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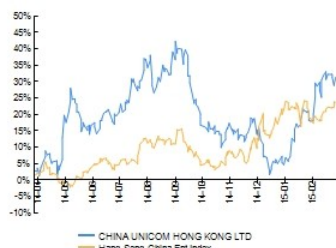
2014 年报前瞻

中国联通 (762:HK)

Market Data: 02 Mar

Closing Price (HK\$)	12.66
Price Target (HK\$)	12.00
HSCEI	12,214
HSCCI	4,677
52-week High/Low (HK\$)	14.22/9.03
Market Cap (US\$m)	39,653
Market Cap (HK\$m)	307,479
Shares Outstanding (m)	23,947
Exchange Rate (Rmb-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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Related Reports

"CHINA UNICOM HONG KONG (762:HK)- Poor reception" Oct 24, 2014

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Financial summary and valuation

	2012	2013	2014E	2015E	2016E
Revenue (Rmbm)	248,926.00	295,038.00	274,818.80	274,063.92	279,862.00
YoY (%)	19.01	18.52	(6.85)	(0.27)	2.12
Net income (Rmbm)	7,096.00	10,408.00	12,090.98	14,688.12	18,815.23
YoY (%)	67.87	46.67	16.17	21.48	28.10
EPS (Rmb)	0.30	0.44	0.51	0.62	0.80
Diluted EPS (Rmb)	0.29	0.42	0.49	0.60	0.76
ROE (%)	3.42	4.75	5.42	6.15	7.95
Debt/asset (%)	44.81	58.63	57.00	57.31	60.11
Dividend yield (%)	1.39	2.04	2.37	2.88	3.69
PE (x)	33.37	22.75	19.58	16.12	12.58
PB (x)	1.14	1.08	1.06	0.99	1.00
EV/Ebitda (x)	4.01	3.86	3.70	3.34	3.02

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。**我们预计中国联通 2014 年收入 (含话机销售) 为人民币 2748 亿元 (同比下滑 6.9%·低于彭博一致预期 4.2%)·其中 4 季度收入预计为人民币 595 亿元 (同比下滑 20.6%)·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 121 亿元 (同比上升 16.2%·低于彭博一致预期 6.4%)·其中 4 季度净利润预计为人民币 15 亿元 (同比下滑 24.9%)·主要原因是营改增和增加网络相关费用。

● **FDD-LTE 发牌。**2 月 27 日·工信部向联通发布了 FDD-LTE 全国性正式商用牌照·结束了联通之前 50 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 900 亿元 (14 年为 730 亿元)。联通将继续执行 3G/4G 一体化战略·在农村地带和城市非数据热点区域建设 3G 基站·在城市数据热点区域建设 4G 基站。我们预计全年新增移动宽带(3G/4G)用户数达 3500 万·其中新增移动用户数达 1000 万。

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● **下调至持有评级。**考虑到营销方式转变、4G 发牌后资费压力和更新的资本开支·我们调整 14E/15E/16E EPS 从人民币 0.61/0.74/0.88 元至人民币 0.51/0.62/0.80 元。考虑到盈利预测下调和年报业绩很可能低于市场一致预期·我们将目标价从港币 12.56 元下调至港币 12.00 元·对应 15.2 倍 15 年 PE 和 11.8 倍 16 年 PE。相比上个交易日收盘价港币 12.66 元 有 5% 的下行空间·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 Unicom	762 HK	Hold	12	-5%	19.6	16.1	12.6	1.1	1.0	1.0

Source: SWS Research

Results preview. We expect China Unicom revenue to reach Rmb274.8bn in 2014 (-6.9% YoY, 4.2% below Bloomberg consensus), with 4Q14 revenue of Rmb59.5bn (-20.6% YoY), due mainly to the impact of VAT reform and the company's shift in marketing from subsidising handsets to subsidised tariff rates. We forecast full-year net profit of Rmb12.1bn (+16.2% YoY, 6.4% below Bloomberg consensus), and expect net profit in 4Q14 to reach Rmb1.5bn (-24.9% YoY), given the combined impacts of both VAT reform and growing network-related expenses.

4G licence issued. On 27 February, the Ministry of Industry and Information Technology (MIIT) granted China Unicom a nationwide 4G frequency division duplexing long-term evolution (FDD-LTE) licence, after awarding a time-division duplexing LTE (TDD-LTE) licence on 04 December 2013. We expect the company's Capex to reach Rmb90bn in 15E (vs Rmb73bn in 2014) and expect it to follow a 4G/3G integrated network strategy by placing 3G telecommunication equipment in rural areas and 4G networks in data traffic-intensive areas. We forecast mobile broadband (3G/4G) net additional subscribers of 35m and 10m net mobile additions in 15E.

Benefits of tower-sharing. The telcos and their tower-sharing joint venture (JV) are currently in the process of evaluating their respective existing tower networks, with China Mobile likely to have the most extensive network of tower sites. The opportunity to expand its own infrastructure network based on shared sites, particularly in rural areas, will help China Unicom narrow the network coverage gap with China Mobile.

Downgrade to Hold. Considering the negative impacts of tariff subsidy, fierce 4G tariff competition and revised Capex forecast, we downgrade our EPS forecasts from Rmb0.61 to Rmb0.51 (+16.2% YoY) in 14E, from Rmb0.74 to Rmb0.62 (+21.5% YoY) in 15E and from Rmb0.88 to Rmb0.80 (+28.1% YoY) in 16E. Considering the likely missed results, we revise down our target price from HK\$12.56 to HK\$12, representing 15.2x 15E and 11.8x 16E PE. With 5% downside, 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	248,926	295,038	274,819	274,064	279,862
Cost of Sales	186,072	217,307	196,966	196,482	198,943
Gross Profit	62,854	77,731	77,853	77,582	80,919
Other Income	1,343	887	1,484	1,480	1,511
Distribution expenses	35,037	42,991	38,785	34,595	31,147
Administrative expenses	16,215	18,973	21,573	22,290	23,616
EBITDA	72,659	83,963	89,487	96,642	104,732
EBIT	11,602	15,767	17,495	20,697	26,156
Finance Costs	3,424	2,940	2,858	2,850	2,911
Profit before tax	9,521	13,714	16,121	19,326	24,757
Income tax expense	2,425	3,306	4,030	4,638	5,942
Minority interests	-	-	-	-	-
Profit for the year	7,096	10,408	12,091	14,688	18,815

Source: SWS Research

Table 5: Consolidated Cash Flow Statement

Rmbm	2012	2013	2014E	2015E	2016E
Profit before taxation	9,521	13,714	16,121	19,326	24,757
Plus : Depr. and amortisation	61,057	68,196	71,992	75,945	78,576
Finance cost	3,326	2,963	3,328	3,329	3,329
Losses from investments	-	-	-	-	-
Change in working capital	633	(2,263)	(11,428)	6,333	8,556
Others	(3,917)	(4,128)	(7,987)	(9,639)	(10,169)
CF from operating activities	70,620	78,482	72,027	95,294	105,049
CAPEX	89,680	77,264	76,931	76,889	88,988
Other CF from investing activities	(9,800)	154	120	120	140
CF from investing activities	(99,480)	(77,110)	(76,811)	(76,769)	(88,848)
Equity financing	-	1,102	-	-	-
Net change in liabilities	34,286	17,166	16,789	24,502	32,203
Dividend and interest paid	(2,283)	(2,686)	(4,836)	(5,875)	(7,526)
Other CF from financing activities	-	-	-	-	-
CF from financing activities	32,003	15,582	11,953	18,627	24,677
Net cash flow	3,143	16,954	7,168	37,152	40,878
FCFF	160,547	155,658	150,961	175,225	196,334
FCFE	191,507	169,861	164,422	196,398	225,208

Source: SWS Research

Table 6: Consolidated Balance Sheet

Rmbm	2012	2013	2014E	2015E	2016E
Current Assets	48,174	52,210	41,224	70,481	106,164
Bank balances and cash	18,250	21,506	12,189	41,444	76,438
Trade and other receivables	24,071	25,103	23,376	23,312	23,805
Inventories	5,803	5,536	5,496	5,481	5,597
Other current assets	-	-	-	-	-
Long-term investment	20,047	27,793	25,834	25,901	26,407
PP&E	342,651	342,066	345,463	341,432	331,317
Intangible and other assets	2,771	2,771	2,771	2,771	2,771
Total Assets	514,251	529,171	518,450	559,066	593,451
Current Liabilities	302,320	295,239	290,414	314,518	350,060
Borrowings	69,175	94,422	102,000	122,000	150,000
Trade and other payables	157,328	159,367	137,822	137,443	140,351
Other current liabilities	73,997	38,816	48,394	52,882	57,471
Long-term liabilities	4,279	15,007	5,045	5,825	6,605
Total Liabilities	230,451	310,272	295,497	320,396	356,734
Minority Interests	-	-	-	-	-
Equity attributable					
Share Capital	2,311	2,328	2,311	2,311	2,311
Reserves	152,964	155,754	157,880	159,349	161,231
Retained profit	54,230	60,817	64,544	71,888	81,296
Total Liabilities and equity	516,124	529,171	520,232	553,944	601,572

Source: SWS Research

Table 7: Key Financial Ratios

	2012	2013	2014E	2015E	2016E
Ratios per share (yuan)					
Earnings per share	0.30	0.44	0.51	0.62	0.80
Diluted EPS	0.29	0.42	0.49	0.60	0.76
Operating CF per share	3.00	3.33	3.06	4.04	4.46
Dividend per share	0.12	0.18	0.21	0.25	0.32
Net assets per share	8.81	9.29	9.46	10.13	10.05
Key Operating Ratios(%)					
ROIC	4.37	6.71	6.37	7.53	10.10
ROE	3.42	4.75	5.42	6.15	7.95
Gross profit margin	25.25	26.35	28.33	28.31	28.91
EBITDA Margin	29.19	28.46	32.56	35.26	37.42
EBIT Margin	4.66	5.34	6.37	7.55	9.35
Growth rate of Revenue(YoY)	19.01	18.52	(6.85)	(0.27)	2.12
Growth rate of Profit(YoY)	67.87	46.67	16.17	21.48	28.10
Debt-to-asset ratio	44.81	58.63	57.00	57.31	60.11
Turnover rate of net assets	1.19	1.35	1.22	1.17	1.14
Turnover rate of total assets	1.98	1.79	1.89	2.04	2.12
Effective tax rate (%)	29.65	24.11	25.00	24.00	24.00
Dividend yield (%)	1.20	1.76	2.04	2.48	3.18
Valuation Ratios (X)					
P/E	33.37	22.75	19.58	16.12	12.58
P/B	1.14	1.08	1.06	0.99	1.00
EV/Sale	1.17	1.10	1.21	1.18	1.13

Source: SWS Research

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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.

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