

Viral Impact - Industry: Digital Services

Connecting the Disconnected

Astute investors are committing sizeable capital to data centres, which are the principal conduit for facilitating virtual human-to-human contact

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Key Points

- The **data centre**, a central organ in digital conversations, has emerged as an asset **keenly courted by investors** –
 - May: **KKR earmarks US\$1 bn** to enter the data centre market in Europe
 - Apr: **Macquarie Infrastructure and Real Assets** takes a **majority interest in** Australia-based **AirTrunk**, which is being valued at A\$3 bn (US\$1.9 bn). Separately, **GIC partners with the US-listed Equinix** in a US\$1 bn joint venture to develop data centres **in Tokyo**
- **Since 2018**, private equity investors' **deal volume in data centres** has not only surged but **deal sizes** have also **spiked** –

	2018	2019	Jan-May 2020
Deal Sum	US\$674.2 m	US\$5.2 bn	US\$2.6 bn
No. of Deals	3	7	2
Average Deal Size ⁽¹⁾	US\$337.1 m	US\$291.3 m ⁽²⁾	US\$1.3 bn

⁽¹⁾ for deals with known deal values

⁽²⁾ the US\$3.7 bn investment in Tenglong participated by Morgan Stanley Private Equity Asia is excluded as the deal is an outlier and would skew the average deal size if included

- Globally, co-location data centre **revenue has been on the rise**, from US\$33.6 bn in 2016 to US\$52 bn in 2019
- **Cloud services providers**, such as Microsoft's Azure, have been reporting envious **growth of revenue for Q1 2020**, as their services are in demand due to increased virtual meeting traffic
- **Zoom**, a video chat platform, records **169% growth in revenue for the 3 months ended April 2020**, compared with that for 2019, a growth record that few operations can match within such a short space of time

Ironically, the physical disconnection mandated by social distancing to curb the spread of Covid-19 has led to a boom of digital connectivity. In early June, Zoom, which has emerged as one of the most popular video meeting platforms since the virus stalled all travel, released its financial results for the quarter ended 30th April 2020. Zoom recorded a 169% jump in revenue to US\$328.2 million. The exponential growth within such a short space of time is perhaps a record that few can match in the operational history of any business.

Zoom's staggering growth in revenue has also brought **data centres as the central organ for connecting human-to-human conversations** to

the forefront at a time when social distancing is vital for containing the contagion.

Most recently, **KKR & Co** is among the latest private equity firm to wade into the data centre arena. It earmarked US\$1 billion to form a joint venture with Mr Franek Sodzawiczny, who has an established track record in the data centre business. Christened as Global Technical Realty, the company will be a "build-to-suit and roll-up acquisition data centre platform in Europe", according to a public statement from the global private equity firm.

In Asia, investors displayed keen interest in **data centres** and commitments to such assets are **among the largest since February** this

year when Covid-19 began to spread across the world and stunted global economic activity.

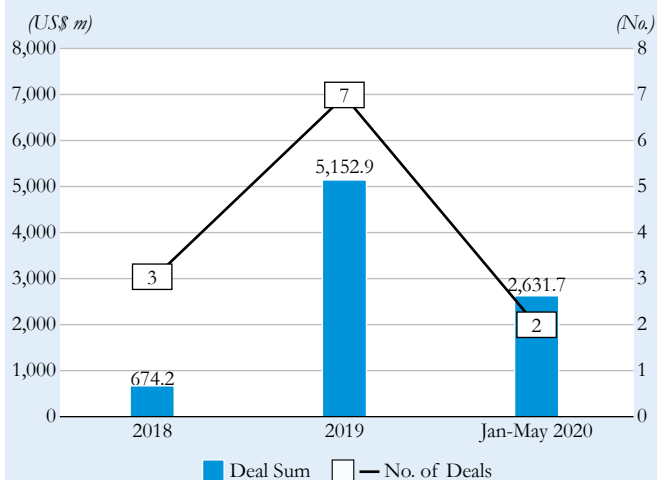
In April, Australia-based **Macquarie Infrastructure and Real Assets** (MIRA) completed its acquisition of a hyperscale data centre platform, AirTrunk Operating Pty Ltd ('AirTrunk'). Valued at A\$3 billion (US\$1.9 billion), the takeover of AirTrunk from both **Goldman Sachs** and **Sixth Street Partners**, the credit investment arm of **TPG**, is the single largest commitment undertaken by a general partner firm for a data centre in the region.

In the same month, the Singapore government's sovereign wealth fund, **GIC Pte Ltd** ('GIC') earmarked US\$1 billion and partnered with the US-listed Equinix Inc to form a joint venture to develop and operate xScale™ data centres in Japan. GIC must be elated by the exhilarating performance of Equinix's shares. On 21st April, the day when the partnership was announced, Equinix's shares closed at US\$672.2 each. Just weeks after, on 1st June, Equinix's share price closed at US\$710.17.

Prior to the advent of Covid-19, the digital economy had been enjoying envious growth, and was a powerful magnet for private equity capital. With the titans of cloud services providers, including Amazon Web Services, Microsoft Azure and Alibaba Cloud, all indicating that they will be pumping massive capital into their cloud services platforms to meet rising demand for digital connectivity, data centres are set to benefit as a favoured target of investors, courtesy of Covid-19 (Fig. 12, Fig. 13, Fig. 14 & Fig. 15).

DATA CENTRES

Private Equity Investors' Deal Pace (2018 – May 2020)



- Since 2018 and up to May 2020, private equity investors have committed to deals valued at an aggregate **US\$8.5 bn** through 12 deals
- The 2019 deal sum has been skewed by the **US\$3.7 bn** participated by Morgan Stanley Private Equity Asia in China's Tenglong Holding Group ("Tenglong")
- If Tenglong is excluded, the 2020 deal sizes undertaken so far into the year highlights **investors are ready to write out sizeable cheques** for data centre assets. Average deal size⁽¹⁾ –
 - 2018: US\$337.1 m each
 - 2019: US\$291.3 m each, excluding Tenglong
 - 2020: US\$1,315.9 m each, as of May

⁽¹⁾ for deals with known deal values

Fig. 12

Source: ASIA PRIVATE EQUITY REVIEW

5 Largest Deals (2018 – May 2020)

Year	Company	Location	Deal Size	Investors
2018	AirTrunk Operating Pty Ltd	Australia	658.1	Goldman Sachs, Sixth Street Partners
2019	Tenglong Holding Group	China	3,696.5	Morgan Stanley Private Equity Asia, Haitong UniTrust International Leasing Co Ltd
	ChinData Group	China	570	Bain Capital Asia LLC, Bain Capital Credit
2020	AirTrunk Operating Pty Ltd	Australia	1,631.7 ⁽¹⁾	Macquarie Infrastructure and Real Assets
	xScale™ Data Centres in Japan	Japan	1,000	Equinix Inc, GIC Pte Ltd

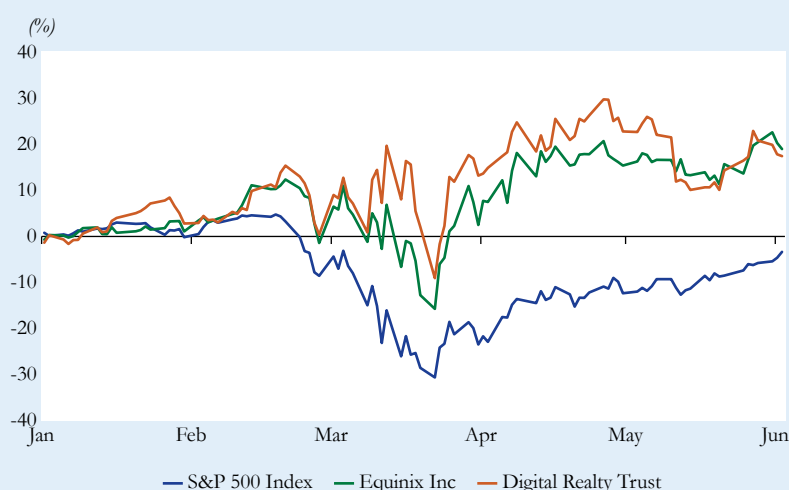
- The 3 largest deals among the 5 completed during the surveyed period –
 - US\$3.7 bn raised by China-based Tenglong Holding Group
 - A\$3 bn (US\$1.9 bn) in enterprise value of Australia-based AirTrunk
 - US\$1 bn undertaking by GIC for a number of data centres in Japan
- **Tenglong** which raises US\$3.7 bn is a showcase of the **financial muscles of China's domestic investors** for digital assets

All amounts in US\$ m

⁽¹⁾ value is based on the 88% stake acquired by Macquarie Infrastructure and Real Assets that values AirTrunk Operating Pty Ltd at A\$3.3 bn (US\$1.9 bn)

Fig. 13

Source: ASIA PRIVATE EQUITY REVIEW

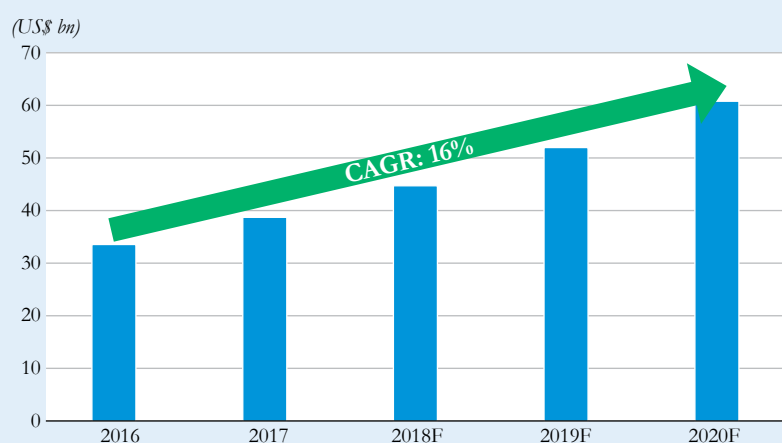
Equinix Inc & Digital Realty Trust - Share Price Performance (Jan – 3rd Jun 2020)

- Both Equinix and Digital Realty Trust, two of the largest data centres operators listed in the US, have outperformed the S&P 500 so far into the year
- On 21st Apr, GIC Pte Ltd forms a US\$1 bn partnership with Equinix to develop and operate xScale™ data centres in Japan. Since GIC's investment, Equinix's price has soared by a near 6% to close at US\$710.17 each on 1st Jun, further affirming data centres are enjoying extremely favourable assessment from investors

Fig. 14

Source: Yahoo! Finance

Global Colocation Data Centre Market Revenue (2016 - 2020F)



CAGR = Compound Annual Growth Rate

Fig. 15

- Industry revenue of colocation data centre operators, who lease out space or cabinets in the facilities to customers such as cloud service providers and internet companies, is projected to reach beyond US\$60 bn by the end of 2020, that translates into a compound annual growth rate of 16% for the period from 2016 to 2020
- The growth is driven by increasing data traffic and strong demand for cloud and internet services

Source: JLL 2018 Report

CLOUD SERVICES MARKET

With the coronavirus ushering in a “work at home” culture, providers of cloud computing are benefiting. Azure, Microsoft’s cloud computing platform, recorded revenue growth of 59% during the first three months of the year.

Alibaba Group Holding Ltd recently indicated that it had earmarked US\$28 billion to further upgrade its AliCloud platform and plans to recruit 5,000 technical talents for its cloud unit, while Amazon.com touted its

AWS as the fastest growing and most profitable segment of its company.

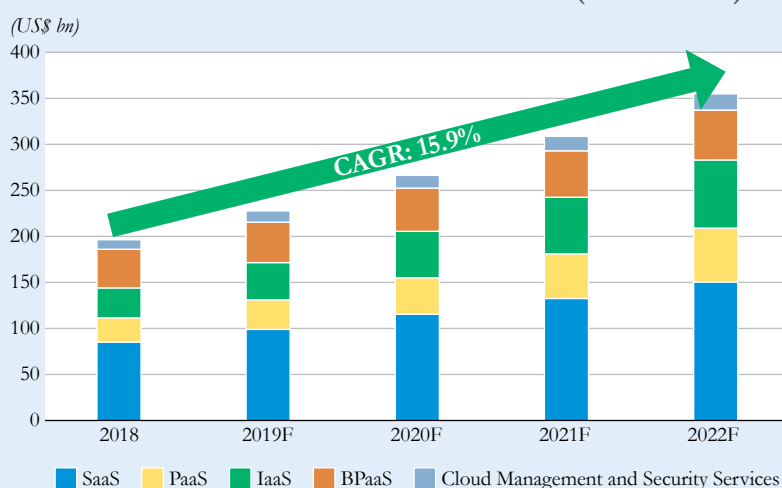
The listing of Kingsoft Cloud Holdings Ltd (“Kingsoft Cloud”) on 8th May was exemplary of investors’ keen interest in cloud computing stock. Headquartered in Beijing, Kingsoft Cloud was the third largest cloud service provider in China in 2019, according to Frost & Sullivan. It counts **Shunwei Capital Partners** and **IDG Capital** as its financiers. On its first trading day,

its American Depositary Share price soared by 40.2% to close at US\$23.84 each.

Kingsoft Cloud’s stupendous debut day trading performance defied global investors’ reservations about China stocks. Just weeks earlier, their confidence was eroded by the Luckin Coffee Inc scandal which subsequently led to Nasdaq informing the coffee chain operator of the exchange’s plan to delist it. (Fig. 16, Fig. 17 & Fig. 18). ■

Global Cloud Service Market Overview

Public Cloud Service Revenue Forecast (2018 - 2022F)



BPaaS = Business Process as a Service
 IaaS = Infrastructure as a Service
 PaaS = Platform as a Service
 SaaS = Software as a Service

Worldwide IaaS Public Cloud Services Market Share (2018)

	Revenue	Market share
Amazon	15,495	47.8%
Microsoft	5,038	15.5%
Alibaba	2,499	7.7%
Google	1,314	4.1%
IBM	577	1.8%
Others	7,519	23.2%
Total	32,441	100%

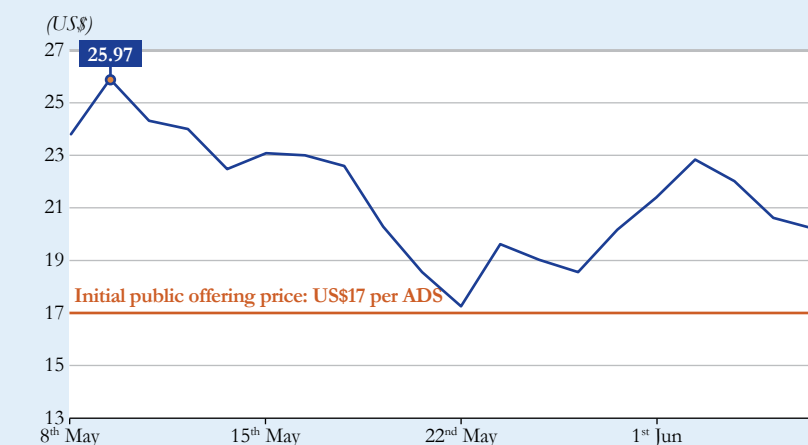
All amounts in US\$ m
 Alibaba = Alibaba Group Holding Ltd
 Amazon = Amazon Inc
 Google = Alphabet Inc
 IBM = International Business Machines Corp
 Microsoft = Microsoft Corp

- The overall cloud service market is projected to grow at 15.9%. The outbreak of COVID-19 is expected to further accelerate the trend
- Software as a Service (SaaS) refers to cloud-based softwares such as enterprise management and data analytics softwares. It is estimated to remain as the largest segment
- Infrastructure as a Service (IaaS) refers to cloud-based IT infrastructure (i.e. servers, network, operating systems, and storage). The segment is consolidated and dominated by big players

Fig. 16

Source: Gartner 2019 Report

Kingsoft Cloud's Share Price Performance (8th May – 5th Jun 2020)



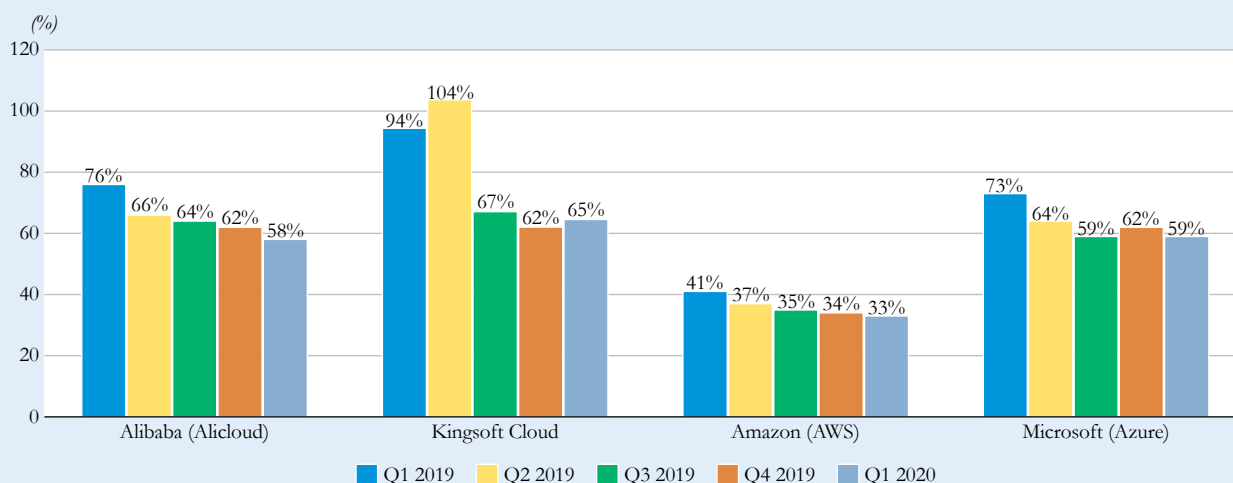
ADS = American Depositary Share

Since listed on 8th May, Kingsoft Cloud, backed by Shunwei Capital Partners and IDG Capital, has consistently been able to trade above its initial public offering price, a development that points to investors' staunch belief of the future prospect of cloud services providers.

Fig. 17

Source: Yahoo! Finance

Quarterly Revenue Growth (Year on Year) of Major Cloud Computing Platforms



- In the first quarter of 2020, the strong revenue growth of major cloud computing platforms is sustained despite the impact of COVID-19
- Accounting for about a half of the global cloud service market shares, AWS's 33% growth rate in Q1 2020 represents US\$2.5 bn absolute dollar increase in revenue, compared to the US\$2.3 bn increase in the same period last year
- AliCloud's 58% growth in Q1 2020 does not mean a sign of slowdown compared to the 76% growth in Q1 2019 as the incremental revenue of US\$574 m in Q1 2020 is higher than the US\$452 m revenue increase in Q1 2019
- Kingsoft Cloud achieves a 65% revenue growth, which is 3% faster than its growth rate in the preceding quarter

Fig. 18

Source: Quarterly results of respective companies