

COMPANY UPDATE

Digital Core REIT (DCREIT SP)

Scaling Up Presence Overseas While Lowering Leverage

DCREIT continues to expand overseas by acquiring an additional 4.9% stake in a Frankfurt data centre and a 10% stake in Osaka data centres. The acquisitions funded by private placement are accretive to pro forma 2023 DPU by 1.8%. This reduces aggregate leverage by 6.7ppt to 33.8% after factoring in the divestments of two Silicon Valley data centres. DCREIT provides 2025 distribution yield of 5.8% (KDCREIT: 5.3% and MINT: 5.7%). Maintain BUY. Target price: US\$0.79.

WHAT'S NEW

- Continued expansion overseas for geographical diversification. Digital Core REIT (DCREIT) plans to invest US\$76.4m to:
 - Strengthen presence in Frankfurt, Germany. It intends to acquire an additional 4.9% interest in Wilhelm-Fay Straße 15 and 24, a fully-fitted freehold data centre in Frankfurt, from sponsor Digital Realty for €23m or US\$24.9m, which brings its aggregate interest to 49.9%. The acquisition is expected to complete in 2Q24.
 - Strengthen presence in Osaka, Japan. We expect DCREIT to acquire another 10% interest in a fully-fitted freehold data centre located in Osaka from Mitsubishi Corporation for ¥7.725b or US\$51.5m, which brings its aggregate interest to 20%. The acquisition is expected to complete in 1Q24.
- Strengthen servicing of hyperscalers operating in Frankfurt and Osaka. We have assumed that the two acquisitions are transacted at the same pricing compared with those announced on 1 Nov 23. The acquisitions provide built-in contractual rental escalations of 1-3%. Contributions from hyperscale service providers are expected to increase from 62% to 72% of annualised rent post-acquisitions.
- Successfully completed equity fund raising. DCREIT has completed the private placement of 192m new units at US\$0.625 each in Feb 24. It raised gross proceeds of US\$120m. We expect DCREIT to utilise US\$76.4m to finance the two above-mentioned acquisitions and US\$22.5m to repay bank borrowing.
- Potentially embarking on more acquisitions in 2024. Data centre transaction cap rates have begun to creep up, while interest rates appear to be levelling off. Similarly, the gap between public and private markets valuations has narrowed significantly. These divergent trends could enable DCREIT to capitalise on its acquisition pipeline from sponsor in 2024.

STOCK IMPACT

- Performing in line with expectations. DCREIT reported DPU of 1.78 US cents for 2H23 (-7.3% yoy), which is in line with our expectation.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	115	103	80	75	77
EBITDA	74	66	50	46	47
Operating profit	74	66	50	46	47
Net profit (rep./act.)	13	(100)	36	38	39
Net profit (adj.)	45	42	36	38	39
EPU (US\$ cent)	3.9	3.7	2.9	2.9	2.9
DPU (US\$ cent)	4.0	3.7	3.1	3.3	3.3
PE (x)	14.5	15.4	19.3	19.9	19.9
P/B (x)	0.7	0.8	0.8	0.9	0.9
DPU Yld (%)	7.0	6.5	5.4	5.8	5.8
Net margin (%)	11.7	(97.6)	45.6	50.8	50.4
Net debt/(cash) to equity (%)	50.3	68.7	51.2	54.3	57.4
Interest cover (x)	7.0	2.5	2.1	2.1	2.0
ROE (%)	n.a.	n.a.	4.3	4.3	4.4
Consensus DPU (US\$ cent)	n.a.	n.a.	3.6	3.6	n.a.
UOBKH/Consensus (x)	-	-	0.86	0.92	-

Source: Digital Core REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$0.57
Target Price	US\$0.79
Upside	+38.6%
(Previous TP)	US\$0.77

COMPANY DESCRIPTION

DCREIT is a pure-play data centre REIT. Its portfolio comprises 12 freehold data centres concentrated within top-tier markets in the US (North Virginia, Silicon Valley and Los Angeles) Canada (Toronto), Germany (Frankfurt) and Japan (Osaka) with an appraised valuation of US\$1.4b. Its sponsor Digital Realty is the world's largest data centre owner and operator.

STOCK DATA

GICS sector	Real Estate
Bloomberg ticker:	DCREIT SP
Shares issued (m):	1,316.7
Market cap (US\$m):	750.5
Market cap (US\$m):	750.5
3-mth avg daily t'over (US\$m):	1.7

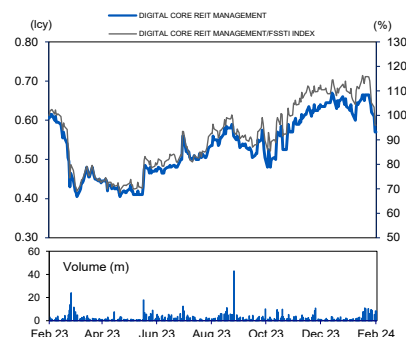
Price Performance (%)

52-week high/low	US\$0.67/US\$0.405				
1mth	3mth	6mth	1yr	YTD	
(10.2)	0.0	7.5	(7.3)	(11.6)	

Major Shareholders

Digital Realty Trust	35.0
Sumitomo Mitsui Fin	7.0
Cohen & Steer	6.1
FY24 NAV/Share (US\$)	0.67
FY24 Net Debt/Share (US\$)	0.34

PRICE CHART



Source: Bloomberg

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- Maintaining stable occupancy.** Portfolio occupancy was 97% as of Dec 23. DCREIT has WALE of 2.8 years. It has completed a series of agreements, including the sale of two Silicon Valley data centres to Brookfield Infrastructure Partners at book value of US\$160m and amended lease expiry for two Los Angeles data centres to Sep 24, to resolve the bankruptcy of its second-largest customer Cyxtera in Jan 24.

STOCK IMPACT

- Revaluation losses caused by higher cap rates.** DCREIT has recognised revaluation losses of US\$124.9m. Cap rates have expanded by 40bp. Its NAV per unit declined by 17% to US\$0.69.
- Maintaining conservative level of gearing.** Aggregate leverage was 40.5% as at Dec 23. Pro forma aggregate leverage is further lowered to 33.5% after factoring in proceeds of US\$160m from the sale of the two Silicon Valley data centres in Jan 24. Management estimated that aggregate leverage would be lower at 33.8% after completing the acquisition of 24.9% stake in Frankfurt data centre (20% stake under letter of intent signed in Nov 23 and additional 4.9% stake) and 10% stake in Osaka data centre funded by the private placement.
- Cost of debt likely to have stabilised.** The average cost of debt was 4.7% for 4Q23 (2023: 4.5%). Finance expenses doubled yoy to US\$13.9m in 2H23. Management expects cost of debt to be 4.5-4.7% for 2024. About 73% of its borrowings are hedged to fixed interest rates.

2H23 RESULTS

Year to 31 Dec (US\$m)	2H23	yoy % chg	Remarks
Gross Revenue	49.2	-10.4	Maintained stable portfolio occupancy at 97%.
Net Property Income (NPI)	27.9	-17.9	
Cash NPI	32.4	+0.3	
Distributable Income	20.0	-7.1	Finance expenses doubled to US\$13.9m.
DPU (US cents)	1.78	-7.3	Positive impact from share buyback.

Source: DCREIT, UOB Kay Hian

- Share buyback was accretive to DPU.** DCREIT has repurchased 6.8m units at an average price of \$0.4942 in 2023. The buyback generated DPU accretion of 0.6%. The units were held as treasury units and subsequently cancelled.

EARNINGS REVISION/RISK

- We raised our DPU forecast by 3% for 2025 due to positive impact from the two above-mentioned acquisitions in Frankfurt, Germany and Osaka, Japan.
- Backfilling of vacant space at the two Los Angeles data centres.** The two Los Angeles data centres have low end-customer occupancy of 57%, which is close to breakeven levels. They accounted for 7.7% of portfolio valuation and 6.4% of annualised rent. Leases for the two Los Angeles data centres were amended to expire earlier in Sep 24. DCREIT intends to retain Cyxtera's colocation customers by establishing a direct relationship with them. We have assumed that DCREIT backfills half of the data centre spaces at the two Los Angeles data centres.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of US\$0.79 is based on DDM (cost of equity: 6.5%, terminal growth: 2.5%).
- Pure play on data centre.** DCREIT provides a distribution yield of 5.7% for 2025 (KDCREIT: 5.3% and MINT: 5.7%).

SHARE PRICE CATALYST

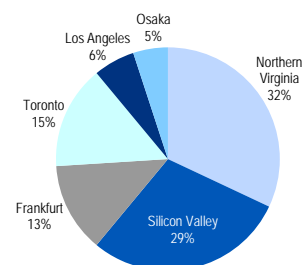
- Organic growth from cash rental escalation of 1-3% (weighted average: 2%).
- Yield-accretive acquisitions tapping on sponsor's large data centre pipeline.

KEY OPERATING METRICS - DCREIT

	4Q22	1Q23	2Q23	3Q23	4Q23	yoy % chg	qoq % chg*
DPU (US cents)	1.92	n.a.	1.92	n.a.	1.78	-7.3%	-7.3%
Occupancy	98.0%	97.0%	97.0%	97.0%	97.0%	-1ppt	0ppt
Aggregate Leverage	34.0%	34.4%	34.2%	34.4%	33.5%	-0.5ppt	-0.9ppt
Average Cost of Debt	3.9%	4.1%	4.7%	5.1%	4.7%	0.8ppt	-0.4ppt
WALE by Annualised Rents (years)	4.5	4.2	3.9	3.6	2.8	-1.7yrs	-0.8yrs
Weighted Average Debt Maturity (years)	3.6	3.7	3.4	3.2	2.8	-0.8yrs	-0.4yrs
% of Borrowings in Fixed Rates	75%	74%	72%	72%	73%	-2ppt	1ppt

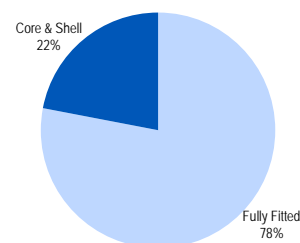
Source: DCREIT, UOB Kay Hian * hoh % chg for DPU

RENTAL INCOME BY CORE MARKET (DEC 23)



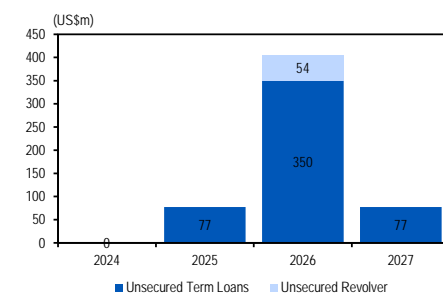
Source: DCREIT

RENTAL INCOME BY PROPERTY TYPE (DEC 23)



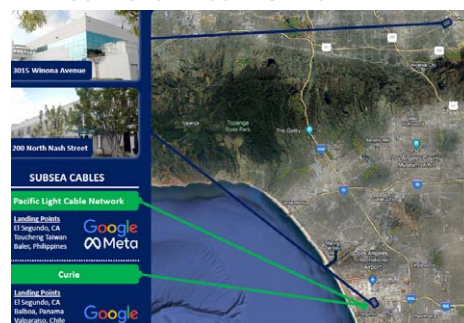
Source: DCREIT

DEBT MATURITY PROFILE



Source: DCREIT

KEY LOCATIONS IN LOS ANGELES



Source: DCREIT

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	102.6	79.5	75.2	76.7
EBITDA	66.0	49.6	46.1	47.1
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	66.0	49.6	46.1	47.1
Associate contributions	(15.9)	14.3	18.4	18.7
Net interest income/(expense)	(26.2)	(23.4)	(22.3)	(23.2)
Pre-tax profit	(117.9)	40.5	42.1	42.7
Tax	9.6	(0.8)	(0.9)	(0.9)
Minorities	8.1	(3.4)	(3.1)	(3.2)
Net profit	(100.2)	36.3	38.2	38.6
Net profit (adj.)	41.8	36.3	38.2	38.6

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	59.4	52.0	53.5	55.2
Pre-tax profit	(108.6)	28.1	30.8	31.1
Tax	0.0	0.0	0.0	0.0
Working capital changes	12.3	(0.4)	(0.4)	0.1
Non-cash items	148.7	8.4	8.7	8.8
Other operating cashflows	7.0	15.9	14.4	15.2
Investing	(48.0)	(23.2)	(8.0)	(8.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(7.0)	(8.0)	(8.0)	(8.0)
Investments	(44.0)	(175.4)	0.0	0.0
Proceeds from sale of assets	0.0	160.2	0.0	0.0
Others	2.9	0.0	0.0	0.0
Financing	(25.0)	(15.0)	(46.3)	(47.6)
Distribution to unitholders	(43.0)	(41.1)	(44.1)	(44.4)
Issue of shares	0.0	120.0	0.0	0.0
Proceeds from borrowings	51.5	(70.5)	20.0	20.0
Others/interest paid	(33.5)	(23.4)	(22.3)	(23.2)
Net cash inflow (outflow)	(13.6)	13.8	(0.8)	(0.4)
Beginning cash & cash equivalent	25.2	12.1	25.9	25.1
Ending cash & cash equivalent	11.7	25.9	25.1	24.7

BALANCE SHEET

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Fixed assets	1,114.9	1,122.9	1,130.9	1,138.9
Other LT assets	194.2	369.6	369.6	369.6
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	12.1	25.9	25.1	24.7
Other current assets	187.9	6.7	6.4	6.5
Total assets	1,509.0	1,525.0	1,531.9	1,539.6
Other current liabilities	23.0	19.4	18.7	18.9
LT debt	555.5	485.0	505.0	525.0
Other LT liabilities	10.9	10.9	10.9	10.9
Shareholders' equity	790.5	897.5	884.3	871.0
Minority interest	129.2	112.3	113.1	113.9
Total liabilities & equity	1,509.0	1,525.0	1,531.9	1,539.6

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	64.4	62.4	61.3	61.5
Pre-tax margin	(115.0)	50.9	56.1	55.7
Net margin	(97.6)	45.6	50.8	50.4
ROA	n.a.	2.4	2.5	2.5
ROE	n.a.	4.3	4.3	4.4
Growth				
Turnover	(10.8)	(22.5)	(5.4)	2.0
EBITDA	(10.9)	(24.9)	(7.2)	2.3
Pre-tax profit	(469.7)	n.a.	4.2	1.3
Net profit	(846.3)	n.a.	5.2	1.1
Net profit (adj.)	(6.2)	(13.1)	5.2	1.1
EPU	(5.7)	(20.6)	(3.1)	0.4
Leverage				
Debt to total capital	37.7	32.4	33.6	34.8
Debt to equity	70.3	54.0	57.1	60.3
Net debt/(cash) to equity	68.7	51.2	54.3	57.4
Interest cover (x)	2.5	2.1	2.1	2.0

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