

Singapore

ADD (no change)

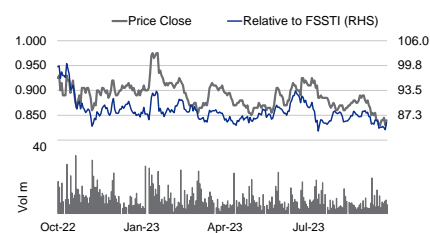
Consensus ratings*: Buy 11 Hold 4 Sell 2

Current price:	S\$0.84
Target price:	S\$1.14
Previous target:	S\$1.14
Up/downside:	35.6%
CGS-CIMB / Consensus:	14.4%
Reuters:	KASA.SI
Bloomberg:	KREIT SP
Market cap:	US\$2,314m
	S\$3,167m
Average daily turnover:	US\$4.43m
	S\$5.99m
Current shares o/s:	3,757m
Free float:	53.8%

*Source: Bloomberg

Key changes in this note

➤ No changes.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-5.6	-9.2	-8.7
Relative (%)	-2	-6.6	-12.8

Major shareholders	% held
Keppel Land	46.2

Keppel REIT

Robust operational performance

- 9M23 distribution to unitholders of S\$163.6m was broadly within expectations, at 73% of our FY23F forecast.
- 3Q23 portfolio occupancy improved qoq amid positive rental reversions of +8.6% for 9M23.
- Reiterate Add rating, with an unchanged DDM-based TP of S\$1.14.

9M23 update highlights

In its 9M23 business update, Keppel REIT (KREIT) reported a 5% rise in 9M23 revenue to S\$172.6m, but NPI grew by a smaller 1% yoy to S\$134m due to higher property expenses including utilities cost and property taxes. However, distribution to unitholders was down 1.1% yoy to S\$163.6m due to lower associate contributions and higher interest expense, partly offset by its anniversary distribution of S\$15m.

Higher take-ups in Australia and Japan boost occupancy

Portfolio occupancy increased 100bp qoq in 3Q23 to 95.9% (97.9% excluding the newly-completed Blue & William in Australia), with take-up at 8 Chifley Square and KR Ginza II rising 9.7% and 38.2% pts, respectively, to 97.1% and 74.5%, while occupancy at Blue & William increased 4.8% pts to 42.5%. KREIT renewed/leased c.1.1m sq ft of space in 9M23 (3Q: 249k sq ft), with demand coming from banking, insurance and financial services, as well as telco, media and telecom sectors and government agencies. It achieved robust portfolio rental reversion of +8.6% in 9M23, with Singapore performing stronger at +10.6% over the same period. KREIT has an estimated 2.5% of leases up for renewal/review in 4Q23F and a further 13.3% in FY24F. Management guided that it expects to achieve positive low- to mid-single-digit rental reversions for FY24F, given the low average expiring rents of its Singapore leases of S\$11.05 psf in FY24F.

Average funding cost could trend up to mid-3% in FY24F

KREIT's aggregate leverage stood at 39.5% as at 9M23, while adjusted interest coverage ratio stood at 2.9x. Management guided that all-in interest cost could rise to mid-3% in FY24F (from the average of 2.85% for 9M23). While management continues to focus on growing DPU and closing the wide gap between its share price and NAV, it said that it would also evaluate share buybacks, acquisitions and divestment opportunities, while committing to continue with its anniversary distribution (until FY27F).

Reiterate Add rating

We keep our FY23-25F DPU estimates unchanged and retain our Add rating and DDM-based TP of S\$1.14. At a c.7.1% FY23F dividend yield, we believe much of the downside risk has been factored into its current share price. Potential catalysts include the redeployment of divestment proceeds to new accretive acquisitions and recovery to pre-Covid demand for office space. Downside risks include longer-than-expected frictional vacancy from tenant movements due to a slower-than-expected backfilling of office space, and reduced appetite for its office space due to a hybrid work environment.

Analyst(s)



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Financial Summary


	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue (S\$m)	216.6	219.3	225.6	237.4	253.0
Net Property Income (S\$m)	172.5	175.9	179.3	189.1	202.0
Net Profit (S\$m)	241.2	414.8	153.4	170.4	187.9
Distributable Profit (S\$m)	212.1	220.9	224.7	230.9	243.6
Core EPS (S\$)	0.045	0.042	0.041	0.045	0.049
Core EPS Growth	3895%	(8%)	(2%)	10%	9%
FD Core P/E (x)	18.25	20.21	20.61	18.78	17.26
DPS (S\$)	0.058	0.059	0.059	0.060	0.063
Dividend Yield	6.93%	7.05%	7.07%	7.17%	7.46%
Asset Leverage	32.1%	32.1%	33.0%	33.1%	33.2%
BVPS (S\$)	1.32	1.37	1.35	1.32	1.30
P/BV (x)	0.64	0.61	0.62	0.63	0.65
Recurring ROE	3.49%	3.10%	3.00%	3.35%	3.71%
DPS/Consensus DPS (x)			1.01	1.04	1.06

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 1: SREIT peer comparison

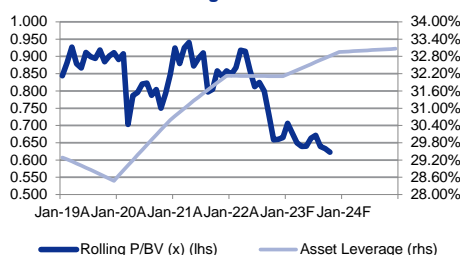
SREIT	Bloomberg Ticker	Rec.	Price (LC)	Target	Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	Dividend Yield (%)			
			as at 17 Oct 23	Price (LC) (DDM-based)					FY23F	FY24F	FY25F	
Hospitality												
CapitaLand Ascott Trust	CLAS SP	Add	0.90	1.32	\$2,468	38.6%	1.16	0.78	6.8%	7.7%	8.0%	
CDL Hospitality Trust	CDREIT SP	Add	1.01	1.55	\$917	37.9%	1.31	0.77	6.5%	7.7%	8.0%	
Far East Hospitality Trust	FEHT SP	Add	0.60	0.77	\$868	32.0%	0.85	0.70	6.4%	7.2%	7.3%	
Frasers Hospitality Trust	FHT SP	NR	0.48	NA	\$675	39.3%	0.65	0.73	4.7%	5.0%	5.2%	
Simple Average						37.0%		0.74	6.1%	6.9%	7.1%	
Industrial												
AIMS AMP	AAREIT SP	NR	1.30	NA	\$758	36.4%	1.38	0.94	7.8%	7.5%	7.6%	
CapitaLand Ascendas REIT	CLAR SP	Add	2.71	3.06	\$8,678	36.7%	2.31	1.17	5.9%	6.1%	6.2%	
ESR-LOGOS REIT	EREIT SP	Add	0.28	0.39	\$1,541	39.4%	0.34	0.82	9.6%	9.3%	9.3%	
Frasers Logistics & Commercial Trust	FLT SP	Add	1.07	1.52	\$2,910	28.6%	1.30	0.82	6.7%	6.8%	7.0%	
Keppel DC REIT	KDCREIT SP	Add	1.90	2.53	\$2,385	26.3%	1.37	1.39	5.4%	5.7%	5.9%	
Mapletree Industrial Trust	MINT SP	Add	2.23	2.61	\$4,607	38.2%	1.85	1.21	6.1%	6.2%	6.4%	
Mapletree Logistics Trust	MLT SP	Add	1.60	1.88	\$5,788	39.5%	1.42	1.13	5.6%	5.4%	5.4%	
Sabana Shariah	SSREIT SP	NR	0.39	NA	\$309	32.4%	0.53	0.73	7.9%	7.9%	8.2%	
Simple Average						34.7%		1.17	6.9%	6.8%	7.0%	
Office												
Keppel REIT	KREIT SP	Add	0.84	1.14	\$2,310	39.5%	1.31	0.64	7.1%	7.2%	7.5%	
OUE Commercial REIT	OUECT SP	Hold	0.24	0.36	\$939	39.1%	0.59	0.40	9.0%	9.2%	9.4%	
Suntec REIT	SUN SP	Hold	1.15	1.48	\$2,427	42.6%	2.12	0.54	6.2%	6.2%	6.4%	
Simple Average						40.4%		0.53	7.4%	7.5%	7.8%	
Retail												
CapitaLand Integrated Commercial	CICT SP	Add	1.82	2.35	\$8,833	40.4%	2.12	0.86	6.0%	6.3%	6.6%	
Frasers Centrepoint Trust	FCT SP	Add	2.11	2.62	\$2,629	40.2%	2.31	0.91	5.8%	5.8%	5.9%	
Lendlease Global Commercial REIT	LREIT SP	Add	0.51	0.82	\$857	40.6%	0.78	0.65	9.2%	8.5%	9.0%	
Mapletree Pan Asia Commercial Trust	MPACT SP	Hold	1.38	1.76	\$5,280	40.7%	1.81	0.76	7.0%	6.3%	6.6%	
Paragon REIT	PGNREIT SP	Hold	0.82	1.01	\$1,695	29.8%	0.91	0.90	6.1%	6.5%	6.6%	
Starhill Global REIT	SGREIT SP	Add	0.49	0.62	\$806	36.7%	0.80	0.61	2.6%	8.0%	8.3%	
Simple Average						38.1%		0.78	6.1%	6.9%	7.2%	
Overseas-centric												
CapitaLand China Trust	CLCT SP	NR	0.92	NA	\$1,139	34.7%	1.55	0.59	8.6%	9.2%	9.5%	
Elite Commercial REIT	ELITE SP	Add	0.25	0.49	\$144	46.0%	0.51	0.48	14.8%	16.6%	16.7%	
Manulife US REIT	MUST SP	Add	0.05	0.25	\$91	56.7%	0.40	0.13	76.2%	75.6%	74.4%	
Sasseur REIT	SASSR SP	Add	0.65	0.95	\$583	26.2%	0.83	0.78	9.6%	9.8%	10.3%	
Simple Average						41.2%		0.49	27.3%	27.8%	27.7%	
Healthcare												
Parkway Life REIT	PREIT SP	Add	3.65	4.50	\$1,611	35.3%	2.33	1.57	4.0%	4.1%	4.2%	

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS
Note: Estimates for Not Rated (NR) companies are based on Bloomberg consensus

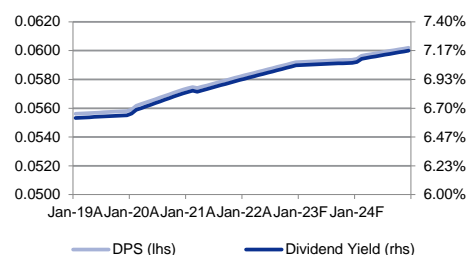
ESG in a nutshell		Refinitiv ESG Scores							
				B- ESG Score	A+ ESG Controversies Score	B- ESG Combined Score	B ESG Environment Pillar Score	B- ESG Social Pillar Score	B- ESG Government Pillar Score
		<p>KREIT scored B- for its overall ESG in 2022, according to Refinitiv, with Environmental pillar achieving B and Social and Governance at B-. It scores well on ESG Controversies with A+. Its approach to sustainability is guided by three strategic pillars – Environmental Stewardship, Responsible Business and People and Community. KREIT established a Board ESG committee in Sep 2022 to strengthen governance surrounding sustainability-related matters and enhancement in its ESG strategy. Some of its ESG targets include halving Scope 1 and 2 emissions by 2030 from 2019 base level, reducing energy and water usage by 10% and 5%, respectively, over the same period. It also plans to increase renewable energy usage to 40% by 2030 vs. 15.3% in 2022. KREIT retained its 4 Star rating, Green Star Status and its 'A' rating for Public Disclosure at the Global Real Estate Sustainability Benchmark (GRESB) 2022. Its Singapore assets maintained a Platinum status under the Building and Construction Authority's (BCA) Green Mark scheme. In Australia, its operational assets have achieved 5 Stars and above in the National Australian Built Environment Rating System (NABERS) Energy rating. An estimated 62% of total borrowings are green loans, as at end-2022.</p>							
Keep your eye on	<p>According to Refinitiv, KREIT rates low on environmental innovation (D+) and community (D+) while its emissions score weakened from A- in 2021 to B+ in 2022.</p>								
ESG highlights	<p>In 2022, Refinitiv ranked KREIT as 35th out of 99 companies in Singapore. Some of the ESG highlights in 2022 include achieving a reduction of 6.3% (vs. 2021) and 16.8% (vs. 2019) in Scope 1 and 2 emissions. It also recorded a 1% reduction in energy usage vs. 2019 and lowered water usage by 28.7% vs. 2019. This was achieved through upgrading chiller system air handling units (AHU) and installing smaller energy efficient chiller water pumps. It also increased the recycling rate of waste generated to 15.3%. In terms of Social and Governance activities, it recorded 30.6 hours of employee training and clocked 1,000 hours of community outreach together with Keppel Capital. It achieved 50% sustainability focused funding in 2022, ahead of the original 2025 target.</p>								
Trends	<p>Within the different ESG pillars, KREIT's ESG score shines in product responsibility (A) and resource use (A-).</p>								
<p>SOURCES: CGS-CIMB RESEARCH, REFINITIV</p>									

BY THE NUMBERS

P/BV vs Asset Leverage



Dividend Yield vs Net DPS



Profit & Loss

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Rental Revenues	216.6	219.3	225.6	237.4	253.0
Other Revenues	0.0	0.0	0.0	0.0	0.0
Gross Property Revenue	216.6	219.3	225.6	237.4	253.0
Total Property Expenses	(44.1)	(43.3)	(46.3)	(48.4)	(51.0)
Net Property Income	172.5	175.9	179.3	189.1	202.0
General And Admin. Expenses	0.0	0.0	0.0	0.0	0.0
Management Fees	(50.7)	(52.7)	(53.8)	(54.1)	(54.5)
Trustee's Fees	(11.5)	(10.8)	(7.3)	(7.3)	(7.3)
Other Operating Expenses	0.0	0.0	0.0	0.0	0.0
EBITDA	110.3	112.5	118.1	127.6	140.1
Depreciation And Amortisation	(1.5)	6.6	(5.4)	(5.4)	0.0
EBIT	108.8	119.1	112.7	122.2	140.1
Net Interest Income	(35.9)	(32.5)	(47.9)	(45.4)	(42.6)
Associates' Profit	118.6	100.7	101.5	107.3	111.0
Other Income/(Expenses)	2.7	1.7	5.4	5.4	0.0
Exceptional Items	84.6	261.5	0.0	0.0	0.0
Pre-tax Profit	278.9	450.4	171.8	189.5	208.5
Taxation	(23.0)	(2.0)	(1.4)	(1.6)	(2.3)
Minority Interests	(14.7)	(33.6)	(17.0)	(17.4)	(18.3)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Net Profit	241.2	414.8	153.4	170.4	187.9
Distributable Profit	212.1	220.9	224.7	230.9	243.6

Cash Flow

(\$m)	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Pre-tax Profit	278.9	450.4	171.8	189.5	208.5
Depreciation And Non-cash Adj.	(81.2)	(74.8)	(48.3)	(56.5)	(68.4)
Change In Working Capital	(19.6)	0.2	4.1	3.3	4.3
Tax Paid	(26.3)	(5.3)	(1.4)	(1.6)	(2.3)
Others	(38.1)	(208.2)	53.8	54.1	54.5
Cashflow From Operations	113.7	162.2	180.1	188.8	196.6
Capex	(5.1)	(71.0)	0.0	0.0	0.0
Net Investments And Sale Of FA	(514.6)	(101.9)	(111.8)	0.0	0.0
Other Investing Cashflow	136.6	126.5	112.6	117.8	116.6
Cash Flow From Investing	(383.1)	(46.4)	0.8	117.8	116.6
Debt Raised/(repaid)	316.3	186.6	111.8	20.0	20.0
Equity Raised/(Repaid)	270.0	0.0	0.0	0.0	0.0
Dividends Paid	(205.6)	(217.0)	(224.7)	(230.9)	(243.6)
Cash Interest And Others	(77.4)	(81.0)	(67.9)	(65.5)	(57.6)
Cash Flow From Financing	303.4	(111.4)	(180.8)	(276.4)	(281.2)
Total Cash Generated	33.9	4.4	0.1	30.1	32.0
Free Cashflow To Firm	(269.5)	115.9	180.9	306.5	313.2
Free Cashflow To Equity	0.0	248.6	219.3	255.5	264.7

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	8,241	8,014	8,126	8,126	8,126
Intangible Assets	0	0	0	0	0
Other Long-term Assets	21	71	71	71	71
Total Non-current Assets	8,262	8,086	8,197	8,197	8,197
Total Cash And Equivalents	189	186	187	217	249
Inventories	0	0	0	0	0
Trade Debtors	33	20	20	20	20
Other Current Assets	4	590	590	590	590
Total Current Assets	226	796	796	826	858
Trade Creditors	60	58	62	65	70
Short-term Debt	188	644	644	644	644
Other Current Liabilities	26	13	13	13	13
Total Current Liabilities	273	714	718	722	726
Long-term Borrowings	2,539	2,208	2,320	2,340	2,360
Other Long-term Liabilities	86	94	94	94	94
Total Non-current Liabilities	2,624	2,302	2,414	2,434	2,454
Shareholders' Equity	4,866	5,119	5,093	5,078	5,063
Minority Interests	422	444	466	488	511
Preferred Shareholders Funds	302	302	302	302	302
Total Equity	5,590	5,865	5,861	5,868	5,876

Key Ratios

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Gross Property Revenue Growth	27.2%	1.2%	2.9%	5.3%	6.6%
NPI Growth	27.3%	2.0%	1.9%	5.5%	6.8%
Net Property Income Margin	79.7%	80.2%	79.5%	79.6%	79.8%
DPS Growth	1.57%	1.72%	0.29%	1.39%	4.08%
Gross Interest Cover	2.11	2.06	1.54	1.72	2.05
Effective Tax Rate	8.25%	0.45%	0.79%	0.86%	1.08%
Net Dividend Payout Ratio	88%	53%	146%	136%	130%
Current Ratio	0.83	1.11	1.11	1.14	1.18
Quick Ratio	0.83	1.11	1.11	1.14	1.18
Cash Ratio	0.69	0.26	0.26	0.30	0.34
Return On Average Assets	2.97%	4.78%	1.72%	1.89%	2.08%

Key Drivers

	Dec-21A	Dec-22A	Dec-23F	Dec-24F	Dec-25F
Rental rate (S\$psf)	9.2	9.5	9.7	10.0	10.4
Net lettable area (NLA) ('000sf)	3,640.2	3,640.2	3,640.2	3,640.2	3,640.2
Occupancy (%)	96.8%	93.4%	95.4%	96.8%	97.9%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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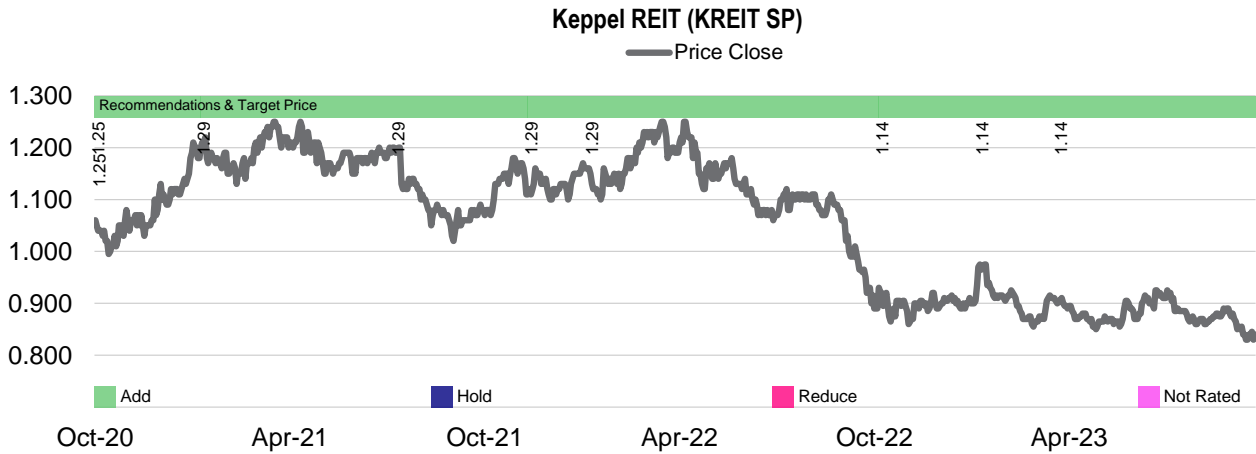
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023		
634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold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

Spitzer Chart for stock being researched (2 year data)



Recommendation Framework

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Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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