



Rating  
**Buy**

North America  
United States

Financial  
REITs

Company  
**CyrusOne**

Reuters  
CONE.OQ

Bloomberg  
CONE US

Exchange  
NMS

Ticker  
CONE

Date  
31 October 2016

### Forecast Change

Price at 31 Oct 2016 (USD)	44.61
Price Target	57.00
52-week range	55.66 - 33.61

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Research Analyst      Research Associate

## Demand in not dead, in fact it is very much alive

CFO transition mars an otherwise perfectly fine quarter

With sentiment turning negative, the market appears to be searching for reasons to sell and CONE's unexpected CFO transition provided a reason in 3Q. While the prior CFO's short tenure raises questions, we think liquidity is in great shape with no need to raise equity any time soon, which should help in a smooth transition. Op results in the Q were also a positive. While the \$27MM of 3Q bookings fell short of the last 3 Qs, it was CONE's 4th best ever and the outlook was about as positive as we've heard (sales funnel 2x the 2Q level). Also, though churn will be above trend in '16, the '17 outlook calls for improvement to the low end of the historical guidance range. Reiterate Buy.

Leasing activity and pipeline reflective of strong demand

CONE signed a respectable \$27MM of annualized GAAP revenue (inc. \$14MM reported with 2Q results). While this was below the level achieved in the last 3 quarters it was the 4th best print on record and does not include another 25kcsf in early 4Q which we estimate will add ~\$4MM annually. New lease rent/KW came in at \$126 vs. the prior 4 Q avg of \$147, given the previously-announced wholesale pre-leasing activity announced in NoVA. Excluding this activity, bookings over the balance of 3Q averaged \$197/KW. Total utilization was 85%, while the stabilized rate was 93%, both 100bps higher than 2Q. Churn of 3.8% was higher than recent quarters, and included 1.4% proactively taken back by CONE, although it was in-line with the 2H outlook. Initial 2017 commentary suggests a reversion back to about 6% churn.

Updating estimates following 3Q earnings

We have updated our model to reflect 3Q results, revised guidance, and our updated outlook. Our 2016 normalized FFO/sh estimate moves to \$2.60 from \$2.56, FAD/sh moves to \$2.22 from \$2.44, and adjusted EBITDA moves to \$274.9MM from \$275.3MM. For 2017, normalized FFO/sh moves to \$2.96 from \$2.95, FAD/sh moves to \$2.80 from \$2.90, and adjusted EBITDA moves to \$339.2MM from \$337.7MM. Our FFO estimates increase to reflect updated run-rates and one-time items, while FAD falls on higher straight line rent.

Valuation and risks

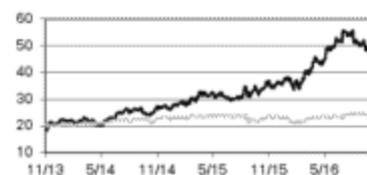
We are lowering our TP to \$57 from \$59. Our TP is based on a 50:50 blend of our FAD-based target and our EBITDA-based target. Risks include the success of CONE's dev efforts, heightened operating risk vs. peers in light of higher tenant and geo concentration, and higher SG&A business model.

#### Key changes

Target Price	59.00 to 57.00	↓	-3.4%
FFO (USD)	2.56 to 2.60	↑	1.3%

Source: Deutsche Bank

#### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-6.2	-18.6	26.4
S&P 500 INDEX	-1.9	-2.2	2.3

Source: Deutsche Bank

#### Forecasts And Ratios

Year End Dec 31	2015A	2016E	2017E
1Q FFO	0.49	0.63A	-
2Q FFO	0.51	0.67A	-
3Q FFO	0.57	0.67A	-
4Q FFO	0.61	0.62	-
FY FFO (USD)	2.18	2.60	2.96
P/FFO (x)	14.7	17.2	15.1
Dividend yield (%)	3.9	3.4	3.7

Source: Deutsche Bank estimates, company data

Deutsche Bank Securities Inc.

Distributed on: 01/11/2016 04:06:54 GMT

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