

Singapore

ADD (no change)

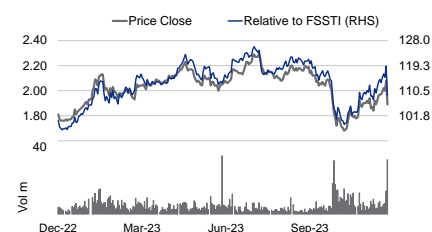
Consensus ratings*: Buy 7 Hold 6 Sell 1

Current price:	S\$1.89
Target price:	S\$2.53
Previous target:	S\$2.53
Up/downside:	33.9%
CGS-CIMB / Consensus:	17.8%
Reuters:	KEPE.SI
Bloomberg:	KDCREIT SP
Market cap:	US\$2,446m S\$3,254m
Average daily turnover:	US\$9.77m S\$13.26m
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 (%)	-1.6	-14.1	2.7
Relative (%)	-1.1	-9.1	7.5

Major shareholders	% held
Keppel Corp Ltd	21.3
Cohen & Steers	5.0
Matthews International Capital	4.9

Keppel DC REIT

Too soon to speculate on Bluesea fall out

- KDC has sent a letter of demand to Bluesea for c.S\$9.1m in arrears (four months of rent) and S\$6m for security deposit top-up.
- We estimate 6.4%/16% downside to our FY23F/24F DPU if Bluesea does not fulfill its rent obligations from Sep 23 to end-FY24F.
- Reiterate Add; 4.8% FY24F DPU yield if Bluesea remains in arrears still palatable, in our view.

0.655 Scts FY23F DPU impact if 4.5 months of FY24F arrears unpaid

On 15 Dec 23, KDC announced it has issued a letter of demand to Guangdong Bluesea Data Development for: (A) arrears of Rmb48.3m (S\$9.1m), comprising (1) sum in areas-to-date of Rmb45.0m (S\$8.5m) comprising 4 months' rent arrears (for Guangdong Data Centre (GDC) 1, 2 & 3) and coupon pertaining to the Rmb72m (S\$155m) advanced payment for GDC3, due as at 15 Dec 23, (2) Rmb3.3m (S\$0.6m) in late payment interest and real estate taxes; and (B) request for a security deposit top-up of Rmb32.2m (S\$6.0m). The tenant stopped paying rent on 15 Sep 23, and the security deposit was drawn down while management and tenant negotiated an installment payment plan. The tenant was prompt with instalment payments until Oct 23, but missed the Nov 23 and Dec 23 instalment payments. If KDC is unable to recover the 4.5 months of rent and coupon outstanding in FY23F, management guided that FY23F DPU would be 0.655 Scts lower, or 6.4% below our FY23F DPU forecast.

Too much ambiguity

Contractually, KDC can terminate the forward purchase of GDC3 if it is not handed over by 31 Oct 2023 (the long stop date) and receive a refund of the Rmb100m that KSC has paid to date, comprising Rmb28m (S\$6m) refundable downpayment and Rmb72m (S\$15.5m) advance payment. Management has not extended the long stop date but has sent in its own technical experts to assess the status of construction of GDC3. In an analyst call on 15 Dec 23, management said that it is in talks with its sponsor should there be a need to repossess GDC1 and 2 and operate them as colocation assets. GDC1 and 2's committed occupancy is 60-80% and c.30% respectively, and they are leased to three Chinese telcos. It is still unclear if it would be possible for KDC to take over and manage these underlying leases directly.

Keep Add; FY24F DPU yield of 4.8% if Bluesea remains in arrears

We leave our FY23F-25F estimates unchanged given uncertainty surrounding the negotiation outcome, but note that there could be 6.4%/16% potential downside to our FY23F/24F DPU if Bluesea does not fulfill its rent and coupon obligations from 15 Sep 23 till end-FY24F, translating into a still palatable 5.1%/4.8% FY23F/24F DPU yield based on its most recent share price of S\$1.89 as at 15 Dec 23. Potential re-rating catalysts are the collection of arrears from Bluesea, higher-than-forecast reversions and a faster pace of acquisitions. Downside risks are lower-than-forecast occupancy, 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)	10.06	13.53	18.79	17.52	16.96
DPS (S\$)	0.10	0.11	0.10	0.11	0.11
Dividend Yield	5.29%	5.70%	5.42%	5.77%	5.96%
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)	1.41	1.35	1.34	1.34	1.34
Recurring ROE	14.8%	10.2%	7.1%	7.6%	7.9%
DPS/Consensus DPS (x)			1.03	1.09	1.05

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

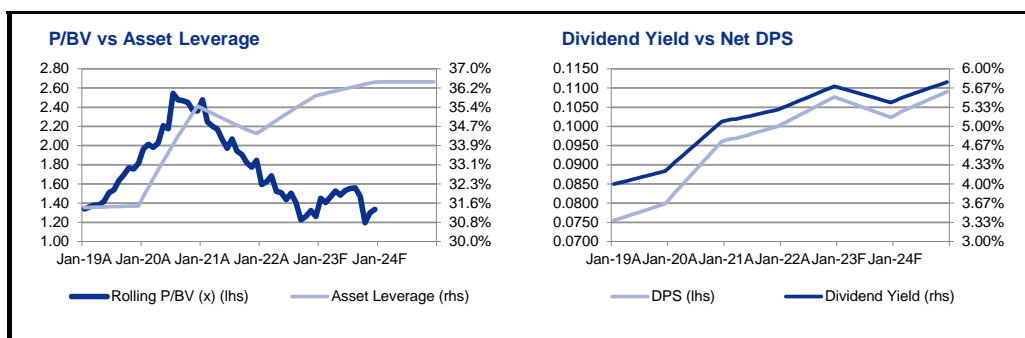
Figure 1: SREITs' peer comparison table

SREIT	Bloomberg Ticker	Rec.	Price (LC)		Mkt Cap (US \$m)	Last reported asset leverage	Last stated NAV	Price / Stated NAV	Dividend Yield (%)		
			as at 18 Dec 23	Target Price (LC) (DDM-based)					FY23F	FY24F	FY25F
Hospitality											
CapitaLand Ascott Trust	CLAS SP	Add	0.90	1.32	\$2,484	35.2%	1.16	0.77	6.8%	7.7%	8.0%
CDL Hospitality Trust	CDREIT SP	Add	0.98	1.43	\$900	38.4%	1.31	0.75	6.4%	7.3%	7.8%
Far East Hospitality Trust	FEHT SP	Add	0.61	0.77	\$901	32.2%	0.85	0.71	6.3%	7.0%	7.1%
Frasers Hospitality Trust	FHT SP	NR	0.48	NA	\$675	39.3%	0.65	0.73	4.7%	5.0%	5.2%
Simple Average						36.3%		0.74	6.0%	6.7%	7.0%
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	\$8,775	36.7%	2.31	1.17	5.9%	6.1%	6.2%
ESR-LOGOS REIT	EREIT SP	Add	0.27	0.39	\$1,530	37.7%	0.33	0.82	9.8%	9.5%	9.5%
Frasers Logistics & Commercial Trus	FLT SP	Add	1.09	1.27	\$2,998	28.6%	1.30	0.84	6.5%	6.1%	6.3%
Keppel DC REIT	KDCREIT SP	Add	1.79	2.53	\$2,273	37.3%	1.37	1.31	5.7%	6.1%	6.3%
Mapletree Industrial Trust	MINIT SP	Add	2.18	2.61	\$4,555	37.9%	1.88	1.16	6.2%	6.3%	6.5%
Mapletree Logistics Trust	MLT SP	Add	1.54	1.88	\$5,634	38.9%	1.42	1.08	5.9%	5.6%	5.7%
Sabana Shariah	SSREIT SP	NR	0.39	NA	\$309	32.4%	0.53	0.73	7.9%	7.9%	8.2%
Simple Average						35.7%		1.14	7.0%	6.9%	7.0%
Office											
Keppel REIT	KREIT SP	Add	0.79	1.14	\$2,204	39.5%	1.31	0.60	7.5%	7.6%	7.9%
OUE Commercial REIT	OUECT SP	Hold	0.25	0.36	\$1,011	39.1%	0.59	0.42	8.5%	8.6%	8.8%
Suntec REIT	SUN SP	Hold	1.12	1.25	\$2,393	42.7%	2.09	0.54	6.3%	6.2%	6.4%
Simple Average						40.4%		0.52	7.4%	7.5%	7.7%
Retail											
CapitaLand Integrated Commercial	CICT SP	Add	1.83	2.17	\$8,981	40.8%	2.12	0.86	5.9%	6.1%	6.3%
Frasers Centrepoint Trust	FCT SP	Add	2.09	2.52	\$2,639	39.3%	2.31	0.90	5.8%	5.6%	5.8%
Lendlease Global Commercial REIT	LREIT SP	Add	0.57	0.82	\$970	40.6%	0.78	0.72	8.2%	7.6%	8.0%
Mapletree Pan Asia Commercial Trus	MPACT SP	Add	1.33	1.54	\$5,146	40.7%	1.81	0.73	7.2%	6.5%	6.5%
Paragon REIT	PGNREIT SP	Hold	0.82	0.88	\$1,704	30.1%	0.91	0.90	5.7%	5.7%	6.1%
Starhill Global REIT	SGREIT SP	Add	0.48	0.62	\$791	37.4%	0.80	0.59	8.0%	8.3%	8.6%
Simple Average						38.2%		0.79	6.8%	6.6%	6.9%
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	\$145	46.0%	0.51	0.48	14.8%	16.6%	16.7%
Manulife US REIT	MUST SP	Add	0.09	0.25	\$153	56.7%	0.40	0.22	45.2%	44.8%	44.1%
Sasseur REIT	SASSR SP	Add	0.68	0.95	\$617	26.2%	0.83	0.81	9.2%	9.3%	9.8%
Simple Average						41.2%		0.52	19.5%	20.0%	20.0%
Healthcare											
Parkway Life REIT	PREIT SP	Add	3.45	4.50	\$1,539	35.3%	2.33	1.48	4.2%	4.3%	4.5%
Simple Average						35.1%		1.48	4.2%	4.3%	4.5%
Simple average for SIN						37.8%		0.80	8.7%	8.8%	9.0%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG, COMPANY REPORTS
Note: Forecasts for Not rated companies are based on Bloomberg consensus estimates

ESG in a nutshell		Refinitiv ESG Scores					
							
		B-	A+	B-	C+	C+	B+
		ESG Score	ESG Controversies Score	ESG Combined Score	ESG Environment Pillar Score	ESG Social Pillar Score	ESG Government Pillar Score
<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>							
Keep your eye on	<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>						
	Implications	<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>					
ESG highlights	<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>						
	Implications	<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>					
Trends	<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>						
	Implications	<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

(\$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 (\$\$ psf)	10.8	11.5	12.5	13.3	13.5

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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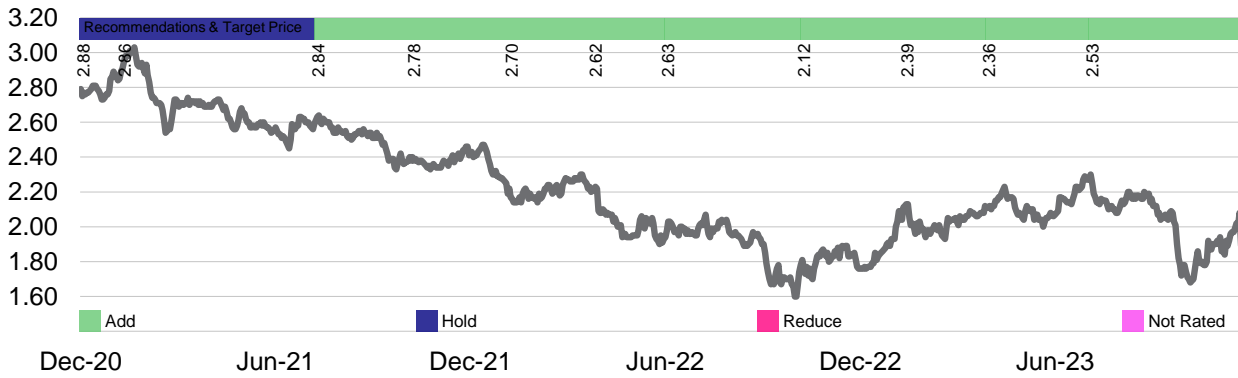
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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2023		
634 companies under coverage for quarter ended on 30 September 2023		
	Rating Distribution (%)	Investment Banking clients (%)
Add	66.7%	0.9%
Hold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

Spitzer Chart for stock being researched (2 year data)

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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- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

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