



Securities Investors Association (Singapore)
7 Maxwell Road #05-03 MND Building Annexe B Singapore 069111
Tel: (65) 6227 2683 Fax: (65) 6220 6614
Email: admin@sias.org.sg www.sias.org.sg
UEN No: S99SS0111B
GST Reg No: M90367530Y

REIT: Keppel REIT
(Manager: Keppel REIT Management Limited)

Stock code: K71U

Meeting details:

Date: 23 April 2021

Time: 10.30 a.m.

Due to the current COVID-19 pandemic, SIAS encourage shareholders to participate at AGMs via other means and not to attend any AGM physically. Where the AGM is webcast, they can stay on top of their investments by watching the webcast and submitting their question to the company in advance. Senior citizens should avoid attending AGMs altogether and stay home.

Q1. The REIT achieved distribution per unit growth of 2.7% year-on-year to 5.73 cents per unit in FY2020. The REIT benefitted from the additional income following the practical completion of Victoria Police Centre (formerly known as 311 Spencer Street) and from the full year contribution of T Tower which was acquired on 27 May 2019.

The group has funded the recent acquisitions with debt and/or perpetual securities. As a result, aggregate leverage increased to 37.3% as at 31 December 2020, up from 35.8% a year ago. Perpetual securities issued, which is accounted as equity, also increased to \$300 million from \$150 million.

Selected financial ratios in the financial highlights are shown on page 6 of the annual report and reproduced below:

FINANCIAL RATIOS				
	2020	2019	Change	
Distribution per Unit (DPU) (cents)	5.73⁹	5.58 ⁹	2.7%	
Distribution yield ⁶ (%)	5.1	4.5	0.6 pp	
Interest coverage ratio ¹⁰ (times)	3.4	2.9 ¹¹	17.2%	
All-in interest rate per annum (%)	2.35	2.77	(0.4 pp)	
Aggregate leverage (%)	37.3	35.8	1.5 pp	

(Source: annual report)

From FY2014-FY2020, the REIT's aggregate leverage ranged from 35.8% to 43.3% (as at the financial year ends), averaging 38.5%. This excludes the REIT's subordinated perpetual securities which have increased from \$150 million since November 2015 to \$300 million in October 2020. The Monetary Authority of Singapore increased the aggregate limit from 45% to 50% in April 2020. It also deferred the implementation of a minimum interest coverage ratio requirement for REITs.

- (i) **Would the board help unitholders understand if it has set an internal limit to the aggregate leverage?**
- (ii) **How is the REIT finetuning its pace of acquisition and/or asset enhancement initiatives in view of the higher aggregate leverage limit (50% as set by MAS) while also considering the risks and uncertainties in the market due to the pandemic?**

Q2. The REIT has been diversifying into key overseas cities such as Melbourne, Sydney and Seoul while divesting some of its mature assets in Singapore for capital recycling (such as 20% of Ocean Financial Centre, Bugis Junction Towers). The REIT is now looking to complete the acquisition of Keppel Bay Tower in 2Q 2021 at an agreed property value of \$657.2 million.

The proposed acquisition of Keppel Bay Tower in December 2020 followed Keppel Corporation's earlier announcement in September 2020 that it has identified assets to be monetised in its Vision 2030.

- (i) **Would the board/manager provide greater clarity to unitholders on its capital allocation strategy by geography? What will be the percentage of overseas assets in the REIT in 5/10 years' time?**
- (ii) **Was the acquisition of Keppel Bay Tower initiated by the manager?**
- (iii) **Can the manager elaborate further on its expansion into non-CBD assets? Would the "hub-and-spoke" business model for office locations fall out of favour once the COVID-19 pandemic is over?**

In the chairman's statement, it is noted that the manager has adapted and fine-tuned its portfolio approach strategy to meet the changing demands and requirements of its tenants (page 10).

- (iv) **How/What metrics does the manager use to ensure that the assets meet the changing demands of its tenants?**

Q3. In February 2021, the manager carried out a private placement of 238.9 million new units at an issue price of \$1.13 per new unit to raise approximately \$270 million to fund the acquisition of Keppel Bay Tower.

The last reported NAV per unit as at 31 December 2020 was \$1.32 per unit (adjusted NAV of \$1.29 per unit). The private placement was carried out at a discount of (14.4)% and (12.4)% to the NAV and adjusted NAV respectively.

- (i) **How does the manager determine the optimal way to raise fund for its acquisitions?**
- (ii) **Did the board, especially the independent directors, consider the NAV-impact of carrying out a private placement at a price below the NAV per unit?**
- (iii) **By placing out new units at \$1.13 per unit (vs NAV of \$1.32 per unit) to fund the acquisition of Keppel Bay Tower (which is an "interested party transaction" under the Property Funds Appendix), did the manager evaluate the cost (including dilution) to the then-existing unitholders?**
- (iv) **What was the REIT's cost of this additional capital if the dilutive effects are considered?**

^On 1 October 2020, the Accounting and Corporate Regulatory Authority (“ACRA”), the Monetary Authority of Singapore (“MAS”) and Singapore Exchange Regulation (“SGX RegCo”) published an updated checklist to guide listed entities on the conduct of general meetings arising from the latest updates from the Multi-Ministry Taskforce.

Issuers may continue to conduct their general meetings held on or before 30 June 2021 via electronic means, and are encouraged to do so.

Issuers who, after due consideration of public health and other risks, wish to provide for physical attendance at their general meetings must ensure that they implement all relevant measures to comply with the safe management measures imposed by the Singapore Government.

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

Can’t attend the AGM or view the webcast? Check out the latest questions on the annual reports of listed companies on [SIAS website](http://www.sias.org.sg)

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[^] Guidance on the Conduct of General Meetings Amid Evolving COVID-19 Situation
(<https://www.sgx.com/media-centre/20201001-guidance-conduct-general-meetings-amid-evolving-covid-19-situation>)