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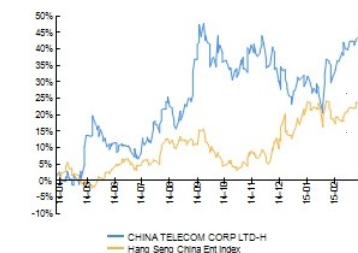
2014 年报前瞻

中国电信 (728:HK)

Market Data: 02 Mar

Closing Price (HK\$)	5.04
Price Target (HK\$)	5.40
HSCEI	12,214
HSCCI	4,677
52-week High/Low (HK\$)	5.22/3.12
Market Cap (US\$m)	52,186
Market Cap (HK\$m)	404,662
Shares Outstanding (m)	80,932
Exchange Rate (Rmb-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

Analyst

Ashley Sheng

A0230512080002 BBS394

Research Associate

Xiaolei Qiu A0230114030001

BDH009

qiuxl@swsresearch.com

(+86) 21 23297818x7707

Related Reports

"CHINA TELECOM CORP (728:HK)-
Balancing act" Oct 29, 2014

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Financial summary and valuation

	2012	2013	2014E	2015E	2016E
Revenue (Rmbm)	283,073.00	321,584.00	322,375.26	330,842.20	357,354.79
YoY (%)	15.51	13.60	0.25	2.63	8.01
Net income (Rmbm)	15,040.00	17,666.00	17,443.09	21,691.42	26,500.99
YoY (%)	(9.39)	17.46	(1.26)	24.36	22.17
EPS (Rmb)	0.18	0.22	0.21	0.27	0.33
Diluted EPS (Rmb)	0.18	0.22	0.21	0.27	0.33
ROE (%)	5.65	5.70	5.25	6.18	9.11
Debt/asset (%)	51.19	42.99	42.49	43.88	43.65
Dividend Yield (%)	1.81	1.73	2.03	2.01	2.50
PE (x)	21.52	18.31	18.51	14.89	12.18
PB (x)	1.20	1.03	0.96	0.91	0.83
EV/Ebitda (x)	5.60	4.26	4.53	4.37	3.86

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

投资要点:

● **年报前瞻**。我们预计中国电信 2014 年收入 (含话机销售) 为人民币 3224 亿元 (同比增加 0.25%·低于彭博一致预期 0.7%)·其中 4 季度收入预计为人民币 784 亿元 (同比下滑 6.0%)·主要原因是营改增和营销方式转变为存费送费、存费送业务对 ARPU 的负面影响。我们预计全年净利润为人民币 174 亿元 (同比下滑 1.3%·低于彭博一致预期 4.7%)·其中 4 季度净利润预计为人民币 12 亿元 (同比下滑 56.9%)·主要原因是营改增和小灵通 (PAS) 清频退网一次性减值损失约 10 亿人民币。

● **FDD-LTE 发牌**。2 月 27 日·工信部向电信发布了 FDD-LTE 全国性正式商用牌照·结束了电信之前 40 余个试点城市进行 FDD/TDD-LTE 混合组网的历史。我们预计电信 15 年全年资本开支人民币 1100 亿元 (14 年为 800 亿元)·其中约 50% 将投资 4G 通信设备。我们预计到 15 年全年电信将新建 20 万 4G 基站·15 年年底达到 30 万 4G 基站。考虑到中国电信 800MHz CDMA 3G 网络农村地带覆盖广·足以满足不太密集的数据流量和通话需求·总计布置在 100 个重点城市的 30 万 4G 基站将帮助电信在重点城市拥有不亚于中移动的 4G 覆盖·从而迅速发展 4G 用户和业务。因此·我们预计 15 年全年电信新增 4G 用户数 3000 万和新增移动用户数 2000 万的目标相对容易完成·未来上调新增用户指引或超计划完成的可能性不低。

● **铁塔公司的最大受益者**。尽管对三家运营商存量铁塔资产的清查和估值还在过程中·中国电信毫无疑问是三家拥有最少数量铁塔的运营商。借助移动和联通在农村和一些城市优质场所的基站共享·电信将迅速扩展 3G/4G 网络覆盖·从而成为铁塔公司最大受益者。

● **下调至持有评级**。考虑到营销方式转变、一次性减值损失和超预期的资本开支·我们调整 14E/15E/16E EPS 从人民币 0.26/0.31/0.38 元至人民币 0.21/0.27/0.33 元。考虑到铁塔公司最受益和 4G 新增用户数可能超计划·我们维持现有港币 5.4 元目标价不变·对应 20.0 倍 14 年 PE、16.1 倍 15 年 PE 和 13.2 倍 16 年 PE。相比上个交易日收盘价港币 5.04 元 有 7% 的上行空间·我们从增持下调到持有评级。

Valuation table

Company	Code	Rating	Target price (HK\$)	+/- (%)	PE (x)			PB (x)		
					14E	15E	16E	14E	15E	16E
China Telecom	728 HK	Hold	5.4	7%	18.5	14.9	12.2	1.0	0.9	0.8

Source: SWS Research

Results preview. We forecast China Telecom revenue in 2014 was Rmb322.4bn (+0.25% YoY, 0.7% below Bloomberg consensus). Of this, we forecast 4Q14 revenue of Rmb78.4bn (-6.0% YoY), due mainly to the impact of VAT reform and the company's shift in marketing from subsidising handsets to offering customers subsidised tariff rates. We forecast full-year net profit of Rmb17.4bn (-1.3% YoY, 4.7% below Bloomberg consensus) dragged down by a 56.9% YoY decline in 4Q14 bottom line to Rmb1.2bn, impacted by VAT reform and a likely one-time impairment loss of c.Rmb1bn associated with the company's early wireless internet Personal Access System (PAS) technology, currently being phased out.

4G licence. On 27 February, the Ministry of Industry and Information Technology (MIIT) granted China Telecom a nationwide 4G frequency-division duplexing long-term evolution (FDD-LTE) licence, expanding on the time-division duplexing LTE (TDD-LTE) licence awarded on 04 December 2013. We expect China Telecom Capex to reach Rmb110bn in 15E (vs Rmb80bn in 2014). Of this, we believe the company will invest c.50% in 4G equipment, and expect the company's 4G network will reach 300k base stations by end-2015 with 200k being newly built in 2015. China Telecom is focusing its 4G network efforts on 100 key cities, relying on its existing 800MHz code division multiple access (CDMA) 3G network in rural areas; we do not see the company's network capacity and coverage as likely to be substantially inferior to China Mobile's (941:HK) existing TDD-LTE 4G network. On the basis of this 4G coverage, we expect China Telecom to record 30m net additional 4G subscribers and 20m mobile net additional subscribers in 2015.

Main beneficiary of tower-sharing. The telcos and their tower-sharing joint venture (JV) is currently in the process of evaluating the operators' respective tower sites. China Mobile likely has the most extensive list of sites, whereas China Telecom's network is likely the smallest. The access to a broader network infrastructure will help China Telecom narrow the gap with the larger two operators in terms of coverage, making it the primary beneficiary of the tower-sharing JV.

Downgrade to Hold. Considering the negative impacts of the tariff subsidy, one-time impairment and updated Capex forecast, we revise down our EPS forecasts from Rmb0.26 to Rmb0.21 in 14E (-1.3% YoY), from Rmb0.31 to Rmb0.27 (+24.4% YoY) in 15E and from Rmb0.38 to Rmb0.33 (+22.2% YoY) in 16E. Taking into account the benefits from its tower sharing JV, we maintain our target price of HK\$5.40, representing 20.0x 14E, 16.1x 15E, 13.2x 16E PE. With 7% upside, we downgrade our rating from Outperform to Hold.

APPENDIX

Table 1: Valuation table

Code	Company	Rating	Closing Price (HK\$)	Target price (HK\$)	+/-%	Revenue (%)			Net profit (%)			PE		
						14E	15E	16E	14E	15E	16E	14E	15E	16E
941 HK	China Mobile	SELL	104.80	80.00	-24%	-1%	0%	2%	-15%	-7%	3%	12.3	13.3	13.0
762 HK	China Unicom	Hold	12.66	12.00	-5%	-7%	0%	2%	16%	21%	28%	19.6	16.1	12.6
728 HK	China Telecom	Hold	5.04	5.40	7%	0%	3%	8%	-1%	24%	22%	18.5	14.9	12.2

Source: SWS Research

Table 2: SWS Research estimate Vs Bloomberg consensus for 2014 results

2014	SWS Estimate			Bloomberg Consensus			Difference(SWS Vs BBG)		
	CM	CU	CT	CM	CU	CT	CM	CU	CT
Revenue	626.9	274.8	322.0	644.8	286.8	324.4	-2.8%	-4.2%	-0.7%
YoY (%)	-0.5%	-6.9%	0.1%	2.3%	-2.8%	0.9%			
Net Profit	103.0	12.1	17.4	109.1	12.9	18.3	-5.6%	-6.4%	-4.7%
YoY (%)	-15.5%	16.2%	-0.8%	-10.4%	25.2%	4.2%			

Source: SWS Research

Table 3: SWS Research estimate Vs Bloomberg consensus for 4Q14 results

4Q14	SWS Estimate			Bloomberg Consensus			Difference(SWS Vs BBG)		
	CM	CU	CT	CM	CU	CT	CM	CU	CT
Revenue	145.75	59.46	78.39	164.85	71.42	81.32	-10.9%	-16.7%	-3.0%
YoY (%)	-12.8%	-20.6%	-6.0%	-2.2%	-4.7%	-3.1%			
Net Profit	20.4	1.53	1.23	26.5	2.36	2.09	-23.0%	-35.2%	-41.1%
YoY (%)	-32.5%	-24.9%	-56.5%	-12.4%	16.0%	-26.1%			

Source: SWS Research

Table 4: Consolidated Income Statement

Rmbm	2012	2013	2014E	2015E	2016E
Revenue	283,073	321,584	322,375	330,842	357,355
Cost of Sales	149,156	154,585	163,764	169,737	187,467
Gross Profit	133,917	166,999	158,611	161,105	169,888
Other Income	171	773	150	150	150
Distribution expenses	49,655	69,083	68,874	73,050	81,524
Administrative expenses	63,076	70,448	62,378	55,133	49,429
EBITDA	70,371	90,930	92,208	101,354	111,055
EBIT	21,186	27,468	27,359	32,922	38,935
Finance Costs	1,564	5,153	4,302	4,200	3,800
Profit before tax	19,793	23,088	23,207	28,872	35,285
Income tax expense	4,753	5,422	5,764	7,180	8,784
Minority interests	115	121	87	120	133
Profit for the year	15,040	17,666	17,443	21,691	26,501

Source: SWS Research

Table 5: Consolidated Cash Flow Statement

Rmbm	2012	2013	2014E	2015E	2016E
Profit before taxation	19,793	23,088	23,207	28,872	35,285
Plus : Depr. and amortisation	49,185	63,462	64,848	68,433	72,120
Finance cost	1,564	5,153	4,302	4,200	3,800
Losses from investments	0	0	0	0	0
Change in working capital	68,270	(25,032)	(16,995)	(20,543)	(7,550)
Others	(5,611)	(1,731)	2,430	(218)	(1,997)
CF from operating activities	70,667	88,351	64,759	67,313	88,227
CAPEX	55,032	79,293	84,177	112,973	84,290
Other CF from investing activities	(5,878)	(1,024)	(5,720)	(5,600)	(3,430)
CF from investing activities	(48,252)	(107,948)	(84,663)	(113,043)	(82,190)
Equity financing	0	0	0	0	0
Net change in liabilities	48,340	4,490	17,275	70,140	49,750
Dividend and interest paid	(5,778)	(5,522)	(6,492)	(6,422)	(7,986)
Other CF from financing activities	(6,736)	1,354	(3,524)	(2,055)	(4,132)
CF from financing activities	(19,802)	5,637	7,260	61,663	37,632
Net cash flow	2,613	(13,960)	(12,644)	15,933	43,669
FCFF	188,920	139,768	153,626	186,604	179,011
FCFE	235,696	139,105	166,599	252,544	224,961

Source: SWS Research

Table 6: Consolidated Balance Sheet

Rmbm	2012	2013	2014E	2015E	2016E
Current Assets	65,210	52,783	47,324	71,631	118,832
Bank balances and cash	29,982	16,070	3,426	19,359	63,027
Trade and other receivables	20,273	20,022	25,557	33,197	35,836
Inventories	5,928	6,523	6,762	7,205	7,969
Other current assets	6,297	7,881	8,500	8,750	8,750
Long-term investment	1,632	2,132	2,050	2,200	2,470
PP&E	406,227	418,498	457,132	479,850	496,603
Intangible and other assets	39,132	37,962	37,173	37,156	36,959
Total Assets	545,072	543,239	577,329	625,188	687,089
Current Liabilities	193,461	169,074	148,204	162,124	177,876
Borrowings	16,735	16,735	4,610	30,000	50,000
Trade and other payables	174,580	151,136	140,874	128,664	124,516
Other current liabilities	1,654	1,203	2,150	2,870	2,750
Long-term liabilities	84,864	64,477	94,547	109,487	119,267
Total Liabilities	279,042	233,551	245,281	274,331	299,893
Minority Interests	961	923	1,010	1,119	1,251
Equity attributable	265,069	277,247	288,023	303,118	321,483
Share Capital	80,932	80,932	80,932	80,932	80,932
Reserves	101,346	104,012	106,440	109,503	113,308
Retained profit	82,791	92,303	100,651	112,683	127,243
Total Liabilities and equity	545,072	512,215	534,314	578,568	622,628

Source: SWS Research

Table 7: Key Financial Ratios

	2012	2013	2014E	2015E	2016E
Ratios per share (yuan)					
Earnings per share	0.18	0.22	0.21	0.27	0.33
Diluted EPS	0.18	0.22	0.21	0.27	0.33
Operating CF per share	0.87	1.09	0.80	0.83	1.09
Dividend per share	0.07	0.07	0.08	0.08	0.10
Net assets per share	3.29	3.83	4.10	4.34	4.78
Key Operating Ratios(%)					
ROIC	6.48	7.98	7.20	7.09	7.88
ROE	5.65	5.70	5.25	6.18	9.11
Gross profit margin	na	na	na	na	na
EBITDA Margin	24.86	28.28	28.60	30.64	31.08
EBIT Margin	7.48	8.54	8.49	9.95	10.90
Growth rate of Revenue(YoY)	15.51	13.60	0.25	2.63	8.01
Growth rate of Profit(YoY)	(9.39)	17.46	(1.26)	24.36	22.17
Debt-to-asset ratio	51.19	42.99	42.49	43.88	43.65
Turnover rate of net assets	1.06	1.15	1.12	1.09	1.11
Turnover rate of total assets	0.52	0.59	0.56	0.53	0.52
Effective tax rate (%)	24.22	24.30	25.00	25.00	25.00
Dividend yield (%)	1.80	1.72	2.02	2.00	2.49
Valuation Ratios (X)					
P/E	21.52	18.31	18.51	14.89	12.18
P/B	1.21	1.04	0.97	0.92	0.83
EV/Sale	1.39	1.20	1.30	1.34	1.20

Source: SWS Research

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