

COMPANY RESULTS

Keppel REIT (KREIT SP)

1Q22: Portfolio Occupancy Boosted By Pick-up In Leasing Activities

Property income and NPI grew 6.7% and 9.9% yoy respectively in 1Q22 due to the acquisition of Keppel Bay Tower, which was completed on 18 May 21. KREIT has signed letters of intent with a few prospective tenants and is in the midst of finalising lease documentation. If successfully signed, these new leases would improve portfolio occupancy by 1.9ppt to 97%. KREIT provides 2022 distribution yield of 5.0% (CICT: 5.0%, Suntec: 5.1%). Maintain BUY with target price of S\$1.50.

1Q22 RESULTS

Year to 31 Dec (\$m)	2H21	yoy % chg	Remarks
Property Income	54.5	+6.7	Growth from newly acquired Keppel Bay Tower in Singapore.
Net Property Income (Attributable)	40.0	+9.9	
Associates and JVs	28.8	-11.7	Transitory vacancy at ORQ and MBFC.
Distributable Income	53.8	+4.3	

Source: KREIT, UOB Kay Hian

RESULTS

- Keppel REIT (KREIT) reported distributable income of S\$53.8m (+4.3% yoy) for 1Q22, which is in line with our expectations.
- Growth from Singapore.** NPI attributable to unitholders increased 9.9% yoy in 1Q22 due to contributions from Keppel Bay Tower in Singapore (acquisition completed on 18 May 21), which was partially offset by the divestment of 275 George Street in Brisbane (divestment completed on 30 Jul 21). Contributions from associates and JVs decreased 11.7% yoy due to transitional vacancy at One Raffles Quay (ORQ) and Marina Bay Financial Centre (MBFC).
- Achieved strong positive rental reversion.** Leases committed amounted to 222,500sf (attributable) and KREIT achieved positive rental reversion of 7.9% in 1Q22. Average signing rents for Singapore office leases was S\$11.15psf in 1Q22 (2021: S\$10.56psf). New leasing demand and expansion were mainly from banking, insurance & financial services (30%), government agency (15.2%) and technology, media & telecommunications (12.9%). Retention rate was healthy at 91%. Management guided positive rental reversion at mid-to-high single digit for 2022 as average expiring rents for Singapore office is low at S\$10.10.
- Portfolio committed occupancy eased marginally by 0.3ppt qoq to 95.1%**, primarily due to ORQ where occupancy dropped 2.7ppt qoq to 95.8%. KREIT has backfilled one quarter of the space vacated by DBS at MBFC Tower 3 with positive rental reversion at double digits. It is talking to another tenant for about half of the space vacated by DBS. KREIT has signed letters of intent with a few prospective tenants during February and March, and is in the midst of finalising lease documentation. If successfully signed, these new leases would improve portfolio occupancy by 1.9ppt to 97%.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	170	217	235	244	249
EBITDA	115	154	173	182	187
Operating profit	115	154	173	182	187
Net profit (rep./act.)	20	276	219	212	227
Net profit (adj.)	180	193	219	212	227
EPU (S\$ cent)	5.3	5.3	5.9	5.6	5.9
DPU (S\$ cent)	5.7	5.8	5.9	5.6	6.2
PE (x)	22.4	22.7	20.2	21.2	20.0
P/B (x)	0.9	0.9	0.9	0.9	1.0
DPU Yld (%)	4.8	4.9	5.0	4.7	5.2
Net margin (%)	11.5	127.3	93.4	86.8	90.9
Net debt/(cash) to equity (%)	46.2	49.1	52.8	55.4	56.9
Interest cover (x)	3.5	4.3	11.1	5.2	5.2
ROE (%)	0.4	5.5	4.3	4.2	4.5
Consensus DPU (S\$ cent)	n.a.	n.a.	6.0	6.1	6.2
UOBKH/Consensus (x)	-	-	0.99	0.92	1.00

Source: Keppel REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.19
Target Price	S\$1.50
Upside	+26.1%
(Previous TP)	S\$1.52

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):	3,713.2
Market cap (S\$m):	4,418.7
Market cap (US\$m):	3,240.2
3-mth avg daily t'over (US\$m):	8.2

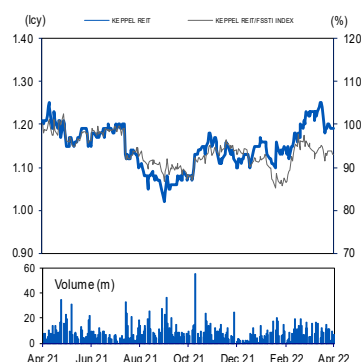
Price Performance (%)

52-week high/low	S\$1.25/S\$1.02			
1mth	3mth	6mth	1yr	YTD
(3.3)	1.7	11.2	(1.7)	5.3

Major Shareholders

	%
Keppel REIT Investment	39.8
-	-
-	-
FY22 NAV/Share (S\$)	1.29
FY22 Net Debt/Share (S\$)	0.72

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jonathan Koh, CFA
 +65 6590 6620
 jonathankoh@uobkayhian.com

- Weighted average lease expiry (WALE) is long at 6.1 years (top 10 tenants: 10.7 years).
- **Resilient balance sheet.** Aggregate leverage edged higher by 0.3ppt qoq to 38.7% in 1Q22. All-in interest rate improved 17bp qoq to 1.81%. 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 accounted for 48% of total borrowings. It redeemed S\$146.5m of 1.9% convertible bonds due in 2024, funded by loan facilities that mature in 2026 and 2027. KREIT's average term to maturity is 3.1 years.
- KREIT has increased the proportion of borrowings hedged into fixed interest rates from 63% to 71%. Management estimated that every 50bp increase in interest rates will reduce DPU per year by 2.4% or 0.14 S cents. Assuming that the Fed Funds Rate averages 2.5% in 2023, we estimate that average cost of debt will increase to 2.55%.

STOCK IMPACT

- **Leasing momentum turning more positive.** Leasing activities have picked up in 1Q22. Working from home is no longer the default and 50% of employees were allowed back to their offices starting Jan 22. Physical occupancies at KREIT's office properties should further improve as 75% of employees have been allowed back to their offices starting Apr 22.
- **Singapore a thriving hub for technology and financial services.** According to CBRE, office rents for Grade A core CBD increased 3.8% to S\$10.80psf/month in 2021. Net absorption has reversed from negative 0.07m sf in 1H21 to positive 0.59m sf in 2H21. Demand was driven by technology companies and non-bank financial institutions, such as private wealth and asset managers despite companies adopting hybrid working arrangements. The two sectors accounted for 52% of leasing volume. Occupancy for Grade A core CBD inched higher by 1.2ppt to 93.3% in 2H21 due to the flight to quality.
- **Grade A offices within Singapore's core CBD benefitting from lack of supply.** According to CBRE, total supply of office space in Singapore is estimated at 3.76m sf over the next three years (2022-24), which is equivalent to 1.25m sf per year and 13.4% below the 10-year historical average new supply of 1.45m sf. New supply is expected to pick up in 2023 assuming IOI Central Boulevard Towers is completed on schedule in 4Q23. CBRE expects office rents for Grade A core CBD to increase by 6.9% to S\$11.55psf/month.
- **Long WALE provides income stability down under.** Sydney and Melbourne have emerged from lockdowns and lifted COVID-19 restrictions in Oct 21. Australia has fully reopened its international borders in Feb 22. Leasing enquiries have picked up but rents are under pressure due to high vacancy rates of 11.6% for Sydney and 15.3% for Melbourne CBD. Management believes vacancy rate and tenant incentives have peaked. The Australia portfolio (18.2% of AUM) provides stable income due to the long WALE of 13.3 years.
- **Rewarding unitholders with distribution of capital gains.** Management will consider distributing divestment gains of S\$500m accumulated in the past to unitholders.
- **Minimal impact from rising cost of electricity.** KREIT has four supply contracts for electricity on fixed rates for its four office buildings in Singapore. One supply contract is expiring at end-22 and the remaining three at end-23 and end-24. The impact of higher cost of electricity is muted in 2022 and is more significant in 2024. Its leases for Australia and South Korea are triple net with cost of electricity borne by tenants.

EARNINGS REVISION

- We trim our 2023 DPU forecast by 3% after factoring in higher average cost of debt.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$1.50 is based on DDM (cost of equity: 5.5%, terminal growth: 1.5%).

SHARE PRICE CATALYST

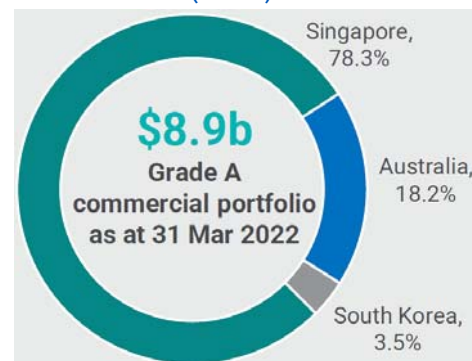
- Keppel Bay Tower will provide full-year contribution in 2022.
- Practical completion of Blue & William in mid-23.

KEY OPERATING METRICS - KREIT

	1Q21	2Q21	3Q21	4Q21	1Q22	yoy	qoq
DPU	n.a.	2.94	n.a.	2.88	n.a.	n.a.	n.a.
Occupancy	96.5%	96.7%	97.1%	95.4%	95.1%	-1.4ppt	-0.3ppt
Gearing	35.2%	38.9%	37.6%	38.4%	38.7%	3.5ppt	0.3ppt
Average Cost of Debt	2.01%	1.97%	1.99%	1.98%	1.81%	-0.2ppt	-0.17ppt
% of Borrowings on Fixed Rates	85.0%	68.0%	71.0%	63.0%	71.0%	-14ppt	8ppt
WALE by NLA (years)	6.7	6.2	6.1	6.1	6.1	-0.6yrs	0yrs
Weighted Average Debt Maturity (years)	3.0	3.1	3.3	3.1	3.1	0.1yrs	0yrs
Rental Reversions	10.9%	4.1%	1.0%	3.0%	7.9%	-3.0%	4.9%
Tenant Retention Rate	44.0%	60.0%	73.0%	62.0%	91.0%	47ppt	29ppt

Source: KREIT

AUM BY COUNTRY (MAR 22)



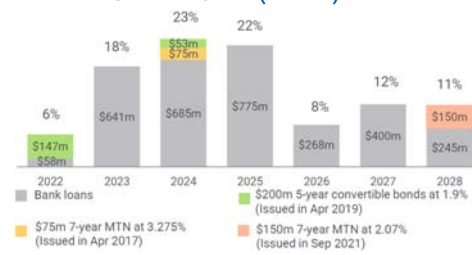
Source: KREIT

1Q22 LEASING UPDATE



Source: KREIT

DEBT MATURITY PROFILE (MAR 22)



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	244.3	249.4
EBITDA	154.4	173.4	182.2	186.8
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	154.4	173.4	182.2	186.8
Total other non-operating income	2.7	0.0	0.0	0.0
Associate contributions	118.6	97.0	99.8	102.3
Net interest income/(expense)	(35.9)	(15.6)	(34.7)	(36.2)
Pre-tax profit	322.9	254.8	247.3	252.9
Tax	(23.0)	(11.9)	(11.4)	(12.3)
Minorities	(14.7)	(14.4)	(14.4)	(4.4)
Preferred dividends	(9.4)	(9.5)	(9.5)	(9.5)
Net profit	275.8	219.1	212.0	226.8
Net profit (adj.)	192.7	219.1	212.0	226.8

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	162.8
Other current assets	49.1	52.8	53.9	54.6
Total assets	8,487.7	8,580.9	8,633.1	8,634.7
ST debt	187.9	187.9	187.9	187.9
Other current liabilities	85.4	84.4	86.7	89.3
LT debt	2,538.9	2,680.0	2,780.0	2,830.0
Other LT liabilities	85.5	88.8	89.8	90.4
Shareholders' equity	5,168.2	5,118.0	5,066.9	5,015.3
Minority interest	421.8	421.8	421.8	421.8
Total liabilities & equity	8,487.7	8,580.9	8,633.1	8,634.7

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	392.3	136.9	148.2	171.7
Pre-tax profit	195.7	205.6	196.5	211.4
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	(118.6)	(97.0)	(99.8)	(102.3)
Working capital changes	(4.4)	(3.4)	0.7	0.5
Other operating cashflows	319.7	31.7	50.8	62.1
Investing	(716.4)	(24.9)	33.9	92.3
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	97.0	99.8	102.3
Financing	358.0	(134.5)	(187.0)	(263.1)
Distribution to unitholders	(212.1)	(220.1)	(212.3)	(236.9)
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)	(55.6)	(74.7)	(76.2)
Net cash inflow (outflow)	34.0	(22.5)	(4.9)	0.9
Beginning cash & cash equivalent	155.3	189.3	166.8	161.9
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	189.3	166.8	161.9	162.8

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	71.3	73.9	74.6	74.9
Pre-tax margin	149.1	108.6	101.2	101.4
Net margin	127.3	93.4	86.8	90.9
ROA	3.4	2.6	2.5	2.6
ROE	5.5	4.3	4.2	4.5
Growth				
Turnover	27.2	8.3	4.1	2.1
EBITDA	34.0	12.3	5.1	2.5
Pre-tax profit	714.0	(21.1)	(3.0)	2.3
Net profit	1,304.4	(20.6)	(3.2)	7.0
Net profit (adj.)	6.9	13.7	(3.2)	7.0
EPU	(1.2)	12.1	(4.4)	5.6
Leverage				
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	11.1	5.2	5.2

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; 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, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2022, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W