

Data Centers: Finding Opportunity in the Storm

By NSR Team | January 11, 2019

Digital Realty's guidance sent shockwaves throughout the data centers this week. We had cautioned a month ago (and again earlier this week), that guidance was likely to come in below consensus ([LINK](#)). Financial guidance came in as we expected, but two metrics were worse than we expected: 1) DLR lowered their return threshold for new data center builds; and 2) DLR guided to sharply declining lease renewal rates this year ([LINK](#)). Both of these factors demonstrate the risk of pursuing hyperscale deals with little underlying asset differentiation, a risk which extends to the entire wholesale data center industry. We believe the negative sentiment on the sector provides an opportunity to buy EQIX at depressed prices, since EQIX is largely insulated from pricing risk due to their focus on retail customers and their interconnection strategy. We see potential for 40% upside to EQIX over the next 12 months.

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Full 12-month historical recommendation changes are available on request

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