

COMPANY RESULTS

Keppel REIT (KREIT SP)

1Q24: Broad-based Growth From Singapore And Australia

KREIT had a resilient performance with Singapore and Australia generating positive rental reversions of 10.1% and 16.4% respectively in 1Q24. Management has raised guidance for rental reversion from mid to high single-digit for 2024. 255 George Street is expected to provide a yield of above 6% and accretion of 1.4% on pro forma FY23 DPU. KREIT's valuation is attractive with 2024 distribution yield of 7.1% (CIC: 5.7% and Suntec: 6.3%) and P/NAV at 0.66x. Maintain BUY. Target price: of S\$1.20.

1Q24 RESULTS

Year to 31 Dec (\$m)	1Q24	yoy % chg	Remarks
Property Income	61.3	+6.3	Higher rentals from Ocean Financial Centre in Singapore and contribution from 2 Blue Street in Sydney.
Net Property Income (Attributable)	43.4	+7.1	
Associates and JVs	27.6	+7.4	Higher contributions from MBFC Towers and One Raffles Quay.
Borrowing Costs	(18.7)	+21.3	
Distributable Income	55.2	0.0	Including anniversary distribution of S\$5m.

Source: KREIT, UOB Kay Hian

WHAT'S NEW

- Keppel REIT (KREIT) reported distributable income of S\$55.2m for 1Q24 (flat yoy), which is marginally below our expectations.
- **Broad-based growth from Singapore and Australia.** Property income and NPI attributable to unitholders grew 6.3% and 7.1% yoy respectively in 1Q24, driven by higher rentals from Ocean Financial Centre (OFC) and contribution from 2 Blue Street in Sydney (practical completion: Apr 23). NPI from Singapore and Australia grew 7.3% and 19.1% yoy respectively. KREIT rewarded unitholders with an anniversary distribution of S\$5.0m.
- **Maintained healthy positive rental reversion.** KREIT recorded positive rental reversion of 10.9% (Singapore: 10.1%, Australia: 16.4%) and signed 111,300sf of office leases in 1Q24 (attributable area). The weighted average signing rent for Singapore office leases was S\$12.30psf/month in 1Q24, which is higher than the average expiring rents of S\$11.01psf/month for the rest of 2024. Management has raised guidance for rental reversion from mid-single-digit to high single-digit for 2024.
- **Occupancy largely stable in Singapore.** Portfolio committed occupancy eased 0.7ppt qoq to 96.4% in 1Q24. In Singapore, occupancy was stable at 98.8%. OFC maintained full occupancy of 100%, while occupancy at One Raffles Quay (ORQ) and Marina Bay Financial Centre (MBFC) was stable at about 99%.
- **Making sustained progress overseas.** For Australia, 8 Chifley Square in Sydney, Victoria Police Centre in Melbourne and David Malcolm Justice Centre in Perth maintained full occupancy. Occupancy at 8 Exhibition Street in Melbourne declined 10.7ppt qoq to 88.4% due to non-renewal by anchor tenant Amazon. Management is in advanced negotiations with prospective tenants for half of the vacant space and backfilling should be completed by end-24. In Japan, KR Ginza II in Tokyo maintained 100% occupancy.

KEY FINANCIALS

Year to 31 Dec (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	219	233	263	282	284
EBITDA	112	120	144	157	159
Operating profit	112	120	144	157	159
Net profit (rep./act.)	405	169	159	158	157
Net profit (adj.)	137	136	159	158	157
EPU (S\$ cent)	3.7	3.6	4.2	4.1	4.0
DPU (S\$ cent)	5.9	5.8	6.0	5.9	5.8
PE (x)	23.0	23.6	20.4	20.9	21.3
P/B (x)	0.6	0.6	0.7	0.7	0.7
DPU Yld (%)	7.0	6.8	7.1	7.0	6.9
Net margin (%)	184.9	72.3	60.5	56.0	55.3
Net debt/(cash) to equity (%)	49.2	41.4	49.9	52.1	54.5
Interest cover (x)	3.5	2.0	1.8	1.6	1.6
ROE (%)	7.7	3.1	3.0	3.0	3.1
Consensus DPU (S\$ cent)	n.a.	n.a.	5.9	6.0	6.1
UOBKH/Consensus (x)	-	-	1.02	0.99	0.96

Source: Keppel REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$0.85
Target Price	S\$1.20
Upside	+41.2%
(Previous TP)	S\$1.26)

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):	3,234.6
Market cap (US\$m):	2,374.4
3-mth avg daily t'over (US\$m):	4.8

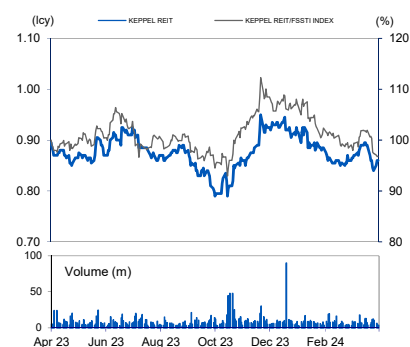
Price Performance (%)

52-week high/low	S\$0.95/S\$0.79			
1mth	3mth	6mth	1yr	YTD
(1.2)	(7.1)	4.9	(4.5)	(8.6)

Major Shareholders

	%
Keppel REIT Investment	29.5
FY24 NAV/Share (S\$)	1.29
FY24 Net Debt/Share (S\$)	0.68

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- About to complete refinancing for loans maturing in 2Q24.** Aggregate leverage edged slightly higher by 0.5ppt qoq to 39.4% as of Mar 24. Adjusted interest coverage ratio was healthy at 2.9x. 74% of its borrowings are on fixed rates. KREIT is in the final stage of documentation to refinance the loans that are maturing in 2Q24.
- Steeper increase in cost of debt.** All-in interest rate increased 32bp yoy to 3.18% in 1Q24. Borrowing costs increased 21.3% yoy. Management maintained guidance that average cost of debt would increase to 3.5% in 2024 but cautioned that cost of debt could go as high as 3.75% if interest rates stay higher for longer.

STOCK IMPACT

- Expect gradual rise in office rents in Singapore.** Gross effective rents for Grade A office space in Core CBD increased 1.7% yoy and 0.4% qoq to S\$11.95psf/month, driven by low vacancies and flight to quality. Leasing demand is relatively subdued, and are mainly for small- to mid-sized requirements from the private wealth, insurance and legal sectors. CBRE forecasts Grade A core CBD rents to increase 2-3% in 2024.
- Strategically located at the heart of Core Precinct in Sydney.** 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). 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.
- Pinnacle Office Park in North Sydney.** KREIT has completed refurbishment for Pinnacle Office Park's main lobby at the ground floor, lift lobbies, cafe 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. The spec suites at Pinnacle Office Park achieved practical completion in Feb 24 and received strong interest from prospective tenants. Half of the spec suites are already under offer and leasing for the remaining spec suites are expected to be completed by end-24.

EARNINGS REVISION

- We trimmed our 2024 DPU forecast by 4% after factoring in progressive backfilling of vacant space at 8 Exhibition Street and higher interest rates for longer in 2H24.

VALUATION/RECOMMENDATION

- Valuation is attractive based on P/NAV.** KREIT is trading at P/NAV of 0.66x (34% 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\$1.20 is based on DDM (cost of equity: 6.25%, terminal growth: 1.5%).

SHARE PRICE CATALYST

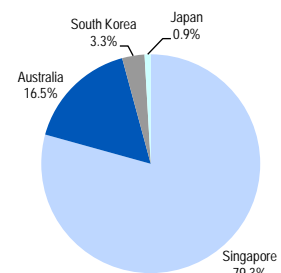
- Resilient rents and capital values for office properties in Singapore and Sydney, Australia.
- Contribution from 255 George Street in Sydney kicking in from 2H24.

KEY OPERATING METRICS

	1Q23	2Q23	3Q23	4Q23	1Q24	yoy	qoq*
DPU (S cents)	n.a.	2.90	n.a.	2.90	n.a.	n.a.	n.a.
Occupancy	96.3%	94.9%	95.9%	97.1%	96.4%	0.1ppt	-0.7ppt
Aggregate Leverage	38.7%	39.2%	39.5%	38.9%	39.4%	0.7ppt	0.5ppt
Average Cost of Debt	2.86%	2.84%	2.85%	2.89%	3.18%	0.32ppt	0.29ppt
% of Borrowings on Fixed Rates	75.0%	76.0%	76.0%	75.0%	74.0%	-1.0ppt	-1.0ppt
WALE by NLA (years)	5.8	5.7	5.6	5.5	5.4	-0.4yrs	-0.4yrs
Weighted Average Debt Maturity (years)	3.0	2.9	2.7	2.4	2.3	-0.7yrs	-0.1yrs
Rental Reversions	9.3%	8.1%	8.6%	9.9%	10.9%	1.6%	1.0%
Tenant Retention Rate	98.0%	66.9%	71.4%	73.7%	54.9%	-43.1ppt	-18.8ppt

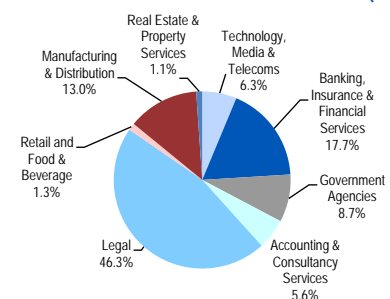
Source: KREIT * hoh % change for DPU

PORTFOLIO VALUATION BY COUNTRY



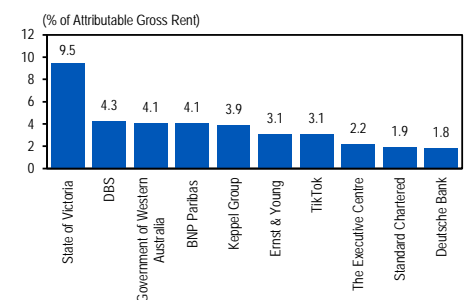
Source: KREIT

NEW LEASING DEMAND AND EXPANSION (1Q24)



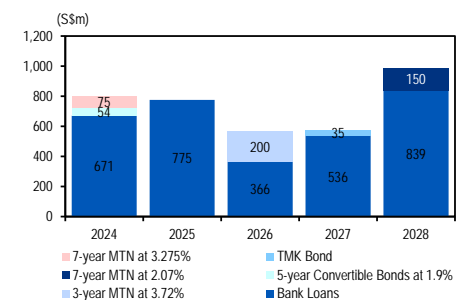
Source: KREIT

TOP 10 TENANTS BY ATTRIBUTABLE GROSS RENT



Source: KREIT

DEBT MATURITY PROFILE



Source: KREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	233.1	263.3	281.7	284.1
EBITDA	120.0	143.6	157.0	158.9
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	120.0	143.6	157.0	158.9
Total other non-operating income	10.9	0.0	0.0	0.0
Associate contributions	103.8	122.5	124.3	125.1
Net interest income/(expense)	(59.6)	(80.7)	(95.9)	(99.3)
Pre-tax profit	208.1	185.4	185.4	184.7
Tax	(11.6)	(12.3)	(13.9)	(13.9)
Minorities	(18.4)	(4.4)	(4.4)	(4.4)
Preferred dividends	(9.5)	(9.5)	(9.5)	(9.5)
Net profit	168.6	159.2	157.6	157.0
Net profit (adj.)	135.6	159.2	157.6	157.0

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	169.9	112.8	137.9	139.2
Pre-tax profit	175.0	185.4	185.4	184.7
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	(103.8)	(122.5)	(124.3)	(125.1)
Working capital changes	8.8	(7.0)	0.5	0.2
Other operating cashflows	89.9	56.9	76.4	79.4
Investing	603.3	(208.5)	114.3	115.1
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	122.5	124.3	125.1
Financing	(814.6)	107.9	(243.3)	(246.2)
Distribution to unitholders	(217.0)	(230.0)	(229.7)	(229.3)
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)	(88.3)	(103.5)	(106.9)
Net cash inflow (outflow)	(41.4)	12.2	9.0	8.2
Beginning cash & cash equivalent	186.4	141.6	153.8	162.8
Changes due to forex impact	(3.5)	0.0	0.0	0.0
Ending cash & cash equivalent	141.6	153.8	162.8	171.0

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	153.8	162.8	171.0
Other current assets	28.7	45.9	46.3	46.5
Total assets	8,259.3	8,619.7	8,639.1	8,657.5
ST debt	264.7	264.7	264.7	264.7
Other current liabilities	73.2	75.9	76.9	77.3
LT debt	2,073.7	2,500.0	2,590.0	2,680.0
Other LT liabilities	96.6	98.9	99.4	99.7
Shareholders' equity	5,306.6	5,235.9	5,163.7	5,091.4
Minority interest	444.4	444.4	444.4	444.4
Total liabilities & equity	8,259.3	8,619.7	8,639.1	8,657.5

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	51.5	54.5	55.7	55.9
Pre-tax margin	89.3	70.4	65.8	65.0
Net margin	72.3	60.5	56.0	55.3
ROA	2.0	1.9	1.8	1.8
ROE	3.1	3.0	3.0	3.1
Growth				
Turnover	6.3	13.0	7.0	0.9
EBITDA	6.7	19.7	9.3	1.2
Pre-tax profit	(53.8)	(10.9)	(0.0)	(0.3)
Net profit	(58.4)	(5.6)	(1.0)	(0.4)
Net profit (adj.)	(1.3)	17.5	(1.0)	(0.4)
EPU	(2.4)	15.9	(2.5)	(1.8)
Leverage				
Debt to total capital	28.9	32.7	33.7	34.7
Debt to equity	44.1	52.8	55.3	57.8
Net debt/(cash) to equity	41.4	49.9	52.1	54.5
Interest cover (x)	2.0	1.8	1.6	1.6

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