

COMPANY UPDATE

Keppel DC REIT (KDCREIT SP)

Positive Momentum To Sustain Into 2H24 And 2025

KDCREIT clocked positive rental reversion of more than 40% for a major renewal contract in Singapore in 2Q24, a reflection of strong demand and tight vacancy locally. Large colocation leases with longer WALE of 3-4 years led to the astronomical positive rental reversion. The growth momentum is sustainable as capacity remains tight and it has several large colocation leases expiring in 2H24 and 2025. KDCREIT would benefit from rate cuts in 2025. Maintain BUY with a higher target price of S\$2.28.

WHAT'S NEW

- **Singapore is the most power-constrained data centre market in the world** with an extremely tight vacancy rate of 1.0%. We attribute the shortage to the government's strict adherence to climate change commitments and the resultant three-year moratorium on building of new data centres in 2019-22. The moratorium was only recently lifted with the Infocomm Media Development Authority (IMDA) awarding four data centre operators, namely AirTrunk-ByteDance Consortium, Equinix, GDS and Microsoft, with 80MW in capacity in Jul 23. IMDA also launched the Green Data Centre Roadmap, which provides an additional capacity of 300MW to support sustainable growth of data centres. The new supply is expected to come on stream from 2026 onwards. Thus, capacity is expected to remain tight with rents on an upward trend in 2H24 and 2025. Rents for retail colocation leases have surged the most due to limited supply.
- **Focus on high value colocation leases.** Keppel DC REIT (KDCREIT) is the biggest beneficiary of rising data centre rents in Singapore, which accounted for 53% of its portfolio valuation. Colocation accounted for about two-thirds of KDCREIT's rental income as of Jun 24. As a colocation provider, KDCREIT is responsible for facility management, including the provision of power, cooling, backup & redundancy systems and physical security. Colocation leases in Singapore have short WALE of 1.9 years, which could be re-priced higher more rapidly considering the higher market rent.
- **Uplift from renewals for large colocation leases in Singapore.** KDCREIT achieved positive reversion of more than 40% for a major renewal contract in Singapore in 2Q24. Large colocation leases with longer WALE of 3-4 years provided the astronomical positive rental reversion. Colocation leases due for renewal accounted for 20.2% of its rental income in 2H24 (Singapore 16%, Australia: 4%) and 18.2% of rental income in 2025. It has several large colocation leases in Singapore expiring in 2H24 and 2025, which could be marked to market at significantly higher rents. Thus, we expect revenue growth from Singapore to pick up to 8% yoy in 2H24 and 10% yoy in 1H25, compared to just 3% yoy in 1H24.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	277	277	302	303	308
EBITDA	219	208	219	218	242
Operating profit	219	208	219	218	242
Net profit (rep./act.)	231	114	191	165	186
Net profit (adj.)	154	143	158	165	186
EPU (S\$ cent)	9.0	8.3	9.1	9.6	10.8
DPU (S\$ cent)	10.2	9.4	9.4	9.4	10.6
PE (x)	24.3	26.2	23.7	22.1	19.5
P/B (x)	1.6	1.6	1.6	1.6	1.6
DPU Yld (%)	4.7	4.3	4.4	4.4	5.0
Net margin (%)	55.5	51.7	52.5	55.8	62.2
Net debt/(cash) to equity (%)	53.2	57.6	61.8	62.8	63.8
Interest cover (x)	10.0	5.5	5.9	6.3	6.9
ROE (%)	9.8	4.8	8.2	7.2	8.1
Consensus DPU (S\$ cent)	-	-	9.1	9.4	10.4
UOBKH/Consensus (x)	-	-	1.04	1.03	1.05

Source: Keppel DC REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.18
Target Price	S\$2.28
Upside	4.6%
(Previous TP)	S\$2.09

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):	1,723.2
Market cap (S\$m):	3,756.6
Market cap (US\$m):	2,877.9
3-mth avg daily t'over (US\$m):	8.5

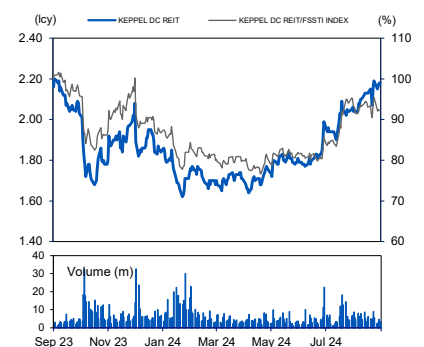
Price Performance (%)

52-week high/low	S\$2.25/S\$1.62			
1mth	3mth	6mth	1yr	YTD
6.3	21.8	28.2	0.5	11.8

Major Shareholders

Temasek Hldgs	21.8
FY24 NAV/Share (S\$)	1.37
FY24 Net Debt/Share (S\$)	0.85

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Healthy balance sheet.** Aggregate leverage declined 1.8ppt qoq to 35.8% in 2Q24 due to repayment of S\$58.5m of loans for Intellicentre Campus in Sydney and Euro-denominated debt. Average cost of debt was 3.5% in 2Q24. Post-acquisition of Tokyo Data Centre 1, aggregate leverage is expected to increase to 39.2% while cost of debt is expected to decline to 3.3%.
- Benefitting from upcoming rate cuts.** 74% of KDCREIT's borrowings are hedged to fixed interest rates. The balance 26% of its borrowings are on floating interest rates which would benefit from upcoming rate cuts. We have factored in rate cuts from the Fed and ECB of 50bp in 4Q24 and another 50bp in 1H25. KDCREIT has 7% of its borrowings maturing in 2025, which are denominated in Euro and on floating interest rates (not hedged). The bulk of its borrowings matures in 2026 and beyond, when interest rates would be much lower. We estimate that KDCREIT's cost of debt could ease to 3.1% in 2H25.

STOCK IMPACT

- Catalyst from potential acquisition of AI-enabled data centre in Singapore.** Keppel and Singapore Press Holdings (acquired by Cuscaden Peak Investments) have set up a 60:40 JV to develop a campus for three data centres at 82 Genting Lane in Singapore. The first phase, namely Keppel DC SGP 7, is a colocation data centre with GFA of 185,463sf, and was completed in mid-23. It achieved the BCA Green Mark Platinum Award, the highest green accolade conferred by Building and Construction Authority. SGP7 is 100% pre-committed. All tenants have already moved in during 1H24 and are ramping up their operations. We expect KDCREIT to acquire SGP7 in due course, as Singapore is its preferred market.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$2.28 is based on DDM (cost of equity: 6.75%, terminal growth: 2.2%).

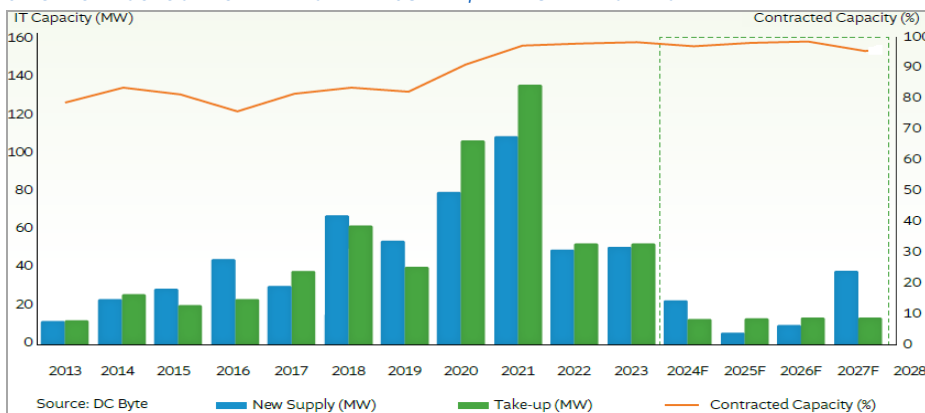
EARNINGS REVISION/RISK

- We raise our 2025 DPU forecast by 3% due to: a) strong positive rental reversion for colocation data centres in Singapore, and b) lower cost of debt from rate cuts.

SHARE PRICE CATALYST

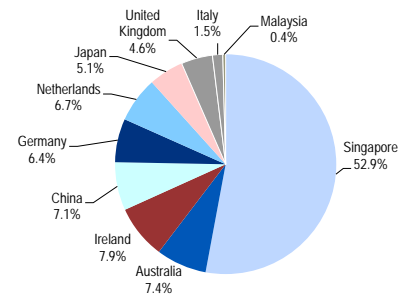
- Demand for colocation space arising from AI-powered applications.
- Acquisitions tapping on sponsor pipeline, especially data centres in Singapore.
- Repossessing data centres in Guangdong, China and backfilling of vacant spaces.

SINGAPORE COLOCATION DATA CENTRE SUPPLY, TAKE-UP AND CAPACITY



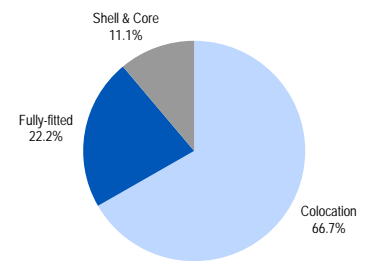
Source: DC Byte

INVESTMENT PROPERTIES BREAKDOWN



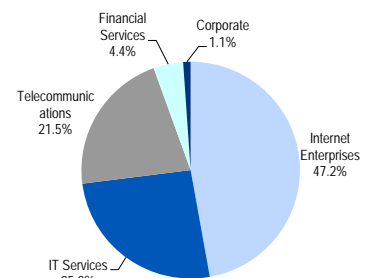
Source: KDCREIT

RENTAL INCOME BY CONTRACT TYPE



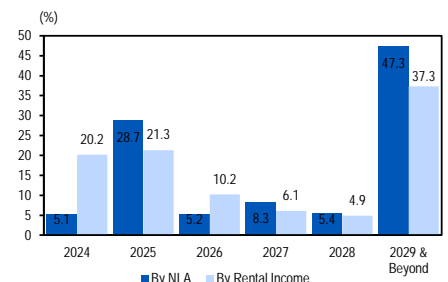
Source: KDCREIT

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	301.8	305.6	309.6
EBITDA	208.3	219.1	219.6	243.2
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	208.3	219.1	219.6	243.2
Total other non-operating income	(28.9)	33.3	0.0	0.0
Associate contributions	(8.3)	0.0	0.0	0.0
Net interest income/(expense)	(37.6)	(37.3)	(34.9)	(35.0)
Pre-tax profit	133.6	215.1	184.6	208.2
Tax	(15.6)	(19.8)	(11.1)	(12.5)
Minorities	(3.7)	(3.5)	(3.0)	(3.0)
Net profit	114.3	191.9	170.6	192.7
Net profit (adj.)	143.2	158.5	170.6	192.7

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	210.8	233.7	221.5	244.1
Pre-tax profit	133.6	215.1	184.6	208.2
Associates	(15.6)	(19.8)	(11.1)	(12.5)
Working capital changes	0.0	0.0	0.0	0.0
Non-cash items	8.3	0.0	0.0	0.0
Other operating cashflows	21.7	(10.3)	(0.6)	(0.1)
Investing	5.2	4.9	5.0	5.2
Capex (growth)	57.7	43.8	43.4	43.3
Capex (maintenance)	(15.4)	(150.1)	(30.0)	(30.0)
Proceeds from sale of assets	0.0	(273.6)	0.0	0.0
Others	0.0	0.0	0.0	0.0
Financing	(15.4)	(28.6)	(30.0)	(30.0)
Distribution to unitholders	(236.2)	(69.2)	(188.4)	(214.9)
Issue of shares	(175.7)	(163.7)	(166.9)	(188.3)
Proceeds from borrowings	265.4	145.5	30.0	25.0
Loan repayment	(274.2)	0.0	0.0	0.0
Others/interest paid	(51.7)	(51.0)	(51.5)	(51.5)
Net cash inflow (outflow)	(40.8)	14.4	3.1	(0.8)
Beginning cash & cash equivalent	190.4	149.7	164.1	167.2
Changes due to forex impact	0.2	0.0	0.0	0.0
Ending cash & cash equivalent	149.7	164.1	167.2	166.4

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	3,655.9	3,769.5	3,799.5	3,829.5
Other LT assets	126.3	195.1	195.1	195.1
Cash/ST investment	149.7	164.1	167.2	166.4
Other current assets	74.5	73.9	77.3	78.0
Total assets	4,006.6	4,202.6	4,239.0	4,268.9
ST debt	72.5	116.2	116.2	116.2
Other current liabilities	76.1	80.5	83.3	83.8
LT debt	1,408.3	1,510.0	1,540.0	1,565.0
Other LT liabilities	95.7	86.8	86.8	86.8
Shareholders' equity	2,311.0	2,365.6	2,369.3	2,373.6
Minority interest	43.0	43.4	43.4	43.4
Total liabilities & equity	4,006.6	4,202.6	4,239.0	4,268.9

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	75.2	72.6	71.9	78.5
Pre-tax margin	48.2	71.3	60.4	67.2
Net margin	41.3	63.6	55.8	62.2
ROA	2.8	4.7	4.0	4.5
ROE	4.8	8.2	7.2	8.1
Growth				
Turnover	(0.1)	9.0	1.3	1.3
EBITDA	(4.9)	5.2	0.2	10.8
Pre-tax profit	(49.6)	61.1	(14.2)	12.8
Net profit	(50.5)	67.8	(11.1)	13.0
Net profit (adj.)	(7.0)	10.7	7.6	13.0
EPU	(7.1)	10.5	7.4	12.8
Leverage				
Debt to total capital	62.9	67.5	68.6	69.6
Debt to equity	64.1	68.7	69.9	70.8
Net debt/(cash) to equity	57.6	61.8	62.8	63.8
Interest cover (x)	5.5	5.9	6.3	6.9

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