

Digital Realty Trust Inc

4Q23 Heads up: DLR reporting tomorrow,
2/15 AMC; call at 5:00pm ET

Reiterate Rating: BUY | PO: 150.00 USD | Price: 141.69 USD

Guidance should reflect releasing, funding effects

DLR will report 4Q23 earnings and host its call on Thursday, February 15, AMC. We expect management to 1) share 2024 guidance, 2) discuss progress on future JVs, asset dispositions, and potential equity issuances, 3) highlight expectations for releasing spreads and the data center demand environment in 2024, and 4) speak to new portfolio growth plans in light of power/land constraints. We reiterate our Buy rating. [Exhibit 1](#) on Page 2 of our report has our latest model estimates and growth expectations for 4Q23, 2023, and 2024 vs. the Street.

Lots of 2023 funding activity, more possible in '24

2023 marked a busy, transitional year for DLR's external funding program as questions loomed early regarding management's ability to fund the business through the year. In answer, DLR completed multiple stabilized joint-venture transactions, a \$1.1bn equity issuance, and a \$7bn development JV with Blackstone to develop 10 hyperscale data centers (see our [takeaway report here](#)). These transactions more than helped DLR fund its capex program while lowering leverage to ~6.0x (from ~7.0x at YE22).

Equity issuance sensitivity analysis

When DLR tapped the public equity market via an at-the-market (ATM) program in June 2023 the stock price stood at ~\$96/sh. We believe given 1) the stock is trading at ~\$145/sh., and 2) DLR has an existing \$1.5bn capacity on its 2023 ATM program, a window appears open for DLR management to opportunistically raise equity and preemptively silence any concerns about 2024 funding or leverage issues. For illustrative purposes, we undertook a dilution analysis for our 2024 Core FFO/sh estimate. We assume four different scenarios where DLR issues \$0-1.5bn of equity (\$500mn/~3.5mn share increments) in 1Q24 at a \$145 share price ([Exhibit 2](#)). We believe a \$1.0bn equity issuance would be ~1.50% dilutive to our 2024 estimates (e.g. ~0.7% dilution for every \$500mn of equity issued). In such a scenario, our 2024 core FFO/sh estimate of \$6.69 would be ~2% below the current Street estimate of \$6.83, implying core FFO/sh growth y/y of 1.5%. In this scenario, which could prove more important, diluting near-term growth, or funding the obvious long-term growth opportunity? We believe it is the latter.

Industry checks see pricing power intact

DLR reported 3Q23 cash releasing spreads of +7.4% (+4.4% 0-1MW/+5.6% >1MW/+71.6% Other) for the quarter and again raised its 2023 cash releasing guidance to >5% (from >4%). DLR management noted 'there's nothing that suggests pricing won't continue to be robust across all major markets' with 3Q earnings. Based on our regular conversations with both public and private data center operators, market conditions remain favorable as data center demand continues to outpace available and incoming supply.

Conference call Info

Thursday, February 15 at 5:00pm (ET). Dial-in: 888-317-6003, Passcode: #021663.

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14 February 2024

Equity

David W. Barden, CFA

Research Analyst

BofAS

+1 646 855 1320

david.w.barden@bofa.com

Alexander Waters

Research Analyst

BofAS

+1 646 855 0684

alexander.waters@bofa.com

Stock Data

Price	141.69 USD
Price Objective	150.00 USD
Date Established	8-Dec-2023
Investment Opinion	B-1-7
52-Week Range	86.33 USD - 148.09 USD
Mkt Val (mn) / Shares Out (mn)	42,910 USD / 302.8
Free Float	99.9%
Average Daily Value (mn)	254.28 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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AMC: After market close

Exhibit 1: BofA vs. Consensus estimates (\$mns)

We remain +/- in line with Consensus on 2023 and 2024 estimates

	4Q23			2023			2024		
	BofAE	Cons.	+/-%	BofAE	Cons.	+/-%	BofAE	Cons.	+/-%
Revenue									
Rental Revenue	886.7	890.8	-0.5%	3,513.9	3,518.1	-0.1%	3,706.6	3,717.4	-0.3%
Tenant reimbursements	396.6	388.6	2.1%	1,530.8	1,522.8	0.5%	1,466.9	1,533.3	-4.3%
Total revenue	1,399.1	1,394.8	0.3%	5,506.5	5,502.2	0.1%	5,658.3	5,750.1	-1.6%
Financial Metrics									
Adj. EBITDA	657.7	662.3	-0.7%	2,708.0	2,712.7	-0.2%	2,816.7	2,837.5	-0.7%
Adj. EBITDA mgn.	47.0%	47.5%	-1.0%	49.2%	49.3%	-0.2%	49.8%	49.3%	0.9%
Core FFO/share	1.63	1.64	-0.4%	6.59	6.60	-0.1%	6.79	6.82	-0.7%

Source: BofA Global Research, Visible Alpha

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Exhibit 2: For illustrative purposes, we analyze of 2024 Core FFO/sh estimates with \$0-1.5bn of equity issuance

For every \$500mn of equity issuance, we find it ~0.7% dilutive to our Core FFO/sh estimates

2024 Core FFO/sh						
Equity issuance (\$mns)	BofA estimate w/ equity issuance	Current BofA estimate	Cons.	Dilution	New vs. Cons	y/y growth
0	6.79	6.79	6.83	0.0%	-0.6%	3.0%
500	6.74	6.79	6.83	-0.7%	-1.3%	2.3%
1,000	6.69	6.79	6.83	-1.5%	-2.0%	1.5%
1,500	6.64	6.79	6.83	-2.2%	-2.8%	0.8%

Source: BofA Global Research estimates, Visible Alpha

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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.

Equinix, Inc. (EQIX;B-1-7;\$830.00)

Our \$870 price objective is based on a target multiple of approximately 25x 2024E AFFO/share. Our target multiple is a premium to the broader average REIT multiple of 18.5x as we believe EQIX's superior AFFO/sh growth, pricing power tailwinds, and competitive moat still merit a similar relative valuation premium to other REITs.

The risks to our price objective are 1) a prolonged downturn in Enterprise IT spending, 2) meaningful exposure to the financial industry, and 3) fluctuating FX rates.

Analyst Certification

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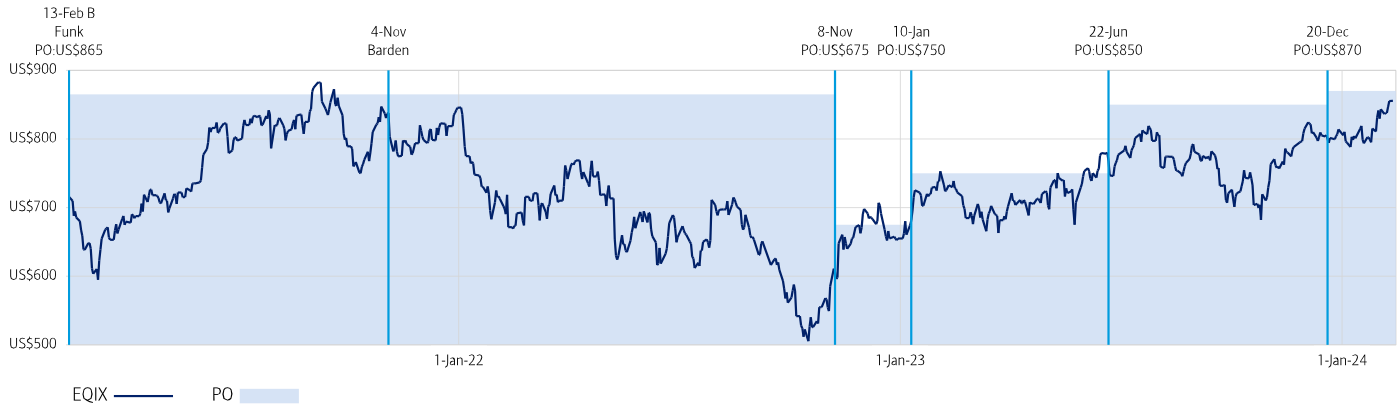
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Digital Realty Trust (DLR) Price Chart



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Equinix (EQIX) 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)

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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%
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Underperform	N/A	≥ 20%

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