

GDS Holding Ltd (Q1 2025 Earnings)
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Corporate Speakers

- Laura Chen; GDS Holdings Limited; Head of Investor Relations
- William Huang; GDS Holdings Limited; Founder, Chairman and CEO
- Daniel Newman; GDS Holdings Limited; CFO

Participants

- Yang Liu; Morgan Stanley; Analyst
- Sara Wang; UBS; Analyst
- Frank Louthan; Raymond James & Associates; Analyst
- Edison Lee; Jefferies Hong Kong; Analyst
- Daley Li; Bank of America; Analyst
- Eunice Liu; Goldman Sachs; Analyst

PRESENTATION

Operator^ Hello, ladies and gentlemen. Thank you for standing by for GDS Holdings Limited's First Quarter 2025 Earnings Conference Call. (Operator Instructions)

Today's conference call is being recorded.

I will now turn the call over to your host, Ms. Laura Chen, Head of Investor Relations for the company.

Please go ahead, Laura.

Laura Chen^ Thank you. Hello, everyone. And welcome to the first quarter 2025 earnings conference call of GDS Holdings Limited.

The company's results were issued via Newswire Services earlier today and are posted online.

A summary presentation which we will refer to during this conference call can be viewed and downloaded from our IR website at investors.gds-services.com.

Leading today's call is Mr. William Huang, GDS' Founder, Chairman and CEO, who will provide an overview of our business strategy and performance. Mr. Dan Newman, GDS' CFO, will then review the financial and operating results.

Before we continue, please note that today's discussion will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995.

Forward-looking statements involve inherent risks and uncertainties. As such, the company's results may be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties is included in the company's prospectus as filed with the U.S. SEC.

The company does not assume any obligation to update any forward-looking statements, except as required under applicable law.

Please also note that GDS' earnings press release and this conference call include discussions of unaudited GAAP financial information, as well as unaudited non-GAAP financial measures. GDS' press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures.

I'll now turn the call over to GDS' founder, Chairman and CEO, William Huang. Please go ahead, William.

William Huang^ Thank you, Laura. Hello, everyone. This is William. Thank you for joining us on today's call.

We started 2025 with very solid results. In the first quarter, we achieved revenue growth of 12% and adjusted EBITDA growth of 16% year-on-year. It is the highest growth rate for the past two years. This is a result of our continued focus on backlog delivery and new orders with faster move-in schedules.

Our gross move-in during 1Q '25 was around 20,000 square meters, all in Tier 1 markets.

Our utilization rate reached 75.7%.

Quarterly move-in has stayed at a consistent level since the beginning of last year. We expect the pace of move-in to continue through this year with around 40% of the current backlog to be delivered by year-end.

The demand environment has turned the corner with AI developments. This led to an initial wave of demand for AI training in remote locations. Now the demand is coming to Tier 1 markets with AI inferencing. We believe inferencing could be a much bigger and more sustainable opportunity across multiple years.

The mega deal of 152 megawatts that was signed during 1Q '25 is a perfect example and evidence of strong demand during this AI era. This new order requires us to deliver data centers within six months. The customer committed to move in fully within the following six months. The whole cycle for obtaining the new order to full utilization is about one year.

This is a high-quality AI-driven new business with no move-in risk as we confirmed with the customer.

Looking forward, there are still uncertainties around AI chip supply in China in the short term. Our customers are working out their deployment plans. As chip supply becomes more clear, we expect demand to take off.

In terms of capacity supply, we are well positioned to capture these opportunities. We already have around 900 megawatts of capacity held for future developments in and around Tier 1 markets.

As I mentioned, we believe the coming wave for AI demand is going to be largely from inferencing, which requires large sites in Tier 1 markets. We have multiple sites suitable for AI inferencing around Beijing, Shanghai and Shenzhen.

As demand continues to grow and the time to deliver becomes the key factor, our held for development capacity will become more valuable. We believe there is a good chance that we will develop all of these 900 megawatts and more within the next four years.

On the financing side, we made significant progress with our asset monetization program. We completed the first ABS transaction in 1Q '25, and we are making good progress on the C-REIT transaction.

Our asset monetization strategy gives us financing flexibility in terms of being able to recycle cash in China when we need to. It gives us an option to capitalize new projects.

Lastly, I would like to share some operation updates for DayOne.

In 1Q '25, DayOne added 70 megawatts of new commitments, which bring its total power commitment -- committed to over 530 megawatts.

In the current quarter, DayOne also made substantial progress in expanding its footprint. It obtained customer commitments for its Thailand project. In addition, it made a breakthrough into completely new market, Europe, and landed its first project in Finland, together with secured customer commitments.

The order for Thailand and Finland are expected to total over 220 megawatts, which will be added to power committed in the next few months. This will bring total power committed to over 750 megawatts. DayOne is ahead of schedule to meet the target of 1 gigawatt of total power committed within three years.

The new market expansion demonstrates DayOne's capability of working with world-leading tech companies to provide total data center solutions. DayOne creates new markets where customers can scale up efficiently and within a short lead time.

It has done it successfully in Malaysia and Indonesia and will do so again in Thailand and Finland. This capability is truly what sets DayOne apart.

Now, I will now pass on to Dan for the financing and operating review.

Daniel Newman^ Thank you, William.

Over the past few years, our financial objectives were to get back onto a higher growth track in terms of EBITDA, while at the same time strengthening our financial position and deleveraging.

With the advent of AI demand in China, we can look forward over the next few years to more and better growth opportunities. However as we capture these opportunities, we will maintain strict financial discipline.

We believe that this is the right approach, which has potential to create significant equity value year after year with low investment and financing risk.

Starting on Slide 13.

In 1Q '25, revenue increased by 12% year-on-year. This was a result of an increase in total area utilized of 14.6% and a decrease in MSR per square meter of 2.6% as compared with 1Q '24.

In 1Q '25, adjusted EBITDA increased by 16.1% year-on-year. In addition, we realized a gain on deconsolidation of subsidiaries sold to the ABS of over RMB 1 billion, which we have not included in adjusted EBITDA.

Adjusted EBITDA margin for 1Q '25 was 48.6% compared with 46.9% in 1Q '24. The higher margin was mainly due to lower operating costs.

Over the next three quarters, we expect quarterly adjusted EBITDA to increase on average by high-single-digits percentage year-on-year. This takes account of deconsolidation of EBITDA with completion of the ABS transaction on 31st March 2025.

As shown on Slide 16, subject to achieving performance conditions, we will receive total cash consideration of up to RMB 1.8 billion for the sale of the ABS, out of which, we will reinvest up to RMB 500 million for our 30% share of the ABS issue. The first installment of cash proceeds has been received and booked in 2Q '25.

In addition, we have deconsolidated debt and other liabilities of approximately RMB 1.1 billion. The implied EV to EBITDA for the sale to ABS is around 13x, which we believe sets an important benchmark for our forthcoming C-REIT offering and for the valuation of our stabilized China assets as a whole.

We are making good progress with the establishment of an onshore listed C-REIT. It is moving forward faster than expected. We have received approval from NDRC, and it is now being reviewed by CSRC and the Shanghai Stock Exchange. The application documents are filed publicly.

Subject to obtaining all necessary approvals, we hope to launch and complete the offering later this year. The C-REIT transaction is going to be very strategic. It will establish a further valuation benchmark for our stabilized data centers in China, and it will create a vehicle into which we can potentially drop down further assets in future if we choose to do so.

On Slide 22, we show the pro forma deleveraging effect of the ABS and C-REIT. The ABS is a done deal, while for the C-REIT, we made working assumptions for illustrative purposes.

As you can see, we are able to support total CapEx in the current year of RMB 4.8 billion before taking account of the proceeds of asset monetization, while lowering our net debt and leverage ratios.

Turning to Slide 23 on business outlook. When we gave guidance at the last quarter-end, we already assumed that the ABS will be deconsolidated from the beginning of 2Q '25.

If we complete the C-REIT this year, it will have some impact on our financials, but we still think that we can meet our original revenue and adjusted EBITDA guidance. Thus, we're keeping the previously provided guidance of total revenue and adjusted EBITDA unchanged. The C-REIT transaction, if completed, will also impact our investment cash flow.

As of now we keep our CapEx guidance unchanged, which just includes gross CapEx less the initial proceeds from the ABS transaction.

Finishing on Slide 24.

Now that we have deconsolidated DayOne, it is important to look at the equity value of GDS on a sum-of-the-parts basis.

In addition to our equity value creation in China, we expect the value of our equity interest in DayOne to appreciate significantly. Based on the Series B benchmark from last year, our equity interest in DayOne was worth around USD 1.3 billion or USD 7 per GDS ADR.

William mentioned that DayOne is already on track to achieve total power commitments of over 750 megawatts in the next few months. As DayOne achieves optimal operating leverage, its EBITDA per megawatt should trend upwards towards industry benchmark levels. This gives us indication of the current level of contracted EBITDA, which can be converted to actual EBITDA as backlog contracts are delivered over the next few years.

We'd now like to open the floor to questions. Operator?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) We are now going to proceed with our first question.

So the questions come from the line of Yang Liu from Morgan Stanley.

Yang Liu^ Two questions from my side. First, congratulations on the solid results.

My first question is regarding the China demand, especially from the hyperscaler side. We start to hear a lot of noise around chipset supply since March. Could management update us in terms of their demand quarter-to-date, given a lot of things happened in the past two months? Is there still any order coming in in second quarter Q-to-date? Yes. That's my first question.

My second question is regarding the financial guidance because Dan just mentioned that previous guidance does not factor in the ABS deconsolidation. And now the deal got closed, and actually, you don't need to change the guidance. So what should be the expectation on the three quarters of the contribution from that project to the full year number?

William Huang^ Yes. Okay. This is William. Let me answer the first question.

I think the demand obviously is very strong in general. And we see that AI demand -- AI-related demand will continue maintain a strong position.

But we have to say we are lucky, we are sitting in the -- all our assets sitting in the Tier 1 market, which is -- this demand is mainly driven by the inferencing. So inference, that means the customer less rely on the GPU. They will use more hybrid and traditional CPU.

So I think for us, we will see our demand will continue. It's too early to say what's our target. But in general, I have to say we are -- we have 900 megawatts held for future development capacity, well positioned.

And as I said, in general, midterm, long term, we can digest -- we can sell this 900 megawatts within four years. We are very confident on that.

But I think maybe in short term, I think a lot of training demand will be impacted, but it's not our target. In past couple of years, for training demand is not our target.

Daniel Newman^ So when we gave EBITDA guidance, at the midpoint, it implied year-on-year growth, full year '25 versus '24, of 8.5%. And we had assumed that the ABS transaction would close at the end of 1Q, which indeed it did.

If we had not done that ABS transaction, we would have continued to consolidate the underlying assets for the second, third and fourth quarter of this year. And on that basis, we actually showed in the last cycle that our annual growth rate in terms of EBITDA would have been around 11%.

So the impact of the ABS transaction closing at the end of 1Q is to reduce full year EBITDA by around RMB 130 million, that's what we would have consolidated over the next three quarters, and to reduce the annual growth rate from 11% down to the guided 8.5%.

Now of course, we completed the first quarter. We announced in the first quarter, our year-on-year growth rate was 16%, which is clearly well above that level of growth. That's why we -- I tried to give some indication of the expected growth rate year-on-year in the second, third and

fourth quarter. I said it won't be as high as the first quarter, but it should be high-single digits in percentage terms on average each quarter, 2Q versus 2Q, 3Q versus 3Q, and 4Q versus 4Q.

William Huang^ Yes. I want to add one point. I think the -- yes, based on what we know understanding, our customer already kept domestic GPU for a while. So I think if the chips import get some issue, I think in the next 12 months to -- domestic GPU will catch up. That's our view.

Operator^ We are now going to proceed with our next question. The questions come from the line of Sara Wang from UBS.

Sara Wang^ I just have one question. Given GDS is actually expanding beyond Southeast Asia and even into Europe, can we compare the IRR profile or EBITDA yield across different markets, for example, Johor, Batam, Thailand or Finland, and also compare that to China?

Daniel Newman^ Sara, I have to correct you. It's not GDS. It's DayOne.

Sara Wang^ Yes. I'm sorry, DayOne. Yes. I'm sorry. Yes, just answering the product level.

Daniel Newman^ Yes. So what we've seen so far, and it's across several different markets, if we simply take, say, the development yield, it's in the low-teens, which is, I think, quite healthy and higher than what we are currently achieving in China on a total investment cost basis. And that probably reflects that in the markets in which DayOne is operating, there's a slightly different supply-demand balance from China.

But it's a good, I'd say, leading indicator because as demand -- AI demand really takes off in China in Tier 1 markets, we can see that demand-supply balance shifting in China. And hopefully, that will lead to better yields in China as well.

Operator^ We are now going to proceed with our next question. The questions come from the line of Frank Louthan from Raymond James & Associates.

Frank Louthan^ Can you give us an idea of when you expect the China business to be self-funding? And does this new wave of AI demand push that out a little bit? And then, if you can comment on whether you have the full amount of funding for the 750 megawatts of commitments at DayOne, that would be great.

Daniel Newman^ Yes. The first part of Frank's question about -- so in China, we are roughly breakeven in terms of free cash flow before financing. We were actually positive free cash flow before financing last year. And in the current year, maybe we should start looking at free cash flow before financing, we look at net debt. And with the contribution from two asset monetization transactions, we should be able to bring down net debt over the course of the year.

So that means that we are already, through operating cash flow and asset monetization, able to generate sufficient cash flow and to deconsolidate debt on sale of assets, so that is at least equal to the amount of annual CapEx.

And William mentioned that we're quite confident that over the next four years, we could potentially develop our entire land and power bank in Tier 1 markets, which is around 900 megawatts and maybe more.

If we did that evenly over four years, it would equate to around RMB 5 billion of annual CapEx, which is similar to this year's level. And with the operating cash flow, which we expect to grow over that time period and the ability to monetize assets through the listed C-REIT vehicle, I believe we'll be able to repeat the pattern of this year's financing in terms of investment cash flow being offset by operating cash flow and asset monetization proceeds.

For DayOne, if we take 750 megawatts William mentioned, and DayOne to date has raised nearly \$2.5 billion of equity. So DayOne is fully capitalized to be able to develop and deliver that portfolio, that level of commitments.

William Huang^ Yes. I believe if DayOne needs to raise money, it's not an issue and can well access all international capital markets.

Operator^ (Operator Instructions) We are now going to proceed with our next question. The questions come from the line of Edison Lee from Jefferies Hong Kong.

Edison Lee^ Congratulations on another great quarter. I have, in fact, two pretty quick questions.

Number one question is about your gross new area committed in the first quarter at 46,000 square meter. I think that's a new high in many quarters. So can you share some color as to how many customers this new number is coming from and where the locations are for this 46,000 square meter?

And then, number two is, there has been some talk in the industry in China about new government regulations controlling the expansion of AI data center. And right now, they need to approve any project 7 megawatt or above. And also, there is some talk in the industry that China, in fact, does not want or does not prefer private companies to be building AI data centers. They prefer SOEs to building AI data centers. And I understand a lot of your power reserve actually has been obtained some years ago already.

So I just want to know whether there's any risk that the government actually needs to reopen the book and reapprove some of your power. And yes, and what is your thought on these market talks right now?

William Huang^ Okay. I think the first question is, I think, the Q1 mainly driven by one of our traditional hyperscaler customers. I think they are located in Wangwan, Changshu, which is very close to Shanghai and Beijing. So this is exactly -- if everybody remember, during the cloud era, we used to represent 50% of the cloud POPs in this major city or around this major city. So we are very, very lucky at that era.

So now inference, I think, we have benefit for the inference demand because I just mentioned, right? So the inference model is more like a hybrid, use the GPU plus CPU cloud. So they will collaborate together. So I think this is one thing, the first question.

The other is about the controlled AI data center. Based on my understanding mainly -- I think mainly for the SOE investment. So I think the -- I should point out our 900 megawatts capacity, we already -- most of them, we already obtained the power energy quota. So this will -- new guidance -- new policy will not impact us.

Operator^ We are now going to proceed with our next question. The questions come from the line of Daley Li from Bank of America.

Daley Li^ Congrats on the solid demand trend. I have two questions.

Number one is about the overseas business. Recent, we received like 70 megawatts new orders. And could you -- could management give some color about the mix of the clients for China and overseas and/or the mix of AI and non-AI? And given the AI diffusion policy has been withdrawn by the U.S., how -- could you share some color about the client feedback about the future new orders or the move-in progress for the international business?

My second question is about our series issuance in China market. I saw the news, we received the first round of feedback from the CSRC. And how do we see the progress? Can we expect to complete in the second half this year? Or how is the timeline, please?

William Huang^ Yes. The first question, I think if everybody remember, we used to talk about our client in -- for DayOne. It's -- in general, it's mixed. We got -- we successfully got this order from international customer and also Chinese customer as well.

I think we used to talk about our client, our major client from China. Their major use -- the purpose for their deployment is to support their e-commerce and the video business and the social media business. It's just used -- it's used a high-performance CPU.

So in general, in the last three years, based on our understanding, our total capacity served 90% for GPU -- CPU, sorry, CPU. Only maybe around 10% used to -- the purpose for GPU. So this is -- I think everybody remember the last couple of quarters when we talk about the international market that nothing's changed.

Daniel Newman^ The C-REIT offering, we've been through many rounds of review and approval. And the stage we've now reached is that the listing application is being reviewed by the Chinese securities regulator, CSRC, and the Shanghai Stock Exchange. And this is a public process.

So the prospectus and some other key documents have been filed and are available for the public to access. And we've been asked questions just like a U.S. SEC process, where applicants are asked to address a number of questions, and our responses will also be filed publicly.

But typically, this stage of the process takes a few months. We don't take anything for granted. But if all goes well, we would hope to receive the clearance to be able to proceed with an offering and a listing. And then, we would have one year in which to make a decision as to when to launch that.

And ideally, we would be able to do that later this year and complete the process and list the C-REIT before the end of this year.

Operator^ We are now going to proceed with our next question. The next questions come from the line of Eunice Liu from Goldman Sachs.

Eunice Liu^ I'm asking question on behalf of our analyst, Timothy Zhao.

So our question is, first on GDS China. Could you elaborate more on the pricing outlook for the China business?

And my second question is on DayOne. So we noticed your EBITDA margin improved through the latest quarter. Could you explain the drivers behind?

William Huang^ I think the outlook for the China business, we maintain very confidence in, okay, the price of it, right? I think the current new business price is very stable. And I think the -- in general, I think the new business is, let's say, maintained at very, very stable level right now whatever from the Beijing market or Shanghai market or Shenzhen market, right? So this is our outlook for the future, yes.

Daniel Newman^ DayOne had an EBITDA margin in 1Q '25 of 31%. But for a company that actually only started to generate revenue about five quarters ago, that's already quite remarkable. And my understanding is that DayOne ramp-up over the next few years, as it delivers its backlog, is going to be very rapid.

As that happens, DayOne will be able to achieve higher operating leverage on its corporate costs and on its business development costs. And I think within a few years, you'll see that EBITDA margin hit sort of industry benchmark levels.

Operator^ This concludes the question and answer session. I'd like to now turn the call back over to the company for closing remarks. Thank you.

Laura Chen^ Thank you all once again for joining us today. And we'll see you next time. Bye-bye.

Operator^ This concludes this conference call. Thank you all for participating. You may now disconnect your line. Thank you.