

BCP Research: GDS Holdings Ltd (GDSHDG 2% '25)- Mixed 1Q20 Financials

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Summary: The second largest independent IDC (Internet Data Center) service provider in China GDS Holdings Ltd (“GDS”) released mixed 1Q20 results. Revenue and reported EBITDA achieved 6% and 9% q/q growth, respectively. Profit margins improved q/q. Cash burn expanded with high capex which increased 22% q/q. Remaining capex for all on-going projects was US\$1bn. Net debt increased 24% q/q. LTM net leverage increased q/q to 6.1x. IDC industry is included in China’s stimulus package after the epidemic. The company’s growth outpaced peers like VNET. Based on peer bond issuers, we revise our spread estimate to 900 bps from 500 bps and estimate 146c fair value for GDSHDG 25.

Convertible Bond	Ranking	Amt Out (US\$ MM)	Mid Price	YTM	Ratings (M/SP/F)	Cheapness	Implied Vol	Delta	Conv. Price	GDS Stock Price
GDSHDG 2% 01/06/2025	Sr Unsecured	300	125.6c	(2.73%)	-/-	14.0%	18.9%	84.3%	51.6c	\$60.0

Convertible Valuation

- Cash burn expanded in last three quarters. Leverage is still the highest among peers.
- GDS’s growth outperformed peers with competitive profit margins. TEV / LTM EBITDA multiple is also the highest among peers.
- Given IDC’s important role in China’s industrial policy and growing demand for cloud services after the epidemic, we expect favourable regulation environment and better market conditions in coming years.
- We use VNET as a comparable and estimate 900 bp spread. We calculate 146c fair value for GDSHDG 25s, with 14% cheapness

GDS Holdings Ltd		GDS Holdings Ltd	
Convertible Bond		Equity	
Ticker	GDSHDG	Ticker	GDS US
Coupon Rate	2.0%	Current Share Price USD	\$59.95
Frequency	S/A	Current Shares Outstanding (mm)*	211
Maturity	2025-06-01	Current Market Cap (US\$ mm)	9,125
Rank	Sr. Unsecured	BCP Valuation	
Convertible Amount Out (US\$ mm)	300	BCP Credit Spread Estimate (bps)	500
Mid Price	125.6c	Realized Share 100 Days Volatility	56.0%
Bond YTW	(2.73%)	Implied Volatility	18.9%
Parity	89.8c	Fair Value	146.1c
Premium	35.9c	(Rich)/Cheap %	14.0%
Conversion Ratio	19.4	Bond Floor	80.8c
Share Conversion Price	51.6c	Implied Listed Share Volatility - 30 Days ATM	10.4%

* Includes ADR-Class A and Class B shares outstanding

1Q20 Quarterly (US\$ mm)	GDS	VNET	EQIX	CONE
Gross Margin	28%	21%	49%	62%
EBITDA margin	46%	24%	47%	54%
ROA	4%	7%	6%	4%
Revenue q/q Growth	5%	5%	2%	(3%)
EBITDA q/q Growth	8%	(1%)	1%	(4%)
LTM gross leverage	7.6x	5.2x	4.3x	5.9x
LTM net leverage	6.1x	2.3x	3.8x	5.7x
Bond	GDSHDG 2% 01/06/2025	VNET 7.875% 10/15/2021	EQIX 5.875% 01/15/2026	CONE 5% 03/15/2024
Bond YTM	(4.04%)	10.92%	4.74%	2.95%
TEV (Bloomberg)	11,914	2,179	70,251	11,290
LTM EBITDA	289	152	2,712	525
TEV/LTM EBITDA	41.2x	14.4x	25.9x	21.5x

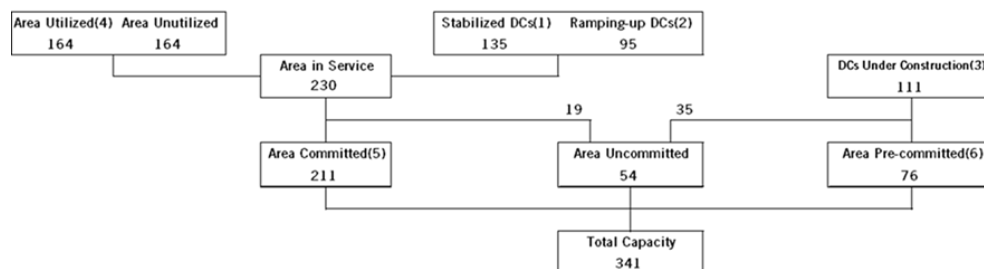
1Q20 Financials

- Revenue increased 6% q/q to US\$178mm.
- Reported EBITDA increased 9% q/q to US\$82mm.
- Gross and EBITDA margin both increased q/q to 28% and 46%. Both have been increasing steadily in last two years.
- The management expected 46% EBITDA margin for the whole year.
- Simplified cash burn increased 7% q/q to US\$386mm, on more WK investment.
 - Capex and acquisitions decreased 2% q/q to US\$363mm.
- Gross debt increased 2% q/q to US\$2,495mm.
- Total cash decreased 39% q/q to US\$510mm – the lowest since 1Q19.
- Net debt increased 24% q/q to US\$1,985mm.
- LTM gross leverage decreased q/q to 7.6x. LTM net leverage increased q/q to 6.1x.

1Q20 Data Centers

- In 1Q, only one data center project (ZB4) was completed during the epidemic.
- In 2Q, 15k sqm is expected to be added to area in service. All 15k sqm is committed (with customer contract in effect).
- According to the management, to complete all the 111k sqm on-going projects, total remaining capex was estimated US\$1bn.
- Utilization rate reached all time high 71%.
- EBITDA per utilized area increased 4% q/q to US\$500 per sqm.

1Q20 DC (data center) Area Breakdown
ksqm



(1) Stabilized DCs: area of DC with utilization rate > 80%

(2) Ramping-up DCs: area of DC with utilization rate < 80%

(3) DCs Under Construction: area not in service

(4) Area utilized: area generating revenue

(5) Area Committed: net floor area of data centers in service for which agreements from customers remain in effect

(6) Area Pre-committed: net floor area of data centers under construction for which agreements from customers remain in effect

GDSHDG (US\$ mm)	1Q20	1Q19	4Q19	y/y	q/q
Revenue	178	132	168	34%	6%
- service	176	132	165	34%	7%
- equipment sales	1	0	3	745%	(60%)
Reported EBITDA	82	57	75	44%	9%
Gross margin	28%	24%	25%	447 bps	325 bps
EBITDA margin	46%	43%	45%	315 bps	129 bps
Revenue / Total Assets	4%	3%	4%	55 bps	24 bps
GDSHDG (US\$ mm)	1Q20	1Q19	4Q19	y/y	q/q
Reported EBITDA	82	57	75	44%	9%
Net interests expenses	(37)	(32)	(33)	15%	12%
Tax expenses (benefits)	(2)	(2)	0	8%	(551%)
Capex - PP&E	(362)	(123)	(297)	194%	22%
Acquisition	(1)	(1)	(73)	98%	(98%)
WK investment	(65)	(33)	(32)	98%	104%
FCF	(386)	(134)	(360)	187%	7%
GDSHDG (US\$ mm)	1Q20	1Q19	4Q19	y/y	q/q
Gross debt	2,495	2,024	2,435	23%	2%
- ST	243	146	203	66%	19%
- LT	2,252	1,878	2,232	20%	1%
Cash	510	895	835	(43%)	(39%)
Net debt	1,985	1,129	1,600	76%	24%
LQA gross leverage	7.6x	8.9x	8.1x	(1.3x)	(0.5x)
LQA net leverage	6.1x	5.0x	5.3x	1.1x	0.7x
EBITDA / net interest expense	2.2x	1.7x	2.3x	0.4x	(0.1x)
GDS Capacity (k sqm)	1Q20	4Q19	1Q19	y/y	q/q
Area in Service	230	226	172	34%	2%
- area utilized	164	156	118	39%	5%
- area unutilized	66	70	53	24%	(5%)
Area Under Construction	111	90	66	68%	23%
Total Capacity	341	316	237	44%	8%
- Area Committed	211	208	165	28%	2%
- Area Pre-committed	76	57	35	116%	32%
- Area Uncommitted	54	51	37	44%	5%
Contract Backlog	123	109	82	51%	13%
Utilization Rate	71%	69%	69%	241 bps	219 bps
Commitment Rate	92%	92%	96%	(418 bps)	(5 bps)
EBITDA / Utilized Area (US\$/sqm)	500	482	481	4%	4%

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"Market Underweight" – The spread of the bond to its similarly duration sovereign controller bond is expected to increase over the next 3 – 6 months.

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