VNET Group (VNET US)

Buy: Our top pick in the China DC sector

Equities
IT Services

China

- 2026 YTD orders of 519MW, outpacing GDS's 346MW; HSBCe solid 2026e/2027e adj. EBITDA growth of 24%/23%
- VNET is our top pick, given: 1) early-mover advantage; 2) strong growth pipeline beyond 2028; 3) CATL synergy
- Buy; raise TP to USD15.10 from USD14.50; order upside not priced in; overseas expansion presents re-rating potential

VNET is our top pick among China data centre (DC) operators:

1. **Early-mover advantage. a) Existing capacity**: VNET has operated in Inner Mongolia since 2024 and currently holds approved capacity ready for sale. By contrast, competitors still need to secure new "window guidance" approval. **b) Client stickiness**: A leading short-video client has run a cluster with VNET in Ulanqab, and likely prefers to first expand there for scale benefits. On the contrary, GDS is still catching up, planning capacity in Horinger, "East Data West Compute" node location and Ulanqab. We estimate VNET's 2026/27 adj. EBITDA to grow faster at 25%/24%, vs GDS's 4%/10% (ex. one-offs, Exhibit 1).

2. **Strong growth pipeline beyond 2028.** We expect 2H26 order upside to drive growth beyond 2028 amid continued AI investments from internet/short-video customers. VNET has 516MW of capacity under construction, 697MW of near-term land reserve and 359MW of long-term land reserve, which we think is enough to support utilisation growth into 2028.

3. **Synergy upside from CATL deal.** CATL (CATL US, HKD700, Buy) will replace Shandong Hi-Speed (0412.HK, not rated) as a major shareholder with 38.1% stake upon deal completion in 4Q26 (see: *CATL affiliates now majority shareholders*, 14 May 2026). We expect more detailed announcements on green energy, energy storage and overseas cooperations to provide synergy to VNET and act as share price catalysts.

Order upside not priced in; overseas expansion could re-rate: VNET currently trades at 7.1x 2027e EV/adj. EBITDA, vs SSE-listed private REITs at 13-14x (at issuance) and GDS at 12.7x. We believe future order upside has not been priced in, and overseas expansion could present further re-rating opportunity. VNET has received top client's expression of interest for overseas expansion, and is exploring options. Given DayOne's prior success, we think this could drive a re-rate if finalised.

Buy; raise TP to USD15.10 from USD14.50: We continue to value VNET using a target EV/adjusted EBITDA multiple of 10.4x, calculated using a 20% discount to GDS's target multiple of 13x (reasons on page 8). We apply this target multiple to average 2026e and 2027e adj. EBITDA forecast and yield a higher TP of USD15.10 (from USD14.50). With c41% implied upside, we maintain a Buy rating on future order upside, and overseas expansion potential driving re-rating.

MAINTAIN BUY

TARGET PRICE (USD)	PREVIOUS TARGET (USD)
15.10	**14.50**

SHARE PRICE (USD)	UPSIDE/DOWNSIDE
10.71 (as of 27 May 2026)	**+41.0%**

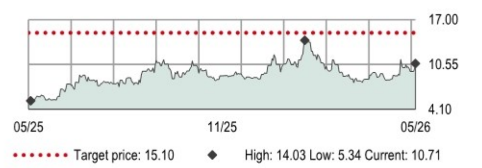
MARKET DATA

Market cap (USDm)	2,994	Free float	93%
Market cap (USDm)	2,994	BBG	VNET US
3m ADTV (USDm)	75	RIC	VNET.OQ

FINANCIALS AND RATIOS (CNY)

Year to	12/2025a	12/2026e	12/2027e	12/2028e
HSBC EPS	-0.15	-0.49	-0.30	-0.37
HSBC EPS (prev)	-0.15	-0.40	-0.36	-0.31
Change (%)	0.0	-22.9	17.4	-19.6
Consensus EPS	-0.52	-0.37	0.83	1.46
PE (x)	nm	nm	nm	nm
Dividend yield (%)	-0.2	-0.7	-0.4	-0.5
EV/EBITDA (x)	11.7	11.1	11.2	10.6
ROE (%)	-3.5	-9.4	-5.5	-7.1

52-WEEK PRICE (USD)



Source: LSEG IBES, HSBC estimates

Helen Fang*
Head of Industrials Research, Asia Pacific
The Hongkong and Shanghai Banking Corporation Limited
helen.c.fang@hsbc.com.hk
+852 2996 6942

Kenneth Chin*, CFA
Associate, Asia Industrials
The Hongkong and Shanghai Banking Corporation Limited
kenneth.t.k.chin@hsbc.com.hk
+852 2822 4521

Jer Shyuen Chong*
Associate, Asia Industrials
The Hongkong and Shanghai Banking Corporation Limited
jer.shyuen.chong@hsbc.com.hk
+852 2899 8682

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Financials & valuation: VNET Group

Buy

Financial statements

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Profit & loss summary (CNYm)				
Revenue	9,949	11,632	14,296	17,348
EBITDA	2,906	3,677	4,499	5,593
Depreciation & amortisation	-2,126	-2,676	-3,288	-4,128
Operating profit/EBIT	780	1,001	1,211	1,464
Net interest	-561	-763	-999	-1,265
PBT	417	241	212	199
HSBC PBT	417	241	212	199
Taxation	-558	-675	-251	-251
Net profit	-252	-798	-487	-596
HSBC net profit	-252	-798	-487	-596
Cash flow summary (CNYm)				
Cash flow from operations	1,919	1,584	2,174	2,947
Capex	-7,657	-10,469	-11,437	-12,143
Cash flow from investment	-8,012	-10,469	-11,437	-12,143
Dividends	252	798	487	596
Change in net debt	4,269	6,862	9,263	9,196
FCF equity	-5,738	-8,885	-9,263	-9,196
Balance sheet summary (CNYm)				
Intangible fixed assets	2,005	2,005	2,005	2,005
Tangible fixed assets	31,138	38,930	47,079	55,094
Current assets	11,452	12,366	11,819	11,936
Cash & others	6,180	6,645	5,388	4,692
Total assets	44,594	53,301	60,902	69,035
Operating liabilities	15,239	15,394	15,477	15,704
Gross debt	19,950	27,278	35,284	43,784
Net debt	13,748	20,611	29,874	39,070
Shareholders' funds	7,930	9,132	8,645	8,049
Invested capital	23,175	31,262	40,038	48,638

Ratio, growth and per share analysis

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Y-o-y % change				
Revenue	20.5	16.9	22.9	21.3
EBITDA	28.2	26.5	22.4	24.3
Operating profit	16.6	28.3	20.9	21.0
PBT	-12.1	-42.2	-12.1	-6.0
HSBC EPS	-247.3			
Ratios (%)				
Revenue/IC (x)	0.5	0.4	0.4	0.4
ROIC	-1.3	-6.6	-0.6	-0.9
ROE	-3.5	-9.4	-5.5	-7.1
ROA	-0.4	-0.9	-0.1	-0.1
EBITDA margin	29.2	31.6	31.5	32.2
Operating profit margin	7.8	8.6	8.5	8.4
EBITDA/net interest (x)	5.2	4.8	4.5	4.4
Net debt/equity	160.5	211.0	321.9	449.9
Net debt/EBITDA (x)	4.7	5.6	6.6	7.0
CF from operations/net debt	14.0	7.7	7.3	7.5
Per share data (CNY)				
EPS Rep (diluted)	-0.15	-0.49	-0.30	-0.37
HSBC EPS (diluted)	-0.15	-0.49	-0.30	-0.37
DPS	-0.15	-0.49	-0.30	-0.37
Book value	4.88	5.62	5.32	4.95

Key forecast drivers

Year to	12/2025a	12/2026e	12/2027e	12/2028e
Retail cabinets in service (units)	0	0	0	0
Wholesale capacity in service (MW)	889	1,339	1,878	2,478

Valuation data

Year to	12/2025a	12/2026e	12/2027e	12/2028e
EV/sales	3.4	3.5	3.5	3.4
EV/EBITDA	11.7	11.1	11.2	10.6
EV/IC	1.5	1.3	1.3	1.2
PE*	nm	nm	nm	nm
PB	14.9	12.9	13.7	14.7
FCF yield (%)	-28.3	-43.8	-45.6	-45.3
Dividend yield (%)	-0.2	-0.7	-0.4	-0.5

* Based on HSBC EPS (diluted)

ESG metrics

Environmental Indicators	12/2024a
GHG emission intensity*	1,125.9
Energy intensity*	1,775.9
CO_2 reduction policy	Yes
Social Indicators	**12/2024a**
Employee costs as % of revenues	n/a
Employee turnover (%)	28
Diversity policy	Yes

Governance Indicators	12/2025a
No. of board members	6
Average board tenure (years)	n/a
Female board members (%)	0
Board members independence (%)	66.7

Source: Company data, HSBC

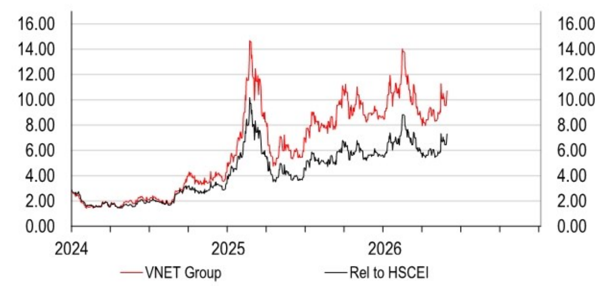
* GHG intensity and energy intensity are measured in kg and kWh respectively against revenue in USD '000s

Issuer information

Share price (USD)	10.71
Target price (USD)	15.10
RIC (Equity)	VNET.OQ
Bloomberg (Equity)	VNET US
Market cap (USDm)	2,994

Free float	93%
Sector	It Services
Country/Region	China
Analyst	Helen Fang
Contact	+852 2996 6942

Price relative



Source: HSBC

Note: Priced at close of 27 May 2026

Exhibit 1: Comparison between GDS and VNET

		1Q25	2Q25	3Q25	4Q25	1Q26*	2026e	2027e	2028e
New hyperscale/wholesale order sign (MW)									
GDS		152	40	30	60	346			
VNET		125	0	63	137	519			
In service capacity (MW)									
GDS		1,313	1,326	1,484	1,515	1,538	1,752	2,274	2,974
	q-o-q		*13*	*158*	*31*	*23*	*214*	*522*	*700*
VNET		573	674	783	889	907	1,339	1,878	2,478
	q-o-q		*101*	*109*	*106*	*18*	*450*	*539*	*600*
Under construction capacity (MW)									
GDS		369	379	182	220	377			
	q-o-q		*10*	*-197*	*38*	*157*			
VNET		377	326	306	452	516			
	q-o-q		*-51*	*-20*	*146*	*64*			
Held for future development (MW)									
GDS		900	900	900	3,700	3,700			
	q-o-q		*0*	*0*	*2800*	*0*			
VNET		670	792	705	840	1,056			
	q-o-q		*122*	*-87*	*135*	*216*			
Adjusted EBITDA (RMBm)									
GDS		1,324	1,372	1,342	1,366	1,949	5,590*	6,139	7,788
	y-o-y	*9.9%*	*11.2%*	*11.4%*	*5.2%*	*47.2%*	*10.9%*	*9.8%*	*26.9%*
VNET		682	732	758	805	892	3,707	4,607	5,810
	y-o-y	*26.3%*	*27.5%*	*27.4%*	*39.3%*	*30.7%*	*24.5%*	*24.3%*	*26.1%*
		2021	**2022**	**2023**	**2024**	**2025**	**2026e**	**2027e**	**2028e**
Capex (RMBbn)									
GDS		12.7	9.3	3.5	3.0	3.0	9	11	13
	y-o-y		*-26.8%*	*-62.4%*	*-14.0%*	*0.0%*	*195.4%*	*20.0%*	*20.0%*
VNET		2.7	3.0	3.0	4.9	7.7	10.5	11.4	12.1
	y-o-y		*11.3%*	*-1.0%*	*66.0%*	*55.4%*	*36.8%*	*9.2%*	*6.2%*
Net debt/adjusted EBITDA									
GDS		6.9	7.4	7.4	7.2	5.9	5.1	6.1	5.8
VNET		2.9	3.7	3.1	4.7	4.5	5.5	6.4	6.7

*Excluding one-offs

Source: Company data, HSBC estimates

Note: 1Q26 hyperscale/wholesale new order signings are 2026 YTD

Exhibit 2: VNET – 1Q26 results versus consensus

RMBm		1Q26-actual	1Q26-consensus	1Q26-HSBCe	versus consensus	versus HSBCe
Revenue		**2,691**	**2,688**	**2,649**	0.1%	1.6%
	qoq	*0.2%*	*0.0%*	*-1.4%*		
	yoy	*19.8%*	*19.7%*	*17.9%*		
Gross profit		**616**	**594**	**667**	3.6%	-7.6%
	Gross margin	22.9%	22.1%	25.2%	*0.8ppt*	*-2.3ppt*
	qoq	*14.0%*	*10.0%*	*23.4%*		
	yoy	*8.9%*	*5.1%*	*17.9%*		
Net income /(loss) attributable to shareholders		**(532)**	**(40)**	**(27)**		
Adjusted EBITDA		**892**	**839**	**989**	6.3%	-9.9%
	Adjusted EBITDA margin	33.1%	31.2%	37.3%	*1.9ppt*	*-4.2ppt*
	qoq	*10.7%*	*4.2%*	*22.9%*		
	yoy	*30.6%*	*22.9%*	*44.9%*		

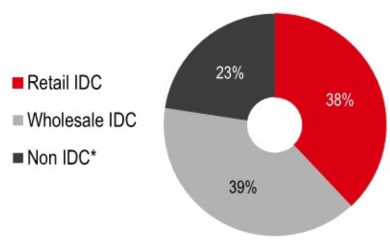
Source: Visible Alpha, Company data

Exhibit 3: VNET – earnings summary

RMBm		1Q25	2Q25	3Q25	4Q25	1Q26	2026e	2027e	2028e
Revenue		**2,246**	**2,434**	**2,582**	**2,687**	**2,691**	**11,632**	**14,296**	**17,348**
	y-o-y	*18.3%*	*22.1%*	*21.7%*	*19.6%*	*19.8%*	*16.9%*	*22.9%*	*21.3%*
Cost of goods sold		(1,681)	(1,886)	(2,043)	(2,147)	(2,075)	(9,036)	(11,127)	(13,508)
Gross profit		**565**	**548**	**539**	**540**	**616**	**2,595**	**3,169**	**3,840**
	y-o-y	*37.6%*	*28.9%*	*9.6%*	*7.0%*	*8.9%*	*18.4%*	*22.1%*	*21.2%*
	GPM	*25.2%*	*22.5%*	*20.9%*	*20.1%*	*22.9%*	*22.3%*	*22.2%*	*22.1%*
Sales and marketing expenses		(64)	(70)	(71)	(74)	(54)	(278)	(342)	(414)
General and administrative expenses		(180)	(212)	(186)	(219)	(162)	(803)	(986)	(1,195)
Research and development expenses		(44)	(68)	(71)	(79)	(74)	(327)	(402)	(487)
Other operating income/expense		(29)	(25)	(5)	(16)	(78)	(186)	(228)	(278)
Operating profit		**249**	**173**	**206**	**153**	**247**	**1,001**	**1,211**	**1,464**
	y-o-y	*435.4%*	*-11.1%*	*7.5%*	*-35.4%*	*-0.6%*	*28.3%*	*20.9%*	*21.0%*
	OPM	*11.1%*	*7.1%*	*8.0%*	*5.7%*	*9.2%*	*8.6%*	*8.5%*	*8.4%*
EBITDA		**735**	**649**	**848**	**797**	**884**	**3,677**	**4,499**	**5,593**
	y-o-y	*73.5%*	*11.2%*	*45.0%*	*18.0%*	*30.8%*	*26.5%*	*22.4%*	*24.3%*
	EBITDA margin	*32.7%*	*26.7%*	*32.9%*	*29.7%*	*32.9%*	*31.6%*	*31.5%*	*32.2%*
Adjusted EBITDA		**682**	**732**	**758**	**805**	**892**	**3,707**	**4,607**	**5,810**
	y-o-y	*26.4%*	*27.7%*	*27.5%*	*11.6%*	*30.6%*	*24.5%*	*24.3%*	*26.1%*
	Adjusted EBITDA margin	*30.4%*	*30.1%*	*29.4%*	*30.0%*	*33.1%*	*31.9%*	*32.2%*	*33.5%*
Interest income		7	17	9	5	10	56	60	49
Interest expense		(101)	(158)	(151)	(189)	(221)	(798)	(1,017)	(1,249)
FX gain/(loss)		10	9	16	(29)	36	36	-	-
Changes in fair value of financial instruments		(335)	70	(337)	287	(32)	(32)	-	-
Other gains/(losses)		-	5	-	470	-	-	-	-
Other income (expense), net		(1)	(5)	2	36	(2)	(2)	-	-
Profit /(loss) before tax		**(171)**	**112**	**(256)**	**733**	**39**	**261**	**254**	**265**
	y-o-y	*71.0%*	*-12.5%*	*-170.6%*	*769.4%*	*na*	*na*	*-2.7%*	*4.3%*
Tax expense		(52)	(95)	(21)	(389)	(486)	(675)	(251)	(251)
	effective tax rate	*-30.4%*	*85.0%*	*-8.4%*	*53.1%*	*1257.9%*	258.2%	98.8%	94.8%
Gain/(loss) from equity method investment		3	0	2	2	3	11	14	17
Minority interests		(17)	(29)	(32)	(41)	(87)	(376)	(462)	(561)
Net income /(loss) attributable to shareholders		**(238)**	**(12)**	**(307)**	**305**	**(532)**	**(778)**	**(445)**	**(530)**
	y-o-y	*27.0%*	*-118.7%*	*-196.7%*	*na*	*123.9%*	208.9%	-42.8%	19.0%
	Net margin	*-10.6%*	*-0.5%*	*-11.9%*	*11.3%*	*-19.8%*	-6.7%	-3.1%	-3.1%

Source: Company data, HSBC estimates

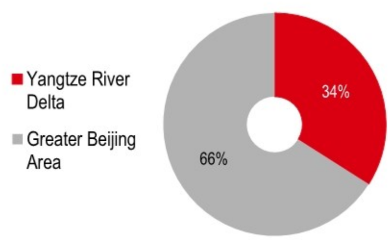
Exhibit 4: VNET – revenue breakdown, 1Q26



*Non-IDC business consists of cloud services and VPN services

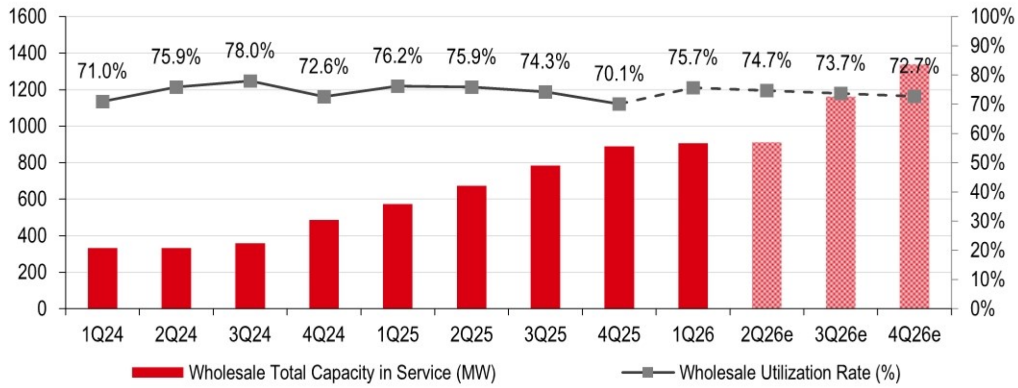
Source: LSEG Datastream, HSBC

Exhibit 5: VNET – Wholesale Internet DC capacity breakdown, 1Q26



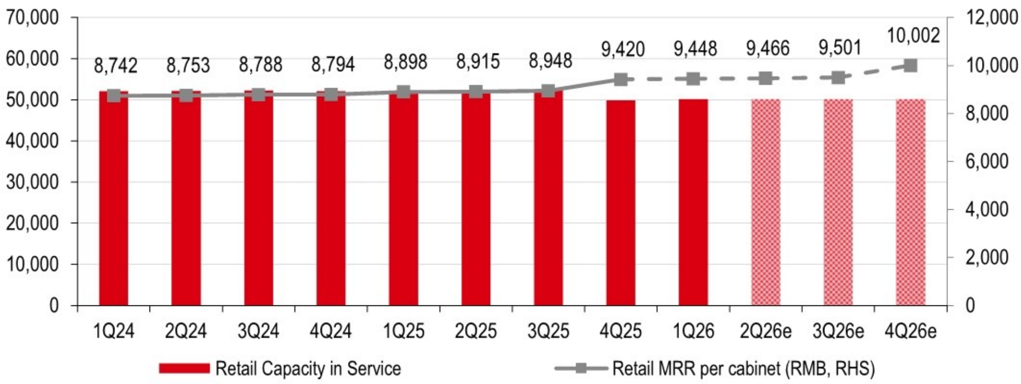
Source: LSEG Datastream, HSBC

Exhibit 6: VNET – wholesale capacity in service and utilisation rate



Source: Company data, HSBC estimates

Exhibit 7: VNET – retail capacity in service and retail monthly recurring revenue (MRR)



Source: Company data, HSBC estimates

Exhibit 8: VNET – 1Q26 resource pipeline to support IDC growth

IDC name	Tenure	Status	1Q26 Capacity (MW)	2Q26E-3Q26E Capacity (MW)	4Q26E-1Q27E Capacity (MW)	Next 12M Total (MW)
Greater Beijing Area						
N-HB Campus 02	Owned	Under Construction	-	-	59	59
N-HB Campus 03	Owned	Under Construction	18	4	-	4
N-HB04	Leased	Under Construction	-	7	14	21
N-OR Campus 01	Owned	Under Construction	-	9	-	9
N-OR Campus 02A	Owned	Under Construction	-	101	-	101
N-OR Campus 02B	Owned	Under Construction	-	-	65	65
N-OR Campus 03	Owned	Under Construction	-	85	128	213
Yangtze River Delta						
E-JS Campus 03B	Owned	Under Construction	-	44	-	44
Total			**18**	**250**	**266**	**516**

Note: Parts may not sum to total due to rounding. Source: Company data, HSBC estimates

Exhibit 9: VNET – wholesale projects in-service

IDC code	Tenure	Capacity in service (MW)
Greater Beijing Area		
BJ15	Owned	9
N-HB02 Phase 1	Owned	28
N-HB Campus 01 A	Owned	35
N-HB Campus 01 B	Owned	36
N-HB Campus 03	Owned	47
N-OR Campus 01	Owned	152
N-OR Campus 02 A	Owned	117
N-HB02 Phase 2	Leased	19
N-HB03	Leased	12
N-HB04	Leased	14
N-OR02	Leased	29
N-OR04	Leased	14
N-OR05	Leased	16
N-OR06	Leased	32
N-OR07 A	Leased	19
N-OR08 A	Leased	19
Yangtze River Delta		
E-JS Campus 01 Phase 1	Owned	28
E-JS Campus 01 Phase 2	Owned	16
E-JS Campus 02 A	Owned	25
E-JS Campus 02 B	Owned	24
E-JS Campus 02 C	Owned	26
E-JS Campus 02 D	Owned	26
E-JS Campus 02 E	Owned	64
E-JS Campus 03 A	Owned	32
E-JS02 A	Leased	13
E-JS02 B	Leased	13
E-JS02 C	Leased	13
E-JS03	Leased	15
E-JS04	Leased	15
Total in service		**907**

Source: Company data, HSBC

Exhibit 10: VNET – wholesale projects under construction

IDC code	Tenure	Capacity under construction (MW)	Total capacity pre-committed (MW)*	Ready for service
Yangtze River Delta				
E-JS Campus 03 B	Owned	44	44	2H26
Greater Beijing Area				
N-HB Campus 02	Owned	59	0	2H26
N-HB Campus 03	Owned	4	4	1H26
N-HB04	Leased	21	7	2H26/1H27
N-OR Campus 01	Owned	9	9	1H26
N-OR Campus 02 A	Owned	101	101	2H26
N-OR Campus 02 B	Owned	65	65	2H26
N-OR Campus 03	Owned	213	213	2H26/1H27
Total		**516**	**443**	

Note: *Total capacity pre-committed is the capacity under construction which is pre-committed to customers pursuant to customer agreements remaining in effect.
Source: Company data, HSBC

Exhibit 11: VNET – large customer order wins

IDC code	Capacity contracted/under MOU (MW)	Signing time	Client type
Greater Beijing Area			
N-OR05	14	2Q22	Internet
N-OR06	33	4Q22	Internet
N-HB01	7	2Q23	Local Service
N-HB01	1.5	1Q24	Local Service
N-OR Campus 01	200	2Q24	Internet
N-OR Campus 01	19	3Q24	IT Services
N-OR Campus 01	16	3Q24	IT Services
N-OR Campus 01	32	3Q24	Internet
N-HB03	14	3Q24	Internet
N-HB01	1.2	3Q24	Semiconductor
N-OR07 & 08	100	4Q24	Internet
N-OR Campus 02	55	1Q25	Cloud Services
JV project	64	1Q25	Internet
N-HB Campus 01	6	1Q25	Intelligent Driving
JV project	20	3Q25	Cloud Service
N-HB Campus 01 A	3	3Q25	Intelligent Driving
N-HB Campus 03	40	3Q25	Internet
N-OR Campus 02	56	4Q25	Cloud Service
N-OR Campus 02	25	4Q25	Intelligent Driving
N-HB Campus 03	11	4Q25	Internet
N-OR Campus 02	110	1Q26 to date	Internet
N-OR Campus 03	400	1Q26 to date	Internet
N-HB04	7	1Q26	Local Service
Yangtze River Delta			
E-JS03	15	3Q22	Cloud Service
E-JS Campus 02	115	1Q23	Internet
E-JS Campus 02	45	3Q23	Internet
E-JS04	15	1Q24	Cloud Service
E-JS Campus 01 Phase 2	2.5	1Q24	Local Service
E-JS Campus 03	32	4Q24	Internet
E-JS Campus 03 B	32	4Q25	Internet
E-JS Campus 03 B	12	4Q25	Internet
Other Regions			
N-OR03	1.8	3Q24	ICT Services
GZ03	1.5	4Q24	Intelligent Driving
Greater Beijing Area, Yangtze River Delta, Greater Bay Area, and Other Region			
Multiple Retail IDCs	4	1Q25	Internet, Finance, Local Services, Intelligent Driving, and Gaming
Multiple Retail IDCs	4	2Q25	IT services, Internet, AIoT, and Financial Services
Multiple Retail IDCs	2	3Q25	Cloud Services, Local Services and Financial Services, etc.
Multiple Retail IDCs	2	4Q25	Intelligent Driving, Local Services, AIoT, and Financial Services, etc.
Multiple Retail IDCs	2	1Q26	Local Services, Internet, IT Services, etc.

Source: Company data, HSBC

VNET earnings estimates changes

We raise our revenue and adjusted EBITDA forecasts, expecting strong order intake to continue into 2H26, driving faster medium-term growth.

Exhibit 12: VNET – HSBC earnings estimate revisions

		HSBC			HSBC (old)			HSBC vs. Old		
RMBmn	2025	2026e	2027e	2028e	2026e	2027e	2028e	2026e	2027e	2028e
Revenue	9,949	11,632	14,296	17,348	11,559	13,989	16,049	0.6%	2.2%	8.1%
Gross profit	2,192	2,595	3,169	3,840	2,549	3,088	3,545	1.8%	2.6%	8.3%
GPM	*22.0%*	*22.3%*	*22.2%*	*22.1%*	*22.0%*	*22.1%*	*22.1%*	*0.3ppt*	*0.1ppt*	*0.ppt*
Adjusted EBITDA	2,978	3,707	4,607	5,810	3,607	4,468	5,258	2.8%	3.1%	10.5%
Adjusted EBITDA Margin	*29.9%*	*31.9%*	*32.2%*	*33.5%*	*31.2%*	*31.9%*	*32.8%*	*0.7ppt*	*0.3ppt*	*0.7ppt*

Source: Company data, HSBC estimates

Exhibit 13: VNET – HSBC vs consensus

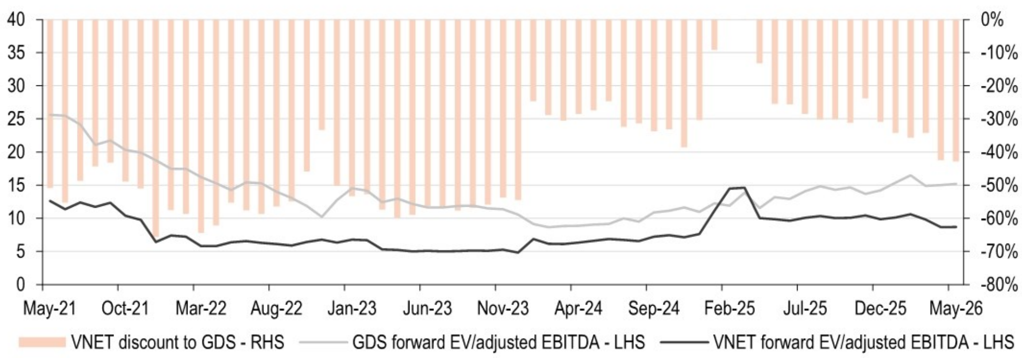
		HSBC			Consensus			HSBC vs. Consensus		
RMBmn	2025	2026e	2027e	2028e	2026e	2027e	2028e	2026e	2027e	2028e
Revenue	9,949	11,632	14,296	17,348	11,711	14,118	16,531	-0.7%	1.3%	4.9%
Gross profit	2,192	2,595	3,169	3,840	2,590	3,226	3,967	0.2%	-1.8%	-3.2%
GPM	*22.0%*	*22.3%*	*22.2%*	*22.1%*	*22.1%*	*22.9%*	*24.0%*	*0.2ppt*	*-0.7ppt*	*-1.9ppt*
Adjusted EBITDA	2,978	3,707	4,607	5,810	3,661	4,636	5,706	1.3%	-0.6%	1.8%
Adjusted EBITDA Margin	*29.9%*	*31.9%*	*32.2%*	*33.5%*	*31.3%*	*32.8%*	*34.5%*	*0.6ppt*	*-0.6ppt*	*-1.ppt*

Source: Company data, HSBC estimates

Valuation and risks

We value VNET using a target EV/adjusted EBITDA multiple of 10.4x, which is calculated using a 20% discount to GDS's target multiple of 13x. VNET has traded at an average discount of 44% to GDS over the past year, but we believe this could narrow to 20% (in-line with the narrowest point observed in 2024, when VNET's recovery began to accelerate), as we expect faster growth from VNET in 2026 with its existing capacity in Inner Mongolia, and it has abundant power reserves to drive growth beyond 2027.

Exhibit 14: VNET versus GDS trading discount



Source: Refinitiv Eikon, HSBC

We apply this EV/adjusted EBITDA target multiple of 10.4x to an adjusted EBITDA estimate of RMB4,157m, calculated using the 2026e and 2027e adj. EBITDA average, to better reflect current and medium-term growth potential. Our resulting EV is RMB43bn. After deducting net debt, minority interest and using a USD/RMB rate of 6.65 (per HSBC FX team's 4Q26e), we arrive at a target price per ADR of USD15.10.

With c41% implied upside, we maintain a Buy rating. We believe VNET offers pure exposure to China AI computing growth with an undemanding valuation.

Exhibit 15: VNET valuation

	New
Adjusted EBITDA	4,157 (avg. of 2026/2027e)
Target EV/adjusted EBITDA multiple (x)	10.40x
Enterprise value (RMB)	43,233
Net debt (RMBm)	14,144
Minority interest (RMBm)	626
Equity value (RMB)	28,463
Equity value per share (RMB)	16.77
Equity value per ADR (RMB)	100.62
USD/RMB	6.65
Equity value per ADR (USD, rounded)	**15.10**

Source: HSBC estimates

Exhibit 16: VNET valuation

	Old
Adjusted EBITDA	4,037 (avg. of 2026/2027e)
Target EV/adjusted EBITDA multiple (x)	10.40x
Enterprise value (RMB)	41,993
Net debt (RMBm)	13,748
Minority interest (RMBm)	634
Equity value (RMB)	27,611
Equity value per share (RMB)	16.27
Equity value per ADR (RMB)	97.61
USD/RMB	6.75
Equity value per ADR (USD, rounded)	**14.50**

Source: HSBC estimates

Downside risks

Failure to win new large orders from key customers; GPU supply constraints slowing utilisation ramp-up or order growth; pricing pressure for future wholesale projects; difficulty accessing bank loans or other financing channels, resulting in a delay in capex and the capacity delivery plan; slower-than-expected move-in or weaker-than-expected demand from wholesale clients; slower capacity delivery for wholesale IDCs; difficulty acquiring new wholesale customers; and stronger-than-expected price competition dampening margins.

Valuation and risks

		Valuation	Risks
GDS **GDS US/ 9698 HK** **Buy**	Current price: **USD33.88** Target price: **USD51.40** Up/downside: **+51.7%**	**Methodology:** SOTP valuation **Assumptions:** For DayOne, we use its Series C valuation to determine GDS's equity value in the company, out of prudency. The series C valuation implies GDS's 19.9% equity interest in DayOne is worth USD2.2bn, or USD11.18 per GDS ADS. Previously, we valued DayOne using a target EV/EBITDA multiple of 21x applied to 2027e adj. EBITDA of RMB7,277m. For GDS's mainland China business, we use 13x forward EV/EBITDA as the target multiple (unchanged), to reflect market discount on the Listco combining mature China DCs, ramping up China DCs, and minority interest in DayOne. We note that C-REIT is currently trading above 25x 2026e EV/EBITDA. We apply our target multiple to the HSBCe 2026/2027 adj. EBITDA average and render an equity value per ADS of USD40.22. We use the average of 2026 and 2027 to better reflect current and medium-term growth potential, given that more capacity will come online in 2027. Adding the DayOne and GDS mainland China business valuations, we derive a rounded TP of USD51.40. With c52% implied upside, we maintain our Buy rating. **Helen Fang*** | helen.c.fang@hsbc.com.hk | +852 2996 6942	**Downside risks:** 1. Failure to win new large orders or delay in 500MW MOU order finalisation; 2. Slower-than-expected delivery of new capacities in Inner Mongolia, Ningxia, or Shaoguan; 3. A slowdown in DayOne's growth, causing GDS Holdings shareholding value in DayOne to decrease; 4. Chip shortage slowing data centre utilisation ramp-up or order growth; 5. Slowdown in new DC tender by internet or short-video clients; 6. Failure to secure funding for capex or debt refinancing; and 7. Stronger-than-expected price competition dampening margins.

Priced at 27 May 2026
Source: HSBC estimates

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From 23rd March 2015 HSBC has assigned ratings on the following basis:
The target price is based on the analyst's assessment of the stock's actual current value, although we expect it to take six to 12 months for the market price to reflect this. When the target price is more than 20% above the current share price, the stock will be classified as a Buy; when it is between 5% and 20% above the current share price, the stock may be classified as a Buy or a Hold; when it is between 5% below and 5% above the current share price, the stock will be classified as a Hold; when it is between 5% and 20% below the current share price, the stock may be classified as a Hold or a Reduce; and when it is more than 20% below the current share price, the stock will be classified as a Reduce.

Our ratings are re-calibrated against these bands at the time of any 'material change' (initiation or resumption of coverage, change in target price or estimates).

Upside/Downside is the percentage difference between the target price and the share price.

Prior to this date, HSBC's rating structure was applied on the following basis:
For each stock we set a required rate of return calculated from the cost of equity for that stock's domestic or, as appropriate, regional market established by our strategy team. The target price for a stock represented the value the analyst expected the stock to reach over our performance horizon. The performance horizon was 12 months. For a stock to be classified as Overweight, the potential return, which equals the percentage difference between the current share price and the target price, including the forecast dividend yield when indicated, had to exceed the required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). For a stock to be classified as Underweight, the stock was expected to underperform its required return by at least 5 percentage points over the succeeding 12 months (or 10 percentage points for a stock classified as Volatile*). Stocks between these bands were classified as Neutral.

*A stock was classified as volatile if its historical volatility had exceeded 40%, if the stock had been listed for less than 12 months (unless it was in an industry or sector where volatility is low) or if the analyst expected significant volatility. However, stocks which we did not consider volatile may in fact also have behaved in such a way. Historical volatility was defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility had to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

Rating distribution for long-term investment opportunities

As of 31 March 2026, the distribution of all independent ratings published by HSBC is as follows:

Buy	59%	(12% of these provided with Investment Banking Services in the past 12 months)
Hold	36%	(12% of these provided with Investment Banking Services in the past 12 months)
Sell	6%	(6% of these provided with Investment Banking Services in the past 12 months)

For the purposes of the distribution above the following mapping structure is used during the transition from the previous to current rating models: under our previous model, Overweight = Buy, Neutral = Hold and Underweight = Sell; under our current model Buy = Buy, Hold = Hold and Reduce = Sell. For rating definitions under both models, please see "Stock ratings and basis for financial analysis" above.

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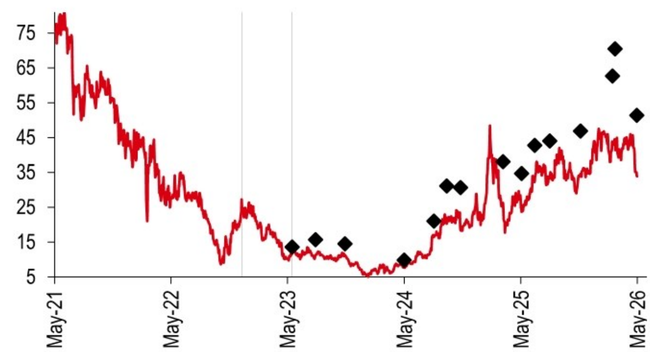
Share price and rating changes for long-term investment opportunities

GDS Holdings (GDS.O) share price performance USD Vs HSBC rating history



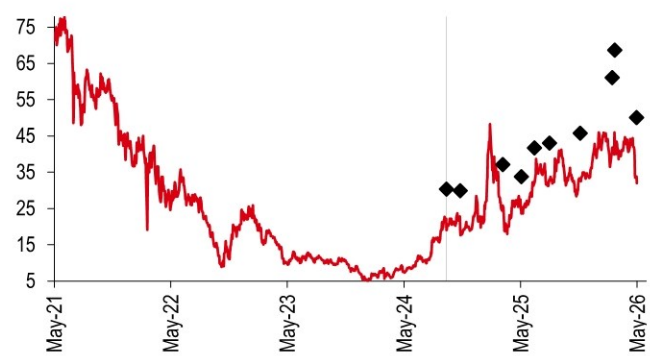
Source: HSBC

Rating & target price history

From	To	Date	Analyst
Buy	Restricted	04 Jan 2023	
Restricted	Buy	11 Jun 2023	Helen Fang
Target price	**Value**	**Date**	**Analyst**
Price 1	Restricted	04 Jan 2023	
Price 2	13.60	11 Jun 2023	Helen Fang
Price 3	15.70	24 Aug 2023	Helen Fang
Price 4	14.50	24 Nov 2023	Helen Fang
Price 5	9.80	27 May 2024	Helen Fang
Price 6	21.00	28 Aug 2024	Helen Fang
Price 7	31.10	08 Oct 2024	Helen Fang
Price 8	30.70	20 Nov 2024	Helen Fang
Price 9	38.10	02 Apr 2025	Helen Fang
Price 10	34.70	30 May 2025	Helen Fang
Price 11	42.80	10 Jul 2025	Helen Fang
Price 12	44.10	26 Aug 2025	Helen Fang
Price 13	46.90	01 Dec 2025	Helen Fang
Price 14	62.70	11 Mar 2026	Helen Fang
Price 15	70.50	19 Mar 2026	Helen Fang
Price 16	51.40	26 May 2026	Helen Fang

Source: HSBC

GDS Holdings (9698.HK) share price performance HKD Vs HSBC rating history



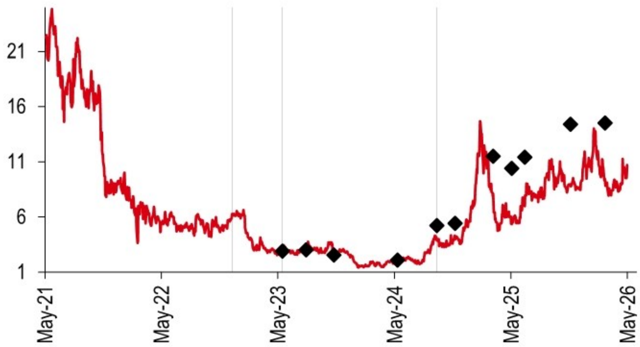
Source: HSBC

Rating & target price history

From	To	Date	Analyst
N/A	Buy	08 Oct 2024	Helen Fang
Target price	**Value**	**Date**	**Analyst**
Price 1	30.30	08 Oct 2024	Helen Fang
Price 2	29.90	20 Nov 2024	Helen Fang
Price 3	37.10	02 Apr 2025	Helen Fang
Price 4	33.80	30 May 2025	Helen Fang
Price 5	41.70	10 Jul 2025	Helen Fang
Price 6	43.00	26 Aug 2025	Helen Fang
Price 7	45.70	01 Dec 2025	Helen Fang
Price 8	61.10	11 Mar 2026	Helen Fang
Price 9	68.70	19 Mar 2026	Helen Fang
Price 10	50.10	26 May 2026	Helen Fang

Source: HSBC

VNET Group (VNET.OQ) share price performance USD Vs HSBC rating history



Source: HSBC

Rating & target price history

From	To	Date	Analyst
Buy	Restricted	04 Jan 2023	
Restricted	Hold	11 Jun 2023	Helen Fang
Hold	Buy	08 Oct 2024	Helen Fang
Target price	**Value**	**Date**	**Analyst**
Price 1	Restricted	04 Jan 2023	
Price 2	2.90	11 Jun 2023	Helen Fang
Price 3	3.00	25 Aug 2023	Helen Fang
Price 4	2.55	20 Nov 2023	Helen Fang
Price 5	2.09	06 Jun 2024	Helen Fang
Price 6	5.20	08 Oct 2024	Helen Fang
Price 7	5.40	04 Dec 2024	Helen Fang
Price 8	11.50	02 Apr 2025	Helen Fang
Price 9	10.40	30 May 2025	Helen Fang
Price 10	11.40	10 Jul 2025	Helen Fang
Price 11	14.40	01 Dec 2025	Helen Fang
Price 12	14.50	19 Mar 2026	Helen Fang

Source: HSBC

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Company	Ticker	Recent price	Price date	Disclosure
GDS HOLDINGS	GDS.O	33.88	27 May 2026	4, 6, 7, 11
VNET GROUP	VNET.OQ	10.71	27 May 2026	–

Source: HSBC

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9 A covering analyst/s or a member of his/her household has a financial interest in the securities of this company, as detailed below.

10 A covering analyst/s or a member of his/her household is an officer, director or supervisory board member of this company, as detailed below.

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12 As of 22 May 2026, HSBC beneficially held a net long position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.

13 As of 22 May 2026, HSBC beneficially held a net short position of more than 0.5% of this company's total issued share capital, calculated according to the SSR methodology.

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