

COMPANY RESULTS

Keppel DC REIT (KDCREIT SP)

2H24: SGP7 And SGP8 Set; Low Leverage Is Springboard For Next Acquisition

KDCREIT achieved strong positive rental reversion of >30% in 4Q24, the third consecutive quarter of strong double-digit reversion. SGP7 and SGP8, which are designed for AI inference workload, will start contributing in 1Q25. Aggregate leverage has improved 8.2ppt qoq to 31.5% due to revaluation gains and its recent equity fund raising exercise. Being a pure play on data centres, KDCREIT will benefit from the growth in inference AI and AI agents. Maintain BUY with a target price of S\$2.53.

2H24 RESULTS

Year to 31 Dec (\$m)	2H24	yoy % chg	Remarks
Gross Revenue	153.1	+8.8	Strong rental reversion and contributions from Tokyo DC 1.
Net Property Income (NPI)	127.6	+8.5	Hit by provisions of S\$10.5m for Guangdong data centres.
Distributable income	91.9	+20.2	Finance costs decreased 0.8% yoy.
DPU (\$ cent)	4.902	+13.2	Distribution of DXC settlement sum of S\$5.6m for 2H24.

Source: KDCREIT, UOB Kay Hian

RESULTS

- Keppel DC REIT (KDCREIT) reported DPU of 4.902 S cents for 2H24 (+13.2% yoy), which is slightly above our expectations.
- Strong organic growth augmented by acquisition of Tokyo Data Centre 1.** Gross revenue and NPI grew 8.8% and 8.5% yoy respectively due to full-quarter contribution from newly acquired Tokyo Data Centre 1 (completion: 31 Jul 24), strong reversions from renewed leases and rental escalation for existing leases. Portfolio occupancy was stable at 97.2%. KDCREIT provides stable cash flows due to its long portfolio WALE weighted by lettable area of 6.3 years.
- Strong reversion driven by renewal of colocation leases in Singapore.** KDCREIT achieved strong positive rental reversion of >30% in 4Q24 (2024: 39%). This is the third consecutive quarter of strong double-digit positive rental reversion, a reflection of strong demand and tight vacancy locally. The positive momentum is sustainable as it has several large colocation leases expiring in 2025.
- Portfolio valuation increased 3.4% on a same-store basis.** In Singapore, valuation increased by S\$204.6m or 10.4%, driven by strong rental reversion, tight supply and keen investment demand. Singapore accounted for 65.3% of portfolio valuation post-acquisition of SGP7 and SGP8 in Dec 24 (Dec 23: 55.5%).
- Well-positioned with flexibility to pursue more acquisitions.** Aggregate leverage has improved 8.2ppt qoq to 31.5% in 4Q24 due to revaluation gains and its recent equity fund raising exercise (private placement: S\$700m and preferential offering: S\$301m). Sponsor subscription of S\$85m will be completed in 1Q25. Thus, aggregate leverage would further improve by an estimated 1.5ppt to 30.0% assuming proceeds from sponsor subscription is fully utilised to repay borrowings.

KEY FINANCIALS

Year to 31 Dec (\$m)	2023	2024	2025F	2026F	2027F
Net turnover	277	306	427	432	434
EBITDA	208	214	300	340	342
Operating profit	208	214	300	340	342
Net profit (rep./act.)	114	296	242	273	274
Net profit (adj.)	143	127	242	273	274
EPU (\$ cent)	8.3	6.5	10.8	12.1	12.1
DPU (\$ cent)	9.4	9.5	10.6	12.0	12.0
PE (x)	27.3	35.2	21.0	18.7	18.7
P/B (x)	1.7	1.5	1.5	1.5	1.5
DPU Yld (%)	4.1	4.2	4.7	5.3	5.3
Net margin (%)	41.3	96.9	56.6	63.3	63.1
Net debt/(cash) to equity (%)	57.6	41.5	53.6	54.4	55.1
Interest cover (x)	5.5	5.9	7.5	7.4	7.3
ROE (%)	4.8	10.4	7.1	7.9	7.9
Consensus DPU (\$ cent)	-	-	9.9	10.9	11.7
UOBKH/Consensus (x)	-	-	1.07	1.10	1.03

Source: Keppel DC REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.27
Target Price	S\$2.53
Upside	11.5%
(Previous TP)	S\$2.64

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):	2,209.1
Market cap (S\$m):	5,014.6
Market cap (US\$m):	3,726.9
3-mth avg daily t'over (US\$m):	14.0

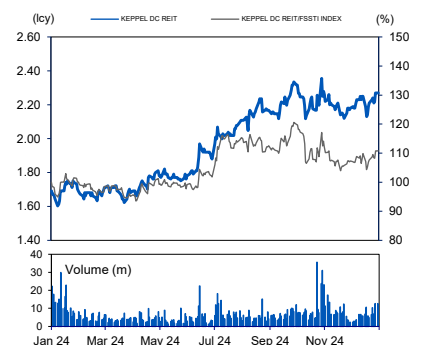
Price Performance (%)

52-week high/low	S\$2.37/S\$1.58
1mth	4.1
3mth	(2.0)
6mth	18.8
1yr	24.0
YTD	4.1

Major Shareholders

Temasek Hldgs	21.8%
FY25 NAV/Share (S\$)	1.53
FY25 Net Debt/Share (S\$)	0.82

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Anticipates stable cost of debt.** Average cost of debt eased 0.5ppt yoy and 0.2ppt qoq to 3.1% in 4Q24 due to additional JPY-denominated loans and repayment of AUD-denomination loans. About 66% of KDCREIT's borrowings are hedged to fixed interest rates. Management expects cost of debt to maintain at low-3% in 2025.

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 Singapore, South Korea and Japan. There is opportunity for asset enhancement or redevelopment to increase capacity if KDCREIT secures more power for its Kelsterbach data centre in Frankfurt, Germany.
- **Upside from positive rental reversion and conversion of unutilised space.** 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 8.1%. Internet enterprises (hyperscalers) accounted for 61.1% of rental income as of Dec 24 (Sep 24: 50.0%). The contracted rents for SGP7 and SGP8 are estimated to be 15-20% below comparable market rents for colocation. There is potential for rental uplift as demand for data centres is expected to remain strong. SGP8 currently has 1.5 floors of unutilised space, which can be fitted-out and converted into data halls to generate more rental income.
- **Demand from AI inference and AI agents.** The adoption and spending on AI are set to rise. The use cases for generative AI are rapidly proliferating across various industries, such as technology, media, telecommunications, life sciences, healthcare and financial services. Many companies are experimenting with generative AI and would scale up application in due course. The usage of autonomous AI agents that can execute complex tasks with minimal human intervention is gaining ground.
- **Repositioning to focus on hyperscaler market.** KDCREIT has entered into agreement to divest Basis Bay Data Centre in Cyberjaya, Malaysia for RM55.1m (\$S16.7m). The sale price is 2.6% above valuation of RM53.7m. The transaction is expected to complete in 3Q25.

VALUATION/RECOMMENDATION

- **Maintain BUY.** We have raised our assumption for risk-free rate from 2.75% to 3.00% due to the elevated Singapore government yield. Our target price of S\$2.53 is based on DDM (cost of equity: 7.0% (previous: 6.75%), terminal growth: 2.5%).

EARNINGS REVISION/RISK

- We raise our 2025 DPU forecast by 1% due to strong rental reversion in Singapore.

SHARE PRICE CATALYST

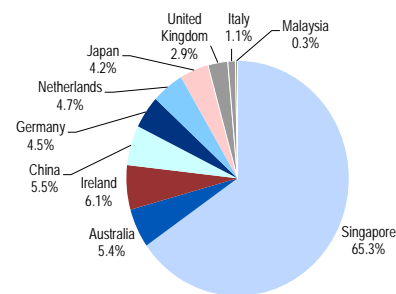
- Demand for colocation space arising from AI applications.
- Acquisitions tapping on sponsor pipeline.
- Backfilling of vacant spaces for data centres in Guangdong, China.

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

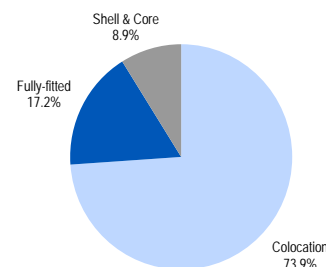
Source: KDCREIT, UOB Kay Hian * hoh % chg for DPU

INVESTMENT PROPERTIES BREAKDOWN



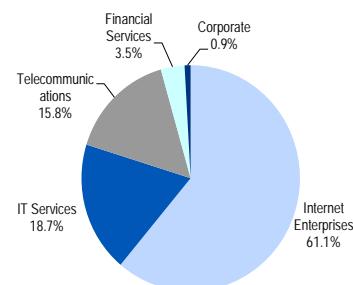
Source: KDCREIT

RENTAL INCOME BY CONTRACT TYPE



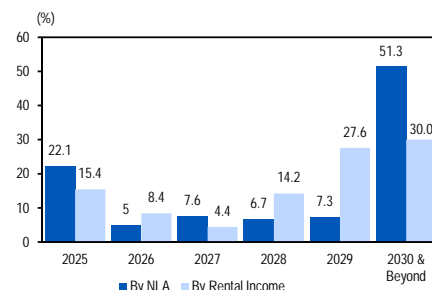
Source: KDCREIT

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	427.0	431.9	433.9
EBITDA	214.2	300.0	340.0	341.6
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	214.2	300.0	340.0	341.6
Total other non-operating income	158.1	0.0	0.0	0.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(36.1)	(39.8)	(46.0)	(46.9)
Pre-tax profit	336.2	260.2	294.1	294.7
Tax	(26.8)	(15.6)	(17.6)	(17.7)
Minorities	(13.3)	(3.0)	(3.0)	(3.0)
Perpetual Securities	0.0	0.0	0.0	0.0
Net profit	296.1	241.6	273.4	274.0
Net profit (adj.)	126.8	241.6	273.4	274.0

BALANCE SHEET

Year to 31 Dec (\$m)	2024	2025F	2026F	2027F
Fixed assets	4,904.0	5,284.0	5,314.0	5,344.0
Other LT assets	175.0	175.0	175.0	175.0
Cash/ST investment	316.7	153.4	155.9	158.3
Other current assets	147.6	111.8	112.5	112.9
Total assets	5,543.2	5,724.2	5,757.3	5,790.2
ST debt	87.3	87.3	87.3	87.3
Other current liabilities	299.4	101.7	102.2	102.6
LT debt	1,628.1	1,920.0	1,950.0	1,980.0
Other LT liabilities	101.4	101.4	101.4	101.4
Shareholders' equity	3,372.0	3,458.9	3,461.5	3,464.0
Minority interest	54.9	54.9	54.9	54.9
Total liabilities & equity	5,543.2	5,724.2	5,757.3	5,790.2

CASH FLOW

Year to 31 Dec (\$m)	2024	2025F	2026F	2027F
Operating	223.7	141.4	335.8	337.3
Pre-tax profit	314.0	244.6	276.4	277.0
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	(178.5)	(0.1)	(0.1)
Non-cash items	5.0	9.8	10.4	10.5
Other operating cashflows	(257.8)	65.5	49.0	49.9
Investing	(1,066.3)	(380.0)	(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	0.0	0.0	0.0
Others	13.9	0.0	0.0	0.0
Financing	1,004.7	80.8	(303.3)	(304.9)
Distribution to unitholders	(153.0)	(239.7)	(270.9)	(271.5)
Issue of shares	1,001.3	85.0	0.0	0.0
Proceeds from borrowings	692.8	291.9	30.0	30.0
Loan repayment	(474.8)	0.0	0.0	0.0
Others/interest paid	(61.6)	(56.3)	(62.5)	(63.4)
Net cash inflow (outflow)	162.2	(157.8)	2.4	2.4
Beginning cash & cash equivalent	149.7	311.2	153.4	155.9
Changes due to forex impact	(0.7)	0.0	0.0	0.0
Ending cash & cash equivalent	311.2	153.4	155.9	158.3

KEY METRICS

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	70.1	70.3	78.7	78.7
Pre-tax margin	110.0	60.9	68.1	67.9
Net margin	96.9	56.6	63.3	63.1
ROA	6.2	4.3	4.8	4.7
ROE	10.4	7.1	7.9	7.9
Growth				
Turnover	10.4	39.7	1.1	0.5
EBITDA	2.8	40.0	13.3	0.5
Pre-tax profit	151.7	(22.6)	13.0	0.2
Net profit	159.0	(18.4)	13.2	0.2
Net profit (adj.)	(11.5)	90.6	13.2	0.2
EPU	(22.5)	67.9	11.9	0.0
Leverage				
Debt to total capital	33.4	36.4	36.7	37.0
Debt to equity	50.9	58.0	58.9	59.7
Net debt/(cash) to equity	41.5	53.6	54.4	55.1
Interest cover (x)	5.9	7.5	7.4	7.3

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