

COMPANY RESULTS

Keppel REIT (KREIT SP)

2H23: Gaining Better Traction In Australia And Japan

Portfolio occupancy rose 1.2ppt qoq to 97.1% in 4Q23, driven by properties located overseas. Occupancy at 8 Chifley Square in Sydney further improved 2.9ppt qoq to 100%, while occupancy at newly-acquired KR Ginza II in Tokyo went up by a massive 25.5ppt qoq to 100% after securing two new tenants. KREIT's valuation is attractive with 2024 distribution yield of 6.8% (CICT: 5.4% and Suntec: 5.8%) and P/NAV at 0.71x. Maintain BUY. Target price: S\$1.24.

2H23 RESULTS

Year to 31 Dec (S\$m)	2H23	yoy % chg	Remarks
Property Income	118.2	+7.9	Higher rentals and occupancies from Singapore properties.
Net Property Income (Attributable)	83.0	+6.4	
Interest Income	3.7	-77.4	
Associates and JVs	51.5	+16.0	Higher contributions from MBFC, ORQ and 8 Chifley Square.
Distributable Income	109.7	-0.6	Included Anniversary Distribution of S\$10m.
DPU (S cents)	2.90	-1.7	

Source: KREIT, UOB Kay Hian

RESULTS

- Keppel REIT (KREIT) reported DPU of 2.90 S cents for 2H23 (-1.7% yoy), which is in line with our expectations.
- Growth from Singapore.** Property income and NPI grew 7.9% and 6.4% yoy respectively in 2H23 due to higher rentals and occupancies from Singapore properties. Borrowing costs increased 8.3% yoy. Contributions from its Australia portfolio were weighed down as the Australian dollar depreciated 1.6% yoy against the Singapore dollar.
- Higher portfolio occupancy driven by overseas properties.** Portfolio occupancy improved 1.2ppt qoq to 97.1% in 4Q23. In Singapore, committed occupancies for Ocean Financial Centre (OFC), One Raffles Quay (ORQ), Marina Bay Financial Centre (MBFC) and Keppel Bay Tower remain high at 100.0%, 99.4%, 98.7% and 97.7% respectively.
- Resiliency from Singapore offices.** KREIT achieved positive rental reversion of 11.3% in 4Q23 (2023: 9.9%). Average signing rent for Singapore office leases has increased from S\$11.54psf per month in 2022 to S\$12.41psf per month in 2023. Portfolio WALE is high at 5.5 years (top 10 tenants: 9.7 years). Retention rate was high at 73.7%. Management expects positive rental reversion to maintain at mid-to-high single digits in 2024.
- Benefitting from flight to quality down under.** In Sydney, occupancy at 8 Chifley Square improved 2.9ppt qoq to 100%. Newly-completed 2 Blue Street saw occupancy improve by 23.9ppt qoq to 66.4% (unlet space is covered by rental guarantee for three years). Occupancy for 9 Exhibition Street in Melbourne edged higher by 1.9ppt qoq to 99.1%.
- Vacant space at KR Ginza II backfilled and fully occupied.** Occupancy at newly-acquired KR Ginza II in Tokyo improved massively by 25.5ppt qoq to 100% after securing two new tenants from the technology, media and telecommunications (TMT) sector. Its fully-fitted office suites were also well received and attracted new tenants.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	219	233	252	254	258
EBITDA	112	120	136	138	140
Operating profit	112	120	136	138	140
Net profit (rep./act.)	405	169	160	159	160
Net profit (adj.)	137	136	160	159	160
EPU (S\$ cent)	3.7	3.6	4.2	4.1	4.1
DPU (S\$ cent)	5.9	5.8	6.2	6.1	6.1
PE (x)	24.8	25.5	22.0	22.4	22.5
P/B (x)	0.7	0.7	0.7	0.7	0.8
DPU Yld (%)	6.5	6.3	6.8	6.7	6.6
Net margin (%)	184.9	72.3	63.6	62.5	62.2
Net debt/(cash) to equity (%)	49.2	41.4	43.9	46.1	48.4
Interest cover (x)	3.5	2.0	1.8	1.7	1.7
ROE (%)	7.7	3.1	3.0	3.1	3.1
Consensus DPU (S\$ cent)	n.a.	n.a.	5.8	5.9	5.9
UOBKH/Consensus (x)	-	-	1.07	1.04	1.03

Source: Keppel REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.915
Target Price	S\$1.24
Upside	+35.5%
(Previous TP)	S\$1.17

COMPANY DESCRIPTION

Keppel REIT invests in quality income-producing commercial real estate in Asia Pacific. Its portfolio with AUM of S\$9.1b comprises predominantly of premium grade A office buildings located in prime business and financial districts in Singapore, Australia (Sydney, Melbourne and Perth), South Korea (Seoul) and Japan (Tokyo).

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	KREIT SP
Shares issued (m):	3,782.6
Market cap (S\$m):	3,461.0
Market cap (US\$m):	2,583.2
3-mth avg daily t'over (US\$m):	8.0

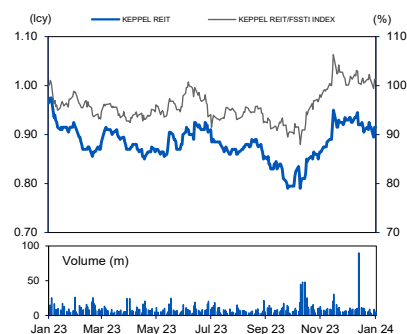
Price Performance (%)

52-week high/low	S\$0.975/S\$0.79			
1mth	3mth	6mth	1yr	YTD
(1.6)	15.1	1.1	(6.2)	(1.6)

Major Shareholders

Keppel REIT Investment	29.7
FY24 NAV/Share (S\$)	1.28
FY24 Net Debt/Share (S\$)	0.60

PRICE CHART



Source: Bloomberg

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- Benefitting from higher capital values.** Valuation for the Singapore portfolio increased 1.0% or S\$75m. Valuation for the Australia portfolio decreased 0.9% or S\$14m. Valuation for T Tower in Seoul increased 5.6% or S\$17m. Overall, portfolio valuation expanded 0.8% to S\$9,245m.
- Prudent capital management.** Aggregate leverage eased 0.6ppt qoq to 38.9% as of Dec 23. All-in interest rate was stable at 2.89% in 4Q23. It has hedged 75% of borrowings to a fixed rate. S\$802m or 22% of its total borrowings are due for refinancing in 2024 (mostly in 2Q24). Management guided that average cost of debt would increase to 3.5% in 2024, which is already reflected in our earnings model.

STOCK IMPACT

- Overseas properties in Sydney and Tokyo gaining traction.** KREIT is well positioned after backfilling vacant spaces in Singapore ahead of new supply coming on-stream from IOI Central Boulevard Towers in 1Q24. In Sydney, 8 Chifley Square, Pinnacle Office Park and 2 Blue Street, are benefitting from companies tightening their hybrid work arrangements. Newly-acquired KR Ginza II in Tokyo is already fully occupied.
- Resilient office market in Singapore.** According to CBRE, rents for Grade A offices in Core CBD increased 1.7% yoy and 0.4% qoq to S\$11.90psf in 4Q23 due to back-to-office momentum and absorption of shadow space. Leasing demand is coming primarily from financial services (fund management, asset management and family offices), consumer goods and pharmaceutical companies. Vacancy for Grade A offices in Core CBD has tightened by 0.7ppt yoy to 3.5% due to flight to quality. The completion of IOI Central Boulevard Towers with 1,258,000sf of office space was delayed to 1Q24. The project is 40% pre-committed with another 20% in advanced stages of negotiation. CBRE expects rents for Grade A offices in Core CBD to increase at moderate pace of 2-3% in 2024.
- Asset enhancement initiatives.** ORQ will refurbish the main office lobbies, Garden Plaza and add F&B units at the Garden Plaza and North Tower. These enhancements are expected to complete by the end of 2024. In Australia, KREIT has completed refurbishment for Pinnacle Office Park's main lobby at the ground floor, lift lobbies, café area and outdoor terrace areas in Jan 24. A clubhouse lounge and meeting rooms were added to provide comfortable and private areas for social events and meetings.
- Rewarding unitholders with capital distributions.** Management has set aside S\$100m from accumulated capital gains to be distributed over the next five years to mark KREIT's 20th anniversary in 2026. Distributions would be made semi-annually from 2H22 to 1H27 (S\$10m every six months).

EARNINGS REVISION

- We raise our 2024 DPU forecast by 5% to factor in higher occupancies at overseas properties.

VALUATION/RECOMMENDATION

- Valuation is attractive based on P/NAV.** KREIT is trading at P/NAV of 0.71x (29% discount to NAV per unit of S\$1.29), which is near the low of 0.61x on 23 Mar 20 at the onset of the COVID-19 pandemic.
- Maintain BUY.** Our target price of S\$1.24 is based on DDM (cost of equity: 6.25%, terminal growth: 1.5%).

SHARE PRICE CATALYST

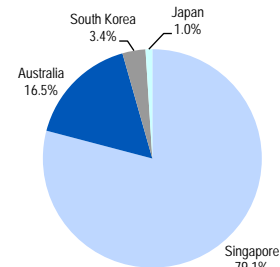
- Resilient rents and capital values for office properties in Singapore.
- Contribution from 2 Blue Street in Sydney kicking in from Apr 23.

KEY OPERATING METRICS

	4Q22	1Q23	2Q23	3Q23	4Q23	yoy	qoq
DPU (S cents)	2.95	n.a.	2.90	n.a.	2.90	-1.7%	0.0%
Occupancy	96.3%	96.3%	94.9%	95.9%	97.1%	0.8ppt	1.2ppt
Aggregate Leverage	38.4%	38.7%	39.2%	39.5%	38.9%	0.5ppt	-0.6ppt
Average Cost of Debt	2.29%	2.86%	2.84%	2.85%	2.89%	0.6ppt	0.04ppt
% of Borrowings on Fixed Rates	76.0%	75.0%	76.0%	76.0%	75.0%	-1ppt	-1ppt
WALE by NLA (years)	6.0	5.8	5.7	5.6	5.5	-0.5yrs	-0.1yrs
Weighted Average Debt Maturity (years)	2.7	3.0	2.9	2.7	2.4	-0.3yrs	-0.3yrs
Rental Reversions	19.3%	9.3%	8.1%	8.6%	9.9%	-9.4%	1.3%
Tenant Retention Rate	78.0%	98.0%	66.9%	71.4%	73.7%	-4.3ppt	2.3ppt

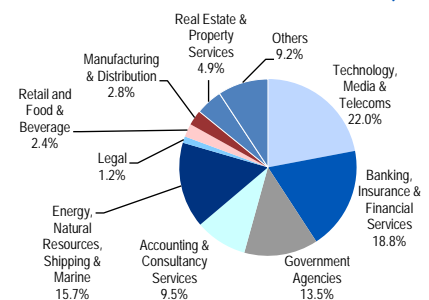
Source: KREIT * hoh % change for DPU

AUM BY COUNTRY (DEC 23)



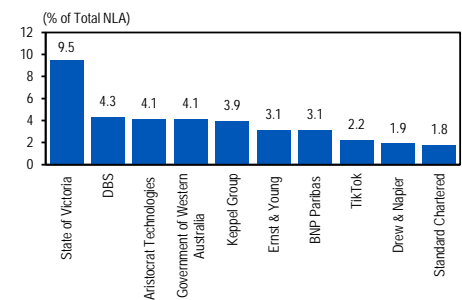
Source: KREIT

NEW LEASING DEMAND AND EXPANSION (2H23)



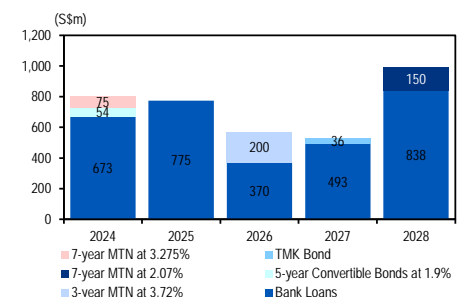
Source: KREIT

TOP TEN TENANTS (DEC 23)



Source: KREIT

DEBT MATURITY PROFILE (DEC 23)



Source: KREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	233.1	251.5	254.2	257.6
EBITDA	120.0	135.5	137.7	140.4
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	120.0	135.5	137.7	140.4
Total other non-operating income	10.9	0.0	0.0	0.0
Associate contributions	103.8	122.7	124.6	126.1
Net interest income/(expense)	(59.6)	(73.9)	(78.9)	(81.7)
Pre-tax profit	208.1	184.4	183.4	184.9
Tax	(11.6)	(10.7)	(10.6)	(10.7)
Minorities	(18.4)	(4.4)	(4.4)	(4.4)
Preferred dividends	(9.5)	(9.5)	(9.5)	(9.5)
Net profit	168.6	159.8	158.9	160.3
Net profit (adj.)	135.6	159.8	158.9	160.3

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	169.9	108.5	131.8	134.5
Pre-tax profit	175.0	184.4	183.4	184.9
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	(103.8)	(122.7)	(124.6)	(126.1)
Working capital changes	8.8	(10.8)	0.5	0.5
Other operating cashflows	89.9	57.6	72.5	75.3
Investing	603.3	112.7	114.6	116.1
Capex (growth)	(155.3)	0.0	0.0	0.0
Capex (maintenance)	(10.6)	(10.0)	(10.0)	(10.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	769.2	122.7	124.6	126.1
Financing	(814.6)	(214.0)	(254.4)	(228.8)
Distribution to unitholders	(217.0)	(238.8)	(237.9)	(239.5)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	186.6	106.3	70.0	100.0
Others/interest paid	(784.2)	(81.5)	(86.5)	(89.3)
Net cash inflow (outflow)	(41.4)	7.3	(8.1)	21.8
Beginning cash & cash equivalent	186.4	141.6	148.8	140.7
Changes due to forex impact	(3.5)	0.0	0.0	0.0
Ending cash & cash equivalent	141.6	148.8	140.7	162.6

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	4,927.9	4,927.9	4,927.9	4,927.9
Other LT assets	3,161.1	3,161.1	3,161.1	3,161.1
Cash/ST investment	141.6	148.8	140.7	162.6
Other current assets	28.7	42.9	43.3	43.7
Total assets	8,259.3	8,280.8	8,273.0	8,295.3
ST debt	264.7	264.7	264.7	264.7
Other current liabilities	73.2	68.8	69.7	70.6
LT debt	2,073.7	2,180.0	2,250.0	2,350.0
Other LT liabilities	96.6	95.1	95.6	96.1
Shareholders' equity	5,306.6	5,227.7	5,148.7	5,069.5
Minority interest	444.4	444.4	444.4	444.4
Total liabilities & equity	8,259.3	8,280.8	8,273.0	8,295.3

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	51.5	53.9	54.2	54.5
Pre-tax margin	89.3	73.3	72.1	71.8
Net margin	72.3	63.6	62.5	62.2
ROA	2.0	1.9	1.9	1.9
ROE	3.1	3.0	3.1	3.1
Growth				
Turnover	6.3	7.9	1.1	1.3
EBITDA	6.7	12.9	1.6	2.0
Pre-tax profit	(53.8)	(11.4)	(0.5)	0.8
Net profit	(58.4)	(5.2)	(0.6)	0.9
Net profit (adj.)	(1.3)	17.9	(0.6)	0.9
EPU	(2.7)	16.0	(2.0)	(0.5)
Leverage				
Debt to total capital	28.9	30.1	31.0	32.2
Debt to equity	44.1	46.8	48.8	51.6
Net debt/(cash) to equity	41.4	43.9	46.1	48.4
Interest cover (x)	2.0	1.8	1.7	1.7

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