

Singapore

ADD (no change)

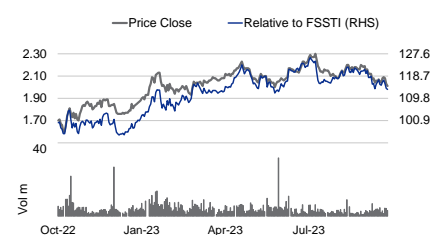
Consensus ratings*: Buy 6 Hold 7 Sell 1

Current price:	S\$2.01
Target price:	S\$2.53
Previous target:	S\$2.53
Up/downside:	25.9%
CGS-CIMB / Consensus:	14.2%
Reuters:	KEPE.SI
Bloomberg:	KDCREIT SP
Market cap:	US\$2,528m
	S\$3,459m
Average daily turnover:	US\$4.84m
	S\$6.54m
Current shares o/s:	1,352m
Free float:	76.5%

*Source: Bloomberg

Key changes in this note

➤ No change.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-8.6	-9.9	18.2
Relative (%)	-5	-7.3	14.1

Major shareholders

	% held
Keppel Corp Ltd	21.3
Cohen & Steers	5.0
Mathews International Capital	4.9

Keppel DC REIT

Healthy positive reversions trend maintained

- 3Q/9M23 DPU of 2.492/7.543 was 3.6% /1.2% lower yoy, but in line at 24.3%/73.7% of our FY23F; topline growth wiped out by higher interest cost.
- KDC maintained occupancy at 98.3% in 3Q23, with single- to double-digit reversion on leases signed in the quarter.
- Reiterate Add on KDC's resilient portfolio and attractive 5.4% FY24F DPU yield, which is at the +1.2 s.d. level.

Topline growth eroded by higher interest expense and forex

3Q23 revenue/NPI grew by 0.5%/0.8% yoy on the back of contributions from acquisitions and positive reversions/escalations; however, this was more than offset by higher finance expense (+S\$4.7m/56.9% yoy), lower contributions from SG colocation assets due to higher electricity costs and less favourable forex hedges.

Operationally resilient – positive reversions and high occupancy

During the quarter, KDC secured positive reversions for new and renewed leases in Singapore, Australia, Ireland and the Netherlands. Rental reversions ranged from single-digits to low double-digits. On top of the higher rents negotiated, management shared that KDC also restructured some power inclusive leases into power pass-through leases, which should help improve NPI margins and improve KDC's electricity cost pass-through ratio. Portfolio occupancy slipped 0.2bp qoq to 98.3% in 3Q23 due to lower occupancies at SGP1 and SGP2 as a result of smaller tenants moving their operations to the cloud, according to management. Management is currently evaluating several leases for the vacant space and is optimistic about backfilling the space given the limited data centre availability in Singapore. FY23F lease expiries have been largely de-risked with 27.7% of leases by rental income expiring in FY24F, likely from Singapore and the Netherlands judging from the shorter weighted average lease expiries for assets in these countries.

Gearing to remain below 40% post milestone payment, in our view

3Q gearing slipped qoq from 36.3% to 37.2% while cost of borrowing inched up 20bp to 3.5% (YTD: 3.2%). Interest cover ratio was still healthy at 5.4x. Fit-out completion and milestone payment (c.S\$157m) for Guangdong DC 3, originally estimated for 3Q23, has been delayed to 4Q23/1H24 due to Covid-related supply disruptions. We estimate gearing will remain below 40% in 4Q23F/FY24F, even if the milestone payment was fully debt-financed. Management previously said that it may consider funding this via equity fund raising (EFR) if it can dovetail the EFR with a new acquisition. Near-term acquisitions are likely to be third-party assets in Japan and Korea, in our view, given sponsor's SGP7 (Genting Lane) will only be ready for acquisition after stabilisation, likely in the next 6-18 months.

FY24F DPU yield of 5.4% attractive at +1.2 s.d. level

No changes to our FY23-25F DPU estimates and DDM-based TP of S\$2.53. Reiterate Add on KDC's resilient portfolio and attractive valuation. Potential re-rating catalysts are higher-than-forecast reversions and a faster pace of acquisitions. Downside risks are slower utilisation of racks, which could affect KDC's topline, and higher-than-expected interest costs, which could erode profitability.

Analyst(s)



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Financial Summary

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue (S\$m)	271.1	277.3	301.9	321.6	327.8
Net Property Income (S\$m)	248.2	252.5	277.0	295.2	300.9
Net Profit (S\$m)	314.7	239.9	174.6	189.2	195.5
Distributable Profit (S\$m)	171.6	184.9	177.7	191.3	197.5
Core EPS (S\$)	0.18	0.14	0.10	0.11	0.11
Core EPS Growth	78.1%	(23.8%)	(28.0%)	7.3%	3.3%
FD Core P/E (x)	10.70	14.39	19.99	18.63	18.04
DPS (S\$)	0.10	0.11	0.10	0.11	0.11
Dividend Yield	4.98%	5.36%	5.09%	5.43%	5.60%
Asset Leverage	34.4%	35.9%	36.5%	36.5%	36.5%
BVPS (S\$)	1.34	1.40	1.41	1.41	1.41
P/BV (x)	1.50	1.43	1.42	1.42	1.42
Recurring ROE	14.8%	10.2%	7.1%	7.6%	7.9%
DPS/Consensus DPS (x)			1.03	1.07	1.02

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: Results comparison

FYE Dec (S\$ m)	3Q FY23	3Q FY22	yoy chg	2Q FY23	qoq chg	9M FY23	9M FY22	yoy chg	Prev. FY23F	Comments
Gross revenue	70.7	70.3	0.5%	70.3	0.5%	211.1	205.9	2.6%	301.9	Below. 9M23 revenue formed 69.9% of our FY23F.
Property operating exp	(6.1)	(6.2)	-2.3%	(6.9)	-11.2%	(19.2)	(18.5)	3.6%	(24.9)	
Net Property Income	64.6	64.1	0.8%	63.5	1.8%	191.9	187.3	2.5%	277.0	Below. 9M23 revenue formed 69.3% of our FY23F.
NPI margin (%)	91.4	91.1		90.2		90.9	91.0	0.0%	91.8	
Finance costs	(12.8)	(8.2)	56.9%	-	na	(35.6)	(21.3)	67.1%	(47.7)	
Finance income	2.7	2.4	0.0%	2.7	-	8.3	6.5	0.0%	9.1	
Distributable income	43.9	46.9	-6.5%	45.0	-2.4%	135.2	138.1	-2.1%	177.7	
DPU (Scts)	2.5	2.6	-3.6%	2.5	-0.7%	7.5	7.6	-1.2%	10.2	In line. 9M23 DPU formed 73.7% of our FY23F.



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 2: SREITs' peer comparison table

SREIT	Bloomberg Ticker	Price (LC) as at 17 Oct 23	Target Price (LC) (DDM- based)	Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	Dividend Yield (%)			
								FY23F	FY24F	FY25F	
Hospitality											
CapitalLand Ascott Trust	CLAS SP	Add	0.90	1.32	\$2,472	38.6%	1.16	0.78	6.8%	7.7%	8.0%
CDL Hospitality Trust	CDREIT SP	Add	1.01	1.55	\$918	37.9%	1.31	0.77	6.5%	7.7%	8.0%
Far East Hospitality Trust	FEHT SP	Add	0.60	0.77	\$870	32.0%	0.85	0.70	6.4%	7.2%	7.3%
Frasers Hospitality Trust	FHT SP	NR	0.47	NA	\$680	39.3%	0.65	0.72	5.1%	5.1%	5.4%
Simple Average						37.0%	0.74	0.72	6.2%	6.9%	7.2%
Industrial											
AIMS AMP	AAREIT SP	NR	1.27	NA	\$722	36.4%	1.38	0.92	7.0%	6.9%	7.0%
CapitalLand Ascendas REIT	CLAR SP	Add	2.68	3.06	\$8,598	38.2%	2.30	1.17	6.0%	6.1%	6.3%
ESR-LOGOS REIT	EREIT SP	Add	0.27	0.39	\$1,516	41.8%	0.35	0.78	9.8%	9.5%	9.5%
Frasers Logistics & Commercial Trus	FLT SP	Add	1.07	1.52	\$2,915	27.8%	1.30	0.82	6.7%	6.8%	7.0%
Keppel DC REIT	KDCREIT SP	Add	2.01	2.53	\$2,528	37.2%	1.37	1.47	5.1%	5.4%	5.6%
Mapletree Industrial Trust	MINT SP	Add	2.22	2.61	\$4,595	37.4%	1.85	1.20	6.1%	6.2%	6.4%
Mapletree Logistics Trust	MLT SP	Add	1.58	1.88	\$5,727	36.8%	1.44	1.10	5.7%	5.4%	5.5%
Sabana Shariah	SSREIT SP	NR	0.39	NA	\$346	32.4%	0.53	0.73	7.3%	6.9%	7.1%
Simple Average						36.0%	1.15	0.73	6.7%	6.7%	6.8%
Office											
Keppel REIT	KREIT SP	Add	0.84	1.14	\$2,314	39.2%	1.37	0.61	7.1%	7.2%	7.5%
OUE Commercial REIT	OUECT SP	Hold	0.23	0.36	\$921	39.0%	0.59	0.39	9.2%	9.4%	9.6%
Suntec REIT	SUN SP	Hold	1.14	1.48	\$2,410	42.8%	2.09	0.55	6.2%	6.3%	6.5%
Simple Average						40.3%	0.52	0.52	7.5%	7.6%	7.9%
Retail											
CapitalLand Integrated Commercial	CICT SP	Add	1.80	2.35	\$8,752	40.4%	2.06	0.87	6.0%	6.4%	6.7%
Frasers Centrepoint Trust	FCT SP	Add	2.11	2.62	\$2,634	40.2%	2.31	0.91	5.8%	5.8%	5.9%
Lendlease Global Commercial REIT	LREIT SP	Add	0.52	0.82	\$876	40.6%	0.78	0.66	9.0%	8.3%	8.8%
Mapletree Pan Asia Commercial Trus	MPACT SP	Hold	1.38	1.76	\$5,290	40.7%	1.81	0.76	7.0%	6.3%	6.6%
Paragon REIT	PGNREIT SP	Hold	0.82	1.01	\$1,688	29.8%	0.91	0.90	6.2%	6.5%	6.7%
Starhill Global REIT	SGREIT SP	Add	0.49	0.62	\$799	36.7%	0.80	0.61	2.6%	8.1%	8.4%
Simple Average						38.1%	0.79	0.79	6.1%	6.9%	7.2%
Overseas-centric											
CapitalLand China Trust	CLCT SP	NR	1.17	NA	\$1,455	34.7%	1.55	0.75	6.4%	7.1%	7.6%
Elite Commercial REIT	ELITE SP	Add	0.24	0.49	\$141	45.8%	0.52	0.46	15.1%	17.0%	17.1%
Manulife US REIT	MUST SP	Add	0.05	0.25	\$91	48.8%	0.57	0.09	76.2%	75.6%	74.4%
Sasseur REIT	SASSR SP	Add	0.65	0.95	\$584	27.6%	0.87	0.74	9.6%	9.8%	10.3%
Simple Average						39.9%	0.51	0.51	26.8%	27.4%	27.3%
Healthcare											
Parkway Life REIT	PREIT SP	Add	3.61	4.50	\$1,596	37.5%	2.29	1.58	4.1%	4.1%	4.3%
Simple Average						36.2%	1.58	1.58	4.1%	4.1%	4.3%
Simple average for SIN						37.8%	0.81	0.81	9.6%	9.9%	10.1%

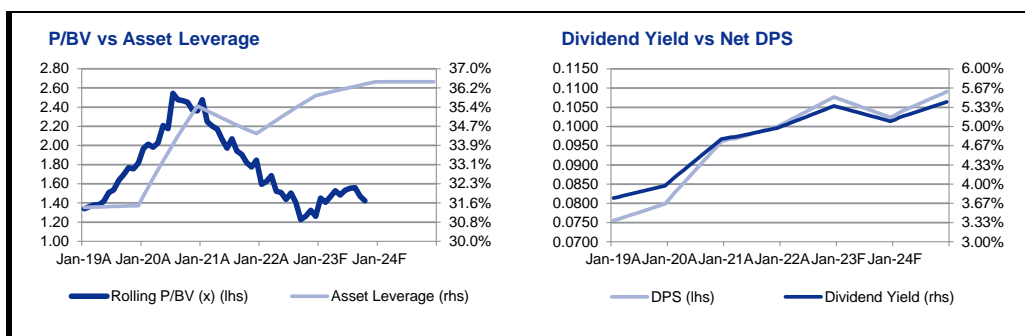
SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS

Note: Forecasts for Not rated companies are based on Bloomberg consensus estimates

Refinitiv ESG Scores	
	
	
<h2>ESG in a nutshell</h2> <p>Refinitiv gave KDC REIT a B- for its combined ESG score in 2022, with a C+ in the Environmental and Social categories and B for its Governance pillar. It also achieved A+ for Controversies. In 2022, KDC was rated 'AA' in the MSCI ESG Ratings assessment, an improvement from an 'A' rating in 2021. Four out of KDC's five colocation assets in Singapore achieved the Building and Construction Authority (BCA) Green Mark Gold (1) and Platinum (3) ratings. All of KDC's colocation facilities in Singapore have attained certifications for their energy and water management systems.</p>	
<h3>Keep your eye on</h3> <p>Data centres collectively account for around 2% of global greenhouse gas (GHG) emissions, a level matched by the aviation industry. In Singapore, data centres took up 7% of the nation's total energy consumption in 2020, leading to a moratorium on new data centres since 2019. Singapore lifted the moratorium on data centres in 2022 and could progressively enforce measures to raise the efficiency of existing data centres over time. This means that KDC may have to comply with additional requirements if it has not done so. Keep an eye on the energy efficiency of KDC REIT's data centres.</p>	<h3>Implications</h3> <p>The REIT's slower-than-expected implementation of responsible environmental practices could be a drag on its stock. On this front, it has set targets internally to improve resource efficiency and reduce its impact on the environment. Its sponsor, Keppel Telecommunications & Transportation, also continues to explore ways to reduce the carbon footprint of data centres. These include studies to develop a near-shore Floating Data Centre Park in Singapore, as well as various projects to explore the use of liquefied natural gas and hydrogen to power and cool data centres. Our current valuations have not ascribed any premium/discount to its ESG matters.</p>
<h3>ESG highlights</h3> <p>Based on Refinitiv's score, KDC REIT is ranked 11th among the 26 REITs in Singapore. It is ranked 39th among 99 companies in Singapore.</p> <p>KDC is committed to reducing its combined Scope 1 and 2 emissions by 50% from the 2019 baseline by 2030. In 2022, KDC's combined scope 1 and 2 emissions were 2.3% lower than 2021 levels. KDC also aims to introduce renewable energy to at least 50% of the colocation assets by 2030. As of 2022, 16% of total electricity consumed at its colocation assets were sourced from renewable sources, such as wind energy used at its Dublin assets.</p>	<h3>Implications</h3> <p>KDC REIT has demonstrated its commitment to ESG by preparing its sustainability report in accordance with global reporting initiative standards, attaining ESG certifications such as the Morgan Stanley Capital International (MSCI) ESG ratings and participating in various associations – REIT Association of Singapore (REITAS), Large Industry Energy Network (LIEN) and Principles for Responsible Investment (PRI). It has also set internal targets for ESG.</p>
<h3>Trends</h3> <p>KDC REIT maintained its ESG combined score of B- in 2022 despite its Environmental score slipping from B- to C+. The company maintained its C+ rating for the Social pillar while its Governance score weakened slightly from B+ to B. Its Governance rating was impacted by lower shareholders score and CSR Strategy score.</p>	<h3>Implications</h3> <p>More efforts to improve its ESG will have a positive impact on its operations, financials and reputation in the longer term, in our view.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS



Profit & Loss

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Rental Revenues	265.8	273.5	301.9	321.6	327.8
Other Revenues	5.3	3.8	0.0	0.0	0.0
Gross Property Revenue	271.1	277.3	301.9	321.6	327.8
Total Property Expenses	(22.9)	(24.8)	(24.9)	(26.4)	(26.8)
Net Property Income	248.2	252.5	277.0	295.2	300.9
General And Admin. Expenses					
Management Fees	(23.8)	(26.3)	(28.7)	(29.4)	(29.6)
Trustee's Fees	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
Other Operating Expenses	148.5	76.9	(12.5)	(13.3)	(13.5)
EBITDA	372.4	302.6	235.3	252.0	257.2
Depreciation And Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	372.4	302.6	235.3	252.0	257.2
Net Interest Income	(20.7)	(21.8)	(38.5)	(38.2)	(36.8)
Associates' Profit					
Other Income/(Expenses)	0.0	(6.6)	0.0	0.0	0.0
Exceptional Items					
Pre-tax Profit	351.7	274.2	196.7	213.8	220.4
Taxation	(29.2)	(31.0)	(17.9)	(20.3)	(20.9)
Minority Interests	(7.9)	(3.3)	(4.2)	(4.2)	(4.0)
Preferred Dividends					
Net Profit	314.7	239.9	174.6	189.2	195.5
Distributable Profit	171.6	184.9	177.7	191.3	197.5

Cash Flow

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Pre-tax Profit	351.7	274.2	196.7	213.8	220.4
Depreciation And Non-cash Adj.	20.7	21.8	38.5	38.2	36.8
Change In Working Capital	(21.9)	(4.4)	(42.6)	(2.7)	(0.8)
Tax Paid	(7.7)	(9.8)	(17.9)	(20.3)	(20.9)
Others	(144.4)	(50.4)	0.6	0.6	0.6
Cashflow From Operations	198.4	231.4	175.3	229.5	236.0
Capex	(77.6)	(39.4)	(5.0)	(5.0)	(5.0)
Net Investments And Sale Of FA	(204.3)	(270.3)	(157.0)	0.0	0.0
Other Investing Cashflow	0.0	1.0	0.0	0.0	0.0
Cash Flow From Investing	(281.9)	(308.7)	(162.0)	(5.0)	(5.0)
Debt Raised/(repaid)	139.5	265.9	91.4	5.0	5.0
Equity Raised/(Repaid)	204.3	0.0	70.7	0.0	0.0
Dividends Paid	(182.0)	(146.9)	(177.7)	(191.3)	(197.5)
Cash Interest And Others	(26.3)	(26.1)	(29.4)	(29.9)	(28.8)
Cash Flow From Financing	135.5	92.9	(45.2)	(216.2)	(221.4)
Total Cash Generated	52.0	15.6	(31.9)	8.3	9.7
Free Cashflow To Firm	(82.9)	(68.1)	22.4	232.8	239.0
Free Cashflow To Equity	36.7	169.7	75.2	199.6	207.2

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS... cont'd

Balance Sheet

(S\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Total Investments	3,401	3,639	3,802	3,807	3,812
Intangible Assets	25	31	31	31	31
Other Long-term Assets	92	174	174	174	174
Total Non-current Assets	3,518	3,845	4,007	4,012	4,017
Total Cash And Equivalents	196	190	149	149	151
Inventories					
Trade Debtors	50	61	128	137	140
Other Current Assets	16	11	11	11	11
Total Current Assets	262	263	288	297	302
Trade Creditors	50	63	87	93	95
Short-term Debt	163	175	218	439	770
Other Current Liabilities	7	7	7	7	7
Total Current Liabilities	221	245	312	539	872
Long-term Borrowings	1,136	1,300	1,348	1,132	807
Other Long-term Liabilities	88	106	106	106	106
Total Non-current Liabilities	1,224	1,406	1,455	1,238	913
Shareholders' Equity	2,293	2,414	2,482	2,481	2,479
Minority Interests	42	43	47	51	55
Preferred Shareholders Funds					
Total Equity	2,336	2,457	2,529	2,532	2,535

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue Growth	2.07%	2.31%	8.87%	6.51%	1.92%
NPI Growth	1.63%	1.77%	9.69%	6.55%	1.95%
Net Property Income Margin	91.5%	91.1%	91.8%	91.8%	91.8%
DPS Growth	4.11%	7.63%	(4.93%)	6.54%	3.23%
Gross Interest Cover	17.55	9.74	4.94	5.42	5.75
Effective Tax Rate	8.3%	11.3%	9.1%	9.5%	9.5%
Net Dividend Payout Ratio	55%	77%	102%	101%	101%
Current Ratio	1.19	1.07	0.93	0.55	0.35
Quick Ratio	1.19	1.07	0.93	0.55	0.35
Cash Ratio	0.89	0.78	0.48	0.28	0.17
Return On Average Assets	8.83%	6.08%	4.16%	4.40%	4.53%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Occupancy rate (%)	97.2%	97.2%	97.2%	97.2%	97.2%
Rental rate (S\$ psf)	10.8	11.5	12.5	13.3	13.5

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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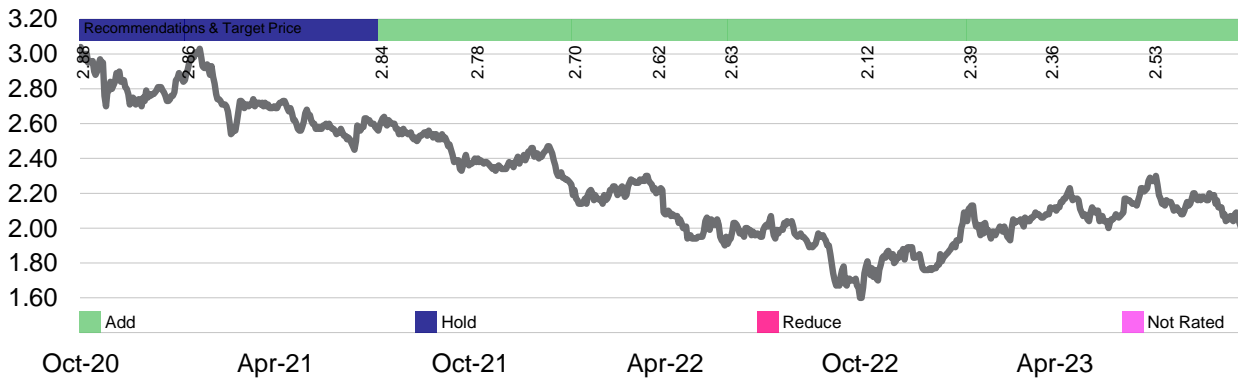
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634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold	23.7%	0.0%
Reduce	9.6%	0.2%

Spitzer Chart for stock being researched (2 year data)

Keppel DC REIT (KDCREIT SP)

— Price Close



Recommendation Framework

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
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