

China Software & IT Services

China cloud outlook mixed

AliCloud/ Tencent Cloud continued to lose share in 2Q21 to Huawei and China Telecom, according to IDC. We believe power cut issues could affect cloud deployment/ data center ramp up schedule. Meanwhile, we believe Huawei Cloud growth momentum will continue even if Huawei divests its x86 server business. For cloud players, we prefer Chinasoft over Kingsoft Cloud/ GDS.

- **AliCloud/ Tencent cloud continued to lose share in 2Q21.** China IaaS + PaaS market size was US\$7.68bn in 2Q21 (+48.3% YoY), according to IDC. AliCloud/ Tencent Cloud continued to lose market share to Huawei and China Telecom. In particular, AliCloud market share in 2Q21 dropped to 36.7% (vs. 40.8% in 2Q20) while Huawei share has greatly increased by +2.2 pct pts YoY to 10.9% in 2Q21. We remain cautious that internet cloud service providers may slow cloud capex/ IDC ramp up schedule as market share loss continues.
- **Power cut and tighter data center policy could affect cloud deployment.** With power control in place, enterprise customers may take a slower approach in cloud deployment. In particular, data migration and testing work of some private/hybrid cloud projects could be delayed. Some cities have issued tighter policy targeting data center industry. Data center expansion may also slow down as it becomes more difficult to get land and energy approval.
- **Huawei cloud growth momentum will sustain even if x86 server business is divested.** On 2 Nov 2021, Bloomberg reported that Huawei is in talks to sell its x86 server business as the company can hardly source Intel CPU after U.S. blacklisting. Although x86 is the mainstream of server architecture (89% share in 1Q21), divesting x86 business is unlikely to affect Huawei Cloud growth prospect. Huawei can source x86 servers from other vendors without doing the assembly by themselves. On the good side, the money raised could help fund Huawei R&D in its Kunpeng (ARM-based) server ecosystem. Overall, we think the deal will be similar to the Honor one and that Chinasoft will continue to provide IT services even after the spin-off.
- **Prefer Chinasoft (Huawei cloud exposure) over Kingsoft Cloud/ GDS.** We cut Kingsoft Cloud FY21-23E revenue by 6-9% to reflect weaker-than-expected enterprise cloud projects and public cloud share loss. Maintain BUY with lowered target price of US\$35.33 (prior US\$43.86). We maintained GDS FY21E forecast but trimmed FY22-23E adj. EBITDA by 2-6% to reflect slower capacity ramp up by cloud service providers amid share loss. Maintain BUY with new target price of US\$73.01/ HK\$70.70 (prior US\$74.74/ HK\$72.38). Although both stocks are trading at 1-SD below its 3-year mean, we believe they lack near-term catalyst as power cut and cloud landscape change add uncertainty to growth outlook. Among the cloud plays, we prefer Chinasoft over Kingsoft Cloud/ GDS.

Valuation Table

Company	Ticker	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	EV/sales FY21E	P/E FY21E	ROE FY21E	Sales CAGR FY20-23E
Chinasoft	354 HK	BUY	12.46	17.5	1.7	23.4	13%	24%
Kingsoft Cloud	KC US	BUY	22.76	35.3	3.0	N/A	-16%	39%
GDS	GDS US	BUY	58.67	73.0	11.3	N/A	-4%	28%
GDS	9698 HK	BUY	57.20	70.7	11.3	N/A	-4%	28%

Source: Bloomberg, CMBIS estimates

OUTPERFORM
(Maintain)

China Software & IT Services

Marley Ngan

(852) 3916 3719

marleyngan@cmbi.com.hk

Bowen Li

(852) 3761 8957

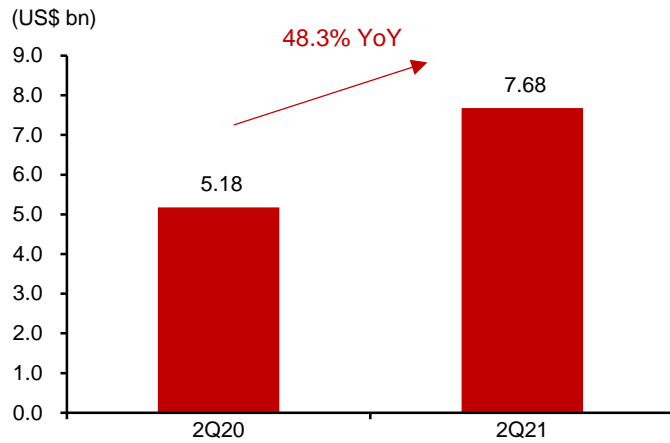
libowen@cmbi.com.hk

Related Reports

1. ["Implications of setting up state-owned cloud"](#) – 30 Aug 2021
2. ["China cloud landscape changing"](#) – 11 Aug 2021

Focus Charts

Figure 1: China IaaS + PaaS market (2Q21)



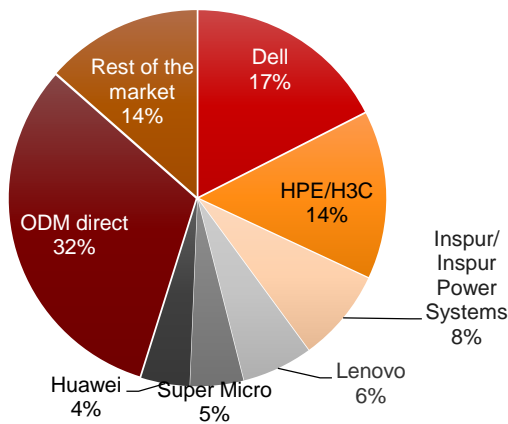
Source: IDC, CMBIS

Figure 2: China IaaS + PaaS market share

China IaaS + PaaS	2Q20	1Q21	2Q21	YoY	QoQ
Market size (US\$bn)	5.18	4.6	7.68	48%	66%
Market share					
Alibaba	40.8%	39.9%	36.7%	-4.1%	-3.2%
Tencent	11.9%	11.4%	11.1%	-0.9%	-0.3%
Huawei	8.7%	10.9%	10.9%	2.2%	0.0%
China Telecom	7.4%	7.8%	8.6%	1.2%	0.8%
AWS	7.2%	7.2%	7.7%	0.5%	0.5%
Others	23.8%	22.8%	25.0%	1.2%	2.2%

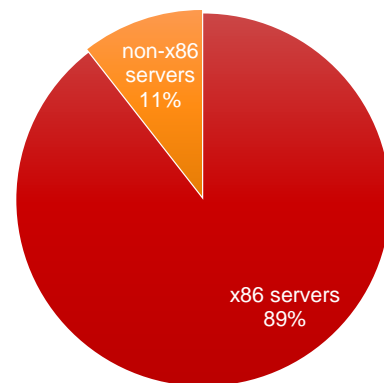
Source: IDC, CMBIS

Figure 3: Global server market share (by shipment unit, 1Q21)



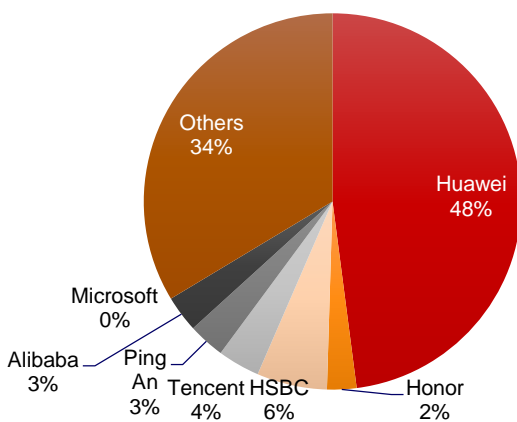
Source: IDC, CMBIS

Figure 4: Global server market share (by revenue by architecture, 1Q21)



Source: IDC, CMBIS

Figure 5: Huawei + Honor accounted for 51% of Chinasoft FY1H21 revenue



Source: Company data, CMBIS

Figure 6: Alibaba/Tencent accounted for 46.3% of GDS FY2Q21 revenue

By Revenue (1)

End User	% Of 2Q21 Total Net Revenue
Customer 1	23.2%
Customer 2	23.1%
Customer 3	8.1%
Customer 4	6.3%
Customer 5	4.2%

Source: Company data, CMBIS

Alibaba/ Tencent cloud continued to lose share in 2Q21

China IaaS + PaaS market size was US\$7.68bn in 2Q21, up 48.3% YoY, according to IDC. AliCloud/ Tencent Cloud continued to lose market share to Huawei and China Telecom. We maintain our view that internet cloud service providers may slow capex/ IDC ramp up schedule as market share loss continued.

AliCloud market share in 2Q21 dropped to 36.7%, compared to 40.8% in 2Q20 while Tencent Cloud market share declined slightly to 11.1% from 11.9% in 2Q20. Meanwhile, Huawei share has greatly increased by +2.2 pct pts YoY to 10.9% in 2Q21. China Telecom market share also rose by +1.2 pct pts YoY to 8.6%.

Figure 7: China IaaS + PaaS market size and market share by vendors

China IaaS + PaaS	2Q20	1Q21	2Q21	YoY	QoQ
Market size (US\$bn)	5.18	4.6	7.68	48%	66%
Market share					
Alibaba	40.8%	39.9%	36.7%	-4.1%	-3.2%
Tencent	11.9%	11.4%	11.1%	-0.9%	-0.3%
Huawei	8.7%	10.9%	10.9%	2.2%	0.0%
China Telecom	7.4%	7.8%	8.6%	1.2%	0.8%
AWS	7.2%	7.2%	7.7%	0.5%	0.5%
Others	23.8%	22.8%	25.0%	1.2%	2.2%

Source: IDC, CMBIS

Power cuts could affect data center/ cloud ramp up

With carbon neutral target and power cut issues, we are concerned that private cloud/ data center ramp up schedule would be affected. Testing and migration of private cloud projects could be delayed.

We observed some cities are imposing more stringent measures regarding data center energy saving plan. We are concerned that tighter policy will result in slower data center expansion and cloud deployment. It will become more difficult for IDC to get land and energy approval.

On 1 Nov 2021, Beijing released ["strengthening energy saving work plan"](#) 《北京市进一步强化节能实施方案》 which named petrochemical, cement and data centers the three key industries to strictly implement energy saving measures. For data centers, third-party data centers should all be connected to Beijing energy consumption monitoring service platform (北京市节能监测服务平台) by year end. Also, data centers that fail to meet energy standard are required to undergo data migration and transformation.

Huawei may divest its x86 server business

On 2 Nov 2021, [Bloomberg reported](#) that Huawei is in talks to sell its x86 server business as the company made it difficult to secure Intel CPU after U.S. blacklisting. The deal could be similar to the Honor case that Huawei x86 server business will be sold to a consortium that includes government-backed buyer. According to Bloomberg, the deal size could be billions of RMB.

We think the deal will not affect Huawei Cloud business as Huawei can still source x86 servers from third parties without doing the assembly by themselves. On the good side the money raised could help fund Huawei R&D in its Kunpeng (ARM-based) ecosystem. We maintain our view that Chinasoft is the biggest beneficiary as Huawei strategically transforms from a hardware to software-focused company. Even after Honor was divested, Chinasoft continued to provide IT services to Honor.

Kingsoft Cloud (KC US, BUY, TP US\$35.33)

Earnings revision

Figure 8: Earnings revision

RMB mn	2021E			2022E			2023E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	9,054	9,639	-6%	12,644	13,954	-9%	17,690	18,762	-6%
Gross profit	518	687	-25%	1,264	1,653	-24%	2,677	3,124	-14%
OP Profit	-1,489	-1,360	9%	-1,335	-1,075	24%	-342	70	-589%
PBT	-116	49	NA	450	779	-42%	1,390	1,822	-24%
Net profit	-1,135	-1,004	NA	-1,019	-755	NA	-57	367	NA
EPS (RMB)	-5.10	-4.51	NA	-4.58	-3.39	NA	-0.25	1.65	NA
Margins									
GM	5.7%	7.1%	-141 bps	10.0%	11.8%	-185 bps	15.1%	16.6%	-151 bps
OPM	-16.4%	-14.1%	-233 bps	-10.6%	-7.7%	-285 bps	-1.9%	0.4%	-230 bps
PBT margin	-1.3%	0.5%	-179 bps	3.6%	5.6%	-202 bps	7.9%	9.7%	-185 bps
Net margin	-12.5%	-10.4%	-212 bps	-8.1%	-5.4%	-265 bps	-0.3%	2.0%	-228 bps

Source: Company data, CMBIS

Figure 9: CMBI estimates vs consensus

RMB mn	2021E			2022E			2023E		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	9,054	9,437	-4%	12,644	13,757	-8%	17,690	20,238	-13%
Gross profit	518	606	-15%	1,264	1,442	-12%	2,677	2,921	-8%
OP Profit	-1,489	-1,333	12%	-1,335	-1,020	31%	-342	-349	-2%
PBT	-116	-231	-50%	450	252	79%	1,390	1,186	17%
Net profit	-1,135	-1,065	7%	-1,019	-764	33%	-57	-31	82%
EPS (RMB)	-5.10	-4.93	3%	-4.58	-3.27	40%	-0.25	0.61	-142%
Margins									
GM	5.7%	6.4%	-70 bps	10.0%	10.5%	-48 bps	15.1%	14.4%	70 bps
OPM	-16.4%	-14.1%	-232 bps	-10.6%	-7.4%	-314 bps	-1.9%	-1.7%	-21 bps
PBT margin	-1.3%	-2.4%	116 bps	3.6%	1.8%	173 bps	7.9%	5.9%	200 bps
Net margin	-12.5%	-11.3%	-125 bps	-8.1%	-5.6%	-250 bps	-0.3%	-0.2%	-17 bps

Source: Company data, CMBIS

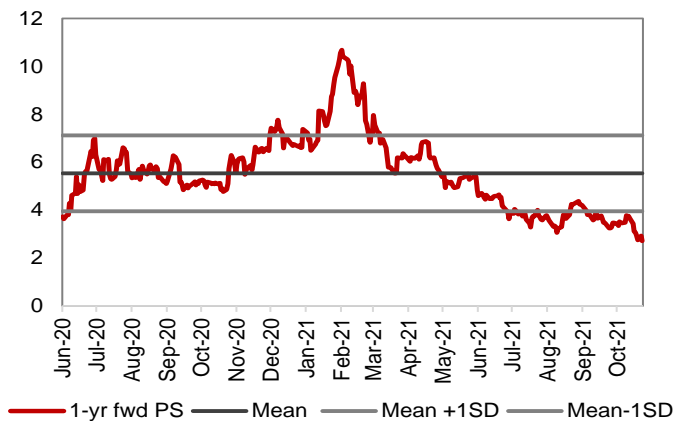
Figure 10: Quarterly model

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21E	4Q21E
Revenues	1,391	1,535	1,729	1,923	1,814	2,174	2,451	2,616
Cost of sales	(1,320)	(1,454)	(1,616)	(1,830)	(1,697)	(2,055)	(2,323)	(2,461)
Gross Profit	71	81	113	93	117	118	127	156
<i>Gross margin</i>	<i>5.1%</i>	<i>5.3%</i>	<i>6.5%</i>	<i>4.8%</i>	<i>6.4%</i>	<i>5.5%</i>	<i>5.2%</i>	<i>6.0%</i>
R&D	(196)	(231)	(168)	(181)	(265)	(232)	(303)	(308)
SG&A	(164)	(280)	(188)	(157)	(204)	(207)	(246)	(241)
Operating Income	(289)	(430)	(243)	(245)	(352)	(320)	(422)	(394)
<i>Operating margin</i>	<i>-20.8%</i>	<i>-28.0%</i>	<i>-14.0%</i>	<i>-12.8%</i>	<i>-19.4%</i>	<i>-14.7%</i>	<i>-17.2%</i>	<i>-15.1%</i>
Adj. EBITDA	(39)	(36)	(26)	(18)	(49)	(55)	(56)	(7)
<i>Adj. EBITDA margin</i>	<i>-2.8%</i>	<i>-2.3%</i>	<i>-1.5%</i>	<i>-0.9%</i>	<i>-2.7%</i>	<i>-2.5%</i>	<i>-2.3%</i>	<i>-0.3%</i>
Non-Operating Income	(37)	12	142	144	(27)	103	133	136
Profit Before Tax	(326)	(418)	(101)	(102)	(379)	(217)	(289)	(258)
Net Income to Shareholders	(351)	(420)	(106)	(105)	(382)	(220)	(294)	(262)
<i>Net margin</i>	<i>-25.2%</i>	<i>-27.4%</i>	<i>-6.1%</i>	<i>-5.5%</i>	<i>-21.1%</i>	<i>-10.1%</i>	<i>-12.0%</i>	<i>-10.0%</i>
EPS (RMB) per share	(0.39)	(0.19)	(0.03)	(0.03)	(0.11)	(0.07)	(0.09)	(0.08)
EPS (RMB) per ADS	(5.86)	(2.84)	(0.50)	(0.48)	(1.72)	(0.99)	(1.31)	(1.17)

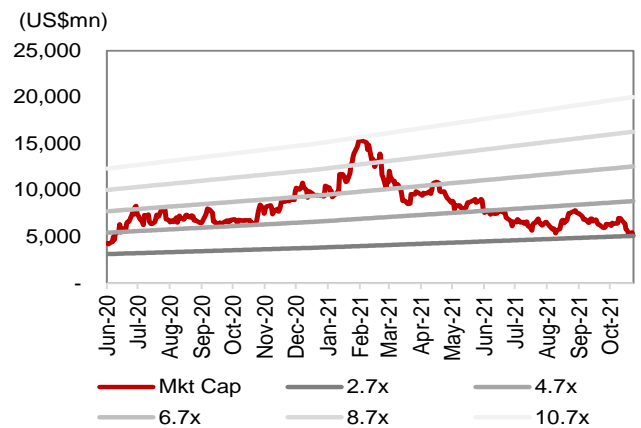
Source: Company Data, CMBIS

Valuation

We have BUY rating on Kingsoft Cloud with new target price of US\$35.33 (prior US\$43.86), based on lower 4x FY22E P/S (prior 4.5x) to reflect concerns on slower enterprise cloud deployment.

Figure 11: KC US 12M forward P/S chart

Source: Bloomberg, CMBIS

Figure 12: KC US 12M forward P/S band

Source: Bloomberg, CMBIS

GDS (GDS US/ 9698 HK, BUY, TP US\$73.01/ HK\$70.70)

Earnings revision

Figure 13: Earnings revision

RMB mn	2021E			2022E			2023E		
	New	Old	%Diff	New	Old	%Diff	New	Old	%Diff
Sales	7,871	7,871	-	10,096	10,313	-2%	12,113	12,812	-5%
Gross profit	2,052	2,052	-	2,741	2,837	-3%	3,433	3,794	-10%
OP Profit	819	819	-	1,271	1,337	-5%	1,777	2,042	-13%
Adj. EBITDA	3,724	3,724	-	4,632	4,732	-2%	5,613	5,971	-6%
PBT	-745	-745	-	-724	-639	NA	-648	-220	NA
Net profit	-989	-989	-	-977	-881	NA	-875	-376	NA
EPS	-0.69	-0.69	-	-0.68	-0.62	NA	-0.61	-0.26	NA
Margins									
GM	26.1%	26.1%	0 bps	27.1%	27.5%	-36 bps	28.3%	29.6%	-127 bps
OPM	10.4%	10.4%	0 bps	12.6%	13.0%	-37 bps	14.7%	15.9%	-127 bps
Adj. EBITDA margin	47.3%	47.3%	0 bps	45.9%	45.9%	-1 bps	46.3%	46.6%	-27 bps
PBT margin	-9.5%	-9.5%	0 bps	-7.2%	-6.2%	-97 bps	-5.3%	-1.7%	-363 bps
Net margin	-12.6%	-12.6%	0 bps	-9.7%	-8.5%	-114 bps	-7.2%	-2.9%	-429 bps
Key assumptions									
Total area in service	466,694	466,694	-	583,368	620,704	-6%	740,877	788,294	-6%
Total area utilized	326,043	326,043	-	401,306	436,804	-8%	501,991	560,903	-11%
Avg. utilization rate	70%	70%	0 bps	69%	70%	-79 bps	68%	71%	-276 bps
Average MSR	2,306	2,306	-	2,253	2,228	1%	2,169	2,159	0%
Depreciation	2,299	2,299	-	2,932	2,954	-1%	3,459	3,477	-1%

Source: Company data, CMBIS

Figure 14: CMBI estimates vs consensus

RMB mn	2021			2022			2023		
	CMBI	Street	Diff	CMBI	Street	Diff	CMBI	Street	Diff
Sales	7,871	7,869	0%	10,096	10,439	-3%	12,113	13,030	-7%
Gross profit	2,052	2,007	2%	2,741	3,040	-10%	3,433	3,824	-10%
Operating profit	819	830	-1%	1,271	1,385	-8%	1,777	2,041	-13%
Adj. EBITDA	3,724	3,659	2%	4,632	4,937	-6%	5,613	6,384	-12%
Net profit	-989	-904	9%	-977	-612	60%	-875	-148	490%
EPS	-0.69	-2.67	-74%	-0.68	-2.25	-70%	-0.61	0.02	-2,766%
Margins									
GM	26.1%	25.5%	56 bps	27.1%	29.1%	-198 bps	28.3%	29.3%	-100 bps
OPM	10.4%	10.5%	-14 bps	12.6%	13.3%	-68 bps	14.7%	15.7%	-99 bps
Adj. EBITDA margin	47.3%	46.5%	82 bps	45.9%	47.3%	-141 bps	46.3%	49.0%	-266 bps
Net margin	-12.6%	-11.5%	-108 bps	-9.7%	-5.9%	-382 bps	-7.2%	-1.1%	-609 bps

Source: Company data, CMBIS

Figure 15: Quarterly model

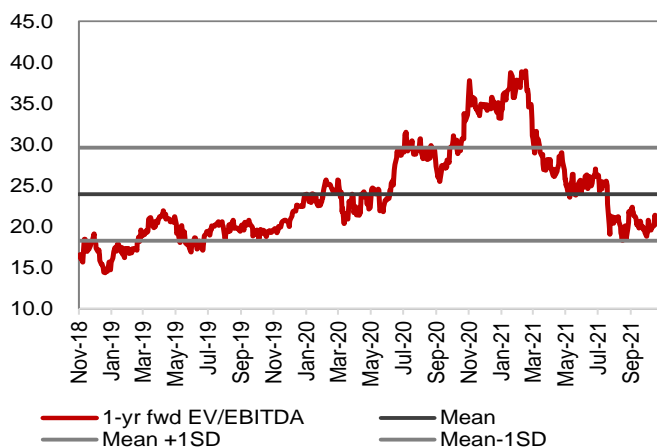
RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21E	4Q21E
Revenues	1,240	1,342	1,525	1,632	1,706	1,864	2,057	2,244
Gross Profit	350	361	409	430	397	440	549	666
Adj. EBITDA	572	633	717	758	818	896	971	1,039
Net profit (loss)	-105	-114	-224	-294	-301	-325	-211	-152
EPS (RMB)	-0.09	-0.10	-0.18	-0.21	-0.21	-0.22	-0.15	-0.10
Key assumptions								
Total area in service (EoP)	229,986	266,260	279,618	318,272	332,534	393,885	424,741	466,694
Total area utilized (EoP)	163,835	193,163	209,751	226,212	242,364	271,735	295,251	326,043
Utilization rate (area utilized/ area in service)	71%	73%	75%	71%	73%	69%	70%	70%
Average MSR (RMB / Sq m / Month)	2,569	2,492	2,519	2,489	2,425	2,416	2,411	2,402
Depreciation	319	390	451	478	560	620	598	575
Margins								
Gross margin	28%	27%	27%	26%	23%	24%	27%	30%
Adj. EBITDA margin	46%	47%	47%	46%	48%	48%	47%	46%
Net margin	-8%	-9%	-15%	-18%	-18%	-17%	-10%	-7%
Growth (QoQ)								
Revenues	5%	8%	14%	7%	5%	9%	10%	9%
Gross Profit	19%	3%	13%	5%	-8%	11%	25%	21%
Adj. EBITDA	8%	11%	13%	6%	8%	10%	8%	7%
Net profit (loss)	-10%	9%	95%	31%	2%	8%	-35%	-28%
Growth (YoY)								
Revenues	38%	35%	44%	40%	38%	40%	35%	38%
Gross Profit	65%	38%	49%	46%	13%	22%	34%	55%
Adj. EBITDA	49%	48%	48%	43%	43%	41%	35%	37%
Net profit (loss)	33%	-8%	-88%	-162%	-203%	-195%	10%	54%

Source: Company data, CMBIS

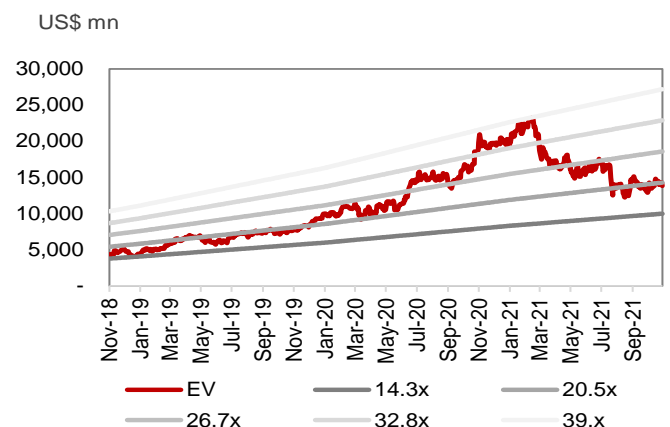
Valuation

We maintain our BUY recommendation on GDS with new target price of US\$73.01/ HK\$70.70 (prior US\$74.74/ HK\$72.38), based on unchanged 25x FY22E adj. EV/EBITDA, in-line with its 3-year mean as the long term trend that China is increasing cloud investment growth remains unchanged.

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 16: GDS US 12M forward EV/EBITDA chart

Source: Bloomberg, CMBIS

Figure 17: GDS US 12M forward EV/EBITDA band

Source: Bloomberg, CMBIS

Financial Summary - Chinasoft (354 HK)

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	12,042	14,101	18,166	22,352	26,825
Cost of sales	(8,459)	(9,983)	(12,826)	(15,709)	(18,849)
Gross profit	3,583	4,118	5,339	6,643	7,976
Selling exp	(618)	(729)	(923)	(1,073)	(1,288)
Admin exp	(1,196)	(1,302)	(1,951)	(2,363)	(2,899)
R&D exp	(809)	(930)	(1,326)	(1,661)	(2,006)
Other operating exp.	(134)	(205)	(63)	(48)	(46)
Operating profit	827	952	1,076	1,499	1,738
Finance costs	(166)	(151)	(111)	(130)	(135)
Other non-oper exp.	138	235	338	269	340
Pre-tax profit	799	1,035	1,303	1,638	1,943
Income tax expense	(42)	(87)	(90)	(106)	(137)
Minority interests	2	(7)	(1)	(5)	(4)
Net profit to shareholders	755	955	1,214	1,536	1,810

Cash flow summary

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Net profit	799	1,035	1,303	1,638	1,943
Depreciation/amortization	197	170	109	111	115
Change in working capital	(516)	(533)	(184)	32	(696)
Others	274	480	(90)	(106)	(137)
Net cash from operating	754	1,153	1,138	1,675	1,224
Capex	(105)	(159)	(150)	(150)	(150)
Others	(120)	(32)	234	(48)	(46)
Net cash from investing	(224)	(192)	84	(198)	(196)
Net borrowings	52	217	1,175	3	314
Dividend paid	0	0	(73)	(92)	(109)
Others	(701)	145	(61)	5	4
Net cash from financing	(650)	362	1,041	(84)	209
Net change in cash	(119)	1,323	2,263	1,393	1,238
Cash at beginning of the year	2,646	2,526	3,787	5,825	7,266
Exchange difference	(1)	(62)	(225)	48	46
Cash at the end of the year	2,526	3,787	5,825	7,266	8,549

Balance sheet

YE 31 Dec (RMB mn)	FY19	FY20	FY21E	FY22E	FY23E
Current assets	8,198	10,394	12,912	14,975	17,642
Cash & equivalents	2,526	3,787	5,825	7,266	8,549
Account receivables	3,297	4,580	4,317	4,270	4,952
Amount due from customers	2,228	1,904	2,600	3,241	3,914
Other current assets	147	123	170	198	227
Non-current assets	2,547	2,693	2,979	3,018	3,053
PPE	802	858	924	1,010	1,091
Intangible assets	1,101	1,086	1,126	1,079	1,033
Other non-current assets	643	749	929	929	929
Total assets	10,745	13,087	15,892	17,993	20,695
Current liabilities	3,150	2,718	4,727	5,384	6,290
ST borrowings	1,523	368	2,073	2,075	2,294
Account payables	1,229	1,753	2,600	3,241	3,914
Accrued expense	106	117	0	0	0
Other current liabilities	291	480	54	67	81
Non-current liabilities	1,062	1,592	1,185	1,186	1,280
LT borrowings	928	1,421	892	893	987
Other non-current liabilities	134	171	293	293	293
Total liabilities	4,211	4,311	5,912	6,570	7,570
Share capital	116	132	132	132	132
Capital surplus	3,145	4,735	4,674	4,674	4,674
Retained earnings	3,677	4,492	5,681	7,125	8,826
Other reserves	-471	-605	-530	-530	-530
Minority interest	66	23	22	22	22
Total equity	6,534	8,776	9,979	11,423	13,125
Total liabilities and equity	10,745	13,087	15,892	17,993	20,695

Key ratios

YE 31 Dec	FY19	FY20	FY21E	FY22E	FY23E
Revenue mix					
Emerging cloud business	15%	17%	23%	29%	33%
Traditional IT outsourcing	85%	83%	77%	71%	67%
Growth (%)					
Revenue	14%	17%	29%	23%	20%
Gross profit	10%	15%	30%	24%	20%
Operating profit	1%	15%	13%	39%	16%
Net profit	5%	26%	27%	27%	18%
Profit & loss ratio (%)					
Gross margin	29.8%	29.2%	29.4%	29.7%	29.7%
Operating margin	6.9%	6.7%	5.9%	6.7%	6.5%
Net profit margin	6.3%	6.8%	6.7%	6.9%	6.7%
Balance sheet ratio					
Receivable turnover days	99	117	86	69	66
Amount due days	67	49	52	52	53
Payable turnover days	52	63	73	74	75
Current ratio (x)	2.60	3.82	2.73	2.78	2.80
Net debt to equity	net	net	net	net	net
Profitability (%)					
ROE	12.0%	12.5%	12.9%	14.4%	14.7%
ROIC	12.9%	13.5%	14.8%	20.3%	22.2%
Per share data (RMB)					
EPS (RMB)	0.28	0.32	0.41	0.51	0.60
DPS (RMB)	0.02	0.03	0.02	0.03	0.04
BVPS (RMB)	2.45	2.93	3.33	3.81	4.38

Source: Company data, CMBIS estimates

Financial Summary – Kingsoft Cloud (KC US)

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	3,956	6,577	9,054	12,644	17,690
Cost of sales	(3,949)	(6,220)	(8,536)	(11,380)	(15,012)
Gross Profit	8	357	518	1,264	2,677
S&M	(317)	(409)	(490)	(671)	(760)
G&A	(239)	(380)	(409)	(492)	(592)
R&D	(595)	(775)	(1,108)	(1,436)	(1,668)
Operating Profit/(Loss)	(1,144)	(1,207)	(1,489)	(1,335)	(342)
Adj. EBITDA	(418)	(119)	(116)	450	1,390
Interest income	17	12	10	21	24
Interest expense	-	-	(2)	(2)	(4)
Other non-ops	778	958	1,155	897	220
Profit Before Tax	(348)	(237)	(326)	(418)	(101)
Income tax	(9)	(15)	(15)	(16)	(1)
Profit After Tax	(1,111)	(962)	(1,134)	(1,019)	(57)
Non Controlling Interest	-	(0)	(0)	(0)	(0)
Others	(50)	(20)	-	-	-
Net profit	(1,161)	(982)	(1,135)	(1,019)	(57)

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net Income	(1,111)	(962)	(1,134)	(1,019)	(57)
Depreciation And	605	758	920	1,153	1,378
Net Change In Working	(113)	(300)	263	(451)	(436)
Others	181	213	0	0	0
Net cash from operating	(439)	(290)	49	(317)	886
Capital Expenditures	(1,000)	(1,560)	(1,220)	(1,515)	(1,236)
Short-term investments	(1,112)	(5,608)	0	0	0
Other Investing Activities	2,995	2,854	(2)	(2)	(2)
Net cash from investing	883	(4,314)	(1,222)	(1,517)	(1,238)
Equity raised	349	5,934	0	0	0
Change of debts	(81)	178	176	155	195
Dividend paid	0	0	0	0	0
Others	(204)	11	0	0	0
Net cash from financing	65	6,124	176	155	195
Net change in cash	509	1,520	(997)	(1,679)	(157)
Cash at the beginning of the	1,507	2,023	3,425	2,428	748
Exchange difference	8	(118)	0	0	0
Cash at the end of the year	2,023	3,425	2,428	748	591

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	1,882	2,384	2,687	3,052	2,912
PPE, net	1,721	1,957	2,265	2,636	2,503
Intangible assets	7	17	11	4	-3
Others	154	411	411	411	411
Current assets	4,150	9,545	8,927	8,852	10,649
Cash	2,023	3,425	2,428	748	591
Accounts Receivable	1,347	2,335	2,700	3,948	5,399
Others	779	3,785	3,799	4,156	4,658
Current liabilities	2,420	3,466	4,073	5,320	6,955
Borrowings	100	74	74	74	74
Accounts Payable	1,255	2,057	2,314	3,057	4,051
Accrued Expenses	949	845	1,231	1,642	2,166
Others	116	489	453	546	663
Non-current liabilities	75	224	435	497	575
Borrowings	74	-	212	274	352
Amounts due	-	-	-	-	-
Others	0	224	224	224	224
Total mezzanine equity	7,735	-	-	-	-
Share capital	6	23	23	23	23
Capital surplus	92	14,150	14,150	14,150	14,150
Retained earnings	-	-	-	-	-
Others	608	-68	-68	-68	-68
Total equity	-4,197	8,240	7,106	6,087	6,030

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Sales mix (%)					
Public cloud services	87%	79%	71%	60%	53%
Enterprise cloud services	12%	21%	28%	39%	47%
Others	0%	1%	1%	0%	0%
Total	100%	100%	100%	100%	100%
Growth (YoY)					
Revenue	78%	66%	38%	40%	40%
Gross profit	n.a.	4531%	45%	144%	112%
Adj. EBITDA	n.a.	n.a.	n.a.	n.a.	209%
Net profit	n.a.	n.a.	n.a.	n.a.	n.a.
Margins					
Gross margin	0%	5%	6%	10%	15%
Operating margin	-29%	-18%	-16%	-11%	-2%
Adj. EBITDA margin	-11%	-2%	-1%	4%	8%
Balance sheet ratio					
Net debt / equity ratio (%)	net	net	net	net	0.0
	cash	cash	cash	cash	
Current ratio	1.7	2.8	2.2	1.7	1.5
Returns (%)					
ROE	-33%	-12%	-16%	-17%	-1%
ROIC	-29%	-9%	-11%	-11%	-1%
Per ADS					
EPS (RMB)	-19.58	-6.14	-5.10	-4.58	-0.25
BVPS (RMB)	-70.8	51.5	31.9	27.3	27.1

Source: Company data, CMBIS estimates

Financial Summary – GDS (GDS US/ 9698 HK)

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenues						Net Income	(442)	(669)	(885)	(869)	(767)
Service Revenue	4,095	5,717	7,856	10,079	12,095	Depreciation & Amortization	1,142	1,638	2,353	2,932	3,459
Equipment Revenue	28	22	15	17	18	Net change in WC	(653)	(1,023)	(890)	778	411
Total Revenue	4,122	5,739	7,871	10,096	12,113	Others	247	375	322	0	0
Cost of sales	(3,080)	(4,189)	(5,819)	(7,355)	(8,679)	Net cash from operating	293	321	899	2,841	3,103
Gross Profit	1,043	1,550	2,052	2,741	3,433	Capital Expenditures	(4,553)	(8,021)	(10,169)	(7,294)	(7,207)
R&D Expenditures	(22)	(40)	(41)	(65)	(71)	Acquisition of Business	(579)	(1,357)	(1,795)	(1,287)	(1,272)
Sales/Marketing/Ad Exp.	(130)	(135)	(164)	(189)	(242)	Other Investing Activities	0	0	(1,936)	(3,485)	(3,136)
G&A Expenses	(411)	(703)	(1,028)	(1,216)	(1,344)	Net cash from investing	(5,131)	(9,378)	(13,900)	(12,067)	(11,615)
Operating Income	480	673	819	1,271	1,777	Equity raised	4,934	12,724	0	0	0
Adj. EBITDA	1,824	2,681	3,724	4,632	5,613	Change of debts	3,730	790	5,447	6,226	7,357
Interest Expense	(969)	(1,287)	(1,634)	(2,065)	(2,494)	Dividend paid	(25)	0	0	0	0
Other non-oper. income	62	66	70	70	70	Others	(277)	6,630	(1,382)	0	113
Profit Before Income Taxes	(426)	(548)	(745)	(724)	(648)	Net cash from financing	8,362	20,144	4,065	6,226	7,470
Income Tax Expense	(16)	(121)	(140)	(146)	(119)	Net change in cash	3,524	11,087	(8,935)	(2,999)	(1,042)
Net Profit (loss)	(442)	(669)	(885)	(869)	(767)	Cash at beg. of the year	2,162	5,811	16,259	7,312	4,312
Non-controlling interests	(58)	(69)	(104)	(108)	(109)	Ex. difference and others	125	(638)	(13)	0	0
Net Profit (loss) to shr holders	(500)	(738)	(989)	(977)	(875)	Cash at the end of the year	5,811	16,259	7,312	4,312	3,270

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Non-current assets	24,408	38,940	52,915	62,049	70,206	Key operating ratios					
PPE - Net	19,185	29,596	41,097	48,944	55,829	Total area in service ('000 sqm)	226	318	467	583	741
Other Intangible Assets	2,300	3,382	5,000	6,287	7,559	Avg. UTR	69%	72%	70%	69%	68%
Other noncurrent assets	2,923	5,962	6,818	6,818	6,818	Avg. MSR (RMB/ sqm/ Month)	2,532	2,403	2,306	2,253	2,169
Current assets	7,085	18,319	10,559	8,143	7,739	Growth (YoY)					
Cash and Equivalents	5,811	16,259	7,312	4,312	3,270	Revenue	47.6%	39.2%	37.1%	28.3%	20.0%
A/R - Trade	880	1,480	2,206	2,666	3,212	Gross profit	67.5%	48.7%	32.3%	33.6%	25.3%
Other current assets	394	579	1,042	1,164	1,257	EBITDA	74.3%	47.0%	38.9%	24.4%	21.2%
Current liabilities	4,000	7,644	8,810	11,018	13,069	Net profit	n.a.	n.a.	n.a.	n.a.	n.a.
Borrowings	1,138	2,153	2,472	3,319	4,320	Margins					
AP - Trade	1,676	3,657	4,116	5,037	5,760	Gross margin	25.3%	27.0%	26.1%	27.1%	28.3%
Accrued Expenses	818	1,493	1,749	2,190	2,512	Operating margin	11.6%	11.7%	10.4%	12.6%	14.7%
Other non-current liab.	368	341	473	473	478	EBITDA margin	44.2%	46.7%	47.3%	45.9%	46.3%
Non-current liabilities	16,137	22,947	28,577	33,956	40,425	Balance sheet ratio					
Borrowings	8,028	10,567	15,696	21,075	27,431	Net debt / equity ratio (%)	0.5	net	0.5	0.9	1.3
Convertible bonds	2,050	1,928	1,915	1,915	1,915	Current ratio	1.8	2.4	1.2	0.7	0.6
Others	6,059	10,452	10,966	10,966	11,079	Returns (%)					
Total mezzanine equity	1,062	1,102	1,283	1,283	1,283	ROE	n.a.	n.a.	n.a.	n.a.	n.a.
Share capital	0	1	1	1	1	ROA	n.a.	n.a.	n.a.	n.a.	n.a.
Capital surplus	12,403	28,729	28,892	28,892	28,892	Per share					
Retained earnings	-2,057	-2,724	-3,605	-4,474	-5,241	EPS (RMB)	-0.45	-0.59	-0.69	-0.68	-0.61
Other reserves	-53	-440	-543	-543	-543	BVPS (RMB)	9.3	20.4	19.8	19.1	18.5
Total equity	10,294	25,566	24,803	23,934	23,167						

Source: Company data, CMBIS estimates

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Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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