Fixed Income
Credit Commentary

26 March 2021

CMBI Credit Commentary

VNET has sufficient cash to repurchase share from Tuspark, but capex need remains

VNET '21 101.75 4.5%

Polly Ng 吴宝玲
(852) 3657 6234
pollyng@cmbi.com.hk

Wilson Lu 路伟同
(852) 3761 8918
wilsonlu@cmbi.com.hk

James Wen 温展俊
(852) 3757 6291
jameswen@cmbi.com.hk

21Vianet (VNET) announced signing of definitive agreement to repurchase USD260mn (~RMB 1.7bn) class B shares from Tuspark on 24 March. The agreement also states Tuspark has agreed to sell additional VNET shares to an affiliated company of Sheng Chen, founder of VNET, at the same share price. If the additional share transfer is consummated, Tuspark will retain a small shareholding of <5% in VNET.

We assess VNET has sufficient liquidity to fund this share purchase (RMB~1.7bn) given it has RMB 2.7bn free cash at end-2020 and it raised RMB 3.9bn via CB in Jan 2021. Also additional share purchase from Tuspark will be conducted by an affiliated company of Sheng Chen, not from VNET. This will limit VNET's future liquidity need on share repurchase, and remove overhang from its current debt-laden controlling shareholder – Tuspark.

According to USD bond OC, its Change of Control Clause will be triggered, if (i) Tuspark ceases to be its controlling shareholder, and (ii) there is an ensuing rating downgrade. **We think CoC is unlikely to be triggered as likelihood of a S&P rating downgrade is low**, given the rating agency reckon VNET's convertible bond issuance will ease its liquidity strain on 21 Jan 2021.

We maintain Neutral on VNET '21 in view of tight valuation and expects bond price normalizing to par approaching its due-date. The outstanding USD bond VNET '21 is its next bullet maturity, which will highly likely be refinanced/repaid. This protects VNET '21 bond price from major volatility.

CMBI Fixed Income
fis@cmbi.com.hk

2020 results

VNET announced 2020 full year revenue of RMB 4,829mn (+27% yoy) and adjusted EBITDA of RMB 1,319mn (+26% yoy). For 4Q2020, VNET achieved revenue of RMB 1,348mm (+29% yoy) that slightly exceeded its prior guidance. EBITDA recorded RMB 383mn (+49% yoy), which is low-end of guided range.

In 2020, utilization rate fell to 61.6%, from 66.0% in 2019 given large number of newly built cabinets but retail MRR improved to RMB 8,976 (+2.6% yoy). Total number of cabinets increased to 53,553 (+17,262 yoy). Improving retail MRR shows good demand for VNET's IDC service amid pandemic but aggressive expanding plan still pose some execution risk to the company.

In 4Q20, VNET acquired data center in Beijing together with a new public cloud customer. The company has accumulated wholesale MOU to 180 MW, from 140 MW in 3Q20. It has also raised additional RMB 353 mn bank borrowing in 4Q2020. (End-2020 capital structure: bank loan: RMB 921mn; USD bond: RMB 1,944mn; CB: RMB 1,400mn; Lease Liability: 2,190mn; Preferred share RMB 1,050 mn)

2021 outlook and guidance

For 2021, management guides revenue in the range of RMB 6.1bn- 6.3bn and EBITDA to be RMB 1.68bn – RMB1.78 bn, indicating revenue growth of 26%yoy and EBITDA growth of 15%-21%yoy.

Specifically, for 1Q2021 management expects revenue will be in the range of RMB1,375mn – RMB 1,395mn, EBITDA in the range of RMB395mn – RMB 415mn, showing a growth of >26% yoy, and >53% yoy respectively.

Capex will be RMB5bn – RMB6bn for 25,000 cabinets addition in 2021. In which VNET has revealed 22,000 cabinets the company has targeted.

We expect further ramp up from newly built IDC centers will contribute to VNET's EBITDA in 2021. Larger share of wholesale projects will also provide higher degree of revenue/cash flow visibility relative to retail projects.

Appendix

VNET - Maturity Schedule

VNET *in millions*	**2020/12/31 RMB**	**Coupon**	**Maturity**	**Call Date**	**Note**
Free Cash	2,710		N/A		
VNET CB 2026	3,900				
Total Liquidity	**6,610**				
VNET 7.875% 2021	1,950	7.875%	2021-10-15		
2021 Total Bond Maturity	**1,950**				
VNET CB 2025	1,300		2025-02-19		ADR Conversion Price = USD 12
VNET CB 2026	3,900		2026-02-01	2024-02-06	ADR Conversion Price = USD 54.47
2022 onward Total Bond Maturity	**5,200**				

Source: CMBI, company disclosure

CMB International Securities Limited
Fixed Income Department
Tel: 852 3761 8867/ 852 3657 6291 fis@cmbi.com.hk

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