

Software - China

Cloud expert call takeaways: muted growth in 2024E before acceleration in 2025/26

Industry Overview

We hosted an expert call with Mr. Chen, who has 10+ years of work experience in public cloud industry in China, at our Asia II Software Call series. We summarize our key takeaways as: 1) growth is likely to accelerate for China public cloud industry on AI service demand from 2025E; 2) pricing pressure still persists for standard products while there could be upsides for AI and customized services; and 3) competition for CDN business is getting more rational.

Likely cloud sector growth recovery in 2025/26E

Mr. Chen saw likely growth recovery for China public cloud sector in 2025/26E, supported by (1) further digging into the customized demand of downstream customers and (2) higher portion of computing resource and AI services with higher growth among cloud services, while growth in 2023-24E could still be soft at low teens yoy, due to (1) resources mismatch between standard cloud resources and AI servers, and (2) lack of computing power.

Pricing pressure persists for standard products

In terms of future pricing trend, Mr. Chen expected downward pressure for standard products (e.g., object storage, standard server rental service) while there could be upsides for customized services and AI/computing power services. As of GPM by segments, Mr. Chen shared that computing has higher GPM than storage and delivery. For AI computing cloud service, the GPM could be as high as 30%-40% due to lack of computing resources.

CDN competition could get more rational

Due to the bandwidth cost charged by Chinese telcos, domestic CDN service providers normally have lower GPM, compared to global peers (e.g., Amazon AWS and Google) as they could build their own network for cost saving. There has been fierce price competition among domestic peers in recent years, and some players are even loss marking. On a positive note, the competition could get more rational amid hiked bandwidth cost from Chinese telcos, per Mr. Chen.

Cost breakdown for self-build cloud data center

Mr. Chen shared the cost breakdown for a typical self-build cloud data center, including construction and operating cost. Overall, the TCO breakdown between construction and operating cost is roughly 40%/60%, for a cloud data center with a ten-year operational horizon. Specifically, land / construction cost / software / machine & equipment (e.g., power, cooling and IT equipment, etc.) account for 15-20% / 20-25% / 5-10% / 50-55% of total construction cost. For operating cost (without considering D&A), around 15-20% is labor cost, 25-30% is bandwidth cost and the rest are utility cost (50-60%).

14 January 2024

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CDN: content delivery network

D&A: depreciation and amortization

GPM: Gross profit margin

TCO: total cost of ownership

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Timestamp: 14 January 2024 10:01AM EST

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