REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q1 2021 GDS Holdings Ltd Earnings Call

EVENT DATE/TIME: MAY 20, 2021 / 12:00AM GMT

CORPORATE PARTICIPANTS

Laura Chen *GDS Holdings Limited - IR*
William Huang *GDS Holdings Limited - Founder, Chairman and CEO*
Daniel Newman *GDS Holdings Limited - CFO*
Jamie Khoo *GDS - COO*

CONFERENCE CALL PARTICIPANTS

Yang Liu *Morgan Stanley - Analyst*
Jonathan Atkin *RBC Capital Markets - Analyst*
Colby Synesael *Cowen - Analyst*
James Wang *UBS - Analyst*
Tina Hou *Goldman Sachs - Analyst*
Gokul Hariharan *JP Morgan - Analyst*
Rob Palmisano *Raymond James - Analyst*

PRESENTATION

Operator

Hello ladies and gentlemen, thank you for standing by for GDS Holdings Limited First Quarter 2021 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 ***GDS Holdings Limited - IR***

Thank you. Hello everyone, welcome to 1Q21 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 Chief Executive Officer, who will provide an overview of our business strategy and performance. Mr. Dan Newman, GDS 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 US Private Securities Litigations 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 and filed with the US SEC. The Company does not presume any obligations to update any forward looking statements, except as required under applicable law.

Please note that GDS Earnings press release and this conference call can 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-GAPP measures to the unaudited most directly comparable GAAP measures.

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

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

Okay, hello everyone, this is William. Thank you for joining me on today's call. I am pleased to report another solid set of the results. Our performance year to date is in line with our expectations, and we would remain on track to deliver our full year sales target and financial guidance.

Our sales in 1Q21 was over 23,000 square meters, all organic, all Tier 1 markets. We have maintained the same sales run rate since the beginning of last year. We are confident of maintaining it throughout 2021. Despite the noise about the growth of the cloud market in China, new regulations and increasing competition, we are not slowing down.

The reason why we can maintain sales commitment and momentum is because of our positioning. In particular our increasingly diversified customer relationships and our market presence, which mirrors the footprint of the cloud. The strength of our positioning is clearly illustrated by our sales achievements in the past few months.

In 1Q21 we won six hyperscale orders. Two of these orders were in new markets. In Hong Kong we closed an anchor order for 45% of our Hong Kong 1 data center. The customer is a leading cloud service provider from China. In addition to commitment for Hong Kong 1, which will enter service in 2022, this customer has indicated strong interest in anchoring our Hong Kong 2 data center, which will enter service one year later in 2023.

In Chongqing we closed an anchor order for 50% of our Chongqing 1 data center. This came from a large clouds customer in the financial service industry. In the current quarter we won a first time hyperscale order in Beijing from a new cloud service provider, which is focused on serving government and SOE customers.

These three notable orders highlight our ability to keep on winning as demand shifts between markets and customers. A couple of quarters ago, we made important breakthroughs with two new hyperscale internet customers. I am pleased to report that we have now won a follow-on order from one of them, a leading e-commerce platform player for capacity in one of our Shanghai data centers. We also won the bid for a follow-on order from the other one, a leading content platform for capacity in their second Tier 1 market.

Our sales and resource strategy is driven by architecture of the cloud. As shown on slide 6, cloud platforms deploy mutiple availability zones in each region. Each AZ is independent, but all of the AZs in the same region are interconnected with a minimal latency. This architecture supports real-time and highly redundant operations.

Hyperscale customers looks to "land and expand", which means they set up new AZs and then over time increase the capacity. We target the initial land and, as a result, we are well-positioned for the expand. Around 50% of our current sales pipeline is expansion orders from customers who have already landed at one of our locations. These expansion orders will not go out to open tender.

For the remaining 50% of our pipeline, the situation varies from the highly competitive to limited competition. Depending on the location and customer requirements. This means that we can be selective about what business we pursue. We are not under pressure to chase highly competitive deals just to meet sales targets.

A key to our success has been our ability to continuously scale up our supply. As shown on slide 7, we now have our highest ever area under construction at over 160,000 square meters, or 397 megawatts of IT power capacity. Meanwhile, we have sustained our pre-commitment rate at 68%.

As shown on slide 9, in each Tier 1 market we have established a cluster of data centers in separate locations which mirrors the footprint of the cloud. This is what gives our platform a unique value proposition. No other data center company is anywhere close to having this market presence. In fact, most of our competitors only have supply in a few places.

During 1Q21 we started the construction of five new data centers on land and buildings which were previously held for future development. At the same time, we topped up our resource pipeline with greenfield land purchased at great locations on the edge of Shanghai and Beijing. This shows how our capacity sourcing and the construction cycle is working.

We currently have over 500,000 square meters of capacity held for future development. Over 90% is greenfield land which we own, and which comes with power quota. This resource pipeline de-risks our growth and the visibly demonstrates our sustainable competitive advantage in resource supply.

We currently have about RMB3.3 billion, which means $498 million of investment tied up in held for future projects. There have been a number of recent developments in government policy including specific policies related to resource allocation in Beijing, Shanghai and Guangdong.

Some of the details are new, but in our view the underlying policy direction is consistent. On the one hand, data centers are new infrastructure, which is important for China's digital transformation. On the other hand, the government is guided by carbon neutral objectives and the maintaining tight control over the allocation of land and the power for data center use.

We hear people talk about over-supply. Let's put this in context. Across all of our Tier 1 markets, supply is constrained and the bar is being raised by government policy. The only exception is the area in Jiangsu Province to the immediate north-west of Shanghai, where there are a number of players who have large developable capacity. Competition in this one area is more intense and the pricing is more aggressive. It will take some time to work through. But in the longer term, we believe that supply will be constrained there, just like everywhere else. We are taking a long-term view and are seeking to consolidate some of the supply.

During the current quarter, we closed two previously announced acquisitions.

BJ15 brings over 19,000 square meters of capacity. It is 100% committed and 80% utilized. BJ15 was a highly competitive M&A deal. Since closing, we have started conversion of an existing building on the same sites, which we call BJ16. It is already almost 100% pre-committed. With this expansion, the implied acquisition multiple comes down by about one to two times.

TJ1 is our first data center in the Tianjin area. With the added advantage that it is only 30 kilometers from the edge of Beijing, it brings over 14,000 square meters of highly marketable capacity. We paid a relatively small premium to organic build costs.

We are currently at an advanced stage for another data center acquisition, which would bring expansion capacity with some customer commitments. Once again, we expect to pay a single digit acquisition multiple. We saw this quarter how Chongqing and Hong Kong, two new markets for us in terms of self-developed data centers, drove significant new business from established strategic customers. By the end of this year, we expect to enter one of two further new markets in China.

The same logic of follow the customer is driving our South East Asia expansion plans. Our initial focus is on Singapore, however as the Singapore Government is not approving new projects, we are looking for alternative ways of establishing a presence in the Singapore market. Given the constrained supply in Singapore and the rising co-location prices, we are also considering complementary options in neighboring countries. We have identified some very promising investment opportunities and we aim to make at least one or two commitments within the next couple of quarters.

Now I will hand over to Dan for the financial and operating review. Thank you.

Daniel Newman ***GDS Holdings Limited - CFO***

Thank you, William. Starting on slide 15 where we strip out the contribution from equipment sales and the effect of FX changes, in 1Q21, our service revenue grew by 4.7%. Underlying adjusted gross profit grew by 6.2% and underlying adjusted EBITDA grew by 7.2% quarter-on-quarter. Our underlying adjusted EBITDA margin was 47.9%, a new high for us.

Turning to slide 16, service revenue growth is driven mainly by delivery of the committed backlog and closing of acquisitions. Net additional area utilized during 1Q21 was 16,152 square meters, exceeding our expectations for the first quarter, which is normally a slower season in terms of move-in. In 2Q21 we expect organic movement to be slightly lower. As a result, at the mid-year point, we expect move-in will be in line with our target.

MSR declined 2.6% quarter on quarter in 1Q21 to RMB2425 per square meter per month. For FY21 as a whole, we expect MSR to decline by a low single-digit percentage year-on-year. To some extent the MSR trend is a reflection of average selling prices in our backlog. However, there are many other factors which affect MSR, including the customer mix, data center location, redundancy level, development cost and contract structure. We have said many times that we target for sustained investment returns. We have been largely successful with only a gradual small decline in IRRs over the years across our portfolio as a whole.

Turning to slide 17, our underlying adjusted gross profit margin was 54.4% for 1Q21, an increase of 0.7 percentage points quarter over quarter. Due to the timing of data center completions, our utilization rate was at a slightly higher level of 72.9% compared to 71.1% at the end of 4Q20. Our underlying adjusted EBITDA margin was 47.9% for 1Q21, an increase of 1.1 percentage points quarter over quarter.

As you can see on slide 18, we have a lot of data center capacity coming into service in 2Q21--[43,007 square meters, compared with only 13,823 square meters] (corrected by company after the call) in 1Q21. Despite the fixed costs associated with this additional capacity, we expect our 2Q21 margin to be only slightly lower than for 1Q but continuing the upward trend from last year.

Turning to slide 19, our CapEx for 1Q21 was RMB2.3 billion, consisting mainly of payments for organic CapEx. As we closed on Beijing 15 in 2Q21, we expect RMB2.8 billion of acquisition consideration to be paid in the current quarter. Part of our organic CapEx in FY20 and FY21 relates to B-O-T contracts. We have nine such projects for one customer which are designed for transfer to JVs with GIC and two such projects for two other customers which are not part of our existing agreement with GIC.

We are currently in discussions with GIC about increasing our percentage ownership in the JVs and including all 11 projects in our partnership. We think that the combination of higher equity participation and management fees makes these projects more worthwhile for us. We will update you when ready. As at the end of 1Q21, we had around RMB1 billion of accumulated CapEx payment for these 11 projects.

Looking at our financing position on slide 20, we have RMB14.9 billion of cash on our balance sheet and our net debt to EBITDA ratio is 2.9 times. Given our ongoing levels of organic CapEx and the Beijing 15 acquisition consideration, this ratio will go back up to around five times by the middle of this year. During 1Q21, we completed debt financings with a total facility amount of RMB1.3 billion, equivalent to USD191 million, including both new project financing and refinancing of existing facilities.

The average interest rate for these complete facilities is 5%, based on the prevailing loan prime rate. This compares with an effective interest rate of 6% for all of our debt in 1Q 2021. In the past four months, we've completed RMB0.9 billion of refinancing and we expect to complete another RMB1.7 billion of refinancing by the end of the current quarter. With that, we will have RMB2.1 billion of refinancing left to do as part of our plan for this year. Once completed, we expect our effective interest rate to come down.

Turning to slide 21, we confirm that our previously provided guidance for total revenues, adjusted EBITDA and CapEx remain unchanged. Before we finish, I would like to say a few words about ESG. We plan to publish our inaugural ESG report in the next few months. We appreciate that investors are keen to know our plans, particularly for renewable energy given its importance to all of our stakeholders. As market leader, we aim to take a leadership position in renewables. We are operating in markets which have their own challenges, which are also very dynamic.

The supply of renewables is increasing rapidly in China. On a per-kilowatt basis, the generation cost will soon reach parity with brown power. China leads the world with its investment in ultra-high-voltage, long distance power transmission, which means that renewable energy is going to be more accessible in Tier 1 markets. The power trading markets in China are also developing rapidly. All of this creates exciting possibilities which we will reflect in our targets, timeline and how to get there. We will not disappoint.

We would now like to open the call to questions. Operator.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Please stand by while we compile the Q&A roster. For the benefit of all participants of this call, please limit yourself to two questions. Our first question comes from the line of Yang Liu from Morgan Stanley. Please ask your question.

Yang Liu ***Morgan Stanley - Analyst***

Thanks for the opportunity. I have two questions here. First is related with the competition in Jiangsu. As William previously mentioned, you expect a normalization for the competition in future. What do we need to see before a real normalization? Is it should be consolidation or is it should be policy turnaround in approvals? What's your expectation here?

The second question is related with consolidation. If GDS turn out to be the consolidator, what should be the multiple trend in the next few quarters or next few years? Because we see a lot of PEs and infrastructure fund entering the market. They might push up the acquisition multiple in private market. What is your expectation on the multiple here? Thank you.

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

Okay, the first question is amount of the competition, right, in this area, right. I think number one, the capacity at the land and power is allocated to the different payers in the last couple of years.

So at this area, as I mentioned, the competition is intense, but GDS now in a very good position is number one, our capacity already have the customer commitment since last year. So we are not pursuing some deal which only wants fulfill our sales target. We have time to relax because we are well-positioned there.

So based on our national footprint, GDS is already in a multi-market. We are not just focused on one market to maintain our--try to get every deal, win every deal. It depends on our intention. If some strategic deal we'd feel important, we will do it but if the deal is, quality is not that good, we will walk away. This is our strategy in this area.

From long term point of view, I think the number one, the demand, because we believe in the whole Shanghai area, east of China, I think the demand still will continue to grow. So we don't worry about it in the future. This inventory will be the issue, but it would take time. So we are quite relaxed.

On the other hand, GDS has, as I used to mention, we have more than almost, more than 700 customer base. So our customer is quite diversified. 85% of our new incremental order is from our installed base. So we are not a desperate payer, so we are quite relaxed to look at this area's competition. Still, the first question.

But once again, as I mentioned, I think the government's policy is changing. Because in general, I mean the carbon neutral policy will raise the bar of the carbon quota allocation and this is in my view, we are slowly to tight-up the quarter. So I think the demand and the supply will more balance in the next few years.

The second question is on consolidation, I think yes we are in a multi-market, even in the overseas market. So consolidation is definitely is our future goal. So we are open in terms of the acquire the project, acquire a platform. So we are quite open. So we keep open our eyes to watching the opportunity.

In terms of multiple, we always do the reasonable deal, right? We don't want to be a crazy buyer, right? So we will consistent to let's say take care the invest, all the investor benefits in our, each acquisition deal.

Yang Liu ***Morgan Stanley - Analyst***

Thank you.

Operator

Our next question comes from the line of Jonathan Atkin from RBC. Please ask your question.

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

Thank you very much. So I have an operational question and then a strategic question. So on the operational topics, you have 43,000 square meters coming into service in 2Q.

I wondered, with the timing, is that weighted towards the beginning or end or middle of the quarter and also on the renewal schedule that you shared, you know, a reasonable amount is coming due for the final three quarters of 2021 and where do things stand with your renewal discussions with your customers?

Jamie Khoo ***GDS - COO***

Jon, this is Jamie. Regarding the question regarding on the timing for delivery of the first 3,000 square meters, we are looking more closer to the June period on the delivery mostly. Yes. On the --

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

Can you repeat that? I'm sorry, I didn't catch that.

Jamie Khoo ***GDS - COO***

Yes, so we are looking more towards the end of quarter which is more in the June period.

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

End of quarter.

Jamie Khoo ***GDS - COO***

In the period, yes.

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

Got it.

Jamie Khoo ***GDS - COO***

What's the second question, [I don't remember]? Dan, would you want answered?

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

Yes the renewals, yes in the back of your presentation you give the amount of renewals for the final three quarters of this year, next year, the following year but for the near term renewal between now and end of 2021, what is the discussions that you're having with your customers?

Are you anticipating renewing 100% of it? What's the tone of your discussions around that and the renewal rent and whether that stays the same or changes?

Daniel Newman ***GDS Holdings Limited - CFO***

Yes Jon, I think we'll renew almost all of it. There's one situation where we are going to pull out of, what we call a third party data center because it's no longer up to an acceptable operating standard and there may be some churn but less than 1000 square meters which, insignificant even by standards of data center industry.

Other than that, we expect a very high renewal rate this year and I would say is an overall assumption that pricing will be flat across all the contracts. We discussed quite a few times before about our strategy at this point in the cycle, we're still increasing our market share and deepening relationships with large customers.

We don't push too hard on the pricing because we're getting benefit trade-offs in terms of new business at reasonable prices and returns in many other places in China. So we think achieving overall flat pricing on renewals is quite satisfactory at this time.

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

Thank you and then lastly there was a press article in the last two days about partnering or acquiring a data center business of a logistics real estate company and I wondered if you can comment on what you would view are the strategic advantages of such a partnership, inside of China or in other markets like Malaysia or Indonesia that you're targeting for entry.

Daniel Newman ***GDS Holdings Limited - CFO***

Well we did not respond to the story that was put out by one news agency and I won't respond now, but as a general comment, our acquisitions to date have been in effect active acquisitions. We've acquired data center facilities on each acquisition has involved a single site, somewhere between 4,000 to 20,000 square meters and various stages of development.

We haven't done any acquisitions of what you might call platform players, but in terms of strategy, I think it's all part of the same theme which is that we seek ways to leverage our market leadership position to establish even more competitive advantages, scale advantages, market presence and so on.

Platform acquisitions, probably have to look at the valuation in a different way. We'd have to assess what the synergy is, what the strategic benefits are and so on, but we're very open-minded about that. I think we have a window of opportunity, given the position that we've established to really try to do some more significant deals.

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

Thank you very much.

Operator

Our next question comes from the line of Colby Synesael from Cowen. Please ask your question.

Colby Synesael ***Cowen - Analyst***

Hi great thank you. Maybe just following up on that last one, as you start to potentially look at platform type acquisitions, you know, what's the capacity financially speaking that you think that you guys might be comfortable doing? The article that Jonathan is referencing suggested a pretty high price target or price tag, excuse me, which I'm just trying to get a sense of what is the feasibility of doing such a large deal.

Then secondly, even though the install number, the 16,000 plus, was stronger than guided to, you've missed service revenue expectations at least by a little bit, largely as a result of the greater pressure on ARPU than I think was anticipated. It was down as you mentioned 3.7% quarter-over-quarter.

Just wondering if that's timing related or what might be behind the magnitude of that sell off and then based on your guidance for still low single digit decline, it would suggest then that ARPU is most likely flat for the remainder of the year off of that 1Q number. I'm just curious if you would support that view. Thank you.

Daniel Newman ***GDS Holdings Limited - CFO***

The first part about our financial capacity, I think it's relatively easy to calculate what it is to date. We have just under RMB15 billion of cash on our balance sheet, or had at the end of the first quarter because we have a big slug of acquisition consideration to pay during the second quarter.

Yes, we gave guidance for annual CapEx of about RMB 12 billion, which included the known M&A but not the unknown M&A. If we finance that CapEx 50-50 equity and debt, which is relatively conservative because we target higher leverage than that. That would involve RMB 6 billion of equity and RMB 6 billion of debt. For the RMB 6 billion of equity, that's versus nearly RMB 15 billion of cash.

So there's a fair amount of capacity there if something -- opportunity arises which is not in the ordinary course of business. It's more generally, I'd hope, after the number of different financings we've done, the number of different markets and sources of capital that we've tapped, whether it be stock markets in the US or in Hong Kong, strategic investors in Singapore and private placements for Chinese financial investors and financial institutions and joint ventures with sovereign wealth funds and so on, I hope over the years we've proved that we have enough ingenuity to be able to find ways to finance whatever we want to do.

I think we've never considered ourselves capital constrained even when we built three data centers with $20 million in 2010, we didn't consider that we were capital constrained.

But look, comments about the MSR, it's a fair comment. 2.6% quarter-over-quarter decline in the first quarter is often just to do with mathematical timing. That's why I gave the assurance that over the full year, it's still looking at low single digits. So that means not much further decline in the subsequent quarters of this year. Maybe 1% in the second quarter but not much in second half of the year.

But we don't provide quarterly guidance so I accept your comment about revenue in the first quarter but we didn't actually provide revenue guidance. On the other hand, I think probably our EBITDA exceeded most people's expectations. Our EBIDTA margin exceeded most people's expectations. So, it's -- there's a kind of balance there.

Colby Synesael ***Cowen - Analyst***

Okay, thank you.

Operator

Our next question comes from the line of James Wang from UBS. Please, ask your question.

James Wang ***UBS - Analyst***

Good morning, Management. It's James Wang from UBS. I've got these two questions. The first question is on self-build. So can you maybe comment on the extent of the self-build by the large Cloud companies? For example, have you seen any change recently in the proportion of self-build by these customers? As a hypothetical, how would you ensure your future growth if these customers were to increase their proportion of self-build? So that's the first question.

The second question is just on the current demand environment. It seems like a number of projects put out for public tender this year has come down and also, I think, William mentioned that this year, you guys saw a bit of a slowdown in the cloud business in China.

But do you see this weakness as a one-off thing as just this year? Or do you think this slowdown will be sustained? Thank you.

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

Okay, the first question is -- the customer self-build, right? I think this is not something new. I mean, since a couple, four and five years ago, the self-build market is a separate market in my view.

So again, I should remind the -- all investors, GDS strategy is focus on Tier 1 market, right? So I think the market is subject to the one is the self-build market which is in the most -- almost 100% so far, is in a remote area. They're -- what we can see is all the Tier 1 market still very, very good demand from our customer.

So I think it -- in terms of the Tier 1 market, we didn't see a lot of the different compared with the last couple of years. So this is a chance here we'll maintain. So once again, this is a separate market.

James Wang ***UBS - Analyst***

The second question. The next question is...

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

Yes, you may -- sorry? Go ahead.

James Wang ***UBS - Analyst***

Sorry, the second question, William, just on the demand environment. Do you see the slowdown being sustained? Thank you.

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

I'll start. Demand. It's different -- it depends on the different -- or which market you -- we talk about. In our view in the Tier 1 market, outsourcing market, I didn't see a slow down the demand. So that's why we can still maintain the high growth in the first quarter, which we just reported.

We think that -- we didn't see -- we still see our momentum in the next quarter but I don't see -- I don't know which other player, what they look at, right? In our view, I think we already lockup this quarter and we maintain the whole year's sales commitment.

James Wang ***UBS - Analyst***

Thank you.

Operator

Our next question comes from the line of Tina Hou from Goldman Sachs. Please, ask your question.

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

Hi, Management. Thank you for your time. I have two questions. The first one is regarding your B-O-T project and the JV with GIC. Wondering if you could share more color with us in terms of how your thoughts are for the JV as well as for the B-O-T projects going forward.

Then the second question is regarding competition as, William, you mentioned that the competition in Jiangsu province has been relatively intense recently. So I was just wondering, historically speaking, there may be a few years ago, was there any similar situation in any of the regions happening in China and then what was the process there and then how did -- so how eventually did the competition intensity come back to normal? It would be very helpful if we could have some historical reference there, thank you.

Daniel Newman ***GDS Holdings Limited - CFO***

Hi, Tina. I'll answer the first question on B-O-T. We always make clear, in fact William just said it that the B-O-T opportunity is mostly a remote site opportunity and it's quite different from our core business in Tier 1 markets.

The situation is almost exactly the opposite of Tier 1 markets. In Tier 1 markets, customers may have multiple availabilities zones. Their capacity is spread out and we have a big challenge to expand their IT platforms in multiple locations in a synchronized way.

Whereas in the remote sites, they have very few locations. In fact, if you look at the earnings presentation where we showed the locations of the availabilities that are in China, you see just a few dots outside of the Tier 1 markets. Those are the remote sites.

The remote sites, our customers can concentrate a lot of capacity in very few place. There's no barrier to entry so it's very practical for them to do that for themselves. Yet, most of them are looking to outsource that but the terms of outsourcing are quite different.

So we've established a partnership with GIC who is just a -- really, more of a financial engineering, to ensure that we have a competitive cost of capital. But we are selective about that business, just as we are selective about the business that we do in Tier 1 markets.

If that kind of business is put out to open tender, it's more competitive. It's more price-orientated than business in tier 1 markets. All I can say is, if we don't win it with our scale advantage and our cost of capital advantage, then whoever wins it probably is not getting a very good deal.

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

Thank you, Dan, and just a follow up on that. So you mention I think you were interested in maybe increasing the shareholding in the GIC JV. I remember it was 10% for GDS if I'm not mistaken. So if we increase -- potentially increase that shareholding to over 50%, does that mean all of these projects should get consolidated into our P&L, right?

Daniel Newman ***GDS Holdings Limited - CFO***

That would be the case but actually, the driver here is -- how -- what makes these projects worthwhile for us. If we for example have a 51% equity interest and are able to charge a management fee which effectively means charging a management fee to our 49% partners and then we calculate the return on equity, which is obviously the project return enhanced by the management fee, that -- at a 51% ownership level, the project returns from these projects is attractive.

It's not inferior, it's not something that we are reluctant to do so we feel that we can justify putting more equity in up to that kind of level. There may be some situations where we put in even a higher level of equity. There might be some where we put in less. But that's what's driving it. That calculation.

Yes, if it means that the projects are consolidated, then yes, that still ensure that the disclosures enable you to understand what contribution is being made by those projects.

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

I understand, thank you very much and yes, I have a second question in terms of the competition.

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

Yes, Tina, I think the Jiangsu province is very special case in the current market, the whole environment. I think the -- in my view, this situation -- because we, number one, we still believe the demand still will grow in all the Tier 1 markets, number one.

So in terms of the competition right now, I think this capacity will be in a little bit over supply will be solved in the next 24-months in my view.

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

Okay, thank you very much.

Operator

Due to time constraints please limit yourself to one question. Our next question comes from the line of Gokul Hariharan from JP Morgan. Please ask your question.

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

Yes, hi, thanks for taking my question. My question is about some of these recent revelations that we have seen in Beijing and Guangdong. How does Management see the implications of those revelations look like, capacity, there is some kind of demand churn moving towards high performance related projects, especially in Beijing?

Also related to that, how do you think the industry needs some of the carbon neutrality and green carbon credit kind of requirements in some of these locations? Do you have to purchase these credits from third party? Is that process something that can be passed onto customers through price increases or cost pass throughs? Thank you.

Daniel Newman ***GDS Holdings Limited - CFO***

Yes, I'll tell you the second part first, Gokul, on renewables. Yes, I think in the long-term using renewable energy will not be any different in terms of the economics from using what we call brown power. It will be the norm. The infrastructure will exist to transmit the power from the places where renewables is generated to the places where most power is consumed. The power trading markets will allow for cross-regional trading.

I think during the transitional period, we may have to take some steps to establish some direct power purchase agreements. We may consider investing in, directly in renewable power projects. Ideally, if such a situation is possible, projects which are located close to data centers so that it can be direct transmission connection. Without going through, essentially through the grid.

There's always the, ultimately the fallback of buying renewable certificates, internationally if not in China. But I don't -- yes, the fact that we operate in Tier 1 markets and that the data center business is a Tier 1 market business, creates some challenge because of the geographical separation from where renewable power is generated. But that's a challenge that everybody is facing.

I think the government policy is addressing both the supply side and the market mechanisms on the consumer side to ensure that we can solve that problem.

Your question about the effect and regulations in Beijing, Shanghai, Guangdong, do you want to address that William?

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

Yes, okay. I think in Guangdong, you talked about a Guangdong and a Beijing governments new policy, right. I think in general I mean it raise the bar to allocated carbon quota, and this is number one. Number two, that means they want more lower PUE in terms of the allocated carbon neutral policy.

The second of all, I think they tried to close some small data centers, right, inefficient data center. Which means this impact is a positive, because a lot of the existing small data center will be step-by-step closed, as we'll move to their large more power-efficient data center like what we built, right. So I think this is one impact.

Another impact is, since they raised the bar. I think the governments realize the previous carbon quota allocation is not efficient. So I would like to see, this is good for the leading company in the future to obtain more carbon quota. This is my view.

In terms of the, how we improve our operation to anchor the carbon neutral new guidance, I think that number 1, we will give our ESG reports soon, right. We will give a very clear road map, right. I think the most important way is that, one is keep improve our PUE.

Although we are the -- we are already in this area, we are already the leader company in the China data center. Number two, I think the energy source is very important, right. But based on the current Tier 1 market there is not that much renewable energy in this city. So we have the different way to improve the carbon neutral. This is, later we will give some detail, our road map.

By the way, I would like to say, in the last two years the central government issued a green data center example, right. So GDS can almost win 50% of the green data centers, which they, which central governments -- let's say.

Jamie Khoo ***GDS - COO***

Certification.

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

...give the certifications. So that means GDS, we are already in the leader position for that in the China data center industry for the green data centers, for the renewable, for the carbon neutral effort, right. So this is my answer.

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

Got it, thank you very much.

Operator

Our next question comes from the line of Frank Louthan from Raymond James. Please ask your question.

Rob Palmisano ***Raymond James - Analyst***

Hey guys, this is [Rob Won] for Frank, thanks for taking the question. So my first question is, are there any markets where you are seeing pricing that's either better or worse than average? Then as a follow-up, what do you think some of the changes in government policies are going to begin to benefit you guys? Thank you.

Daniel Newman ***GDS Holdings Limited - CFO***

Rob, apart from the one area that we talked, north-west of Shanghai, I think the situation in all parts of other Tier 1 markets we're talking about, districts of Beijing, the area around the edge of Beijing, Shenzhen, Guangzhou, the areas around them, urban parts of Shanghai, southern parts of Shanghai. It's very consistent that supply is constrained. Very often customers have very little choice.

The number one reason why we lose business is because we don't have supply and it is surprising, even with our resource pipeline and the scale of our construction activities, how often that arises. So they wouldn't happen because we were not trying. So despite our very best efforts, we lose business continuously because we are unable to generate supply in as many places as we want.

So that shows you that this is, when you talk about supply constraint, it's real. So that means that the pricing is relatively stable in most of those places, it's not really and it's not that unstable in north-west part of Shanghai either. It's just that there is more competition there.

You talk about the benefits of government policies. I think that, I think, well, fundamentally I've already said what it is, which is the government's disciplined approach to the allocation of land and power. Whilst creating a challenge for us that has ensured that this industry remains highly investable and attractive, and has high barriers to entry. But that's been the case for years. We have very high conviction it's going to remain the case for the foreseeable future.

Rob Palmisano *Raymond James - Analyst*

Okay, thanks guys.

Operator

Due to time constraints, I'd like to now turn the call over back to the Company for closing remarks.

Laura Chen *GDS Holdings Limited - IR*

Okay, thank you all once again for joining us today. If you have further questions, please feel free to reach out to GDS Investor Relations through our contact information on our website, and the Piacente Group Investor Relations. You may disconnect.

Operator

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