

Chindata Group Holdings Ltd

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DBS Group Research . Equity

27 May 2022

BUY

Last Traded Price (26 May 2022): US\$7.12 (NASDAQ : 11,741)
 Price Target 12-mth: US\$11.20 (57% upside) (Prev US\$10.80)

Analyst

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What's New

- 1Q22 results beat, adjusted EBITDA grew by 60.7% y-o-y
- FY22 revenue and adjusted EBITDA guidance midpoints revised up by 1.6% and 2.9%, respectively
- Less impacted by city lockdowns in China due to geographic locations in non-tier 1 cities
- Maintain BUY for its strong capacity expansion; TP raised to US\$11.2 after adjusted EBITDA upward revision

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	1,831	2,852	4,207	5,626
EBITDA	444	1,270	1,985	2,659
Pre-tax Profit	(216)	471	747	1,090
Net Profit	(283)	316	485	708
Net Profit Gth (Pre-ex) (%)	(62.4)	N/A	53.4	45.9
EPS (RMB)	(0.92)	0.87	1.22	1.61
EPS (US\$)	(0.14)	0.13	0.18	0.24
EPS Gth (%)	(5.1)	N/A	39.5	32.7
Diluted EPS (US\$)	(0.14)	0.13	0.18	0.24
DPS (US\$)	0.00	0.00	0.00	0.00
BV Per Share (US\$)	4.71	4.13	3.94	3.82
PE (X)	nm	55.0	39.5	29.8
P/Cash Flow (X)	22.1	16.3	11.9	10.6
P/Free CF (X)	nm	nm	nm	nm
EV/EBITDA (X)	27.0	13.9	11.0	9.5
Net Div Yield (%)	0.0	0.0	0.0	0.0
P/Book Value (X)	1.5	1.7	1.8	1.9
Net Debt/Equity (X)	CASH	0.0	0.3	0.4
ROAE (%)	(4.4)	3.2	4.7	6.5
Adj EBITDA	852	1,419	2,145	2,839
Adj EBITDA Gth (%)	110.9	66.5	51.2	32.4
Adj EBITDA Rev (%)			3.2	3.4
Consensus EPS (RMB)			1.12	1.60
Other Broker Recs:		B:10	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Strong order pipeline to support growth

Investment Thesis

Strong data centre services contract pipeline. Total IT capacity will reach at least 604MW for FY22, supporting a 51% adjusted EBITDA growth in FY22.

Benefiting from fast-growing data centre demand from ByteDance, accounting for c.80% of Chindata's total revenue in FY21. By the end of 1Q22, over 90% of the company's contracts are for a period of 10 years, with a weighted average remaining term of c.8 years.

Expect to acquire more new wholesale customers. Two data centres, each with an IT capacity of 13.8MW, located in Hebei and Tianjin, are under construction to support a leading Chinese cloud provider.

Valuation:

Our TP of US\$11.2 is based on a 15x FY22 EV/adjusted EBITDA, higher than the company's peers (i.e., VNET), for its stronger adjusted EBITDA growth.

Where we differ:

The market is concerned about Chindata's customer concentration risk. We expect it would continue to acquire new wholesale customers to diversify its customer portfolio, which will be a catalyst for its further re-rating.

Key Risks to Our View:

Loss of major customers such as ByteDance will adversely impact the business outlook of the company.

Slowdown in data centre demand will lead to an overcapacity and weaker pricing, resulting in lower utilisation and investment returns.

At A Glance

Issued Capital (m shrs)	363
Mkt Cap (US\$m)	2,585
Major Shareholders (%)	
CPP Investment Board	5.9
Free Float (%)	94.1
3m Avg. Daily Val. (US\$m)	15.91
GICS Industry: Information Technology / IT Services	



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WHAT'S NEW

1Q22 results beat expectations; FY22 guidance revised up

1Q22 results highlights

Revenue increased by 43.1% y-o-y to Rmb920.6m, driven by a 44.5% increase in utilised IT capacity to 344MW. Capacity in service expanded by 47.8% y-o-y to 498MW, with the utilisation rate down by 1.5ppts to 69.1% y-o-y or flat q-o-q.

Adjusted EBITDA increased by 60.7% y-o-y to Rmb494.5m, higher than market expectations, due to a strong capacity ramp-up. The adjusted EBITDA margin expanded 5.9ppts y-o-y or 2ppts q-o-q to 53.7%.

Net income increased by 62.5% y-o-y to Rmb94.6m, thanks to strong capacity expansion and margin improvement.

Outlook

Management has revised up revenue and the adjusted EBITDA guidance midpoints for FY22 by 1.5% and 2.9%, respectively. Updated FY22 guidance for revenue and adjusted EBITDA are Rmb4,130m-Rmb4,230m and Rmb2,100m-Rmb2,180m, implying 44.8%-48.3% and 48.0%-53.6% y-o-y growth, respectively. Guidance midpoints imply a 51.2% adjusted EBITDA margin, which is higher than 49.7% in FY21. However, the margin could be lower than 53.7% in 1Q22 due to potentially increasing SG&A expenses after the easing of domestic COVID-19 control measures in China.

Chindata's business operation is less impacted by city lockdowns in China than its peers, thanks to its geographic layout in non-tier 1 cities in China. Its current project delivery is largely in line with the original schedule. Only Project CN13, CN16 and CN17 are slightly delayed. Based on the existing pipeline and development plan, IT capacity in service will reach at least 604MW by end-FY22, representing a 37.3% y-o-y expansion. The company also achieved a strong capacity ramp-up in 1Q22, with a 40MW net addition in utilised IT capacity, mostly from the Hebei and Shanxi campuses. We expect strong customer move-in in FY22, riding on the demand from the expansion of its anchor customer's core business.

We expect Chindata to further expand its business in APAC emerging markets. Chindata has 117MW total capacity in APAC by 1Q22, accounting for 17% of total capacity. Management targets to increase the percentage to 30%. We expect Chindata to diversify its customer base in the long run. However, we do not view the current 80%+ revenue contribution from ByteDance as a key concern in the short to medium term. By the end of 1Q22, over 90% of the company's contracts are for a period of 10 years and the weighted average remaining term of the contracts is c.8 years. Contract & IOI ratio is still high at 88%. Besides, ByteDance still maintains a strong growth momentum in China.

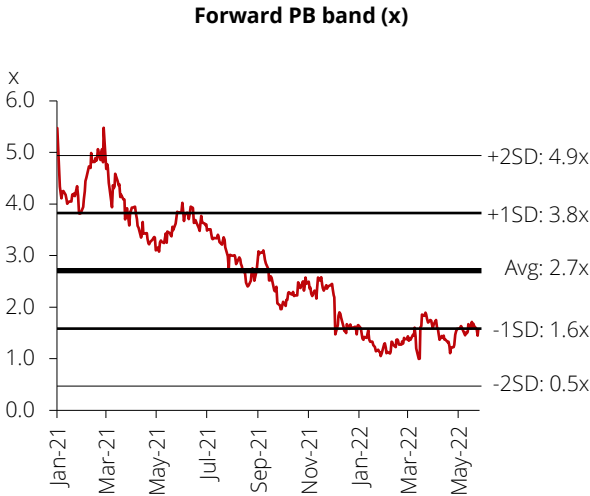
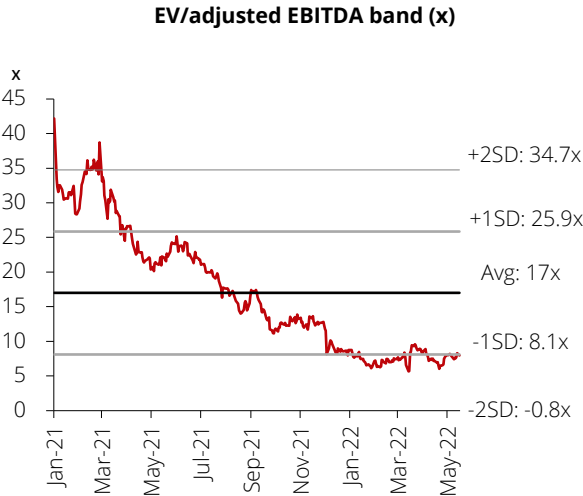
We have revised up our adjusted EBITDA forecast by 3.2% and 3.4% for FY22 and FY23, respectively, given the strong customer ramp-up and improving adjusted EBITDA margin. We forecast adjusted EBITDA to grow by 51.2% and 32.9% in FY22 and FY23, respectively. We maintain a BUY call on Chindata for its strong capacity growth, with a higher TP of US\$11.2. Our TP is based on a 15x FY22 EV/adjusted EBITDA.

Company Background

Chindata is one of the leading carrier-neutral data centre operators in China. It was established in 2018 by Bain Capital and subsequently acquired the China data centre business founded by former chief executive officer Jing Ju and an overseas business founded by Bain Capital as its core operating assets. Bain Capital is the controlling shareholder and has a c.47% beneficial ownership.

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Historical EV/adjusted EBITDA band and PB band



Source: Thomson Reuters, DBS HK

1Q22 result highlights

Rmb '000	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q21	y-o-y %chg	q-o-q %chg
Total revenue	392,476	418,128	467,484	552,989	643,382	686,398	740,768	781,729	920,608	43.1%	17.8%
Total cost of revenues	(242,874)	(251,391)	(277,157)	(326,874)	(386,920)	(407,626)	(422,885)	(435,233)	(499,574)	29.1%	14.8%
% of revenue				-59.1%	-60.1%	-59.4%	-57.1%	-55.7%	-54.3%		
Gross profit	149,602	166,737	190,327	226,115	256,462	278,772	317,883	346,496	421,034	64.2%	21.5%
% of revenue				40.9%	39.9%	40.6%	42.9%	44.3%	45.7%		
Total SG&A	(108,603)	(127,864)	(283,571)	(184,515)	(135,433)	(130,546)	(133,475)	(125,014)	(169,468)	25.1%	35.6%
% of revenue				-33.4%	-21.1%	-19.0%	-18.0%	-16.0%	-18.4%		
Operating (loss) profit	40,999	38,873	(93,244)	41,600	121,029	148,226	184,408	221,482	251,566	107.9%	13.6%
% of revenue				7.5%	18.8%	21.6%	24.9%	28.3%	27.3%		
Net interest expense	(49,949)	(63,660)	(54,635)	(42,524)	(57,756)	(55,006)	(66,727)	(56,882)	(84,627)	46.5%	48.8%
Other income and expenses	7,740	(4,620)	(9,364)	(27,222)	17,159	6,128	5,765	3,010	34	-99.8%	-98.9%
(Loss) income before income taxes	(1,210)	(29,407)	(157,243)	(28,146)	80,432	99,348	123,446	167,610	166,973	107.6%	-0.4%
Income tax benefits (expenses)	(12,873)	(15,941)	(16,454)	(22,071)	(22,232)	(34,199)	(45,040)	(52,945)	(72,405)	225.7%	36.8%
Net profit/(loss)	(14,083)	(45,348)	(173,697)	(50,217)	58,200	65,149	78,406	114,665	94,568	62.5%	-17.5%
% of revenue				-9.1%	9.0%	9.5%	10.6%	14.7%	10.3%		
Add: Depreciation & amortization	96,517	96,953	103,342	118,880	140,618	145,881	153,947	154,661	168,363	19.7%	8.9%
Add: Interest income & expense	49,949	63,660	54,635	42,524	57,756	55,006	66,727	56,882	84,627	46.5%	48.8%
Add: Income tax (benefit) expenses	12,873	15,941	16,454	22,071	22,232	34,199	45,040	52,945	72,405	225.7%	36.8%
Add: Share-based compensation	40,333	60,991	150,416	98,106	41,049	37,809	23,578	18,288	72,993	77.8%	299.1%
Other adjustments	(4,980)	11,988	76,841	8,033	(12,083)	445	705	6,763	1,543	n.m	-77.2%
Adjusted EBITDA	180,609	204,185	227,991	239,397	307,772	338,489	368,403	404,204	494,499	60.7%	22.3%
% of revenue				43.3%	47.8%	49.3%	49.7%	51.7%	53.7%		

Source: Company, DBS HK

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Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
DC pricing - Rmb per kW per month (Rmb /month /cabinet)	912.0	900.3	905.5	925.0	915.8
Total capacity in service MW	198.0	291.0	440.0	604.0	744.0
Overall utilisation rate of cabinets (%)	59.2	75.9	69.1	75.2	76.6

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Revenue from DC services	853	1,831	2,852	4,207	5,626
Total	853	1,831	2,852	4,207	5,626

Source: Company, DBS HK

Chindata Group Holdings Ltd

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	853	1,831	2,852	4,207	5,626
Cost of Goods Sold	(610)	(1,098)	(1,653)	(2,377)	(3,151)
Gross Profit	243	733	1,200	1,830	2,476
Other Opng (Exp)/Inc	(305)	(705)	(524)	(656)	(841)
Operating Profit	(62)	28	675	1,174	1,634
Other Non Opg (Exp)/Inc	(14)	(33)	32	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(95)	(211)	(236)	(427)	(544)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(171)	(216)	471	747	1,090
Tax	2	(67)	(154)	(261)	(381)
Minority Interest	(5)	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	(174)	(283)	316	485	708
Net Profit before Except.	(174)	(283)	316	485	708
EBITDA	182	444	1,270	1,985	2,659
Growth					
Revenue Gth (%)	N/A	114.7	55.8	47.5	33.7
EBITDA Gth (%)	N/A	144.5	186.1	56.2	34.0
Opg Profit Gth (%)	N/A	(145.5)	2,291.8	73.8	39.2
Net Profit Gth (%)	N/A	(62.4)	N/A	53.4	45.9
Margins & Ratio					
Gross Margins (%)	28.5	40.0	42.1	43.5	44.0
Opg Profit Margin (%)	(7.3)	1.5	23.7	27.9	29.0
Net Profit Margin (%)	(20.5)	(15.5)	11.1	11.5	12.6
ROAE (%)	(10.8)	(4.4)	3.2	4.7	6.5
ROA (%)	(4.5)	(2.4)	1.8	2.3	3.0
ROCE (%)	(1.9)	0.3	2.9	4.2	5.1
Div Payout Ratio (%)	N/A	N/A	0.0	0.0	0.0
Net Interest Cover (x)	(0.7)	0.1	2.9	2.8	3.0

Source: Company, DBS HK

Interim Income Statement (RMB m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	632	811	1,020	1,330	1,522
Cost of Goods Sold	(435)	(494)	(604)	(795)	(858)
Gross Profit	197	316	416	535	664
Other Oper. (Exp)/Inc	(198)	(236)	(468)	(266)	(258)
Operating Profit	(1)	80	(52)	269	406
Other Non Opg (Exp)/Inc	(6)	3	(37)	23	9
Associates & JV Inc	0	0	0	0	N/A
Net Interest (Exp)/Inc	(69)	(114)	(97)	(113)	(124)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	(76)	(31)	(185)	180	291
Tax	1	(29)	(39)	(56)	(98)
Minority Interest	(1)	0	0	0	0
Net Profit	(76)	(59)	(224)	123	193
Net profit bef Except.	(76)	(59)	(224)	123	193
Growth					
Revenue Gth (%)	N/A	266.0	61.6	64.0	49.2
Opg Profit Gth (%)	N/A	(231.7)	3,626.1	237.1	(885.9)
Net Profit Gth (%)	N/A	39.9	(196.4)	N/A	N/A
Margins					
Gross Margins (%)	31.2	39.0	40.8	40.2	43.6
Opg Profit Margins (%)	(0.2)	9.9	(5.1)	20.2	26.7
Net Profit Margins (%)	(12.0)	(7.3)	(21.9)	9.3	12.7

Source: Company, DBS HK

Chindata Group Holdings Ltd

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	4,405	6,424	9,428	12,758	15,275
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	1,727	2,143	2,544	2,544	2,544
Cash & ST Invt	1,120	6,911	5,241	5,713	5,163
Inventory	0	0	0	0	0
Debtors	305	422	661	922	1,233
Other Current Assets	215	360	836	836	836
Total Assets	7,771	16,260	18,709	22,772	25,050
ST Debt	63	297	1,951	1,951	1,951
Creditors	959	1,186	1,701	2,279	2,849
Other Current Liab	244	350	650	650	650
LT Debt	2,692	3,892	3,526	6,526	7,526
Other LT Liabilities	575	795	767	767	767
Shareholder's Equity	3,237	9,739	10,115	10,600	11,308
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	7,771	16,260	18,709	22,772	25,050
Non-Cash Wkg. Capital	(684)	(754)	(854)	(1,171)	(1,429)
Net Cash/(Debt)	(1,636)	2,722	(236)	(2,764)	(4,314)
Debtors Turn (avg days)	65.2	72.5	69.3	68.7	69.9
Creditors Turn (avg days)	477.6	573.6	498.3	463.9	440.1
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.2	0.2	0.2	0.2	0.2
Current Ratio (x)	1.3	4.2	1.6	1.5	1.3
Quick Ratio (x)	1.1	4.0	1.4	1.4	1.2
Net Debt/Equity (X)	0.5	CASH	0.0	0.3	0.4
Net Debt/Equity ex MI (X)	0.5	CASH	0.0	0.3	0.4
Capex to Debt (%)	59.6	64.7	66.0	48.9	37.4
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	(171)	(216)	471	747	1,090
Dep. & Amort.	241	411	587	811	1,025
Tax Paid	2	(67)	(154)	(261)	(381)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(128)	130	1	177	78
Other Operating CF	97	407	161	140	180
Net Operating CF	40	665	1,066	1,613	1,991
Capital Exp.(net)	(1,642)	(2,712)	(3,617)	(4,141)	(3,541)
Other Invt.(net)	0	0	(186)	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(1,879)	(57)	(150)	0	0
Net Investing CF	(3,521)	(2,769)	(3,953)	(4,141)	(3,541)
Div Paid	0	0	0	0	0
Chg in Gross Debt	1,893	1,540	1,370	3,000	1,000
Capital Issues	2,274	6,682	0	0	0
Other Financing CF	289	(33)	(77)	0	0
Net Financing CF	4,456	8,189	1,293	3,000	1,000
Currency Adjustments	(1)	(293)	(76)	0	0
Chg in Cash	975	5,792	(1,670)	472	(550)
Opg CFPS (RMB)	0.85	1.74	2.93	3.60	4.36
Free CFPS (RMB)	(8.06)	(6.67)	(7.03)	(6.33)	(3.53)

Source: Company, DBS HK

Chindata Group Holdings Ltd

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	20-Jan-22	US\$4.97	US\$10.20	Buy
2:	11-Mar-22	US\$5.69	US\$10.80	Buy

Source: DBS HK

Analyst: Tsz Wang Tam
Harry Zhuang

Chindata Group Holdings Ltd

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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Sources for all charts and tables are DBS HK unless otherwise specified.

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