

# GDS (9698 HK)

## 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 HK\$119.43, 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** HK\$119.43  
 (Previous TP US\$127.0)  
**Up/Downside** +35%  
**Current Price** HK\$88.65

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### Stock Data

Mkt Cap (HK\$ mn)	128,511
Avg 3 mths t/o (mn)	126.99
52w High/Low (HK\$)	118.70/ 81.00
Total Issued Shares (mn)	1,428

Source: Bloomberg

### Shareholding Structure

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

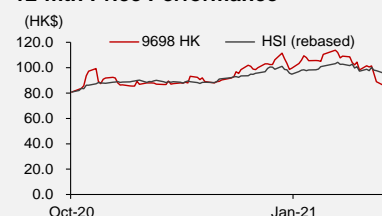
Source: Bloomberg

### Share Performance

	Absolute	Relative
1-mth	-20.6%	-18.6%
3-mth	-6.4%	-13.8%
6-mth	n.a.	n.a.

Source: Bloomberg

### 12-mth Price Performance



Source: Bloomberg

**Auditor: KPMG**

## Valuation

### Maintain BUY with new target price of HK\$119.43 (35% upside)

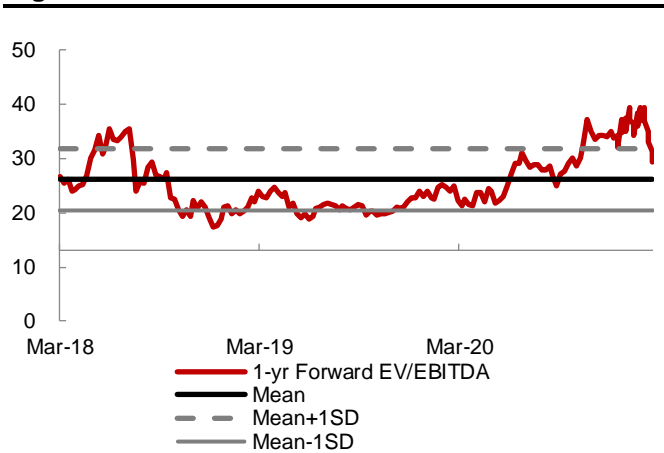
We maintain our BUY recommendation on GDS with new target price of HK\$119.43, based on unchanged 32x FY22E adj. EV/EBITDA, 30% above its 3-year mean as growth is likely to remain strong with adj. EBITDA margin improvement on higher utilization. We use EV/EBITDA as the valuation methodology as it better 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 1: 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	9698 HK	BUY	17,247	89.50	119.43	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%	
						<b>Mean</b>	<b>23.0</b>	<b>17.6</b>	<b>9.4</b>	<b>9.4</b>	<b>39%</b>	<b>40%</b>
						<b>Median</b>	<b>22.3</b>	<b>18.4</b>	<b>9.7</b>	<b>9.7</b>	<b>46%</b>	<b>48%</b>

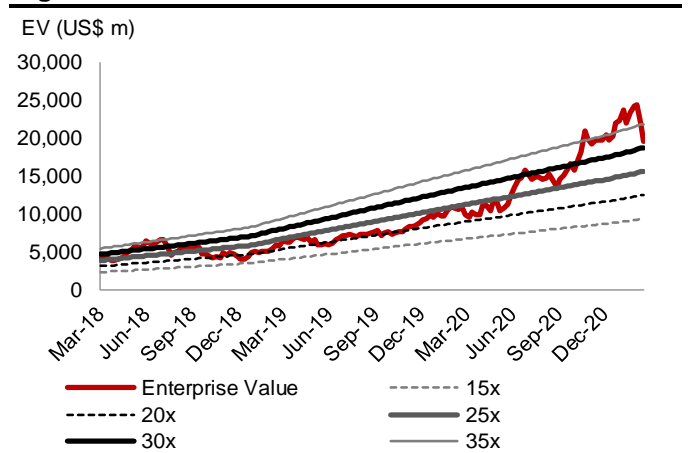
Source: Bloomberg, CMBIS estimates

**Figure 2: 12M forward EV/EBITDA chart**



Source: Company data, CMBIS

**Figure 3: 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
<b>Revenues</b>						<b>Net Income</b>	<b>(442)</b>	<b>(669)</b>	<b>(934)</b>	<b>(358)</b>	<b>653</b>
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
<b>Total Revenue</b>	<b>4,122</b>	<b>5,739</b>	<b>7,934</b>	<b>10,521</b>	<b>13,989</b>	Others	247	375	0	0	0
Cost of sales	(3,080)	(4,189)	(5,621)	(7,241)	(9,029)	<b>Net cash from operating</b>	<b>293</b>	<b>321</b>	<b>1,221</b>	<b>3,389</b>	<b>4,846</b>
<b>Gross Profit</b>	<b>1,043</b>	<b>1,550</b>	<b>2,313</b>	<b>3,279</b>	<b>4,960</b>	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)	<b>Net cash from investing</b>	<b>(5,131)</b>	<b>(9,378)</b>	<b>(15,773)</b>	<b>(12,954)</b>	<b>(11,530)</b>
<b>Operating Income</b>	<b>480</b>	<b>673</b>	<b>1,170</b>	<b>1,851</b>	<b>3,045</b>	Equity raised	4,934	12,724	0	0	0
<b>Adj. EBITDA</b>	<b>1,824</b>	<b>2,681</b>	<b>3,796</b>	<b>5,126</b>	<b>6,964</b>	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
<b>Profit Before Income Taxes</b>	<b>(426)</b>	<b>(548)</b>	<b>(821)</b>	<b>(302)</b>	<b>561</b>	<b>Net cash from financing</b>	<b>8,362</b>	<b>20,144</b>	<b>8,090</b>	<b>4,560</b>	<b>7,390</b>
Income Tax Expense	(16)	(121)	(113)	(56)	92	<b>Net change in cash</b>	<b>3,524</b>	<b>11,087</b>	<b>(6,462)</b>	<b>(5,004)</b>	<b>706</b>
<b>Net Profit (loss)</b>	<b>(442)</b>	<b>(669)</b>	<b>(934)</b>	<b>(358)</b>	<b>653</b>	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
<b>Net loss att. to ord. shareholders</b>	<b>(500)</b>	<b>(738)</b>	<b>(985)</b>	<b>(409)</b>	<b>602</b>	<b>Cash at the end of the year</b>	<b>5,811</b>	<b>16,440</b>	<b>9,978</b>	<b>4,973</b>	<b>5,679</b>

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Non-current assets</b>	<b>24,408</b>	<b>38,940</b>	<b>52,417</b>	<b>62,414</b>	<b>70,438</b>	<b>Key operating ratios</b>					
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
<b>Current assets</b>	<b>7,085</b>	<b>18,319</b>	<b>12,944</b>	<b>8,747</b>	<b>10,555</b>	<b>Growth (YoY)</b>					
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%
<b>Current liabilities</b>	<b>4,000</b>	<b>7,644</b>	<b>9,772</b>	<b>12,143</b>	<b>15,159</b>	Net profit	n.a.	n.a.	n.a.	n.a.	-247%
Borrowings	1,138	2,153	3,337	4,109	5,337	<b>Margins</b>					
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%
<b>Non-current liabilities</b>	<b>16,137</b>	<b>22,947</b>	<b>29,854</b>	<b>33,642</b>	<b>39,804</b>	<b>Balance sheet ratio</b>					
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	<b>Returns (%)</b>					
<b>Total mezzanine equity</b>	<b>1,062</b>	<b>1,102</b>	<b>1,102</b>	<b>1,102</b>	<b>1,102</b>	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	<b>Per share</b>					
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
<b>Total equity</b>	<b>10,294</b>	<b>25,566</b>	<b>24,632</b>	<b>24,274</b>	<b>24,927</b>						

Source: Company data, CMBIS estimates

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