Virtual Dialogue with Securities Investors Association (Singapore) (SIAS) for the proposed acquisition of Keppel DC Singapore 7 (KDC SGP 7) and Keppel DC Singapore 8 (KDC SGP 8), and the proposed entry into new master lease agreements and new facility management agreements in relation to Keppel DC Singapore 1 (KDC SGP 1) and Keppel DC Singapore 2 (KDC SGP 2)

12 December 2024, 7.00pm

<u>Transcript of the Question & Answer Session</u>

***LHL**:* *Loh Hwee Long, Chief Executive Officer, Keppel DC REIT Management*
***AL**:* *Adam Lee, Chief Financial Officer, Keppel DC REIT Management*
***UL**:* *Uantchern Loh, Vice President of SIAS*

UL: What is the impetus for proposed acquisition of KDC SGP 7 and KDC SGP 8? Why now?

LHL: Thank you for the question. There is a lot of exciting news pertaining to generative artificial intelligence (AI), with many positive outcomes from AI-related companies around the world. The tailwinds are very strong, and we want to ride on them.

From a data centre (DC) investment perspective, Singapore is one of the key hubs, if not the core DC hub in the world. The broad trends driving continued growth in the DC space, such as continued cloud adoption and the generative AI race – create a demand-supply imbalance, making the Singapore market very attractive. With the DC moratorium that was in place for a few years, there is limited new supply in Singapore and not many opportunities for acquisitions. We have a strong sponsor that developed the Keppel Data Centre Campus in Singapore and we think that it's a good addition to Keppel DC REIT.

In terms of the headline numbers, the level of accretion at 7% is very interesting compared against other transactions in the market today. These assets are brand new and AI-ready. From a risk perspective, the acquisition is largely de-risked as the two DCs are 100% tenanted to global hyperscalers. In the mid-term, it allows us the opportunity to generate value-added returns, whether through rental reversion opportunities or increasing the income generating capacity through the potential conversion of 1.5 floors at KDC SGP 8. Overall, this transaction is very compelling for us.

UL: Thank you. The next question received is on the Guangdong DCs. What further strategic actions have been taken to address the situation with the master tenant over Guangdong DCs? What is the latest update for the rental default at Guangdong DCs?

LHL: Sure, no problem. In the case of Guangdong DCs, we continue to execute the recovery plan, which entails being more involved in the running of the asset together with the master tenant. To give you some context, the deal is structured as a master lease agreement, and the landlord has minimal rights to be involved in the day-to-day operations. Through the recovery plan, we are working with the master tenant to rebuild the business and curate a strong leasing pipeline for the assets. As of the last quarter, we have curated a leasing pipeline of 11,000 – 12,000 racks, which is about 1.5 times the total rack count of approximately 8,000 at the Guangdong DCs. However, these are leasing pipelines, and the key is conversion.

The Chinese market has been relatively soft for the past couple of years and conversion has been slow given the macroeconomic challenges that we see in the market. While the recovery is trending upwards, the pace is still relatively slow. However, our active engagement with the master tenant has given us better clarity on the underlying market situation, and the market is showing signs of bottoming out. For example, in the last quarter, about 200 – 300 racks were converted into actual contracts. Cross referencing what other DC players with China exposure such as GDS and VNET, they share similar views about the China DC market bottoming out. We hope this trend continues and picks up pace in 2025.

In terms of leasing interest, a significant portion is related to generative AI. A major catalyst for transformational change in the market will be access to graphics processing unit (GPU) chips locally, and local players such as Huawei are making large strides. Lastly, in the past couple of weeks, the Chinese government has announced a looser monetary policy to improve domestic consumption and the investment environment. While we will continue to monitor the situation, we hope 2025 will bring more meaningful improvements.

UL: A follow-up question. What's the difference between AI DCs and non-AI DCs?

LHL: AI is not new and has been around for 10 – 15 years. Generative AI is the latest iteration of AI, mainly split into two parts. First would be training AI, which major players such as Microsoft and Google are investing significantly into the development of new training DCs. Second would be inference AI which requires low latency, as it involves implementing the outcomes of workloads processed in training DCs and implementing them closer to where the population is. These inference AI workloads can be served out of centrally located urban DCs serving cloud business cases, which form a huge part of our portfolio.

Training DCs are newer products where greenfield developments are ongoing, including in the United States (US). While it's still early for Europe and Asia, we are starting to see more of these developments emerging. Most of our assets are located in traditional DC hubs where latency is key, and they will continue to remain relevant.

UL: What's your view on the emergence of Johor, Malaysia and its plans to be a DC hub? With the tight regulations, land scarcity, and high-cost nature of the Singapore DC space, will this pose a threat to you?

LHL: Traditionally, the activity used to be in Kuala Lumpur, but recent activity has been in Johor. Taking a step back, in the context of the generative AI work mentioned earlier, DCs are getting much larger. Traditional DCs are usually between 10 – 20 megawatts (MW), with hyperscale DCs around 20 – 50 MW. But in today's world, training DCs, which we see coming out from the US, are easily over 100 MW each. As the training workload for generative AI begins to accelerate in our region, we anticipate a significant surge in demand for Gen AI resources and infrastructure.

Hence, I see the emergence of the Johor DC market as complementary and not cannibalistic to Singapore.

As a DC hub, Singapore has some limitations in terms of capacity, given our smaller size and power constraints. Our neighbors are relatively more resource-rich and can provide the capacity that training DCs require. The Singapore market will continue to see strong demand moving forward for the "higher value" inference AI workloads which requires connectivity and low latency.

Singapore is the interconnect hub of Southeast Asia, with around 26 international subsea cables coming into Singapore. Additionally, our stable business environment and the ease of doing business here will provide assurance for hyperscalers to continue to operate here. So, looking at the bigger picture, the Singapore-Johor-Batam triangle will play to our advantage and ensure the longer-term growth of the market across the region.

UL: Thanks for sharing. Can we query on the status of Keppel DC Singapore 9 (KDC SGP 9)?

LHL: This is not part of the current transaction and is situated on an adjacent plot to KDC SGP 7 and KDC SGP 8. Our sponsor has plans to develop this in the coming years, and once it's completed, KDC SGP 9 could be a potential pipeline asset that Keppel DC REIT can consider in the future.

UL: Let's take the next question. Considering that the existing leases (for Keppel DC Singapore 7 and Keppel DC Singapore 8) were signed at lower than the current market rates, what is the duration of those existing leases? When should we expect to see rental reversion and what is the accretion we can expect?

LHL: Contracted rentals for KDC SGP 7 and KDC SGP 8 are estimated to be at least 15% to 20% below comparable market colocation rents. The assets have a blended portfolio weighted average lease expiry (WALE) of approximately 4.5 years. This means that we should see the first lease coming up for renewal in the next 3 – 4 years. We have announced strong reversions in the past few quarters and will continue to work hard to achieve a favourable outcome for our Unitholders going forward.

UL: Taking a step back, how do you see the industry evolving, and how is Keppel DC REIT positioned for this?

LHL: There are supply constraints that exist globally in multiple forms. Firstly, power generation to meet the demands of generative AI is a key factor, along with power distribution. This is not easily solved and presents a natural obstacle to increasing supply to meet demand. Additionally, persistent supply chain delays continue to be a challenge. Given this dynamic, we foresee continued strong growth within the space for DCs.

I believe that Keppel DC REIT is at the centre of it all, as we move to future-proof our portfolio with hyperscale-type facilities. KDC SGP 7 and KDC SGP 8 are both AI-ready and able to handle liquid cooling to house AI workloads efficiently. This is important as with the development of generative AI, advanced GPU chips from firms such as Nvidia compress a lot more power into a smaller real estate space, necessitating effective heat-reduction solutions. It is important for us to future-proof our assets, and as we grow, we hope to be able to handle more of the workload environments that we see today.

UL: Moving on, what is the lease like for the two new DCs (KDC SGP 7 and KDC SGP 8)?

LHL: The assets are brand new. KDC SGP 7 was completed in early 2024 and is fully leased. KDC SGP 8 would be fully completed in 3Q 2025, with fit-out works ongoing. The seller is taking full responsibility for delivering the assets on a completed basis to us. From a leasing risk standpoint, it's 100% leased out to hyperscalers, thus mitigating leasing risk. In terms of land tenure, the two assets will have approximately 25.5 years left after considering the land lease extension, which is quite usual for the Singapore market as industrial land tends to be on a short leasehold here.

UL: How does this transaction compare to other market transactions?

LHL: Singapore is a unique market and with the previously imposed moratorium, it has become a very supply constrained market. It is challenging for anyone else to gain access to brand new DCs. Today, apart from Keppel, only a handful of other players are building new DCs.

In 2023, Singapore allocated 80 MW for four new data centers under the Call for Application - Pilot Data Center (DC-CFA) scheme in 2023. Recipients of the power allocation from the DC-CFA scheme, would have only recently found sites they can develop into data centres.

Few parties have access to a campus-style development like what Keppel has today. This unique position makes KDC SGP 7 and KDC SGP 8 rare crown jewel-like assets.

UL: For Adam, how do the higher-for-longer interest rates impact Keppel DC REIT?

AL: Our loans are approximately 70% fixed, and approximately 30% floating. Based on our conversations with our bankers, we see that long-term interest rates quoted are tapering down as compared to one to two years ago. In addition, we will leverage Keppel's strong banking relationships to obtain more competitive interest rates.

UL: How do you see distribution per unit (DPU) panning out in the near future with this acquisition, and in the long run?

AL: We will see immediate proforma accretion to DPU, which will stabilise at approximately 7%, assuming 100% interest in KDC SGP 7 and KDC SGP 8, land lease title of approximately 25.5 years and with tax transparency being obtained. We have delivered healthy reversions in the past two quarters and remain optimistic about delivering continued value for our Unitholders.

UL: Thank you. Could Keppel DC REIT kindly give any closing remarks from your side?

LHL: We are very excited about this acquisition, which is a very rare opportunity in a market with very strong fundamentals. The two assets are future-ready, able to handle AI demand, and have the ability to handle liquid cooling features. There are not many similar products out there in the market.

This is a stabilised deal that can provide us with strong core returns. In the mid-term, we can also extract further value from this asset through reversions and/or capacity increases. Apart from the acquisitions of KDC SGP 7 and KDC SGP 8, we are also proposing entry into new master lease agreements and new facility management agreements in relation to KDC SGP 1 and KDC SGP 2 which will be beneficial for our Unitholders.

On this note, we hope to see strong support from our Unitholders at our Extraordinary General Meeting (EGM) on 20 December 2024, at 4.30pm, at Suntec Convention Centre.

Keppel DC REIT is one of the few REITs globally that is a proxy to the Asia DC growth story. While we continue to focus on our home base of Singapore, we have recently ventured into Japan, which will be an important market for us too. These markets will continue to be resilient underpinned by strong tailwinds. We are excited about the path forward and hope to deliver a good outcome overall, with a healthy balance sheet post-acquisition to support our continued future growth.

Thank you for joining us, and we look forward to your continued support.

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