REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q3 2020 GDS Holdings Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 17, 2020 / 12:00AM GMT

CORPORATE PARTICIPANTS

Laura Chen *GDS Holdings Limited - Head of IR*
William Huang *GDS Holdings Limited - Chairman and CEO*
Dan Newman *GDS Holdings Limited - CFO*

CONFERENCE CALL PARTICIPANTS

Jonathan Atkin *RBC Capital Markets - Analyst*
Colby Synesael *Cowen - Analyst*
Gokul Hariharan *JP Morgan - Analyst*
Tina Hou *Goldman Sachs - Analyst*
Frank Louthan *Raymond James - Analyst*
James Wang *UBS - Analyst*
Edison Lee *Jefferies - Analyst*
Hongjie Li *- Analyst*
John Choi *Daiwa - Analyst*

PRESENTATION

Operator

Hello ladies and gentlemen. Thank you for standing by for GDS Holdings Limited's third quarter 2020 earnings conference call. At this time all participants are in a listen-only mode. After Management's prepared remarks, there will be a question and answer session. Today's conference call is being recorded.

I would now turn the call over to your host, Ms. Laura Chen, Head of Investor Relations for the Company. Please go ahead, Laura.

Laura Chen ***GDS Holdings Limited - Head of IR***

Thank you. Hello everyone. Welcome to the 3Q 2020 earnings conference call of GDS Holdings Limited. The Company's results were issued via Newswire Services earlier today and are posted online. Our 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's Founder, Chairman and Chief Executive Officer, who will provide an overview of our business strategy and performance. Mr. Dan Newman, GDS's Chief Financial Officer, will then review the financial and operating results. Ms. Jamie Khoo, our Chief Operating Officer, is also available to answer questions.

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. Securities and Exchange Commission. The Company does not assume any obligation to update any forward-looking statements, except as required under applicable law.

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

I will now turn the call over to GDS's Founder, Chairman and Chief Executive Officer, Mr. William Huang. Please go ahead, William.

William Huang ***GDS Holdings Limited - Chairman and CEO***

Hello everyone, this is William. Thank you for joining us on today's call. Two weeks ago, our shares started trading on the Hong Kong Stock Exchange, opening a new chapter for GDS. I am pleased to say that we achieved all of our objectives for the Hong Kong IPO and the secondary listing.

We attracted a high level of demand from new investors, including strong participation from China. We significantly strengthened our equity base with over USD1.8 billion of net proceeds adding to our competitive advantage in terms of financing.

We established a liquid market in our shares in Hong Kong to complement trading on NASDAQ. Last but not least, we raised our profile and the reputation among customers, government, partners, and the investors which help us to attract more business and secure more resources, further strengthening our market-leading position.

Meanwhile, our business continued to perform strongly. During the third quarter of 2020 we added nearly 24,000 square meter or 46 MW of new customer commitments. During the first nine months of 2020 our organic net add was over 72,500 square meter, more than we did in the whole of last year.

In order to maintain our sales momentum we added over 100,000 square meter to our secured development pipeline, including greenfield land for a major new edge-of-town campus near Shenzhen.

We grew revenue by 43%, and adjusted EBITDA by 48% year-on-year, and our EBITDA margin remained at 47%.

At the beginning of this year we targeted 100,000 square meters of annual net add, consisting of 80,000 square meters organic. Plus 20,000 square meter from the Beijing 10, 11, 12 acquisition which was pending closing.

Today we are clearly on track to achieve around 95,000 (corrected by company after the call) square meter of organic sales. Plus 27,000 from M&A, including nearly 8,000 square meter from a new acquisition in Shanghai during the current quarter. This gives us over 120,000 square meter net add for 2020, representing 20% of outperformance.

Looking forward to FY21, we believe that the current level of organic sales is sustainable. Furthermore, with the potential acquisition of Beijing 14, which we announced in September, we already have visibility for another 20,000 square meter of M&A next year.

As you can see from our disclosure, there is a consistent pattern of three to five hyperscale orders every quarter. Each of these orders represents a major development by one or other of our top customers. These developments are often planned in multiple phases to be delivered over several years. This gives us a stronger foundation for our future sales.

Turning to slide 7, over the past few years we have made a lot of good progress in developing meaningful relationships with fast-growing new customers. We had exciting breakthroughs, which we announced last quarter, with ByteDance and PDD. We achieved -- we are actively pursuing multiple hyperscale opportunities with these two names.

China's internet sector continues to produce very large companies, which emerged very quickly. Typically, they begin by using the major public clouds. However, as they develop, they also start to deploy their own private clouds, and they have acquired all sorts data center services.

This is where we see incremental opportunity, given extensive presence of cloud service providers in our data centers and a multimarket platform. We have a unique value proposition in hybrid cloud. We are also starting to see financial institutions deploy hybrid clouds.

We have a well-established customer base of over 230 financial institutions. As they evolve their IT architecture from the mainframes to server, we anticipate significant incremental opportunity.

Over the past five quarters we have stepped up our construction program from 84,000 square meter to 135,000 square meter of active developments. At the same time, our pre-commitment rates have remained solidly over 60%. We have talked repeatedly about why a secured development pipeline is a critical success factor.

During 3Q 2020 we added over 30,000 square meters to our data held for future developments. During the fourth quarter we have added another 70,000 square meters. We now have a total of over 400,000 square meters secured. We will continue to add aggressively over the next few quarters. It really is that important.

Turning to slide 11, following the success of our edge-of-town strategy in Beijing and Shanghai we made a very significant move to set up a new edge-of-town campus in the Greater Bay Area. We have acquired from the local government a greenfield site in Huidong, around 24 kilometers from the edge of Shenzhen.

It is one of the key areas identified for data center development in the New Infrastructure plan recently published by Guangdong Province. Once fully developed, the site will yield a net floor area of approximately 72,000 square meters according to the initial design.

We established our edge-of-town campus in Langfang, near Beijing, in 2Q 2019. In less than 18 months, we have initiated nine data center projects and secured over 67,000 square meters of customer commitments. In 3Q 2020, we initiated our Langfang 9 data center, which contributed a 25-megawatt new order. We also added to our landbank with our position of Langfang Land Site 3 and further land acquisitions are in progress.

On the edge of Shanghai, we have two locations, Kunshan and Changshu. During 3Q 2020, we leased three adjacent buildings in Kunshan, with a total developable net floor area of 16,000 square meters. The first of these buildings, which we call Kunshan 4, is undergoing conversion.

Turning to slide 14, we announced two M&A deals during 3Q 2020, which added to our capacity in the urban area of Beijing. Today we are announcing a new acquisition in urban Shanghai, which we call Shanghai 19. It has a total developable net floor area of 12,800 square meters, of which 7,900 square meters is complete and fully committed. The total acquisition and development costs, including costs to complete, is RMB778 million. It is an attractive acquisition with good terms. We will continue to pursue this kind of opportunity, which adds to our presence in key downtown locations.

With that, I will hand over to Dan for the financial and operating review. Thank you.

Dan Newman ***GDS Holdings Limited - CFO***

Thank you, William. Starting on slide 18 where we strip out the contribution from equipment sales and the effect of FX changes, in 3Q 2020 our service revenue grew by 14.1%. Underlying adjusted gross profit, which we previously called net operating income, grew by 12.7% and underlying adjusted EBITDA grew by 12.5% quarter-on-quarter.

The Beijing 10, 11, 12 acquisition closed on June 5, 2020. Excluding the contribution from this acquisition in both the second and third quarters, our service revenue grew by around 8% and our adjusted gross profit grew by around 7% quarter-on-quarter.

Turning to slide 19, service revenue growth is driven mainly by delivery of the committed backlog. Net additional area utilized during 3Q 2020 was 16,589 square meters, continuing the recovery we saw in 2Q 2020. We expect similar levels of move-in in the fourth quarter. MSR was RMB2,519 per square meter per month. Without Beijing 10, 11,12, it would have been slightly higher at RMB2,533.

Turning to slide 20, our adjusted EBITDA margin remained around 47% and we're still benefiting to a small extent from government concessions.

Turning to slide 23, up to the end of September, our CapEx year to date stood at RMB6.6 billion. In 4Q 2020 we expect another RMB3.4 billion of CapEx, including acquisition consideration for Beijing 9, Beijing 13 and the new Shanghai 19 deal, and payment for the Langfang and Huidong land. This is what gets us to our RMB10 billion CapEx guidance.

Up to the end of September, we had paid cumulatively RMB640 million of CapEx for managed BTS built-to-suit projects that we intend transferring to GIC. During 4Q 2020, we expect to transfer the first project by way of selling 90% of the equity of the project company. The proceeds will reverse a small part of the CapEx while the assets and the liabilities of the project company will be deconsolidated.

Looking at our financing position on slide 24, pro forma for the cash proceeds with the Hong Kong IPO, we have RMB18.7 billion of cash on our balance sheet and our net debt to EBITDA ratio is 1.2 times. Given our on-going levels of organic and inorganic CapEx and assuming the Beijing 14 acquisition closes in 1Q 2021, this ratio will go back up to around four times within a couple of quarters.

As in the past, we will allocate and reserve cash to capitalize new investments in our business plan and will then leverage those investments to ensure an efficient overall cost of capital. Given William's comments about the sales outlook and the importance of adding to our land bank and our ability to keep on generating attractive acquisitions, like our recent deals for Beijing 13, Beijing 14 and Shanghai 19, we will not be short of opportunities.

While we are not changing our financing approach, we will strive to enhance our debt capital structure. We have an aggressive plan to refinance a substantial portion of our existing onshore RMB-denominated project debt to achieve longer tenors and lower cost. We have multiple re-financings going on right now, with 10- to 15-year terms, back-ended repayment profiles and all-in costs of below 5% based on the current loan prime rate.

Finishing on slide 26 with our revised guidance, for the full year of 2020, we are raising the bottom end of our original guidance for both revenue and adjusted EBITDA and keeping the high end unchanged. We now expect total revenue to be in the range of RMB5.7 billion to RMB5.75 billion and adjusted EBITDA to be in the range of RMB2.66 billion to RMB2.67 billion. The updated estimates imply an increase of 38.3% to 39.5% year-on-year in total revenues and 45.8% to 46.4% year on year in adjusted EBITDA. Our CapEx guidance of RMB10 billion for the full year remains unchanged.

We'd now like to open to the call to questions. Operator.

QUESTIONS AND ANSWERS

Operator

Thank you. Ladies and gentlemen, we will now begin the question and answer session. (Operator instructions). Your first question in queue comes from the line of Jon Atkin from RBC. Please ask your question, Jon, your line is now open.

Jonathan Atkin ***RBC Capital Markets - Analyst***

Thank you very much. I'm interested on the commercial front. What do you see in terms of customer demand on the hyperscale side? Are they wanting to maybe think about building more of their own capacity going forward and if so, does that affect you at all? Are the internet companies that up until now have been pursuing a cloud-first strategy, is there any trend that you're seeing where they're beginning to shift their IT onto their own equipment and perhaps signing more frequent deals with datacenter companies such as yours? Thank you.

William Huang ***GDS Holdings Limited - Chairman and CEO***

So Jon, it's William. First question is the customer build by themselves, so far, we didn't see any change right now. I think especially in a Tier 1 market, which we focus, we didn't see any changes.

The second question, there are very, very significant changes. I see a lot of larger internet companies, their IT became more complicated. So they usually use the cloud when they grow up, during their grow-up period. Now it looks like more and more they use the hybrid cross strategy, so that is why we are very excited for the future demand from this portion.

Jonathan Atkin ***RBC Capital Markets - Analyst***

Thank you and maybe just a brief one for Dan as we think about the drivers for 2021, what you're seeing in terms of your development pipeline, what you're seeing in terms of your late-stage sales pipeline, what are the factors to keep in mind as we think about top line growth and then what the EBITDA contribution might be for 2021?

Dan Newman ***GDS Holdings Limited - CFO***

Thank you, Jon. We made some comments today to set initial expectations for our sales organically and potentially inorganically next year. I think this is higher than what we have said previously. If you're talking about revenue and EBITDA next year, of course that lags the sales by at least one year to two years.

What we can look at there is a kind of indicator is how much new capacity is coming into service, because the capacity which we have under construction is 60% to 70% preleased, pre-committed. Through new capacity coming into service, it means that there's potential to deliver significant incremental backlog.

In 2020, new capacity coming into service is being pushed to the fourth quarter. You'll see there's a significant amount of new capacity coming into service in the fourth quarter this year. Then we laid out the delivery schedule in the earlier presentation, we see there is over 50,000 square meters of new capacity coming into service in the first half of next year.

Typically after new datacenters come into service, not much happens for the first quarter. It takes a couple of quarters before the movement starts to build up. But I think that this quantum of new capacity coming into service will increase what we call the backlog related to area service. Then that will flow through to further step up in the quarterly net addition to area utilized, which drives revenue.

If you talk about EBITDA, then it becomes a matter of MSR trends and the margin, which I'm sure some of your colleagues are going to ask me about in a moment, but maybe I will answer now. I think the MSR is going to continue to decline very slightly, as it has been doing. Over a period of time, it seems to average out around 1% per quarter. We've discussed factors behind that, it's not indicative of what's happening to returns. In fact it may be contrary to what's happening to returns.

EBITDA margin has increased significantly. This year it's still slightly elevated due to the benefit we received from government professions. I think next year the target to achieve may be another 1 percentage point increase in the EBITDA margin over and above what we achieved this year.

I say target because we also have, in our plan, quite a number of corporate initiatives around smart data centers, around ESG, around renewable energy, branding, corporate communications and so on. So there will be some increased costs associated with that. But in due course there will be increased investment return from that expenditure. But I'm just a little cautious on margins next year, because we do plan to increase our corporate expenditure.

Jonathan Atkin ***RBC Capital Markets - Analyst***

Thank you very much.

Operator

Your next question in the queue comes from the line of Colby Synesael from Cowen. Colby, please ask your question. Your line is now open.

Colby Synesael ***Cowen - Analyst***

Okay, great, thank you. A few, if I may. (USD)1.8 billion in proceeds from the Hong Kong listing, obviously quite a bit. Has this changed the Company's view on market expansion? Are you intending or focusing on going into more markets in China, perhaps with the new proceeds or just given where you're seeing demand go? Then, also, as part of that, your interest in going outside of China with new builds.

Then my second question, just quickly, you mentioned the opportunity to refinance debt. You have a variety of different [re-fies] in process. Can you give us an idea of what the total interest expense savings you think you might be able to achieve when all is said and done? Thank you.

William Huang ***GDS Holdings Limited - Chairman and CEO***

Colby, I'll answer the first question. I think definitely we raised [USD]1.8 billion net proceeds. I think this ensures our view, our ambition in the next five years.

I think we see a tremendous demand inside China and also overseas, like Southeast Asia and Hong Kong. I think even in China we believe there's more new markets becoming more important except our previous four key markets.

So I think we do have the plan to expand our business, still strengthen our business, gain more market share in the current Tier-1 markets. Also, we do have a very, very solid plan to move to some new important market in China.

But in the meanwhile, we talked during our roadshow, Hong Kong IPO, we do see a lot of solid demand from our in-store base is in a Southeast Asia expansion. So we are actively developing those business plans. So that's why I think that we are quite excited at this moment to look forward to the next couple of years.

Colby Synesael ***Cowen - Analyst***

William, do you think that we could see you going outside of China in 2021?

William Huang ***GDS Holdings Limited - Chairman and CEO***

It's too early to say. We would say we actually developed a plan and evaluated all the demand and evaluated all the business partner in Southeast Asia. So I think maybe in the near future, maybe at the beginning of the next year, we will tell you guys what exactly the plan is. So I don't want to say too early. It's too early to say. But I can tell you we activated to deploy the plan right now.

Dan Newman ***GDS Holdings Limited - CFO***

Yes, hi, Colby. If we just isolate out the refinancing part of what we're doing, I would say that the cash interest saving is several hundred million per annum. In terms of how it gets reflected in our accounts when we refinance, in some cases we have to write off the amortized portion of the frontend fees that we've incurred on the initial financing.

So it may not become immediately apparent in the first half of next year that we have reduced the effective interest rate. But if you give us a few quarters I think it will become apparent later next year.

Then in addition to refinancing, there's the incremental financing, which I believe we'll be able to do on these better terms. It's a significant improvement on what we've been doing in the past. It's a continuous improvement. But it's not that long ago that we were doing project financing at an all-in cost of around 7%. The synergies we've got in execution right now all work out around 5%, or even less.

Colby Synesael ***Cowen - Analyst***

Got it, thank you very much.

Operator

Your next question comes from the line of Gokul Hariharan from JP Morgan. Gokul, please ask your question.

Gokul Hariharan ***JP Morgan - Analyst***

Yes, hi, thanks for taking my questions. First of all, now that we are developing a bigger and bigger edge-of-town portfolio in at least the three main locations, could we talk a little bit about how is the demand looking at the city center, the more older data centers versus what you are developing at the edge of town. Are we seeing any differences in terms of demand being found in city or other requirements?

The second is 2020 seems to be the year where a lot more of the CapEx is being spent on inorganic. As we think about the next couple of years, how should we think about organic versus inorganic? Do you feel that inorganic is going to be a bigger portion of the capital outlay as we think about the next couple of years and some of the opportunities that you've talked about?

Dan Newman ***GDS Holdings Limited - CFO***

The first one is demand for the downtown data centers.

William Huang ***GDS Holdings Limited - Chairman and CEO***

Yes, I think the very direct answer is the demand for the downtown, let's say edge of town, right.

Dan Newman ***GDS Holdings Limited - CFO***

More central.

William Huang ***GDS Holdings Limited - Chairman and CEO***

More central, still maintain very strongly. So I think that's why we keep acquiring the edge-of-town data center when we develop the edge-of-town campus. So this strategy will continue.

We will build our large-scale, hyperscale campus in the edge of the town. In the meanwhile, we will still continue to build a data center and acquire the data center resource in the urban town. So the demand is very clearly, very strong.

Dan Newman ***GDS Holdings Limited - CFO***

Yes, I would just (multiple speakers) --

Gokul Hariharan ***JP Morgan - Analyst***

Yes, go ahead.

Dan Newman ***GDS Holdings Limited - CFO***

Sorry, go (multiple speakers) --

Gokul Hariharan ***JP Morgan - Analyst***

-- difference in demand, that's all.

Laura Chen ***GDS Holdings Limited - Head of IR***

(Inaudible - microphone inaccessible).

Dan Newman ***GDS Holdings Limited - CFO***

Well, it's the same customers.

William Huang ***GDS Holdings Limited - Chairman and CEO***

Yes.

Dan Newman ***GDS Holdings Limited - CFO***

Yes. Maybe a typical architecture is the edge-of-town site is a hub which will then be connected to a number of downtown sites. So downtown is the edge. I know we call it edge of town. In terms of the customers, architecture, downtown is the edge, and the edge of town is the hub.

Downtown, as you know, is really challenging. We have to be creative to create new resource. We've done a number of acquisitions, in fact, to give us large quantities of new supply in Beijing and now Shanghai.

It would be easy to abandon downtown because it is so challenging and time consuming, but then we would be failing our customers. It's part of the value that we provide to our customers that we have a total solution, both the edge of town and the downtown in all markets.

So your question about organic versus inorganic, William made a comment that currently the run-rate for organic is going to lead us to around 95,000 square meters. I know William said 98,000 square meters, but it wasn't Freudian. It's 95,000 is where the math comes out.

William said that next year we can say already that that kind of level is sustainable. We have visibility for that because we have a certain quantum of multi-phase orders which already give us highly certain new business next year and even the year after.

So the inorganic part is mainly driven by our desire to create more capacity downtown. In each market there are a number of independent project developers. There always have been and there continue to be and we monitor them.

The Shanghai 19 acquisition, which we're announcing today, is a case in point. It's a project that we've been aware of in Shanghai that reached a stage of completion where we were able to move forward and make the acquisition. But, as I say, we've been aware of this project, and a number of others, from inception.

That's why we have a pipeline. That's why I believe that we can sustain M&A at the current levels as well. Beijing 14 is not a done deal yet. We haven't entered into a definitive sale and purchase agreement. If that goes ahead as we plan, then it gives us 20,000 square meters of M&A for next year already and more than 12 months to do some more deals.

Gokul Hariharan ***JP Morgan - Analyst***

Got it, understood, thank you.

Operator

(Operator instructions). Your next question on queue comes from the line of Tina Hou from Goldman Sachs. Tina, please go ahead and ask your question.

Tina Hou ***Goldman Sachs - Analyst***

Hi, management, thank you for your time. If I may just ask one question, then it would be I think, William, you mentioned, in your presentation, that you've been pursuing multiple hyperscale opportunities with ByteDance and PDD.

So I'm just thinking if you could provide more color on that. Like what location these projects may be, is it edge of town, downtown or built to suit? Then the expected timeline that these can be decided and come online? Also, maybe in three to five years what kind of revenue contribution do you see from these two customers? Thank you.

William Huang ***GDS Holdings Limited - Chairman and CEO***

I think, number one, we start to build our business relationship with these two new logo -- like start from last quarter. I think, given the time, we do expect to build a more stronger relationship with them. I think according to GDS current position in China, our resource platform, our data center platform in China, which is quite unique and will contribute a lot of value -- create a lot of value for those kind of customer in the future.

I think that those customers and their demands urban-town plus edge-town hyperscale both, right? So I think the -- we are well prepared for echoing their future demand already. So I think that we are confident we will have developed more business with them.

So apparently it is too early to talk to some detail because we are communicated with those kind of account very, very closely. So I think it -- -- I'm very confident to get some new deal from them in the near future.

Tina Hou ***Goldman Sachs - Analyst***

Thank you.

Operator

Your next question comes from the line of Frank Louthan from Raymond James. (Operator Instructions).

Frank Louthan ***Raymond James - Analyst***

Great, thank you. I wanted to just ask a more general question, talking about demand and how things might have changed a bit, and in particular, the digitization trends that you would have seen, say a year ago. Now that the dust has settled a little bit, can you characterize what's sort of the pace of those trends are with end users in China now versus what they were? And how much that may have accelerated?

Dan Newman ***GDS Holdings Limited - CFO***

Yes, Frank's asking the difference between digitization (inaudible).

William Huang ***GDS Holdings Limited - Chairman and CEO***

Basically (inaudible)

Dan Newman ***GDS Holdings Limited - CFO***

Yes, Frank, when you're asking to respond. Yes, it's hard to isolate the difference that going through the COVID period has made. Clearly not just in China but around the whole world, we were all required to adapt and adapt to new technology so that we could work from home and in fact, do everything from home. Do IPOs from home. You know, that's accelerated a structural shift.

Our dialogue with our customers and new business is based on at least say their three year forward plans. So what happened, doesn't get reflected in some short term change but clearly, our -- you know, new business has gone to a higher level and I think that doesn't just reflect our success but it reflects there's more opportunity in the market.

And definitely now, some of this is being driven by 5G. Particularly say, IoT and Smart City-type applications. Those for Cloud, large internet and also for enterprise customers. Do you want to add anything?

William Huang ***GDS Holdings Limited - Chairman and CEO***

Yes, I think, Frank, I think the trend is not only triggered by the COVID, right? I think it -- it's logically, it's the -- the whole logic in China, the digitalization is overwhelming to a vault and I think the Cloud, as we mentioned again and again, Cloud is still in the early stage. So we will see in the next five years, Cloud still -- Cloud players still will be the major key -- driver to drive the data center demand.

In the meanwhile, as I just mentioned, I think a lot of the new internet, the large internet companies, still -- could be produced in China. Like Beike -- like Kuaishou, like PDD right? If you look at the last five years, they are nothing, right? Now they became a 10 billion dollar company. More than 10 billion dollar company.

Dan Newman ***GDS Holdings Limited - CFO***

Hundred billion.

William Huang ***GDS Holdings Limited - Chairman and CEO***

I think this is -- so that means the internet is still developed and penetrated to different settlement, penetrated different vertical industry. So I think there's still a big space for the internet company to grow.

So I think they can do -- they will add -- now there are a lot of internet companies not just using the public Cloud. They use -- they adopted to a hybrid Cloud architecture. This will trigger a lot of Cloud demand plus a lot of data center co-lo or hyperscale data center demand.

So I think we are very confident. In the meanwhile, I just mention that they're -- like the traditional financial institutions plus enterprise. They also start to transfer their architecture from the traditional architecture to the Cloud--based -- hybrid Cloud base.

So this will create another wave of the demand for data centers. So in my view, there are the three driver. Cloud, internet, enterprise. In the next 5 or even 10 years, will be their key demand -- key drivers to drive the demand.

So that's why we bring such a big money. We try to catch up to echo this wave, right? But I --

Frank Louthan ***Raymond James - Analyst***

That's great.

William Huang ***GDS Holdings Limited - Chairman and CEO***

But I would add a little more, as Dan mentioned, the 5G is just an implement right now but we believe in -- after two years, 5G will trigger more IoT stuff, will trigger more new application and also will be another potential key driver -- driver to drive data center demand.

Frank Louthan ***Raymond James - Analyst***

What are some of the key applications you think that come out of 5G? Where are you seeing right now?

William Huang ***GDS Holdings Limited - Chairman and CEO***

Yes, I think there -- there's a lot of the -- so far, I think it's too early to talk about it but you will -- we will see a lot of the IoT stuff, we talk to a lot of the traditional industry.

They all talk about the IoT stuff and I think they're very clear, 5G will drive their -- the new applications to implement to the -- all the -- supply all the varied chain. This is a varied chain including the manufacture -- the manufacturing and traditional retail, traditional industries.

So I think it would be -- given it is not very clear now but it -- that the market is talking about a lot of the developments right now.

Frank Louthan ***Raymond James - Analyst***

All right, great. Thank you very much.

Operator

Your next question comes from the line of James Wang from UBS. (Operator Instructions).

James Wang ***UBS - Analyst***

Good morning, Management. Congratulations on a good result. So first question from me is, I remember in the second quarter result, Dan mentioned there were a few locations that experienced some delays in activation of power supply.

So I'm just wondering whether these are resolved now and maybe a broader question on this is, as a number of projects and the construction grows, is it getting more difficult to execute the same level of precision as the past? And then there may be more slippage in capacity delivery over time?

Then my second question is about the Huidong Project. Just wondering whether power supply has already been secured for that project. Also, what sort of customers you have in mind for that location.

And also, we're hearing for example, there's potential over--building parts of Guangdong so perhaps a bit more color on the demand and supply situation in that particular region as well. Thank you.

Dan Newman ***GDS Holdings Limited - CFO***

Okay, thanks, James. Yes, the reference I made was actually just to a couple of sites. We can control to a large degree the construction but the provision of the power infrastructure and the activation of the power, depending on supplier and sometimes, there's some kind of small -- small delay. That was fixed, I think, by the end of September. Yes, it may happen from time to time but it adds up to a few months.

So a few months matters, particularly when we have delivery scheduled for customers, but life can't be perfect, right? So -- but you know, the degree to which this affects us is pretty small.

Your second comment though, is very opposite. I think we had the largest data center construction program in the world. I tried to benchmark it against some other very well-known and large cap global players. It looks like we have almost double the amount of capacity under construction.

And operationally, execution is difficult. You know, lots of challenge, lots of complicating factors. I like to stress this, as you brought it up because I mean, generally, maybe analysts and investors underestimate this when they talk about competition and people's plans. And it's easy to say it, it's not easy to do it.

But we've been scaling up for 10 years. We started with three data center projects and we went through 10 years of increments and now we have around 20 projects more or less permanently under construction so I think we've shown that we can handle this sufficiently and keep execution issues down to a minimum.

Your last question about Huidong. Yes, we bought the land from the government. That means the deal. The deal was to acquire the land and together with the government's commitment of the Carbon quota. Anyhow, the right to use the power capacity and to coordinate with the State grid to provision -- well actually (inaudible) to provision the power supply.

The land is actually located in an industrial park, which is actually called a data center park. So it's an established location from that respect. Overbuild, over supply, well we've heard -- we've always heard that, right? Meanwhile, our commitment rate is 95% and our peak commitment rate is 60% or 70%, which you won't find any data center company in the world which has that level of commitments and pre- commitments.

A site like this is actually very close in effect to the edge -- the edge of the Shenzhen, right. It will be first in queue and very attractive to hyperscale Cloud. So we will announce an anchor customer in one or two quarters.

James Wang ***UBS - Analyst***

Great, thank you. Thanks, Dan.

Operator

Your next question, thank you, comes from the line of Edison Lee from Jefferies. (Operator Instructions).

Edison Lee ***Jefferies - Analyst***

Hi. Good morning, Management. Thank you very much for taking my question. I guess the number one is about your comment on the growth in hybrid Cloud demand and I suppose that the hybrid Cloud demand is going to come more from enterprises rather than large--scale internet companies. So does it mean that your proportion of retail in the business is going to go up?

I know that you guys don't want to try to distinguish between wholesale and retail but I'm just trying to get a sense of the breakdown of the demand coming from large internet giants and traditional enterprises and how that's going to impact your pricing and also your utilization rate going forward?

William Huang ***GDS Holdings Limited - Chairman and CEO***

So I think the demand profile, as I just mentioned, and the key demand still will be the Cloud service provider in the short term but we do see the internet company, they -- since they adopted their architecture to the hybrid Cloud, I think the demand will be more fast. The grow more fast.

In terms of the enterprise customer, as you -- everybody know, the enterprise customer, they are much -- they are -- their subsidy time is longer than other internet companies and Cloud player right now, and we do see the change of the architecture.

So, we see some solid enterprise customers, very solid demand from some of the large financial institutions. I think this will be the trend -- number 1, this is the trend. Number 2, I think in the short-term the demand still be number 1 cloud, number 2 internet company, and number 3 is an enterprise customer.

In terms of the new customer -- new enterprise customer demand -- development, I can tell you four years ago we had the 350 customer names, but now we have almost 700 year to date. Almost 700. That means we have doubled our customer numbers.

The number is mainly driven by the enterprise customer. We never start to give back the new customer in enterprise area, so we will still continue to give back. The good thing is that they are non-traditional enterprise, they start to use the hybrid cloud. We think that we will get the benefit from the next few years. Dan?

Dan Newman ***GDS Holdings Limited - CFO***

Yes. I think it is right. We used hybrid clouds in reference to large internet companies, which maybe sounds pretty unusual, but that's what we're seeing.

It reflects the range of applications and data that they have, the range of their requirements. For example, video streaming might rely more on say CDN, for which they will use a public cloud, but there could be other business areas, other data and applications which requires large concentrations of service, in which case they put that on a private cloud, and then there's traffic migrating between the two.

So, I think we -- it is right to talk about hybrid cloud. There's reference to the opportunity with large internet customers. We haven't provided any targets, and I hesitate to do so, but on a three-to-five-year basis we do aim to increase the proportion of call it retail, philanthropist institution and enterprise from where it is today. That's despite what we expect to be the continued very high-volume growth from cloud and internet.

Edison Lee ***Jefferies - Analyst***

Thanks, Dan, and William. Can I ask two follow-up questions? Number one is if the -- for these traditional enterprise customers, do they have more demand or do they want more to be in the core tier-1 cities or are they happy to be at the edge of town locations? How does that impact your capacity expansion plan?

Number two is that if you have more of these traditional enterprise customers on the retail business does it mean that your utilization rate will likely ramp up more slowly than before? Because you need to go out and find these enterprise customers in a retail model.

Dan Newman ***GDS Holdings Limited - CFO***

Yes, you're right on that last point. The enterprise deployments are mainly downtown. There may be a limited number which -- in the 1000 square meters plus order size, which could go to edge of town.

We do see some order size like that, but it's not yet part of our customer mix for edge of town. I think the enterprise business does require downtown, and the sales cycle is longer and it's more intensive. We are increasing our sales resources to cover that segment. But we also have a lot of follow-on sales potential with our established customer base and our -- William says 700 -- of 700-out customers is 250, almost 250 financial institutions in that mix.

That's been built up over more than 15 years. We were the first mover in providing business continuity with disaster recovery, a very high-quality customer base there, and there's a lot of potential, particularly as they start to change their IT architecture to make new sales to those long-established customers.

Edison Lee ***Jefferies - Analyst***

Okay. That's great. Thanks for the comments.

Operator

Your next question comes from the line of Hongjie Li from CICC. Hongjie, please ask your question.

Hongjie Li - ***Analyst***

Thanks, management. I have one question continued on the power supply. I saw we have multiple projects for next year in our construction program, especially in Langfang. How does the power supply over there -- will the power impact our delivery, and also in other urban areas and edge of town except for the government quota have other ways to guarantee power supply over there? Thanks.

Dan Newman ***GDS Holdings Limited - CFO***

Sorry.

Laura Chen ***GDS Holdings Limited - Head of IR***

The line is not clear.

Dan Newman ***GDS Holdings Limited - CFO***

The line was really unclear. I'm just checking with Laura, whether we could hear what the question was.

Laura Chen ***GDS Holdings Limited - Head of IR***

I think she said on the power supply in Langfang.

Dan Newman ***GDS Holdings Limited - CFO***

Power supply in Langfang.

Laura Chen ***GDS Holdings Limited - Head of IR***

Yes, and will that affect our delivery next year?

Dan Newman ***GDS Holdings Limited - CFO***

Okay.

William Huang ***GDS Holdings Limited - Chairman and CEO***

I think Langfang as a city has some limited power capacity, number one. But number two is we are first mover in Langfang. We definitely secured the power capacity for the future development. This is our first mover advantage. I think the power supply will not impact our delivery in the Langfang area in the next couple of years.

Is that your question?

Hongjie Li - ***Analyst***

Thanks.

William Huang ***GDS Holdings Limited - Chairman and CEO***

Okay.

Operator

(Operator instructions) Your next question comes from the line of John Choi from Daiwa. John, please ask your question.

John Choi ***Daiwa - Analyst***

Management, thanks for taking my question. I have a quick question related to your - I think initially, Management, you guys mentioned about your ESG efforts, like next year you will spend a bit more on - but are you still able to expand on 1% EBITDA margin.

I think with the recent carbon neutral initiative by the government, what is our plan on the renewable side and how would that impact our cost in terms of developing and would that have any impact on our MSR?

Just quickly, on - Dan, I think you mentioned about the acquisition was inorganic. It seems to me that inorganic has been stepping up since the past 12 months. Is it because the projects are being more mature in towns and cities, or the prices have been coming off? Is there any trend that you could share with us? Thank you.

Dan Newman ***GDS Holdings Limited - CFO***

Hi, John. Thanks for the initiation. I think John is the most recent one to initiate on GDS, so a very good report, if I may say. We will publish our first ESG report next year, and until then I don't want to come out and set any expectations because I think there's a lot of irresponsibility in this area where companies talk about targets without giving any timeline or any metrics, and it just looks to me like marketing.

We've established a team. We have and we are enhancing our expertise in the power sector to try to manage this better, and it requires ingenuity and creativity to be able to increase the proportion of our data centers which use renewable energy, and we're working hard to do that, so take it very seriously.

You said the inorganic proportion seems to have stepped up, and we've done, I think with the Shanghai 19 acquisition which we announced today, that was the 11th acquisition which we've done since I think second quarter of 2016 was the first M&A deal. So, it's been around two deals per annum.

Some of those deals have been larger. For example, one of the deals in 2019 was Beijing 10, 11, 12, so it's like three data centers. The deals that we've done in 2020, like Beijing 13 was 20,000 square meters. In fact, we hope soon to announce that we've been able to upscale that quite significantly.

Beijing 14, which hopefully will move forward and find definitive agreements and close next year, is also 20,000 square meters. We're still doing around two deals per annum, and hope to maintain that, if not more.

You made a comment about acquisition multiples. We're seeing two kinds of M&A opportunity in terms of stage of development. Most of our deals have been projects which are under construction, or at least when we signed the sale and purchase agreement, there was still a substantial amount of work to be done to complete those projects.

In that case, we've been buying projects at single-digit multiples of estimated stabilized EBITDA, factoring in what we pay and the cost to complete. Shanghai 19, you can do the math from what we've disclosed, definitely fits into that category.

But then there have been a couple where we've acquired data centers which were already complete and as I mentioned before, there's more competition for those kinds of opportunities, including from financial investors. We will do those deals when we see very strong strategic rationale.

Of course, the multiples are double digits now, but I'm interested to see when the REIT markets in China develops, which won't be long now, in respect of data centers. I'm interested to see what kind of cap rates data center REITs will command. My expectation is it's going to be way below the level at which we've done our deals, even the more advanced or mature deals.

John Choi ***Daiwa - Analyst***

Great. Thank you.

Operator

As there are no further questions, I would like now to turn the call back over the Company for closing remarks.

Laura Chen ***GDS Holdings Limited - Head of IR***

Thank you, everyone, once again for joining us today. If you have further questions, please feel free to contact GDS investor relations through the contact information our website or (inaudible) investor relations. See you next quarter.

Operator

Thank you, presenters. This concludes this conference call. You may now disconnect your line. Thank you.