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Q4 2021 GDS Holdings Ltd Earnings Call

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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 2021 Earnings Conference Call.

(Operator Instructions)

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, Ms. Laura Chen, Head of Investor Relations for the Company. Please go ahead, Laura.

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

Thank you. Hello, everyone, welcome to fourth quarter and full year 2021 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's Founder, Chairman and CEO, who will provide an overview of our business strategy and performance. Mr. Dan Newman, GDS's Chief Financial Officer, will then review the financial and operating results. Ms. Jamie Khoo, our 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 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 includes 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's Founder, Chairman and CEO, William Huang. Please go ahead, William.

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

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

I'm delighted to report another year of strong financial results. In 2022, we grew revenue by 36%, and adjusted EBITDA by 38%

year-over-year, in line with our guidance. At the same time, we made significant progress in key business areas, which underpin our long-term success.

We sustained our sales momentum, adding around 120,000 square meters, or 280 megawatt of new commitments, from an increasingly diversified customer base.

We secured over 300,000 square meters of new capacity supply in Tier 1 markets in China by a combination of land purchases and project acquisitions. This increasingly scarce resource will give us a competitive advantage for years to come.

We've put in place the foundations for our Singapore Plus strategy, with two complementary campuses in Malaysia and Indonesia.

We increased our use of renewables to over 30%, and we completed over US$2.6 billion of debt financing to ensure that our projects are fully financed on a sound basis. In addition, we raised over $600 million from a private CB issue, with strategic value added.

Our strategic market position is stronger than ever.

Despite a challenging operating environment, we remain focused on executing our business plan, improving our efficiency, and seizing key opportunities when they arise.

In 4Q '21, we booked 23,000 square meters of new commitments. For the full year of 2021, we hit our sales target with 96,000 square meters of organic bookings, and 23,000 square meters from acquisitions.

For 2022, we expect to achieve around 90,000 square meters of new organic commitments. While there is some change in the demand profile, overall demand is at a similar level to last year.

As shown on slide 6, we won five hyperscale order during 4Q '21. Hyperscale typically means cloud and the large internet, but in each of the past two quarters, one of our hyperscale orders was from a financial institution.

Turning to slide 7, during 2021 as a whole, we saw a change in our new business mix, with cloud accounting for 50%, large internet for 30%, and FSI and Enterprise for 20%. Our sustained sales momentum demonstrates the strength of our customer franchise across the demand spectrum.

Turning to slides 8 and 9, one of the key to our success is having the right capacity, in the right place, at the right time. This enables us to provide a more complete solution to our customers and differentiates GDS from the competitors.

In Tier 1 markets it has become increasingly difficult, if not impossible, to obtain suitable land for data center development together with the necessary power quota, and access to renewables. Customers must be able to scale up their presence in Tier 1 markets, in order to satisfy the requirements for low latency and high availability. This is recognized in the government's Eastern Data Western Computation concept for the data center industry.

During 2021, we accelerated our capacity sourcing in order to build up a sustainable supply. We acquired or entered into definitive agreements for 16 data center projects, mostly located in the urban areas of Beijing and Shenzhen, where new supply is limited, and we acquired and purchased the land with energy quota in all the Tier 1 markets.

In total, we added around 300,000 square meters of - to our development pipeline, equivalent to over three years' new bookings at our current sales run rate. It is valuable asset, which underpins our ability to serve customers and create value for our shareholders, going forward.

While assuring our position in Mainland China, we also took significant steps to build up our presence in Hong Kong, and Southeast Asia.

In Hong Kong, we now have a pipeline of four purpose-built data centers that will enter service between 2022 and 2025, ensuring continuous supply. We have an anchor commitment for Hong Kong 1, and expect to have commitment for Hong Kong 2 in the second half of this year.

I have been in Singapore for the past few weeks. I'm very excited by the potential of our regional strategy. We will initiate construction of our Southeast Asia projects in the next few months, and to obtain our first anchor orders shortly thereafter.

Turning to the slide 14. A few months ago, we published our first ESG report, and set out a target to achieve carbon neutrality by 2030. In 2021 we achieved 34% renewable energy usage, compared with 22% in the prior years of 2021. Recently, four of our data centers were recognized by the government as "National Green Data Centers" based on their renewable energy usage, and advanced green technologies in design and operation.

To conclude my part, all the things that we have done are for long-term business plan. All the temporary uncertainties in the macro environments are not going to impact our execution of business. We are positioning ourselves to be long-term winner in the data center market.

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

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

Thank you, William. Starting on slide 17, where we strip out the contribution from equipment sales, and the effects of FX changes.

In 4Q '21, our service revenue grew by 6.1%. underlying adjusted gross profit grew by 6%, and underlying adjusted EBITDA grew by 6.7%, quarter-on-quarter. Our underlying adjusted EBITDA margin was 47.2%.

Turning to slide 18 and 19, service revenue growth is driven mainly by the delivery of the committed backlog and closing of acquisitions. Net additional area utilized during 4Q 2021 was 19,147 square meters. Excluding acquisitions, move-in has been at a similar level for the past five quarters. The first quarter of each year is usually the seasonal low. In the current month of March, move-in has also been affected by COVID-related lockdowns in a number of our markets.

Accordingly, we expect move-in in 1Q 2022 to be slightly below the trend line; however, we still believe the move-in pace will pick up again once we see more certainty in the macro environment. MSR per square meter was almost flat in 4Q 2021 as compared with the prior quarter. For the full year 2021 MSR declined by 3.6%. In 2022 we expect MSR to decline further by mid-single digits in percentage terms. The MSR dilution from edge of town and B-O-T projects will continue in 2022 but we expect the decline to be more mild in 2023 and onwards.

Turning to slide 21 and 22, our underlying adjusted gross profit margin was 52.5% for 4Q 2021, the same as in the prior quarter. As a result of higher coal prices, we are seeing thermal power tariffs increase by around 10% to 20% across Tier 1 markets. We are passing on around half of the increased cost to our customers; however, we estimate that temporarily elevated power tariffs are a drag of around 1.0% to 1.5% on our profit margin this year.

Turning to slide 22, during 2021 we brought 120,000 square meters of new capacity into service comprising organic developments and acquisitions but excluding B-O-T projects. Over the past few quarters, we have adjusted the pace of our construction to reflect the current environment. Accordingly, in 2022 we expect to bring around 85,000 square meters into service. Our pre-commitment rate remains at over 60%. Assuming that, on average, 90% of capacity is saleable we currently have around 46,000 square meters under construction but not yet pre-committed, equivalent to around two quarters new bookings as a current sales run rate.

Turning to slide 23, our CapEx for FY21 was RMB13.7 billion consisting of RMB9.7 billion organic CapEx and RMB4 billion for acquisition consideration. The organic CapEx includes around RMB1 billion for land banking which is not categorized as acquisition for accounting purposes. As at the end of 4Q 2021 we had a liability of around RMB2.1 billion on our balance sheet in respect of deferred and contingent consideration payable for acquisitions which had closed by the year end.

Looking at our financing position on slide 24, at the end of 4Q 2021 we had RMB10 billion or US$1.6 billion of cash on our balance sheet, and our net debt to the last quarter annualized adjusted EBITDA ratio was 6.3 times. Our effective interest rate for the whole of 2021 was 5.5% compared with 6.6% in 2020.

During 1Q 2022 we successfully raised US$620 million through the issue of convertible senior notes with a 0.25% coupon and 7 years tenor. With all the refinancing we have successfully extended the tenor of our project debt. Over the next 10 years project debt repayments average around RMB2 billion per annum.

Turning to slide 25 and 26. As at the end of 2021 we had around 320,000 square meters of area utilized and around 235,000 square meters of total backlog. Assuming that we complete all the existing projects, deliver the backlog, and sell out the small amount of remaining inventory, our revenue generating area would almost double from today's level to over 600,000 square meters. This is without initiating any new projects. The cost to complete all the existing projects is around RMB13 billion which we could finance with our existing resources.

Turning to slide 27. For the full year 2022 we expect our total revenue to be in the range of RMB9320 million to RMB9680 million and adjusted EBITDA in the range of RMB4285 million to RMB4450 million, which implies a margin of around 46% at the midpoint of revenue and EBITDA ranges.

We expect our CapEx to be around RMB12 billion, out of which RMB6.0 billion is mainland China organic CapEx, RMB2 billion relates to regional expansion, and RMB4 billion relates to acquisitional consideration plus land banking.

We would now like to open the call to questions please operator.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Your first question today is from the line of Yang Liu from Morgan Stanley. Please go ahead.

Yang Liu *Morgan Stanley - Analyst*

Thanks for the opportunity. I have two questions here. The first one is, could you please share your latest observation on demand. We see several new changes, more public held and internet companies reported their recent earnings, and we also see a new run of COVID in China, et cetera? What is the incremental change on the demand side for both move-in and also new orders for new sales?

The second question is we see the Chinese government released a eastern data west computation initiative. What is the implication to GDS especially given GDS has a long-term Tier 1 market strategy, thank you?

William Huang *GDS Holdings Limited - Chairman and CEO*

Let me answer your question, Yang Liu, thank you. Number one about demand side, I think the -- as I just mentioned the demand is still maintained the similar level of last year. This is based on our market observation. But the demand profile is changed. As I just mentioned, in the last two quarters - we mentioned the demand will be shifted, the profile will shift from the large Corp to a lot of the internet and enterprise and the financial institutions. This is happening.

If you remember a couple of quarters ago, we mentioned the demand, we already told the market that demand has shifted but the demand level is still maintained. That's our conclusion. So that's why I think as I just mentioned new order booking profile is maintaining the changing. So this is the facts which I tried to mention.

The second question is move-in. The move-in I think it's early and too aggressive to talk about it because we see there is too much macro and the micro impact to the customer move-in condition like COVID lockdown and all those supply chain issues is still there. So I think now it's a little bit too early to give this some positive way but we still will see some condition improve, I believe the customer will catch up. Because the demand is real, and they are just waiting for some outside conditions improved like supply chain and lockdown conditions.

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

Okay, the second question, "Eastern Data Western Computation". I think it's good, it's good news for us. Number one, the government it still encourages new infrastructure, so this is good news. Another good news for GDS is we read that the government policy as two parts. One is the data, so this means the government finally recognized low latency product is very, very necessary. So that means government knows the demand will continue to increase in the, let's say, Tier 1 market, low latency product.

On the other hand, we understand the government wants to encourage the people to put more, let's say, core data in renewable energy source location -- where there has a lot of renewable energy source. So we believe that GDS is working very closely with the government and our clients. So I think that GDS has already demonstrated we have the capability to capture all kinds of the opportunities in the future.

So I think another impact is I try to explain is this new policy is already introduced one year ago but now it's more pretty firm. But it is a guidance and it needs time, and also, I would say it will not impact any of our resource which we are already on hand. So this is my understanding of the government policy.

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

Thank you.

Operator

Thank you. The next question is from the line of Tina Hou from Goldman Sachs. Please go ahead.

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

Thanks, management, for your time. I have two questions. The first one is in terms of, let's say, the next three years from 2023 to 2025, where do you see our growth rate? Is it more stabilizing at around 20%, or do we see when all of these near-term uncertainties or headwinds have resolved, we can see an acceleration of our revenue growth as well as EBITDA margin situation? Do we see maybe going forward again continued EBITDA margin improvement after this short-term electricity or coal price inflation, that's number one.

And the second question is regarding our M&A strategy this year. I notice that management guided for 90,000 square meters of organic sales this year, so just wondering what's our M&A strategy this year. Thanks.

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

Okay, I answer the question. Number 1. I think we've [set] the base of let's say every year we increase the new bookings, it's around 90,000 square meters, this is organic. We're still consistent to give the guidance on that and we are confident for that.

But this is in the last 12 or 18 months, the macroenvironment which is not very good, but we're still confident to maintain this level of the growth. This is our base. So of course, we don't give any upside on that, but we believe if the government policy or macroenvironment improved, I think the market will accelerate.

But now we are slightly, let's say, confident for the future next five years, next three years, because we see the Central Government encourage the economy again. Recently Vice Prime Minister, Mr. Liu He, released very good policy to the market and we think, we believe this will encourage all the internet companies or cloud companies or enterprise companies, will restart their business plan. This is number 1. So above 20% growth definitely is our base.

The second question, M&A as a tool is very important for us. Last 2021, we just mentioned, we are more focused on to use the M&A as a tool to acquire more valuable assets, land with a carbon quota. So because in the Tier 1 market we believe because of the carbon neutral policy is the main policy, so in the Tier 1 market, in the next few years the results will get even more tight than before.

But our customer demand in Tier 1 market is still very strong, so in order to maintain the growth profile, the resource, qualified resource, enough resource is much important than before to support our growth. So that's why M&A in the last year, we're most focused on the acquired valuable asset and resource. But now, this year, we will more focus on some projects which have even more mature asset, we will focus on.

So M&A, as we mentioned the last couple of quarters, GDS in the next 18 months even 20 months, it's a good opportunity for us to acquire more small platforms. Even we are open to see all kinds of opportunity to acquire the project, even platforms. So this is what we can give the message to the market right now. But I think going forward, we're watching all the kind of opportunity right now, our pipeline maintains very strong.

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

Thanks, William.

Operator

Thank you. The next question is from the line of Jonathan Atkins from RBC Capital Markets. Please go ahead.

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

Thank you for taking the question, it's Bora Lee on for Jon. First of all, I was wondering, have you been seeing any changes in the customer decision process for leasing uptake? And what impact are government actions having on their IT decisions?

And then secondly, on Malaysia and Indonesia, I'd be curious as to the percentage of customer interest, given perhaps customer specific challenges and the power challenges that Singapore is experiencing.

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

Dan, you want to answer the question?

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

I couldn't hear the first question clearly, but William, why don't you answer the customer interest in Southeast Asia? We were asked about Malaysia and Indonesia, your dialogue about that. I just want to check the first question.

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

Yes, Bora, as I just mentioned, I have been in Singapore almost one month because of the keep developed this region's business. Frankly speaking, I'm very excited about the whole momentum in this region. It's very active, I met a lot of the private equity guys and a lot of our customers here.

The reason why I met a lot of private equity guys is because they are very encouraging me, because they think there is more unicorn in this region is happening right now. On the other hand, our customer, our installed base customer, I met a lot of their businesspeople in this region, they've all increased their business in this region significantly in the next few years.

So that means the future demand in this region definitely will encourage us to be more aggressive in this region. So our customer demand, in terms of the real demand in the short term, I have to say we definitely will get some results in the short term and the second half of this year. Verbally we already get a couple of the customers' commitment in this region.

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

Bora, can you please repeat your first question?

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

Sure, so I was wondering if you've been seeing any changes in the customer decision process for taking up leasing and then what impact are government actions having on your customers' IT decisions?

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

Definitely our customers have their own IT logic. This is even if you look at the last couple of years, our customers they have their own philosophy and deployed logic. This cannot be changed in the short term. So that's why GDS always follow up our customer criteria first and our customer logic in terms of their business logic and their IT logic.

So I think, of course, we also believe carbon neutral will be the future, but our customers are very smart, they know how to separate their very core data to remote places, which they already do, right? So I think that this will not change our customer behavior a lot, but it's naturally when the IT growth, more data coming, we still believe the Tier 1 market—the latency market demand's still very strong.

On the other hand, the core data will significantly increase as well. So this is a different product, different demand, so need a different product to respond. So that's my understanding.

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

Thank you.

Operator

The next question is from the line of Joel Ying from Nomura. Please go ahead.

Joel Ying ***Nomura - Analyst***

Thank you for taking my question, so I have two questions. The first one is as we're talking about the M&A a lot, so I would like to understand what is the funding position at this moment and do you actually need more capital? And how do you raise the money in future?

And the second one is about the margin guidance. I think the major reason for the slightly weaker margin growth, sorry, EBITDA growth compared to revenue is about utility costs. Anything else rather than utility can we see potential risk for the margin side this year? And also if any extra cost for the green energy side that could happen? Thank you.

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

Hi Joel, I'll answer your questions. First of all, on M&A. I'll just make a general comment, which is that if there's an opportunity which is good enough, we will most definitely find a way of obtaining the financial resources. If you look at what we've done historically, we've raised capital in a variety of different ways.

We've worked with sovereign wealth funds and things like programmatic joint ventures. We've worked with Chinese private equity fund, CPE, in undertaking certain project developments. Then recently we raised capital privately from Sequoia China Infrastructure and from a sovereign wealth fund and also with support from our longstanding and largest shareholder, STT GDC.

I think the interest from private capital providers in working with GDS is very high and those dialogues are going on all the time. So I really don't think that access to capital in any way is going to be a constraint in stopping us doing what we want to do and what we think makes strategic sense. Sorry, William, did you want to say something?

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

Yes, I add some color on that, I think in the mid-term we don't worry about our capital. We have enough capital to grow our business plan. On the other hand, if some good things happen, let's say, we need capital, we never worry about that. We have a different way to access a different type of the capital.

We've already demonstrated we have this kind of capability in the last six or seven years. We could go to the market and raise money when we believe we can create value for our shareholders. So we just issued a private note, a CB, a few weeks ago. [It demonstrates, even in this market condition, we still can access the capital easily.] (corrected by company after the call)

So I think this is not the issue for us, to access if we do have some big deal type to do. A lot of the capital want to help us to create the value for our shareholders. It's not an issue.

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

On the question about margin. The biggest factor behind revenue growth is move-in. That's one driver which is not within our control, because customers have flexibility on their move-in. That's part of the way that we work with customers and part of the value proposition.

All of our backlog is absolutely rock-solid. The data center capacity is there. It's prime capacity in Tier 1 markets, and it's really just a matter of some quarterly fluctuation in terms of the move-in. But for us to make a forecast about customers' likely move-in behavior over the next few quarters is difficult. We're always very conservative on that one assumption, because it is outside of our control. We've taken a view, which I hope is a conservative view, on move-in, and that's what's reflected in the revenue.

On the margin side, we see an interruption to our trend of many quarters of years of margin improvement. The biggest factor is the power tariffs. I believe it's a temporary factor. Last October, the government liberalized power tariffs in China in the wider range and float, so liberalized the wholesale power market. But at that time and until now, the coal prices were reflected.

This transition to a more liberalized market is still ongoing and probably will be for at least this year and maybe next year in different places. Eventually, I think these liberalizations are going to lower power tariffs, because it will enable us to exercise our purchasing power as a large in all the locations, and the coal price will also revert to the mean. But once again, we took the view that for this year that the power tariff will remain elevated, and that really is the major factor behind the lower margin.

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

I can add a little bit of color on that. Number one, about move-in, if you look at the last six years, in the normal time our customer move-in is quite normal and on track. As I just mentioned, in the last 18 months, all the macro or micro environment impacts our customers, definitely. There's too much uncertainty condition impact our customers' business.

In general, if you look at a long-term point of view, this view that the IT still grows, the digitalization, nothing changed. So, I think this in our view is short-term. We believe if the macro conditions are getting improved, our customers still will execute their original business plan even better.

In our view, move-in is a short-term issue, but we will see. We hope everything will be improved in the next 12 months. We believe things are getting better.

Operator

Due to time limits, please limit yourself to one question per person. The next is from the line of Michael Elias from Cowen and Company. Please go ahead.

Michael Elias ***Cowen - Analyst***

Thanks for taking my question. We've seen some volatility in the Chinese market. I'm just wondering in terms of the private market valuations we're seeing for data center assets, have you seen any changes there?

Also, I know you've mentioned that you have different ways to finance M&As that you want to move forward with, but as we think about your leverage, could you give us a sense of the upper bound or the maximum leverage you'd be able or willing to put on the businesses? Thank you.

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

They were good ones. I would say the private market valuations have come down. Of course, sellers would argue that the public market multiples should be ignored, because they're going to go back up. We hope and expect that they will, but the private market is always going to be priced relative to the public market multiples.

There are other buyers. There's still competition for these opportunities, but we've been very selective. It was very clear what we were looking for, primarily data center projects in Beijing and Shenzhen and land with energy quota and surrounding areas of all the Tier 1 markets.

We were able to close the deals or enter into definitive agreements for those deals on mid-to-high single-digit multiples. We're talking about the acquisition price plus the cost to complete divided by estimated stabilized EBITDA.

The question about leverage, we always try and sell our datacenters with project finance. Our first objective is to allocate capital, cash, to capitalize datacenter projects and then to put in place project finance as early as possible, so that each project is fully financed in terms of capital allocated to it and debt.

As I mentioned before, if we debt finance some organic project, say, at 60% debt to total project cost, when that project is stabilized, it will translate into something like 3 to 4 times debt to EBITDA, which I think is quite an acceptable level. But of course, before then the debt is incurred and the EBITDA is generated later.

The consolidated net debt to EBITDA is not what we target. It's the outcome. It's the sum of all the projects. Some of them are stabilized and have net debt to EBITDA of around 3 times. Others are ramping up. They're fully committed. They are on a journey to the same end result, but right now they might be at very high leverage because the debt has been incurred but they haven't yet reached a stabilized EBITDA.

Then of course we have debt incurred for projects under construction, where there's also a very high precommitment rate of about 60%. The important thing is that all of these projects in Tier 1 markets have been de-risked with precommitments and are at various stages of development, which will end up in the same place, which is highly cash-generative, highly profitable.

Our consolidated net debt to EBITDA does fluctuate up and down. It was down after the Hong Kong IPO. It's up now, because we made a decision strategically to allocate capital to securing a lot of development pipeline. If you were to add back the value of our development pipeline, if you were to adjust out our enterprise value and say there's a hidden asset here, then our net debt to EBITDA would be somewhat less than it appears. I hope the investors would keep an eye on that.

But we are somewhat sensitive to this, because we appreciate that equity investors look at this, but whatever the level, if it's 6 or even if it goes higher to 7 times, it is very comfortable because of what I said. It's just the outcome of a whole series of projects which is soundly financed with all the capital allocated in the reserve and the project finance secured and in place.

Michael Elias ***Cowen - Analyst***

Thank you. I appreciate the color.

Operator

Thank you. The next question is from the line of Edison Lee from Jefferies. Please go ahead.

Edison Lee ***Jefferies - Analyst***

Thank you, management, for letting me ask a question. My key question is about the organic growth going forward. You guys have guided 85,000 square meters for 2022. I remember previously some of you were talking about 100,000 per year. I want to get better clarity as to whether you think going forward it will still be around 100,000 or you think 85,000 is a more reasonable number. Why would 2022 be 85,000 versus the previous expectation of a slightly higher number? Thank you.

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

I think we always use a very solid way and a conservative way to give the market guidance. This is number one. Just to say, 90,000 square meters is still our guidance, around 90,000 square meters.

This year, we will more focus on the highly diversified customers. This is number one. Number two, we also will focus on selecting the customer to get a more high-priced customer. This is which we talk to ourselves. So, give them a reasonable target, but we try to more diversify our customer profile. This is always our target to pursue -diversified customers is always our consistent customer strategy, particularly in the current environment.

Edison Lee *Jefferies - Analyst*

May I follow up to ask a question? What will be your retail versus wholesale mix of the incremental capacity in 2022? Will that be very different from before?

William Huang *GDS Holdings Limited - Chairman and CEO*

I think as we showed in the last two quarters, we already get the profile mix a little bit changed. We think it's healthy, and we also still will focus on this strategy. Retail enterprise type customer, now they grow faster than our expectation, which we think is good. So, retail customers still will increase.

Edison Lee *Jefferies - Analyst*

Okay, thank you. Is there a mix that you can share, or any target on the mix between the two for this year?

William Huang *GDS Holdings Limited - Chairman and CEO*

Yes, I think the last quarter is 20%. Its mix of retail, it represents 20%. Yes, I think it will accelerate and we target it at 30%.

Edison Lee *Jefferies - Analyst*

Sorry, is that target just for 2022?

William Huang *GDS Holdings Limited - Chairman and CEO*

Yes.

Edison Lee *Jefferies - Analyst*

Okay, great, thank you very much, William.

Operator

Thank you. The next question is from the line of Frank Louthan from Raymond James. Please go ahead.

Frank Louthan *Raymond James - Analyst*

Great, thank you. Dan, you mentioned that power was impacting your margins. Can you discuss any other inflationary items pressuring margins, and how easily are you able to pass on inflationary costs to customers from new builds and so forth, and what sort of pushback are you seeing from customers on that? Thank you.

Dan Newman *GDS Holdings Limited - CFO*

It really only is power. It's power and growth track. Power, I think, is a temporary one. I think we mentioned before, if you look at our contract portfolio, around 55% of the capacity is with contracts where there is a separate power billing, metering and billing, which of course would fluctuate exactly with the tariffs. But if you look at the area which is actually revenue-generating today, billable, it's more like 50% is what we call unbundled and 50% bundled.

The situation is very dynamic. We're in the process of agreeing power purchase agreements and fixing tariffs with the grid companies and with the power generators in different locations. The power tariffs are changing quite a lot. It's a really complicated exercise to pass this on to customers. It requires - yes, operationally it's complex, and it requires a lot of reconciliation and confirmation with customers.

We're not passing it all on. To some extent, we make the decision to absorb it. In the medium term, which maybe is half to one year, where we start to see the benefit of our purchasing power, this whole dynamic might reverse, lower coal prices as well, in which case, we benefit. We don't want to disrupt too much the arrangement with the customers, because you win some and you lose some. Right now, we lose a bit, in the longer term, it may work the other way.

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

Okay, great, thank you very much.

Operator

Thank you. The next question is from the line of Hongjie Li from CICC. Please go ahead.

Hongjie Li ***CICC - Analyst***

Hi, management. Just a quick follow up on the M&A question, because about 30% of the CapEx in 2021 was used for M&A. Just curious in 2022 how much of the RMB12 billion CapEx will be used to seek M&A opportunities? Thank you.

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

Yes, I think I said around RMB4 billion. As at the end of 2021, we had some consideration relating to prior years' acquisitions that have not yet been paid, because we always try to structure the acquisition consideration with as much deferral as possible, and some of it is contingent, linked to milestones and so on. I think we had about RMB2 billion on our balance sheet that was deferred and/or contingent from prior acquisitions, and then there's some acquisitions which we did. There was one in particular we did in the first quarter of this year. I think we're looking at about RMB4 billion. I think I got it right earlier, RMB4 billion in 2022 for acquisition consideration.

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

I can add some color on that. I think our revenue guidance does not assume any acquisition that can bring more revenue on there. Of course, we reserve the capital to do some acquisition, but do not assume the revenue from the acquisition deal. There's a still a lot of opportunity. If we pick up a big opportunity coming, definitely, we just mentioned, we have different ways - we have a lot of options to access the capital to get a deal done.

Hongjie Li ***CICC - Analyst***

Okay, thank you.

Operator

Thank you. The next question is from the line of Albert Hung from J.P. Morgan. Please go ahead.

Albert Hung ***J.P.Morgan - Analyst***

Yes, thanks for taking my question. I'm asking a question on behalf of Gokul. The Guongzhou 100K square meter project acquisition has a timeline for a conversion from minority to majority stake. How much of the 100K square meter is developed already? What's the consideration price? Thank you.

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

Shall I answer that? Okay. It's a complex transaction, because it involves a portfolio with a number of different locations, each of which is a separate approval, separate energy quota, and separate situation in terms of the land or the real estate, and there are performance conditions which attach to each of them.

I think that it may take a good part of this year, either this year, or it may even roll over into next year, before all the performance conditions are satisfied for us to move from minority to majority. It could be sooner. We're working in a very collaborative way with the seller to support them where appropriate to try to get the things done. Part of the - there's a couple of billion of deferred consideration related to the remainder of that acquisition. It is a very, very large portfolio. It's tremendously valuable.

Operator

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

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