



CHINA
DEVELOPMENT
FINANCIAL

Keppel-KBS US REIT

(KORE SP)

IPO NOTE

| | |
|-------------------------------|-------------|
| Open date for public offer | 2 Nov 8pm |
| Closing date for public offer | 7 Nov 12 nn |
| Commence Trading on SGX | 9 Nov 2pm |

Summary

| | |
|-------------------------|----------|
| Offer price | US\$0.88 |
| FY18 Distribution yield | 6.8% |
| FY18 Distribution yield | 7.2% |
| Gearing | 36% |

Attractive 6.8% to 7.2% yield for FY18 and FY19

Event

Keppel-KBS US REIT (KKREIT) plans to raise gross proceeds of US\$553m at US\$0.88/sh. It is offering 262.8m placement shares and 34.1m to the public. The portfolio includes 11 U.S. office properties across 7 major cities with an aggregate net lettable area (NLA) of 3.2m square feet, valued at US\$829m.

The REIT is backed by two established sponsors – Keppel Capital (asset management arm of Keppel Corp) and KBS Pacific Advisors (owned by shareholders of KBS Capital Advisors, which ranked 11th largest US owner of office properties globally).

The REIT is denominated in US dollars but unitholders will have the choice to receive their distribution in either US or SG dollar, paid on a semi-annual basis.

Impact

KKREIT is the second US-focused REIT that offers investors an opportunity to gain exposure to the US office real estate sector.

Valuation & Action

Attractive yield. KKREIT's FY18/19 distribution yield of 6.8/7.2% compares favourably to Manulife US REIT's (MUST SP; NR) 6.7/6.9% yield but growth via DPU-accretive acquisition may be limited by its gearing ratio of 36%. Instead, KKREIT's focus on high-growth markets such as Orlando, Austin, Houston and Seattle, offers organic growth that may continue to support any increase in DPU after FY19.

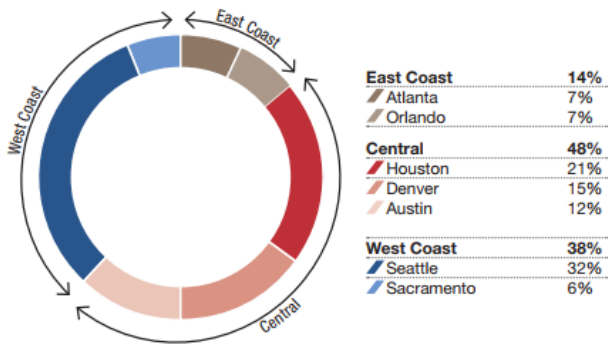
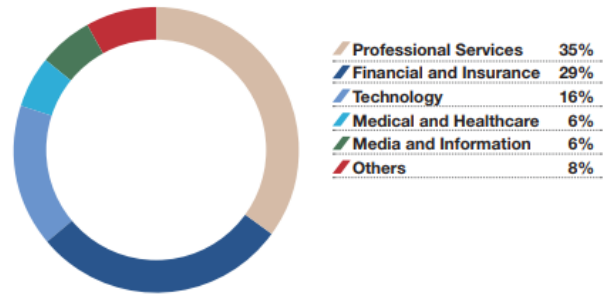
100-200 bps spread over SG office REITS. KKREIT offers an attractive spread compared to SG-focused office REITs, which are averaging 5.3% for FY18 (See Figure 3 for complete list of REITs and Business Trusts listed in SG).

Risk

Mainly forex risk as the REIT will be in US dollars. While MUST focuses on office properties located in the central business districts (CBDs) of key US cities, KKREIT's portfolio are located in suburban areas. We are of the view that KKREIT's property portfolio are of a higher risk profile, and hence should compensate with a higher dividend yield.

Joel Ng
65 6202 1192
joel.ng@kgi.com

See the last page for important disclosures.

Figure 1: KKREIT's portfolio of US office assets
Geographical Composition by Cash Rental Income (%)

Tenant base led by growth and defensive sectors¹¹


- Balanced portfolio of CBD and suburban office assets
- Resilience in riding out different economic and property cycles across various geographies

- Top 10 tenants of the IPO Portfolio contribute under 22.3% by Cash Rental Income¹¹
- Low concentration risk with no single tenant accounting for over 3.0% of the IPO Portfolio's Cash Rental Income
- Stable and well-spread lease expiries for stable cash flows in the long term

Source: IPO Prospectus

Figure 2: KKREIT's portfolio of US office assets


Source: IPO Prospectus

Figure 3: Singapore REITs and Business Trusts

| | Last Price (S\$) | Market Cap (S\$ m) | Distribution Frequency | Cons/KGI DPU (cents) | | Yield (%) | | Leverage ratio (%) | Price-to- book (x) |
|---|---------------------|---------------------------------|---------------------------|-------------------------|---------|---------------|------------|--------------------------|-----------------------|
| | | | | Current FY | Next FY | Current FY | Next FY | | |
| Office | | S\$18,383 | | | | 5.3 | 5.3 | 34.4 | 0.92 |
| CapitaLand Commercial Trust | 1.795 | 6,477 | Semi-Anl | 8.8 | 8.8 | 4.9 | 4.9 | 32.7 | 0.98 |
| Frasers Commercial Trust | 1.390 | 1,120 | Quarter | 9.5 | 9.6 | 6.8 | 6.9 | 34.6 | 0.87 |
| Keppel REIT | 1.185 | 3,986 | Quarter | 6.0 | 6.0 | 5.1 | 5.1 | 32.9 | 0.83 |
| Suntec Real Estate Investment Trust | 1.965 | 5,212 | Quarter | 10.0 | 9.8 | 5.1 | 5.0 | 36.4 | 0.93 |
| OUE Commercial Real Estate Investment Tr | 0.720 | 1,110 | Semi-Anl | 4.8 | 4.7 | 6.7 | 6.5 | 37.7 | 0.84 |
| IREIT Global | 0.765 | 478 | Semi-Anl | 5.9 | 5.9 | 7.7 | 7.7 | 41.4 | 1.15 |
| Retail | | S\$27,449 | | | | 5.9 | 5.9 | 32.6 | 1.00 |
| CapitaLand Retail China Trust | 1.650 | 1,488 | Semi-Anl | 10.5 | 10.8 | 6.4 | 6.5 | 35.1 | 1.01 |
| CapitaLand Mall Trust | 2.010 | 7,128 | Quarter | 11.0 | 11.0 | 5.5 | 5.5 | 31.8 | 1.03 |
| Frasers Centrepoint Trust | 2.180 | 2,017 | Quarter | 12.3 | 12.8 | 5.6 | 5.9 | 29.0 | 1.08 |
| Lippo Malls Indonesia Retail Trust | 0.435 | 1,228 | Quarter | 3.7 | 3.6 | 8.5 | 8.3 | 31.1 | 1.18 |
| Mapletree Commercial Trust | 1.570 | 4,518 | Quarter | 8.9 | 8.9 | 5.7 | 5.7 | 36.4 | 1.14 |
| Mapletree Greater China Commercial Trust | 1.165 | 3,276 | Semi-Anl | 7.4 | 7.4 | 6.4 | 6.4 | 39.2 | 0.93 |
| SPH REIT | 1.015 | 2,604 | Quarter | 5.7 | 5.8 | 5.6 | 5.7 | 25.3 | 1.08 |
| Starhill Global REIT | 0.755 | 1,647 | Quarter | 5.0 | 5.0 | 6.6 | 6.6 | 35.2 | 0.82 |
| BHG Retail REIT | 0.745 | 372 | Semi-Anl | NM | NM | NM | NM | 26.4 | 0.90 |
| Fortune Real Estate Investment Trust | 9.510 | 3,171 | Semi-Anl | 51.5 | 52.5 | 5.4 | 5.5 | 29.3 | 0.71 |
| Healthcare | | S\$2,827 | | | | 5.3 | 5.1 | 1,192.2 | 1.57 |
| First Real Estate Investment Trust | 1.375 | 1,072 | Quarter | 8.6 | 8.7 | 6.3 | 6.3 | 3083.9 | 1.37 |
| Parkway Life Real Estate Investment Trust | 2.900 | 1,755 | Quarter | 13.7 | 12.7 | 4.7 | 4.4 | 36.2 | 1.69 |
| Hospitality | | S\$8,293 | | | | 5.9 | 6.1 | 36.4 | 0.99 |
| Ascott Residence Trust | 1.195 | 2,566 | Semi-Anl | 6.9 | 7.3 | 5.8 | 6.1 | 38.9 | 0.96 |
| Ascendas Hospitality Trust | 0.880 | 992 | Semi-Anl | 5.8 | 6.1 | 6.6 | 6.9 | 32.2 | 0.99 |
| OUE Hospitality Trust | 0.810 | 1,463 | Quarter | 5.1 | 5.0 | 6.3 | 6.2 | 37.8 | 1.06 |
| Far East Hospitality Trust | 0.710 | 1,317 | Quarter | 3.9 | 4.1 | 5.5 | 5.8 | 33.1 | 0.79 |
| CDL Hospitality Trusts | 1.630 | 1,954 | Semi-Anl | 9.2 | 9.7 | 5.6 | 6.0 | 36.6 | 1.11 |
| Frasers Hospitality Trust | 0.765 | 1,424 | Semi-Anl | 5.2 | 5.2 | 6.8 | 6.8 | 32.0 | 0.94 |
| Industrial | | S\$22,169 | | | | 6.3 | 6.4 | 34.2 | 1.23 |
| AIMS AMP Capital Industrial REIT | 1.420 | 909 | Quarter | 10.7 | 11.0 | 7.5 | 7.7 | 36.0 | 1.04 |
| Ascendas Real Estate Investment Trust | 2.680 | 7,734 | Semi-Anl | 16.0 | 16.4 | 6.0 | 6.1 | 33.4 | 1.26 |
| Cache Logistics Trust | 0.860 | 918 | Quarter | 6.7 | 6.4 | 7.8 | 7.4 | 42.8 | 1.12 |
| ESR-REIT | 0.560 | 733 | Quarter | 3.9 | 4.1 | 7.0 | 7.3 | 37.3 | 0.89 |
| EC World | 0.780 | 611 | Semi-Anl | NM | NM | NM | NM | 26.9 | 0.84 |
| Mapletree Industrial Trust | 1.960 | 3,694 | Quarter | 11.9 | 12.6 | 6.1 | 6.4 | 29.1 | 1.39 |
| Mapletree Logistics Trust | 1.285 | 3,923 | Quarter | 7.6 | 7.9 | 5.9 | 6.1 | 38.4 | 1.25 |
| Sabana Shari'ah Compliant Industrial Real I | 0.450 | 474 | Quarter | NM | NM | NM | NM | 42.8 | 0.79 |
| Soilbuild Business Space REIT | 0.660 | 693 | Quarter | 5.6 | 4.9 | 8.5 | 7.4 | 37.0 | 0.92 |
| Keppel DC REIT | 1.375 | 1,550 | Semi-Anl | 7.3 | 7.6 | 5.3 | 5.5 | 29.7 | 1.43 |
| Viva Industrial Trust | 0.960 | 931 | Quarter | 7.4 | 7.6 | 7.7 | 7.9 | 36.8 | 1.2 |
| 32 S-REITs | | S\$79,121 | | | | 5.6 | 5.6 | 74.0 | 1.03 |
| MASB10Y Index | | Monetary Authority of Singapore | | | | 2.1 | | | |
| Yield Spread | | | | | | 3.5 | 3.4 | | |
| Business Trusts | | S\$17,550 | | | | 6.5 | 6.7 | 36.0 | 1.07 |
| Accordia Golf Trust | 0.765 | 841 | Semi-Anl | 5.6 | 5.6 | 7.3 | 7.3 | 28.9 | 0.89 |
| Ascendas Hospitality Trust | 0.880 | 992 | Semi-Anl | 5.8 | 6.1 | 6.6 | 6.9 | 32.2 | 0.99 |
| Ascendas India Trust | 1.155 | 1,080 | Semi-Anl | 6.1 | 6.5 | 5.3 | 5.6 | 28.1 | 1.47 |
| Asian Pay Television Trust | 0.590 | 848 | Quarter | 6.5 | 6.3 | 11.0 | 10.7 | 47.7 | 0.69 |
| CDL Hospitality Trusts | 1.630 | 1,954 | Semi-Anl | 9.2 | 9.7 | 5.6 | 6.0 | 36.6 | 1.11 |
| Croesus Retail Trust | 1.165 | 899 | Semi-Anl | 7.8 | 7.9 | 6.7 | 6.8 | 44.6 | 1.18 |
| First Ship Lease Trust | 0.083 | 53 | Irreg | NM | NM | NM | NM | 46.9 | 0.17 |
| Far East Hospitality Trust | 0.710 | 1,317 | Quarter | 3.9 | 4.1 | 5.5 | 5.8 | 33.1 | 0.79 |
| Frasers Hospitality Trust | 0.765 | 1,424 | Semi-Anl | 5.2 | 5.2 | 6.8 | 6.8 | 32.0 | 0.94 |
| Hutchison Port Holdings Trust | 0.435 | 3,789 | Semi-Anl | 2.6 | 2.7 | 6.1 | 6.3 | 29.5 | 0.74 |
| Keppel Infrastructure Trust | 0.550 | 2,122 | Quarter | 3.9 | 3.9 | 7.1 | 7.1 | 50.3 | 1.81 |
| OUE Hospitality Trust | 0.810 | 1,463 | Quarter | 5.1 | 5.0 | 6.3 | 6.2 | 37.8 | 1.06 |
| RHT Health Trust | 0.840 | 679 | Semi-Anl | 5.3 | 5.7 | 6.3 | 6.8 | 26.0 | 0.99 |
| Viva Industrial Trust | 0.960 | 931 | Quarter | 7.4 | 7.6 | 7.7 | 7.9 | 36.8 | 1.22 |

Source: Bloomberg, KGI Research

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| Rating | Definition |
|---------------|--|
| | KGI Securities Research's recommendations are based on an Absolute Return rating system. |
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| HOLD | -10% to +10% total return over the next 12 months |
| SELL | <-10% total return over the next 12 months |

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