Goodman's striking run at data centres; Closing Bell

Australian Financial Review
November 7, 2024 Thursday
Print & First Editions

Section: COMPANIES AND MARKETS; Pg. 26

Length: 990 words

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Body

It takes only two words to mesmerise investors this year: data centres.

They are red-hot. It's part artificial intelligence, part cloud adoption and part big tech, colliding in the sweet spots where public and private markets and infrastructure and real estate (together "real assets") meet. Investors are hooked.

We've seen all sorts of proof points recently - AirTrunk's $23.5 billion sale, NextDC's back-to-back equity raisings, AustralianSuper's multibillion-dollar bet and David Di Pilla's opportunistic (and still pending) IPO.

But the one that is hiding in plain sight, and doing things its own way, is $70 billion warehouses and logistics parks developer, operator and fund manager Goodman Group. It told investors it was crossing into data centres last year, and has since added about $25 billion to its market capitalisation.

What's it done to date? A lot of preparation work. It has the sites, has scurried together a 5 gigawatt power bank - up from more than 3GW when the plans were first unveiled mid-last year - including 2.6GW of secured power and another 2.4GW in advanced negotiations, and has started digging trenches at a few sites.

It has also been talking to potential co-investors (or capital partners) and customers, including the big tech companies who need homes for their AI training machines, and hiring engineers and other staff with the appropriate expertise. Greg Goodman, the conductor, gave his latest update yesterday. He revealed only a little bit more than the last time he fronted analysts in August, really.

The secured powerbank, for example, was up to 2.6GW from 2.5GW. He's talking more about developing turnkey data centres - fully designed, built, powered, installed - and even operating them, although can and will also do lighter "powered shells" for the opportunity.

Where exactly are these data centres, though?

What's the rollout schedule?

How quickly can that 2.6GW power bank turn into revenue?

Who exactly is Goodman Group in talks with to invest in them?

What are the expected returns?

Goodman punted a lot of the questions, or at least the specific answers to them, into next year.

He wasn't evasive, so much as not yet ready for the full reveal. He promised a more fulsome update when he fronts the market with his company's half-year results in February, saying 2025 would be a big year for project starts.

It sounds like he expects to be building data centres in the US, Europe, Japan and Australia next year. Some of them will be co-located with Goodman's logistics assets, others will be standalone. Artarmon in Sydney, the only specific site to get a callout during the analyst briefing, is the latter.

Analysts and investors are lapping it up. There was no dissent on the call, no pushing Goodman to be more specific about the returns/investors/sites - he gave away enough to satisfy curious minds, but kept coming back to next February's more comprehensive briefing. The shares are up more than 40 per cent so far this year.

This sort of organic expansion plan is rare in Australia. Such plans tend to only take place where a big player in one industry spots a gap in a new or booming adjacent industry - like a warehouses builder getting into powered shells, or pay TV company Foxtel getting into streaming with Kayo/Binge.

Listening to the call, we couldn't help but think Goodman Group's treatment was a stark contrast to another large cap's ambitious organic expansion plans: ***Fortescue***'s move into hydrogen and energy more broadly.

Fortescue's calls are met with demands for more details: where are the sites, what's the rollout schedule, how quickly can it turn into revenue, who are the co-investors, what are the expected returns - all the same stuff that is a bit vague at Goodman Group.

It's got to the point where analysts are sick of talking and hearing about it until there are binding agreements worth disclosing, even if the message is delivered by Andrew Forrest, another of Australia's great founder class who has created plenty of value for long-term shareholders.

It shows the difference of being hot - or not. Data centres are clearly hot (hydrogen still not), with demand right now, customers keen to sign long-term contracts and infrastructure and real estate investors willing to invest in new projects to underwrite developments. That reduces the risk involved of a logistics park developer switching over to data centres, which can cost $1 billion-plus and take years to build.

It is a credit to Greg Goodman's ability to spot an opportunity and make a run for it.

He's doing it without any acquisitions ("it's highly competitive if you want to buy anything already operational", he says) or diluting shareholders with equity raisings, preferring to build capability within his existing team and utilise its existing sites. (So is ***Fortescue*** for that matter, albeit there is much more scepticism around the clean energy end-market and no sign that customers are willing to step up today to underwrite big developments.)

The other thing that helps Goodman is that his core logistics business is in rude health. It reported 97.5 per cent occupancy across its industrial and warehouse assets at September 30, which includes partnership sites, and 4.9 per cent like-for-like net property income growth. It reaffirmed FY25 operating earnings per share and distribution guidance, and isn't reliant on one customer (China) like ***Fortescue***.

If Goodman pulls it off, it will be one of the great strategic pivots.

For now, having added tens of billions to Goodman Group's value, it is already one of the most valuable organic growth strategies we've seen on the ASX. Goodman's job is to turn that value, which is based on potential, promise and things like land banks and sites, into built and functioning data centres.

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Load-Date: November 9, 2024