

COMPANY UPDATE

Digital Core REIT (DCREIT SP)

Expansion In Germany And Japan Increases Geographical Diversification

DCREIT continues to increase geographical diversification by acquiring an additional 24.9% stake in a Frankfurt data centre and a 10% stake in an Osaka data centre. Data centres in Germany and Japan expanded by 19ppt yoy to 33% of annualised rent. Aggregate leverage increased slightly by 0.7ppt yoy to 35.1%, while the average cost of debt eased 0.8ppt qoq to 3.9%. DCREIT provides a 2025 distribution yield of 6.3% (KDCREIT: 5.2% and MINT: 6.3%). Maintain BUY. Target price: US\$0.85.

WHAT'S NEW

- **Accretive asset recycling.** Digital Core REIT (DCREIT) has repositioned its portfolio to increase geographical diversification and strengthen servicing of hyperscale tenants:
 - Strengthen presence in Frankfurt, Germany.** DCREIT has completed the acquisition of an additional 24.9% interest in Wilhelm-Fay Straße 15 and 24, a fully-fitted freehold data centre in Frankfurt, from sponsor Digital Realty for €117m or US\$128.7m, which is a 6% discount to appraised valuation, in Apr 24. The acquisition brought its aggregate interest in the data centre to 49.9%.
 - Strengthen presence in Osaka, Japan.** DCREIT has completed the acquisition of another 10% interest in a fully-fitted freehold data centre located in Osaka from Mitsubishi Corporation for ¥7.725b or US\$51.5m, which is a 1% discount to appraised valuation, in Mar 24. The acquisition brought its aggregate interest to 20%.
 - Acquisitions partially funded by divestments.** DCREIT has completed the divestment of its 90% stake in two Silicon Valley data centres, 2401 Walsh Avenue and 2403 Walsh Avenue, to Brookfield for US\$160m (book value) in Jan 24. The transaction represents an exit cap rate of 4.4%.
- **Strengthens servicing of hyperscalers operating in Frankfurt and Osaka.** The two acquisitions delivered DPU accretion of 5.6% (Frankfurt: 3.2%, Osaka: 2.3%). The acquisitions provide built-in contractual rental escalations of 1-2%. Contributions from hyperscale service providers have increased by 11ppt yoy to 70% of annualised rent post-acquisitions. Data centres in Germany and Japan have expanded by 19ppt yoy to 33% of annualised rent (Frankfurt: 25%, Osaka: 8%).
- **Leasing momentum at Frankfurt and Toronto.** Two anchor tenants at the Frankfurt Campus, both cloud service providers, have renewed their leases for five years with positive rental reversion of 2% in 1Q24. DCREIT has also signed a new lease with an existing tenant at Frankfurt, a global cloud provider, which generated incremental 0.2ppt positive net absorption. It has signed a small interconnection contract for Toronto in 1Q24. Several tenants are in the midst of renewing their leases.

STOCK IMPACT

- **1Q24 results in line with our expectation.** DCREIT reported distributable income of US\$10.6m for 1Q24 (-2.4% yoy), which is in line with our expectation. On a same-store basis, cash NPI grew 11% yoy in 1Q24 due to rental escalation and burn-off of free rent. Portfolio occupancy was stable at 95.8% as of Mar 24 (95% after completing acquisition of additional 24.9% stake in Frankfurt data centre). WALE was maintained at 2.8 years. Finance expenses increased 27.2% yoy in 1Q24.

KEY FINANCIALS

| Year to 31 Dec (US\$m) | 2022 | 2023 | 2024F | 2025F | 2026F |
|-------------------------------|------|---------|-------|-------|-------|
| Net turnover | 115 | 103 | 87 | 85 | 87 |
| EBITDA | 61 | 52 | 38 | 37 | 38 |
| Operating profit | 61 | 52 | 38 | 37 | 38 |
| Net profit (rep./act.) | 0 | (109) | 36 | 40 | 41 |
| Net profit (adj.) | 31 | 33 | 36 | 40 | 41 |
| EPU (US\$ cent) | 2.8 | 3.0 | 2.7 | 3.0 | 3.0 |
| DPU (US\$ cent) | 4.0 | 3.7 | 3.4 | 3.5 | 3.6 |
| PE (x) | 20.1 | 18.9 | 20.4 | 18.8 | 18.7 |
| P/B (x) | 0.7 | 0.8 | 0.8 | 0.8 | 0.9 |
| DPU Yld (%) | 7.1 | 6.6 | 6.1 | 6.3 | 6.3 |
| Net margin (%) | 0.1 | (105.8) | 42.2 | 47.0 | 46.8 |
| Net debt/(cash) to equity (%) | 50.3 | 68.7 | 48.9 | 51.0 | 53.1 |
| Interest cover (x) | 5.8 | 2.6 | 3.9 | 4.8 | 4.6 |
| ROE (%) | n.a. | n.a. | 4.3 | 4.5 | 4.6 |
| Consensus DPU (US\$ cent) | n.a. | n.a. | 3.4 | 3.6 | 3.7 |
| UOBKH/Consensus (x) | - | - | 1.00 | 0.99 | 0.96 |

Source: Digital Core REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

| | |
|---------------|----------|
| Share Price | US\$0.56 |
| Target Price | US\$0.85 |
| Upside | +51.8% |
| (Previous TP) | US\$0.79 |

COMPANY DESCRIPTION

DCREIT is a pure-play data centre REIT. Its portfolio comprises 10 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\$1.3b. 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): | 1,302.1 |
| Market cap (US\$m): | 729.2 |
| Market cap (US\$m): | 729.2 |
| 3-mth avg daily t'over (US\$m): | 1.4 |

Price Performance (%)

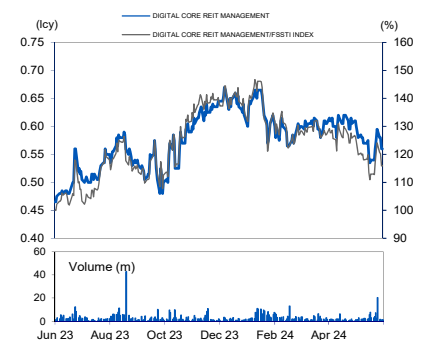
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|------------------|--------------------|-------------|------------|------------|--|
| 52-week high/low | US\$0.67/US\$0.465 | | | | |
| 1mth | 3mth | 6mth | 1yr | YTD | |
| (7.4) | (5.9) | (11.8) | 17.9 | (13.2) | |

Major Shareholders

| | |
|----------------------|------|
| Digital Realty Trust | 30.9 |
| Sumitomo Mitsui Fin | 5.4 |
| Cohen & Steer | 7.0 |

| | |
|----------------------------|------|
| FY24 NAV/Share (US\$) | 0.68 |
| FY24 Net Debt/Share (US\$) | 0.33 |

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Share buyback was DPU-accretive.** DCREIT repurchased 7.9m units at an average price of US\$0.579 in 1Q24 (14% discount to NAV). The buyback generated DPU accretion of 0.6%. The units were held as treasury units and subsequently cancelled.
- **Maintaining conservative level of gearing.** Aggregate leverage was 33.6% as at Mar 24. Pro forma aggregate leverage increased to 35.1% after factoring in the acquisition of 24.9% stake in Frankfurt data centre completed in Apr 24.
- **Cost of debt moderated due to repositioning.** DCREIT repaid US\$140m of floating rate loans at 6.4% in Mar 24 using proceeds from divestment of 90% stake in two Silicon Valley data centres completed in Jan 24. It has secured a four-year yen-denominated term loan at all-in cost of 1.5% from Mizuho. Thus, yen-denominated borrowings expanded by 10ppt to 18% of its total debt as of Mar 24. Average cost of debt eased 0.2ppt yoy and 0.8ppt qoq to 3.9% in 1Q24 (2023: 4.5%, 4Q23: 4.7%). Management expects cost of debt to be stable at 3.9% for 2024 as 93% of its borrowings are hedged to fixed interest rates.

1Q24 RESULTS

| Year to 31 Dec (US\$m) | 1Q24 | yoy % chg | Remarks |
|---------------------------|------|-----------|---|
| Gross Revenue | 24.6 | -8.2 | Portfolio occupancy stable at 95.8%. |
| Net Property Income (NPI) | 15.8 | -9.5 | |
| Cash NPI | 15.9 | +3.9 | |
| Distributable Income | 10.6 | -2.4 | Finance expenses increased 27.2% yoy to US\$6.9m. |

Source: DCREIT, UOB Kay Hian

- **Resilient growth from North America.** Public cloud providers and AI companies are driving strong demand for data centres. Northern Virginia registered the largest ever increase in net absorption of 407MW in 2023, compared with 63MW for Silicon Valley. Average asking rates increased by 19% to US\$163/kW/month across North America due to the supply shortage. In Northern Virginia, vacancy rate hit a record-low of 0.9%. Rental rates surged 42% in 2023 as tenants secured leases on a pre-construction basis. In Silicon Valley, most leases were full building takeover by cloud service providers. Rental rates reached a record of US\$155-250 per kW. Outlook remains positive for North America. Power constraints are being addressed as local governments simplify permits and integrate renewable energy to the grid. About 83% of new capacity of 3,078MW under construction is pre-leased
- **Backfilling of vacant space at the two Los Angeles data centres.** The two Los Angeles data centres (200 North Nash Street and 3015 Winona Avenue) have low end-customer occupancy of 57%. They accounted for 7.4% of portfolio valuation and 6.4% of annualised rent as of 1Q24. Leases for the both data centres were assigned to Brookfield and amended to expire earlier in Sep 24 as part of the agreement to resolve bankruptcy of Cyxtera.
- **Repositioned for re-leasing.** We have assumed that Brookfield would not renew the two leases. We expect DCREIT to retain Cyxtera's colocation customers by establishing a direct leasing relationship with them. Thus, we have assumed DCREIT backfills half of the rentable spaces at the two Los Angeles data centres.

EARNINGS REVISION/RISK

- We raised our DPU forecast by 7% for 2025 due to positive impact from the two acquisitions in Frankfurt, Germany and Osaka, Japan and lower cost of debt.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of US\$0.85 is based on DDM (cost of equity: 6.5%, terminal growth: 2.5%).
- **Pure play on data centre.** DCREIT provides a distribution yield of 6.1% for 2025 (KDCREIT: 5.2% and MINT: 6.3%).

SHARE PRICE CATALYST

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

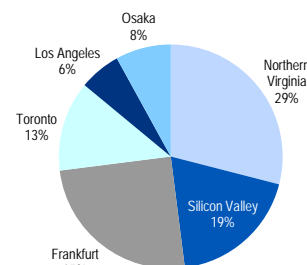
KEY OPERATING METRICS

| | 1Q23 | 2Q23 | 3Q23 | 4Q23 | 1Q24 | yoy % Chg | qoq % Chg* |
|--|-------|-------|-------|-------|-------|-----------|------------|
| DPU (US cents) | n.a. | 1.92 | n.a. | 1.78 | n.a. | n.a. | n.a. |
| Occupancy | 97.0% | 97.0% | 97.0% | 97.0% | 95.0% | -2ppt | -2ppt |
| Aggregate Leverage | 34.4% | 34.2% | 34.4% | 33.5% | 35.1% | 0.7ppt | 1.6ppt |
| Average Cost of Debt | 4.1% | 4.7% | 5.1% | 4.7% | 3.9% | -0.2ppt | -0.8ppt |
| WALE by Annualised Rents (years) | 4.2 | 3.9 | 3.6 | 2.8 | 2.8 | -1.4yrs | 0yrs |
| Weighted Average Debt Maturity (years) | 3.7 | 3.4 | 3.2 | 2.8 | 2.7 | -1yrs | -0.1yrs |
| % of Borrowings in Fixed Rates | 74% | 72% | 72% | 73% | 93% | 19ppt | 20ppt |

* hoh % chg for DPU

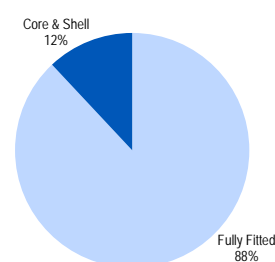
Source: DCREIT, UOB Kay Hian

RENTAL INCOME BY CORE MARKET



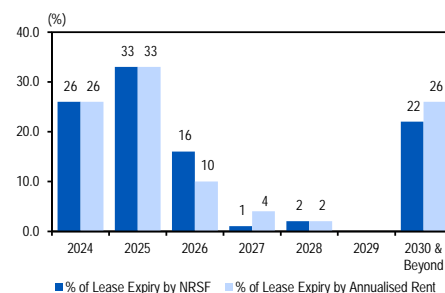
Source: DCREIT

RENTAL INCOME BY PROPERTY TYPE



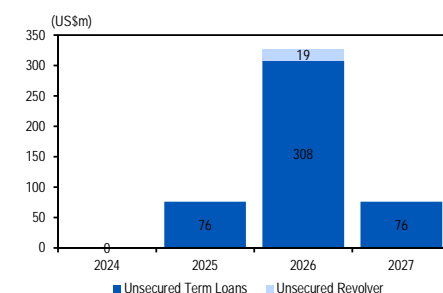
Source: DCREIT

LEASE EXPIRY PROFILE



Source: DCREIT

DEBT MATURITY PROFILE



Source: DCREIT

PROFIT & LOSS

| Year to 31 Dec (US\$m) | 2023 | 2024F | 2025F | 2026F |
|-------------------------------|---------|-------|-------|-------|
| Net turnover | 102.6 | 86.6 | 85.4 | 86.9 |
| EBITDA | 51.5 | 37.9 | 37.0 | 37.8 |
| Deprec. & amort. | 0.0 | 0.0 | 0.0 | 0.0 |
| EBIT | 51.5 | 37.9 | 37.0 | 37.8 |
| Associate contributions | (15.9) | 14.5 | 16.9 | 17.2 |
| Net interest income/(expense) | (20.1) | (9.8) | (7.7) | (8.2) |
| Pre-tax profit | (126.4) | 42.5 | 46.2 | 46.8 |
| Tax | 9.6 | (1.1) | (1.2) | (1.2) |
| Minorities | 8.1 | (5.0) | (4.9) | (5.0) |
| Net profit | (108.6) | 36.5 | 40.1 | 40.6 |
| Net profit (adj.) | 33.3 | 36.5 | 40.1 | 40.6 |

CASH FLOW

| Year to 31 Dec (US\$m) | 2023 | 2024F | 2025F | 2026F |
|----------------------------------|---------|---------|--------|--------|
| Operating | 59.4 | 67.9 | 58.3 | 59.7 |
| Pre-tax profit | (108.6) | 36.5 | 40.1 | 40.6 |
| Tax | 0.0 | 0.0 | 0.0 | 0.0 |
| Working capital changes | 12.3 | 0.3 | (0.0) | 0.1 |
| Non-cash items | 148.7 | 9.0 | 9.2 | 9.3 |
| Other operating cashflows | 7.0 | 22.2 | 9.1 | 9.7 |
| 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) | (33.4) | (50.7) | (51.9) |
| Distribution to unitholders | (43.0) | (43.9) | (47.4) | (48.0) |
| Issue of shares | 0.0 | 120.0 | 0.0 | 0.0 |
| Proceeds from borrowings | 51.5 | (90.5) | 15.0 | 15.0 |
| Others/interest paid | (33.5) | (19.0) | (18.3) | (18.9) |
| Net cash inflow (outflow) | (13.6) | 11.4 | (0.4) | (0.2) |
| Beginning cash & cash equivalent | 25.2 | 12.1 | 23.5 | 23.1 |
| Ending cash & cash equivalent | 11.7 | 23.5 | 23.1 | 23.0 |

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 | 374.4 | 374.4 | 374.4 |
| ST debt | n.a. | n.a. | n.a. | n.a. |
| Cash/ST investment | 12.1 | 23.5 | 23.1 | 23.0 |
| Other current assets | 187.9 | 7.2 | 7.2 | 7.3 |
| Total assets | 1,509.0 | 1,527.9 | 1,535.6 | 1,543.5 |
| Other current liabilities | 23.0 | 19.8 | 19.7 | 20.0 |
| LT debt | 555.5 | 465.0 | 480.0 | 495.0 |
| Other LT liabilities | 10.9 | 10.9 | 10.9 | 10.9 |
| Shareholders' equity | 790.5 | 903.1 | 895.8 | 888.5 |
| Minority interest | 129.2 | 129.2 | 129.2 | 129.2 |
| Total liabilities & equity | 1,509.0 | 1,527.9 | 1,535.6 | 1,543.5 |

KEY METRICS

| Year to 31 Dec (%) | 2023 | 2024F | 2025F | 2026F |
|---------------------------|------------|--------|-------|-------|
| Profitability | | | | |
| EBITDA margin | 50.2 | 43.8 | 43.3 | 43.5 |
| Pre-tax margin | (123.2) | 49.1 | 54.1 | 53.9 |
| Net margin | (105.8) | 42.2 | 47.0 | 46.8 |
| ROA | n.a. | 2.4 | 2.6 | 2.6 |
| ROE | n.a. | 4.3 | 4.5 | 4.6 |
| Growth | | | | |
| Turnover | (10.8) | (15.6) | (1.3) | 1.7 |
| EBITDA | (15.1) | (26.4) | (2.3) | 2.0 |
| Pre-tax profit | (779.6) | n.a. | 8.6 | 1.3 |
| Net profit | (94,521.7) | n.a. | 9.9 | 1.3 |
| Net profit (adj.) | 6.8 | 9.5 | 9.9 | 1.3 |
| EPU | 6.5 | (7.5) | 8.8 | 0.3 |
| Leverage | | | | |
| Debt to total capital | 37.7 | 31.1 | 31.9 | 32.7 |
| Debt to equity | 70.3 | 51.5 | 53.6 | 55.7 |
| Net debt/(cash) to equity | 68.7 | 48.9 | 51.0 | 53.1 |
| Interest cover (x) | 2.6 | 3.9 | 4.8 | 4.6 |

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