COMPANY RESULTS

Digital Core REIT (DCREIT SP)

1H24: Making Progress To Backfill Frankfurt And Los Angeles Data Centres

1H24 DPU of 1.80 US cents (-6.3% yoy) was in line with expectations. DCREIT has repositioned by acquiring an additional 24.9% stake in its Frankfurt data centre and 10% stake in its Osaka data centre. It has backfilled vacant space at its Frankfurt data centre and occupancy has improved 6.3ppt qoq to 98.5% after it signed several new leases. DCREIT provides 2025 distribution yield of 5.7% (KDCREIT: 4.8% and MINT: 5.9%). Maintain BUY. Target price: US$0.81.

1H24 RESULTS

Year to 31 Dec (US$m)	1H24	yoy % chg	Remarks
Gross Revenue	48.3	-9.6	Divested two Silicon Valley data centres.
Net Property Income (NPI)	30.4	-13.4	
Cash NPI	30.1	-10.6	
Distributable Income	22.6	+5.1	Boosted by contribution from Frankfurt and Osaka data centres.
DPU (US cents)	1.80	-6.3	Private placement of 192m new units in Feb 24.

Source: DCREIT, UOB Kay Hian

RESULTS

- **1H24 results were in line with our expectations.** Digital Core REIT (DCREIT) reported DPU of 1.80 US cents for 1H24 (-6.3% yoy), which is in line with our expectations. On a same-store basis, cash NPI grew 1.3% yoy in 1H24 due to rental escalation and burn-off of free rent. Finance expenses decreased 2.5% yoy in 1H24.
- **Backfilled vacant spaces at Frankfurt data centre.** Portfolio occupancy improved 1.2ppt qoq to 96.6% as of Jun 24. Occupancy for its Frankfurt data centre improved 6.3ppt qoq to 98.5% after signing several new leases with positive rental reversion at 2%. Portfolio WALE was maintained at 2.8 years.
- **Share buyback was DPU-accretive.** DCREIT repurchased 14.6m units at an average price of US$0.57 in 1H24 (16% discount to NAV) (1Q24: 7.9m units, 2Q24: 6.7m units). The buyback generated DPU accretion of 1.0%. The units were held as treasury units and subsequently cancelled.
- **Maintaining conservative level of gearing.** Aggregate leverage edged slightly higher by 0.8ppt qoq to 34.4% as of Jun 24 due to its share buyback programme. DCREIT has debt headroom of US$134m based on aggregate leverage at 40%. Management could deploy the headroom for acquisition or share buyback.
- **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. Yen-denominated borrowings have expanded by 9ppt to 17% of its total debt as of Jun 24. Thus, average cost of debt eased 0.6ppt yoy to 4.1% in 2Q24 (1Q24: 3.9%). Management expects cost of debt to be stable at 4.1% in 2024 as 93% of its borrowings are hedged to fixed interest rates.

KEY FINANCIALS

Year to 31 Dec (US$m)	2022	2023	2024F	2025F	2026F
Net turnover	115	103	94	92	95
EBITDA	61	52	45	40	42
Operating profit	61	52	45	40	42
Net profit (rep./act.)	0	(109)	34	36	37
Net profit (adj.)	31	33	32	36	37
EPU (US$ cent)	2.8	3.0	2.4	2.7	2.7
DPU (US$ cent)	4.0	3.7	3.6	3.6	3.6
PE (x)	22.3	20.9	25.4	23.2	22.6
P/B (x)	0.7	0.9	0.9	0.9	1.0
DPU Yld (%)	6.4	6.0	5.8	5.7	5.8
Net margin (%)	0.1	(105.8)	36.6	39.2	39.2
Net debt/(cash) to equity (%)	50.3	68.7	50.7	52.9	55.2
Interest cover (x)	5.8	2.6	3.5	2.8	2.8
ROE (%)	n.a.	n.a.	4.1	4.0	4.2
Consensus DPU (US$ cent)	n.a.	n.a.	3.5	3.6	3.8
UOBKH/Consensus (x)	-	-	1.02	0.99	0.95

Source: Digital Core REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US$0.62
Target Price	US$0.81
Upside	+30.6%
(Previous TP	*US$0.80)*

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):	1,304.1
Market cap (US$m):	808.6
Market cap (US$m):	808.6
3-mth avg daily t'over (US$m):	1.4

Price Performance (%)

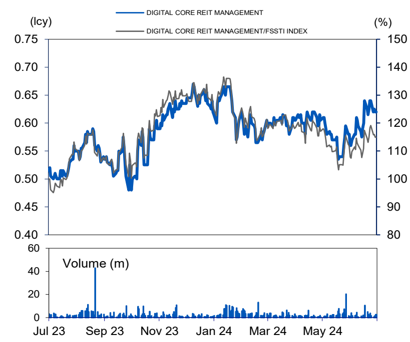
52-week high/low US$0.67/US$0.48

1mth	3mth	6mth	1yr	YTD
6.9	1.6	(3.1)	19.2	(3.9)

Major Shareholders	%
Digital Realty Trust	30.9
Sumitomo Mitsui Fin	5.4
Cohen & Steer	7.0

FY24 NAV/Share (US$)	0.67
FY24 Net Debt/Share (US$)	0.34

PRICE CHART



Source: Bloomberg

ANALYST(S)

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STOCK IMPACT

- **Accretive asset recycling.** Digital Core REIT (DCREIT) has repositioned its portfolio to increase geographical diversification and strengthen servicing of hyperscale tenants:
  - a) **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%.
  - b) **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%.
  - c) **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 9ppt yoy to 68% of annualised rent post-acquisitions. Data centres in Germany and Japan have expanded by 20ppt yoy to 34% of annualised rent (Frankfurt: 26%, Osaka: 8%).
- **Backfilling of vacant space at Los Angeles data centres.** Leases for the two Los Angeles data centres (200 North Nash Street and 3015 Winona Avenue) were assigned to Brookfield and amended to expire earlier in Sep 24 as part of the agreement to resolve bankruptcy of Cyxtera. They have low end-customer occupancy of 57%. DCREIT is expected to retain 80% of Cyxtera's colocation customers. Management expects contributions from the two data centres to be halved in Oct 24 and occupancy to gradually improve from 45% to 80% over the next 18 months.
- **Potential non-renewal in Northern Virginia.** Lease for data centre at 8217 Linton Hall Road in Northern Virginia is due for expiry in Jun 25. It accounts for 11.4% of DCREIT's annualised rents. The existing tenant has not commenced negotiation for extension or renewal. Management is confident of releasing the data centre as Northern Virginia has the tightest vacancy rate at a record-low of 0.9%. Tenants typically have to secure leases on a pre-construction basis. According to datacenterHawk, rental rate for Northern Virginia is projected to increase 10.5% to US$210/kW/month on a wholesale basis in 2024.

EARNINGS REVISION/RISK

- We maintain our 2025 DPU forecast. We raise our 2026 DPU forecast by 2% due to leasing up for the two Los Angeles data centres.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of US$0.81 is based on DDM (cost of equity: 6.75%, terminal growth: 2.5%).
- **Pure play on data centre.** DCREIT provides a distribution yield of 5.7% for 2025 (KDCREIT: 4.8% and MINT: 5.9%).

SHARE PRICE CATALYST

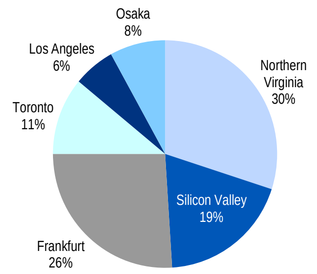
- Organic growth from cash rental escalation of 1-3% (weighted average: 2%).
- Yield-accretive acquisitions tapping on sponsor's extensive data centre pipeline.

KEY OPERATING METRICS – DCREIT

	2Q23	3Q23	4Q23	1Q24	2Q24	yoy % Chg	qoq % Chg*
DPU (US cents)	1.92	n.a.	1.78	n.a.	1.80	-6.2%	1.1%
Occupancy	97.0%	97.0%	97.0%	95.0%	97.0%	0ppt	2ppt
Aggregate Leverage	34.2%	34.4%	33.5%	35.1%	34.4%	0.2ppt	-0.7ppt
Average Cost of Debt	4.7%	5.1%	4.7%	3.9%	4.1%	-0.6ppt	0.2ppt
WALE by Annualised Rents (years)	3.9	3.6	2.8	2.8	2.8	-1.1yrs	0yrs
Weighted Average Debt Maturity (years)	3.4	3.2	2.8	2.7	2.4	-1yrs	-0.3yrs
% of Borrowings in Fixed Rates	72%	72%	73%	93%	93%	21ppt	0ppt

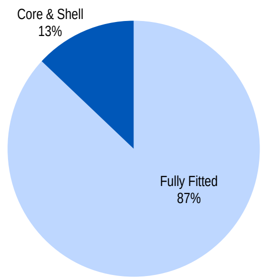
*Source: DCREIT, UOB Kay Hian   * hoh % chg for DPU*

RENTAL INCOME BY CORE MARKET



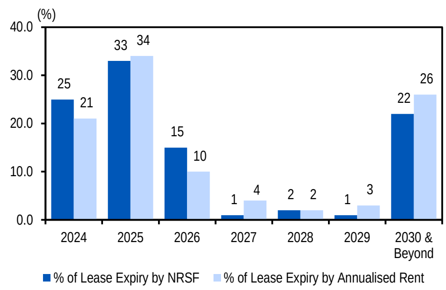
Source: DCREIT

RENTAL INCOME BY PROPERTY TYPE



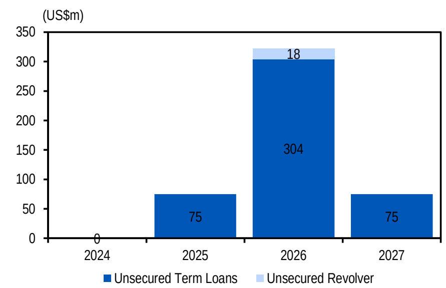
Source: DCREIT

LEASE EXPIRY PROFILE



Source: DCREIT

DEBT MATUITY PROFILE



Source: DCREIT

PROFIT & LOSS

Year to 31 Dec (US$m)	2023	2024F	2025F	2026F
Net turnover	102.6	94.0	91.5	94.8
EBITDA	51.5	45.4	40.5	42.3
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	51.5	45.4	40.5	42.3
Associate contributions	(15.9)	11.9	16.2	16.5
Net interest income/(expense)	(20.1)	(13.0)	(14.4)	(15.0)
Pre-tax profit	(126.4)	46.3	42.3	43.8
Tax	9.6	(6.5)	(1.1)	(1.2)
Minorities	8.1	(5.3)	(5.3)	(5.5)
Net profit	(108.6)	34.4	35.9	37.2
Net profit (adj.)	33.3	32.4	35.9	37.2

BALANCE SHEET

Year to 31 Dec (US$m)	2023	2024F	2025F	2026F
Fixed assets	1,114.9	1,118.6	1,126.6	1,134.6
Other LT assets	194.2	361.3	361.3	361.3
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	12.1	16.3	16.1	15.5
Other current assets	187.9	11.0	11.0	11.3
Total assets	1,509.0	1,507.2	1,515.1	1,522.7
Other current liabilities	23.0	20.4	20.6	21.3
LT debt	555.5	469.5	485.0	500.0
Other LT liabilities	10.9	11.7	11.7	11.7
Shareholders' equity	790.5	894.1	886.2	878.1
Minority interest	129.2	111.6	111.6	111.6
Total liabilities & equity	1,509.0	1,507.2	1,515.1	1,522.7

CASH FLOW

Year to 31 Dec (US$m)	2023	2024F	2025F	2026F
Operating	59.4	61.3	59.0	61.3
Pre-tax profit	(108.6)	38.2	39.5	40.8
Tax	0.0	0.0	0.0	0.0
Working capital changes	12.3	(2.9)	0.1	0.3
Non-cash items	148.7	8.2	9.2	9.3
Other operating cashflows	7.0	17.8	10.2	10.9
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)	(33.8)	(51.3)	(53.8)
Distribution to unitholders	(43.0)	(46.2)	(47.4)	(48.8)
Issue of shares	0.0	120.0	0.0	0.0
Proceeds from borrowings	51.5	(86.0)	15.5	15.0
Others/interest paid	(33.5)	(21.6)	(19.4)	(20.0)
Net cash inflow (outflow)	(13.6)	4.3	(0.2)	(0.6)
Beginning cash & cash equivalent	25.2	12.1	16.3	16.1
Ending cash & cash equivalent	11.7	16.3	16.1	15.5

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	50.2	48.3	44.2	44.6
Pre-tax margin	(123.2)	49.2	46.2	46.2
Net margin	(105.8)	36.6	39.2	39.2
ROA	n.a.	2.3	2.4	2.4
ROE	n.a.	4.1	4.0	4.2
Growth				
Turnover	(10.8)	(8.4)	(2.6)	3.6
EBITDA	(15.1)	(11.9)	(10.8)	4.4
Pre-tax profit	(779.6)	n.a.	(8.6)	3.6
Net profit	(94,521.7)	n.a.	4.3	3.6
Net profit (adj.)	6.8	(2.8)	10.7	3.6
EPU	6.5	(17.8)	9.6	2.6
Leverage				
Debt to total capital	37.7	31.8	32.7	33.6
Debt to equity	70.3	52.5	54.7	56.9
Net debt/(cash) to equity	68.7	50.7	52.9	55.2
Interest cover (x)	2.6	3.5	2.8	2.8

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