

Keppel DC REIT

2022

Research Reports



Singapore Company Update

Keppel DC REIT

Bloomberg: KDCREIT SP | Reuters: KEPE.SI

Refer to important disclosures at the end of this report.

DBS Group Research . Equity

25 Jan 2022

BUY

Last Traded Price (24 Jan 2022): S\$2.25 (STI : 3,283.35)
Price Target 12-mth: S\$2.80 (25% upside) (Prev S\$2.80)

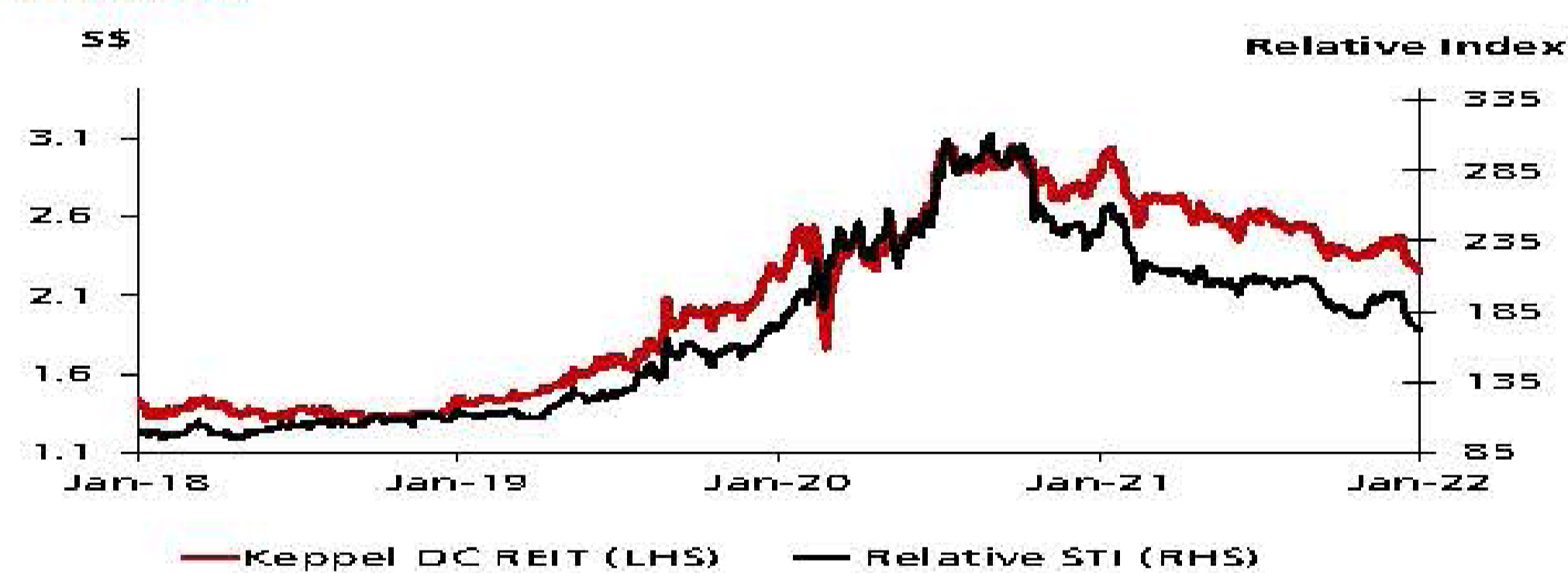
Analyst

Dale LAI +65 66823715 dalelai@db.com
Derek TAN +65 6682 3716 derektan@db.com

What's New

- Strong FY21 earnings driven by contributions from Asset Enhancement Initiatives (AEIs) and acquisitions
- Singapore portfolio reported >11% uplift in valuations due to improved earnings and tightening cap rates
- Concluded c.S\$400m of accretive acquisitions and investments in FY21 despite stiff competition for data centres
- Maintain BUY with a revised TP of S\$2.80

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2021A	2022F	2023F	2024F
Gross Revenue	271	318	343	349
Net Property Inc	248	272	293	299
Total Return	314	192	205	208
Distribution Inc	172	193	205	209
EPU (S cts)	9.70	11.2	11.7	11.7
EPU Gth (%)	(5)	16	5	0
DPU (S cts)	9.85	10.7	11.0	11.2
DPU Gth (%)	7	9	3	2
NAV per shr (S cts)	134	134	138	138
PE (X)	23.2	20.1	19.2	19.2
Distribution Yield (%)	4.4	4.8	4.9	5.0
P/NAV (x)	1.7	1.7	1.6	1.6
Aggregate Leverage (%)	34.4	35.5	36.9	36.9
ROAE (%)	7.7	8.4	8.6	8.5

Distn. Inc Chng (%)		0	0	0
Consensus DPU (S cts):		10.6	11.2	12.3
Other Broker Recs:		B: 8	S: 0	H: 6

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Every byte counts

Investment Thesis

Resuming growth trajectory. The recent completion of the Guangdong Data Centre and London Data Centre has reignited optimism on KDCREIT's growth trajectory. In addition, an ROFR has been granted for the other five data centres within the Guangdong Data Centre campus. However, we have revised down our acquisition yield assumptions given the rapid cap rate compressions seen in data centre assets globally.

DPU growth CAGR of c.6% over the next two years. DPU is expected to grow by a CAGR of c.6% from now till FY23, driven by recent acquisitions, organic growth from past AEIs and developments, and further potential acquisitions by the end of FY22. Given its debt headroom, we have assumed S\$300m worth of acquisitions at an implied yield of c.5% by the end of FY22 in our estimates.

Market dynamics supportive of further growth. KDCREIT's current portfolio occupancy of more than 98% is the highest since its IPO in 2014. The continued strong demand for data centre capacity amid the prolonged COVID-19 outbreak and rise of the digital economy would support higher occupancies and revenues across its portfolio in the foreseeable future.

Valuation:

Our target price of S\$2.80 is based on DCF, assuming a WACC of 5.8% (risk free rate of 2.5%). We have pencilled in S\$300m of acquisitions by end of FY22.

Where we differ:

Execution of pipeline. We have assumed a total of S\$300m worth of deals in our estimates as its acquisition growth strategy resumes, driving a DPU CAGR of c.6% from FY21 to 23F.

Key Risks to Our View:

Competition from larger third-party data centre players. KDCREIT may face higher barriers to entry and stiffer competition from international operators/funds that are also looking to grow their footprint and attract tenants.

At A Glance

Issued Capital (m shrs)	1,715
Mkt. Cap (S\$m/US\$m)	3,859 / 2,869
Major Shareholders (%)	
Keppel Corp Ltd	20.4
BlackRock Inc	7.6
Free Float (%)	67.3
3m Avg. Daily Val (US\$m)	9.0
GIC Industry : Real Estate / Equity Real Estate Investment (REITs)	

WHAT'S NEW

Every byte counts

Revenues and NPI increase driven by acquisitions and AEs. Despite the divestment of iseek Data Centre in Brisbane, KDCREIT reported a 1.6% y-o-y increase in FY21 NPI to S\$248.2m. The increase was mainly driven by the additional income from AEs in Dublin and Singapore. In addition, FY21 included full-year income contributions from Kelsterbach DC and Amsterdam DC. To a smaller extent, the acquisitions of Eindhoven DC and Guangdong DC towards the end of FY21 also contributed to the increase in earnings.

FY21 DPU of 9.85 Scts was a 7.4% increase y-o-y. KDCREIT reported a 7.4% y-o-y increase in DPU mainly due to the AEs and acquisitions mentioned above. This was, however, slightly lower than our previous estimates, as there was a delay in the completion of the acquisition of the Guangdong Data Centre.

Strong revaluation gains for Singapore portfolio. The overall portfolio recorded a relatively strong uplift in valuations, and this was mainly contributed by the Singapore portfolio. The six data centres in Singapore recorded a c.11.2% or c.S\$189m uplift in valuation, which was mainly due to improved earnings from AEs at several properties, as well as cap rate compressions. For the rest of KDCREIT's portfolio, valuations were mostly up, except for Basis Bay in Malaysia, and Cardiff Data

Centre and GV7 in the UK. The higher portfolio valuations also led to a very healthy aggregate leverage of 34.6%.

Close to S\$400m of acquisitions were concluded in FY21. Despite concerns of a slowdown in acquisitions, KDCREIT concluded c.S\$400m worth of acquisitions and investments in FY21. This includes the acquisitions of Eindhoven Campus, Guangdong Data Centre, the M1 network assets investment, and the recently completed London Data Centre. In addition, KDCREIT also completed the AEI works at DC1, Keppel DC Dublin 2, and the development of Intellicentre 3 East Data Centre during the year.

All-in borrowing costs maintained at 1.6%. In 4Q21, KDCREIT extended two loans by two and five years respectively. Despite the rising interest rate environment, KDCREIT was able to maintain its all-in borrowing cost at 1.6%. Looking ahead, there will only be a c.S\$160m Euro-denominated debt expiring in FY22, and although there may be a risk of a marginal increase in overall borrowing costs, 74% of KDCREIT's debt has been hedged to fixed rates, mitigating any material spike in costs. We have, however, taken a prudent approach to revise our assumptions for KDCREIT's long-term borrowing costs to be at 2.0%.

Well-diversified debt maturity profile

- In 4Q 2021, Keppel DC REIT:
 - Extended loans of S\$275m by 2 years until 2027; and GBP 11.2m for 5 years until 2027
 - Obtained 1 revolving credit facility of S\$150m for 6 years and 1 loan of RMB400m for 5 years



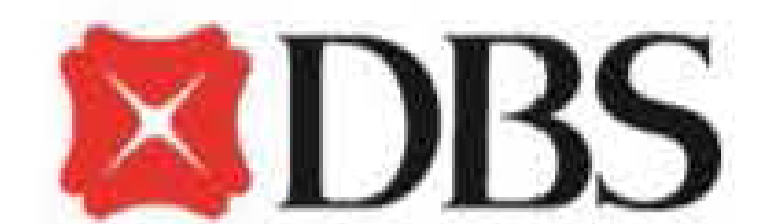
As at 31 Dec 2021	
Available Facilities	~\$481.5m of undrawn credit facilities
Aggregate Leverage ¹	34.6%
Average Cost of Debt ²	1.6%
Debt Tenor	3.9 years
Interest Coverage (ICR)	10.8 times
Borrowings on fixed rates	74%

¹ Computed based on gross borrowings and deferred payment as a percentage of deposited properties, both of which do not consider the lease liabilities pertaining to land rent options.
² Including amortisation of upfront debt financing costs and excluding lease charges.

Source: Keppel DC REIT

Company Update

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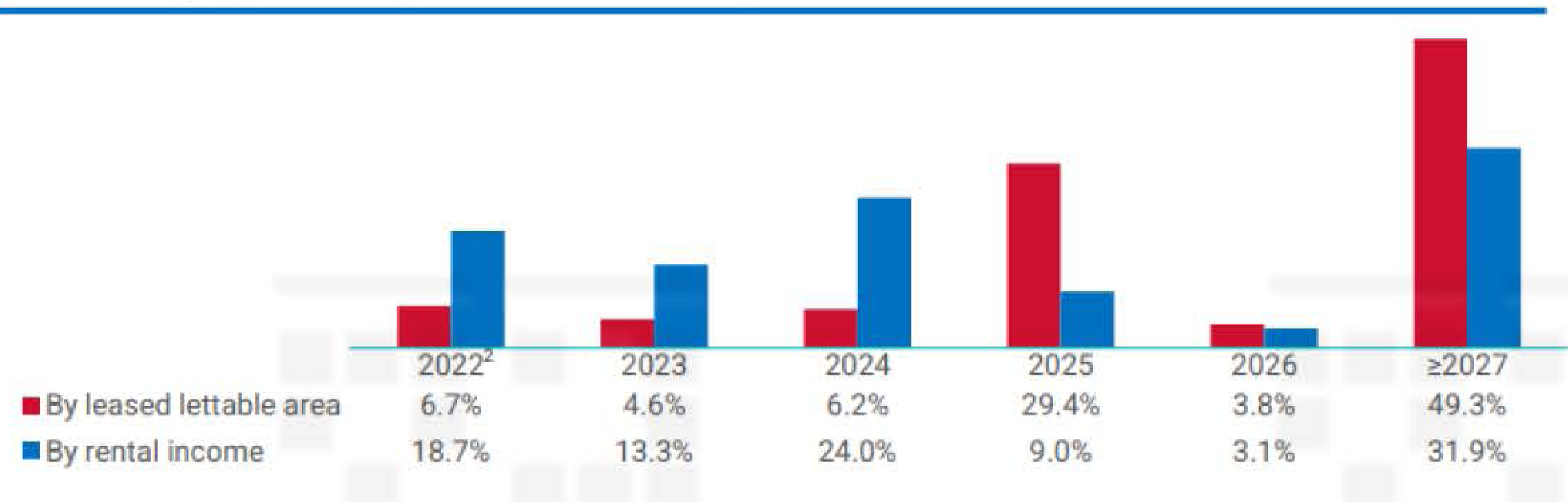
Live more, Bank less

High portfolio occupancy and well-staggered lease expiry. In FY22, only 18.7% of leases (by rental income) will be due to expire. Given the continued demand for data centres, we expect KDCREIT to be able to renew expiring

leases at healthy rental rates. Moreover, its high portfolio occupancy rate of 98.3% and long WALE of 7.5 years will ensure income stability going forward.

Well-staggered lease expiry profile

Lease Expiry Profile (as at 31 Dec 2021)



Source: Keppel DC REIT

Our views

Maintained acquisition assumptions for FY22 but revised acquisition yields down. We have maintained our acquisition assumptions of S\$300m by the end of FY22 as KDCREIT continues to demonstrate their ability to acquire despite the rapid cap rate compressions globally. However, as seen in its latest acquisition of the London Data Centre at a yield of c.4.5%, we have revised our yield assumptions for future acquisitions. For the S\$300m of future acquisitions in our assumptions, we have revised the projected yields down by 50bps to 5.0%.

Marginal increase in WACC as we assume a higher long-term cost of borrowing. As a prudent step, we have revised the long-term cost of borrowings for KDCREIT up to 2.0% to account for any potential increase in borrowings costs. This led a slight increase in KDCREIT's WACC to our current projection of 5.8%.

DPU growth is still intact with an estimated CAGR of c.6% over the next two years. Despite the downward revision in our projections due to the tightening yields of assumed acquisitions and a higher long-term cost of debt, KDCREIT is still expected to generate a DPU CAGR of c.6% over the next two years. At its current trading price, this implies a

very attractive forward yield of c.4.8% and c.4.9% for FY22 and FY23 respectively.

With the ROFR in place for the five remaining data centres in Guangdong, as well as KDCREIT's continued hunt for more accretive acquisitions, there is a potential for the REIT to surprise on the upside by delivering larger acquisitions with higher yields.

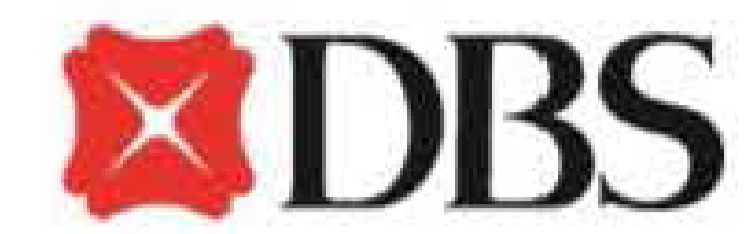
Based on our revised earnings projections and a more conservative WACC, we have revised our TP down to **S\$2.80**. This implies a c.24% upside to its current share price and we will be maintaining our **BUY** recommendation.

Company Background

KDC REIT (KDC REIT) is a Singapore-based real estate investment trust (REIT). It was established with the principal investment strategy of investing, directly or indirectly, in a portfolio of income-producing real estate assets that are used primarily for data centre purposes, with an initial focus on Asia Pacific and Europe.

Company Update

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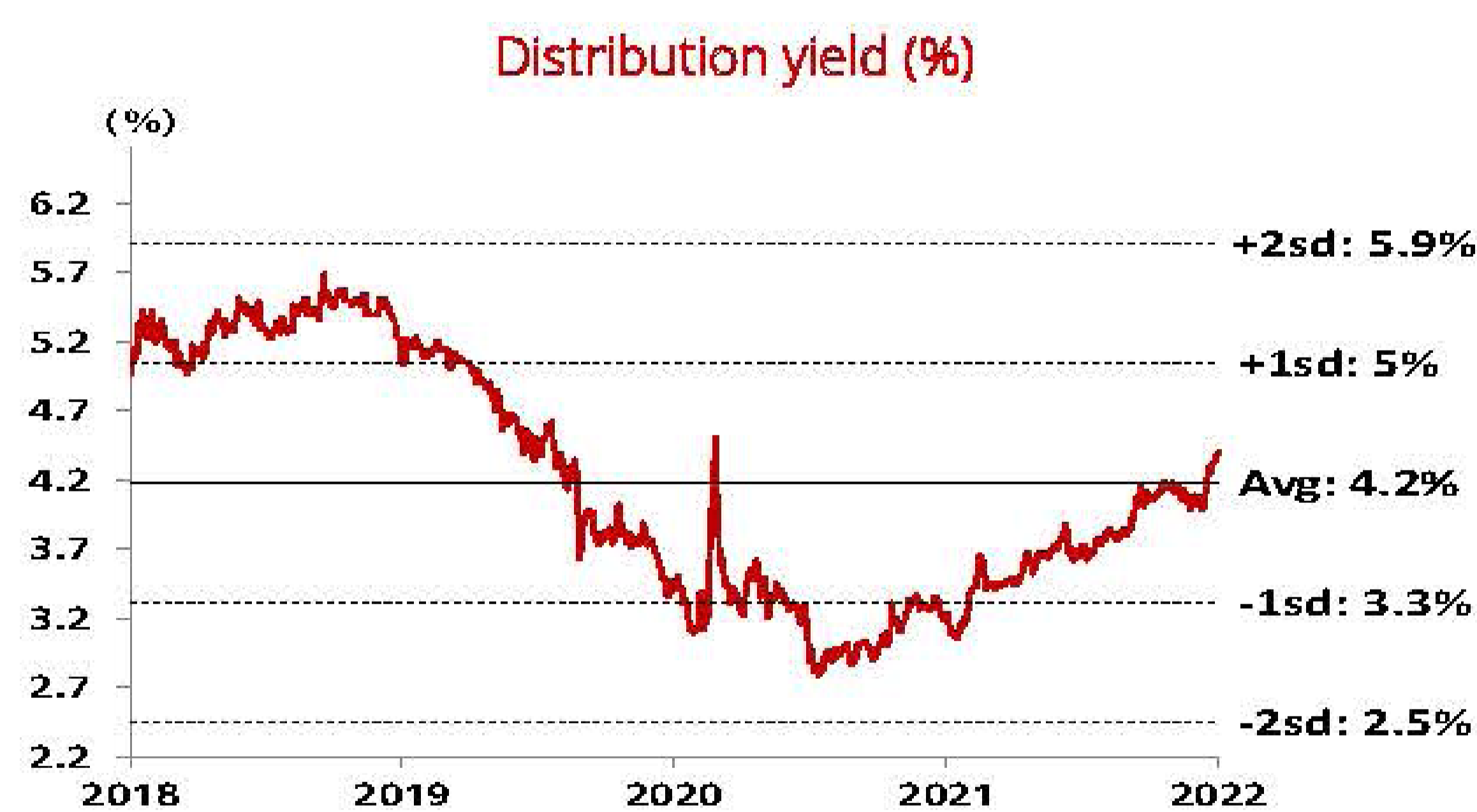
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Interim Income Statement (\$m)

FY Dec	2H2020	1H2021	2H2021	% chg_yoy	% chg_qoq
Gross revenue	142	135	136	(4.0)	0.6
Property expenses	(11.7)	(11.3)	(11.6)	(0.6)	2.5
Net Property Income	130	124	124	(4.3)	0.4
Other Operating expenses	(18.1)	(14.4)	(12.5)	(30.5)	(12.8)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	-	-
Associates & JV Inc	0.0	0.0	(1.0)	nm	nm
Net Interest (Exp)/Inc	(8.8)	(10.1)	(10.6)	(19.9)	(5.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
Net Income	103	99.4	100	(2.8)	0.8
Tax	(16.3)	(9.1)	(20.1)	23.3	121.4
Minority Interest	(1.8)	(1.6)	(6.3)	(253.5)	288.1
Net Income after Tax	85.0	88.7	73.8	(13.2)	(16.8)
Total Return	85.6	87.5	226	164.1	158.4
Non-tax deductible Items	(3.7)	(3.3)	(139)	3,666.1	4,142.7
Net Inc available for Dist.	81.9	84.3	87.4	6.6	3.7
Ratio (%)					
Net Prop Inc Margin	91.8	91.6	91.5		
Dist. Payout Ratio	100.0	100.0	100.0		

Source of all data: Company, DBS Bank

Historical Dividend yield and PB band



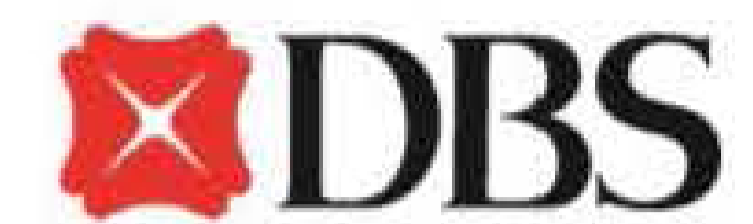
Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Company Update

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Income Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Gross revenue	266	271	318	343	349
Property expenses	(21.4)	(22.9)	(45.9)	(49.4)	(50.4)
Net Property Income	244	248	272	293	299
Other Operating expenses	(32.7)	(31.3)	(23.6)	(26.1)	(26.5)
Other Non Opg (Exp)/Inc	(1.1)	4.40	0.0	0.0	0.0
Associates & JV Inc	0.0	(1.0)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(18.3)	(20.7)	(24.1)	(28.9)	(29.3)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
Net Income	192	200	224	238	243
Tax	(21.0)	(29.2)	(23.5)	(25.0)	(25.5)
Minority Interest	(3.6)	(7.9)	(8.3)	(8.6)	(9.0)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Income After Tax	168	162	192	205	208
Total Return	168	314	192	205	208
Non-tax deductible Items	(11.2)	(142)	0.30	0.30	0.30
Net Inc available for Dist.	157	172	193	205	209
Growth & Ratio					
Revenue Gth (%)	36.3	2.1	17.2	7.9	1.9
N Property Inc Gth (%)	37.7	1.6	9.6	7.9	1.9
Net Inc Gth (%)	36.8	(3.0)	18.4	6.3	1.9
Dist. Payout Ratio (%)	94.6	94.7	95.2	95.4	95.4
Net Prop Inc Margins (%)	91.9	91.5	85.6	85.6	85.6
Net Income Margins (%)	63.1	59.9	60.6	59.7	59.7
Dist to revenue (%)	59.1	63.3	60.7	59.8	59.8
Managers & Trustee's fees	12.3	11.6	7.4	7.6	7.6
ROAE (%)	8.8	7.7	8.4	8.6	8.5
ROA (%)	5.3	4.6	5.0	5.1	5.0
ROCE (%)	6.2	5.3	5.9	6.0	5.9
Int. Cover (x)	11.6	10.5	10.3	9.2	9.3

NPI to be driven by full-year contributions from the c.\$400m worth of acquisition and investments concluded over the past few months.

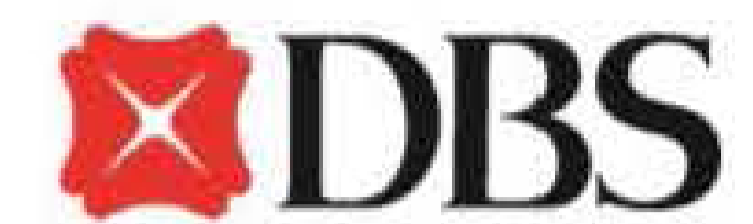
Interim Income Statement (\$m)

FY Dec	1H2020	2H2020	1H2021	2H2021
Gross revenue	124	142	135	136
Property expenses	(9.7)	(11.7)	(11.3)	(11.6)
Net Property Income	114	130	124	124
Other Operating	(15.7)	(18.1)	(14.4)	(12.5)
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0
Associates & JV Inc	0.0	0.0	0.0	(1.0)
Net Interest (Exp)/Inc	(9.4)	(8.8)	(10.1)	(10.6)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0
Net Income	89.1	103	99.4	100
Tax	(4.7)	(16.3)	(9.1)	(20.1)
Minority Interest	(1.8)	(1.8)	(1.6)	(6.3)
Net Income after Tax	30.2	85.0	88.7	73.8
Total Return	82.5	85.6	87.5	226
Non-tax deductible Items	(7.6)	(3.7)	(3.3)	(139)
Net Inc available for Dist.	75.0	81.9	84.3	87.4
Growth & Ratio				
Revenue Gth (%)	N/A	14	(5)	1
N Property Inc Gth (%)	nm	14	(5)	0
Net Inc Gth (%)	nm	3	4	(17)
Net Prop Inc Margin (%)	92.1	91.8	91.6	91.5
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0

Source: Company, DBS Bank

Company Update

Keppel DC REIT



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Balance Sheet (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Investment Properties	3,005	3,401	3,468	3,780	3,792
Other LT Assets	40.2	117	117	117	117
Cash & ST Invt	244	196	125	136	153
Inventory	0.0	0.0	0.0	0.0	0.0
Debtors	54.4	50.4	127	137	140
Other Current Assets	5.79	15.9	15.9	15.9	15.9
Total Assets	3,350	3,780	3,852	4,186	4,217
ST Debt	144	163	163	163	163
Creditor	80.0	50.1	21.2	22.8	23.3
Other Current Liab	9.35	7.43	24.4	25.9	26.4
LT Debt	1,044	1,136	1,203	1,380	1,392
Other LT Liabilities	90.4	87.6	87.6	87.6	87.6
Unit holders' funds	1,945	2,293	2,302	2,447	2,457
Minority Interests	37.6	42.4	50.7	59.3	68.3
Total Funds & Liabilities	3,350	3,780	3,852	4,186	4,217
Non-Cash Wkg. Capital	(29.1)	8.68	97.3	104	106
Net Cash/(Debt)	(944)	(1,103)	(1,241)	(1,407)	(1,402)
Ratio					
Current Ratio (x)	1.3	1.2	1.3	1.4	1.5
Quick Ratio (x)	1.3	1.1	1.2	1.3	1.4
Aggregate Leverage (%)	35.5	34.4	35.5	36.9	36.9

Assumed S\$300m of future acquisitions done in end-FY22.

Source: Company, DBS Bank

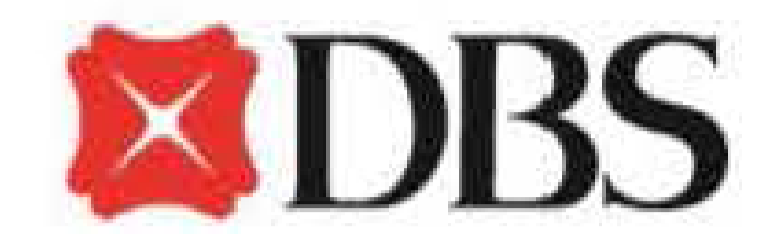
Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Income	192	200	224	238	243
Dep. & Amort.	0.0	0.0	0.0	0.0	0.0
Tax Paid	(7.9)	(7.0)	(6.5)	(23.5)	(25.0)
Associates & JV Inc/(Loss)	0.0	1.00	0.0	0.0	0.0
Chg in Wkg. Cap.	15.8	(21.9)	(106)	(8.3)	(2.1)
Other Operating CF	34.9	(142)	0.30	0.30	0.30
Net Operating CF	235	29.7	112	207	216
Net Invt in Properties	(209)	(282)	(66.6)	(312)	(12.2)
Other Invt (net)	0.0	(26.4)	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	(89.7)	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.0	23.6	0.0	0.0	0.0
Net Investing CF	(209)	(374)	(66.6)	(312)	(12.2)
Distribution Paid	(107)	(185)	(183)	(195)	(199)
Chg in Gross Debt	243	143	66.6	177	12.2
New units issued	0.0	202	0.0	135	0.0
Other Financing CF	(69.6)	0.0	0.0	0.0	0.0
Net Financing CF	66.9	160	(117)	117	(187)
Currency Adjustments	(4.5)	(0.5)	0.0	0.0	0.0
Chg in Cash	88.5	(185)	(71.2)	11.3	17.0
Operating CFPS (S cts)	13.4	3.08	12.7	12.3	12.3
Free CFPS (S cts)	1.60	(15.1)	2.66	(6.0)	11.5

Source: Company, DBS Bank

Company Update

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Target Price & Ratings History



S. No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	27 Jan 21	2.91	2.80	HOLD
2:	27 Jul 21	2.59	3.00	BUY
3:	30 Aug 21	2.52	3.00	BUY

Note : Share price and Target price are adjusted for corporate actions.

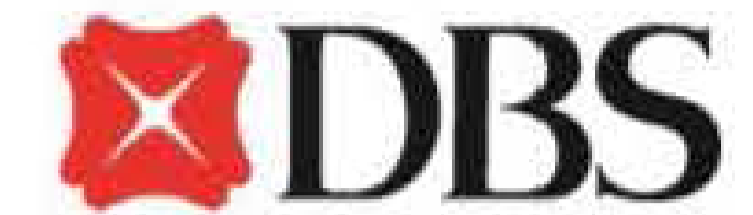
Source: DBS Bank

Analyst: Dale LAI

Derek TAN

Company Update

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DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS Bank unless otherwise specified.

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Company Update

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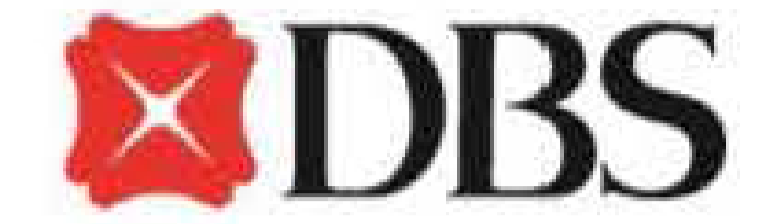
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Company Update

Keppel DC REIT




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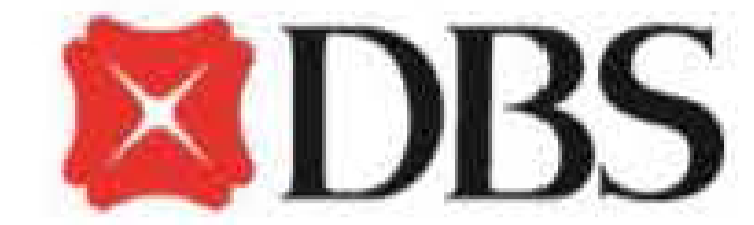
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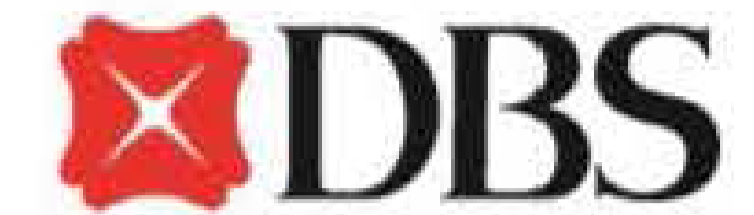


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Keppel DC REIT



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DBS Regional Research Offices

HONG KONG

DBS (Hong Kong) Ltd

Contact: Carol Wu
13th Floor One Island East,
18 Westlands Road,
Quarry Bay, Hong Kong
Tel: 852 3668 4181
Fax: 852 2521 1812
e-mail: dbsvkhk@dbs.com

MALAYSIA

AllianceDBS Research Sdn Bhd

Contact: Wong Ming Tek
19th Floor, Menara Multi-Purpose,
Capital Square,
8 Jalan Munshi Abdullah 50100
Kuala Lumpur, Malaysia.
Tel.: 603 2604 3333
Fax: 603 2604 3921
e-mail: general@alliancedbs.com
Co. Regn No. 198401015984 (128540-U)

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua
12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982
Tel: 65 6878 8888
e-mail: groupresearch@dbs.com
Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif
DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia
Tel: 62 21 3003 4900
Fax: 6221 3003 4943
e-mail: indonesiaesearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul
989 Siam Piwat Tower Building,
9th, 14th-15th Floor
Rama 1 Road, Pathumwan,
Bangkok Thailand 10330
Tel. 66 2 857 7831
Fax: 66 2 658 1269
e-mail: research@th.dbs.com
Company Regn. No 0105539127012
Securities and Exchange Commission, Thailand



Keppel DC REIT

Valuations speak for fundamentals



StocksBnB.com

27 January 2022

BUY (Maintained)

LAST CLOSE PRICE	SGD 2.190
FORECAST DIV	SGD 0.104
TARGET PRICE	SGD 2.810
TOTAL RETURN	33.1%

COMPANY DATA

BLOOMBERG CODE:	KDCREIT SP
O/S SHARES (MN):	1,716
MARKET CAP (USD mn / SGD mn):	2782 / 3757
52 - WK HI/LO (SGD):	3.04 / 2.16
3M Average Daily T/O (mn):	5.52

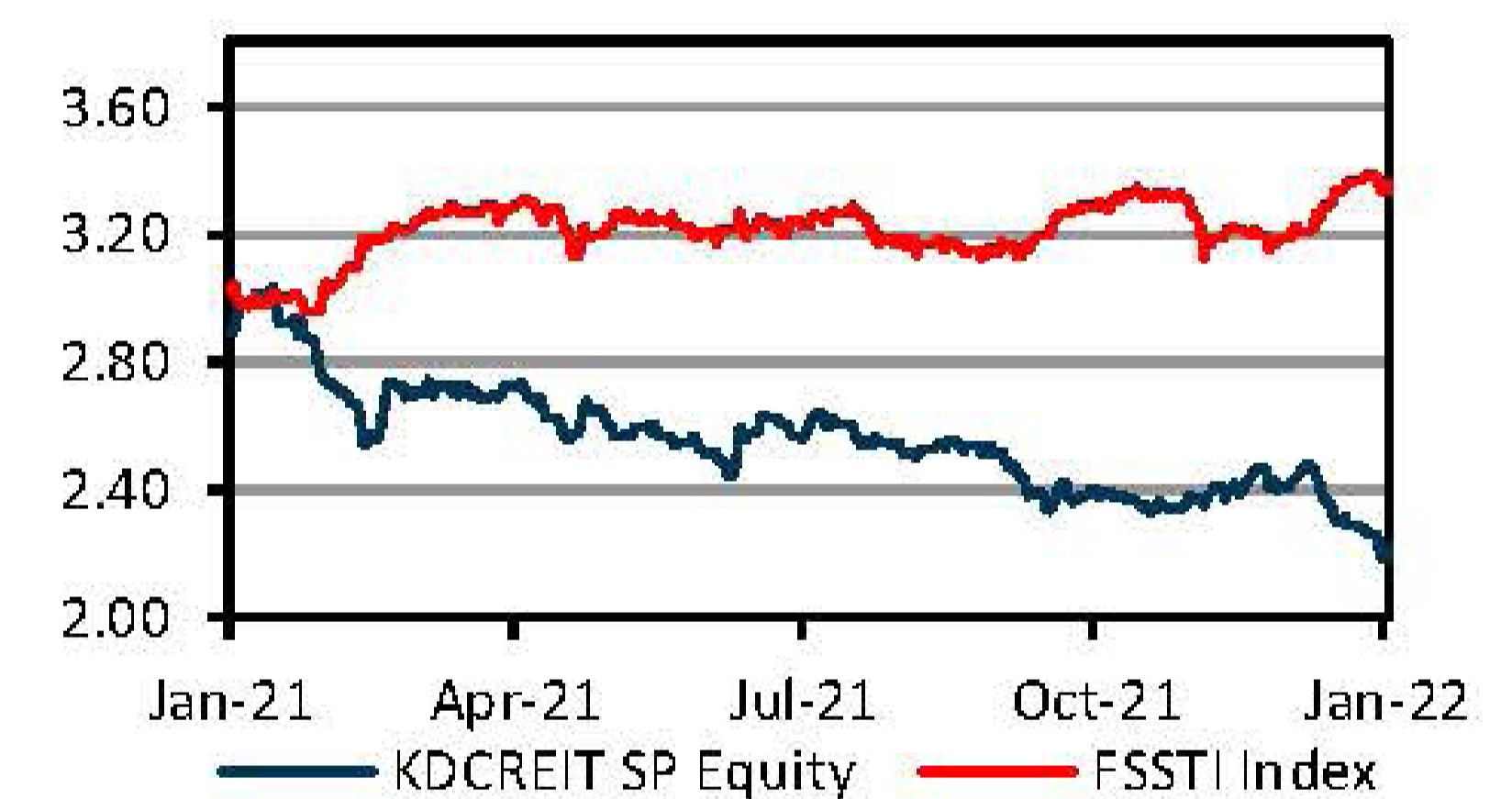
MAJOR SHAREHOLDERS (%)

KEPPEL CORP LTD	20.9%
COHEN & STEERS INC	5.0%
DAIWA SECURITIES	4.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(7.9)	(6.7)	(10.1)
STI RETURN	5.3	2.6	4.7

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec	FY20	FY21	FY22e	FY23e
Gross Rev. (SGD mn)	266	271	308	317
NPI (SGD mn)	244	248	285	294
Dist. Inc. (SGD mn)	157	172	188	194
P/NAV (x)	1.80	1.61	1.58	1.55
DPU, adj (cents)	9.17	9.85	10.45	10.78
Dist. Yield	4.2%	4.5%	4.8%	4.9%

Source: Company Data, PSR

VALUATION METHOD

DDM (Cost of Equity: 5.88%; Terminal g: 2.0%)

Natalie Ong (+65 6212 1849)
Research Analyst
 natalieongpf@phillip.com.sg

SINGAPORE | REAL ESTATE (REIT) | FY21 RESULTS

- FY21 DPU of 9.851 Scts (+7.4% YoY) was in line, forming 100.3% of our forecast. FY21 revenue increased due to acquisitions, completion of redevelopment at Intellicentre 3 and various AEs in Ireland and Singapore.
- S\$386mn in investments made in FY21 could provide more than 4% in DPU accretion for KDC.
- Maintain BUY on earnings stability and attractive entry price for future-ready DC assets. FY22e-25e have been lowered by 0.9-4.1% on the anticipated rising cost of borrowing. Our DDM-based TP dips from S\$3.03 to S\$2.81 on lower DPU estimates and assumption of higher cost of equity of 5.88% (previous 5.75%). The current share price implies FY22e/23e DPU yields of 4.8%/4.9%.

Results at a glance

(SGD mn)	2H21	2H20	YoY	FY21	FY20	YoY	Comments
Gross revenue	135.9	141.6	-4.0%	271.1	265.6	2.1%	FY21 revenue increased due to full year contribution from Kelsterbach DC and Amsterdam DC (acquired in May 20 and Dec 20), acquisition of Eindhoven Campus in Sep 21, completion of Intellicentre 3 development in Jul 21 and AEs at Dub1, Dub2 and DC1. 2H20 revenue fell due to absence of c.S\$10mn in one-off income in 2H21 as well as lower revenue from iSeek DC which was divested on 1 Sep 21.
Net property inc.	124.3	129.9	-4.3%	248	244	1.6%	OPEX increased due to higher operational capacity post-AE at Dub 1 and Dub2
Distributable inc.	87.4	81.9	6.6%	171.6	156.9	9.4%	
DPU (cents)	4.93	4.80	2.8%	9.85	9.17	7.4%	

Source: Company, PSR

The Positives

+ Portfolio occupancy up 0.5ppts YoY, from 97.8% to 98.3%. This was due to the acquisition of fully-leased Guangdong DC and occupancy improvements at KDC1 and Dub1. Occupancy at KDC1 inched up 2.0ppts to 93.1%, while occupancy at Dub1 saw a 1.1ppt improvement, at 82.3%.

+ Portfolio valuation up 8.9%, or S\$213mn, on a same-store basis, largely driven by cap rate compressions. Singapore properties accounted for 83% of the valuation uplift, with cap rate range compressing approximately 55-82bps YoY, from 4.95%-10.12% to 5.25%-9.31%. Intellicentre Campus in Australia accounted for 17% of the valuation uplift after the TOP of Intellicentre 3 in Jul 21, while Cardiff DC in the UK took a 7% haircut owing to more conservative assumption following a change of valuer.

+ S\$386mn in investments to secure FY22 DPU growth. KDC announced S\$386mn in investments in FY21 which carry an average EBITDA yield of 7.1% (Figure 1). Given the timing of legal completion, these investments will contribute more meaningfully towards FY22 earnings.

The Negative

- KDC4 and Basis Bay DC leases ticking down to expiry. 18.7% of leases by GRI are up for renewal in FY22, likely from KDC4 and Basis Bay DC given the shorter WALEs of 0.7 years and 0.5 years at these assets. The manager is still in the midst of renewal discussions but remains open to divesting if offer prices are compelling.

Outlook

KDC completed the acquisition of its newest asset, London DC, on 11 Jan 22. The S\$105.5mn shell and core asset is located in Bracknell within Greater London. Bracknell is dubbed the Silicon Valley of the UK due to its large concentration of multinational technology companies

and conglomerates. It is fully leased to telecommunications company, Vodafone, on a triple-net lease until 2039. We estimate yield to be 3.8-4.4% assuming annual rental escalations of 1.5%-4.0% from last known NPI. This is KDC's priciest acquisition yet. However, the management is optimistic that Bracknell is poised to benefit from spillover demand from neighbouring supply-scarce London in the long term. The acquisition will lengthen WALE from 7.7 years to 8.1 years and push gearing from 36.4% to 38.2%. Post-acquisition, shell and core assets will account for 20.9% of AUM, up from 18.3%.

Figure 1: Summary of investments announced in FY21

	NPI Yield/ Interest	Completion	Purchase Consideration (S\$mn)	Full year EBITDA Contribution (S\$mn)
Eindhoven Campus -Shell&Core	5.7%	6-Sep-21	59.9	3.4
Guangdong DC - Tripple net	8.8%	13-Dec-21	132.0	11.6
NetCo Bonds*	9.17%	22-Dec-21	88.7	8.1
London DC - Tripple net	3.8% - 4.4%	11-Jan-22	105.5	4.3
	7.1%		386.1	27.5

Source: Company, PSR

* Taxable at 17% if qualifying project debt securities (QPDS) status is not approved

Including the acquisition of London DC, KDC's AUM grew 16.7% since Dec 20. KDC continues to source for acquisitions in key DC markets such as UK, Amsterdam, Paris, Germany and the US, with a preference for larger acquisitions. KDC also has a ROFR on the remaining five data centres located within the Bluesea Intelligence Valley from the vendor of Guangdong DC.

There are still no updates on Singapore's moratorium on data centres which was rumoured to be lifted in 2021. The lack of absence of new supply in the interim saw a small uptick in occupancy at KDC1, but FY21 rental growth remained "stable" as the management preserved landlord-tenant relationships during lease discussions. The management is of the view that the lifting of the moratorium will be an eventuality but the new supply could take 2-4 years to come onto the market. However, stickiness of data-centre tenants and Keppel's track record as a data-centre operator should help it retain tenants.

Maintain BUY with a lower DDM TP of S\$2.81 (prev. S\$3.03)

FY22e-25e DPUs have been lowered by 0.9-4.1% on the anticipated rising cost of borrowing. Our DDM-based TP dips from S\$3.03 to S\$2.81 on lower DPU estimates and higher cost of equity of 5.88% assumption (prev. 5.75%). The current share price implies FY22e/23e DPU yields of 4.8%/4.9%.

Financials

Statement of Total Return and Distribution Statement

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
Gross revenue	195	266	271	308	317
Property expenses	(18)	(21)	(23)	(23)	(23)
Net property income	177	244	248	285	294
Net Finance (Expense)/Inc	(15)	(18)	(21)	(26)	(30)
Manager's fees	(16)	(22)	(24)	(28)	(28)
Other items	(6)	(12)	(3)	(8)	(8)
FV change, Inv. Properties	(16)	1	151	-	-
Total Return Before Tax	124	193	351	231	236
Taxation	(13)	(21)	(29)	(12)	(12)
Total Return After Tax	111	172	322	219	224
Unitholders	107	168	314	211	217
Non-controlling interest	5	4	8	8	8
Distribution adjustments	7	(11)	(142)	(23)	(22)
Income available for distribution	113	157	172	188	194

Per unit data

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
NAV (S\$)	1.17	1.21	1.36	1.39	1.41
DPU (cents)	7.61	9.17	9.85	10.45	10.78

Cash Flow

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Total Return After Tax	111	172	322	219	224
Adjustments	41	56	(102)	32	37
WC changes	19	16	(22)	31	1
Cash generated from ops	171	244	198	282	262
Others	(16)	(9)	(8)	(12)	(12)
Cashflow from ops	155	235	190	271	250

CFI

Purchase of Inv. propty., net	(586)	(134)	(196)	(108)	-
Capex, net	(57)	(83)	(113)	(27)	(28)
Others	(27)	8	-	8	8
Cashflow from investments	(669)	(209)	(308)	(127)	(20)

CFF

Share issuance, net	478	-	204	-	-
Net borrowings	383	371	551	370	170
Distributions	(141)	(121)	(205)	(203)	(216)
Others	(189)	(183)	(416)	(166)	(181)
Cashflow from financing	531	67	135	1	(227)

Net change in cash

Net change in cash	17	93	17	145	3
Effects of exchange rate	(2)	(5)	(1)	-	-
Ending cash	156	244	196	344	350

Source: Company, Phillip Securities Research (Singapore) estimates

Balance Sheet

Y/E Dec, SGD mn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Investment properties	2,637	3,005	3,401	3,536	3,565
Inv. Propty. Under Devmnt.	-	25	-	-	-
Others	11	19	117	114	110
Total non-current assets	2,648	3,048	3,518	3,650	3,675
Cash	156	244	196	344	350
Trade receivables	96	54	50	65	67
Others	28	3	16	16	16
Total current assets	280	302	262	425	433
Total Assets	2,928	3,350	3,780	4,075	4,108
LIABILITIES					
Borrowings	40	144	163	178	68
Trade payables	60	80	50	96	98
Others	8	9	7	7	7
Total current liabilities	108	234	221	281	173
Borrowings	880	1,044	1,136	1,332	1,439
Others	37	-	88	82	76
Total non-current liabilities	917	1,044	1,224	1,414	1,515
Total Liabilities	1,025	1,277	1,444	1,695	1,688
Net assets	1,903	2,073	2,336	2,379	2,420
Represented by:					
Unitholders' funds	1,868	1,945	2,293	2,331	2,367
Non-controlling interest	35	38	42	48	54

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/NAV (x)	1.88	1.80	1.61	1.58	1.55
Distribution Yield	3.5%	4.2%	4.5%	4.8%	4.9%
NPI yield	9.2%	8.7%	7.7%	8.2%	8.3%

Growth & Margins (%)

Growth					
Revenue	80.9%	36.3%	2.1%	13.7%	2.8%
Net property income (NPI)	94.2%	37.7%	1.6%	14.8%	3.3%
Distributable income	87.5%	38.6%	9.4%	9.8%	3.2%
DPU	11.3%	20.5%	7.4%	6.0%	3.2%
Investment Property	115.1%	14.0%	13.2%	4.0%	0.8%
Margins					
NPI margin	91.0%	91.9%	91.5%	92.4%	92.8%

Key Ratios

Gearing (%)	31.4%	35.5%	34.4%	37.1%	36.7%
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Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin

 Qystina Azli - qystina@phillip.com.sg
Consumer | Industrial | Conglomerates

 Terence Chua – terencechuatl@phillip.com.sg
Property | REITs

 Natalie Ong – natalieongpf@phillip.com.sg
Banking & Finance

 Glenn Thum – glennthumjc@phillip.com.sg
Small-Mid Cap

 Vivian Ye – yeqw@phillip.com.sg
US Technology Analyst (Hardware)

 Timothy Ang – timothyang@phillip.com.sg
US Technology Analyst (Internet)

 Jonathan Woo – jonathanwookj@phillip.com.sg
Technical Analyst

 Chua Wei Ren – chuawwr@phillip.com.sg
Contact Information (Regional Member Companies)
SINGAPORE

Phillip Securities Pte Ltd
Raffles City Tower
250, North Bridge Road #06-00
Singapore 179101
Tel +65 6533 6001
Fax +65 6535 6631
Website: www.poems.com.sg

MALAYSIA

Phillip Capital Management Sdn Bhd
B-3-6 Block B Level 3 Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450
Kuala Lumpur
Tel +603 2162 8841
Fax +603 2166 5099
Website: www.poe.ms.com.my

HONG KONG

Phillip Securities (HK) Ltd
11/F United Centre 95 Queensway
Hong Kong
Tel +852 2277 6600
Fax +852 2868 5307
Websites: www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd.
4-2 Nihonbashi Kabuto-cho Chuo-ku,
Tokyo 103-0026
Tel +81-3 3666 2101
Fax +81-3 3666 6090
Website: www.phillip.co.jp

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel +62-21 5790 0800
Fax +62-21 5790 0809
Website: www.phillip.co.id

CHINA

Phillip Financial Advisory (Shanghai) Co Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel +86-21 5169 9200
Fax +86-21 6351 2940
Website: www.phillip.com.cn

THAILAND

Phillip Securities (Thailand) Public Co. Ltd
15th Floor, Vorawat Building,
849 Silom Road, Silom, Bangrak,
Bangkok 10500 Thailand
Tel +66-2 6351700 / 22680999
Fax +66-2 22680921
Website www.phillip.co.th

FRANCE

King & Shaxson Capital Limited
3rd Floor, 35 Rue de la Bienfaisance 75008
Paris France
Tel +33-1 45633100
Fax +33-1 45636017
Website: www.kingandshaxson.com

UNITED KINGDOM

King & Shaxson Capital Limited
6th Floor, Candlewick House,
120 Cannon Street,
London, EC4N 6AS
Tel +44-20 7426 5950
Fax +44-20 7626 1757
Website: www.kingandshaxson.com

UNITED STATES

Phillip Capital Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1-312 356 9000
Fax +1-312 356 9005
Website: www.phillipusa.com

AUSTRALIA

Phillip Capital Limited
Level 10, 330 Collins Street
Melbourne, Victoria 3000, Australia
Tel +61-03 8633 9803
Fax +61-03 8633 9899
Website: www.phillipcapital.com.au

CAMBODIA

Phillip Bank Plc
Ground Floor of B-Office Centre,#61-64,
Norodom Blvd Corner Street 306,Sangkat
Boeung Keng Kang 1, Khan Chamkamorn,
Phnom Penh, Cambodia
Tel: 855 (0) 7796 6151/855 (0) 1620 0769
Website: www.phillipbank.com.kh

INDIA

PhillipCapital (India) Private Limited
No.1, 18th Floor, Urmi Estate
95, Ganpatrao Kadam Marg
Lower Parel West, Mumbai 400-013
Maharashtra, India
Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
Website: www.phillipcapital.in

TURKEY

PhillipCapital Menkul Degerler
Dr. Cemil Bengü Cad. Hak Is Merkezi
No. 2 Kat. 6A Caglayan
34403 Istanbul, Turkey
Tel: 0212 296 84 84
Fax: 0212 233 69 29
Website: www.phillipcapital.com.tr

DUBAI

Phillip Futures DMCC
Member of the Dubai Gold and
Commodities Exchange (DGCX)
Unit No 601, Plot No 58, White Crown Bldg,
Sheikh Zayed Road, P.O.Box 212291
Dubai-UAE
Tel: +971-4-3325052 / Fax: + 971-4-3328895

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