



DIGITAL REALTY

Digital Realty Research

Description: Supports the data center, colocation and interconnection strategies of more than 2,300 firms across its secure, network-rich portfolio of data centers located throughout North America, Europe, Asia and Australia.

Ticker: DLR

Price: \$114.32

Market Cap: \$23.8B

Performance: +4.1% YTD

Data center REITs are super interesting because there's so much at play. On one side, we cannot deny the growth of the cloud and overall demand for mobile/video/internet of things. On the flip side, efficiency in technology could hurt demand for more square footage and overall increases in rates aren't good either. This is one headwind alongside increased competition. For example, CoreSite (COR), Equinix (EQIX), CyrusOne (CONE) and QTS Realty (QTS) are big competitors.

They're all a bit different in a way, though. For instance, DLR and EQIX have a larger international presence than the other names.

If you believe tech is going to keep growing (we believe it will given the unrelenting growth of the cloud, IoT, blockchain, perhaps a return in crypto mining, big data, streaming, etc) these companies are set up for solid returns just check these stats below.

According to the International Data Corporation, vendor revenue from sales of infrastructure products (server, storage, and Ethernet switch) for cloud IT, including public and private cloud, grew 45.5% year over year in the first quarter of 2018, reaching \$12.9B. IDC also raised its forecast for total spending on cloud IT infrastructure in 2018 to \$57.2B with year-over-year growth of 21.3%. Public cloud infrastructure quarterly revenue has more than doubled in the past three years to \$9.0B in 1Q18, growing 55.8% year over year. Private cloud revenue reached \$3.9B for an annual increase of 26.5%. The combined public and private cloud revenues now represent 46.1% of the total worldwide IT infrastructure spending, up from 41.8% a year ago.

As you can see the industry keeps chugging forward and these companies are looking abroad to capitalize.

With regard to DLR, they are pushing forward immensely on their international strategy. A couple of examples include DLR's acquisition of Ascenty, a leading data center provider in Brazil in late September and just a few weeks ago sealed a multi-year, multi-megawatt deal with a cloud service provider that will launch a second data center in Osaka, Japan. This second location dubbed Digital Osaka 2 is currently under construction, scheduled to open in mid-2019 and is a four-story facility spanning more than 23,000 square meters, not feet... meters!, and will deliver up to 28 MW of total IT capacity.

DLR's most recent quarter on October 25th wasn't too shabby:

- Q3 core funds from operations came in at \$1.63 beating estimates by \$0.01 and up from \$1.51 last year (reported FFO/share was \$1.57, up from \$1.23 last year)
- Revenue of \$768.92M (+26.1% Y/Y) missed by \$4.82M
- Net income was \$0.33/share, up from a loss of \$0.02/share in the prior year
- Bookings of \$69M were the company's second-highest ever, surpassed only by last quarter's record bookings
- Reiterated their outlook for full-year core FFO/share of \$6.55-\$6.65, above expectations, and for revenues of \$3B-\$3.2B (vs. consensus for \$3.07B).

For comparison:

DLR Price to Sales: 7.9x

When compared to others:

CONE: 8.0x

COR: 6.7x



EQIX: 6.2x

QTS: 4.6x

DLR Dividend Yield: 3.53%

When compared to others:

CONE: 3.11%

COR: 4.51%

EQIX: 2.34%

QTS: 4.01%

DLR EV/EBITDA: 20.1x

When compared to others:

CONE: 21.7x

COR: 17.8x

EQIX: 18.5x

QTS: 20.9x

DLR Rev Growth Rate Most Recent Quarter: 26.1%

When compared to others:

CONE: 17.9%

COR: 13.1%

EQIX: 11.3%

QTS: -1.4%

Overall, DLR is the more expensive name out of the bunch but we always prefer the faster growing company and it also helps that their dividend is one of the better ones too. The industry is set to grow and we also think DLR is making the right investments abroad (LATAM and Asia) and have recently made some new hires for executive roles. The stock pulled back and has bounced back a bit. Right now it's hovering around overbought levels so as far as timing goes see if it comes back to \$110. If you're establishing a long-term position obviously a buck or two doesn't make a big difference but figured we'd let you know what the charts seem to be pointing at it a bit.