

29 April 2015

Hold
Downgrade

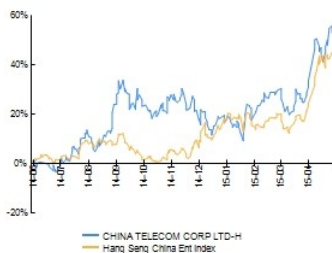
1 季报点评：费用率提升，下调至持有

中国电信 (728:HK)

Market Data: Apr,28

Closing Price (HK\$)	5.91
Price Target (HK\$)	5.9
HSCEI	14,715
HSCCI	5,591
52-week High/Low (HK\$)	6.17/3.69
Market Cap (USD Mn)	62,874
Market Cap (HK\$ Mn)	487,213
Shares Outstanding (Mn)	80,932
Exchange Rate (RMB-HK\$)	1.27

Price Performance Chart:



Source: Bloomberg

Analyst

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"CHINA TELECOM (728.HK) -Signal clarity" Mar 19,2015

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Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (RMB million)	321,584.00	324,394.00	330,324.63	343,882.73	357,951.03
YOY (%)	13.60	0.87	1.83	4.10	4.09
Net income (RMB million)	17,666.00	17,759.00	18,919.71	21,905.77	24,832.00
YOY (%)	17.46	0.53	6.54	15.78	13.36
EPS (RMB)	0.22	0.22	0.23	0.27	0.31
Diluted EPS (RMB)	0.22	0.22	0.23	0.27	0.31
ROE (%)	6.34	6.19	5.25	5.91	6.48
Debt/asset (%)	48.70	48.31	44.23	46.61	47.22
Dividend Yield (%)	1.47	1.72	1.74	1.85	2.15
P/E (x)	21.47	21.30	20.03	17.24	15.21
P/B (x)	1.35	1.31	1.04	1.02	0.98
EV/EBITDA (x)	4.87	4.53	4.43	4.21	3.91

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.

投资要点：

- **15 年 1 季度业绩公布。** 中国电信发布 15 年 1 季度年业绩，经营收入合计为人民币 815 亿元（同比下降 2.1%），其中通信服务收入为人民币 727 亿元（同比下降 0.4%，环比上升 10%，符合市场预期），主要原因是营改增和营销方式转变的影响。15 年 1 季度净利润为人民币 50.5 亿元（同比下降 9%），略低于市场预期，主要因为网络相关刚性费用上升。
- **年初至今股价表现良好。** 从年初至 4 月 28 日，中国电信股价上涨 28%，相比中国移动 26% 上涨，中国联通 45% 上涨和恒生国企指数 21% 的上涨。跑赢指数的表现主要是市场认可中国电信的 4G 战略和受益于铁塔公司，而不是市场一部分投资者预期联通和电信合并可能性增加的因素。
- **4G 新增用户数触底反弹。** 15 年 1 季度净增移动用户数 320 万，我们预计全年净增 1500 万。1 季度净增 3G/4G 用户数 620 万，我们预计全年净增 3000 万。1 季度净增 4G 用户数 970 万，我们预计全年净增 6000 万。截止到 15 年 3 月底，3G/4G 用户数累计达到 1.25 亿（占有所有移动用户数 66.1%），其中 4G 用户数约为 1700 万。我们相信到今年年底，中国电信借助频段优势（城市 1800MHz 和农村 800MHz）和铁塔公司共享共建支持，可以达到接近中国移动的 4G 覆盖质量。再加上六模芯片和终端的不断丰富，我们预计电信今年 4G 迁移可能会类似去年中移动 4G 迁移态势，全年或超预期。
- **Arpu 预计企稳，全年回升。** 15 年 1 季度移动 Arpu 为人民币 53.5 元（14 年全年 54 元），我们预测 15 年全年移动 Arpu 人民币 54.8 元。15 年 1 季度 3G/4G Arpu 为人民币 66 元（14 年全年 67.5 元）。15 年 1 季度 4G Arpu 为人民币 88 元（15 年全年 90 元）。
- **费用端存在压力。** 受益于营销模式转变，15 年 1 季度销售、一般及管理费用下降 35%，我们预计全年同比下降 14%。15 年 1 季度折旧及摊销费用上升 2%，我们预计全年上升 5%。15 年 1 季度网络运营及支撑成本上升 28% 主要因为 3G/4G 协同网络优化及增加经营租赁，我们预计全年同比上升 20%。15 年 1 季度人工成本同比上升 17%，主要考虑到一线员工薪酬提升，我们预计全年同比上升 7.5%。
- **下调至持有评级。** 考虑到费用端的压力，我们将 15 年的 EPS 从人民币 0.27 元下调至 0.23 元（同比上升 7%），16 年的 EPS 从人民币 0.34 元下调至 0.27 元（同比上升 16%），17 年的 EPS 从人民币 0.42 元下调至 0.31 元（同比上升 19%）。考虑到港股市场情绪和未来资金流入，我们将目标价从港币 5.4 元上调至港币 5.9 元。鉴于最近涨幅较大，昨日收盘价港币 5.91 元相较目标价无上升空间，我们从增持评级下调至持有评级。

1Q15 results. China Telecom reported 1Q15 revenue of Rmb81.5bn (-2.1% YoY). Of this, service revenue reached Rmb72.7bn (-0.4% YoY, +10% QoQ, in line with consensus), chiefly due to the impact of the industry's shift to a VAT system in mid-2014 and the company's shift in its marketing system from subsidising handsets to offering tariff subsidies. Net profit reached Rmb5.0bn (-9.0% YoY, slightly below consensus) primarily on larger-than-expected network-related expenses.

Solid stock price performance. China Telecom stock has gained 28% YTD, vs 26% for China Mobile (941: HK), 45% for China Unicom (762: HK) and 21% for the Hang Seng China Enterprises Index (HSCEI). We attribute this performance to market recognition of the company's 4G strategy and benefits from the tower sharing JV between the three network carriers, rather than on rumours of a telecom industry consolidation.

Bottomed-up net adds 4G subs. The company added a net of 3.2m mobile subscribers in 1Q15 (we forecast 15m for the full year 15E). Net additional mobile 3G and 4G subscribers was 6.2m in 1Q15 (we forecast 30m in 15E). The company added 9.7m 4G subscribers in 1Q15; we forecast 60m in 15E. By end-March 2015, 3G and 4G subscribers reached 125m (66.1% of total mobile subscribers), of which 4G subscriptions accounted for c.17m. We believe China Telecom will achieve comparable network coverage with China Mobile in both rural and urban areas by end-15E, benefiting from its spectrum advantage (1800MHz in urban areas, 800MHz in rural regions) and due to the tower sharing agreement with the other carriers. With the release of six-mode chipsets and handsets, we expect 4G migration in 15E may exceed expectations.

Arpu stabilises. The company's mobile average revenue per user (Arpu) reached Rmb53.5 in 1Q15, vs Rmb54.0 14E, and we forecast full year 15E Arpu of Rmb54.8. Arpu among 3G/4G users was Rmb66, vs Rmb67.5 in 14E. 4G Arpu was Rmb88 in 1Q15, vs Rmb90 in 14E.

Mixed expenses performance. Following the company's shift in marketing from handset to tariff subsidies, selling, general and administrative expenses fell 35% YoY in 1Q15; we forecast a full-year decline in SG&A costs of 14% YoY. Depreciation & amortization increased 2% YoY in 1Q15; we forecast +5% YoY in 15E. Network, operation and support expense increased 28% YoY mainly due to 3G/4G network operation and maintenance and increasing operating rental; we expect 20% YoY growth in 15E. Personnel expenses rose 17% YoY with an increase in performance-linked compensation for frontline staff; we forecast full-year growth of 7.5% YoY.

Downgrade to Hold. Considering the larger-than-expected expenses, we revise down our EPS forecast from Rmb0.27 to Rmb0.23 in 15E (+7% YoY), from Rmb0.34 to Rmb0.27 in 16E (+16% YoY) and from Rmb0.42 to Rmb0.31 in 17E (+19% YoY). However, with market sentiment still strong Hong Kong and the likelihood of continued fund inflows from China, we revise up our target price from HK\$5.4 to HK\$5.9, representing 20x 15E PE, 17x 16E PE and 15x 17E PE. With 0% upside, we downgrade our rating from Outperform to Hold.

Appendix

Table 1: Consolidated Income Statement

million RMB	2013	2014	2015E	2016E	2017E
Revenue	321584.00	324394.00	330324.63	343882.73	357951.03
CostofSales	154585.00	166822.00	176038.14	184420.04	194503.81
GrossProfit	166999.00	157572.00	154286.49	159462.69	163447.22
OtherIncome	773.00	40.00	50.00	50.00	50.00
SGAExpenses	139531.00	129064.00	123626.87	124821.66	124904.55
EBITDA	90929.56	93272.12	98871.44	107015.63	114702.27
EBIT	27468.00	28508.00	30659.62	34641.03	38542.67
FinanceCosts	5153.00	5291.00	5500.00	5500.00	5500.00
ProfitBeforeTax	23088.00	23257.00	25209.62	29191.03	33092.67
IncomeTaxExpense	5422.00	5498.00	6289.90	7285.26	8260.67
MinorityInterests	121.00	79.00	120.00	65.72	74.50
ProfitfortheYear	17666.00	17759.00	18919.71	21905.77	24832.00

Table 2: Consolidated Cash Flow Statement

million RMB	2013	2014	2015E	2016E	2017E
ProfitBeforeTaxation	23088.00	23257.00	25209.62	29191.03	33092.67
DeprAndAmortisation	63461.56	64764.12	68211.82	72374.60	76159.60
FinanceCost	5153.00	5291.00	5500.00	5500.00	5500.00
LossesFromInvestments	0.00	0.00	0.00	0.00	0.00
ChangeInWorkingCapital	(25892.00)	6833.00	6205.86	6876.25	8421.92
Others	(1731.48)	8823.81	206.06	(185.75)	(209.43)
CFFFromOperatingActivities	88351.00	95933.93	91903.36	100326.14	109534.77
CAPEX	79292.75	80902.49	110868.08	104501.37	94640.32
OtherCFFFromInvestingActivities	(1023.50)	(4019.46)	(7301.00)	(3430.00)	(5531.00)
CFFFromInvestingActivities	(107948.00)	(79686.95)	(112639.08)	(102401.37)	(94641.32)
EquityFinancing	0.00	0.00	0.00	0.00	0.00
NetChangeInLiabilities	4490.00	12665.00	44750.00	29750.00	9750.00
DividendAndInterstPaid	(5522.25)	(6491.65)	(6541.60)	(6979.29)	(8080.82)
OtherCFFFromFinancingActivities	1353.74	(3523.77)	(2055.27)	(4132.28)	(4190.28)
CFFFromFinancingActivities	5637.00	2649.58	36153.13	18638.42	(2521.11)
NetCashFlow	(13960.00)	18896.56	15417.41	16563.19	12372.34
FCFF	138908.31	175509.61	209655.48	211108.00	209503.85
FCFE	138245.31	182883.61	248905.48	235358.00	213753.85

Table 3: Consolidated Balance Sheet

million RMB	2013	2014	2015E	2016E	2017E
CurrentAssets	52783.00	59543.00	93393.55	111270.01	124918.36
BankBalancesAndCash	16070.00	20436.00	50383.97	66947.16	79320.49
TradeAndOtherReceivables	20022.00	21562.00	22021.64	22925.52	23863.40
Inventories	6523.00	4225.00	5867.94	6147.33	6483.46
OtherCurrentAssets	7881.00	11941.00	12000.00	12000.00	12000.00

LongTermInvestment	2132.00	2050.00	2200.00	2470.00	2470.00
PPE	418498.00	426057.00	480087.83	512411.53	531271.09
IntangibleAndOtherAssets	37962.00	37909.88	37892.84	37695.91	37317.07
TotalAssets	543239.00	561274.00	646274.22	694347.45	726477.52
CurrentLiabilities	200098.00	206325.00	202727.44	230686.96	240384.90
Borrowings	16735.00	0.00	30000.00	50000.00	50000.00
TradeAndOtherPayables	150765.00	160900.00	169267.44	177326.96	187022.90
OtherCurrentLiabilities	1203.00	2150.00	2870.00	2750.00	2751.00
LongTermLiabilities	64477.00	65448.00	80388.00	90168.00	99920.00
TotalLiabilities	264575.00	271166.00	285835.44	323604.96	343055.90
MinorityInterests	923.00	925.00	981.76	1047.48	1121.97
ShareholderEquity	277246.75	289183.10	301386.21	316162.69	332764.88
ShareCapital	80932.00	80932.00	80932.00	80932.00	80932.00
Reserves	104011.80	107332.80	109987.24	113113.25	116677.88
EquityAttributable	92302.95	100918.30	110466.97	122117.44	135155.00
TotalLiabilitiesAndEquity	543239.00	561274.10	588203.41	640815.13	676942.74

Table 4: Key Financial Ratios

	2013	2014	2015E	2016E	2017E
Ratios per share (RMB)					
Earnings per share	0.2168	0.2185	0.2323	0.2699	0.3059
OperatingCFPerShare	1.0917	1.1854	1.1356	1.2396	1.3534
DividendPerShare	0.0682	0.0802	0.0808	0.0862	0.0998
Key Operating Ratios(%)					
NetAssetsPerShare	3.4432	3.5458	4.4536	4.5809	4.7376
ROIC	7.9782	8.3386	7.8169	8.1926	8.9610
ROE	6.3395	6.1884	5.2491	5.9100	6.4800
GrossProfitMargin					
EBITDAMargin	28.2755	28.7527	29.9316	31.1198	32.0441
EBITMargin	8.5415	8.7881	9.2817	10.0735	10.7676
GrowthRateOfRevenue	13.6046	0.8738	1.8282	4.1045	4.0910
GrowthRateOfProfit	17.4601	0.5264	6.5359	15.7828	13.3582
DebtToAssetRatio	48.7032	48.3126	44.2282	46.6056	47.2218
TurnoverRateOfNetAssets	1.1540	1.1182	1.0925	1.0841	1.0721
TurnoverRateOfTotalAssets	0.5920	0.5780	0.5111	0.4953	0.4927
EffectiveTaxRate	24.2976	23.6809	25.0000	25.0000	25.0000
DividendYield	1.4663	1.7236	1.7369	1.8531	2.1456
Valuation Ratios (X)					
PE	21.4661	21.3022	20.0334	17.2446	15.2124
PB	1.3515	1.3124	1.0449	1.0159	0.9823
EVSale	1.3766	1.3026	1.3248	1.3112	1.2525
EVEBITDA	4.8684	4.5304	4.4260	4.2133	3.9087

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