



Rating
Hold

Asia
China

Telecommunications
Wireless

Company
China Unicom Alert

Reuters 0762.HK	Bloomberg 762 HK	Exchange HKG	Ticker 0762
ADR Ticker CHU	ISIN US16945R1041		

Date
2 March 2015

Company Update

Price at 27 Feb 2015 (HKD)	13.06
Price target - 12mth (HKD)	12.70
52-week range (HKD)	14.14 - 9.17
HANG SENG INDEX	24,823

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4Q preview: focus on 4G

4Q14 preview

China Unicom will announce 4Q14 and full-year results on 3 March. We expect 4Q total operating rev of RMB74b (-1%YoY/+13%QoQ) vs consensus of RMB71b, EBITDA of RMB21b (+7%YoY/-12%QoQ) vs consensus of RMB21b, and net profit of RMB2.2b (+9%YoY/-43%QoQ) vs consensus of RMB2.1b. Our anticipated margin erosion is largely due to seasonal year end promotions.

FDD license likely to trigger faster 4G deployment

With a FDD full license just having been awarded to CU, 4G deployment should accelerate considerably. The co can now expand its 4G services from a prior 56 cities to nationwide. We expect 2015 capex to rise to support CU's target of broader and deeper coverage. The company had achieved TD coverage in over 300 cities, and hybrid TD/FD coverage in 56 cities by end of 2014. With the co having lost significant net add market share (from 51% in Jan-2014 to 16% in Dec-2014) in the past year due to lack of properly focused marketing campaigns and the emergence of IT migration issues, we believe an effective strategy to overcome these difficulties will be critical for the co to regain market share in 2015.

Anti-corruption investigation reportedly largely over

The central govt has increased its auditing and investigation of SOE's across all major industries this year. We would hope the last round of investigation into CU and resulting mgmt dismissal will serve to strengthen CU's internal processes. We expect a detailed rectification plan to be announced in April.

Reports around potential M&A drives share price

Widespread reports around possible merger of CU and CT have driven the co's share price up. CU has outperformed the HSI index by 20% YTD. The MIIT has denied any potential industry restructuring plan. It is not clear as to whether the merger will ultimately happen. We however indeed note that industry reshaping continues, as witnessed by the introduction of MVNOs, release of FDD licenses, tower company establishment and tower asset injection enforcement.

Stock data

Market cap (HKDm)	307,746
Market cap (USDm)	39,682
Shares outstanding (m)	23,658.0
Major shareholders	China Unicom BVI (71.35%)
Free float (%)	16
Avg daily value traded (USDm)	64.7

Source: Deutsche Bank

Key data

FYE 12/31	2013A	2014E	2015E
Sales (CNYm)	295,038	303,564	318,771
Net Profit (CNYm)	10,408.0	12,848.7	12,817.3
DB EPS (CNY)	0.42	0.52	0.52
PER (x)	21.7	20.3	20.3
Yield (net) (%)	1.8	1.5	1.5

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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