

COMPANY UPDATE

Keppel DC REIT (KDCREIT SP)

Silver Lining For Guangdong Data Centres

We saw green shoots of recovery for Guangdong DC1 and DC2. KDCREIT has submitted proposals to requests from several potential tenants, including hyperscalers and AI start-ups. Management focuses on working with Bluesea Development to execute the recovery roadmap to bring Guangdong DC1 and DC2 back on track. KDCREIT will scout for acquisitions in Singapore and Japan. It provides 2024 distribution yield of 5.1% (DCREIT: 5.4%, MINT: 6.3%). Maintain BUY. Target price: S\$2.20.

WHAT'S NEW

- Generative AI frenzy in China.** Baidu, Alibaba and Tencent are technology giants developing generative artificial intelligence (AI) and large language models (LLM) in China. They have already launched their ChatGPT-like chatbot, including Baidu's Ernie Bot, Alibaba's Tongyi Qianwen and Tencent's Yuanbao. China also has four newly minted generative AI unicorns in Zhipu AI, Moonshot AI, MiniMax and 01.ai. Cyberspace Administration of China has approved 117 generative AI models for use by the public as of Apr 24. The government in Beijing has provided policy support through funding, tax subsidies, eco-system development and infrastructure.
- Grooming home-grown AI chipmakers.** According to semiconductor research firm SemiAnalysis, Huawei's Ascend 910B AI processor is on par in computing power compared to Nvidia's A100 graphics processing units (GPU), which are popularly used for generative AI applications hosted at data centres. Another alternative supplier of AI processor is Shanghai Biren Intelligent Technology. Its BR100 GPU offers up to 1,000 TFLOPS of 16-bit floating point operations. The development of a domestically produced AI processor will accelerate the growth of generative AI in China.
- Responded to requests for proposals from various potential new tenants.** Tenant Bluesea Development has refocused on the wholesale and hyperscale market. Keppel DC REIT (KDCREIT) sees green shoots for demand from generative AI applications in China. It has worked with Bluesea Development to submit proposals to requests from several potential tenants, including domestic hyperscalers, such as e-commerce players, social media apps and cloud service providers, and AI start-ups. Successful bids could substantially backfill the vacant space at Guangdong DC1 and DC2.
- Working on recovery roadmap in China.** KDCREIT prioritises working with Bluesea Development on a recovery roadmap and leasing pipeline. It has recognised loss allowance of S\$5.3m for uncollected income from the Guangdong data centres (rental income from DC1 and DC2 and coupon income from DC3), which has a negative impact of 0.326 S cents or 13% to 1Q24 DPU. We expect the loss allowance to be recognised till 1H25. New tenants could start to contribute in 2H25.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	277	277	295	284	288
EBITDA	219	208	211	212	225
Operating profit	219	208	211	212	225
Net profit (rep./act.)	231	114	182	158	169
Net profit (adj.)	154	143	154	158	169
EPU (S\$ cent)	9.0	8.3	9.0	9.1	9.8
DPU (S\$ cent)	10.2	9.4	9.0	9.2	9.8
PE (x)	19.9	21.4	19.9	19.5	18.2
P/B (x)	1.3	1.3	1.3	1.3	1.3
DPU Yld (%)	5.7	5.3	5.1	5.2	5.5
Net margin (%)	83.3	41.3	61.7	55.5	58.8
Net debt/(cash) to equity (%)	53.2	57.6	56.4	57.8	59.2
Interest cover (x)	10.0	5.5	5.4	5.8	5.9
ROE (%)	9.8	4.8	7.8	6.7	7.2
Consensus DPU (S\$ cent)	n.a.	n.a.	8.9	9.2	9.9
UOBKH/Consensus (x)	-	-	1.02	1.00	0.99

Source: Keppel DC REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.78
Target Price	S\$2.20
Upside	+23.6%
(Previous TP	S\$2.15)

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):	3,067.3
Market cap (US\$m):	2,265.8
3-mth avg daily t'over (US\$m):	5.3

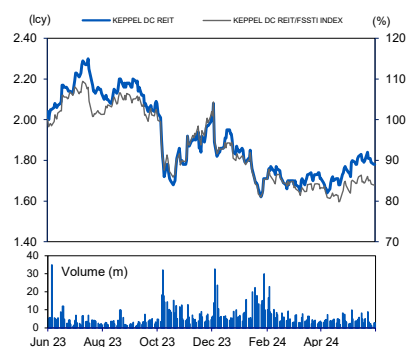
Price Performance (%)

52-week high/low	S\$2.30/S\$1.62			
1mth	3mth	6mth	1yr	YTD
1.1	4.7	(9.6)	(12.7)	(8.7)

Major Shareholders

Temasek Hldgs	21.8
FY24 NAV/Share (S\$)	1.36
FY24 Net Debt/Share (S\$)	0.76

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

• **Potential acquisitions in Singapore and Japan.** KDCREIT is expected to lower its aggregate leverage by 0.8ppt to about 36.8% due to the divestment of Intellicentre Campus in Sydney, Australia for A\$174.0m (S\$152.1m), while re-investing A\$90.0m (S\$78.7m) of the sale proceeds into AU DC Note at a yield of 7%. We expect KDCREIT to scout for opportunities for acquisition in Singapore and Japan.

a) **Singapore: Tapping on sponsor pipeline.** Keppel Corp and Singapore Press Holdings (subsequently acquired by Cuscaden Peak Investments) have established 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 and all tenants have already moved in during 1H24. We expect KDCREIT to acquire SGP7 in due course as Singapore is its preferred market.

b) **Japan: Leveraging on local partner in sourcing for deals.** Keppel has signed a MOU with Mitsui Fudosan to jointly explore data centre development in Japan and Southeast Asia. Mitsui Fudosan has a strong track record in sourcing land in Japan. Keppel Data Centre Fund II (KDCF II) has a framework agreement with Mitsui Fudosan for the forward purchase of a data centre currently being developed in Western Tokyo. Mitsui Fudosan will develop the core and shell of the data centre, while KDCF II will undertake the fit-out works. The data centre is expected to be "ready for service" in 2027.

• **Benefitting moderately 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 benefits as the European Central Bank has cut the interest rate on its main refinancing operations by 25bp to 4.25%. The bulk of KDCREIT's borrowings mature in 2026 and beyond.

VALUATION/RECOMMENDATION

• **Maintain BUY.** Our target price of S\$2.20 based on DDM (cost of equity: 6.75%, terminal growth: 2.5%).

EARNINGS REVISION/RISK

• We raised our 2026 DPU forecast by 3% due to recovery from Guangdong DC1 and DC2.

SHARE PRICE CATALYST

- Demand for colocation space arising from AI-powered applications.
- Backfilling of vacant spaces at Guangdong DC1, DC2 and DC3 in China.
- Acquisitions from the sponsor pipeline.

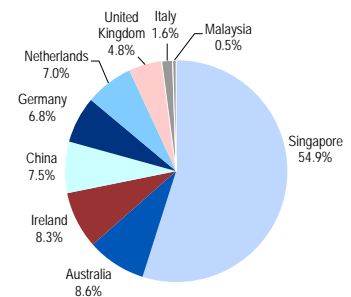
KEY OPERATING METRICS – KDCREIT

	1Q23	2Q23	3Q23	4Q23	1Q24	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	5.05	n.a.	4.33	n.a.	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

* hoh % chg for DPU

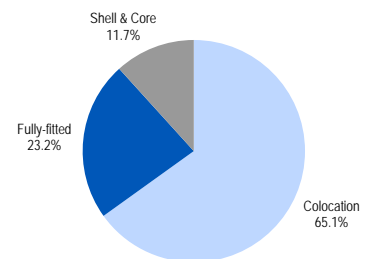
Source: KDCREIT, UOB Kay Hian

INVESTMENT PROPERTIES BREAKDOWN



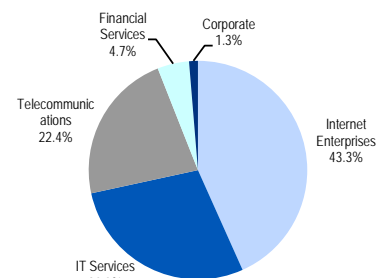
Source: KDCREIT

RENTAL INCOME BY CONTRACT TYPE



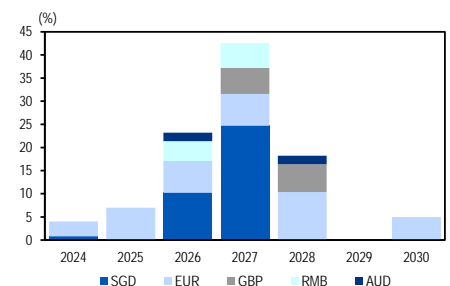
Source: KDCREIT

RENTAL INCOME BY TRADE SECTOR



Source: KDCREIT

DEBT MATURITY PROFILE



Source: KDCREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	277.0	295.2	283.8	287.5
EBITDA	208.3	210.8	211.8	225.0
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	208.3	210.8	211.8	225.0
Associate contributions	(8.3)	(5.0)	(5.0)	(5.0)
Net interest income/(expense)	(37.6)	(39.3)	(36.8)	(37.9)
Pre-tax profit	133.6	194.2	170.0	182.2
Tax	(15.6)	(9.2)	(9.3)	(10.0)
Minorities	(3.7)	(3.0)	(3.0)	(3.0)
Net profit	114.3	182.0	157.6	169.2
Net profit (adj.)	143.2	154.3	157.6	169.2

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	210.8	178.3	210.3	223.2
Pre-tax profit	122.2	185.0	160.6	172.2
Associates	8.3	5.0	5.0	5.0
Working capital changes	21.7	(29.1)	(0.6)	(0.3)
Non-cash items	5.2	4.7	4.8	4.9
Other operating cashflows	53.4	12.6	40.5	41.5
Investing	(15.4)	43.4	(30.0)	(30.0)
Capex (growth)	0.0	(78.7)	0.0	0.0
Capex (maintenance)	(26.4)	(30.0)	(30.0)	(30.0)
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)	(217.2)	(182.4)	(194.6)
Distribution to unitholders	(175.7)	(155.9)	(159.1)	(170.3)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	265.4	(8.3)	30.0	30.0
Loan repayment	(274.2)	0.0	0.0	0.0
Others/interest paid	(51.7)	(53.1)	(53.3)	(54.4)
Net cash inflow (outflow)	(40.8)	4.5	(2.1)	(1.4)
Beginning cash & cash equivalent	190.4	149.7	154.2	152.1
Changes due to forex impact	0.2	0.0	0.0	0.0
Ending cash & cash equivalent	149.7	154.2	152.1	150.7

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	3,655.9	3,561.5	3,591.5	3,621.5
Other LT assets	126.3	205.0	205.0	205.0
Cash/ST investment	149.7	154.2	152.1	150.7
Other current assets	74.5	95.5	97.4	98.4
Total assets	4,006.6	4,016.3	4,046.2	4,075.7
ST debt	72.5	72.5	72.5	72.5
Other current liabilities	76.1	68.0	69.3	70.0
LT debt	1,408.3	1,400.0	1,430.0	1,460.0
Other LT liabilities	95.7	95.7	95.7	95.7
Shareholders' equity	2,311.0	2,337.1	2,335.7	2,334.6
Minority interest	43.0	43.0	43.0	43.0
Total liabilities & equity	4,006.6	4,016.3	4,046.2	4,075.7

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	75.2	71.4	74.6	78.3
Pre-tax margin	48.2	65.8	59.9	63.4
Net margin	41.3	61.7	55.5	58.8
ROA	2.8	4.5	3.9	4.2
ROE	4.8	7.8	6.7	7.2
Growth				
Turnover	(0.1)	6.6	(3.9)	1.3
EBITDA	(4.9)	1.2	0.4	6.3
Pre-tax profit	(49.6)	45.4	(12.5)	7.2
Net profit	(50.5)	59.2	(13.4)	7.3
Net profit (adj.)	(7.0)	7.8	2.1	7.3
EPU	(7.1)	7.6	2.0	7.2
Leverage				
Debt to total capital	38.6	38.2	38.7	39.2
Debt to equity	64.1	63.0	64.3	65.6
Net debt/(cash) to equity	57.6	56.4	57.8	59.2
Interest cover (x)	5.5	5.4	5.8	5.9

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