

GDS (GDS US)

Growth momentum to remain strong

GDS delivered strong FY4Q20 results with revenue and adj. EBITDA growth of 38% and 43% YoY respectively. The growth momentum in FY21E is expected to continue with adj. EBITDA growth guidance of +40% YoY. We like GDS long-term growth prospect given its strongest customer portfolio among China IDC (77% of total area committed contributed by cloud service providers). Maintain BUY.

- FY4Q20 in-line.** GDS reported strong FY4Q20 results with revenue growth of +38% YoY to RMB1,632mn as area utilized rose by 45% to 226k sq m (71% utilization) despite 5.4% decline in MSR. Adj. EBITDA was at RMB758mn (+43% YoY), beating top-end of its prior guidance by 2%. Net loss widened to RMB299mn on higher effective interest rate at 6.9% due to one-off refinancing expense (vs. 6.4% in FY3Q20).
- Strong backlog to support FY21E +40% EBITDA growth guidance.** GDS FY21E mid-point of guidance suggested revenue and adj. EBITDA growth of +37% and 39% respectively while Adj. EBITDA margin is guided to improve further by +1pct pts YoY. FY21E capex plan is at RMB12bn (+28% YoY with 30% of which related to M&A). Total area committed increased strongly at +52% YoY to 402k sq m in FY20 and this could suggest area utilized to grow at +40% YoY in FY21E as total area committed is the leading indicator to area utilized in 1.5-2 years forward.
- Raised FY21-22E EBITDA but net loss to widen.** We raised FY21E revenue/ adj. EBITDA by 3%/ 2% respectively on 11% higher area utilized but 3% lower MSR. GDS targets a similar level of net additional total area committed in FY21E (vs. FY20 of +134k sq m of which 28k sq m from M&A) and will do RMB15bn new debt financing (incl. refinancing portion) to support organic capex/ M&A plans. As such, we expect higher interest expense despite GDS effort to lower effective interest rate (long-term target 5%). We believe net loss will widen in FY21-22E (vs. prior estimate that bottom line could turn profitable in FY22E).
- Maintain BUY.** We continue to like GDS for its leadership in China IDC, ability to penetrate new customers (+Bytedance, PDD, iQiyi in FY20) and solid EBITDA margin improvement track record. Maintain BUY with new target price of US\$123.34, based on unchanged 32x FY22E EV/EBITDA. Catalysts include new M&A, customer win and overseas expansion plan announcement.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	4,122	5,739	7,934	10,521	13,989
YoY growth (%)	48%	39%	38%	33%	33%
Adj. EBITDA (RMB mn)	1,824	2,681	3,796	5,126	6,964
YoY growth (%)	74%	47%	42%	35%	36%
Consensus EBITDA (RMB)	1,824	2,570	3,688	5,023	n.a
Net income (RMB mn)	(442)	(669)	(934)	(358)	653
EPS (RMB)	(0.45)	(0.59)	(0.79)	(0.33)	0.48
YoY growth (%)	n.a.	n.a.	n.a.	n.a.	-247%
EV/EBITDA	58.9	37.5	30.0	24.1	18.7
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, CMBIS estimates

BUY (Maintain)

Target Price US\$123.34
 (Previous TP US\$131.48)
Up/Downside +40%
Current Price US\$88.04

China software & IT services

Marley Ngan
 (852) 3916 3719
 marleyngan@cmbi.com.hk

Stock Data

Mkt Cap (US\$ mn)	16,649
Avg 3 mths t/o (mn)	85.45
52w High/Low (US\$)	116.76/ 43.27
Total Issued Shares (mn)	178

Source: Bloomberg

Shareholding Structure

STT GDC	32.1%
William Huang - Chairman	5.4%
Ping An	2.3%

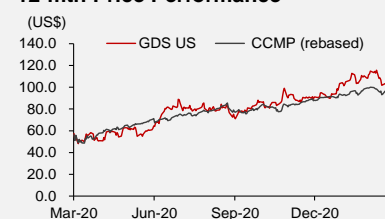
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-17.7%	-11.8%
3-mth	-0.1%	-5.7%
6-mth	18.4%	0.9%

Source: Bloomberg

12-mth Price Performance

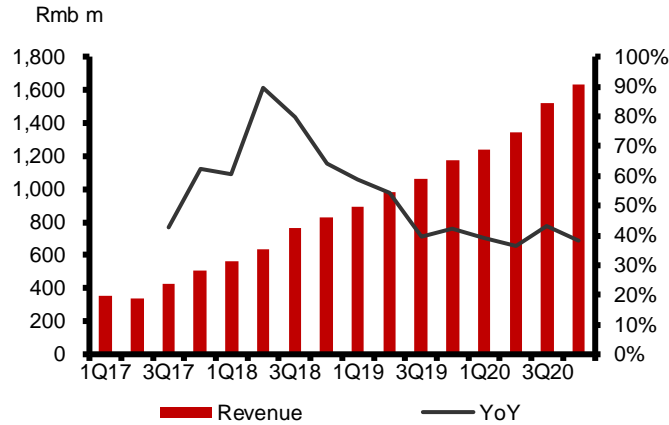


Source: Bloomberg

Auditor: KPMG

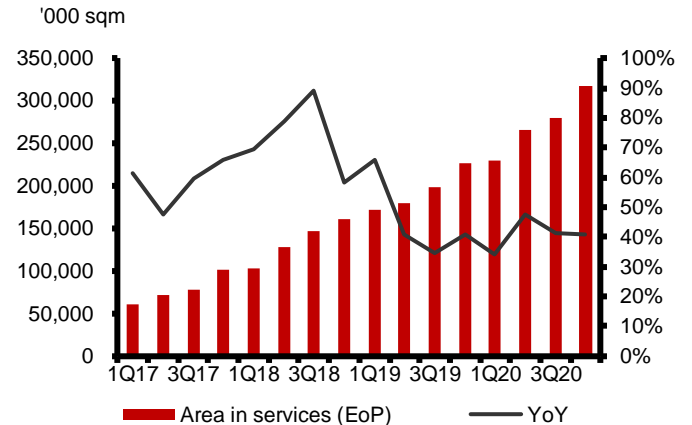
Focus charts

Figure 1: Revenue and YoY growth



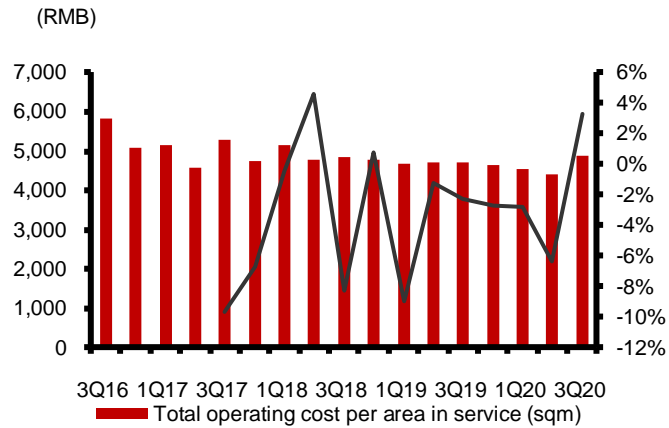
Source: Company data, CMBIS estimates

Figure 2: Area in services and YoY



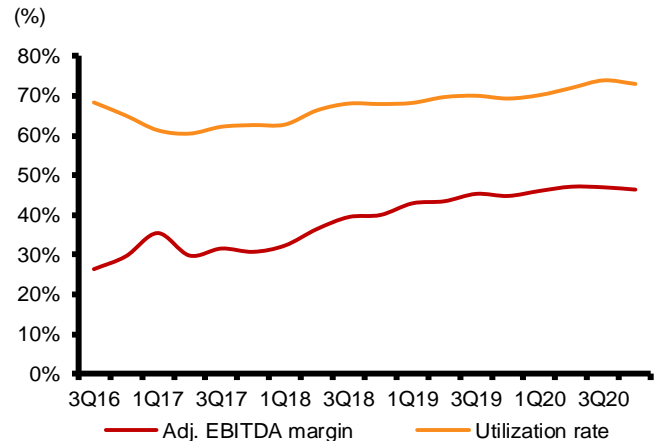
Source: Company data, CMBIS estimates

Figure 3: Total operating cost per area in service



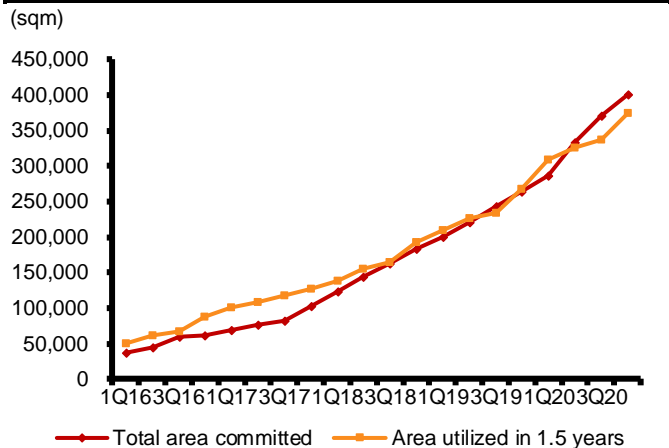
Source: Company data, CMBIS estimates

Figure 4: EBITDA margin vs. utilization



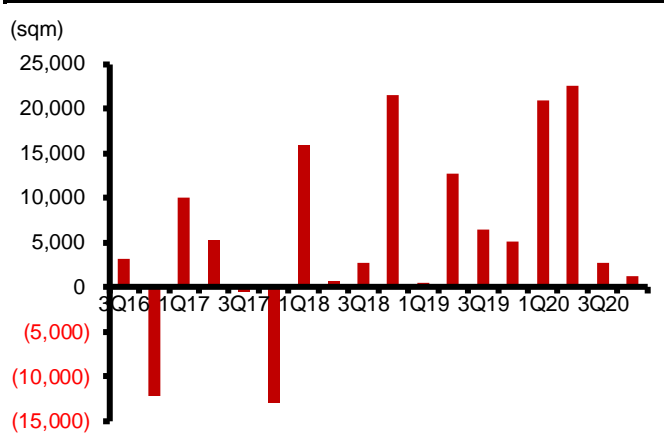
Source: Company data, CMBIS estimates

Figure 5: Total area committed vs. fwd area utilized



Source: Company data, CMBIS estimates

Figure 6: Net adds in area under construction



Source: Company data, CMBIS estimates

4Q20 earnings review

4Q20 results review

- **Revenue** was at RMB1,632mn (+38% YoY, +7% QoQ), in-line with both our and consensus estimates.
- **Gross profit** was at RMB430mn (+46% YoY, +5% QoQ), in-line with our estimate but slightly below consensus by -4%.
- **Gross margin** was at 26.4% (+1.4 pct pts YoY, -0.5 pct pts QoQ), in-line with our number but slightly below consensus.
- **Adj. EBITDA** was at RMB758 (+43% YoY, +6% QoQ), 3% above our and 2% above consensus estimates.
- **Adj. EBITDA margin** was at 46.5% (+1.6 pct pts YoY, -0.6 pct pts QoQ), above our estimates of 45.1% and consensus of 45.3%.
- **Net loss** was widened at RMB294, missed both our and consensus estimates.

FY21E Guidance

- **Revenue** will be in the range of RMB7,700-8,000mn (implying +34.2% to +39.4% YoY). This is in-line with both our estimates of RMB7,707mn and consensus of RMB8,027.
- **Adj. EBITDA** will be in the range of RMB3,660-3,800mn (implying +36.5% - 41.8%). Mid-point of RMB3,730m is higher than both our (RMB3,615mn) and consensus (RMB3,688mn).
- **Capex** will be at RMB12,000 (+28% YoY)

Figure 7: 4Q20 results review

	Dec-19 4Q19	Sep-20 3Q20	Dec-20 4Q20			Dec-20 4Q20	versus	Dec-20 4Q20	versus
RMB mn	actual	actual	actual	YoY	QoQ	CMBI	CMBI	consensus	consensus
Revenue	1,179	1,525	1,632	38%	7%	1,634	0%	1,647	-1%
Gross profit	295	409	430	46%	5%	431	0%	448	-4%
Gross margin	25.0%	26.8%	26.4%	1.4 pct pts	-0.5 pct pts	26.4%	0 pct pts	27.2%	-0.8 pct pts
Operating profit	128	159	155	21%	-3%	169	-9%	224	-31%
Operating margin	10.8%	10.4%	9.5%	-1.3 pct pts	-1 pct pts	10.4%	-0.9 pct pts	13.6%	-4.1 pct pts
Adj. EBITDA	529	717	758	43%	6%	737	3%	746	2%
Adj. EBITDA margin	44.8%	47.0%	46.5%	1.6 pct pts	-0.6 pct pts	45.1%	1.4 pct pts	45.3%	1.2 pct pts
Net non-op	-228	-329	-383			-327		-347	
PBT	-100	-170	-228	-128%	-34%	-158	-45%	-123	-86%
Net income	-117	-224	-294	-151%	-31%	-173	-70%	-146	-101%
Net margin	-9.9%	-14.7%	-18.0%	-8.1 pct pts	-3.4 pct pts	-10.6%	-7.4 pct pts	-8.9%	-9.1 pct pts
EPS RMB	-0.10	-0.18	-0.21	-107%	-19%	-0.12	-75%	-0.18	-20%

Source: Company data, CMBIS

Figure 8: FY20 results review

	FY 2019	FY 2020		FY 2020	versus	FY 2020	versus
RMB mn	actual	actual	YoY	CMBI	CMBI	consensus	consensus
Revenue	4,122	5,739	39%	5,742	0%	5,747	0%
Gross profit	1,043	1,550	49%	1,552	0%	1,567	-1%
Gross margin	25.3%	27.0%	1.7 pct pts	27.0%	0 pct pts	27.3%	-0.3 pct pts
Operating profit	480	673	40%	687	-2%	789	-15%
Operating margin	11.6%	11.7%	0.1 pct pts	12.0%	-0.2 pct pts	13.7%	-2 pct pts
Adj. EBITDA	1,824	2,681	47%	2,659	1%	2,570	4%
Adj. EBITDA margin	44.2%	46.7%	2.5 pct pts	46.3%	0.4 pct pts	44.7%	2 pct pts
Net non-op	-906	-1,221		-1,166		-1,187	
PBT	-426	-548	-29%	-478	-15%	-398	-38%
Net income	-500	-738	-47%	-605	-22%	-449	-64%
Net margin	-12.1%	-12.9%	-0.7 pct pts	-10.5%	-2.3 pct pts	-7.8%	-5 pct pts
EPS RMB	-0.45	-0.59	-30%	-0.42	-39%	-1.89	69%

Source: Company data, CMBIS

Earnings revision

Figure 9: Earnings revision

RMB mn	2021E			2022E		
	New	Old	%Diff	New	Old	%Diff
Sales	7,934	7,708	3%	10,521	10,483	0%
Gross profit	2,313	2,200	5%	3,279	3,346	-2%
OP Profit	1,170	1,045	12%	1,851	1,919	-3%
Adj. EBITDA	3,796	3,732	2%	5,126	5,278	-3%
PBT	-821	-273	n.a.	-302	172	n.a.
Net profit	-985	-332	n.a.	-409	150	n.a.
EPS	-0.79	-0.23	n.a.	-0.33	0.10	n.a.
Margins						
GM	29.2%	28.5%	61 bps	31.2%	31.9%	-74 bps
OPM	14.7%	13.6%	118 bps	17.6%	18.3%	-70 bps
Adj. EBITDA margin	47.8%	48.4%	-58 bps	48.7%	50.3%	-163 bps
PBT margin	-10.3%	-3.5%	-680 bps	-2.9%	1.6%	-452 bps
Net margin	-12.4%	-4.3%	-810 bps	-3.9%	1.4%	-532 bps
Key assumptions						
Total area in service	455,141	376,196	21%	628,094	502,147	25%
Total area utilized	325,690	292,224	11%	448,992	403,987	11%
Avg. utilization rate	71%	76%	-513 bps	72%	79%	-758 bps
Average MSR	2,315	2,356	-2%	2,222	2,293	-3%
Depreciation	2,297	2,322	-1%	2,956	3,018	-2%

Source: Company data, CMBIS estimates

Figure 10: CMBI estimates vs. consensus

RMB mn	2021			2022		
	CMBI	Street	Diff	CMBI	Street	Diff
Sales	7,934	8,027	-1%	10,521	10,510	0%
Gross profit	2,313	2,274	2%	3,279	3,204	2%
Operating profit	1,170	1,230	-5%	1,851	1,970	-6%
Adj. EBITDA	3,796	3,688	3%	5,126	5,023	2%
Net profit	-985	-117	n.a.	-409	465	n.a.
EPS	-0.79	-0.50	n.a.	-0.33	1.81	n.a.
Margins						
GM	29.2%	28.3%	82 bps	31.2%	30.5%	68 bps
OPM	14.7%	15.3%	-58 bps	17.6%	18.7%	-114 bps
Adj. EBITDA margin	47.8%	45.9%	190 bps	48.7%	47.8%	92 bps
Net margin	-12.4%	-1.5%	-1095 bps	-3.9%	4.4%	-831 bps

Source: Company data, CMBIS estimates

Figure 11: Operating model

RMB mn	2018	2019	2,020.0	2021E	2022E	2023E
Revenues	2,792	4,122	5,739	7,934	10,521	13,989
Service Revenue	2,759	4,095	5,717	7,905	10,496	13,962
Equipment Revenue	33	28	22	29	25	27
Cost of sales	-2,170	-3,080	-4,189	-5,621	-7,241	-9,029
Gross Profit	622	1,043	1,550	2,313	3,279	4,960
<i>Gross margin</i>	<i>22.3%</i>	<i>25.3%</i>	<i>27.0%</i>	<i>29.2%</i>	<i>31.2%</i>	<i>35.5%</i>
R&D	-14	-22	-40	-52	-68	-88
SG&A	-440	-541	-837	-1,091	-1,360	-1,827
Operating Income	168	480	673	1,170	1,851	3,045
Adj. EBITDA	1,047	1,824	2,681	3,796	5,126	6,964
<i>Adj. EBITDA margin</i>	<i>37.5%</i>	<i>44.2%</i>	<i>46.7%</i>	<i>47.8%</i>	<i>48.7%</i>	<i>49.8%</i>
Interest Expense	-656	-969	-1,287	-2,006	-2,170	-2,500
Net other income (exp)	48	62	66	16	16	16
Profit Before Income Taxes	-440	-426	-548	-821	-302	561
Income Tax Expense	9	-16	-121	-113	-56	92
Net profit (loss)	-430	-500	-738	-985	-409	602
<i>Net margin</i>	<i>-15.4%</i>	<i>-10.7%</i>	<i>-11.7%</i>	<i>-11.8%</i>	<i>-3.4%</i>	<i>4.7%</i>
EPS (RMB)	-0.43	-0.45	-0.59	-0.79	-0.33	0.48
Key assumptions						
Total area in service (EoP)	160,356	225,963	318,272	455,141	628,094	857,797
Total area utilized (EoP)	108,327	156,020	226,212	325,690	448,992	623,756
Utilization rate (area utilized/ area in service)	67%	69%	72%	71%	72%	73%
Average MSR (Rmb / Sqm / Month)	2,537	2,532	2,403	2,315	2,222	2,125
Depreciation	742	1,142	1,638	2,297	2,956	3,507
Growth (YoY)						
Revenues	73%	48%	39%	38%	33%	33%
Gross Profit	52%	68%	49%	49%	42%	51%
Adj. EBITDA	104%	74%	47%	42%	35%	36%
Net profit (loss)	32%	3%	51%	40%	-62%	-282%

Source: Company data, CMBIS estimates

Figure 12: Quarterly model

RMB mn	1Q20	2Q20	3Q20	4Q20	1Q21E	2Q21E	3Q21E	4Q21E
Revenues	1,240	1,342	1,525	1,632	1,713	1,825	2,112	2,283
Gross Profit	350	361	409	430	498	519	620	676
Adj. EBITDA	572	633	717	758	848	886	1,004	1,058
Net profit (loss)	-105	-114	-224	-294	-275	-279	-244	-227
EPS (RMB)	-0.09	-0.10	-0.18	-0.21	-0.20	-0.20	-0.18	-0.16
Key assumptions								
Total area in service (EoP)	229,986	266,260	279,618	318,272	330,713	377,160	433,339	455,141
Total area utilized (EoP)	163,835	193,163	209,751	226,212	234,707	268,681	309,133	325,690
Utilization rate (area utilized/ area in service)	71%	73%	75%	71%	71%	71%	71%	72%
Average MSR (RMB / sq m / Month)	2,569	2,492	2,519	2,489	2,469	2,408	2,428	2,389
Depreciation	319	390	451	478	479	544	617	657
Margins								
Gross margin	28%	27%	27%	26%	29%	28%	29%	30%
Adj. EBITDA margin	46%	175%	175%	176%	170%	171%	162%	157%
Net margin	-8%	-18%	-31%	-39%	-32%	-32%	-24%	-21%
Growth (QoQ)								
Revenues	5%	8%	14%	7%	5%	7%	16%	8%
Gross Profit	19%	3%	13%	5%	16%	4%	19%	9%
Adj. EBITDA	8%	11%	13%	6%	12%	4%	13%	5%
Net profit (loss)	-10%	9%	95%	31%	-6%	1%	-13%	-7%
Growth (YoY)								
Revenues	38%	35%	44%	40%	38%	36%	38%	40%
Gross Profit	65%	38%	49%	46%	42%	44%	52%	57%
Adj. EBITDA	49%	48%	48%	43%	48%	40%	40%	40%
Net profit (loss)	33%	-8%	-88%	-162%	-174%	-154%	-8%	25%

Source: Company data, CMBIS estimates

Valuation

Maintain BUY with new target price of US\$123.34 (40% upside)

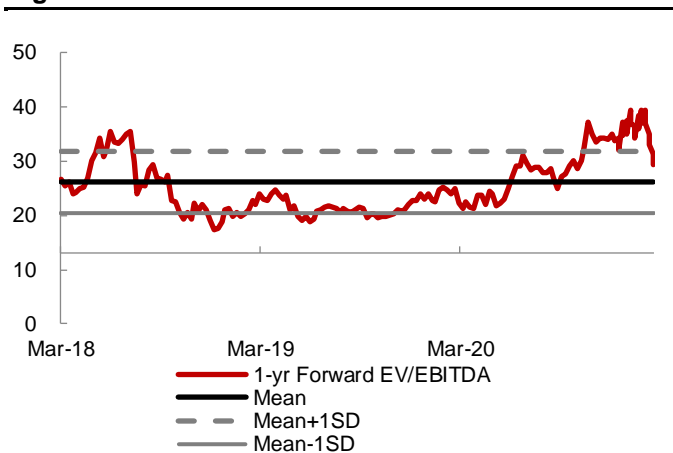
We maintain our BUY recommendation on GDS with new target price of US\$123.34, based on unchanged 32x FY22E adj. EV/EBITDA, 30% above its 3-year mean as growth is likely to remain strong with adj. EBITDA margin improvement on higher utilization. We use EV/EBITDA as the valuation methodology as it better 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 13: Peers' valuation

Company	Ticker	Rating	Mkt Cap (US\$ mn)	Price (LC)	TP (LC)	EV/EBITDA (x)		EV/sales (x)		EBITDA margin (%)	
						FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
GDS	GDS US	BUY	16,454	88.04	114.40	30.0	24.1	15.8	15.8	48%	49%
21Vianet	VNET US	NR	4,456	33.52	N/A	16.7	11.9	4.8	4.8	28%	31%
Sinnet	300383 CH	NR	4,520	19.00	N/A	15.7	13.1	3.3	3.3	21%	22%
Baosight	600845 CH	NR	7,812	51.46	N/A	22.7	17.1	4.4	4.4	19%	20%
AtHub	603881 CH	NR	1,774	48.97	N/A	17.4	12.8	9.0	9.0	52%	49%
ChinData	CD US	NR	6,653	18.52	N/A	33.0	20.8	14.9	14.9	45%	48%
Equinix	EQIX US	NR	57,028	638.70	N/A	21.8	19.7	10.5	10.5	47%	48%
Digital Realty Trust	DLR US	NR	39,139	135.35	N/A	23.0	21.3	12.8	12.8	54%	55%
Mean						23.0	17.6	9.4	9.4	39%	40%
Median						22.3	18.4	9.7	9.7	46%	48%

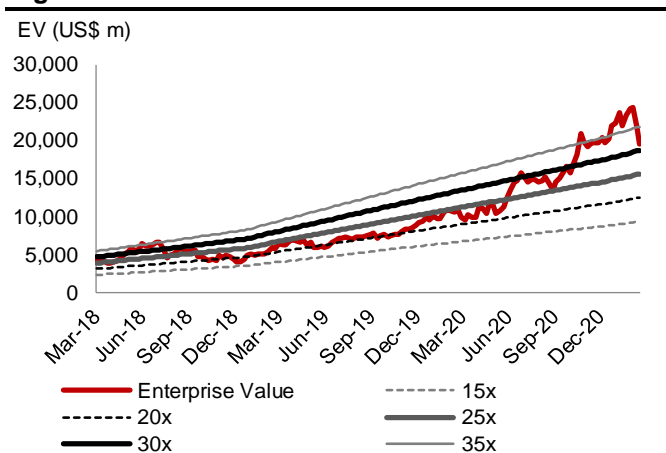
Source: Bloomberg, CMBIS estimates

Figure 14: 12M forward EV/EBITDA chart



Source: Company data, CMBIS

Figure 15: 12M forward EV/EBITDA band



Source: Company data, CMBIS

Financial Summary

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)	(934)	(358)	653
Service Revenue	4,095	5,717	7,905	10,496	13,962	Depreciation & Amortization	1,142	1,638	2,297	2,956	3,507
Equipment Revenue	28	22	29	25	27	Net ch. In Working Capital	(653)	(1,023)	(142)	792	686
Total Revenue	4,122	5,739	7,934	10,521	13,989	Others	247	375	0	0	0
Cost of sales	(3,080)	(4,189)	(5,621)	(7,241)	(9,029)	Net cash from operating	293	321	1,221	3,389	4,846
Gross Profit	1,043	1,550	2,313	3,279	4,960	Capital Expenditures	(4,553)	(8,021)	(10,116)	(8,048)	(7,134)
R&D Expenditures	(22)	(40)	(52)	(68)	(88)	Acquisition of Business	(579)	(1,357)	(1,785)	(1,420)	(1,259)
Sales/Marketing/Ad Exp.	(130)	(135)	(168)	(200)	(282)	Other Investing Activities	0	0	(3,872)	(3,485)	(3,136)
G&A Expenses	(411)	(703)	(923)	(1,160)	(1,544)	Net cash from investing	(5,131)	(9,378)	(15,773)	(12,954)	(11,530)
Operating Income	480	673	1,170	1,851	3,045	Equity raised	4,934	12,724	0	0	0
Adj. EBITDA	1,824	2,681	3,796	5,126	6,964	Change of debts	3,730	790	6,990	4,560	7,253
Interest Expense	(969)	(1,287)	(2,006)	(2,170)	(2,500)	Dividend paid	(25)	0	0	0	0
Other non-oper. income	62	66	16	16	16	Others	(277)	6,630	1,100	0	137
Profit Before Income Taxes	(426)	(548)	(821)	(302)	561	Net cash from financing	8,362	20,144	8,090	4,560	7,390
Income Tax Expense	(16)	(121)	(113)	(56)	92	Net change in cash	3,524	11,087	(6,462)	(5,004)	706
Net Profit (loss)	(442)	(669)	(934)	(358)	653	Cash at beginning of the year	2,162	5,811	16,440	9,978	4,973
Non-controlling interests	(58)	(69)	(51)	(51)	(51)	Ex. difference and others	125	(458)	0	0	0
Net loss att. to ord. shareholders	(500)	(738)	(985)	(409)	602	Cash at the end of the year	5,811	16,440	9,978	4,973	5,679

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	52,417	62,414	70,438	Key operating ratios					
PPE - Net	19,185	29,596	41,287	49,865	56,629	Total area in service ('000 sq m, EoP)	226	318	455	628	858
Other Intangible Assets	2,300	3,382	5,167	6,587	7,846	Avg. utilization rate (area utilized/ area in service)	69%	72%	71%	72%	73%
Other noncurrent assets	2,923	5,962	5,962	5,962	5,962	Average MSR (RMB / sq m / Month)	2,532	2,403	2,315	2,222	2,125
Current assets	7,085	18,319	12,944	8,747	10,555	Growth (YoY)					
Cash and Equivalents	5,811	16,259	9,797	4,793	5,499	Revenue	48%	39%	38%	33%	33%
A/R - Trade	880	1,480	2,160	2,814	3,749	Gross profit	68%	49%	49%	42%	51%
Other current assets	394	579	987	1,140	1,307	EBITDA	74%	47%	42%	35%	36%
Current liabilities	4,000	7,644	9,772	12,143	15,159	Net profit	n.a.	n.a.	n.a.	n.a.	-247%
Borrowings	1,138	2,153	3,337	4,109	5,337	Margins					
AP - Trade	1,676	3,657	4,207	5,282	6,508	Gross margin	25%	27%	29%	31%	35%
Accrued Expenses	818	1,493	1,853	2,377	2,935	Operating margin	12%	12%	15%	18%	22%
Other non-current liab.	368	341	375	375	380	EBITDA margin	44%	47%	48%	49%	50%
Non-current liabilities	16,137	22,947	29,854	33,642	39,804	Balance sheet ratio					
Borrowings	8,028	10,567	16,374	20,162	26,187	Net debt / equity ratio (%)	0.5	net	0.5	0.9	1.1
Convertible bonds	2,050	1,928	1,928	1,928	1,928	Current ratio	1.8	2.4	1.3	0.7	0.7
Others	6,059	10,452	11,552	11,552	11,689	Returns (%)					
Total mezzanine equity	1,062	1,102	1,102	1,102	1,102	ROE	n.a.	n.a.	n.a.	n.a.	0.02
Share capital	0	1	1	1	1	ROA	n.a.	n.a.	n.a.	n.a.	0.01
Capital surplus	12,403	28,729	28,729	28,729	28,729	Per share					
Retained earnings	-2,057	-2,724	-3,657	-4,015	-3,362	EPS (RMB)	(0.45)	(0.59)	(0.79)	(0.33)	0.48
Other reserves	-53	-440	-440	-440	-440	BVPS (RMB)	9.3	20.4	19.6	19.4	19.9
Total equity	10,294	25,566	24,632	24,274	24,927						

Source: Company data, CMBIS estimates

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CMB International Securities Limited

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

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