

Digital Realty Trust Inc

4Q First Look: '24 core FFO/sh outlook slightly below Street as ATM gets tapped

Reiterate Rating: BUY | PO: 150.00 USD | Price: 148.61 USD

4Q Core FFO/sh in line with the Street

DLR reported 4Q23 results that beat on adj. EBITDA vs. BofA/Street and came in-line on Core FFO/sh vs. Street estimates ([see Exhibit 1](#)). Relative to its 2023 guidance, DLR reported revenue of \$5,477mn (midpoint at \$5,500mn), adj. EBITDA of \$2,750mn (2,700mn), and Core FFO/sh of \$6.59 (\$6.60). We reiterate our Buy rating.

2024 guidance below Street on revenue and Core FFO/sh

DLR's 2024 guidance came in mixed vs. the Street on select financial metrics. The revenue and Core FFO/sh guidance range is below Street estimates while adj. EBITDA guidance range is in line. DLR expects 2024 revenue of \$5,550-5,650mn (BofAe \$5,658mn/Street \$5,750mn), adj. EBITDA of \$2,800-2,900mn (BofAe \$2,817mn/Street \$2,838mn), and Core FFO/sh of \$6.60-6.75 (BofAe \$6.79/Street \$6.82). For 2024, DLR expects rental rates on renewal leases to be a healthy 4-6% on a cash basis.

Things to note in the release...

DLR realized +8.2% cash rental rates on renewal leases in 4Q23 (vs. +7.4% in 3Q23), split between +5.9% for 0-1MW (+4.4% in 3Q23) and +12.8% for >1MW (5.6% in 3Q23). DLR announced \$110mn of 4Q23 bookings, down from \$152mn in 3Q23, mainly driven by \$57mn of >1MW bookings. During the quarter, DLR signed agreements to resolve its relationship with CYXT where Brookfield acquired interests in four data centers for \$275mn and Brookfield granted DLR an option to acquire a data center outside of London. DLR exercised that option in 1Q24. Also subsequent to quarter end, GI Partners executed its option to acquire an additional 15% interest in two stabilized hyperscale facilities in Chicago, increasing their ownership interest to 80% and \$65mn of gross proceeds are to flow to DLR. Incrementally on the funding front, DLR sold 8.7mn shares of common stock for ~\$1.1bn (average price of \$133.21, 8.7mn shares) via its ATM program in 4Q and another ~\$84mn of common stock in 1Q24 (average price of \$133.43, 0.6mn shares). Pro forma leverage stood at 5.8x as of YE23 (vs. 6.9x YE22).

On the conference call we want to hear more on...

DLR is hosting its 4Q23 conf. call today at **5:00pm ET (Dial in: 888-317-6003, Passcode: 0216634)**. Key topics include 1) 2024 guidance, 2) discussion on future JVs, asset dispositions, and equity issuances, 3) expectations for releasing spreads and the data center demand environment in 2024, and 4) new portfolio growth plans in light of power/land constraints.

15 February 2024

Equity

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Stock Data

Price	148.61 USD
Price Objective	150.00 USD
Date Established	8-Dec-2023
Investment Opinion	B-1-7
52-Week Range	86.33 USD - 149.07 USD
Mrkt Val (mn) / Shares Out (mn)	45,006 USD / 302.8
Free Float	99.9%
Average Daily Value (mn)	270.86 USD
BofA Ticker / Exchange	DLR / NYS
Bloomberg / Reuters	DLR US / DLR.N
ROE (2023E)	5.8%
Net Dbt to Eqty (Dec-2022A)	99.3%
ESGMeter™	High

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Timestamp: 15 February 2024 06:26PM EST

Exhibit 1: DLR 4Q23 results summary

DLR reported 4Q23 results ahead of BofA and consensus expectations

	Actual 4Q23	BofA est. 4Q23E	Variance %	Cons. 4Q23E	Variance %
Revenue					
Rental Revenue	885.7	886.7	-0.1%	890.8	-0.6%
Tenant reimbursements	363.1	396.6	-8.5%	388.6	-6.6%
Total revenue	1,369.6	1,399.1	-2.1%	1,394.8	-1.8%
Financial Metrics					
Adj. EBITDA	699.5	657.7	6.4%	662.3	5.6%
Adj. EBITDA mgn.	51.1%	47.0%	8.6%	47.5%	7.6%
Core FFO/share	1.63	1.63	0.1%	1.64	-0.3%
AFFO/share	1.30	1.56	-16.8%	1.49	-13.0%
Interest expense	113.6	111.3	2.1%	105.0	8.2%
Capex					
Recur. Capex	142.8	53.3	168.0%	68.1	109.8%
Non-recur. Capex	855.4	637.3	34.2%	639.9	33.7%
Total capex	998.2	690.6	44.6%	708.0	41.0%

Source: BofA Global Research estimates, company reports, Visible Alpha consensus

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Price objective basis & risk

Digital Realty Trust Inc (DLR)

Our PO of \$150 is based on a target 2024E core FFO multiple of approx. 22x. This multiple is a premium to the broader REIT sector but at a discount to its closest data center peer. We believe DLR should trade a premium to other REITs due to it being exposed to global pricing power and secular digital transformation tailwinds. Yet, we believe DLR deserves a slight discount to EQIX due to its external funding model and lower forecasted core FFO/share growth.

Downside risks to our price objective are increased competition, customer consolidation or bankruptcies. As a real estate company, Digital Realty remains exposed to excessive new supply in its markets, rising construction and capital costs, real estate values, and rising interest rates.

Analyst Certification

I, David W. Barden, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Digital Realty Trust (DLR) Price Chart



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Equity Investment Rating Distribution: Telecommunications Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	57	51.82%	Buy	43	75.44%
Hold	27	24.55%	Hold	17	62.96%
Sell	26	23.64%	Sell	12	46.15%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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