



CyrusOne (CONE)

Updated February 18th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	\$70	5 Year CAGR Estimate:	8.7%	Market Cap:	\$8.4B
Fair Value Price:	\$67	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	03/25/21
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.7%	Dividend Payment Date:	04/09/21
Dividend Yield:	3.0%	5 Year Price Target	\$94	Years Of Dividend Growth:	7
Dividend Risk Score:	C	Retirement Suitability Score:	C	Last Dividend Increase:	2%

Overview & Current Events

CyrusOne provides mission-critical data center facilities that protect and ensure the continued operation of firms and their IT departments. The company's strategy is focused on attracting customers that have not historically outsourced their data center needs. CyrusOne has approximately 1000 customers, including 200 of the Fortune 1000 companies. CyrusOne operates in the United States, Europe, and Asia. Its data centers provide customers the flexibility and scale to match their specific growth needs ideally. The company has a market cap of \$8.4 billion, generates annual revenues of around \$1 billion, and is headquartered in Dallas, Texas.

On February 17th, CyrusOne announced its Q4 and full-year 2020 results for the period ending December 31st, 2020. For the quarter, revenues and normalized FFO grew to \$268.4 million and \$114.3 million, an increase of 6%, and 1%, respectively. FFO/share declined to \$0.94, 5% lower than the year before. The mismatch in growth with the normalized FFO is due to additional share issuance. Overall, the company is set to keep growing as it ended the quarter with \$101 million in annualized revenue backlog, representing about \$830 million in future total contract value. Additionally, around 50% of its upcoming 289K CSF (Colocation Square Footage) is preleased, indicating strong demand for data centers, as the real estate subsector has been booming during the pandemic. To reassure investors that its share issuance (which led to negative per-share growth in Q4) will pay off, management guided for FY2021 FFO/share of \$3.90-\$4.00, suggesting a trivial growth of 1.2% before its backlog eventually accelerates CONE's financials.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO/share	---	---	\$1.22	\$1.73	\$2.17	\$2.66	\$3.12	\$3.31	\$3.63	\$3.90	\$3.95	\$5.54
DPS	---	---	\$0.64	\$0.84	\$1.26	\$1.52	\$1.68	\$1.84	\$1.92	\$2.02	\$2.08	\$2.65
Shares¹	---	---	20.9	29.2	54.3	78.3	88.9	99.8	112.1	114.4	120.6	200.0

For REITs like CyrusOne, FFO is a better measurement of profitability and cash flow than the traditional earnings-per-share metric used to value most stocks. REITs often have high rates of depreciation, and therefore EPS is not an adequate measurement of performance. Since its IPO in 2013, the company has been able to expand its FFO consistently. Over the past five years, FFO/share has seen a CAGR of 8.2%. DPS has also been increasing annually at a swift CAGR of 15.7% since the REIT's IPO. The company's latest DPS increase of just 2% should not worry investors, as the slowdown is more than likely attributed to preserving liquidity during the current economic environment.

CyrusOne should be able to leverage its cheap financing to sustain its speedy growth. Since data centers have been booming under COVID-19, creditors have meager demands, resulting in the company issuing \$400 million last quarter, at a rate as low as 2.15%. Consequently, future acquisitions such as its recent 33 acres of land in London should generate very high ROIs. However, with the company keep reinventing its cash flows back in to the business, and with its backlog leases likely to make a meaningful impact on the company's results post-2021, we are lowering our FFO/share growth

¹ Share count is in millions.

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estimates from 10% to 7%. We retain our DPS growth projections at 5%, due to enough available room to grow the dividend.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/FFO	---	---	18.23	15.86	14.02	16.91	18.58	17.58	17.9	19.5	17.6	17.0
Avg. Yld.	---	---	3.1%	3.9%	4.0%	3.4%	3.2%	3.3%	2.9%	2.9%	3.0%	2.7%

Like with the rest of high-growth data center REITs, CyrusOne trades at a premium compared to traditional REITs. The stock is currently hovering at the higher-end of its historical multiples, around 17.6 times its FFOs, primarily powered by the stability of cash flows generated its properties. Data centers cannot simply shut down. Unlike, say a mall tenant, firms that rent the company's facilities cannot suspend their usage of data centers, especially now, since online traffic is hitting all-time highs. As investors are rushing to capture such secure rental revenues, we expect shares to continue trading at a premium and retain our fair valuation multiple of 17X FFOs, reflecting datacenters remaining increasingly attractive. Since our last report, the stock's yield has risen to 3%, in-line with its industry peers.

Safety, Quality, Competitive Advantage, & Recession Resiliency

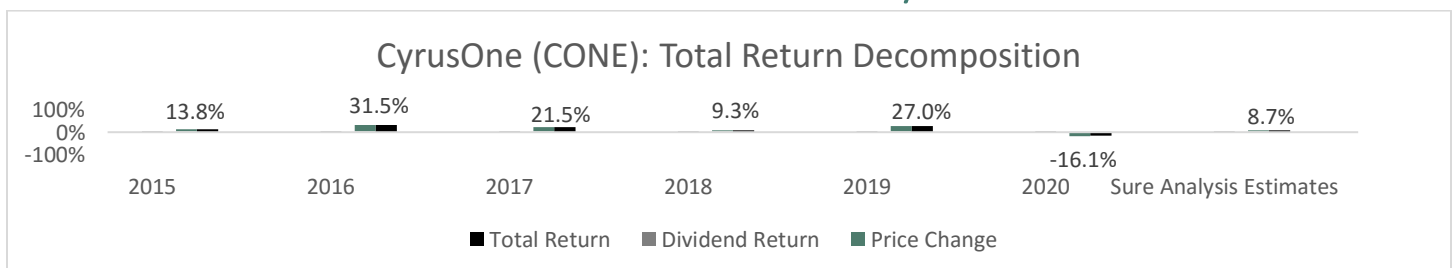
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	52%	49%	58%	57%	54%	56%	53%	52%	53%	48%

Being a data center REIT, CyrusOne is currently in an advantageous position, benefiting from its mission-critical tenants' secured cash flows. The company is unlikely to experience any rent deferrals, as was the case with the more traditional REITs over the past year. Moreover, the company is prudent with its pay outs, proven by its thoughtful DPS increase despite delivering satisfactory FFO/share growth during such uncertain times. The balance sheet is robust, with approximately \$7 billion worth of real estate assets vs. \$3.4 billion of long-term debt, while the previously worrying interest coverage ratio of around 1.0X its operating cash flows jumped to 1.13X, easing and short-term obligation concerns. Finally, the dividend remains incredibly safe, and as already proven, CONE can easily withstand a potential recession going forward, facing little to no correlation with the overall economy's performance.

Final Thoughts & Recommendation

CyrusOne offers a compelling investment case. The company operates in probably the most exciting and secure sub-sector of REITs, so its premium valuation is understandable. With attractive characteristics like robust FFO generation, a low payout ratio, and a quality pool of mission-critical tenants, the stock is a buy. While our annualized return projections of 8.7% may not seem stunning, keep in mind that we lowered our FFO/share estimates to remain prudent. Fueled by the consistent demand for its data centers, durable pricing power with embedded rental escalations, and a significant backlog in development soon to be contributing additional cash flows, CONE is likely to deliver greater returns than our current projection.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	---	---	---	\$331	\$399	\$529	\$672	\$821	\$981
Gross Profit	---	---	---	\$206	\$251	\$342	\$437	\$529	\$598
Gross Margin	---	---	---	62.4%	62.8%	64.6%	65.0%	64.4%	60.9%
SG&A Exp.	---	---	---	\$47	\$59	\$78	\$84	\$100	\$104
D&A Exp.	---	---	---	\$118	\$142	\$184	\$259	\$334	\$418
Operating Profit	---	---	---	\$41	\$50	\$80	\$94	\$95	\$77
Operating Margin	---	---	---	12.4%	12.6%	15.1%	14.0%	11.5%	7.8%
Net Profit	---	---	---	-\$8	-\$15	\$20	-\$84	\$1	\$41
Net Margin	---	---	---	-2.4%	-3.9%	3.8%	-12.4%	0.1%	4.2%
Free Cash Flow	---	---	---	-\$173	-\$94	\$181	\$290	\$309	\$366
Income Tax	---	---	---	\$1.4	\$1.8	\$1.8	\$3.0	\$0.6	-\$3.7

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	---	---	---	\$1,571	\$2,196	\$2,852	\$4,312	\$5,593	\$6,142
Cash & Equivalents	---	---	---	\$37	\$14	\$15	\$152	\$64	\$76
Accounts Receivable	---	---	---	\$61	\$76	\$83	\$87	\$235	\$292
Goodwill & Int. Ass.	---	---	---	\$345	\$624	\$605	\$658	\$691	\$651
Total Liabilities	---	---	---	\$854	\$1,374	\$1,690	\$2,598	\$3,367	\$3,707
Accounts Payable	---	---	---	\$70	\$137	\$227	\$98	\$121	\$123
Long-Term Debt	---	---	---	\$644	\$997	\$1,240	\$2,089	\$2,625	\$2,887
Shareholder's Equity	---	---	---	\$461	\$822	\$1,162	\$1,714	\$2,226	\$2,435
D/E Ratio	---	---	---	1.40	1.21	1.07	1.22	1.18	1.19

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	---	---	---	-0.6%	-0.8%	0.8%	-2.3%	0.0%	0.7%
Return on Equity	---	---	---	-2.0%	-2.4%	2.0%	-5.8%	0.1%	1.8%
ROIC	---	---	---	-0.7%	-1.0%	0.9%	-2.7%	0.0%	0.8%
Shares Out.	---	---	---	29.2	54.3	79.0	88.9	100.4	112.5
Revenue/Share	---	---	---	\$11.33	\$7.35	\$6.70	\$7.56	\$8.18	\$8.72
FCF/Share	---	---	---	-\$5.93	-\$1.74	\$2.29	\$3.26	\$3.08	\$3.25

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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