

COMPANY RESULTS

Keppel REIT (KREIT SP)

9M22: Capital Distribution Mitigates Higher Cost Of Debts

KREIT achieved a strong positive rental reversion of 9.2% in Singapore for 3Q22. Portfolio committed occupancy also improved 1.3ppt qoq to 96.8%. Cost of debts rose from 1.9% in 1H22 to about 2.5% in 3Q22. Management has set aside S\$100m from accumulated capital gains to be distributed over the next five years. KREIT provides 2023 distribution yield of 6.5% (CIC: 6.4% and Suntec: 6.4%). P/NAV is attractive at 0.65x. Maintain BUY with a target price of S\$1.24.

9M22 RESULTS

Year to 31 Dec (S\$m)	9M22	yoy % chg	Remarks
Property Income	164.4	+1.4	Growth from newly acquired Keppel Bay Tower in Singapore.
Net Property Income (Attributable)	119.9	+2.7	
Associates and JVs	80.5	-11.0	Lower contribution from 8 Chifley Square.
Distributable Income	165.4	+3.4	

Source: KREIT, UOB Kay Hian

WHAT'S NEW

- Keppel REIT (KREIT) reported distributable income of S\$165.4m for 9M22 (+3.4% yoy), which is in line with our expectations.
- Maintains positive growth momentum.** Growth was driven by the acquisition of Keppel Bay Tower on 18 May 21, partially offset by the divestment of 275 George Street in Brisbane on 30 Jul 21 and lower contribution from 8 Chifley Square in Sydney. Portfolio occupancy improved 1.3ppt qoq to 96.8%.
- Singapore office occupancy climbing higher.** KREIT achieved positive rental reversion of 9.2% for 3Q22. Occupancy at One Raffles Quay (ORQ) improved 6.2ppt qoq to 100% due to expansion by a technology tenant. Occupancies at Ocean Financial Centre (OFC) and Keppel Bay Tower (KBT) also improved by 3.3ppt and 2.9ppt qoq respectively to 96.1% and 98.2%. Average signing rents were S\$11.47psf for 9M22. Tenant retention ratio was healthy at 82%.
- KREIT has backfilled 75,000sf of space vacated by DBS at MBFC Tower 3. 70% of the 200,000sf space vacated by Standard Chartered Bank at MBFC Tower 1 was backfilled.
- Pockets of weakness in Australia.** Occupancy at 8 Chifley Square in Sydney remains low at 82.0% due to lease expiry by Quantum, which has yet to be backfilled. Occupancy at Pinnacle Office Park in Sydney eased 4.2ppt qoq to 88.8% due to downsizing by a tenant providing travel services. Victoria Police Centre in Melbourne maintained full occupancy.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	170	217	235	246	251
EBITDA	115	154	174	184	188
Operating profit	115	154	174	184	188
Net profit (rep./fact.)	20	276	214	197	209
Net profit (adj.)	180	193	214	197	209
EPU (S\$ cent)	5.3	5.3	5.7	5.2	5.5
DPU (S\$ cent)	5.7	5.8	6.0	5.8	6.3
PE (x)	16.8	17.0	15.5	17.0	16.3
P/B (x)	0.7	0.7	0.7	0.7	0.7
DPU Yld (%)	6.4	6.5	6.8	6.5	7.0
Net margin (%)	11.5	127.3	90.9	80.1	83.2
Net debt/(cash) to equity (%)	46.2	49.1	53.1	56.3	58.5
Interest cover (x)	3.5	4.3	7.7	3.4	3.2
ROE (%)	0.4	5.5	4.2	3.9	4.2
Consensus DPU (S\$ cent)	n.a.	n.a.	6.0	6.1	6.2
UOBKH/Consensus (x)	-	-	1.01	0.94	1.01

Source: Keppel REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.89
Target Price	S\$1.24
Upside	+39.3%
(Previous TP)	S\$1.33

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):	3,731.7
Market cap (S\$m):	3,321.2
Market cap (US\$m):	2,330.8
3-mth avg daily t'over (US\$m):	6.8

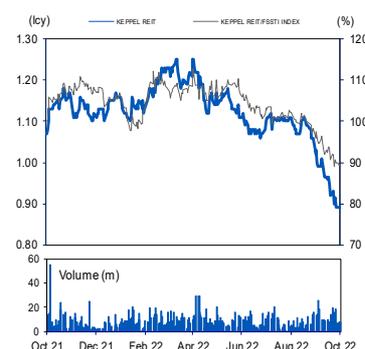
Price Performance (%)

52-week high/low	S\$1.25/S\$0.89			
1mth	3mth	6mth	1yr	YTD
(16.0)	(17.6)	(26.4)	(17.6)	(21.2)

Major Shareholders

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

PRICE CHART



Source: Bloomberg

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- **Stability from long WALE.** Weighted average lease expiry (WALE) is long at 6.1 years (top 10 tenants: 10.5 years).
- **Resilient balance sheet.** Aggregate leverage increased 0.5ppt qoq to 38.4% in 3Q22. It does not have any borrowings maturing in 2H22. Average term to maturity is 2.8 years. Cost of debts rose from 1.9% in 1H22 to about 2.5% in 3Q22.
- **Sensitivity to higher interest rates.** KREIT has hedged 72% of borrowings to fixed rates. Management estimated that every 50bp increase in base rates (swap offer rate (SOR)/Singapore overnight rate average (SORA)/bank bill swap rate (BBSW)) will reduce DPU by 0.12 S cents or 2.1% per year.

STOCK IMPACT

- **Office recovery has strengthened and broadened.** According to CBRE, office rents for Grade A core CBD increased 8.9% yoy and 2.7% qoq to S\$11.60psf/month in 3Q22. This is the sixth consecutive quarter of sequential growth and has surpassed the pre-pandemic peak of S\$11.55psf/month set in 4Q19. Strength in the office market was driven by the reopening with all employees allowed back to their workplaces since 26 Apr 22. Net absorption was strong at 0.56m sf. Leasing activities were driven by technology companies, flexible workspace operators and non-bank financial institutions. New projects Guoco Midtown and Central Boulevard Towers attracted fresh pre-commitments.
- **Blue & William on track for practical completion by mid-23.** Blue & William, a freehold Grade A office building under development with NLA of 152,126sf located in close proximity to North Sydney Train Station, has reached structural completion in Sep 22. KREIT is in advanced discussions with a few prospective tenants. 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%.
- **Rewarding loyal unitholders with capital distributions.** Management plans to set aside an additional S\$100m from accumulated capital gains to be distributed over the next five years to mark its 20th anniversary in 2026. These distributions would be made semi-annually (S\$10m every six months).
- **Coping with higher cost of electricity.** KREIT has increased service charges at ORQ and MBFC by 19% to S\$1.55psf with effect from Jul 22. It plans to also increase service charges for OFC in Nov 22, followed subsequently by KBT.

EARNINGS REVISION

- We raised our 2023 DPU forecast by 2.3% with positive impact of capital distribution of S\$20m per year partially mitigated by higher cost of debts. We expect average cost of debts to hit 3.3% in 2H23.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of S\$1.24 is based on DDM (cost of equity: 6.75%, terminal growth: 1.9% (previous: 2.3%)).

SHARE PRICE CATALYST

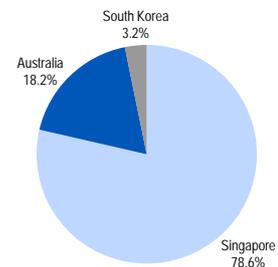
- Positive outlook for the office sector with limited supply and healthy pre-commitments within core CBD.
- Practical completion of Blue & William in mid-23.

KEY OPERATING METRICS – KREIT

	1Q22	2Q22	3Q22	yoy	qoq
DPU	n.a.	2.97	n.a.	n.a.	n.a.
Occupancy	95.1%	95.5%	96.8%	-0.3ppt	1.3ppt
Gearing	38.7%	37.9%	38.4%	0.8ppt	0.5ppt
Average Cost of Debt	1.81%	1.93%	2.13%	0.14ppt	0.2ppt
% of Borrowings on Fixed Rates	71.0%	73.0%	72.0%	1ppt	-1ppt
WALE by NLA (years)	6.1	6	6.1	0yrs	0.1yrs
Weighted Average Debt Maturity (years)	3.1	3.1	2.8	-0.5yrs	-0.3yrs
Rental Reversions	7.9%	7.5%	9.7%	8.7ppt	2.2ppt
Tenant Retention Rate	91.0%	89.0%	82.0%	n.a.	n.a.

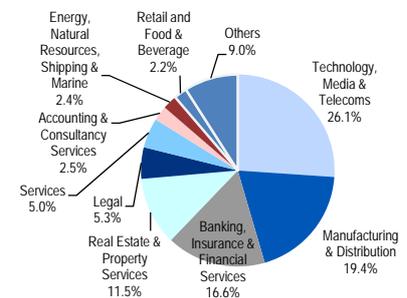
Source: KREIT

AUM BY COUNTRY (SEP 22)



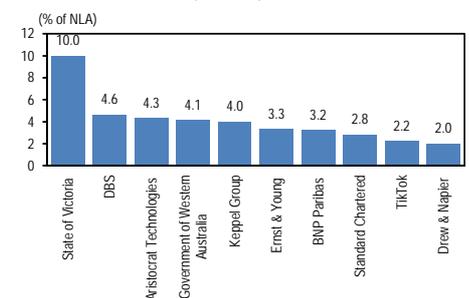
Source: KREIT

NEW LEASING DEMAND AND EXPANSION (9M22)



Source: KREIT

TOP TEN TENANTS (SEP 22)



Source: KREIT

DEBT MATURITY PROFILE (SEP 22)



Source: KREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	216.6	235.2	245.7	251.1
EBITDA	154.4	174.0	183.5	188.4
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	154.4	174.0	183.5	188.4
Total other non-operating income	2.7	0.0	0.0	0.0
Associate contributions	118.6	97.8	101.4	104.2
Net interest income/(expense)	(35.9)	(22.5)	(53.8)	(58.6)
Pre-tax profit	322.9	249.2	231.1	234.0
Tax	(23.0)	(11.6)	(10.4)	(11.2)
Minorities	(14.7)	(14.4)	(14.4)	(4.4)
Preferred dividends	(9.4)	(9.5)	(9.5)	(9.5)
Net profit	275.8	213.8	196.8	209.0
Net profit (adj.)	192.7	213.8	196.8	209.0

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	157.1	132.3	113.1
Other current assets	49.1	52.9	54.1	54.9
Total assets	8,487.7	8,571.3	8,603.7	8,585.3
ST debt	187.9	187.9	187.9	187.9
Other current liabilities	85.4	84.8	87.2	89.8
LT debt	2,538.9	2,680.0	2,780.0	2,830.0
Other LT liabilities	85.5	88.9	90.0	90.7
Shareholders' equity	5,168.2	5,108.0	5,036.8	4,965.1
Minority interest	421.8	421.8	421.8	421.8
Total liabilities & equity	8,487.7	8,571.3	8,603.7	8,585.3

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	392.3	138.1	150.4	174.2
Pre-tax profit	195.7	199.9	180.1	192.3
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	(118.6)	(97.8)	(101.4)	(104.2)
Working capital changes	(4.4)	(3.3)	0.8	0.5
Other operating cashflows	319.7	39.2	71.0	85.6
Investing	(716.4)	(24.1)	35.5	94.2
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	97.8	101.4	104.2
Financing	358.0	(146.2)	(210.8)	(287.5)
Distribution to unitholders	(212.1)	(224.8)	(216.9)	(239.0)
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)	(62.5)	(93.8)	(98.6)
Net cash inflow (outflow)	34.0	(32.2)	(24.8)	(19.2)
Beginning cash & cash equivalent	155.3	189.3	157.1	132.3
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	189.3	157.1	132.3	113.1

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	71.3	74.0	74.7	75.0
Pre-tax margin	149.1	106.0	94.0	93.2
Net margin	127.3	90.9	80.1	83.2
ROA	3.4	2.5	2.3	2.4
ROE	5.5	4.2	3.9	4.2
Growth				
Turnover	27.2	8.6	4.5	2.2
EBITDA	34.0	12.7	5.5	2.6
Pre-tax profit	714.0	(22.8)	(7.3)	1.3
Net profit	1,304.4	(22.5)	(8.0)	6.2
Net profit (adj.)	6.9	11.0	(8.0)	6.2
EPU	(1.2)	9.4	(9.1)	4.9
Leverage				
Debt to total capital	32.8	34.2	35.2	35.9
Debt to equity	52.8	56.1	58.9	60.8
Net debt/(cash) to equity	49.1	53.1	56.3	58.5
Interest cover (x)	4.3	7.7	3.4	3.2

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