Princeton Digital Group building pan-APAC platform with hyperscale focus

Posted on June 3, 2020

Summary: We had a chance to speak with management at Singapore-based data centre operator Princeton Digital Group and get to speed on the state of its business.

Background: Princeton Digital Group (PDG) is a Singapore-headquartered data centre operator founded in 2017 with the goal of creating a pan-regional platform in Asia-Pacific. PDG is backed by the global private equity firm Warburg Pincus and led by an experienced management team of industry veterans. Currently, PDG operates in four APAC markets: Singapore, India, China, and Indonesia. The current footprint consists of 18 data centres (half are operating and half are in development) spread across 12 different cities within these four countries. PDG has its headquarters in Singapore, with offices in Shanghai, Mumbai and Jakarta.

Management team: PDG was founded by CEO Rangu Salgame and COO Varoon Raghavan, who worked together at Tata Communications. Salgame and Raghavan led the data centre business at Tata as part of a broader portfolio and oversaw the investment, transformation, and eventual divestment of the portfolio to Singapore's ST Telemedia in 2016. Former Equinix executive Wee Gee Ong is the CFO and former STT Global Data Centres CMO Christopher Street is the EVP of Market Development. PDG uses a country MD model and brought in experienced industry veterans to lead the respective country operations. Asher Ling is the MD of Singapore and joined after leading wholesale provider Kingsland Data Centre, which was acquired by Keppel DC REIT in 2018. Stephanus Tumbelaka is the MD of Indonesia and was part of the team that built data centres in Jakarta, acquired by Telkomsigma, and then later established DCI Indonesia. Vipin Shirsat is the MD of India and was part of the Tata data centre operations and also STT Global Data Centres. Yonghai Zhang is the MD of China. Zhang spent over two decades at HP and was the VP and GM for the Data Centre Critical Facility Service.

Establishing Princeton Digital Group: PDG's founders partnered with Warburg Pincus in 2017 and set out to build the platform. The company's first move was entry into China through a joint venture with listed provider 21Vianet (NASDAQ: VNET) in three markets (Beijing, Xian, Guangzhou). The JV involves stabilized operating assets (close to full utilization) that house hyperscale tenants. PDG was then formally established in Singapore in 2018 and management set out to pursue the pipeline of M&A opportunities that had been assembled in the preceding years. Two transactions followed in 2019. The first saw PDG acquire the Singapore data centre that was part of the IO Data Centers portfolio. It then proceeded to acquire a controlling interest in a portfolio of five data centre assets from XL Axiata in Indonesia. This included both facilities and land. While these transactions were being completed, PDG continued to pursue its interests in China independent of the JV with 21Vianet. It secured a 40MW site in Shanghai and two additional land parcels, with the Shanghai campus on track to be operational by the end of 2020. Meanwhile, PDG also built a pipeline of greenfield projects in India.

Vision: PDG has a clear vision in mind. It wants to create a pan-APAC data centre platform that hyperscale and enterprise customers can work with in multiple markets. Hyperscale is the primary customer target and where PDG has marshalled its resources. The management team all have experience in hyperscale and have built network and relationships inside and outside the region. PDG is committed to building a platform that is both integrated and coordinated. It rejects the notion of a holding group or a collection of disjointed assets. It wants to build a uniform service and experience. Further differentiation will come from the unique and rare operating expertise it brings to the table. It is not a coincidence that PDG is operating in two of the toughest markets in the world – India and China – and it plans to take advantage of its experience to press the advantage. Markets with high barriers to entry are seen as both an opportunity and a primary differentiator. It plans to knock these barriers down for customers.

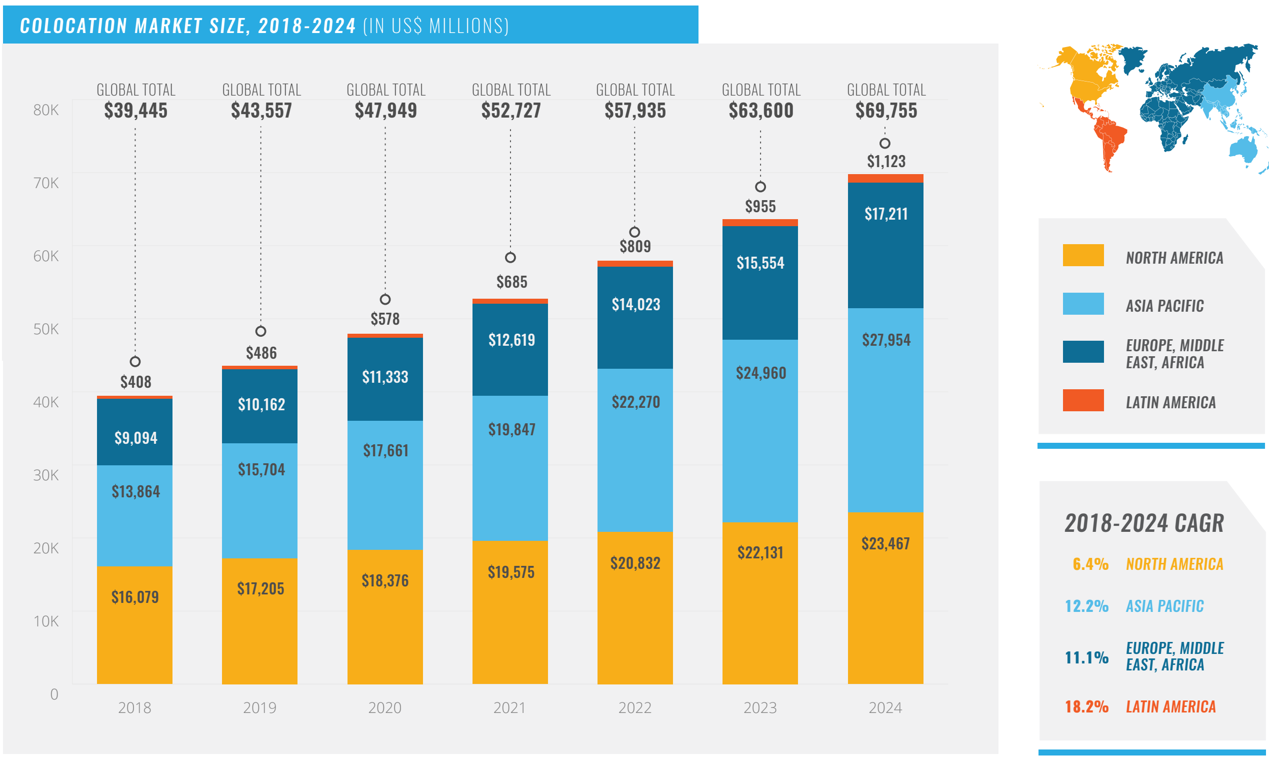
Execution and Strategy: PDG came to market with a multi-pronged strategy that combines M&A with data centre development. It will pursue both targeted acquisitions and greenfield or brownfield builds in markets with both hyperscale requirements and upside in growth potential. The M&A strategy is very focused. PDG plans to target telco divestment opportunities – something it has a lot of experience with going back to the Tata Communications sale to ST Telemedia. It has already executed a carve-out in Indonesia with the acquisition of XL Axiata's data centre portfolio. PDG acquired the assets, took over operating control and built out a strong local operating team. In any M&A scenario, PDG is careful to take the asset and align it with the larger operation. The goal is to integrate and upgrade the operation to offer a consistent experience and SLA across the portfolio and then transform it to be suitable for hyperscale requirements, while being mindful of any local considerations. It hopes the consistency of experience and SLA will make PDG more enticing as a multi-market option for hyperscale. The Singapore acquisition of the IO asset is a good example. PDG acquired the data centre, converted the white space for hyperscale and solved the pre-existing connectivity issue. After this was done, it closed a major hyperscale cloud deal. Another important part of the M&A strategy is identifying hyperscale upside. The acquisition of XL Axiata's portfolio in Indonesia, for example, was attractive because of the land it was able to acquire – something that is challenging and difficult in a market like Indonesia, but also critical to having the ability to build for hyperscale tenants. The XL Axiata asset also exemplified how PDG plans to transform and ready a facility for hyperscale. It increased the power density and carrier presence, while enhancing the scalability roadmap of each facility. PDG plans to take this approach – convert, transform and ready for hyperscale – and replicate it in other markets.

Value Proposition: PDG has built its value proposition around knocking down barriers to entry. And there are plenty in the region. China presents the challenge of its own firewall, and the IDC licensing requirement is a big hurdle to jump through, while power constraints exist in certain core markets. In India, land and power procurement is challenging and infrastructure quality is not consistent. Indonesia has similar issues around getting the right kind of land and power and is a market with a dominant telco presence, questionable infrastructure quality and various climate and natural disaster issues. Singapore presents interesting challenges as well with the current moderation in new data centre approvals. Barriers to entry also extend to the platform level. It is rare for providers in the APAC region to have built trusted relationships with hyperscale customers in multiple markets and to have that expertise span executive management, technical staff and commercial representatives. Hyperscalers are always looking for operating efficiencies and economies of scale. To that end, they are aiming to work with providers with whom they can engage at a strategic level, and in APAC, they have expressed a desire to work with newer providers like PDG if they have the capacity to navigate the region and put them into multiple markets – both current and future.

Customers: Management confirms being in the mix for all hyperscale requests in the markets it is currently operating in. On the enterprise side, PDG claims two major global financial institutions, Indonesia's second largest mobile operator and an emerging China-based video game company.

The APAC Opportunity: The Asia-Pacific region is where PDG has made its bet and presents an opportunity of unprecedented scale. According to Structure Research projections, the APAC region is set to pass North America in total market value in 2022. In that year, the global colocation market will be worth USD $57.9b with $22.3b coming from APAC versus $20.8b for North America and $14b for EMEA. The gap is closing fast. In 2019, the global colocation market was valued at $43.6b, with APAC contributing $15.7b and North America $17.2b. A big driver of this growth lies in the fact that APAC is home to two of the largest markets in the world – India and China – both with burgeoning technology sectors, flourishing online life and limitless potential with the two largest populations in the world. And China and India, like many other countries in the region, are just starting to scratch the surface of what they will eventually become. The Internet population is still growing in many APAC markets, with emerging markets like Indonesia, Malaysia, Taiwan and South Korea just kicking into gear and mature markets like Japan taking things to another level.

GLOBAL DATA CENTRE ***COLOCATION MARKET SIZE BY BROADER REGION***



Towards the Pan-APAC Platform: PDG continues to pursue opportunities across the region and is targeting markets in the established tier such as Japan and on the emerging side such as South Korea and Malaysia. It continues to track telco spin-out opportunities in certain markets, while going after site and building acquisitions.

Analysis: PDG intends to be multi-market and hyperscale-led. It has built a unique footprint and value proposition in a very short time frame and is the only third-party data centre provider that can claim a presence in all four of these markets. The mix is both unique and desirable. Each market has significant barriers to entry, but at the same time, are highly strategic to hyperscale customers. Hyperscale wants to serve massive markets like India and China, Singapore is a critical must-have location and Indonesia is perhaps the most intriguing of the emerging tier with substantial upside. PDG's footprint has a good combination of both emerging and established markets and this lays the foundation for a healthy addressable market. PDG is banking on high upside and long-term growth potential. Hyperscale customers continue to lease data centre capacity from third party operators, but they are trending to working with fewer providers. They do not want a separate provider for each market it has (or plans to have) infrastructure presence in. Hyperscalers also tend to work in regional rather than country-specific teams. This makes finding a partner that can meet regional needs incredibly valuable when it comes to operating efficiency. Operators with multi-market footprints and a credible track record are well-positioned, particularly in APAC, and PDG is poised to take advantage. From a competitive perspective, PDG is entering the hyperscale data centre market at a time of great flux. Hyperscale-oriented data centre operators in the US have gravitated to Europe and few have substantial pan-APAC presence. Within the APAC region, no operator has yet to achieve pan-regional status and this may not change for some time. The region remains extremely diverse, with nuances and dynamics that are not found anywhere else in the world. Dealing with this and finding a way through is at the core of PDG's value proposition and will shape its future going forward.