

30 July 2024

Property | REITS

Keppel REIT (KREIT SP)

Buy (Maintained)

Divestments Likely Ahead; Buy

Target Price (Return): SGD1.05 (19.4%)
 Price (Market Cap): SGD0.88 (USD2,500m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (SGD/USD) 4.41m/3.26m

- **Keep BUY, new SGD1.05 TP from SGD1.08, 19% upside and 6% Yield.** 1H results came in slightly below. Operationally, Keppel REIT's performance continues to outperform, with higher occupancies (2Q) and high single-digit positive rent growth, which are expected to be maintained in 2H, in our view. Financing costs continues to remain a drag, though, with further increases anticipated in 2H – weighing on DPU. Management guided for divestments in the near term to bring gearing below 40% levels. Valuations are relatively attractive to peers, trading at a >30% discount to book.
- **Portfolio occupancy rose 0.6ppts QoQ to 97%**, aided by occupancy upticks across all its markets. Rent reversion for the quarter moderated to 7.2% from 10.9% in 1Q, but is expected to be in the high-single digits for 2H. KREIT is not overly concerned on the supply and competition in Singapore, as it expects the majority of its upcoming leases to be renewed. While there has been market talk on [BNP Paribas cutting space](#) from its current six floors at Ocean Financial Centre (3% of KREIT's overall rental income) due to right-sizing, we believe this could be backfilled at higher rents – considering the prime location and rise in market rents since the initial lease signing.
- **Targeting divestments to reduce gearing to below 40% levels.** Post the completion of 255 George Street acquisition in 2Q – which was fully funded by debt – gearing has risen to 41.3% from 39.4% as of 1Q. Management noted that its comfortable level remains slightly below 40% and would look at divestments in the near-term. Possible divestment options could include [T-Tower](#), which was earlier indicated to be in advanced stages, as well as few of KREIT's mature Australian assets – in our view.
- **The Singapore portfolio's value rose 0.6% HoH** on higher income, while cap rates remained unchanged. Australian assets, on the other hand, saw slight declines from a 25-50bps cap rate expansion, resulting in a relatively flat (-0.2%) portfolio value on a same-store basis.
- **1H DPU down 3.4% YoY**, mainly impacted by higher-than-expected financing costs, which rose 30% YoY, and elevated property taxes. Financing costs have risen 42bps since the start of the year to 3.31% pa, and is expected to stabilise around 3.5-3.7% levels for FY24-25.
- **We lower our FY24F-26F DPU by 2-3%**, factoring in higher interest costs, including for KREIT's JV & associate contributions. The unchanged ESG score of 3.2 (out of 4.0) is a notch above country median score. Hence, a 2% ESG premium is applied to our new DDM-derived TP of SGD1.05.

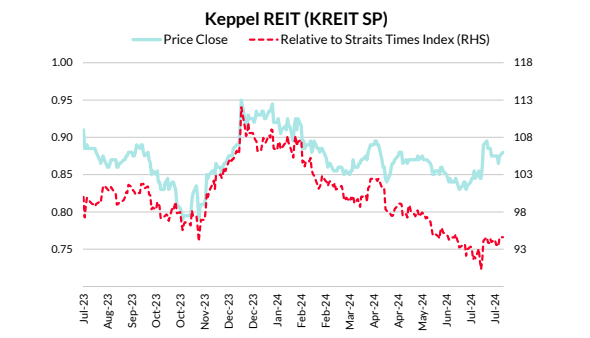
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(5.4)	5.4	0.6	(1.7)	(2.8)
Relative	(11.7)	2.1	(4.3)	(11.4)	(5.0)
52-wk Price low/high (SGD)				0.79	-0.95



Source: Bloomberg

Forecasts and Valuation	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Total turnover (SGDm)	219	233	253	270	275
Net property income (SGDm)	176	182	197	210	214
Reported net profit (SGDm)	450	208	237	249	257
Total distributable income (SGDm)	221	219	217	225	235
DPS (SGD)	0.06	0.06	0.06	0.06	0.06
DPS growth (%)	2.9	(2.2)	(2.0)	2.3	3.4
P/B (x)	0.64	0.67	0.66	0.66	0.66
Dividend Yield (%)	6.7	6.6	6.4	6.6	6.8
Return on average equity (%)	9.0	4.1	4.7	4.9	5.0
Return on average assets (%)	5.2	2.4	2.8	2.8	2.9

Source: Company data, RHB

Overall ESG Score: 3.2 (out of 4)

E: EXCELLENT

All of KREIT's Singapore buildings are Green Mark Platinum certified, with Keppel Bay Tower being the country's first zero-energy commercial building that is fully powered by renewable energy. It has set target to reduce energy consumption by 10%, water usage by 5%, and increase use of renewal to 40% of portfolio by 2030 (from 2019's levels), and is progressing towards the target.

S: GOOD

Diverse employee workforce with 75% of KREIT's full-time employees and c.30% directors being female. The manager, together with the staff of Keppel Capital, contributed >c.630 hours for various community initiatives.

G: GOOD

Majority independent board. There is improving transparency levels in earnings and information disclosures, as well as well-established corporate governance frameworks related to board matters.

Financial Exhibits

Asia	Financial summary	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Singapore	Recurring EPS (SGD)	0.12	0.06	0.06	0.06	0.07
Property	EPS (SGD)	0.12	0.06	0.06	0.06	0.07
Keppel REIT	DPS (SGD)	0.06	0.06	0.06	0.06	0.06
KREIT SP	BVPS (SGD)	1.37	1.32	1.32	1.33	1.33
Buy	Return on average equity (%)	9.0	4.1	4.7	4.9	5.0
	Weighted avg adjusted shares (m)	3,724.39	3,770.60	3,816.99	3,864.47	3,912.96
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
DDM methodology	Recurring P/E (x)	7.28	15.95	14.18	13.63	13.39
	P/E (x)	7.28	15.95	14.18	13.63	13.39
	P/B (x)	0.6	0.7	0.7	0.7	0.7
	FCF Yield (%)	3.1	22.1	(4.2)	3.7	3.6
	Dividend Yield (%)	6.7	6.6	6.4	6.6	6.8
	EV/EBITDA (x)	na	2.77	3.44	3.31	3.37
	EV/EBIT (x)	10.04	4.55	5.06	4.78	4.84
Key drivers	Income statement (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Positive outlook for Singapore office sector with firm demand and limited supply;	Total turnover	219	233	253	270	275
ii. Strong quality Grade-A assets and sponsor;	EBITDA	(61)	210	195	208	211
iii. Inorganic and merger opportunities.	Depreciation and amortisation	180	(82)	(62)	(64)	(64)
	Operating profit	119	128	133	144	147
	Net interest	(32)	(60)	(64)	(65)	(65)
	Income from associates & JVs	101	104	111	111	110
	Pre-tax profit	450	208	237	249	257
	Recurring net profit	450	208	237	249	257
Key risks	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
i. Singapore economy tipping into recession;	Change in working capital	(53)	574	(302)	(53)	(62)
ii. Sharp deceleration in tech demand and increase in shadow spaces;	Cash flow from operations	115	749	(125)	140	140
iii. Downsizing and right-sizing of office spaces by key tenants.	Capex	(14)	(14)	(15)	(15)	(15)
	Cash flow from investing activities	32	16	139	144	145
	Dividends paid	(217)	(220)	(218)	(221)	(230)
	Cash flow from financing activities	(149)	(810)	(7)	(283)	(292)
	Cash at beginning of period	189	186	142	148	148
	Net change in cash	(3)	(45)	6	0	(7)
	Ending balance cash	186	142	148	148	141
Company Profile	Balance sheet (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
KREIT is a real estate investment trust listed on the SGX. Sponsored by Keppel Land, the trust owns and invests in a portfolio of income-producing commercial real estate and real estate related-assets in Singapore, Australia, South Korea, and Japan.	Total cash and equivalents	186	142	148	148	141
	Total investments	8,086	8,090	8,506	8,649	8,794
	Total assets	8,881	8,259	8,683	8,827	8,965
	Short-term debt	644	265	500	380	370
	Total long-term debt	2,208	2,074	2,138	2,288	2,328
	Total liabilities	3,016	2,508	2,841	2,883	2,919
	Shareholders' equity	5,119	5,005	5,076	5,154	5,233
	Minority interests	444	444	465	488	511
	Total equity	5,865	5,751	5,842	5,944	6,046
	Net debt	2,665	2,197	2,490	2,520	2,557
	Total liabilities & equity	8,881	8,259	8,683	8,827	8,965
	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	1.2	6.3	8.7	6.7	1.9
	Recurrent EPS growth (%)	57.7	(54.4)	12.5	4.0	1.8
	Operating EBITDA margin (%)	(27.8)	90.2	76.9	76.9	76.7
	Net profit margin (%)	205.4	89.3	93.5	92.3	93.4
	Dividend payout ratio (%)	49.0	105.1	91.6	90.1	91.5
	Capex/sales (%)	6.2	6.1	5.8	5.5	5.5
	Interest cover (x)	2.06	1.92	1.66	1.74	1.79

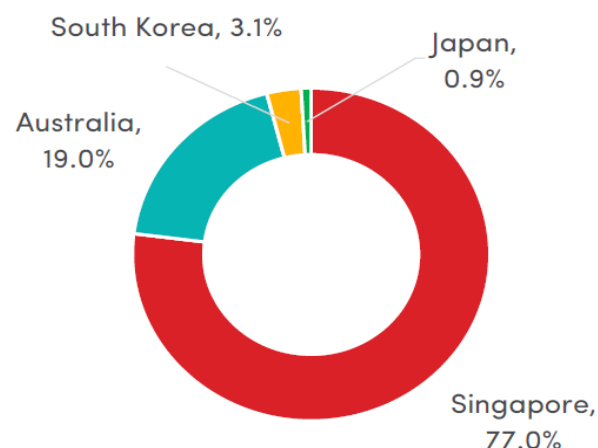
Source: Company data, RHB

Figure 1: KREIT's DDM valuation

DDM	FY24F	FY25F	FY26F	FY27F	Terminal Value
DPU (SG cents)	5.66	5.79	5.99	6.11	111.99
Fair value (SGD)	1.03				
ESG Premium/(discount)	0.02				
Target Price (SGD)	1.05				
Current price (SGD)	0.88				
Price upside (%)	19.4%				
Distribution yield (%)	6.4%				
Total returns (%)	25.8%				
Assumptions					
Risk-free rate (%)	2.8				
Beta	0.9				
Cost of equity (%)	7.6				
Terminal growth (%)	2.0				

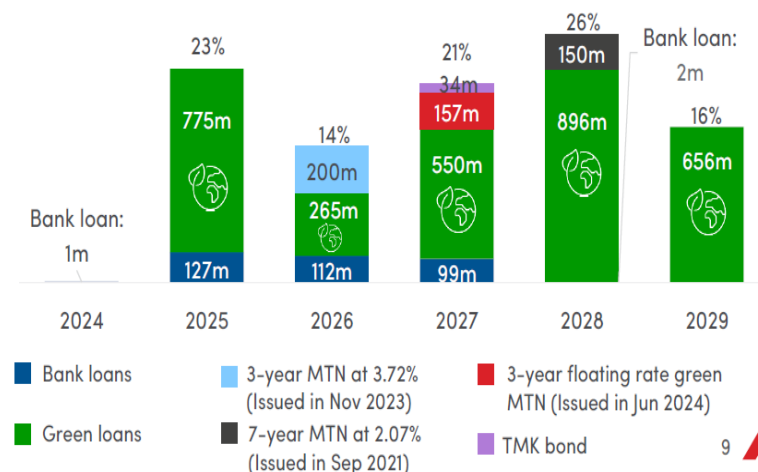
Source: RHB

Figure 2: Portfolio AUM breakdown – total SGD 9.6bn



Source: Company data

Figure 3: No debt pending refinancing in FY24



Source: Company data

Emissions And ESG

Trend analysis

Scopes 1 and 2 emissions increased 11% YoY mainly due to more tenants returning to office. But compared to the base year (2019), this is 17% lower – reflecting commendable and tangible results from management’s consistent efforts to reduce emissions. KREIT also engages with its tenants to adopt green practices and identify opportunities to improve the environmental performance of the REIT’s properties, including the signing of green lease agreements, where possible.

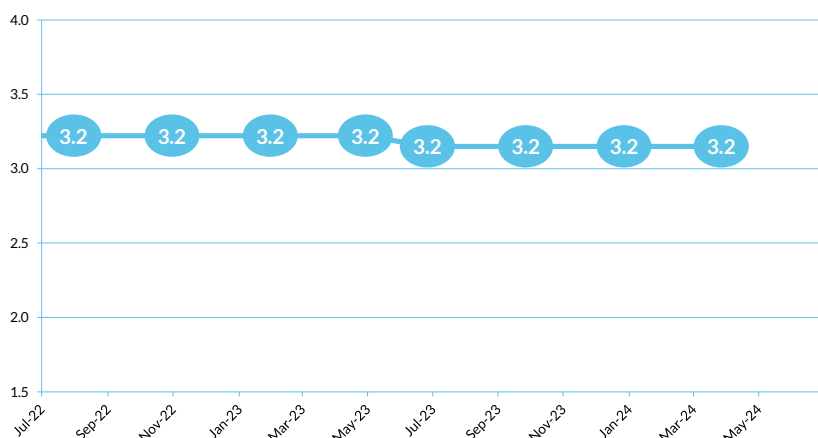
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	1,572	1,551	1,453
Scope 2	17,293	16,124	18,189
Scope 3	-	27,241	27,602
Total emissions	18,865	44,916	47,244

Source: Company data, RHB

Latest ESG-Related Developments

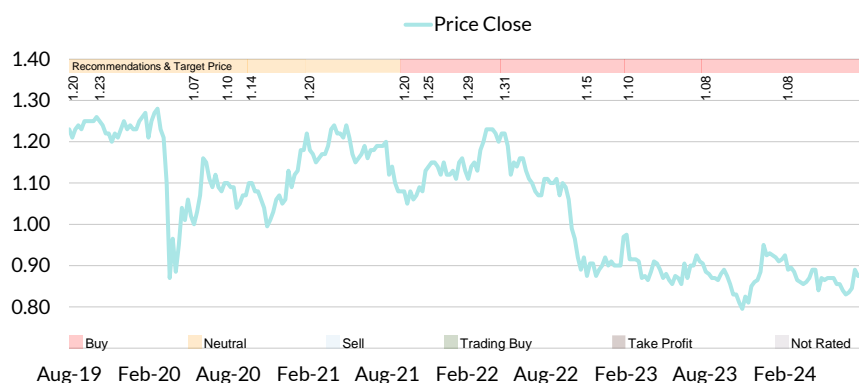
- 64% sustainability-focussed funding higher than 50% as at end Dec 2022.
- KREIT has commenced reporting on Scope 3 emissions from 2021 onwards and is among a very few handfuls of S-REITs that currently do so.

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
2024-04-02	Buy	1.08	0.87
2024-01-31	Buy	1.08	0.93
2023-10-18	Buy	1.08	0.84
2023-07-25	Buy	1.08	0.93
2023-01-29	Buy	1.10	0.97
2022-10-26	Buy	1.15	0.93
2022-04-20	Buy	1.31	1.19
2022-01-26	Buy	1.29	1.16
2021-10-26	Buy	1.25	1.07
2021-08-31	Buy	1.20	1.05
2021-01-26	Neutral	1.20	1.20
2020-09-14	Neutral	1.14	1.08
2020-07-20	Neutral	1.10	1.09
2020-05-04	Neutral	1.07	1.03
2019-10-17	Neutral	1.23	1.25

Source: RHB, Bloomberg

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