Borrower Case Study:

Asset-Backed Finance: Data Centres and the link to AI services

December 2024

Channel Capital Advisors LLP | www.channelcapital.io | enquiries@channelcapital.io

CHANNEL

Case Study: Funding Data Centres via ABF and the link to AI

About Channel

Channel Capital Advisors LLP is the FCA authorised and regulated unit of Channel Digital Holdings Ltd. a London based firm using technology to fund the specialty finance and innovation sectors.

Founded: 2007
Location: London, UK
Funds: Open pooled funds, SMAs and co-investment mandates
Share class: Traditional and Sharia compliant certificates
Volume: $25 billion of financing
Website: www.channelcapital.io

What are Data Centres and what is its link to AI?

AI seems to be everywhere these days and the range of problems which AI can solve is growing with each day. This trend has kicked off a super cycle of Capex to build data centres to support further development globally.

The AI enabling layer has a $300 billion Capex estimate for 2027 (UBS, 2024) with servers, power/cooling and networking equipment as growth areas. Data centres are specially designed properties that hold information technology infrastructure (including mechanical, engineering and networking assets) to serve the AI sector and others. Channel has financed the technology/data and software sector for several years and expects to develop more relationships in 2025 given the expectations of circa 20pct YOY growth forecast (CBRE, 2024).

Recent data centre transactions include Cloud Capital, Ardian/Verne and EXA which can come from $300mio to $1.5 billion in issue size.

1. At a glance

$36 billion ABS market for Data Centres[1]

+40% CAGR for Gen-AI related growth[2]

20% of customer demand and hosting is from smaller companies[2]

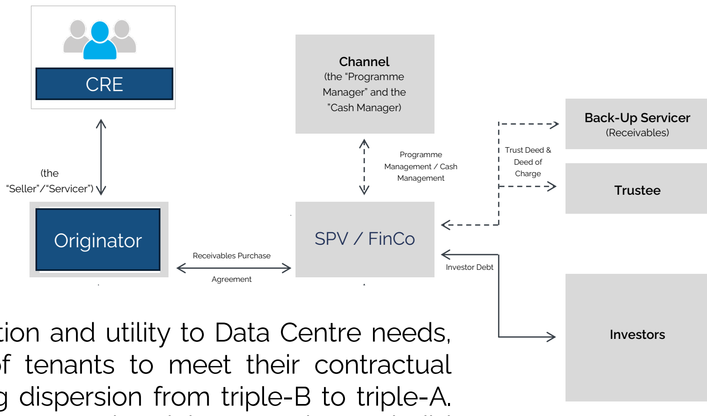
1. Linklaters (2024)
2. McKinsey 2024.

2: Data Centre Particulars

- 2018 was the first Data Centre ABS transaction in the US, now a global market. European market snow estimated at $20 billion
- Maybe pools or single asset properties in ABS transactions
- 7-year revolving periods with new assets added over time, ABS can extend out to 20-years or more
- 60%+ LTV ratio
- 70% Triggers which re-direct excess spread to debt if needed
- A to AA quality risk typically with S&P, Moody's criteria updated
- 80-120bps over UST pricing (mid 2024)
- 50bps return pick up over comparably quality bonds

3. A typical structure

Typically, a Data Centre ABS is structured on the recurring lease income received and property sale proceeds for higher quality structures. Some structures only provide noteholders the revenue from the Data Centre alone with the leases and contract income streams pledged, which may reduce their downside protection (the current data centre market is supported by growing demands making such properties valuable).



Key assessment areas include the property valuation and utility to Data Centre needs, the NPV of revenue streams, and the quality of tenants to meet their contractual obligations and related haircuts, resulting in rating dispersion from triple-B to triple-A. Investors also may consider performance risk and construction delays over longer build out periods before income can be realised. Cost of power and its efficiency also can be assessed to determine this expense area, along with managing agent costs. Strong property insurance from rated providers can also allay tails risks to ABS performance.