

COMPANY UPDATE

Digital Core REIT (DCREIT SP)

Extending Footprint To Asia Pacific And Europe

We expect DCREIT to explore the acquisition of data centres in Asia Pacific (Singapore and Australia) and Europe (France, Germany, the Netherlands and the UK) from its sponsor pipeline. We raised our 2023F DPU forecast by 14.3% to 5.2 US cents after factoring in the potential acquisition valued at US\$500m as at end-22 with full contributions in 2023. DCREIT will provide a distribution yield of 4.5% for 2023 (KDCREIT: 5.0% and MINT: 5.9%). Maintain BUY with a higher target price of US\$1.32.

WHAT'S NEWS

- **Able to scale up rapidly due to sizeable sponsor pipeline.** Sponsor Digital Realty is the largest global provider of cloud- and carrier-neutral data centres, colocation and interconnection solutions. It 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. Digital Core REIT (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).
- **Growth through acquisitions supported by strong balance sheet.** DCREIT's ability to scale up through acquisitions is supported by its strong balance sheet with low aggregate leverage of 27%. It is able to tap on sponsor's relationship banks and has a competitive cost of debt of 1.0%. DCREIT is poised to scale up rapidly.
- **Pursuing 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 Asia Pacific (Singapore and Australia) and Europe (France, Germany, Netherlands and the UK) from its sponsor pipeline. Digital Realty owns 75 data centres in these preferred markets that will enhance DCREIT's geographical diversification.

SPONSOR PIPELINE FOR PREFERRED MARKETS IN ASIA PACIFIC AND EUROPE

Location	NRSF (sf)	Space Under Active Development (sf)	Space Held For Development (sf)	Annualised Rent (US\$m)	Data Centre Count
Asia Pacific					
Singapore	754,369	131,037	n.a.	128.3	3
Sydney, Australia	226,697	222,838	n.a.	26.2	4
Melbourne, Australia	146,570	n.a.	n.a.	15.5	2
Europe					
London, England	1,432,734	n.a.	160,612	240.3	16
Frankfurt, Germany	1,771,678	1,452,149	n.a.	193.3	27
Amsterdam, Netherlands	1,172,148	94,730	95,262	145.4	13
Paris, France	484,129	429,284	n.a.	64.8	10
Total	5,988,325	2,330,038	255,874	813.8	75

Source: Digital Realty

KEY FINANCIALS

Year to 31 Dec (US\$m)	2020	2021	2022F	2023F	2024F
Net turnover	n.a.	n.a.	106	140	141
EBITDA	n.a.	n.a.	55	72	70
Operating profit	n.a.	n.a.	55	72	70
Net profit (rep./act.)	n.a.	n.a.	11	45	45
Net profit (adj.)	n.a.	n.a.	38	46	44
EPU (US\$ cent)	n.a.	n.a.	3.4	3.8	3.6
DPU (US\$ cent)	n.a.	n.a.	4.3	5.2	5.2
PE (x)	n.a.	n.a.	34.4	30.1	32.6
P/B (x)	n.a.	n.a.	1.4	1.4	1.4
DPU Yld (%)	n.a.	n.a.	3.7	4.5	4.5
Net margin (%)	n.a.	n.a.	10.7	31.9	31.9
Net debt/(cash) to equity (%)	n.a.	n.a.	35.9	68.9	72.4
Interest cover (x)	n.a.	n.a.	11.3	6.9	6.7
ROE (%)	n.a.	n.a.	n.a.	4.5	4.4
Consensus DPU (US\$ cent)	n.a.	n.a.	4.2	4.4	5.0
UOBKH/Consensus (x)	-	-	1.02	1.18	1.03

Source: Digital Core REIT, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	US\$1.16
Target Price	US\$1.32
Upside	+13.8%
(Previous TP)	US\$1.18)

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):	1,125.4
Market cap (US\$m):	1,305.4
Market cap (US\$m):	1,305.4
3-mth avg daily t'over (US\$m):	n.a.

Price Performance (%)

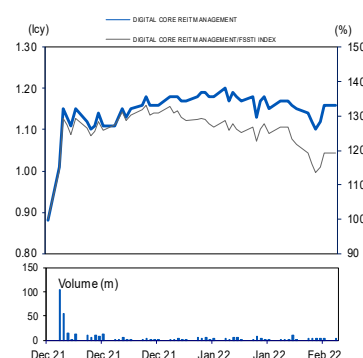
52-week high/low	US\$1.20/US\$0.88			
1mth	3mth	6mth	1yr	YTD
(2.5)	n.a.	n.a.	n.a.	0.0

Major Shareholders

Digital CR Singapore Holding, LLC	33.4%
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FY22 NAV/Share (US\$)	0.84
FY22 Net Debt/Share (US\$)	0.30

PRICE CHART



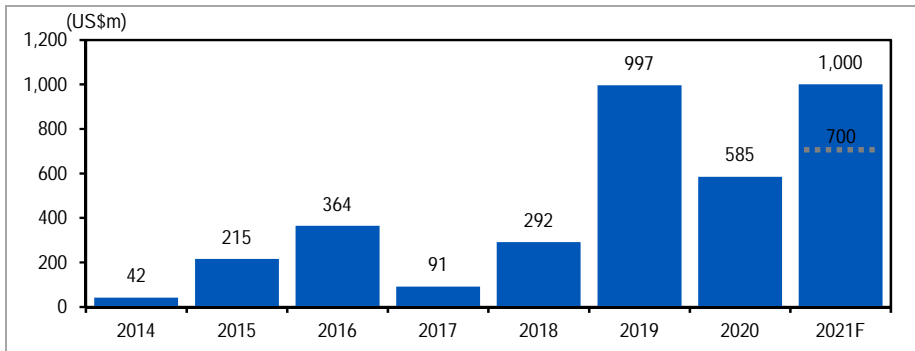
Source: Bloomberg

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- Digital Realty active in asset recycling.** Sponsor Digital Realty constantly recycles its portfolio of data centres through acquisitions, development projects and divestments. It divested three data centres for US\$997m in 2019 and 12 data centres for US\$585m in 2020. Digital Realty's management has guided divestments of US\$0.7b-1.0b for 2021F. In the past, the sponsor has sold its data centres to third-party buyers. Going forward, we expect Digital Realty to divest primarily to DCREIT as its exclusive S-REIT vehicle.

SPONSOR DIGITAL REALTY'S DIVESTMENT OF DATA CENTRES



Source: Digital Realty

STOCK IMPACT

- Focus on four top-tier core markets.** DCREIT invests in a diversified and stabilised portfolio of mission-critical data centres. 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 and NRSF of 1.2m. These core markets have concentrations of large blue chip customers with a diverse range of mission-critical demand. Northern Virginia and Silicon Valley, which are the largest data centre markets in the US, accounted for 77% of its AUM.
- Riding on dominance and growth from hyperscalers.** Hyperscalers dominate the cloud services industry and have broad ambitions to expand their digital businesses in various related verticals. They develop infrastructure to support hundreds of millions and even billions of users. According to Synergy Research, there are 24 hyperscalers globally and they account for more than 50% of the cloud service market. Demand for hyperscale data centres is projected to grow at a CAGR of 23% in 2020-24, outpacing a CAGR of 15% for the broader North America data centre market. DCREIT is a beneficiary as 68.5% of its base rental income was derived from the hyperscale segment as of Jun 21.

EARNINGS REVISION/RISK

- Impending acquisitions within 2022.** We have factored in acquisition of data centres valued at US\$500m as at end-22 with full contributions in 2023F. We expect DCREIT to acquire 90% interest in the data centres, while Digital Realty retains 10% interest. We have assumed cap rate at 4.0% and NPI margin of 60%. We expect the acquisition to be funded by equity fundraising of US\$100m (private placement of 95.2m new units at US\$1.05) and additional borrowings of US\$350m at cost of debt of 1.5% (mix of debt and equity funding: 78:22). We estimate aggregate leverage at 37.3% post-acquisition.
- Decent boost to 2023 DPU.** We have raised our 2023 DPU forecast by 14.3% to 5.2 US cents after factoring in the potential acquisition of data centres worth US\$500m.

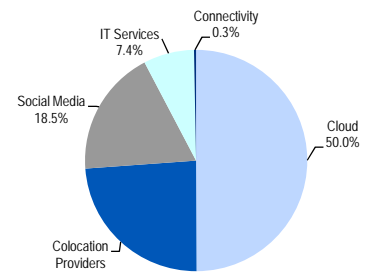
VALUATION/RECOMMENDATION

- Maintain BUY.** Our target price for DCREIT of US\$1.32 is based on DDM (cost of equity: 5.75%, terminal growth: 2.0%).
- Pure play on data centres.** DCREIT provides a distribution yield of 4.5% for 2023F (KDCREIT: 5.0% and MINT: 5.9%). It deserves to trade at a premium due to its status as a pure play on data centres with acquisition-led growth supported by Digital Realty.
- P/NAV at huge discount relative to peers.** DCREIT trades at P/NAV of 1.38x, which is a discount compared with other data centre REITs that are trading at an average P/NAV of 1.57x (KDCREIT: 1.34x and MINT: 1.80x).

SHARE PRICE CATALYST

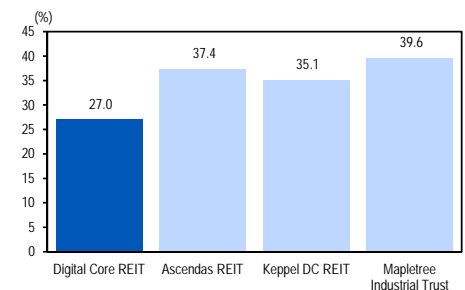
- Organic growth from cash rental escalation of 1-3% (weighted average: 2%).
- Yield accretive acquisitions tapping on sponsor's large and growing data centre pipeline.

BASE RENTAL INCOME BY TRADE SECTOR (JUN 21)



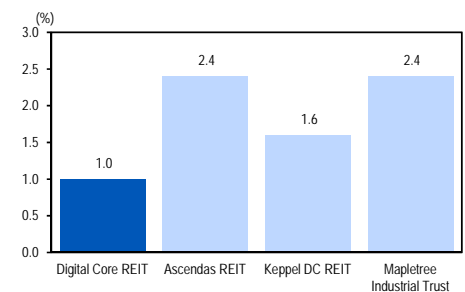
Source: DCREIT

AGGREGATE LEVERAGE (SEP 21)



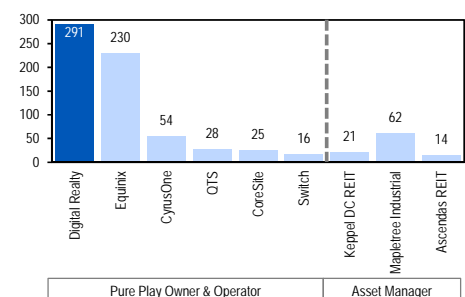
Source: DCREIT, respective REITs

COST OF DEBT (SEP 21)



Source: DCREIT, respective REITs

NUMBER OF DATA CENTRES



Source: DCREIT

PROFIT & LOSS

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Net turnover	n.a.	106.1	140.0	140.7
EBITDA	n.a.	55.5	71.9	70.4
Deprec. & amort.	n.a.	0.0	0.0	0.0
EBIT	n.a.	55.5	71.9	70.4
Net interest income/(expense)	n.a.	(4.9)	(10.5)	(10.5)
Pre-tax profit	n.a.	23.9	60.4	60.3
Tax	n.a.	(7.6)	(9.2)	(9.0)
Minorities	n.a.	(4.9)	(6.5)	(6.5)
Net profit	n.a.	11.4	44.7	44.8
Net profit (adj.)	n.a.	38.1	45.7	44.4

BALANCE SHEET

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Fixed assets	n.a.	1,443.0	1,945.5	1,948.0
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.	12.9	12.6	15.8
Other current assets	n.a.	3.5	4.5	4.5
Total assets	n.a.	1,460.5	1,963.6	1,969.4
Other current liabilities	n.a.	4.4	5.8	5.8
LT debt	n.a.	355.0	725.0	750.0
Other LT liabilities	n.a.	3.6	4.7	4.7
Shareholders' equity	n.a.	953.2	1,033.6	1,014.0
Minority interest	n.a.	144.3	194.6	194.8
Total liabilities & equity	n.a.	1,460.5	1,963.6	1,969.4

CASH FLOW

Year to 31 Dec (US\$m)	2021	2022F	2023F	2024F
Operating	n.a.	19.9	106.9	55.6
Pre-tax profit	n.a.	11.4	44.7	44.8
Tax	n.a.	(2.5)	(2.5)	(2.5)
Working capital changes	n.a.	4.9	1.6	0.0
Non-cash items	n.a.	(11.4)	12.8	12.8
Other operating cashflows	n.a.	17.5	50.4	0.4
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.	1,291.9	395.3	(49.8)
Distribution to unitholders	n.a.	(48.5)	(64.2)	(64.4)
Issue of shares	n.a.	990.3	100.0	0.0
Proceeds from borrowings	n.a.	355.0	370.0	25.0
Others/interest paid	n.a.	(4.9)	(10.5)	(10.5)
Net cash inflow (outflow)	n.a.	12.9	(0.3)	3.2
Beginning cash & cash equivalent	n.a.	0.0	12.9	12.6
Ending cash & cash equivalent	n.a.	12.9	12.6	15.8

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	n.a.	52.2	51.3	50.0
Pre-tax margin	n.a.	22.5	43.1	42.9
Net margin	n.a.	10.7	31.9	31.9
ROA	n.a.	n.a.	2.6	2.3
ROE	n.a.	n.a.	4.5	4.4
Growth				
Turnover	n.a.	n.a.	31.9	0.5
EBITDA	n.a.	n.a.	29.6	(2.1)
Pre-tax profit	n.a.	n.a.	152.7	(0.1)
Net profit	n.a.	n.a.	291.4	0.4
Net profit (adj.)	n.a.	n.a.	20.1	(2.8)
EPU	n.a.	n.a.	14.2	(7.4)
Leverage				
Debt to total capital	n.a.	24.4	37.1	38.3
Debt to equity	n.a.	37.2	70.1	74.0
Net debt/(cash) to equity	n.a.	35.9	68.9	72.4
Interest cover (x)	n.a.	11.3	6.9	6.7

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