

Digital Realty Trust (DLR)

\$134.13 (As of 03/26/20)

Price Target (6-12 Months): **\$142.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/09/18)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: F

Growth: B

Momentum: A

Summary

Shares of Digital Realty have outperformed its industry over the past year. The company recently completed its previously announced combination with InterXion, helping the company to enjoy an increased presence in major European metro areas. Further, the company opened a new data centre in Dublin, Ireland, banking on the Euro tech boom. The company also announced a 4% hike in dividend, marking its 15th consecutive year of increase. Notably, solid fundamental of the data-center market is expected to help the company ride on its growth curve. Amid this, accretive acquisitions and development efforts backed by healthy balance sheet augur well. However, Digital Realty faces intense competition in the industry. Amid this, aggressive pricing pressure will likely persist in the upcoming period. The company also has a substantial debt burden.

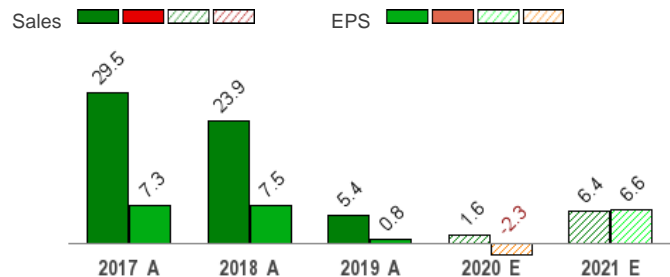
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$143.61 - \$105.00
20 Day Average Volume (sh)	6,804,723
Market Cap	\$28.0 B
YTD Price Change	12.0%
Beta	0.47
Dividend / Div Yld	\$4.48 / 3.3%
Industry	REIT and Equity Trust - Other
Zacks Industry Rank	Top 38% (96 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.5%
Last Sales Surprise	-0.8%
EPS F1 Est- 4 week change	0.9%
Expected Report Date	04/23/2020
Earnings ESP	7.6%
P/E TTM	20.1
P/E F1	20.6
PEG F1	3.0
P/S TTM	8.7

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	853 E	858 E	882 E	898 E	3,467 E
2020	795 E	804 E	822 E	832 E	3,259 E
2019	815 A	801 A	806 A	787 A	3,209 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.73 E	\$1.72 E	\$1.77 E	\$1.79 E	\$6.93 E
2020	\$1.62 E	\$1.62 E	\$1.64 E	\$1.66 E	\$6.50 E
2019	\$1.73 A	\$1.64 A	\$1.67 A	\$1.62 A	\$6.65 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/26/2020. The reports text is as of 03/27/2020.

Overview

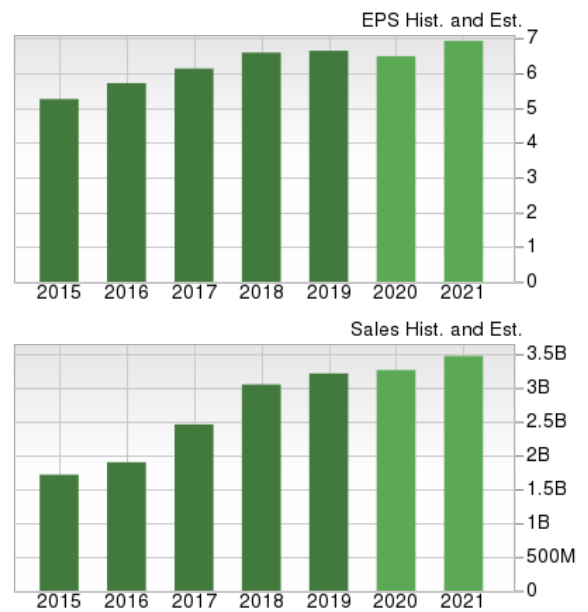
Digital Realty Trust is engaged in the ownership, acquisition, repositioning and management of the technology-related real estate. Specifically, the company offers data center, colocation and interconnection solutions for domestic and international tenants through its portfolio of data centers located throughout North America, Europe, Asia and Australia. The tenants belong to a wide variety of industry verticals, ranging from financial services, cloud and information technology services, to manufacturing, energy, healthcare and consumer products.

The company is headquartered in San Francisco, CA. It has regional U.S. offices in Boston, Chicago, Dallas, Los Angeles, New York, Northern Virginia and Phoenix, as well as regional international offices in Amsterdam, Dublin, London, São Paulo, Singapore, Sydney, Tokyo and Hong Kong.

As of Dec 31, 2019, the company's portfolio comprised 225 data centers. This included 41 properties held as investments in unconsolidated joint ventures. Out of these, 147 data centers are situated throughout the United States, while 41 are located in Europe, 19 in Latin America, 10 in Asia, five in Australia and three in Canada. The portfolio contains around 36.6 million square feet, including about 4.5 million square feet of space under active development and 1.8 million square feet of space held for future development.

In recent years, Digital Realty has opted for strategic acquisitions which helped the company gain scale. Particularly, in March 2020, the company announced that it has completed the acquisition of Interxion, a provider of carrier and cloud-neutral colocation data-center services. The acquisition deal, which was announced last October and valued at \$8.4 billion, including debt, aids Digital Realty to gain a strong presence in Europe and capitalize on Interxion's expertise in the colocation and interconnection space in the region.

*Note**: All EPS numbers presented in this report represent funds from operations ("FFO") per share. FFO, a widely used metric to gauge the performance of REITs, is obtained after adding depreciation and amortization and other non-cash expenses to net income.*



Reasons To Buy:

- ▲ Digital Realty has a high-quality diversified customer base comprising tenants from Cloud, Content, Information technology, Network and Enterprise, and Financial industries. Tenant roster includes names like Facebook, IBM, Oracle, LinkedIn, Uber, Verizon, Comcast and others. Majority of its tenants are investment grade and numerous customers use multiple locations across the portfolio.
- ▲ Digital Realty is expected to ride on its growth curve backed by strategic acquisitions. The company recently completed the previously-announced acquisition of Interxion, a European provider of carrier and cloud-neutral colocation data-center services for a total consideration of \$8.4 billion, including debt. The combined company will enjoy enhanced presence in major European metro areas, and its size and scale is expected to result in an efficient cost structure and superior EBITDA margins. Moreover, during 2018, the company completed the acquisition of Ascenty, a data-center provider in Brazil, in a transaction valued at \$1.8 billion. This helped gain eight assets and six development projects in Brazil. Also, the earlier merger with DuPont Fabros enhanced Digital Realty's portfolio in the top U.S. data-center metro areas across Northern Virginia, Chicago and Silicon Valley. It helped Digital Realty enhance hyper-scale product offering and grow its blue-chip customer base. Also, the company enhanced its presence in Europe, Australia and Asia in recent years through the development of high-quality facilities. We believe such expansion efforts will drive the company's top and bottom lines in the years ahead.
- ▲ With growth in cloud computing, Internet of Things and big data, and an increasing number of companies opting for third-party IT infrastructure; data-center REITs are experiencing a boom market. Also, the estimated growth rates for the artificial intelligence, autonomous vehicle and virtual/augmented reality markets will remain robust over the next five to six years. In fact, demand is outpacing supply in top-tier data center markets and despite enjoying high occupancy, the top-tier markets are absorbing new construction at a faster pace. These are anticipated to drive demand for data centers.
- ▲ Moreover, the company delivered a healthy performance in fourth-quarter 2019 on solid data-center demand. Signed total bookings during the reported quarter are estimated to generate \$69 million of annualized GAAP rental revenues. This would include a \$7-million contribution from inter-connection. Notably, the weighted-average lag between leases signed during fourth-quarter 2019 and the contractual commencement date was four months. Also, the company signed renewal leases, marking \$117 million of annualized GAAP rental revenues.
- ▲ The company focuses on maintaining a solid balance sheet and enjoys ample and growing liquidity, with diversified sources of capital and has a well-laddered debt maturity schedule, with weighted average maturity of 6.5 years and 2.9% weighted average coupon. Further, 99% of its total debt is unsecured.
- ▲ Additionally, solid dividend payouts are the biggest enticement for REIT shareholders and Digital Realty remains committed to that. Furthermore, in February 2020, the company announced a 4% hike in dividend to \$1.12 per share. The company has raised dividend every year since its initial public offering and the latest dividend hike marked the 15th consecutive year of increase.

Digital Realty is well poised to grow amid robust demand for data centers, accretive acquisitions, development efforts and solid balance-sheet strength. Rising dividends augur well for shareholders.

Reasons To Sell:

- ▼ Digital Realty faces stiff competition in its industry. In fact, the company competes with several data center developers, owners and operators, many of whom enjoy ownership of similar assets in locations same as Digital Realty. Also, there are a number of local developers in the United States, and several regional operators in Europe, Asia and Australia. Given the solid growth potential of the data center real estate market, competition is expected to increase in the upcoming period from existing players, as well as the entry of new players. Amid this, there is likely to be aggressive pricing pressure in the data center market.
- ▼ Digital Realty has a significant number of properties situated outside the United States. The company is also considering making additional international acquisitions. Although a sound global footprint helps the company meet rising data center requirements of customers around the world, the process exposes the company's earnings to foreign currency translation.
- ▼ The company has a substantial debt burden. In fact, as of Dec 31, 2019, the company had around \$10.1 billion of total debt outstanding, of which \$10 billion was unsecured debt and around \$0.1-billion secured debt. Although interest rate levels are low at present, any hike in future is likely to be a challenge for the company. Essentially, rising rates imply higher borrowing cost for the company, which would affect its ability to purchase or develop real estate and lower dividend payouts as well. Moreover, the dividend payout might become less attractive than the yields on fixed income and money-market accounts.
- ▼ Shares of Digital Realty have outperformed its industry over the past year. The stock has gained 12.1%, compared with the industry's decline of 22.0%. However, the recent trend in estimate revision of current-year FFO per share does not indicate an upbeat outlook. In fact, over the past month, the Zacks Consensus Estimate for 2020 FFO per share remained unchanged over the past month. Therefore, given the above-mentioned factors and downward estimate revisions, the stock has limited upside potential.

Digital Realty faces cut-throat competition in the industry, leading to aggressive pricing pressure. Substantial debt burden and notable exposure to foreign currency translation are other concerns.

Last Earnings Report

Digital Realty Beats Q4 FFO Estimates, Revenues Up Y/Y

Digital Realty reported fourth-quarter 2019 core FFO per share of \$1.62, beating the Zacks Consensus Estimate of \$1.58. However, results compare unfavorably with the year-ago figure of \$1.68.

The company reported operating revenues of \$787.5 million in the fourth quarter, marking a 1.2% year-over-year rise. The revenue figure, however, missed the Zacks Consensus Estimate of \$794 million.

For full-year 2019, the company reported core FFO per share of \$6.65, up from the prior year's \$6.60. Revenues for the year amounted to \$3.2 billion, up 5.3% year on year.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	-0.82%
EPS Surprise	2.53%
Quarterly EPS	1.62
Annual EPS (TTM)	6.66

Quarter in Detail

Signed total bookings during the reported quarter are estimated to generate \$69 million of annualized GAAP rental revenues. This would include a \$7-million contribution from inter-connection. Notably, the weighted-average lag between leases signed during fourth-quarter 2019 and the contractual commencement date was four months.

Moreover, the company signed renewal leases, marking \$117 million of annualized GAAP rental revenues. Rental rates on renewal leases signed during the quarter rolled down 0.6% on a cash basis and up 4.2% on a GAAP basis.

Portfolio Activity

In November, Digital Realty closed \$1-billion joint venture (JV) with Mapletree Investments and Mapletree Industrial Trust on three existing Turn-Key Flex® data centers in Ashburn, VA. Digital Realty retained 20% interest in the JV, while the entity acquired 80% stake for around \$811 million. Digital Realty will keep operating and managing these facilities. These facilities are anticipated to generate aggregate cash NOI of around \$61 million next year. This indicates a 6% cap rate.

Balance Sheet

Digital Realty exited fourth-quarter 2019 with cash and cash equivalents of around \$89.8 million, up from the \$7.2 million recorded at the end of the prior quarter.

Additionally, as of Dec 31, 2019, the company had around \$10.1 billion of total debt outstanding, of which \$10 billion was unsecured debt and \$0.1 billion secured debt. Also, as of the same date, its net debt-to-adjusted EBITDA was 5.7x, while fixed charge coverage was 4.1x.

Recent News

Digital Realty Boosts European Presence on InterXion Buyout – Mar 13, 2020

Digital Realty completed its previously announced combination with InterXion. With this, Digital Realty, which is a major provider of data center, colocation and interconnection solutions, is expected to enjoy an increased presence in major European metro areas.

The transaction was completed, following the expiration of the related exchange offer. As part of the transaction, 70.9 million shares of InterXion, representing 92.3% of total shares outstanding, were tendered.

Non-tendering shareholders will receive shares of Digital Realty common stock (and/or cash in lieu of fractional shares of Digital Realty) in accordance with a liquidation distribution, which is generally subjected to a 15% Dutch dividend-withholding tax as less than 95% of InterXion's total shares outstanding were acquired in the exchange offer. Furthermore, the shareholders will no longer be able to trade the shares on any stock exchange and their transferability will also be subjected to certain restrictions.

The move is expected to be accretive to Digital Realty's long-term growth trajectory, as it capitalizes on InterXion's European colocation and interconnection expertise. InterXion's European business comprised more than 50 carrier-and cloud-neutral facilities across 11 countries and several metro areas, including Frankfurt, Amsterdam and Paris, as well as its Internet Gateway in Marseille. InterXion's European business is likely to strengthen the footprint of Digital Realty, which already has solid presence in London and Dublin.

Digital Realty Banks on Euro Tech Boom, Opens Dublin Facility – Mar 5, 2020

Digital Realty announced the launch of the Clonshaugh data center, the company's latest facility in Dublin, Ireland. The move comes as part of the company's effort to capitalize on the multibillion-euro technology boom that the city is set to experience in the coming years.

In fact, in Dublin, per the Digital Realty-commissioned study, "Digital Capitals Index: Dublin," four innovative technologies — Artificial Intelligence (AI), IoT, 5G and Blockchain — combined added approximately €1.23 billion to Dublin's economy in 2019. Specifically, IoT contributed the most at 51% of the total or €630 million.

Moreover, these new technologies are expected to contribute an estimated €6.37 billion to Dublin's economy in 2029, which represents a whopping increase of £5.14 billion from the 2019 level. Robust growth is likely to come from 5G, with its economic contribution rising to €1.12 billion from €30 million, over the next decade.

This is owing to 5G emerging as the foundation for deployment of several other innovative, data-led technologies. AI is expected to be the biggest driver with an estimated 46% surge in value, while IoT is projected to make contribution of a further 22%.

In fact, per the study commissioned by Digital Realty and conducted by Development Economics, out of the 60 digital cities studied, Dublin ranks 39th, though after adjusting for population size, this ranking puts the city in the eight place overall. By 2029, due to rapid growth of the technology sector in the city, Dublin's ranking is expected to be up four places.

Amid these, Digital Realty's investment in the Dublin data-center market comes as a strategic fit. In fact, the latest data center which marks a €70-million investment follows the company's prior €200-million investment in the market, resulting in the opening of its Profile Park campus last May.

Dividend Update

On Feb 27, the company announced a hike in its quarterly cash dividend to \$1.12 per share from \$1.08 per share paid earlier. This represented a 3.7% increase when compared to the last quarter. The dividend will be paid on Mar 31 to the common stockholders as of Mar 17, 2020.

Valuation

Digital Realty shares have been up 12.1% in the trailing 12 months. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 22.0% and 24.0% in the past year, respectively.

The S&P 500 index is down 12.8% in the past year.

The stock is currently trading at 20.32X forward 12-month FFO, which compares to 13.41X for the Zacks sub-industry, 10.66X for the Zacks sector and 14.92X for the S&P 500 Index.

Over the past five years, the stock has traded as high as 21.77X and as low as 11.51X, with a 5-year median of 16.82X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$142 price target reflects 21.51X FFO.

The table below shows summary valuation data for DLR.

Valuation Multiples - DLR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	20.32	13.41	10.66	14.92
	5-Year High	21.77	18.7	16.21	19.34
	5-Year Low	11.51	13.41	10.66	14.92
	5-Year Median	16.82	16.08	13.97	17.42
P/S F12M	Current	8.48	5.96	5.99	2.68
	5-Year High	10.95	8.14	6.64	3.43
	5-Year Low	4.48	5.91	5.39	2.54
	5-Year Median	7.16	6.87	6.04	3
P/B TTM	Current	3.05	2.06	1.92	3.33
	5-Year High	5.88	3.01	2.89	4.56
	5-Year Low	2.05	1.8	1.68	2.85
	5-Year Median	3.11	2.52	2.52	3.63

As of 03/26/2020

Industry Analysis Zacks Industry Rank: Top 38% (96 out of 253)



Top Peers

American Tower Corporation (REIT) (AMT)	Outperform
Crown Castle International Corporation (CCI)	Neutral
CyrusOne Inc (CONE)	Neutral
CoreSite Realty Corporation (COR)	Neutral
Equinix, Inc. (EQIX)	Neutral
Iron Mountain Incorporated (IRM)	Neutral
QTS Realty Trust, Inc. (QTS)	Neutral
SBA Communications Corporation (SBAC)	Neutral

Industry Comparison Industry: Reit And Equity Trust - Other				Industry Peers		
	DLR Neutral	X Industry	S&P 500	CONE Neutral	COR Neutral	EQIX Neutral
VGM Score	C	-	-	B	B	C
Market Cap	28.04 B	1.88 B	18.50 B	6.45 B	3.97 B	47.51 B
# of Analysts	10	4	13	9	10	6
Dividend Yield	3.34%	5.80%	2.35%	3.57%	4.63%	1.81%
Value Score	F	-	-	D	D	F
Cash/Price	0.00	0.04	0.07	0.01	0.00	0.05
EV/EBITDA	18.31	12.85	11.16	17.49	18.35	23.47
PEG Ratio	2.94	3.07	1.74	0.66	0.97	1.35
Price/Book (P/B)	3.05	1.13	2.44	2.61	18.56	5.37
Price/Cash Flow (P/CF)	15.45	9.51	9.87	15.04	17.13	26.32
P/E (F1)	20.38	11.00	15.29	14.58	20.28	23.72
Price/Sales (P/S)	8.74	4.14	1.93	6.57	6.93	8.54
Earnings Yield	4.85%	9.09%	6.47%	6.86%	4.93%	4.22%
Debt/Equity	1.18	0.87	0.70	1.28	6.91	1.40
Cash Flow (\$/share)	8.68	2.02	7.01	3.73	6.15	22.33
Growth Score	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	7.22%	2.75%	10.85%	14.86%	18.57%	16.68%
Proj. EPS Growth (F1/F0)	-2.29%	2.19%	2.89%	6.00%	1.84%	8.61%
Curr. Cash Flow Growth	14.13%	4.13%	5.93%	24.40%	4.75%	12.38%
Hist. Cash Flow Growth (3-5 yrs)	19.36%	12.64%	8.55%	30.81%	17.21%	22.24%
Current Ratio	0.32	1.26	1.23	1.24	0.13	1.33
Debt/Capital	50.58%	46.57%	42.57%	56.12%	87.36%	58.27%
Net Margin	18.07%	13.67%	11.64%	4.22%	13.24%	9.12%
Return on Equity	5.79%	4.42%	16.74%	4.62%	29.18%	5.84%
Sales/Assets	0.14	0.13	0.54	0.16	0.28	0.24
Proj. Sales Growth (F1/F0)	1.56%	3.41%	2.37%	6.36%	5.95%	8.49%
Momentum Score	A	-	-	B	A	C
Daily Price Chg	10.46%	6.00%	6.21%	10.00%	3.09%	6.08%
1 Week Price Chg	-15.45%	-21.66%	-16.96%	-21.55%	-7.24%	-18.45%
4 Week Price Chg	8.88%	-25.00%	-15.70%	-12.00%	0.98%	-1.66%
12 Week Price Chg	13.67%	-27.79%	-23.67%	-12.80%	-4.97%	1.42%
52 Week Price Chg	12.11%	-28.29%	-13.99%	7.53%	-1.72%	30.58%
20 Day Average Volume	6,804,723	1,233,460	4,286,768	1,957,075	585,588	886,295
(F1) EPS Est 1 week change	0.00%	0.00%	-0.15%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.90%	-0.81%	-2.28%	-0.16%	0.24%	0.00%
(F1) EPS Est 12 week change	-3.89%	-1.30%	-3.22%	-2.53%	-4.95%	-0.41%
(Q1) EPS Est Mthly Chg	1.70%	0.00%	-1.60%	0.13%	-0.09%	0.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	B
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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