



# Keppel DC REIT

## (KDCREIT SP)

### More positives this quarter

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- **DPU in line with expectations.** 9M19 DPU of 5.8 Scts makes up c.75% of our comparable full year forecast of 7.7 Scts.
- **Rental top up from vendor.** Rental top up originating from 3 data centres was fully accounted for as at end 2Q19, future vendor support will originate from KDC SGP 4 (SG).
- **Maintain OUTPERFORM, new TP S\$2.11.** We remain optimistic on Keppel DC Reit (KDC) and expect a steep increase in DPU for FY20/FY21 to 9.0Scts / 9.5Scts (previously 7.7 Scts/8.0 Scts) following the yield accretive twin acquisitions. Further acquisitions remain a positive surprise.

**DPU in line with expectations.** Keppel Data Centre REIT's (KDC) 3Q19 and 9M19 results were largely within expectations. DPU for 3Q19 remained flattish QoQ at 1.93 Scts, bringing 9M19 DPU to 5.8 Scts, making up c.75% of our comparable full year forecast of 7.7 Scts (without accounting for enlarged units base from equity fund raising). DPU would have increased marginally to 1.94 Scts without the negative carry from the equity fund raising. Rental income for 3Q19 grew 3.7% YoY to S\$46.2mn, attributed to the incremental contributions from KDC SGP 5 (SG). 9M19 revenue came in at S\$141.8mn (+11.3% YoY) and makes up c.71% of our full year forecast (S\$200.0mn), contributed by Maincubes DC (DE) and KDC SGP 5 (SG) which were both fully acquired in 2018.

**Operating statistics remain resilient.** Portfolio WALE dipped slightly from 7.8 years last quarter to 7.7 years due to time decay, while occupancy improved from 93.2% last quarter to 93.6%. The managers are currently engaged in renewal discussions for leases expiring in 4Q19 (1.3% by NLA) and 2020 (5.3% by NLA). Rental reversions remain positive as strong demand continue to ease supply risks from upcoming data centre launches. New launches anticipated in 2020 include Digital Realty's third DC in Singapore, Equinix's SG4 DC, ST Telemedia's Loyang Data Center and AirTrunk's first hyperscale DC in Singapore.

**Rental top up from vendors.** This quarter saw a sharp QoQ dip in 'other income', which was recorded at S\$145k, compared to S\$2.4mn in 2Q19. This was mainly due to the absence of rental top up income provided by the relevant vendors for KDC SGP 5 (SG), KDC DUB 2 (IE) and Milan DC (IT) which had been fully accounted for as at end 2Q19. We expect a rebound in this revenue item going forward as KDC completes the acquisition of KDC SGP 4 (SG) and 1-Net North DC (SG). KDC SGP 4 (SG) has a structured two-year vendor rental support of c.S\$8.7mn in place.

**Asset enhancement initiatives in progress.** AEI works remain on schedule as KDC SGP 3 (SG) and KDC DUB 2 (IE) were

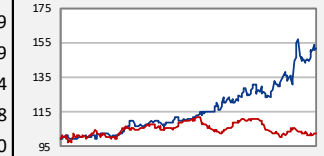
#### Outperform (Maintain)

Price as of 17 Oct 19 (SGD)	2.00	<b>Performance (Absolute)</b>	
12M TP (S\$)	2.11	1 Month (%)	6.4
Previous TP (S\$)	1.95	3 Month (%)	22.8
Upside, incl div (%)	9.8%	12 Month (%)	60.8

#### Trading data

Mkt Cap (\$mn)	3,259
Issued Shares (mn)	1,629
Vol - 3M Daily avg (mn)	7.4
Val - 3M Daily avg (\$mn)	13.8
Free Float (%)	57.90

#### Perf. vs STI Index (Red)



#### Major Shareholders

Keppel Corp Ltd	42.0%	17-Sep-19	OP S\$1.95
Cohen & Steers	5.1%	17-Jul-19	OP S\$1.71
Daiwa Securities	4.9%	18-Apr-19	OP S\$1.62

#### Previous Recommendations

#### Financials & Key Operating Statistics

YE Dec SGD mn	2017	2018	2019F	2020F	2021F
Gross revenue	139.1	175.5	200.0	257.7	266.3
Net property income	125.1	157.7	180.0	232.0	239.7
Distributable income	82.3	96.1	107.6	147.1	154.3
DPS (SGD cents)	7.1	7.3	6.6	9.0	9.5
DPS growth (%)	16.0	2.8	(9.8)	36.7	4.9
Div Yield (%)	5.0	5.4	3.7	5.0	5.3
P/NAV (x)	1.0	1.1	1.2	1.2	1.2
Price / Book (x)	1.5	1.3	1.5	1.5	1.5
NPI Margin (%)	90.0	89.8	90.0	90.0	90.0
Net Margin (%)	50.5	83.2	61.7	64.0	64.6
Gearing (%)	31.0	29.9	30.4	29.8	29.4
ROE (%)	6.4	10.1	6.4	8.4	8.6

Source: Company Data, KGI Research

\*DPS for FY19 takes into account enlarged units base after equity fund raising

completed in July. KDC SGP 3 which was previously at full occupancy, was further retrofitted to suit a client's expansion, while KDC DUB 2 underwent fit-out works with occupancy increasing from c.91% to full occupancy as previously guided by management. KDC DUB 1 (IE) is still undergoing energy efficiency works and on track for completion in 2020.

**Ready, get set, go!** Capital management remains extremely prudent, as KDC's leverage ratio at 28.9% remains as one of the healthiest across the sector. Based on KDC's internal gearing limit of 40%, this would be equivalent to a debt headroom of S\$444mn post acquisition. Cost of debt was reported at 1.7% this quarter, and may increase next quarter taking into account refinancing of SGD denominated loans due at year end for another 6 years at a higher rate. Correspondingly, debt tenor was extended by another 0.5 years to 3.8 years since last quarter. KDC remains well-equipped for another round of acquisitions.

**Acquisitions to remain a surprise.** Third party off-market deals may be next within the acquisition pipeline as opposed to sponsor assets. Management shared that they continue to look for opportunities nearer to home to ensure that at least 50% of portfolio exposure remains within the APAC region to suit the investment mandates of current institutional investors.

**Valuation & Action:**

**Maintain OUTPERFORM with a higher TP of S\$2.11.** We continue to be optimistic on KDCREIT. Further acquisitions are not out of the question, following the recent yield accretive twin acquisitions to be completed by end 2019. Vendor rental support and tax transparency for KDC SGP 4 remain as a revenue upside, in support of our bullish view. We increase our FY20/FY21 DPU estimates to 9.0Scts / 9.5Scts (previously 7.7 Scts/8.0 Scts), calculated based on the enlarged units base.

**Risks:**

Non guarantee of tax transparency for KDC SGP4, which is scheduled to take place in c.6-9 months' time; foreign exchange risks.

## Financials

INCOME STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F
<b>Gross revenue</b>	<b>139.1</b>	<b>175.5</b>	<b>200.0</b>	<b>257.7</b>	<b>266.3</b>
Property expenses	(13.9)	(17.9)	(20.0)	(25.8)	(26.6)
<b>Net property income</b>	<b>125.1</b>	<b>157.7</b>	<b>180.0</b>	<b>232.0</b>	<b>239.7</b>
REIT Manager's fees	(11.3)	(14.0)	(18.2)	(18.3)	(18.4)
REIT Trustee's fees	(0.3)	(0.3)	(0.4)	(0.4)	(0.4)
Net interest expense	(13.3)	(15.8)	(20.5)	(20.1)	(20.1)
Other expenses	(15.1)	(9.2)	(10.5)	(18.5)	(18.9)
<b>Net profit/(loss)</b>	<b>85.2</b>	<b>118.4</b>	<b>130.5</b>	<b>174.6</b>	<b>181.9</b>
Change in fair value - investment ppty	(7.6)	32.6	0.0	0.0	0.0
<b>Total return before tax</b>	<b>77.6</b>	<b>151.0</b>	<b>130.5</b>	<b>174.6</b>	<b>181.9</b>
Income tax	(7.3)	(5.0)	(7.2)	(9.6)	(10.0)
<b>Total return after tax</b>	<b>70.3</b>	<b>146.0</b>	<b>123.4</b>	<b>165.0</b>	<b>171.9</b>
<b>Distributable income for the period</b>	<b>82.3</b>	<b>96.1</b>	<b>107.6</b>	<b>147.1</b>	<b>154.3</b>
BALANCE SHEET (SGD mn)	2017A	2018A	2019F	2020F	2021F
Cash and cash equivalents	118.2	128.4	185.7	191.3	220.2
Trade and other receivables	56.2	85.7	97.7	125.9	130.1
Other current assets	3.7	6.1	6.1	6.1	6.1
<b>Total current assets</b>	<b>178.1</b>	<b>220.2</b>	<b>289.5</b>	<b>323.3</b>	<b>356.3</b>
Investment properties	1,570.1	2,028.7	2,633.1	2,661.6	2,663.6
Intangibles, others	15.1	4.0	0.8	0.8	0.8
<b>Total assets</b>	<b>1,763.3</b>	<b>2,252.9</b>	<b>2,923.3</b>	<b>2,985.6</b>	<b>3,020.7</b>
Trade and other payables	48.2	53.2	59.6	76.8	79.3
Other current liabilities	0.0	0.0	0.0	0.0	0.0
<b>Total current liabilities</b>	<b>48.2</b>	<b>53.2</b>	<b>59.6</b>	<b>76.8</b>	<b>79.3</b>
LT Borrowings	546.9	673.1	888.3	888.3	888.3
Other non-current liabilities	51.7	50.6	50.6	50.6	50.6
<b>Total liabilities</b>	<b>646.8</b>	<b>776.9</b>	<b>998.5</b>	<b>1,015.7</b>	<b>1,018.2</b>
Unitholders' funds and reserves	1,116.5	1,476.0	1,924.9	1,970.0	2,002.5
<b>Total liabilities and equity</b>	<b>1,763.3</b>	<b>2,252.9</b>	<b>2,923.3</b>	<b>2,985.6</b>	<b>3,020.7</b>
CASH FLOW STATEMENT (SGD mn)	2017A	2018A	2019F	2020F	2021F
<b>Total return before tax</b>	<b>70.3</b>	<b>146.0</b>	<b>123.4</b>	<b>165.0</b>	<b>171.9</b>
Depreciation & Amortisation	7.3	5.0	7.2	9.6	10.0
Other non-cash adjustments	43.8	(7.5)	27.8	27.5	27.4
Changes in working capital	1.1	(29.9)	(5.6)	(11.0)	(1.6)
Taxes paid	(4.7)	(1.7)	(1.7)	(1.7)	(1.7)
<b>Cash flows from operations</b>	<b>117.8</b>	<b>111.9</b>	<b>151.1</b>	<b>189.4</b>	<b>206.0</b>
Acquisition of properties and related capex	(305.1)	(447.1)	(615.1)	(76.2)	(30.0)
Acquisition of intangibles	(1.6)	(8.0)	0.0	0.0	0.0
Other investing cashflow	1.6	7.2	0.0	0.0	0.0
<b>Cash flows from investing</b>	<b>(305.1)</b>	<b>(447.9)</b>	<b>(615.1)</b>	<b>(76.2)</b>	<b>(30.0)</b>
Borrowings raised / (repaid)	84.9	129.3	155.0	0.0	0.0
Equity raised / (bought back)	(0.9)	302.7	465.2	0.0	0.0
Dividends paid	(74.3)	(84.8)	(98.9)	(107.6)	(147.1)
Other financing cashflow	-	-	(8.6)	0.0	0.0
<b>Cash flows from financing</b>	<b>9.7</b>	<b>347.2</b>	<b>512.7</b>	<b>(107.6)</b>	<b>(147.1)</b>
FX Effects, Others	(0.2)	1.1	0.0	0.0	0.0
<b>Net increase in cash</b>	<b>(177.9)</b>	<b>12.3</b>	<b>48.7</b>	<b>5.6</b>	<b>28.9</b>
Beginning Cash	294.0	116.1	128.4	185.7	191.3
<b>Ending cash</b>	<b>116.1</b>	<b>128.4</b>	<b>177.1</b>	<b>191.3</b>	<b>220.2</b>
KEY RATIOS	2017A	2018A	2019F	2020F	2021F
DPS (SGD cents)	7.1	7.3	6.6	9.0	9.5
Dividend yield (%)	4.98	5.42	3.69	5.04	5.29
NAV per share (SGD cents)	1.0	1.1	1.2	1.2	1.2
Price/NAV (x)	1.5	1.3	1.5	1.5	1.5
<b>Profitability (%)</b>					
NPI Margin	90.0	89.8	90.0	90.0	90.0
Net Margin	50.5	83.2	61.7	64.0	64.6
ROE	6.4	10.1	6.4	8.4	8.6
ROA	4.0	6.5	4.2	5.5	5.7
<b>Financial Structure</b>					
Interest Coverage (x)	6.8	8.1	7.1	9.2	9.5
Gearing (%)	31.0	29.9	30.4	29.8	29.4

Source: Company Data, KGI Research

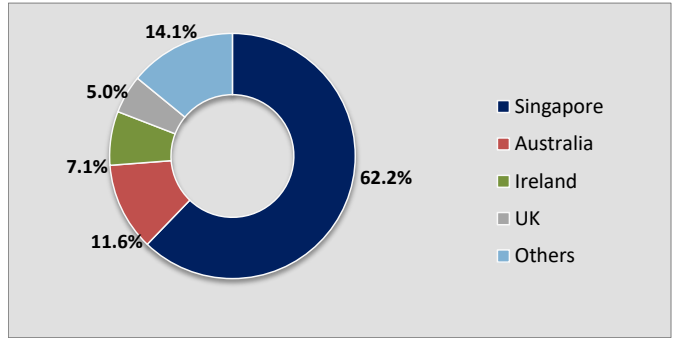
## Company Snapshot

**Figure 1: Company profile**

Keppel Data Centre Real Estate Investment Trust (KDCREIT) is a Singapore real estate investment trust (REIT) listed on Singapore Exchange Securities Trading Limited (the SGX-ST) since 10 December 2014. Its investment strategy is principally to invest in a portfolio of income-producing data centres globally. The REIT is managed by Keppel DC REIT Management Pte. Ltd., (the Manager) which is partly owned by the Sponsor, Keppel Telecommunications & Transportation Ltd (Keppel T&T), part of the Keppel Group.

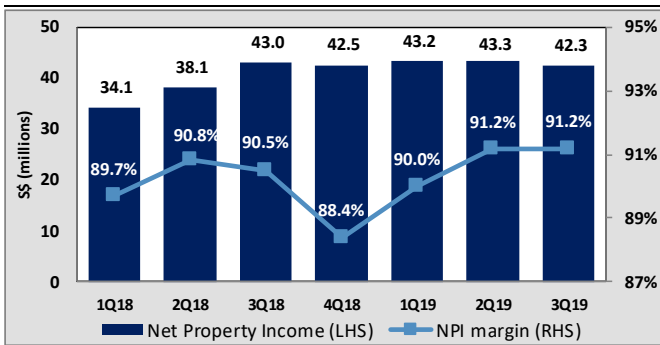
Source: Company

**Figure 2: Portfolio breakdown by valuation (inclusive of twin acquisitions)**



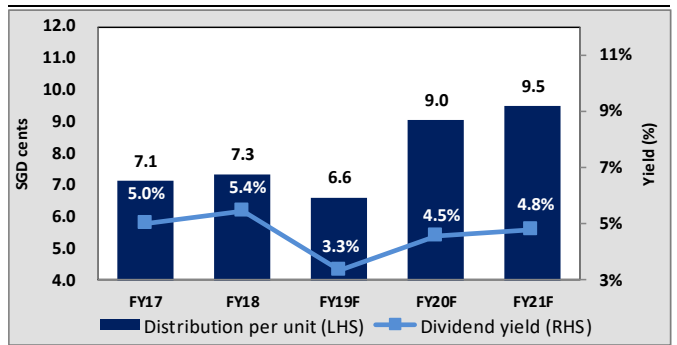
Source: Company Data, KGI Research

**Figure 3: NPI vs NPI margins**



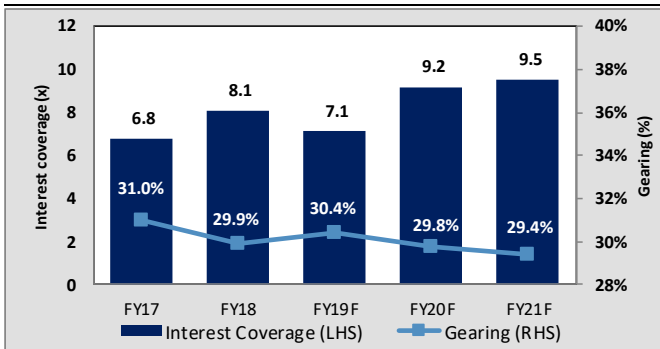
Source: Company Data, KGI Research

**Figure 4: DPU and Dividend yield**



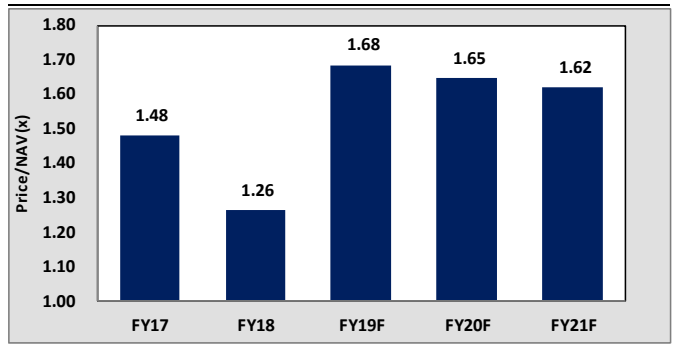
Source: Company Data, KGI Research

**Figure 5: Interest coverage and gearing**



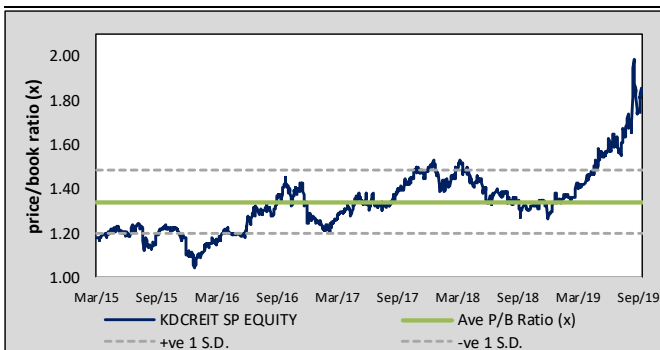
Source: Company Data, KGI Research

**Figure 6: Price/NAV**



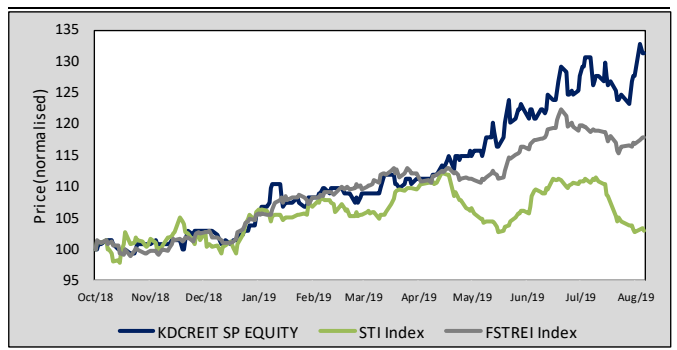
Source: Company Data, KGI Research

**Figure 7: Historical P/B band since IPO**



Source: Bloomberg, KGI Research

**Figure 8: YTD historical share price movement against benchmarks**



Source: Bloomberg, KGI Research

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<b>Outperform (OP)</b>	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
<b>Neutral (N)</b>	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
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