

23 April 2024

Property | REITS

Keppel REIT (KREIT SP)

Buy (Maintained)

A Good Quarter; Buy

- **Maintain BUY and SGD1.08 TP, 27% upside and c.7% yield.** Keppel REIT's 1Q financial metrics came in line. Operationally, its portfolio continues to show strength despite market concerns over the office sector with stronger-than-expected double-digit rent reversions and stable occupancy. The latest yield-accretive acquisition of an Australian asset is opportunistic, and likely to be funded by proceeds from divestments – keeping gearing below 40% levels. KREIT trades at a hefty >35% discount to book value, which we believe presents a good medium-term buying opportunity.
- **Healthy positive double-digit rent reversion of 10.9%** (FY23: +9.9%), driven by higher renewal rents in Singapore and Australia. Similar to its peer, KREIT highlighted continued strength in Singapore office demand and increased its guidance for full-year rent reversions to mid-to-high single digits (from low single digits earlier). Average expiring rents for Singapore office leases for FY24-26 are still 10%, 10%, and 3% below the latest average signing rents, with <10% of lease expires in any single year until 2028.
- **Portfolio occupancy dipped slightly to 96.4%** (FY23: 97.1%), mainly on non-renewal of an anchor tenant at 8 Exhibition Street, Melbourne. KREIT is in advanced stages of backfilling half of the space and marketing the remainder – it expects positive rent reversions on these. For Singapore, while [media sources](#) have highlighted the possibility of one of its top 10 tenants – BNP Paribas (3% of gross rents) – giving back space later this year, management remains confident of demand and expects occupancy to be stable. 1Q office demand came mainly from the legal and financial services segments.
- **The T-Tower divestment is at advanced stages** based on [The Korea Economic Daily](#), with c.10 buyers having expressed interest. T-Tower was valued at KRW305.8bn (c.SGD302m) as at end Dec 2023 and, considering the healthy bidding interest, we believe the asset could potentially be sold at a 5-15% premium to its latest valuation. The proceeds are likely to be recycled to fund the recent [255 George Street acquisition](#) (50% stake) for AUD364m (SGD321m), which should keep gearing at c.39% levels.
- **Distributable income (1Q) stood flat**, as increases in net property income (+7% YoY) were offset by higher financing costs. All-in, interest costs rose to 3.18% pa (FY23: +2.89%) and, for the full year, we expect this to be at mid-3% levels. Around 74% of KREIT's debts are hedged, with an average weighted debt maturity of 2.3 years.
- **No changes to estimates.** As KREIT's 3.2 ESG score is a notch above the 3.1 country median, a 2% ESG premium is applied to our DDM-derived TP. Key risks include prolonged high interest rates and the economy slowing down, resulting in a weakening of office demand.

Target Price (Return): SGD1.08 (27.2%)
 Price (Market Cap): SGD0.85 (USD2,403m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (SGD/USD) 6.22m/4.67m

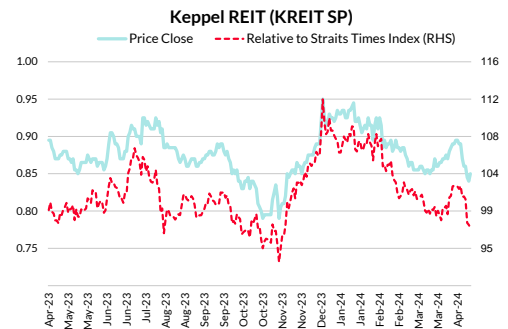
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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(8.6)	(1.2)	(7.1)	4.9	(4.5)
Relative	(8.1)	(1.4)	(9.5)	0.1	(1.6)
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	243	270	274
Net property income (SGDm)	176	182	191	212	216
Reported net profit (SGDm)	450	208	246	260	263
Total distributable income (SGDm)	221	219	224	235	241
DPS (SGD)	0.06	0.06	0.06	0.06	0.06
DPS growth (%)	2.9	(2.2)	1.1	3.9	1.3
P/B (x)	0.62	0.64	0.64	0.64	0.64
Dividend Yield (%)	6.9	6.8	6.9	7.1	7.2
Return on average equity (%)	9.0	4.1	4.9	5.1	5.1
Return on average assets (%)	5.2	2.4	2.9	3.0	3.0

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	0.07	0.07
Property	EPS (SGD)	0.12	0.06	0.06	0.07	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	4.9	5.1	5.1
	Weighted avg adjusted shares (m)	3,724.39	3,770.60	3,816.90	3,864.35	3,912.87
Valuation basis	Valuation metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
DDM methodology	Recurring P/E (x)	7.03	15.40	13.19	12.63	12.63
	P/E (x)	7.03	15.40	13.19	12.63	12.63
	P/B (x)	0.6	0.6	0.6	0.6	0.6
	FCF Yield (%)	3.2	22.9	(4.4)	4.3	4.0
	Dividend Yield (%)	6.9	6.8	6.9	7.1	7.2
	EV/EBITDA (x)	na	2.38	3.22	2.89	2.93
	EV/EBIT (x)	9.35	3.90	4.68	4.16	4.23
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	243	270	274
ii. Strong quality Grade-A assets and sponsor;	EBITDA	(61)	210	185	209	215
iii. Inorganic and merger opportunities.	Depreciation and amortisation	180	(82)	(58)	(64)	(66)
	Operating profit	119	128	127	146	148
	Net interest	(32)	(60)	(60)	(65)	(67)
	Income from associates & JVs	101	104	111	111	108
	Pre-tax profit	450	208	246	260	263
	Recurring net profit	450	208	246	260	263
Key risks	Cash flow (SGDm)	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
Key risks include prolonged high interest rates and the economy slowing down, resulting in a weakening of office demand,	Change in working capital	(53)	574	(308)	(48)	(64)
	Cash flow from operations	115	749	(129)	156	148
	Capex	(14)	(14)	(15)	(15)	(15)
	Cash flow from investing activities	32	16	140	144	145
	Dividends paid	(217)	(220)	(221)	(230)	(238)
	Cash flow from financing activities	(149)	(810)	(7)	(292)	(302)
	Cash at beginning of period	189	186	142	146	153
	Net change in cash	(3)	(45)	4	8	(10)
	Ending balance cash	186	142	146	153	143
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	146	153	143
	Total investments	8,086	8,090	8,506	8,649	8,794
	Total assets	8,881	8,259	8,680	8,832	8,968
	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	2,834	2,883	2,918
	Shareholders' equity	5,119	5,005	5,079	5,159	5,236
	Minority interests	444	444	465	488	511
	Total equity	5,865	5,751	5,846	5,950	6,050
	Net debt	2,665	2,197	2,493	2,515	2,555
	Total liabilities & equity	8,881	8,259	8,680	8,832	8,968
Key metrics	Key metrics	Dec-22	Dec-23	Dec-24F	Dec-25F	Dec-26F
	Revenue growth (%)	1.2	6.3	4.4	10.7	1.8
	Recurrent EPS growth (%)	57.7	(54.4)	16.8	4.4	(0.0)
	Operating EBITDA margin (%)	(27.8)	90.2	76.0	77.7	78.2
	Net profit margin (%)	205.4	89.3	101.0	96.5	96.0
	Dividend payout ratio (%)	49.0	105.1	91.0	90.5	91.7
	Capex/sales (%)	6.2	6.1	6.0	5.5	5.5
	Interest cover (x)	2.06	1.92	1.67	1.76	1.76

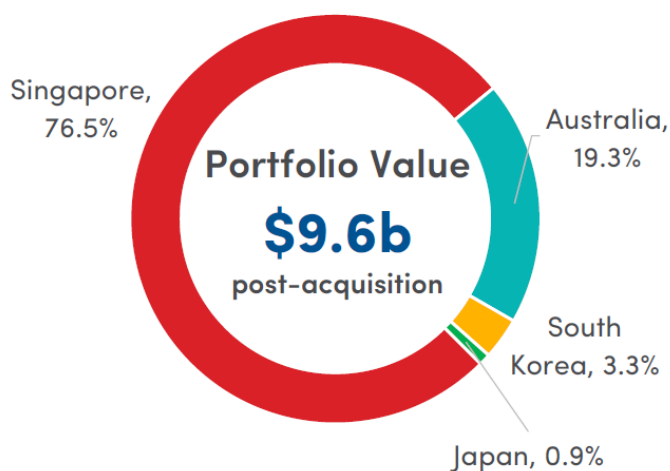
Source: Company data, RHB

Figure 1: KREIT's DDM valuation

DDM	FY24F	FY25F	FY26F	FY27F	Terminal value
DPU (Singapore cents)	5.86	6.06	6.14	6.27	112.04
Fair value (SGD)	1.04				
ESG Premium/(discount)	0.04				
Target Price (SGD)	1.08				
Current price (SGD)	0.84				
Price upside (%)	27.2%				
Distribution yield (%)	6.9%				
Total returns (%)	34.1%				
Assumptions					
Risk-free rate (%)	2.8				
Beta	0.9				
Cost of equity (%)	7.6				
Terminal growth (%)	2.0				

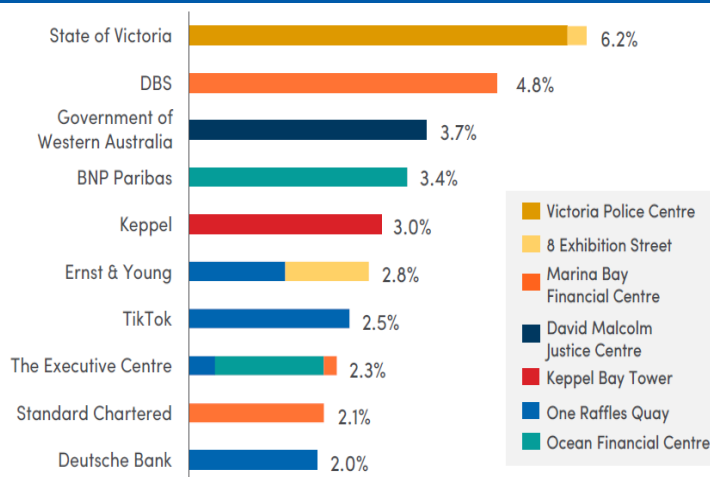
Source: RHB

Figure 2: Portfolio composition post the Australia acquisition



Source: Company data

Figure 3: Top 10 tenants by gross rental income



Source: Company data

Emissions And ESG

Trend analysis

Scope 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.

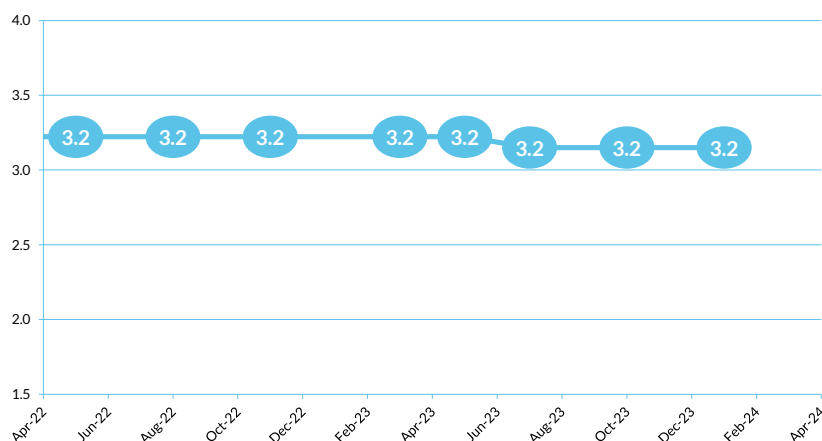
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	1,572	1,551	1,453
Scope 2	17,293	16,124	18,189
Scope 3	-	27,241	27,602
Total emissions	18,865	44,916	47,244

Source: Company data, RHB

Latest ESG-Related Developments

- 64% sustainability-focussed funding as at end 2023, 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 handful 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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