

China Mobile (941 HK)

Present valuation is attractive

- China Mobile has initiated to launch the 5G services in some cities and has raised the 5G CAPEX estimate for 2019E from RMB17bn to RMB 24bn to speed up the 5G network development for commercial usage
- We project mobile ARPU in 2019E-21E to lower by 5.2%/ 4.0%/ 1.5% to RMB50.3/ 48.3 /47.6, respectively
- Recommend **BUY** with TP of HK\$80.0, which implies 13.7x/ 13.3x FY19-20E P/E and 4.5x/ 4.2x FY19-20E EV/EBITDA. The current valuation is attractive and we expect a 19.8% upside potential

Maintain dominant position in mobile business. China Mobile's 4G user penetration rate reached 79.0% in July 2019, up 3.9ppt YoY. We forecast overall mobile users to grow 2.2%/ 1.6% in FY19-20E.

5G network advantage. The Group is spending RMB 24bn CAPEX for 5G development in FY19 to establish over 50,000 5G base stations, the highest no. among peers. We believe the Group is set to gain 5G market share more swiftly than others with better network coverage and a larger user base for upgrade. It was granted the dual frequency spectrum of 2.6GHz and 4.9GHz from MIIT for the 5G telecom network development, as compared to the single spectrum allocated to other operators.

Valuation. We maintain **BUY** and lower the TP from HK\$90.0 to HK\$80.0. We cut FY19E/FY20E net profit by 3.5%/ 3.9%, respectively, to reflect the impacts from sector policy and market competition. The TP implies 13.7x/ 13.3x FY19E-20E P/E and 4.5x/ 4.2x FY19E-20E EV/EBITDA. We recommend **BUY** for upside potential at 19.8% and an attractive FY19 dividend yield at 4.4%.

Risk factors: 1) Downward pressure on mobile ARPU; 2) Deferred launch of 5G network in China; 3) Lower ROAE dragged by slower service revenue growth.

Results and Valuation

FY ended Dec 31	FY17A	FY18A	FY19E	FY20E	FY21E
Revenue (RMB mn)	740,514	736,819	725,794	731,334	749,510
Chg (% YoY)	4.5	(0.5)	(1.5)	0.8	2.5
Net profit (RMB mn)	114,279	117,781	103,281	108,056	113,830
Chg (% YoY)	5.1	3.1	(12.3)	4.6	5.3
EPS (RMB)	5.58	5.75	5.04	5.28	5.56
Chg (% YoY)	5.1	3.1	(12.3)	4.6	5.3
BPS (RMB)	48.14	51.40	54.58	57.35	60.29
Chg (% YoY)	0.7	6.8	6.2	5.1	5.1
P/E (x)	9.9	10.4	11.8	11.3	10.7
P/B (x)	1.2	1.2	1.1	1.0	1.0
ROAE (%)	11.6	11.6	9.5	9.4	9.5
ROAA (%)	7.5	7.7	5.9	5.3	5.3
DPS (HKD)	6.41	3.22	2.91	3.04	3.20
Dividend Yield (%)	9.7	4.9	4.4	4.6	4.8

Source(s): Bloomberg, ABCI Securities estimates

*Exchange rate assumption for FY19E-21E: 1 HKD = 0.900 RMB

* Net profit = net profit attributable to shareholders of the Company

Company Report

Aug 23, 2019

Rating: **BUY**

TP: HK\$80.0

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Share price (HK\$)	66.8
Est. share price return	19.8%
Est. dividend yield	4.4%
Est. total return	24.2%
Previous Rating & TP	BUY/HK\$90.0
Previous Report Date	Feb 12, 2018

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	87.7/62.1
Issued shares (mn)	20,475.5
Market cap (HK\$ mn)	1,367,763
Avg daily turnover (HK\$ mn)	1,009.0
Major shareholder(s)	
China Mobile Holdings	73.0%
BlackRock	1.1%
Vanguard	0.9%

Source(s): Company, ABCI Securities

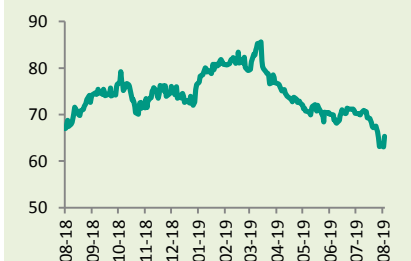
Share Performance (%)

	Absolute	Relative*
1-mth	(6.8)	0.4
3-mth	(7.6)	0.8
6-mth	(19.1)	(13.7)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance(HK\$)

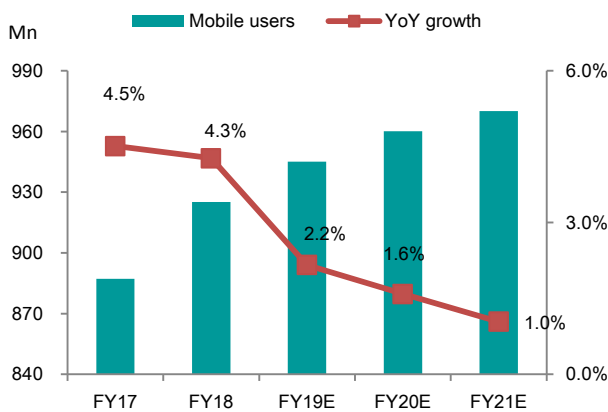


Source(s): Bloomberg, ABCI Securities

China Mobile's 4G user penetration rate reached 79.0% in July 2019, up 3.9ppt YoY. Driven by the lower mobile service tariff, more mobile data is being consumed- the Group's average handset data usage per customer surged 138% YoY to 6.2 GB in 1H19.

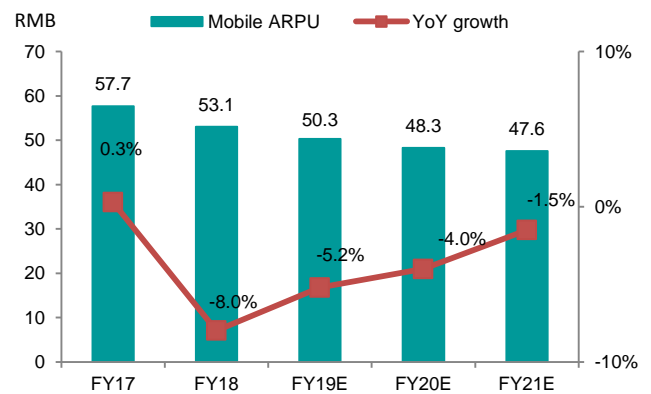
Affected by the Speed Upgrade and Tariff Reduction policy, the Group's mobile ARPU was down 10.2% YoY to RMB 52.2 in 1H19. China Mobile is expected to add 50,000 5G base stations in 2019 to launch a small-scale 5G telecom network with an estimated CAPEX of RMB 24bn. Downward pressure to ARPU in 2019-20 will continue due to stiff market competition and sector policy. We project mobile ARPU in 2019E-21E to lower by 5.2%/ 4.0%/ 1.5% to RMB50.3/ 48.3 /47.6, respectively.

Exhibit 1: China Mobile's mobile users and growth



Source(s): Company, ABCI Securities estimates

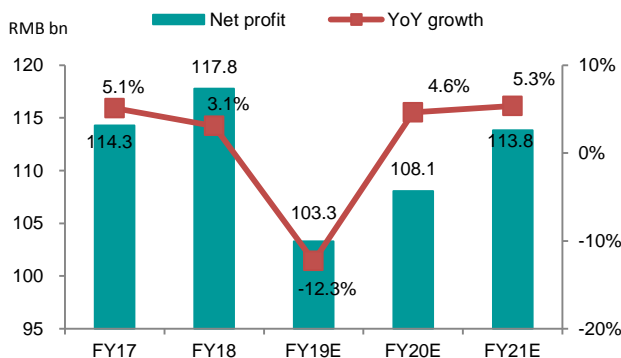
Exhibit 2: China Mobile's mobile ARPU and growth



Source(s): Company, ABCI Securities estimates

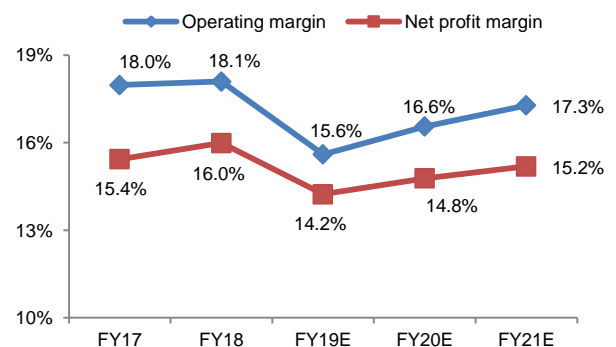
China Mobile is improving optical fiber network coverage to boost premium users' penetration. It has launched a series of valued-added services including cloud, smart home applications and video contents to improve revenue. 1H19 household broadband ARPU grew 0.6% YoY to RMB 35.0. We project fixed-line service revenue in 2019E-21E to grow 2.2%/ 1.6%, respectively.

Exhibit 3: China Mobile's net profit and growth



Source(s): Company, ABCI Securities estimates

Exhibit 4: China Mobile's profit margins



Source(s): Company, ABCI Securities estimates



Driven by revenue growth, stringent costs management, and rising high-end user penetration, we expect net profit to bottom out in 2020E. The 5G telecom network is expected to boost the Group's income in 2020E with increase network maturity, larger varieties of 5G smartphones, and robust demand for cloud computing. We expect net profit to decline 12.3% YoY in FY19E, only to be followed by a rebound of 4.6% YoY in FY20E. The Group's operating margin and net profit margin is expected to improve 1.0ppt/ 0.6 ppt to 16.6%/ 14.8% in FY19-20E.

Exhibit 5: Changes in our financial estimates

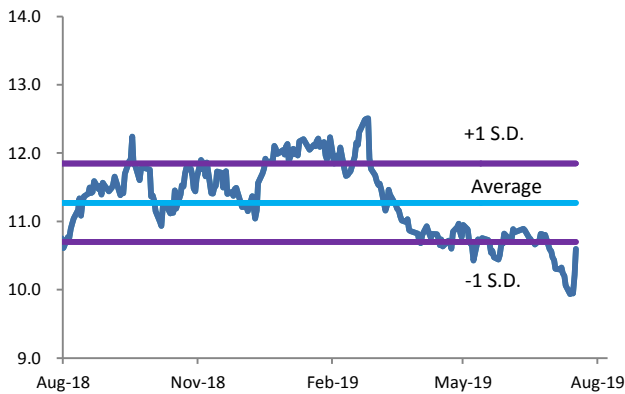
(RMB Bn)	OLD			NEW			CHANGE		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenue	744,404	753,953	774,287	725,794	731,334	749,510	-2.5%	-3.0%	-3.2%
Operating profit	105,456	112,443	121,069	102,292	108,957	116,468	-3.0%	-3.1%	-3.8%
Net Profit	107,027	112,441	118,820	103,281	108,056	113,830	-3.5%	-3.9%	-4.2%

Source(s): Company, ABCI Securities estimates

Recommend BUY with TP at HK\$80.0

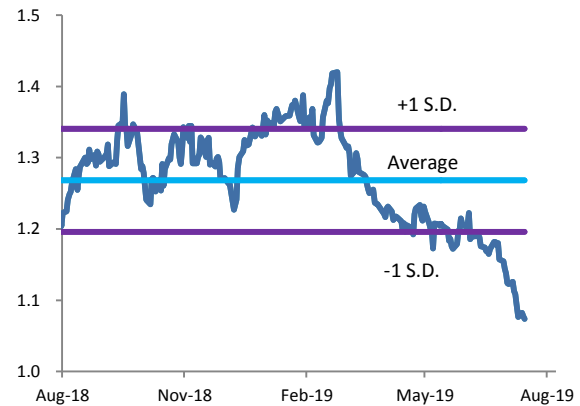
We trim FY19E/FY20 net profit by 3.5%/ 3.9% to account for stiffening market competition and policy impact on ARPU. TP is lowered from HK\$ 90.0 to HK\$ 80.0, which implies 13.7x/ 13.3x FY19-20E P/E and 4.5x/ 4.2x FY19E-20E EV/EBITDA, with an upside potential of 19.8% and a dividend yield of 4.4%. Maintain **BUY**.

Exhibit 6: China Mobile's P/E graph



Source(s): Company, ABCI Securities estimates

Exhibit 7: China Mobile's P/B graph



Source(s): Company, ABCI Securities estimates

Exhibit 8: Peer comparison table

	Ticker	Price	P/E				P/B				ROE	ROA	EV/EBITDA
			18A	19E	20E	21E	18A	19E	20E	21E	19E	19E	19E
China Market													
China Unicom	762 HK	10.12	18.2	14.7	10.9	8.9	0.6	0.6	0.6	0.6	4.2	2.4	1.8
China Mobile	941 HK	66.80	9.3	10.5	10.2	10.0	1.1	1.0	1.0	1.0	10.3	7.1	2.8
China Telecom	728 HK	3.58	11.0	11.2	10.5	9.8	0.7	0.7	0.6	0.6	6.3	3.4	2.8
China Tower	788 HK	1.83	89.5	55.9	35.8	25.3	1.6	1.6	1.6	1.5	3.0	1.7	7.8
Simple Average			32.0	23.1	16.8	13.5	1.0	1.0	1.0	0.9	5.9	3.7	3.8
Weighted Average			23.1	18.2	14.4	12.3	1.1	1.0	1.0	1.0	8.0	5.3	3.5
US Market													
AT&T	T US	35.39	12.2	9.8	9.6	9.6	1.4	1.4	1.4	1.3	12.2	4.1	7.0
Verizon	VZ US	56.78	15.0	11.8	11.6	11.3	4.4	3.9	3.3	2.9	34.6	7.5	7.1
Sprint	S US	6.87	3.7	n.a.	n.a.	n.a.	1.0	1.1	1.0	1.0	(7.4)	(2.3)	5.7
T-Mobile	TMUS US	77.79	22.8	19.3	16.5	n.a.	2.7	2.3	2.1	1.9	11.1	4.3	6.8
American Tower	AMT US	228.51	79.2	59.8	52.6	46.4	18.3	18.3	27.0	50.8	27.4	4.2	26.5
Simple Average			26.6	25.2	22.6	22.4	5.5	5.4	7.0	11.6	15.6	3.6	10.6
Weighted Average			23.5	19.0	17.4	16.4	5.0	4.8	5.8	9.0	21.1	5.0	9.8

Price at Aug 23, 2019

Source(s): Bloomberg



Consolidated income statement (2017A-2021E)

FY Ended Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Service revenue	668,351	670,907	655,928	658,323	674,090
Sales of products and others	72,163	65,912	69,867	73,011	75,420
Total revenue	740,514	736,819	725,794	731,334	749,510
Leased lines & network assets	(46,336)	(47,470)	(47,177)	(46,074)	(47,219)
Interconnection	(21,762)	(20,692)	(22,500)	(20,477)	(19,487)
Depreciation	(149,780)	(152,545)	(148,240)	(138,248)	(134,818)
Personnel	(85,513)	(93,939)	(92,486)	(92,165)	(94,373)
Selling expenses	(61,086)	(60,326)	(59,689)	(59,907)	(61,342)
Cost of products sold	(73,668)	(66,231)	(70,122)	(73,235)	(75,842)
Other operating expenses	(182,243)	(174,229)	(183,289)	(192,270)	(199,961)
Total operating expenses	(620,388)	(615,432)	(623,502)	(622,377)	(633,042)
Operating Profits	120,126	121,387	102,292	108,957	116,468
Non-operating income	2,389	2,906	2,863	2,884	2,956
Interest income	15,883	15,885	19,472	19,351	18,654
Finance costs	(210)	(144)	(2,082)	(2,749)	(2,427)
Share of profit in investments	9,949	13,861	14,277	14,705	15,146
Profit before tax	148,137	153,895	136,822	143,148	150,797
Tax	(33,723)	(35,944)	(33,392)	(34,936)	(36,803)
Profit after tax	114,414	117,951	103,430	108,212	113,994
Minority interests	(135)	(170)	(149)	(156)	(164)
Shareholders' net profit	114,279	117,781	103,281	108,056	113,830
EPS (RMB)	5.581	5.752	5.044	5.277	5.559
DPS (HKD)	6.405	3.216	2.908	3.042	3.205

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
PPE	648,029	666,496	739,211	782,884	851,111
CIP	78,112	72,180	80,743	83,683	(225,429)
Land lease prepayments	28,322	27,778	30,556	33,611	36,973
Goodwill	35,343	35,343	35,344	35,345	35,346
Interest in associates	132,499	145,325	218,646	263,000	307,897
Deferred tax assets	33,343	29,654	31,137	32,694	34,328
Other non-current assets	8,269	24,018	15,607	16,257	16,939
Total non-current assets	963,917	1,000,794	1,151,243	1,247,475	1,057,164
Cash & cash equivalents	120,636	57,302	336,943	336,830	282,913
Deposits in bank	279,371	291,887	280,212	269,003	258,243
Available for sale financial assets	65,630	0	0	0	0
Others	92,559	185,927	187,503	245,587	605,924
Total current assets	558,196	535,116	804,658	851,420	1,147,081
Total assets	1,522,113	1,535,910	1,955,901	2,098,895	2,204,245
Accounts payable	233,169	190,847	286,271	343,525	371,007
Accrued expenses and other payable	190,866	195,572	312,915	341,078	358,131
Others	105,947	87,979	180,300	194,232	203,922
Total current liabilities	529,982	474,398	779,486	878,834	933,060
Deferred revenue	2,888	4,881	7,810	8,200	8,610
Others	362	822	47,480	33,739	24,141
Total non-current liabilities	3,250	5,703	55,289	41,939	32,751
Total liabilities	533,232	480,101	834,775	920,773	965,811
Equity attributable to shareholders	985,636	1,052,405	1,117,573	1,174,413	1,234,560
Non-controlling interests	3,245	3,404	3,553	3,709	3,873
Total equity	988,881	1,055,809	1,121,126	1,178,122	1,238,433

Source(s): Company, ABCI Securities estimates



Consolidated Cash Flow Statement (2017A-2021E)

As of Dec 31 (RMB mn)	2017A	2018A	2019E	2020E	2021E
Operating profit before change in working capital	289,519	284,916	240,217	237,042	241,973
Change in working capital	(6,546)	(45,529)	253,548	79,132	36,411
Tax	(135)	(233)	(33,392)	(34,936)	(36,803)
Others	(37,324)	(33,003)	(33,993)	(35,013)	(36,063)
Operating cash flow	245,514	206,151	426,379	246,226	205,518
CAPEX	(193,015)	(192,395)	(205,863)	(218,214)	(231,307)
Change in restricted bank deposits	(30,746)	0	0	0	0
Change in available-for-sale financial asset	54,467	(11,926)	11,675	11,208	10,760
Others	62,761	(7,910)	28,554	28,801	28,330
Investing cash flow	(106,533)	(212,231)	(165,633)	(178,205)	(192,217)
Dividend paid	(106,036)	(59,930)	(50,608)	(52,947)	(55,777)
Others	(2,195)	2,110	68,908	(15,809)	(12,096)
Financing cash flow	(108,231)	(57,820)	18,300	(68,757)	(67,873)
Net increase in cash & cash equivalents	30,750	(63,900)	279,047	(736)	(54,572)
Cash & cash equivalents at beginning of year	90,413	120,636	57,302	336,943	336,830
Effect of changes in foreign exchange rate	(527)	566	594	624	655
Cash & cash equivalents at end of year	120,636	57,302	336,943	336,830	282,913
Financial Ratios:					
EBITDA / service revenue margin (%)	40.5	41.2	38.6	38.0	37.7
Operating profit / service revenue margin (%)	18.0	18.1	15.6	16.6	17.3
Net profit / total revenue margin (%)	15.4	16.0	14.2	14.8	15.2
ROAA (%)	7.5	7.7	5.9	5.3	5.3
ROAE (%)	11.6	11.6	9.5	9.4	9.5
YoY Growth:					
Service revenue (%)	7.2	0.4	(2.2)	0.4	2.4
EBITDA (%)	5.4	2.2	(8.4)	(1.2)	1.7
Net profit (%)	5.1	3.1	(12.3)	4.6	5.3

Source(s): Company, ABCI Securities estimates

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Definition of equity rating

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 2005 (HSI total return index 2005-17 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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