

COMPANY UPDATE

Keppel DC REIT (KDCREIT SP)

Sustainable Growth In Singapore; Green Shoots In China

Equinix and GDS have recently acquired land but the minute increase in supply of 40MW would come on stream largely in 2027. Thus, the recent upsurge in positive rental reversion for colocation leases in Singapore should sustain into 2025 and 2026. The acquisition of SGP7 and SGP8 was completed on 27 Dec 24 and would start contributing in 1H25. KDCREIT's Guangdong data centres could benefit from increased demand driven by AI in 2026. Maintain BUY with a target price of S\$2.55.

WHAT'S NEW

- **Singapore remains supply-constrained** and the tight vacancy is expected to persist into 2025 and 2026. Infocomm Media Development Authority (IMDA) awarded four data centre operators, namely Equinix, GDS, Microsoft and AirTrunk-ByteDance Consortium, with 80MW in capacity in Jul 23. Only two of the companies, Equinix and GDS, have recently acquired land. Equinix's nine-storey SG6 with capacity of 20MW is expected to commence operations in 1Q27. GDS acquired 21 Jalan Buroh, a three-storey warehouse with a nine-storey office block for S\$113m in Oct 24. The redeveloped data centre is expected to be operational in 4Q26. Thus, the small increase in new supply would come on stream largely in 2027. The recent upsurge in positive rental reversion is expected to be sustained into 2025 and 2026.
- **SGP7 and SGP8 to start contributing in 1H25.** Keppel DC REIT (KDCREIT) completed the acquisition of 99.49% economic interest in SGP7 and SGP8 on 27 Dec 24. The two data centres are designed for AI inference workload with ultra-low latency connectivity and provide NPI yield of 6.5-7.0%. The acquisition is accretive to pro forma 1H24 DPU by 7.0%.
- **Repositioning to focus on hyperscaler market.** KDCREIT has entered into an agreement to divest Kelsterbach Data Centre in Frankfurt, Germany for €50.0m (S\$70.6m) in Feb 25. The selling price represents a 28% premium compared to its valuation of €39m (S\$55m). KDCREIT has obtained a slight increase in power capacity for the data centre after conducting a power study, but the additional capacity granted was insufficient for redevelopment into a hyperscale data centre. The data centre was built in the 90s and would require substantial capex for upgrading. The decision to divest was in line with KDCREIT's renewed focus on hyperscale data centres. The divestment is expected to be completed in 1H25.

STOCK IMPACT

- **Continuing to scout for acquisitions.** Management will actively rebalance KDCREIT's portfolio to capitalise on structural trends, such as generative AI. KDCREIT is scouting for opportunities to acquire data centres in its preferred markets, such as Japan, South Korea and Europe. KDCREIT is keen to tap on its sponsor pipeline but the construction of SGP9 in Singapore has not commenced yet.

KEY FINANCIALS

| Year to 31 Dec (S\$m) | 2023 | 2024 | 2025F | 2026F | 2027F |
|-------------------------------|------|------|-------|-------|-------|
| Net turnover | 277 | 306 | 426 | 432 | 434 |
| EBITDA | 208 | 214 | 299 | 325 | 342 |
| Operating profit | 208 | 214 | 299 | 325 | 342 |
| Net profit (rep./act.) | 114 | 296 | 259 | 261 | 276 |
| Net profit (adj.) | 143 | 127 | 243 | 261 | 276 |
| EPU (S\$ cent) | 8.3 | 6.5 | 10.9 | 11.6 | 12.2 |
| DPU (S\$ cent) | 9.4 | 9.5 | 10.7 | 11.5 | 12.1 |
| PE (x) | 26.1 | 33.6 | 19.9 | 18.7 | 17.8 |
| P/B (x) | 1.6 | 1.4 | 1.4 | 1.4 | 1.4 |
| DPU Yld (%) | 4.3 | 4.4 | 4.9 | 5.3 | 5.6 |
| Net margin (%) | 41.3 | 96.9 | 60.8 | 60.5 | 63.7 |
| Net debt/(cash) to equity (%) | 57.6 | 41.5 | 51.3 | 52.1 | 52.8 |
| Interest cover (x) | 5.5 | 5.9 | 8.0 | 7.4 | 7.6 |
| ROE (%) | 4.8 | 10.4 | 7.6 | 7.5 | 7.9 |
| Consensus DPU (S\$ cent) | - | - | 10.1 | 11.0 | 11.3 |
| UOBKH/Consensus (x) | - | - | 1.06 | 1.04 | 1.07 |

Source: Keppel DC REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|---------------|----------|
| Share Price | S\$2.17 |
| Target Price | S\$2.55 |
| Upside | 17.5% |
| (Previous TP: | S\$2.53) |

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): | 2,255.5 |
| Market cap (S\$m): | 4,894.5 |
| Market cap (US\$m): | 3,671.0 |
| 3-mth avg daily t'over (US\$m): | 13.8 |

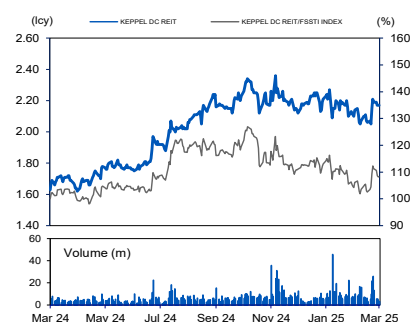
Price Performance (%)

| | | | | |
|------------------|-----------------|-------------|------------|------------|
| 52-week high/low | S\$2.37/S\$1.61 | | | |
| 1mth | 3mth | 6mth | 1yr | YTD |
| 3.3 | 0.9 | (2.3) | 31.5 | (0.5) |

Major Shareholders

| | |
|---------------------------|------|
| | % |
| Temasek Hldgs | 21.8 |
| FY25 NAV/Share (S\$) | 1.54 |
| FY25 Net Debt/Share (S\$) | 0.79 |

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **DeepSeek achieved algorithmic efficiency** using innovative techniques, such as Mixture-of-Experts (AI model is divided into different specialised areas of expertise and only the most relevant component is activated for faster training and inference) and Multi-Head Latent Attention (compression technique designed to minimise the number of parameters and memory usage). As an open-source platform, DeepSeek allows AI developers to examine its source code and exploit similar techniques.
- **Deepseek triggered AI frenzy.** President Xi Jinping's recent meeting with leaders of Alibaba, Huawei, Xiaomi and DeepSeek in Feb 25 signalled that the crackdown on technology companies is over. Concurrently, Premier Li Qiang has also promised policy support for AI. Many local governments and state-owned enterprises (SOEs) are accelerating their adoption of AI. Local governments have launched citizen chatbots to handle residents' queries, including tax matters. DeepSeek was also deployed to automate administrative paperwork within the civil service. SOEs in the energy sector have announced deployment of DeepSeek.
- **Executing recovery roadmap in China.** Management is working with tenant Bluesea Development to execute the recovery roadmap for Guangdong DC1 and DC2, including building a leasing pipeline. Bluesea has refocused on the wholesale and hyperscale market. Occupancy for Guangdong DC1 and DC2 is currently at 30%. KDCREIT has received more enquiries from prospective tenants. Management expects actual signing of new leases to be a year later in 2026.
- **Management expects valuation for its China data centres to remain stable.** KDCREIT uses international valuers. Existing rents are below market rents. Cap rates for Guangdong DC1 and DC2 are above implied cap rate of 7.7% for the spin-off of GDS Holdings' China data centres into a private REIT in Mar 25.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$2.55 is based on DDM (cost of equity: 7.0%, terminal growth: 2.5%).

EARNINGS REVISION/RISK

- We cut our 2026 DPU forecast by 4% but raise our 2027 DPU forecast by 1% due to: a) strong positive rental reversion for colocation data centres in Singapore to extend into 2026, b) provisions for Guangdong data centres to extend into 1H26, and c) absence of contribution from Kelsterbach Data Centre from 2H25.

SHARE PRICE CATALYST

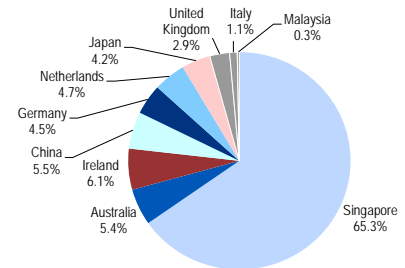
- Demand for colocation space arising from AI applications.
- Acquisitions tapping on sponsor pipeline.
- Backfilling of vacant spaces for data centres in Guangdong, China.

KEY OPERATING METRICS – KDCREIT

| | 4Q23 | 1Q24 | 2Q24 | 3Q24 | 4Q24 | yoy % Chg | qoq % Chg* |
|--------------------------------|-------|-------|-------|-------|-------|-----------|------------|
| DPU (S cents) | 4.33 | 0.00 | 4.55 | n.a. | 4.90 | 13.2% | 7.8% |
| Occupancy | 98.3% | 98.3% | 97.5% | 97.6% | 97.2% | -1.1ppt | -0.4ppt |
| Aggregate Leverage | 37.4% | 37.6% | 35.8% | 39.7% | 31.5% | -5.9ppt | -8.2ppt |
| Average Cost of Debt | 3.6% | 3.5% | 3.5% | 3.3% | 3.1% | -0.5ppt | -0.2ppt |
| WALE by NLA (years) | 7.6 | 7.4 | 6.4 | 6.3 | 6.2 | -1.4yrs | -0.1yrs |
| Average Debt Maturity (years) | 3.4 | 3.2 | 3.1 | 2.9 | 3.2 | -0.2yrs | 0.3yrs |
| % of Borrowings in Fixed Rates | 74% | 73% | 74% | 71% | 66.0% | -8ppt | -5ppt |

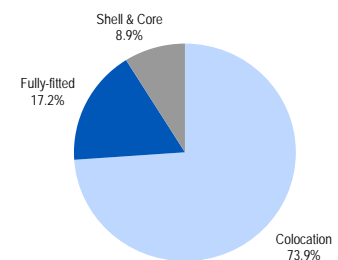
Source: KDCREIT, UOB Kay Hian * hoh % chg for DPU

INVESTMENT PROPERTIES BREAKDOWN



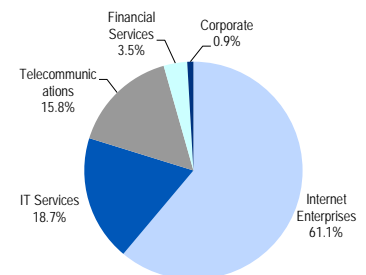
Source: KDCREIT

RENTAL INCOME BY CONTRACT TYPE



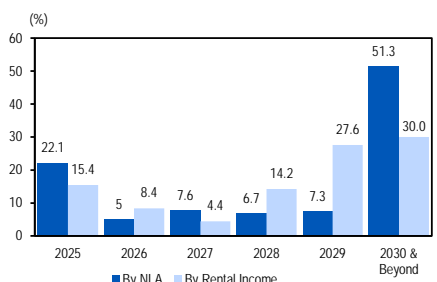
Source: KDCREIT

RENTAL INCOME BY TRADE SECTOR



Source: KDCREIT

LEASE EXPIRY PROFILE



Source: KDCREIT

PROFIT & LOSS

| Year to 31 Dec (\$m) | 2024 | 2025F | 2026F | 2027F |
|----------------------------------|--------------|--------------|--------------|--------------|
| Net turnover | 305.7 | 425.6 | 431.8 | 433.9 |
| EBITDA | 214.2 | 299.1 | 324.9 | 341.8 |
| Deprec. & amort. | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 214.2 | 299.1 | 324.9 | 341.8 |
| Total other non-operating income | 158.1 | 15.6 | 0.0 | 0.0 |
| Associate contributions | 0.0 | 0.0 | 0.0 | 0.0 |
| Net interest income/(expense) | (36.1) | (37.2) | (43.8) | (44.7) |
| Pre-tax profit | 336.2 | 277.5 | 281.1 | 297.1 |
| Tax | (26.8) | (15.7) | (16.9) | (17.8) |
| Minorities | (13.3) | (3.0) | (3.0) | (3.0) |
| Perpetual Securities | 0.0 | 0.0 | 0.0 | 0.0 |
| Net profit | 296.1 | 258.8 | 261.2 | 276.3 |
| Net profit (adj.) | 126.8 | 243.2 | 261.2 | 276.3 |

CASH FLOW

| Year to 31 Dec (\$m) | 2024 | 2025F | 2026F | 2027F |
|---|------------------|----------------|----------------|----------------|
| Operating | 223.7 | 135.0 | 321.3 | 337.5 |
| Pre-tax profit | 314.0 | 261.8 | 264.2 | 279.3 |
| Tax | 0.0 | 0.0 | 0.0 | 0.0 |
| Deprec. & amort. | 0.0 | 0.0 | 0.0 | 0.0 |
| Associates | 0.0 | 0.0 | 0.0 | 0.0 |
| Working capital changes | 162.6 | (178.4) | (0.2) | (0.1) |
| Non-cash items | 5.0 | 9.7 | 10.2 | 10.4 |
| Other operating cashflows | (257.8) | 42.0 | 47.1 | 47.8 |
| Investing | (1,066.3) | (309.4) | (30.0) | (30.0) |
| Capex (growth) | (1,097.4) | (350.0) | 0.0 | 0.0 |
| Capex (maintenance) | (57.9) | (30.0) | (30.0) | (30.0) |
| Proceeds from sale of assets | 75.1 | 70.6 | 0.0 | 0.0 |
| Others | 13.9 | 0.0 | 0.0 | 0.0 |
| Financing | 1,004.7 | 12.0 | (289.2) | (304.8) |
| Distribution to unitholders | (153.0) | (241.1) | (259.0) | (273.6) |
| Issue of shares | 1,001.3 | 85.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 692.8 | 221.9 | 30.0 | 30.0 |
| Loan repayment | (474.8) | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (61.6) | (53.7) | (60.3) | (61.2) |
| Net cash inflow (outflow) | 162.2 | (162.4) | 2.0 | 2.6 |
| Beginning cash & cash equivalent | 149.7 | 316.7 | 154.3 | 156.3 |
| Changes due to forex impact | 4.8 | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 316.7 | 154.3 | 156.3 | 159.0 |

BALANCE SHEET

| Year to 31 Dec (\$m) | 2024 | 2025F | 2026F | 2027F |
|---------------------------------------|----------------|----------------|----------------|----------------|
| Fixed assets | 4,904.0 | 5,229.0 | 5,259.0 | 5,289.0 |
| Other LT assets | 175.0 | 175.0 | 175.0 | 175.0 |
| Cash/ST investment | 316.7 | 154.3 | 156.3 | 159.0 |
| Other current assets | 147.6 | 111.1 | 112.5 | 112.9 |
| Total assets | 5,543.2 | 5,669.4 | 5,702.8 | 5,735.8 |
| ST debt | 87.3 | 87.3 | 87.3 | 87.3 |
| Other current liabilities | 299.4 | 101.0 | 102.2 | 102.6 |
| LT debt | 1,628.1 | 1,850.0 | 1,880.0 | 1,910.0 |
| Other LT liabilities | 101.4 | 101.4 | 101.4 | 101.4 |
| Shareholders' equity | 3,372.0 | 3,474.7 | 3,476.9 | 3,479.6 |
| Minority interest | 54.9 | 54.9 | 54.9 | 54.9 |
| Total liabilities & equity | 5,543.2 | 5,669.4 | 5,702.8 | 5,735.8 |

KEY METRICS

| Year to 31 Dec (%) | 2024 | 2025F | 2026F | 2027F |
|---------------------------|--------|--------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 70.1 | 70.3 | 75.2 | 78.8 |
| Pre-tax margin | 110.0 | 65.2 | 65.1 | 68.5 |
| Net margin | 96.9 | 60.8 | 60.5 | 63.7 |
| ROA | 6.2 | 4.6 | 4.6 | 4.8 |
| ROE | 10.4 | 7.6 | 7.5 | 7.9 |
| Growth | | | | |
| Turnover | 10.4 | 39.2 | 1.4 | 0.5 |
| EBITDA | 2.8 | 39.6 | 8.6 | 5.2 |
| Pre-tax profit | 151.7 | (17.5) | 1.3 | 5.7 |
| Net profit | 159.0 | (12.6) | 1.0 | 5.8 |
| Net profit (adj.) | (11.5) | 91.8 | 7.4 | 5.8 |
| EPU | (22.5) | 68.9 | 6.3 | 5.6 |
| Leverage | | | | |
| Debt to total capital | 33.4 | 35.4 | 35.8 | 36.1 |
| Debt to equity | 50.9 | 55.8 | 56.6 | 57.4 |
| Net debt/(cash) to equity | 41.5 | 51.3 | 52.1 | 52.8 |
| Interest cover (x) | 5.9 | 8.0 | 7.4 | 7.6 |

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