CyrusOne (CONE)

Updated July 29th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$72	**5 Year CAGR Estimate:**	8.3%	**Market Cap:**	$8.81B
Fair Value Price:	$72	**5 Year Growth Estimate:**	6.0%	**Ex-Dividend Date:**	09/23/21
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	10/08/21
Dividend Yield:	2.9%	**5 Year Price Target**	$96	**Years Of Dividend Growth:**	8
Dividend Risk Score:	B	**Retirement Suitability Score:**	B	**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 $8.81 billion, generates annual revenues of around $1 billion, and is headquartered in Dallas, Texas.

On July 28th, 2021, CyrusOne announced its Q2-2021 results for the period ended June 30th, 2021. For the quarter, revenues and normalized FFO grew 11% and 4% to $284.6 million and $123.1 million, respectively. FFO/share declined to $1.00, 3% lower than the year before. The mismatch in growth with the normalized FFO is due to additional share issuance. The main revenue growth drivers included a 9% increase in occupied CSF (colocation square feet) and additional interconnection services. Overall, the company is set to keep growing as it ended the quarter with $129 million in annualized revenue backlog, representing about $1.07 billion in future total contract value. Additionally, around 86% of the upcoming 280K CSF in CyrusOne's pipeline is preleased, indicating that demand for datacenters remains strong. Management raised its FY2021 FFO/share guidance, now expecting $3.95-$4.05 (previously $3.90 to $4.00), suggesting a small growth of 1.2% from the prior year. The company also raised its quarterly dividend by 2% to $0.52, suggesting an annualized rate of $2.08.

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	***$4.00***	***$5.35***
DPS	---	---	$0.64	$0.84	$1.26	$1.52	$1.68	$1.84	$1.92	$2.02	***$2.08***	***$2.47***
Shares[1]	---	---	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 8.5%.

DPS has also been increasing annually at a swift CAGR of 15.7% since the REIT's IPO. However, the company has now increased its DPS by 2% two times in a row, suggesting that management likely expects a slowdown in its medium-term financials.

On the one hand, CyrusOne should be able to leverage its cheap financing to sustain its growth. Since data centers have been booming following COVID-19, creditors have meager demands, resulting in the company borrowing at rates as low as 1.69%. However, the company's per-share metrics have clearly slowed down lately, likely due to growing competition. We hence lower both our FFO/share & DPS estimates from 7% and 5%, to 6% and 3.5%, respectively.

[1] Share count is in millions.

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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	***18.0***	***18.0***
Avg. Yld.	---	---	3.1%	3.9%	4.0%	3.4%	3.2%	3.3%	2.9%	2.9%	***2.9%***	***2.6%***

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 18 times its FFOs, primarily powered by the stability of cash flows generated by 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 18X FFOs, reflecting datacenters remaining consistently attractive. Since our last report, the stock's yield has remained close to 3%, which is very close to CONE's industry peers.

Safety, Quality, Competitive Advantage, & Recession Resiliency

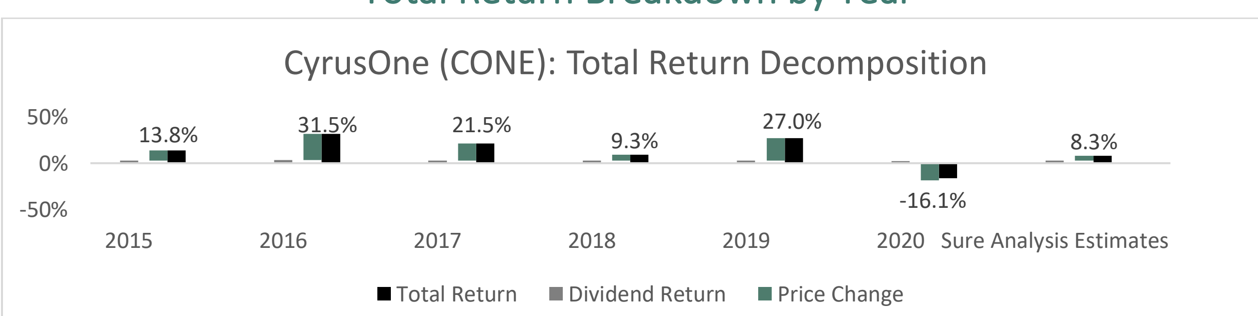
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	52%	49%	58%	57%	54%	56%	53%	52%	***52%***	***46%***

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 payouts, proven by its conservative DPS increases lately despite achieving higher FFO/share growth. The balance sheet is robust, with approximately $6.3 billion worth of real estate assets vs. $3.5 billion of long-term debt, though the interest coverage ratio of around 0.97X its operating cash flows could be slightly worrisome. Finally, the dividend remains incredibly safe. As already proven, CONE can easily withstand a potential recession going forward, facing little to no correlation with the overall economy's performance. Nonetheless, the industry remains highly competitive, which could weigh down on CONE's performance, as is likely the case over the past few quarters.

Final Thoughts & Recommendation

CyrusOne offers a decent investment case. The company operates in probably the most exciting and secure sub-sector of REITs, so its premium valuation is understandable. Its attractive characteristics include robust FFO generation with predictable growth prospects, a low payout ratio, and a quality pool of mission-critical tenants. Due to the premium valuation and decent, though not extraordinary growth estimates, we forecast annualized returns of around 8.3% going forward. 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 keep producing resilient results for years to come. Shares earn a Hold recommendation based on its projected annual returns.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	---	---	$331	$399	$529	$672	$821	$981	$1034
Gross Profit	---	---	$206	$251	$342	$437	$529	$598	$622
Gross Margin	---	---	62.4%	62.8%	64.6%	65.0%	64.4%	60.9%	60.2%
SG&A Exp.	---	---	$47	$59	$78	$84	$100	$104	$118
D&A Exp.	---	---	$118	$142	$184	$259	$334	$418	$449
Operating Profit	---	---	$41	$50	$80	$94	$95	$77	$55
Operating Margin	---	---	12.4%	12.6%	15.1%	14.0%	11.5%	7.8%	5.3%
Net Profit	---	---	-$8	-$15	$20	-$84	$1	$41	$41
Net Margin	---	---	-2.4%	-3.9%	3.8%	-12.4%	0.1%	4.2%	4.0%
Free Cash Flow	---	---	-$173	-$94	$181	$290	$309	$366	$456
Income Tax	---	---	$1.4	$1.8	$1.8	$3.0	$0.6	-$3.7	-$3.6

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	---	---	$1,571	$2,196	$2,852	$4,312	$5,593	$6,142	$6,897
Cash & Equivalents	---	---	$37	$14	$15	$152	$64	$76	$271
Accounts Receivable	---	---	$61	$76	$83	$87	$235	$292	$334
Goodwill & Int. Ass.	---	---	$345	$624	$605	$658	$691	$651	$613
Total Liabilities	---	---	$854	$1,374	$1,690	$2,598	$3,367	$3,707	$4,339
Accounts Payable	---	---	$70	$137	$227	$98	$121	$123	$151
Long-Term Debt	---	---	$644	$997	$1,240	$2,089	$2,625	$2,887	$3,409
Shareholder's Equity	---	---	$461	$822	$1,162	$1,714	$2,226	$2,435	$2,558
D/E Ratio	---	---	1.40	1.21	1.07	1.22	1.18	1.19	1.33

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	---	---	-0.6%	-0.8%	0.8%	-2.3%	0.0%	0.7%	0.6%
Return on Equity	---	---	-2.0%	-2.4%	2.0%	-5.8%	0.1%	1.8%	1.7%
ROIC	---	---	-0.7%	-1.0%	0.9%	-2.7%	0.0%	0.8%	0.7%
Shares Out.	---	---	29.2	54.3	79.0	88.9	100.4	112.5	117.6
Revenue/Share	---	---	$11.33	$7.35	$6.70	$7.56	$8.18	$8.72	$8.79
FCF/Share	---	---	-$5.93	-$1.74	$2.29	$3.26	$3.08	$3.25	$3.88

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