**UOBKayHian**



# Keppel REIT (KREIT SP)

## 1H26: Prioritising Divestment And Potential Share Buyback

| | |
|---|---|
| **BUY** (Maintained) | |
| Share Price | S$0.915 |
| Target Price | S$1.13 |
| Upside | +23.5% |


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## Highlights

- KREIT achieved strong positive rental reversion of 12.8% in 1H25 (Singapore: 10%, Australia: >20%). Rent reversion should improve in 2027 as the average rent of leases expiring is lower at S$11.49 psf pm.
- KREIT announced the divestment of KR Ginza II in Tokyo for JPY11.5b (S$91.4m). It is also exploring divestment of T Tower in Seoul, which is valued at 305.4b Korean won (S$269.7m). Management intends to utilise the proceeds from divestment to pare down debts and pursue unit buyback.
- KREIT trades at a 2026 distribution yield of 5.9% (CICT: 4.7%, Suntec: 5.0%) and P/NAV of 0.75x. Maintain BUY. Target price: S$1.13.

### 1H26 Results

| Year to 31 Dec (S$m) | 1H26 | yoy % Chg | Remarks |
|---|---|---|---|
| Gross Revenue | 159.3 | +16.7 | Acquisition of Top Ryde City Shopping Centre in Sydney. |
| Net Property Income (NPI) | 122.5 | +13.1 | Benefitting from higher rents in Singapore and strong Australian dollar. |
| Associates and JVs | 83.8 | +37.2 | Acquisition of MBFC Tower 3, higher rents and lower borrowing costs. |
| Borrowing Costs | (48.8) | +5.4 | Drawdown of loans to finance acquisitions. |
| Distributable Income | 129.6 | +22.8 | Include anniversary distribution of S$10m. |
| DPU (S cents) | 2.61 | -4.0 | REIT manager receives 75% of management fees in units (2025: 100%). |

*Source: KREIT, UOB Kay Hian*

## Analysis

- Keppel REIT (KREIT) reported 1H26 DPU of 2.61 S cents (-4.0% yoy), reflecting enlarged unit base after equity fund raisings to fund acquisitions.
- **NPI increased 13.1% yoy to S$122.5m** in 1H26, while share of JV income surged 37.2% yoy to S$83.8m. Excluding the acquisitions Top Ryde City Shopping Centre (completion: 19 Dec 25) and additional one-third interest in MBFC Tower 3 (completion: 31 Dec 25), NPI still increased 2.5% yoy and JV income grew 11.6% yoy, demonstrating underlying resilience.
- **Benefitting from flight-to-quality across its key markets.** KREIT signed 1,122,500sf of leases in 1H26 and achieved strong positive rental reversion of 12.8% (Singapore: 10%, Australia: >20%). New and expansion leasing was led by the banking, insurance and financial services (65%), followed by technology, media & telecommunications (10%). Portfolio WALE was healthy at 4.5 years (top 10 tenants: 8.0 years). The average signing rent for Singapore CBD office leases was S$13.14 psf pm, above the average rent of leases expiring in 2026 of S$12.24 psf pm. Management highlighted structural demand drivers such as AI-led business expansion, growth in wealth management and continued flight-to-quality trends.

### Key Financials

| Year to 31 Dec (S$m) | 2024 | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|---|
| Net turnover | 262 | 274 | 319 | 323 | 328 |
| EBITDA | 137 | 150 | 172 | 175 | 179 |
| Operating profit | 137 | 150 | 172 | 175 | 179 |
| Net profit (rep./act.) | 101 | 445 | 214 | 221 | 228 |
| Net profit (adj.) | 145 | 118 | 214 | 221 | 228 |
| EPU (S$ cent) | 3.8 | 3.0 | 4.3 | 4.4 | 4.5 |
| DPU (S$ cent) | 5.6 | 5.2 | 5.4 | 5.3 | 5.2 |
| PE (x) | 24.0 | 30.1 | 21.0 | 20.6 | 20.2 |
| P/B (x) | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 |
| DPU yld (%) | 6.1 | 5.7 | 5.9 | 5.8 | 5.7 |
| Net margin (%) | 38.5 | 162.0 | 67.2 | 68.5 | 69.4 |
| Net debt/(cash) to equity (%) | 49.6 | 65.5 | 45.0 | 46.3 | 47.3 |
| Interest cover (x) | 1.7 | 1.8 | 1.8 | 1.9 | 1.9 |
| ROE (%) | 1.9 | 8.3 | 3.6 | 3.5 | 3.6 |
| Consensus DPU (S$ cent) | - | - | 5.1 | 5.1 | 5.2 |
| UOBKH/Consensus (x) | - | - | 1.06 | 1.05 | 1.01 |

*Source: Keppel REIT, Bloomberg, UOB Kay Hian*

### Stock Data

| | |
|---|---|
| GICS Sector | Real Estate |
| Bloomberg ticker | KREIT SP |
| Shares issued (m) | 4,967.3 |
| Market cap (S$m) | 4,545.1 |
| Market cap (US$m) | 3,517.9 |
| 3-mth avg daily t'over (US$m) | 13.0 |

### Price Performance (%)

52-week high/low: S$1.08/S$0.83

| 1mth | 3mth | 6mth | 1yr | YTD |
|---|---|---|---|---|
| 4.6 | 1.7 | (7.1) | (3.5) | (6.2) |

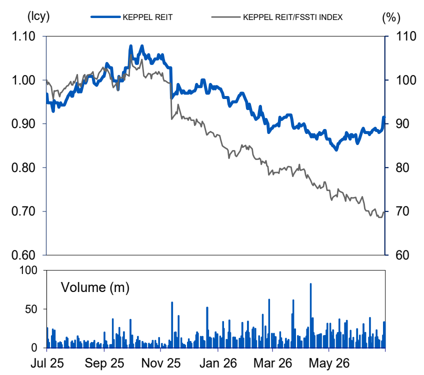
### Major Shareholders

| Major Shareholders | % |
|---|---|
| Temasek Hldgs | 35.6 |

### Balance Sheet Metrics

| | |
|---|---|
| FY26 NAV/Share (S$) | 1.20 |
| FY26 Net Debt/Share (S$) | 0.58 |

### 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).

- **Portfolio committed occupancy remained high at 96.0%** as of Jun 26, supported by strong occupancies across core Singapore assets including MBFC Tower 1&2 (98.6%), MBFC Tower 3 (99.5%), One Raffles Quay (99.1%) and Ocean Financial Centre (OFC) (96.5%). KREIT is actively leasing two half floors at OFC. It is close to signing one floor at attractive rents and it is in negotiation for another floor. Rent reversion is expected to further improve in 2027 as the average rent of leases expiring is lower at S$11.49 psf pm.
- **Growth led by Singapore and Australia.** Singapore NPI increased 23.5% yoy in 1H26, supported by the increased ownership in MBFC Tower 3 and higher rentals. Australia NPI rose 21.2% yoy, driven by contributions from Top Ryde City Shopping Centre, increased contribution from Pinnacle Office Park and a strong Australian dollar.
- **Unlocking value through divestment of KR Ginza II.** KREIT is divesting its 98.47% interest in KR Ginza II, a freehold boutique office building in Tokyo, at agreed property value at 11.5b yen (S$91.4m) with completion expected in 3Q26. The property comprises an eight-storey office building with ground-floor retail space and 38,685sf of NLA. The divestment crystallises value at a 28.4% premium to the acquisition price and a 9.7% premium to the independent valuation, underscoring KREIT's disciplined capital recycling approach. Assuming the proceeds are used for debt repayment, aggregate leverage would improve from 40.0% to 39.6%.
- **KREIT will prioritise divestment** over acquisition in 2026 as aggregate leverage remains slightly elevated. KREIT is exploring divestment of T Tower in Seoul, which is valued at 305.4b Korean won (S$269.7m). The transaction market in Seoul is quite active. It is timely to take profit as cap rates have compressed meaningfully since acquisition in May 19. Management intends to utilise the proceeds from divestment of KR Ginza II and T Tower to pare down debts and pursue unit buyback.
- **Proactive capital management.** Aggregate leverage was stable at 40.0% as of Jun 26. Average cost of debt eased 24bp yoy and 11bp qoq to 3.27% in 1H26, after repaying the bridge loan in Jan 26. 62% of borrowings are fixed-rate. Interest coverage ratio improved to 2.7x. Documentation is already underway to refinance borrowings due in 4Q26, highlighting management's proactive approach towards capital management.

## Valuation/Recommendation

- **Maintain BUY.** Our target price of S$1.13 is based on DDM (cost of equity: 6.0%, terminal growth: 1.5%).

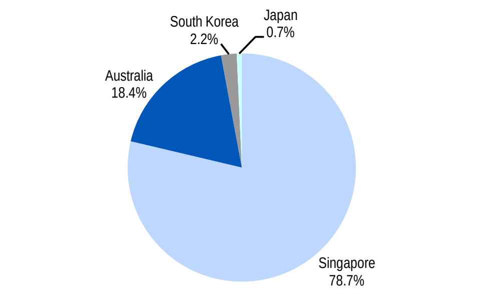
## Earnings Revision/Risk

- **Valuation still attractive based on distribution yield and P/NAV.** KREIT provides an attractive 2026 distribution yield of 5.9% (CICT: 4.7%, Suntec: 5.0%). It trades at P/NAV of 0.75x (25% discount to NAV per unit of S$1.22).

## Share Price Catalyst

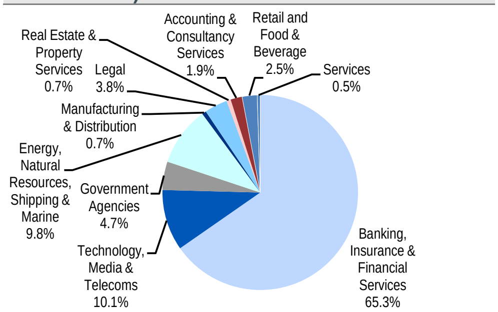
- Resilient rents and capital values for office properties in Singapore and Sydney, Australia.
- Yield-accretive acquisition of retail assets in Singapore.

### Portfolio Valuation By Country



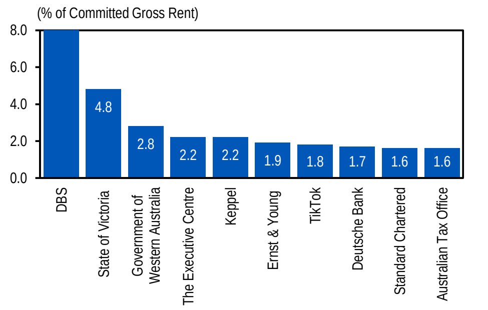

Source: KREIT

### Diversified Base Of Tenants (% Committed Gross Rent)



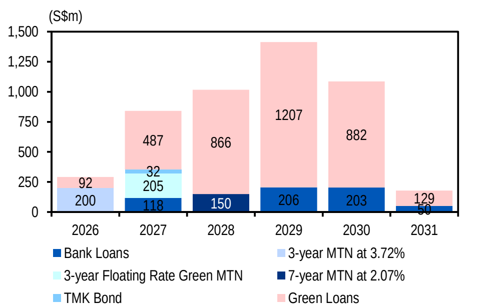

Source: KREIT

### Top 10 Tenants By Committed Gross Rent




Source: KREIT

### Debt Maturity Profile




Source: KREIT

## Profit & Loss

| Year to 31 Dec (S$m) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Net turnover | 274.5 | 319.1 | 322.9 | 328.1 |
| EBITDA | 149.9 | 172.1 | 175.1 | 179.0 |
| Deprec. & amort. | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 149.9 | 172.1 | 175.1 | 179.0 |
| Total other non-operating income | 329.1 | 0.0 | 0.0 | 0.0 |
| Associate contributions | 124.6 | 199.1 | 202.4 | 207.6 |
| Net interest income/(expense) | (84.2) | (95.9) | (93.5) | (95.3) |
| Pre-tax profit | 519.4 | 275.3 | 283.9 | 291.3 |
| Tax | (13.7) | (21.9) | (22.6) | (23.1) |
| Minorities | (49.6) | (23.9) | (25.2) | (25.2) |
| Perpetual Securities | (11.3) | (15.1) | (15.1) | (15.1) |
| Net profit | 444.8 | 214.5 | 221.1 | 227.9 |
| Net profit (adj.) | 118.1 | 214.5 | 221.1 | 227.9 |

## Balance Sheet

| Year to 31 Dec (S$m) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Fixed assets | 5,573.1 | 5,583.1 | 5,593.1 | 5,603.1 |
| Other LT assets | 4,235.3 | 4,235.3 | 4,235.3 | 4,235.3 |
| Cash/ST investment | 135.5 | 139.1 | 142.9 | 146.7 |
| Other current assets | 35.0 | 58.3 | 58.9 | 59.5 |
| Total assets | 9,978.9 | 10,015.9 | 10,030.2 | 10,044.6 |
| ST debt | 1,319.6 | 1,319.6 | 1,319.6 | 1,319.6 |
| Other current liabilities | 122.1 | 80.4 | 81.5 | 82.7 |
| LT debt | 2,437.0 | 1,680.0 | 1,740.0 | 1,790.0 |
| Other LT liabilities | 93.4 | 104.9 | 105.5 | 106.3 |
| Shareholders' equity | 5,526.5 | 6,350.7 | 6,303.3 | 6,265.6 |
| Minority interest | 480.3 | 480.3 | 480.3 | 480.3 |
| Total liabilities & equity | 9,978.8 | 10,015.9 | 10,030.2 | 10,044.6 |

## Cash Flow

| Year to 31 Dec (S$m) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Operating | 223.3 | 58.8 | 114.6 | 118.2 |
| Pre-tax profit | 191.0 | 273.3 | 281.9 | 289.3 |
| 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 | (52.6) | 0.5 | 0.6 |
| Non-cash items | 0.0 | 0.0 | 0.0 | 0.0 |
| Other operating cashflows | 106.4 | 37.2 | 34.5 | 35.9 |
| Investing | (1,116.3) | 189.1 | 192.4 | 197.6 |
| Capex (growth) | (1,271.3) | 0.0 | 0.0 | 0.0 |
| Capex (maintenance) | (14.1) | (10.0) | (10.0) | (10.0) |
| Proceeds from sale of assets | 0.0 | 0.0 | 0.0 | 0.0 |
| Others | 169.0 | 199.1 | 202.4 | 207.6 |
| Financing | 950.4 | (244.3) | (303.2) | (312.1) |
| Distribution to unitholders | (276.6) | (267.2) | (266.5) | (263.5) |
| Issue of shares | 113.0 | 879.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 1,135.9 | (757.0) | 60.0 | 50.0 |
| Loan repayment | 0.0 | 0.0 | 0.0 | 0.0 |
| Others/interest paid | (22.0) | (99.1) | (96.7) | (98.5) |
| Net cash inflow (outflow) | 57.4 | 3.6 | 3.8 | 3.8 |
| Beginning cash & cash equivalent | 80.9 | 135.5 | 139.1 | 142.9 |
| Changes due to forex impact | (2.8) | 0.0 | 0.0 | 0.0 |
| Ending cash & cash equivalent | 135.5 | 139.1 | 142.9 | 146.7 |

## Key Metrics

| Year to 31 Dec (%) | 2025 | 2026F | 2027F | 2028F |
|---|---|---|---|---|
| Profitability | | | | |
| EBITDA margin | 54.6 | 53.9 | 54.2 | 54.6 |
| Pre-tax margin | 189.2 | 86.3 | 87.9 | 88.8 |
| Net margin | 162.0 | 67.2 | 68.5 | 69.4 |
| ROA | 4.8 | 2.1 | 2.2 | 2.3 |
| ROE | 8.3 | 3.6 | 3.5 | 3.6 |
| Growth | | | | |
| Turnover | 4.9 | 16.3 | 1.2 | 1.6 |
| EBITDA | 9.5 | 14.9 | 1.7 | 2.3 |
| Pre-tax profit | 291.3 | (47.0) | 3.1 | 2.6 |
| Net profit | 341.4 | (51.8) | 3.1 | 3.1 |
| Net profit (adj.) | (18.7) | 81.6 | 3.1 | 3.1 |
| EPU | (20.1) | 42.8 | 2.0 | 2.0 |
| Leverage | | | | |
| Debt to total capital | 38.5 | 30.5 | 31.1 | 31.6 |
| Debt to equity | 68.0 | 47.2 | 48.5 | 49.6 |
| Net debt/(cash) to equity | 65.5 | 45.0 | 46.3 | 47.3 |
| Interest cover (x) | 1.8 | 1.8 | 1.9 | 1.9 |