

Singapore Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity

16 Oct 2019

Keppel DC REIT (KDCREIT SP) : **BUY**

Mkt. Cap: US\$2,159m | **3m Avg. Daily Val:** US\$10.4m

Last Traded Price (15 Oct 2019): S\$1.99

Price Target 12-mth: S\$2.20 (11% upside)

Analyst

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Company Guide



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

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Fuel for the tomorrow's digital world

- **Inclusion into FTSE EPRA Nareit Global Developed Index positive for future liquidity**
- **3Q19 DPU increased +4.3% y-o-y to 1.93 Scts; 9M19 DPU ahead of forecast**
- **Healthy operational metrics with slight uptick in portfolio occupancy**
- **Awaiting completion of data centres in Singapore; more acquisitions to come from third parties**

Forecasts and Valuation

FY Dec (\$m)	2018A	2019F	2020F	2021F
Gross Revenue	176	202	270	297
Net Property Inc	158	161	212	222
Total Return	142	110	142	155
Distribution Inc	96.1	111	147	156
EPU (S cts)	8.83	8.17	9.51	9.52
EPU Gth (%)	35	(7)	16	0
DPU (S cts)	7.32	7.80	8.60	9.07
DPU Gth (%)	3	7	10	6
NAV per shr (S cts)	107	107	118	119
PE (X)	22.5	24.4	20.9	20.9
Distribution Yield (%)	3.7	3.9	4.3	4.6
P/NAV (x)	1.9	1.9	1.7	1.7
Aggregate Leverage (%)	31.4	32.4	31.8	32.7
ROAE (%)	8.6	7.6	8.4	8.0

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

What's New

(+) Strong 9M19 results; DPU of 5.78 Scts is 5.7% higher y-o-y

9M19 net property income and distributable income increased by 11.8% and 16.9% to S\$128.8m and S\$81.8m respectively. The increase was driven by higher contributions from Singapore properties, partially offset by weaker AUD, EUR and GBP against the Singapore dollar.

Rental renewals in 3Q2019 were generally positive, coupled with lower property expenses for the quarter. Even without capex reserves (monies held for future capex needs) DPU for the quarter was stable at 1.93 Scts on a q-o-q basis.

(+) Improved operating metrics in Singapore and Dublin; uptick in occupancies at 3 properties

Overall portfolio occupancy ticked 0.4ppt higher y-o-y to 93.6% in 3Q19 and weighted average lease expiry (WALE) remained long at 7.7 years. Leases renewed in 3Q19 generally recorded positive reversions, and there are only 1.3% of leases to be renewed in 4Q19. Take-up by smaller tenants at KDC SGP1 and KDC Dublin 1 contributed to the improved portfolio occupancy. Tenant fit-out works at KDC Dublin 2 was completed in the quarter, and occupancy rose from 90.7% to 100%.

Retrofitting works to provide more power for tenants at KDC SGP 3 was completed in the quarter, and this should add to revenue going forward.

Occupancy at KDC Dublin 1 increased to 65.7% (vs 61.8% in 2Q19), and management believes that take-up would further improve closer to the completion of AEI in 2020.



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(+) Financial metrics strong

The REIT's financial metrics stayed strong, with average cost of debt maintained at c.1.7% with a lengthened debt tenor of 3.8 years. During the quarter, management refinanced approximately c.\$130m of loans due to expire in 2019. The SGD-denominated loans were refinanced by 6 years (to 2025) at an estimated cost of 2.5%.

Gearing fell to 28.9% during the quarter due to the private placement and preferential offering of approximately 277.0m new units. But gearing is projected to rise closer to c.30% after completion of the acquisitions in 4Q19.

(+) Imputing acquisitions in our forecasts; lowering discount rates to reflect the lower interest rate environment.

We believe that KDC REIT is in a virtuous acquisition cycle as the cost of capital is conducive to acquiring assets accretively. Given the visibility of an acquisition pipeline and ability to execute accretively, we have imputed into our forecast acquisitions worth S\$75m @ 6.5% yield on a fully debt-funded basis. We believe Keppel DC REIT remains on the lookout for potential acquisitions within Asia Pacific, namely Singapore, and Europe.

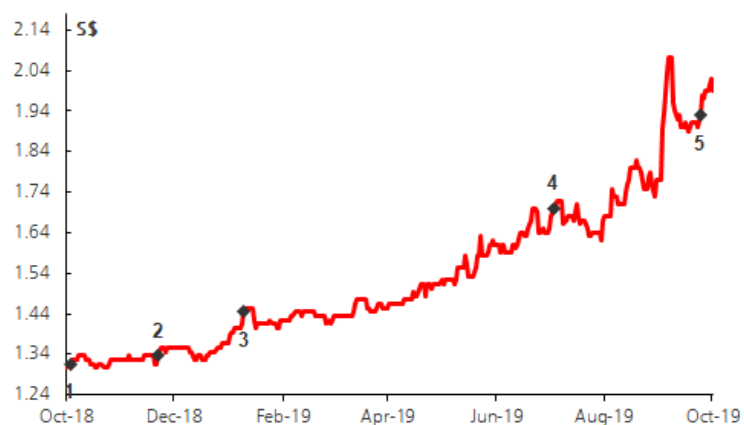
Quarterly / Interim Income Statement (\$m)

FY Dec	3Q2018	2Q2019	3Q2019	% chg yoy	% chg qoq
Gross revenue	47.6	47.5	46.4	(2.5)	(2.3)
Property expenses	(4.5)	(4.2)	(4.1)	(9.5)	(2.7)
Net Property Income	43.0	43.3	42.3	(1.8)	(2.3)
Other Operating expenses	(6.9)	(6.9)	(3.5)	(49.9)	(49.9)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	(4.1)	(4.0)	(3.9)	6.4	2.4
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	32.0	32.4	34.9	9.2	7.9
Tax	(2.8)	(2.6)	(2.0)	(29.8)	(24.2)
Minority Interest	(0.8)	(0.8)	(0.8)	(3.5)	5.2
Net Income after Tax	28.4	29.0	32.2	13.2	10.9
Total Return	28.4	29.0	32.2	13.2	10.9
Non-tax deductible Items	(2.4)	(1.8)	(4.7)	94.4	169.2
Net Inc available for Dist.	26.0	27.2	27.4	5.6	0.7
Ratio (%)					
Net Prop Inc Margin	90.5	91.2	91.2		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

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Target Price & Ratings History



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

Source: DBS Bank

Analyst: Derek TAN

Singapore Research Team

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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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