

COMPANY RESULTS

Keppel DC REIT (KDCREIT SP)

2H23: Hope For The Best But Prepared For The Worst

2H23 results were affected by provisions for arrears from Guangdong data centres of S\$10.5m, equivalent to 5.5 months of rental income from DC 1 and DC 2 and coupon income from DC 3. KDCREIT has drawn up a recovery road map and seeks to resolve the arrears amicably. On a brighter note, the High Court has ruled in favour of KDCREIT as it seeks to claim S\$14.8m from DXC. Geographical diversification has cushioned the negative impact from Guangdong data centres. Maintain BUY. Target price: S\$2.10.

2H23 RESULTS

| Year to 31 Dec (\$m) | 2H23 | yoy % chg | Remarks |
|---------------------------|-------|-----------|--|
| Gross Revenue | 140.7 | -0.7 | Positive rental reversions and rental escalations offset by higher facility expenses. Hit by provisions of S\$10.5m. |
| Net Property Income (NPI) | 117.6 | -9.1 | |
| Distributable income | 76.4 | -18.5 | Finance costs increased 43.5% yoy. |
| DPU (S cent) | 4.332 | -16.1 | |

Source: KDCREIT, UOB Kay Hian

RESULTS

- Keppel DC REIT (KDCREIT) reported 2H23 DPU of 4.332 cents (-16.1% yoy), which was below our forecast of 4.8 S cents.
- Taking the hit from Guangdong data centres.** Property expenses increased 86% or S\$10.7m yoy due to provisions for the uncollected income from the Guangdong data centres of S\$10.5m, equivalent to 5.5 months of rental income from DC 1 and DC 2 and coupon income from DC 3 in 2H23. Excluding the provisions, the increase in property expenses would be smaller at only 1% yoy. The decline in distribution is entirely due to the provisions, which reduced 2H23 DPU by 0.649 S cents or 15%.
- Resolving the arrears amicably where possible.** The tenant Guangdong Bluesea Data Development has repaid a token amount of Rmb5m (S\$0.1m) for the sum in arrears (KDCREIT has issued letter of demand to recover arrears of Rmb48.3m (S\$9.1m)). KDCREIT is working with Bluesea Development on a recovery road map. It has also reserved its rights with respect to acquisition of DC 3.
- Core business chugging along.** KDCREIT generated positive rental reversion for new and renewed leases for data centres in Singapore, Australia, Ireland and the Netherlands in 4Q23. For its colocation data centres, positive rental reversion was stronger at mid-to-high single digits. Master leases for its fully-fitted and shell & core data centres have built in rental escalations at 2-4% per year. Portfolio occupancy remains high at 98.3%. KDCREIT provides stable cash flows due to its long portfolio weighted average lease to expiry (WALE) weighted by NLA of 7.6 years.

KEY FINANCIALS

| Year to 31 Dec (\$m) | 2022 | 2023 | 2024F | 2025F | 2026F |
|-------------------------------|------|------|-------|-------|-------|
| Net turnover | 277 | 277 | 280 | 280 | 284 |
| EBITDA | 219 | 208 | 207 | 218 | 221 |
| Operating profit | 219 | 208 | 207 | 218 | 221 |
| Net profit (rep./act.) | 231 | 114 | 128 | 155 | 156 |
| Net profit (adj.) | 154 | 143 | 147 | 155 | 156 |
| EPU (S\$ cent) | 9.0 | 8.3 | 8.6 | 9.0 | 9.0 |
| DPU (S\$ cent) | 10.2 | 9.4 | 8.9 | 9.4 | 9.4 |
| PE (x) | 19.6 | 21.1 | 20.6 | 19.6 | 19.5 |
| P/B (x) | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 |
| DPU Yld (%) | 5.8 | 5.3 | 5.1 | 5.3 | 5.4 |
| Net margin (%) | 83.3 | 41.3 | 45.9 | 55.2 | 54.9 |
| Net debt/(cash) to equity (%) | 53.2 | 57.6 | 61.5 | 63.8 | 66.1 |
| Interest cover (x) | 10.0 | 5.5 | 4.8 | 4.7 | 4.6 |
| ROE (%) | 9.8 | 4.8 | 5.6 | 6.8 | 6.8 |
| Consensus DPU (S\$ cent) | n.a. | n.a. | 9.6 | 10.6 | 10.3 |
| UOBKH/Consensus (x) | - | - | 0.93 | 0.88 | 0.92 |

Source: Keppel DC REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|--------------|---------|
| Share Price | S\$1.76 |
| Target Price | S\$2.10 |
| Upside | +19.3% |

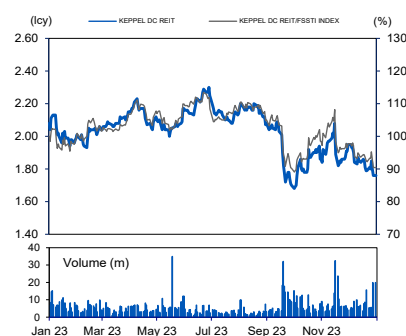
COMPANY DESCRIPTION

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) | 3,029.7 | | | |
| Market cap (US\$m) | 2,260.6 | | | |
| 3-mth avg daily t'over (US\$m): | 10.3 | | | |
| Price Performance (%) | | | | |
| 52-week high/low | S\$2.30/S\$1.68 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| (5.9) | 2.9 | (22.5) | (13.3) | (9.7) |
| Major Shareholders | % | | | |
| Temasek Hldgs | 22.0 | | | |
| FY24 NAV/Share (S\$) | 1.33 | | | |
| FY24 Net Debt/Share (S\$) | 0.82 | | | |

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Incurred higher finance costs.** Aggregate leverage was stable at 37.4% as of Dec 23. Its average cost of debt increased 0.9ppt yoy to 3.6%. Finance costs jumped 43.5% yoy. The bulk of its borrowings mature in 2026 and beyond. As such, KDCREIT's average cost of borrowings is expected to remain stable.

- Portfolio asset valuation was stable.** NAV per unit declined 4.3% to S\$1.34.

STOCK IMPACT

- 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 66% of rental income. KDCREIT's colocation data centres have generated stronger positive rental reversion at mid-to-high single digits in 2023. It has a pipeline of data centres under development and management by Keppel Group, including Keppel T&T, and its private data centre funds worth more than S\$2b.

- 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%.

- Hope for the best but prepared for the worst.** We have assumed that the arrears remain unresolved and KDCREIT makes another provision of S\$11.5m in 1H24. We expect KDCREIT to take vacant possession of DC1 and DC2 in mid-24. We have assumed occupancies at DC1 at 70% and DC2 at 30% after KDCREIT established direct relationships with the two state-owned telco operators in 2H24. Keppel Group has facilities management capabilities on the ground in China, which facilitates the sourcing for replacement tenants. We have assumed the Rmb100m (S\$18.9m) invested in DC3 is written off.

- Favourable outcome for dispute with DXC.** Singapore High Court issued a judgment on the dispute between KDCREIT and DXC Technology Services (DXC) on 12 Jan 24. The High Court held that DXC was not entitled to unilaterally reduce the data centre space originally ordered at 25 Serangoon North Avenue 5 (Keppel DC SGP 1). The dispute is set for trial in February in the High Court to determine the actual quantum to be paid by DXC to KDCREIT. KDCREIT is claiming S\$14.8m for: a) the sum outstanding from Apr 21 to Dec 21, and b) losses suffered for the space DXC unilaterally gave up from Apr 21 to Mar 25.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$2.10 is based on DDM (cost of equity: 6.75%, terminal growth: 2.5%).

EARNINGS REVISION/RISK

- We kept our 2025 and 2026 DPU forecasts unchanged as we have already factored in negative impact from the Guangdong data centres when we initiated coverage on KDCREIT on 11 Jan 24.

SHARE PRICE CATALYST

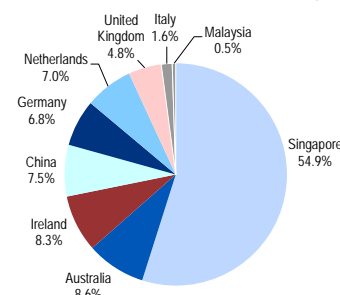
- Demand for colocation space arising from AI-powered applications.
- Acquisitions from the sponsor pipeline.
- Repossessing data centres in Guangdong, China and backfilling of vacant spaces.

KEY OPERATING METRICS

| | 4Q22 | 1Q23 | 2Q23 | 3Q23 | 4Q23 | yoy % chg | qoq % chg* |
|--------------------------------|-------|-------|-------|-------|-------|-----------|------------|
| DPU (S cents) | 5.17 | n.a. | 5.05 | n.a. | 4.33 | -16.1% | -14.2% |
| Occupancy | 98.5% | 98.5% | 98.5% | 98.3% | 98.3% | -0.2ppt | 0ppt |
| Aggregate Leverage | 36.4% | 36.8% | 36.3% | 37.2% | 37.4% | 1ppt | 0.2ppt |
| Average Cost of Debt | 2.70% | 2.80% | 3.30% | 3.50% | 3.60% | 0.9ppt | 0.1ppt |
| WALE by NLA (years) | 8.4 | 8.2 | 8 | 7.8 | 7.6 | -0.8yrs | -0.2yrs |
| Average Debt Maturity (years) | 3.7 | 3.8 | 3.9 | 3.7 | 3.4 | -0.3yrs | -0.3yrs |
| % of Borrowings in Fixed Rates | 74.0% | 73.0% | 73.0% | 72.0% | 74.0% | 0ppt | 2ppt |

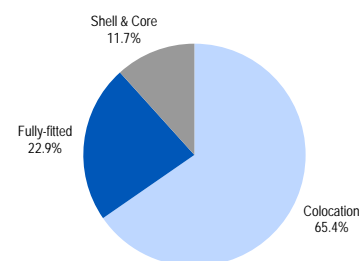
Source: DCREIT, UOB Kay Hian * hoh % chg for DPU

INVESTMENT PROPERTIES BREAKDOWN (DEC 23)



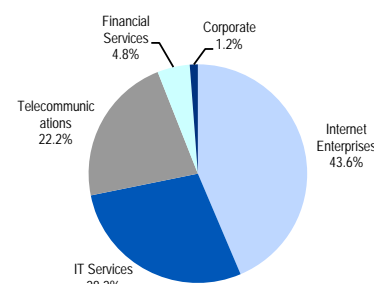
Source: KDCREIT

RENTAL INCOME BY CONTRACT TYPE (DEC 23)



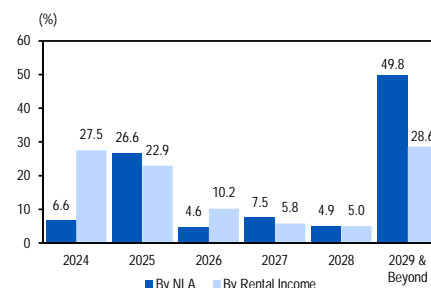
Source: KDCREIT

RENTAL INCOME BY TRADE SECTOR



Source: KDCREIT

LEASE EXPIRY PROFILE



Source: KDCREIT

PROFIT & LOSS

| Year to 31 Dec (\$m) | 2023 | 2024F | 2025F | 2026F |
|-------------------------------|--------|--------|--------|--------|
| Net turnover | 277.0 | 279.9 | 280.0 | 283.8 |
| EBITDA | 208.3 | 207.1 | 218.0 | 221.2 |
| Deprec. & amort. | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 208.3 | 207.1 | 218.0 | 221.2 |
| Associate contributions | (8.3) | (5.0) | (5.0) | (5.0) |
| Net interest income/(expense) | (37.6) | (43.0) | (46.3) | (48.1) |
| Pre-tax profit | 133.6 | 140.2 | 166.7 | 168.1 |
| Tax | (15.6) | (8.8) | (9.2) | (9.2) |
| Minorities | (3.7) | (3.0) | (3.0) | (3.0) |
| Net profit | 114.3 | 128.5 | 154.5 | 155.8 |
| Net profit (adj.) | 143.2 | 147.4 | 154.5 | 155.8 |

CASH FLOW

| Year to 31 Dec (\$m) | 2023 | 2024F | 2025F | 2026F |
|----------------------------------|---------|---------|---------|---------|
| Operating | 210.8 | 172.7 | 210.2 | 213.6 |
| Pre-tax profit | 122.2 | 131.5 | 157.5 | 158.8 |
| Associates | 8.3 | 5.0 | 5.0 | 5.0 |
| Working capital changes | 21.7 | (28.7) | (0.6) | (0.4) |
| Non-cash items | 5.2 | 3.5 | 3.6 | 3.6 |
| Other operating cashflows | 53.4 | 61.4 | 44.8 | 46.5 |
| Investing | (15.4) | (40.0) | (40.0) | (40.0) |
| Capex (growth) | 0.0 | 0.0 | 0.0 | 0.0 |
| Capex (maintenance) | (26.4) | (40.0) | (40.0) | (40.0) |
| Proceeds from sale of assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 11.0 | 0.0 | 0.0 | 0.0 |
| Financing | (236.2) | (136.4) | (167.7) | (175.8) |
| Distribution to unitholders | (175.7) | (154.2) | (161.4) | (162.7) |
| Issue of shares | 0.0 | 0.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 265.4 | 71.7 | 50.0 | 45.0 |
| Loan repayment | (274.2) | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (51.7) | (54.0) | (56.3) | (58.1) |
| Net cash inflow (outflow) | (40.8) | (3.7) | 2.5 | (2.3) |
| Beginning cash & cash equivalent | 190.4 | 149.7 | 146.0 | 148.5 |
| Changes due to forex impact | 0.2 | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 149.7 | 146.0 | 148.5 | 146.3 |

BALANCE SHEET

| Year to 31 Dec (\$m) | 2023 | 2024F | 2025F | 2026F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Fixed assets | 3,655.9 | 3,677.0 | 3,717.0 | 3,757.0 |
| Other LT assets | 126.3 | 126.3 | 126.3 | 126.3 |
| Cash/ST investment | 149.7 | 146.0 | 148.5 | 146.3 |
| Other current assets | 74.5 | 94.2 | 96.2 | 97.2 |
| Total assets | 4,006.6 | 4,043.6 | 4,088.1 | 4,126.9 |
| ST debt | 72.5 | 72.5 | 72.5 | 72.5 |
| Other current liabilities | 76.1 | 67.1 | 68.4 | 69.1 |
| LT debt | 1,408.3 | 1,480.0 | 1,530.0 | 1,575.0 |
| Other LT liabilities | 95.7 | 95.7 | 95.7 | 95.7 |
| Shareholders' equity | 2,311.0 | 2,285.3 | 2,278.4 | 2,271.5 |
| Minority interest | 43.0 | 43.0 | 43.0 | 43.0 |
| Total liabilities & equity | 4,006.6 | 4,043.6 | 4,088.1 | 4,126.9 |

KEY METRICS

| Year to 31 Dec (%) | 2023 | 2024F | 2025F | 2026F |
|---------------------------|--------|-------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 75.2 | 74.0 | 77.9 | 77.9 |
| Pre-tax margin | 48.2 | 50.1 | 59.5 | 59.2 |
| Net margin | 41.3 | 45.9 | 55.2 | 54.9 |
| ROA | 2.8 | 3.2 | 3.8 | 3.8 |
| ROE | 4.8 | 5.6 | 6.8 | 6.8 |
| Growth | | | | |
| Turnover | (0.1) | 1.1 | 0.0 | 1.4 |
| EBITDA | (4.9) | (0.6) | 5.3 | 1.4 |
| Pre-tax profit | (49.6) | 5.0 | 18.9 | 0.8 |
| Net profit | (50.5) | 12.4 | 20.3 | 0.8 |
| Net profit (adj.) | (7.0) | 2.9 | 4.8 | 0.8 |
| EPU | (7.1) | 2.8 | 4.7 | 0.8 |
| Leverage | | | | |
| Debt to total capital | 38.6 | 40.0 | 40.8 | 41.6 |
| Debt to equity | 64.1 | 67.9 | 70.3 | 72.5 |
| Net debt/(cash) to equity | 57.6 | 61.5 | 63.8 | 66.1 |
| Interest cover (x) | 5.5 | 4.8 | 4.7 | 4.6 |

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