

COMPANY UPDATE

Digital Core REIT (DCREIT SP)

Overhang Crystallises, Working On Backfilling Vacant Space

Cyxtera, DCREIT's second-largest tenant accounting for 22.4% of annualised rent, has filed for chapter 11 bankruptcy protection. We expect Cyxtera to reject the two leases for data centres in Los Angeles as occupancy is low at 57%. We cut our 2024 DPU forecast by 15% to 3.5 US cents assuming DCREIT backfills half of the data centre spaces vacated by Cyxtera. DCREIT provides 2024 distribution yield of 8.4% (KDCREIT: 5.1% and MINT: 6.2%). Maintain BUY. Target price: US\$0.67.

WHAT'S NEW

- Worst fear has crystallised.** Digital Core REIT's (DCREIT) second-largest tenant Cyxtera, which accounted for US\$16.3m or 22.4% of annualised rental revenue, has filed for chapter 11 bankruptcy protection in the District Court of New Jersey on 4 Jun 23. Cyxtera occupies 100% of three shell & core data centres in Silicon Valley, 100% of two shell & core data centres in Los Angeles and 4% of a fully-fitted data centre in Frankfurt. It is currently on rental obligations till May but has not paid rent for June. Cyxtera has obtained up to US\$200m of debtor-in-possession financing and intends to pay vendors and suppliers in full.
- Preliminary assessment.** Management estimated that DPU would be reduced by 2.00 US cents in the worst-case scenario that 100% of revenue from Cyxtera is eliminated. DCREIT has engaged a third-party appraiser to perform preliminary valuation assessment assuming that Cyxtera rejects each of the leases. Valuation of DCREIT's investment properties is expected to be reduced by US\$85m or 6% and NAV per unit drop 9% to US\$0.74 assuming downtime of 0-18 months and debt-funded capex of US\$5m-10m per data centre. Aggregate leverage would increase by 2ppt from 34.4% to 36.5%.

DATA CENTRES CURRENTLY OCCUPIED BY CYXTERA

Property	Market	Type	Ownership (%)	WALE (Years)	Net Rentable Sf	Annualised Rent (US\$m)
1500 Space Park Drive	Silicon Valley	Shell & Core	90.0	11.4	46,454	4.1
2401 Walsh Avenue	Silicon Valley	Shell & Core	90.0	9.9	151,139	4.2
2403 Walsh Avenue	Silicon Valley	Shell & Core	90.0	9.9	93,546	2.6
200 North Nash Street	Los Angeles	Shell & Core	90.0	9.9	102,245	2.7
3015 Winona Avenue	Los Angeles	Shell & Core	90.0	11.8	74,620	2.1
Wilhelm-Fay-Straße 15 and 24	Frankfurt	Fully-Fitted	25.0	11.3	4,356	0.5
Total / Weighted Average				10.6	472,360	16.3

Source: DCREIT

KEY FINANCIALS

Year to 31 Dec (US\$m)	2021	2022	2023F	2024F	2025F
Net turnover	n.a.	115	105	98	98
EBITDA	n.a.	72	68	63	63
Operating profit	n.a.	72	68	63	63
Net profit (rep./act.)	n.a.	13	(46)	36	36
Net profit (adj.)	n.a.	42	40	36	35
EPU (US\$ cent)	n.a.	3.7	3.6	3.2	3.1
DPU (US\$ cent)	n.a.	4.0	3.6	3.5	3.5
PE (x)	n.a.	11.0	11.5	12.9	13.3
P/B (x)	n.a.	0.5	0.5	0.6	0.6
DPU Yld (%)	n.a.	9.7	8.8	8.4	8.6
Net margin (%)	n.a.	11.7	(43.6)	36.7	36.1
Net debt/(cash) to equity (%)	n.a.	50.3	59.4	62.3	65.5
Interest cover (x)	n.a.	6.7	2.9	2.7	2.6
ROE (%)	n.a.	n.a.	n.a.	4.4	4.4
Consensus DPU (US\$ cent)	n.a.	n.a.	3.8	3.7	3.8
UOBKH/Consensus (x)	-	-	0.95	0.93	0.92

Source: Digital Core REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$0.41
Target Price	US\$0.67
Upside	+63.4%
(Previous TP)	US\$0.78)

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) and Canada (Toronto) 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):	1,123.0
Market cap (US\$m):	460.4
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3-mth avg daily t'over (US\$m):	1.2

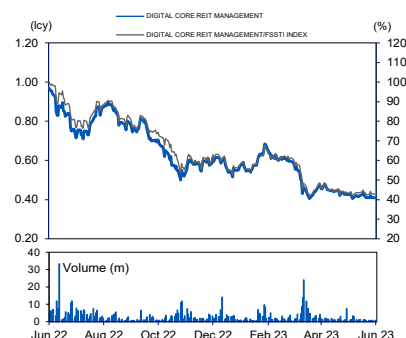
Price Performance (%)

52-week high/low	US\$0.97/US\$0.405			
1mth	3mth	6mth	1yr	YTD
(3.5)	(31.1)	(29.9)	(57.3)	(25.5)

Major Shareholders

Digital Realty Trust	35.0
Sumitomo Mitsui Fin	7.0
FY23 NAV/Share (US\$)	0.75
FY23 Net Debt/Share (US\$)	0.44

PRICE CHART



Source: Bloomberg

ANALYST(S)

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TOP 10 TENANTS (MAR 23)

Tenant	Trade Sector	Credit Rating	Number Of Locations	Annualised Rent (Us\$M)	% Of Total
1 Fortune 50 Software Company	Hyperscale CSP	AAA / Aaa	3	27.7	38.1
2 Global Colocation and Interconnection Provider	Colocation / IT SP	CCC / Caa2	6	16.3	22.4
3 Social Media Platform	Social Media	AA- / A1	1	12.1	16.6
4 Global Technology Solutions Provider	Hyperscale CSP	A- / A3	1	7.4	10.1
5 Fortune 25 Technology Company	Hyperscale CSP	AA+ / Aa2	1	4.8	6.6
6 Global Cloud and Database Software Provider	Hyperscale CSP	BBB / Baa2	1	1.7	2.3
7 Global Cloud Provider	Hyperscale CSP	AA / A1	1	1.6	2.2
8 Multi-national Service Provider	Others	BB / Unrated	1	0.4	0.5
9 Communications Infrastructure Company	Others	B- / B2	3	0.3	0.4
10 Managed Infrastructure Solutions Provider	Colocation / IT SP	Unrated	1	0.1	0.1
Others				0.5	0.7
Total				72.8	100.0

Source: DCREIT

STOCK IMPACT

- Dealing directly with end-customers.** The in-place passing rents for the affected data centres are below market. Vacancy rates are in the low- to mid-single-digit across all three markets. The facilities are 95% occupied in Silicon Valley, 57% occupied in Los Angeles and 70% occupied in Frankfurt. The three data centres in Silicon Valley accounted for two thirds of annualised rent from the six affected data centres. Cyxtera has 120 days to decide which leases to resume or reject. We expect Cyxtera to reject the two leases for data centres in Los Angeles as occupancy is low at 57%. DCREIT is well-positioned to deal directly with Cyxtera's existing end-user colocation customers.
- Positive attributes of affected data centres.** Two of DCREIT's data centres in Silicon Valley, namely 2401 Walsh Avenue and 2403 Walsh Avenue, are located next to Nvidia. One of its data centres in Los Angeles at 200 North Nash Street is located near two subsea cables landing points owned by Google and Meta Platforms.
- Supply constraints drive higher rents.** According to datacenterHawk, market rents rose 40-60% at Northern California and 25-50% at Los Angeles over the past two years. Management estimated that its in-place passing rents are 15-40% below market at Northern California and 5-15% below market at Los Angeles. Rising rents and tightening vacancies augur well for DCREIT's efforts to backfill the vacant data centre space.

EARNINGS REVISION/RISK

- We cut our 2024 DPU forecast and target price for DCREIT by 15% and 22% respectively to 3.5 US cents and US\$0.67 assuming DCREIT backfills half of the data centre spaces vacated by Cyxtera.

VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price of US\$0.67 is based on DDM (cost of equity: 7.25%, terminal growth: 2.2%).

SHARE PRICE CATALYST

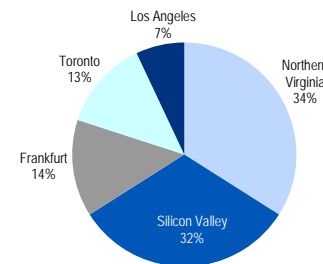
- Organic growth from cash rental escalation of 1-3% (weighted average: 2%).
- Yield-accretive acquisitions tapping on sponsor's large and growing data centre pipeline.

DATA CENTRES CURRENTLY OCCUPIED BY CYXTERA

	LOS ANGELES		SILICON VALLEY			FRANKFURT
Location	3015 Winona Avenue	200 North Nash Street	2401 Walsh Avenue	2403 Walsh Avenue	1500 Space Park Drive	Wilhelm-Fay-Strasse 24 (FRAS0)
Data Centre Type	Shell & Core	Shell & Core	Shell & Core	Shell & Core	Shell & Core	Fully-Fitted
Lease Structure	Triple Net	Triple Net	Triple Net	Triple Net	Triple Net	Gross + E(electricity)
Marketability Score	AVERAGE	HIGH	HIGH	HIGH	HIGH	HIGH
Current Rent vs. Market Rent	Below Market		Below Market			Below Market
IN EVENT OF LEASE REJECTION						
Potential Impact to Asset Valuation	3% Impact to Total Asset Value		3% Impact to Total Asset Value			Minimal Impact
Potential Downtime	0 - 18 Months					
Potential Debt-Funded CapEx	\$5 million - \$10 million Per Data Centre					
Potential Pro Forma Leverage	35% - 40% Aggregate Leverage					

Source: DCREIT

RENTAL INCOME BY CORE MARKET (MAR 23)



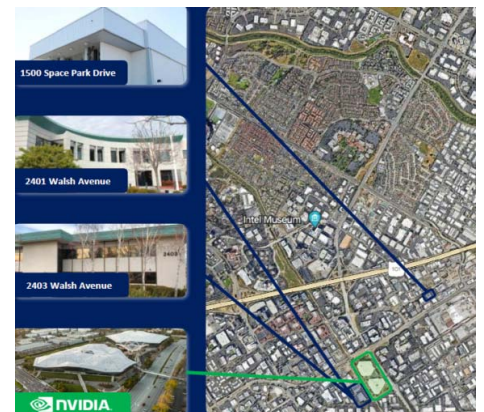
Source: DCREIT

IMPACTED PROPERTIES

Location	Net Rentable Square Feet	At Share		2022 Appraised Value	
		Annualised Rent Amount	% of Total	Amount	% of Total
Los Angeles					
3015 Winona Avenue	74,620	\$2.1	2.9%	\$48.6	3.4%
200 North Nash Street	102,245	2.7	3.6%	62.1	4.3%
Total: Los Angeles	176,865	\$4.8	6.6%	\$110.7	7.7%
Silicon Valley					
2401 Walsh Avenue	151,139	\$4.2	5.8%	\$99.0	6.9%
2403 Walsh Avenue	93,546	2.6	3.6%	61.2	4.3%
1500 Space Park Drive	46,454	4.1	5.7%	103.5	7.2%
Total: Silicon Valley	291,138	\$11.0	15.1%	\$263.7	18.4%
Frankfurt					
Wilhelm-Fay-Strasse 24	4,356	\$0.5	0.7%	\$6.0	0.4%
Total: Customer Assets	472,359	\$16.3	22.4%	\$380.4	26.6%
Other Data Centres	728,275	\$6.5	77.6%	1,049.9	73.4%
Total Portfolio	1,200,634	\$72.8	100.0%	\$1,430.2	100.0%

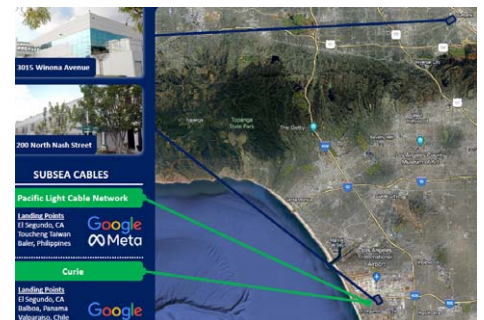
Source: DCREIT

KEY LOCATIONS IN SILICON VALLEY



Source: DCREIT

KEY LOCATIONS IN LOS ANGELES



Source: DCREIT

PROFIT & LOSS

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Net turnover	115.0	105.5	98.5	98.5
EBITDA	71.8	68.1	62.9	62.9
Deprec. & amort.	0.0	0.0	0.0	0.0
EBIT	71.8	68.1	62.9	62.9
Associate contributions	(0.5)	6.1	6.3	6.4
Net interest income/(expense)	(10.6)	(23.2)	(23.6)	(24.3)
Pre-tax profit	31.9	(35.0)	46.0	45.3
Tax	(13.1)	(6.0)	(5.3)	(5.2)
Minorities	(5.3)	(5.0)	(4.6)	(4.6)
Net profit	13.4	(46.0)	36.1	35.6
Net profit (adj.)	42.2	40.0	35.7	35.2

BALANCE SHEET

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Fixed assets	1,423.8	1,341.3	1,343.8	1,346.3
Other LT assets	154.2	154.2	154.2	154.2
ST debt	n.a.	n.a.	n.a.	n.a.
Cash/ST investment	25.2	17.3	18.4	19.5
Other current assets	9.3	7.9	7.6	7.6
Total assets	1,612.6	1,520.8	1,524.0	1,527.6
Other current liabilities	25.9	19.8	18.8	18.8
LT debt	495.0	515.0	532.0	550.0
Other LT liabilities	14.6	14.6	14.6	14.6
Shareholders' equity	934.9	837.2	824.2	809.5
Minority interest	142.1	134.1	134.4	134.6
Total liabilities & equity	1,612.6	1,520.8	1,524.0	1,527.6

CASH FLOW

Year to 31 Dec (US\$m)	2022	2023F	2024F	2025F
Operating	77.6	38.4	49.2	48.9
Pre-tax profit	1.5	(57.0)	25.9	25.3
Tax	(2.5)	(2.5)	(2.5)	(1.5)
Working capital changes	14.5	(4.8)	(0.6)	0.0
Non-cash items	(17.8)	(76.6)	9.3	9.4
Other operating cashflows	81.9	179.2	17.0	15.7
Investing	(1,452.3)	(2.5)	(2.5)	(2.5)
Capex (growth)	(1,294.7)	0.0	0.0	0.0
Capex (maintenance)	(2.6)	(2.5)	(2.5)	(2.5)
Investments	(68.9)	0.0	0.0	0.0
Others	(86.1)	0.0	0.0	0.0
Financing	1,400.0	(43.8)	(45.5)	(45.3)
Distribution to unitholders	(26.7)	(40.6)	(39.0)	(40.0)
Issue of shares	977.4	0.0	0.0	1.0
Proceeds from borrowings	497.5	20.0	17.0	18.0
Others/interest paid	(48.2)	(23.2)	(23.6)	(24.3)
Net cash inflow (outflow)	25.2	(7.9)	1.1	1.1
Beginning cash & cash equivalent	0.0	25.2	17.3	18.4
Ending cash & cash equivalent	25.2	17.3	18.4	19.5

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	62.5	64.5	63.9	63.9
Pre-tax margin	27.8	(33.2)	46.7	46.0
Net margin	11.7	(43.6)	36.7	36.1
ROA	n.a.	n.a.	2.4	2.3
ROE	n.a.	n.a.	4.4	4.4
Growth				
Turnover	n.a.	(8.3)	(6.6)	0.0
EBITDA	n.a.	(5.2)	(7.6)	(0.0)
Pre-tax profit	n.a.	(209.8)	n.a.	(1.5)
Net profit	n.a.	(442.9)	n.a.	(1.6)
Net profit (adj.)	n.a.	(5.2)	(10.7)	(1.6)
EPU	n.a.	(4.4)	(11.2)	(2.6)
Leverage				
Debt to total capital	31.5	34.6	35.7	36.8
Debt to equity	53.0	61.5	64.5	67.9
Net debt/(cash) to equity	50.3	59.4	62.3	65.5
Interest cover (x)	6.7	2.9	2.7	2.6

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