

COMPANY UPDATE

Keppel REIT (KREIT SP)

Choice Pick From Down Under

The acquisition of 255 George Street is attractive due to: a) strategic location within Core Precinct of Sydney CBD and near major transportation nodes, b) recently refurbished in 2022, c) diversified tenant base anchored by Australian Tax Office and Bank of Queensland, and d) provides high yield of above 6.0%. KREIT's valuation is attractive with 2025 distribution yield of 7.1% (CICT: 5.5% and Suntec: 6.3%) and P/NAV at 0.67x. Maintain BUY. Target price: of S\$1.26.

WHAT'S NEW

- Keppel REIT (KREIT) has entered into an agreement to acquire an effective 50% interest in 255 George Street, a freehold 29-level Grade A office tower in Sydney, Australia, for A\$363.8m (S\$321.0m).
- Strategically located at the heart of Core Precinct in Sydney.** 255 George Street has total NLA of 38,996.8sqm (office: 38,805.0sqm, retail: 191.8sqm) and 188 car park lots. It has large and unobstructed column free floor plates of 1,400sqm. It is located along the prime end of George Street, within Sydney CBD's Core Precinct. It is opposite Bridge Street Light Rail Station and within walking distance to Wynyard Station.
- Newly renovated with premium amenities.** 255 George Street has completed major refurbishment recently in 2022. Lifts and lift lobbies were upgraded. Its amenities include a wellness studio, a ground floor cafe and end-of-trip facilities.
- Diversified mix of quality tenants.** 255 George Street has high committed occupancy of 93% and a long WALE of 6.8 years. There are no significant lease expiries from 2024 to 2028. The key tenants include the Australian Taxation Office and the Bank of Queensland. The seller Mirvac, who continues to own 50% of the office tower through Mirvac Wholesale Office Fund I, will provide rent guarantee on existing vacancies and potential expiries of up to A\$5.2m for a period of 12 months.
- Core Precinct - the best performing sub-market within Sydney CBD.** Sydney has benefitted from strong return-to-office momentum and physical attendance is healthy at 75% of pre-COVID-19 levels. Offices within the Core Precinct had a vacancy rate of 11.5% in 4Q23, the lowest among the four key sub-markets within Sydney CBD. The Core Precinct is leading the recovery with five consecutive quarters of decline in vacancies. According to JLL Research, new supply of office space within Sydney CBD is forecast to be absorbed within 1-2 years from completion. As such, face rents for offices are expected to increase while incentives are expected to decline, leading to growth in effective rents.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	219	233	265	281	285
EBITDA	112	120	145	156	160
Operating profit	112	120	145	156	160
Net profit (rep./act.)	405	169	162	160	161
Net profit (adj.)	137	136	162	160	161
EPU (S\$ cent)	3.7	3.6	4.2	4.1	4.1
DPU (S\$ cent)	5.9	5.8	6.3	6.2	6.2
PE (x)	23.6	24.2	20.7	21.2	21.3
P/B (x)	0.6	0.7	0.7	0.7	0.7
DPU Yld (%)	6.8	6.7	7.2	7.1	7.1
Net margin (%)	184.9	72.3	61.1	56.9	56.6
Net debt/(cash) to equity (%)	49.2	41.4	50.1	52.7	55.3
Interest cover (x)	3.5	2.0	1.8	1.7	1.7
ROE (%)	7.7	3.1	3.1	3.1	3.2
Consensus DPU (S\$ cent)	n.a.	n.a.	5.9	5.9	6.0
UOBKH/Consensus (x)	-	-	1.07	1.05	1.03

Source: Keppel REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.87
Target Price	S\$1.26
Upside	+44.8%
(Previous TP)	S\$1.24

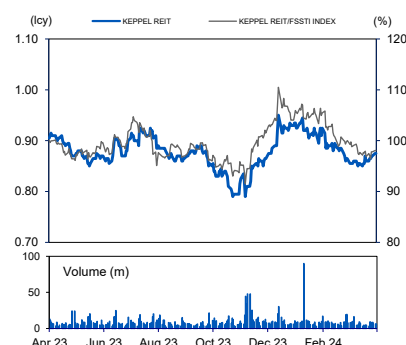
COMPANY DESCRIPTION

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):	3,805.4			
Market cap (S\$m):	3,310.7			
Market cap (US\$m):	2,453.6			
3-mth avg daily t'over (US\$m):	5.8			
Price Performance (%)				
52-week high/low	S\$0.95/S\$0.79			
1mth	3mth	6mth	1yr	YTD
0.6	(6.5)	1.8	(0.6)	(6.5)
Major Shareholders				
Keppel REIT Investment				29.5
-				-
-				-
FY24 NAV/Share (S\$)				1.28
FY24 Net Debt/Share (S\$)				0.68

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- **Acquisition is DPU accretive.** 255 George Street is expected to provide first-year yield of above 6% and accretion of 1.4% on pro forma FY23 DPU. The acquisition is fully funded by debt with cost of debt at low-4%. Aggregate leverage post-acquisition is expected to increase to 41% (Dec 23: 38.9%). NAV per unit remains unchanged at S\$1.29.
- **Enlarging scale in core Australia market.** The size of KREIT's portfolio of investment properties will increase by 4% to S\$9.6b post-acquisition. KREIT's asset allocation to Australia will increase from 16.5% to 19.3% of portfolio valuation. The exposure to freehold assets will increase from 33.2% to 36.4% of portfolio valuation. The acquisition is expected to be completed within the next two quarters (2Q24 and 3Q24).
- **Deleverage if the opportunity to divest arises.** KREIT will explore opportunities in asset recycling to optimise its portfolio, including divestment that could bring aggregate leverage below 40% again. Management will also impose discipline in capital management.

EARNINGS REVISION

- We raise our 2025 DPU forecast by 1.5% to 6.2 S cents after factoring in contribution from the acquisition of 255 George Street.

VALUATION/RECOMMENDATION

- **Oversold and undervalued.** KREIT is trading at P/NAV of 0.67x (33% 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\$1.26 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 255 George Street in Sydney kicking in starting 3Q24.

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

255 GEORGE STREET



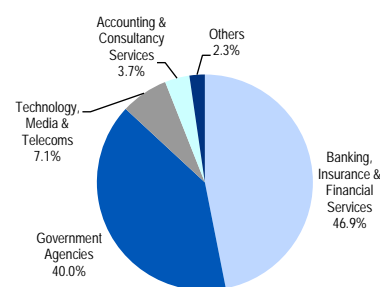
Source: KREIT

TRANSACTION OVERVIEW

Land Tenure	Freehold
NLA	38,996.8sqm (office: 38,805.0sqm, retail: 191.8sqm)
Number of floors	29-level Grade A office tower
Purchase Consideration	A\$363.8m (A\$18,658 per sqm) / S\$321.0m
Property Valuation	A\$363.8m (A\$18,658 per sqm) / S\$321.0m
Initial Yield	Above 6.0%
Completion Date	1985 / Major refurbishment completed in 2022
Environmental Credentials	5.5 Star NABERS Energy Rating

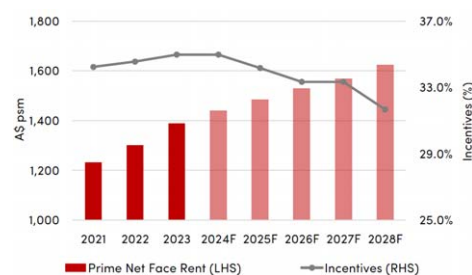
Source: KREIT

DIVERSIFIED TENANT MIX – 255 GEORGE STREET



Source: KREIT

SYDNEY CBD PRIME OFFICE



Source: JLL Research

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	233.1	264.6	281.0	285.2
EBITDA	120.0	144.7	156.4	159.7
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	120.0	144.7	156.4	159.7
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)	(79.4)	(93.1)	(96.4)
Pre-tax profit	208.1	188.0	187.8	189.5
Tax	(11.6)	(12.5)	(14.1)	(14.2)
Minorities	(18.4)	(4.4)	(4.4)	(4.4)
Preferred dividends	(9.5)	(9.5)	(9.5)	(9.5)
Net profit	168.6	161.6	159.9	161.4
Net profit (adj.)	135.6	161.6	159.9	161.4

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	169.9	113.4	137.3	140.5
Pre-tax profit	175.0	188.0	187.8	189.5
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	(103.8)	(122.7)	(124.6)	(126.1)
Working capital changes	8.8	(7.1)	0.6	0.6
Other operating cashflows	89.9	55.2	73.4	76.6
Investing	603.3	(208.3)	114.6	116.1
Capex (growth)	(155.3)	(321.0)	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)	97.5	(252.2)	(257.2)
Distribution to unitholders	(217.0)	(241.8)	(241.5)	(243.2)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	186.6	426.3	90.0	90.0
Others/interest paid	(784.2)	(87.0)	(100.7)	(104.0)
Net cash inflow (outflow)	(41.4)	2.6	(0.4)	(0.5)
Beginning cash & cash equivalent	186.4	141.6	144.2	143.8
Changes due to forex impact	(3.5)	0.0	0.0	0.0
Ending cash & cash equivalent	141.6	144.2	143.8	143.2

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	4,927.9	5,258.9	5,268.9	5,278.9
Other LT assets	3,161.1	3,161.1	3,161.1	3,161.1
Cash/ST investment	141.6	144.2	143.8	143.2
Other current assets	28.7	45.8	46.3	46.8
Total assets	8,259.3	8,610.0	8,620.1	8,630.0
ST debt	264.7	264.7	264.7	264.7
Other current liabilities	73.2	75.7	76.7	77.8
LT debt	2,073.7	2,500.0	2,590.0	2,680.0
Other LT liabilities	96.6	98.8	99.4	99.9
Shareholders' equity	5,306.6	5,226.5	5,144.9	5,063.1
Minority interest	444.4	444.4	444.4	444.4
Total liabilities & equity	8,259.3	8,610.0	8,620.1	8,630.0

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	51.5	54.7	55.7	56.0
Pre-tax margin	89.3	71.0	66.8	66.4
Net margin	72.3	61.1	56.9	56.6
ROA	2.0	1.9	1.9	1.9
ROE	3.1	3.1	3.1	3.2
Growth				
Turnover	6.3	13.5	6.2	1.5
EBITDA	6.7	20.6	8.1	2.1
Pre-tax profit	(53.8)	(9.6)	(0.1)	0.9
Net profit	(58.4)	(4.1)	(1.1)	0.9
Net profit (adj.)	(1.3)	19.2	(1.1)	0.9
EPU	(2.7)	17.2	(2.5)	(0.5)
Leverage				
Debt to total capital	28.9	32.8	33.8	34.8
Debt to equity	44.1	52.9	55.5	58.2
Net debt/(cash) to equity	41.4	50.1	52.7	55.3
Interest cover (x)	2.0	1.8	1.7	1.7

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