

China Telecom Corporation Ltd. (728 HK)

ARPU to drop further; initiate with HOLD

- China Telecom had the highest 4G user penetration rate among the telecom operators in China at 79.3% as of Nov 2018, indicating limited upside stemming from migration to 4G platform from lower-end ones (2G/3G) in 2019
- Market competition and tariff reduction policy will drag mobile ARPU down by 4.7% YoY in 2019
- The Group's market share in wireline broadband has been surpassed by China Mobile (941 HK)
- Initiate **HOLD** with TP of HK\$ 4.00, which implies 13.3x/12.7x FY19E/20E P/E

Slower mobile user growth in 2019. China Telecom added 55.8 mn of new 4G users in 11M18, up 0.6% YoY. Aggregate 4G users reached 237.8mn, accounting for 79.3% of total mobile users. We estimate the Group's mobile users to grow by 20.0%/ 13.3%/ 8.2% to 300 mn/ 340 mn/ 368 mn in FY18E-20E.

Mobile ARPU will be affected by lower data tariff. Affected by the reduced service tariff and stiffening market competition, the Group's mobile ARPU dropped 8.0% YoY to RMB51.5 in 9M18. The Group followed regulatory instruction to cancel domestic data roaming fee in July 2018 and slashed data service fee by 30% in FY18. We expect China Telecom's mobile ARPU to fall by 6.1%/ 4.7%/ 4.0% in FY18E-20E.

China Mobile has surpassed China Telecom to become China's largest wireline broadband providers in China since Oct 2018. This will affect the Group's revenue growth in 2019. China Mobile would pose an increasing threat to China Telecom's wireline business development in terms of product pricing and scale development.

Valuation. We initiate **HOLD** on China Telecom with the TP of HK\$ 4.00, implying 13.3x/ 12.7x FY19E/ FY20E P/E, and 2.6x/ 2.6x FY19E/ FY20E EV/EBITDA.

Results and Valuation

FY ended Dec 31	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue (RMB mn)	352,534	366,229	386,580	408,862	422,924
Chg (% YoY)	6.4	3.9	5.6	5.8	3.4
Net profit (RMB mn)	18,018	18,617	20,773	21,606	22,702
Chg (% YoY)	(10.2)	3.3	11.6	4.0	5.1
EPS (RMB)	0.22	0.23	0.26	0.27	0.28
Chg (% YoY)	(10.2)	3.3	11.6	4.0	5.1
BPS (RMB)	3.90	4.03	4.19	4.36	4.55
Chg (% YoY)	3.8	3.3	4.1	4.1	4.3
P/E (x)	15.7	14.0	13.8	13.3	12.7
P/B (x)	0.9	0.8	0.8	0.8	0.8
ROE (%)	5.8	5.8	6.2	6.2	6.3
ROA (%)	2.8	2.8	3.0	3.0	3.0
DPS (RMB)	0.09	0.09	0.09	0.09	0.09
Dividend Yield (%)	2.2	2.0	2.1	2.1	2.1

Source(s): Bloomberg, ABCI Securities estimates

*Exchange rate assumption for FY18E-20E: HKD 1 = RMB 0.890

* Net profit = net profit attributable to shareholders

Company Report

Initiation

Jan 15, 2019

Rating: Hold
TP: HK\$4.00

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Share price (HK\$)	3.99
Est. share price return	0.3%
Est. dividend yield	2.1%
Est. total return	2.4%

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	4.3/3.2
Issued shares (mn)	80,932.0
Market cap (HK\$ mn)	322,919
Avg daily turnover (HK\$ mn)	60.4
Major shareholder(s)	
China Telecom Cop.	70.9%
JP Morgan	12.0%
Citigroup	8.0%

Source(s): Company, ABCI Securities

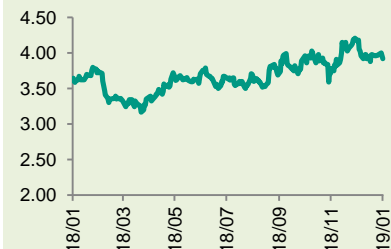
Share Performance (%)

	Absolute	Relative*
1-mth	(6.9)	1.2
3-mth	(1.5)	4.4
6-mth	6.6	19.8

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Telecom Corporation Ltd. (728 HK, HOLD)

China Telecom Sector

Jan 15, 2019

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Industry analysis

In China, a series of policies in the telecom sector have been implemented in recent years, including “Broadband China” and “Speed Upgrade and Tariff Reduction”, to improve mobile internet penetration, raise data transmission speed, and boost 4G user growth.

Based on the 13th Five-Year Plan, China has implemented the “Internet Plus” action plan, upgraded Internet speed, reduced tariff, started construction of next-generation Internet ahead of other countries, and boosted Internet-based innovations. By following the regulatory action plans, telecom operators have removed the domestic data roaming tariff and reduced its handset service tariff by 30% in 2018 to boost mobile internet penetration rate and stimulate domestic consumption.

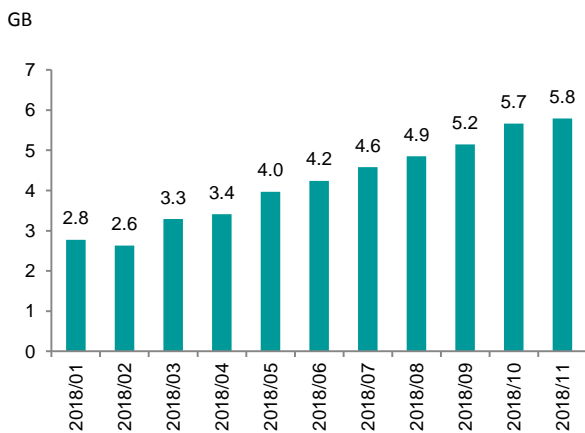
According to MIIT, mobile business of telecom operators accounted for 70.3% of total telecom revenue in 11M18, driven by increased demand in data services and value-added services. China’s mobile users reached 1.56bn in Nov 2018, up 10.6% YoY. China’s overall mobile internet users exceeded 1.3bn in Nov 2018, accounting for 74.3% of total mobile users. 4G penetration rate has been increasing due to migration of 2G/3G customers to 4G platform. According to MIIT, as of Nov 2018, 4G users reached RMB 1.16 bn, up 19.2% YoY, or 74.3% of total mobile users in China.

The average mobile data per user reached over 5.79GB in Nov 2018, up 142.3% YoY. 4G user penetration rate reached 74.3%.

Telecom operators have followed the “Speed Upgrade and Tariff Reduction” policy by the government to cancel domestic voice roaming tariff and lower international long-distance voice fee and broadband internet tariff for SMEs in 2017; this is followed by cancellation of domestic data roaming tariff and the 30% slash in mobile data tariff in 2018. Telecom operators’ ARPU, therefore, will be affected.

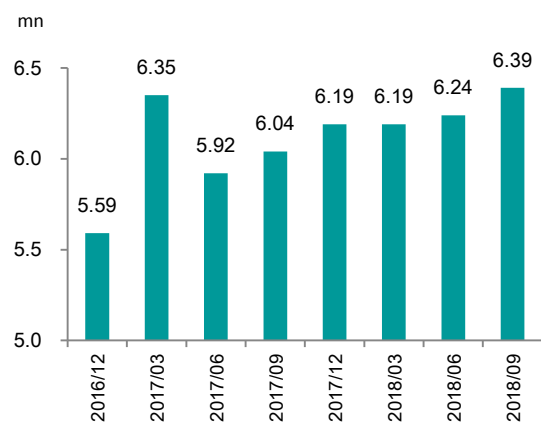
Average mobile data usage per user in China reached over 5.79GB in Nov 2018, up 142.3% YoY. The launch of “Speed Upgrade and Tariff Reduction” policy is expected to increase mobile data usage in China. There are many smartphones equipped with dual SIM features available in the market, which would boost mobile user demand in 2019. We expect mobile user and data usage to show a moderate growth in 2019 thanks to the proliferation of dual SIM smartphones and reduced mobile data tariff.

Exhibit 1: China’s average monthly data usage per user



Source(s): MIIT

Exhibit 2: China’s mobile base stations



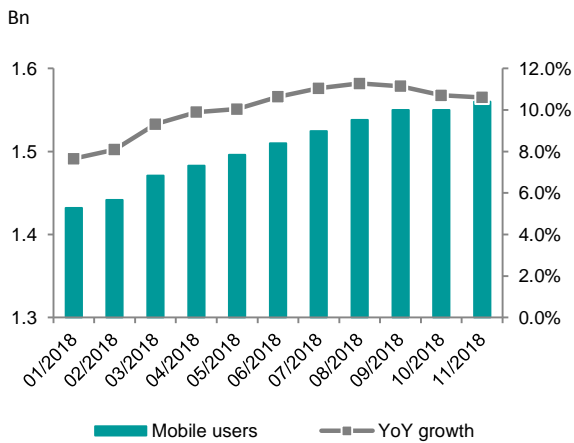
Source(s): MIIT



MIIT has targeted a 4G network coverage rate at 98% by 2020. Aggregate fixed line business revenue in China grew 9.0% YoY in 11M18, accounting for 29.7% of overall telecom revenue in China. In 11M18, new wireline users exceeded 56.7 mn, while aggregate fixed-line users reached 405mn in Nov 2018. FTTH users reached 365mn in Nov 2018, accounting for 90.1% of total fixed-line users. Wireline broadband users with 100M transmission speed or above accounted for over 67.5% of total fixed-line users as of Nov 2018.

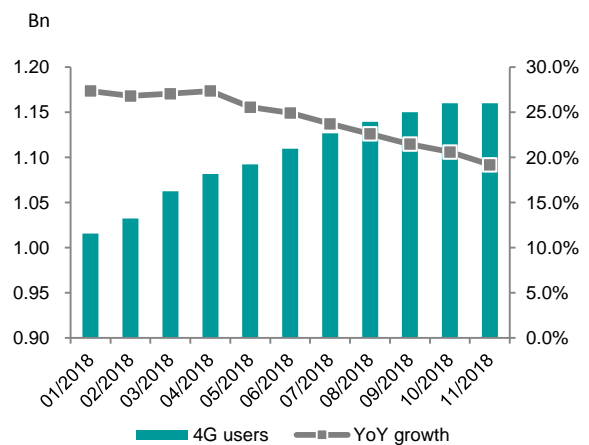
China Mobile surpassed China Telecom as China's largest wireline broadband service market provider in Oct 2018. The former recorded a strong growth in wireline broadband market thanks to its lower service tariff, network coverage improvement, and the launch of bundled service packages. Telecom operators have launched different types of value-added services, as well as IPTV and video contents to improve user experience and boost adoption. IPTV users reached 153mn in Nov 2018 with a 31.1mn addition in 11M18, driven by the launch of quality video contents from various platforms and channels.

Exhibit 3: China's overall mobile users



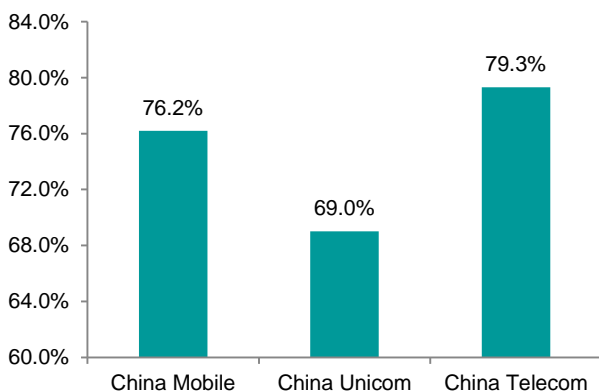
Source(s): MIIT

Exhibit 4: China's 4G users and YoY growth



Source(s): MIIT

Exhibit 5: China's 4G user penetration in Nov 2018



Source(s): Companies, ABCI Securities



Company Overview

China Telecom (or “the Group”) offers telecom services mobile, wireline and other value-added services in China.

The Group has over 1.2mn 4G base stations covering 98% of the population in China, with a utilization rate of 36%. Its large scale, which enables the collection of big data, facilitates development of its cloud computing business. As of Nov 2018, the Group’s mobile billing subscribers reached 299.8 mn, with 237.8mn, or 79.3%, as 4G users. China Telecom completed the frequency reform of 800MHz network for 4G usage in 2017 to leverage its advantage in low-frequency transmission. The low-frequency network can help provide better network access in rural regions and lower-tier cities. By deploying the 800MHz FDD 4G networks, the Group has become the pioneer in NB-IoT network with the widest coverage and largest scale in the world. China Telecom launches the six-mode handsets to improve user adoption and acquire new customers.

Exhibit 6: China Telecom’s milestones

Date	Events
May 2017	Established NB-IoT network in over 31 provinces
July 2017	Launched 800MHz frequency reform
Dec 2017	Acquired satellite business from parent company
Dec 2017	Commenced 5G network trials in six cities including Xiongan, Shenzhen, Shanghai, Suzhou, Chengdu and Lanzhou
June 2018	Formed a finance company with China Communications Service Corporation Limited (552 HK)
Nov 2018	Obtained the operating license in the Philippines with other investors to develop the telecom services
Dec 2018	MIIT allowed the transfer of mobile phone number among telecom operators in some provinces.
Dec 2018	Telecom operators obtained their 5G frequency spectrum for testing until June 2020
Dec 2018	China Broadcasting and Telecom Company obtained the 5G operating license

Source(s): Companies, ABCI Securities

Overtaken by China Mobile as China’s largest wireline provider in Oct 2018, the Group has lost its advantage in the wireline business. Its broadband network covers over 170 cities. Like other telecom operators, China Telecom launches IPTV services and promotes bundled services to boost user adoption. The Group is improving FTTH (fiber to the home) coverage in China for customers preferring high-definition video contents. It has also introduced various value-added services, including 4K HD TV and Smart Family applications, to compete in the high-end market segment. China Mobile has implemented aggressive pricing strategies to improve market share. To explore new opportunities, China Telecom has been developing the emerging businesses, which provide services relating to the Internet of Things (IoT), cloud computing, big data, etc.

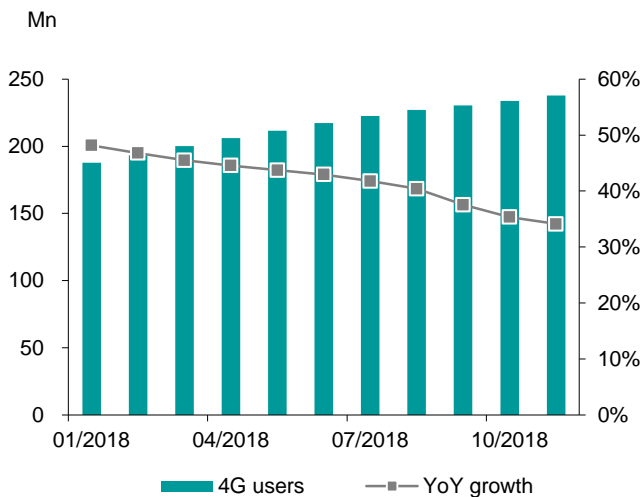


Mobile Business

China Telecom has expanded its 4G network coverage through the 800MHz frequency re-farm and the launch of multi-mode handsets. The Group's mobile users reached 299.8mn in Nov 2018, up 21.0% YoY; 4G user addition was 55.8mn in 11M18, up 0.6% YoY; aggregate 4G users reached 237.8 mn, up 34.1% YoY, accounting for 79.3% of total mobile users, thanks to bundled service packages and unlimited data plans with improved network coverage. We estimate the Group's 4G users to increase by 60mn in FY18E. The Group has the highest 4G user penetration rate (with 79.3%) compared to its rivalries (China Mobile's 76.2% and China Unicom's 69.0%) in China, although the high penetration also implies that further upside from user migration to 4G platform will be limited in 2019.

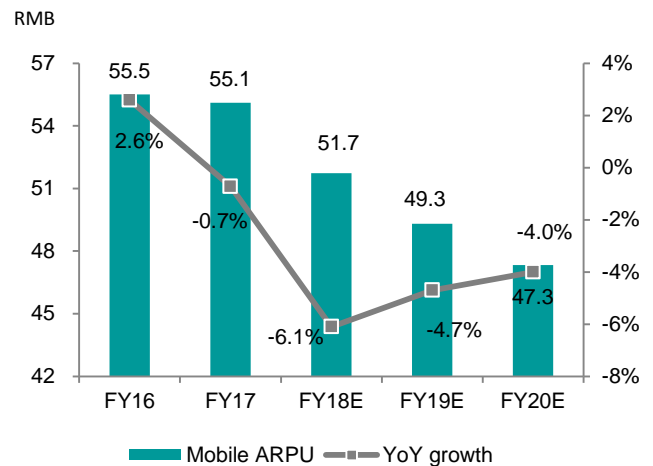
Handset sales revenue dropped 26% YoY to RMB15.4bn in 9M18 due to increasing popularity of six-mode handsets and the shift of distribution channel to third-party platforms. We estimate China Telecom's mobile users to grow by 20.0%/ 13.3%/ 8.2% to 300 mn/ 340 mn/ 368 mn in FY18E-20E.

Exhibit 7: China Telecom's 4G users and growth



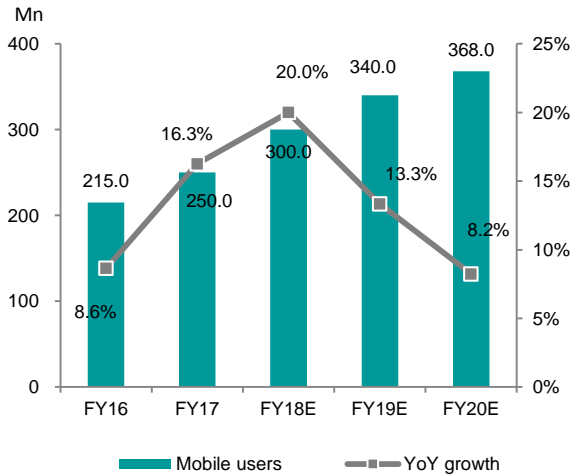
Source(s): Company

Exhibit 8: China Telecom's ARPU and growth

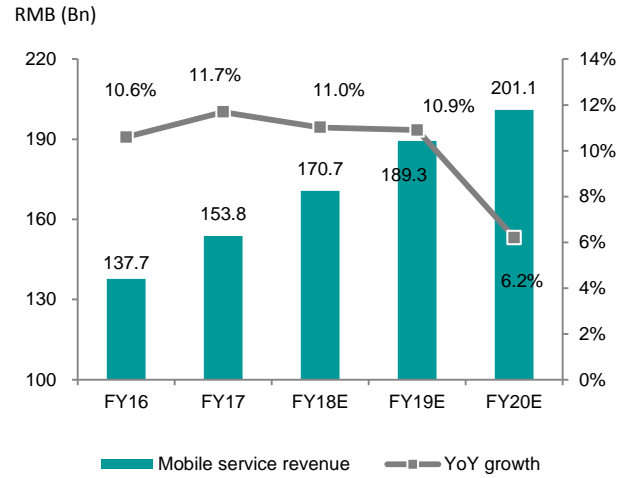


Source(s): Company, ABCI Securities estimates

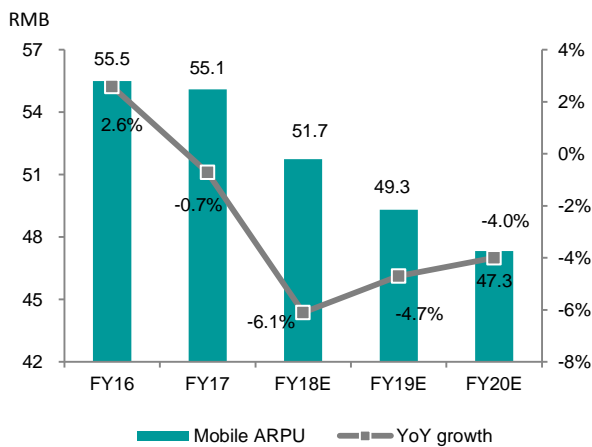
As of June 2018, the Group has established over 1.2 mn 4G base stations with 98% population coverage and 36% utilization rate. Affected by the cancellation of domestic data roaming tariff in July 2018 and market competition, the Group's mobile ARPU dropped 8.0% YoY to RMB 51.5 in 9M18. After canceling the domestic data roaming fee in July 2018, the Group trimmed the data service fee by 30% in FY18. The Group's average handset data usage surged 246.9% YoY to 3.4GB in 9M18, thanks to lower handset data tariff and users preference for mobile data over voice services. While the cut in data service fee would affect mobile ARPU, average handset data usage is expected to rise. We estimate the Group's mobile ARPU to fall by 6.1%/ 4.7%/ 4.0% to RMB 51.7/ RMB 49.3/ RMB 47.3 in FY18E-20E. The Group's mobile service revenue is projected to grow by 11.0%/ 10.9%/ 6.2% in FY18E-20E.

Exhibit 9: China Telecom's mobile user forecasts and growth


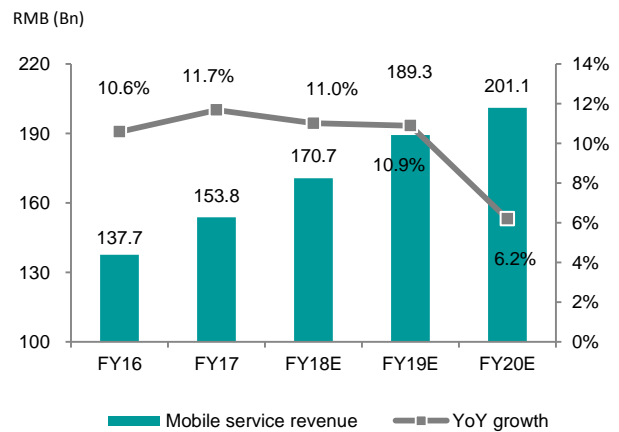
Source(s): Company, ABCI Securities estimates

Exhibit 10: China Telecom's mobile service revenue and growth forecasts


Source(s): Company, ABCI Securities estimates

Exhibit 11: China Telecom's mobile ARPU and growth forecasts


Source(s): Company, ABCI Securities estimates

Exhibit 12: China Telecom's mobile service revenue and growth forecasts


Source(s): Company, ABCI Securities estimates



Wireline business

After launching a variety of segment packages and bundled services, China Telecom added 11.7 mn of new wireline broadband users in 11M18, up 20.1% YoY; its overall wireline broadband users reached 145.2mn, up 9.3% YoY. China Mobile, with aggressive product pricing and scale development, is expected to pose a stronger threat to China Telecom in the area of wireline business. We project China Telecom's wireline broadband users to grow by 9.5%/ 8.0%/ 7.1% in FY18E-20E.

Wireline ARPU fell 10.2% YoY to RMB 45.8 in 9M18. The significant decline was attributable to price war, fierce market competition, and China Mobile's aggressive pricing strategy. Telecom operators trimmed their wireline ARPU in a bid to gain market share. We estimate the Group's wireline ARPU to be further pressured in FY19 due to market competition and scale expansion; wireline broadband ARPU would drop by 9.2%/ 7.1%/ 3.6% in FY18E-20E.

China Telecom offers high-speed fiber broadband network with different transmission speeds (10 Mbps, 20 Mbps, 30 Mbps, 50 Mbps, 100 Mbps and 200 Mbps). The Group also provides a multitude of value-added services (such as IPTV) with set-top box rental for customers.

Exhibit 13: China Telecom's wireline broadband service packages

Speed	Fee (RMB)
30Mbps	650/ 6 months
	1,200 /1 year
	2,000/ 2 years
60 Mbps	750/ 6 months
	1,400/ 1 Year
200 Mbps	1900/ 1 Year
	3600/ 2 Years

Source(s): Company, ABCI Securities estimates

Exhibit 14: China Telecom's bundled service packages

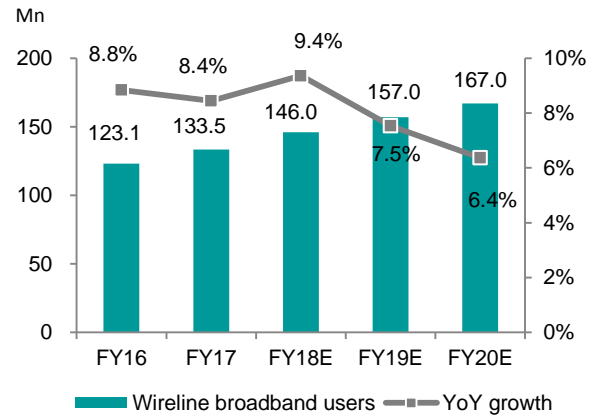
Package	4G mobile plan	Broadband	Fee (RMB)
Enjoy Family - 169	Domestic call: 700 mins/ month Domestic data: 2 GB/ month	100 Mbps	169 / month
Enjoy Family - 199	Domestic call: 700 mins/ month Domestic data: 3 GB/ month	200 Mbps	199 / month
Enjoy Family - 299	Domestic call: 1500 mins/ month Domestic data: 4 GB/ month	200 Mbps	299 / Month

Source(s): Company, ABCI Securities estimates

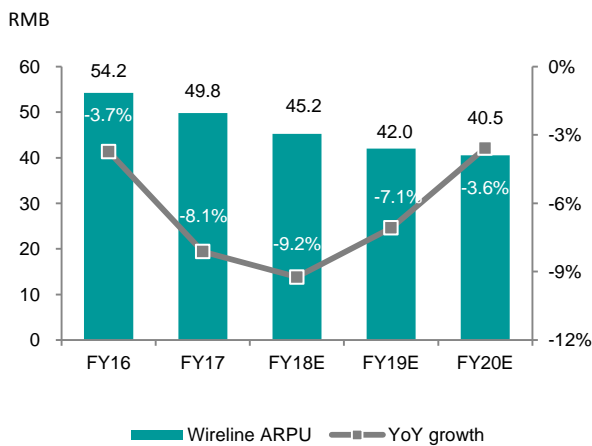
China Telecom also is developing emerging business (Intelligent Applications Ecospheres), which includes services such as Smart Family, DICT, IoT and internet finance. Revenue contribution from the Intelligent Application Ecospheres has risen sharply in recent quarters, driven by strong demand for cloud computing, IPTV services and IoT. Revenue contribution went up from 14.7% of total wireline service revenue in 1H17 to 17.5% in 1H18. Based on our ARPU assumptions, user growth and emerging businesses contributions, we project the Group's wireline service revenue to grow 4.0%/ 3.3%/ 2.2% in FY18E-20E.

Exhibit 15: China Telecom's monthly wireline broadband user additions

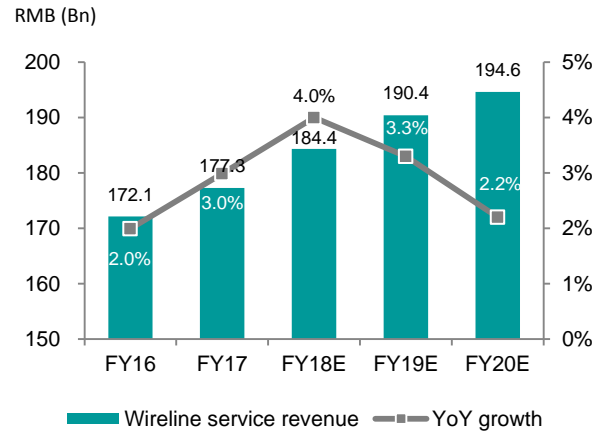

Source(s): Company

Exhibit 16: China Telecom's aggregate wireline broadband user and growth forecasts


Source(s): Company, ABCI Securities estimates

Exhibit 17: China Telecom's wireline ARPU and growth forecasts


Source(s): Company, ABCI Securities estimates

Exhibit 18: China Telecom's wireline service revenue and growth forecasts


Source(s): Company, ABCI Securities estimates

**Exhibit 19: China Telecom's key operational metrics assumptions:**

(mn)	FY18E	FY19E	FY20E
Mobile user additions	50.0	40.0	28.0
YoY	43.0%	-20.0%	-30.0%
Aggregate mobile users	300.0	339.0	366.8
YoY	20.0%	13.0%	8.2%
Mobile ARPU (RMB)	51.7	49.3	47.3
YoY	-6.1%	-4.7%	-4.0%
Wireline broadband user additions	12.5	11.0	10.0
YoY	20.2%	-12.0%	-9.1%
Aggregate broadband users	146.0	157.0	167.0
YoY	9.4%	7.5%	6.4%
Wireline ARPU (RMB)	45.2	42.0	40.5
YoY	-9.2%	-7.1%	-3.6%

Source(s): Company, ABCI Securities estimates

Financial outlook

China Telecom generated revenue from several segments including voice, internet, information and application services, telecom network resources, lease of network equipment, and others; these segments contributed 16.8%/ 47.1%/ 19.9%/ 5.2%/ 10.9% to total revenue in FY17.

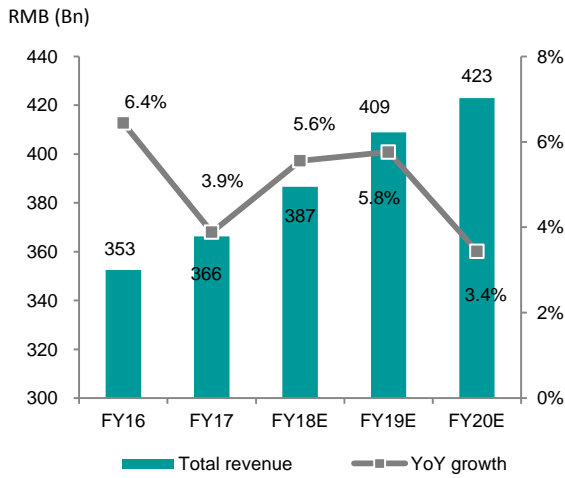
The Group's voice revenue dropped 12.1% YoY in FY17 due to substitution effect from OTT applications. On the contrary, internet revenue rose 14.7%, driven by the proliferation of mobile internet applications and lower data service fee. Information and application services revenue grew 9.2% YoY in FY17, supported by demand from IDC, cloud, Big Data and e-Surfing HD services. We forecast the Group's total revenue to grow 5.6%/ 5.8%/ 3.4% in FY18E-20E, based on our assumptions for user growth and ARPU.

Exhibit 20: 3Q18 results analysis:

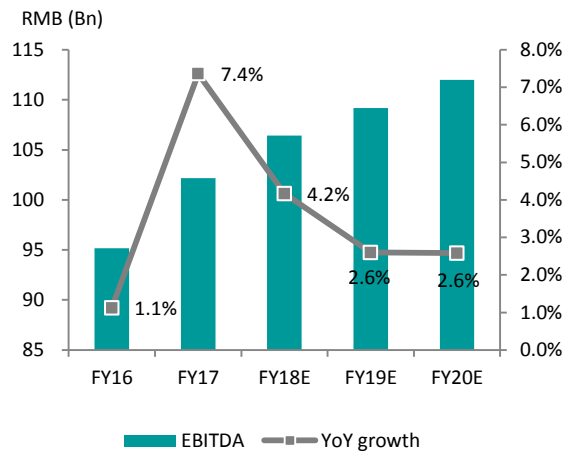
(RMB bn)	3Q18	3Q17	YoY
Total revenue	91.9	90.7	1.4%
Overall service revenue	87.3	84.0	4.0%
D&A expenses	(18.8)	(17.8)	5.3%
Network operations & support expenses	(27.6)	(24.9)	10.9%
Selling, general & administrative expenses	(14.1)	(13.6)	3.6%
Personnel expenses	(17.1)	(16.2)	5.9%
Other operating expenses	(8.1)	(9.5)	(14.7%)
Operating profit	6.2	8.6	(28.1%)
Net finance costs	(0.6)	(0.8)	(26.9%)
Investment income & share of profits of associates	1.4	0.2	486.3%
Equity shareholders of the Company	5.5	6.0	(8.5%)
EBITDA	25.0	26.4	(5.4%)
Net profit margin	5.9%	6.6%	(0.6ppt)
EBITDA / service revenue margin	28.6%	31.4%	(2.9ppt)

Source(s): Company, ABCI Securities estimates

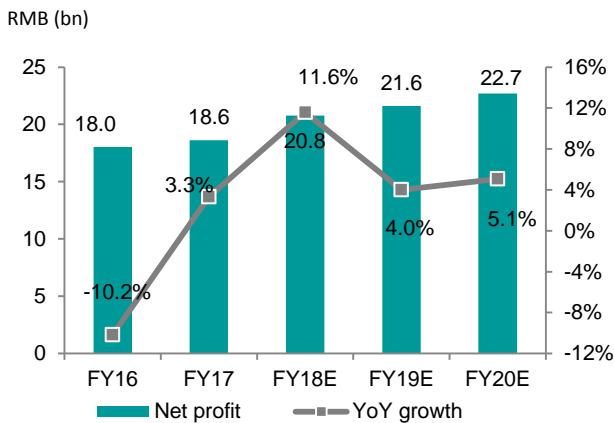
The Group held a 27.9% stake in China Tower (788 HK). Excluding gains from IPO of China Tower in 3Q18, net profit of China Telecom would decline by 17.0% YoY in 3Q18. The Group's net profit margin and EBITDA / service revenue margin fell 0.6 ppt and 0.9 ppt to 5.9% and 28.6% in 3Q18, respectively, due to tower leasing expenses and slower growth in service revenue. The Group's service revenue is expected to be affected by declining mobile ARPU in 2019 and China Mobile's expansion. We forecast EBITDA / service revenue margin in FY18E-20E to be 30.0%/ 28.8%/ 28.3%, down 0.9 ppt/ 1.2 ppt/ 0.4 ppt YoY, due to the rise in tower leasing expenses. Net profit margin is expected to be 5.4%/ 5.3%/ 5.4% in FY18E-20E.

Exhibit 21: China Telecom's total revenue and growth forecasts


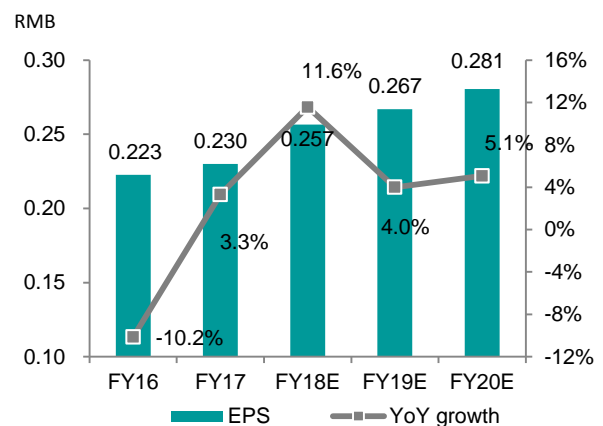
Source(s): Company, ABCI Securities estimates

Exhibit 22: China Telecom's EBITDA and growth forecasts


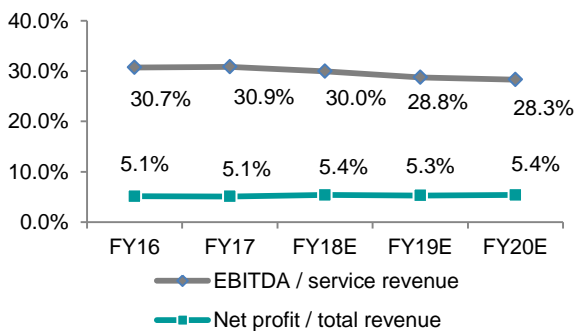
Source(s): company, ABCI Securities estimates

Exhibit 23: China Telecom's net profit and growth forecasts


Source(s): Company, ABCI Securities estimates

Exhibit 24: China Telecom's EPS and growth forecasts


Source(s): company, ABCI Securities estimates

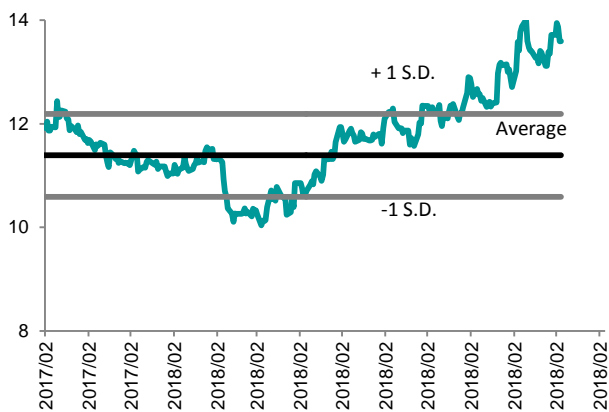
Exhibit 25: Profit margin forecasts


Source(s): Company, ABCI Securities estimates

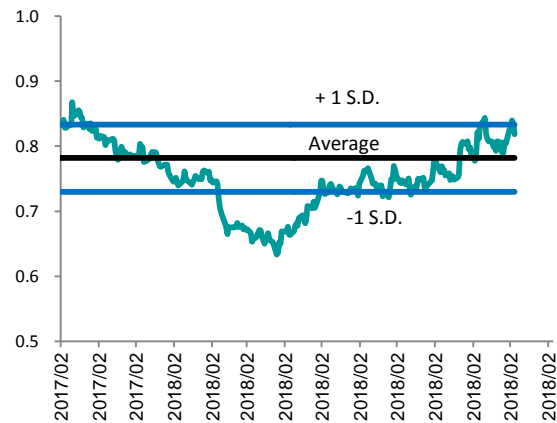
Recommend HOLD with TP at HK\$4.00

We derive the Group's valuation of RMB 288.1 bn based on an 8.4% discount to the DCF model analysis (WACC: 13.0%; D/ (D+E) =30.8%; perpetuity growth rate: 2%).

We initiate with **HOLD** on China telecom and set the TP at HK\$ 4.00, representing 13.3x/ 12.7x FY19E/ FY20E P/E, and 2.6x/ 2.6x FY19E/ FY20E EV/EBITDA. China Telecom has lost its advantage in the wireline broadband business and is expected to be impacted by slower ARPU and user growth. The Group has the highest 4G user penetration rate (>70%) among telecom operators in China, and upside from user migration from 2G/3G networks will therefore be limited.

Exhibit 26: China Telecom's P/E graph


Source(s): Company, ABCI Securities estimates

Exhibit 27: China Telecom's P/B Graph


Source(s): company, ABCI Securities estimates

Exhibit 28: 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	8.50	105.2	26.3	16.7	12.3	0.7	0.7	0.7	0.6	4.2	2.2	2.2
China Mobile	941 HK	80.00	12.4	12.3	12.2	11.8	1.4	1.4	1.3	1.2	10.7	7.0	3.2
China Telecom	728 HK	4.06	15.3	14.0	12.9	11.8	0.8	0.8	0.8	0.8	6.4	3.5	3.0
China Tower	788 HK	1.47	n.a.	77.4	40.8	27.2	1.2	1.2	1.0	0.9	3.0	1.4	6.6
Simple Average			44.3	32.5	20.7	15.8	1.0	1.0	0.9	0.9	6.1	3.5	3.8
Weighted Average			23.5	20.7	15.8	13.4	1.2	1.2	1.1	1.1	8.7	5.5	3.4
US Market													
AT&T	T US	30.87	6.5	8.8	8.6	8.5	1.3	1.3	1.2	1.2	15.5	4.1	6.3
Verizon	VZ US	58.02	7.9	12.4	12.3	12.2	5.5	4.5	3.7	3.2	32.5	7.6	7.0
Sprint	S US	6.37	n.a.	3.4	167.6	113.8	1.3	1.0	0.9	0.9	0.8	0.1	5.1
T-Mobile	TMUS US	69.00	12.8	20.6	17.5	14.7	2.6	2.3	2.0	1.9	12.4	5.9	6.3
Simple Average			9.0	11.3	51.5	37.3	2.7	2.3	2.0	1.8	15.3	4.4	6.2
Weighted Average			7.8	11.4	18.7	15.7	3.3	2.8	2.4	2.1	21.9	5.6	6.6

*Based on closing price on Jan 14, 2019

Source(s): Bloomberg



Risk factors

Receiving less favorable 5G frequency spectrum

The 5G frequency spectrum has not been released and specified at the present stage, and there is a chance that China Unicom may receive less favorable frequency spectrum than peers from the authority. If such is the case, the Group may need to allocate more CAPEX and resources to develop the 5G network. To be conservative, we predict CAPEX to increase by 7.0%/ 9.3% in FY19E/ FY20E in our forecast model.

Losing wireline broadband market share to China Mobile

China Telecom is losing market share in the wireline broadband market to China Mobile, who initiated a set of aggressive pricing schemes. China Telecom added 11.1 mn new wireline broadband users in 10M18, much less than China Mobile's 38.4mn. Market share of China Telecom may further be affected if China Mobile maintains its strong pace of user growth in 2019.

High 4G user penetration rate

China Telecom has the highest 4G user penetration rate at 78.7%, compared to China Mobile's 76.2% and China Unicom's 69.0%, signaling limited upside from migration to 4G platform from lower-end ones.

2H18 core net profit is expected to decline

China Telecom's core net profit (excluding non-recurrent gain) is estimated to show a YoY decline in 2H18 due to the cancellation of mobile data roaming tariff in July 2018 and reduced handset service tariff (by 30%) in 2018. We estimate its net profit to decline by 14% YoY in 2H18E.



Financial Statements

Consolidated income statement (2016A-2020E)

FY Ended Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Service revenue	309,812	331,044	355,072	379,758	395,688
Sales of products and others	42,722	35,185	31,508	29,103	27,236
Total revenue	352,534	366,229	386,580	408,862	422,924
D&A	(67,942)	(74,951)	(78,116)	(78,990)	(81,116)
Network operation & support	(94,156)	(103,969)	(109,362)	(115,826)	(120,289)
Selling G&A	(56,426)	(58,434)	(62,493)	(69,915)	(72,320)
Personnel expenses	(54,504)	(56,043)	(59,652)	(63,420)	(66,476)
Other operating expenses	(52,286)	(45,612)	(48,645)	(50,508)	(51,835)
Total operating expenses	(325,314)	(339,009)	(358,268)	(378,659)	(392,036)
Operating Profits	27,220	27,220	28,313	30,203	30,888
Investment income	40	147	169	191	208
Share of profit from associates	91	877	2,300	890	979
Net finance costs					
Profit before tax	24,116	24,953	27,842	28,959	30,428
Tax	(5,993)	(6,192)	(6,909)	(7,186)	(7,551)
Profit after tax	18,123	18,761	20,933	21,773	22,877
Minority interests	(105)	(144)	(161)	(167)	(176)
Shareholders' net profit	18,018	18,617	20,773	21,606	22,702
EBITDA	95,161	102,169	106,425	109,188	112,004
EPS (RMB)	0.223	0.230	0.257	0.267	0.281
DPS (RMB)	0.093	0.093	0.093	0.093	0.093
Payout ratio	41.5%	40.3%	40.0%	40.0%	40.0%

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2016A-2020E)

As of Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
PPE	389,671	406,257	396,093	408,879	409,553
CIP	80,386	73,106	70,347	60,441	59,132
Land lease prepayments	22,955	22,262	20,036	18,032	16,229
Goodwill	29,923	29,920	29,920	29,921	29,922
Intangible costs	11,244	12,391	13,506	14,317	15,032
Interest in associates	34,572	35,726	48,613	45,998	49,390
Other non-current assets	9,673	9,982	14,459	15,842	17,302
Total non-current assets	578,424	589,644	592,973	593,430	596,560
Cash & cash equivalents	24,617	19,410	55,137	91,235	126,779
Deposits in bank	3,331	3,100	3,007	2,917	2,829
Accounts receivables	21,465	22,096	22,538	22,989	23,448
Others	24,721	26,944	28,584	29,914	31,804
Total current assets	74,134	71,550	109,266	147,054	184,860
Total assets	652,558	661,194	702,240	740,485	781,421
Short term debt	40,780	54,558	61,651	67,816	73,241
Accounts payable	122,493	119,321	118,128	122,853	128,996
Accrued expenses and other payable	91,173	98,695	103,630	108,811	114,252
Others	64,687	2,834	2,314	2,333	2,363
Total current liabilities	319,133	275,408	285,722	301,812	318,851
Long term debt and payable	9,370	48,596	55,885	60,915	66,397
Deferred revenue	4,770	8,010	9,392	10,829	12,339
Others	2,937	2,483	11,449	13,083	14,810
Total non-current liabilities	17,077	59,089	76,727	84,827	93,547
Total liabilities	336,210	334,497	362,448	386,640	412,397
Equity attributable to shareholders	315,377	325,867	339,072	353,139	368,303
Non-controlling interests	971	830	720	705	720
Total equity	316,348	326,697	339,791	353,845	369,023

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	99,545	106,236	108,591	111,296	114,050
Change in working capital	9,530	(1,897)	1,691	8,127	9,264
Others	(3,314)	(3,211)	(3,319)	(2,684)	(1,986)
Tax	(4,626)	(4,626)	(4,626)	(4,626)	(4,626)
Operating cash flow	101,135	96,502	102,338	112,113	116,702
CAPEX	(96,678)	(87,334)	(75,000)	(81,750)	(86,655)
Others	(2,365)	2,071	1,896	2,349	2,361
Investing cash flow	(99,043)	(85,263)	(73,104)	(79,401)	(84,294)
Dividend paid	(6,489)	(7,530)	(7,568)	(7,539)	(7,539)
Others	(3,066)	(8,617)	14,288	11,097	10,806
Financing cash flow	(9,555)	(16,147)	6,720	3,558	3,267
Net increase in cash & cash equivalents	(7,463)	(4,908)	35,954	36,270	35,675
Cash & cash equivalents at beginning of year	31,869	24,617	19,410	55,137	91,235
Effect of changes in foreign exchange rate	211	(299)	(227)	(173)	(131)
Cash & cash equivalents at end of year	24,617	19,410	55,137	91,235	126,779
Financial Ratios:					
EBITDA margin (%)	30.7	30.9	30.0	28.8	28.3
Operating margin (%)	8.8	8.2	8.0	8.0	7.8
Net profit margin (%)	5.1	5.1	5.4	5.3	5.4
ROA (%)	2.8	2.8	3.0	3.0	3.0
ROE (%)	5.8	5.8	6.2	6.2	6.3
YoY Growth:					
Service revenue (%)	5.6	6.9	7.3	7.0	4.2
EBITDA (%)	1.1	7.4	4.2	2.6	2.6
Net profit (%)	(10.2)	3.3	11.6	4.0	5.1

Source(s): Company, ABCI Securities estimates



Disclosures

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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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