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Q4 2022 GDS Holdings Ltd Earnings Call

EVENT DATE/TIME: MARCH 15, 2023 / 12:00PM GMT

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PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for GDS Holdings Limited's fourth quarter and full year 2022 earnings conference call. At this time, all participants are in listen-only mode. After management's prepared remarks there will be a question-and-answer session. Today's conference call is being recorded. I will now turn the call over to your host, Miss Laura Chen, Head of Investor Relations of the Company. Please go ahead, Laura.

Laura Chen ***GDS Holdings Limited - Head of Investor Relations***

Thank you. Hello everyone. Welcome to the fourth quarter and the full year 2022 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. Miss Jamie Khoo, our Chief Operating Officer, is also available to answer questions.

Before we continue, please note that today's discussions will contain forward-looking statements made under the Safe Harbor Provisions of the US 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 US 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 will now turn the call over to GDS Founder, Chairman and CEO, William Huang. Please go ahead, William.

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

Thank you. Hello, everyone, this is William. Thank you for joining us on today's call.

Despite the challenging environment, our business continued to deliver solid results. In 2022 we grew revenue by 19% and adjusted EBITDA by 15% year on year. We won significant new business in China, while at the same time adjusting our development program, to the current pace of growth. We accelerated our international expansion with notable success, and on the funding side we took steps to access new source of capital and strengthen our financial position.

Entering 2023, we're looking forward to a recovery. Customers are more positive about their business outlook. When their businesses pick up, it will flow through to us quite quickly. We could see this happen over the next few quarters. Meanwhile, we are continuing to strengthen our operations and finances.

Looking further ahead, the fundamentals for our industry remain very strong. On one hand, AI and other new technologies are driving waves of demand. On the other hand, data center supply in China's Tier 1 markets is gradually become more constrained, due to the limitations on land and power. As market conditions improve, we're well positioned to outperform with our customer relationships, contract backlog and established asset bases.

In 2022, we won 74,000 square meters, or 178 megawatts of net new bookings, all of which was for our organic data center developments in Tier 1 markets. A big highlight was our 64-megawatt win in Johor, with significant contribution from the international. Our full year bookings were up to the level of the past few years. This highlights the importance of our strategy to follow the customer.

For 2023 we are targeting a similar level of new bookings, with once again a significant contribution from international.

In 4Q22, we won two new large hyperscale orders. LF15 is the first order for our new campus at Xianghe in Langfang, Hebei Province. The order is from a large internet company, which is migrating from our downtown sites in Beijing. The customer is relocating to LF15 and to one of our other campuses in Langfang.

BJ14 Phase 2 is the second of three phases of development at our greenfield site in the Tongzhou district of Beijing. The order is from a first-time large internet customer in the recruitment sector. These wins typifies our strategy of matching resource inventory with high potential customers. The new commitments come with confirmed move-in schedules.

Over the past three years, we have made significant progress with new customer wins and diversification. Large internet companies accounted for 63% of new bookings in 2022, as compared with 23% in 2020. Enterprise and financial customers average around 20% of new bookings. This shows how we have been able to evolve our strategy to capture growth from different customer segments and different locations.

Customer move-in in 2022 was affected by the lockdowns and other macro factors. Going forward, we are focusing on customers who can commit to fast move-in schedules, typically large internet customers move-in faster than Cloud customers. Some of the large internet orders which we won in 2022 have relatively short move-in periods, hence, the move-in rate could pick up as these new contracts commence towards the end of this year.

We have a large backlog totaling 260,000 square meters, nearly half of it relates to data centers which are move-in ready. This gives us high visibility for future growth, with reduced CapEx.

To address to the current environment, we have slowed down our capacity expansion. In 2022 we brought 28,000 square meters into service. In 2023 we plan to bring a further 58,000 square meters in service, out of which 33,500 square meters in Mainland China, and 24,500 square meters in international.

Going forward, we will target to reduce the lead time from investment to customer move-in.

Looking beyond our current construction program, we have over 300,000 square meters of area held for future development in Mainland China, which can support multiple years of future demand. It mainly consists of land and power for campus-type developments, at good location, in national hub markets. Our pipeline aligns with the government's East Data, West Compute policy. This is valuable resource, which will give us significant competitive advantages, as supply becomes tighter in years ahead.

All of these priorities are directed at further strengthening our strategic market position and improving our operating and financial efficiency.

The initial phase of our international expansion is focused on Hong Kong as the regional hub for Greater China and Singapore, Johor, Batam as the regional hub for Southeast Asia. These two hubs rank among the 10 largest data center markets globally. By leveraging our home market customer relationships, cost advantages from our prefab products, and the proven execution capability in hyperscale development, we can accelerate delivery to our customers and rapidly establish the market-leading positions.

Our first self-developed data center in Hong Kong will enter service in the next couple of months. We have secured anchor customer commitments from leading China and global cloud service providers. Hong Kong 1 is the first in a multi-year development pipeline of four purpose-built data centers. Clustered in an ideal location for serving both hyperscale and the enterprise customers.

Hong Kong's position as the primary gateway for network and connectivity, between China and the rest of the world, assures its long-term position as a data center hub. We have put together a unique set of assets, ideally suited to meeting new waves of demand.

We are making great progress with both land acquisitions and the customer commitments in Southeast Asia. In Johor, we are constructing three data centers, for delivery later this year and early next year. We're going from breaking ground to deliver of 64 megawatt over five quarters. We have acquired or secured options over the adjacent sites, to enable us to scale up. In the next few months, we expect to receive an additional order which would take us to nearly 100 megawatts of commitments in Johor alone.

For existing projects, the priorities are to win further orders for Johor and Batam, build up our local management team, and deliver the initial capacity. At the same time, we aim to establish new projects in Kuala Lumpur, Jakarta and other new markets in Southeast Asia and beyond.

While our position in Mainland China is well set for years to come, we believe that GDS International can become a significant second growth engine.

Now, I will now pass on to Dan, for financial and operational review.

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

Thank you, William. Starting on slide 22, where we strip out contribution from equipment sales and the effect of FX changes. In 4Q22, our service revenue grew by 1.5%, and underlying adjusted EBITDA was slightly down, by 0.2%, quarter on quarter.

For FY22, our service revenue grew by 19.2%, and underlying adjusted EBITDA grew by 14.5%, year on year.

Turning to slides 23 and 24, service revenue growth is driven mainly by delivery of the committed backlog. Net additional area utilized during 4Q22 was around 10,700 square meters. Around 7950 square meters was in Tier 1 markets, and the remaining 2700 square meters, approximately, was from BOT projects.

Net additional area utilized for FY22 was around 51,000 square meters. Around 29,000 square meters was in Tier 1 markets, and the remaining 22,000 square meters, approximately, was from BOT projects.

For FY23 we expect additional area utilized, net of churn, to be similar to the levels seen in FY22, i.e., around 50,000 square meters of net add.

We disclosed on our last earnings call that one large internet customer will move out of our downtown data centers in Beijing. As a result, we will record 17,000 square meters of churn, spread across the first three quarters of 2023. We have already won back more than 17,000 square meters of new commitments from this customer for two sites in Langfang. They will start to move into these sites during 4Q '23.

As William mentioned, towards the end of the year we will also start to deliver some other new contracts with faster move-in schedules. Accordingly, the cadence of move-in, in FY23 will be quite heavily weighted to the back end. The good news is that a pick-up later this year will feed into FY24 growth.

Monthly service revenue per square meter was RMB2194 in 4Q '22 compared with RMB2237 for the previous quarter, a decline of 1.9% quarter on quarter. Over the course of FY23 we expect MSR per square meter to decline by around 4%, comparing 4Q '23 with 4Q '22. This forecast decline is mainly due to change in location mix, including further BOT move in.

Turning to slides 25 and 26. For 4Q '22, our underlying adjusted gross profit margin was slightly up on the prior quarter at 50.9% while our underlying adjusted EBITDA margin was down at 44.4%.

For FY '22 our underlying adjusted gross profit margin was 51.2%, compared to 53.3% in FY21 and our underlying adjusted EBIDTA margin was 45.6%, compared to 47.5% in FY21. The margin decrease was mainly due to elevated power tariffs throughout last year, which we estimate knocked 1.5 percentage points off our margin, and growth drag from international expansion of around a further 1 percentage point.

The midpoint of our guidance for total revenue and adjusted EBITDA implies an adjusted EBITDA margin for FY23 which is similar to the level seen in 4Q '22. We have assumed no reduction in power tariffs over the course of this year and continuing growth drag from international expansion.

Turning to slide 27. 2022 was a transition year in terms of bringing down our CapEx in Mainland China on the one hand and accelerating international investments on the other hand. Our organic CapEx in Mainland China was around RMB5.8 billion for FY22, which is a few billion lower than in the past couple of years. International CapEx was RMB2 billion while acquisition CapEx was around RMB3.5 billion.

We are guiding for total CapEx in FY23 of around RMB7.5 billion, comprising a further reduction to RMB3.5 billion for Mainland China and an increase to RMB4 billion for international. Replacement CapEx included in the Mainland China number is running at around RMB200 million in 2023.

On slide 28 we provide some further data points relating to CapEx, starting with Mainland China. At the end of 2022 we had around 152,000 square meters under construction. The total cost to complete this capacity is RMB7.4 billion which we expect to incur over the next three years. With this additional expenditure, our total capacity in service would increase to around 667,000 square meters, sufficient for us to grow our billable area by around 71%.

As you can see, a relatively small amount of incremental investment is required to support a large amount of growth because much of the investment has already been incurred.

Turing to international. Our total cost to date for the five data centers under construction in Hong Kong and Johor, totaling over 100 megawatts, is RMB4.1 billion, or US$590 million. The total cost to complete is RMB3.4 billion or US$490 million.

Looking at our financing position on slide 29. At the end of 2022, our net debt to last quarter annualized adjusted EBITDA ratio was 8.0 times on a consolidated basis. If we exclude the debt for the international business and add back the net assets to our cash, our net debt to last quarter annualized adjusted EBITDA ratio was 7.1 times. If we further exclude capital work in progress for our construction program in Mainland China. Our net debt for the last quarter annualized adjusted EBITDA ratio would have been 5.0 times.

Our effective interest rate for FY22 dropped to 4.7%.

Over the course of 2022 we maintained our cash position and ended the year with RMB8.6 billion or US$1.2 billion of cash on our balance sheet. In accordance with our treasury policy, we put cash on deposit with banks which are investment grade rated and pre-approved by our Board. In addition, we hold cash in equity and debt service reserve accounts as required by our project financing facilities.

We previously had a small amount of cash in accounts with SVB for short term operational purposes. As of today, this amounts to US$2 million which is in the process of withdrawal.

Turning to slide 30. In January of this year, we raised US$580 million gross proceeds from the issue of a new CB with seven year maturity. We have subsequently repaid $150 million of working capital loans.

In June of this year, we expect to repurchase $300 million from an existing CB when it is put. As a result, we will have almost no debt repayable at GDS Holdings level until 2027. The debt which is repayable over the next few years is amortizing long-term project level loans which we refinance on a regular basis.

On slide 31 we provide some more color on current year funding requirements. Starting with Mainland China. We expect our operating cash flow to be around RMB1.5 billion for FY23, and as I mentioned, organic CapEx to be around RMB3.5 billion, resulting in negative free cash flow before financing of around RMB2.2 billion. We aim to fund this gap using a combination of project debt and asset monetization.

At the end of 2022 we had RMB8.5 billion of committed but undrawn project loan facilities in Mainland China. We have recently obtained regulatory clearance for our offshore China Data Center Fund. We expect to sign the limited partnership agreement and the sale and purchase agreement for the first data center asset shortly. The net cash proceeds will be approximately RMB1.45 billion after deducting our 30% capital commitment to the fund.

We will have the option to do more such transactions to reduce equity if we choose to do so. We are also in the process of signing a formal framework agreement with a leading Chinese insurance company for an onshore version of the China Data Center Fund.

Over the next couple of years, we expect our operating cash flow for Mainland China to increase while CapEx remains at similar or lower levels to the guidance for FY23. Hence, we expect to become free cash flow positive for Mainland China within three years.

Turing to international. As mentioned previously, we expect total CapEx for international of RMB4 billion for FY23. We expect to finance 50% of this, say RMB2 billion or US$290 million with project debt. For the balance, we are evaluating a number of options for raising equity at subsidiary level including private equity at our International HoldCo level and/or by bringing in local partners at Country HoldCo or Project HoldCo level.

Turning to slide 32. For the full year 2023 we expect total revenues to be between RMB9.94 billion to RMB10.32 billion, implying a year-on-year increase of between approximately 6.6% to 10.7%.

We expect adjusted EBITDA to be between RMB4.43 billion to RMB4.6 billion, implying a year-on-year increase of between approximately 4.2% to 8.2%. In addition, as previously mentioned, we expect CapEx to be around RMB7.5 billion for the full year.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

The first question is from the line of Jonathan Atkin from RBC. Please go ahead.

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

Thank you. So my question was mainly around Southeast Asia and wondered if you could maybe talk a little bit about where you see relatively greater challenges to developing capacity in Johor versus Batam, as well, commercially in those markets. Setting aside kind of the initial customer discussions that you've had and the anchor commitment that you have in Johor, what are the prospects for those markets to serve sort of Singaporean requirements or act as a greater kind of Singapore availability zone versus serving kind of domestic and kind of regional demand on a standalone basis?

In other words, how tightly coupled do you see Asian demand and maybe prospectively Western demand in Johor and in Batam with respect to kind of Singaporean. How tightly coupled is that with Singapore versus acting on their own as hubs? Thank you.

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

Hi Jon. Let me start with the second part of your question. The way we view the Singapore market and the surrounding areas is as a proxy for the Southeast Asian market. I think the majority of the data center capacity in Southeast Asia is concentrated in and around Singapore and a large part of that is there to serve the region, not just to serve Singapore.

When we look at the situation in Singapore, it's well known, because of the historic moratorium since 2019, that the developable capacity in Singapore has largely been built out. What we've seen from third party market research is that utilization rate for capacity in Singapore has gone to low to mid-90%,which is more than full in industry terms.

The Singapore Government is going through a process. They may allocate some additional quota to allow some growth in Singapore but we think that's only going to address a very small part of the incremental demand. Therefore, as we've seen in other markets where we have a presence like Beijing, Shanghai and Shenzhen and so on, the excess demand will spill over and we believe that it will spill over to Johor and Batam. We think they will both be vibrant and high growth, large scale data center markets.

We think that when you look at it from the perspective of how the hyperscale customers, particularly cloud service providers, deploy, they need the diversity of different locations. And I think having options on both sides of Singapore is operationally very beneficial.

In terms of the pace of development. I think we went out on our own in terms of making commitments to both Johor and Batam. Frankly, I think we leapfrogged many other players in doing that. I think that having that duel strategy will give us a marketing edge and a solution that others cannot offer.

So far, what we've seen is that Johor has taken off a little faster, primarily because of the existing infrastructure there. I'm talking about power infrastructure and a network connectivity. But we are very confident that the time is coming. It may be one year or so behind. We've been talking to government in Singapore, government in Indonesia. There's a very strong commitment to making Batam a successful location for data centers. And we are happy to be a pioneer.

In the next few quarters, we'll be able to, I think, make progress in solving some of the basic infrastructure challenges even if it necessitates investing in submarine cable networks ourselves to kick start that. Then I think the market will start to [complement].

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

Thank you. If I could just ask a brief follow-up. Inside of China, can you talk a little bit about customer availability for obtaining servers? Are there supply chain constraints that are affecting their ability to procure equipment and ultimately move in? With respect to central Beijing, what are your prospects for refilling that capacity with other demand?

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

Hi Jonathan, it is William. I think in China yes, we just mentioned, this year is a transition for China whole business. But based on the last couple of weeks I came back to China and visited a lot of governments and our customer as well. I think I'm quite encouraged by our customers, especially the large internet and cloud service providers.

Based on our current pipeline I think the demand, we can see the leading indication in the pipeline. I think it is very strong. But for the cloud, when I visited the cloud service providers, they're all very ambitious still. I think they are recover maybe slightly a little bit a later than all the internet company and financial institutions.

If we come to China, I see in the first two months the leading data which I mean the consumer data rebound very fast. This is a leading indication the all the supply chain industry will catch up, recover. But it still needs time.

so in terms of the current Tier 1 market or the resource, I think we are very confident. We have just a very limited inventory. So I think this is very, very good asset. I believe and I'm very confident we will sell them easily in this year.

So this is the question, right.

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

Thank you.

Operator

Thank you. We will now take our next question. Please stand by. This is from the line of Yang Liu from Morgan Stanley. Please go ahead.

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

Thanks for the opportunity to ask questions. I have two questions here. The first one is regarding demand. I think would be one of the reason to see divergent demand from cloud and internet companies that a lot of big internet companies are moving away from public cloud. So if we combine the cloud and the internet together, when do we expect to see overall demand recovery? Or put another way. In terms of GDS full year guidance, what is the assumption of demand recovery behind it?

My second question is in terms of the competition. Are you seeing more or more competitive bidding or price from Chinese telcos in front of your big customer? Thank you.

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

Okay, Yang, this is William. I answer your first question. I think yes, in general, we should mention the structure of the new booking has changed. If you look at the last year or last two years. We used to be leaded by almost 85% or 90% incremental demand from the cloud service provider.

This year, last year almost zero from the cloud service provider so we still reached 70,000 square meters. This is all from the structurally change to the internet plus enterprise. So, we still maintain this assumption for our this year's new booking. So, we just wait if the cloud recovers. That's all upside. So, that's the profile assumption what we make.

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

You asked about what was the assumption in our guidance or in our business plan. The key driver of revenue and ultimately of EBITDA is the move-in. I mentioned that we are expecting over the full year move-in to be about 50,000 square meters, so we have some exceptional churn, and we keep talking about it, but if you add that back, you'd see that the move-in this year will be over 60,000 square meters, which is around 15,000 square meters plus per quarter, which is a little higher than the last two quarters but similar to what it's been over the last six or eight quarters.

So, that doesn't really imply much of a recovery but one of the factors which is behind that number is that as we mentioned a few contracts which start delivery in around September, October, November, December had faster than typical move-in schedules. Some of it could be quite front-ended which means that we may see quite a bit of move-in towards the end of the year. It's not this year; January of next year.

As that the full year number without really boosting the revenue much this year, but it does set up I think for potentially a good rate of year-on-year growth in 2024.

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

Yes, I want to add more point. I think the focus for the new booking is 75,000 square meters in our new guidance. This is all organic. This is all organic. Historically, when we reached 90,000 meters, including a lots acquisition, so this is still very high level compared with all the global top player, still bigger than most of the big players in the world.

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

Okay. I think in terms of the competition from the telco, our strategy is the Tier 1 market, We build all our assets in the Tier 1 market or edge of the Tier 1 market. This is nothing changed in terms of supply. Telco still less investment in this region. So, I think we are not worried about it. On the other hand, we don't compete directly. They're also our customer.

I think we have very good relationship work with the three telco in the last 10 years. So, recently a few telcos came to us and tried to discuss some cooperation between us, because they also deployed their cloud service, they want to deploy their service in Tier 1 market, and if someone want to deploy cloud service in Tier 1 market, I think definitely GDS will be the first choice for them to partner with, otherwise no possibility to provide their cloud service in this city.

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

Thanks a lot for the answers.

Operator

Thank you. We'll now take the next question. Please stand by. This is from the line of Gokul Hariharan from JP Morgan. Please go ahead.

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

Yes, hi. Thanks for taking my question. First, could you talk a little bit about what are you hearing in the last couple of months? William, I think you mentioned there is some excitement from the customer but typically on the cloud side, which is still a significant part of your backlog, if you think about the next couple of years, are we starting to see utilization pick up in their existing infrastructure that they need to now start accelerating the movement? Or you think that the cloud acceleration is still going to take a little bit more time?

Secondly, also on the EBITDA front, we have seen some erosion in EBITDA because of power costs and some mix-related challenges. Do we see the guidance that we gave for FY23 as the sustainable level of EBITDA margin or do we think there could be further pressure as more international business comes online in 2024 and beyond?

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

Hello, Gokul. This is William. I think in terms of the cloud service provider, number 1, they're all making new business plan right now based on the current environment. Previously, a lot of overhead is in China, like lockdown policy. Now it's gone, it's over. Another is the new government accepted all the structure and all the platform.

They made a couple of times statements to support the platform and the social media as a private company, support their continued growth in China. So, I think our customer is also very encouraged by the current environment, so they are making a new business plan right now. In general, I think based on my conversation with our largest customers, with our top 3 customers, they're all very encouraged.

in terms of business plan, it definitely will boost in the next few quarters, but in terms of move-in, there is a lot of effect to impact the move-in in terms of the shipment, they still have some inventory. So, in general that's why we still very conservatively assume cloud service provider move-in pace still maintain a solid level, a neutral level, not aggressive, so it's normal.

So, I think given the whole environment looks like it will improve in the next few quarters.

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

With regard to adjusted EBITDA margin, I feel like this year's margin is probably the trough but it does depend on several different drivers. One of course is pricing. Another topic for discussion, but we feel like pricing has bottomed and there's a setup which could see pricing recover in two to three years.

Secondly is power tariffs. The import fuel cost has started to come down but we haven't seen that reflected in power tariffs yet and even if it is reflected, it wouldn't benefit us this year. It could benefit us in future years and Chinese government policy may influence it, if the government wishes to see power tariffs come down, as was their tendency historically.

Then the third part is the international, where we are creating significant value or we will create significant value in future but at the moment it's EBITDA negative. I think it will be EBITDA breakeven in the first half of next year but that's still depressing on the margin. So, it will take until 2025 before the EBITDA margin of international phase is in the 13%, so that growth track will persist for some time.

I think for forecasting purposes, maybe use this year as a trough and then see a slight step up over the next couple of years as phase.

Gokul Hariharan *JP Morgan - Analyst*

Got it. Thank you.

Operator

Thank you. We'll now take our next question. Please stand by. It is from the line of Frank Louthan from Raymond James. Please go ahead.

Frank Louthan *Raymond James - Analyst*

Great, thank you. Can you comment on the state of the market for the capital recycling and the appetite for those assets? Is it the same or better or worse than when you originally put this plan together? I apologize if I missed this but can you quantify the amount of capital recycling you expect to do in each of the next two years and is this the low for CapEx this year? Thank you.

Daniel Newman *GDS Holdings Limited - CFO*

Let's start with the numbers. What I showed was that in 2023 our free cash flow before financing is negative by around $2.5 billion. Some of that can be financed by drawing down on project finance facilities and then the remainder needs to be financed with our capital. Having done that convertible bond in January, assuming we go ahead and repurchase the CB as is possible, on a net basis we increased our financial resources.

I think pro forma we have around RMB9 billion of cash, so that is available to be allocated to China, to be allocated to international, if we choose to do so. But we try to prioritize raising additional capital, recycling capital at the country level before we allocate out our cash.

In China, if we assume that our target for this year is to recycle around RMB1 billion to RMB2 billion, we are already 10 months down the road of working on our offshore China data center fund. We have the regulatory approval. We signed the limited partnership agreement. We also signed the sale and purchase agreement for the first asset to be transferred to that fund and that will realize cash proceeds to us net of what we put into the fund of RMB1.45 billion.

So, that goes a substantial way to fulfilling whatever requirement we have this year. Chances are that next year, the requirement will be similar, if not less, because operating cash flow will hopefully increase and CapEx I don't expect to be higher. It might be lower, so that negative free cash for financing might be a smaller number.

I don't think it's very challenging for us to do monetization at this scale. We have a substantial amount of capacity in this offshore China Data Center Fund to do more deals. We've been working for some time on an onshore equivalent and we're now in the process of signing a formal term sheet, a framework agreement. An asset has been identified and initial diligence done by the investor, which would also recycle at least a few hundred million RMB of additional capital.

Then just looking more broadly, the REIT market in China is beginning to really take shape. There's a lot of interest. We're being approached continuously by investors and banks looking to structure something involving data center assets. I think it's an asset class that attracts a lot of interest in China. For the China REIT market regulations, it's really designed for stabilized assets. With these funds, we made the decision that it suited our purposes to focus on projects that were still under development, de-risked to a degree but under development.

But that could be a steppingstone towards virtually being able to access the REIT market. So I think we're very comfortable, I think we're probably far better positioned than anyone in having potentially an offshore, an onshore and a lot of banks chasing us for a data center REIT, so that shouldn't be a problem.

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

Okay, great. Thank you.

Operator

Thank you. We will now take our next question, please stand by. This is from the line of Joel Ying from Nomura. Please go ahead.

Joel Ying ***Nomura - Analyst***

Hi, thank you for taking my questions. I have just one quick question about China market. So we are seeing the latest news about AI technology, ChatGPT, so do we actually see any potential demand arising from the market about the AI data centers? Do we expect the AI data centers will be the outsourcing by companies like GDS third parties or some of the cloud companies who do the self-building things, will it be outsourced or self-build. Thank you.

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

Yes, I think you are right. I think that now everybody focused on the ChatGPT, but they forget that in China, a lot of the big players already start to use the AI. AI is also a very hot topic in China and we also believe this will drive the new wave of the demand and definitely our product, our location, all fit the AI pipe demand in future, in terms of power density, in terms of total power capacity and the locations where we are.

So I think we are very encouraged by the new wave of demand. This will affect our business in the next few years and just like what's happened eight years ago when the cloud starts. So I think we are very happy, because AI type demands ask for more high power density. It's very difficult to build by themselves, so outsourcing will be the trend, that's what we believe.

Joel Ying ***Nomura - Analyst***

Thank you very much.

Operator

Thank you, we'll now take our next question, please stand by. Just on the line of Edison Lee from Jefferies. Please go ahead.

Edison Lee ***Jefferies - Analyst***

Hi, thank you very much for taking my questions. My first question is about your build-out schedule or your delivery schedule. I found that in 2023, 85% of your deliveries had actually taken place in the second half, only 15% in the first half. So I wonder if that is driven by your demand assessment, or driven by your construction schedule. Okay, that's number 1.

Number 2 is on your guidance for 2023, obviously the EBITDA growth lagged behind the revenue growth. If you take out international business, what do you think EBITDA growth can be in 2023?

Lastly, one of your peers recently said that major cloud service providers in China have stopped self-building and I don't know how true that is, but what is your view on the cloud service provider self-building program, given the current state of the market? Thank you.

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

The first part of our delivery schedule, we've slowed down pretty much our entire construction program. I think there are more than 20 projects in that program, but as you know, all those projects have customer commitments and those customer commitments have a delivery date.

So our ability to slow down depends on the customer agree to take delivery at a later date. Not all of them wish that to happen and some of them would like us to keep to the original delivery schedule, which is of course perfectly fine by us. We're just trying to manage out the occurrence of our CapEx to shorter the lead time between when we spend money and when the customers move in and start to generate income. So that's really what's behind the numbers.

We do have a substantial amount of capacity in service, which is not yet revenue generating. Our utilization rate is 71%. When you have a portfolio in service as large as ours and the commitment rate of 95%, utilization rate 71%, so that means there's 24% which is committed but not utilized. That's a big number. That's our backlog for area in service, 120,000 square meters.

So that could move in practically with no additional CapEx, so you've got to take that into consideration, right? The completion of the projects under construction is not the only growth driver where you have so much move-in ready capacity. William, would you like to answer the question about self-build program.

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

What was the question?

Edison Lee ***Jefferies - Analyst***

The question is that one of your peers recently said that very big cloud service providers in fact will stop self-building. They have been...

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

Yes, I think It's not only one cloud service provider in terms of the discussion. I remember in the last couple of earnings calls, we are the largest builder in China, We have the skill advantage. I think finally some of our customers start to realize that. So in terms of economics perspective, they realize it's not very efficient.

So I think this is the topic discussed internally. We are trying to encourage this for their future. Some of the cloud also talk about where their sales and assets are, we are also considered about this option.

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

It's also about the EBITDA growth rate excluding international. We allocate SG&A to international using sound accounting principles. With that allocation, the EBITDA of international is negative about RMB100 million in 2023. So if you like, you can add that back and that's what GDS looks like without international.

Edison Lee ***Jefferies - Analyst***

Okay, so on the revenue side, do you have anything predicted for 2023?

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

Yes, I think about - I'm just looking here, 1.7% of our revenue comes from international this current year.

Edison Lee ***Jefferies - Analyst***

Okay, got it. Thank you very much, Dan.

Operator

Thank you, I'd now like to turn the call back over to the Company for closing remarks.

Laura Chen ***GDS Holdings Limited - Head of Investor Relations***

Thank you all once again for joining us today. If you have further questions, please feel free to contact GDS Investor Relations through the contact information on our website or the Piacente Group Investor Relations. Next time see you, bye-bye.

Operator

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

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