

China Mobile (941 HK)

4G user addition better than expected

- China Mobile's 4G user addition of 63mn in 2018 is better than expected
- MIIT has granted the 5G trial network frequency spectrum (2.6GHz & 4.9GHz) to the Group
- Fastest growth in fixed-line users among telecom operators thanks to aggressive pricing and bundled service packages
- Maintain **BUY** with TP of HK\$ 90.0, which implies 13.7x/ 13.3x FY19E/ FY20E P/E and 5.7x/ 5.5x FY19E/ FY20E EV/EBITDA

4G user addition is better than expected in 2018. China Mobile added 63.1mn of 4G users in 2018, exceeding our expectation by 5.2%. 4G user penetration rate reached 77.0% in Dec 2018, up 3.8ppt YoY. Size of low-end mobile users (2G/3G) was high at ~212mn, suggesting strong potential for 4G upgrade.

5G frequency spectrum advantage. China Mobile 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. We expect China Mobile would gain first-mover advantage in the 5G network development.

Innovative products and bundled services help expand market share. China Mobile has launched a variety of innovative products, including data traffic cards, which allow users to access popular apps such as Toutiao and Douyin. We believe broadening the product range would help the Group acquire new users.

Valuation. We maintain **BUY** and revise up the TP from HK\$ 83.0 to HK\$ 90.0, based on DCF methodology, to reflect the better-than-expected 4G user growth and 5G network advantage. The TP implies 13.7x/ 13.3x FY19E/ FY20E P/E and 5.7x/ 5.5x FY19E/ FY20E EV/EBITDA.

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; 4) We expect final dividend to drop in 2018E due to the drop in 2H18 net profits.

Results and Valuation

FY ended Dec 31	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue (RMB mn)	708,421	740,514	753,938	793,059	825,541
Chg (% YoY)	6.0	4.5	1.8	5.2	4.1
Net profit (RMB mn)	108,741	114,279	116,070	126,147	134,304
Chg (% YoY)	0.2	5.1	1.6	8.7	6.5
EPS (RMB)	5.31	5.58	5.67	6.16	6.56
Chg (% YoY)	0.2	5.1	1.6	8.7	6.5
BPS (RMB)	47.81	48.14	51.29	55.50	59.06
Chg (% YoY)	6.7	0.7	6.6	8.2	6.4
P/E (x)	13.8	12.3	12.9	11.9	11.2
P/B (x)	1.5	1.4	1.4	1.3	1.2
ROAE (%)	11.5	11.6	11.4	11.5	11.5
ROAA (%)	7.4	7.5	7.4	7.6	7.7
DPS (HKD)	2.73	6.41	3.10	3.48	3.70
Dividend Yield (%)	3.3	7.8	3.8	4.2	4.5

Source(s): Bloomberg, ABCI Securities estimates

*Exchange rate assumption for FY19E-20E: 1 HKD = 0.890 RMB

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

Company Report

Feb 11, 2019

Rating: **BUY**

TP: **HK\$90.0**

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Share price (HK\$)	82.25
Est. share price return	9.4%
Est. dividend yield	4.2%
Est. total return	13.6%
Previous Rating & TP	BUY/HK\$83.0
Previous Report Date	Sept 13, 2018

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	84.1/67.9
Issued shares (mn)	20,475.5
Market cap (HK\$ mn)	1,684,109
Avg daily turnover (HK\$ mn)	1,298.0
Major shareholder(s)	
China Mobile Holdings	73.0%
BlackRock	1.1%
Vanguard	0.9%

Source(s): Company, ABCI Securities

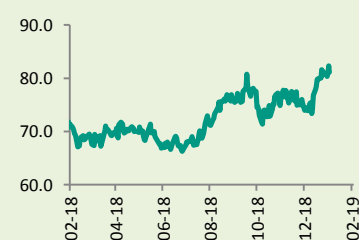
Share Performance (%)

	Absolute	Relative*
1-mth	11.5	3.1
3-mth	15.4	2.9
6-mth	20.7	25.8

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

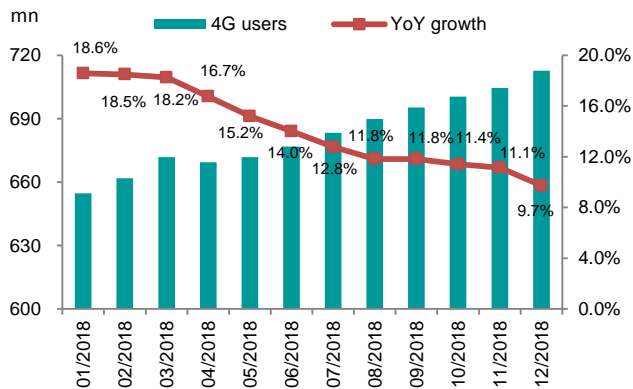
Share performance(HK\$)



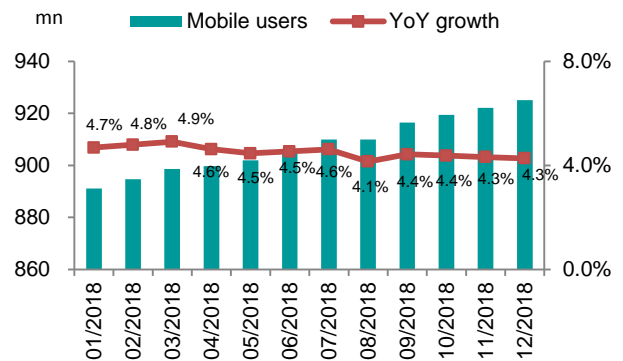
Source(s): Bloomberg, ABCI Securities

China Mobile added 63.1mn of 4G users in 2018, 5.2% better than our expectation. As of Dec 2018, China Mobile had over 925.1mn of mobile users (+ 4.3% yoy) (of which 712.7mn were 4G users, + 9.7% yoy), representing a 4G user penetration rate of 77.0% (+ 3.8 ppt yoy). China Mobile added 37.9mn of mobile users in 2018, down 1.1% YoY. As the Group still has over 212 mn low-end mobile users (2G/3G), we expect 4G user to grow in 2019 driven by user upgrade.

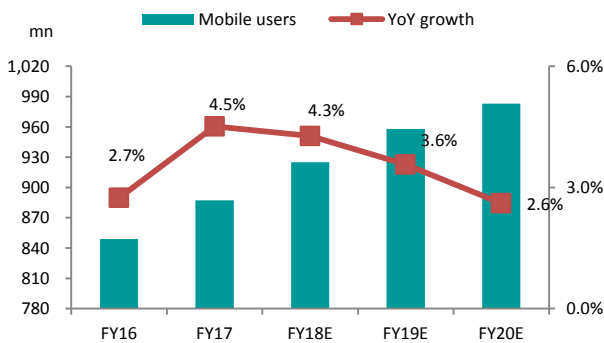
Official government bodies including MIIT and NDRC have instructed to ramp up the commercial launch of 5G telecom network. We expect the commercial launch of 5G telecom network to occur in 2H19, as opposed to 2020 as originally expected. China Mobile obtained the more favorable frequency bands of 2.52GHz - 2.67GHz and 4.8GHz - 4.9GHz which are superior to the single spectrum granted to other telecom operators. We expect China Mobile would have a network advantage with the formal commercial launch of the 5G network in China. While China Unicom and China Telecom obtained the 3.5GHz - 3.6GHz and 3.4GHz - 3.5GHz, respectively, we think China Mobile can distinguish itself from other competitors in the 5G network thanks to its favorable frequency spectrum advantage. China Mobile can allocate and distribute the two frequency bands in different regions with slightly different usage, the relative high frequency band 4.8GHz - 4.9GHz for higher speed requirement usage.

Exhibit 1: China Mobile's 4G users and growth


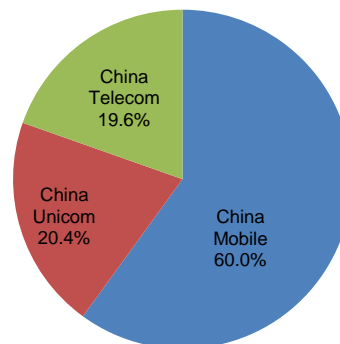
Source(s): Company

Exhibit 2: China Mobile's mobile users and growth


Source(s): Company

Exhibit 3: China Mobile's mobile user forecasts and growth


Source(s): Company, ABCI Securities estimates

Exhibit 4: Mobile user market share distribution in China (Dec 2018)


Source(s): Companies

China Mobile added 37.9mn of mobile users in 2018, 8.3% better than our 35mn forecasts, thanks to the launch of effective service schemes and bundled packages that help expand market share. The mobile market share of China Mobile trended up to 60.0% in Dec 2018, compared to China Unicom's 20.4% and China Telecom's 19.6%. China Mobile is set to benefit from its large share in the mobile market given the rising data usage growth.

In Jan 2019, China Mobile launched the e-SIM services in several provinces, allowing users to accessing an extra terminal with the same phone number. The Group has introduced a variety of innovative products, including data traffic cards, which allow easy access to popular apps such as Toutiao and Douyin. Since these apps are favored by young consumers, China Mobile is expected to acquire more new users through the alliance with internet enterprises.

We adjust our 19E/20E mobile user addition forecasts up by 6.5%/ 8.7% to 33.0mn/ 25.0mn to reflect the potential 4G user growth supported by its network advantage and innovative products. The Group's mobile users are expected to grow by 3.6%/ 2.6% YoY, with accumulated mobile users reaching 958mn/ 983mn for FY19E/20E. Due to the adjustment in mobile user estimates, we revise up our FY18E/FY19E/FY20E revenue by 1.5%/ 4.4%/ 6.3%.

Exhibit 5: China Mobile's Key Operational Metrics Assumptions:

(Mn)	FY18E	FY19E	FY20E
Mobile user additions	37.9	33.0	25.0
YoY	-1.0%	-12.9%	-24.2%
Mobile users	925	958	983
YoY	4.3%	3.6%	2.6%
Mobile ARPU (RMB)	56.5	56.7	56.8
YoY	-2.1%	0.3%	0.3%
Aggregate broadband users	156.7	193.7	223.7
YoY	39.1%	23.6%	15.5%
Wireline ARPU (RMB)	35.2	35.4	35.5
YoY	0.3%	0.5%	0.2%

Source(s): Company, ABCI Securities estimates

Exhibit 6: Change in our financial estimates

(RMB Bn)	OLD			NEW			CHANGE		
	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
Revenue	742,796	759,999	776,402	753,938	793,059	825,541	1.5%	4.4%	6.3%
Operating profit	121,474	124,898	127,904	123,782	136,237	146,221	1.9%	9.1%	14.3%
Net Profit	113,683	116,098	118,699	116,070	126,147	134,304	2.1%	8.7%	13.1%
EBITDA	275,367	281,591	290,311	280,874	302,380	321,247	2.0%	7.4%	10.7%

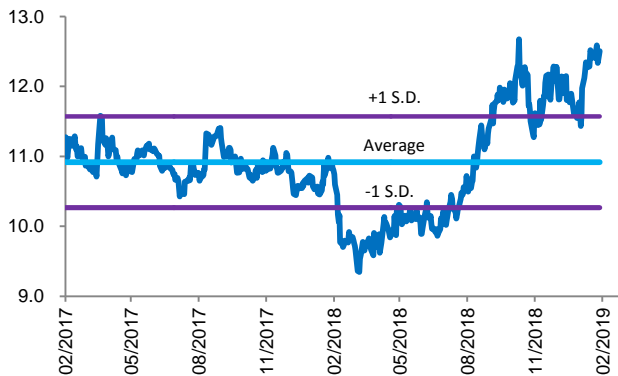
Source(s): Company, ABCI Securities estimates



Recommend BUY with TP at HK\$90.0

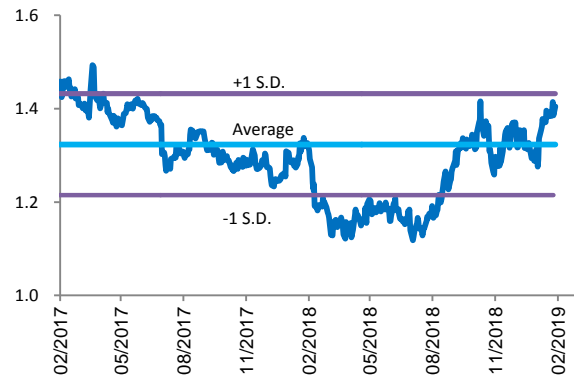
Mainly due to the upward adjustment in mobile user estimates, we revise up our TP from HK\$ 83.0 to HK\$ 90.0. The new TP implies 13.7x/ 13.3x FY19E/ FY20E P/E and 5.7x/ 5.5x FY19E/ FY20E EV/EBITDA. Maintain **BUY**. We think the Group deserves a better valuation given that the macro environment is volatile due to trade war, which would favor the defensive stocks. The Group is selected as the top pick in the sector based on its network advantage, dominance in the mobile and fixed-line markets, robust financial conditions, as well as higher yield than peers. We believe the Group can further leverage its scale advantage.

Exhibit 7: China Mobile's P/E graph



Source(s): Company, ABCI Securities estimates

Exhibit 8: China Mobile's P/B graph



Source(s): Company, ABCI Securities estimates

Exhibit 9: Peer comparison table

	Ticker	Price	P/E				P/B				ROE	ROA	EV/EBITDA
			17A	18E	19E	20E	17A	18E	19E	20E	19E	19E	19E
China Market													
China Unicom	762 HK	9.050	110.7	27.5	17.5	12.9	0.8	0.7	0.7	0.7	4.2	2.3	2.3
China Mobile	941 HK	82.250	12.8	12.5	12.4	11.8	1.4	1.4	1.3	1.2	10.8	7.2	3.3
China Telecom	728 HK	4.260	16.0	14.5	13.5	12.4	0.9	0.9	0.8	0.8	6.3	3.4	3.1
China Tower	788 HK	1.670	n.a.	82.0	45.6	29.3	1.4	1.4	1.3	1.3	3.0	1.4	7.1
Simple Average			46.5	34.1	22.3	16.6	1.1	1.1	1.0	1.0	6.1	3.6	4.0
Weighted Average			24.8	22.1	16.8	14.0	1.3	1.2	1.2	1.1	8.6	5.5	3.6
US Market													
AT&T	T US	29.550	6.3	10.5	8.4	8.2	1.3	1.2	1.2	1.1	14.9	4.1	6.4
Verizon	VZ US	53.950	7.5	14.6	11.8	11.5	5.2	4.3	3.7	3.2	33.0	7.4	6.9
Sprint	S US	5.900	n.a.	3.4	97.5	73.4	1.3	0.9	0.9	0.9	0.8	0.1	4.6
T-Mobile	TMUS US	68.380	12.9	20.8	17.6	14.8	2.7	2.4	2.1	1.9	12.6	5.9	6.4
American Tower	AMT US	172.430	64.3	59.1	50.0	43.1	11.9	13.9	14.9	19.9	29.5	5.4	22.0
Simple Average			22.7	21.7	37.1	30.2	4.5	4.5	4.5	5.4	18.2	4.6	9.3
Weighted Average			15.0	18.9	19.5	17.2	4.2	4.0	3.9	4.3	22.7	5.5	8.5

Price at Feb 11, 2019

Source(s): Bloomberg



Consolidated income statement (2016A-2020E)

FY Ended Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Service revenue	623,422	668,351	687,548	729,988	765,308
Sales of products and others	84,999	72,163	66,390	63,070	60,232
Total revenue	708,421	740,514	753,938	793,059	825,541
Leased lines & network assets	(39,083)	(46,336)	(45,103)	(51,549)	(53,660)
Interconnection	(21,779)	(21,762)	(21,864)	(20,620)	(20,639)
Depreciation	(138,090)	(149,780)	(154,698)	(163,517)	(172,194)
Personnel	(79,463)	(85,513)	(88,006)	(92,709)	(97,194)
Selling expenses	(57,493)	(61,086)	(62,567)	(66,429)	(69,643)
Cost of products sold	(87,352)	(73,668)	(67,474)	(63,937)	(60,995)
Other operating expenses	(167,073)	(182,243)	(190,444)	(198,062)	(204,994)
Total operating expenses	(590,333)	(620,388)	(630,156)	(656,822)	(679,319)
Operating Profits	118,088	120,126	123,782	136,237	146,221
Non-operating income	1,968	2,389	2,031	2,136	2,223
Interest income	16,005	15,883	17,153	17,618	18,014
Finance costs	(235)	(210)	(184)	(193)	(196)
Share of profit in investments	8,636	9,949	10,944	11,272	11,610
Profit before tax	144,462	148,137	153,725	167,070	177,874
Tax	(35,623)	(33,723)	(37,517)	(40,774)	(43,411)
Profit after tax	108,839	114,414	116,207	126,296	134,463
Minority interests	(98)	(135)	(137)	(149)	(159)
Shareholders' net profit	108,741	114,279	116,070	126,147	134,304
EBITDA	256,677	270,421	280,874	302,380	321,247
EPS (RMB)	5.311	5.581	5.668	6.161	6.559
DPS (HKD)	2.732	6.405	3.099	3.479	3.704
Payout ratio	45.1%	97.1%	48.0%	48.0%	48.0%

Note: Including a special cash dividend of HKD3.20/ share in FY17

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2016A-2020E)

As of Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
PPE	622,356	648,029	636,269	640,703	653,324
CIP	89,853	78,112	68,415	66,963	73,481
Land lease prepayments	26,720	28,322	32,570	35,827	39,410
Goodwill	35,343	35,343	35,343	35,344	35,345
Interest in associates	124,039	132,499	205,643	278,964	323,319
Deferred tax assets	29,767	33,343	35,010	36,761	38,599
Other non-current assets	6,271	8,269	8,857	9,213	9,588
Total non-current assets	934,349	963,917	1,022,107	1,103,775	1,173,066
Cash & cash equivalents	90,413	120,636	132,592	143,548	156,956
Deposits in bank	335,297	279,371	268,196	257,468	247,170
Available for sale financial assets	31,897	65,630	82,038	90,241	97,461
Others	129,038	92,559	99,483	106,225	112,897
Total current assets	586,645	558,196	582,308	597,482	614,483
Total assets	1,520,994	1,522,113	1,604,416	1,701,257	1,787,549
Accounts payable	250,838	233,169	228,506	217,080	206,226
Accrued expenses and other payable	180,950	190,866	208,044	226,768	247,177
Others	104,601	105,947	110,755	113,769	117,437
Total current liabilities	536,389	529,982	547,304	557,618	570,840
Deferred revenue	2,175	2,888	3,032	3,184	3,343
Others	292	362	387	403	419
Total non-current liabilities	2,467	3,250	3,420	3,587	3,762
Total liabilities	538,856	533,232	550,724	561,205	574,602
Equity attributable to shareholders	979,021	985,636	1,050,309	1,136,521	1,209,257
Non-controlling interests	3,117	3,245	3,382	3,531	3,690
Total equity	982,138	988,881	1,053,691	1,140,052	1,212,947

Source(s): Company, ABCI Securities estimates



Consolidated Cash Flow Statement (2016A-2020E)

As of Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Operating profit before change in working capital	270,255	289,519	273,405	291,957	308,541
Change in working capital	23,187	(6,546)	11,357	4,073	7,032
Tax	(236)	(135)	(37,517)	(40,774)	(43,411)
Others	(39,505)	(37,324)	(38,444)	(39,597)	(40,785)
Operating cash flow	253,701	245,514	208,801	215,659	231,377
CAPEX	(188,209)	(193,015)	(166,100)	(177,727)	(188,391)
Change in restricted bank deposits	(11,439)	(30,746)	(16,408)	(8,204)	(7,219)
Change in available-for-sale financial asset	(12,102)	54,467	11,164	10,698	10,274
Others	17,227	62,761	30,957	31,861	32,646
Investing cash flow	(194,523)	(106,533)	(140,387)	(143,372)	(152,690)
Dividend paid	(46,991)	(106,036)	(55,714)	(60,551)	(64,466)
Others	(1,967)	(2,195)	(191)	(200)	(203)
Financing cash flow	(48,958)	(108,231)	(55,905)	(60,750)	(64,668)
Net increase in cash & cash equivalents	10,220	30,750	12,509	11,537	14,018
Cash & cash equivalents at beginning of year	79,842	90,413	120,636	132,592	143,548
Effect of changes in foreign exchange rate	351	(527)	(553)	(581)	(610)
Cash & cash equivalents at end of year	90,413	120,636	132,592	143,548	156,956
Financial Ratios:					
EBITDA / service revenue margin (%)	41.2	40.5	40.9	41.4	42.0
Operating profit / service revenue margin (%)	18.9	18.0	18.0	18.7	19.1
Net profit / total revenue margin (%)	15.3	15.4	15.4	15.9	16.3
ROAA (%)	7.4	7.5	7.4	7.6	7.7
ROAE (%)	11.5	11.6	11.4	11.5	11.5
YoY Growth:					
Service revenue (%)	6.7	7.2	2.9	6.2	4.8
EBITDA (%)	6.2	5.4	3.9	7.7	6.2
Net profit (%)	0.2	5.1	1.6	8.7	6.5

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 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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