

Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

5 Aug 2019

Keppel REIT (KREIT SP) : BUY

Mkt. Cap: US\$3,035m | 3m Avg. Daily Val: US\$5.4m

Last Traded Price (2 Aug 2019): S\$1.23

Price Target 12-mth: S\$1.45 (18% upside)

Analyst

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Sharpening up its portfolio

- Potential sale of Bugis Junction Towers, a positive catalyst as "market value > book value"
- Sharpens portfolio; KREIT likely to channel proceeds to other jurisdictions
- Near term top-up expected for loss of income but will KREIT share some of the gains?
- Maintain BUY; TP of S\$1.45

Forecasts and Valuation

FY Dec (\$m)	2017A	2018A	2019F	2020F
Gross Revenue	165	166	163	175
Net Property Inc	131	133	133	145
Total Return	173	146	130	138
Distribution Inc	191	189	191	197
EPU (S cts)	3.61	3.33	3.80	4.00
EPU Gth (%)	(11)	(8)	14	5
DPU (S cts)	5.70	5.56	5.59	5.69
DPU Gth (%)	(11)	(2)	1	2
NAV per shr (S cts)	141	140	138	135
PE (X)	34.1	36.9	32.4	30.7
Distribution Yield (%)	4.6	4.5	4.5	4.6
P/NAV (x)	0.9	0.9	0.9	0.9
Aggregate Leverage (%)	38.7	36.3	38.2	38.2
ROAE (%)	2.5	2.4	2.7	2.9

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

Company Guide



Summary of our point of view, and highlights the relevant data points, which are actively tracked

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What's New

Angelo Gordon granted due diligence for Bugis Junction Tower.

- The Business Times reported that Angelo Gordon, a US global alternative investment manager, is doing an exclusive due diligence for Bugis Junction Tower.
- Market expects pricing to be around S\$2,200 psf, with a total price for the property at c.S\$547m (~6% premium to its last valuation). This is slightly below the asking price of S\$2,300psf when an informal expression of interest exercise was conducted and closed in Sept-18.
- The price implies a net yield in the low 3%, implying average rentals of around S\$7-8psf per month. Given the uptrend in office rents, we expect the property to potentially yield up to 4% if average rents rise to S\$10psf.
- Compared to the most recent Duo Tower transaction sold at S\$2,570psf and adjusted for land tenure, Bugis Junction Tower's pricing is c.6% lower.

Our Views

Sharpens its portfolio, positive for KREIT.

- In an effort to continue to sharpen its portfolio, we like this potential divestment as we see Bugis Junction Tower as non-core to its otherwise Grade A Singapore portfolio.



Flash Note

- While located in a location off CBD and in a district that has been seeing multiple transactions over the years (DUO recently sold for S\$2,570 psf), we note that Guocoland Limited is building a new massive mixed-use development - Guoco Mid-town, which will complete in 2022.
- While the remaining land lease tenure is still fairly long at c.70 years, we believe the potential sale of the property should be positive to unitholders as it enables KREIT to recycle the asset towards better yielding assets.
- The proposed divestment price, while noted to be "below initial expectations" of c.S\$2,300 psf, is still positive as it represents a premium to book, justifying our call that KREIT's fair value is above book value (vs consensus TP that prices it below NAV).

Divestment gains for capital distribution

- We believe that management will use part of the potential divestment gains to support DPU in anticipation of loss of income from the property and to "smooth" out any transitional vacancy in the next 1-2 years.
- Any potential increase in DPU that is higher than expected is a re-rating catalyst.

Expanding its portfolio overseas.

- Given that KREIT's last few acquisitions were largely overseas assets and it recently made a maiden acquisition in Korea, we believe KREIT will continue to look overseas for potential acquisition opportunities to expand its overseas portfolio.

We maintain our BUY rating and TP of S\$1.45. We remain bullish on KREIT's prospects as we believe the expected positive rental reversions achieved this year should translate to stronger earnings and DPU ahead.

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	16 Oct 18	1.12	1.41	BUY
2:	30 Nov 18	1.15	1.41	BUY
3:	22 Jan 19	1.17	1.31	BUY
4:	28 Mar 19	1.29	1.31	BUY
5:	18 Apr 19	1.23	1.38	BUY
6:	24 Apr 19	1.23	1.40	BUY
7:	16 Jul 19	1.27	1.45	BUY

Note: Share price and Target price are adjusted for corporate actions.

Source: DBS Bank

Analyst: Derek TAN

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Flash Note

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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