



CyrusOne (CONE)

Updated February 17th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$90	5 Year CAGR Estimate:	4.6%	Market Cap:	\$11.6B
Fair Value Price:	\$76	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	03/27/22
% Fair Value:	119%	5 Year Valuation Multiple Estimate:	-3.3%	Dividend Payment Date:	04/08/22
Dividend Yield:	2.3%	5 Year Price Target	\$101	Years Of Dividend Growth:	8
Dividend Risk Score:	B	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 \$11.6 billion, generates annual revenues of around \$1.2 billion, and is headquartered in Dallas, Texas.

On February 16th, 2022, CyrusOne announced its Q4-2021 results for the period ending December 31st, 2021. For the quarter, revenues and normalized FFO grew 19% and 8% to \$318.4 million and \$123.9 million, respectively. FFO/share climbed to \$0.97, 3% higher than the prior-year period. The mismatch in growth with the normalized FFO is due to additional share issuance. The increase in revenue was driven primarily by a 10% growth in occupied CSF and higher metered power reimbursements.

Overall, the company is set to keep growing as it ended the quarter with a \$177 million in annualized revenue backlog. Additionally, around 86% of CyrusOne's data center pipeline is pre-leased. This indicates that demand for data centers remains strong. Management did not provide financial guidance for this year. We forecast FY2022 FFO/share of around \$4.21 based on CytusOne's current portfolio metrics and upcoming data center deliveries.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
FFO/share	---	\$1.22	\$1.73	\$2.17	\$2.66	\$3.12	\$3.31	\$3.63	\$3.90	\$3.99	\$4.21	\$5.63
DPS	---	\$0.64	\$0.84	\$1.26	\$1.52	\$1.68	\$1.84	\$1.92	\$2.02	\$2.06	\$2.08	\$2.47
Shares¹	---	20.9	29.2	54.3	78.3	88.9	99.8	112.1	120.6	127.9	127.9	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 6.2%.

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. Hence our FFO/share & DPS growth estimates stand at a conservative 6% and 3.5%, respectively.

¹ Share count is in millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/FFO	---	18.23	15.86	14.02	16.91	18.58	17.58	17.9	19.5	19.2	21.3	18.0
Avg. Yld.	---	3.1%	3.9%	4.0%	3.4%	3.2%	3.3%	2.9%	2.9%	2.7%	2.3%	2.4%

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 21.3 times its FFO, primarily attributed to 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 favor secure rental revenues, we expect shares to continue trading at a premium and, therefore, have set our fair valuation multiple at 18x FFO. This implies valuation headwinds in the medium-term, nonetheless. Since our last report, the stock's yield has hovered close to 2.3%, which is close to CONE's industry peers.

Safety, Quality, Competitive Advantage, & Recession Resiliency

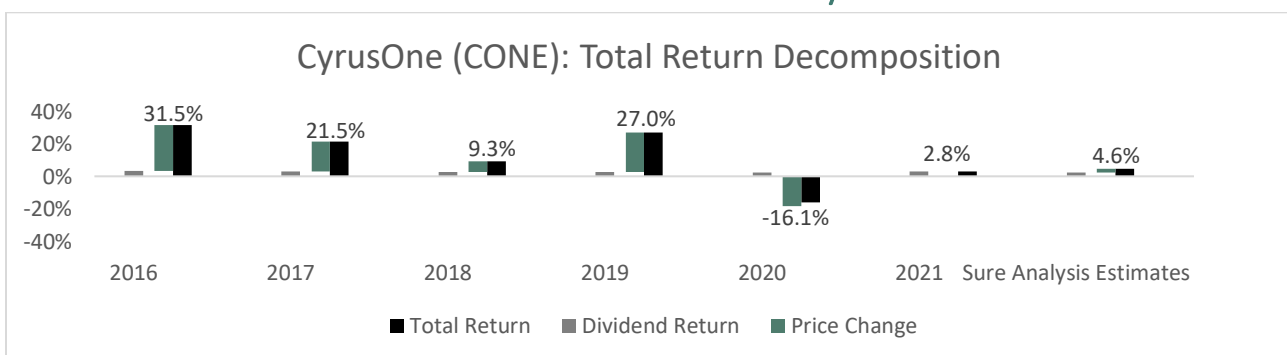
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	52%	49%	58%	57%	54%	56%	53%	52%	52%	49%	44%

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 \$5.5 billion worth of real estate assets vs. \$3.5 billion of long-term debt. The interest coverage ratio comes out around 7.3X the REIT's operating cash flows, which is also relatively healthy. 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 potential valuation headwinds and soft growth expectations, however, we forecast annualized returns of around 4.6% going forward. While CONE is likely to keep producing resilient results for years to come, shares earn a sell recommendation based on the stock's projected annual returns.

Total Return Breakdown by Year



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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.

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