

COMPANY RESULTS

Keppel DC REIT (KDCREIT SP)

3Q24: Positive Momentum To Sustain Into 4Q24 And 2025

KDCREIT achieved positive reversion of >40% for the renewal of a major colocation contract in Singapore in 3Q24, a reflection of strong demand and tight vacancy locally. The positive momentum is sustainable as there are several large colocation leases expiring in 4Q24 and 2025. KDCREIT will actively rebalance its portfolio to capitalise on structural trends, such as generative AI, including via acquisitions in Singapore, South Korea and Japan. Maintain BUY with a target price of S\$2.50.

3Q24 RESULTS

Year to 31 Dec (S\$m)	3Q24	yoy % chg	Remarks
Gross Revenue	76.9	+8.9	Strong rental reversion and contributions from Tokyo DC 1.
Net Property Income (NPI)	64.5	-0.2	Hit by provisions of S\$5.3m for Guangdong data centres.
Distributable income	44.7	+1.9	Finance costs increased 1.4% yoy.
DPU (S cent)	2.501	+0.4	Partial distribution of DXC settlement sum received in 1H24.

Source: KDCREIT, UOB Kay Hian

RESULTS

- Keppel DC REIT (KDCREIT) reported DPU of 2.501 S cents for 3Q24 (+0.4% yoy and +6.1% qoq), which we deem slightly above our expectation.
- Strong positive reversion from Singapore.** KDCREIT achieved positive reversion of more than 40% for a major renewal contract in Singapore in 3Q24, a reflection of strong demand and tight vacancy locally. Its data centres in Australia and Netherlands also contribution positive rental reversions. This is the 7th consecutive quarter of positive reversion on a portfolio-wide basis and the 2nd consecutive quarter of above 40% rental reversion for major lease renewals in Singapore. Master leases for its fully fitted and shell & core data centres provide built-in rental escalations of 2-4% per year. Portfolio occupancy was stable at 97.6% in 3Q24. KDCREIT provides stable cash flows due to its long portfolio WALE weighted by lettable area of 6.3 years.
- Benefitting from capital recycling in Australia.** KDCREIT completed the divestment of Intellicentre Campus in Sydney, Australia for A\$174.0m (S\$152.1m) on 24 Jun 24. It has re-invested A\$90.0m (S\$78.7m) of the sale proceeds into Australia Data Centre Note with a yield of 7.0%. Thus, finance income increased 58% yoy to S\$4.3m.
- Maiden foray into Japan.** The acquisition of a 98.47% effective interest in a freehold shell & core data centre at West Tokyo in Japan for ¥23.4b (S\$201.0m) was completed on 31 Jul 24 and contributed for two months in 3Q24. Tokyo Data Centre 1 is leased to a Fortune Global 500 hyperscaler, who is an existing top 10 tenant, on a triple-net basis with a remaining lease term of seven years. The existing passing rent in place is 10-15% below market rate. The acquisition is funded by a seven-year ¥25b loan at cost of below 2% and is accretive to pro forma 2023 DPU by 1.1%.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	277	277	305	313	318
EBITDA	219	208	222	226	250
Operating profit	219	208	222	226	250
Net profit (rep./act.)	231	114	195	177	199
Net profit (adj.)	154	143	150	177	199
EPU (S\$ cent)	9.0	8.3	8.7	10.2	11.5
DPU (S\$ cent)	10.2	9.4	9.6	10.0	11.3
PE (x)	25.1	27.0	25.8	22.0	19.5
P/B (x)	1.6	1.7	1.6	1.6	1.6
DPU Yld (%)	4.5	4.2	4.3	4.4	5.0
Net margin (%)	83.3	41.3	63.8	56.4	62.7
Net debt/(cash) to equity (%)	53.2	57.6	61.8	62.8	63.8
Interest cover (x)	10.0	5.5	6.0	6.5	7.1
ROE (%)	9.8	4.8	8.3	7.5	8.4
Consensus DPU (S\$ cent)	-	-	9.2	9.6	10.5
UOBKH/Consensus (x)	-	-	1.05	1.04	1.07

Source: Keppel DC REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.25
Target Price	S\$2.50
Upside	11.1%
(Previous TP)	S\$2.28

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):	1,725.3
Market cap (S\$m):	3,881.9
Market cap (US\$m):	2,957.4
3-mth avg daily t'over (US\$m):	9.3

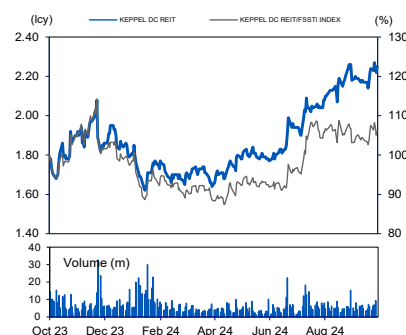
Price Performance (%)

52-week high/low	S\$2.28/S\$1.60			
1mth	3mth	6mth	1yr	YTD
(0.4)	16.0	35.5	23.6	15.4

Major Shareholders

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

PRICE CHART



Source: Bloomberg

ANALYST(S)

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• **Benefitting from upcoming rate cuts.** Aggregate leverage increased 3.9ppt qoq to 39.7% as of Sep 24 due to the acquisition of Tokyo Data Centre 1. Average cost of debt eased 0.2ppt qoq to 3.3% in 3Q24 as yen-denominated loans accounted for 13.8% of total loans. About 71% of KDCREIT's borrowings are hedged to fixed interest rates. The balance 29% of its borrowings are on floating interest rates, which would benefit from upcoming rate cuts. KDCREIT has 6% of its borrowings maturing in 2025, which are denominated in euro and on floating interest rates (not hedged). The bulk of its borrowings mature in 2026 and beyond. We estimate that KDCREIT's cost of debt could ease to 3.1% in 2H25.

STOCK IMPACT

- **Focus on high-value colocation leases.** KDCREIT is the biggest beneficiary of rising data centre rents in Singapore, which accounted for 53% of its portfolio valuation. Colocation accounted for about two-thirds of KDCREIT's rental income as of Sep 24. As a colocation provider, KDCREIT is responsible for facility management, including the provision of power, cooling, backup & redundancy systems and physical security. Colocation leases in Singapore have short WALE of 2.2 years, which are re-priced higher more rapidly to reflect higher market rent.
- **Room for continued positive rental reversion in 4Q24 and 2025.** Colocation leases due for renewal accounts for 11.5% of KDCREIT's rental income in 4Q24 and 18.1% of rental income in 2025. There are several large colocation leases expiring in 4Q24 and 2025, which could be marked to market at higher rents.
- **Potential acquisitions in Singapore, South Korea and Japan.** Management will actively rebalance KDCREIT's portfolio to capitalise on structural trends, such as generative AI. KDCREIT is scouting for opportunities to acquire data centres in its preferred markets, such as Singapore, South Korea and Japan. There is opportunity for asset enhancement or redevelopment to increase capacity if KDCREIT secures more power for its Kelsterbach data centre in Frankfurt, Germany.
- **Catalyst from potential acquisition of AI-enabled data centre in Singapore.** Keppel and Singapore Press Holdings (acquired by Cuscaden Peak Investments) have set up 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; all tenants have already moved in during 1H24 and are ramping up their operations. We expect KDCREIT to acquire SGP7 in due course, as Singapore is one of its preferred markets.
- **Executing recovery roadmap in China.** Management focuses 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 request from several potential tenants, including hyperscalers and AI start-ups. Tenants have signed up for 200-300 racks in 3Q24 (DC1 and DC2 have total capacity for 8,000 racks). Management is hopeful for more sign ups in 2025 with the Chinese government committed to stimulating growth in the economy.

VALUATION/RECOMMENDATION

• **Maintain BUY.** Our target price of S\$2.50 is based on DDM (cost of equity: 6.75%, terminal growth: 2.5% (previous: 2.2%).

EARNINGS REVISION/RISK

• We raise our 2025 DPU forecast by 3.5% due continued strong positive rental reversion for colocation data centres in Singapore.

SHARE PRICE CATALYST

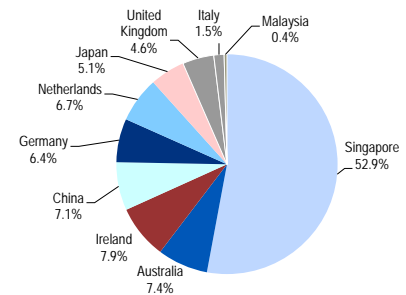
- Demand for colocation space arising from AI-powered applications.
- Acquisitions tapping on sponsor pipeline, especially data centres in Singapore.
- Backfilling of vacant spaces for data centres in Guangdong, China.

KEY OPERATING METRICS – KDCREIT

	3Q23	4Q23	1Q24	2Q24	3Q24	yoy % Chg	qoq % Chg*
DPU (S cents)	n.a.	4.33	0.00	4.55	n.a.	n.a.	n.a.
Occupancy	98.3%	98.3%	98.3%	97.5%	97.6%	-0.7ppt	0.1ppt
Aggregate Leverage	37.2%	37.4%	37.6%	35.8%	39.7%	2.5ppt	3.9ppt
Average Cost of Debt	3.5%	3.6%	3.5%	3.5%	3.3%	-0.2ppt	-0.2ppt
WALE by NLA (years)	7.8	7.6	7.4	6.4	6.3	-1.5yrs	-0.1yrs
Average Debt Maturity (years)	3.7	3.4	3.2	3.1	2.9	-0.8yrs	-0.2yrs
% of Borrowings in Fixed Rates	72%	74%	73%	74%	71%	-1ppt	-3ppt

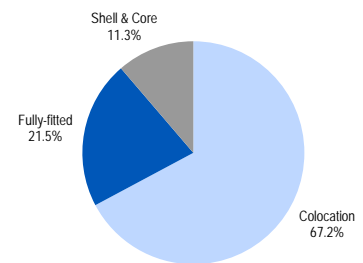
Source: KDCREIT, UOB Kay Hian * hoh % chg for DPU

INVESTMENT PROPERTIES BREAKDOWN



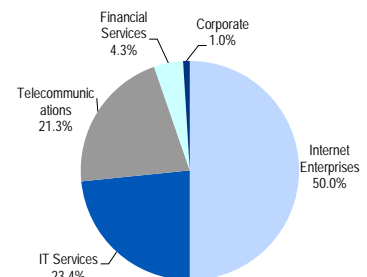
Source: KDCREIT

RENTAL INCOME BY CONTRACT TYPE



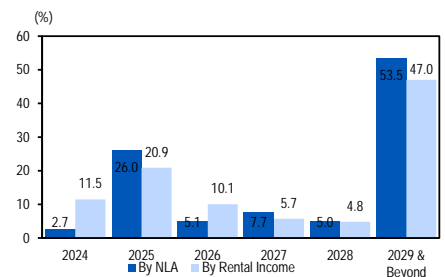
Source: KDCREIT

RENTAL INCOME BY TRADE SECTOR



Source: KDCREIT

LEASE EXPIRY PROFILE



Source: KDCREIT

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	277.0	305.1	313.1	317.8
EBITDA	208.3	221.9	226.1	250.3
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	208.3	221.9	226.1	250.3
Total other non-operating income	(28.9)	33.3	0.0	0.0
Associate contributions	(8.3)	0.0	0.0	0.0
Net interest income/(expense)	(37.6)	(37.3)	(34.9)	(35.0)
Pre-tax profit	133.6	218.0	191.1	215.3
Tax	(15.6)	(19.9)	(11.5)	(12.9)
Minorities	(3.7)	(3.5)	(3.0)	(3.0)
Perpetual Securities	0.0	0.0	0.0	0.0
Net profit	114.3	194.6	176.6	199.4
Net profit (adj.)	143.2	150.0	176.6	199.4

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	210.8	236.2	227.5	250.8
Pre-tax profit	122.2	200.5	179.6	202.4
Tax	0.0	0.0	0.0	0.0
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	8.3	0.0	0.0	0.0
Working capital changes	21.7	(10.6)	(0.6)	(0.1)
Non-cash items	5.2	4.9	5.1	5.2
Other operating cashflows	53.4	41.3	43.4	43.3
Investing	(15.4)	(150.1)	(30.0)	(30.0)
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
Financing	(236.2)	(71.9)	(194.3)	(221.3)
Distribution to unitholders	(175.7)	(166.3)	(172.8)	(194.8)
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)	(51.0)	(51.5)	(51.5)
Net cash inflow (outflow)	(40.8)	14.2	3.2	(0.5)
Beginning cash & cash equivalent	190.4	149.7	163.9	167.1
Changes due to forex impact	0.2	0.0	0.0	0.0
Ending cash & cash equivalent	149.7	163.9	167.1	166.6

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	163.9	167.1	166.6
Other current assets	74.5	75.6	79.3	80.0
Total assets	4,006.6	4,204.1	4,241.0	4,271.2
ST debt	72.5	116.2	116.2	116.2
Other current liabilities	76.1	81.8	85.0	85.5
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	2,365.7	2,369.6	2,374.2
Minority interest	43.0	43.4	43.4	43.4
Total liabilities & equity	4,006.6	4,204.1	4,241.0	4,271.2

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	75.2	72.7	72.2	78.8
Pre-tax margin	48.2	71.5	61.0	67.7
Net margin	41.3	63.8	56.4	62.7
ROA	2.8	4.7	4.2	4.7
ROE	4.8	8.3	7.5	8.4
Growth				
Turnover	(0.1)	10.1	2.6	1.5
EBITDA	(4.9)	6.5	1.9	10.7
Pre-tax profit	(49.6)	63.2	(12.3)	12.6
Net profit	(50.5)	70.2	(9.2)	12.9
Net profit (adj.)	(7.0)	4.8	17.7	12.9
EPU	(7.1)	4.6	17.6	12.7
Leverage				
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	62.8	63.8
Interest cover (x)	5.5	6.0	6.5	7.1

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