

China Mobile (941 HK)

Net profit to rebound in 2020

- We estimate China Mobile's revenue to grow 1.5%/ 4.8% YoY in 2020-21E, driven by 5G contributions and mobile user growth.
- We forecast the Group's overall mobile users to reach 970mn in 2020E (including 70mn of 5G users).
- RMB179.8bn CAPEX for 2020 (including RMB100bn for 5G)
- Recommend **BUY** with TP of HK\$82.0, which implies 4.9x/ 4.7x FY20E/ FY21E EV/EBITDA. Current valuation is attractive and we expect a 46.2% upside potential.

We expect revenue to grow 1.5%/ 4.8% in 2020-21E. China Mobile added 25.2mn of mobile users in 2019 and the aggregate mobile users reached 950mn. We forecast overall mobile users to grow 2.1%/ 1.5% YoY in 2020E-21E.

Aggressive 5G network development. China Mobile's 2020 5G CAPEX is higher than expected, which in turn will boost 5G user growth and market share in 2020 and improve high-end user penetration, benefiting mobile ARPU, which we estimate to grow 5.6%/ 3.9% YoY in 2020-21E.

Net profit to rebound in 2020. Driven by the economies of scale, stringent costs control, and 5G contributions, we expect net profit to rebound in 2020E with a 1.8% YoY growth. 5G user growth in 2020 will support high-end user penetration and drive up margins.

Valuation. We maintain **BUY** and revise up the DCF-based TP from HK\$ 80.0 to HK\$ 82.0. The TP implies 4.9x/ 4.7x FY20E/ FY21E EV/EBITDA. Recommend **BUY** with a 46.2% upside potential and an attractive FY20E dividend yield of 5.7%.

Risk factors: 1) Market competition may drag on mobile ARPU; 2) Slower-than-expected 5G development and adoption in China.

Results and Valuation

FY ended Dec 31	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	736,819	745,917	757,273	793,843	824,930
Chg (% YoY)	(0.5)	1.2	1.5	4.8	3.9
Net profit (RMB mn)	117,781	106,641	108,588	110,489	113,970
Chg (% YoY)	3.1	(9.5)	1.8	1.8	3.2
EPS (RMB)	5.75	5.21	5.30	5.40	5.57
Chg (% YoY)	3.1	(9.5)	1.8	1.8	3.2
BPS (RMB)	51.40	53.90	56.92	59.42	62.04
Chg (% YoY)	6.8	4.9	5.6	4.4	4.4
P/E (x)	8.78	9.59	9.57	9.49	9.32
P/B (x)	0.98	0.93	0.89	0.85	0.82
ROAE (%)	11.6	9.9	9.5	9.2	8.9
ROAA (%)	7.7	6.7	6.4	5.7	5.3
DPS (RMB)	2.82	2.82	2.86	2.89	2.94
Dividend Yield (%)	5.73	5.66	5.67	5.71	5.82

Note: Exchange rate assumption for FY20E-22E:1 HKD =0.900 RMB

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Mar 26, 2020

Rating: **BUY**

TP:HK\$82.0

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Share price (HK\$)	56.1
Est. share price return	46.2%
Est. dividend yield	5.7%
Est. total return	51.9%
Previous Rating & TP	BUY/HK\$80.0
Previous Report Date	Aug 23, 2019

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L(HK\$)	87.7/45.2
Issued shares (mn)	20,475.5
Market cap (HK\$ mn)	1,148,675
Avg daily turnover (HK\$ mn)	2,378.5
Major shareholder(s)	
China Mobile Holdings	73.0%
BlackRock	1.1%
Vanguard	0.9%

Source(s): Company, ABCI Securities

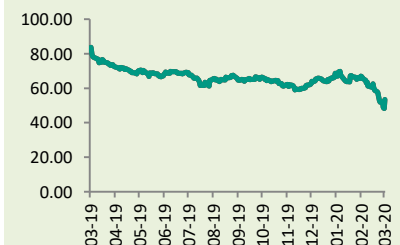
Share Performance (%)

	Absolute	Relative*
1-mth	(20.4)	(2.0)
3-mth	(16.6)	3.6
6-mth	(17.4)	(2.7)

*Relative to HSI

Source(s): Bloomberg

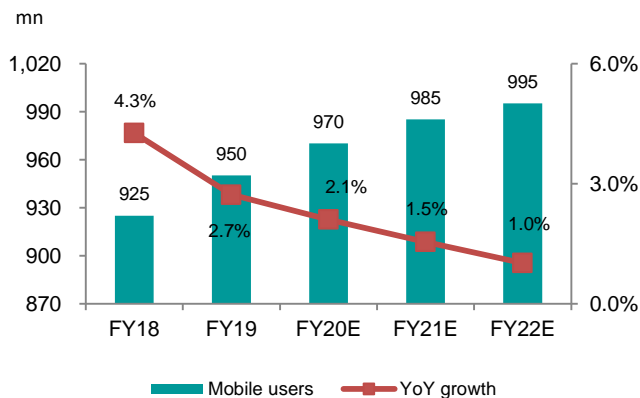
Share performance(HK\$)



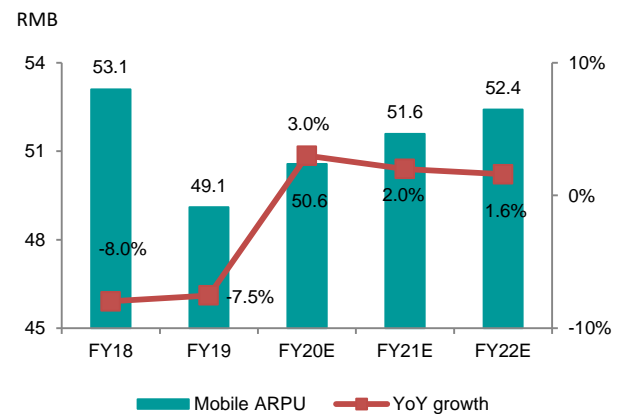
Source(s): Bloomberg, ABCI Securities

China Mobile's FY19 net profit beat estimates with better-than-expected mobile ARPU. FY19 mobile ARPU lowered by 7.5% YoY to RMB49.1 as a result of the Speed Upgrade and Tariff Reduction policy. Driven by lower data tariff, handset data traffic increased by 90.3% YoY to 6.7GB. China Mobile has optimized its service packages and bundling plans. Overall mobile user addition in 2019 was 25.2mn and aggregate mobile users reached 950mn (including 757.8mn of 4G users). We expect data traffic to grow further in 2020 on 5G network. The Group expects 70mn of 5G user addition in 2020. We forecast ARPU to grow 3.0%/2.0%/1.6% to RMB 50.6/ RMB 51.6/RMB 52.4, respectively. EBITDA margin improved by 2.3ppt to 39.7% in FY19 on economies of scale.

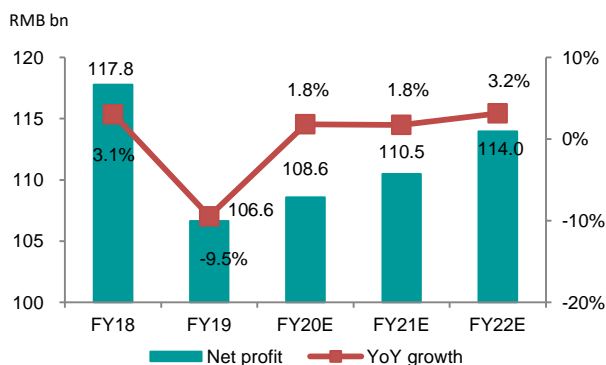
2020 CAPEX estimate is RMB179.8bn (with RMB100bn for 5G). The 5G CAPEX was higher than expected; we believe China Mobile will turn more aggressive in gaining 5G market share in 2020. The Group added 20mn of mobile users in 2019 (aggregate mobile users reached 950mn for the year); meanwhile, 4G penetration rate further improved by 2.8ppt YoY to 79.8% in 2019. We project the Group's total mobile users to reach 970mn/ 985mn in 2020-21E

Exhibit 1: China Mobile's mobile users and growth


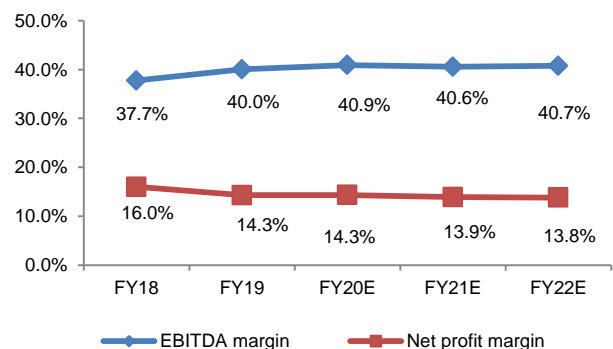
Source(s): Company, ABCI Securities estimates

Exhibit 2: China Mobile's mobile ARPU and growth


Source(s): Company, ABCI Securities estimates

Exhibit 3: China Mobile's net profit and growth


Source(s): Company, ABCI Securities estimates

Exhibit 4: China Mobile's mobile ARPU and growth


Source(s): Company, ABCI Securities estimates

Driven by the economies of scale, stringent costs control, and 5G contributions, we expect net profit to rebound in 2020E with a 1.8% YoY growth. 5G users growth in 2020 will help improve high-end user penetration and support margins. We revise up FY20E/FY21E net profit by 3.2%/ 3.8% on better-than-expected mobile ARPU and the ramp-up of 5G development. We have raised our mobile ARPU and 5G user estimations.

Exhibit 5: Changes in our financial estimates

(RMB Bn)	OLD			NEW			CHANGE		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	736,647	768,483	N/A	757,273	793,843	824,930	2.80%	3.30%	N/A
Operating profit	122,450	123,564	N/A	126,368	128,259	132,341	3.20%	3.80%	N/A
Net Profit	105,221	106,444	N/A	108,588	110,489	113,970	3.20%	3.80%	N/A

Source(s): Company, ABCI Securities estimates

Exhibit 6: Major assumptions:

	FY20E	FY21E	FY22E
Overall mobile users (mn)	970	985	995
Mobile ARPU (RMB)	50.6	51.6	52.4
5G users (mn)	70	270	450
5G ARPU (RMB)	65.0	73.0	78.0
Non-5G mobile users (mn)	900	715	545
Non-5G ARPU (RMB)	47.6	47.9	48.5

Source(s): ABCI Securities estimates



Recommend BUY with TP at HK\$82.0

We maintain **BUY** and adjust our TP from HK\$ 80.0 to HK\$ 82.0. The TP represents 4.9x/ 4.7x FY20/FY21 EV/EBITDA.

Exhibit 6: Peer comparison table

	Ticker	Price	P/E				P/B				ROE	ROA	EV/EBITDA
			18A	19A	20E	21E	18A	19A	20E	21E	20E	20E	20E
China Market													
China Unicom	762 HK	4.57	11.5	10.7	9.3	8.1	0.4	0.4	0.4	0.4	4.4	2.4	1.2
China Mobile	941 HK	56.10	8.3	9.6	9.9	9.7	1.0	0.9	0.9	0.9	9.6	6.5	2.6
China Telecom	728 HK	2.34	7.4	8.1	8.0	7.8	0.5	0.5	0.5	0.4	6.1	3.3	2.0
China Tower	788 HK	1.68	78.2	49.3	34.6	26.3	1.4	0.4	1.4	1.4	4.0	2.3	5.8
Simple Average			26.4	19.4	15.5	13.0	0.8	0.5	0.8	0.8	6.0	3.6	2.9
Weighted Average			20.0	16.0	13.7	12.1	0.9	0.8	0.9	0.9	7.9	5.1	2.9
US Market													
AT&T	T US	31.15	10.1	19.9	17.4	14.0	2.9	2.7	2.3	2.0	15.3	6.7	13.5
Verizon	VZ US	53.62	13.4	10.8	10.2	9.8	3.9	3.4	2.9	2.6	30.9	7.0	6.4
T-Mobile	TMUS US	79.45	22.3	18.6	16.7	n.a.	2.6	2.3	2.0	1.8	11.5	3.3	6.2
American Tower	AMT US	209.00	64.2	41.9	39.3	34.4	14.8	15.7	18.7	31.3	41.6	4.1	20.2
Simple Average			22.8	22.8	20.9	19.4	5.1	5.0	5.4	7.8	19.7	4.3	10.5
Weighted Average			23.5	19.3	17.9	16.4	5.5	5.3	5.6	7.8	26.4	5.3	9.5

Note: Data priced on Mar 25, 2020

Source(s): Bloomberg's market consensus



Consolidated income statement (2018A-2022E)

FY Ended Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Service revenue	670,907	674,392	681,456	714,235	742,138
Sales of products and others	65,912	71,525	75,817	79,607	82,792
Total revenue	736,819	745,917	757,273	793,843	824,930
Network operation and support expenses	(200,007)	(175,810)	(170,386)	(182,584)	(189,734)
Depreciation	(154,154)	(182,818)	(180,586)	(190,701)	(200,377)
Personnel	(93,939)	(102,518)	(102,218)	(107,135)	(111,321)
Selling expenses	(60,326)	(52,813)	(52,472)	(54,282)	(55,660)
Cost of products sold	(66,231)	(72,565)	(76,732)	(80,431)	(83,533)
Other operating expenses	(40,775)	(46,244)	(49,252)	(52,509)	(56,079)
Total operating expenses	(615,432)	(632,768)	(631,646)	(667,642)	(696,704)
Operating Profits	121,387	113,149	125,627	126,200	128,226
Non-operating income	2,906	4,029	4,090	4,288	4,456
Interest income	15,885	15,560	7,043	6,807	6,582
Finance costs	(144)	(3,246)	(5,794)	(5,503)	(5,291)
Share of profit in investments	13,861	12,641	13,020	13,411	13,813
Profit before tax	153,895	142,133	143,986	145,203	147,786
Tax	(35,944)	(35,342)	(35,803)	(36,105)	(36,748)
Profit after tax	117,951	106,791	108,183	109,097	111,038
Shareholders' profit	117,781	106,641	108,031	108,944	110,882
MI	170	150	152	153	156
EBITDA	277,935	298,593	309,044	319,955	331,895
EPS (RMB)	5.752	5.208	5.276	5.320	5.415
DPS (RMB)	2.824	2.824	2.861	2.885	2.936
Costs ratios:					
% to revenue					
Network operation and support expenses	27.1%	23.6%	22.5%	23.0%	23.0%
D&A	23.0%	27.1%	26.5%	26.7%	27.0%
Personnel	14.0%	15.2%	15.0%	15.0%	15.0%
Selling expenses	9.0%	7.8%	7.7%	7.6%	7.5%
Cost of products sold	9.0%	9.7%	10.1%	10.1%	10.1%
Other operating expenses	5.5%	6.2%	6.5%	6.6%	6.8%

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
PPE	666,496	674,832	688,329	698,654	707,037
Land lease prepayments	27,778	27,455	27,455	27,455	27,455
Interest in associates	145,325	155,228	159,885	164,681	169,622
Others	161,195	241,859	314,756	315,262	319,802
Total non-current assets	1,000,794	1,099,374	1,190,425	1,206,052	1,223,917
Cash & cash equivalents	57,302	175,933	175,590	153,515	128,145
Deposits in bank	291,887	130,799	125,567	120,544	115,723
Others	185,927	223,134	237,096	596,668	603,996
Total current assets	535,116	529,866	538,253	870,728	847,864
Total assets	1,535,910	1,629,240	1,728,678	2,076,780	2,071,781
Accounts payable	190,847	164,818	197,782	213,604	230,692
Accrued expenses and other payable	195,572	182,368	187,839	193,474	199,278
Others	87,979	114,881	115,977	393,401	314,666
Total current liabilities	474,398	462,067	501,598	800,479	744,636
Deferred revenue	4,881	6,861	7,204	7,564	7,942
Others	822	53,023	51,013	49,088	47,245
Total non-current liabilities	5,703	59,884	58,217	56,652	55,187
Total liabilities	480,101	521,951	559,815	857,131	799,824
Equity attributable to shareholders	1,052,405	1,103,773	1,164,972	1,215,207	1,266,741
Non-controlling interests	3,404	3,516	3,668	3,821	3,977
Total equity	1,055,809	1,107,289	1,168,640	1,219,028	1,270,718

Source(s): Company, ABCI Securities estimates



Consolidated Cash Flow Statement (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Operating profit before change in working capital	284,916	290,730	309,564	320,768	332,999
Change in working capital	(45,529)	(41,847)	22,542	5,065	6,068
Tax	(233)	(35,342)	(35,803)	(36,105)	(36,748)
Others	(33,003)	(33,993)	(35,013)	(36,063)	(37,145)
Operating cash flow	206,151	179,548	261,291	253,664	265,174
CAPEX	(192,395)	(205,863)	(218,214)	(231,307)	(245,186)
Change in available-for-sale financial asset	(11,926)	160,726	5,233	5,002	4,805
Others	(7,910)	24,642	16,493	16,482	16,479
Investing cash flow	(212,231)	(20,495)	(196,489)	(209,823)	(223,902)
Dividend paid	(59,930)	(57,826)	(58,580)	(59,075)	(60,126)
Others	2,110	16,809	(7,189)	(7,496)	(7,204)
Financing cash flow	(57,820)	(41,017)	(65,769)	(66,571)	(67,330)
Net increase in cash & cash equivalents	(63,900)	118,037	(967)	(22,730)	(26,058)
Cash & cash equivalents at beginning of year	120,636	57,302	175,933	175,590	153,515
Effect of changes in foreign exchange rate	566	594	624	655	688
Cash & cash equivalents at end of year	57,302	175,933	175,590	153,515	128,145
Financial Ratios:					
EBITDA margin (%)	37.7	40.0	40.9	40.6	40.7
Operating profit margin (%)	18.1	16.8	18.5	18.0	17.8
Net profit margin (%)	16.0	14.3	14.3	13.9	13.8
ROAA (%)	7.7	6.7	6.5	5.8	5.5
ROAE (%)	11.6	9.9	9.6	9.3	9.2
YoY Growth:					
Revenue (%)	(0.5)	1.2	1.5	4.8	3.9
EBITDA (%)	2.8	7.4	3.7	3.9	4.3
Net profit (%)	3.1	(9.5)	1.8	1.8	3.2

Source(s): Company, ABCI Securities estimates



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Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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