NTT DC REIT (NTTDCR SP)

1QFY27: A Journey Of A Thousand Miles Begins With A Single Step

Highlights

- Portfolio occupancy would have increased 3.3ppt to 99.2% if we include committed leases that have yet to commence. Majority of these new leases are expected to contribute to revenue starting 3QFY27.
- NTTDCR has debt headroom of US$261m based on gearing of 40%, which could be utilised to acquire a hyperscale 24MW DC in Frankfurt, Germany.
- Maintain BUY with target price at US$1.31. We raised our weighted risk-free rate based on geographical disposition from 3.6% to 4.1% due to the recent increase in government bond yields.

1QFY27 Results

Year to 31 Mar (US$m)	1QFY27	IPO Forecast	% Variance	Remarks
Gross Revenue	58.1	58.7	-1.1	
Net Property Income (NPI)	27.9	26.6	+5.0	Lower real estate taxes and operating expenses.
Net Finance Costs	(5.1)	(5.5)	-7.8	SOFR dropped 73bp yoy to 3.68%.
Distributable Income	22.6	20.5	+10.6	

Source: NTTDCR, UOB Kay Hian

Analysis

- NTT DC REIT (NTTDCR) provided a business update for 1QFY27.
- **Outperformed IPO projection in 1Q FY26/27.** NTTDCR continued to exceed its IPO forecast, with NPI rising 5.0% above projections to US$27.9m and distributable income surpassing forecasts by 10.6% to US$22.6m in 1QFY27. The strong performance was driven by lower real estate taxes, lower operating expenses and reduced financing costs.
- **Leasing momentum supports occupancy growth.** Portfolio occupancy by IT load improved 0.8ppt qoq to 95.9% as of Jun 26, driven by expansion leases secured at CA1, CA3 and SG1. Including committed leases that have yet to commence, occupancy would have increased 3.3ppt to 99.2%. Management highlighted that the bulk of committed leases previously secured are expected to commence revenue contribution starting 3QFY27 onwards, providing a further earnings uplift in the upcoming quarters.
- **Renewed the master services agreement with NTT Singapore at SG1.** NTTDCR secured lease renewals representing monthly base rent of US$718,000 at a positive rental reversion of 13.4% in 1QFY27, largely driven by the 23% rental uplift from renewal of NTT Master Services Agreement at SG1. NTTDCR also backfilled 0.3MW at SG1 at 7% positive rental reversion with phased commencement from 3QFY27.

Key Financials

Year to 31 Mar (US$m)	2026	2027F	2028F	2029F
Net turnover	165	235	239	243
EBITDA	64	92	96	100
Operating profit	14	18	22	26
Net profit (rep./act.)	3	56	60	63
Net profit (adj.)	1	-4	-0	3
EPU (US$ cent)	0.1	(0.4)	0.0	0.2
DPU (US$ cent)	5.6	7.9	8.2	8.4
PE (x)	940.0	n.a.	n.a.	470.0
P/B (x)	0.8	0.9	0.9	0.9
DPU yld (%)	6.0	8.4	8.7	8.9
Net margin (%)	1.9	23.9	25.0	25.7
Net debt/(cash) to equity (%)	39.4	40.3	44.1	48.2
Interest cover (x)	4.3	4.4	4.5	4.4
ROE (%)	n.a.	4.8	5.2	5.6
Consensus DPU (US$ cent)	-	8.0	8.1	8.2
UOBKH/Consensus (x)	-	0.99	1.01	1.02

Source: NTT DC REIT, Bloomberg, UOB Kay Hian

Analyst(s)

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BUY (Maintained)

Share Price	US$0.95
Target Price	US$1.31
Upside	37.9%
Previous TP	US$1.43

Stock Data

Sector	Real Estate
Bloomberg ticker	NTTDCR SP
Shares issued (m)	1,034.0
Market cap (US$m)	971.9
Market cap (US$m)	971.9
3-mth avg daily t'over (US$m)	1.3

Price Performance (%)

52-week high/low: US$1.07/US$0.90

1mth	3mth	6mth	1yr	YTD
2.7	(2.6)	(5.5)	(1.1)	(7.8)

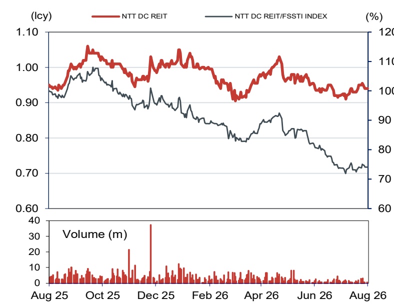
Major Shareholders (%)

NTT Ltd	25.3
GIC	9.8

Balance Sheet Metrics

FY26 NAV/Share (US$)	1.10
FY26 Net Debt/Share (US$)	0.44

Price Chart



Source: Bloomberg

Company Description

NTTDCR invests in a diversified portfolio of stabilised income-producing real estate assets located globally, which are used primarily for data centre purposes.

- **High-quality portfolio with resilient cashflows.** NTTDCR's portfolio comprises six Tier 3-equivalent data centres across the US, Austria and Singapore with 90.7MW of design IT load, 95.9% occupancy and WALE of 4.3 years. Leasing metrics remain healthy across all assets, with occupancy at 98.1% for VA2 (stable), 96.9% at CA1-3 (+1.2ppt qoq), 93.7% at SG1 (+1.9ppt qoq) and 92.1% at VIE1 (stable). Lease expiries remain well staggered, with only 14.0% of monthly base rent expiring in FY27. Hyperscale customers accounting for 49.0% of monthly base rent and colocation customers 51.0%. 84.7% of leases contain fixed rental escalations averaging 3.1% annually.
- **Strong balance sheet with ample financial flexibility.** Aggregate leverage increased modestly by 1.8ppt qoq to 31.0% as of Jun 26. Average cost of debt was stable at 3.98%. Interest coverage ratio strengthened to 4.7x as of Jun 26, compared to 4.2x in FY26. NTTDCR has no refinancing risk over the next two financial years, with no debt maturities until FY29 and additional flexibility through two one-year extension options. It has debt headroom of US$261m of before reaching 40% gearing, providing capacity to pursue future acquisitions and growth opportunities.

Valuation/Recommendation

- **Resilient demand as companies deploy AI to enhance productivity.** Management observed healthy demand across its key markets, supported by supply constraints and power availability challenges in Northern Virginia and Singapore. Singapore remains structurally undersupplied, while Northern Virginia continues to experience low vacancy rates of around 1%. Rental rates across key markets remain on an upward trajectory due to limited supply and strong hyperscale demand.
- **Exploring opportunities for acquisitions in FY27.** Management is exploring potential acquisitions in Europe and Japan:
  a) NTTDCR plans to acquire a hyperscale 24MW date centre (DC) in Frankfurt, Germany valued at US$450m-500m in 2HFY27. Frankfurt is the largest DC market in Europe. The DC is anchored by two US-based hyperscalers with a long WALE of 10 years. The Frankfurt DC is expected to provide an NPI yield of above 6%. The sponsor is currently preparing the Frankfurt data centre to be carved out.
  b) NTTDCR has commenced discussions with other entities within the NTT Group, such as NTT Data and NTT Docomo, on acquisitions of stabilised data centres in Japan. NTTDCR could acquire a 20MW DC in Tokyo, Japan anchored by a global hyperscaler.
- **Incentivising focus on DPU growth.** Management is proposing to change the management fee structure to enhance alignment with unitholders and is targeting to convene an EGM by Dec 26. We expect performance fees for the REIT manager to be tweaked to incentivise DPU growth.
- **Maintain BUY.** We raised our weighted risk-free rate based on geographical disposition from 3.6% to 4.1% due to rising government bond yields. Our new target price of US$1.31 is based on DDM (cost of equity: 8.6% (previous: 8.1%), terminal growth: 2.5%).

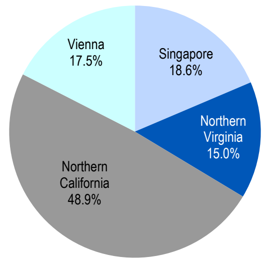
Earnings Revision/Risk

- We maintain our existing DPU forecast.

Share Price Catalyst

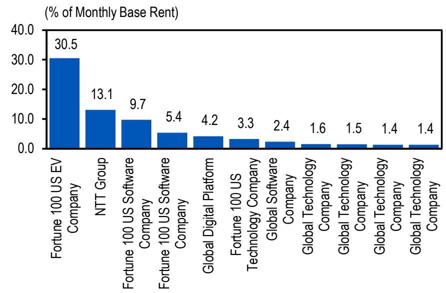
- Acquisitions of hyperscale data centres in Frankfurt, Germany and Tokyo, Japan from its sponsor pipeline. Uptick in portfolio occupancy in FY27.

Portfolio Composition By Geography



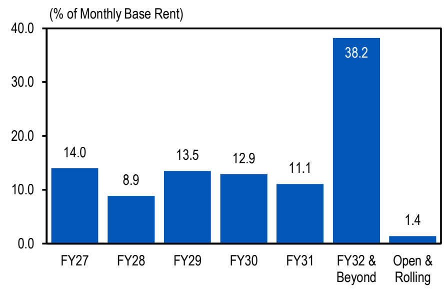
Source: NTTDCR

Top 10 Tenants By Monthly Base Rent



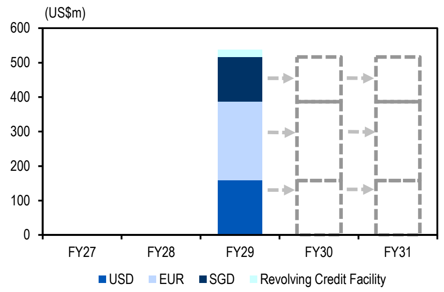
Source: NTTDCR

Lease Expiry Profile



Source: NTTDCR

Debt Maturity Profile



Source: NTTDCR

Profit & loss

Year to 31 Mar (US$m)	2026	2027F	2028F	2029F
Net turnover	164.8	234.9	239.2	243.4
EBITDA	64.1	91.6	95.8	99.8
Deprec. & amort.	50.0	74.0	74.0	74.0
EBIT	14.1	17.6	21.8	25.8
Total other non-operating income	1.7	60.0	60.0	60.0
Associate contributions	0.0	0.0	0.0	0.0
Net interest income/(expense)	(14.9)	(20.6)	(21.2)	(22.5)
Pre-tax profit	0.9	57.0	60.6	63.3
Tax	2.2	(0.8)	(0.8)	(0.8)
Minorities	0.0	0.0	0.0	0.0
Net profit	3.1	56.2	59.8	62.5
Net profit (adj.)	1.4	(3.8)	(0.2)	2.5

Balance Sheet

Year to 31 Mar (US$m)	2026	2027F	2028F	2029F
Fixed assets	1,667.2	1,673.2	1,679.2	1,685.2
Other LT assets	14.3	14.3	14.3	14.3
Cash/ST investment	46.0	54.4	57.1	54.6
Other current assets	46.3	59.1	60.0	61.2
Total assets	1,773.8	1,801.0	1,810.6	1,815.3
ST debt	0.0	0.0	0.0	0.0
Other current liabilities	43.9	90.0	91.4	93.1
LT debt	512.1	520.0	555.0	585.0
Other LT liabilities	35.8	35.7	35.7	35.7
Shareholders' equity	1,181.9	1,155.3	1,128.5	1,101.5
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	1,773.7	1,801.0	1,810.6	1,815.3

Cash Flow

Year to 31 Mar (US$m)	2026	2027F	2028F	2029F
Operating	58.7	124.0	95.5	99.5
Pre-tax profit	3.1	56.2	59.8	62.5
Tax	0.0	0.0	0.0	0.0
Deprec. & amort.	50.8	74.4	74.4	74.4
Associates	0.0	0.0	0.0	0.0
Working capital changes	(3.7)	33.3	0.5	0.5
Non-cash items	8.6	12.0	12.2	12.4
Other operating cashflows	(0.1)	(51.9)	(51.4)	(50.3)
Investing	(1,250.9)	(20.0)	(20.0)	(20.0)
Capex (growth)	(1,233.7)	0.0	0.0	0.0
Capex (maintenance)	(17.5)	(20.0)	(20.0)	(20.0)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	0.3	0.0	0.0	0.0
Financing	1,277.9	(95.6)	(72.8)	(82.0)
Distribution to unitholders	772.7	0.0	0.0	0.0
Issue of shares	0.0	(82.9)	(86.6)	(89.5)
Proceeds from borrowings	536.8	7.9	35.0	30.0
Loan repayment	(11.7)	0.0	0.0	0.0
Others/interest paid	(19.9)	(20.6)	(21.2)	(22.5)
Net cash inflow (outflow)	85.7	8.4	2.7	(2.5)
Beginning cash & cash equivalent	0.0	46.0	54.4	57.1
Changes due to forex impact	(0.8)	0.0	0.0	0.0
Ending cash & cash equivalent	84.9	54.4	57.1	54.6

Key Metric

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	38.9	39.0	40.1	41.0
Pre-tax margin	0.5	24.3	25.3	26.0
Net margin	1.9	23.9	25.0	25.7
ROA	n.a.	3.1	3.3	3.4
ROE	n.a.	4.8	5.2	5.6
Growth				
Turnover	n.a.	42.5	1.8	1.8
EBITDA	n.a.	42.9	4.6	4.2
Pre-tax profit	n.a.	6,233.3	6.3	4.5
Net profit	n.a.	1,712.9	6.4	4.5
Net profit (adj.)	n.a.	n.a.	n.a.	n.a.
EPU	n.a.	n.a.	n.a.	n.a.
Leverage				
Debt to total capital	30.2	31.0	33.0	34.7
Debt to equity	43.3	45.0	49.2	53.1
Net debt/(cash) to equity	39.4	40.3	44.1	48.2
Interest cover (x)	4.3	4.4	4.5	4.4