

INITIATE COVERAGE

Keppel DC REIT (KDCREIT SP)

Latent Potential Unleashed As AI Gradually Permeates Our Daily Lives

KDCREIT is a pure play on data centres in Asia Pacific and Europe. It is differentiated by its focus on colocation data centres, which account for about 65% of rental income. KDCREIT's colocation data centres have generated stronger positive rental reversion at mid-to-high single digits in 3Q23. It has a pipeline of data centres under development and managed by Keppel Group's private data centre funds and Keppel T&T worth more than S\$2b. Initiate coverage with BUY and target price of S\$2.10.

INVESTMENT HIGHLIGHTS

- **Colocation data centres provide stronger positive rental reversion.** Keppel DC REIT (KDCREIT) has generated positive rental reversion for new and renewed leases in Singapore, Australia, Ireland and the Netherlands in 9M23. For its colocation data centres, positive rental reversion was stronger at mid-to-high single digits in 3Q23. Master leases for its fully fitted and shell & core data centres have built in rental escalations at 2-4% per year.
- **AI has latent potential to boost demand in the medium term.** AI is computationally intensive. As an illustration, a ChatGPT search requires 10 times more compute cycles than a Google search. Generative AI models could be up to 100 times bigger than standard AI models. We are still in the early stage of development for AI. Eventually, AI would become more deeply integrated into our daily lives.
- **Refocusing on sponsor pipeline.** KDCREIT has a solid track record for growing via acquisitions and its portfolio has expanded 3.7x since its IPO. It has a pipeline of potential acquisitions for data centres under development and managed by Keppel Group's private data centre funds and Keppel T&T worth more than S\$2b. They include: a) colocation data centre SGP 7 at Genting Lane in Singapore; b) data centres in tier-1 cities in China such as Beijing and Shanghai; and c) colocation data centre Almere DC2 in the Netherlands.
- **Negotiations with Guangdong Bluesea Data Development still ongoing.** KDCREIT has issued a letter of demand to its tenant Guangdong Bluesea Data Development in relation to Guangdong DC1, DC2 & DC3 to recover arrears of Rmb48.3m (S\$9.1m). We understand that DC1 serves a telco operator and occupancy has stabilised at 70-80%. DC2 is ramping up and has secured a new telco tenant with occupancy low at 30%. We have assumed occupancies for DC1 at 75% and DC2 at 30% after KDCREIT established direct relationships with the two state-owned telco operators.

Click [here](#) for Blue Top dated 11 Jan 24

KEY FINANCIALS

Year to 31 Dec (S\$m)	2021	2022	2023F	2024F	2025F
Net turnover	271	277	278	273	279
EBITDA	217	219	218	212	217
Operating profit	217	219	218	212	217
Net profit (rep./act.)	314	231	158	151	154
Net profit (adj.)	158	154	159	151	154
EPU (S\$ cent)	9.5	9.0	9.3	8.8	8.9
DPU (S\$ cent)	9.9	10.2	10.1	9.2	9.3
PE (x)	19.5	20.6	20.0	21.0	20.8
P/B (x)	1.4	1.3	1.3	1.3	1.3
DPU Yld (%)	5.3	5.5	5.5	5.0	5.0
Net margin (%)	115.7	83.3	56.6	55.5	55.1
Net debt/(cash) to equity (%)	48.1	53.2	56.1	58.2	60.4
Interest cover (x)	10.5	10.0	5.7	4.9	4.7
ROE (%)	14.8	9.8	6.6	6.3	6.4
Consensus DPU (S\$ cent)	n.a.	n.a.	9.9	9.6	10.7
UOBKH/Consensus (x)	-	-	1.02	0.96	0.87

Source: Keppel DC REIT, Bloomberg, UOB Kay Hian

BUY

Share Price	S\$1.85
Target Price	S\$2.10
Upside	+13.5%

COMPANY DESCRIPTION

Keppel DC REIT invests in a diversified portfolio of income-producing real estate assets used primarily for data centre purposes. It was listed on the SGX on 12 Dec 14 as the first pure-play data centre REIT in Asia.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	KDCREIT SP
Shares issued (m):	1,721.4
Market cap (S\$m):	3,184.6
Market cap (US\$m):	2,393.0
3-mth avg daily t'over (US\$m):	11.4

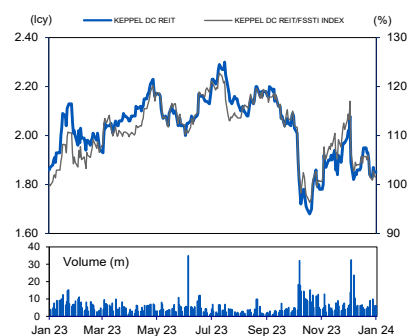
Price Performance (%)

52-week high/low	S\$2.30/S\$1.68			
1mth	3mth	6mth	1yr	YTD
(6.1)	(11.1)	(13.1)	0.5	(5.1)

Major Shareholders

	%
Temasek Hldgs	22.0
FY24 NAV/Share (S\$)	1.38
FY24 Net Debt/Share (S\$)	0.81

PRICE CHART



Source: Bloomberg

ANALYST(S)

Jonathan Koh, CFA, MSc Econ
 +65 6590 6620
 jonathankoh@uobkayhian.com

STOCK IMPACT

- **Geographically diversified footprint.** KDCREIT invests in high-quality data centres strategically located in key hubs across 13 cities in Asia Pacific (four countries) and Europe (five countries). Singapore is the largest core market, accounting for 55% of AUM. On aggregate, Asia Pacific accounted for 71%, compared with 29% for Europe.
- **Pure play differentiated by focus on colocation data centre.** KDCREIT is a pure play on data centres in Asia Pacific and Europe. It is differentiated by its focus on colocation data centres, which account for about 65% of rental income. KDCREIT's colocation data centres have generated stronger positive rental reversion at mid-to-high single digits in 3Q23. It has a pipeline of data centres under development and managed by Keppel Group's private data centre funds and Keppel T&T worth more than S\$2b.

VALUATION/RECOMMENDATION

- **Trading at significant discount relative to global peers.** KDCREIT provides a 2024 distribution yield of 5.0% and P/NAV of 1.33x, which represent a slight premium versus its domestic peers in Singapore (5.4%) but a significant discount against its overseas peers in Asia Pacific (1.7%) and the US (2.1%).
- **Initiate coverage with BUY and a target price of S\$2.10** based on DDM (cost of equity: 6.75%, terminal growth: 2.5%).

SHARE PRICE CATALYST

- Demand for colocation space arising from AI-powered applications.
- Acquisitions from sponsor pipeline.
- Repossessing data centres in Guangdong, China and backfilling of vacant data centre space.

PEER COMPARISON – DATA CENTRES

Name	Ticker	Rec	Currency	Price 10 Jan 24	Target Price	Mkt Cap (US\$m)	Yield (%)				Debt to Equity (%)	Debt to Assets (%)	P/NAV (x)
							Hist	Curr	Fwd	Fwd 2Y			
Singapore													
Capitaland Ascendas	CLAR SP	BUY	S\$	2.92	3.50	9,637	5.4	5.3	5.3	5.3	64.3	37.2	1.26
Keppel DC REIT	KDCREIT SP	BUY	S\$	1.85	2.10	2,392	5.5	5.5	5.0	5.0	60.6	37.2	1.33
Mapletree Ind Trust	MINT SP	BUY	S\$	2.48	2.98	5,279	5.5	5.3	5.5	5.7	57.4	37.9	1.32
Digital Core REIT	DCREIT SP	BUY	US\$	0.635	0.77	714	6.3	5.8	5.4	5.0	54.2	34.4	0.77
Average							5.7	5.5	5.3	5.3	59.1	36.7	1.17
Asia Pacific													
GDS Holdings	GDS US	NR	US\$	7.38	n.a.	1,406	0.0	0.0	0.0	0.0	194.1	59.7	0.44
SUNeVision Holdings	1686 HK	NR	HK\$	2.93	n.a.	876	3.8	4.2	5.0	5.8	295.5	66.2	1.47
NEXTDC	NXT AU	NR	A\$	13.61	n.a.	4,707	0.0	0.0	0.0	0.0	63.3	37.5	3.08
Average							1.3	1.4	1.7	1.9	184.3	54.5	1.66
US													
Digital Realty Trust	DLR US	NR	US\$	133.62	n.a.	41,332	3.7	3.7	3.8	3.9	107.4	43.6	2.32
Equinix	EQIX US	NR	US\$	798.69	n.a.	74,984	1.6	1.8	2.1	2.4	143.1	54.3	6.31
Digitalbridge Group	DBRG US	NR	US\$	18.13	n.a.	2,963	0.2	0.3	0.3	0.4	639.4	48.3	3.48
Average							1.8	1.9	2.1	2.2	296.6	48.7	4.04

Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	277.3	278.4	272.9	278.6
EBITDA	219.1	218.0	211.9	216.7
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	219.1	218.0	211.9	216.7
Associate contributions	(9.0)	(4.9)	(5.0)	(5.0)
Net interest income/(expense)	(21.8)	(38.3)	(43.4)	(46.0)
Pre-tax profit	265.2	173.2	163.4	165.6
Tax	(31.0)	(12.5)	(9.0)	(9.1)
Minorities	(3.3)	(3.1)	(3.0)	(3.0)
Net profit	230.9	157.6	151.4	153.5
Net profit (adj.)	154.0	159.2	151.4	153.5

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	3,639.5	3,675.5	3,715.5	3,755.5
Other LT assets	177.6	169.0	169.0	169.0
Cash/ST investment	190.4	157.3	156.2	153.7
Other current assets	100.2	97.8	95.6	97.5
Total assets	4,107.7	4,099.6	4,136.3	4,175.7
ST debt	175.4	60.7	60.7	60.7
Other current liabilities	69.2	68.3	66.8	68.1
LT debt	1,299.7	1,440.0	1,485.0	1,530.0
Other LT liabilities	106.4	94.3	94.3	94.3
Shareholders' equity	2,414.1	2,393.4	2,386.6	2,379.7
Minority interest	42.8	42.9	42.9	42.9
Total liabilities & equity	4,107.7	4,099.6	4,136.3	4,175.7

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	218.3	197.9	206.6	208.9
Pre-tax profit	234.2	163.2	154.4	156.5
Associates	9.0	4.9	5.0	5.0
Working capital changes	1.4	(1.5)	0.7	(0.6)
Non-cash items	5.0	4.6	3.5	3.6
Other operating cashflows	(31.2)	26.7	42.9	44.5
Investing	(298.7)	(32.8)	(40.0)	(40.0)
Capex (growth)	(246.9)	0.0	0.0	0.0
Capex (maintenance)	(48.1)	(32.8)	(40.0)	(40.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(3.7)	0.0	0.0	0.0
Financing	83.7	(198.2)	(167.7)	(171.4)
Distribution to unitholders	(146.9)	(174.4)	(158.3)	(160.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	518.0	25.5	45.0	45.0
Loan repayment	(251.6)	0.0	0.0	0.0
Others/interest paid	(35.9)	(49.3)	(54.4)	(56.0)
Net cash inflow (outflow)	3.3	(33.1)	(1.1)	(2.5)
Beginning cash & cash equivalent	195.9	190.4	157.3	156.2
Changes due to forex impact	(8.8)	0.0	0.0	0.0
Ending cash & cash equivalent	190.4	157.3	156.2	153.7

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	79.0	78.3	77.6	77.8
Pre-tax margin	95.6	62.2	59.9	59.4
Net margin	83.3	56.6	55.5	55.1
ROA	5.9	3.8	3.7	3.7
ROE	9.8	6.6	6.3	6.4
Growth				
Turnover	2.3	0.4	(2.0)	2.1
EBITDA	1.0	(0.5)	(2.8)	2.3
Pre-tax profit	(24.4)	(34.7)	(5.7)	1.3
Net profit	(26.4)	(31.7)	(3.9)	1.4
Net profit (adj.)	(2.6)	3.4	(4.9)	1.4
EPU	(5.7)	3.3	(5.0)	1.3
Leverage				
Debt to total capital	37.5	38.1	38.9	39.6
Debt to equity	61.1	62.7	64.8	66.8
Net debt/(cash) to equity	53.2	56.1	58.2	60.4
Interest cover (x)	10.0	5.7	4.9	4.7

Disclosures/Disclaimers

This report is prepared by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report is provided for information only and is not an offer or a solicitation to deal in securities or to enter into any legal relations, nor an advice or a recommendation with respect to such securities.

This report is prepared for general circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any recipient hereof. Advice should be sought from a financial adviser regarding the suitability of the investment product, taking into account the specific investment objectives, financial situation or particular needs of any person in receipt of the recommendation, before the person makes a commitment to purchase the investment product.

This report is confidential. This report may not be published, circulated, reproduced or distributed in whole or in part by any recipient of this report to any other person without the prior written consent of UOBKH. This report is not directed to or intended for distribution to or use by any person or any entity who is a citizen or resident of or located in any locality, state, country or any other jurisdiction as UOBKH may determine in its absolute discretion, where the distribution, publication, availability or use of this report would be contrary to applicable law or would subject UOBKH and its connected persons (as defined in the Financial Advisers Act, Chapter 110 of Singapore) to any registration, licensing or other requirements within such jurisdiction.

The information or views in the report ("Information") has been obtained or derived from sources believed by UOBKH to be reliable. However, UOBKH makes no representation as to the accuracy or completeness of such sources or the Information and UOBKH accepts no liability whatsoever for any loss or damage arising from the use of or reliance on the Information. UOBKH and its connected persons may have issued other reports expressing views different from the Information and all views expressed in all reports of UOBKH and its connected persons are subject to change without notice. UOBKH reserves the right to act upon or use the Information at any time, including before its publication herein.

Except as otherwise indicated below, (1) UOBKH, its connected persons and its officers, employees and representatives may, to the extent permitted by law, transact with, perform or provide broking, underwriting, corporate finance-related or other services for or solicit business from, the subject corporation(s) referred to in this report; (2) UOBKH, its connected persons and its officers, employees and representatives may also, to the extent permitted by law, transact with, perform or provide broking or other services for or solicit business from, other persons in respect of dealings in the securities referred to in this report or other investments related thereto; (3) the officers, employees and representatives of UOBKH may also serve on the board of directors or in trustee positions with the subject corporation(s) referred to in this report. (All of the foregoing is hereafter referred to as the "Subject Business"); and (4) UOBKH may otherwise have an interest (including a proprietary interest) in the subject corporation(s) referred to in this report.

As of the date of this report, no analyst responsible for any of the content in this report has any proprietary position or material interest in the securities of the corporation(s) which are referred to in the content they respectively author or are otherwise responsible for.

IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by UOBKH, a company authorized, as noted above, to engage in securities activities in Singapore. UOBKH is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution by UOBKH (whether directly or through its US registered broker dealer affiliate named below) to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act"). All US persons that receive this document by way of distribution from or which they regard as being from UOBKH by their acceptance thereof represent and agree that they are a major institutional investor and understand the risks involved in executing transactions in securities.

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through UOB Kay Hian (U.S.) Inc ("UOBKHUS"), a registered broker-dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through UOBKH.

UOBKHUS accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to and intended to be received by a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of UOBKHUS and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

Analyst Certification/Regulation AC

Each research analyst of UOBKH who produced this report hereby certifies that (1) the views expressed in this report accurately reflect his/her personal views about all of the subject corporation(s) and securities in this report; (2) the report was produced independently by him/her; (3) he/she does not carry out, whether for himself/herself or on behalf of UOBKH or any other person, any of the Subject Business involving any of the subject corporation(s) or securities referred to in this report; and (4) he/she has not received and will not receive any compensation that is directly or indirectly related or linked to the recommendations or views expressed in this report or to any sales, trading, dealing or corporate finance advisory services or transaction in respect of the securities in this report. However, the compensation received by each such research analyst is based upon various factors, including UOBKH's total revenues, a portion of which are generated from UOBKH's business of dealing in securities.

Reports are distributed in the respective countries by the respective entities and are subject to the additional restrictions listed in the following table.

General	This report is not intended for distribution, publication to or use by any person or entity who is a citizen or resident of or located in any country or jurisdiction where the distribution, publication or use of this report would be contrary to applicable law or regulation.
Hong Kong	This report is distributed in Hong Kong by UOB Kay Hian (Hong Kong) Limited ("UOBKHHK"), which is regulated by the Securities and Futures Commission of Hong Kong. Neither the analyst(s) preparing this report nor his associate, has trading and financial interest and relevant relationship specified under Para. 16.4 of Code of Conduct in the listed corporation covered in this report. UOBKHHK does not have financial interests and business relationship specified under Para. 16.5 of Code of Conduct with the listed corporation covered in this report. Where the report is distributed in Hong Kong and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKHHK (and not the relevant foreign research house) in Hong Kong in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Hong Kong who is not a professional investor, or institutional investor, UOBKHHK accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Indonesia	This report is distributed in Indonesia by PT UOB Kay Hian Sekuritas, which is regulated by Financial Services Authority of Indonesia ("OJK"). Where the report is distributed in Indonesia and contains research analyses or reports from a foreign research house, please note recipients of the analyses or reports are to contact PT UOBKH (and not the relevant foreign research house) in Indonesia in respect of any matters arising from, or in connection with, the analysis or report.
Malaysia	Where the report is distributed in Malaysia and contains research analyses or reports from a foreign research house, the recipients of the analyses or reports are to contact UOBKHM (and not the relevant foreign research house) in Malaysia, at +603-21471988, in respect of any matters arising from, or in connection with, the analysis or report as UOBKHM is the registered person under CMSA to distribute any research analyses in Malaysia.
Singapore	This report is distributed in Singapore by UOB Kay Hian Private Limited ("UOBKH"), which is a holder of a capital markets services licence and an exempt financial adviser regulated by the Monetary Authority of Singapore. Where the report is distributed in Singapore and contains research analyses or reports from a foreign research house, please note: (i) recipients of the analyses or reports are to contact UOBKH (and not the relevant foreign research house) in Singapore in respect of any matters arising from, or in connection with, the analysis or report; and (ii) to the extent that the analyses or reports are delivered to and intended to be received by any person in Singapore who is not an accredited investor, expert investor or institutional investor, UOBKH accepts legal responsibility for the contents of the analyses or reports only to the extent required by law.
Thailand	This report is distributed in Thailand by UOB Kay Hian Securities (Thailand) Public Company Limited, which is regulated by the Securities and Exchange Commission of Thailand.
United Kingdom	This report is being distributed in the UK by UOB Kay Hian (U.K.) Limited, which is an authorised person in the meaning of the Financial Services and Markets Act and is regulated by The Financial Conduct Authority. Research distributed in the UK is intended only for institutional clients.
United States of America ('U.S.')	This report cannot be distributed into the U.S. or to any U.S. person or entity except in compliance with applicable U.S. laws and regulations. It is being distributed in the U.S. by UOB Kay Hian (US) Inc, which accepts responsibility for its contents. Any U.S. person or entity receiving this report and wishing to effect transactions in any securities referred to in the report should contact UOB Kay Hian (US) Inc. directly.

Copyright 2024, UOB Kay Hian Pte Ltd. All rights reserved.

<http://research.uobkayhian.com>

RCB Regn. No. 197000447W