



Rating
Buy

Asia
Hong Kong

Telecommunications
Fixed Line

Company
CITIC Telecom Alert

Reuters
1883.HK

Bloomberg
1883 HK

Exchange
HSI

Ticker
1883

Date
4 March 2015

Company Update

Price at 4 Mar 2015 (HKD)	2.57
Price target - 12mth (HKD)	3.60
52-week range (HKD)	3.26 - 2.28
HANG SENG INDEX	24,703

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Refocusing on monetizing in China

NDR highlights focus back on China data

CITIC Telecom appears to be focusing on sweating core greater China assets under its new CEO. Expansion plans have been pulled back, with the focus now on transferring 49% of the country's fourth fibre backbone, into CITIC Telecom and setting a plan to accelerate utilization in an asset-light manner. The company is now looking to co-operate with independent data centres, internet companies, and related businesses to build an internet exchange. The collaborative approach, in our view, is a better strategy, bringing potentially large business volume to its unique, high-margin asset, the fibre backbone, with its associated licenses which allow cross-connect within data centres. We believe the returns from such business is among the highest available in the Chinese telco space, and that the commercial plan now in place could slowly, but substantially, transform the company into a data-focused operator, with high growth and returns. The new CEO has close relationships with many of the key data focused businesses in China, so is expected to drive volumes. We expect a price for the purchase to be set in 2Q. The acquisition is likely to be all equity funded, which based on the MOU signed with Dr. Peng in December 2013, implies an RMB1.5bn price for 49%. While that will be short-term dilutive, we believe reaching the approximately RMB500m p.a. in revenues needed to make such a deal EPS neutral, is achievable with good execution within three years. The potential is seen in how others in the value chain are selling to the market their potential to get such a business. However, management points out that, information security is of paramount concern in China, and even the CITIC Group transferring the business internally is expected to be a year-long process.

Core business performing

While the international business has been suffering a severe decline in voice traffic, SMS is now growing, as the growth of e-commerce drive authentication messaging from large corporate, giving management confidence that stability is near. Meanwhile, Macau appears in good shape, with mobile ARPU expected to improve again this year, and to step up once LTE is rolled out. The company also expects fixed broadband pricing and volume growth to drive the Macau business.

Macau competition

Macau fixed-line competitor MTel launched in January. CITIC Telecom management, however, points out their network is limited to main roads, relying on CTM for last mile connections, and as such they do not see it being too destabilizing. Six operators have submitted proposals for the four LTE licenses available, (the existing four operators, plus China Mobile and MTel). CITIC Telecom appears likely to get a license given its market share, while MTEL and China Mobile will likely struggle to meet the condition that 50% coverage is required by the end of 2015, so the status quo is likely to remain.

Stock data

Market cap (HKDm)	7,513
Market cap (USDm)	969
Shares outstanding (m)	3,339.0
Major shareholders	–
Free float (%)	40
Avg daily value traded (USDm)	0.0

Source: Deutsche Bank

Key data

FYE 12/31	2014A	2015E	2016E
Sales (HKDm)	8,525	8,352	8,430
Net Profit (HKDm)	723.7	710.5	713.7
DB EPS (HKD)	0.22	0.21	0.21
PER (x)	13.1	12.1	12.0
Yield (net) (%)	4.0	4.2	4.2

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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