



Rating
Buy

North America
United States

Financial
REITs

Company
Digital Realty Trust

Reuters DLR.N Bloomberg DLR US Exchange NYS Ticker DLR

Date
28 October 2016

Results

Price at 27 Oct 2016 (USD)	92.02
Price Target	108.00
52-week range	112.10 - 69.96

Vin Chao, CFA Mike Hussorn, CFA
Research Analyst Research Associate

Nice rebound in bookings; no change in positive data center thesis

The most interesting thing about DLR's 3Q report...

...may be the stock's reaction to what we thought was a nice rebound in bookings from a disappointing 2Q. We think the activity is notable given the lack of a head of sales in the Q and the breadth of leasing, including good activity in London post-Brexit. Sentiment on the group has gone negative on concerns that hyperscale cloud demand has slowed with Data Center REITs down 8% since QTS kicked off earnings 2 days ago despite the fact that only 1 of 4 DC's that have reported saw a q/q decline in bookings, while low penetration rates support elevated growth for years to come. We would add to positions on the sell-off. Reiterate Buy

Bookings rebound in 3Q

DLR signed \$55MM of annualized bookings, including \$9MM of interconnection bookings, which was a nice rebound from 2Q's \$23MM level and highlights the lumpy nature of leasing. The average volume in 2Q and 3Q of \$39MM was roughly in-line with TTM averages. DLR's backlog rose to \$84MM from \$70MM last Q. Pricing commentary suggested a stable environment with overall cash spreads in the Q up 2.5% though TKF spreads fell 9% as a heavily flagged above-market lease rolled over in the Q. Cash rent spread guidance was unchanged at "slightly positive." US TKF pricing fell to \$140/sf (\$120/KW) vs \$202/sf (\$187/KW) last Q, with the decline attributed to geographic mix. US colo pricing was \$304/sf and \$295/KW versus \$229/sf and \$260/KW last Q. Cash SC NOI was up only 0.9% (+2.1% ex FX) vs. 3.3% last Q, although guidance implies acceleration in 4Q.

Estimates revisions

We have updated our model to reflect 3Q results, updated guidance, and our revised outlook. Our 2016 core FFO/sh estimate moves to \$5.72 from \$5.73, while NAREIT FFO/sh moves to \$5.48 from \$5.53, and FAD/sh moves to \$5.22 from \$5.09. In 2017, our core FFO/sh and NAREIT FFO/sh estimates are unchanged at \$6.09, while FAD/sh moves to \$5.23 from \$5.21. Our core FFO estimates are largely unchanged, while FAD increases in 2016 due to lowered capex expectations.

Valuation and risks (see page 7 for details)

We are maintaining our TP at \$108. Our TP is based on a 50:50 blend of our FAD-based target and our EBITDA-based target. Risks include near-term leasing, its ability to source attractive external growth opportunities, and customer concentration which exposes it to higher than avg bankruptcy risk.

Forecasted And Ratios

Year End Dec 31	2015A	2016E	2017E
1Q FFO	1.56	1.39A	-
2Q FFO	1.26	1.36A	-
3Q FFO	1.28	1.31A	-
4Q FFO	0.79	1.41	-
FY FFO (USD)	4.86	5.48	6.09
P/FFO (x)	14.0	16.8	15.1
Dividend yield (%)	5.0	3.8	4.4

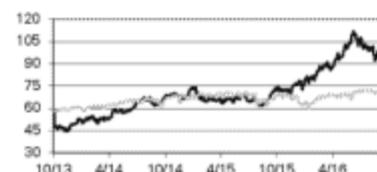
Source: Deutsche Bank estimates, company data

Key changes

FFO (USD) 5.53 to 5.48 ↓ -0.8%

Source: Deutsche Bank

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-5.0	-12.7	26.2
S&P 500 INDEX	-1.2	-1.5	3.3

Source: Deutsche Bank

Deutsche Bank Securities Inc.

Distributed on: 28/10/2016 06:50:47 GMT

Deutsche Bank does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. DISCLOSURES AND ANALYST CERTIFICATIONS ARE LOCATED IN APPENDIX 1. MCI (P) 057/04/2016.