

China Unicom (Hong Kong) Limited

Short-term pain, with hope ahead

Overweight

0762.HK, 762 HK

Price: HK\$12.38

Price Target: HK\$13.40

CU reported service revenue/EBITDA/earnings change of -4.5%/+4.1%-25.2% yoy in 4Q14. Although earnings of Rmb1.5bn was significantly below consensus (>Rmb2bn), the miss was mainly due to a one-off fixed-line asset disposal of Rmb890mn pre-tax. Company management emphasized CU will accelerate its 3G&4G network rollout and take a more aggressive approach by opening its 4G network to all users. We recommend accumulating the stock on potential post-result weakness to position for upcoming catalysts such as a pick-up in 4G momentum and progress on tower co. Maintain OW with Dec-15 PT of HK\$13.4.

- **Turning aggressive on 4G:** 4G ARPU last year during the trials in 56 cities was Rmb140, much higher than blended ARPU of Rmb40, and monthly data usage was close to 1G. However, we think on the user same basis 3G->4G switch usually does not increase ARPU due to lower data unit price, but 2G->4G migration does result in higher data ARPU spending off a low base. After getting FDD license, CU will open its 4G network to all users, regardless of if they are on 2G or 3G plans. It will count 4G subs based on use of 4G handset and network, and looks to have over 100mn such users by end of this year driven by faster increase in 4G handset penetration and better 4G network.
- **ARPU to stabilize and subscriber growth to be at similar pace:** ARPU decline accelerated to 14.7% in 4Q14, weighted by intensified competition, VAT, substitution of handset subsidies with tariff rebate and allowance bonus. Management expects ARPU to stabilize in 2015 with less policy impact, more efforts on customer retention and quality improvement. Subs growth this year will likely be similar to last year (18mn) on the back of 3G/4G coverage expansion and more bundling with fixed-line services. Total service revenue only grew 2.6% yoy in 2014, but still ahead of industry growth by 3.9pp, and the company aims for continuing to exceed industry average growth.
- **Capex guidance beats market expectation** at "no more than Rmb100bn", vs. Rmb85bn actual spending last year. The increase is mainly due to: 1) expansion of 3G coverage to 95% of population with addition of 200K 3G BTS, vs. only 60K addition last year; and 2) faster 4G rollout with 160K new BTS, vs. addition of 100K last year, to cover all cities and towns.
- **Margin expansion to continue:** Despite negative VAT impact and sluggish top line, EBITDA rose 10.5% and margin increased 4.1pp last year attributable to a 28% reduction in IC costs and 12% in S&M expenses. Management guides for further improvement in profitability this year, supported by optimization of fixed-line network cost structure and continued marketing expense cuts, etc.
- **Positives worth mentioning:** 1) DPU came in at Rmb 20cents, up 25% yoy, and payout ratio increased from 36% to 40%; 2) IDC revenue, which was Rmb3.5bn (1% of total) being booked in broadband revenue, is expected to double this year and grow at 70-80% in the next few years.

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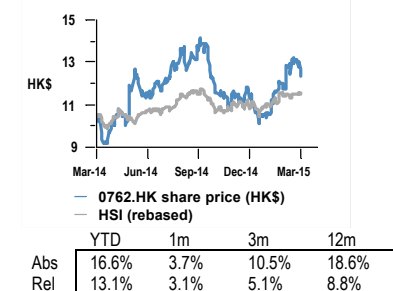
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J.P. Morgan Securities (Asia Pacific) Limited

Price Performance



China Unicom - H (Reuters: 0762.HK, Bloomberg: 762 HK)

Rmb in mn, year-end Dec	FY11A	FY12A	FY13A	FY14A	FY15E	FY16E
Revenue (Rmb mn)	209,152	248,926	295,039	284,681	286,951	303,212
EBITDA (Rmb mn)	63,397	72,659	83,964	92,771	100,681	111,513
EBITDA Growth	6.7%	14.6%	15.6%	10.5%	8.5%	10.8%
Net Profit (Rmb mn)	4,212	7,096	10,409	12,055	13,641	16,593
EPS (Rmb)	0.18	0.30	0.44	0.51	0.58	0.70
EPS growth (%)	20.0%	68.5%	46.1%	14.9%	14.6%	21.6%
DPS (Rmb)	0.10	0.12	0.16	0.20	0.23	0.28
EV/EBITDA (x)	5.2	4.6	4.3	3.6	3.5	3.1
P/E (x)	56.0	33.3	22.8	19.8	17.3	14.2
Dividend Yield	1.0%	1.2%	1.6%	2.0%	2.3%	2.8%
FCF to mkt cap (%)	(4.8%)	(6.5%)	2.3%	7.5%	(1.5%)	5.7%

Source: Company data, Bloomberg, J.P. Morgan estimates.

Company Data

52-week Range (HK\$)	14.22-9.03
Market Cap (Rmb mn)	235,936
Market Cap (\$ mn)	37,612
Shares O/S (mn)	23,562
Free Float(%)	18.5%
3M - Avg daily vol (mn)	43.38
3M - Avg daily val (HK\$ mn)	504.38
3M - Avg daily val (\$ mn)	65.0
HSI	2,4702.78
Exchange Rate	7.76
Price (HK\$)	12.38
Date Of Price	03 Mar 15
Price Target End Date	31-Dec-15

See page 10 for analyst certification and important disclosures, including non-US analyst disclosures.

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Key catalysts for the stock price:	Upside risks to our view:	Downside risks to our view:
<ul style="list-style-type: none"> Time and cost-efficient network migration to FDD by leveraging nationwide HSPA network. Tower co. helps narrow its network coverage gap vs. CM. 	<ul style="list-style-type: none"> New asymmetrical policies in favor of CU and CT SOE reform trial on CU. 	<ul style="list-style-type: none"> Competition intensifies since CU and CT received full FDD licenses. Weak 4G subscriber growth after getting full license. Intensified broadband competition from new entrants.

Key financial metrics (RMB mn)	FY13A	FY14A	FY15E	FY16E
Revenue	295,039	284,681	286,951	303,212
yoy growth	19%	-4%	1%	6%
Mobile service revenue	151,134	155,095	157,241	167,270
yoy growth	20%	3%	1%	6%
EBITDA	83,964	92,771	100,681	111,513
yoy growth	16%	10%	9%	11%
EBITDA margin	28.5%	32.6%	35.1%	36.8%
yoy change	-0.7%	4.1%	2.5%	1.7%
Net profit	10,409	12,055	13,641	16,593
yoy change	47%	16%	13%	22%
EPS (RMB)	0.44	0.51	0.58	0.70
DPS (RMB)	0.16	0.20	0.23	0.28
Capex	73,459	84,881	99,514	90,570
as % of sales	31%	35%	40%	34%

Key model assumptions	FY13A	FY14E	FY15E	FY16E
ARPU (RMB)	48.2	44.1	42.8	43.6
Wireless Subs ('000)	280,983	299,098	313,407	326,021
Capex (RMB mn)	73,459	84,881	99,514	90,570

Source: Bloomberg, Company data and J.P. Morgan estimates.

Sensitivity analysis	EBITDA		EPS	
	FY15E	FY16E	FY15E	FY16E
5% chg in subs growth	3%	3%	16%	14%
1% chg in EBITDA mgn	3%	3%	16%	14%
5% change in capex	0%	0%	5%	4%
5% chg in wireless ARPU	3%	3%	18%	16%

Source: Bloomberg, Company data and J.P. Morgan estimates.

Chinese telco comp table

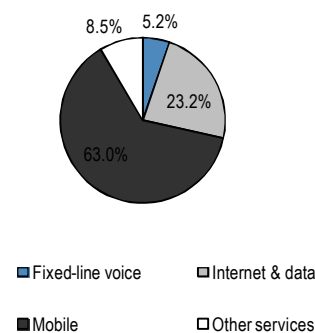
Company	Stock code	Rating	Price (HK\$)		PT (HK\$)	% to Target	EV/EBITDA		P/E		Dividend yield		P/B (x)		ROE (%)	EBITDA CAGR
			Index	Level			2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E		
China Mobile	941 HK	N	102.50	102.00	0%	5.3	4.7	15.5	14.5	2.8%	3.0%	1.8	1.7	11.8	-0.2%	
China Telecom	728 HK	OW	4.87	5.40	11%	4.2	3.8	15.9	13.8	2.2%	2.5%	1.0	1.0	6.6	2.5%	
China Unicom	762 HK	OW	12.38	13.40	8%	3.5	3.1	17.3	14.2	2.3%	2.8%	1.0	1.0	5.8	9.5%	
MSCI China	MXCN	N/A	70.06	N/A	N/A	6.6	N/A	9.2	8.2	3.4%	4.2%	1.2	1.2	N/A	N/A	
HSI	HSI	N/A	24,703	N/A	N/A	5.7	N/A	10.5	9.5	3.7%	N/A	1.2	1.1	N/A	N/A	

Source: Bloomberg and J.P. Morgan estimates. Note: Share prices and valuations are as of March 03, 2015.

Valuation and price target basis

Our China Unicom red chip (Dec-15) PT of HK\$13.4 is based on SOTP methodology. We use the DCF approach for both mobile and fixed-line businesses and combine the two to arrive at our target prices. The DCF based fair value of fixed-line and mobile operation implies a 3.6x and 3.6x 2015E EV/EBITDA.

Service revenue split by product (2015E)



Source: Bloomberg, Company data and J.P. Morgan estimates.

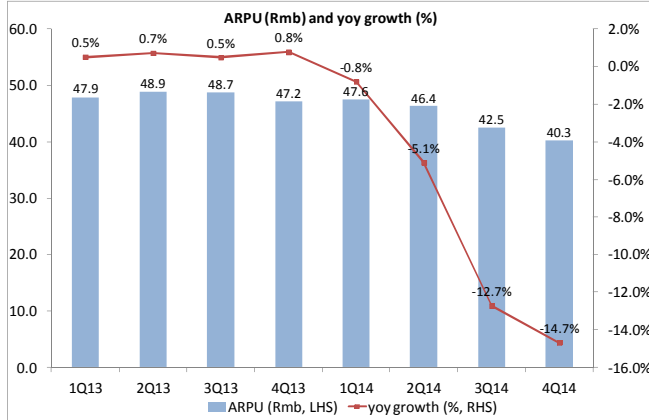
JPM vs. consensus, change in estimates

Earnings	FY15E	FY16E
JPM old	13,804	16,869
JPM new	13,641	16,593
% chg	-1%	-2%
Consensus	14,885	17,734

Source: Bloomberg, Company data and J.P. Morgan estimates.

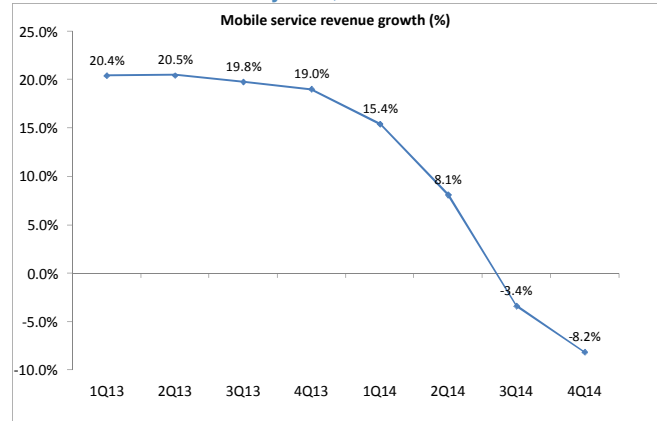
Highlights of 4Q14 Results

Figure 1: ARPU decline accelerated to 15% in 4Q14, weighed by intensified competition, VAT, substitution of handset subsidies with tariff rebate and allowance bonus. Management says 5.8% out of the 8.5% decline in full-year ARPU last year was due to VAT, and this year ARPU should stabilize with less policy impact, more efforts on customer retention and quality improvement.



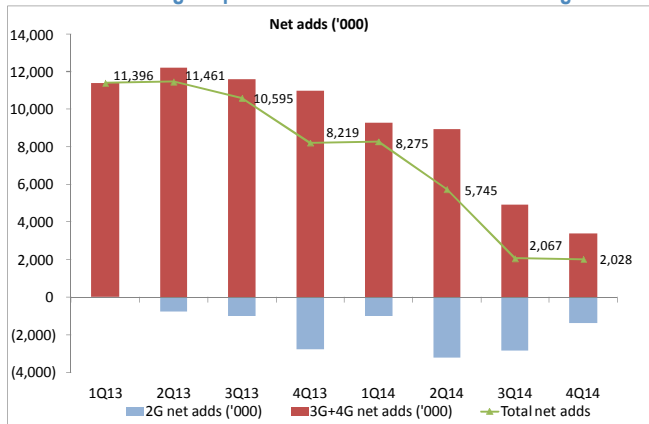
Source: Company data and J.P. Morgan estimates.

Figure 2: Mobile service revenue tumbled by 8.2% in 4Q14, due to deterioration of ARPU and weak subscriber growth. Full-year mobile service revenue increased by 2.6%, vs. 19.9% in 2013.



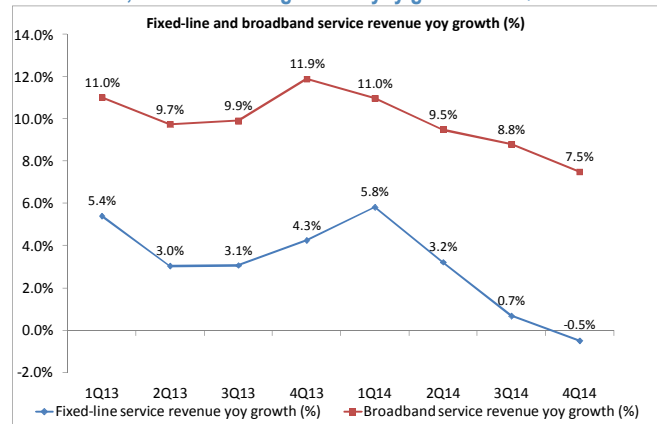
Source: Company data and J.P. Morgan estimates.

Figure 3: Sluggish subscriber growth in recent quarters is due to lower marketing spending, intensified competition, market saturation and real-name registration requirement etc. Management expects this year's subscriber growth to be similar to last year (18mn) on the back of 3G coverage expansion and more fixed line bundling.



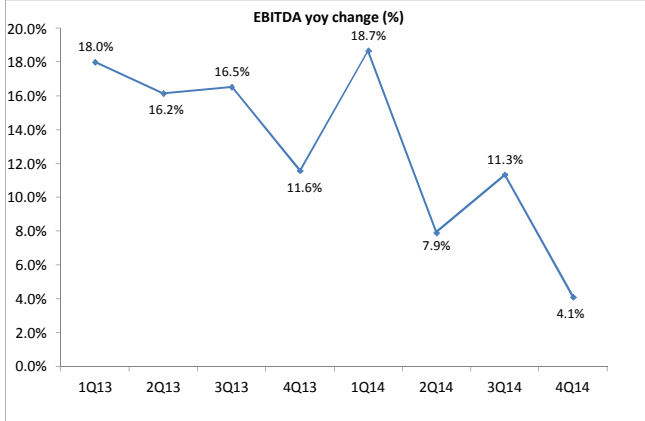
Source: Company data and J.P. Morgan estimates.

Figure 4: Fixed-line service revenue growth slipped to negative territory (-0.5%yoy) in 4Q14. IDC revenue, which was Rmb3.5bn (1% of total company revenue) is expected to double this year and grow at 70-80% in the next few years. Broadband service revenue, which includes IDC, remained strong at 7.5% yoy growth in 4Q14.



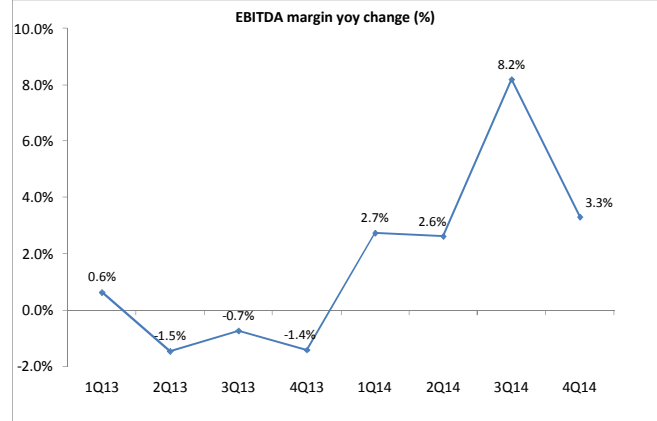
Source: Company data and J.P. Morgan estimates.

Figure 5: EBITDA growth slowed to 4.1% yoy in 4Q14 on a weaker top line and also a Rmb890mn one-off disposal of some fixed-line assets. Despite negative VAT impact and sluggish top line, EBITDA rose 10.5% and margin increased 4.1pp last year attributable to 7% reduction in IC costs and 12% in S&M expenses. Management guides for further improvement in profitability this year, supported by optimization of fixed-line network cost structure and continued marketing expenses cuts.



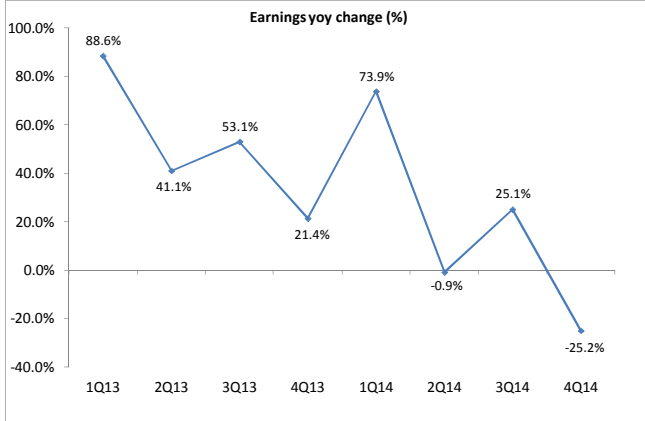
Source: Company data and J.P. Morgan estimates.

Figure 6: EBITDA margin growth slowed to 3.3ppt yoy in 4Q14 on weaker top-line and also a Rmb890mn one-off disposal of some fixed-line assets. Despite negative VAT impact and sluggish top-line, EBITDA rose 10.5% and margin increased 4.1pp last year attributable to 28% reduction in IC costs and 12% in S&M expenses. Management guides for further improvement in profitability this year, supported by optimization of fixed-line network cost structure and continued marketing expenses cuts.



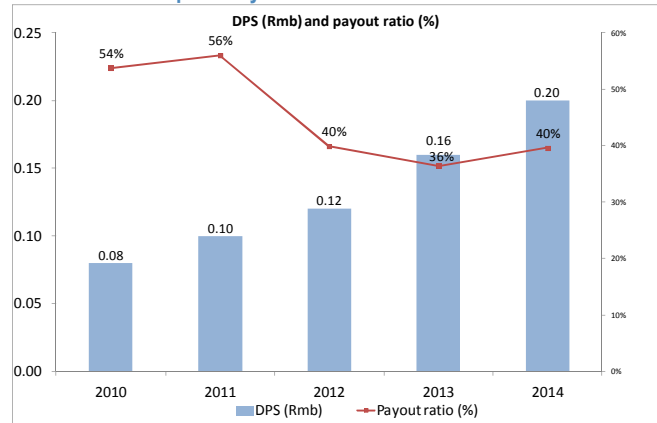
Source: Company data and J.P. Morgan estimates.

Figure 7: Earnings tumbled by 25.2% yoy in 4Q14. If we strip out the one-off asset disposal, earnings would have increased by 8% yoy.



Source: Company data and J.P. Morgan estimates.

Figure 8: DPU came in at Rmb 20cents, up 25% yoy, and payout ratio increased from 36% to 40%. We forecast 2.3% and 2.8% yield for 2015 and 2016 respectively.



Source: Company data and J.P. Morgan estimates.

4Q14 results

Table 1: Quarterly results at a glance

Rmb mn, YE Dec	1Q13A	2Q13A	3Q13A	4Q13A	1Q14A	2Q14A	3Q14A	4Q14A	yoy %	qoq %
Total mobile revenues	48,925	51,723	54,067	52,812	53,531	50,389	44,035	46,883	-11.2%	6.5%
Mobile service revenues	35,240	37,613	39,087	39,193	40,680	40,663	37,757	35,995	-8.2%	-4.7%
Mobile telecom products sold and others	13,685	14,110	14,980	13,619	12,851	9,726	6,278	10,888	-20.1%	73.4%
Fixed line revenues	21,675	21,616	21,582	21,692	22,940	22,287	21,735	21,579	-0.5%	-0.7%
Total revenues	70,600	73,707	75,863	74,868	76,471	73,098	65,770	69,342	-7.4%	5.4%
yoy growth	15.4%	21.8%	19.5%	17.5%	8.3%	-0.8%	-13.3%	-7.4%		
Total service revenues	57,060	59,415	60,905	61,187	63,800	63,173	59,492	58,413	-4.5%	-1.8%
yoy growth	14.1%	13.4%	13.2%	13.4%	11.8%	6.3%	-2.3%	-4.5%		
Interconnection charges	(4,787)	(5,130)	(5,134)	(5,157)	(3,717)	(3,848)	(3,553)	(3,481)	-32.5%	-2.0%
Depreciation and amortization	(16,857)	(17,049)	(17,152)	(17,138)	(18,216)	(18,666)	(18,257)	(18,729)	9.3%	2.6%
Networks, operations and support expenses	(7,890)	(8,103)	(8,676)	(9,035)	(8,994)	(9,041)	(9,739)	(10,077)	11.5%	3.5%
Personnel	(7,406)	(7,528)	(7,970)	(8,879)	(8,261)	(8,708)	(8,864)	(8,819)	-0.7%	-0.5%
Selling and marketing	(10,010)	(10,375)	(11,505)	(11,100)	(12,150)	(11,674)	(7,966)	(8,403)	-24.3%	5.5%
G&A and other operating expenses	(4,465)	(4,623)	(4,413)	(5,473)	(4,813)	(4,992)	(4,770)	(6,643)	21.4%	39.3%
Cost of telecom products sold	(15,819)	(15,994)	(16,327)	(15,276)	(14,538)	(11,144)	(6,563)	(11,152)	-27.0%	69.9%
Finance costs	(969)	(506)	(953)	(685)	(1,628)	(1,081)	(1,075)	(833)	21.6%	-22.5%
Interest income	25	56	55	37	77	58	75	73	97.3%	-2.7%
Other income/ (expenses)	106	109	316	356	161	443	172	586	64.6%	240.7%
EBITDA	20,223	21,954	21,838	19,948	23,998	23,691	24,315	20,767	4.1%	-14.6%
EBITDA margin %	28.6%	29.8%	28.8%	26.6%	31.4%	32.4%	37.0%	29.9%	3.3%	-7.0%
Service EBITDA	22,357	23,838	23,185	21,605	25,685	25,109	24,600	21,031	-2.7%	-14.5%
Service EBITDA margin %	39.2%	40.1%	38.1%	35.3%	40.3%	39.7%	41.4%	36.0%	0.7%	-5.3%
Recurring PBT	2,528	4,564	4,104	2,518	4,392	4,445	5,230	1,864	-26.0%	-64.4%
Taxation	(629)	(1,146)	(1,007)	(524)	(1,090)	(1,058)	(1,356)	(372)	-29.0%	-72.6%
Net profits	1,899	3,418	3,097	1,994	3,302	3,387	3,874	1,492	-25.2%	-61.5%
yoy growth	88.6%	41.1%	53.1%	21.4%	73.9%	-0.9%	25.1%	-25.2%		
Mobile										
Mobile subs ('000)	250,708	262,169	272,764	280,983	289,258	295,003	297,070	299,098	6.4%	0.7%
Mobile net adds ('000)	11,396	11,461	10,595	8,219	8,275	5,745	2,067	2,028	-75.3%	-1.9%
Average subs ('000)	245,010	256,439	267,467	276,874	285,121	292,131	296,037	298,084	7.7%	0.7%
Mobile MOU (mn)	208,291	216,929	237,427	245,362	227,932	246,738	240,874	228,024	-7.1%	-5.3%
MOU	290	288	303	302	273	289	278	262	-13.3%	-5.9%
Blended Mobile service ARPU (Rmb)	47.9	48.9	48.7	47.2	47.6	46.4	42.5	40.3	-14.7%	-5.3%
ARPM (Rmb)	0.17	0.17	0.16	0.16	0.17	0.16	0.15	0.15	-5.1%	-5.0%
Mobile service revenues (Rmb mn)	35,240	37,613	39,087	39,193	40,680	40,663	37,757	35,995	-8.2%	-4.7%
Sales of telecom products and ICT	13,685	14,110	14,980	13,618	12,851	9,726	6,278	10,888	-20.0%	73.4%
Total mobile revenue	48,925	51,723	54,067	52,811	53,531	50,389	44,035	46,883	-11.2%	6.5%
yoy growth	21.0%	31.6%	27.8%	23.7%	9.4%	-6.8%	-17.7%	-7.0%		
2G service revenue	16,010	15,933	15,347	14,046	13,847	13,116	11,777	10,528	-25.0%	-10.6%
yoy growth	-4.3%	-5.4%	-8.7%	-11.4%	-13.5%	-14.5%	-14.9%	-19.7%		
3G/4G mobile service revenue	19,230	21,680	23,740	25,147	26,833	27,547	25,980	25,467	1.3%	-2.0%
yoy growth	53.5%	50.9%	50.1%	47.2%	39.5%	16.0%	-3.2%	-7.5%		
3G/4G subs ('000)	87,816	100,028	111,626	122,600	131,865	140,778	143,036	119,195	-2.8%	-16.7%
3G/4G net adds ('000)	11,360	12,212	11,598	10,974	9,265	8,913	2,258	(23,841)	-317.3%	-1155.9%
3G/4G ARPU	78.0	76.9	74.8	71.6	70.3	65.2	60.5	71.2	-0.5%	17.6%
Handset subsidy	2,230	1,990	1,600	1,978	1,790	1,542	578	735	-62.8%	27.2%
as % of 3G/4G mobile service revenue	12%	9%	7%	8%	7%	6%	2%	3%	-63.3%	29.7%
Fixed-line										
Total fixed line subs	91,275	89,695	88,724	87,643	87,789	86,071	83,868	82,056	-6.4%	-2.2%
Fixed-line net adds ('000)	(682)	(1,580)	(971)	(1,081)	146	(1,718)	(2,203)	(1,812)	67.6%	-17.7%
Total broadband subs ('000s)	60,913	62,575	64,083	64,647	66,441	67,420	68,482	68,790	6.4%	0.4%
Broadband net adds ('000)	2,373	1,662	1,508	564	1,794	979	1,062	308	-45.4%	-71.0%
Broadband ARPU (Rmb)	62.6	61.4	61.1	61.1	63.3	62.0	62.0	61.6	0.8%	-0.6%

Source: Company data and J.P. Morgan estimates.

Revisions

Table 2: J.P. Morgan forecasts revisions

Rmb Mn	2015E	2016E		2015E	2016E
Total recurring revenue			Net Profit		
Old	277,507	290,906	Old	13,804	16,869
New	286,951	303,212	New	13,641	16,593
Change (%)	3%	4%	% Change	-1%	-2%
YOY growth (%) -New	1%	6%	YOY growth (%) -New	13%	22%
Fixed-line recurring revenue			Depreciation and amortisation		
Old	96,390	102,023	Old	78,249	83,325
New	96,093	101,514	New	79,563	86,369
Change (%)	0%	0%	% Change	2%	4%
YOY growth (%) -New	3%	6%	YOY growth (%) -New	8%	9%
Mobile revenue			Capex		
Old	185,191	193,251	Old	85,347	81,185
New	194,561	205,684	New	99,514	90,570
Change (%)	5%	6%	% Change	17%	12%
YOY growth (%) -New	0%	6%	YOY growth (%) -New	17%	-9%
Mobile service revenue			Total mobile subscribers ('000)		
Old	156,674	164,122	Old	309,271	318,229
New	157,241	167,270	New	313,407	326,021
Change (%)	0%	2%	% Change	1%	2%
YOY growth (%) -New	1%	6%	YOY growth (%) -New	-22%	-38%
Recurring EBITDA			Blended mobile service ARPU (Rmb)		
Old	99,716	108,690	Old	42.9	43.6
New	100,681	111,513	New	42.8	43.6
% Change	1%	3%	% Change	0%	0%
YOY growth (%) -New	9%	11%	YOY growth (%) -New	-3%	2%
Recurring EBITDA Margin (%)			Broadband ARPU (Rmb)		
Old	35.9%	37.4%	Old	65.5	67.3
New	35.1%	36.8%	New	65.3	67.4
% Change	-1%	-1%	% Change	0%	0%
YOY growth (%) -New	2%	2%	YOY growth (%) -New	5%	3%

Source: J. P. Morgan estimates.

J.P. Morgan vs. consensus

Table 3: J.P. Morgan estimates vs. consensus numbers

	2015E	2016E
Sales (RMB mn)		
Consensus	294,768	310,282
J.P. Morgan	286,951	303,212
Difference	-3%	-2%
EBITDA (RMB mn)		
Consensus	100,437	107,470
J.P. Morgan	100,681	111,513
Difference	0%	4%
EBITDA margin (%)		
Consensus	34.1%	34.6%
J.P. Morgan	35.1%	36.8%
Difference	1%	2%
Net profit (RMB mn)		
Consensus	14,885	17,734
J.P. Morgan	13,641	16,593
Difference	-9%	-7%
DPS (RMB)		
Consensus	0.21	0.25
J.P. Morgan	0.23	0.28
Difference	7%	10%
Dividend payout (%)		
Consensus	34.1%	33.5%
J.P. Morgan	39.6%	39.6%
Difference	5%	6%

Source: Bloomberg and J.P. Morgan estimates.

Valuation

Our SOTP based Dec-15 PT stands at HK\$13.4

Our China Unicom PT (Dec-15) of HK\$13.40 is based on SOTP methodology, which is composed of HK\$5.3 for fixed line operation and HK\$8.1 for mobile operation. We use a DCF approach for both mobile and fixed-line businesses and then combine the two to arrive at our price target.

Table 4: Our SOTP-based TP of HK\$13.4 comprises HK\$5.3 for fixed-line business and HK\$8.1 for mobile.

CU red chip SOTP	Fixed line	Wireless/others	Total
EV (Rmb mn)	104,081	262,974	367,056
2015E EBITDA (Rmb mn)	28,578	72,104	100,681
Implied 2015E EV/EBITDA	3.6	3.6	3.6
Net debt (Rmb mn)	5,000	111,539	116,539
Equity value (Rmb mn)	99,081	151,436	250,517
Equity value (HK\$ mn)	125,020	191,080	316,100
Shares outstanding (mn)	23,562	23,562	23,562
Methodology	DCF	DCF	SOTP
Equity value/share (HK\$)	5.3	8.1	13.4

Source: J.P. Morgan estimates.

Investment Thesis, Valuation and Risks

China Unicom - H (Overweight; Price Target: HK\$13.40)

Investment Thesis

China Unicom (CU) is a consolidated service provider offering both nationwide GSM and WCDMA services and fixed line local voice, long distance and broadband internet services in China. China Unicom is the fixed-line incumbent in 10 northern provinces and a challenger in 20 southern provinces of China. By end-14, the company owned 299 million wireless subs, representing 23% market share in total China wireless subs, 82 million fixed-line subs and 69 million broadband subs. The parentco group and Telefonica hold 74% and 2.5% stake in the company, respectively.

Valuation

Our China Unicom-H PT (Dec-15) of HK\$13.40 is based on SOTP methodology, which is composed of HK\$5.3 for the fixed-line operation and HK\$8.1 for mobile operation. We use a DCF approach for both mobile and fixed-line businesses and then combine the two to arrive at our price target.

Risks to Rating and Price Target

Upside risks include new asymmetrical policies in favour of CU and CT and SOE reform trial. Downside risks include intensified competition after CU and CT got full FDD licenses, weak 4G subscriber growth after getting full license and intensified broadband competition from new entrants.

China Unicom - H: Summary of Financials

Income Statement					Balance sheet				
Rmb in millions, year end Dec	FY14	FY15E	FY16E	FY17E	Rmb in millions, year end Dec	FY14	FY15E	FY16E	FY17E
Revenue	284,681	286,951	303,212	319,384	Cash and cash equivalents	25,308	24,423	24,523	35,190
EBITDA	92,771	100,681	111,513	118,597	Accounts receivable	14,671	14,874	15,717	16,555
Depreciation	(73,382)	(79,563)	(86,369)	(91,659)	Inventories	4,378	4,997	5,280	5,561
Amortization					Others	12,217	11,898	12,306	12,732
EBIT	19,389	21,118	25,144	26,938	Total current assets	56,574	56,192	57,826	70,039
Interest income	283	306	295	297	Net fixed assets	438,321	458,271	462,473	452,586
Interest expense	(4,617)	(4,737)	(4,851)	(4,407)	Other long term assets	38,467	38,517	38,872	39,225
Profit before tax	15,931	18,027	21,928	24,168	Total non-current assets	488,498	508,498	513,055	503,521
Tax	(3,876)	(4,386)	(5,335)	(5,880)	Total Assets	545,072	564,690	570,880	573,559
Minorities	0	0	0	0	ST loans	107,767	110,999	109,145	108,662
Net profit	12,055	13,641	16,593	18,288	Others	63,782	56,882	58,594	59,983
Shares O/S (mn)	23,852	23,562	23,562	23,562	Total current liabilities	291,920	287,137	288,311	290,852
EPS (Rmb)	0.51	0.58	0.70	0.78	Long-term debt	23,880	39,047	33,949	22,949
DPS (Rmb)	0.20	0.23	0.28	0.31	Other long-term liabilities	1,731	1,747	1,834	1,922
DPS payout ratio	41.1%	39.9%	39.9%	39.9%	Total Liabilities	317,531	327,931	324,094	315,722
Revenue growth	(3.5%)	0.8%	5.7%	5.3%	Shareholders' equity	227,541	236,759	246,786	257,837
EBITDA growth	10.5%	8.5%	10.8%	6.4%	Total liabilities and equity	545,072	564,690	570,880	573,559
Pre-tax profit growth	16.2%	13.2%	21.6%	10.2%	Net debt/(cash)	106,339	125,623	118,571	96,421
Net profit growth	15.8%	13.2%	21.6%	10.2%	Book value per share	9.66	10.05	10.47	10.94
EPS growth	14.9%	14.6%	21.6%	10.2%	Cash flow statement				
DPS growth	25.0%	14.5%	21.6%	10.2%	Rmb in millions, year end Dec	FY14	FY15E	FY16E	FY17E
					Cash flow from operations	88,094	95,829	104,187	111,158
					Capex	(69,586)	(99,514)	(90,570)	(81,772)
					Cash flow from other investing	(3,455)	(10)	2	(0)
					Cash flow from financing	(8,973)	2,809	(13,519)	(18,719)
					FX effect	-	-	-	-
					Change in cash for year	3,802	(885)	100	10,667
					Beginning cash	21,506	25,308	24,423	24,523
					Closing cash	25,308	24,423	24,523	35,190

Source: Company reports and J.P. Morgan estimates.

JPM Q-Profile

China Unicom (Hong Kong) Limited (HONG KONG / Telecommunication Services)

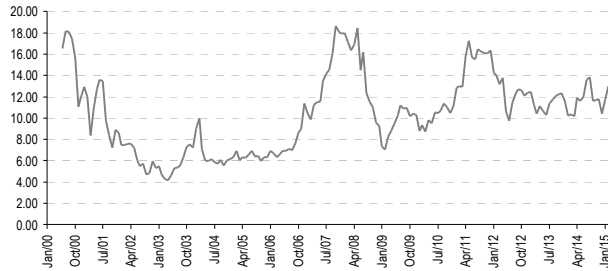
As Of: 20-Feb-2015



Quant_Strategy@jpmorgan.com

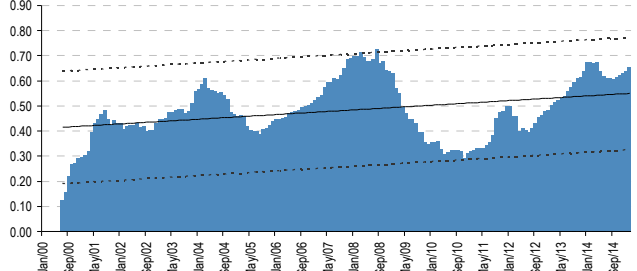
Local Share Price

Current: **12.98**



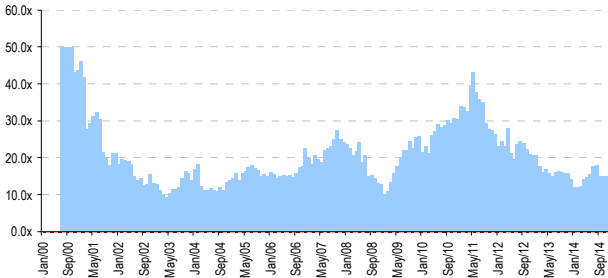
12 Mth Forward EPS

Current: **0.66**



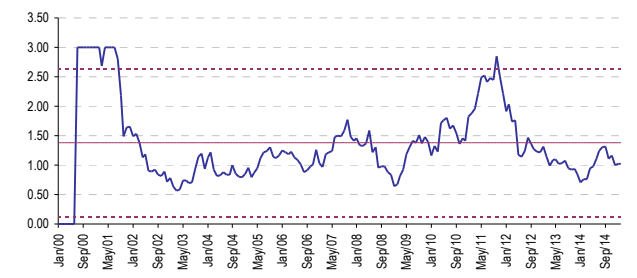
PE (1Yr Forward)

Current: **16.0x**



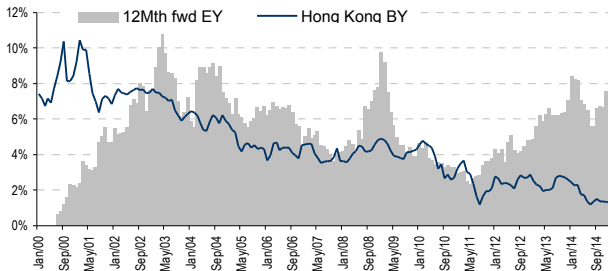
P/E Relative to Hong Kong Index

Current: **1.02**



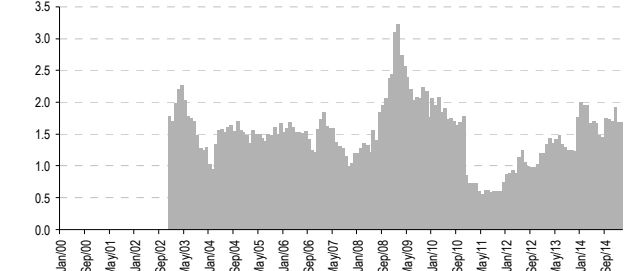
Earnings Yield (& Local Bond Yield)

Current: **6%**



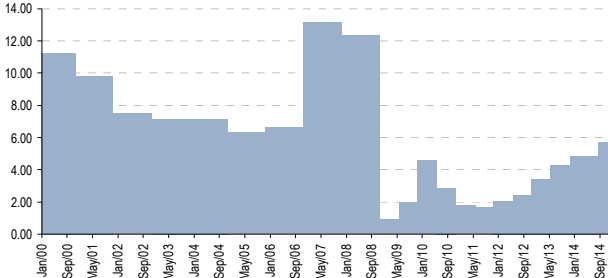
Dividend Yield (Trailing)

Current: **1.69**



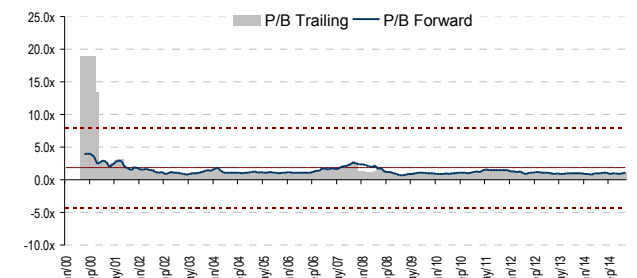
ROE (Trailing)

Current: **5.69**



Price/Book (Value)

Current: **1.1x**



Summary

China Unicom (Hong Kong) Limited		TICKER 762 HK		As Of: 20-Feb-15							
HONG KONG				Local Price: 12.98							
Telecommunication Services				EPS: 0.66							
	Latest	Min	Max	Median	Average	2 S.D.+	2 S.D. -	% to Min	% to Max	% to Med	% to Avg
12mth Forward PE	15.98x										
P/BV (Trailing)	1.10	0.71	18.92	1.17	1.90	8.07	-4.28	-36%	1615%	6%	72%
Dividend Yield (Trailing)	1.69x	0.00	3.23	1.43	1.26	2.70	-0.18	-100%	90%	-15%	-26%
ROE (Trailing)	5.69	0.91	13.15	6.64	6.59	13.80	-0.63	-84%	131%	17%	16%

Source: Bloomberg, Reuters Global Fundamentals, IBES CONSENSUS, JPMorgan Quantitative & Derivative Strategy

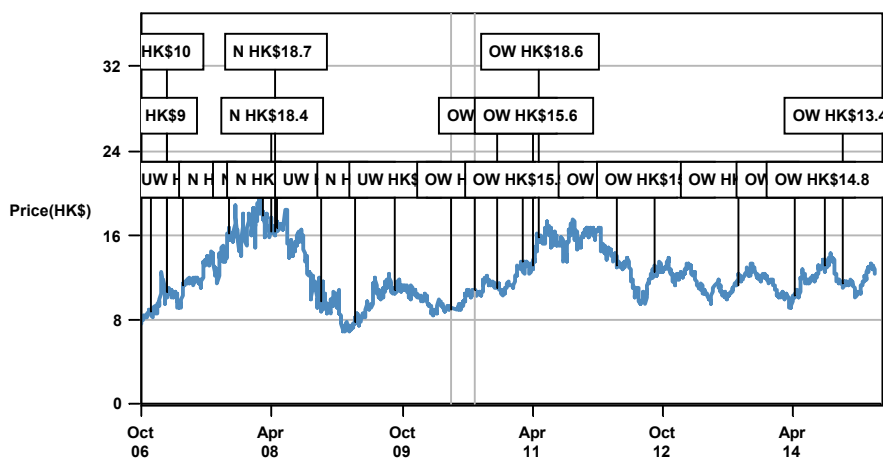
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China Unicom - H (0762.HK, 762 HK) Price Chart



Source: Bloomberg and J.P. Morgan; price data adjusted for stock splits and dividends.
 Break in coverage Apr 20, 2010 - Aug 02, 2010.

Date	Rating	Share Price (HK\$)	Price Target (HK\$)
30-Mar-07	UW	11.26	10.00
02-Oct-07	N	16.08	16.50
28-Feb-08	N	17.90	19.40
01-Apr-08	N	16.32	18.40
11-Apr-08	N	16.30	18.70
24-Apr-08	N	16.70	19.60
26-Oct-08	UW	9.70	8.00
16-Mar-09	N	7.83	8.00
30-Aug-09	UW	10.90	8.00
20-Apr-10	UW	8.89	--
02-Aug-10	OW	10.78	13.20
01-Nov-10	OW	11.02	12.90
20-Feb-11	OW	13.46	15.90
31-Mar-11	OW	13.10	15.60
27-Apr-11	OW	15.76	18.60
23-Mar-12	OW	13.12	16.30
24-Aug-12	OW	12.52	15.60
09-Aug-13	OW	11.24	14.60
02-Apr-14	OW	10.20	12.60
08-Aug-14	OW	13.00	14.80
24-Oct-14	OW	11.32	13.40

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IB clients*	56%	49%	33%
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IB clients*	75%	67%	52%

*Percentage of investment banking clients in each rating category.

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