

COMPANY RESULTS

Keppel DC REIT (KDCREIT SP)

1Q24: Opportunistic Divestment That Strengthens Balance Sheet

1Q24 results are largely in line with expectations. KDCREIT clocked positive rental reversion at mid-to-high single digits for its colocation data centres, and its portfolio occupancy was maintained at 98.3%. Loss allowance for uncollected income from the Guangdong data centres was partially offset by the settlement sum received from DXC. KDCREIT is working with Bluesea Development on a recovery road map and leasing pipeline for Guangdong DC 1, DC 2 and DC 3. Maintain BUY. Target price: S\$2.15.

1Q24 RESULTS

Year to 31 Dec (\$m)	1Q24	yoy % chg	Remarks
Gross Revenue	83.4	+18.4	Boosted by settlement sum received from DXC of S\$13.3m.
Net Property Income (NPI)	71.0	+11.2	Hit by provisions of S\$5.3m.
Distributable income	38.8	-16.3	Finance costs increased 23.7% yoy.
DPU (S cent)	2.192	-13.7	

Source: KDCREIT, UOB Kay Hian

RESULTS

- Keppel DC REIT (KDCREIT) reported 1Q24 DPU of 2.192 S cents (-13.7% yoy), which is in line with our expectations.
- KDCREIT generated positive rental reversion** for new and renewed leases for its data centres in Singapore, Ireland and the Netherlands in 1Q24. 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 WALE weighted by area of 7.4 years.
- Favourable outcome for dispute with DXC.** Gross revenue was boosted by a settlement sum of S\$13.3m received in Apr 24 in relation to the dispute with DXC. The contribution to distributable income of S\$11.2m after deducting related expenses and GST will be spread equally over the four quarters in 2024.
- Preparing for the worst.** KDCREIT recognised loss allowance of S\$5.3m for uncollected income from the Guangdong data centres (rental income from DC 1 and DC 2 and coupon income from DC 3) under its property expenses, which has a negative impact of 0.326 S cents to 1Q24 DPU. KDCREIT is working with tenant Bluesea Development on a recovery road map and leasing pipeline. Keppel Group has facilities management capabilities on the ground in China, which facilitates the sourcing for new tenants. Management sees green shoots for demand from generative AI applications, such as local hyperscalers and AI start-ups.

KEY FINANCIALS

Year to 31 Dec (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	277	277	291	272	276
EBITDA	219	208	207	212	215
Operating profit	219	208	207	212	215
Net profit (rep./act.)	231	114	172	157	158
Net profit (adj.)	154	143	151	157	158
EPU (S\$ cent)	9.0	8.3	8.8	9.1	9.2
DPU (S\$ cent)	10.2	9.4	9.2	9.5	9.6
PE (x)	18.3	19.7	18.7	18.0	17.9
P/B (x)	1.2	1.2	1.2	1.2	1.2
DPU Yld (%)	6.2	5.7	5.6	5.8	5.8
Net margin (%)	83.3	41.3	59.1	57.7	57.4
Net debt/(cash) to equity (%)	53.2	57.6	57.3	59.5	61.7
Interest cover (x)	10.0	5.5	5.3	5.6	5.5
ROE (%)	9.8	4.8	7.4	6.8	6.8
Consensus DPU (S\$ cent)	n.a.	n.a.	8.9	9.3	9.9
UOBKH/Consensus (x)	-	-	1.03	1.02	0.97

Source: Keppel DC REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.76
Target Price	S\$2.15
Upside	+22.2%
(Previous TP)	S\$2.10

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):	1,722.6
Market cap (S\$m):	2,825.1
Market cap (US\$m):	2,074.2
3-mth avg daily t'over (US\$m):	9.3

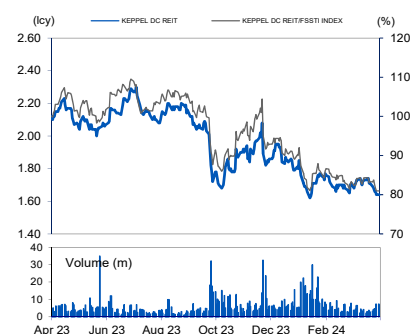
Price Performance (%)

52-week high/low				S\$2.30/S\$1.62
1mth	3mth	6mth	1yr	YTD
(1.2)	(8.4)	(7.9)	(22.6)	(15.9)

Major Shareholders

	%
Temasek Hldgs	21.8
FY24 NAV/Share (S\$)	1.35
FY24 Net Debt/Share (S\$)	0.77

PRICE CHART



Source: Bloomberg

ANALYST(S)

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

- **Benefitting from lower Euribor.** Euro-denominated debts accounted for a sizeable 39% of KDCREIT's total borrowings. KDCREIT has 11% of total borrowings maturing in 2024 and 2025, which are mostly denominated in Euro and on floating interest rates (not hedged). Thus, KDCREIT would benefit should the European Central Bank commence rate cuts. The bulk of KDCREIT's borrowings mature in 2026 and beyond.
- **Healthy balance sheet.** Aggregate leverage is stable at 37.6% as of Mar 24 (36.7% post-divestment of Intellicentre Campus). Interest coverage ratio is healthy at 4.6x. Its average cost of debt increased 0.7ppt yoy but dropped 0.1ppt qoq to 3.5%.

STOCK IMPACT

- **Opportunistic divestment that strengthens balance sheet.** KDCREIT has entered into a sale and purchase agreement to divest its 100% of Intellicentre Campus in Sydney, Australia at an agreed value of A\$174.0m (S\$152.1m) to Macquarie Data Centres Macquarie Park Property SubTrust (wholly-owned subsidiaries of ASX-listed Macquarie Technology Group (MTG) and parent company of existing tenant). MTG specialises in cyber security, secure cloud and data centres and delivers 42% of federal government agencies' requirement for such services. The agreed value represents a 35.4% premium to the latest valuation of A\$128.5m and is 148.6% higher than the original investment of A\$70.0m. KDCREIT achieved an attractive exit cap rate of 3.6%, compared to the market cap rate of 5-6% for Australia.
- **Re-invest at a higher yield of 7%.** KDCREIT will re-invest A\$90.0m (S\$78.7m) of the sale proceeds into AU DC Note, which is guaranteed by MTG. KDCREIT will receive a regular income stream starting from A\$6.3m per year (yield of 7.0%), with a CPI-linked annual escalation mechanism, for 8.5 years. The income stream from the AU DC Note mirrors the rental that KDCREIT would originally receive from Intellicentre Campus but without the associated property expenses and financing costs.
- **Divestment is DPU accretive.** Assuming that the transactions were completed on 1 Jan 23, the pro forma 2023 DPU will increase by 0.7% to 9.446 S cents. NAV per unit will increase by 1.5% to S\$1.36. KDCREIT will repay existing loans of A\$43.2m (S\$37.7m) related to the original investment of Intellicentre Campus. Aggregate leverage is expected to be reduced by 0.9ppt to 36.7%. The divestment is expected to be completed by 4Q24.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$2.15 based on DDM (cost of equity: 6.75%, terminal growth: 2.5%).

EARNINGS REVISION/RISK

- We raise our 2025 DPU forecast by 1% due to the divestment of Intellicentre Campus.

SHARE PRICE CATALYST

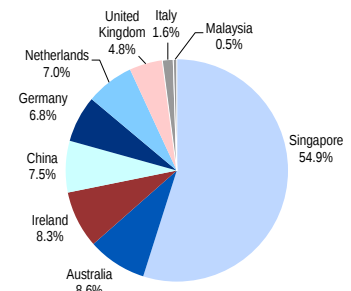
- Demand for colocation space arising from AI-powered applications.
- Acquisitions from the sponsor pipeline.
- Repossessing data centres in Guangdong, China and backfilling of vacant spaces.

KEY OPERATING METRICS – KDCREIT

	1Q23	2Q23	3Q23	4Q23	1Q24	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	5.05	n.a.	4.33	0.00	n.a.	n.a.
Occupancy	98.5%	98.5%	98.3%	98.3%	98.3%	-0.2ppt	0ppt
Aggregate Leverage	36.8%	36.3%	37.2%	37.4%	37.6%	0.8ppt	0.2ppt
Average Cost of Debt	2.80%	3.30%	3.50%	3.60%	3.50%	0.7ppt	-0.1ppt
WALE by NLA (years)	8.2	8	7.8	7.6	7.4	-0.8yrs	-0.2yrs
Average Debt Maturity (years)	3.8	3.9	3.7	3.4	3.2	-0.6yrs	-0.2yrs
% of Borrowings in Fixed Rates	73.0%	73.0%	72.0%	74.0%	73.0%	0ppt	-1ppt

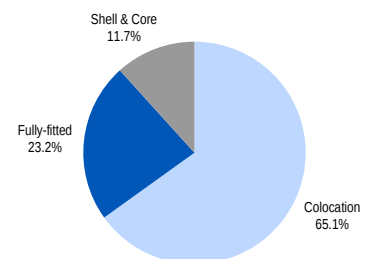
Source: KDCREIT, UOB Kay Hian * hoh % chg for DPU

INVESTMENT PROPERTIES BREAKDOWN



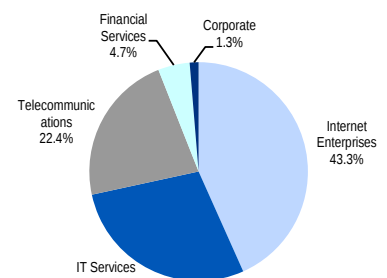
Source: KDCREIT

RENTAL INCOME BY CONTRACT TYPE



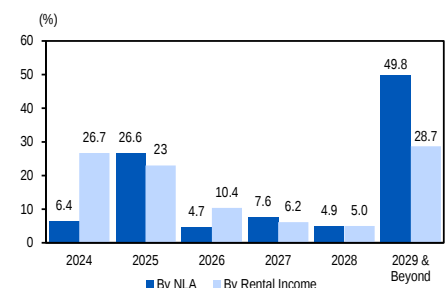
Source: KDCREIT

RENTAL INCOME BY TRADE SECTOR



Source: KDCREIT

LEASE EXPIRY PROFILE



Source: KDCREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	277.0	291.2	272.4	276.1
EBITDA	208.3	207.3	212.0	215.0
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	208.3	207.3	212.0	215.0
Associate contributions	(8.3)	(5.0)	(5.0)	(5.0)
Net interest income/(expense)	(37.6)	(39.1)	(37.6)	(39.2)
Pre-tax profit	133.6	184.1	169.4	170.8
Tax	(15.6)	(9.0)	(9.3)	(9.4)
Minorities	(3.7)	(3.0)	(3.0)	(3.0)
Net profit	114.3	172.1	157.1	158.4
Net profit (adj.)	143.2	151.2	157.1	158.4

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	3,655.9	3,564.7	3,604.7	3,644.7
Other LT assets	126.3	205.0	205.0	205.0
Cash/ST investment	149.7	159.9	152.9	165.8
Other current assets	74.5	92.9	93.6	94.6
Total assets	4,006.6	4,022.6	4,056.3	4,110.2
ST debt	72.5	72.5	72.5	72.5
Other current liabilities	76.1	66.2	66.7	67.4
LT debt	1,408.3	1,420.0	1,460.0	1,520.0
Other LT liabilities	95.7	95.7	95.7	95.7
Shareholders' equity	2,311.0	2,325.2	2,318.4	2,311.6
Minority interest	43.0	43.0	43.0	43.0
Total liabilities & equity	4,006.6	4,022.6	4,056.3	4,110.2

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	210.8	175.9	210.9	213.8
Pre-tax profit	122.2	175.1	160.1	161.4
Associates	8.3	5.0	5.0	5.0
Working capital changes	21.7	(28.2)	(0.2)	(0.3)
Non-cash items	5.2	3.4	3.5	3.5
Other operating cashflows	53.4	20.6	42.6	44.2
Investing	(15.4)	33.4	(40.0)	(40.0)
Capex (growth)	0.0	(78.7)	0.0	0.0
Capex (maintenance)	(26.4)	(40.0)	(40.0)	(40.0)
Proceeds from sale of assets	0.0	152.1	0.0	0.0
Others	11.0	0.0	0.0	0.0
Financing	(236.2)	(199.1)	(177.9)	(160.9)
Distribution to unitholders	(175.7)	(157.9)	(163.8)	(165.2)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	265.4	11.7	40.0	60.0
Loan repayment	(274.2)	0.0	0.0	0.0
Others/interest paid	(51.7)	(52.9)	(54.1)	(55.7)
Net cash inflow (outflow)	(40.8)	10.2	(7.0)	12.9
Beginning cash & cash equivalent	190.4	149.7	159.9	152.9
Changes due to forex impact	0.2	0.0	0.0	0.0
Ending cash & cash equivalent	149.7	159.9	152.9	165.8

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	75.2	71.2	77.8	77.9
Pre-tax margin	48.2	63.2	62.2	61.9
Net margin	41.3	59.1	57.7	57.4
ROA	2.8	4.3	3.9	3.9
ROE	4.8	7.4	6.8	6.8
Growth				
Turnover	(0.1)	5.1	(6.5)	1.4
EBITDA	(4.9)	(0.5)	2.2	1.4
Pre-tax profit	(49.6)	37.8	(8.0)	0.8
Net profit	(50.5)	50.6	(8.7)	0.8
Net profit (adj.)	(7.0)	5.6	3.9	0.8
EPU	(7.1)	5.4	3.8	0.7
Leverage				
Debt to total capital	38.6	38.7	39.4	40.3
Debt to equity	64.1	64.2	66.1	68.9
Net debt/(cash) to equity	57.6	57.3	59.5	61.7
Interest cover (x)	5.5	5.3	5.6	5.5

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