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Q1 2022 Chindata Group Holdings Ltd Earnings Call

EVENT DATE/TIME: MAY 26, 2022 / 12:00PM GMT

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PRESENTATION

Operator

Good morning and good evening, ladies and gentlemen. Thank you and welcome to Chindata Group's Holding Limited First Quarter 2022 Earnings Conference Call. (Operator Instructions)

I would now turn the call over to the first speaker today, Mr. Don Zhou from Investor Relations of Chindata Group. Please go ahead, Don.

Don Zhou ***Chindata Group Holdings Limited - Investor Relations***

Thank you, operator. Hello, everyone. Welcome to Chindata Group's 2022 First Quarter Earnings Conference Call. This is Zhou from Investor Relations team of the company. With us today are Mr. Huapeng Wu, our CEO; Mr. Nick Wang, our CFO and Ms. Zoe Zhuang, our Finance VP. During this call, Nick will take you through the quarterly review of our operational performance and Zoe will present our financial results. The management team will be here to answer your questions afterwards.

Now I'll quickly go over the safe harbor. Some of the statements that we make today regarding our business, operations and financial performance may be considered forward-looking and such statements involve a number of risk and uncertainties that could cause actual results to differ materially. For more information, please refer to the risk factors discussed in our filings with the SEC.

During this call, we will present both GAAP and non-GAAP financial measures. A reconciliation of non-GAAP to GAAP measures is included in our earnings press release, which is distributed and available to the public through our Investor Relations website located at investor.chindatagroup.com. We have also updated our quarterly presentation on the company's Investor Relations website, which you can refer to as a supplementary material for today's call.

Without further ado, I'll now turn over the call to Nick. Nick, please go ahead.

Nick Wang ***Chindata Group Holdings Limited - Chief Financial Officer***

Thank you, Don. Hello, everyone and thank you for joining the call. Despite a headwind in macro environment and COVID related issues, we continue to manage the challenges and grow our business. Our business momentum remained very strong in the first quarter and here are highlights to begin with.

On Slide 4, by end of the first quarter of 2022, our total capacity reached 704 megawatts, an increase of 31 megawatts during the quarter. We put one new product under construction, bringing our total number of datacenters up to 28. Specifically, in the first quarter, our in-service capacity increased by 58 megawatts to 498 megawatts. Our contracted capacity increased by 54 megawatts, bringing our total contracted and IOI capacity to 619 megawatts and our utilized capacity increased by 40 megawatts to 344 megawatts.

Our total capacity maintained a high contracted and IOI ratio of 88%. We continued our energy efficiency in performance with year-to-date average PUE by the first quarter at 1.21. The number of our approved and pending patents was 310 compared with 231 in the same quarter last year. Financially, our top and bottom line remained strong and healthy. Revenue was RMB 920.6 million for the quarter, which is a 43.1% year-over-year growth.

Adjusted EBITDA was RMB 494.5 million, a 60.7% year-over-year growth, with a margin of 53.7%, a historical high. Net income was RMB 94.6 million for the quarter, which is up 62.5% year-over-year growth, with a margin of 10.3%. We have achieved net profit performance for five consecutive quarters. In terms of our financing, we have successively finalized the USD500 million syndication loan financing in May, ensuring sustainable financing for our future development.

With such performance, we have been beating market consensus for seven straight quarters since IPO. On top of this, with the current momentum and taking into numerous factors, we are raising our full year 2022 revenue and adjusted EBITDA guidance. My colleague Zoe will share more details later.

Now let me walk you through more details of operation and I will start with our project delivery in the first quarter and our expectation going forward. We have put two projects totaling 58 megawatts into service as originally scheduled. One of them is CN12, a 6 megawatt project that supports an existing key international client business and is located in one of our campus in Hebei's, China. The other is CN15, a 52-megawatt hyperscale project that supports the business of the anchor client and is located in our campus in Shanxi, China. You can refer to Slide 7 for the profile of these two projects.

We also started the construction of a new project, CN18, a 30-megawatt hyperscale project located in one of our campuses in Hebei. This project will support business of the anchor client and is scheduled for delivery in 2023. Progress is also achieved in our deployment in APAC emerging market, as we have successfully completed business acquisition in Thailand. The project is located in Bangkok and is currently running minor capacity for our local clients. With further technical upgrade, we expect to bring the total capacity of the project to 5 megawatts to better serve our potential clients in the region.

With these new projects and as you can see on Slide 9, we have brought our total capacity to 704 megawatts by the end of the first quarter. In service capacity by quarter end stand at 498 megawatts compared with 440 megawatts in the previous quarter and 291 megawatts in the same quarter last year. For the 206 megawatts under construction capacity, around 50% of them is scheduled for delivery in 2022 and 2023 respectively.

The COVID prevention and control measures currently taken in different locations in China has more or less affected supply chain, logistics and on-site labor work, bringing challenges for the company. However, the company has taken active measures and our assessment now is that such impact is confined to a very limited range. We believe the experience we have gained in early days of the pandemic in year 2020 with more stringent control measures would also help us better respond to the current situation. We have therefore kept the delivery schedule of the majority of the project unchanged.

Projects CN13 was slightly delayed, but was put into service in May 2022. We are expecting delay in project CN16 and CN17 due to customer-related reasons. As for our overseas pilot project, MY06 Phase I, where we are shipping our entire solution overseas, we have been carefully managing the challenges and the schedule remains unchanged.

On Slide 11, in terms of client commitment, our major client continue to grow healthy and we continue to receive commitment from them. This quarter, we have an additional 54 megawatts contracted capacity, mainly contributed by a 52 megawatt IOI capacity conversion on project CN15. This project is now fully contracted and is supporting the anchor client. Meanwhile, we also added 27 megawatts of new IOI capacity from two Northern China projects for the anchor client as well, one of which will be supporting their high-density deployment with 32 kilowatt cabinet. Lease development bring our total contracted and IOI capacity to 619 megawatts with an 88% contracted NOI ratio.

It is also our ongoing effort to further look for hyperscale demand and opportunities from enterprises client and cloud service providers, while at the same time to further penetrate APAC emerging market. With these recent developments, the commitment profile of our total capacity remains very healthy.

On Slide 12, for all of our in-service capacity, 95% of it is either contracted or with IOI commitment from the client and this ratio has been stable. The ratio for our total capacity in this quarter is 88% compared with 87% in the previous quarter and 88% in the same quarter last year. Again, our healthy commitment profile can be attributed to the advantage of our hyperscale business with credible demand from the leading players in the industry and long-term contracts with guaranteed sustainable revenue streams. To share more color on this, by end of the first quarter, over 90% of our contracts are ten year contract, while the weighted average remaining term of per contracted megawatts is around eight years.

Now coming to Slide 14. Thanks to our clients' excellent and resilient business performance, we are able to keep a steady and healthy ramp-up pace. We added 40 megawatts of utilized capacity in the first quarter, bringing our total utilized capacity to 344 megawatts compared with 238 megawatts in the same quarter last year, which is a 45% year-over-year growth. New utilization mostly came from projects in the Greater Beijing area, specifically in Shanxi and Hubei.

Utilization ratio at the end of the first quarter was 69%, which is healthy and similar to previous level. Finally, let's look at -- take a look at our business geographically. In terms of our utilization, our revenue generation related capacity, the majority of them are in greater Beijing area in China, which are exactly in or very close to the designated Zhangjiakou clusters under our East Data West Computing National policy.

Looking ahead, we currently have a total of 206 megawatts capacity under construction, among which around 50% of them is in the APAC emerging market. Take a closer look at our current deployment in APAC emerging market, which is around 17% of our total capacity or a total of around 117MW in Malaysia and India, among which 89% are either contracted or with IOI by the end of the first quarter. And we are serving international clients or domestic clients that are going abroad in this region with great growth potentials.

We believe our existing deployment both in China and APAC emerging markets will enable to go further. If you would like to learn more about the details of our assets and our growth plan, et cetera, feel free to refer to the other pages of our IR presentation. Lastly, another key event for the company recently is definitely our USD500 million syndication loan financing project. We have finalized the financing. The deal was oversubscribed and we're having reputable international and domestic banks selected as lenders.

Interest rate is around 4% to 5% handle, which is in line with our unique investment grade rating that we gained previously. Proceeds will be used for business development and to refinance one of our existing debt. We expect the deal to be fully completed in the second quarter. This deal is definitely improving our financial strength and at our current macro environment and will better support our growth going forward.

With this, concludes our business review. I will now hand over to Zoe for discussion of financial performance. Zoe, please?

Zoe Zhuang ***Chindata Group Holdings Limited - Finance VP***

Thank you, Nick. Now let me walk you through our quarterly financial performance. Our financials remain at healthy momentum. On Slide 21, revenue in the first quarter increased by 43.1% year-over-year to RMB 920.6 billion, driven by the robust growth of the company's colocation. On Slide 22, in line with the company's revenue growth, total cost of revenue in the first quarter of 2022 increased by 29.1% to RMB 499.6 million from RMB 386.9 million in the same period of 2021, mainly driven by increase in utility costs and the depreciation and amortization expenses.

Selling and marketing expenses in the first quarter of 2022 increased by 6.8% year-over-year to RMB 22.4 million, primarily due to higher share-based compensation expense. General and administrative expenses in the first quarter of 2022 increased by 32.9% year-over-year to RMB 127.8 million, primarily due to higher share-based compensation expenses. Research and development expenses in the first quarter of 2022 increased by 5.4% year-over-year to RMB 19.2 million, primarily due to higher personnel costs as the company continued to invest in its research and development initiatives to further enhance its service offering.

With this, operating income in the first quarter of 2022 increased by 107.9% year-over-year to RMB 251.6 million with a margin of 28.3% and net income in the first quarter of 2022 increased by 62.5% year-over-year to RMB 94.6 million, with a net margin of 10.3%. We achieved net profit performance for five consecutive quarters.

Now let's take a look at core expense cost on Slide 23. Utility cost was at a similar level to the previous quarter, indicated by a similar percentage of revenue of 28.3% compared with 28.5% in the fourth quarter of 2021. Again, as a reminder, we have taken into consideration last year's tariff hike when we're setting up our 2022 guidance. The economies of scale of our business is further improving indicated by a smaller percentage of revenue taken by other maintenance costs and adjusted SG&A expenses.

The percentage of revenue for maintenance and other costs was 8.5% in the first quarter compared with 9.9% in the fourth quarter of 2021 and 10.8% in the first quarter of 2021. The percentage of revenue for adjusted SG&A was 9.5% in the first quarter compared with 11% in the fourth quarter of 2021 and 13.6% in the first quarter of 2021.

With this on Slide 24, our net debt profitability continued to improve. Adjusted EBITDA in the first quarter of 2022 increased by 60.7% to RMB 494.5 million from RMB 307.8 million in the same period of last year. Adjusted EBITDA margin in the first quarter hit a new high at 53.7%. Adjusted net income increased by 62.4% year-over-year to RMB 177.5 million also due to a historical high margin at 19.3%.

Details in the GAAP to non-GAAP reconciliation on EBITDA and net income will be available in our 6-K filing or the appendix in our IR PPT. Now let's take a look at our cash and debt position and our CapEx on Slide 25. We continue to work in our business expansion to meet increasing demand from our customers by investing more capital into our under construction datacenters.

CapEx in the first quarter was RMB 1,224.9 million. We have a cash and debt position of RMB 4,372.3 million and RMB 5,535.5 million by end of first quarter respectively, ending up in a net debt position of RMB 1,192.4 million. Cash dynamics during the quarter was contributed by a net operating cash flow of RMB 168.2 million, net financing cash flow of RMB 39.3 million and mostly offset by RMB 1,063 million investing cash outflow.

Again, we grew with high quality, healthy cash flow, leverage and coverage. On Slide 27, by end of the fourth quarter, our total debt-to-capital ratio was 35%. Our total debt to last 12 months adjusted EBITDA ratio was 3.4 compared to 3.9 in the previous quarter and 4.8 in the same quarter last year. Our last 12 months adjusted EBITDA to last 12 months interest ratio was 6.1 compared with 6 in the previous quarter and 4.5 at the end of the same quarter last year.

Finally, our business momentum together with other factors that we have taken into consideration lead us to raise our revenue and adjusted EBITDA guidance for full year 2022. On Slide 28, we listed both revenue and adjusted EBITDA guidance range up by RMB 16 million, making revenue guidance range now at RMB 4,130 million to RMB 4,230 million and adjusted EBITDA guidance range at RMB 2,100 million to RMB 2,130 million, implying a midpoint increase of 1.5% and 2.9% respectively.

This forecast reflects our current and preliminary views on the market and operational condition. This concludes our prepared remarks for today. Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from Yang Liu with Morgan Stanley. Your line is open.

Yang Liu ***Morgan Stanley, Research Division - Research Associate***

(foreign language) I will translate my question. The question is about the demand from the anchor customer, ByteDance. At beginning of each year, management indicates very strong demand from its customers, but in the past few months the largest things happen including the COVID, lockdown in several Tier 1 cities. And now at the end of May, what's the current new outlook in term of the demand from this customer? Thank you.

Nick Wang ***Chindata Group Holdings Limited - Chief Financial Officer***

Thank you, Liu Yang. I'm going to refer this question to my colleague, our CEO, Huapeng. Huapeng, please.

Huapeng Wu ***Chindata Group Holdings Limited - CEO & Director***

(foreign language)

Huapeng Wu ***Chindata Group Holdings Limited - CEO & Director***

(interpreted) This is the translation from Mr. Huapeng, sorry. This is the translation for Huapeng's remark. Thank you for your question.

Yang Liu ***Morgan Stanley, Research Division - Research Associate***

(foreign language)

Huapeng Wu ***Chindata Group Holdings Limited - CEO & Director***

(interpreted) Hi, can you hear me? Translation for Huapeng Wu, thank you. Translation from Huapeng Wu words. Thank you for your question. In our view, the pandemic has actually gave ByteDance an increase in its actual business growth. And in turn, the demand that it has on its suppliers is actually increasing as well. We have been discussing and experiencing a more urgent demand from our customers, no matter in terms of timing, delivery schedule and also the quantity are also giving us more incentives. Thank you.

Yang Liu ***Morgan Stanley, Research Division - Research Associate***

Thank you.

Operator

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

Tina Hou ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

(foreign language) Thank you very much management for your time and congrats on very strong 1Q results, which EBITDA beat consensus by 13%. So my question is regarding your EBITDA margin, which as management mentioned, has been historical high at 53.7% in the first quarter. And we've also observed that during the past five quarters, EBITDA margin has been increasing sequentially each quarter. On the other hand, according to your latest EBITDA margin guidance, which is at 51.2% for 2022 which then implies that over the next three quarters they're likely something some expenses or other things that's dragging down the EBITDA margin. So I'm wondering what those potential expenses will be? Thank you.

Nick Wang ***Chindata Group Holdings Limited - Chief Financial Officer***

Thank you, Tina. Maybe I'm going to ask my colleague Zoe to answer your questions and I will try to make some comments as well. Zoe, please?

Zoe Zhuang ***Chindata Group Holdings Limited - Finance VP***

Okay. Yeah, Tina, thank you for your question. As you know, if we look at EBITDA, we'll go into the component factors and for this quarter, also last quarter, utility cost versus revenue remain at a very steady range. And as we mentioned just now in the script, we take a very conservative consumption in the utility cost. And in the first quarter, the actual utility cost is slightly lower than our original expectation due to we attended the special mechanism for bidding the green power. So this is one of the reason. And for the rest of the year, we still take the conservative assumption.

And second reason is you know that with the economies of the scale, the maintenance cost and the management expenses, SG&A expenses versus revenue have been in a decreasing trend. And plus the first quarter, the special situation, especially in Mainland in China, there is almost no movement, no travel, no selling and marketing events or sales occurred. We expect this will be like be loosened in the second half of this year and we will come back to the normal operation of the selling and general administration expenses, so we'd reserve this expenses as well. So that is in all that we will remain very stable and a steady EBITDA margin for the full year guidance. Thank you.

Nick Wang ***Chindata Group Holdings Limited - Chief Financial Officer***

Yes, we tend to be conservative and definitely every time we give out the guidance, they're always upside, potential upside.

Tina Hou ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

Thanks. Yeah, just one quick follow-up about the green energy certificate, which you obtained in the first quarter. I wonder if that's just one-off or that's ongoing?

Zoe Zhuang ***Chindata Group Holdings Limited - Finance VP***

The mechanism is ongoing by the quarter or repeat, it depends on the demand and also depends on the supply side. So it might have some slightly fluctuation among quarters.

Tina Hou ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

Understand, that's very clear. Thanks.

Zoe Zhuang ***Chindata Group Holdings Limited - Finance VP***

Thank you.

Operator

Thank you. Our next question comes from Hongjie Li with CICC. Your line is open.

Hongjie Li ***China International Capital Corporation Limited, Research Division - Associate***

Thanks management for taking my questions. Congratulations on such steady consensus results. I have three questions. (foreign language) My first question is about the lockdown impact, could you -- should we expect any such external factors to impact our capacity delivery plan? And my second question is about overseas demand profile because many peers are expanding fastly in Southeast Asia and the other regions. So what are our competitive advantage to grasp such opportunities. And my third question is for Huapeng Wu, Mr. Huapeng Wu and thank you onboarding for a while, did you see any like room for improvement or adjustments on the strategy focus? Thank you.

Nick Wang ***Chindata Group Holdings Limited - Chief Financial Officer***

Thank you. I'm going to answer your first and second questions and Huapeng gonna answer your third question. Your first question about the COVID and its impact, I can tell we're in good shape, we're in good shape. There have been some challenges, but overall, the lockdown in some -- in China in some key Tier 1 cities so far have actually a very minimum impact in our operation because our unique advantage in datacenter in terms of datacenter locations, I always said that our datacenter location in energy abandon region, but actually those region is less populated -- less populated regions and these factor -- location factor definitely plays a key role, putting us in a better -- much better position than our peers for sure.

To be specific, in terms of customer move-in or capacity ramp-up, there was no negative impact. And quite contrary like Huapeng just said, we observed a faster move in and ramp-up rate from our key clients during the lockdown period. And in terms of on-site operation, obviously, the experience we came back in early part of 2020 when COVID, the pandemic just broke out have enabled us to elevate a lot of necessary matters and tools to better handle the current acute situation.

In addition, most of our hyperscale datacenters are managed and operating in a concentrated and enclosed campus environment normal there's anyway. So this operational model definitely makes us a better adapt to all stringent government requirements in a Covid lockdown environment.

And in terms of project delivery for domestic project, the lockdown has some slowdown impact on supply chain and logistics, therefore, creating some challenges for project delivery, but we believe the risk is well within our control. The company has been taking very proactive measures to make sure right personnel can always be available on 24 hours a day and 7 days a week basis is all about on the loyalty digital moves.

Our overseas project faces some challenges on export-related supply chain, for example, slower customer clearing in some key Tier 1 cities and outbound logistics is also a little bit slower than expected on the China side. But again, we have been taking appropriate measures on other part of the supply chain process and project management process to make up for the time we may lose. So based on these remedy matters and also thanks to our unique location and operational model, we're very confident that we can deliver all of our -- almost all of the domestic and overseas projects on time based on original schedule, as long as our client doesn't ask for a delivery volunteerily ask for any postponement. That's your first question and your second question related to our overseas business.

We have very strong business momentum in APAC emerging market or Southeast Asian market as we can tell from our script prescription. Our current projects in the region are going very well. In Malaysia, Johor state we are actively developing the Phase I and Phase II of MY06 project and we're committed to deliver them on time. We're also making positive progress on securing Phase III of MY06 project, which you haven't seen in our asset table. And we expect to start development once we receive customers commitment in near future.

In the Kuala Lumpur area, the development work for MY03 is on track to be delivered on our original schedule. At the same time, discussion on expansion of this project, MY03 with our key clients is ongoing smoothly. We also expect some good news in the near future as well. In the meantime, we are also actively in discussion with potential clients in Indonesia and Thailand and we expect to set up our initial presence in this market soon.

At the moment, I can tell you, our overseas business represent 117 megawatts present in the region or around 17% of our total capacity portfolio, people have been talking about their strategy in Asia. The 117 megawatts is already a significant presence in the region, which people tend to ignore. At the same time, we also have a very strong demand commitment, not only for the current -- the capacity but also for the future. And these commitments are actually coming from the leading Chinese company, as I said they have ambitious growth plan in overseas market and also international cloud players as well, all those are big names are US based and European-based we're talking with and also close discussion is underway to support their ambitious growth in the region as well.

Without any doubt, I want to reemphasize, APAC emerging market is the most important growth engine for Chindata and we're not satisfied with our current presence of only 117 megawatts, which is already in a leading position among peers. We aim to become the biggest hyperscale data center service provider in this region and our objective is to have overseas business accounting for 30% of our total portfolio in the long run and thank you.

I'll ask my -- our CEO, Huapeng, answer the third part of the question.

Huapeng Wu ***Chindata Group Holdings Limited - CEO & Director***

(foreign language)

Huapeng Wu ***Chindata Group Holdings Limited - CEO & Director***

(interpreted) From Q1, we have been focusing on our IDC main business. We are trying to keep on delivering very stable operation and delivery schedule. And evidently from the financial and operation figures, I think we have made it. We have also shared some of our effort in setting up, building and optimizing our entire management and execution team. From the strategic point of view, we do not have very material change to our overall growth strategy. But from the second half of the year, we anticipated that there will be more internal discussion and research on further amplifying and implementation of the diversification on our business.

Tina Hou ***Goldman Sachs Group, Inc., Research Division - Equity Analyst***

Thanks.

Operator

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

Sara Wang ***UBS***

Thank you. (foreign language) Thank you management for the opportunity to ask a question. So I have two questions. First is on the demand, so congratulation on the solid result. Just wondering on the mix of demand, do we see like diversified demand from our customer. For example, is there more demand related to the cloud services provided by our anchor client? And then my second question is that is there any update on our plan to do a or list back in Hong Kong? Thank you.

Nick Wang ***Chindata Group Holdings Limited - Chief Financial Officer***

Thank you. For the first question, I'm going to refer to our CEO, Huapeng to answer and I might address your second question.

Huapeng Wu ***Chindata Group Holdings Limited - CEO & Director***

(foreign language)

Don Zhou ***Chindata Group Holdings Limited - Investor Relations***

Yes. Okay. So I think the demand from our anchor client is mostly driven by their core business, while at the same time, we also will actively in talk with anchor clients on their new business initiatives such as their cloud business, as well as their enterprise services business. But so far, we are not making a substantial progress, but we believe that as we are keeping touch with them and we try to work together to look for opportunities, we expect to have some positive results going forward. Thank you.

Nick Wang ***Chindata Group Holdings Limited - Chief Financial Officer***

Regarding the Hong Kong listing and as we commented the last time in our Q4 2021 earnings release call, I think I already said that there was internal consensus we're going to do this and we haven't changed at all. So there are still internal consensus we're going to do this and the most likely kick-off time going to be third quarter this year. Hello?

Sara Wang ***UBS***

Yes, hello. Yeah, thank you.

Nick Wang ***Chindata Group Holdings Limited - Chief Financial Officer***

Yeah, operator, go ahead with some other questions please.

Operator

(Operator Instructions) We have a question from Harry Zhuang with DBS Bank Hong Kong. Your line is open.

Harry Zhuang ***DBS***

(foreign language) Thanks management for the opportunity to ask question and congratulations on the strong results in the first quarter. My question is, we can see that Bytedance is expanding fast in China, but the market is also concerned on the customer concentration risk as we can see the revenue contribution from Bytedance are still over 80% in FY2021. So does the company have any plan to further reduce the revenue contribution from ByteDance to a certain percentage in the next few years Thank you.

Nick Wang ***Chindata Group Holdings Limited - Chief Financial Officer***

Thank you. Again, I think Huapeng should be the best person to answer this question. I'm going to make some other comments.

Huapeng Wu ***Chindata Group Holdings Limited - CEO & Director***

(foreign language)

Huapeng Wu ***Chindata Group Holdings Limited - CEO & Director***

(interpreted) Translation for Huapeng's words. So we're making progress on our business development. We keep on focusing on the hyperscale demand exploring opportunities with other cloud clients, with various collaboration models. We not only keep an eye on the domestic opportunities, but also strategic opportunities overseas especially in Southeast Asia, where we have particular edge on. We hopefully will have the news in the second half of this year, which we will probably share with the market.

And to the question on reducing concentration, it will happen along with our client diversification efforts. However, as a side note, want to still emphasize that our anchor client's growth is still very healthy so far. Thank you.

Nick Wang ***Chindata Group Holdings Limited - Chief Financial Officer***

I think one additional comment I try to make is actually people always try to emphasize concentration risks, but for us this concentration is a good concentration and bring a lot of opportunity instead of risk. And also in the short-term, you will see that our business always, our anchor customer is very healthy, very strong, very robust, our order bank is also very strong. And this short to mid-term concentration is bringing our long-term benefits as well, because most of the contract be with our anchor client are 10-year based. So as much as we can get, the business with them now, it basically means over next 10 years, we have a solid base. Thank you.

Harry Zhuang ***DBS***

(foreign language)

Operator

Thank you. Our next question comes from Kaifang Jia with Critics. Your line is open.

Kaifang Jia ***CITIC***

(foreign language) So I will translate for myself. So would you consider more aggressive M&A in an environment of lower market valuation? Thank you.

Nick Wang ***Chindata Group Holdings Limited - Chief Financial Officer***

Thank you, Kai feng, for questions. To answer your questions, our principle for doing any merger acquisition project are pretty simple and straightforward, there's two points. Number one, it can provide complimentary long-term strategic value for Chindata, especially if that merger acquisition target can provide potentials for diversified customers and also can cover our currently underrepresented geography, that's number one.

Point two, whatever the -- final merger acquisition price, price can need to be justifiable for its long-term value, period, that's two principles, simple principle. And I won't say that we're looking at our merger acquisition opportunity more aggressively, but we have been looking at some very interesting merger acquisition these days based on our simple principle. A few of them actually recently a few of them have pretty much draw our deeper attention. And I can tell you that some positive progress that's been made so far and we'll do the proper disclosure to the public when appropriate. Thank you.

Kaifang Jia ***CITIC***

Thank you.

Operator

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

Yang Liu ***Morgan Stanley, Research Division - Research Associate***

(foreign language) Let me translate my question, it's about the margin, we see the maintenance and other costs as a percentage of revenue keep declining. And actually the absolute amount is running similar to fourth quarter last year and actually even lower than second and third quarter last year. And my question is what is the long-term statics ratio of this cost item and what is the potential upside for the margin or from the operating leverage on this one? Thank you.

Nick Wang ***Chindata Group Holdings Limited - Chief Financial Officer***

Thank you, Liu Yang. Zoe, do you want to answer this question?

Zoe Zhuang ***Chindata Group Holdings Limited - Finance VP***

Okay. Thank you for your question. As you can see, for the first quarter, we have two new additions in-service data centers. And as we've introduced, one is located in Hebei, very adjacent, almost in the same position in our current operating hyperscale datacenter classes and the other one which is 52 megawatts is in Shanxi Province is also in our existing hyperscale data center cluster. On this, we explained the benefit of the economies of the scale and also you can see we will have new data centers to be operated in the second half of this year in our oversea market. And considering this the SG&A -- sorry, the maintenance expenses, I think we will slightly change a little bit with our new data centers in new exploring hyperscale clusters in overseas market or in the new location. But the overall trend will be when it comes to the steady stage and we assume this will be around like 10% on all will be like around in a very healthy range as well. Thank you.

Nick Wang ***Chindata Group Holdings Limited - Chief Financial Officer***

Thank you. The one additional comment try to make -- I try to make is actually we're -- our model, business model in the -- all of our datacenter cluster are pretty much in a concentrated energy abundant energy efficient region, provide a huge, much bigger economy of scale. So, based on this economy of scale the larger scale our business grows, the fixed portion of our expenses and costs like maintenance, operations expense cost and also SG&A, R&D, human capital costs, percentage wise they will keep decreasing, that's actually the certain trend moving into the future. So if you ask me, what's my long-term profile projection for our -- for this sort of our percentage expense, it's going --down, for sure.

Yang Liu ***Morgan Stanley, Research Division - Research Associate***

Thanks for the additional color.

Operator

Thank you and that's all the time we have for Q&A session. This concludes today's conference call. Thank you for participating. You may now disconnect. Everyone have a great day.