REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q4 2023 GDS Holdings Ltd Earnings Call

EVENT DATE/TIME: MARCH 26, 2024 / 12:00PM GMT

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Frank Louthan *Raymond James - Analyst*
Eunice Liu *Goldman Sachs - Analyst*
Yang Liu *Morgan Stanley - Analyst*
Daley Li *Bank of America Securities - Analyst*
Robert Chew *JP Morgan - Analyst*
Bora Lee *RBC Capital Markets - Analyst*
Sara Wang *UBS - Analyst*

PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for GDS Holdings Limited's fourth quarter and full year 2023 earnings conference call. At this time, all participants are in a listen-only mode. After management's prepared remarks, there will be a question-and-answer session. Today's conference call is being recorded. I'll now turn the call over to your host, Ms. Laura Chen, Head of Investor Relations for the Company. Please go ahead, Laura.

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

Thank you. Ladies and gentlemen, thank you for standing by for GDS Holdings Limited fourth quarter and the full year 2023 earnings conference call. At this time, all participants -- sorry. Welcome to the fourth quarter and full year 2023 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. Ms. Jamie Khoo, our COO, 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 Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the Company's results may be materially different from the views expressed today. Further information regarding these and other risks and uncertainties is included in the Company's prospectus as filed with the 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's earnings press release and this conference call include discussions of unaudited GAAP financial information as well as unaudited, non-GAAP financial measures. GDS's press release contains a reconciliation of the unaudited non-GAAP measures for 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. The number one priority of GDS management is to create value for our shareholders and drive share price recovery. Today, we are delighted to announce the landmark US$587 million equity raise for our international business. This is a big step forward in our strategy to develop and finance GDS International on a standalone basis. The equity raise also highlights how much value we have already created for our shareholders through international expansion.

We have been developing our business in China for many years. We are a market leader with over 1.5 gigawatts of capacity in service and under construction. We are confident that we will maintain our competitive position and enjoy further growth, particularly when AI demand takes off.

We initiated our international business in the past couple of years. Within a short period of time, it has become a second growth engine with over 330 megawatts in service and under construction, equivalent to 20% of what we have in China.

GDS China and GDS international are obviously at very different stage of development. We are therefore pursuing distinct strategies for each part of our business.

For China, we have two major financial objectives. Objective number 1 is to grow EBITDA at a steady rate. In 2023, our adjusted EBITDA grew by 9% year on year, all of which was from China.

Objective 2 is to de-lever our balance sheet. Our target is to get to below 5 times within three years.

In order to achieve these objectives for China, we are targeting new business which fits our capacity. We are increasing asset utilization by delivering the backlog. We are spending CapEx only where it is needed for customer move-in and we are preparing for asset monetization when the market allows.

For international, our ambition is to create an exceptional data center platform which emulates our success in China by leveraging our industry-leading capability, strategic business relationships and scale economics.

In 2022 we set up a new international holding company headquartered in Singapore. It acts as the vehicle for all our assets and operations outside of Mainland China. We have assembled a standalone management team and today we announced that Jamie Khoo, our very capable COO, will transfer to become the CEO of GDS International.

As we started to expand overseas, we focused initially on two region hub markets, Hong Kong and Singapore-Johor-Batam, which is the hub for Southeast Asia. These two markets rank in the top 10 data center markets globally. We correctly anticipated where demand will flow. We secured the right resource and executed it well. As a result, we quickly established a market-leading presence in both places. We have secured over 200 megawatts of commitment and reservations from global, as well as China, customers. As of today, we already have over 70 megawatts in service and revenue-generating.

We see tremendous opportunities for growth in these markets. We are very well placed with our proven track record, development pipeline and time to market. To build on this success, we are actively evaluating several new markets and expect to make further commitments in the near future.

Now, let's review our performance in more detail. In 2023, we won 68,000 square meters of new customer commitment. 50,000 square meters came from, which was similar to the prior year and nearly 20,000 square meters, or 30% of the total bookings, came from international.

During 4Q23, we won two large orders in China and one for international. Both of the China orders fit our strategy of matching commitments with capacity and have move-in periods of less than two years. The international order was from a global cloud service provider for the whole of our Hong Kong 2 project. As a result, our first two projects in Hong Kong are effectively sold out with long-term binding commitments.

Looking forward, the demand outlook in China has not yet picked up noticeably. AI demand is coming but it will take more time. Meanwhile, our sales pipeline in Southeast Asia is very strong. We expect significant new bookings for both of our campuses in Johor in the near future. AI is undoubtedly a big factor driving demand in this market.

In 2023, the gross move-in was around 69,000 square meters, 20% higher than in 2022. China move-in was around 56,000 square meters, which once again was similar to the prior year. On top of this, there was a first-time contribution from international of 12,000 square meters as one data center in Hong Kong and three data centers in Johor came into service and started ramping up.

In 2023, we brought around 57,000 square meters of new capacity into service across seven data centers, four in China and three international. By the end of the year, these seven (corrected by company after the call) data centers had an overall utilization rate of 77%, which is consistent with our target for faster move-in and higher utilization.

During 2024, we expect to bring about 81,000 square meters into service, driven by delivery commitments to customers. The overall commitment rate for this capacity is 92% and the move-in schedule is confirmed.

I will now pass on to Dan for the financial and operating review.

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

Thank you, William. Turning to slide 17. We just announced today that our wholly owned subsidiary, DigitalLand Holdings, which we refer to for now as GDS International, or GDSI, has entered into definitive agreements with certain institutional private equity investors for the new issue of $587 million of series A convertible preferred shares.

This first external equity capital raise for GDS International demonstrates our ability to access dedicated financing for our international business without further funding from GDS Holdings.

The series A subscription price implies a pre-money equity valuation for GDS International of $750 million. In terms of our share price, this is equivalent to approximately $3.92 per GDS Holdings ADS. The implied post-money enterprise valuation of GDSI, including forecast net debt of around $935 million as at the end of 2024, is around US$2.3 billion. This is equivalent to around 24 times GDSI's forecast adjusted EBITDA for the full year 2025.

As mentioned by William, GDS International currently has over 330 megawatts of data center capacity in service or under construction across strategic locations in Hong Kong, Singapore, Johor, Malaysia, and Batam, Indonesia. The total development cost for this portfolio is around $2.5 billion, out of which approximately 40% has been incurred up to the end of 2023.

As of the end of last year, GDSH had provided a total of around $595 million of intercompany funding to GDSI, comprising $411 million of paid-up share capital and $184 million of shareholder loans and other payables, which will be repaid immediately out of the proceeds of the Series A new issue. This will benefit GDSH in terms of higher liquidity.

On a pro forma basis, including $411 million of permanent equity from GDSH and $587 million from the Series A, GDSI will have total paid up share capital of approximately US$1 billion. As a result, GDSI will be sufficiently well capitalized with equity to complete the development of its current 330 megawatt portfolio.

Post-closing, GDSH will own approximately 56.1% of GDSI in the form of ordinary shares and the remaining 43.9% equity will be held in the form of Series A shares by investors, including Hillhouse, Rava Partners, Boyu, Princeville Capital, and Tekne Capital.

GDSH and certain investors will have the right to appoint directors to the Board of GDSI, proportionate with their ownership. William will continue in his role as Chairman of the Board of GDSI, as well as Chairman and CEO of GDSH.

Other key deal terms, including lock-up, QIPO, and liquidation preference, amongst others, can be found in the transaction documents which we will file with the SEC.

With this capital raising, it starts to make sense for us to look at GDS business in two parts. As we go through the financials, I will highlight selected numbers for international on a standalone basis and for GDS Holdings excluding international.

Turning to slide 18. For 2023, revenue increased by 6.8% and adjusted EBITDA increased by 8.8% year on year. In 4Q23, revenue increased by 6.3% and adjusted EBITDA increased by 5.7% year on year.

For the full year 2023, international had negative adjusted EBITDA of around RMB100 million. The year-on-year growth rate for GDS Holdings excluding international would have been 2 percentage points higher than the consolidated number. International recorded positive adjusted EBITA for the first time in 4Q23.

Turning to slide 19. I will discuss the two main drivers of revenue growth, namely area utilized and MSR. For 2023, net additional area utilized was 48,000 square meters. The annual net add was slightly less than 2022 as a result of higher churn. Nonetheless, total area utilized at year-end was 13% higher than at the end of the prior year.

During 4Q23, we achieved net additional area utilized of 20,000 square meters, which is the highest level for many quarters. This was mainly due to ramp up of our first two data centers in Johor and a minimal level of churn.

For 2024, we expect net additional area utilized to be higher than last year's 48,000, with steady growth in China and increased contribution from international.

Turning to the MSR metric. Over the course of 2023, comparing 4Q to 4Q, MSR decreased by 5%. For 2024, we expect MSR in China to decrease by around 3%, which shows it is bottoming out. The MSR for International is currently higher than for China. Hence, on a consolidated basis, we expect MSR to remain at around current levels.

Turing to slides 22 and 23. For 2023 our consolidated, adjusted EBITDA margin was 46.4%, which was slightly higher than for 2022, despite the fact that power tariffs in China increased again during last year.

For 2024, the midpoint of our guidance range implies a consolidated adjusted EBITDA margin of 43.7%, which is a more than 2 percentage point drop compared with 2023. The margin for GDS Holdings, excluding International, should be similar to 2023. The expected drop in the coming year is therefore mainly due to International growth drag.

Turing to slide 24. In 2023 our China CapEx totaled RMB3.5 billion. We have brought China CapEx down significantly from historic levels and we are only spending where it is necessary to generate growth.

In 2024, as William mentioned, we plan to bring a further 58,000 square meters of new capacity into service in China, most of which is committed to customers with firm move in schedules.

Meanwhile, our CapEx guidance for China in 2024 is only RMB2.5 billion. The very low implied CapEx per square meter is because we have already incurred a substantial part of the development cost. What is left is cost to complete. This pattern will continue over the next few years, giving us the ability to grow in China with relatively low incremental CapEx.

In 2023 our International CapEx was around RMB2.8 billion. Our current backlog for International stands at over 130 megawatts of committed and reserved capacity, a large part of which is yet to be built. Our CapEx guidance for International in 2024 is RMB4 billion, which is largely driven by fixed delivery commitments to customers.

On slide 25. In 2023 GDS Holdings, excluding International, had negative cash flow before financing of just over RMB1 billion. Our objective is to maintain positive cash flow before financing on an organic basis. We have already been positive in some quarters and for 2024 as a whole, we expect to be close to breakeven.

In 2023, International on a standalone basis had negative cash flow before financing of over RMB3 billion. In 2024 we forecast negative RMB4 billion, which can be fully financed by the equity raise and project debt.

Looking at our leverage on slides 26 and 27. At the end of 2023, our consolidated net debt to last quarter annualized adjusted EBITDA multiple was 8.5 times. Excluding International and pro forma for the repayment of shareholder loans, the multiple was 7.5 times.

Turing to slide 28. During 2024 we have RMB2.3 billion of project loan amortization for China. We expect to generate an equivalent amount of new financing cash flow as a result of the repayment of shareholder loans from GDSI to GDSH and drawdown under existing facilities to finance around 50% of China incremental CapEx.

Turning to slide 29. Before I talk about guidance, I would like to flag the impairment loss of long-lived assets of around RMB3 billion, which we recorded during 4Q23. We are required to test for impairment whenever events or changes in circumstance indicate that the carrying amount of long-lived assets may not be recoverable. The impairment loss was mainly associated with data centers located in properties which we leased for a fixed term and a few data centers which we plan to consolidate.

Turing now to guidance. For the full year 2024 we expect total revenues to be between RMB11.34 billion to RMB11.76 billion, implying a year-on-year increase of between approximately 13.9% to 18.1%. We expect adjusted EBITDA to be between RMB4.95 billion to RMB5.15 billion, implying a year-on-year increase of between approximately 7% to 11.4%.

On its standalone basis, we expect International to contribute around RMB100 million to RMB150 million of adjusted EBITDA in 2024.

As I mentioned earlier, we expect total CapEx of around RMB6.5 billion for the full year. Comprising RMB2.5 billion for China and RMB4 billion to International.

I'd now like to open the call to questions. Operator, please.

QUESTIONS AND ANSWERS

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions). For the benefit of all participants on today's call, please limit yourself to one question. If you have more questions, please re-enter the queue. One moment for the first question.

Our first question comes from the line of Frank Louthan from Raymond James. Please go ahead.

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

Great, thank you. Just really quickly. When can we expect to see some more full breakouts of the International business? That would be the first thing.

Then secondly, if you can characterize the move-in schedule of the international customers relative to what you've seen historically in China and how quickly we could expect to see those customers billing inside those new developments. Thank you.

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

This is Dan. Today we've started to provide a breakout of the CapEx and of the leverage where there is clearly a significant difference looking at GDS Holdings consolidated or GDS Holdings in two parts.

I did verbally give the numbers for EBITDA. I said that last year International had negative EBITDA of RMB100 million for the full year and this year we expect a positive EBITDA of RMB100 million to RMB150 million. It's not yet material, that material, in the context of GDS Holdings numbers. So we don't propose to report segment financials. But as we move through this year the materiality increases, we will certainly consider that.

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

Did you want to comment about move-in?

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

Move-in compared with China, right. I think what we see the international move-in is better than what we have in China. In general, I think the people all want time to market more faster than other region. So it's very good and the general revenue more - more faster than China.

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

Okay great, thank you.

Operator

Thank you for the question. One moment for the next question. Our next question comes from Eunice Liu from Goldman Sachs. Please go ahead.

Eunice Liu ***Goldman Sachs - Analyst***

Thank you, management, for taking my questions. This is Eunice asking question on behalf of Timothy Zhao. My question is has Company seen a fast ramp up of the AI-related demand, especially for GDS International?

Also, another question is what takes - to take to achieve the high end of your guidance in terms of revenue guidance for next year? Thank you.

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

Yes, I think in the international business, of course I think, yes. Actually, we don't know what our customer move-in because they are all very confidential. So based on our current - the product profile, I think we do have - see some high density rapid requirement.

Plus, I think the international requirement demand is very varied. Because including a lot of the internet company OTT and also traditional GPU cloud as well. So it's mixed. I think that we do see maybe AI type demands is already there, yes.

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

To the question about how do we achieve the high end of our guidance. So we've split the guidance into two parts. For China, we're expecting a standalone adjusted EBITDA growth rate of around mid-single digits. This is consistent with the run rate that we've seen over the past couple of years in terms of quarterly move in and the trend in MSRs and EBITDA margins. We've forecast assuming that current market conditions continue through this year. Maybe next year, I think the outlook could be more positive in 2025.

For the International part of business, clearly the turnaround from negative RMB100 million to RMB100 million to RMB150 million positive is quite significant and that elevates the growth rates.

For International, we're forecasting bottom up based on the time scheduled for individual data centers to enter service and the customer contracts associated with those data centers, which have a fixed move in schedule. So we base the forecast largely on what are the terms of those contracts.

The International business is very dynamic. It's at an early stage, albeit it's already achieved significant scale. But typically for a business at this stage of development, there could be a wider range of outcomes just because things are moving so fast.

So I think there's - yes, there is potential upside in the International business as it - as more data centers come into service.

Operator

Thank you for the questions. Our next questions will come from the line of Yang Liu from Morgan Stanley. Please go ahead.

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

Thanks for the opportunity. I have three questions. First, in terms of the overall international revenue contribution, could management elaborate or break down in the current guidance for 2024 the international revenue contribution?

The second question is, I made some comparison versus your disclosure at the end of the third quarter last year. You had a 372-megawatt data center pipeline in the overseas market, and now it has increased dramatically just in one quarter. Could management update us in terms of the pipeline development? Where is the new pipeline? What will be the potential timeline to deliver that or what will be the type of business, hyperscaler or retail business, etc.? That is for the incremental overseas pipeline.

The third question is regarding the additional sales for 2024. Do you think that the total sales or area booked in 2024, if there is any chance to see a turnaround? Or from the megawatt perspective, there could be a turnaround? Thank you.

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

I'll take the first question. Hi, Yang. It's Dan here. We provided revenue guidance for the full year of RMB11.34 to RMB11.76 billion. We expect the revenue of international standalone to be about RMB1.1 billion, plus or minus, as I explained in answering the previous question.

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

I think the pipeline is very strong in general. I see the orders from all over the world, global, and also, we see a lot of pipelines from China as well. This shows the international business has a huge momentum, a very big momentum. In fact, the current - a lot of customer ask us for deliver as much and as fast as possible. This is the overall demand profile.

On the other hand, I think the customer type, as I just mentioned, varies. There's a lot of local tech companies, a lot of global tech companies and also a lot of e-commerce companies as well. So it's not only from China. What we have been seeing is from globally. So I think this led us to feel very, very excited, so I think the international business will grow very, very faster than what we expect.

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

I think Yang Liu was also asking about your bookings, expectation of bookings.

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

We don't want to set up - because every quarter is change, frankly speaking. So I think to maintain the last two years' average level, which means 50 megawatts per year, is our base. But based on our current pipeline, we can maybe go to a very high number, maybe double, something like that, but we don't want to set up too high expectations on that.

But 50 megawatts is our base in international markets. Of course, as I just mentioned, this is just the southeast Asia market. We also look very closely for other new markets like north Asia and European markets as well.

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

Yang Liu, I just want to check - your question about increasing pipeline, if you were referring to the secured development pipeline. The reason why that has gone up very significantly is because, at our established campus that we refer to as NTP, we acquired additional land and secured additional power. At the same time, we have established a second campus in Johor called KTP, where we have started construction, around 20 megawatts, but we plan in a single phase to go around 100 megawatts, and we also look forward to obtaining some commitments for that site in the next few quarters.

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

Got it. Thank you.

Operator

Thank you for the questions. Our next questions come from Daley Li from Bank of America Securities. Please go ahead.

Daley Li ***Bank of America Securities - Analyst***

Hi, management. Thanks for taking my question. I have two questions. The first one involves the China data center business. Could management share some of the demand trend for the - our clients, maybe for public cloud providers and the internet companies, and some financial companies, how the demand trend? And right now the government is publishing more policy to support the AI data center etc. How do we see the competition?

My second question is about the overseas business. Congratulations on this recent fund raising. How do we see future - financial channel in the overseas market as we try to develop more business after two to three years in terms of financing channel. Thank you.

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

I'll take your first question. In China, I think we do see some signal that AI demand's increasing, but based on current chip supply issues, the demand is not - the demand actually is already there but not fulfilled by the chips. So what we can tell is that the chips supply in terms of a new version of the NVIDIA like H20 and also some China chip supply profile, what we can see is maybe the end of this year or early next year, China data center demand will recover in a significant way. What I think is this year still you can see a lot of this demand frying right now, but actually every people are waiting for the chips. So in impact to our data center real demand, I would say it will start from next year.

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

Your question about financing requirements and options for international - the rationale behind the capital raising which we announced today is to ensure that we have adequate equity capital for the existing portfolio which is in service and under construction. But we are moving forward rapidly, and the requirement for additional capital will depend on how the business plan evolves. We will take a view as new opportunities come up and new commitments are made.

We have spoken before about a strategy of limiting the amount of capital which GDS Holdings allocates to international. We've allocated US$411 million. Now we're starting to leverage our equity investment with external equity at a premium valuation. This first Series A capital raising has required us to establish GDS International on a standalone basis and put in place the governance and all the aspects of intercompany relationship and so on which is quite a challenge. After having done this deal, and with the investor group who is now partnering with us, I think GDS International is very well placed to do further capital raisings, and that could either be at a country level, as we've done already in Indonesia with our joint venture with INA, or it could be at the international HoldCo level.

Daley Li ***Bank of America Securities - Analyst***

Thank you, management.

Operator

Thank you for the question. Our next question comes from Robert Chew from JP Morgan. Please go ahead.

Robert Chew ***JP Morgan - Analyst***

Thanks, Dan. Thanks, William. I'm asking on behalf of Gokul, so I have two parts of my question. The first one is on the competitive landscape and the IRR. Can you help us understand what the IRR looks like for the international business, given we have seen many - the regional players or local players or Chinese players competing in this market?

Secondly, I think you guided the international business revenue contribution for this year will be probably 9% or 10%. You mentioned that you are considering to expand beyond this southeast Asia market, probably Europe or north Asia. How should we think about the revenue contribution from international business in three to five years' time?

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

Thanks, Robert. First of all, for the IRRs, we have undertaken projects in Hong Kong and in Johor and in Batam. Each market has a different cost of capital, but if we look at it in a very general way, the IRRs have been within the range that we target historically, unlevered post-tax IRRs of not less than 10% up to IRRs in the low teens, which currently compares quite favorably with what is achievable in China at the current stage in the cycle.

For the contribution of international, without giving out forecasts, I think we talked before about hitting 15% of consolidated revenue or adjusted EBITDA within three years. I think that is definitely achievable. It may be higher than that.

Robert Chew ***JP Morgan - Analyst***

Thank you.

Operator

Thank you for the questions. One moment for the next question. The next question comes from the line of Bora Lee from RBC Capital Markets. Please go ahead.

Bora Lee ***RBC Capital Markets - Analyst***

Thank you. Hi, this is Bora on for Jon Atkin. I believe William had mentioned GDS expects to enter additional markets. Can you elaborate on how you're thinking about the markets or regions and would you like to expand on the timeframe you had in mind?

Secondarily, any update on the Singapore development? Thank you.

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

I think our strategy is, first of all, I think we see the tremendous growth in Southeast Asia and the whole Asia Pacific, which is the market we are very familiar with. I think the first step, we will still focus on the Southeast Asia to get the - maintain the market-leading position, right? So I think this is our first priority.

In the meanwhile, we already started to develop the Japan market for a while and I think we are - maybe in the near future, maybe we can announce some progress. So I think the Japan market, Korea market also very attractive, it's the top market - data center (corrected by company after the call) market in the world and we see the demand.

So in general, we follow up the big market, we will also follow up the high growth market in the future. But as I've just mentioned, we do have seen some opportunity in Europe as well, but it would - this is another future target market, but of course including Middle East.

Singapore, yes, we target to deliver the - launch the data center by the end of 2026, so that's our timeframe and we made some progress. We have a couple shortlisted, we already tried to do the final decision to choose in the site. So I think we will tell the investors once we make a final decision.

Bora Lee ***RBC Capital Markets - Analyst***

Thank you.

Operator

Thank you for the question. One moment for the next question. For our next questions we have Sara Wang from UBS. Please go ahead.

Sara Wang ***UBS - Analyst***

Thank you for the opportunity, I have two questions. First one is on China business, so what's the trend of MSR or churn rate when you renew contracts with existing customers, say over the past two quarters? Then how should we think about the trend going forward?

Second question is still on AI, so maybe for both China and international projects, because AI requires higher density racks or even more advanced cooling methodology. So is there any difference between maybe high density power racks in terms of revenue or margin profile compared to maybe cloud demand we have seen previously? Thank you.

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

I'll answer the first question maybe, William.

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

Yes, I think in general, I think the current AI - of course, the AI will - definitely in the future will be the main driver to drive the data center demand. This is what is happening in US, what's happening in Europe and also the Southeast Asia and Japan market already, but it's just a start.

In terms of the difference, I think the AI guys need more big - big capacity. Historically when we talk to cloud guys demand, if we use the single deal size, let's say internets always ask for 10 megawatts, 20 megawatts as the maximum and the cloud guys normally ask for, let's say, 30 megawatts, 40 megawatts. But now what we can see, that the deal profile's a total difference, a lot of our customers ask for 100 megawatts or 200 megawatts per campus. So that means they need more power capacity in one site, so this is one difference.

Second of all, of course, I think in general average power density goes very high, so we are well prepared for that.

In terms of cooling, I think everybody knows once you get the - if you want to get the level of your product like per rack, above 20 kw per rack, it's better to start to use - try to start to use the liquid cooling, right? So in terms of technology, we are very familiar of the liquid cooling, because five years ago we started to use the liquid cooling solution in China. So I think we are well prepared for catchup the AI demand in the future, whatever size - in terms of size, capacity of the size, or power density or cooling technology. We are all good at that.

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

Sara, your question about MSR, I always answer it in the same way, saying MSR can be affected by a number of different factors. It's not just a reflection of change in market pricing, it's also dependent on location and type of data center. Rather than talk about pricing on renewals, I always give some guidance or direction on the trends in MSR.

I mentioned during the prepared remarks, over the past four quarters, that 4Q22 to 4Q23, the MSR decreased by 5%. Over the next four quarters, that's 4Q23 to 4Q24, we expect the MSR to decrease by 3%. Most of that decrease is due to delivery of the backlog. A smaller part is due to lower pricing on renewals.

But if you were to look further forward beyond 2024 to 2025, MSR is bottoming out, which means that as you project further into the future, our revenue growth will be mainly driven by the increase in that additional area utilized with MSR decrease becoming less and then becoming flat.

Sara Wang ***UBS - Analyst***

Got it, thank you.

Operator

Thank you for the questions. We have come to the end of the Q&A session. I would like to now turn the call back over to the Company for closing remarks.

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

Thank you once again for joining us today. If you have further questions, please feel free to contact GDS Investor Relations with the contact information on our website and the Piacente financial communications. Bye, see you next time.

Operator

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