

GDS (GDS US)

Focus on quality growth with cautious expansion plan

GDS reported in-line FY4Q22 and guided a soft FY23E outlook with revenue/EBITDA growth of +8.6%/ 6.2% YoY respectively as the company focuses on existing backlog delivery with tighter control on capex (-33.5% YoY to RMB7.5bn). Despite short-term pain, we like GDS improvement in customer and geographical mix and that the reliance on Alibaba and Tencent is decreasing. We remain positive on long-term data center demand given Digital Economy and AI development. Maintain BUY.

■ **FY4Q22 weakness well-anticipated.** GDS reported in-line 4Q22 results with revenue of RMB2,404mn (+9.9% YoY) and adj. EBITDA of RMB1,071mn (+4.3% YoY). Adj. EBITDA margin was 44.6% (-2.4 pts). Net loss narrowed to RMB194mn (vs. -RMB351mn in 4Q21) due to RMB205mn gain from purchase price adjustment related to one of previous acquisitions. Excluding this one-off item, net loss widened by RMB49mn YoY.

■ **FY23E focuses on existing backlog delivery with tighter control on capex.** Mgmt. guided FY23E revenue to be in the range of RMB9,940-10,320mn. Mid-point of guidance is in-line with consensus and it implied a YoY growth of +8.7% YoY (vs. +19.3% YoY in FY22). GDS will focus on the delivery of existing backlog while new bookings is expected to be at similar level to FY22 (+73k sqm). FY23E Adj. EBITDA margin is guided at 44.6% (-1 pts YoY) with the ramp-up of overseas capacity. Mgmt. expects FY23E margin to be the trough and to improve gradually in FY24E. Meanwhile, organic capex is expected to be down 33.5% YoY to RMB7.5bn (vs. RMB11.3bn in FY22) as GDS focuses on quality growth.

■ **Continuous change in customer and geographical mix.** In terms of customer mix, cloud service providers (CSP) took up 63.1% of GDS 4Q22 revenue (Alibaba + Tencent contributed 43.3%). Meanwhile, the net additional area committed by large internet companies (LI) was 63.1% of total (vs. 17.4% by CSP). Customer mix is expected to enhance going forward. Also, looking at the delivery schedule for current projects, >50% of new capacity to be delivered in FY23 comes from overseas market. We are positive on the diversification in both customer and geographical mix.

■ **Digital Economy and AI will continue to drive data center demand.** We trimmed FY23-24E adj. EBITDA by -8-11% to reflect a slow recovery of China cloud market post COVID-19. However, we remain positive on the long term demand in China data centers with the building of Digital Economy and the development of AI. GDS is trading at 0.9x FY23E P/B. Maintain BUY with new target price of US\$21.21, based on lowered 15x FY23E EV/EBITDA to reflect slower growth.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	7,819	9,326	10,141	11,292	12,788
YoY growth (%)	36.2	19.3	8.7	11.4	13.3
Adjusted EBITDA (RMB mn)	3,703	4,251	4,323	4,765	5,671
Consensus EBITDA (RMB)	3,703	4,251	4,531	5,424	6,475
YoY growth (%)	38.2	14.8	1.7	10.2	19.0
Net profit (RMB mn)	(1,314.5)	(1,509.9)	(2,383.6)	(2,705.7)	(1,938.7)
EPS (Reported) (RMB cents)	(90.48)	(103.10)	(166.95)	(189.51)	(135.79)
EV/EBITDA (x)	12.3	12.1	13.9	13.7	11.7
ROE (%)	(5.2)	(6.3)	(10.8)	(13.8)	(11.1)
Net gearing (%)	105.1	139.2	194.4	251.0	283.2

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price US\$21.21
 (Previous TP) US\$35.07
Up/Downside 36.0%
Current Price US\$15.59

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Stock Data

Mkt Cap (US\$ mn)	2,839.0
Avg 3 mths t/o (US\$ mn)	21.6
52w High/Low (US\$)	44.47/8.63
Total Issued Shares (mn)	182.1

Source: FactSet

Shareholding Structure

STT GDC	31.7%
William Huang - Chairman	5.7%

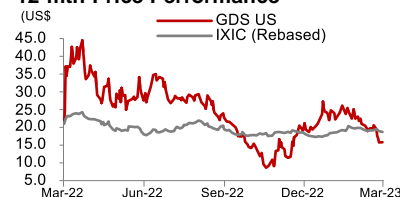
Source: Company data

Share Performance

	Absolute	Relative
1-mth	-28.5%	-23.6%
3-mth	-26.1%	-26.3%
6-mth	-32.2%	-29.0%

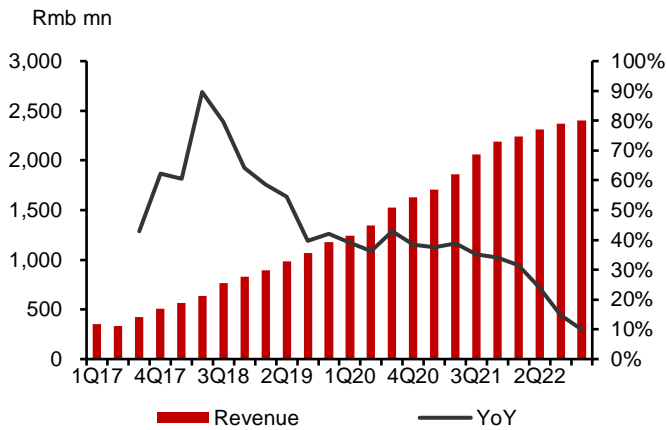
Source: FactSet

12-mth Price Performance

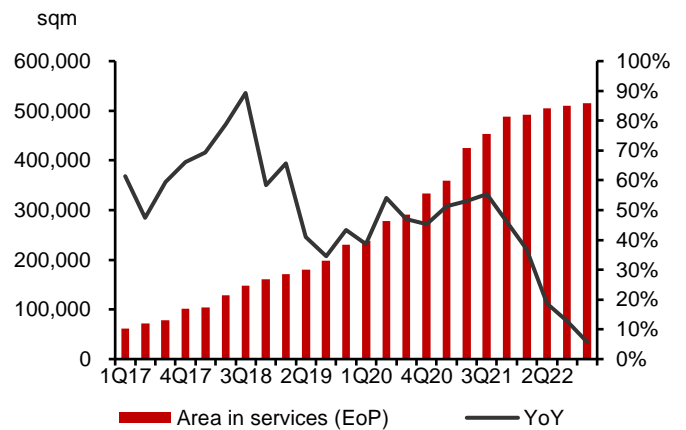


Source: FactSet

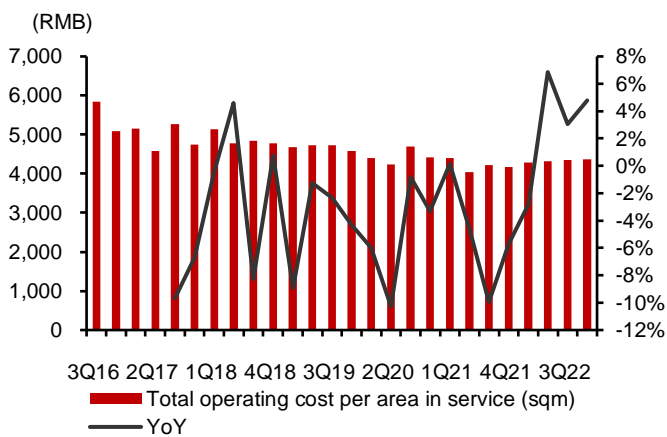
Focus charts

Figure 1: Revenue and YoY growth


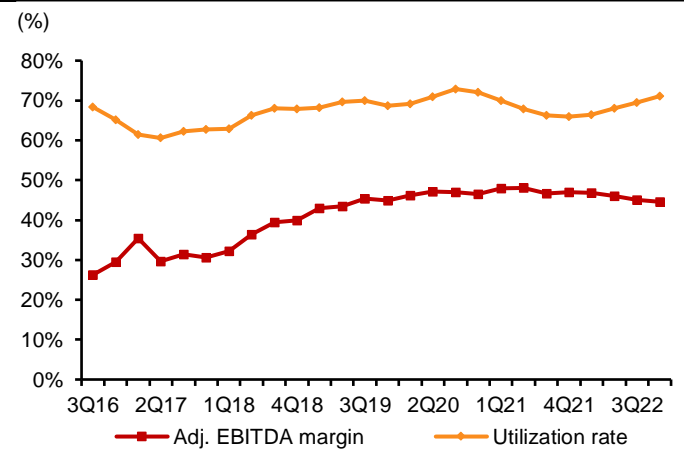
Source: Company data, CMBIGM

Figure 2: Area in services and YoY


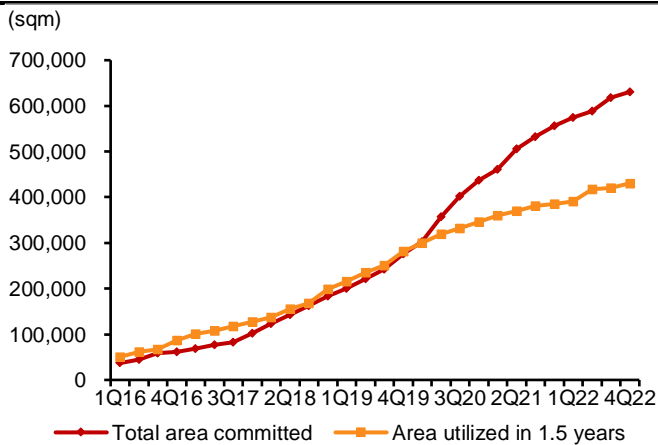
Source: Company data, CMBIGM

Figure 3: Total operating cost per area in service


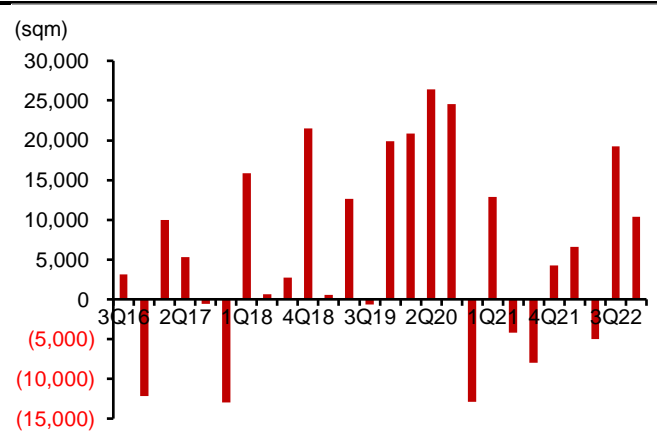
Source: Company data, CMBIGM

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

4Q22 earnings review

4Q22 results review

- **Revenue** was RMB2,404mn (+9.9% YoY, +1.5% QoQ), in-line with consensus.
- **Gross profit** was RMB488mn (+0.2% YoY, -1.0% QoQ), above consensus by 4.4%
- **Gross margin** was 20.3% (-2.0 pct pts YoY, -0.5 pct pts QoQ), above consensus by 0.6 pct pts.
- **Adj. EBITDA** was RMB1,071mn (+4.3% YoY, +0.5% QoQ), in-line with consensus.
- **Adj. EBITDA margin** was 44.6% (-2.4 pct pts YoY, -0.5 pct pts QoQ), below our estimates by 0.4 pct pts but above consensus by 0.4 pct pts.
- **Net loss** narrowed to RMB194mn, beat consensus estimates. Excluding RMB205mn one-off gain from purchase price adjustment related to one of previous acquisitions as certain conditions were not met, net loss was RMB399mn, widened from -RMB351mn in FY4Q21.

FY23E guidance

- **Revenue** will be in the range of RMB9,940-10,320mn (implying +6.6% to +10.7% YoY), **in-line** with consensus of RMB10,265mn.
- **Adj. EBITDA** will be in the range of RMB4,430-4,600mn (implying +4.2% to +8.2% YoY), **in-line** with consensus of RMB4,531mn.
- **Adj. EBITDA margin** will be 44.6% (-1 pct pts YoY).
- **Capex** will be at RMB7.5bn (-33.5% YoY), **in-line** with consensus of RMB7.85bn. Among the RMB7.5bn, RMB3.5bn is for organic expansion in China, RMB4bn is for regional expansion.

Figure 7: 4Q22 results review

	Dec-21 4Q21	Sep-22 3Q22	Dec-22 4Q22			Dec-22 4Q22	versus	Dec-22 4Q22	versus
RMB mn	actual	actual	actual	YoY	QoQ	CMBI	CMBI	consensus	consensus
Revenue	2,187	2,368	2,404	9.9%	1.5%	2,363	1.8%	2,370	1.5%
Gross profit	487	493	488	0.2%	-1.0%	368	32.5%	467	4.4%
Gross margin	22.3%	20.8%	20.3%	-2 pct pts	-0.5 pct pts	15.6%	4.7 pct pts	19.7%	0.6 pct pts
Operating profit	152	147	136	-10.3%	-7.3%	14	903.4%	126	8.6%
Operating margin	6.9%	6.2%	5.7%	-1.3 pct pts	-0.5 pct pts	0.6%	5.1 pct pts	5.3%	0.4 pct pts
Adj. EBITDA	1,027	1,067	1,071	4.3%	0.5%	1,064	0.7%	1,046	2.5%
Adj. EBITDA margin	47.0%	45.0%	44.6%	-2.4 pct pts	-0.5 pct pts	45.0%	-0.4 pct pts	44.1%	0.4 pct pts
Net non-op	-403	-419	-236			-555		-528	
PBT	-251	-272	-100	60.1%	63.3%	-542	81.6%	-403	75.2%
Net income	-351	-353	-194	44.6%	44.9%	-706	72.5%	-434	55.2%
Net margin	-16.0%	-14.9%	-8.1%	7.9 pct pts	6.8 pct pts	-29.9%	21.8 pct pts	-18.3%	10.2 pct pts
EPS RMB	-0.24	-0.24	-0.13	45.9%	46.0%	2,363	1.8%	-0.28	53.1%

Source: Company data, CMBIGM estimates

Earnings revision

Figure 8: Earnings revision

RMB mn	2023E			2024E		
	New	Old	%Diff	New	Old	%Diff
Sales	10,141	10,241	-1%	11,292	11,579	-2%
Gross profit	1,894	2,185	-13%	2,077	2,970	-30%
OP Profit	428	716	-40%	476	1,322	-64%
Adj. EBITDA	4,323	4,713	-8%	4,765	5,354	-11%
PBT	-1,706	-1,712	-0%	-1,936	-1,280	51%
Net profit	-2,384	-2,364	1%	-2,706	-1,824	48%
EPS	-1.67	-1.66	1%	-1.90	-1.28	48%
Margins						
GM	18.7%	21.3%	-266 bps	18.4%	25.6%	-725 bps
OPM	4.2%	7.0%	-277 bps	4.2%	11.4%	-720 bps
Adj. EBITDA margin	42.6%	46.0%	-339 bps	42.2%	46.2%	-404 bps
PBT margin	-16.8%	-16.7%	-11 bps	-17.1%	-11.1%	-609 bps
Net margin	-23.5%	-23.1%	-42 bps	-24.0%	-15.8%	-821 bps
Key assumptions						
Total area in service	575,133	595,331	-3%	649,900	672,724	-3%
Total area utilized	417,006	402,499	4%	470,631	463,441	2%
Avg. utilization rate	71.6%	67.5%	413 bps	71.9%	68.8%	311 bps
Average MSR	2,147	2,194	-2%	2,139	2,177	-2%
Depreciation	3,684	3,687	-0%	4,237	4,136	2%

Source: Company data, CMBIGM estimates

Figure 9: CMBI estimates vs. consensus

RMB mn	2023E			2024E		
	CMBI	Street	Diff	CMBI	Street	Diff
Sales	10,141	10,265	-1%	11,292	11,850	-5%
Gross profit	1,894	2,208	-14%	2,077	2,771	-25%
Operating profit	428	655	-35%	476	1,061	-55%
Adj. EBITDA	4,323	4,531	-5%	4,765	5,424	-12%
Net profit	-2,384	-1,753	36%	-2,706	-1,644	65%
EPS	-1.67	-4.80	-65%	-1.90	-5.00	-62%
Margins						
GM	18.7%	21.5%	-283 bps	18.4%	23.4%	-499 bps
OPM	4.2%	6.4%	-216 bps	4.2%	9.0%	-474 bps
Adj. EBITDA margin	42.6%	44.1%	-151 bps	42.2%	45.8%	-358 bps
Net margin	-23.5%	-17.1%	-643 bps	-24.0%	-13.9%	-1009 bps

Source: Company data, CMBIGM estimates

Figure 10: Operating model

RMB mn	2021	2022	2023E	2024E	2025E
Revenues	7,819	9,326	10,141	11,292	12,788
Service Revenue	7,814	9,318	10,134	11,285	12,782
Equipment Revenue	4	8	6	6	6
Cost of sales	-6,039	-7,390	-8,247	-9,215	-10,168
Gross Profit	1,779	1,936	1,894	2,077	2,620
<i>Gross margin</i>	<i>22.8%</i>	<i>20.8%</i>	<i>18.7%</i>	<i>18.4%</i>	<i>20.5%</i>
R&D	-69	-36	-52	-66	-63
SG&A	-1,141	-1,336	-1,414	-1,535	-1,759
Operating Income	570	565	428	476	797
Adj. EBITDA	3,703	4,251	4,323	4,765	5,671
<i>Adj. EBITDA margin</i>	<i>47.4%</i>	<i>45.6%</i>	<i>42.6%</i>	<i>42.2%</i>	<i>44.3%</i>
Interest Expense	-1,604	-1,845	-2,259	-2,537	-2,321
Net other income (exp)	86	291	125	125	125
Profit Before Income Taxes	-949	-990	-1,706	-1,936	-1,398
Income Tax Expense	-242	-276	-495	-597	-381
Net profit (loss)	-1,315	-1,510	-2,384	-2,706	-1,939
<i>Net margin</i>	<i>-15.2%</i>	<i>-13.6%</i>	<i>-21.7%</i>	<i>-22.4%</i>	<i>-13.9%</i>
EPS (RMB)	-0.90	-1.03	-1.67	-1.90	-1.36
Key assumptions					
Total area in service (EoP)	487,883	515,787	575,133	649,900	727,888
Total area utilized (EoP)	319,475	370,547	417,006	470,631	479,064
Utilization rate (area utilized/ area in service)	67%	70%	72%	72%	73%
Average MSR (RMB / Sqm / Month)	2,260	2,206	2,147	2,139	2,139
Depreciation	2,617	3,189	3,684	4,237	4,645
Growth (YoY)					
Revenues	36%	19%	9%	11%	13%
Gross Profit	15%	9%	-2%	10%	26%
Adj. EBITDA	38%	15%	2%	10%	19%
Net profit (loss)	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data, CMBIGM estimates

Figure 11: Operating model (quarterly)

RMB mn	1Q22	2Q22	3Q22	4Q22	1Q23E	2Q23E	3Q23E	4Q23E
Revenues	2,244	2,310	2,368	2,404	2,514	2,522	2,523	2,582
Gross Profit	486	469	493	488	571	474	442	407
Adj. EBITDA	1,051	1,062	1,067	1,071	1,172	1,138	1,054	959
Net profit (loss)	-574	-388	-353	-194	-451	-550	-597	-786
EPS (RMB)	-0.39	-0.27	-0.24	-0.13	-0.31	-0.37	-0.41	-0.54
Key assumptions								
Total area in service (EoP)	492,344	504,383	510,511	515,787	536,431	540,481	544,745	575,133
Total area utilized (EoP)	332,019	345,678	359,862	370,547	380,868	384,600	391,098	417,006
Utilization rate (area utilized/ area in service)	67%	69%	70%	72%	71%	71%	72%	73%
Average MSR (RMB / Sqm / Month)	2,296	2,265	2,237	2,194	2,229	2,195	2,167	2,128
Depreciation	782	792	795	820	847	921	921	995
Margins								
Gross margin	22%	20%	21%	20%	23%	19%	18%	16%
Adj. EBITDA margin	47%	46%	45%	45%	47%	45%	42%	37%
Net margin	-26%	-17%	-15%	-8%	-18%	-22%	-24%	-30%
Growth (QoQ)								
Revenues	3%	3%	2%	2%	5%	0%	0%	2%
Gross Profit	0%	-4%	5%	-1%	17%	-17%	-7%	-8%
Adj. EBITDA	2%	1%	0%	0%	9%	-3%	-7%	-9%
Net profit (loss)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Growth (YoY)								
Revenues	32%	24%	15%	10%	12%	9%	6%	7%
Gross Profit	23%	7%	8%	0%	17%	1%	-10%	-17%
Adj. EBITDA	29%	19%	11%	4%	12%	7%	-1%	-11%
Net profit (loss)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Source: Company data, CMBIGM

Valuation

Maintain BUY with target price of US\$21.21

We maintain our BUY recommendation on GDS with new target price of US\$21.21 (prior US\$35.07), based on lowered 15x (prior 16x) FY23E adj. EV/EBITDA. Our new target multiple is based on 1-SD below mean to reflect a slower growth phase.

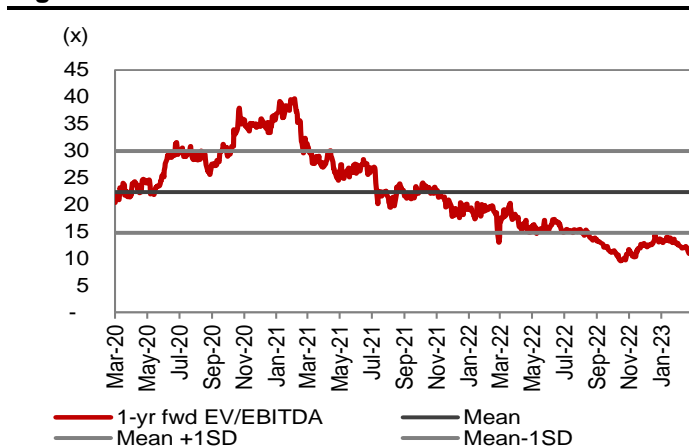
We use EV/EBITDA as the valuation methodology as it better reflects IDC operating profitability than P/E given high depreciation expense during ramp-up stage and large interest expense gap between peers if capital structure is different.

Figure 12: Peers' valuation

Company	Ticker	Rating	Market Cap (US\$ mn)	Price (LC)	TP (LC)	EV/EBITDA (x)		EBITDA margin (%)		Revenue FY21-24E CAGR
						FY22E	FY23E	FY22E	FY23E	
GDS	GDS US	BUY	2,971	15.59	21.21	12.1	13.9	46%	43%	13%
21Vianet	VNET US	NR	441	2.98	N/A	6.3	5.6	25%	25%	8%
Sinnet	300383 CH	NR	2,765	10.61	N/A	13.2	11.4	21%	23%	8%
Baosight	600845 CH	NR	13,100	52.70	N/A	32.2	25.5	20%	20%	24%
AtHub	603881 CH	NR	1,631	34.20	N/A	15.2	13.0	64%	67%	16%
ChinData	CD US	NR	2,376	6.51	N/A	9.1	6.8	51%	51%	43%
Equinix	EQIX US	NR	64,130	691.47	N/A	23.0	21.0	46%	45%	11%
Digital Realty Trust	DLR US	NR	31,440	105.70	N/A	19.8	18.2	53%	47%	7%
Mean						16.5	14.2	41%	40%	17%
Median						14.2	12.5	46%	45%	12%

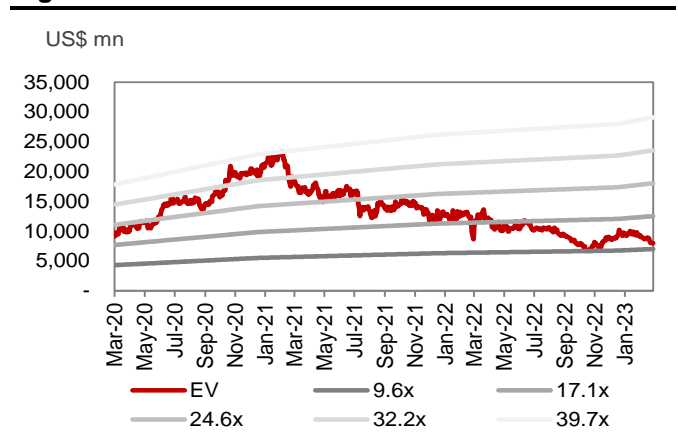
Source: Bloomberg, CMBIGM estimates

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	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	5,739	7,819	9,326	10,141	11,292	12,788
Cost of goods sold	(2,170)	(3,080)	(4,189)	(6,039)	(7,390)	(8,247)
Gross profit	1,550	1,779	1,936	1,894	2,077	2,620
Operating expenses	(878)	(1,210)	(1,371)	(1,466)	(1,601)	(1,822)
Selling expense	(135)	(119)	(150)	(159)	(170)	(190)
Admin expense	(703)	(1,022)	(1,185)	(1,255)	(1,365)	(1,569)
R&D expense	(40)	(69)	(36)	(52)	(66)	(63)
Operating profit	673	570	565	428	476	797
EBITDA	2,681	3,703	4,251	4,323	4,765	5,671
Adjusted EBITDA	2,681	3,703	4,251	4,323	4,765	5,671
Net Interest income/(expense)	(1,287)	(1,604)	(1,845)	(2,259)	(2,537)	(2,321)
Others	66	86	291	125	125	125
Pre-tax profit	(548)	(949)	(990)	(1,706)	(1,936)	(1,398)
Income tax	(121)	(242)	(276)	(495)	(597)	(381)
Minority interest	(69)	(123)	(244)	(183)	(173)	(159)
Net profit	(738)	(1,315)	(1,510)	(2,384)	(2,706)	(1,939)

BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	18,319	14,464	11,951	13,899	14,424	5,563
Cash & equivalents	16,259	9,968	8,608	9,702	10,062	992
Account receivables	1,480	1,733	2,406	2,475	2,559	2,666
Other current assets	579	2,763	937	1,722	1,802	1,904
Non-current assets	38,940	57,169	62,863	68,593	72,035	71,679
PP&E	29,596	40,624	46,917	52,647	56,089	55,732
Intangibles	3,382	8,359	8,124	8,124	8,124	8,124
Other non-current assets	5,962	8,186	7,822	7,822	7,822	7,822
Total assets	57,259	71,632	74,814	82,492	86,459	77,241
Current liabilities	7,644	13,465	10,603	13,975	15,358	14,940
Short-term borrowings	2,153	5,948	3,624	4,621	5,333	4,131
Account payables	3,657	3,902	3,093	4,392	4,789	5,276
Other current liabilities	341	845	2,713	2,715	2,741	2,780
Accrued expenses	1,493	2,771	1,173	2,247	2,495	2,753
Non-current liabilities	22,947	32,271	40,026	46,533	51,651	44,630
Long-term borrowings	10,567	18,285	23,518	29,991	34,607	26,806
Convertible bonds	1,928	1,896	4,295	4,295	4,295	4,295
Other non-current liabilities	10,452	12,091	12,213	12,248	12,749	13,529
Total liabilities	30,591	45,736	50,629	60,508	67,008	59,570
Share capital	1	1	1	1	1	1
Capital surplus	28,729	28,983	29,049	29,049	29,049	29,049
Retained earnings	(2,724)	(3,911)	(5,180)	(7,381)	(9,913)	(11,693)
Other reserves	(440)	(599)	(848)	(848)	(848)	(848)
Total shareholders equity	25,566	24,533	23,138	20,937	18,404	16,625
Total equity and liabilities	56,157	70,269	73,767	81,445	85,412	76,194

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(548)	(949)	(990)	(1,706)	(1,936)	(1,398)
Tax paid	(121)	(242)	(276)	(495)	(597)	(381)
Change in working capital	(1,023)	(810)	674	1,520	506	576
Others	375	593	466	0	0	0
Net cash from operations	321	1,208	3,063	3,003	2,211	3,441
Investing						
Capital expenditure	(8,021)	(9,699)	(7,804)	(7,605)	(6,775)	(3,836)
Acquisition of subsidiaries/ investments	(1,357)	(4,013)	(3,471)	0	0	0
Others	0	21	0	(1,809)	(904)	(452)
Net cash from investing	(9,378)	(13,692)	(11,275)	(9,414)	(7,679)	(4,289)
Financing						
Dividend paid	0	0	0	0	0	0
Net borrowings	790	11,512	2,909	7,470	5,327	(9,003)
Proceeds from share issues	12,724	0	0	0	0	0
Others	6,630	(3,393)	1,947	35	501	780
Net cash from financing	20,144	8,119	4,856	7,505	5,829	(8,223)
Net change in cash						
Cash at the beginning of the year	5,811	16,259	9,968	8,608	9,702	10,062
Exchange difference	(96)	416	0	0	0	0
Cash at the end of the year	16,259	9,968	8,608	9,702	10,062	992
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	39.2%	36.2%	19.3%	8.7%	11.4%	13.3%
Gross profit	48.7%	14.8%	8.8%	(2.2%)	9.7%	26.1%
Operating profit	40.3%	(15.4%)	(0.9%)	(24.2%)	11.3%	67.5%
EBITDA	47.0%	38.2%	14.8%	1.7%	10.2%	19.0%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	27.0%	22.8%	20.8%	18.7%	18.4%	20.5%
Operating margin	11.7%	7.3%	6.1%	4.2%	4.2%	6.2%
EBITDA margin	46.7%	47.4%	45.6%	42.6%	42.2%	44.3%
Return on equity (ROE)	(4.1%)	(5.2%)	(6.3%)	(10.8%)	(13.8%)	(11.1%)
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	0.3	1.1	1.4	1.9	2.5	2.8
Current ratio (x)	2.4	1.1	1.1	1.0	0.9	0.4
Receivable turnover days	75.1	75.0	81.0	86.6	80.2	73.6
Payable turnover days	138.9	134.0	105.1	98.4	108.1	107.6
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/B	24.1	28.0	11.9	7.5	8.5	9.4
EV	26,098.1	45,411.0	51,500.9	59,997.3	65,491.3	66,378.1
EV/Sales	4.5	5.8	5.5	5.9	5.8	5.2
EV/EBITDA	9.7	12.3	12.1	13.9	13.7	11.7

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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