

### COMPANY RESULTS

## Keppel DC REIT (KDCREIT SP)

1H24: Singapore Provided Strong Positive Rental Reversion

1H24 results were above our expectations. KDCREIT clocked strong positive rental reversion of more than 40% for a major renewal contract in Singapore in 2Q24, a reflection of strong demand and tight vacancy locally. Revenue contribution from Singapore grew 6.6% yoy in 1H24. KDCREIT benefits from the extremely tight vacancy rate of 1.0% in Singapore and is expected to maintain healthy and positive rental reversion in 2H24. Upgrade to BUY. Target price: S\$2.09.

### 1H24 RESULTS

Year to 31 Dec (\$m)	1H24	yoy % chg	Remarks
Gross Revenue	157.2	+11.9	Boosted by settlement sum of S\$11.2m received from DXC.
Net Property Income (NPI)	132.6	+4.2	Hit by provisions of S\$10.5m for Guangdong data centres.
Distributable income	80.9	-11.4	Finance costs increased 14.1% yoy.
DPU (S cent)	4.549	-9.9	

Source: KDCREIT, UOB Kay Hian

### RESULTS

- Keppel DC REIT (KDCREIT) reported DPU of 4.549 S cents for 1H24 (-9.9% yoy), which is above our expectations.
- Favourable outcome for dispute with DXC.** Gross revenue increased 11.9% yoy, boost by the settlement sum relating to the dispute with DXC. The settlement sum of S\$11.2m was received in Apr 24 (after deducting related expenses and GST) and would be distributed in two equal tranches in 1H24 and 2H24. NPI increased by a smaller 4.2% yoy due to loss allowance of S\$10.5m recognised for the receivables from the Guangdong data centres.
- Positive rental reversion across the portfolio.** KDCREIT achieved positive reversion of more than 40% for a major renewal contract in Singapore in 2Q24, a reflection of strong demand and tight vacancy locally. Master leases for its fully fitted and shell & core data centres provide built-in rental escalations of 2-4% per year. Revenue contribution from Singapore grew 6.6% yoy in 1H24. Portfolio occupancy eased slightly by 0.8ppt qoq to 97.5% in 2Q24. KDCREIT provides stable cash flows due to its long portfolio WALE weighted by lettable area of 6.4 years.
- Preparing for the worst in China.** Management is focused on working with Bluesea Development to execute the recovery roadmap for Guangdong DC1 and DC2, including building a leasing pipeline. KDCREIT plans to submit proposals to requests from several potential tenants, including hyperscalers and AI start-ups.

### KEY FINANCIALS

Year to 31 Dec (\$m)	2022	2023	2024F	2025F	2026F
Net turnover	277	277	302	303	308
EBITDA	219	208	219	218	242
Operating profit	219	208	219	218	242
Net profit (rep./act.)	231	114	191	165	186
Net profit (adj.)	154	143	158	165	186
EPU (S\$ cent)	9.0	8.3	9.1	9.6	10.8
DPU (S\$ cent)	10.2	9.4	9.4	9.4	10.6
PE (x)	21.2	22.8	20.8	19.9	17.6
P/B (x)	1.4	1.4	1.4	1.4	1.4
DPU Yld (%)	5.4	4.9	5.0	4.9	5.6
Net margin (%)	83.3	41.3	63.3	54.4	60.6
Net debt/(cash) to equity (%)	53.2	57.6	61.8	62.9	63.8
Interest cover (x)	10.0	5.5	5.8	5.6	6.0
ROE (%)	9.8	4.8	8.2	7.0	7.9
Consensus DPU (S\$ cent)	n.a.	n.a.	9.0	9.2	10.0
UOBKH/Consensus (x)	-	-	1.05	1.02	1.06

Source: Keppel DC REIT, Bloomberg, UOB Kay Hian

## BUY

(Upgraded)

Share Price	S\$1.90
Target Price	S\$2.09
Upside	+10.0%
(Previous TP)	S\$1.98)

### COMPANY DESCRIPTION

Keppel DC REIT invests in a diversified portfolio of income-producing real estate assets used primarily for data centre purposes. It was listed on the SGX on 12 Dec 14 as the first pure-play data centre REIT in Asia.

### STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	KDCREIT SP
Shares issued (m):	1,723.2
Market cap (S\$m):	3,274.1
Market cap (US\$m):	2,436.2
3-mth avg daily t'over (US\$m):	6.0

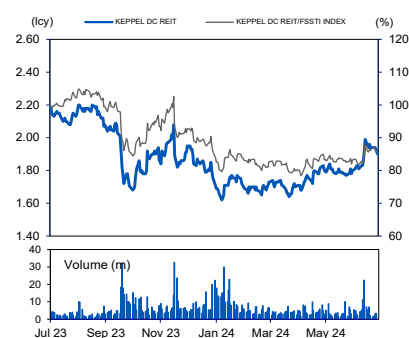
### Price Performance (%)

52-week high/low	S\$2.25/S\$1.62			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
5.0	11.8	8.0	(16.3)	(2.6)

### Major Shareholders

Temasek Hldgs	21.8
FY24 NAV/Share (S\$)	1.37
FY24 Net Debt/Share (S\$)	0.85

### PRICE CHART



Source: Bloomberg

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- Healthy balance sheet.** Aggregate leverage declined 1.8ppt qoq to 35.8% in 2Q24 due to repayment of S\$58.5m of loans for Intellicentre Campus in Sydney and EUR-denominated debt. Average cost of debt was 3.5% in 2Q24. Post-acquisition of Tokyo Data Centre 1, aggregate leverage is expected to increase to 39.2% while cost of debt is expected to decline to 3.3%.
- Benefitting from lower Euro Interbank Offer Rate (Euribor).** Euro-denominated debts accounted for a sizeable 40% of KDCREIT's total borrowings. KDCREIT has 7% of total borrowings maturing in 2025, which are denominated in Euro and on floating interest rates (not hedged). Thus, KDCREIT would benefit should the European Central Bank continue to cut interest rate. The bulk of KDCREIT's borrowings mature in 2026 and beyond.

### STOCK IMPACT

- Maiden foray into Japan.** KDCREIT expanded into Japan by acquiring a 98.47% effective interest in a freehold shell & core data centre at West Tokyo in Japan for ¥23.4b (S\$201.0m). Tokyo Data Centre 1 was completed in 2019 and has NLA of 190,166sf. It is leased to a Fortune Global 500 company and hyperscaler, who is an existing top 10 tenant, on a triple-net basis with remaining lease term of seven years. The existing passing rent in place is 10-15% below market rate. Thus, there is room for positive rental reversion when the lease is renewed seven years later. The acquisition is fully funded by JPY-denominated debt at a cost of below 2%. It is accretive to DPU by 1.1% and should be completed in 3Q24.
- Potential acquisitions in Singapore and Japan.** We expect KDCREIT to continue scouting for opportunities to acquire data centres. Its preferred markets are Singapore and Japan:
  - Singapore: Tapping on sponsor pipeline.** Keppel and Singapore Press Holdings (subsequently acquired by Cuscaden Peak Investments) have established a 60:40 JV to develop a campus for three data centres at 82 Genting Lane in Singapore. The first phase, namely Keppel DC SGP 7, is a colocation data centre with GFA of 185,463sf, and was completed in mid-23. It achieved the BCA Green Mark Platinum Award, the highest green accolade conferred by Building and Construction Authority. SGP7 is 100% pre-committed and all tenants have already moved in during 1H24. We expect KDCREIT to acquire SGP7 in due course, as Singapore is its preferred market.
  - Japan: Leveraging on local partner in sourcing for deals.** Keppel has signed a MOU with Mitsui Fudosan to jointly explore data centre development in Japan and Southeast Asia. Mitsui Fudosan has a strong track record in sourcing land in Japan. Keppel Data Centre Fund II (KDCF II) has a framework agreement with Mitsui Fudosan for the forward purchase of a data centre currently being developed in Western Tokyo. Mitsui Fudosan will develop the core and shell of the data centre, while KDCF II will undertake the fit-out works. The data centre is expected to be "ready for service" in 2027.

### VALUATION/RECOMMENDATION

- Upgrade to BUY.** Our target price of S\$2.09 is based on DDM (cost of equity: 7.0%, terminal growth: 2.2%).

### EARNINGS REVISION/RISK

- We raise our 2024 DPU forecast by 4% due to strong positive rental reversion for colocation data centres in Singapore. We expect provisions for Guangdong data centres to persist in 2H24 and 2025.

### SHARE PRICE CATALYST

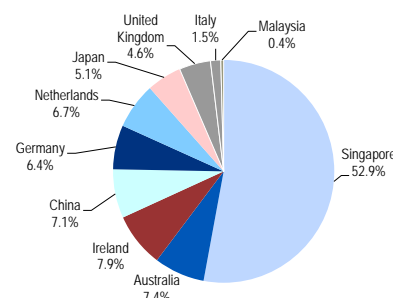
- Demand for colocation space arising from AI-powered applications and acquisitions from the sponsor pipeline.
- Repossessing data centres in Guangdong, China and backfilling of vacant spaces.

### KEY OPERATING METRICS - KDCREIT

	2Q23	3Q23	4Q23	1Q24	2Q24	yoy % Chg	qoq % Chg*
DPU (S cents)	5.05	n.a.	4.33	0.00	4.55	-9.9%	5.0%
Occupancy	98.5%	98.3%	98.3%	98.3%	97.5%	-1ppt	-0.8ppt
Aggregate Leverage	36.3%	37.2%	37.4%	37.6%	35.8%	-0.5ppt	-1.8ppt
Average Cost of Debt	3.3%	3.5%	3.6%	3.5%	3.5%	0.2ppt	0ppt
WALE by NLA (years)	8	7.8	7.6	7.4	6.4	-1.6yrs	-1yrs
Average Debt Maturity (years)	3.9	3.7	3.4	3.2	3.1	-0.8yrs	-0.1yrs
% of Borrowings in Fixed Rates	73%	72%	74%	73%	74%	1ppt	1ppt

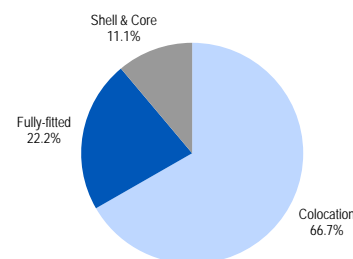
Source: KDCREIT, UOB Kay Hian \* hoh % chg for DPU

### INVESTMENT PROPERTIES BREAKDOWN



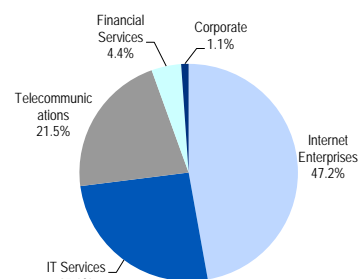
Source: KDCREIT

### RENTAL INCOME BY CONTRACT TYPE



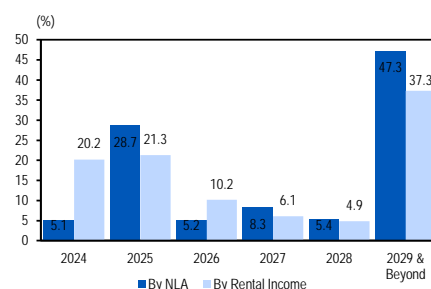
Source: KDCREIT

### RENTAL INCOME BY TRADE SECTOR



Source: KDCREIT

### LEASE EXPIRY PROFILE



Source: KDCREIT

### PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Net turnover</b>	<b>277.0</b>	<b>301.5</b>	<b>303.4</b>	<b>307.8</b>
EBITDA	208.3	218.9	217.7	241.6
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	208.3	218.9	217.7	241.6
Associate contributions	(8.3)	0.0	0.0	0.0
Net interest income/(expense)	(37.6)	(38.0)	(39.0)	(40.0)
<b>Pre-tax profit</b>	<b>133.6</b>	<b>214.2</b>	<b>178.7</b>	<b>201.6</b>
Tax	(15.6)	(19.7)	(10.7)	(12.1)
Minorities	(3.7)	(3.5)	(3.0)	(3.0)
<b>Net profit</b>	<b>114.3</b>	<b>190.9</b>	<b>165.0</b>	<b>186.5</b>
Net profit (adj.)	143.2	157.6	165.0	186.5

### CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>210.8</b>	<b>233.6</b>	<b>220.0</b>	<b>242.9</b>
Pre-tax profit	122.2	196.9	168.0	189.5
Associates	8.3	0.0	0.0	0.0
Working capital changes	21.7	(10.3)	(0.5)	(0.1)
Non-cash items	5.2	4.9	5.0	5.2
Other operating cashflows	53.4	42.1	47.5	48.3
<b>Investing</b>	<b>(15.4)</b>	<b>(150.1)</b>	<b>(30.0)</b>	<b>(30.0)</b>
Capex (growth)	0.0	(273.6)	0.0	0.0
Capex (maintenance)	(26.4)	(28.6)	(30.0)	(30.0)
Proceeds from sale of assets	0.0	152.1	0.0	0.0
Others	11.0	0.0	0.0	0.0
<b>Financing</b>	<b>(236.2)</b>	<b>(69.1)</b>	<b>(187.1)</b>	<b>(213.9)</b>
Distribution to unitholders	(175.7)	(162.8)	(161.5)	(182.4)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	265.4	145.5	30.0	25.0
Loan repayment	(274.2)	0.0	0.0	0.0
Others/interest paid	(51.7)	(51.8)	(55.5)	(56.5)
<b>Net cash inflow (outflow)</b>	<b>(40.8)</b>	<b>14.4</b>	<b>2.9</b>	<b>(1.0)</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>190.4</b>	<b>149.7</b>	<b>164.1</b>	<b>167.0</b>
Changes due to forex impact	0.2	0.0	0.0	0.0
<b>Ending cash &amp; cash equivalent</b>	<b>149.7</b>	<b>164.1</b>	<b>167.0</b>	<b>166.0</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	3,655.9	3,769.5	3,799.5	3,829.5
Other LT assets	126.3	195.1	195.1	195.1
Cash/ST investment	149.7	164.1	167.0	166.0
Other current assets	74.5	73.8	76.7	77.5
<b>Total assets</b>	<b>4,006.6</b>	<b>4,202.4</b>	<b>4,238.3</b>	<b>4,268.1</b>
ST debt	72.5	116.2	116.2	116.2
Other current liabilities	76.1	80.4	82.8	83.5
LT debt	1,408.3	1,510.0	1,540.0	1,565.0
Other LT liabilities	95.7	86.8	86.8	86.8
Shareholders' equity	2,311.0	2,365.6	2,369.0	2,373.2
Minority interest	43.0	43.4	43.4	43.4
<b>Total liabilities &amp; equity</b>	<b>4,006.6</b>	<b>4,202.4</b>	<b>4,238.3</b>	<b>4,268.1</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	75.2	72.6	71.7	78.5
Pre-tax margin	48.2	71.0	58.9	65.5
Net margin	41.3	63.3	54.4	60.6
ROA	2.8	4.7	3.9	4.4
ROE	4.8	8.2	7.0	7.9
<b>Growth</b>				
Turnover	(0.1)	8.9	0.6	1.4
EBITDA	(4.9)	5.0	(0.5)	11.0
Pre-tax profit	(49.6)	60.3	(16.6)	12.8
Net profit	(50.5)	67.0	(13.6)	13.1
Net profit (adj.)	(7.0)	10.0	4.7	13.1
EPU	(7.1)	9.9	4.5	12.9
<b>Leverage</b>				
Debt to total capital	38.6	40.3	40.7	41.0
Debt to equity	64.1	68.7	69.9	70.8
Net debt/(cash) to equity	57.6	61.8	62.9	63.8
Interest cover (x)	5.5	5.8	5.6	6.0

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