) yield of 4.5% after practical completion in mid-23.** It is able to attract tenants from the technology, media & telecommunication, professional services and insurance sectors. It provides built-in rental escalation of 3-4% post practical completion. The acquisition expands KREIT's AUM by 4% to S\$9.0b and increases exposure to Australia from 16.4% to 19.5% of AUM. It is expected to increase pro forma 2020 DPU by 3% to 5.90 S cents.

### EARNINGS REVISION

- We maintain our existing DPU forecast.

### VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$1.52 is based on DDM (cost of equity: 5.5%, terminal growth: 1.5%).

### SHARE PRICE CATALYST

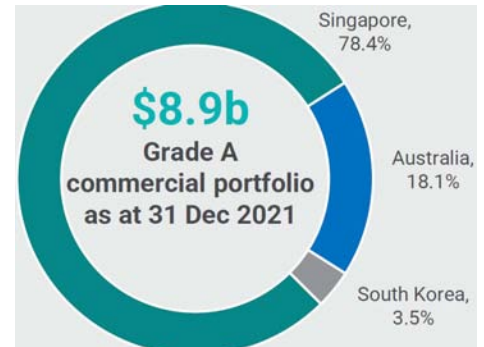
- Keppel Bay Tower will provide full-year contribution in 2022.
- Practical completion of Blue & William in mid-23.

### KEY OPERATING METRICS

	1Q21	2Q21	3Q21	4Q21	yoy	qoq
DPU	n.a.	2.94	n.a.	2.88	-1.7%	-2.0%
Occupancy	96.5%	96.7%	97.1%	95.4%	-2.5ppt	-1.7ppt
Gearing	35.2%	38.9%	37.6%	38.4%	1.1ppt	0.8ppt
Average Cost of Debt	2.01%	1.97%	1.99%	1.98%	-0.37ppt	-0.01ppt
% of Borrowings on Fixed Rates	85.0%	68.0%	71.0%	63.0%	-11ppt	-8ppt
WALE by NLA (years)	6.7	6.2	6.1	6.1	-0.6yrs	0yrs
Weighted Average Debt Maturity (years)	3.0	3.1	3.3	3.1	-0.1yrs	-0.2yrs
Rental Reversions	10.9%	4.1%	1.0%	3.0%	-9.7%	2.0%
Tenant Retention Rate	44.0%	60.0%	73.0%	62.0%	-10ppt	-11ppt

Source: KREIT

### AUM BY COUNTRY (DEC 21)



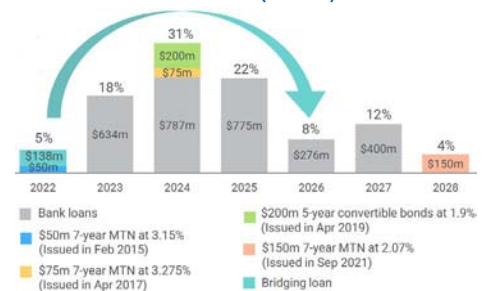
Source: KREIT

### LEASING UPDATE (2021)



Source: KREIT

### DEBT MATURITY PROFILE (DEC 21)



Source: KREIT

### BLUE & WILLIAM (ARTIST IMPRESSION)



Source: KREIT

### PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	216.6	234.6	243.9	249.1
EBITDA	154.4	173.4	181.9	186.5
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	154.4	173.4	181.9	186.5
Total other non-operating income	2.7	0.0	0.0	0.0
Associate contributions	118.6	95.4	97.8	100.2
Net interest income/(expense)	(35.9)	(15.5)	(24.5)	(25.7)
<b>Pre-tax profit</b>	<b>322.9</b>	<b>253.3</b>	<b>255.2</b>	<b>261.0</b>
Tax	(23.0)	(11.8)	(11.9)	(12.7)
Minorities	(14.7)	(14.4)	(14.4)	(4.4)
Preferred dividends	(9.4)	(9.5)	(9.5)	(9.5)
<b>Net profit</b>	<b>275.8</b>	<b>217.6</b>	<b>219.5</b>	<b>234.4</b>
Net profit (adj.)	192.7	217.6	219.5	234.4

### BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	4,707.5	4,819.5	4,875.5	4,875.5
Other LT assets	3,541.8	3,541.8	3,541.8	3,541.8
Cash/ST investment	189.3	166.8	161.9	162.9
Other current assets	49.1	52.7	53.8	54.5
<b>Total assets</b>	<b>8,487.7</b>	<b>8,580.8</b>	<b>8,633.0</b>	<b>8,634.7</b>
ST debt	187.9	187.9	187.9	187.9
Other current liabilities	85.4	84.3	86.6	89.1
LT debt	2,538.9	2,680.0	2,780.0	2,830.0
Other LT liabilities	85.5	88.7	89.7	90.4
Shareholders' equity	5,168.2	5,118.0	5,067.1	5,015.5
Minority interest	421.8	421.8	421.8	421.8
<b>Total liabilities &amp; equity</b>	<b>8,487.7</b>	<b>8,580.8</b>	<b>8,633.0</b>	<b>8,634.7</b>

### CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
<b>Operating</b>	<b>392.3</b>	<b>137.0</b>	<b>147.5</b>	<b>170.9</b>
Pre-tax profit	195.7	204.1	204.5	219.6
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	(118.6)	(95.4)	(97.8)	(100.2)
Working capital changes	(4.4)	(3.4)	0.7	0.5
Other operating cashflows	319.7	31.7	40.1	51.2
<b>Investing</b>	<b>(716.4)</b>	<b>(26.5)</b>	<b>31.9</b>	<b>90.2</b>
Capex (growth)	(825.0)	(111.9)	(55.9)	0.0
Capex (maintenance)	(10.0)	(10.0)	(10.0)	(10.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	118.6	95.4	97.8	100.2
<b>Financing</b>	<b>358.0</b>	<b>(133.0)</b>	<b>(184.2)</b>	<b>(260.2)</b>
Distribution to unitholders	(212.1)	(218.5)	(219.8)	(244.5)
Issue of shares	270.0	0.0	0.0	0.0
Proceeds from borrowings	351.7	141.1	100.0	50.0
Others/interest paid	(51.5)	(55.5)	(64.5)	(65.7)
<b>Net cash inflow (outflow)</b>	<b>34.0</b>	<b>(22.5)</b>	<b>(4.8)</b>	<b>1.0</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>155.3</b>	<b>189.3</b>	<b>166.8</b>	<b>161.9</b>
Changes due to forex impact	0.0	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>189.3</b>	<b>166.8</b>	<b>161.9</b>	<b>162.9</b>

### KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
<b>Profitability</b>				
EBITDA margin	71.3	73.9	74.6	74.9
Pre-tax margin	149.1	108.0	104.6	104.8
Net margin	127.3	92.8	90.0	94.1
ROA	3.4	2.5	2.6	2.7
ROE	5.5	4.2	4.3	4.7
<b>Growth</b>				
Turnover	27.2	8.3	4.0	2.1
EBITDA	34.0	12.3	4.9	2.5
Pre-tax profit	714.0	(21.6)	0.8	2.3
Net profit	1,304.4	(21.1)	0.9	6.8
Net profit (adj.)	6.9	12.9	0.9	6.8
EPU	(1.2)	11.4	(0.4)	5.5
<b>Leverage</b>				
Debt to total capital	32.8	34.1	35.1	35.7
Debt to equity	52.8	56.0	58.6	60.2
Net debt/(cash) to equity	49.1	52.8	55.4	56.9
Interest cover (x)	4.3	11.2	7.4	7.3

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