Beansprout

Digital Core REIT

(SGX: DCRU)

Stable distribution per unit (DPU) with higher occupancy

- **Distribution per unit (DPU) remains stable.** Digital Core REIT (DCREIT) declared distribution per unit of 1.80 US cents for 1H 2025, unchanged from 1H 2024. DCREIT reported distributable income of US$23.37 million in 1H 2025, a 3.5% increase compared to 1H 2024.
- **Higher portfolio occupancy.** With the strong leasing momentum, DCREIT's portfolio occupancy rose to 98.0% as at 30 June 2025, from 96.7% as at 31 December 2024. The occupancy rate improved by 130 basis points, supported by higher occupancy for its assets in Los Angeles which reported occupancy rate at 87.7% as at 30 June 2025, from 80.0% as at 31 December 2024. Specifically, 3015 Winona Avenue in Los Angeles reported 470 basis points pickup in occupancy to 84.0% in 2Q 2025, from new leases signed with several customers.
- **Weighted average lease expiry (WALE) declined to 4.5 years, from 4.7 years in 1Q25.** The lower WALE was due to the expiry of the lease in 8217 Linton Hall expired on 30 June 2025. The single tenant moved out on 1 July 2025. DCREIT plans to refurbish and re-lease the property in the next six to twelve months. Given the favorable demand and supply dynamics in the Northern Virgina market, DCREIT is confident in the leasing prospects for 8217 Linton Hall.
- **Positive uplift from Linton Hall expected.** The data centre market in Northern Virigina is facing supply shortage as reflected in the market vacancy rate of less than 0.5%. Based on the current market rate, the re-lease of Linton Hall is expected to achieve a 25% uplift from the expiring rent. Furthermore, there is sufficient land for the development of a second facility on the site to double the capacity.
- **Higher leverage.** DCREIT's aggregate leverage rose to 38.3% in 2Q 2025 from 34.0% in 4Q 2025, partly driven by the acquisition of Digital Osaka 3. To recap, DCREIT acquired a 20% stake in Digital Osaka 3 from Mitsubishi Corporation at US$86.7 million. Average cost of debt fell to 3.4% in 2Q 2025 from 3.8% in 1Q 2025, due to the use of JPY-denominated loans to finance the acquisition. The balance sheet profile remains healthy with weighted average debt maturity at 4.2 years and 85% of the debt was on fixed-rate basis. Financial flexibility remains strong with US$60.7 million cash-on-hand and US$200 million in unused credit facilities.
- **Maintain Buy.** We believe DCREIT is well-positioned to benefit from strong demand for data centres, driven by structural growth in AI and cloud workloads. DCREIT is expected to offer a FY 2025 distribution yield of 6.5%. The REIT currently trades at a price-to-book valuation of 0.7x, close to its historical average.

Ticker	DCRU
Rating	Buy
Price Target*	US$0.63
Price (23 Jul)	US$0.555
Upside/Downside:	+14%
52-week range	US$0.46 - 0.63
Market Cap	US$735M

*Target price is for 12 months

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Figure 1: Digital Core REIT 1H25 results summary

(USD Thousands)	1H FY2025	1H FY2024	Change (% YoY)
Revenue	88,892	48,262	84.2%
Property Expenses	(42,592)	(17,833)	138.8%
Net Property Income	46,300	30,429	52.2%
Income Available for Distribution	23,374	22,586	3.5%
Distribution Per Unit (DPU) – US cents	1.80	1.80	-

Source: Company data, Beansprout Research

Figure 2: Digital Core REIT balance sheet summary

	As of 30 Jun 2025	As of 31 Mar 2025
Total Debt (US$ m)	675	645
Aggregate leverage	38.3%	38.0%
Interest Cover	3.6x	3.7x
Average Cost of Debt (%)	3.4%	3.8%
Fixed / hedged debt ratio	85%	85%
Weighted average debt maturity	4.2 years	4.5 years

Source: Company data, Beansprout Research

Pure-play data centre Singapore REIT

Listed on 6 December 2021 on the Main Board of SGX, DCREIT is a pure-play data centre Singapore REIT. DCREIT holds a portfolio of mission-critical data centres located in United States, Canada, Germany, and Japan.

DCREIT's portfolio consists of ten freehold data centres that are strategically located in core markets. As of end-2024, the attributable asset value was US$1.6bn.

Figure 3: Summary of portfolio of assets

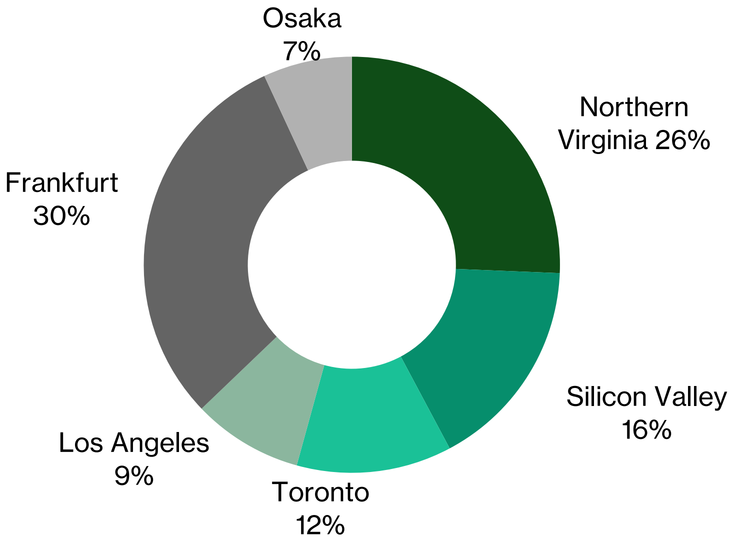
Portfolio Summary, at share basis
As at 31 Dec 2024, US$ '000

Property	Property Type	Ownership %	Attributable Portfolio value	WALE years	Net Rentable sq ft	Customer IT Load, kW	Annualized Rent	Occupancy 31 Dec 2024	2024 Revenue US$ m	2024 NPI US$ m	2024 NPI yield %
Northern Virgina											
44520 Hastings Drive	Fully-Fitted	90%	3,72,600	8.4	1,32,299	12,510	14,309	100%	27.5	17.6	4.7%
8217 Linton Hall Road	Fully-Fitted	90%	2,18,790	0.5	2,07,002	8,640	9,860	100%	18.9	11.1	5.1%
43831 Devin Shafron Drive	Shell & Core	90%	56,160	1.3	1,05,364	-	1,727	100%	2.7	1.9	3.4%
Silicon Valley											
2011 Lafayette Street	Fully-Fitted	90%	1,54,800	5.1	81,702	5,400	12,425	100%	18.8	9.4	6.1%
1500 Space Park Drive	Shell & Core	90%	1,01,070	9.7	46,454	-	4,308	100%	8.8	7.9	7.8%
Toronto											
371 Gough Road	Fully-Fitted	90%	1,22,446	3.4	93,877	6,075	12,688	100%	11.9	7.1	5.8%
Los Angeles											
200 North Nash Street	Colocation	90%	54,990	1.8	1,02,245	2,430	5,403	86.8%	5.1	2.3	4.2%
3015 Winona Avenue	Colocation	90%	44,550	2.1	74,620	1,638	3,252	70.6%	3.9	1.9	4.3%
Frankfurt											
Wilhelm-Fay-StraBe 15 & 24	Fully-Fitted	65%	3,91,021	5.3	2,92,205	22,100	30,551	99.5%	4.6	2.6	0.7%
Osaka											
Digital Osaka 2	Fully-Fitted	20%	1,07,628	3.5	22,988	5,100	6,977	94.6%			
Portfolio : Total / Weighted average			**16,24,055**	**4.8**	**11,58,756**	**63,893**	**1,01,500**	**96.7%**			

Source: Company data

The top 3 assets (by annualized rent) are well spread out in 3 locations - Frankfurt (30%), Northern Virginia (26%) and Silicon Valley (16%).

Figure 4: Breakdown of portfolio by geography



Source: Company data

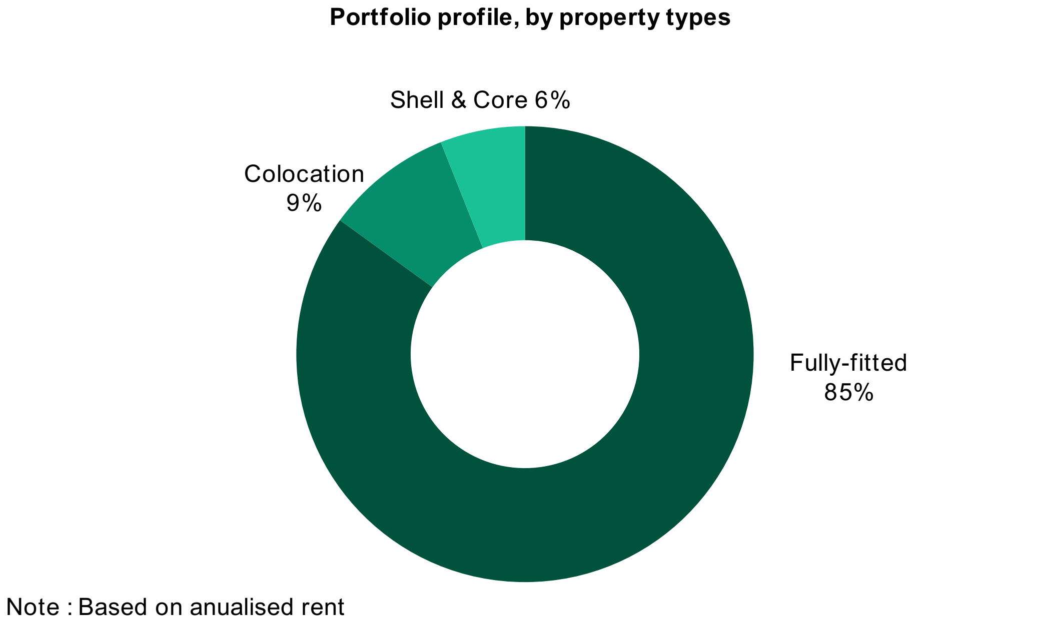
Focusing on long-term sustainable value creation, DCREIT's strategy is to own and operate a global portfolio of high-quality data centres in strategic locations. Northern Virginia is the world's largest data centre market with market absorption of over 1.5GW in 2024. The world-class network connectivity enables 70% of the world's internet traffic flows through Northern Virginia. According to the management, Northern Virginia has been facing severe supply constraint in the past few years with vacancy rate falling to a low at 0.4% in 2024.

Other locations are also strategically important in the global data centre ecosystem. Frankfurt, a major financial hub, is one of the fastest growing data centre market in Europe. Frankfurt's role as a financial capital of continental Europe and the internal capital of Europe is a key growth driver for more data centre capacity. Toronto, financial hub of Canada, is also the primary market for data centres. In Japan, Osaka is a core data centre hub, expected to be dominated by hyperscale colocation. Osaka is positioned as a gateway for submarine cables linking the U.S. West Coast to Asia.

High proportion of fully-fitted facilities

85% of the portfolio are fully fitted data centres, rightfully based on standardized designs and specifications. Besides attracting end clients who are looking for quicker deployments, DCREIT can charge higher rental rates by providing managed services.

Figure 5: Breakdown of portfolio by property type



Source: Company data

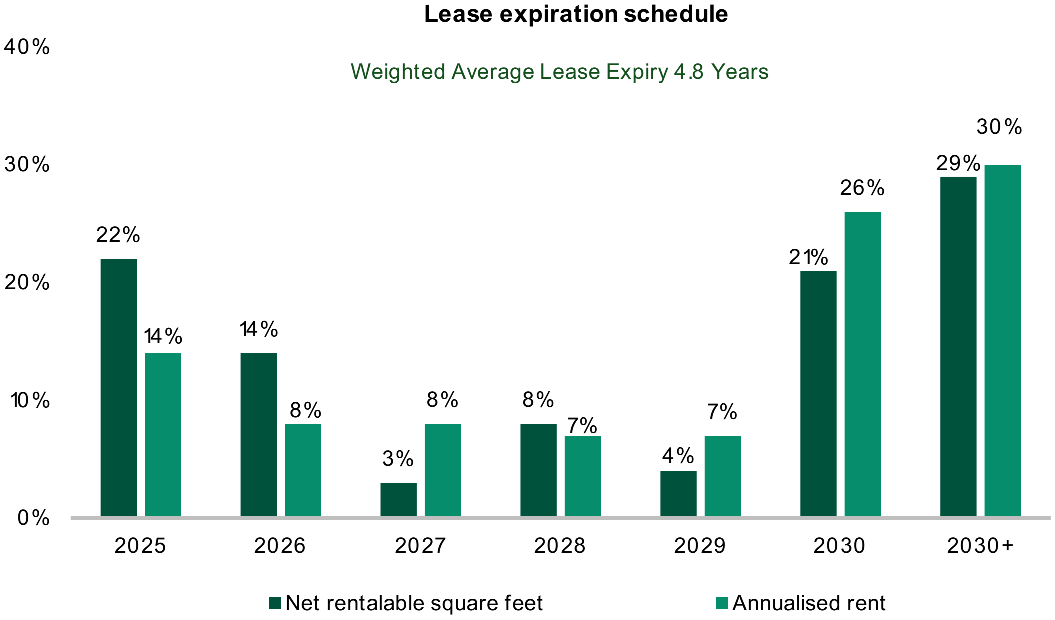
High occupancy rate and extended WALE

As of end-2024, the portfolio's reported occupancy rate was at 96.7%, relatively stable compared to 96.6% as of end-2023. This was despite significant changes triggered by Cyxtera's bankruptcy. DCREIT was able to leverage on the expertise and efficiencies of the Sponsor to re-lease the capacity at no downtime.

As at end-2024, the portfolio's WALE was 4.8 years by annualized rent, higher than 2.8 years reported in the previous year. In 2024, DCREIT signed US$74mn of new and renewal leases, with a WALE of 5.1 years. The higher WALE provides visibility to operating cashflows.

About 50% of the leased space will expire after 2030, underpinning stable operating cashflow in the medium term.

Figure 6: Weighted average lease expiry of 4.8 years



Source: Company data

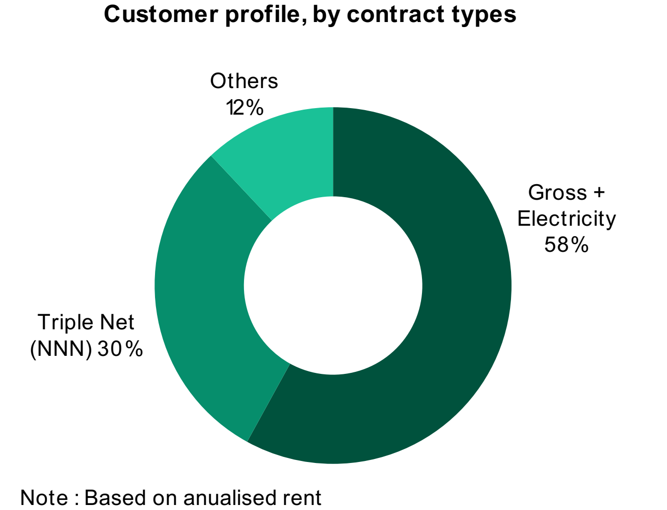
Customer profile

As of end-2024, DCREIT has a portfolio of 111 customers. Top 10 customers account for 84.6% of annualized rent, vs 99.6% in the previous year. DCREIT will continue to diversify the customer concentration. The key customers are leading global cloud providers, global colocation and interconnection providers, social media platforms and IT solutions providers.

All the lease agreements contain annual contract rental rate escalations ranging from 1% to 3%. DCREIT is protected from a sharp rise in variable operating expenses. By contract types, 30% of the portfolio is leased on a triple-net lease structure and 58% is leased on Gross + Electricity structure. Gross + Electricity structure refers to contracts in which customers are responsible for the gross rent and 100% of the utility costs incurred at the leased capacity. Thus, DCREIT is protected against higher energy costs.

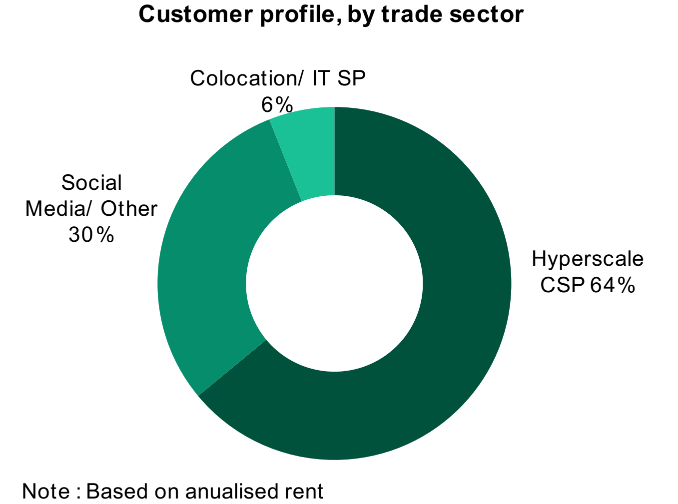
In terms of trade sector, Hyperscale CSP is the biggest contributor, accounting for 64% of annualized rent. In terms of credit quality, Investment grade customers account for 81% of annualized rent. In our view, DCREIT has a superior quality customer portfolio dominated by industry leaders and investment grade companies. This reflects a key competitive advantage as DCREIT provides customers with global connectivity across numerous deployments. According to the company, 97% of the portfolio is leased to strategically important customers.

Figure 7: Customer profile by contract type



Source: Company data, Beansprout research

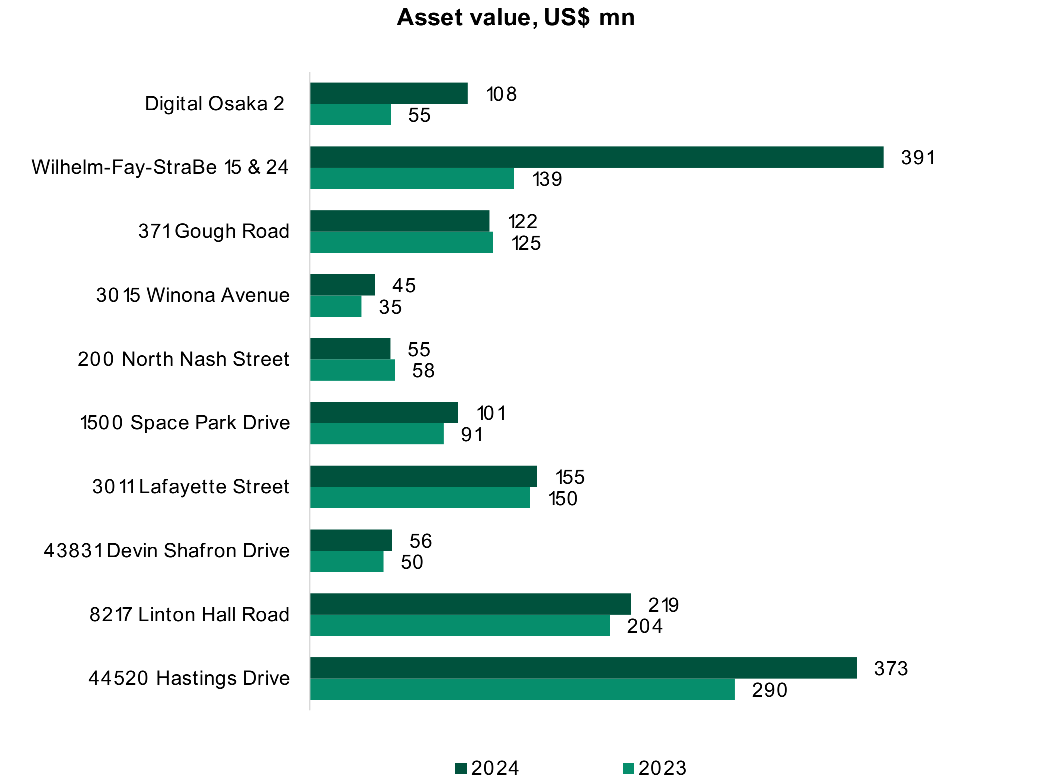
Figure 8: Customer profile by trade sector



Source: Company data, Beansprout research

As of end-Dec 2024, the portfolio consists of 10 data centres with 1.16mn square feet in net rentable area, -4.4% year-on-year. The decline in net rentable area was due to the sale of two Silicon Valley facilities in Jan 2024 to Brookfield for US$160mn. The divestment formed part of the resolution to Cyxtera Technologies' bankruptcy. From DCREIT's perspective, the transaction was attractively valued at book value and represented a 4.4% cap rate. Value of the Frankfurt facility increased to US$391m in 2024, following the increase in stake.

Figure 9: Asset value of key assets – 2024 vs 2023



Source: Company data

Sponsor is one of the world's largest operators of data centres

DCREIT's Sponsor is Digital Realty Trust, Inc. (DRT), one of the world's largest operator of data centres with total assets at US$45.3bn, as of end-2024. DRT is a public listed company on New York Stock Exchange, with market capitalization at US$49.8bn (as of close on 11 Apr 2025). DRT is the largest unitholder of DCREIT, with 30.91% of the units. DCREIT has been granted the right of first refusal (ROFR) on a strong pipeline of assets owned by DRT, valued at more than US$15bn. Going forward, potential acquisitions of these assets are key to sustaining long-term AUM growth.

Key Risks

Customer concentration risk

Customer concentration is high, with the top 3 customers accounting for 61.6% of total revenue in 2024. DCREIT has plans to diversify the customer base by entering into direct contracts with the end users. This was implemented at the Los Angeles facilities where DCREIT added ~60 customers, doubling the customer base to > 100.

Technology obsolescence risk

Technology obsolescence may require DCREIT to replace some equipment in fully-fitted facilities. Fully-fitted facilities account for 85% of the portfolio, raising concerns about the costs of maintaining the facilities with up-to-date equipment. Particularly going forward as the demand shifted towards AI-enabled data centres to support AI use cases. Besides higher power density to support training models and GPU, AI-enabled data centres will be equipped with new design of mechanical and electrical systems.

The release of Deepseek's LLM (Large Language Model) models in mid-January 2025 has created uncertainty on the future demand for data centres. Chinese startup Deepseek introduced the open-source reasoning model 'R1' which generates the same output at 10% of the cost required by OpenAI's o1. The hardware intensity of Deepseek is significantly lower, implying lower requirement for supporting digital infrastructure. In the current environment where hyperscalers are spending aggressively to expand data centre capacity, we may have an oversupply situation if the new AI inferencing and training applications require lower rack density in data centre. On a positive note, the cost compression in developing AI-enabled applications could drive higher adoption of GenAI. The future demand and supply dynamic for data centre capacity remains unclear.

Operating risk

Climate change may increase operating risks. With assets based in Northern California, DCREIT's assets could potentially face higher insurance costs following recent episodes of widespread fire. The wildfire caused by climate change is unpredictable, leading to higher operating risks in the region.

Disclosure Appendix

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