

COMPANY UPDATE

Keppel REIT (KREIT SP)

Stability From Singapore And Recovery From Sydney

On a same-store-basis, KREIT improved portfolio occupancy by 1.5ppt yoy to 97.0% in 2Q23 by backfilling vacant space ahead of new supply hitting in 4Q23. P/NAV at 0.62x is almost at the low of 0.61x on 23 Mar 20 during the onset of the COVID-19 pandemic. Thus, potential downside from Keppel Corp shareholders selling KREIT units they received in specie could be limited. KREIT provides 2024 distribution yield of 6.9% (CIC: 6.2%, Suntec: 6.6%). Maintain BUY. Target price: of S\$1.06.

WHAT'S NEW

- Well-positioned in Singapore with vacant spaces backfilled.** Keppel REIT (KREIT) maintained high portfolio occupancy of 94.9% in 2Q23 (improved 0.7ppt qoq and 1.5ppt yoy to 97.0% if we exclude newly-completed Blue & William in Sydney). In Singapore, KREIT has backfilled vacant spaces ahead of new supply from completion of IOI Central Boulevard Towers in 4Q23. Ocean Financial Centre (OFC) (+8.2ppt yoy) and One Raffles Quay (ORQ) were fully occupied at 100% in 2Q23. Committed occupancy improved +0.9ppt yoy to 98.3% for Marina Bay Financial Centre (MBFC) and +2.9ppt yoy to 98.2% for Keppel Bay Tower.
- Maintaining positive rental reversion in 2H23.** KREIT achieved positive rental reversion of 8.1% in 1H23. Average signing rent for Singapore office leases has increased from S\$11.54psf pm in 2022 to S\$12.35psf pm in 1H23. Management guided positive rental reversion at mid- to high-single-digits for its Singapore office portfolio in 2023 despite a high average expiring rent at S\$11.55psf/month for 2H23.
- Sydneysider returning to work in offices.** Several large corporations, including banks, have instructed employees to return and work from their offices. Commuter traffic at train stations within the CBD, such as Circular Quay, Town Hall and Wynyard, already hit 70% of pre-pandemic levels in May 23, the highest since the COVID-19 pandemic started in Feb 20. According to CBRE, rental growth for Sydney was 8.1% yoy in 2Q23, outpacing Melbourne at 1.3% yoy. Vacancy rate for Sydney was more stable at 11.5% (+0.2ppt qoq) compared to 15.0% for Melbourne (+0.9ppt qoq).
- Rising occupancies for Sydney properties.** 8 Chifley Square in Sydney has signed a new government tenant for 100,000sf, which improved occupancy by 5.4ppt to 87.4% in 2Q23. KREIT is also in advanced negotiations with a co-working operator to backfill vacant space at 8 Chifley Square, which has the potential to lift occupancy above 90%.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	217	219	236	243	246
EBITDA	110	112	127	133	135
Operating profit	110	112	127	133	135
Net profit (rep./act.)	232	405	137	138	139
Net profit (adj.)	149	137	137	138	139
EPU (S\$ cent)	4.0	3.7	3.6	3.6	3.6
DPU (S\$ cent)	5.8	5.9	5.8	5.7	5.7
PE (x)	20.5	22.5	23.0	23.1	23.2
P/B (x)	0.6	0.6	0.6	0.6	0.7
DPU Yld (%)	7.0	7.1	7.0	6.9	6.9
Net margin (%)	107.0	184.9	57.9	56.8	56.6
Net debt/(cash) to equity (%)	49.1	49.2	52.8	55.1	57.6
Interest cover (x)	3.1	3.5	2.6	2.0	2.0
ROE (%)	4.6	7.7	2.5	2.6	2.7
Consensus DPU (S\$ cent)	n.a.	n.a.	5.9	5.9	6.0
UOBKH/Consensus (x)	-	-	0.98	0.97	0.95

Source: Keppel REIT, Bloomberg, UOB Kay Hian

BUY  
(Maintained)

Share Price	S\$0.83
Target Price	S\$1.06
Upside	+27.7%
(Previous TP)	S\$1.08

COMPANY DESCRIPTION

Keppel REIT invests in quality income-producing commercial real estate in Asia Pacific. Its portfolio with AUM of S\$9.1b comprises predominantly of premium grade A office buildings located in prime business and financial districts in Singapore, Australia (Sydney, Melbourne and Perth), South Korea (Seoul) and Japan (Tokyo).

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	KREIT SP
Shares issued (m):	3,769.7
Market cap (S\$m):	3,128.9
Market cap (US\$m):	2,289.7
3-mth avg daily t'over (US\$m):	4.7

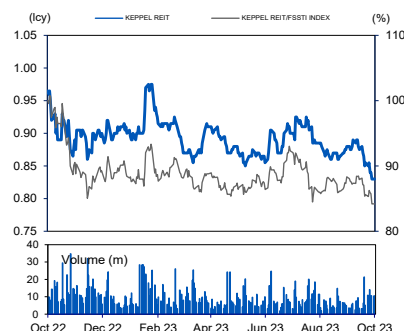
Price Performance (%)

52-week high/low	S\$0.975/S\$0.83			
1mth	3mth	6mth	1yr	YTD
(5.1)	(8.8)	(8.8)	(15.3)	(8.8)

Major Shareholders

Keppel REIT Investment	39.2
FY23 NAV/Share (S\$)	1.32
FY23 Net Debt/Share (S\$)	0.74

PRICE CHART



Source: Bloomberg

ANALYST(S)

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

- Blue & William started contributing in Apr 23.** Blue & William, a freehold Grade A office building with NLA of 152,128sf in close proximity to North Sydney Train Station, achieved practical completion on 3 Apr 23. It has secured its second tenant from the banking sector and committed occupancy has improved to 37.7%. KREIT is in talks with a few prospective tenants for the remaining office space. The developer Lendlease has provided rental guarantee on unlet space for three years from the date of practical completion, which ensures the property is able to provide NPI yield of 4.5%.
- Prudent capital management.** Aggregate leverage increased 0.5ppt qoq to 39.2% as of Jun 23. All-in interest rate was stable at 2.84% in 2Q23. It has hedged 76% of borrowings to a fixed rate. S\$800m or 22% of its total borrowings are due for refinancing in 2024. We conservatively estimate that average cost of debt would increase by 0.65ppt to 3.5% in 2024.

### STOCK IMPACT

- Stability from Singapore and recovery from Sydney.** KREIT is well-positioned as it has backfilled vacant office spaces ahead of competition from new supply from IOI Central Boulevard Towers. Its properties in Sydney, 8 Chifley Square, Pinnacle Office Park and Blue & William benefit from companies tightening on hybrid work arrangements.
- Overhang from distribution in specie.** Keppel Corp has announced a proposed special dividend in specie of 352.4m units in KREIT representing 9.4% of KREIT's total issued and paid-up units. Keppel Corp shareholders will receive one KREIT unit for every five Keppel Corp shares. Keppel Corp's stake in KREIT will drop from 46.5% to 37.1% post the distribution in specie. The proposed distribution in specie has to be approved by Keppel Corp's shareholders during the EGM on 18 Oct 23. Thereafter, KREIT units will be credited to Keppel Corp shareholders' accounts on 7 Nov 23.
- P/NAV near historical low.** KREIT is trading at P/NAV of 0.62x (38% discount to NAV per unit of S\$1.34), which is almost touching the low of 0.61x on 23 Mar 20 at the onset of the COVID-19 pandemic. The potential downside from Keppel Corp shareholders selling the KREIT units they received in specie could be limited due to KREIT's current depressed valuation. Fundamentally, Keppel Corp's distribution in specie of KREIT units has no impact of KREIT's DPU.
- Rewarding unitholders with capital distributions.** Management set aside S\$100m from accumulated capital gains to be distributed over the next five years to mark KREIT's 20th anniversary in 2026. Distributions would be made semi-annually from 2H22 to 1H27 (S\$10m every six months).

### EARNINGS REVISION

- We maintain our existing 2023 DPU forecast.

### VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$1.06 is based on DDM (cost of equity: 6.75%, terminal growth: 1.5%).

### SHARE PRICE CATALYST

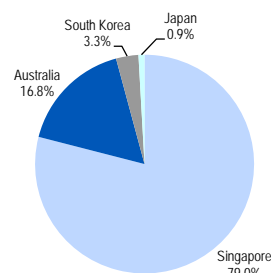
- Resilient rents and capital values for office properties in Singapore.
- Contribution from Blue & William in Sydney kicking in from Apr 23.

### KEY OPERATING METRICS – KREIT

	2Q22	3Q22	4Q22	1Q23	2Q23	yoy	qoq
DPU (S cents)	2.97	n.a.	2.95	n.a.	2.90	-2.4%	-1.7%
Occupancy	95.5%	96.8%	96.3%	96.3%	94.9%	-0.6ppt	-1.4ppt
Aggregate Leverage	37.9%	38.4%	38.4%	38.7%	39.2%	1.3ppt	0.5ppt
Average Cost of Debt	1.93%	2.13%	2.29%	2.86%	2.84%	0.91ppt	-0.02ppt
% of Borrowings on Fixed Rates	73.0%	72.0%	76.0%	75.0%	76.0%	3ppt	1ppt
WALE by NLA (years)	6.0	6.1	6.0	5.8	5.7	-0.3yrs	-0.1yrs
Weighted Average Debt Maturity (years)	3.1	2.8	2.7	3.0	2.9	-0.2yrs	-0.1yrs
Rental Reversions	7.5%	9.7%	19.3%	9.3%	8.1%	0.6%	-1.2%
Tenant Retention Rate	89.0%	82.0%	78.0%	98.0%	66.9%	-22.1ppt	-31.1ppt

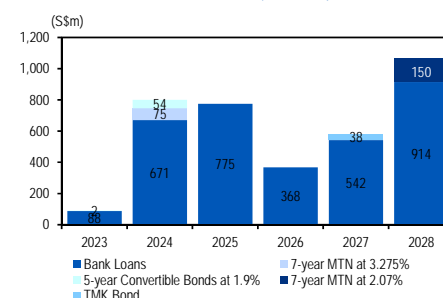
Source: KREIT

### AUM BY COUNTRY (JUN 23)



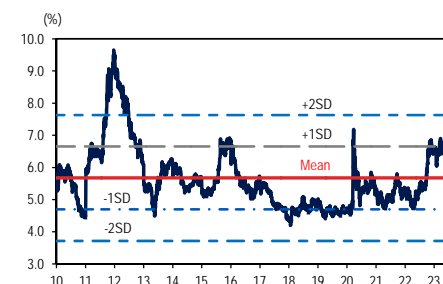
Source: KREIT

### DEBT MATURITY PROFILE (JUN 23)



Source: KREIT

### DISTRIBUTION YIELD – KREIT



Source: KREIT

### P/NAV – KREIT



Source: KREIT

### PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Net turnover</b>	<b>219.3</b>	<b>236.2</b>	<b>242.9</b>	<b>245.9</b>
EBITDA	112.5	127.4	132.9	135.4
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	112.5	127.4	132.9	135.4
Total other non-operating income	1.7	0.0	0.0	0.0
Associate contributions	100.7	92.1	94.1	96.1
Net interest income/(expense)	(32.5)	(49.1)	(66.0)	(69.0)
<b>Pre-tax profit</b>	<b>450.4</b>	<b>170.4</b>	<b>161.1</b>	<b>162.5</b>
Tax	(2.0)	(9.9)	(9.3)	(9.4)
Minorities	(33.6)	(14.4)	(4.4)	(4.4)
Preferred dividends	(9.5)	(9.5)	(9.5)	(9.5)
<b>Net profit</b>	<b>405.4</b>	<b>136.7</b>	<b>137.9</b>	<b>139.2</b>
Net profit (adj.)	137.3	136.7	137.9	139.2

### BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	4,917.2	4,973.2	4,973.2	4,973.2
Other LT assets	3,720.1	3,720.1	3,720.1	3,720.1
Cash/ST investment	186.4	177.1	185.4	183.9
Other current assets	57.7	63.7	64.0	64.3
<b>Total assets</b>	<b>8,881.4</b>	<b>8,934.1</b>	<b>8,942.6</b>	<b>8,941.5</b>
ST debt	643.7	643.7	643.7	643.7
Other current liabilities	70.6	67.3	67.9	68.7
LT debt	2,208.2	2,350.0	2,440.0	2,520.0
Other LT liabilities	93.6	89.8	90.1	90.5
Shareholders' equity	5,420.9	5,338.9	5,256.6	5,174.2
Minority interest	444.4	444.4	444.4	444.4
<b>Total liabilities &amp; equity</b>	<b>8,881.4</b>	<b>8,934.1</b>	<b>8,942.6</b>	<b>8,941.5</b>

### CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
<b>Operating</b>	<b>162.2</b>	<b>130.5</b>	<b>160.3</b>	<b>163.1</b>
Pre-tax profit	182.4	170.4	161.1	162.5
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	(100.7)	(92.1)	(94.1)	(96.1)
Working capital changes	10.4	(3.5)	0.3	0.5
Other operating cashflows	70.2	55.6	93.1	96.2
<b>Investing</b>	<b>(46.4)</b>	<b>26.2</b>	<b>84.1</b>	<b>86.1</b>
Capex (growth)	(155.3)	(55.9)	0.0	0.0
Capex (maintenance)	(10.6)	(10.0)	(10.0)	(10.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	119.5	92.1	94.1	96.1
<b>Financing</b>	<b>(111.4)</b>	<b>(166.0)</b>	<b>(236.2)</b>	<b>(250.7)</b>
Distribution to unitholders	(217.0)	(218.7)	(220.2)	(221.7)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	186.6	141.8	90.0	80.0
Others/interest paid	(81.0)	(89.1)	(106.0)	(109.0)
<b>Net cash inflow (outflow)</b>	<b>4.4</b>	<b>(9.3)</b>	<b>8.3</b>	<b>(1.5)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>189.3</b>	<b>186.4</b>	<b>177.1</b>	<b>185.4</b>
Changes due to forex impact	(7.3)	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>186.4</b>	<b>177.1</b>	<b>185.4</b>	<b>183.9</b>

### KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
<b>Profitability</b>				
EBITDA margin	51.3	53.9	54.7	55.1
Pre-tax margin	205.4	72.2	66.3	66.1
Net margin	184.9	57.9	56.8	56.6
ROA	4.7	1.5	1.5	1.6
ROE	7.7	2.5	2.6	2.7
<b>Growth</b>				
Turnover	1.2	7.7	2.8	1.2
EBITDA	2.0	13.3	4.3	1.8
Pre-tax profit	61.5	(62.2)	(5.5)	0.9
Net profit	74.9	(66.3)	0.9	0.9
Net profit (adj.)	(7.6)	(0.4)	0.9	0.9
EPU	(8.8)	(2.1)	(0.6)	(0.6)
<b>Leverage</b>				
Debt to total capital	32.7	34.1	35.1	36.0
Debt to equity	52.6	56.1	58.7	61.1
Net debt/(cash) to equity	49.2	52.8	55.1	57.6
Interest cover (x)	3.5	2.6	2.0	2.0

## 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 2023, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W