



# Company Analysis | Digital Realty Trust

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## Company Overview

### 1. Company Profile

Digital Realty Trust, Inc. is a **real estate investment trust** that invests in carrier-neutral **data centers** and provides **colocation and peering** services.

Symbol	DLR	Sector	REAL ESTATE & CONSTRUCTION
Asset Type	Common Stock	Industry	REAL ESTATE INVESTMENT TRUSTS
Exchange	NYSE	Address	SUITE 3200, SAN FRANCISCO, CA, US
Currency	USD	Fiscal Year End	December
Country	USA	Latest Quarter	2024.6.30

*Company Overview*

## Digital Realty Trust Inc. (DLR) Stock

DLR Closing Price \$150.65, YTD +11.58% (Reference Date: Aug 02, 2024)

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 TradingView

## Business Analysis

### 1. Revenue Sources

Digital Realty Trust operates data centers. The company heavily relies on data center capacity driven by the growing demand for cloud computing and artificial intelligence (AI).

- **Primary Revenue:** Digital Realty generates revenue through leasing data center space. Income is derived from reservations and renewals related to data center space leasing.
- **Strong Performance:** In the first quarter of 2024, the company recorded its highest booking performance, with significant renewal volume and pricing, particularly in the over 1 MW category.
- **Revenue Distribution:** Approximately 25% of Digital Realty's revenue comes from international markets, including Europe and Asia

### 2. Major Customers

- **Top Customers:** The company's top 5 customers account for approximately 25% of annual rental revenue, while the top 20 customers contribute about 50% of annual rental revenue.
- **Notable Clients:** Key clients include Microsoft, Apple, Meta, Google, Oracle, IBM, Equinix, and AT&T.

### 3. Partners and Competitors

- **Partners:** The company operates data centers in partnership with firms like Blackstone, with a capacity of 192 MW in the Manassas area of Northern Virginia.
- **Competitors:** Major competitors include companies like Equinix.

## Latest Movements

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Digital Realty Trust has seen mixed signals recently. It has received both rating upgrades and downgrades.

### Transactions Trends

- Lazard Asset Management and Tidal Investments increasing their stakes suggests confidence in the company.
- Large sale of shares by Price T Rowe Associates might signal reduced confidence from major shareholders.
- Recent outperformance relative to competitors shows robust market sentiment.

### Ratings Trends

- Upgrade in IBD rating signifies better technical performance.
- Both Seeking Alpha and Argus have downgraded DLR to Hold, indicating potential concerns over valuation.

### Key Articles

- IBD Rating Upgrades: Digital Realty Trust Flashes Improved Technical Strength
  - Investor's Business Daily, August 2, 2024 [Read More](#)
- Lazard Asset Management LLC Grows Holdings in Digital Realty Trust, Inc. (NYSE)
  - Defense World, Date: August 2, 2024 [Read More](#)
- Digital Realty cut to Hold as certain metrics signal fair value (NYSE)
  - Seeking Alpha, August 1, 2024 [Read More](#)
- Digital Realty Trust (NYSE) Rating Lowered to Hold at Argus
  - MarketBeat, August 1, 2024 [Read More](#)
- Digital Realty Trust Inc. stock outperforms competitors on strong trading day
  - MarketWatch, Date: July 31, 2024 [Read More](#)
- Price T Rowe Associates Inc. MD Sells 307,275 Shares of Digital Realty Trust, Inc. (NYSE)
  - Defense World, July 31, 2024, [Read More](#)
- Tidal Investments LLC Boosts Holdings in Digital Realty Trust, Inc. (NYSE)
  - MarketBeat, August 1, 2024, [Read More](#)

# Key Highlights

*\*Reference: JP Morgan(27 June 2024), Deutsche Bank(06 June 2024)*

## Upside Opportunities

### 1. Market Position and Growth Drivers

- **Strong Leasing Demand:** Digital Realty Trust (DLR) benefits from the growing demand for data centers driven by the expansion of AI and cloud computing.
- **Strategic Locations:** Significant capacity in Northern Virginia and major global markets provides a competitive advantage.
- **Bookings and Renewals:** Recorded the highest bookings in 1Q24, with a substantial portion driven by AI-related demand.

### 2. Financial Performance and Outlook

- **Revenue and EBITDA Growth:** Expected to continue growing over the next few years, with stable revenue and EBITDA increases anticipated.
- **Earnings Forecast:** Core FFOPS and AFFOPS are expected to increase by approximately 5% and about 3% respectively.
- **Capital Raising:** Recent capital raising of \$1.6 billion has strengthened the financial structure and supports development projects.

#### FINANCIAL METRICS DEFINITIONS

**FFOPS (Funds From Operations per Share)** Measures a REIT's cash generated from operations, excluding gains from property sales.

**AFFOPS (Adjusted Funds From Operations per Share)** Adjusts FFOPS for recurring capital expenditures to better reflect cash available for distribution.

### 3. Pricing Environment

- **Positive Pricing Trends:** Data center demand exceeds supply by 60-70%, creating a multi-year positive pricing environment.
- **Lease Renewals:** Significant potential for rental income growth from renewals in the >1MW category.



- **Favorable Pricing:** Lower vacancies and power constraints in key markets suggest a positive pricing environment.

#### 4. Portfolio and Infrastructure

- **High-Density Solutions:** Portfolio designed to support high-density cloud and AI applications, with capabilities up to 150kW.
- **Northern Virginia Presence:** As the largest data center market in the world, Northern Virginia is a key strategic location where Digital Realty Trust holds substantial capacity and development potential.

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## Downside Risks

### 1. Market Exposure

- **Foreign Exchange Risks:** Digital Realty has significant exposure to international markets, which subjects the company to foreign exchange (FX) risks. FX fluctuations have negatively impacted the company's reported results, reducing performance by 150-250 basis points in recent quarters.
- **Hedging Strategy and Debt:** The company does not hedge its FX exposure but mitigates economic exposure by borrowing in local currencies. Digital Realty holds substantial debt in British pounds and maintains a multi-currency line of credit for international funding needs.
- **Miscellaneous Market Risks:** Rising interest rates, competition from public/private peers, and execution risk.

### 2. High Customer Concentration

- **Major Customer Dependence:** Digital Realty has high exposure to a few major customers. The top 5 customers account for about 25% of the annual rental revenue, with an average remaining lease term of approximately 7 years.
- **Concentration Risk:** While significant customer churn is not expected, the high concentration among the top 5 customers presents a potential risk. The top 20 customers contribute around 50% of the annual rental revenue.

### 3. Technological Changes and Oversupply Risks

- **Potential Demand Slowdown:** Economic downturns, reduced IT needs, or technological advancements could lead to a slowdown in data center demand, negatively impacting the growth of data center REITs like Digital Realty. The company's ability to provide diverse services, from wholesale to managed services, may help mitigate some of these risks.
- **Construction Boom:** The data center industry has historically experienced cycles of booms and busts. An increase in data center builds could lead to oversupply in the market, negatively affecting pricing and industry health.

# Fundamentals

## FINANCIAL PERFORMANCE

\*References: Alpha Vantage

### Key Metrics

Market Capitalization	\$50,612,969,000
EBITDA	\$2,334,949,000
PERatio	44.27
PEGRatio	28.90
Book Value	60.77
Dividend Per Share	4.88
Dividend Yield	0.033
EPS	3.44
Revenue Per Share TTM	17.27

### Income Statement

Profit Margin	0.21
Operating Margin TTM	0.12
Return On Assets TTM	0.01
Return On Equity TTM	0.05
Revenue TTM	\$5,352,761,000
Gross Profit TTM	\$2,660,775,000
Diluted EPS TTM	3.44
Quarterly Earnings Growth YOY	(0.453)
Quarterly Revenue Growth YOY	(0.041)

### Valuation

Analyst Target Price	\$155.38
Trailing PE	44.27
Forward PE	37.59
Price To Sales Ratio TTM	8.34
Price To Book Ratio	2.42
EV To Revenue	11.42
EV To EBITDA	19.81

### Trading

Beta	0.60
52 Week High	162.58
52 Week Low	111.05
50 Day Moving Average	149.52
200 Day Moving Average	140.51
Shares Outstanding	325,885,000
Dividend Date	2024.6.28

## EARNINGS & GROWTH

\*References: Seeking Alpha, Alpha Vantage, Investopedia

### Recent Earnings

Digital Realty Trust (DLR) has faced profitability challenges in recent years, with several quarters underperforming estimates. For instance, in June 2024, the EPS surprise was -16.67%, and revenue YoY growth was -0.70%.

Quarterly Earnings	Jun-24	Mar-24	Dec-23	Sep-23	Jun-23	Mar-23
Reported Date	2024.7.25	2024.5.3	2024.2.15	2023.10.26	2023.7.27	2023.4.27
Reported EPS	0.20	0.82	0.08	0.08	0.37	0.19
Estimated EPS	0.24	0.24	0.26	0.25	0.27	0.22
Surprise	(0.04)	0.58	(0.18)	(0.17)	0.10	(0.03)
Surprise Percentage	-16.67%	241.67%	-69.23%	-68.00%	37.04%	-13.64%

\* GAAP

## Recent FFO Earnings

FFO Earnings History	FFO	Surprise	Revenue	YoY	Surprise
Jun-24	1.65	0.02	1.36B	-0.70%	(22.88M)
Mar-24	1.67	0.05	1.33B	-0.57%	(32.81M)
Dec-23	1.63	(0.03)	1.37B	11.07%	(25.58M)
Sep-23	1.62	0.00	1.40B	17.65%	6.67M

## P/FFO Estimate & FFO Growth Rate

the company is showing signs of recovery, with the FFO growth rate projected to improve steadily from 1.58% in 2024 to 12.32% by 2027. This indicates that DLR is on a recovery path and is expected to achieve significant growth in both revenue and earnings in the coming years.

Consensus	P/FFO	FFO Growth Rate
2023 Actual	23.11	
2024 Estimated	22.75	1.58%
2025 Estimated	21.45	6.07%
2026 Estimated	19.48	10.12%
2027 Estimated	17.34	12.32%

### FFO(Funds From Operations)

Real estate companies use FFO as a measurement of operating performance. The FFO-per-share ratio should be used in lieu of earnings per share (EPS) when evaluating REITs and other similar investment trusts.

$$FFO = (NI + D + A + PSL) - PSG - II$$

NI=Net income, D=Depreciation, A=Amortization, II=Interest Income  
PSL=Property Sales Losses, PSG=Property Sales Gains

## PEERS COMPARISON

\*References: Alpha Vantage

Digital Realty Trust (DLR) ranks moderately in terms of market value and dividends but has lagged behind its peers in past profitability metrics. However, it is expected to see higher growth in revenue and earnings in the future.

- With a P/B ratio of 2.42, DLR has a relatively low valuation compared to its assets may indicate potential investment value.
- DLR's dividend yield is 3.2%, which is lower than Realty Income's 5.44% but higher than Equinix's 2.16%.

Metric	Digital Realty Trust (DLR)	Equinix (EQIX)	Realty Income (O)	Public Storage (PSA)
Main Sector	Data Center	Data Center	Retail	Logistics(Storage)
Market Capitalization	\$50,612,969,000	\$76,985,598,000	\$50,513,601,000	\$52,519,399,000
EBITDA	\$2,334,949,000	\$2,913,907,000	\$3,907,810,000	\$3,351,017,000
PEGRatio	28.90	5.05	4.72	8.91
Dividend Per Share	4.88	15.34	3.07	12.00
Dividend Yield	0.032	0.022	0.054	0.040
Profit Margin	0.21	0.12	0.18	0.45
Operating Margin TTM	0.12	0.17	0.44	0.48
Quarterly Earnings Growth YOY	(0.45)	(0.12)	(0.54)	(0.11)
Quarterly Revenue Growth YOY	(0.04)	0.07	0.33	0.05
Trailing PE	44.27	81.44	53.71	28.10
Forward PE	37.59	63.29	35.71	26.04
Price To Book Ratio	2.42	5.79	1.36	8.44

\* GAAP

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