GDS (9698 HK)

The King of China's data center
Hong Kong| Technology | Initiation

25 Nov 2020

Investment Summary

GDS ("the Company") is a third-party data center operator and service provider, mainly providing customers with data center, hosting and management services. Data centers are distributed in the core economic regions of China, with large scale, abundant power supply, high density and high efficiency. The Company is currently one of the leading high-performance data centers and IT infrastructure service providers in China.

Abundant land reserves and enjoy asset-based economic moat

The IDC industry is a heavy asset industry. The larger the scale, the lower financing costs and economies of scale. As of June 30, 2020, about 98% of the Company's self-developed data centers are located in first-tier markets, such as Shanghai, Beijing, Shenzhen, Guangzhou, Hong Kong, etc. Because these areas have the highest density of Internet users, a high proportion of data and applications are mission-critical and latency-sensitive. In order to meet the needs of clients from financial, industrial, commercial, and communications industries, the Company locates data centers close to major customers area. This makes the Company to be more competitive in serving customers in Tier 1 markets with our existing facilities. The abundant land reserves have laid a solid foundation for the Company's sustainable development, and gradually formed a strategic asset-based economic moat.

The core business benefit from cloud computing development

China is one of the largest and fastest growing digital economy globally. China's rapid adoption of new technologies such as cloud computing, 5G, artificial intelligence, big data, machine learning, blockchain, IoT, augmented and virtual reality, e-payment and digital currency is expected to increase exponentially the volume of data created, transmitted, processed and stored, much of which will take place within and between data centers. Customers from cloud services accounted for the Company's total contract area (71.8% as of June 30, 2020). According to data from iResearch, the size of China's cloud market is RMB 149 billion in 2019, and is expected to increase at a 34.1% CAGR to reach RMB 645.2 billion in 2024. Cloud computing is the Company's main source of income. Cloud vendors have extremely high data security requirements, so the partnership is stable. The contract period is generally 6-10 years. We expect the Company will directly benefit from the rapid development of cloud computing.

IDC with leading domestic technology

Data center hosting business requires operators to have sufficient power density, while GDS data center are largescale, highly reliable and efficient facilities that provides a flexible, modular and secure operating environment in which their customers can house, power and cool the computer systems and networking equipment that support their mission-critical IT systems. The Company installed high power density and optimize PUE, enabling the Company's customers to deploy their IT systems more efficiently and reduce their operating and capital costs. In addition, the management team of GDS has deep knowledge and professional skills in the IT service industry. Its technical level has been affirmed by the industry and has won awards from major institutions for many years.

Valuation and Investment Recommendation

As of the closing price on 23 November 2020, the Company's trailing enterprise value multiple(TTM) is 54.65x. We believe that based on the Company's sound fundamentals, the Company is the leader in the third-party IDC industry in China with strong business growth and high profitability. We give the Company a target enterprise value multiple of 38x in 2021.We estimate that the Company's adjusted EBITDA for 2020/2021/2022 will be RMB 2.733/3.708/4.931 billion, with twelve-month target price to be HK$108, corresponding to 2020/2021/2022 EV/EBITDA of 50.05x/38.00x/29.66x. We initiate with a BUY rating. (Exchange rate: 0.88 RMB/HKD) (Current price as of 23 November 2020)

BUY （Initiation）

Current market price HKD85.60
(Closing price as at 23 Nov 2020)
Target price HKD 108.00 (+26.2%)

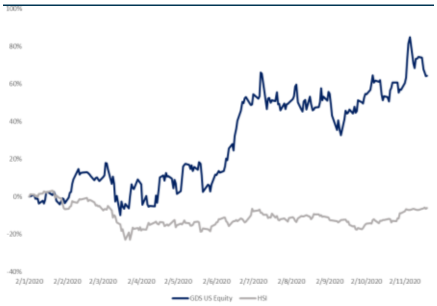
COMPANY DATA

O/S SHARES (MN) :	1495
MARKET CAP(HKD MN) :	127,987
52- WK HI/LO (HKD) :	101.5/81

Major Shareholder %

STT GDC	32.1
William Huang	5.4

Price vs HSI



Source: Wind, PSHK

KEY FINANCIALS

RMB'mm except per share data	FY19	FY20E	FY21E	FY22E
Net Sales	4,122	5,733	7,737	10,280
Net Profit	(442)	(431)	540	13,29
EPS, RMB	(0.33)	(0.29)	0.36	0.89
P/E x	N/A	N/A	269	109
BVPS, RMB	7.59	9.80	10.16	11.05
P/BV, x	9.92	7.69	7.41	6.81
ROE%	(3.89)	(2.94)	3.55	8.04
ROA%	(1.59)	(1.08)	1.29	2.71

Source: Company reports, PSHK
Closing price as of 23 November 2020

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Industry analytics

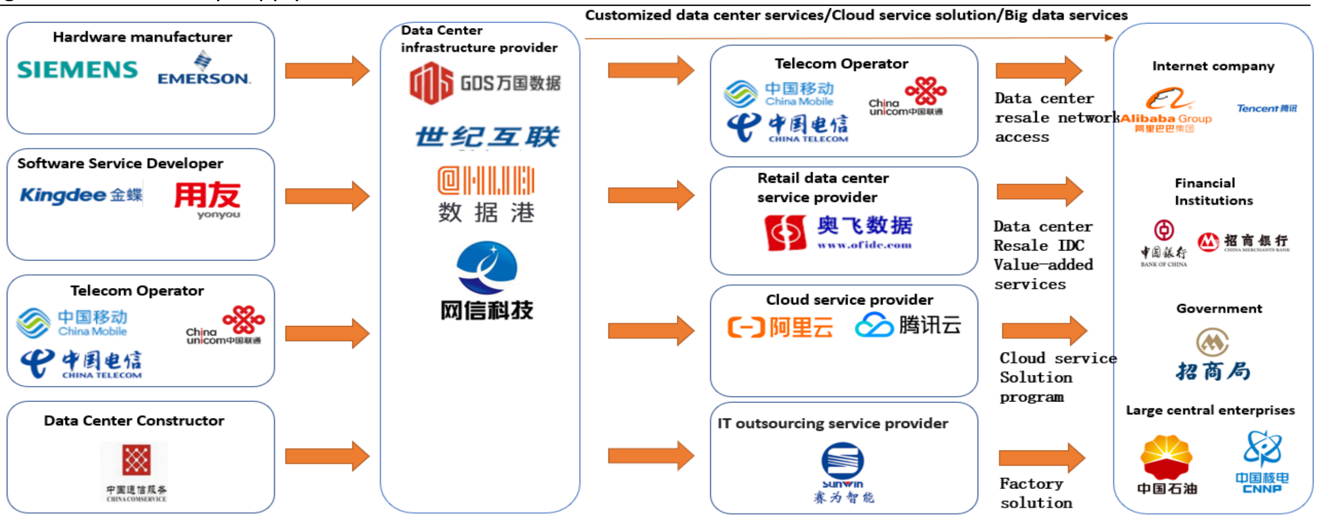
IDC (Internet Data Centre) is a specialized facility for the placement and delivery of mission-critical business applications, data and content servers, storage and network equipment.

The IDC industry chain is mainly composed of basic telecommunications operators, hardware equipment manufacturers, data centers, construction parties, etc.; data center infrastructure providers; retail data center service providers, value-added service providers (including IaaS service providers, IT outsourcing service providers) Etc.) and end users (such as Internet companies, financial institutions, government agencies, etc.).

Basic operators, hardware equipment manufacturers, software service developers, and data center construction parties mainly provide equipment or services for IDC construction. Data center infrastructure providers integrate basic resources to provide IDC rental services. Basic telecommunications operators provide Internet bandwidth resources and computer room resources. Retail data center service providers provide resale and value-added services by renting data centers. Cloud computing IaaS service providers also provide cloud services by leasing or self-built.

IT outsourcing service providers/system integrators provide end users with overall IT solutions, and data center services are delivered to end users as part of a package solution. End users include all enterprises, institutions, government agencies, etc. that need to store Internet content on the hosting server in the IDC computer room.

Figure1：IDC Industry Supply Chain



Source：Data Center white paper，PSHK

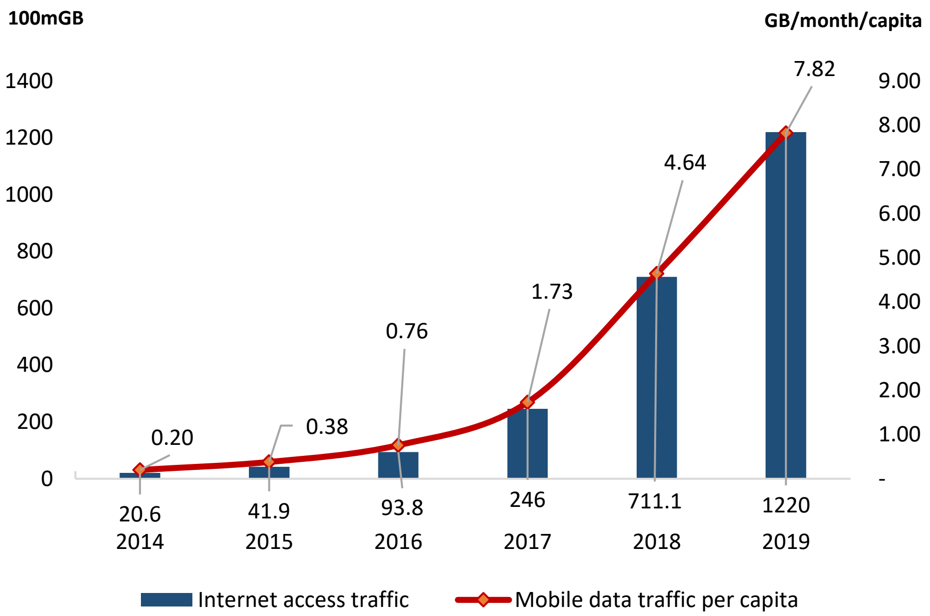
In recent years, as enterprises increasingly adopt cloud technology, they are facing greater technical challenges in hosting IT infrastructure. As compared with traditional enterprise customers, they require larger data centers with proportionately more power capacity, the ability to expand flexibly flexible, optimum operating efficiency and multi-market service presence. In view of the challenges facing the development and operation of such data center resources, cloud service providers have chosen to outsource a significant part of their requirement to specialist data center companies.

In addition, the PRC government promotes the concept of "new infrastructure", including largescale data centers, artificial intelligence and industrial Internet. Such policy orientation is ushering in new waves of investment at all levels of the economy, which will give rise to numerous opportunities benefiting the data center industry.

The explosive growth of data traffic drives domestic data center demand

In recent years, the demand for mobile applications, e-commerce, online games, and video streaming services has grown exponentially in the PRC, resulting in a significant growth in mobile communication data traffic in PRC. According to the Ministry of Industry and Information Technology, from 2014 to 2019, Internet access traffic increased from 2.06 billion GB to 122 billion GB, with a compound annual growth rate of 126%. The monthly average mobile Internet traffic also increased from 0.2GB per capita per month to 7.82GB per capita per month with a CAGR of 108%. The integration and innovation of online and offline services remained active, and various Internet applications accelerated their penetration to fourth- and fifth-tier cities and rural users, enabling mobile Internet access traffic consumption to maintain rapid growth. IDC is the infrastructure of the Internet industry such as data storage and cloud computing services, and its development will be highly positively correlated with traffic demand. According to International Data Corporation (IDC), with the commercialization of 5G, data generated by new applications such as IoT devices, big data, and artificial intelligence will accelerate growth. China's data volume will increase from 7.6ZB to 48.6ZB in 2018 to 2025, with a CAGR of 30.35%.

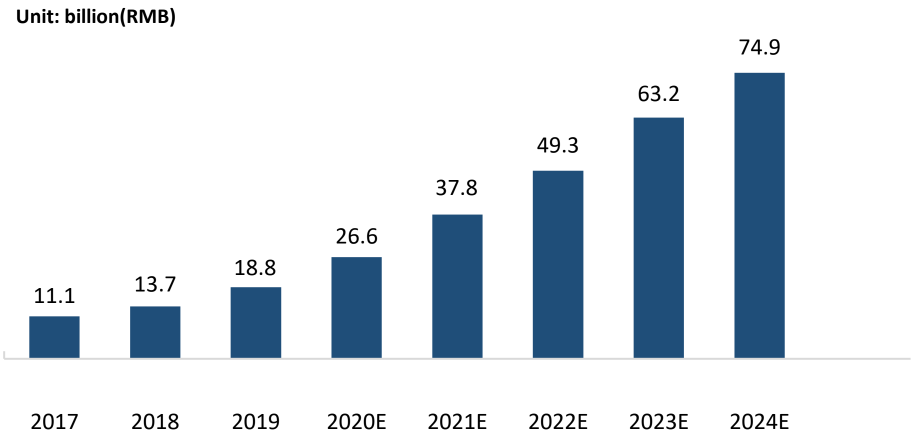
Figure2. Internet access traffic and traffic per capita in the PRC



Source：Miit, PSHK

Data centers are the key infrastructure for industry digitization. With the rapid increase in network data volume, the rise of cloud computing, and the beginning of the 5G era, the demand for data centers will increase significantly. According to iResearch, from 2017 to 2019, the market size of the third-party data center industry for China's operator networks rose from RMB 11.1 billion to RMB18.8 billion, with a CAGR of 30.1%. IResearch predicts that from 2019 to 2024, the market size of China's operator network third-party data center industry will rise from RMB 18.8 billion to RMB 74.9 billion, with a CAGR of 31.8%.

Figure3. China's third-party data center industry market size (2017-2024)

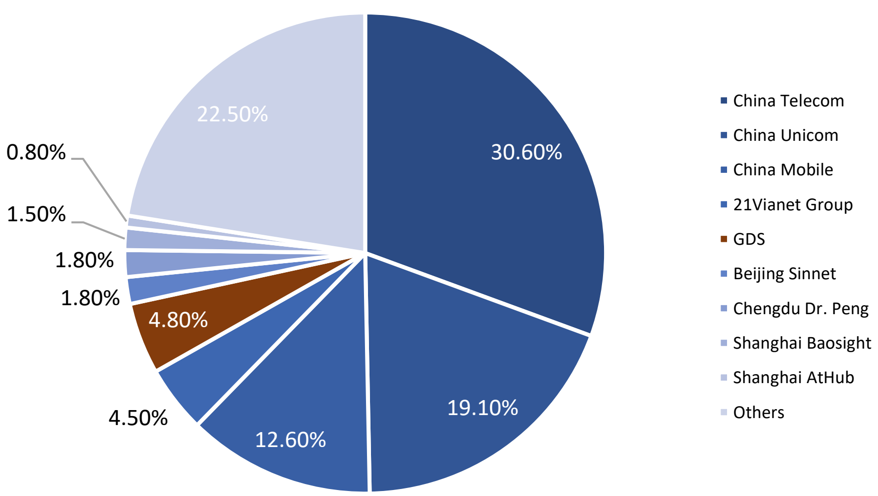


Source：iResearch, Company prospectus, PSHK

Third-party IDC companies adopted differentiated operations to break through

The IDC market structure in China is dominated by the three major telecommunication operators (China Mobile, China Unicom, and China Telecom). According to the China Academy of Information and Communications Technology, its market share has accounted for 62.3%. Telecommunications operators have sufficient bandwidth resources and abundant downstream customer resources, ahead of third-party IDC companies, but they often rely on the operators' own networks to connect, and customers lack the flexibility to connect with other operators' networks. Compared with telecommunications operators, third-party IDC companies are neutral to operators and cloud service providers, so their customers can access all major telecommunications networks in China. Third-party IDC companies can achieve growth through differentiation, flexibility, and customization. For example, they can compete based on service quality, data center performance, and ability to respond to customer needs. With the continuous division of specialization, we believe that the development speed of third-party IDC companies can exceed the development speed of telecom operators' data centers.

Figure 4. China's IDC industry market share (2019)

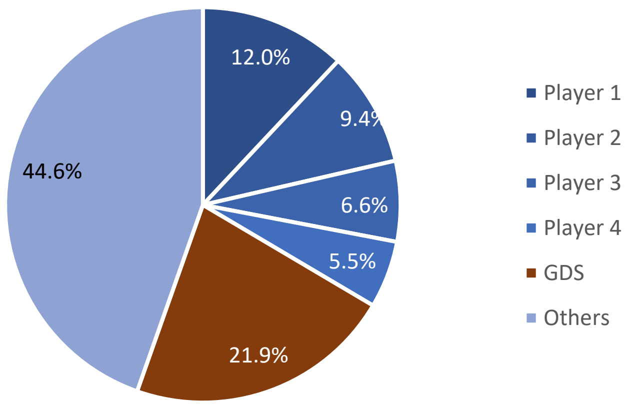


Source：China Academy of Communications, Qian Zhan, PSHK

With industry consolidation, market concentration will increase

The IDC industry has high entry barriers, including capital thresholds, technical thresholds, product design thresholds, etc. However, the third-party IDC market is fragmented, and a few leading data center service providers exist in several or all first-tier markets and each regional company competes in each market. According to data from iResearch, GDS is the leading operator of China's third-party IDC, with a market share of 21.9% in terms of revenue in 2019. As the market has higher requirements for data center services (for example, data centers must maintain continuous operation, monitoring and high security), operators with good operating records are the first choice of customers. In addition, global data centers are developing towards super-large scale. With the development of the industry, industry leaders can achieve expansion by acquiring companies with poor operating capabilities. For example, the international leader Equinix has been acquiring data centers to consolidate its leading position. Mergers and acquisitions can allow the Company to expand the scope of services and improve its technical level, which can avoid vicious price competition in the industry in the long run and create a Matthew effect.

Figure5. China 3rd party IDC market share (2019)



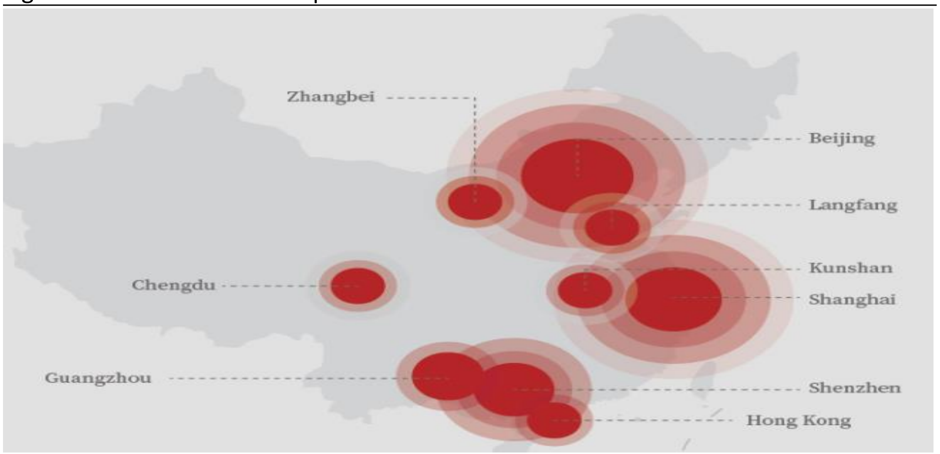
Source：Company's prospectus, PSHK

Company profile

GDS was established in 2000. The Company is a third-party data center operator and service provider with a 19-year history of operation. It currently provides IT services such as data centers, colocation and management clouds for key businesses to more than 670 domestic enterprises. The Company was listed on NASDAQ ("GDS") in the United States on 2 November 2016 and listed on the Hong Kong Stock Exchange for the second time on 2 November 2020, with the stock code "9698". The Company's revenue mainly comes from 1) Colocation services, 2) Management services, and 3) IT equipment sales.

The Company's data center has a largescale, high reliable, and highly efficiency facilities that provides a flexible, modular and secure operating environment in which our customers can house, power and cool the computer systems and networking equipment that support their mission-critical IT infrastructure. The Company's data centers are mainly concentrated in Beijing, Shanghai, the Pearl River Delta and surrounding areas. As of June 30, 2020, the Company's total net computer room area in operation is 260,000 square meters. The Company's self-developed data center portfolio (including operations, under construction and held for future development) is located in Beijing, Shanghai, and the Greater Bay Area. They accounted for 29.9%, 34.7% and 23.1% respectively.

Figure 6. GDS's data centers portfolio



Source: Company website, PSHK

1) Colocation services refer to the provision of space, power and cooling to customers for housing services and related IT equipment. The Company's customers have several choices for hosting their networking, servers, and storage equipment. They can place the equipment in a shared or private place that can be customized to their requirements. They offer power options customized to customer's individual power requirement.

2) Managed services include managed hosting and managed cloud services. The Company's managed hosting services comprise a broad range of value-added services, covering each layer of the data center IT value chain. Their suite of managed hosting services includes technical services, network management services, data storage services, system security services, database services and server middleware services. Their suite of managed cloud services includes direct private connection to leading public clouds, an innovative service platform for managing hybrid clouds and, where required, the resale of public cloud services.

3) IT equipment sales refer to the Company's provision of IT infrastructure, including sales of IT equipment and provision of consulting services.

Figure 7.GDS's data center example

Source: Company website, Amazon, PSHK

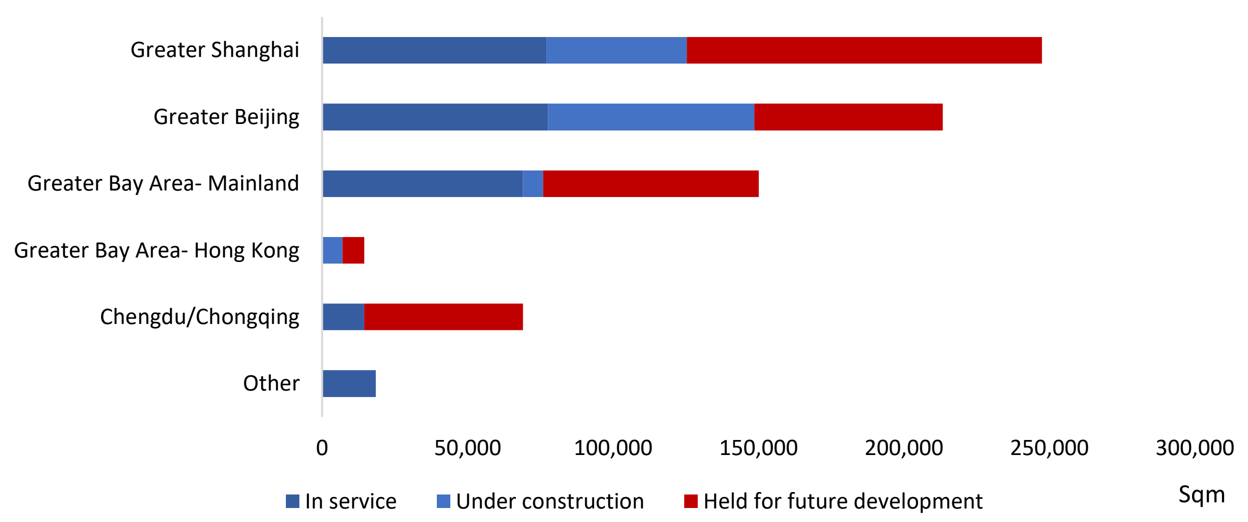
Investment Highlights

Abundant land reserves and enjoy asset-based economic moat

The IDC industry is a heavy asset industry. The larger the scale, the lower financing costs and economies of scale. According to data from iResearch, in terms of revenue, the Company is China's largest third-party data center service provider in 2019, with a market share of 21.9%. As of June 30, 2020, about 98% of the Company's self-developed data centers are located in first-tier markets, such as Shanghai, Beijing, Shenzhen, Guangzhou, Hong Kong, etc. Because these areas have the highest density of Internet users, a high proportion of data and applications are mission-critical and latency-sensitive. In order to meet needs of clients from financial, industrial, commercial, and communications, the Company locates data centers close to major customers area. This makes the Company to be more competitive in serving customers in Tier 1 markets with our existing facilities.

The data center emphasizes on the regional layout. Due to the scarcity of land supply and power supply licenses in the first-tier markets, there is a shortage. The Company has actively obtained a large amount of land and buildings in the first-tier markets in early years. And reserve these lands and buildings for potential future development. As of June 30, 2020, the Company holds a net floor area of 320,000 Sqm(Square meters) for future development, which is double the room for development compared with the total net computer room area of 250,000 Sqm in operation. They are mainly distributed in Shanghai (122,082 Sqm), Beijing (64,830 Sqm), Mainland (74,156 Sqm), Hong Kong (7,440 Sqm) and Chengdu (54,506 Sqm), which makes the Company more capable of grasping the contracts of large enterprises. The abundant land reserves have laid a solid foundation for the Company's sustainable development, and gradually formed a strategic asset-based moat.

Figure 8. GDS's self-developed data center portfolio (as of June 30, 2020)



Source: Company, PSHK

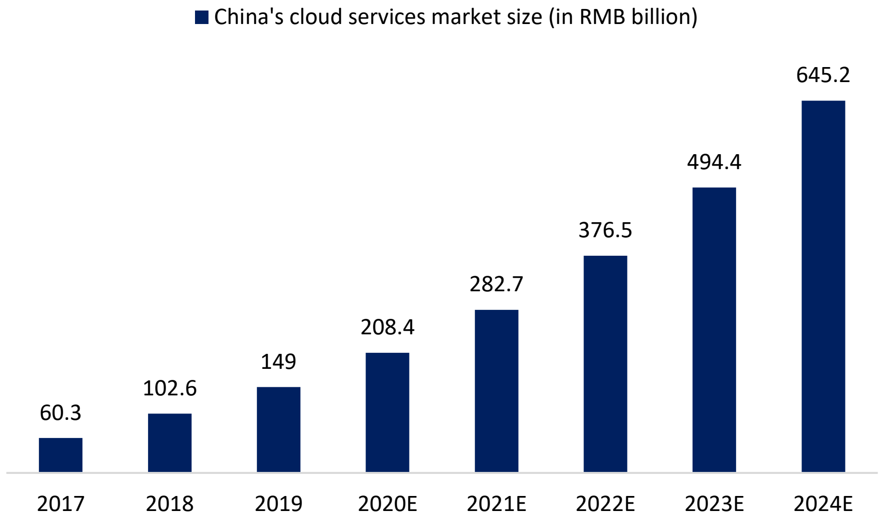
The core business benefit from cloud computing development

China is one of the largest and fastest growing digital economy globally. China's rapid adoption of new technologies such as cloud computing, 5G, artificial intelligence, big data, machine learning, blockchain, IoT, augmented and virtual reality, e-payment and digital currency is expected to increase exponentially the volume of data created, transmitted, processed and stored, much of which will take place within and between data centers. Customers from cloud services accounted for the Company's total contract area (71.8% as of June 30, 2020). According to data from iResearch, the size of China's cloud market is RMB 149 billion in 2019 and is expected to increase at a

34.1% CAGR to reach RMB 645.2 billion in 2024. Cloud computing is the Company's main source of income. Cloud vendors have extremely high data security requirements, so the partnership is stable. The contract period is generally 6-10 years. We expect the Company will directly benefit from the rapid development of cloud computing.

The data center is a large-scale construction, so it is very important whether the customer's mid-to-long-term application needs can support its construction, because once the data center is put into use, it will continue to be depreciated. GDS customers include hyperscale cloud service providers, Internet giants, financial institutions, telecommunications carriers and IT service providers, and large domestic private enterprises and multinational corporations. Among them, Internet giants Alibaba and Tencent accounted for 55% of their total contracted area (as of June 30, 2020). The Company had a very low incidence of sales agreements that expired without renewal or terminated early, as evidenced by In the Company's quarterly customer churn rate (ratio of quarterly service revenue from agreements which terminated or expired without renewal during the quarter to the total quarterly service revenue for the preceding quarter) averaged 2.1%, 0.9% and 0.5% and 0.6% for the years ended December 31, 2017, 2018 and 2019 and the six months ended June 30, 2020, respectively. The Company's service maintains a high contract renewal rate, which means that customers are satisfied with the Company's service level and bring stable income to the Company. In addition, GDS enjoyed a customer diversification profile, customers from different industries mean that the Company's data center can be customized according to their requirements. Through in-depth cooperation with hyperscale cloud service providers, Internet giants, and financial institutions, the company can grasp the needs of large customers for large-scale capacity and form a network effect around the company's managed enterprises and cloud service providers. In turn, attract new customers, increase market share, and increase revenue sources.

Figure 9. China’s cloud services market size (2017-2024)



Source: Company prospectus, iResearch, PSHK

Figure 10. GDS Large Internet Customer Additions

Source: Company info, PSHK

IDC with leading domestic technology

The data center colocation business requires operators to have sufficient power density. The Company's data center has a largescale, high reliable, and highly efficiency facilities that provides a flexible, modular and secure operating environment in which our customers can house, power and cool the computer systems and networking equipment that support their mission-critical IT infrastructure. The Company installed high power density and optimized PUE, enabling the Company's customers to deploy its IT systems more effectively and reduce its operating and capital costs. According to the Company's prospectus, high-performance data centers generally have the following characteristics:

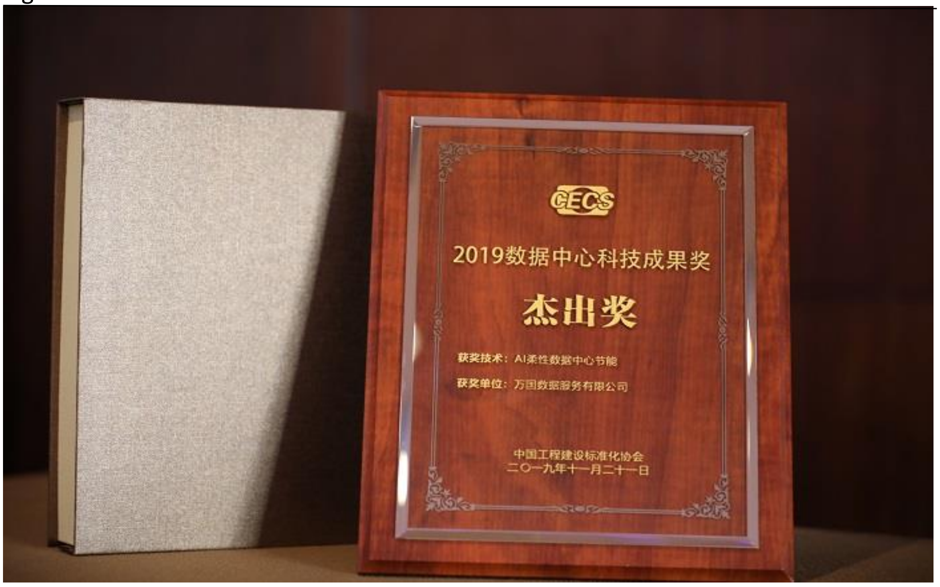
1) High Availability: Over 90% of GDS' self-developed data center capacity in service and under construction is equipped with 2N redundant delivery paths for power, cooling and other critical systems. 2N redundancy entails significant additional up-front investment and decreases the yield of net floor area in building of a given size, which satisfies the requirements of customers for housing their mission-critical IT infrastructure.

2) High Power Density: (It refers to the ratio of power capacity to net floor area) GDS's self-developed data center capacity in service and under construction has an average density of approximately 2.2 kW/sqm, while the industry average was approximately 1 Kw/sqm. By installing high power density, they enable customers to deploy their IT infrastructure more efficiently and to optimize their IT infrastructure performance. This could reduce their IT investment and operating costs.

3) High Power Efficiency: GDS's self-developed data centers had around 1.25-1.4 times PUE on average in stabilized operation, while the industry average was approximately 1.7. High power efficiency reduces operating costs, for the benefit of the customers and the Company, and reduces carbon footprint.

The Company's technical level has always been affirmed by the industry and has won awards from major institutions for many years. For example, in November 2019, GDS won the "2019 Outstanding Data Center Scientific and Technological Achievement Award" with its "AI flexible data center energy saving" system with its refined, automated, and intelligent energy efficiency management features. Approved by the Office of Science and Technology Award, the "Outstanding Award" is the highest award in the industry's top national science and technology award set up by the China Engineering Construction Standards Association. Currently, this technology can assist data center operators in 7×24 hours of fully automatic energy efficiency management, Reduce PUE, thereby improving operational efficiency.

Figure 11. GDS won award in 2019



Source: Company website, PSHK

In addition, the management team of GDS has deep knowledge and professional skills in the IT service industry. GDS'S founder, chairman, CEO Huang Wei is a foresighted pioneer with 19 years of experience in the Chinese data center industry. The Company's senior management team has extensive experience working in leading multinational IT service providers.

Table 1. GDS's Directors and senior management's resume (extract)

Name	Position(s)	Resume
Mr. William Wei Huang	Founder, chairman, CEO	Haitong-Fortis Private Equity Fund Management Co.Ltd- Director Shanghai Meining Computer Software Co., Ltd- Senior vice president
M. Sio Tat Hiang	Vice-chairman, director	Singapore Technologies Telemedia Pte Ltd.- Director U Mobile Sdn Bhd- Board member Virtus HoldCo Limited- Board member STT Global Data Centres India Private Limited-Board member
Mr. Satoshi Okada	Director	Softbank Corp. group - Various Management positions Baozun Inc. - Director Alibaba.com Japan - Director
Mr. Daniel Newman	Chief financial Officer	Bank of America Merrill Lynch - Managing Reliance Communications in Mumbai - Advisor's in chairman's office Deutsche Bank - Managing director
Ms. Jamie Gee Choo Khoo	Chief Operating Officer	ST Telemedia - Various management roles ABB (China) Holdings Limited - Finance and consulting roles Ernst & Young (Singapore) - Finance and consulting roles

Source: Company prospectus, PSHK

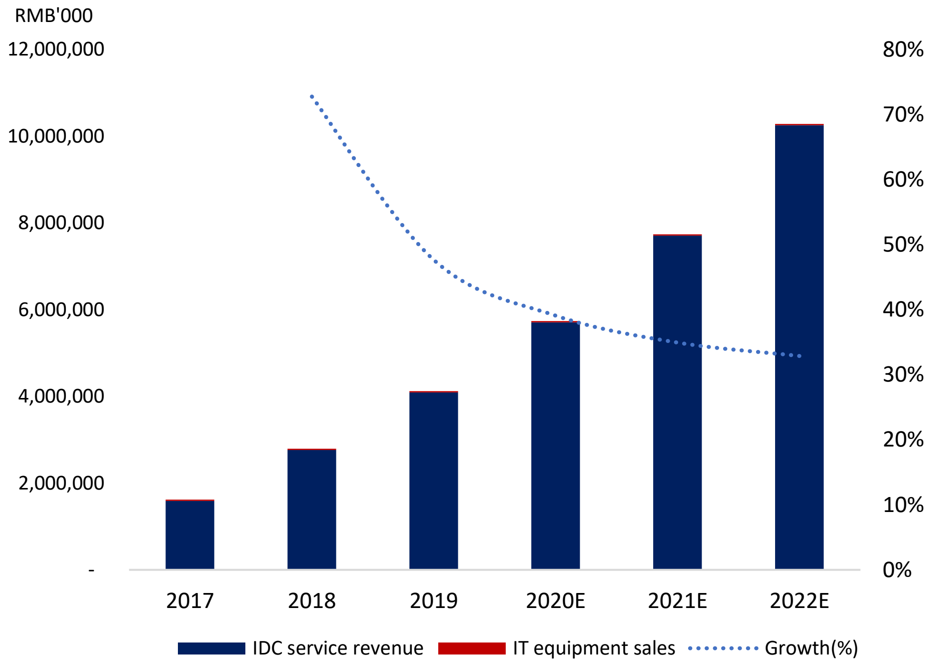
Financial Analysis

Revenue analysis

The Company's revenue is mainly divided into two parts, including 1) IDC service revenue and 2) IT equipment sales. Among them, the Company's service revenue for 2017/2018/2019 was RMB 1.59/2.76/4.09 billion, accounting for 98.5%/98.8%/99.3% of the total revenue, with an average annual compound growth rate of 60.4%. The Company's data centers are mainly acquired through self-construction and mergers and acquisitions. The total area of data centers in first-tier cities will continue to maintain steady growth, and the expansion of data centers in second-tier cities will accelerate; we estimate that the total area in service of data centers will be about 319,000 square meters in 2020. The area utilized is 206,000 square meters, the total area in service in 2021 is expected about 424,000 square meters, and the utilized area is 278,000 square meters. In 2022, the total area in service is expected to be 534,000 square meters and the utilized area is 356,000 square meters. The utilization rate is maintained in the 65%-70% range. Based on our analysis of the Company in the previous article, we estimate that the Company's IDC service business revenue for 2020/2021/2022 will be RMB 5.71/7.71/10.3 billion, an increase of 39.1%/34.9%/32.8% year-on-year.

The Company's IT equipment sales revenue for 2017/2018/2019 were RMB 24.3/32.5/27.8 million, accounting for 1.50%/2.02%/1.72% of total revenue, respectively, with an average annual compound growth rate of 7.01%. We expect that the Company's 2020/2021/2022 IT equipment sales revenue will be RMB 28.1/28.4/28.7 million, an increase of 1.00%/1.00%/1.00% year-on-year. All in all, the Company's forecast total revenue for 2020/2021/2022 is RMB 5.7/7.7/10.2 billion respectively. The year-on-year increase was 39.1%/35.0%/32.9% respectively.

Figure12. Company income and forecast



Source: Company reports, PSHK

Table 2. Company income by segment

(RMB'000)						
Fiscal year	**2017A**	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Fiscal year end date	*12/31/17*	*12/31/18*	*12/31/19*	*12/31/20*	*12/31/21*	*12/31/22*
Service revenue	*1,591,860*	*2,759,490*	*4,094,571*	*5,705,269*	*7,708,181*	*10,251,533*
Equipment sales	*24,306*	*32,587*	*27,834*	*28,112*	*28,393*	*28,677*
Revenue	***1,616,166***	***2,792,077***	***4,122,405***	***5,733,381***	***7,736,575***	***10,280,210***

Source: Company data, PSHK

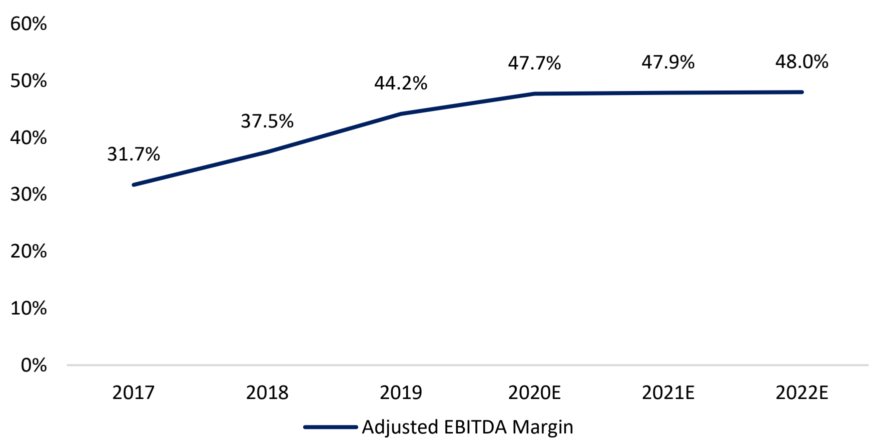
Costs and expenses analysis

The main cost of the Company is the cost of sales, and the main expenses are sales and marketing expenses, general and administrative expenses and research and development expenses. In 2019, they were RMB 3.08/0.13/0.41/0.02 billion, accounting for 74.7%/3%/10%/0.5% of revenue. In terms of cost of sales, as the business expands, the cost of sales will continue to increase, and we expect that electricity, costs, depreciation and amortization, and rental costs will continue to constitute the largest part of the cost of sales. We expect that in 2020-2022 the Company's cost of sales as a percentage of revenue will decline to a certain level because of economies of scale. They are 72.7%/68.0%/65.0%, which means that we expect the Company's gross profit margin in 2020-2022 to be 27.3%/32.0%/35.0%. As for sales and marketing expenses, R&D expenses, and general and administrative expenses, we believe that when the Company's brand continues to mature, its expense ratio will drop to a certain income ratio. Based on the above, we estimate that the operating costs and expenses of the Company in 2020-2022 will be RMB 4.86/6.03/7.51 billion.

Adjusted EBITDA margin analysis

The Company's adjusted operating profit margin has maintained steady growth in the past three years, rising from 31.7% in 2017 to 44.2% in 2019. Mainly because the Company has been strictly controlling operating costs and actively exploring new growth drivers. We expect the Company to benefit from the digital economy from 2020 to 2022. As the IDC industry leader, the Company will seize the opportunity to further increase its adjusted operating profit margin. We expect that the Company will continue to improve in 2020-2022, and they are 47.7%/47.9%/48.0%, respectively.

Figure 13. The Company's history EBIT and forecast



Source: Company data, PSHK

Valuation and Investment recommendation

As of the closing price on 23 November 2020, the Company's trailing enterprise value multiple (TTM) is 54.65x. We believe that based on the Company's sound fundamentals, the Company is the leader in the third-party IDC industry in China, with strong business growth and high profitability. We give the Company a target enterprise value multiple of 38x in 2021.We estimate that the Company’s adjusted EBITDA for 2020/2021/2022 will be RMB 2.733/3.708/4.931 billion, corresponding Enterprise value is RMB 141.7 billion with twelve-month target price to be HK$108, corresponding to 2020/2021/2022 EV/EBITDA of 50.05x/38.00x/29.66x. We initiate with a BUY rating. (Exchange rate: 0.88 RMB/HKD) (Current price as of 23 November 2020)

Peer comparison

Company	Stock code	Closing Price	Market Cap	P/E			EV/EBITDA		
				TTM	2020	2021	TTM	2020	2021
		(listed currency)	(million RMB)						
万国数据	9698 hk equity	86.50	108,409	-	-	630.48	54.65	41.375	30.319
宝信软件	600845 ch equity	62.27	60,531	57.3x	57.6x	46.0x	-	-	-
光环新网	300383 ch equity	19.06	29,366	33.0x	30.9x	24.8x	-	17.6x	13.9x
数据港	603881 ch equity	70.00	16,510	118.7x	108.1x	61.7x	-	39.0x	26.1x
Equinix有限公司	eqix US equity	730.59	426,013	110.8x	137.1x	84.8x	28.9x	26.3x	23.6x
CyrusOne股份有限公司	cone us equity	71.94	56,365	-	325.5x	266.0x	22.2x	22.0x	20.3x
数字房地产信托有限公司	dlr us equity	143.00	270,466	291.8x	87.2x	113.6x	37.5x	26.3x	24.1x
			Average	**122.3x**	**124.4x**	**175.4x**	**35.8x**	**28.8x**	**23.1x**
			Median	**110.8x**	**97.6x**	**73.3x**	**28.9x**	**26.3x**	**23.6x**

Closing price as of 23 November 2020
Source：Bloomberg, PSHK

Risks

1) Customer demand for data centers has slowed down
2) The Company's debt level is too high, making the Company's floating-rate debt face interest rate risk
3) The Company may not be able to obtain a high renewal rate

Financial statements

Key financial data

FYE DEC	FY18	FY19	FY20E	FY21E	FY22E
Valuation Ratio					
P/E ratio	N/A	N/A	N/A	237.04	96.32
P/B ratio	20.40	9.92	7.69	7.41	6.82
Per share data (RMB)					
EPS	-0.29	-0.33	-0.29	0.36	0.89
Book value per share	3.69	7.59	9.80	10.16	11.05
Adjusted EBITDA per share	0.70	1.22	1.83	2.48	3.30
Growth & Margin					
Revenue growth	73%	48%	39%	35%	33%
Adjusted EBITDA growth	104%	74%	50%	36%	33%
Net profit growth	-32%	-16%	14%	225%	146%
Adjusted EBITDA margin	37%	44%	48%	48%	48%
Net profit margin	-15%	-11%	-8%	7%	13%
Key Ratios					
ROE	-7.8%	-3.9%	-2.9%	3.6%	8.0%
ROA	-2.1%	-1.6%	-1.1%	1.3%	2.7%

Closing price as at 23 November 2020
Source: Company data, PSHK

Consolidated Statement of Profit or Loss and Other Comprehensive income

(RMB'000)						
Fiscal year	**2017A**	**2018A**	**2019A**	**2020E**	**2021E**	**2022E**
Fiscal year end date	*12/31/17*	*12/31/18*	*12/31/19*	*12/31/20*	*12/31/21*	*12/31/22*
Service revenue	*1,591,860*	*2,759,490*	*4,094,571*	*5,705,269*	*7,708,181*	*10,251,533*
Equipment sales	*24,306*	*32,587*	*27,834*	*28,112*	*28,393*	*28,677*
Revenue	***1,616,166***	***2,792,077***	***4,122,405***	***5,733,381***	***7,736,575***	***10,280,210***
Cost of Sales	(1,207,694)	(2,169,636)	(3,079,679)	(4,168,168)	(5,260,871)	(6,682,137)
Gross Profit	408,472	622,441	1,042,726	1,565,213	2,475,704	3,598,074
Sales and marketing expenses	(90,118)	(110,570)	(129,901)	(143,335)	(185,678)	(154,203)
General and administrative expenses	(228,864)	(329,601)	(411,418)	(516,004)	(541,560)	(616,813)
Research and development expenses	**(7,261)**	**(13,915)**	**(21,627)**	**(30,079)**	**(40,588)**	**(53,932)**
Income from operations	82,229	168,355	479,780	875,796	1,707,878	2,773,126
Other income (expenses):						
Interest income	5,600	19,213	53,017	6,784	6,766	12,424
Interest expenses	(412,003)	(656,186)	(968,693)	(1,243,040)	(1,176,365)	(1,044,588)
Foreign currency exchange (loss)gain, net	**(12,299)**	**20,306**	**(6,000)**	**-**	**-**	**-**
Government grants	**3,062**	**3,217**	**9,898**	**12,578**	**8,564**	**10,347**
Others, net	**435**	**5,436**	**5,565**	**1,326**	**4,109**	**3,667**
Loss before income tax	(332,976)	(439,659)	(426,433)	(346,556)	550,952	1,754,976
Income tax benefits (expenses)	6,076	9,391	(15,650)	(84,174)	(11,019)	(426,262)
(Loss)/Profit for the year	**(326,900)**	**(430,268)**	**(442,083)**	**(430,730)**	**539,933**	**1,328,714**

Source: Company data, PSHK

Consolidated Statement of Financial Position

(RMB'000)						
Fiscal year	2017A	2018A	2019A	2020E	2021E	2022E
Fiscal year end date	*12/31/17*	*12/31/18*	*12/31/19*	*12/31/20*	*12/31/21*	*12/31/22*
Non-current assets						
Property, plant and equipment, net	8,165,601	13,994,945	19,184,639	25,327,312	25,736,435	25,120,431
Intangible assets, net	348,466	482,492	394,628	616,803	887,765	1,207,991
Prepaid land use rights, net	26,245	756,957	747,187	720,724	680,463	630,565
Operating lease right-of-use assets	-	-	796,679	1,909,239	2,576,311	3,423,351
Goodwill	1,570,755	1,751,970	1,905,840	2,409,325	2,409,325	2,409,325
Deferred tax assets	14,305	36,974	72,931	101,431	136,871	181,871
Restricted cash	63,317	123,039	128,025	171,705	171,705	171,705
VAT recoverable	290,065	488,526	888,483	385,643	385,643	385,643
Other non-current assets	211,785	212,944	289,410	385,643	385,643	385,643
	10,690,539	**17,847,847**	**24,407,822**	**31,084,834**	**32,427,170**	**32,973,533**
Current assets						
Cash	1,873,446	2,161,622	5,810,938	6,997,548	6,977,766	13,051,208
Restricted cash	10,837	87	34,299	112,756	112,756	112,756
Accounts receivable, net of allowance for doubtful acc	364,654	536,842	879,962	1,223,838	1,651,437	2,194,397
Value-added tax recoverable	112,067	163,476	129,994	180,794	243,962	324,171
Prepaid expenses	50,373	64,843	80,913	112,533	151,851	201,776
Other current assets	42,651	110,526	148,603	155,782	155,782	155,782
	2,454,028	**3,037,396**	**7,084,709**	**8,783,251**	**9,293,553**	**16,040,091**
Total assets	**13,144,567**	**20,885,243**	**31,492,531**	**39,868,085**	**41,720,723**	**49,013,624**
Non-current liabilities						
Long-term borrowings	3,459,765	5,203,708	8,028,473	9,337,882	5,953,600	5,953,600
Covertible bond payable	-	2,004,714	2,049,654	2,086,179	2,086,179	2,086,179
Operating lease liabilities	-	-	709,998	987,455	1,332,463	1,770,551
Finance lease and other financing obligations	2,303,044	4,134,327	4,751,121	6,607,790	8,916,495	11,848,065
Deferred tax liabilities	124,277	171,878	252,672	351,413	474,193	630,099
Other long-term liabilities	358,898	340,812	345,537	345,537	345,537	345,537
	6,245,984	**11,855,439**	**16,137,455**	**19,716,256**	**19,108,467**	**22,634,031**
Current liabilities						
Short-term borrowings	790,484	1,283,320	1,137,737	1,582,348	2,135,207	2,837,221
Accounts payable	1,110,411	1,508,020	1,675,966	2,330,909	3,145,309	4,179,425
Accred expenses and other payable	368,624	476,564	817,883	1,137,500	1,534,932	2,039,588
Deferred revenue	55,609	73,077	90,316	59,826	80,729	107,271
Operating lease liabilities	-	-	55,139	76,687	103,480	137,502
Finance lease and other financing obligations	97,943	166,898	222,473	309,412	417,518	554,790
	2,423,071	**3,507,879**	**3,999,514**	**5,496,682**	**7,417,175**	**9,855,798**
Total liabilities	**8,669,055**	**15,363,318**	**20,136,969**	**25,212,938**	**26,525,642**	**32,489,829**
Redeemable preferred shares	-	-	1,061,981	1,064,137	1,064,137	1,064,137
Ordinary shares	320	341	412	434	434	434
Additional paid-in capital	5,861,445	7,275,945	12,403,043	16,125,571	16,125,571	16,125,571
Accumulated other comprehensive loss	(200,688)	(139,254)	(52,684)	(47,075)	(47,075)	(47,075)
Accumulated deficit	(1,185,565)	(1,615,107)	(2,057,190)	(2,487,920)	(1,947,986)	(619,272)
Total reedeemable preferred shares and shareholders' equity	**4,475,512**	**5,521,925**	**11,355,562**	**14,655,147**	**15,195,081**	**16,523,795**

Source: Company data, PSHK

Consolidated Cash Flow Statement

(RMB'000)						
Fiscal year	2017A	2018A	2019A	2020E	2021E	2022E
Fiscal year end date	*12/31/17*	*12/31/18*	*12/31/19*	*12/31/20*	*12/31/21*	*12/31/22*
(Loss)/profit for the year	(326,900)	(430,268)	(442,083)	(430,730)	539,933	1,328,714
Depreciation and amortization	378,130	741,507	1,142,032	1,380,308	1,491,754	1,501,152
Others	96,321	133,106	253,993	289,188	463,030	604,563
Decrease/(Increase) in working capital assets	(316,946)	(404,728)	(686,650)	(433,475)	(530,084)	(673,096)
Increase/(Decrease) in working capital liabilities	(34,405)	(13,933)	33,523	1,052,557	1,367,634	1,736,609
Decrease/(Increase) in other non-current assets	(23,111)	(37,035)	(8,678)	(96,233)	-	-
Increase/(Decrease) in long-term liabilities	59,095	(1,559)	1,299	-	-	-
Net cash (used in) provided by operating activities	**(167,816)**	**(12,910)**	**293,436**	**1,761,616**	**3,332,267**	**4,497,942**
Capital expenditures	(2,000,054)	(4,745,946)	(5,105,600)	(10,492,839)	(6,286,033)	(6,801,683)
Others	(5,000)	12,896	(25,631)	(5,912)	(6,216)	(12,586)
Cash from investing activities	**(2,005,054)**	**(4,733,050)**	**(5,131,231)**	**(10,492,839)**	**(6,286,033)**	**(6,801,683)**
Cash from financing activities	**2,355,728**	**4,876,806**	**8,361,939**	**10,039,970**	**2,933,984**	**8,377,183**
Net change in cash during period	182,858	130,846	3,524,144	1,308,747	(19,782)	6,073,442
Cash and cash equivalents at beginning of year	1,838,992	1,947,600	2,284,748	**5,973,262**	**7,282,009**	**7,262,227**
Effect of changes in foreign exchange rates on cash and cash equivalents	(74,250)	206,302	164,370	-	-	-
Cash and cash equivalents at end of year	**1,947,600**	**2,284,748**	**5,973,262**	**7,282,009**	**7,262,227**	**13,335,669**

Source: Company data, PSHK

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20%upside from the current price
-5% to +5%	Neutral	3	Trade within ± 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20%downside from the current price

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