

GDS (GDS US)

Remains committed in tier-one cities resources

GDS reported in-line FY4Q21 but guided a slower revenue/ adj. EBITDA growth of +22%/+18% YoY in FY22E, considering negative factors of slower move-in rate, lower MSR and higher power tariff. Despite a softer outlook, GDS lays out an RMB12bn capex plan in FY22E. As tier-one cities' resources are becoming scarce, we think GDS has the best data centers pipeline to meet with customers' long-term demand. Maintain BUY.

- FY4Q21 adj. EBITDA margin slightly recovered sequentially.** GDS reported in-line 4Q21 results with revenue of RMB2,187mn (+34% YoY), adj. EBITDA of RMB1,027mn (+36% YoY). Net loss narrowed to RMB316mn. GPM improved QoQ to 22.3% (+0.2 pct pts QoQ) due to a decrease in use of backup power compared to 3Q. Adding on a higher level of VAT related gov't grants, adj. EBITDA margin improved to 47.0% (+0.3 pct pts QoQ).
- FY22E organic net-adds demand similar to FY21.** Mgmt. guided FY22E revenue to be in the range of RMB9,320-9,680m. Mid-point of guidance implied YoY growth of +21.5% YoY, a slowdown from FY21 growth of +36.2% YoY as customers' move-in rate is being affected by macro conditions such as recent lockdown/ supply chain issues. Mgmt. is seeing a similar demand level in FY22 and guided an organic net-adds of 85-90k sqm in total area committed (vs. net-adds of 119k sqm in FY21). However, customer mix has changed with increasing demand from retail (enterprise/ FI customers) than wholesale (hyperscale). In terms of revenue mix, mgmt. expects retail to wholesale ratio to increase from 20% in FY21 to 30% in FY22E.
- Move-in and power tariff will weigh on FY22E margins.** Slower move-in and increasing contribution from edge of town data centers will result in a lower monthly service revenue (MSR) in FY22E. MSR in FY22E is guided to decline by mid-single digit. Adding on a higher power tariff (only 50% being pass-through to customers), FY22E adj. EBITDA is guided in the range of RMB4,285-4,450mn (mid-point implies +17.9% YoY). Adj. EBITDA margin is thus expected to decline to 46% in FY22E (vs. 47% in FY21).
- Remains committed in tier-one cities resources. Maintain BUY.** Despite a soft FY22E outlook, GDS is planning to spend RMB12bn capex in FY22E (-12% YoY) as the company remains confident in China cloud demand and the scarcity in tier-one cities resources will increase. We trimmed FY22-23E adj. EBITDA by -4%. Retain BUY with new target price of US\$52.28, based on lowered 20x (prior 23x) FY22E EV/EBITDA to reflect macro uncertainty.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	5,739	7,819	9,432	11,076	13,273
YoY growth (%)	39%	36%	21%	17%	20%
Adj. EBITDA (RMB mn)	2,681	3,703	4,316	5,110	6,213
YoY growth (%)	47%	38%	17%	18%	22%
Consensus EBITDA (RMB)	2,681	3,703	4,574	5,669	n.a.
Net income (RMB mn)	-669	-1,191	-2,039	-2,218	-1,157
EPS (RMB)	-0.59	-0.90	-1.54	-1.67	-0.92
YoY growth (%)	n.a.	n.a.	n.a.	n.a.	n.a.
EV/EBITDA	18.8	18.8	19.6	17.8	15.6
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\$52.28
(Previous TP)	US\$61.06)
Up/Downside	+41.2%
Current Price	US\$37.02

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Stock Data

Mkt Cap (US\$ mn)	7,054
Avg 3 mths t/o (mn)	74.03
52w High/Low (US\$)	88.72/ 19.83
Total Issued Shares (mn)	182

Source: Bloomberg

Shareholding Structure

STT GDC	31.8%
William Huang - Chairman	5.6%
Ping An	2.2%

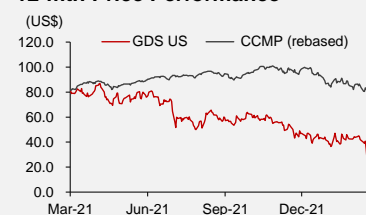
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-13.1%	-14.9%
3-mth	-24.5%	-16.3%
6-mth	-35.3%	-31.1%

Source: Company data

12-mth Price Performance



Source: Bloomberg

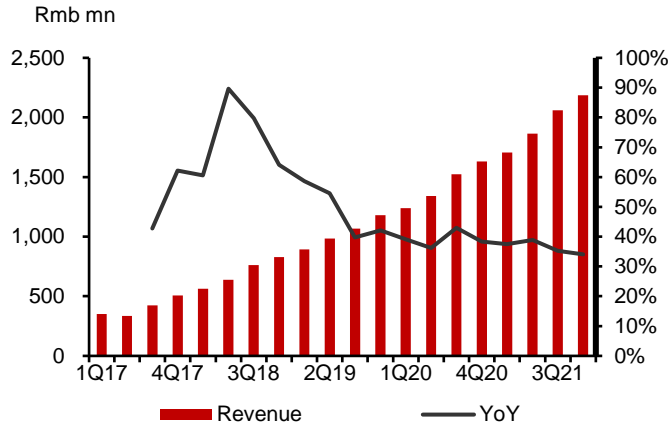
Auditor: KPMG

Related Reports

- China Software & IT Services – Positive cloud outlook despite Russia-Ukraine crisis – 25 Feb 2022 ([link](#))
- China Software & IT Services – China cloud market to recover in 2022E - 25 Jan 2022 ([link](#))

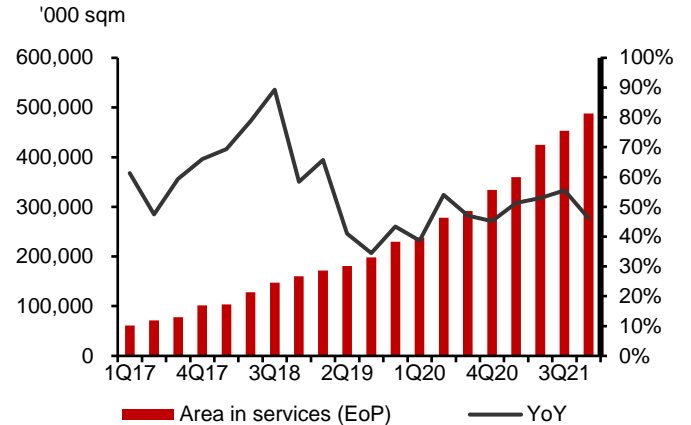
Focus charts

Figure 1: Revenue and YoY growth



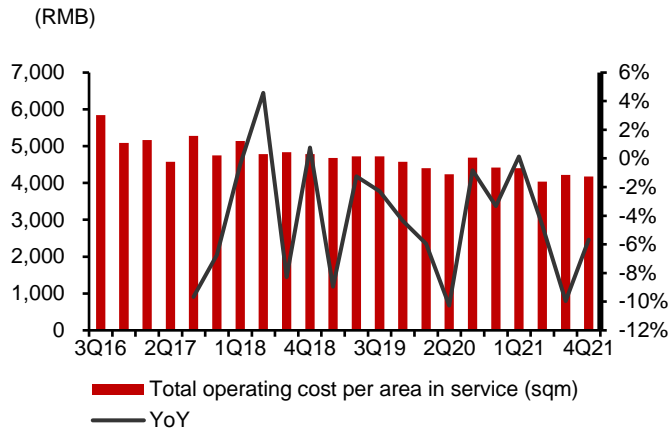
Source: Company data, CMBIGM

Figure 2: Area in services and YoY



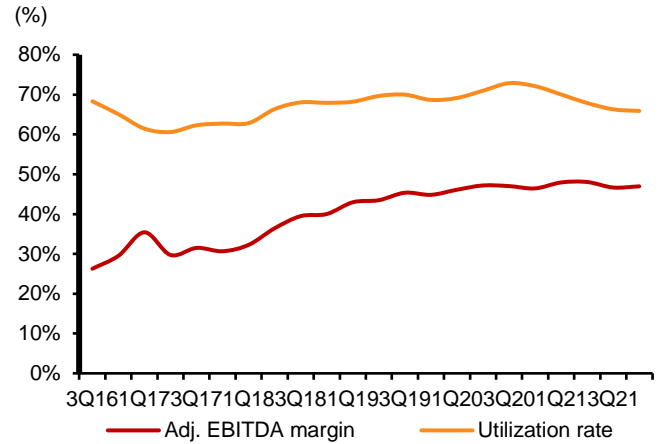
Source: Company data, CMBIGM

Figure 3: Total operating cost per area in service



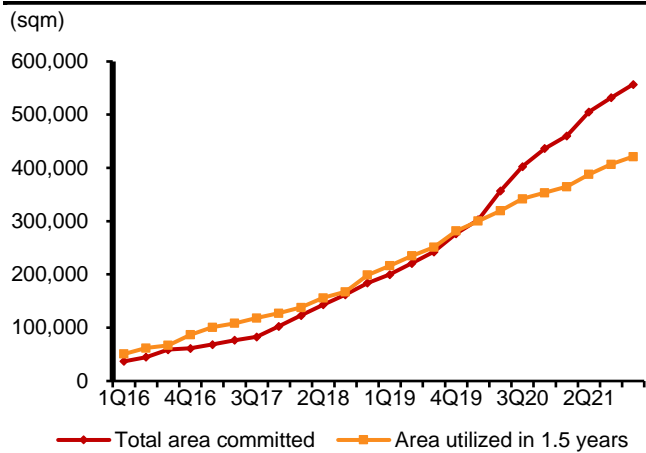
Source: Company data, CMBIGM

Figure 4: EBITDA margin vs. utilization



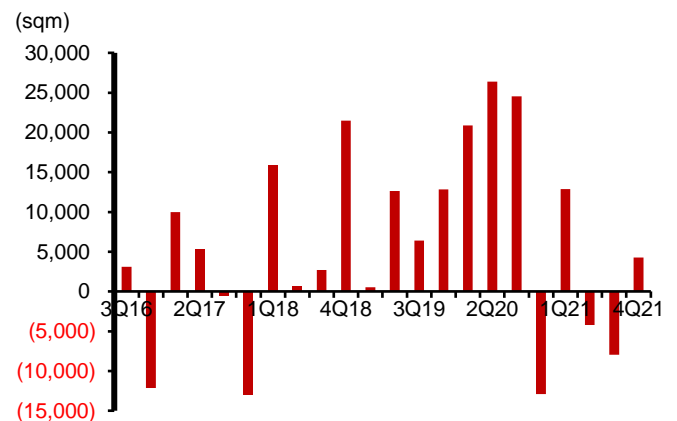
Source: Company data, CMBIGM

Figure 5: Total area committed vs. fwd area utilized



Source: Company data, CMBIGM

Figure 6: Net adds in area under construction



Source: Company data, CMBIGM

4Q21 earnings review

4Q21 results review

- **Revenue** was at RMB2,187mn (+34% YoY, +6% QoQ), in-line with our and consensus estimates.
- **Gross profit** was at RMB487mn (+13% YoY, +7% QoQ), above our estimate by 8% but below consensus by 5%.
- **Gross margin** was at 22.3% (-4.1 pct pts YoY, +0.2 pct pts QoQ), above our estimates by 1.3 pct pts but below consensus by 1.5 pct pts.
- **Adj. EBITDA** was at RMB1,027mn (+36% YoY, +7% QoQ), in-line with our and consensus estimates.
- **Adj. EBITDA margin** was at 47.0% (+0.5 pct pts YoY, +0.3 pct pts QoQ), above our estimates by 1.2 pct pts but below consensus by -0.2 pct pts.
- **Net loss** narrowed to RMB316mn, missed both our and consensus estimates

FY22E guidance

- **Revenue** will be in the range of RMB9,320-9,680mn (implying +19.2% to +23.8% YoY), **below** consensus of RMB9,826mn.
- **Adj. EBITDA** will be in the range of RMB4,285-4,450mn (implying +15.7% to +20.2% YoY), **below** consensus of RMB4,575mn.
- **Capex** will be at RMB12bn (-12% YoY), **above** consensus of RMB9,775mn. Among the RMB12bn, RMB6bn is for organic expansion in China, RMB2bn is for regional expansion and the rest of RMB4bn will be used in M&A and landbank acquisition.

Figure 7: 4Q21 results review

	Dec-20	Sep-21	Dec-21			Dec-21		Dec-21	
	4Q20	3Q21	4Q21			4Q21	versus	4Q21	versus
RMB mn	actual	actual	actual	YoY	QoQ	CMBI	CMBI	consensus	consensus
Revenue	1,632	2,061	2,187	34%	6%	2,142	2%	2,160	1%
Gross profit	430	455	487	13%	7%	450	8%	514	-5%
Gross margin	26.4%	22.1%	22.3%	-4.1 pct pts	0.2 pct pts	21.0%	1.3 pct pts	23.8%	-1.5 pct pts
Operating profit	155	150	152	-2%	1%	137	11%	205	-26%
Operating margin	9.5%	7.3%	6.9%	-2.5 pct pts	-0.3 pct pts	6.4%	0.5 pct pts	9.5%	-2.5 pct pts
Adj. EBITDA	758	962	1,027	36%	7%	980	5%	1,019	1%
Adj. EBITDA margin	46.5%	46.7%	47.0%	0.5 pct pts	0.3 pct pts	45.8%	1.2 pct pts	47.1%	-0.2 pct pts
Net non-op	-383	-381	-403			-382		-418	
PBT	-228	-231	-251	-10%	-8%	-245	-2%	-213	-18%
Net income	-294	-337	-316	-7%	6%	-309	-2%	-276	-14%
Net margin	-18.0%	-16.4%	-14.4%	3.6 pct pts	1.9 pct pts	-14.4%	0 pct pts	-12.8%	-1.7 pct pts
EPS RMB	-0.21	-0.23	-0.24	-13%	-3%	-0.21	-12%	-0.27	9%

Source: Company data, CMBIGM estimates

Earnings revision

Figure 8: Earnings revision

RMB mn	2022E			2023E		
	New	Old	%Diff	New	Old	%Diff
Sales	9,432	9,967	-5%	11,076	12,072	-8%
Gross profit	1,883	2,253	-16%	2,403	2,619	-8%
OP Profit	534	840	-36%	783	1,001	-22%
Adj. EBITDA	4,316	4,500	-4%	5,110	5,348	-4%
PBT	-1,635	-950	72%	-1,768	-1,135	56%
Net profit	-2,197	-1,314	67%	-2,378	-1,541	54%
EPS	-1.54	-0.92	67%	-1.67	-1.08	54%
Margins						
GM	20.0%	22.6%	-265 bps	21.7%	21.7%	1 bps
OPM	5.7%	8.4%	-277 bps	7.1%	8.3%	-122 bps
Adj. EBITDA margin	45.8%	45.2%	60 bps	46.1%	44.3%	183 bps
PBT margin	-17.3%	-9.5%	-780 bps	-16.0%	-9.4%	-657 bps
Net margin	-23.3%	-13.2%	-1012 bps	-21.5%	-12.8%	-871 bps
Key assumptions						
Total area in service	585,460	616,196	-5%	690,842	776,407	-11%
Total area utilized	387,828	401,834	-3%	475,221	492,583	-4%
Avg. utilization rate	67%	65%	170 bps	69%	64%	443 bps
Average MSR	2,169	2,186	-1%	2,118	2,148	-1%
Depreciation	3,480	3,282	6%	4,151	4,094	1%

Source: Company data, CMBIGM estimates

Figure 9: CMBI estimates vs. consensus

RMB mn	2022E			2023E		
	CMBI	Street	Diff	CMBI	Street	Diff
Sales	9,432	9,826	-4%	11,076	12,170	-9%
Gross profit	1,883	2,349	-20%	2,403	3,134	-23%
Operating profit	534	765	-30%	783	1,244	-37%
Adj. EBITDA	4,316	4,574	-6%	5,110	5,669	-10%
Net profit	-2,197	-1,229	79%	-2,378	-907	162%
EPS	-1.54	-3.34	-54%	-1.67	-1.76	-5%
Margins						
GM	20.0%	23.9%	-394 bps	21.7%	25.8%	-406 bps
OPM	5.7%	7.8%	-213 bps	7.1%	10.2%	-315 bps
Adj. EBITDA margin	45.8%	46.6%	-80 bps	46.1%	46.6%	-45 bps
Net margin	-23.3%	-12.5%	-1079 bps	-21.5%	-7.5%	-1402 bps

Source: Company data, CMBIGM estimates

Figure 10: Operating model

RMB mn	2020	2021	2022E	2023E	2024E
Revenues	5,739	7,819	9,432	11,076	13,273
Service Revenue	5,717	7,814	9,422	11,068	13,265
Equipment Revenue	22	4	10	8	8
Cost of sales	-4,189	-6,039	-7,549	-8,672	-9,610
Gross Profit	1,550	1,779	1,883	2,403	3,663
<i>Gross margin</i>	<i>27.0%</i>	<i>22.8%</i>	<i>20.0%</i>	<i>21.7%</i>	<i>27.6%</i>
R&D	-40	-69	-66	-84	-103
SG&A	-837	-1,141	-1,284	-1,537	-1,831
Operating Income	673	570	534	783	1,729
Adj. EBITDA	2,681	3,703	4,316	5,110	6,213
<i>Adj. EBITDA margin</i>	<i>46.7%</i>	<i>47.4%</i>	<i>45.8%</i>	<i>46.1%</i>	<i>46.8%</i>
Interest Expense	-1,287	-1,604	-2,302	-2,684	-2,785
Net other income (exp)	66	86	133	133	133
Profit Before Income Taxes	-548	-949	-1,635	-1,768	-923
Income Tax Expense	-121	-242	-404	-450	-235
Net profit (loss)	-738	-1,315	-2,197	-2,378	-1,308
<i>Net margin</i>	<i>-11.7%</i>	<i>-15.2%</i>	<i>-21.6%</i>	<i>-20.0%</i>	<i>-8.7%</i>
EPS (RMB)	-0.59	-0.90	-1.54	-1.67	-0.92
Key assumptions					
Total area in service (EoP)	333,853	487,883	585,460	690,842	801,377
Total area utilized (EoP)	234,731	319,475	387,828	475,221	568,233
Utilization rate (area utilized/ area in service)	72%	67%	67%	69%	70%
Average MSR (Rmb / Sqm / Month)	2,333	2,260	2,169	2,118	2,121
Depreciation	1,638	2,617	3,480	4,151	4,151
Growth (YoY)					
Revenues	39%	36%	21%	17%	20%
Gross Profit	49%	15%	6%	28%	52%
Adj. EBITDA	47%	38%	17%	18%	22%
Net profit (loss)	51%	78%	71%	9%	-48%

Source: Company data, CMBIGM estimates

Figure 11: Operating model (quarterly)

RMB mn	1Q21	2Q21	3Q21	4Q21	1Q22E	2Q22E	3Q22E	4Q22E
Revenues	1,706	1,864	2,061	2,187	2,255	2,313	2,342	2,523
Gross Profit	397	440	455	487	474	467	439	504
Adj. EBITDA	818	896	962	1,027	1,077	1,051	1,028	1,160
Net profit (loss)	-301	-325	-337	-351	-417	-520	-622	-639
EPS (RMB)	-0.21	-0.22	-0.23	-0.24	-0.29	-0.36	-0.43	-0.44
Key assumptions								
Total area in service (EoP)	359,780	425,019	452,830	487,883	503,692	522,773	543,396	585,460
Total area utilized (EoP)	251,063	281,650	300,328	319,475	341,983	353,345	364,687	387,828
Utilization rate (area utilized/ area in service)	70%	66%	66%	65%	68%	68%	67%	66%
Average MSR (Rmb / Sqm / Month)	2,339	2,331	2,361	2,351	2,269	2,215	2,172	2,234
Depreciation	560	620	698	739	800	835	870	974
Margins								
Gross margin	23%	24%	22%	22%	21%	20%	19%	20%
Adj. EBITDA margin	48%	48%	47%	47%	48%	45%	44%	46%
Net margin	-18%	-17%	-16%	-16%	-18%	-22%	-27%	-25%
Growth (QoQ)								
Revenues	5%	9%	11%	6%	3%	3%	1%	8%
Gross Profit	-8%	11%	4%	7%	-3%	-1%	-6%	15%
Adj. EBITDA	8%	10%	7%	7%	5%	-2%	-2%	13%
Net profit (loss)	2%	8%	4%	4%	19%	25%	20%	3%
Growth (YoY)								
Revenues	38%	40%	35%	34%	32%	24%	14%	15%
Gross Profit	13%	22%	11%	13%	19%	6%	-4%	3%
Adj. EBITDA	43%	41%	34%	36%	32%	17%	7%	13%
Net profit (loss)	-203%	-195%	-47%	-15%	-36%	-61%	-93%	-91%

Source: Company data, CMBIGM

Valuation

Maintain BUY with target price of US\$52.28

We maintain our BUY recommendation on GDS with new target price of US\$52.28 (prior US\$61.06), based on lowered 20x (prior 23x) FY22E adj. EV/EBITDA, 20% discount to its 3-year mean to reflect macro uncertainty although the long term trend that China is increasing cloud investment growth remains unchanged.

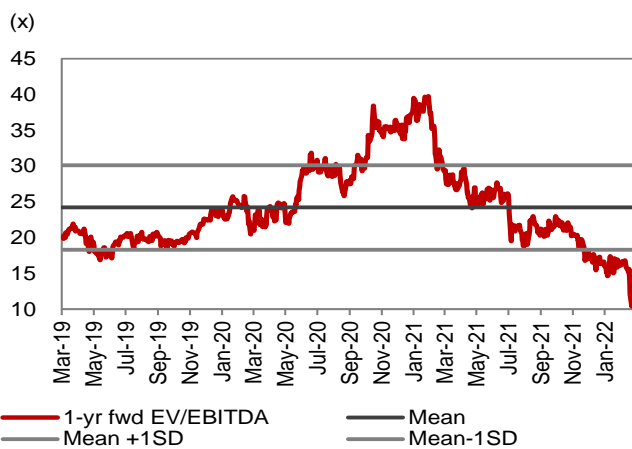
We use EV/EBITDA as the valuation methodology as it better reflects IDC operating profitability than P/E given high depreciation expense during ramp-up stage and large interest expense gap between peers if capital structure is different.

Figure 12: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	EV/EBITDA (x)		EBITDA margin (%)		Revenue FY20-23E CAGR
						FY21E	FY22E	FY21E	FY22E	
GDS	GDS US	BUY	7,504	39.38	52.28	18.8	19.6	47%	46%	25%
21Vianet	VNET US	NR	1,064	7.14	N/A	5.3	4.4	28%	27%	20%
Sinnet	300383 CH	NR	3,868	13.70	N/A	14.8	13.1	23%	23%	14%
Baosight	600845 CH	NR	10,242	48.87	N/A	27.2	21.1	19%	19%	30%
AtHub	603881 CH	NR	2,093	40.50	N/A	21.4	15.7	64%	69%	35%
ChinData	CD US	NR	2,806	7.68	N/A	14.3	9.4	47%	49%	78%
Equinix	EQIX US	NR	65,251	719.25	N/A	24.7	23.3	47%	46%	11%
Digital Realty Trust	DLR US	NR	40,345	138.93	N/A	22.5	21.9	55%	52%	17%
					Mean	18.6	16.1	41%	42%	29%
					Median	20.1	17.6	47%	46%	22%

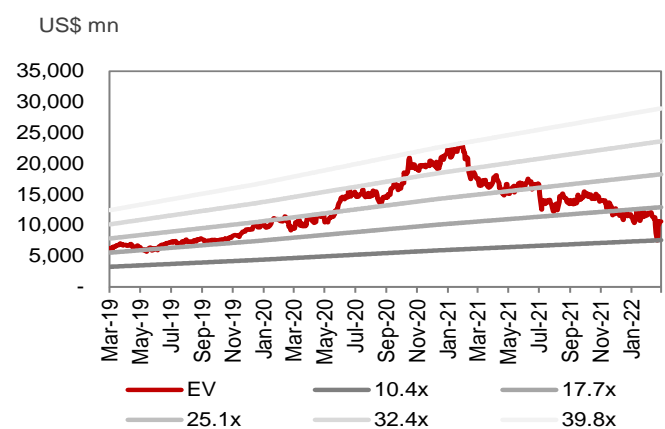
Source: Bloomberg, CMBIGM estimates

Figure 13: 12M forward EV/EBITDA chart



Source: Company data, CMBIGM estimates

Figure 14: 12M forward EV/EBITDA band



Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenues					
Service Revenue	5,717	7,814	9,422	11,068	13,265
Equipment Revenue	22	4	10	8	8
Total Revenue	5,739	7,819	9,432	11,076	13,273
Cost of sales	(4,189)	(6,039)	(7,549)	(8,672)	(9,610)
Gross Profit	1,550	1,779	1,883	2,403	3,663
R&D Expenditures	(40)	(69)	(66)	(84)	(103)
Sales/Marketing/Ad Exp.	(135)	(119)	(177)	(213)	(236)
G&A Expenses	(703)	(1,022)	(1,106)	(1,324)	(1,594)
Operating Income	673	570	534	783	1,729
Adj. EBITDA	2,681	3,703	4,316	5,110	6,213
Interest Expense	(1,287)	(1,604)	(2,302)	(2,684)	(2,785)
Other non-oper. income	66	86	133	133	133
Profit Before Income Taxes	(548)	(949)	(1,635)	(1,768)	(923)
Income Tax Expense	(121)	(242)	(404)	(450)	(235)
Net Profit (loss)	(669)	(1,191)	(2,039)	(2,218)	(1,157)
Non-controlling interests	(69)	(123)	(159)	(161)	(150)
Net Profit (loss) to shr holders	(738)	(1,315)	(2,197)	(2,378)	(1,308)

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net Income	(669)	(1,191)	(2,039)	(2,218)	(1,157)
Depreciation & Amortization	1,638	2,617	3,480	4,151	4,151
Net change in WC	(1,023)	(810)	(693)	334	64
Others	375	593	0	0	0
Net cash from operating	321	1,208	748	2,267	3,057
Capital Expenditures	(8,021)	(9,699)	(11,036)	(4,984)	(4,984)
Acquisition of Business	(1,357)	(4,013)	(1,226)	(554)	(554)
Other Investing Activities	0	21	(3,485)	(3,136)	(3,136)
Net cash from investing	(9,378)	(13,692)	(15,747)	(8,674)	(8,674)
Equity raised	12,724	0	0	0	0
Change of debts	790	11,512	13,580	3,292	5,502
Dividend paid	0	0	0	0	0
Others	6,630	(3,393)	625	484	0
Net cash from financing	20,144	8,119	14,205	3,776	5,502
Net change in cash	11,087	(4,364)	(794)	(2,632)	(115)
Cash at beg. of the year	5,811	16,259	9,968	9,174	6,543
Ex. difference and others	(638)	(1,927)	0	0	0
Cash at the end of the year	16,259	9,968	9,174	6,543	6,427

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Non-current assets	38,940	57,169	69,435	73,959	78,482
PPE - Net	29,596	40,624	51,664	55,634	59,603
Other Intangible Assets	3,382	8,359	9,585	10,139	10,693
Other noncurrent assets	5,962	8,186	8,186	8,186	8,186
Current assets	18,319	14,464	15,237	13,130	13,653
Cash and Equivalents	16,259	9,968	9,174	6,543	6,427
A/R - Trade	1,480	1,733	2,291	2,779	3,323
Other current assets	579	2,763	3,771	3,808	3,902
Current liabilities	7,644	13,465	17,671	19,338	21,390
Borrowings	2,153	5,948	9,281	10,089	11,440
AP - Trade	3,657	3,902	4,853	5,415	5,875
Accrued Expenses	1,493	2,771	2,644	2,903	3,144
Other non-current liab.	341	845	894	932	932
Non-current liabilities	22,947	32,271	43,143	46,111	50,262
Borrowings	10,567	18,285	28,531	31,015	35,167
Convertible bonds	1,928	1,896	1,896	1,896	1,896
Others	10,452	12,091	12,716	13,200	13,200
Total mezzanine equity	1,102	1,363	1,363	1,363	1,363
Share capital	1	1	1	1	1
Capital surplus	28,729	28,983	28,983	28,983	28,983
Retained earnings	-2,724	-3,911	-5,950	-8,167	-9,325
Other reserves	-440	-599	-599	-599	-599
Total equity	25,566	24,533	22,494	20,276	19,119

Key ratios

YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Key operating ratios					
Total area in service ('000 sqm)	334	488	585	691	801
Avg. UTR	72%	67%	67%	69%	70%
Avg. MSR (RMB/ sqm/ Month)	2,333	2,260	2,169	2,118	2,121
Growth (YoY)					
Revenue	39.2%	36.2%	20.6%	17.4%	19.8%
Gross profit	48.7%	14.8%	5.8%	27.6%	52.4%
EBITDA	47.0%	38.2%	16.5%	18.4%	21.6%
Net profit	n.a.	n.a.	n.a.	n.a.	n.a.
Margins					
Gross margin	27.0%	22.8%	20.0%	21.7%	27.6%
Operating margin	11.7%	7.3%	5.7%	7.1%	13.0%
EBITDA margin	46.7%	47.4%	45.8%	46.1%	46.8%
Balance sheet ratio					
Net debt / equity ratio (%)	net cash	0.7	1.4	1.8	2.2
Current ratio	2.4	1.1	0.9	0.7	0.6
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	-1.54	-1.67	-0.92
BVPS (RMB)	20.4	16.9	15.5	14.0	13.2

Source: Company data, CMBIGM estimates

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