



Digital Realty Trust (DLR)

Updated February 17th, 2023 by Quinn Mohammed

Key Metrics

Current Price:	\$109	5 Year CAGR Estimate:	9.8%	Market Cap:	\$34 B
Fair Value Price:	\$114	5 Year Growth Estimate:	5.0%	Ex-Dividend Date¹:	03/14/23
Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.8%	Dividend Payment Date¹:	03/31/23
Dividend Yield:	4.5%	5 Year Price Target	\$145	Years Of Dividend Growth:	17
Dividend Risk Score:	C	Retirement Suitability Score:	B	Rating:	Hold

Overview & Current Events

Digital Realty Trust is a real estate investment trust (REIT) that is a leader in buying and developing properties for technological uses. Digital Realty's properties are a combination of data centers that store and process information, technology manufacturing sites and Internet gateway datacenters which allow major metro areas to transmit data. The company operates over 300 facilities in 28 countries on 6 continents. The trust has a market capitalization of \$34 billion.

On March 13th, 2020, Digital Realty announced that it had completed the combination of Interxion (prior ticker: INXN), a provider of cloud data centers in Europe. Legacy INXN shareholders now own ~20% of the new Digital Realty.

On March 3rd, 2022, Digital Realty declared a \$1.22 quarterly dividend, marking a 5% increase and the company's 17th straight year of increasing its payout.

On February 16th, 2023, Digital Realty reported Q4 2022 results for the period ending December 31st, 2022. For the quarter, Digital Realty's revenue came in at \$1.2 billion, a 3% increase compared to Q4 2021. During the quarter, the company generated \$1.65 in core FFO per share compared to \$1.67 per share prior.

Digital Realty also initiated 2023 guidance, anticipating \$5.7 billion to \$5.8 billion in revenue and \$6.65 to \$6.75 in core FFO.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
FFO	\$4.78	\$4.96	\$5.26	\$5.72	\$6.14	\$6.60	\$6.65	\$6.22	\$6.53	\$6.70	\$6.70	\$8.55
DPS	\$3.12	\$3.32	\$3.40	\$3.52	\$3.72	\$4.04	\$4.32	\$4.48	\$4.64	\$4.88	\$4.88	\$6.53
Shares²	128	136	146	159	206	206	209	270	290	293	300	340

For REITs like Digital Realty, FFO is a better measurement of profitability and cash flow as compared to the traditional earnings-per-share metric that is used to value most stocks. As REITs often have high rates of depreciation, earnings-per-share is not an accurate measure of how a trust is performing. Since 2010 Digital Realty increased its FFO-per-share by an average compound rate of 6.1% per annum. The trust's growth rate is noteworthy when you factor in that it has increased its share count every single year during this time frame. In addition, 2020 was a down year.

Digital Realty has been very strategic in its acquisitions. For example, in 2017, Digital Realty completed its purchase of DuPont Fabros Technology, a REIT that leased properties to some of the largest tech companies in the world. Companies like Microsoft (MSFT) and Facebook (FB) are then free to build their own data centers within the properties. More recently, Digital Realty added Interxion, gaining exposure to the European cloud industry.

After results bounced back sharply in 2021 and 2022, management is guiding for flat growth in 2023 results. We are forecasting 5% annual FFO per share growth over the intermediate term into 2028.

¹ Estimated date.

² In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
P/FFO	13.1	12.8	12.9	16.2	18.4	16.7	16.6	22.6	23	18.9	16.3	17.0
Avg. Yld.	5.0%	5.5%	5.0%	3.8%	3.2%	3.7%	3.9%	3.2%	3.1%	3.7%	4.5%	4.5%

Over the past decade shares of Digital Realty have traded hands with an average price-to-FFO ratio of about 17. We consider this to be a reasonable starting place for the REIT, taking into consideration the overall growth prospects and the typical valuation multiple in the industry. Given the current valuation of 16.3 times expected FFO, this implies a valuation tailwind in the years to come.

While the dividend is above average with respect to your typical equity, we do note that the yield is not particularly impressive for a REIT, which is required to pay out 90% of its taxable income.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	65%	67%	65%	62%	61%	61%	65%	72%	71%	73%	73%	76%

Digital Realty's dividend payout ratio (using FFO instead of earnings) is comparatively low for a REIT, which should give shareholders confidence that the dividend is relatively safe.

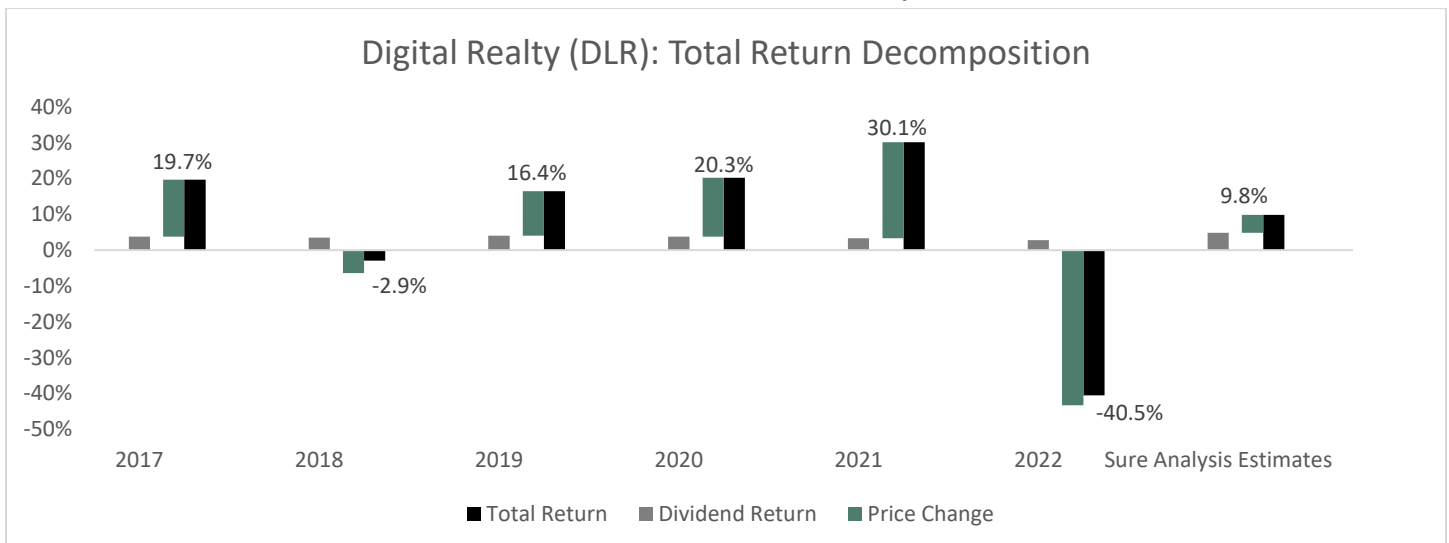
Digital Realty's chief competitive advantage is that it is among the largest technology REITs in the world. This gives the REIT a size and scale advantage that competitors have difficulty matching. In addition, the company has proven to be able to utilize its balance sheet to fund acquisitions in order to grow FFO and revenues.

As of the most recent report, Digital Realty held \$41.5 billion in total assets against \$21.9 billion in total liabilities.

Final Thoughts & Recommendation

Shares are down nearly 19% in the last one year, which compares unfavorably to the broader market. Digital Realty's high occupancy rate and ability to increase rental rates mean that the REIT should be able to continue to perform well in the coming years. Acquisitions have been and will continue to be a core part of growth. Total return potential comes to 9.8% annually, stemming from the 5.0% growth rate and 4.5% yield, as well as a potential valuation tailwind. Digital Realty earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1482	1616	1763	2142	2458	3046	3209	3904	4428	4692
Gross Profit	935	1022	1121	1380	1574	1960	2029	2403	2650	2690
Gross Margin	63.1%	63.2%	63.6%	64.4%	64.0%	64.3%	63.2%	61.6%	59.8%	57.3%
SG&A Exp.	74	102	114	162	172	172	220	358	401	415
D&A Exp.	464	529	561	691	844	797	---	---	1487	
Operating Profit	385	378	375	518	556	598	631	677	760	685
Operating Margin	26.0%	23.4%	21.3%	24.2%	22.6%	19.6%	19.7%	17.3%	17.2%	14.6%
Net Profit	314	200	297	426	248	331	580	356	1709	378
Net Margin	21.2%	12.4%	16.8%	19.9%	10.1%	10.9%	18.1%	9.1%	38.6%	8.1%
Free Cash Flow	656	656	797	911	1023	1385	---	---	1702	
Income Tax	1	5	6	10	8	2	12	38	73	32

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	9627	9527	11416	12193	21404	23767	23068	36080	36370	41485
Cash & Equivalents	57	35	57	11	0	127	89.8	109	143	142
Accounts Receivable	122	136	177	204	276	300	306	603	546	969
Goodwill & Int. Ass.	542	496	1755	2298	6573	7612	5633	11500	10673	12301
Total Liabilities	5980	5613	6880	7060	10355	12909	12460	17630	17846	21863
Accounts Payable	663	606	608	825	980	1165	1008	1988	1544	1869
Long-Term Debt	4962	4673	5899	5839	8649	11101	10122	13300	13448	16597
Shareholder's Equity	2916	2830	3210	4083	9100	8609	8445	16770	17273	16852
LTD/E Ratio	1.37	1.21	1.31	1.15	0.84	1.13	1.02	0.75	0.75	0.94

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	3.4%	2.1%	2.8%	3.6%	1.5%	1.5%	2.5%	1.2%	4.7%	1.0%
Return on Equity	10.8%	7.0%	9.8%	11.7%	3.8%	3.7%	6.8%	2.8%	10.0%	2.2%
ROIC	3.8%	2.3%	3.1%	4.0%	1.6%	1.6%	2.7%	1.4%	5.4%	1.1%
Shares Out.	128	136	146	159	206	206	218	263	290	297
Revenue/Share	11.57	12.10	12.70	14.22	14.05	14.74	15.32	14.87	15.63	15.75
FCF/Share	5.12	4.91	5.74	6.05	5.85	6.70	---	---	6.01	

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

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