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Q2 2022 GDS Holdings Ltd Earnings Call

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PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for the GDS Holdings Limited Second Quarter 2022 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 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 - Head of Investor Relations***

Thank you. Hello, everyone. Welcome to the Second Quarter 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. 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 result 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 the 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. Please go ahead, William.

William Huang ***GDS Holdings - Founder, Chairman & CEO***

Thank you. Hello, everyone. This is William. Thank you for joining us on today's call. The world is undergoing a lot of uncertainties and is very unpredictable right now. For the companies in China, it's an extremely challenging year, especially the tech sector.

Our customers are impacted by the economic slowdown, the COVID lockdown and the supply chain shortage. This is reflected in their weaker than normal business performance and the result.

However, GDS business is resilient and defensive. Despite the challenges, we are still delivering solid results, growing revenue by 24% and adjusted EBITDA by 18% in the second quarter. At the same time, we continue to make significant progress in the execution our growth strategy by further developing our customer franchise as demand diversified across the cloud, internet and enterprise verticals, stepping up our international expansion and establishing a new data center fund as the channel to access private capital. We have strengthened our position in absolute and in relative terms for future recovery and value creation.

Even in a softer demand environment, there are still significant new business opportunities. As a result of our customer targeting and market presence, we are well placed to compete. In the second quarter, we won three new hyperscale orders.

The first came from a global cloud customer who we are already serving in mainland China, but this latest order was for our Hong Kong 1 data center. As a result of this deal, we now have the largest global cloud and the largest China cloud as our anchor customers in Hong Kong 1, which is quite an achievement.

The second was from a China cloud customer for capacity at a location near Beijing, where they already have significant presence. This is a typical land and expand order. The third was from a major Chinese bank for capacity in Shanghai.

Continuing the trend which we highlighted for the last few quarters, financial institutions and the large enterprises once again accounted for around 40% of new bookings in 2Q22. During the first half of this year, our new bookings was 31,000 square meters. For the full year, we are confident of achieving 70,000 square meters of net additional area committed. We may be able to do more but it depends on deal timing.

This is a transitional year. Going forward, we still target 80,000 square meters and then up to 90,000 square meters of annual new bookings. However, within this number, we expect a change in the mix, with perhaps 15% to 20% coming from our regional business.

GDS business is focused on tier 1 markets, which were the worst affected by lockdowns. Nonetheless, we still achieved over 13,000 square meters of net additional area utilized in the second quarter. Based on feedback from our customers, we expect move-in to continue at a similar level for the next few quarters. However, in the medium term we believe that move-in will return to historic levels.

We have a large backlog totaling 242,000 square meters which underpins our multiyear growth. Our backlog is solid. Our data centers are concentrated in tier 1 markets where future supply is limited. Customers have secured this resource because it is very strategic for them. We will continue to deliver the backlog; it is just a matter of time.

To adjust to the current slower environment, we have scaled down our capacity delivery schedule. In the first half of 2022, we brought 16,500 square meters of capacity into service. In the second half, we plan to bring another 31,000 square meters into service. As compared with our original plan for FY22, we have pushed back nearly 39,000 square meters of completions into next year and beyond.

Our home market customers are putting increased emphasis on international expansion, particularly in Southeast Asia. We're also putting a lot of time and effort into scaling up and accelerating our regionalization strategy. In Hong Kong, we have accomplished the difficult task of establishing a 5-year pipeline of purpose-built data center capacity, clustered in a prime location.

Our first data center, Hong Kong 1, will come into service in the next few months. It is almost sold out with leading Chinese and global customers. We are now working on anchor customer orders for Hong Kong 2.

In Southeast Asia, we have secured a hyperscale capacity at campuses in Johor, Malaysia, and Batam, Indonesia. All of our campuses are now under construction. The sales pipeline for this capacity is even stronger than what we expected. The customer profile is varied across verticals and included both Chinese and global names.

There are a few deals which we are confident of winning this year which will demonstrate strong proof of concept. With demand from Chinese and the global customers, Southeast Asia is one of the fastest growing data center markets in the world. We believe that our regional business, including Hong Kong, will become a second growth engine for GDS, alongside mainland China.

As part of today's earnings release, we announced the formation of an RMB6.7 billion, equivalent to US$1 billion, mainland China data center fund. It is important for us to have access to capital from a variety of sources, public and private, onshore and offshore. This data center fund will significantly enhance our financing strategy and benefit all of our shareholders.

To finish up, we have been through difficult times and cycles in the past. The challenges that we are experiencing now are for short-term, while data center industry is for long-term. During this time of uncertainty, we continue to build up our position by expanding our customer base and enhancing our market presence, both in and outside China.

We believe we will be well prepared both in terms of business operations and the financial capability when the recovery happens. We remain very confident about our future. I will now pass down to Dan for financial and operating reviews, as well as to expand in more detail about the fund.

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

Thank you, William. Starting on slide 14, where we strip out the contribution from equipment sales and the effect of FX changes. In 2Q22, our service revenue grew by 2.6% and underlying adjusted EBITDA grew by 0.2% quarter on quarter. Our underlying adjusted EBITDA margin was 46% compared to 47.1% in the previous quarter.

Turning to slide 15. Service revenue growth is driven mainly by delivery of the committed backlog and closing of acquisitions. Net additional area utilized during 2Q22 was 13,659 square meters. Around 8300 square meters was in tier 1 markets affected by lockdowns and the remaining 5300 square meters was from BOT projects in unaffected remote areas.

In the second half of 2022, we expect a similar level of move-in as we saw during the first half. Monthly service revenue per square meter was RMB2265, down by 1.4% compared to the previous quarter. The decrease is mainly due to dilution from move-in at BOT projects. This dilution effect will continue in the second half as we deliver most of the remaining BOT backlog, however for FY22 as a whole, we still expect MSR to decline by around 4% to 5% year on year in line with our original expectations.

Turning to slide 16. Our underlying adjusted gross profit margin was 50.9% for 2Q22 compared to 52.4% in the previous quarter. The extreme hot weather this summer has resulted in a higher seasonal PUE than we normally see in the second and third quarter.

Furthermore, power tariffs are now up the maximum permitted 20% across our tier 1 markets. In 2Q22, utility cost was 30% of service revenue compared with 28.3% in 1Q22 and 26.9% in 2Q21.

There's no sign yet that tariffs will come down in the near term, therefore we expect the combined effect of higher power consumption and higher power tariffs to continue being a drag on our margins in the second half of the year.

Turning to slide 17. We think about our CapEx in three parts: mainland China organic, acquisitions and regional expansion. For mainland China organic, we spent RMB2.7 billion in the first half of 2022 out of our full-year budget of RMB6 billion.

As William mentioned, we've scaled back our project delivery, however, while CapEx is generally linked to capacity expansion, there is a significant portion that has to be front ended for installation of power infrastructure at new campuses.

Accordingly, it will take time for our mainland China organic CapEx to come down. We expect mainland China organic CapEx to be several billion lower next year.

For acquisitions, in the first half of 2022 we paid just over RMB3 billion of consideration. We will pay another RMB1 billion by the end of the year. As of now, there's no material acquisition consideration that will be payable next year.

For regional expansion, which includes Hong Kong and Macau, as well as Southeast Asia, we spent just over RMB1 billion in the first half out of our original full-year budget of RMB2 billion. Regional CapEx is likely to step up by several billion next year, given the expected new business wins. For the whole of 2022, we will most likely still hit our original CapEx guidance of RMB12 billion before taking account of any potential capital recycling through the data center fund.

Turning to how we fund this CapEx. We think it makes sense to take a different approach for our regional business and our mainland China business, given the differences in the capital markets, investor base and valuations. There's a lot of money chasing digital infrastructure in the region and GDS regional is a very attractive investment opportunity. We believe that we have already created significant value from our initiatives in Hong Kong and Southeast Asia.

Accordingly, we have set up an international holding company under GDS Holdings to hold all of our projects outside of mainland China. We will use this international hold co as the equity capital raising vehicle for our regional business. As a first step, we intend offering a small minority stake to private equity investors who we believe can add value. We've started work on the process and aim to get this done in the next couple of quarters.

For our business in mainland China, excluding acquisitions, our objective is to become self-financing within a few years. With buildup in operating cash flow, as more data centers reach stabilization and substantial front-end CapEx already incurred, the gap to free cash flow breakeven is narrowing down.

Turning to slide 18 in order to enhance our access to capital, which is a competitive advantage in uncertain times, we've been considering structures which enable us to bring in outside equity investors at a project level in Mainland China. We find that there is strong interest, particularly among real estate investors in this kind of participation.

Further to this strategy, we recently entered into a framework agreement with an investor which is a Sovereign Wealth Fund, for the formation of our first offshore Mainland China Data Center Fund. As envisaged by the framework agreement, the fund will have RMB6.7 billion, equivalent to US$1 billion, of committed capital, with 70% coming from the investor and 30% from GDS.

The investment objective of the fund is to acquire data centers in Mainland China, either from our own portfolio or from third parties through M&A transactions. GDS will manage these data centers under long-term contracts. We are looking to seed the fund with a few projects in which we have invested significant capital but which are still several years away from stabilization.

This will allow us to recycle capital and accelerate monetization while maintaining our recurring income model with management fees. Our target is to complete the formation of the fund and inject at least one project by the end of this year. Meanwhile we are also in discussions with some domestic financial institutions about an onshore version of this fund structure, although these discussions are currently at an earlier stage.

Looking at our financing position on slide 19. At the end of 2Q22 we had RMB9.2 billion or US$1.4 billion of cash on our balance sheet. Our net debt to LQA adjusted EBITDA ratio was 7.2x on a consolidated basis.

However, as shown on slide 20, we should really look at our leverage in two different categories. Our in-service portfolio which is 96% committed and 68% utilized. Has a net debt to LQA adjusted gross profit ratio of 4.2x. As these data centers reach full utilization, the leverage ratio will come down closer to 3x.

We have another portfolio which includes area under construction and area held for future development. For this part of the portfolio we believe that it makes more sense to look at the ratio of net debt to fixed assets. Which is a reasonable 53%. Once we have completed the regional equity capital raise and some capital recycling through the fund, we expect our consolidated leverage to come down.

Turning to slide 21. As at the end of 2Q, we had total capacity in service and under construction of 667,000 square meters. Against this, we had total area committed by customers of 588,000 square meters. Assuming that we deliver all the backlog and sell out the remaining inventory, our area utilized or revenue generating capacity would increase by around 90%.

The total cost to complete all existing projects is around RMB9.8billion or US$1.5 billion. It is a relatively small amount of CapEx to generate a large amount of growth. Because we have already made most of the investment.

On top of our existing projects, we have secured another 457,000 square meters of pipeline held for future development. It's land and buildings with project approvals and energy quota, predominantly in Tier 1 markets. Which we believe is a very valuable asset.

Turning to slide 22. After evaluating the impact of COVID lockdowns and slower economic growth, we are revising our original guidance for 2022 revenue and adjusted EBITDA. We now expect revenue of RMB9.25 to RMB9.4 billion and adjusted EBITDA of RMB4.2 billion to RMB4.28 billion.

Our CapEx guidance of around RMB12 billion remains unchanged. But could be lower if we inject any data centers into the fund by year end.

We'd now like to open the call to questions. Operator.

QUESTIONS AND ANSWERS

Operator

(Operator instructions). Our first question comes from Michael Elias with Cowen, your line is open.

Michael Elias *Cowen - Analyst*

Great, thanks for taking the questions. Two, if I may. So first I just wanted to touch a little bit on the China Data Center Fund and get a better sense of what the mandate is. Is this really just a capital recycling vehicle of your stabilized assets or pre-leased assets? Or is this really a vehicle for you to go and do more outside M&A? That's my first question.

Then second question is you know in the US we've seen over the years kind of a decline in returns for build to suit type deals. I'm just wondering, as we think about your BOT projects. How would you characterize the willingness to pursue incremental BOT projects? And any color you can give around the return expectations there? Thank you.

Dan Newman *GDS Holdings - CFO*

Thank you Michael. The mandate of the Data Center Fund is actually broad. It includes acquiring data center projects from GDS at all stages of development. And also acquiring data centers from third parties through M&A transactions. Where the fund would be the direct buyer, rather than buying from GDS.

Having said that. From our perspective, for the first phase we're focused on injecting a small number of projects from our own portfolio in order to hit a certain level of capital recycling. We're looking at something like US$300 million to US$500 million in terms of injection equity value in existing state. Either by the end of this year, or if not by the end of this year, by the end of the first quarter.

Thereafter I think we're more open minded. We'll consider further injections from our own portfolio and also to consider what opportunities there are in the market. Certainly it's very welcome to have this fund to give us a reserve of capital for third party M&A. Which of course we did not have before.

Second question, William about our appetite for BOT type projects in remote areas Michael saying given the level of returns.

William Huang *GDS Holdings - Founder, Chairman & CEO*

I think historically we did a lot of build to suit which we think returns quite a bit. But in the last two years I think that we reject a couple of the deals I mean because the returns were getting lower.

So I think we feel well-disciplined to do the business which we think is suitable. We have the ability to accept those kind of a deal in any time. But it depends on our option. So I think this is our position.

Michael Elias *Cowen - Analyst*

Thanks for the call guys, appreciate it.

Operator

Our next question comes from Tina Hou with Goldman Sachs, your line is open.

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

Hi management, thanks for your time. I have also two questions if it's okay. The first one is regarding your overseas business in the Asia markets. Especially with Malaysia and Indonesia. Would you characterize it more similar to Tier 1 markets in China? Or more like BOT project type of thing?

Also I believe previously our strategy in Asia is more to go out with our domestic customers. But now we see that Hong Kong data center has also secured a global number 1 cloud customer. So wondering in the Asia market are we open more to international customers as well.

If yes, how do we compete with other global data center platforms in those markets? This is first question.

Second question is also regarding the China Data Center Fund. So you mentioned that you are looking at injecting some a ramp it up project. So wondering how do you choose from all of these different locations in Tier 1, edge of town, downtown and also like BOT projects? Thanks.

William Huang ***GDS Holdings - Founder, Chairman & CEO***

Okay I answer the first question about reorganization. I think the number 1, how we look at the reorganization, we still maintain our strategy in a Tier 1 market, right. So Southeast Asia is big, right. But we understand the Singapore -- around Singapore market is the most attractive market in the Southeast Asia, even in the world.

If I remember, I mean Singapore data center market is rapid and almost 50% of the total Southeast Asia. But the situation is that in last two years, Singapore Government stopped to allocate the power. So that means if you look at the Singapore market, the demand's very strong from the global multinational, even from China.

So I think this is a very attractive market for us. So if you look at the next three years. In Singapore they have very, very limited supply. Almost zero in next three years. But the demand is still there. So our strategy is build our data center close to Singapore. So I think that we still treat this as a Tier 1 market and a very clear, certain demand in next three or five years. So that's our strategy.

So we think our data center strategy still works in this region. Hong Kong obviously is another top market in Asia. So I think we are, in last five years we build -- a couple of years we build a -- it's very difficult to build the landbank and in a very, very good location in Hong Kong.

We're successful to achieve that. So -- and we see the demands continues thriving in Hong Kong as from the --it's just like what happened in Singapore. It's not only from China, it's also from the global. So we are well positioned to catch up this trend still. So these two markets we are very confident and I think the location is good.

Talk about how to compare with a multinational company in this region. I think GDS has become a -- we have -- after 20 years we build up our very, very world class capability to do the data center business. Number 1 I think we are more familiar with the customer. We are more familiar with the region.

So in terms of the -- to build our market presence, I think we are always -- we are still maintain the first mover in this region. So there is number 1. We always take first mover advantage, which I think this is our strength.

On the other hand because we build larger scale in the last couple of years. So we can build more cheaper, more faster. We deploy our operation capability more faster, more cheaper than anyone else. So that's our strength. So we think we have all kind of the capability to compete with any competitor in those region. We are confident.

Dan Newman: Okay, Tina asked how do we select projects for the fund? So as I responded to Michael earlier, the mandated fund is very broad. But for the seed projects we selected and proposed, it still has to go through a process with the investor. But we selected and proposed projects in a category which we called pre-core.

These are projects which are under construction, maybe a small part is in service. Partly pre-committed. At least say three years away from being complete and fully stabilized, at least based on our current projections.

So from a financial perspective, these are projects where we've already invested considerable sums of money and we believe created value. Because the value creation comes through forming these projects and getting the customer commitments and so on.

But where we are going to be years away from having revenue, EBITDA, or certainly fully stabilized EBITDA. It feels like maybe the public equity market doesn't value these situations. They probably don't value our Southeast Asian business either.

So from our perspective, it was kind of getting hopefully the biggest bang for our buck, taking these projects and recycling the most capital with the least EBITDA in the next few years. Maybe that will sort of help to highlight the value. While still having the kind of recurring income model going forward.

After these seed projects, as I said before, yes, we're open minded. We may do other kinds of projects. But that was our thinking for the first phase.

William Huang ***GDS Holdings - Founder, Chairman & CEO***

Yes. I think this fund will let GDS in a position to -- very practical to access the different capital. And it let GDS can more practical, do more valuable business and acquisition as well.

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

Understand, thanks William and Dan.

Operator

Our next question comes from Jonathan Atkin at RBC Capital Markets, your line is open.

Bora Lee ***RBC Capital Markets***

Yes, hi. This is Bora on for Jon, thanks for taking the questions. First on M&A. Can you comment on what you've been seeing in terms of multiples if you've been seeing any movement up or down. How target rich is the M&A environment in edge of town versus say municipal sites?

Then secondly on your progress in Indonesia and Malaysia. When could that start to become a bit of a needle mover, generating revenues? Are there any other markets in the region that you would consider? Or is that it for now? Thank you.

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

Yes, okay, hi Bora. First of all target rich, I think that's a good way of putting it. I think there's a -- it's a highly fragmented market. We're much bigger than any other player. But there's a long tail and there's a lot of companies with small portfolios. There's a lot of companies who are kind of like single project companies.

So, in theory at least, there's a lot of potential targets. But then it comes to what is the driver for doing the M&A and what is the strategic rationale?

William Huang ***GDS Holdings - Founder, Chairman & CEO***

Yes.

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

In the past we were very focused on building up our resource pipeline. We also valued situations which enhanced the customer franchise. Yes, in the past also would give us scale. Now we don't see any particular acquisitions -- it's not obvious to us whether they'll be a very strong strategic rationale. But therefore there has to be a strong financial rationale. I can't say really where market multiples are.

We have our own view about what makes sense; it has to be highly accretive to us, so it's not so much about, what is the market multiple, it's what makes financial sense to us, and that's why we take a disciplined approach and wait to see those opportunities which do satisfy our financial criteria.

For Indonesia and Malaysia, I don't think we have to wait for revenue to move the needle in terms of valuation. I think probably it's apparent to many investors that we've already created value with what we've done. Maybe when we do the regional equity capital raising and put a value on the business, that will illuminate a number for investors.

Also, when we're able to announce some significant business wins, which is not very long now before we're able to do that. So, I think, yes, through business wins and regional capital raising, I think -- I would hope that will move the needle in the next few months or couple of quarters at the most.

Bora Lee ***RBC Capital Markets***

On the targets, was that more on the edge of town or municipal sites, or both?

William Huang ***GDS Holdings - Founder, Chairman & CEO***

Our business target...

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

Yeah.

William Huang ***GDS Holdings - Founder, Chairman & CEO***

Bora I think, well, here we have the ambition to do more business globally, right, because we absolutely maintain the strongest position in China already, right. So, now we are seeking to build the business outside with China as well, in the same time. But I think our strategy is --, number 1 is Hong Kong, which we did, and we're well positioned now. Number 2 is Southeast Asia, which we think it's good timing to step in, but in the meanwhile we're also looking at other Asian markets. So, I think we will look at more markets if we think the timing is ready.

Bora Lee ***RBC Capital Markets***

Thank you.

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

I think Bora meant in China M&A targets.

William Huang ***GDS Holdings - Founder, Chairman & CEO***

In China, I think the fact is that in China M&A target is getting more I think, but the question is whether you wait. We have a lot of patience, because we tried to create value for our shareholders. So, now I think it's still in the transition there. The seller, along with the data center owner, they've started to lower their expectation, which we think is still not meet our expectation. So, I think we still wait for them.

Bora Lee ***RBC Capital Markets***

Thanks for the color, William and Dan. I appreciate it.

Operator

Our next question comes from Yang Liu with Morgan Stanley. Your line is open.

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

Thanks for the opportunity. I have two questions here. The first one is on the demand in China because we recently observed that Chinese telcos, their public cloud -- or their cloud revenue is growing rapidly, while the previous internet companies, their cloud business is slowing down.

So I would like to ask what's the management's view in terms of the future demand from the cloud vendors in China, whether the strong telco cloud means that demand will shift to their own center as well?

The second question is regarding the China data center fund. GDS is also an investor in this fund. Could you please update us in terms of what is expected return of this fund. Thank you.

William Huang ***GDS Holdings - Founder, Chairman & CEO***

Okay. I think China's market demand, obviously in this year has slowed down, right, so I think --- but another angle is you will see, the market is still very active and the demand is shifting. It's shifting from the traditional cloud service provider to I think the big -- very clear change is happening in the last couple of quarters already.

I mean from the traditional cloud service provider to a lot of the internet companies.

So, I think is the shift that --- this is the change that is very clear. If you look at in the last two or three quarters, even this quarter, the order from the internet and enterprise is getting bigger and bigger, right. So, this is a very clear change. We are well positioned on that because we have a very broad customer base built on the last 20 years. So this is number 1.

In terms of the telco cloud jump up rapidly, I think we noticed on that. But I think this is not the take over or the -- like Alibaba and Tencent's market share. I think a lot of the cloud service providers, they have a different way to calculate the cloud revenue. So, this is what my understanding is. So, I think they maybe take a little bit, but not there much.

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

Yes, Liu, and the expected return for the fund -- actually, the fund will look at projects on an individual project basis and so the expected return is not for the fund as a whole, it's for individual project investments and there of course it will depend on the stage of development.

I can't be specific because it will vary from investment project to project, but I would just highlight that from our point of view, structuring the fund, it was critical importance that we maintained our management role. I don't mean fund manager, I mean as data center manager, and so, you know, the projects that go into the fund will carry with them our long-term management contract from which we will generate fee income which, if it works out as we expect, will give us a profit share of the project.

So, the fund investor, you know, we will sell to the fund at an equity valuation and then reinvest in the fund at that valuation alongside the investor, so that the cost basis for our investment in the fund will be the same as the cost basis of another LP. But our economics from the investment in the fund could be enhanced by our management fee. It really depends how things works out but if it works out well of course we would get an enhanced return from our participation in the fund plus the management fee profits.

William Huang ***GDS Holdings - Founder, Chairman & CEO***

Yeah, I care to add more comment on your first question. I think that a lot of the investors currently have more focus on the Alibaba and Tencent's cloud capacity, cloud growth. But I think that they missed the one thing. I think that these clouds, they slow down, not means the market slows down in the same way, right.

So, what I try to mention again is these changes already happened in the last couple of quarters. As it switched to the internet and enterprise they build their own private cloud. This trend is already happening in a few quarter. Maybe in a few years, in one or two years. But before, people didn't pay more attention on that. But I remember, I mentioned in the last couple of earnings calls already.

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

Thanks for the color.

Operator

Our next question comes from Frank Louthan with Raymond James. Your line is open.

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

Great, thank you. So, clarification and then a question. Just to clarify, will your capital injection in the BOT deals be in cash or as a donation of facilities? Then the question; how many of your data centers fit the profile of what you might donate into that to be recycled? Then secondly, can you quantify the impact of the power on your margins either in absolute levels of EBITDA with the margin for the year. Thanks.

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

Yes. So, Frank, we will sell to the fund, 100% of the equity which we own in each project. So, that's a sale transaction we will realize a gain, we will book a gain. Although instruction is we are trading off the front-end games against the level of future recurring management fee income, because it is a trade-off.

Having executed the sale of 100% to the fund, we will take 30% of the sale proceeds and reinvest that into the fund. So, in effect, this is releasing 70% of our equity in the projects at a valuation plus having a continuing 30% investment with the management fee income.

How many of our projects fit this, -- for a billion-dollar fund which is what this has been sized at for fund 1. I mean we would have no difficulty allocating just from our own portfolio if that's what we chose to do, and indeed, the investor -- at this point in time has expressed appetite in scaling up this venture, but that remains to be seen.

But, yeah, it really does depend. For now, we're just focused on this initial batch of seed projects that we hope will establish this mechanism and recycle a certain amount of capital, show our shareholders what value there is there and how we can manage our capital in this environment. So, yes, we're not -- we don't have any definite plans beyond the initial seed projects. It remains to be seen.

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

Okay, and the EBITDA impact?

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

The EBITDA impact will be minimal next year, and even the year after. You know, we've selected projects that -- I mean, if we go ahead with these projects, it won't be stabilized based on our existing projections until the fourth quarter 2025 or the first quarter 2026. That means over the next three years, there is a ramp up of EBITDA. In 2023 and even in 2024, it's not that much.

William Huang ***GDS Holdings - Founder, Chairman & CEO***

Yes, but I don't think it absolutely will impact our future EBITDA because based on our strengthening financial position, we can do more deals, right?

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

Yes.

William Huang ***GDS Holdings - Founder, Chairman & CEO***

So, maybe can bring more revenue modularly.

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

Yes. It's mitigated by the management fees and there's the question of what we do with the capital, right?

William Huang ***GDS Holdings - Founder, Chairman & CEO***

Yes.

Operator

Our next question comes from Sara Wang with UBS. Your line is open.

Sara Wang ***UBS - Analyst***

Hi, thank you for the opportunity to ask some questions. So, my question is on the ASEAN project. I noted that those projects in Johor and Batam will be ready for service by 2024 and then so what's our expectation on the regional CapEx for maybe next year or until 2024 or even further? Then also, would you please share with us what's our expected IRR pricing on these Singapore plus projects? Thank you.

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

So, I gave some numbers in the prepared remarks and these are -- I'll just emphasize that this is more based on existing business plans, it's not like a guidance, right? What I said was that our China organic CapEx, which is about RMB6 billion this year, will probably come down by RMB1 or RMB2 billion next year and our regional CapEx, which will be about RMB2 billion this year, could be RMB4 billion next year.

We talked about raising capital through the international hold co for the regional expansion. So, what we have in mind at this stage is to raise around US$300 million but it does depend on the proposals we receive, valuations and so on. We may choose to take it in smaller bites, break it down into a series of transactions, but you can see with that level of CapEx, RMB4 billion, we're going to need around US$200 million, US$300 million of equity to see us through the next 18 months or so.

Operator

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

Laura Chen ***GDS Holdings - 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 with the contact information on our website or The Piacente Group Investor Relations. See you next time.

Operator

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

(Operator Instructions)