

Keppel DC REIT

Earnings cushioned by recent investments



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SINGAPORE | REAL ESTATE (REIT) | 1Q22 UPDATE

21 April 2022

- 1Q22 DPU of 2.466 Scts (+0.2% YoY) was in line, forming 24.9% of our FY22e forecast.
- Contributions from investments in Eindhoven DC, Guangdong DC, London DC and NetCo bonds totalling c.S\$386mn, and completion of AEI at DC1 and Intellicentre3 development were wiped out by higher electricity costs, provision for litigation and absence of rental support for KDC4.
- Maintain BUY on earnings stability and attractive entry price for future-ready DC assets. FY22-26e DPUs lowered by 3.7-6.1% due to provision for litigation and higher electricity costs, resulting in 8.2% reduction in our DDM-TP (COE 5.88%) from S\$2.81 to S\$2.58. The current share price implies FY22e/23e DPU yields of 4.7%/4.8%.

BUY (Maintained)

LAST CLOSE PRICE	SGD 2.090
FORECAST DIV	SGD 0.099
TARGET PRICE	SGD 2.580
TOTAL RETURN	28.2%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	1,717
MARKET CAP (USD mn / SGD mn):	2634 / 3589
52 - WK HI/LO (SGD):	2.76 / 2.09
3M Average Daily T/O (mn):	6.46

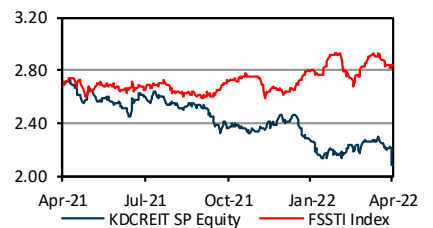
MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	20.4%
BLACKROCK INC	7.6%
COHEN & STEERS INC	4.7%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(7.5)	(6.4)	(14.0)
STI RETURN	0.3	1.9	7.4

PRICE VS. STI



Source: Bloomberg, PSR

Results at a glance

(SGD mn)	1Q22	1Q21	YoY	Comments
Gross revenue	66.1	66.7	-0.9%	Contributions from acquisition of Eindhoven Campus in Sep21, Guangdong DC in Dec21, London DC in Jan22 and completion of Intellicentre 3 development in Jul21 were offset by provisions for amount under dispute with tenant DXC, absence of income support from KDC4 and depreciation of EUR against SGD. KDC hedges 100% on income receivable in foreign currency, as such, FX movement has no impact on DI.
Net property inc.	60.1	61.0	-1.4%	NPI declined due to increase in electricity cost and higher repair and maintenance cost at Amsterdam DC
Distributable inc.	44.5	42.0	5.9%	Higher due to contribution from investment in M1 bonds
DPU (cents)	2.47	2.46	0.2%	

Source: Company, PSR

The Positive

+ Portfolio occupancy up 0.4ppts YoY, from 98.3% to 98.7%. This was due to higher occupancy at DUB1, which improved from 82.3% to 95.9%. KDC also renewed its lease at Basis Bay, extending the the weighted average lease expiry (WALE) at the property from 0.2 years to 4.7 years. While committed occupancy was not disclosed, we understand from the management that the tenant has downsized its space. Occupancy at Basis Bay is expected to decline from 63.1% when the new lease kicks in. Portfolio WALE lengthened from 7.5 years to 7.7 years.

The Negatives

- **Litigation against DXC over revenue for provision of colocation services.** KDC announced its litigation against DXC on 21 March 2022. The suit, which was initiated by KDC, was for c.S\$14.8mn in colocation service revenue in connection with provision of facility management services at KDC1 for the 4-year period between 1 April 2021 and 31 March 2025. The affected occupancy is c.0.4% of KDC's NLA as at 31 December 2021, and the impact arising from the disputed sum per annum is approximately 2.0% of FY21's distributable income.

- **Slight increase in cost of borrowing and gearing.** Cost of borrowing remains low despite increasing from 1.6% to 1.8%. Portion of debt on fixed rates crept up from 74% to 76% while gearing inched up slightly from 34.6% to 36.1% post-acquisition of London DC but remains below the 50% regulatory limit.

KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Gross Rev. (SGD mn)	266	271	302	311
NPI (SGD mn)	244	248	274	281
Dist. Inc. (SGD mn)	157	172	178	183
P/NAV (x)	1.72	1.54	1.51	1.49
DPU, adj (cents)	9.17	9.85	9.89	10.13
Dist. Yield	4.4%	4.7%	4.7%	4.8%

Source: Company Data, PSR

VALUATION METHOD

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

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Outlook

About 17.1% of leases are due to expire in FY22, likely from KDC4 given the short WALE of 0.4 years. While the data centre moratorium in Singapore has been lifted, construction of new supply is expected to take 2-3 years to come online. Tenant stickiness is high due to the significant cost of relocation. We remain optimistic about KDC's tenant retention ability over the mid-term.

Including the acquisition of London DC, KDC's AUM grew 16.7% since Dec 20. Data centre cap rates were stable QoQ. KDC continues to source for acquisitions in Asia, Europe and US, with a preference for off-market deals which could provide better entry yields. KDC also has a ROFR on the remaining five data centres located within the Bluesea Intelligence Valley from the vendor of Guangdong DC.

Maintain BUY with a lower DDM TP of S\$2.58 (prev. S\$2.81)

FY22-26e DPUs lowered by 3.7-6.1% due to provision for litigation and higher electricity costs, resulting in 8.2% reduction in our DDM-TP from S\$2.81 to S\$2.58. The current share price implies FY22e/23e DPU yields of 4.7%/4.8%.

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Gross revenue	195	266	271	302	311
Property expenses	(18)	(21)	(23)	(28)	(29)
Net property income	177	244	248	274	281
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	220	224
Taxation	(13)	(21)	(29)	(11)	(11)
Total Return After Tax	111	172	322	209	213
Unitholders	107	168	314	201	205
Non-controlling interest	5	4	8	8	8
Distribution adjustments	7	(11)	(142)	(23)	(22)
Income available for distribution	113	157	172	178	183

Per unit data

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
NAV (S\$)	1.17	1.21	1.36	1.38	1.40
DPU (cents)	7.61	9.17	9.85	9.89	10.13

Cash Flow

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Total Return After Tax	111	172	322	209	213
Adjustments	41	56	(102)	32	36
WC changes	19	16	(22)	30	1
Cash generated from ops	171	244	198	271	250
Others	(16)	(9)	(8)	(11)	(11)
Cashflow from ops	155	235	190	260	239

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)	(199)	(205)
Others	(189)	(183)	(416)	(166)	(181)
Cashflow from financing	531	67	135	6	(216)
Net change in cash	17	93	17	139	2
Effects of exchange rate	(2)	(5)	(1)	-	-
Ending cash	156	244	196	338	343

Source: Company, Phillip Securities Research (Singapore) estimates

Balance Sheet

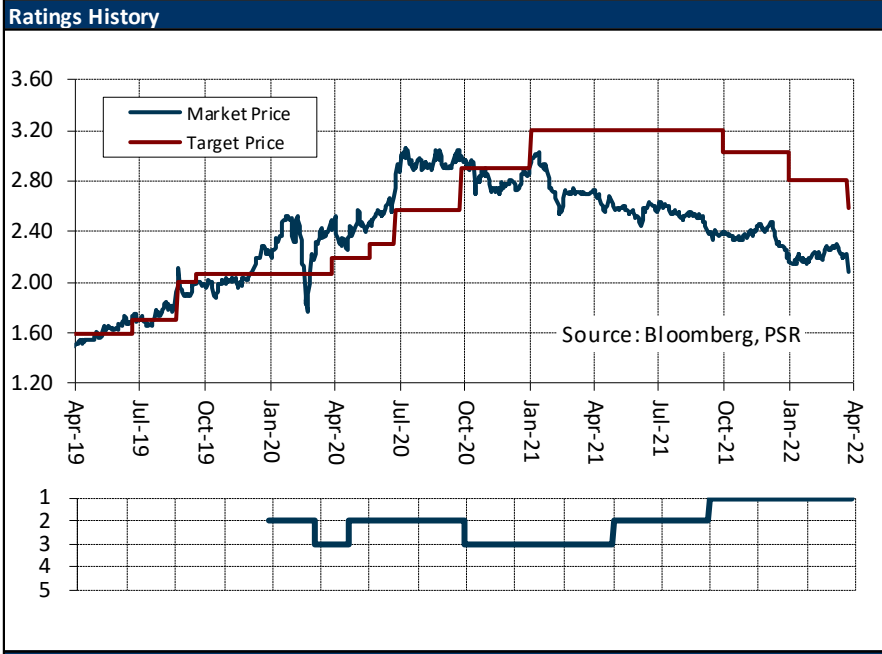
Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Investment properties	2,637	3,005	3,401	3,536	3,565
Inv. Propty. Under Devmnt.	-	25	-	-	-
Others	11	19	117	114	110
Total non-current assets	2,648	3,048	3,518	3,650	3,675
Cash	156	244	196	338	343
Trade receivables	96	54	50	64	66
Others	28	3	16	16	16
Total current assets	280	302	262	418	424
Total Assets	2,928	3,350	3,780	4,067	4,099
LIABILITIES					
Borrowings	40	144	163	178	68
Trade payables	60	80	50	94	96
Others	8	9	7	7	7
Total current liabilities	108	234	221	279	171
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	1,693	1,686
Net assets	1,903	2,073	2,336	2,374	2,413
Represented by:					
Unitholders' funds	1,868	1,945	2,293	2,326	2,360
Non-controlling interest	35	38	42	48	54

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	1.79	1.72	1.54	1.51	1.49
Distribution Yield	3.6%	4.4%	4.7%	4.7%	4.8%
NPI yield	9.2%	8.7%	7.7%	7.9%	7.9%

Growth & Margins (%)

Growth					
Revenue	80.9%	36.3%	2.1%	11.4%	2.8%
Net property income (NPI)	94.2%	37.7%	1.6%	10.3%	2.8%
Distributable income	87.5%	38.6%	9.4%	3.9%	2.5%
DPU	11.3%	20.5%	7.4%	0.4%	2.5%
Investment Property	115.1%	14.0%	13.2%	4.0%	0.8%
Margins					
NPI margin	91.0%	91.9%	91.5%	90.6%	90.6%
Key Ratios					
Gearing (%)	31.4%	35.5%	34.4%	37.1%	36.8%



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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