

COMPANY UPDATE

Keppel DC REIT (KDCREIT SP)

Rebalancing To Benefit From AI Tailwind While Deleveraging

SGP7 and SGP8 are designed for AI inference workload and provide ultra-low latency connectivity. KDCREIT is able to achieve attractive DPU accretion of 8.1% due to: a) NPI yield of 6.5-7.0%, b) low cost of equity as reflected in FY24F yield of 4.2% and P/NAV of 1.5x, and c) paying 50% of management fees for SGP7 and SGP8 in new units. KDCREIT is also deleveraging with aggregate leverage expected to decline by 1.8ppt from 39.7% to 37.9%. Maintain BUY with a target price of S\$2.64.

WHAT'S NEW

- Keppel DC REIT (KDCREIT) is acquiring two AI-ready hyperscale data centres SGP7 and SGP8 located at 82 Genting Lane in Singapore from a 60:40 joint venture between Keppel's Connectivity Division and Cuscaden Peak Investments for S\$1.38b.
- AI-capable and fully committed.** SGP7 and SGP8 are purpose-built to Tier III-equivalent specification and designed for AI inference workload. They offer ultra-low latency connectivity being near a cable landing station. SGP7 received temporary occupation permit (TOP) in Mar 23 and is already fully occupied. SGP8 received TOP in Aug 24. It is expected to complete fitting out by 1Q25 and will be fully occupied by 3Q25. SGP7 and SGP8 provides NPI yield of 6.5-7.0%.
- Scaling up in home base Singapore.** The proposed acquisition will expand KDCREIT's assets under management (AUM) by 36% to S\$5.2b with 25 data centres across Asia Pacific and Europe. Both SGP7 and SGP8 are 100% contracted to global hyperscalers from the cloud services, Internet enterprise and telecommunications sectors on a colocation basis. The proportion of rental income from hyperscale customers would increase from 51.5% to 64.2%. KDCREIT's exposure to Singapore will expand from 53% to 67% of AUM. Singapore has one of the lowest colocation vacancies of 1% in the Asia Pacific region.
- Structure of shares and notes transaction.** The proposed transaction will be executed in two stages: a) KDCREIT will acquire an initial 49% interest in the JV and subscribe for Class A and Class B notes issued by the JV for S\$1,030m, which provides 99.49% of the economic interest from SGP7 and SGP8 based on a land tenure of 15.5 years, and b) KDCREIT will garner 100% economic interest based on a land tenure of 25.5 years by exercising the call option to acquire the remaining 51% stake in the JV in 2H25. The lease extension consideration payable is S\$350m. Management will apply for tax transparency after stage 2 is completed.
- Potential upside from positive rental reversion and conversion of unutilised space.** The contracted rents for SGP7 and SGP8 are estimated to be 15-20% below comparable market colocation rents. The combined WALE of the two data centres is 4.5 years. There is potential for rental uplift as demand for data centres is expected to remain strong. SGP8 currently has 1.5 floors of unutilised space, which can be fitted-out and converted into data halls to generate more rental income.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	277	277	305	416	422
EBITDA	219	208	212	292	332
Operating profit	219	208	212	292	332
Net profit (rep./act.)	231	114	187	235	265
Net profit (adj.)	154	143	144	235	265
EPU (S\$ cent)	9.0	8.3	8.3	12.0	12.0
DPU (S\$ cent)	10.2	9.4	9.2	10.6	11.9
PE (x)	24.4	26.3	26.4	18.3	18.2
P/B (x)	1.6	1.6	1.5	1.4	1.4
DPU Yld (%)	4.7	4.3	4.2	4.8	5.4
Net margin (%)	83.3	41.3	60.6	56.3	62.7
Net debt/(cash) to equity (%)	53.2	57.6	44.6	56.0	56.7
Interest cover (x)	10.0	5.5	5.6	7.5	7.0
ROE (%)	9.8	4.8	6.5	7.0	7.9
Consensus DPU (S\$ cent)	-	-	9.3	10.0	10.8
UOBKH/Consensus (x)	-	-	0.99	1.06	1.10

Source: Keppel DC REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$2.19
Target Price	S\$2.64
Upside	+20.5%
(Previous TP)	S\$2.50

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):	3,778.4
Market cap (US\$m):	2,821.4
3-mth avg daily t'over (US\$m):	10.2

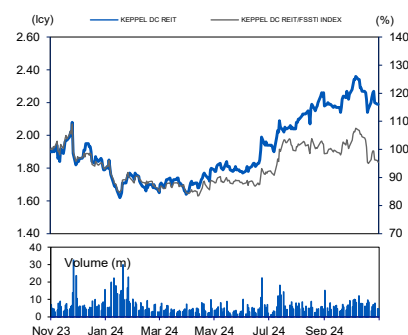
Price Performance (%)

52-week high/low	S\$2.36/S\$1.60			
<b>1mth</b>	<b>3mth</b>	<b>6mth</b>	<b>1yr</b>	<b>YTD</b>
(2.7)	7.4	21.7	17.1	12.3

Major Shareholders

Temasek Hldgs	21.8
FY24 NAV/Share (S\$)	1.53
FY24 Net Debt/Share (S\$)	0.68

PRICE CHART



Source: Bloomberg

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### STOCK IMPACT

- Continuing to scout for acquisitions.** 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.
- Rebalancing to benefit from structural tailwind while deleveraging.** The proposed acquisition is accretive to pro forma 1H24 DPU by 8.1%. The funding mix between equity and debt is 70:30. The fully under-written equity fundraising would raise S\$973m (private placement: 282.0m units at S\$2.128, preferential offering: 144.2m units at S\$2.08, sponsor subscription: 39.9m units at S\$2.128). KDCREIT will also tap debt facility of S\$451m at cost of about 3.5%. 50% of the management fees related to SGP7 and SGP8 is paid through issue of new units. KDCREIT's aggregate leverage is expected to decline by 1.8ppt from 39.7% to 37.9%.

### VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of S\$2.64 is based on DDM (cost of equity: 6.75%, terminal growth: 2.5%).

### EARNINGS REVISION/RISK

- We raise our 2026 DPU forecast by 6% due to the acquisition of SGP7 and SGP8.

### 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	qq % 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

### SGP7 AND SGP8



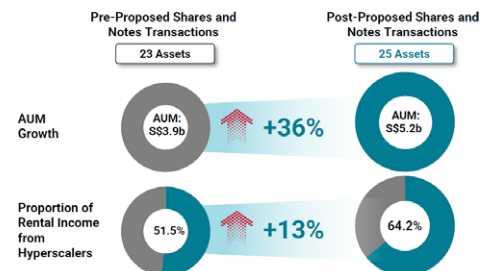
Source: KDCREIT

### OVERVIEW OF SGP7 AND SGP8

	SGP7	SGP8
No of storeys	7	6
Lettable area (sf)	72,923	77,532
No of tenants	4	3
Occupancy	100%	100%
WALE (years)	3.9	5.0
Contract Type	Colocation	
Land Type	Leasehold title expiring on 15 Jul 2040 (15.5 years) (25.5 years if land lease is extended).	

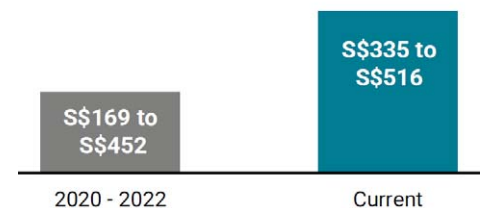
Source: KDCREIT

### ENHANCES INCOME RESILIENCE



Source: KDCREIT

### SINGAPORE DATA CENTRES PRICING (PER KW/MONTH)



Source: KDCREIT

### PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Net turnover</b>	<b>277.0</b>	<b>305.1</b>	<b>416.4</b>	<b>422.0</b>
EBITDA	208.3	212.1	291.7	331.9
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	208.3	212.1	291.7	331.9
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)	(35.6)	(38.9)	(47.2)
<b>Pre-tax profit</b>	<b>133.6</b>	<b>209.8</b>	<b>252.8</b>	<b>284.8</b>
Tax	(15.6)	(19.4)	(15.2)	(17.1)
Minorities	(3.7)	(3.5)	(3.0)	(3.0)
Perpetual Securities	0.0	0.0	0.0	0.0
<b>Net profit</b>	<b>114.3</b>	<b>187.0</b>	<b>234.6</b>	<b>264.7</b>
Net profit (adj.)	143.2	142.4	234.6	264.7

### CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Operating</b>	<b>210.8</b>	<b>226.9</b>	<b>285.1</b>	<b>328.2</b>
Pre-tax profit	122.2	190.9	237.6	267.7
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)	(5.0)	(0.1)
Non-cash items	5.2	5.3	9.6	10.2
Other operating cashflows	53.4	41.2	42.9	50.4
<b>Investing</b>	<b>(15.4)</b>	<b>(1,180.1)</b>	<b>(380.0)</b>	<b>(30.0)</b>
Capex (growth)	0.0	(1,303.6)	(350.0)	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>971.6</b>	<b>91.8</b>	<b>(295.9)</b>
Distribution to unitholders	(175.7)	(157.5)	(232.8)	(262.3)
Issue of shares	0.0	994.9	0.0	0.0
Proceeds from borrowings	265.4	185.5	380.0	30.0
Loan repayment	(274.2)	0.0	0.0	0.0
Others/interest paid	(51.7)	(51.4)	(55.4)	(63.7)
<b>Net cash inflow (outflow)</b>	<b>(40.8)</b>	<b>18.3</b>	<b>(3.1)</b>	<b>2.3</b>
<b>Beginning cash &amp; cash equivalent</b>	<b>190.4</b>	<b>149.7</b>	<b>168.1</b>	<b>165.0</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>168.1</b>	<b>165.0</b>	<b>167.2</b>

### BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
<b>Fixed assets</b>	<b>3,655.9</b>	<b>4,799.5</b>	<b>5,179.5</b>	<b>5,209.5</b>
Other LT assets	126.3	195.1	195.1	195.1
Cash/ST investment	149.7	168.1	165.0	167.2
Other current assets	74.5	75.6	105.3	106.1
<b>Total assets</b>	<b>4,006.6</b>	<b>5,238.2</b>	<b>5,644.8</b>	<b>5,677.9</b>
ST debt	72.5	116.2	116.2	116.2
Other current liabilities	76.1	81.8	106.6	107.3
LT debt	1,408.3	1,550.0	1,930.0	1,960.0
Other LT liabilities	95.7	86.8	86.8	86.8
Shareholders' equity	2,311.0	3,359.9	3,361.7	3,364.1
Minority interest	43.0	43.4	43.4	43.4
<b>Total liabilities &amp; equity</b>	<b>4,006.6</b>	<b>5,238.2</b>	<b>5,644.8</b>	<b>5,677.9</b>

### KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
<b>Profitability</b>				
EBITDA margin	75.2	69.5	70.1	78.6
Pre-tax margin	48.2	68.1	60.7	67.5
Net margin	41.3	60.6	56.3	62.7
ROA	2.8	4.0	4.3	4.7
ROE	4.8	6.5	7.0	7.9
<b>Growth</b>				
Turnover	(0.1)	10.1	36.5	1.4
EBITDA	(4.9)	1.8	37.5	13.8
Pre-tax profit	(49.6)	55.6	21.6	12.7
Net profit	(50.5)	61.8	26.8	12.8
Net profit (adj.)	(7.0)	(1.9)	67.0	12.8
EPU	(7.1)	(2.1)	46.7	0.5
<b>Leverage</b>				
Debt to total capital	38.6	32.9	37.5	37.9
Debt to equity	64.1	49.6	60.9	61.7
Net debt/(cash) to equity	57.6	44.6	56.0	56.7
Interest cover (x)	5.5	5.6	7.5	7.0

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