



CyrusOne (CONE)

Updated June 8th, 2020 by Nikos Sismanis

Key Metrics

Current Price:	\$77	5 Year CAGR Estimate:	8.4%	Market Cap:	\$8.52B
Fair Value Price:	\$61	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	06/24/20
% Fair Value:	121%	5 Year Valuation Multiple Estimate:	-3.7%	Dividend Payment Date:	07/09/20
Dividend Yield:	2.7%	5 Year Price Target	\$98	Years Of Dividend Growth:	6
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	8.6%

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 1,000 customers, including 200 of the Fortune 1000 companies. CyrusOne operates in the United States, Europe, and Asia. Through its data centers, it provides customers the flexibility and scale to perfectly match their specific growth needs. It has a market cap of \$2.52 billion and generates revenues of nearly \$1 billion. Boosted by the high demand for data and server storage, CyrusOne is currently the fastest-growing data center REIT in the U.S.

On April 29th, 2020, the company announced earnings for Q1 2020 for the period ending March 31st, 2020. For the quarter, revenues and normalized FFO grew to \$245.9 million, and \$111.8 million, an increase of 9%, and 25%, respectively. FFO/share grew to \$0.97, 18% higher than the year before. The mismatch in growth with the normalized FFO is due to additional share issuance. Overall, growth is set to continue, as the company reported a backlog of \$88 million in annualized GAAP revenue, the highest quarter-end backlog in its history. Moreover, the company issued €500 million of 1.45% Senior Notes due 2027. With such cheap borrowing, management can achieve a considerable ROI going forward, as it facilitates the continuous demand for storage and processing of information. Even though the impact of Covid-19 has been negative for many sectors, demand for data centers has skyrocketed, as physical traffic has increasingly transitioned to digital. As a result, the company reaffirmed its robust guidance for 2020 normalized FFO per share at \$3.75-3.90 and total revenues to \$1.010B-1.045.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
FFO	---	---	---	\$1.22	\$1.73	\$2.17	\$2.66	\$3.12	\$3.31	\$3.63	\$3.82	\$6.15
DPS	---	---	---	\$0.64	\$0.84	\$1.26	\$1.52	\$1.68	\$1.84	\$1.92	\$2.00	\$2.81
Shares¹	---	---	---	20.9	29.2	54.3	78.3	88.9	99.8	112.1	113.8	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 rapidly expand its FFO consistently every single year. Over the past five years, FFO/share has a CAGR of 12%.

DPS has also been increasing annually at a swift CAGR of 20.1%, since the REIT's IPO. We expect dividend growth to continue at approximately 7%, as the company maintains a healthy FFO payout ratio. Since REITs are required by law to distribute the majority of their underlying earnings, they tend to finance future growth through debt and equity. As a result, shares outstanding are currently five times those of the IPO. This is common practice for REITs, as the cost of equity is usually lower than future ROE. Finally, considering the company's cheap financing through debt, CyrusOne can utilize this pathway instead, should shares ever be undervalued. Therefore, it has significant flexibility.

¹ Share count is 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	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/FFO	---	---	---	18.2	15.9	14.0	16.9	18.6	17.6	17.9	19.3	16.0
Avg. Yld.	---	---	---	3.1%	3.9%	4.0%	3.4%	3.2%	3.3%	2.9%	2.7%	2.8%

Like with the rest of high-growth data center REITs, CyrusOne trades at a premium compared to traditional REITs. The stock is currently trading at an all-time high valuation (versus previous year annual averages) of 19.3 times its FFO. The reason is the stability of cash flows generated by data centers. 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 distributable funds, the dividend yield has dipped to just 2.7%, despite the rapid DPS growth.

While CyrusOne may offer a decent combination of growth and income, its yield is not particularly impressive compared to the rest of the REIT sector. Considering the current premium on its valuation, investors who choose to buy into CyrusOne now are likely to see a lower average annual return relative to the stock's past performance.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	---	---	---	---	62.5%	73.2%	56.7%	64.7%	55.4%	46.6%	57.1%	46%

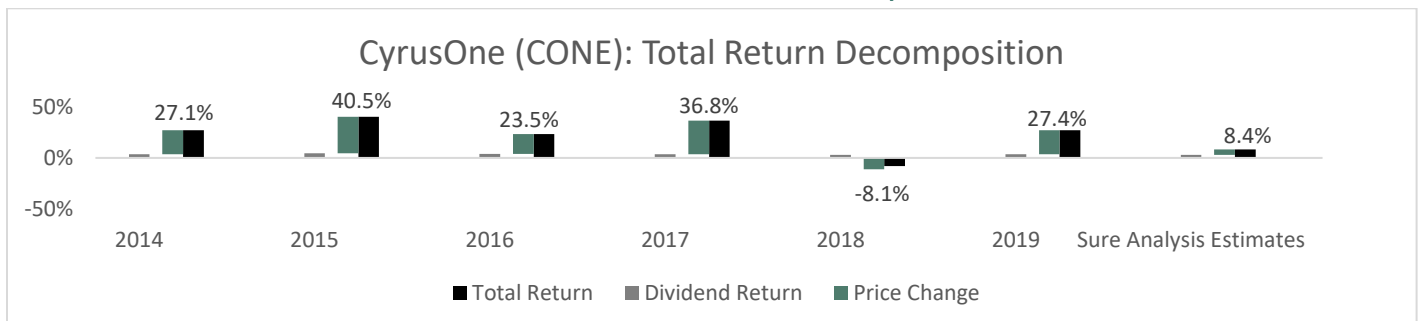
Being a data center REIT, CyrusOne is currently in an advantageous position, benefiting from the secured cash flows generated by its mission-critical tenants. The company is unlikely to experience any kind of rent deferrals, as was the case with the more traditional REITs over the past few months. Moreover, the company is prudent with its distributions, preserving a safe payout ratio in terms of its FFO.

CyrusOne has ~\$5 billion in real estate assets vs. ~\$3 billion of long-term debt. Currently, interest payments are only 1.0x covered by operating profits. While this may seem worrying, coverage should significantly increase as soon as the centers acquired by the latest debt issuance start producing cash flows themselves. Slim interest coverage is typical for REITs in their investment cycle.

Final Thoughts & Recommendation

CyrusOne offers a compelling investment case. The company operates in a fast-growing REIT niche. We expect that the data center sector will eventually mature, and the stock will return to a more reasonable P/FFO multiple of approximately 16 in the medium term. Advanced by the recent rally, shares are currently overvalued by approximately 20%. However, investors could still achieve annual returns of around 8.4% over the next five years, fueled by the consistent demand for data centers, and durable pricing power.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	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	2010	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	2010	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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