



Rating  
**Hold**

Asia  
China

Telecommunications  
Wireless

Company  
**China Unicom Alert**

|                    |                      |                 |                |
|--------------------|----------------------|-----------------|----------------|
| Reuters<br>0762.HK | Bloomberg<br>762 HK  | Exchange<br>HKG | Ticker<br>0762 |
| ADR Ticker<br>CHU  | ISIN<br>US16945R1041 |                 |                |

Date  
4 March 2015

## Results

|                            |              |
|----------------------------|--------------|
| Price at 3 Mar 2015 (HKD)  | 12.38        |
| Price target - 12mth (HKD) | 12.30        |
| 52-week range (HKD)        | 14.14 - 9.17 |
| HANG SENG INDEX            | 24,887       |

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## 4Q miss; all eyes on 4G

### 4Q miss on tariff pressures and heavy capex

CU delivered 4Q operating rev of RMB69.3b (-7%YoY/+5%QoQ), 7%/3% lower than DBE/consensus mainly due tariff cuts and slow growth of 4G users. EBITDA of RMB20.8b (+4%YoY/-15%QoQ) was 3%/7% lower than DBE/consensus, and net profit was RMB1.5b (-27%YoY/-61%QoQ), 33%/28% behind DBE/consensus, mainly on higher-than-expected capex and a RMB1.3b out-of-date asset/inventory write-off. Marketing expense in 2015 should continue to decline, while capex should rise to RMB100b. Mobile data should continue to drive 2015 growth, with tariffs seeing intense competition.

### Base station, coverage and capex

3G/4G base station deployment reached 465k/100k in 2014. The co plans to further open up 4G services to existing users, targeting to cover all towns and counties and ~100m people. CU intends to deploy 160k/199k 4G/3G new base stations in 2015, with its 3G network covering of China's 95% population. Smartphone supply chain has become mature to support the 4G deployment. Some 44-45% of 2015 capex will be mobile broadband equipment.

### ARPU likely to stabilize; expecting improvement in margins

The co delivered a blended ARPU of RMB44.1 (-8.5% YoY) in 2014 mainly due to the enforcement of VAT, tariff cuts, and slow growth of 4G users. 4G user ARPU totaled over RMB140, with data consumption as high as 1GB. Given the FDD license award, 4G penetration growth should accelerate. Blended 4G ARPU however should remain flat given the continuing marketing shift toward tariff subsidy. The likely acceleration of 4G user growth and further marketing expense decline lead us to expect some margin improvement in 2015.

### Trials in emerging businesses

CU is going to set up a joint venture with China Merchant Bank to offer small loans. Some 2.3m users meanwhile should come from MVNOs (~70-80% of MVNO users in China.) CU intends to pursue more value added services, develop the Internet of Things (IoT), and deploy more internet data centres (IDC) and ICT. We don't expect these initiatives to contribute much to revs.

### Reducing TP to HK\$12.3; Maintain Hold

We cut our 2015/16E operating rev by 4%/4%, and net profit by 5%/10% respectively. We derive our TP from a DCF model which utilizes an 8.5% WACC (8.9% cost of equity; 0.9 beta) and a 0% perpetual growth rate. Our cost of debt assumption and target debt/equity ratio are 4.5% and 10/90, respectively. Risks: higher/lower user growth, faster/slower deployment of 4G network, higher/lower marketing spending, competition.

### Key changes

|                      |                      |   |       |
|----------------------|----------------------|---|-------|
| Price target         | 12.70 to 12.30       | ↓ | -3.1% |
| Sales (FYE)          | 318,771 to 291,333   | ↓ | -8.6% |
| Op prof margin (FYE) | 6.2 to 6.4           | ↑ | 3.2%  |
| Net profit (FYE)     | 12,817.3 to 12,759.7 | ↓ | -0.4% |

Source: Deutsche Bank

### Stock data

|                               |                              |
|-------------------------------|------------------------------|
| Market cap (HKDm)             | 291,722                      |
| Market cap (USDm)             | 37,616                       |
| Shares outstanding (m)        | 23,658.0                     |
| Major shareholders            | China Unicom<br>BVI (71.35%) |
| Free float (%)                | 16                           |
| Avg daily value traded (USDm) | 65.0                         |

Source: Deutsche Bank

### Key data

| FYE 12/31         | 2014A    | 2015E    | 2016E    |
|-------------------|----------|----------|----------|
| Sales (CNYm)      | 284,681  | 291,333  | 312,635  |
| Net Profit (CNYm) | 12,055.0 | 12,759.7 | 15,482.6 |
| DB EPS (CNY)      | 0.49     | 0.52     | 0.63     |
| PER (x)           | 18.6     | 19.4     | 15.9     |
| Yield (net) (%)   | 1.8      | 1.6      | 1.6      |

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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