

NTT DC REIT (NTTDCR SP)

Embracing Closer Alignment With Unitholders' Interest

Highlights

- NTTDCR aims to expand in Europe to increase its exposure to Tier 1 markets. It has debt headroom of US\$261m based on a gearing of 40%, which could be utilised to acquire a hyperscale 24MW DC in Frankfurt, Germany in 2HFY27.
- NTTDCR is the first data centre REIT to link payment of performance fee to DPU growth and set a stringent minimum threshold for DPU growth of 3%. Unitholders' interest is protected as new units issued for payment of management fees is priced at NAV or higher. The restructuring incentivises DPU growth and increases alignment with unitholders' interest.
- We raised our FY27 and FY28 DPU forecasts by 2% due to cost reduction. Re-iterate BUY for its attractive DPU yield of 9.0% for FY27 and 9.3% for FY28. Target price: US\$1.31.

Analysis

- Expanding in Europe to increase exposure to Tier 1 markets.** NTT DC REIT (NTTDCR) plans to acquire a hyperscale 24MW data centre (DC) in Frankfurt, Germany valued at US\$450m-500m in 2HFY27. The DC is anchored by two US-based hyperscalers with a long WALE of 10 years and is expected to provide an NPI yield of above 6%. Frankfurt is the largest DC market in Europe. After the acquisition, the mix between Tier 1 and secondary markets could shift from 32:68 to 48:52. Likewise, the reliance on the US market, which includes its DCs in Northern Virginia (VA2) and Sacramento (CA1, CA2 and CA3), would be reduced from 64% to 49% of portfolio valuation.
- Building NTTDCR into a viable offtake vehicle.** NTTDCR has a global right of first refusal over its sponsor's stabilised DCs covering more than 160 properties in operation with a total IT load of 1,630MW. NTTDCR and its sponsor are currently preparing the Frankfurt DC to be carved out, including local regulatory approvals and tax planning strategies.
- 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 new leases that have yet to commence, occupancy would have increased 3.3ppt to 99.2%. Management highlighted that the bulk of new leases previously secured are expected to commence revenue contribution starting from 3QFY27, providing a further earnings uplift in the upcoming quarters.

Key Financials

Year to 31 Mar (US\$m)	2026	2027F	2028F	2029F
Net turnover	165	235	239	243
EBITDA	64	94	98	102
Operating profit	14	20	24	28
Net profit (rep./act.)	3	58	61	64
Net profit (adj.)	1	-2	1	4
EPU (US\$ cent)	0.1	(0.2)	0.1	0.4
DPU (US\$ cent)	5.6	8.1	8.3	8.5
PE (x)	668.0	n.a.	826.1	254.8
P/B (x)	0.8	0.8	0.8	0.9
DPU yld (%)	6.2	9.0	9.3	9.5
Net margin (%)	1.9	24.7	25.6	26.2
Net debt/(cash) to equity (%)	39.4	40.3	44.1	48.2
Interest cover (x)	4.3	4.5	4.5	4.4
ROE (%)	n.a.	5.0	5.4	5.7
Consensus DPU (US\$ cent)	-	8.0	8.1	8.2
UOBKH/Consensus (x)	-	1.01	1.03	1.04

Source: NTT DC REIT, Bloomberg, UOB Kay Hian

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BUY (Maintained)

Share Price	US\$0.90
Target Price	US\$1.31
Upside	45.6%
Previous TP	US\$1.29

Stock Data

Sector	Real Estate
Bloomberg ticker	NTTDCR SP
Shares issued (m)	1,041.4
Market cap (US\$m)	937.3
Market cap (US\$m)	937.3
3-mth avg daily t'over (US\$m)	2.7

Price Performance (%)

52-week high/low			US\$1.06/US\$0.90	
1mth	3mth	6mth	1yr	YTD
(3.7)	(5.3)	(5.3)	(13.5)	(11.8)

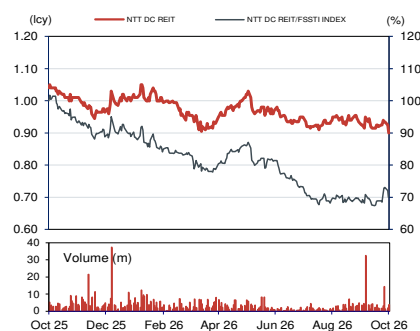
Major Shareholders (%)

NTT Ltd	25.1
GIC	9.7

Balance Sheet Metrics

FY27 NAV/Share (US\$)	1.10
FY27 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.

- **Restructuring performance fee to incentivise DPU growth.** NTTDCR has proposed the following two amendments to its fee structure:
 - a) The manager has proposed to replace its existing performance fee of 3.5% of NPI with a structure tied to yoy DPU growth, effective from FY27:
 - a) No performance fee would be payable if DPU growth is 3% or less; b) growth above 3% but below 5% would attract a fee of 0.1% of deposited property, and c) the fee would increase to 0.2% for growth of at least 5%. DPU growth is measured after base fees but before performance fees.
 - b) The manager has proposed issuing units used to pay management fees at the higher of NAV per unit and market price, replacing the existing market-price basis, effective from 1 Oct 26. Market price is defined using the relevant 10-business-day volume-weighted average price. When units trade below NAV, the change would reduce the number of fee units issued and mitigate dilution to existing unitholders.
- The proposed amendments **increase the alignment of interest** between the REIT manager, which is owned by the sponsor, and unitholders. The REIT manager is incentivised to focus on generating DPU growth, which promotes long-term value creation for unitholders. The base fee remains unchanged at 0.5% of deposited property. As a gesture of goodwill, the manager will cap the performance fee at US\$3.7m for FY27 and intends to waive it if actual DPU falls below the IPO forecast of 7.8 US cents.
- The proposed market-friendly management fee restructuring is subject to unitholders' approval during the EGM on 6 Nov 26.
- **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 with 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 before it reaches 40% gearing, which provides capacity to pursue future acquisitions and growth opportunities.
- **NTTDCR was included in the FTSE EPRA Nareit Global Developed Index** with effect from 21 Sep 26. It passed all eligibility tests for inclusion, including the EBITDA criteria and other liquidity requirements, during the latest quarterly review. This is a significant milestone for NTTDCR. The inclusion is expected to enhance NTTDCR's visibility among global institutional investors and broaden its investor base.

Valuation/Recommendation

- **Maintain BUY.** Our new target price of US\$1.31 is based on DDM (cost of equity: 8.7%, terminal growth: 2.5%).

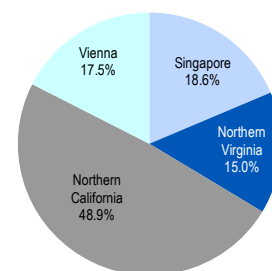
Earnings Revision/Risk

- **Outperformed IPO projection in 1QFY27.** NTTDCR exceeded 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, decreased operating expenses and reduced financing costs.
- We have raised our DPU forecasts by 2% for both FY27 and FY28 due to cost savings achieved, as reflected in NTTDCR's 1QFY27 business update.

Share Price Catalyst

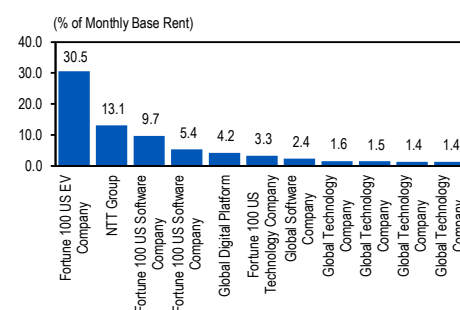
- Catalysts include: a) acquisitions of hyperscale DCs in Frankfurt, Germany from its sponsor pipeline, and b) an uptick in portfolio occupancy in 2HFY27.

Portfolio Composition By Geography



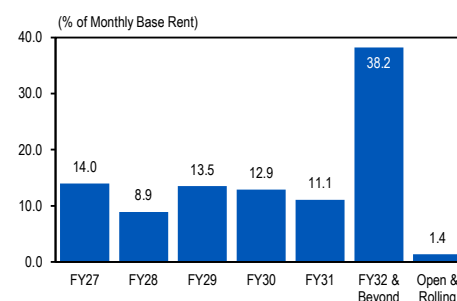
Source: NTTDCR

Top 10 Tenants By Monthly Base Rent



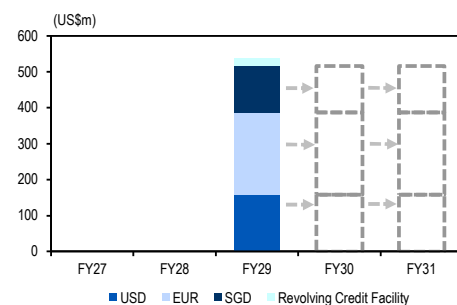
Source: NTTDCR

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	93.7	97.9	101.9
Deprec. & amort.	50.0	74.0	74.0	74.0
EBIT	14.1	19.7	23.9	27.9
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)	(20.8)	(21.9)	(23.3)
Pre-tax profit	1.0	58.9	62.0	64.6
Tax	2.2	(0.8)	(0.8)	(0.8)
Minorities	0.0	0.0	0.0	0.0
Net profit	3.1	58.1	61.2	63.8
Net profit (adj.)	1.4	(1.9)	1.2	3.8

Cash Flow

Year to 31 Mar (US\$m)	2026	2027F	2028F	2029F
Operating	58.7	126.1	97.6	101.6
Pre-tax profit	3.1	58.1	61.2	63.8
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	12.1	12.3	12.5
Other operating cashflows	(0.2)	(51.7)	(50.7)	(49.5)
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	(97.8)	(75.0)	(84.2)
Distribution to unitholders	772.7	0.0	0.0	0.0
Issue of shares	0.0	(84.8)	(88.0)	(90.8)
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)	(20.8)	(21.9)	(23.3)
Net cash inflow (outflow)	85.6	8.3	2.6	(2.5)
Beginning cash & cash equivalent	0.0	46.0	54.3	56.9
Changes due to forex impact	(0.8)	0.0	0.0	0.0
Ending cash & cash equivalent	84.8	54.3	56.9	54.4

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	54.3	56.9	54.4
Other current assets	46.3	59.1	60.0	61.1
Total assets	1,773.8	1,800.9	1,810.5	1,815.0
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	35.7	35.7	35.7	35.7
Shareholders' equity	1,181.9	1,155.2	1,128.3	1,101.2
Minority interest	0.0	0.0	0.0	0.0
Total liabilities & equity	1,773.7	1,800.9	1,810.5	1,815.0

Key Metric

Year to 31 Mar (%)	2026	2027F	2028F	2029F
Profitability				
EBITDA margin	38.9	39.9	40.9	41.9
Pre-tax margin	0.6	25.1	25.9	26.5
Net margin	1.9	24.7	25.6	26.2
ROA	n.a.	3.3	3.4	3.5
ROE	n.a.	5.0	5.4	5.7
Growth				
Turnover	n.a.	42.5	1.9	1.8
EBITDA	n.a.	46.2	4.4	4.1
Pre-tax profit	n.a.	5,922.7	5.2	4.2
Net profit	n.a.	1,753.9	5.2	4.3
Net profit (adj.)	n.a.	n.a.	n.a.	227.6
EPU	n.a.	n.a.	n.a.	224.2
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	4.5	4.5	4.4

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