

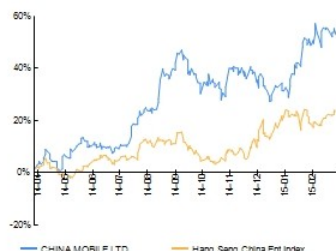
03 March 2015

卖出
下调

Market Data: 02 Mar

Closing Price (HK\$)	104.80
Price Target (HK\$)	80.00
HSCEI	12,214
HSCCI	4,677
52-week High/Low (HK\$)	108.50/63.65
Market Cap (US\$m)	282,384
Market Cap (HK\$m)	2,189,646
Shares Outstanding (m)	20,464
Exchange Rate (Rmb-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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Related Reports

"CHINA MOBILE (941:HK)- Migration observation" Feb 17, 2015

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2014 年报前瞻-业务反转无法带来财务反转

中国移动 (941:HK)

Financial summary and valuation

	2012	2013	2014E	2015E	2016E
Revenue (Rmbm)	581,835.00	630,177.00	626,948.34	624,867.51	637,098.51
YOY (%)	9.66	8.31	(0.51)	(0.33)	1.96
Net income (Rmbm)	129,381.00	121,803.00	102,979.45	95,464.07	97,887.55
YOY (%)	2.70	(5.87)	(15.47)	(7.31)	2.53
EPS (Rmb)	6.43	6.05	5.12	4.74	4.86
Diluted EPS (Rmb)	6.36	5.98	5.06	4.69	4.81
ROE (%)	17.84	15.40	12.35	11.02	10.91
Debt/asset (%)	24.51	32.27	33.17	37.44	41.44
Dividend yield (%)	3.33	3.14	2.65	2.46	2.52
PE (x)	12.93	13.74	16.25	17.54	17.10
PB (x)	2.30	2.11	2.00	1.93	1.86
EV/Ebitda (x)	5.52	5.43	5.57	5.67	5.52

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**。我们预计中国移动 2014 年收入 (含话机销售) 为人民币 6269 亿元 (同比下滑 0.5% , 低于彭博一致预期 2.8%) , 其中 4 季度收入预计为人民币 1457 亿元 (同比下滑 12.8%) , 这主要是由于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 1030 亿元 (同比下滑 15.5% , 低于彭博一致预期 5.6%) , 其中 4 季度净利润预计为人民币 204 亿元 (同比下滑 32.5%) , 主要原因是营改增和网络相关刚性费用的上升。

● **FDD-LTE 发牌后资费压力增加**。2 月 27 日, 工信部向联通和电信发布了 FDD-LTE 全国性正式商用牌照, 结束了两家在 40 余个试点城市进行 FDD/TDD-LTE 混合组网的历史。我们认为发牌不会显著影响移动快速的 4G 迁移进度, 因此维持原先 15 年全年中移动新增 1.6 亿 4G 用户的估计。但是, 发牌后电信联通的 4G 相关营销必然将对移动的资费产生一定压力。我们预计中移动 14 年 ARPU 为人民币 61.2 元 (同比下滑 8.2%) , 15 年 ARPU 为 58.4 元 (同比下滑 4.5%) , 16 年 ARPU 为 58.0 元 (同比下滑 0.8%) 。

● **网络相关刚性费用高企**。我们预计 15 年中移动资本开支为人民币 2236 亿元 (14 年为 2233 亿元) 。15 年年底, 我们预计 2G/3G/4G 基站数量分别为 90 万/50 万/100 万, 即 15 年全年 2G/3G 基站数量基本不变, 4G 基站新建 30 万个。资本开支的相当部分将是室内分布。我们预计移动通信网和传输网将占资本开支的 75% 。

● **网络覆盖优势削弱**。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, 中移动毫无疑问是拥有最多数量的铁塔。考虑到中移动在农村和一些城市优质场所的一些基站将被联通电信共享, 移动的网络覆盖优势将被削弱, 联通电信在覆盖方面将迅速赶上。

● **下调至卖出评级**。考虑到业务反转无法带来财务反转、ARPU 发牌后面临压力、网络刚性费用高企、网络覆盖优势将被削弱, 我们调整 14E/15E/16E EPS 从人民币 5.42/5.40/5.05 元到人民币 5.12/4.74/4.86 元, 并将目标价从港币 90 元下调至港币 80 元, 对应 13.3 倍 15 年 PE 和 13.0 倍 16 年 PE。相比上个交易日收盘价港币 104.8 元有 23.7% 的下行空间, 我们从减持下调到卖出评级。

Valuation table

Company	Code	Rating	Target price (HK\$)	+/- (%)	PE (x)			PB (x)		
					14E	15E	16E	14E	15E	16E
China Mobile	941 HK	Sell	80	-24%	16.3	17.5	17.1	2.0	1.9	1.9

Source: SWS Research

Results preview. We expect China Mobile to report 2014 revenue of Rmb626.9bn (-0.5% YoY, 2.8% below Bloomberg consensus). Of this, we expect 4Q14 revenue to come in at Rmb145.7bn, down 12.8% YoY due mainly to the impact of VAT reform and the company's shift in marketing from subsidising handsets to subsidising tariff rates. We forecast full-year net profit of Rmb103.0bn (-15.5% YoY, 5.6% below Bloomberg consensus), of which 4Q14 net profit fell 32.5% YoY to Rmb20.4bn due to the combination of VAT reform and rapid growth in network related expenses.

4G competition. On 27 February, the Ministry of Industry and Information Technology (MIIT) granted China Unicom (762: HK) and China Telecom (728: HK) nationwide frequency division duplexing long-term evolution (FDD-LTE) 4G licences. We do not expect this to significantly alter the rate at which China Mobile grows its 4G user base, as most 4G users will be existing subscribers upgrading their plans; we maintain our expectation that the company adds a net of 160m 4G subscribers in 2015. However, the competition is likely to show in China Mobile's tariffs. After a decline in average revenue per user (Arpu) of 8.2% YoY to Rmb61.2 in 14E, we expect Arpu to fall another 4.5% YoY to Rmb58.4 in 15E and 0.8% YoY to Rmb58.0 in 16E.

High network expenses. We expect China Mobile Capex to remain stable at Rmb223.6bn in 15E (vs Rmb223.3bn in 2014). By end-2015 we forecast its 2G infrastructure will remain at c.900k base stations, its 3G network at 500k base stations and its 4G network will expand by c.300k to 1m base stations. Investment in mobile networks and transmissions is likely to account for c.75% of total Capex.

Tower-sharing weakens coverage primacy. The telcos and their tower-sharing joint venture (JV) are currently in the process of evaluating their respective existing tower assets, with China Mobile likely to have the most extensive network of tower sites. The sharing of resources may erode some of China Mobile's network coverage advantage, particularly in rural areas and premium locations.

Downgrade to Sell. In order to reflect the likelihood of continued decline in Arpu, we revise down our EPS forecasts from Rmb5.42 to Rmb5.12 in 14E (-15.5% YoY), from Rmb5.40 to Rmb4.74 in 15E (-7.3% YoY), and from Rmb5.40 to Rmb4.86 (+2.5% YoY). We revise down our target price accordingly, from HK\$90 to HK\$80, representing 13.3x 15E PE, 13.0x 16E PE. The company's stock has gained 15% since the beginning of 2015, and 64% in the past 12 months; we believe the stock's fundamentals do not warrant so sharp an increase. With 23.7% downside, we downgrade our rating from Underperform to SELL.

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%	16.3	17.5	17.1
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	581,835	630,177	626,948	624,868	637,099
Cost of Sales	167,153	183,800	198,240	219,077	240,860
Gross Profit	414,682	446,377	428,709	405,791	396,238
Other Income	80,232	91,834	76,316	58,739	46,016
Distribution expenses	140,272	157,531	157,572	156,237	156,797
Administrative expenses	295,440	301,301	308,869	318,920	333,044
EBITDA	194,178	197,012	194,821	190,815	193,426
EBIT	(12,271)	(14,958)	(13,479)	(13,435)	(16,565)
Finance Costs	171,300	158,579	144,241	138,765	144,344
Profit before tax	41,919	36,776	41,261	43,301	46,457
Income tax expense	107	111	118	125	135
Minority interests	129,381	121,803	102,979	95,464	97,888
Profit for the year	414,682	446,377	428,709	405,791	396,238

Source: SWS Research

Table 5: Consolidated Cash Flow Statement

Rmbm	2012	2013	2014E	2015E	2016E
Profit before taxation	171,300	158,579	144,241	138,765	144,344
Plus : Depr. and amortisation	101,262	104,289	114,048	128,104	139,618
Finance cost	390	331	313	312	319
Losses from investments	0	0	0	0	0
Change in working capital	13,077	72,187	(3,576)	2,493	14,279
Others	(55,320)	(119,493)	(48,709)	(65,116)	(77,312)
CF from operating activities	230,709	215,893	206,318	204,559	221,248
CAPEX	(125,204)	(190,831)	(224,100)	(224,750)	(184,550)
Other CF from investing activities	115,164	59,628	45,363	45,512	48,843
CF from investing activities	(191,176)	(216,863)	(238,457)	(239,038)	(195,557)
Equity financing	0	0	0	0	0
Net change in liabilities	0	(23,630)	40,011	200,000	203,000
Dividend and interest paid	55,828	54,422	55,870	52,609	44,517
Other CF from financing activities	931	48,765	7,687	(2,767)	(6,352)
CF from financing activities	(54,897)	(29,287)	(8,172)	144,624	146,131
Net cash flow	(15,364)	(30,257)	(40,310)	110,145	171,822
FCFF	141,394	145,881	39,932	53,361	116,315
FCFE	141,004	121,920	79,630	253,049	318,997

Source : SWS Research

Table 6: Consolidated Balance Sheet

Rmbm	2012	2013	2014E	2015E	2016E
Current Assets	446,593	467,189	449,618	492,329	596,559
Bank balances and cash	70,906	44,931	339	10,484	82,306
Trade and other receivables	20,327	25,556	23,667	25,620	27,555
Inventories	7,195	9,152	8,558	9,139	9,318
Other current assets	16,066	12,479	11,967	11,980	12,275
Long-term investment	48,476	54,067	56,078	60,629	67,205
PP&E	430,509	479,227	565,299	626,113	662,009
Intangible and other assets	37,818	37,957	37,888	37,965	38,034
Total Assets	1,052,109	1,167,392	1,247,835	1,384,488	1,532,759
Current Liabilities	297,796	370,913	368,197	372,539	389,385
Borrowings	0	0	0	0	0
Trade and other payables	228,884	300,350	292,896	298,112	313,502
Other current liabilities	58,056	61,857	62,763	62,555	63,778
Long-term liabilities	28,953	5,651	45,627	145,625	245,637
Total Liabilities	257,837	376,668	413,943	518,293	635,161
Minority Interests	1,862	1,951	2,001	2,009	2,019
Equity attributable	723,447	788,773	852,568	906,911	962,629
Share Capital	2,142	2,142	2,142	2,142	2,142
Reserves	247,572	272,227	305,133	313,264	328,713
Retained profit	416,172	473,367	521,712	566,521	612,465
Total Liabilities and equity	1,052,109	1,167,392	1,268,512	1,427,212	1,599,810

Source: SWS Research

Table 7: Key Financial Ratios

	2012	2013	2014E	2015E	2016E
Ratios per share (yuan)					
Earnings per share	6.43	6.05	5.12	4.74	4.86
Diluted EPS	6.36	5.98	5.06	4.69	4.81
Operating CF per share	11.48	10.74	10.26	10.18	11.01
Dividend per share	2.77	2.60	2.20	2.04	2.09
Net assets per share	36.10	39.34	41.48	43.09	44.65
Key Operating Ratios(%)					
ROIC	56.62	61.29	52.22	39.60	34.97
ROE	17.84	15.40	12.35	11.02	10.91
Gross profit margin	71.27	70.83	68.38	64.94	62.19
EBITDA Margin	50.78	47.81	49.27	51.04	52.28
EBIT Margin	33.37	31.26	31.07	30.54	30.36
Growth rate of Revenue(YoY)	9.66	8.31	(0.51)	(0.33)	1.96
Growth rate of Profit(YoY)	2.70	(5.87)	(15.47)	(7.31)	2.53
Debt-to-asset ratio	24.51	32.27	33.17	37.44	41.44
Turnover rate of net assets	0.80	0.80	0.73	0.69	0.66
Turnover rate of total assets	1.12	1.85	1.99	2.22	2.41
Effective tax rate (%)	20.30	17.35	19.81	21.20	22.12
Dividend yield (%)	3.33	3.13	2.65	2.45	2.51
Valuation Ratios (X)					
P/E	12.93	13.74	16.25	17.54	17.10
P/B	2.30	2.11	2.00	1.93	1.86
EV/Sale	2.80	2.59	2.74	2.90	2.88

Source: SWS Research

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Trading BUY: Share price performance is expected to generate more than 20% upside over a 6-month period.

BUY: Share price performance is expected to generate more than 20% upside over a 12-month period.

Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

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Equal weight : Industry performs about the same as that of the whole market ;

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