

# Keppel REIT (KREIT SP)

Refocusing On Home Base Singapore

## Highlights

- KREIT has agreed to acquire a 51% interest in Keppel South Central from its sponsor, Keppel Ltd, for S\$626.2m, equivalent to S\$2,350psf and 3-4% below independent valuations. The acquisition provides an initial net property yield of 4.3% and is accretive to DPU by 2%.
- Sponsor Keppel Ltd will provide a guaranteed monthly income of S\$2.23m for a period of five years. The guaranteed amount is based on 95% stabilised occupancy, average rent of S\$11.15psf and an operating margin of 79%.
- Maintain BUY with a higher target price of S\$1.06.

## Analysis

- **Tapping on sponsor pipeline.** Keppel REIT (KREIT) has entered into a conditional agreement to acquire a 51% interest in Keppel South Central from its sponsor, Keppel Ltd. The transaction is based on an agreed property value of S\$626.2m for the stake, equivalent to S\$2,350psf and 3-4% below independent valuations that include the income support arrangement. KREIT is acquiring a 70-year leasehold interest in Keppel South Central. The proposed acquisition requires unitholder approval at an EGM expected in 4Q26, with completion targeted for 2Q27.
- **Refocusing on home base in Singapore.** Keppel South Central is a 33-storey Grade A commercial building in Tanjong Pagar with net lettable area of 522,500sf and was completed in Jan 25. It combines offices with retail, event and flexible workspace, alongside amenities including a gymnasium, swimming pool and sky terraces. Existing tenants include Manulife (insurance), Industrious (coworking) and the Competition & Consumer Commission of Singapore (government agency). The acquisition would expand KREIT's portfolio to S\$12.1b across 13 properties and increase Singapore's share of portfolio valuation from 79% to 82%, assuming divestments of T Tower and KR Ginza II are already completed.
- **Still ramping up occupancy.** Committed occupancy was 48.8% as of Sep 26, rising to 52.7% when leases undergoing documentation were included. Committed occupancy is expected to increase to 60% by 15 Oct 26. Average rents for committed leases and those undergoing documentation were S\$11.30psf per month, largely covering lower-to-mid floors. This exceeds the S\$11.15 assumption underpinning the income support arrangement. The remaining mid-to-high floors are expected to fetch potentially higher rents.

## Key Financials

| Year to 31 Dec (S\$m)         | 2024 | 2025  | 2026F | 2027F | 2028F |
|-------------------------------|------|-------|-------|-------|-------|
| Net turnover                  | 262  | 274   | 318   | 330   | 343   |
| EBITDA                        | 137  | 150   | 173   | 180   | 189   |
| Operating profit              | 137  | 150   | 173   | 180   | 189   |
| Net profit (rep./act.)        | 101  | 445   | 282   | 225   | 231   |
| Net profit (adj.)             | 145  | 118   | 211   | 225   | 231   |
| EPU (S\$ cent)                | 3.8  | 3.0   | 4.3   | 4.5   | 4.6   |
| DPU (S\$ cent)                | 5.6  | 5.2   | 5.3   | 5.4   | 5.3   |
| PE (x)                        | 20.6 | 25.8  | 18.3  | 17.4  | 17.1  |
| P/B (x)                       | 0.6  | 0.6   | 0.6   | 0.7   | 0.7   |
| DPU yld (%)                   | 7.1  | 6.7   | 6.8   | 6.9   | 6.8   |
| Net margin (%)                | 38.5 | 162.0 | 88.4  | 68.2  | 67.2  |
| Net debt/(cash) to equity (%) | 49.6 | 65.5  | 37.9  | 45.4  | 46.4  |
| Interest cover (x)            | 1.7  | 1.8   | 1.8   | 2.0   | 2.0   |
| ROE (%)                       | 1.9  | 8.3   | 4.7   | 3.5   | 3.5   |
| Consensus DPU (S\$ cent)      | -    | -     | 5.2   | 5.2   | 5.2   |
| UOBKH/Consensus (x)           | -    | -     | 1.04  | 1.05  | 1.02  |

Source: Keppel REIT, Bloomberg, UOB Kay Hian

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## BUY (Maintained)

|              |          |
|--------------|----------|
| Share Price  | S\$0.785 |
| Target Price | S\$1.060 |
| Upside       | 35.0%    |
| Previous TP  | S\$1.050 |

## Stock Data

|                                |             |
|--------------------------------|-------------|
| Sector                         | Real Estate |
| Bloomberg ticker               | KREIT SP    |
| Shares issued (m)              | 4,980.0     |
| Market cap (S\$m)              | 3,909.3     |
| Market cap (US\$m)             | 3,057.2     |
| 3-mth avg daily t'over (US\$m) | 10.0        |

## Price Performance (%)

|                  |        |        |        |                  |
|------------------|--------|--------|--------|------------------|
| 52-week high/low |        |        |        | S\$1.08/S\$0.785 |
| 1mth             | 3mth   | 6mth   | 1yr    | YTD              |
| (7.6)            | (11.8) | (14.7) | (21.3) | (19.5)           |

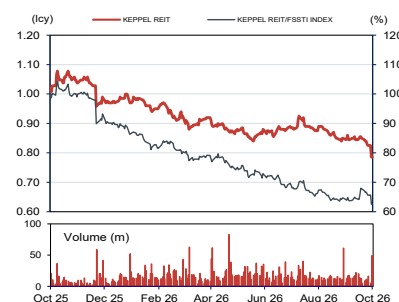
## Major Shareholders (%)

|               |      |
|---------------|------|
| Temasek Hldgs | 35.6 |
|---------------|------|

## Balance Sheet Metrics

|                           |      |
|---------------------------|------|
| FY26 NAV/Share (S\$)      | 1.22 |
| FY26 Net Debt/Share (S\$) | 0.49 |

## Price Chart



Source: Bloomberg

## Company Description

Keppel REIT invests in quality income-producing commercial real estate in the Asia Pacific region. Its portfolio comprises predominantly of premium Grade A office buildings located in prime business and financial districts in Singapore, Australia (Sydney, Melbourne and Perth), South Korea (Seoul) and Japan (Tokyo).

- **Income support provided for lengthy duration of five years.** The vendor Keppel Ltd will support a guaranteed monthly income of S\$2.23m attributable to KREIT's 51% interest to provide income stability. The arrangement lasts for up to five years, subject to earlier termination, when specified occupancy of 95% and income conditions are satisfied. The guaranteed amount is based on 95% stabilised occupancy, average rent of S\$11.15psf and an operating margin of 79%. The acquisition offers an initial net property yield of 4.3% based on the guaranteed monthly income of S\$2.23m. The arrangement cushions the near-term impact of vacant space.
- **Accretive to DPU by 2% on a standalone basis.** KREIT estimates pro forma DPU accretion of 2.01% with adjusted 2025 DPU increasing from 4.65 to 4.75 S cents. Funding is expected to comprise bank loans of S\$350m at 2.8-3.0%, perpetual securities of S\$100m at 3.5-4.0% and private placement of S\$100m, with pro forma aggregate leverage of 39.2%. The manager has waived half its acquisition fee, reducing it to S\$3.1m, payable in units.
- **KREIT has agreed to divest its 99.38% interest in T Tower**, a freehold Grade A office building in Seoul, to a South Korea-based real estate fund. The agreed value for the entire property is KRW348.8b, representing a 37.2% premium to its May 19 acquisition price and a 7.4% premium to its Aug 26 valuation in local currency terms. The transaction implies an exit NPI yield of 3.9%. Together with the divestment of KR Ginza II in Tokyo and assuming net proceeds were used to repay debt, aggregate leverage would decline from 40.0% to 38.0% on a pro forma basis. KREIT intends to use up to S\$25m of net sale proceeds for open-market unit buybacks.

## Valuation/Recommendation

- **Maintain BUY.** Our target price of S\$1.06 is based on DDM (cost of equity: 6.65%, terminal growth: 1.8%).

## Earnings Revision/Risk

- We raised our DPU forecast by 1.5% for 2027 and 2028 after factoring in the acquisition of Keppel South Central and divestment of T Tower and KR Ginza II. We assumed that KREIT taps additional bridge loan of S\$100m, which leads to a higher aggregate leverage of 40%, given the unfavourable environment for equity fund raising through a private placement.

## Share Price Catalyst

- Resilient rents and capital values for office properties in Singapore and Sydney, Australia. Yield-accretive acquisition of retail assets in Singapore.

## Keppel South Central



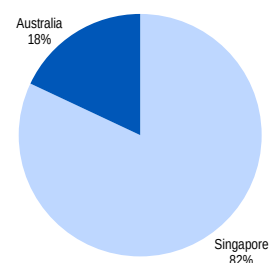
Source: KREIT

## Keppel South Central – Overview

|                            |                                                                               |
|----------------------------|-------------------------------------------------------------------------------|
| Description                | 33-storey Grade A commercial building strategically located in Tanjong Pagar. |
| Address                    | 10 Hoe Chiang Road, Singapore 089315                                          |
| Tenure                     | 70-year leasehold interest                                                    |
| Gross Floor Area           | 649,743sf (100%)                                                              |
| Net Lettable Area          | 522,500sf (100%)                                                              |
| Initial Net Property Yield | 4.3%                                                                          |
| Receipt of TOP             | 17 Jan 25                                                                     |
| Total Acquisition Cost     | S\$610.9m (51% interest)                                                      |
| Agreed Property Value      | S\$626.2m (S\$2,350psf) (51% interest)                                        |

Source: KREIT

## Portfolio Valuation By Country



Source: KREIT

**Profit & loss**

| Year to 31 Dec (\$m)             | 2025   | 2026F  | 2027F  | 2028F  |
|----------------------------------|--------|--------|--------|--------|
| Net turnover                     | 274.5  | 318.4  | 329.8  | 343.5  |
| EBITDA                           | 149.9  | 172.7  | 179.6  | 188.9  |
| Deprec. & amort.                 | 0.0    | 0.0    | 0.0    | 0.0    |
| EBIT                             | 149.9  | 172.7  | 179.6  | 188.9  |
| Total other non-operating income | 329.1  | 70.4   | 0.0    | 0.0    |
| Associate contributions          | 124.6  | 199.1  | 202.4  | 207.6  |
| Net interest income/(expense)    | (84.2) | (93.8) | (89.1) | (95.7) |
| Pre-tax profit                   | 519.4  | 348.3  | 292.8  | 300.8  |
| Tax                              | (13.7) | (27.7) | (23.3) | (23.9) |
| Minorities                       | (49.6) | (23.9) | (25.2) | (25.2) |
| Perpetual Securities             | (11.3) | (15.1) | (19.4) | (20.8) |
| Net profit                       | 444.8  | 281.6  | 225.0  | 230.9  |
| Net profit (adj.)                | 118.1  | 211.2  | 225.0  | 230.9  |

**Cash Flow**

| Year to 31 Dec (\$m)             | 2025      | 2026F     | 2027F   | 2028F   |
|----------------------------------|-----------|-----------|---------|---------|
| Operating                        | 223.3     | 45.5      | 118.9   | 121.6   |
| Pre-tax profit                   | 191.0     | 275.9     | 290.8   | 298.8   |
| Tax                              | 0.0       | 0.0       | 0.0     | 0.0     |
| Deprec. & amort.                 | 0.0       | 0.0       | 0.0     | 0.0     |
| Associates                       | (124.6)   | (199.1)   | (202.4) | (207.6) |
| Working capital changes          | 50.5      | (52.9)    | 2.6     | 0.6     |
| Non-cash items                   | 0.0       | 0.0       | 0.0     | 0.0     |
| Other operating cashflows        | 106.4     | 21.6      | 27.9    | 29.8    |
| Investing                        | (1,116.3) | 614.2     | (433.8) | 197.6   |
| Capex (growth)                   | (1,271.3) | 0.0       | (626.2) | 0.0     |
| Capex (maintenance)              | (14.1)    | (10.0)    | (10.0)  | (10.0)  |
| Proceeds from sale of assets     | 0.0       | 425.1     | 0.0     | 0.0     |
| Others                           | 169.0     | 199.1     | 202.4   | 207.6   |
| Financing                        | 950.4     | (641.3)   | 316.7   | (316.7) |
| Distribution to unitholders      | (276.6)   | (263.5)   | (270.9) | (267.9) |
| Issue of shares                  | 113.0     | 886.3     | 0.0     | 0.0     |
| Proceeds from borrowings         | 1,135.9   | (1,167.0) | 530.0   | 50.0    |
| Loan repayment                   | 0.0       | 0.0       | 0.0     | 0.0     |
| Others/interest paid             | (22.0)    | (97.0)    | 57.7    | (98.9)  |
| Net cash inflow (outflow)        | 57.4      | 18.4      | 1.8     | 2.5     |
| Beginning cash & cash equivalent | 80.9      | 135.5     | 153.9   | 155.7   |
| Changes due to forex impact      | (2.8)     | 0.0       | 0.0     | 0.0     |
| Ending cash & cash equivalent    | 135.5     | 153.9     | 155.7   | 158.2   |

**Balance Sheet**

| Year to 31 Dec (\$m)       | 2025    | 2026F   | 2027F    | 2028F    |
|----------------------------|---------|---------|----------|----------|
| Fixed assets               | 5,573.1 | 5,228.4 | 5,864.6  | 5,874.6  |
| Other LT assets            | 4,235.3 | 4,235.3 | 4,235.3  | 4,235.3  |
| Cash/ST investment         | 135.5   | 153.9   | 155.7    | 158.2    |
| Other current assets       | 35.0    | 58.0    | 60.6     | 61.2     |
| Total assets               | 9,978.9 | 9,675.6 | 10,316.2 | 10,329.3 |
| ST debt                    | 1,319.6 | 1,319.6 | 1,319.6  | 1,319.6  |
| Other current liabilities  | 122.1   | 79.7    | 85.1     | 86.3     |
| LT debt                    | 2,437.0 | 1,270.0 | 1,800.0  | 1,850.0  |
| Other LT liabilities       | 93.4    | 104.5   | 107.7    | 108.4    |
| Shareholders' equity       | 5,526.5 | 6,421.6 | 6,523.6  | 6,484.6  |
| Minority interest          | 480.3   | 480.3   | 480.3    | 480.3    |
| Total liabilities & equity | 9,978.8 | 9,675.6 | 10,316.2 | 10,329.3 |

**Key Metric**

| Year to 31 Dec (%)        | 2025   | 2026F  | 2027F  | 2028F |
|---------------------------|--------|--------|--------|-------|
| Profitability             |        |        |        |       |
| EBITDA margin             | 54.6   | 54.2   | 54.4   | 55.0  |
| Pre-tax margin            | 189.2  | 109.4  | 88.8   | 87.6  |
| Net margin                | 162.0  | 88.4   | 68.2   | 67.2  |
| ROA                       | 4.8    | 2.9    | 2.3    | 2.2   |
| ROE                       | 8.3    | 4.7    | 3.5    | 3.5   |
| Growth                    |        |        |        |       |
| Turnover                  | 4.9    | 16.0   | 3.6    | 4.1   |
| EBITDA                    | 9.5    | 15.2   | 4.0    | 5.2   |
| Pre-tax profit            | 291.3  | (32.9) | (15.9) | 2.7   |
| Net profit                | 341.4  | (36.7) | (20.1) | 2.6   |
| Net profit (adj.)         | (18.7) | 78.9   | 6.5    | 2.6   |
| EPU                       | (20.1) | 40.6   | 5.4    | 1.5   |
| Leverage                  |        |        |        |       |
| Debt to total capital     | 38.5   | 27.3   | 30.8   | 31.3  |
| Debt to equity            | 68.0   | 40.3   | 47.8   | 48.9  |
| Net debt/(cash) to equity | 65.5   | 37.9   | 45.4   | 46.4  |
| Interest cover (x)        | 1.8    | 1.8    | 2.0    | 2.0   |

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