

COMPANY RESULTS

Keppel REIT (KREIT SP)

1H22: Prime Beneficiary As Vacancy Within Core CBD Tightens

KREIT is the prime beneficiary of office upcycle within core CBD. It achieved positive rental reversion of 7.5% in 2Q22 with rents rising more rapidly in May and June. Portfolio committed occupancy improved 0.4ppt qoq to 95.5%. It is in advanced negotiation with a few prospective tenants. If successfully signed, portfolio occupancy would improve 1.5ppt to 97%. KREIT provides 2022 distribution yield of 5.4% (CIC: 5.4% and Suntec: 6.5%). Maintain BUY with target price of S\$1.41.

1H22 RESULTS

Year to 31 Dec (\$m)	1H22	yoy % chg	Remarks
Property Income	109.8	+3.7	Growth from newly acquired Keppel Bay Tower in Singapore.
Net Property Income (Attributable)	81.0	+6.6	Absence of property expenses from 275 George Street.
Associates and JVs	28.8	-9.3	Transitory vacancy at ORQ and MBFC.
Distributable Income	110.5	+4.6	
DPU (S cents)	2.97	+1.0	

Source: KREIT, UOB Kay Hian

RESULTS

- Keppel REIT (KREIT) reported DPU of 2.97 S cents (+1.0% yoy) for 1H22, which is in line with our expectations.
- Prime beneficiary of office upcycle.** NPI attributable to unitholders increased 6.6% yoy in 1H22 due to the acquisition of Keppel Bay Tower in Singapore (completed on 18 May 21), partially offset by the divestment of 275 George Street in Brisbane (completed on 30 Jul 21). Contributions from associates and JVs decreased 9.3% yoy due to higher cost of borrowings for One Raffles Quay (ORQ) and Marina Bay Financial Centre (MBFC) in Singapore and lease expiry for Quantum at 8 Chifley Square in Sydney.
- Strong positive rental reversion.** Leases committed amounted to 466,900sf (attributable) in 1H22. On a portfolio-wide basis, KREIT achieved positive rental reversion of 7.5% in 2Q22. Vacancy has tightened within core CBD and rents surged more rapidly in May and June. Average signing rents for Singapore office leases were S\$11.43psf in 1H22 (1Q22: S\$11.15psf). New leasing demand and expansion were mainly from technology, media & telecommunications (20.3%), banking, insurance & financial services (20.3%) and real estate & property services (17.2%). Retention rate was healthy at 89%.
- Mid-year portfolio valuation.** Valuation for the Singapore portfolio increased S\$96.7m or 1.4% to S\$7.0b due to higher rental growth. Valuation for the Australian portfolio increased S\$70.8m or 4.4% to S\$1.7b driven by Blue & William (construction progress) and Victoria Police Centre (long WALE of 28 years). KREIT recognised revaluation gain of S\$108.7m NAV per unit increased 3.1% hoh to S\$1.33 in 1H22.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	170	217	235	244	249
EBITDA	115	154	173	182	187
Operating profit	115	154	173	182	187
Net profit (rep./act.)	20	276	219	212	227
Net profit (adj.)	180	193	219	212	227
EPU (S\$ cent)	5.3	5.3	5.9	5.6	5.9
DPU (S\$ cent)	5.7	5.8	5.9	5.6	6.2
PE (x)	20.7	21.0	18.7	19.6	18.5
P/B (x)	0.8	0.8	0.9	0.9	0.9
DPU Yld (%)	5.2	5.3	5.4	5.1	5.6
Net margin (%)	11.5	127.3	93.4	86.8	90.9
Net debt/(cash) to equity (%)	46.2	49.1	52.8	55.4	56.9
Interest cover (x)	3.5	4.3	11.1	5.2	5.2
ROE (%)	0.4	5.5	4.3	4.2	4.5
Consensus DPU (S\$ cent)	n.a.	n.a.	6.0	6.1	6.2
UOBKH/Consensus (x)	-	-	0.99	0.92	1.00

Source: Keppel REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.10
Target Price	S\$1.41
Upside	+28.2%

COMPANY DESCRIPTION

Keppel REIT invests in quality income-producing commercial real estate. Its portfolio with AUM of S\$9b comprises predominantly of premium grade A office buildings located in prime business and financial districts in Singapore, Australia and South Korea.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	KREIT SP
Shares issued (m):	3,721.9
Market cap (S\$m):	4,094.1
Market cap (US\$m):	2,947.7
3-mth avg daily t'over (US\$m):	7.5

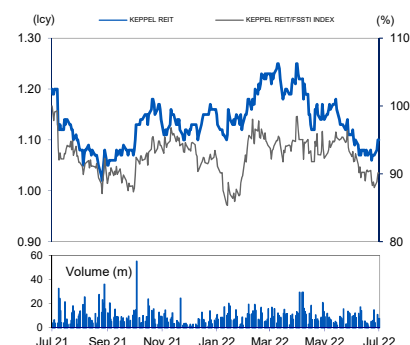
Price Performance (%)

52-week high/low		S\$1.25/S\$1.02		
1mth	3mth	6mth	1yr	YTD
(0.9)	(12.0)	(5.2)	(8.3)	(2.7)

Major Shareholders

Keppel REIT Investment	39.8
-	-
-	-
FY22 NAV/Share (S\$)	1.29
FY22 Net Debt/Share (S\$)	0.72

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Portfolio committed occupancy improved 0.4ppt qoq to 95.5% in 2Q22.** Occupancy for MBFC improved 1.5ppt qoq to 97.4%. KREIT has backfilled 90% of 75,000sf space vacated by DBS at MBFC Tower 3. For the 200,000sf space vacated by Standard Chartered Bank at MBFC Tower 1, one-third is already backfilled while another one-third is under advanced negotiation. The signing rents were S\$9-13psf/month for Tower 3 and S\$10-15psf/month for Tower 1. Separately, KREIT is in advanced negotiation with a few prospective tenants. If successfully signed, these new leases would improve portfolio occupancy by 1.5ppt to 97%.
- Recovery in Australia.** In Australia, viewing has resumed after the reopening. Leasing activities have picked up since April. Occupancy at 8 Chifley Square jumped 13.4ppt qoq to 82.0%, while occupancy at Pinnacle Office Park improved 2.4ppt qoq to 93.0%. Weighted average lease expiry (WALE) is long at 6.0 years (top 10 tenants: 10.5 years).
- Mid-year portfolio valuation.** Valuation for the Singapore portfolio increased S\$96.7m or 1.4% to S\$7.0b due to higher rental growth. Valuation for the Australian portfolio increased S\$70.8m or 4.4% to S\$1.7b driven by Blue & William (construction progress) and Victoria Police Centre (long WALE of 28 years). KREIT recognised revaluation gain of S\$108.7m NAV per unit increased 3.1% hoh to S\$1.33 in 1H22.
- Resilient balance sheet.** Aggregate leverage improved 0.8ppt qoq to 37.9% in 2Q22 due to the revaluation gains. KREIT has secured a green loan of A\$100m maturing in 2026. It has achieved its target of having sustainability-focused funding accounting for 50% of total borrowings by 2025. It does not have any borrowings maturing in 2H22.
- Sensitivity to higher interest rates.** All-in cost of debts rose 12bp qoq to 1.93% in 2Q22. KREIT has increased the proportion of borrowings hedged to fixed interest rates from 71% to 73%. Every 50bp increase in base rates (swap offer rate/Singapore overnight rate average /bank bill swap rate) will reduce DPU by 0.12 S cents or 2.1% per year.

STOCK IMPACT

- Positive leasing momentum.** Management guided positive rental reversion at mid-to-high single digit for 2022 as average expiring rents for Singapore office is low at S\$9.82psf/month for 2H22. Leases expiring in 2H22 accounted for 4.9% of portfolio NLA.
- Recovery has strengthened and broadened.** According to CBRE, office rents for Grade A core CBD increased 7.6% yoy and 3.2% qoq to S\$11.30psf/month in 2Q22. Strength in the office market was driven by the reopening with all employees allowed back to their workplaces since 26 Apr 22. AXA Tower commenced demolition. Vacancy for Grade A office space within core CBD tightened 0.1ppt qoq to 4.4%. Thus, office landlords have raised their rental expectations. Leasing activities are dominated by renewals. There were also new set-ups from the legal sector and non-bank financial institutions.
- Minimal impact from rising electricity tariff.** KREIT has raised service charges at MBFC and ORQ to offset impact from higher electricity tariff. Its leases for Australia and South Korea are triple net with cost of electricity borne by tenants.
- Development of office property at North Sydney.** Development of Blue & William, a freehold Grade A office building with NLA of 152,126sf located in close proximity to North Sydney Train Station, is 48.7% completed as of Jun 22. The developer Lendlease provides a coupon of 4.5% on cumulative progress payment during the development period. Lendlease has provided a three-year rental guarantee on unlet space after practical completion scheduled in mid-23, which ensures the property is able to provide NPI yield of 4.5%. The development has garnered interest from a few prospective tenants.

EARNINGS REVISION

- We maintain our existing DPU forecast.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$1.41 is based on DDM (cost of equity: 6.5%, terminal growth: 2.3%).

SHARE PRICE CATALYST

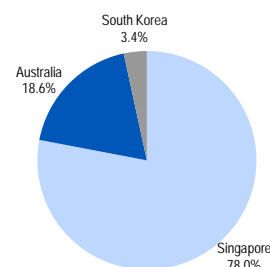
- Keppel Bay Tower will provide full-year contribution in 2022. Practical completion of Blue & William in mid-23.

KEY OPERATING METRICS – KREIT

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	yoy	qoq
DPU	n.a.	2.94	n.a.	2.88	n.a.	2.97	1.0%	3.1%
Occupancy	96.5%	96.7%	97.1%	95.4%	95.1%	95.5%	-1.2ppt	0.4ppt
Gearing	35.2%	38.9%	37.6%	38.4%	38.7%	37.9%	-1ppt	-0.8ppt
Average Cost of Debt	2.01%	1.97%	1.99%	1.98%	1.81%	1.93%	-0.04ppt	0.12ppt
% of Borrowings on Fixed Rates	85.0%	68.0%	71.0%	63.0%	71.0%	73.0%	5ppt	2ppt
WALE by NLA (years)	6.7	6.2	6.1	6.1	6.1	6	-0.2yrs	-0.1yrs
Weighted Average Debt Maturity (years)	3.0	3.1	3.3	3.1	3.1	3.1	0yrs	0yrs
Rental Reversions	10.9%	4.1%	1.0%	3.0%	7.9%	7.5%	3.4%	-0.4%
Tenant Retention Rate	44.0%	60.0%	73.0%	62.0%	91.0%	89.0%	29ppt	-2ppt

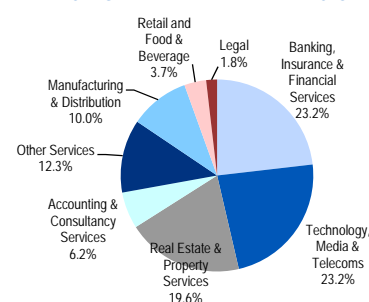
Source: KREIT

AUM BY COUNTRY (JUN 22)



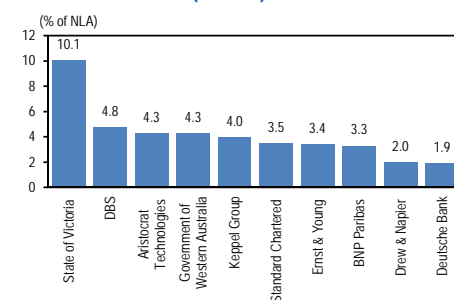
Source: KREIT

NEW LEASING DEMAND AND EXPANSION (1H22)



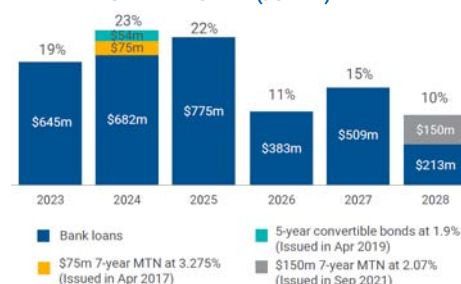
Source: KREIT

TOP TEN TENANTS (JUN 22)



Source: KREIT

DEBT MATURITY PROFILE (JUN 22)



Source: KREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	216.6	234.6	244.3	249.4
EBITDA	154.4	173.4	182.2	186.8
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	154.4	173.4	182.2	186.8
Total other non-operating income	2.7	0.0	0.0	0.0
Associate contributions	118.6	97.0	99.8	102.3
Net interest income/(expense)	(35.9)	(15.6)	(34.7)	(36.2)
Pre-tax profit	322.9	254.8	247.3	252.9
Tax	(23.0)	(11.9)	(11.4)	(12.3)
Minorities	(14.7)	(14.4)	(14.4)	(4.4)
Preferred dividends	(9.4)	(9.5)	(9.5)	(9.5)
Net profit	275.8	219.1	212.0	226.8
Net profit (adj.)	192.7	219.1	212.0	226.8

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	4,707.5	4,819.5	4,875.5	4,875.5
Other LT assets	3,541.8	3,541.8	3,541.8	3,541.8
Cash/ST investment	189.3	166.8	161.9	162.8
Other current assets	49.1	52.8	53.9	54.6
Total assets	8,487.7	8,580.9	8,633.1	8,634.7
ST debt	187.9	187.9	187.9	187.9
Other current liabilities	85.4	84.4	86.7	89.3
LT debt	2,538.9	2,680.0	2,780.0	2,830.0
Other LT liabilities	85.5	88.8	89.8	90.4
Shareholders' equity	5,168.2	5,118.0	5,066.9	5,015.3
Minority interest	421.8	421.8	421.8	421.8
Total liabilities & equity	8,487.7	8,580.9	8,633.1	8,634.7

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	392.3	136.9	148.2	171.7
Pre-tax profit	195.7	205.6	196.5	211.4
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	(118.6)	(97.0)	(99.8)	(102.3)
Working capital changes	(4.4)	(3.4)	0.7	0.5
Other operating cashflows	319.7	31.7	50.8	62.1
Investing	(716.4)	(24.9)	33.9	92.3
Capex (growth)	(825.0)	(111.9)	(55.9)	0.0
Capex (maintenance)	(10.0)	(10.0)	(10.0)	(10.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	118.6	97.0	99.8	102.3
Financing	358.0	(134.5)	(187.0)	(263.1)
Distribution to unitholders	(212.1)	(220.1)	(212.3)	(236.9)
Issue of shares	270.0	0.0	0.0	0.0
Proceeds from borrowings	351.7	141.1	100.0	50.0
Others/interest paid	(51.5)	(55.6)	(74.7)	(76.2)
Net cash inflow (outflow)	34.0	(22.5)	(4.9)	0.9
Beginning cash & cash equivalent	155.3	189.3	166.8	161.9
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	189.3	166.8	161.9	162.8

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	71.3	73.9	74.6	74.9
Pre-tax margin	149.1	108.6	101.2	101.4
Net margin	127.3	93.4	86.8	90.9
ROA	3.4	2.6	2.5	2.6
ROE	5.5	4.3	4.2	4.5
Growth				
Turnover	27.2	8.3	4.1	2.1
EBITDA	34.0	12.3	5.1	2.5
Pre-tax profit	714.0	(21.1)	(3.0)	2.3
Net profit	1,304.4	(20.6)	(3.2)	7.0
Net profit (adj.)	6.9	13.7	(3.2)	7.0
EPU	(1.2)	12.1	(4.4)	5.6
Leverage				
Debt to total capital	32.8	34.1	35.1	35.7
Debt to equity	52.8	56.0	58.6	60.2
Net debt/(cash) to equity	49.1	52.8	55.4	56.9
Interest cover (x)	4.3	11.1	5.2	5.2

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