

GDS (GDS US)

Lacks visibility in recovery timeline

GDS reported in-line FY2Q22 results with adj. EBITDA growth of +19% YoY to RMB1.06bn. However, GDS guided down on FY22E revenue/ adj. EBITDA growth to +19%/ +14% (prior +22%/ +18%), largely due to 1) 45% of capacity originally scheduled for delivery in FY22E has been pushed back to 2023 and 2) utility price hike continues to drag margin. Meanwhile, GDS is setting up China Data Center Fund to de-stress its balance sheet. Trading at over 1-SD below three-year mean, we maintain BUY.

- FY2Q22 in-line but growth in net area committed continued to slow down.** GDS delivered revenue growth of +24% YoY to RMB2,310mn in FY2Q22 as area utilized rose by 23% to 346k sqm. Total area in-service increased by +19% YoY to 504k sqm. MSR declined -1.3% QoQ although utilization rose to 68.5% (vs. 67.4% in FY1Q22) as more edge of town capacity were being added. Adj. EBITDA margin was 46.0% (-2.1 pct pts YoY), mainly on higher utility cost (30% of service revenue). As a result, FY2Q22 net loss widened to RMB388mn (vs. -RMB325mn in FY2Q21).
- Guided down on FY22E with delivery schedule delay.** GDS guided down FY22E revenue and adj. EBITDA as delivery schedule is being affected by weak macro environment and recurrent pandemic. To quantify, 45% (38.8k sqm) of capacity originally scheduled for delivery in 2022 has been pushed back to 2023 or beyond. Mid-point of new FY22E guidance implied revenue growth of +19.3% to RMB9,325mn (-1.8% vs. prior guidance) and adj. EBITDA growth of +14.4% YoY to RMB4,240mn (-2.9% vs. prior) respectively.
- Setting up China Data Center Fund to de-stress the balance sheet.** GDS announced to have entered into a framework agreement with a sovereign wealth fund to form a China Data Center Fund. GDS and the Investor will commit US\$1bn of capital to the fund (30% from GDS, 70% from the Investor) to acquire data center projects from GDS's portfolio or third parties. For financial impacts, GDS will record one-off disposal gain and earns recurring management fee in the future. This could help GDS in capital recycling and de-stress its balance sheet.
- Trading at over 1-SD below three-year mean.** We largely maintain FY22 forecast but cut FY23-24E adj. EBITDA by 6-13% on slower move-in. Trading at over 1-SD below three-year mean, we maintain BUY with new target price of US\$35.07 (prior US\$46.00), based on lowered 16x FY23E EV/EBITDA.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	5,739	7,819	9,258	10,241	11,579
YoY growth (%)	39%	36%	18%	11%	13%
Adj. EBITDA (RMB mn)	2,681	3,703	4,232	4,713	5,354
YoY growth (%)	47%	38%	14%	11%	14%
Consensus EBITDA (RMB)	2,681	3,703	4,277	5,208	6,274
Net income (RMB mn)	(669)	(1,191)	(1,825)	(2,052)	(1,518)
EPS (RMB)	-0.59	-0.90	-1.53	-1.66	-1.28
YoY growth (%)	n.a.	n.a.	n.a.	n.a.	n.a.
EV/EBITDA	14.0	15.4	15.4	15.6	15.3
Yield (%)	n.a.	n.a.	n.a.	n.a.	n.a.
ROE (%)	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$35.07
(Previous TP) US\$46.00
Up/Downside +35.0%
Current Price US\$25.98

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Stock Data

Mkt Cap (US\$ mn)	4,951
Avg 3 mths t/o (mn)	33.78
52w High/Low (US\$)	66.50/ 19.83
Total Issued Shares (mn)	182

Source: Bloomberg

Shareholding Structure

STT GDC	31.8%
William Huang - Chairman	5.7%
Ping An	2.2%

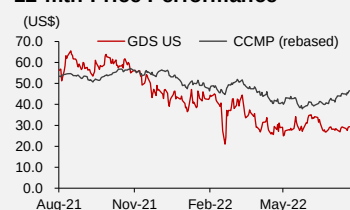
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-7.5%	-11.6%
3-mth	-10.3%	-17.7%
6-mth	-38.6%	-33.7%

Source: Bloomberg

12-mth Price Performance



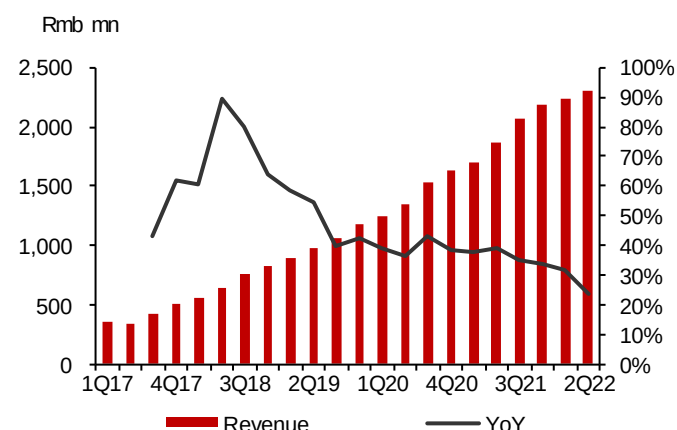
Source: Bloomberg

Auditor: KPMG

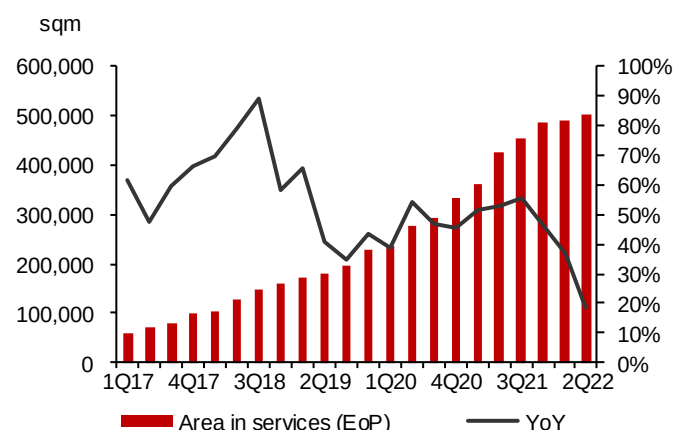
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- China Software & IT Services – Higher visibility in SaaS along China cloud value chain – 28 Jun 2022 ([link](#))
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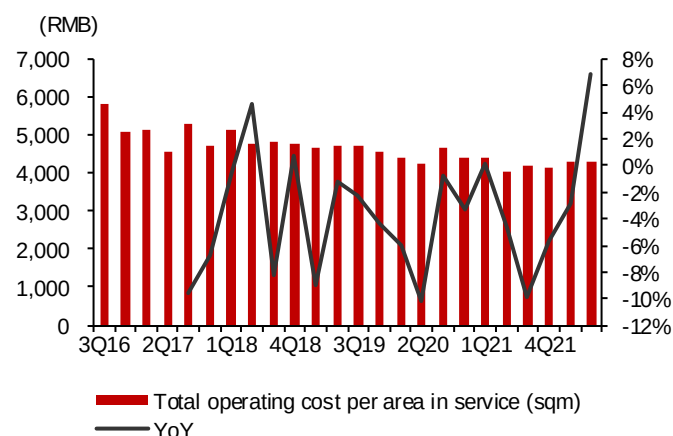
Focus charts

Figure 1: Revenue and YoY growth


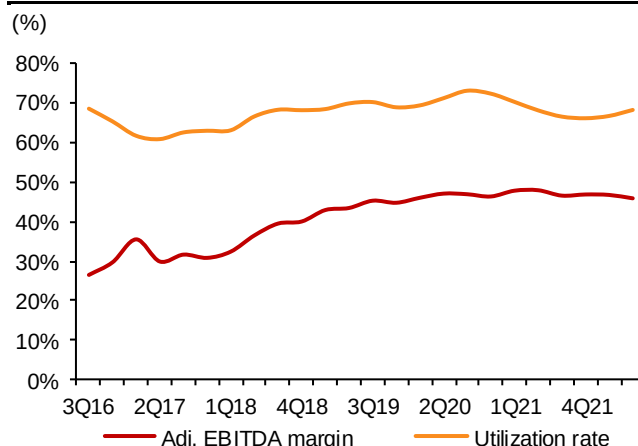
Source: Company data, CMBIGM estimates

Figure 2: Area in services and YoY


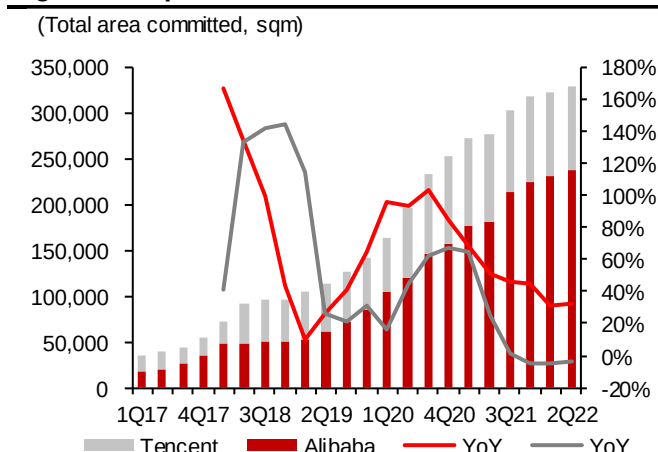
Source: Company data, CMBIGM estimates

Figure 3: Total operating cost per area in service


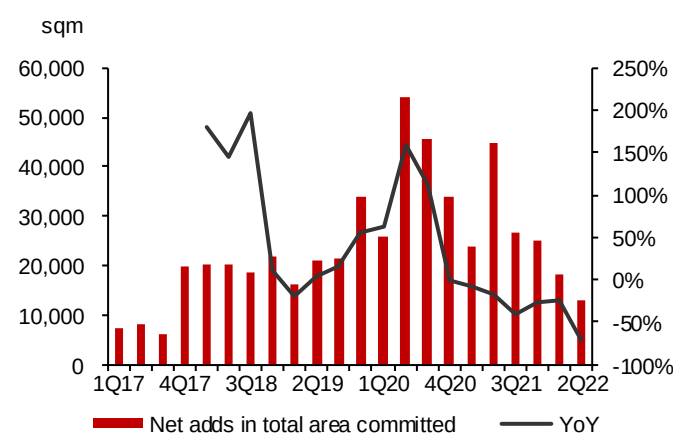
Source: Company data, CMBIGM estimates

Figure 4: EBITDA margin vs. utilization


Source: Company data, CMBIGM estimates

Figure 5: Top two customers total area committed


Source: Company data, CMBIGM estimates

Figure 6: Net adds in total area committed


Source: Company data, CMBIGM estimates

FY2Q22 earnings review

FY2Q22 results review

- **Revenue** was RMB2,310mn (+24% YoY, +3% QoQ), in-line with our and consensus estimates
- **Gross profit** was RMB469mn (+7% YoY, -4% QoQ), below our estimate by 6% and consensus by 19%.
- **Gross margin** was 20.3% (-3.3 pct pts YoY, -1.4 pct pts QoQ), below our estimate by 2.4 pct pts and consensus by 5.3 pct pts.
- **Adj. EBITDA** was RMB1,062mn (+19% YoY, +1% QoQ), in-line with our and consensus estimates.
- **Adj. EBITDA margin** was 46.0% (-2.1 pct pts YoY, -0.9 pct pts QoQ), in-line with our and consensus estimates.
- **Net loss** was widened at RMB388mn (vs. -RMB325mn in 2Q21), better than our and consensus estimates.

Guided down on FY22E

- **Revenue** will be in the range of RMB9,250-9,400mn (implying +18.3% to +20.2% YoY). The new revenue range represented 0.8-2.9% decrease to prior guidance.
- **Adj. EBITDA** will be in the range of RMB4,200-4,280mn (implying +13.4% to +15.6% YoY). The new adj. EBITDA range represented 2.0-3.8% decrease to prior guidance.
- **Capex** will be at RMB12,000mn (-12.4% YoY).

Figure 7: 2Q22 results review

	Jun-20 2Q21	Mar-21 1Q22	Jun-21 2Q22			Jun-21 2Q22	versus	Jun-21 2Q22	versus
RMB mn	actual	actual	actual	YoY	QoQ	CMBI	CMBI	consensus	consensus
Revenue	1,864	2,244	2,310	24%	3%	2,209	5%	2,271	2%
Gross profit	440	486	469	7%	-4%	501	-6%	580	-19%
Gross margin	23.6%	21.7%	20.3%	-3.3 pct pts	-1.4 pct pts	22.7%	-2.4 pct pts	25.5%	-5.3 pct pts
Operating profit	147	135	133	-9%	-2%	179	-26%	117	14%
Operating margin	7.9%	6.0%	5.8%	-2.1 pct pts	-0.3 pct pts	8.1%	-2.3 pct pts	5.2%	0.6 pct pts
Adj. EBITDA	896	1,051	1,062	19%	1%	1,018	4%	1,044	2%
Adj. EBITDA margin	48.1%	46.9%	46.0%	-2.1 pct pts	-0.9 pct pts	46.1%	-0.1 pct pts	46.0%	0 pct pts
Net non-op	-394	-437	-450			-489		-488	
PBT	-247	-301	-316	-28%	-5%	-310	-2%	-371	15%
Net income	-325	-574	-388	-19%	32%	-464	16%	-483	20%
Net margin	-17.4%	-25.6%	-16.8%	0.6 pct pts	8.8 pct pts	-21.0%	4.2 pct pts	-21.3%	4.5 pct pts
EPS RMB	-0.22	-0.39	-0.27	-18%	33%	-0.32	16%	-0.44	40%

Source: Company data, CMBIGM

Earnings revision

Figure 8: Earnings revision

RMB mn	2022E			2023E			2024E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	9,258	9,129	1%	10,241	10,921	-6%	11,579	13,197	-12%
Gross profit	1,768	2,064	-14%	2,185	2,654	-18%	2,970	3,956	-25%
OP Profit	383	683	-44%	716	1,081	-34%	1,322	2,069	-36%
Adj. EBITDA	4,232	4,192	1%	4,713	5,041	-6%	5,354	6,148	-13%
PBT	-1,542	-1,324	16%	-1,712	-1,484	15%	-1,280	-734	75%
Net profit	-2,191	-2,101	4%	-2,364	-2,243	5%	-1,824	-1,305	40%
EPS	-1.53	-1.47	4%	-1.66	-1.57	5%	-1.28	-0.91	40%
Margins									
GM	19.1%	22.6%	-351 bps	21.3%	24.3%	-297 bps	25.6%	30.0%	-433 bps
OPM	4.1%	7.5%	-335 bps	7.0%	9.9%	-291 bps	11.4%	15.7%	-426 bps
Adj. EBITDA margin	45.7%	45.9%	-20 bps	46.0%	46.2%	-13 bps	46.2%	46.6%	-35 bps
PBT margin	-16.7%	-14.5%	-215 bps	-16.7%	-13.6%	-313 bps	-11.1%	-5.6%	-550 bps
Net margin	-23.7%	-23.0%	-65 bps	-23.1%	-20.5%	-255 bps	-15.8%	-9.9%	-587 bps
Key assumptions									
Total area in service	535,376	575,702	-7%	595,331	702,356	-15%	672,724	828,781	-19%
Total area utilized	370,597	376,565	-2%	402,499	465,678	-14%	463,441	557,186	-17%
Avg. utilization rate	68.5%	66.6%	191 bps	67.5%	66.4%	111 bps	68.8%	67.2%	165 bps
Average MSR	2,193	2,159	2%	2,194	2,126	3%	2,177	2,133	2%
Depreciation	3,375	3,111	8%	3,687	3,695	-0%	4,136	4,188	-1%

Source: Company data, CMBIGM

Figure 9: CMBI estimates vs. consensus

RMB mn	2022			2023			2024		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	9,258	9,344	-1%	10,241	11,335	-10%	11,579	13,568	-15%
Gross profit	1,768	2,036	-13%	2,185	2,858	-24%	2,970	3,574	-17%
Operating profit	383	658	-42%	716	961	-25%	1,322	1,626	-19%
Adj. EBITDA	4,232	4,277	-1%	4,713	5,208	-9%	5,354	6,274	-15%
Net profit	-2,191	-1,879	17%	-2,364	-1,724	37%	-1,824	-1,160	57%
EPS	-1.53	-6.37	-76%	-1.66	-5.15	-68%	-1.28	-3.85	-67%
Margins									
GM	19.1%	21.8%	-270 bps	21.3%	25.2%	-387 bps	25.6%	26.3%	-69 bps
OPM	4.1%	7.0%	-291 bps	7.0%	8.5%	-148 bps	11.4%	12.0%	-57 bps
Adj. EBITDA margin	45.7%	45.8%	-6 bps	46.0%	45.9%	8 bps	46.2%	46.2%	0 bps
Net margin	-23.7%	-20.1%	-356 bps	-23.1%	-15.2%	-788 bps	-15.8%	-8.5%	-721 bps

Source: Company data, CMBIGM

Figure 10: Operating model

RMB mn	2020	2021	2022E	2023E	2024E
Revenues	5,739	7,819	9,258	10,241	11,579
Service Revenue	5,717	7,814	9,245	10,232	11,569
Equipment Revenue	22	4	12	9	11
Cost of sales	-4,189	-6,039	-7,490	-8,056	-8,609
Gross Profit	1,550	1,779	1,768	2,185	2,970
<i>Gross margin</i>	<i>27.0%</i>	<i>22.8%</i>	<i>19.1%</i>	<i>21.3%</i>	<i>25.6%</i>
R&D	-40	-69	-54	-73	-83
SG&A	-837	-1,141	-1,331	-1,397	-1,565
Operating Income	673	570	383	716	1,322
Adj. EBITDA	2,681	3,703	4,232	4,713	5,354
<i>Adj. EBITDA margin</i>	<i>46.7%</i>	<i>47.4%</i>	<i>45.7%</i>	<i>46.0%</i>	<i>46.2%</i>
Interest Expense	-1,287	-1,604	-2,005	-2,505	-2,679
Net other income (exp)	66	86	81	77	77
Profit Before Income Taxes	-548	-949	-1,542	-1,712	-1,280
Income Tax Expense	-121	-242	-282	-340	-237
Net profit (loss)	-738	-1,315	-2,191	-2,364	-1,824
<i>Net margin</i>	<i>-11.7%</i>	<i>-15.2%</i>	<i>-19.7%</i>	<i>-20.0%</i>	<i>-13.1%</i>
EPS (RMB)	-0.59	-0.90	-1.53	-1.66	-1.28
Key assumptions					
Total area in service (EoP)	333,853	487,883	535,376	595,331	672,724
Total area utilized (EoP)	234,731	319,475	370,597	402,499	463,441
Utilization rate (area utilized/ area in service)	72%	67%	69%	68%	69%
Average MSR (Rmb / Sqm / Month)	2,333	2,260	2,193	2,194	2,177
Depreciation	1,638	2,617	3,375	3,687	3,687
Growth (YoY)					
Revenues	39%	36%	18%	11%	13%
Gross Profit	49%	15%	-1%	24%	36%
Adj. EBITDA	47%	38%	14%	11%	14%
Net profit (loss)	51%	78%	53%	12%	-26%

Source: Company data, CMBIGM

Figure 11: Quarterly model

RMB mn	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22E	4Q22E	1Q23E	2Q23E
Revenues	1,864	2,061	2,187	2,244	2,310	2,341	2,363	2,539	2,555
Gross Profit	440	455	487	486	469	444	368	598	524
Adj. EBITDA	896	962	1,027	1,051	1,062	1,055	1,064	1,178	1,168
Net profit (loss)	-325	-337	-351	-574	-388	-523	-706	-522	-622
EPS (RMB)	-0.22	-0.23	-0.24	-0.39	-0.27	-0.36	-0.48	-0.36	-0.43
Key assumptions									
Total area in service (EoP)	425,019	452,830	487,883	492,344	504,383	518,090	535,376	551,645	572,082
Total area utilized (EoP)	281,650	300,328	319,475	332,019	345,678	356,847	370,597	372,940	385,203
Utilization rate (area utilized/ area in service)	66%	66%	65%	67%	69%	69%	69%	68%	67%
Average MSR (Rmb / Sqm / Month)	2,331	2,361	2,351	2,296	2,265	2,219	2,163	2,274	2,245
Depreciation	620	698	739	782	792	844	958	848	922
Margins									
Gross margin	24%	22%	22%	22%	20%	19%	16%	24%	20%
Adj. EBITDA margin	48%	47%	47%	47%	46%	45%	45%	46%	46%
Net margin	-17%	-16%	-16%	-26%	-17%	-22%	-30%	-21%	-24%
Growth (QoQ)									
Revenues	9%	11%	6%	3%	3%	1%	1%	7%	1%
Gross Profit	11%	4%	7%	0%	-4%	-5%	-17%	62%	-12%
Adj. EBITDA	10%	7%	7%	2%	1%	-1%	1%	11%	-1%
Net profit (loss)	8%	4%	4%	64%	-32%	35%	35%	-26%	19%
Growth (YoY)									
Revenues	40%	35%	34%	32%	24%	13%	8%	13%	11%
Gross Profit	22%	11%	13%	23%	7%	-2%	-24%	23%	12%
Adj. EBITDA	41%	34%	36%	29%	19%	10%	4%	12%	10%
Net profit (loss)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data, CMBIGM

Valuation

Maintain BUY with target price of US\$35.07

We maintain our BUY recommendation on GDS with new target price of US\$35.07 (prior US\$46.00), based on lowered 16x (prior 18x) FY23E adj. EV/EBITDA, to reflect uncertainties related to macro environment and change in China data center landscape.

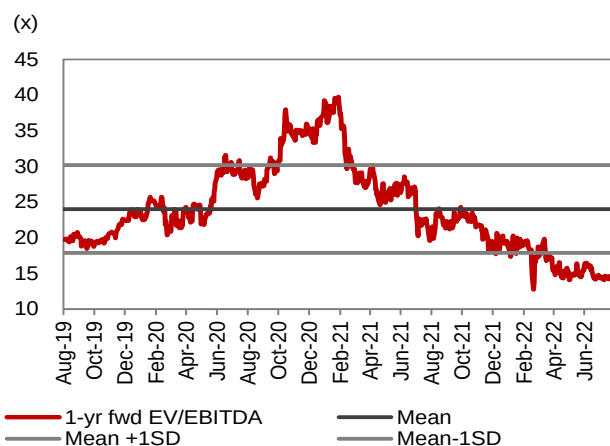
We use EV/EBITDA as the valuation methodology as it better reflects IDC operating profitability than P/E given high depreciation expense during ramp-up stage and large interest expense gap between peers if capital structure is different.

Figure 12: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	EV/EBITDA (x)		EBITDA margin (%)		Revenue FY21-24E CAGR
						FY22E	FY23E	FY22E	FY23E	
GDS	GDS US	BUY	4,951	25.98	35.07	15.4	15.6	46%	46%	14%
21Vianet	VNET US	NR	725	4.90	N/A	3.5	3.1	27%	26%	14%
Sinnet	300383 CH	NR	2,575	9.82	N/A	10.0	8.3	23%	25%	12%
Baosight	600845 CH	NR	10,137	39.41	N/A	22.3	16.9	20%	20%	30%
AtHub	603881 CH	NR	1,255	26.15	N/A	11.4	9.1	69%	71%	23%
ChinData	CD US	NR	2,942	8.02	N/A	10.6	7.7	50%	52%	41%
Equinix	EQIX US	NR	61,508	675.35	N/A	22.2	20.2	46%	46%	11%
Digital Realty Trust	DLR US	NR	37,189	126.62	N/A	21.2	19.3	53%	53%	8%
Mean						14.5	12.1	42%	43%	20%
Median						13.2	10.7	46%	46%	16%

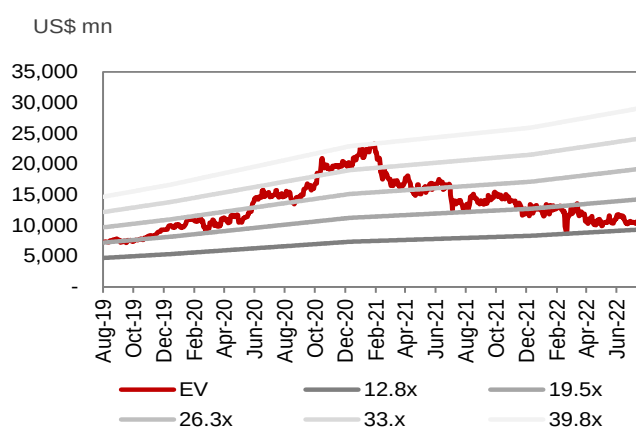
Source: Bloomberg, CMBIGM

Figure 13: 12M forward EV/EBITDA chart



Source: Company data, CMBIGM

Figure 14: 12M forward EV/EBITDA band



Source: Company data, CMBIGM

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenues					
Service Revenue	5,717	7,814	9,245	10,232	11,569
Equipment Revenue	22	4	12	9	11
Total Revenue	5,739	7,819	9,258	10,241	11,579
Cost of sales	(4,189)	(6,039)	(7,490)	(8,056)	(8,609)
Gross Profit	1,550	1,779	1,768	2,185	2,970
R&D Expenditures	(40)	(69)	(54)	(73)	(83)
Sales/Marketing/Ad Exp.	(135)	(119)	(154)	(168)	(178)
G&A Expenses	(703)	(1,022)	(1,177)	(1,229)	(1,386)
Operating Income	673	570	383	716	1,322
Adj. EBITDA	2,681	3,703	4,232	4,713	5,354
Interest Expense	(1,287)	(1,604)	(2,005)	(2,505)	(2,679)
Other non-oper. income	66	86	81	77	77
Profit Before Income Taxes	(548)	(949)	(1,542)	(1,712)	(1,280)
Income Tax Expense	(121)	(242)	(282)	(340)	(237)
Net Profit (loss)	(669)	(1,191)	(1,825)	(2,052)	(1,518)
Non-controlling interests	(69)	(123)	(367)	(312)	(307)
Net Profit (loss) to shr holders	(738)	(1,315)	(2,191)	(2,364)	(1,824)

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net Income	(669)	(1,191)	(1,825)	(2,052)	(1,518)
Depreciation & Amortization	1,638	2,617	3,375	3,687	3,687
Net change in WC	(1,023)	(810)	701	38	(155)
Others	375	593	295	0	0
Net cash from operating	321	1,208	2,546	1,673	2,015
Capital Expenditures	(8,021)	(9,699)	(8,424)	(6,452)	(6,452)
Acquisition of Business	(1,357)	(4,013)	(3,610)	(717)	(717)
Other Investing Activities	0	21	(1,742)	(3,136)	(3,136)
Net cash from investing	(9,378)	(13,692)	(13,777)	(10,306)	(10,306)
Equity raised	12,724	0	0	0	0
Change of debts	790	11,512	12,635	3,658	4,162
Dividend paid	0	0	0	0	0
Others	6,630	(3,393)	2,435	491	461
Net cash from financing	20,144	8,119	15,070	4,149	4,623
Net change in cash	11,087	(4,364)	3,839	(4,483)	(3,667)
Cash at beg. of the year	5,811	16,259	9,968	14,124	9,640
Ex. difference and others	(96)	317	0	0	0
Cash at the end of the year	16,259	9,968	14,124	9,640	5,973

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	38,940	57,169	66,012	72,630	79,248
PPE - Net	29,596	40,624	49,132	55,033	60,934
Other Intangible Assets	3,382	8,359	8,754	9,471	10,187
Other noncurrent assets	5,962	8,186	8,126	8,126	8,126
Current assets	18,319	14,464	20,374	16,079	12,799
Cash and Equivalents	16,259	9,968	16,012	11,529	7,862
A/R - Trade	1,480	1,733	2,210	2,466	2,839
Other current assets	579	2,763	2,151	2,084	2,099
Current liabilities	7,644	13,465	14,478	15,151	15,893
Borrowings	2,153	5,948	4,505	4,952	5,460
AP - Trade	3,657	3,902	4,418	4,545	4,673
Accrued Expenses	1,493	2,771	2,780	2,846	2,919
Other non-current liab.	341	845	2,774	2,808	2,840
Non-current liabilities	22,947	32,271	48,376	52,078	56,192
Borrowings	10,567	18,285	32,363	35,574	39,227
Convertible bonds	1,928	1,896	4,139	4,139	4,139
Others	10,452	12,091	11,874	12,365	12,826
Total mezzanine equity	1,102	1,363	1,009	1,009	1,009
Share capital	1	1	1	1	1
Capital surplus	28,729	28,983	28,953	28,953	28,953
Retained earnings	-2,724	-3,911	-5,735	-7,787	-9,304
Other reserves	-440	-599	-755	-755	-755
Total equity	25,566	24,533	22,523	20,471	18,954

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key operating ratios					
Total area in service ('000 sqm)	334	488	535	595	673
Avg. UTR	72%	67%	69%	68%	69%
Avg. MSR (RMB/ sqm/ Month)	2,333	2,260	2,193	2,194	2,177
Growth (YoY)					
Revenue	39.2%	36.2%	18.4%	10.6%	13.1%
Gross profit	48.7%	14.8%	-0.7%	23.6%	35.9%
EBITDA	47.0%	38.2%	14.3%	11.4%	13.6%
Net profit	n.a.	n.a.	n.a.	n.a.	n.a.
Margins					
Gross margin	27.0%	22.8%	19.1%	21.3%	25.6%
Operating margin	11.7%	7.3%	4.1%	7.0%	11.4%
EBITDA margin	46.7%	47.4%	45.7%	46.0%	46.2%
Balance sheet ratio					
Net debt / equity ratio (%)	net cash	0.7	1.1	1.6	2.2
Current ratio	2.4	1.1	1.4	1.1	0.8
Returns (%)					
ROE	n.a.	n.a.	n.a.	n.a.	n.a.
ROA	n.a.	n.a.	n.a.	n.a.	n.a.
Per share					
EPS (RMB)	-0.59	-0.90	-1.53	-1.66	-1.28
BVPS (RMB)	20.4	16.9	15.5	14.1	13.0

Source: Company data, CMBIGM estimates

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