

COMPANY UPDATE

Digital Core REIT (DCREIT SP)

Successful Backfilling At Toronto And Los Angeles Not Fully Appreciated

Investors overlooked positive developments announced in Dec 24: a) acquisition of 15.1% interest in the Frankfurt data centre, which is accretive to DPU by 3.1%; and b) an AI computing developer taking up 33% of its Toronto data centre's capacity, restoring occupancy to 100%. We expect downtime of six months and a new tenant at Linton Hall Road to start contributing in 1Q26. DCREIT provides 2025 distribution yield of 6.8% (KDCREIT: 4.7%, MINT: 6.2%, Digital Realty: 2.7% and Equinix: 1.8%). **Maintain BUY. Target price: US\$0.99.**

WHAT'S NEW

- Investors have overlooked a few positive developments that were announced during the festive season in Dec 24.
- Increases stake in Frankfurt data centre from 49.9% to 65.0%.** Digital Core REIT (DCREIT) completed the acquisition of an additional 15.1% interest in the fully fitted freehold Frankfurt data centre from sponsor Digital Realty for €71.0m (US\$75.1m) on 6 Dec 24. It now owns a 65.0% interest in the Frankfurt data centre. Geographically, data centres in Germany and Japan have expanded by 5ppt to 39% of annualised rent (Frankfurt: 32%, Osaka: 7%). The reliance on North America has correspondingly been reduced from 66% to 61%.
- Frankfurt data centre close to full occupancy.** Two anchor tenants, hyperscale cloud service providers rated AAA and AA+ respectively, renewed their leases for five years at positive cash rental reversion of 2.0% in 1Q24. Occupancy for the Frankfurt data centre improved 6.3ppt qoq to 98.5% in 2Q24 after signing several new leases. There is growth potential to lease-up the remaining vacant space of 1.5%.
- Positive impact on DPU and NAV.** The Frankfurt data centre generated NPI of €13.4m (US\$14.7m) in 1H24. The additional stake provides an attractive NPI yield of 5.7%. The purchase consideration represents a discount of 17.8% to the latest valuation of US\$628.7m. The acquisition is funded by a Euro-denominated term loan at an all-in cost of 3.6% and is estimated to be accretive to pro forma 2023 DPU by 3.1%. NAV per unit would increase 4.3% to US\$0.72. Aggregate leverage would rise by 2.1ppt to 36.6%.
- Completed backfilling of Toronto data centre.** DCREIT signed a three-year lease with a next-generation AI computing developer, commencing in 1Q25. The new tenant accounted for 33% of capacity for its Toronto data centre, restoring occupancy from 66% to 100%. The new tenant is expected to generate annualised rent of US\$4.2m, which increases annualised rent for Toronto data centre by 45%. We expect Toronto data centre to account for 13.0% of DCREIT's annualised rent in 1Q25 (3Q24: 10.6%).

KEY FINANCIALS

Year to 31 Dec (US\$m)	2022	2023	2024F	2025F	2026F
Net turnover	115	103	94	166	180
EBITDA	61	52	44	77	85
Operating profit	61	52	44	77	85
Net profit (rep./act.)	2	(109)	37	39	45
Net profit (adj.)	33	33	35	39	45
EPU (US\$ cent)	2.9	3.0	2.6	2.9	3.3
DPU (US\$ cent)	4.0	3.7	3.5	3.7	4.1
PE (x)	18.7	18.4	21.0	18.7	16.4
P/B (x)	0.7	0.8	0.8	0.8	0.9
DPU Yld (%)	7.3	6.8	6.4	6.8	7.6
Net margin (%)	1.3	(105.8)	39.0	23.6	25.2
Net debt/(cash) to equity (%)	50.3	68.7	59.1	60.8	63.3
Interest cover (x)	5.8	2.6	3.0	3.4	3.7
ROE (%)	n.a.	(12.6)	4.3	4.4	5.2
Consensus DPU (US\$ cent)	-	-	3.6	3.8	4.0
UOBKH/Consensus (x)	-	-	0.96	0.98	1.04

Source: Digital Core REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$0.545
Target Price	US\$0.99
Upside	81.7%
(Previous TP	US\$0.95)

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\$1.5b. 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):	1,300.3
Market cap (US\$m):	708.7
Market cap (US\$m):	708.7
3-mth avg daily t'over (US\$m):	1.6

Price Performance (%)

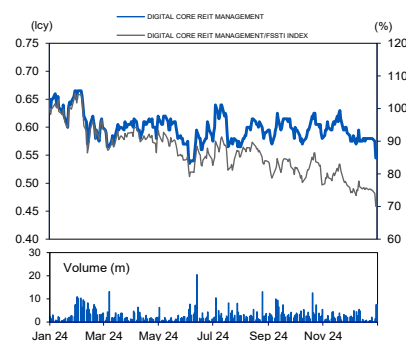
52-week high/low	US\$0.675/US\$0.53				
1mth	3mth	6mth	1yr	YTD	
(7.6)	(8.4)	(8.4)	(16.8)	(6.0)	

Major Shareholders

	%
Digital Realty Trust	32.0
Sumitomo Mitsui Fin	5.0
Cohen & Steer	8.0

FY24 NAV/Share (US\$)	0.67
FY24 Net Debt/ Share (US\$)	0.40

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- **Further progress in backfilling for LA data centres.** DCREIT officially took over operations of the two Los Angeles (LA) data centres on 1 Oct 24. It signed direct colocation leases with 60 end-user customers and leased out 60% of the capacity. These leases generated an annualised rent of US\$7m, which is 30% above the previous in-place rent (management previously guided for a 50% reduction of in-place rent). We expect the two LA data centres to be 80% leased and annualised rent to be 70% higher yoy by year-end given continued healthy demand and leasing momentum.

STOCK IMPACT

- **Microsoft's huge investment a reflection of growing demand for AI.** Microsoft is on track to invest US\$80b in FY25 (1QFY25: US\$20b) to build AI-enabled data centres to train AI models and deploy AI and cloud-based applications around the world. More than half of this total investment will be in the US, reflecting Microsoft's commitment and confidence in the US economy. Microsoft's AI business is on track to exceed annual revenue run rate of US\$10b in 2QFY25, the fastest business unit to reach this milestone in its history. Copilot is seeing strong adoption and its Azure AI has generated demand for a broad range of cloud services, such as data and analytics.
- **Weighting redevelopment for data centre at Linton Hall Road.** DCREIT announced that the tenant at 8217 Linton Hall Road in Northern Virginia did not exercise its renewal option by Dec 24. Thus, the lease for the affected data centre will expire in Jun 25. The fully fitted data centre is water-cooled and can support high power density AI workloads. The data centre has a 24MW NOVEC sub-station on site. It accounted for 11% of DCREIT's annualised rents as of Sep 24. Management estimated negative impact of 0.06 US cents to DPU for every month of downtime. DCREIT intends to re-lease the data centre, which is about 20% under-rented. We expect downtime of six months. The data centre is expected to resume contribution after securing a new replacement tenant in 1Q26 given strong demand and low vacancy rate of below 1% in Northern Virginia.
- **No disruption to existing data centre.** Management sees potential long-term value creation by redeveloping the data centre at Linton Hall Road, which sits on a huge 32-acre land parcel (equivalent to 18 football fields). Management is considering building an annex at the parking lot with capacity of 20MW (two storeys of 10MW each), which would not disrupt operations at the existing data centre. The redevelopment would cost US\$200m with completion scheduled in 2027.

EARNINGS REVISION/RISK

- We cut our 2025 DPU forecast by 7% due to six-month downtime at Linton Hall Road in 2H25. We raise our 2026 DPU forecast by 3% due to acquisition of additional 15.1% stake in Frankfurt data centre, successful backfilling of Toronto data centre and securing a replacement tenant for data centre at Linton Hall Road.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of US\$0.99 is based on DDM (cost of equity: 6.5%, terminal growth: 2.5%).
- **Pure play on data centre.** DCREIT provides a distribution yield of 6.8% for 2025 (KDCREIT: 4.7%, MINT: 6.2%, Digital Realty: 2.7% and Equinix: 1.8%).

SHARE PRICE CATALYST

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

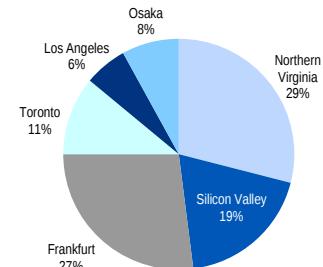
KEY OPERATING METRICS

	3Q23	4Q23	1Q24	2Q24	3Q24	yoy % Chg	qoq % Chg*
DPU (US cents)	n.a.	1.78	n.a.	1.80	n.a.	n.a.	n.a.
Occupancy	96.7%	96.6%	95.4%	96.6%	96.6%	-0.1ppt	0ppt
Aggregate Leverage	34.4%	33.5%	35.1%	34.4%	34.8%	0.4ppt	0.4ppt
Average Cost of Debt	5.1%	4.7%	3.9%	4.1%	3.9%	-1.2ppt	-0.2ppt
WALE by Annualised Rents (years)	3.6	2.8	2.8	2.8	5.0	1.4yrs	2.2yrs
Weighted Average Debt Maturity (years)	3.2	2.8	2.7	2.4	4.9	1.7yrs	2.5yrs
% of Borrowings in Fixed Rates	72%	73%	93%	93%	87%	15ppt	-6ppt

* hoh % chg for DPU

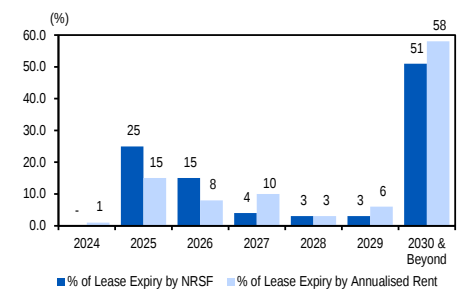
Source: DCREIT, UOB Kay Hian

RENTAL INCOME BY CORE MARKET



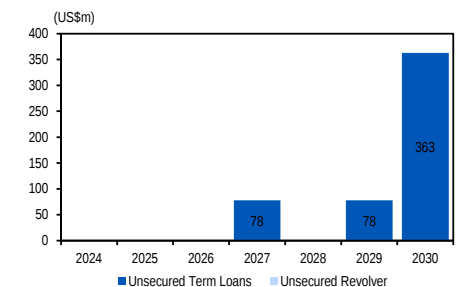
Source: DCREIT

LEASE EXPIRY PROFILE



Source: DCREIT

DEBT MATURITY PROFILE



Source: DCREIT

8217 LINTON HALL ROAD



Source: DCREIT

PROFIT & LOSS

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Net turnover	102.6	93.8	165.7	179.8
EBITDA	51.5	44.3	77.2	84.7
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	51.5	44.3	77.2	84.7
Total other non-operating income	(141.9)	2.0	0.0	0.0
Associate contributions	(15.9)	17.3	4.5	4.6
Net interest income/(expense)	(20.1)	(14.8)	(22.4)	(22.6)
Pre-tax profit	(126.4)	48.8	59.3	66.6
Tax	9.6	(7.0)	(3.0)	(3.3)
Minorities	8.1	(5.2)	(17.2)	(18.0)
Perpetual securities	0.0	0.0	0.0	0.0
Net profit	(108.6)	36.6	39.1	45.3
Net profit (adj.)	33.3	34.6	39.1	45.3

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	436.4	436.4	436.4
Cash/ST investment	12.1	21.6	23.1	27.6
Other current assets	187.9	12.2	17.8	19.6
Total assets	1,509.0	1,588.8	1,603.9	1,618.3
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	23.0	21.6	37.1	42.1
LT debt	555.5	550.0	560.0	580.0
Other LT liabilities	10.9	11.7	11.7	11.7
Shareholders' equity	790.5	894.0	883.6	872.9
Minority interest	129.2	111.6	111.6	111.6
Total liabilities & equity	1,509.0	1,588.8	1,603.9	1,618.3

CASH FLOW

Year to 31 Dec (US\$m)	2023	2024F	2025F	2026F
Operating	59.4	73.6	71.4	71.1
Pre-tax profit	(108.6)	36.6	39.1	45.3
Tax	0.0	0.0	0.0	0.0
Deprec. & amort.	0.0	0.0	0.0	0.0
Associates	0.0	0.0	0.0	0.0
Working capital changes	12.3	(2.9)	6.5	2.1
Non-cash items	148.7	8.2	11.0	11.3
Other operating cashflows	7.0	31.8	14.7	12.4
Investing	(48.0)	(98.3)	(8.0)	(8.0)
Capex (growth)	0.0	0.0	0.0	0.0
Capex (maintenance)	(7.0)	(8.0)	(8.0)	(8.0)
Proceeds from sale of assets	0.0	160.2	0.0	0.0
Others	(41.1)	(250.5)	0.0	0.0
Financing	(25.0)	34.2	(61.9)	(58.6)
Distribution to unitholders	(43.0)	(44.6)	(49.5)	(56.0)
Issue of shares	0.0	120.0	0.0	0.0
Proceeds from borrowings	51.5	(5.5)	10.0	20.0
Loan repayment	0.0	0.0	0.0	0.0
Others/interest paid	(33.5)	(35.7)	(22.4)	(22.6)
Net cash inflow (outflow)	(13.6)	9.5	1.5	4.5
Beginning cash & cash equivalent	25.2	12.1	21.6	23.1
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	11.7	21.6	23.1	27.6

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	50.2	47.2	46.6	47.1
Pre-tax margin	(123.2)	52.1	35.8	37.1
Net margin	(105.8)	39.0	23.6	25.2
ROA	(7.0)	2.4	2.5	2.8
ROE	(12.6)	4.3	4.4	5.2
Growth				
Turnover	(10.8)	(8.6)	76.6	8.5
EBITDA	(15.1)	(13.9)	74.1	9.7
Pre-tax profit	n.a.	n.a.	21.4	12.3
Net profit	n.a.	n.a.	7.1	15.8
Net profit (adj.)	2.1	3.7	13.2	15.8
EPU	1.9	(12.3)	11.8	14.4
Leverage				
Debt to total capital	37.7	35.4	36.0	37.1
Debt to equity	70.3	61.5	63.4	66.4
Net debt/(cash) to equity	68.7	59.1	60.8	63.3
Interest cover (x)	2.6	3.0	3.4	3.7

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