

Singapore Company Update

Keppel DC REIT

Bloomberg: KDCREIT SP | Reuters: KEPE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

27 Jan 2021

HOLD

Last Traded Price (26 Jan 2021): S\$2.89 (STI : 2,945.52)
Price Target 12-mth: S\$2.80 (3% downside)

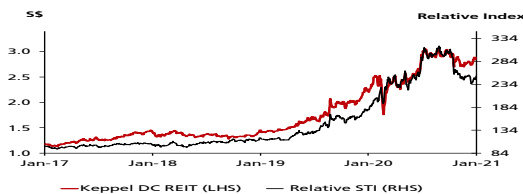
Analyst

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What's New

- FY20 DPU up 20.5% y-o-y to of 9.17 Scts
- Acquired Amsterdam Data Centre on an accretive 5.1% yield; on the lookout for more acquisitions
- Full occupancy at 14 properties; average occupancy at more than 90% for the other 6 properties
- Maintain HOLD with TP of S\$2.80

Price Relative



Forecasts and Valuation

FY Dec (\$m)	2019A	2020A	2021F	2022F
Gross Revenue	195	266	326	345
Net Property Inc	177	244	258	276
Total Return	106	168	170	183
Distribution Inc	113	157	174	184
EPD (S cts)	8.21	10.3	10.7	11.3
EPD Gth (%)	(7)	25	4	6
DPU (S cts)	7.61	9.17	9.74	10.3
DPU Gth (%)	4	20	6	6
NAV per shr (S cts)	114	119	126	127
PE (X)	35.2	28.2	27.1	25.5
Distribution Yield (%)	2.6	3.2	3.4	3.6
P/NAV (x)	2.5	2.4	2.3	2.3
Aggregate Leverage (%)	31.4	35.5	37.7	37.8
ROAE (%)	7.4	8.8	8.7	9.0

Distn. Inc Chng (%): (5) (6)
Consensus DPU (S cts): 9.90 10.3
Other Broker Recs: B: 5 S: 1 H: 7

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

In the race for the next acquisition

Investment Thesis

Resuming growth trajectory. With travel restrictions gradually lifted, we expect KDC REIT to embark on more acquisitions. At the current share price and its relatively low WACC, acquisitions should be highly accretive.

6% growth in DPU. DPU is expected to grow by c.6% in FY21 led by recent acquisitions and organic growth from annual rental escalations (c.2% - 4%) and AEIs. We have assumed acquisitions of S\$400m in 2H21.

Income stability. KDC REIT's portfolio occupancy has been above 96% and is expected to remain healthy with lease expiries well spread out. The continued demand for data centre capacity will also lead to higher occupancies across its portfolio.

Valuation:

Our target price of S\$2.80 is based on DCF, assuming WACC of 5.8% (risk free rate of 2.0%). We have penciled in S\$400m of acquisitions in our estimates.

Where we differ:

Slowdown in acquisitions. Despite its low WACC and potential for highly accretive acquisitions, we believe that KDC REIT will maintain a disciplined acquisition strategy. As the competition for data centre assets heats up and cap rates compress, KDC REIT may find it increasingly difficult to make large acquisitions in its target developed markets.

Key Risks to Our View:

Competition from larger third-party data centre players. KDC REIT may face higher barriers to entry and stiffer competition from international operators/funds which are also looking to grow their footprint and attract tenants.

At A Glance

Issued Capital (m shrs)	1,633
Mkt. Cap (S\$m/US\$m)	4,720 / 3,563
Major Shareholders (%)	
Keppel Corporation	21.3
Cohen & Steers Inc	5.0
Free Float (%)	73.7
3m Avg. Daily Val (US\$m)	12.8
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	



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WHAT'S NEW

In the race for the next acquisition

(+) FY20 DPU of 9.17 Scts is a 20.5% increase y-o-y

- Earnings and DPU were above expectations, led by income contribution from acquisitions and improved portfolio occupancy rates
- Post completion of AEI at Keppel DC Singapore 5, occupancy increased from 84.2% (in 3Q20) to 100%
- Higher occupancies at Keppel DC Singapore 1 and Keppel DC Singapore 2
- Acquired Amsterdam Data Centre for S\$48.1m in December 2020
 - Double-net lease that comprises of an office and data centre component
 - 99.1% occupancy with a WALE of 4.5 years
 - NLA of 141,698 sqft; NPI yield of 5.1%
 - Fully funded by Euro-denominated loan

Outlook and Recommendation

(-) Acquisitions in FY20 were lower-than-expected due to keen competition for data centre assets

- Strong competition for data centre assets in FY20; cap rates for data centres has compressed significantly
- Only c.S\$220m of acquisitions completed in FY20; our assumption for the remaining S\$400m of acquisitions has been pushed backed to 2H21

(+) Third-party acquisitions to dominate inorganic growth in FY21

- The only near-term acquisition pipeline from KDC REIT's Sponsor is Almere Data Centre 2 in the Netherlands
 - Expect the property to stabilise and ready for acquisition by the end-2021 or early-2022
- Continues to be on the lookout for quality third-party data centres globally
 - Includes both co-locations and shell-and-core assets
 - Open to single property and portfolio acquisitions
 - Markets include the US, Europe, Australia and Singapore
 - We believe KDC REIT's disciplined approach on accretive acquisitions may have led them to be edged-out by competitors

(+) AEIs and development project on track to boost FY21 income

- Due to disruptions from COVID-19, there were some delays to AEIs and the development project at Intellicentre 3 (Sydney)
- However, works are now on track for completion in 1H21
- We expect the completion of AEIs at DC1 Singapore and Keppel DC Dublin 2 to contribute additional income in 2H21
- Macquarie Telecom's 20-year triple-net lease at Intellicentre 3 will begin once development is completed
 - Our estimated NPI yield for the development is 6.5%

(+) Average cost of debt maintained at 1.6%

- Following the Amsterdam acquisition that was fully funded by debt, gearing inched up to 36.2%
- Maintained low cost of debt of 1.6% and interest coverage ratio improved to 13.3x
- Only S\$143 of loans will be due for renewal at the end of 2021
- Given the low interest rate environment, we believe KDC REIT will be able to maintain its low cost of funding going forward

Our thoughts

Through its proactive asset management and increase in demand for data centre capacity, KDC REIT reported FY20 DPU of 9.17 Scts that was above our estimates. The continued demand for data centre capacity in Singapore has led to higher occupancies at several properties, translating to a higher portfolio occupancy rate of 97.8%. As projected, data centre demand remained resilient throughout the COVID-19 pandemic, and KDC REIT's FY20 performance was contributed by both organic and inorganic growth.

Despite missing our acquisition growth projection of S\$600m for the year, KDC REIT's recent acquisition of Amsterdam Data Centre demonstrates their disciplined approach in acquiring accretive properties. Although the property includes an office component, the NPI yield of 5.1% is very commendable given that cap rates for data centres in the Netherlands is among the lowest globally.

Keppel DC REIT

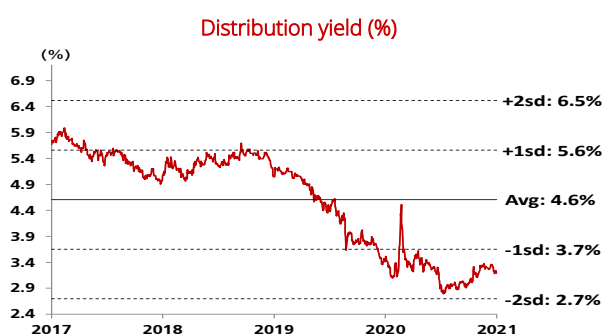
We await KDCREIT's next acquisition as we understand that management is stepping up its hunt for high quality and accretive acquisitions. We have pushed back the estimated completion of S\$400m worth of assumed acquisitions to 2H21.

Despite the strong results and healthy growth prospects (c.6% growth in FY21 DPU), we recognise that KDC REIT is currently trading at a very tight forward yield of 3.4%. As such, we maintain our **HOLD** recommendation and TP of **S\$2.80**. Our TP assumes a forward target yield of 3.5%.

Company Background

KDC REIT (KDC REIT) is a Singapore-based real estate investment trust (REIT). It was established with the principal investment strategy of investing, directly or indirectly, in a portfolio of income-producing real estate assets which are used primarily for data centre purposes, with an initial focus on Asia Pacific and Europe.

Historical Dividend yield and PB band



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Income Statement (\$\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Gross revenue	176	195	266	326	345
Property expenses	(17.9)	(17.5)	(21.4)	(68.4)	(68.9)
Net Property Income	158	177	244	258	276
Other Operating expenses	(24.0)	(24.9)	(32.7)	(41.5)	(38.5)
Other Non Opg (Exp)/Inc	0.56	2.64	(1.1)	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	(15.8)	(15.4)	(18.3)	(21.2)	(24.7)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	118	140	192	195	212
Tax	(5.0)	(12.6)	(21.0)	(13.7)	(14.9)
Minority Interest	(4.1)	(4.6)	(3.6)	(3.9)	(4.2)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	109	122	168	178	193
Total Return	142	106	168	170	183
Non-tax deductible Items	(45.8)	6.74	(11.2)	4.30	0.30
Net Inc available for Dist.	96.1	113	157	174	184
Growth & Ratio					
Revenue Gth (%)	26.2	11.0	36.3	22.9	5.5
N Property Inc Gth (%)	26.0	12.4	37.7	5.7	6.8
Net Inc Gth (%)	48.1	12.1	36.8	6.1	8.7
Dist. Payout Ratio (%)	94.2	95.4	95.5	95.4	95.6
Net Prop Inc Margins (%)	89.8	91.0	91.9	79.1	80.0
Net Income Margins (%)	62.2	62.8	63.1	54.5	56.1
Dist to revenue (%)	54.7	58.1	59.1	53.3	53.3
Managers & Trustee's fees	13.7	12.8	12.3	12.7	11.2
ROAE (%)	8.6	7.4	8.8	8.7	9.0
ROA (%)	5.4	4.7	5.3	5.0	5.2
ROCE (%)	6.5	5.5	6.2	5.8	6.0
Int. Cover (x)	8.4	9.9	11.6	10.2	9.6

Source: Company, DBS Bank

Assumed S\$400m of acquisitions to be completed by 2H21.

Balance Sheet (\$\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Investment Properties	2,029	2,637	3,005	3,412	3,418
Other LT Assets	4.02	11.0	40.2	40.2	40.2
Cash & ST Invt	128	181	244	137	154
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	85.7	95.8	54.4	131	138
Other Current Assets	6.11	2.88	5.79	5.79	5.79
Total Assets	2,253	2,928	3,350	3,725	3,756
ST Debt	134	40.3	144	144	144
Creditor	36.3	59.9	80.0	21.8	23.0
Other Current Liab	16.9	8.04	9.35	16.0	17.2
LT Debt	573	880	1,044	1,259	1,274
Other LT Liabilities	17.1	36.8	90.4	90.4	90.4
Unit holders' funds	1,445	1,868	1,945	2,153	2,161
Minority Interests	31.2	34.5	37.6	41.5	45.7
Total Funds & Liabilities	2,253	2,928	3,350	3,725	3,756
Non-Cash Wkg. Capital	38.6	30.8	(29.1)	98.6	103
Net Cash/(Debt)	(578)	(739)	(944)	(1,266)	(1,265)
Ratio					
Current Ratio (x)	1.2	2.6	1.3	1.5	1.6
Quick Ratio (x)	1.1	2.6	1.3	1.5	1.6
Aggregate Leverage (%)	31.4	31.4	35.5	37.7	37.8
Z-Score (X)	3.2	3.0	3.4	2.8	2.9

Source: Company, DBS Bank

Assumed S\$400m of acquisitions will be funded by 50% debt and 50% equity.

Keppel DC REIT

Cash Flow Statement (\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Income	118	140	192	195	212
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	0.0	(16.9)	(7.9)	(7.0)	(13.7)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	(29.9)	19.0	15.8	(134)	(6.0)
Other Operating CF	23.4	13.6	34.9	4.30	0.30
Net Operating CF	112	155	235	58.3	193
Net Invnt in Properties	(448)	(669)	(209)	(415)	(15.9)
Other Invnts (net)	0.0	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	0.0	0.0	0.0	0.0
Net Investing CF	(448)	(669)	(209)	(415)	(15.9)
Distribution Paid	(79.3)	(129)	(107)	(166)	(176)
Chg in Gross Debt	145	216	243	215	15.9
New units issued	303	478	0.0	200	0.0
Other Financing CF	(21.8)	(22.3)	(69.6)	0.0	0.0
Net Financing CF	347	543	66.9	249	(160)
Currency Adjustments	(1.0)	(1.7)	(4.5)	0.0	0.0
Chg in Cash	10.2	27.5	88.5	(108)	17.5
Operating CFPS (\$ cts)	11.5	9.14	13.4	11.5	11.7
Free CFPS (\$ cts)	(27.1)	(34.4)	1.60	(21.4)	10.4

Source: Company, DBS Bank

Target Price & Ratings History



S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	25 Feb 20	2.51	2.55	HOLD
2:	05 May 20	2.34	2.55	HOLD
3:	22 Jul 20	2.78	2.80	HOLD

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

Source: DBS Bank

Analyst: Dale LAI

Derek TAN

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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