

COMPANY RESULTS

Digital Core REIT (DCREIT SP)

1H22: Sunshine Comes After The Rain

DCREIT's 1H22 results are in line with expectations with all 10 data centres remaining fully occupied. DCREIT has disclosed acquisition targets in three core markets, namely Frankfurt, Chicago and Dallas. The sizes of the acquisition range from US\$150m to US\$650m depending on conditions in financial markets. Management will also be activating its unit buyback programme. DCREIT provides a distribution yield of 4.9% for 2023 (KDCREIT: 5.1%, MINT: 5.1%). Maintain BUY. Target price: US\$0.98.

1H22 RESULTS

Year to 31 Dec (US\$m)	1H22 Actual	Forecast*	Variance (%)
Revenue	52.8	53.0	-0.3
Net Property Income	35.4	33.4	+5.9
Distributable Income	23.2	23.8	-2.2
DPU (US cents)	2.06	2.09	-1.4

Source: DCREIT, UOB Kay Hian *Derived based on full year forecast for 2022 as disclosed in DCREIT's IPO prospectus divided by two.

RESULTS

- Digital Core REIT (DCREIT) reported 1H22 DPU of 2.06 US cents**, which in line with forecast in its IPO prospectus and our expectations. In addition, DCREIT also provided DPU of 0.31 US cents for the stub period from 6 Dec 21 (listing date) to 31 Dec 21.
- Resiliency with long WALE.** Occupancy rate for all 10 data centres remains at 100%. DCREIT has long weighted average lease expiry (WALE) by annualised rents of 5.2 years. All its leases contain cash rental escalation of 1-3% (weighted average: 2%).
- Conservative level of gearing.** DCREIT has total debt outstanding of US\$350m and aggregate leverage is low at 25.7%. Its debt headroom based on aggregate leverage of 35% is US\$188m. Its weighted average debt maturity is 4.4 years.
- Impact of higher interest rates already priced in.** DCREIT has maintained the proportion of borrowings hedged to fixed rates at 50%. Its cost of debt was 2.3% in 2Q22. We expect its cost of debts to increase to 3.6% in 2023, assuming the US Fed Funds Rate hits 3.25% by end-22. Management estimates that every 50bp increase in interest rates will reduce distributable income by US\$700,000 per year.
- Activating unit buyback mandate.** DCREIT has an existing unit buyback mandate to repurchase of up to 10% of total units outstanding. The board of directors has authorised the implementation of the unit buyback mandate in Jul 22. The unit buyback programme will be funded by its undrawn revolving credit facility of US\$200m at an interest rate of 3%.

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	n.a.	n.a.	106	107	107
EBITDA	n.a.	n.a.	56	56	57
Operating profit	n.a.	n.a.	56	56	57
Net profit (rep./act.)	n.a.	n.a.	8	29	30
Net profit (adj.)	n.a.	n.a.	35	30	30
EPU (US\$ cent)	n.a.	n.a.	3.1	2.7	2.6
DPU (US\$ cent)	n.a.	n.a.	4.0	4.0	4.1
PE (x)	n.a.	n.a.	26.6	31.0	31.6
P/B (x)	n.a.	n.a.	1.0	1.0	1.0
DPU Yld (%)	n.a.	n.a.	4.9	4.9	5.0
Net margin (%)	n.a.	n.a.	7.9	27.4	28.3
Net debt/(cash) to equity (%)	n.a.	n.a.	35.9	38.5	41.2
Interest cover (x)	n.a.	n.a.	6.3	4.0	3.8
ROE (%)	n.a.	n.a.	n.a.	3.1	3.3
Consensus DPU (US\$ cent)	n.a.	n.a.	4.2	4.2	4.4
UOBKH/Consensus (x)	-	-	0.96	0.95	0.93

Source: Digital Core REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$0.825
Target Price	US\$0.98
Upside	+18.8%

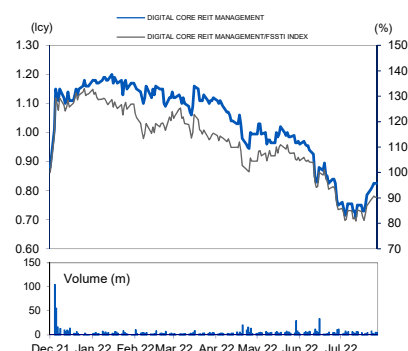
COMPANY DESCRIPTION

DCREIT invests in a diversified and stabilised portfolio of mission-critical data centre facilities. Its initial portfolio comprises 10 freehold data centres concentrated within top-tier markets in the US (North Virginia, Silicon Valley and Los Angeles) and Canada (Toronto) with an appraised valuation of US\$1.4b.

STOCK DATA

GICS sector	Real Estate			
Bloomberg ticker:	DCREIT SP			
Shares issued (m):	1,127.3			
Market cap (US\$m):	930.0			
Market cap (US\$m):	930.0			
3-mth avg daily t'over (US\$m):	5.1			
Price Performance (%)				
52-week high/low	US\$1.20/US\$0.71			
1mth	3mth	6mth	1yr	YTD
(1.8)	(17.5)	(28.3)	n.a.	(28.9)
Major Shareholders				%
Digital CR Singapore Hldg				33.4
-				-
-				-
FY22 NAV/Share (US\$)				0.84
FY22 Net Debt/Share (US\$)				0.30

PRICE CHART



Source: Bloomberg

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• **Sponsor provides bridge over troubled waters.** DCREIT's 5th largest tenant Sunguard Availability Services, a privately held IT service provider, has filed for bankruptcy protection. The tenant occupies 2.7MW or one-third of the capacity of its data centre in Toronto. It accounted for US\$5m or 7.1% of DCREIT's annualised revenue. The tenant remains current on its rental obligations. Sunguard is conducting a sales process for its assets with an update expected in Aug 22.

• **Cash flow support agreement.** DCREIT and sponsor Digital Realty have entered into a cash flow support agreement whereby Digital Realty will make good any cash flow shortfall due to the customer bankruptcy till Dec 23. DCREIT has agreed to repay cash flow support received interest-free, at DCREIT's discretion in terms of timing and amount, from 1 Jan 24 till 31 Dec 28.

STOCK IMPACT

• **Able to scale up due to sizeable sponsor pipeline.** Sponsor Digital Realty has a network of 291 data centres with net rentable square feet (NRSF) of 35.8m sf across 47 metropolitans in 24 countries on six continents. DCREIT is the exclusive S-REIT vehicle of Digital Realty. The sponsor has granted DCREIT a global right of first refusal (ROFR) on its growing data centre pipeline worth over US\$15b (existing: US\$10b, under construction: US\$5b).

• **Acquisitions to enhance geographical diversification.** We expect DCREIT to focus on stabilised data centres in developed markets. It will explore acquisition of data centres in Europe (France, Germany, Netherlands and the UK) and Asia Pacific (Singapore and Australia) and from its sponsor pipeline. Digital Realty owns 75 data centres in these markets that enhance geographical diversification.

• **Impending acquisitions poised for execution.** DCREIT has disclosed acquisition targets in three core markets, namely Frankfurt (second largest in Europe), Chicago (fourth largest in North America) and Dallas (fifth largest in North America). All the data centres are located within Digital Realty's campus and have strong connectivity. The sizes of the acquisitions range from US\$150m (funded by debt) to US\$650m (funded by mix of equity and debt) depending on conditions in financial markets.

We expect DCREIT to acquire data centres in Frankfurt, Germany leveraging on lower cost of debt for loans denominated in the Euro. Such an acquisition would enhance geographical diversification. We expect the cap rate for the acquisition of fully fitted data centres in Europe to be about 4%.

EARNINGS REVISION/RISK

• We maintain our existing DPU forecast.

VALUATION/RECOMMENDATION

• **Maintain BUY.** Our target price for DCREIT of US\$0.98 is based on DDM (cost of equity: 6.75%, terminal growth: 2.8%).

• **Pure play on data centres.** DCREIT provides a distribution yield of 4.9% for 2022 (KDCREIT: 5.1% and MINT: 5.1%). It deserves to trade at a premium as it is a pure play on data centres with acquisition-led growth supported by Digital Realty.

SHARE PRICE CATALYST

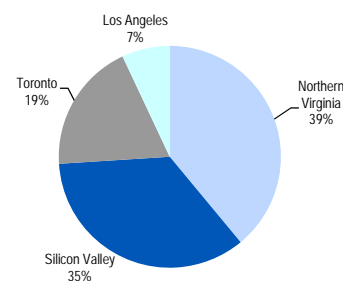
- Organic growth from cash rental escalation of 1-3% (weighted average: 2%).
- Yield-accretive acquisitions tapping on its sponsor's large and growing data centre pipeline.

KEY OPERATING METRICS – DCREIT

	1Q22	2Q22	yoy % Chg	qoq % Chg
DPU (US cents)	n.a.	2.06	n.a.	n.a.
Occupancy	100.0%	100.0%	100ppt	0ppt
Aggregate Leverage	26.0%	25.7%	25.7ppt	-0.3ppt
Average Cost of Debt	2.1%	2.3%	2.3ppt	0.2ppt
% Borrowings in Fixed Rates	5.5	5.2	5.2yrs	-0.3yrs
WALE by Annualised Rents (years)	4.7	4.4	4.4yrs	-0.3yrs
Weighted Average Debt Maturity (years)	50	50	n.a.	0.0%
% of Borrowings in Fixed Rates	n.a.	2.06	n.a.	n.a.

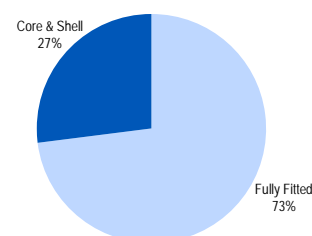
Source: DCREIT, UOB Kay Hian

RENTAL INCOME BY CORE MARKET (JUN 22)



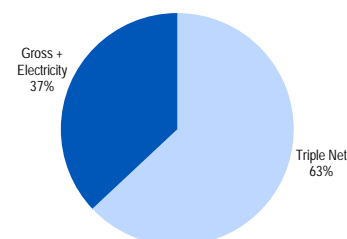
Source: DCREIT

RENTAL INCOME BY PROPERTY TYPE (JUN 22)



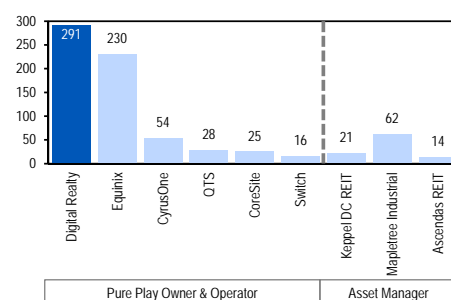
Source: DCREIT

RENTAL INCOME BY CONTRACT TYPE (JUN 22)



Source: DCREIT

NUMBER OF DATA CENTRES



Source: DCREIT

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	n.a.	106.1	106.7	107.4
EBITDA	n.a.	56.0	56.3	56.8
Deprec. & amort.	n.a.	0.0	0.0	0.0
EBIT	n.a.	56.0	56.3	56.8
Net interest income/(expense)	n.a.	(8.9)	(14.1)	(14.9)
Pre-tax profit	n.a.	20.4	41.1	42.2
Tax	n.a.	(7.1)	(6.3)	(6.3)
Minorities	n.a.	(4.9)	(5.6)	(5.6)
Net profit	n.a.	8.4	29.2	30.3
Net profit (adj.)	n.a.	35.1	30.2	29.9

BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	n.a.	1,443.0	1,445.5	1,448.0
Other LT assets	n.a.	1.1	1.1	1.1
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	n.a.	37.8	44.2	45.6
Other current assets	n.a.	3.5	3.6	3.6
Total assets	n.a.	1,485.5	1,494.4	1,498.2
Other current liabilities	n.a.	4.4	4.4	4.4
LT debt	n.a.	380.0	405.0	425.0
Other LT liabilities	n.a.	3.6	3.6	3.7
Shareholders' equity	n.a.	953.2	936.8	920.4
Minority interest	n.a.	144.3	144.6	144.8
Total liabilities & equity	n.a.	1,485.5	1,494.4	1,498.2

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	n.a.	21.0	443.6	45.6
Pre-tax profit	n.a.	8.4	29.2	30.3
Tax	n.a.	(2.5)	(2.5)	(2.5)
Working capital changes	n.a.	4.9	0.0	0.0
Non-cash items	n.a.	(11.4)	9.6	9.6
Other operating cashflows	n.a.	21.5	407.3	8.0
Investing	n.a.	(1,299.0)	(502.5)	(2.5)
Capex (growth)	n.a.	(1,296.5)	(500.0)	0.0
Capex (maintenance)	n.a.	(2.5)	(2.5)	(2.5)
Financing	n.a.	1,315.9	65.2	(41.7)
Distribution to unitholders	n.a.	(45.5)	(45.6)	(46.8)
Issue of shares	n.a.	990.3	100.0	0.0
Proceeds from borrowings	n.a.	380.0	25.0	20.0
Others/interest paid	n.a.	(8.9)	(14.1)	(14.9)
Net cash inflow (outflow)	n.a.	37.8	6.4	1.3
Beginning cash & cash equivalent	n.a.	0.0	37.8	44.2
Ending cash & cash equivalent	n.a.	37.8	44.2	45.6

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	n.a.	52.7	52.8	52.9
Pre-tax margin	n.a.	19.2	38.5	39.3
Net margin	n.a.	7.9	27.4	28.3
ROA	n.a.	n.a.	2.0	2.0
ROE	n.a.	n.a.	3.1	3.3
Growth				
Turnover	n.a.	n.a.	0.5	0.6
EBITDA	n.a.	n.a.	0.6	0.8
Pre-tax profit	n.a.	n.a.	101.9	2.7
Net profit	n.a.	n.a.	247.1	3.9
Net profit (adj.)	n.a.	n.a.	(13.8)	(1.0)
EPU	n.a.	n.a.	(14.4)	(1.7)
Leverage				
Debt to total capital	n.a.	25.7	27.2	28.5
Debt to equity	n.a.	39.9	43.2	46.2
Net debt/(cash) to equity	n.a.	35.9	38.5	41.2
Interest cover (x)	n.a.	6.3	4.0	3.8

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