

# PCCW

## Disappointing dividends; Reiterate Sell

### PCCW's 2014 dividend pay-out flat yoy at HK\$0.20 vs. UBS-e of HK\$0.23

PCCW declared final dividend of 13.21HK cents resulting in 2014 dividend pay-out of 20.20HK cents flat yoy vs. UBS-e 22.96HK cents and consensus of 24.4HK cents. The 2014 dividend implies dividend yield of 3.8% vs. 2 year average div yield of 5.8%. PCCW's stock price has outperformed HKT Trust (HKT) by 16% since January 2014 narrowing the valuation gap. However, PCCW's 2014 dividend growth has lagged HKT's (whose dividend has grown by 18.1% in 2014) as management has reduced the HKT dividend pass through ratio to 71% in 2014 vs. 80% in 2013 as management explores inorganic growth opportunities. We have been highlighting that HKT offers a better way to own a high quality yield business than PCCW. We reiterate our Sell rating on the stock as the valuation looks expensive.

### Revenue inline while slight miss on EBITDA

PCCW's H2'14 revenue came inline at HK\$18,613m while core EBITDA at HK\$6,049m was 3.3% below UBS-e due to miss on mobile business margin which was impacted by one-time integration cost from CSL merger. The reported net profit at HK\$2,252m was ahead of UBS-e of HK\$1,249m benefitting from one time gain from sale of PCPD's Beijing property. Adjusted for that, the net profit was below UBS-e. In term of business segment, IT solutions did better than UBS-e while media business was below UBS-e.

### Maintain 2015E/2016E estimates; Increase price target

We largely maintain our 2015E/2016E earnings estimates. However, we increase our PT to HK\$4.75 from HK\$4.45 earlier as we incorporate our revised DCF-based PT of HK\$10.40 for HKT (vs. HK\$9.50 prior). We have also reduced our dividend outlook for 2015E and 2016E as we now assume dividend pass through ratio (from HKT) of 75% vs. 80% earlier.

### Valuation: Maintain Sell with a SoTP based PT of HK\$4.75

Our PT is SoTP based wherein we value PCCW's 63.1% stake in HKT using UBS PT and PCCW's 74.5% stake in PCPD using PCPD's current market price. We use DCF methodology to value media, IT solutions, and other business. We use a holding company discount of 20% for PCCW's stake in HKT and PCPD to arrive at our PT.

### Equities

Hong Kong  
Fixed-Line Communications

12-month rating **Sell**

12m price target **HK\$4.75**  
*Prior: HK\$4.45*

Price **HK\$5.30**

RIC: 0008.HK BBG: 8 HK

#### Trading data and key metrics

52-wk range HK\$5.56-3.45

Market cap. HK\$38.5bn/US\$4.95bn

Shares o/s 7,272m (ORD)

Free float 30%

Avg. daily volume ('000) 8,214

Avg. daily value (m) HK\$43.0

Common s/h equity (12/14E) HK\$10.9bn

P/BV (12/14E) 3.6x

Net debt / EBITDA (12/14E) 3.6x

#### EPS (UBS, diluted) (HK\$)

	UBS	Cons.
12/14E	0.29	0.32
12/15E	0.36	0.35
12/16E	0.40	0.40

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Highlights (HK\$m)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	24,638	25,318	27,317	33,277	38,863	40,832	42,411	43,349
EBIT (UBS)	3,780	3,723	4,156	4,947	6,261	6,975	7,555	7,884
Net earnings (UBS)	1,607	1,661	1,885	2,110	2,672	2,970	3,245	3,433
EPS (UBS, diluted) (HK\$)	0.22	0.23	0.26	0.29	0.36	0.40	0.44	0.46
DPS (HK\$)	0.36	0.19	0.20	0.20	0.25	0.28	0.32	0.34
Net (debt) / cash	(18,145)	(21,913)	(23,566)	(40,003)	(39,694)	(40,653)	(39,345)	(38,412)
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	15.3	14.7	15.2	14.9	16.1	17.1	17.8	18.2
ROIC (EBIT) %	15.3	14.1	14.1	12.5	12.8	13.8	14.8	15.4
EV/EBITDA (core) x	11.8	7.7	8.2	11.2	10.2	9.3	8.9	8.5
P/E (UBS, diluted) x	13.4	12.8	13.7	18.4	14.8	13.3	12.2	11.5
Equity FCF (UBS) yield %	6.0	2.6	5.2	11.4	9.9	7.4	14.1	13.6
Net dividend yield %	12.1	6.5	5.7	3.8	4.7	5.3	6.1	6.3

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of HK\$5.30 on 11 Feb 2015 22:26 HKT

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# Investment Thesis

## PCCW

### Investment case

PCCW is the incumbent telecom operator with the ability to offer quadruple-play services due to its 63.1% stake in HKT Trust. The company's stock has outperformed the index and peers, over the past few months, as it benefitted from being an integrated telecom firm with very little mobile exposure. In our view, this outperformance is likely to reverse over the next 12-18 months as we expect mobile pricing to improve in the near term, which is likely to benefit SmarTone and Hutch.

### Upside scenario

Valuation of HK\$5.45/share: we take HKT's upside scenario as the base for arriving at our upside valuation for PCCW. Our upside valuation for HKT is HK\$11.75/share.

### Downside scenario

Valuation of HK\$3.90/share: we take HKT's downside scenario as the base for arriving at our downside valuation for PCCW. Our downside valuation for HKT is HK\$8.75/share.

### Upcoming catalysts

1) We expect CSLNW integration to be completed over the next 12-18 months. Faster-than-expected CSLNW integration and more synergies from the merger could be positive catalysts for the stock. Signs of this should be visible in half yearly financial results. 2) We will closely monitor pricing in the mobile sector. We believe an uptick in tariffs could result in a rerating of the sector

12-month rating

**Sell**

12m price target

**HK\$4.75**

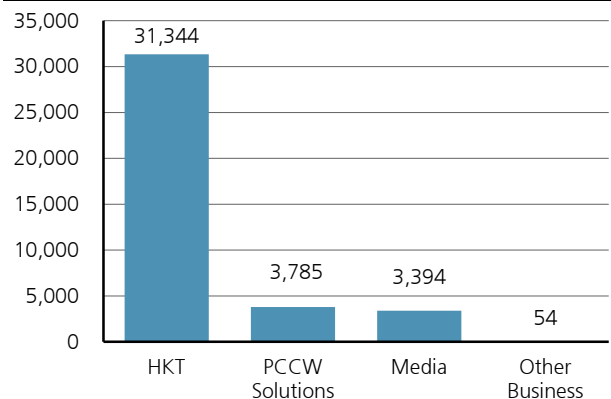
### Business description

PCCW is the incumbent telecom operator in Hong Kong providing quadruple-play services (pay-TV, fixed-line, broadband, and mobile) due to its 63.1% stake in HKT. In addition to telecom services PCCW also offers IT solution services in Hong Kong and mainland China. It has a 74.5% equity interest in Pacific Century Premium Developments Limited (PCPD), which is engaged in property development. Its overseas investments include wholly-owned subsidiary UK Broadband.

### Industry outlook

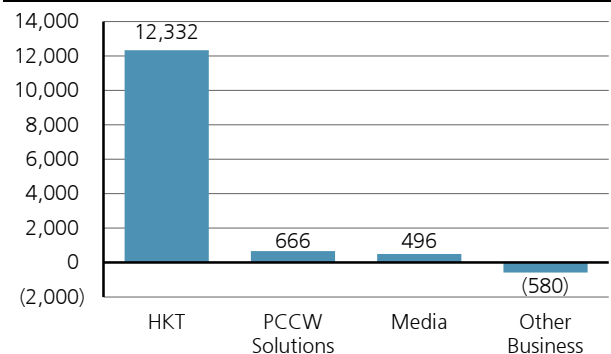
We are positive on the Hong Kong market given the likely easing of competitive intensity following the recent acquisition of CSLNW by HKT Trust. We believe that the recent consolidation is likely to improve operators' pricing power and could help in the transition to a clear, tiered tariff regime in Hong Kong. Going ahead, we expect HKT/CSLNW to lose some revenue market share to SmarTone and Hutch as HKT focuses on consolidating CSLNW. On data monetisation, we are confident that operators will take corrective action over the next 12-24 months including the withdrawal of unlimited plans (such as speed capped plans) to bring rationality to the sector.

### Revenues by segment – 2015E (HK\$ m)



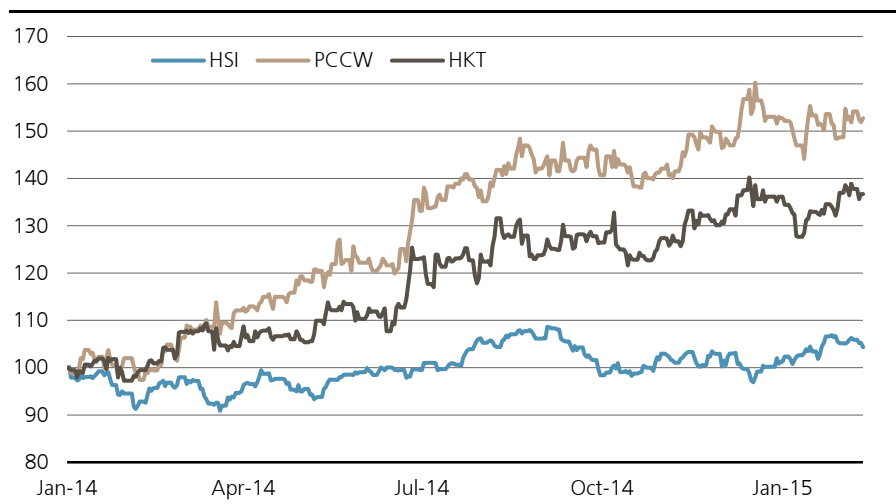
Note: Elimination revenue of HK\$2,245m adjusted in HKT; Source: UBS- e

### EBITDA by segment – 2015E (HK\$ m)



Note: Elimination EBITDA of HK\$130m adjusted in HKT; Source: UBS estimates

**Figure 1: Relative performance – HKT vs. PCW vs. HSI**



Note: Rebased to 100 as 31 Dec 2013; Source: Reuters, UBS

**Figure 2: PCCW - H214 result summary**

(Year-end December, HK\$ m)	1H13	2H13	1H14	2H14	Chg (yoy)	Chg (hoh)	2H14E	Diff (%)
Revenues - Total	13,314	14,003	14,664	18,613	32.9%	26.9%	18,519	0.5%
Operating expenses (exl. D&A)	(9,368)	(9,916)	(10,288)	(12,649)	27.6%	22.9%	(12,326)	2.6%
EBITDA	3,946	4,087	4,376	5,964	45.9%	36.3%	6,193	-3.7%
- EBITDA margins	29.6%	29.2%	29.8%	32.0%	2.9%	2.2%	33.4%	-4.2%
Core EBITDA (ex PCPD)	3,936	4,193	4,457	6,049	44.3%	35.7%	6,252	-3.3%
- EBITDA margins	30.7%	30.3%	30.9%	32.7%	2.3%	1.8%	34.3%	-4.7%
EBIT	1,880	2,276	2,545	4,207	84.8%	65.3%	2,999	40.3%
- EBIT margins	14.1%	16.3%	17.4%	22.6%	6.3%	5.2%	16.2%	39.6%
Finance costs, net	(558)	(473)	(528)	(800)	69.1%	51.5%	(778)	2.9%
Profit before tax	1,354	1,911	2,026	3,448	80.4%	70.2%	2,329	48.0%
Income tax	90	(300)	(385)	(418)	39.3%	8.6%	(380)	9.9%
Profit for the year	1,444	1,611	1,641	3,030	88.1%	84.6%	1,949	55.5%
Non-controlling interests	(589)	(581)	(583)	(778)	33.9%	33.4%	(700)	11.1%
Net Income to shareholders	855	1,030	1,058	2,252	118.6%	112.9%	1,249	80.3%

Source: Company data, UBS estimates

**Figure 3: PCCW - SoTP valuation**

	HK\$ m	HK\$ / sh (pre discount)	Holding company discount	HK\$ / sh (post discount)	Derivation	WACC	Terminal growth
HKT Trust	49,670	6.66	20.0%	5.33	Target price		
Media	4,112	0.55		0.55	DCF	6.0%	0.0%
PCCW Solutions	4,976	0.67		0.67	DCF	6.0%	0.0%
Others and intercompany eliminations	(11,138)	(1.49)		(1.49)	DCF	6.0%	0.0%
PCPD	1,158	0.16	20.0%	0.12	Market price as at 11 Feb '15		
Less: net debt	(3,224)	(0.43)		(0.43)	As of Dec 2014		
<b>Sum-of-the-parts</b>				<b>4.75</b>			

Source: UBS estimates

## PCCW (0008.HK)

	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
<b>Income statement (HK\$m)</b>										
<b>Revenues</b>	<b>24,638</b>	<b>25,318</b>	<b>27,317</b>	<b>33,277</b>	<b>21.8</b>	<b>38,863</b>	<b>16.8</b>	<b>40,832</b>	<b>42,411</b>	<b>43,349</b>
Gross profit	13,241	13,502	14,206	18,126	27.6	21,389	18.0	22,472	23,342	23,858
<b>EBITDA (UBS)</b>	<b>7,729</b>	<b>8,144</b>	<b>8,727</b>	<b>11,250</b>	<b>28.9</b>	<b>13,734</b>	<b>22.1</b>	<b>14,588</b>	<b>15,242</b>	<b>15,623</b>
Depreciation & amortisation	(3,949)	(4,421)	(4,571)	(6,303)	37.9	(7,473)	18.6	(7,613)	(7,687)	(7,740)
<b>EBIT (UBS)</b>	<b>3,780</b>	<b>3,723</b>	<b>4,156</b>	<b>4,947</b>	<b>19.0</b>	<b>6,261</b>	<b>26.6</b>	<b>6,975</b>	<b>7,555</b>	<b>7,884</b>
Associates & investment income	32	(22)	140	50	-64.3	50	0.0	50	50	50
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(1,494)	(904)	(1,031)	(1,328)	-28.8	(1,541)	-16.1	(1,540)	(1,544)	(1,521)
Exceptionals (incl goodwill)	0	0	0	1,805	-	0	-	0	0	0
<b>Profit before tax</b>	<b>2,318</b>	<b>2,797</b>	<b>3,265</b>	<b>5,474</b>	<b>67.7</b>	<b>4,770</b>	<b>-12.9</b>	<b>5,485</b>	<b>6,061</b>	<b>6,413</b>
Tax	(542)	(232)	(210)	(803)	-282.4	(512)	36.2	(749)	(947)	(1,052)
<b>Profit after tax</b>	<b>1,776</b>	<b>2,565</b>	<b>3,055</b>	<b>4,671</b>	<b>52.9</b>	<b>4,258</b>	<b>-8.8</b>	<b>4,736</b>	<b>5,114</b>	<b>5,361</b>
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	(169)	(904)	(1,170)	(1,361)	-16.3	(1,586)	-16.5	(1,766)	(1,869)	(1,928)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
<b>Net earnings (local GAAP)</b>	<b>1,607</b>	<b>1,661</b>	<b>1,885</b>	<b>3,310</b>	<b>75.6</b>	<b>2,672</b>	<b>-19.3</b>	<b>2,970</b>	<b>3,245</b>	<b>3,433</b>
<b>Net earnings (UBS)</b>	<b>1,607</b>	<b>1,661</b>	<b>1,885</b>	<b>2,110</b>	<b>11.9</b>	<b>2,672</b>	<b>26.6</b>	<b>2,970</b>	<b>3,245</b>	<b>3,433</b>
Tax rate (%)	23.4	8.3	6.4	14.7	128.1	10.7	-26.8	13.7	15.6	16.4
<b>Per share (HK\$)</b>										
EPS (UBS, diluted)	0.22	0.23	0.26	0.29	11.1	0.36	24.3	0.40	0.44	0.46
EPS (local GAAP, diluted)	0.22	0.23	0.26	0.45	74.3	0.36	-20.7	0.40	0.44	0.46
EPS (UBS, basic)	0.22	0.23	0.26	0.29	11.0	0.36	24.3	0.40	0.44	0.46
Net DPS (HK\$)	0.36	0.19	0.20	0.20	0.0	0.25	24.4	0.28	0.32	0.34
Cash EPS (UBS, diluted) <sup>1</sup>	0.76	0.84	0.89	1.15	29.4	1.36	18.4	1.42	1.47	1.50
Book value per share	0.81	1.21	1.26	1.46	15.9	1.58	7.7	1.69	1.81	1.94
Average shares (diluted)	7,272.29	7,263.20	7,265.35	7,319.43	0.7	7,453.18	1.8	7,453.18	7,453.18	7,453.18
<b>Balance sheet (HK\$m)</b>										
Cash and equivalents	5,365	4,553	5,509	2,663	-51.7	3,072	15.4	3,613	4,921	5,854
Other current assets	9,576	12,221	12,070	14,677	21.6	14,526	-1.0	14,931	15,184	15,352
<b>Total current assets</b>	<b>14,941</b>	<b>16,774</b>	<b>17,579</b>	<b>17,341</b>	<b>-1.4</b>	<b>17,598</b>	<b>1.5</b>	<b>18,545</b>	<b>20,105</b>	<b>21,206</b>
Net tangible fixed assets	22,496	16,680	16,717	19,151	14.6	19,520	1.9	19,772	20,046	20,307
Net intangible fixed assets	5,982	6,756	7,043	25,631	263.9	25,000	-2.5	26,253	25,747	25,332
Investments / other assets	2,431	9,634	12,598	13,162	4.5	13,563	3.0	13,737	13,886	13,995
<b>Total assets</b>	<b>45,850</b>	<b>49,844</b>	<b>53,937</b>	<b>75,285</b>	<b>39.6</b>	<b>75,682</b>	<b>0.5</b>	<b>78,307</b>	<b>79,784</b>	<b>80,840</b>
Trade payables & other ST liabilities	10,707	10,872	10,657	14,874	39.6	14,081	-5.3	14,139	14,536	14,483
Short term debt	40	8,540	1	1	0.00	1	0.00	1	1	1
<b>Total current liabilities</b>	<b>10,747</b>	<b>19,412</b>	<b>10,658</b>	<b>14,875</b>	<b>39.6</b>	<b>14,082</b>	<b>-5.3</b>	<b>14,140</b>	<b>14,537</b>	<b>14,484</b>
Long term debt	23,470	17,926	29,074	42,665	46.7	42,765	0.2	44,265	44,265	44,265
Other long term liabilities	4,053	4,368	5,572	7,187	29.0	7,187	0.0	7,187	7,187	7,187
Preferred shares	0	0	0	0	-	0	-	0	0	0
<b>Total liabilities (incl pref shares)</b>	<b>38,270</b>	<b>41,706</b>	<b>45,304</b>	<b>64,727</b>	<b>42.9</b>	<b>64,034</b>	<b>-1.1</b>	<b>65,592</b>	<b>65,989</b>	<b>65,936</b>
Common s/h equity	6,104	8,800	9,187	10,910	18.8	11,752	7.7	12,603	13,517	14,494
Minority interests	1,476	(662)	(554)	(353)	36.3	(104)	70.4	112	278	411
<b>Total liabilities &amp; equity</b>	<b>45,850</b>	<b>49,844</b>	<b>53,937</b>	<b>75,285</b>	<b>39.6</b>	<b>75,682</b>	<b>0.5</b>	<b>78,307</b>	<b>79,784</b>	<b>80,840</b>
<b>Cash flow (HK\$m)</b>										
Net income (before pref divs)	1,607	1,661	1,885	3,310	75.6	2,672	-19.3	2,970	3,245	3,433
Depreciation & amortisation	3,949	4,421	4,571	6,303	37.9	7,473	18.6	7,613	7,687	7,740
Net change in working capital	(213)	(1,529)	(434)	(355)	18.2	(642)	-80.8	(348)	145	(221)
Other operating	(93)	775	386	1,311	239.6	1,536	17.2	1,716	1,819	1,878
<b>Operating cash flow</b>	<b>5,250</b>	<b>5,328</b>	<b>6,408</b>	<b>10,569</b>	<b>64.9</b>	<b>11,039</b>	<b>4.4</b>	<b>11,950</b>	<b>12,896</b>	<b>12,830</b>
Tangible capital expenditure	(1,960)	(2,236)	(2,554)	(3,178)	-24.4	(3,818)	-20.1	(3,917)	(4,050)	(4,138)
Intangible capital expenditure	(1,902)	(2,524)	(2,512)	(3,014)	-20.0	(3,394)	-12.6	(5,200)	(3,405)	(3,447)
Net (acquisitions) / disposals	23	9	21	(17,999)	-	0	-	0	0	0
Other investing	(234)	(2,268)	(1,272)	(68)	-	(351)	-	(124)	(99)	(59)
<b>Investing cash flow</b>	<b>(4,073)</b>	<b>(7,019)</b>	<b>(6,317)</b>	<b>(24,259)</b>	<b>-284.0</b>	<b>(7,562)</b>	<b>68.8</b>	<b>(9,241)</b>	<b>(7,555)</b>	<b>(7,644)</b>
Equity dividends paid	(1,127)	(1,172)	(1,442)	(1,587)	-10.0	(1,830)	-15.3	(2,119)	(2,330)	(2,456)
Share issues / (buybacks)	0	0	0	0	-	0	-	0	0	0
Other financing	8,907	(700)	(1,000)	(1,160)	-15.98	(1,338)	-15.34	(1,549)	(1,704)	(1,796)
Change in debt & pref shares	(11,724)	2,752	3,308	13,591	310.85	100	-99.26	1,500	0	0
<b>Financing cash flow</b>	<b>(3,944)</b>	<b>880</b>	<b>866</b>	<b>10,845</b>	<b>NM</b>	<b>(3,068)</b>	<b>-</b>	<b>(2,168)</b>	<b>(4,034)</b>	<b>(4,252)</b>
<b>Cash flow inc/(dec) in cash</b>	<b>(2,767)</b>	<b>(811)</b>	<b>957</b>	<b>(2,846)</b>	<b>-</b>	<b>409</b>	<b>-</b>	<b>541</b>	<b>1,307</b>	<b>934</b>
FX / non cash items	31	(1)	(1)	0	-	0	-	0	0	0
<b>Balance sheet inc/(dec) in cash</b>	<b>(2,736)</b>	<b>(812)</b>	<b>956</b>	<b>(2,846)</b>	<b>-</b>	<b>409</b>	<b>-</b>	<b>541</b>	<b>1,307</b>	<b>934</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.<sup>1</sup>Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

## PCCW (0008.HK)

Valuation (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted)	13.4	12.8	13.7	11.7	14.8	13.3	12.2	11.5
P/E (UBS, diluted)	13.4	12.8	13.7	18.4	14.8	13.3	12.2	11.5
P/CEPS	3.9	3.5	4.0	4.6	3.9	3.7	3.6	3.5
Equity FCF (UBS) yield %	6.0	2.6	5.2	11.4	9.9	7.4	14.1	13.6
Net dividend yield (%)	12.1	6.5	5.7	3.8	4.7	5.3	6.1	6.3
P/BV x	3.7	2.4	2.8	3.6	3.4	3.1	2.9	2.7
EV/revenues (core)	2.8	1.9	2.2	3.0	2.5	2.4	2.3	2.2
EV/EBITDA (core)	11.8	7.7	8.2	11.2	10.2	9.3	8.9	8.5
EV/EBIT (core)	18.2	13.0	13.9	20.3	16.0	14.4	13.2	12.4
EV/OpFCF (core)	23.0	15.6	16.6	23.7	24.6	20.6	19.1	18.3
EV/op. invested capital	1.9	1.3	1.4	1.7	1.4	1.3	1.3	1.3
<b>Enterprise value (HK\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Market cap.	23,293	21,443	25,898	38,543	38,543	38,543	38,543	38,543
Net debt (cash)	22,443	12,013	14,656	28,376	28,237	28,015	27,924	26,853
Buy out of minorities	2,066	407	100	100	100	100	195	344
Pension provisions/other	4	93	140	98	98	98	98	98
<b>Total enterprise value</b>	<b>47,804</b>	<b>33,956</b>	<b>40,794</b>	<b>67,117</b>	<b>66,978</b>	<b>66,756</b>	<b>66,760</b>	<b>65,838</b>
Non core assets	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
<b>Core enterprise value</b>	<b>47,799</b>	<b>33,951</b>	<b>40,789</b>	<b>67,112</b>	<b>66,973</b>	<b>66,751</b>	<b>66,755</b>	<b>65,833</b>
<b>Growth (%)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Revenue	7.3	2.8	7.9	21.8	16.8	5.1	3.9	2.2
EBITDA (UBS)	-9.3	5.4	7.2	28.9	22.1	6.2	4.5	2.5
EBIT (UBS)	-19.9	-1.5	11.6	19.0	26.6	11.4	8.3	4.3
EPS (UBS, diluted)	-20.4	3.5	13.5	11.1	24.3	11.2	9.2	5.8
Net DPS	133.6	-46.7	6.0	0.0	24.4	12.8	14.3	3.5
<b>Margins &amp; Profitability (%)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Gross profit margin	53.7	53.3	52.0	54.5	55.0	55.0	55.0	55.0
EBITDA margin	31.4	32.2	31.9	33.8	35.3	35.7	35.9	36.0
EBIT margin	15.3	14.7	15.2	14.9	16.1	17.1	17.8	18.2
Net earnings (UBS) margin	6.5	6.6	6.9	6.3	6.9	7.3	7.7	7.9
ROIC (EBIT)	15.3	14.1	14.1	12.5	12.8	13.8	14.8	15.4
ROIC post tax	11.7	13.0	13.2	11.8	11.4	11.9	12.4	12.9
ROE (UBS)	113.1	22.3	21.0	21.0	23.6	24.4	24.8	24.5
<b>Capital structure &amp; Coverage (x)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Net debt / EBITDA	2.3	2.7	2.7	3.6	2.9	2.8	2.6	2.5
Net debt / total equity %	239.4	269.3	273.0	NM	NM	NM	285.2	257.7
Net debt / (net debt + total equity) %	70.5	72.9	73.2	79.1	77.3	76.2	74.0	72.0
Net debt/EV	38.0	64.5	57.8	59.6	59.3	60.9	58.9	58.3
Capex / depreciation %	49.6	50.6	55.9	50.4	51.1	51.5	52.7	53.5
Capex / revenue %	8.0	8.8	9.3	9.5	9.8	9.6	9.6	9.5
EBIT / net interest	2.5	4.1	4.0	3.7	4.1	4.5	4.9	5.2
Dividend cover (UBS)	0.6	1.2	1.3	1.4	1.4	1.4	1.3	1.4
Div. payout ratio (UBS) %	161.7	83.3	77.8	70.0	70.1	71.1	74.4	72.8
<b>Revenues by division (HK\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Others	24,638	25,318	27,317	33,277	38,863	40,832	42,411	43,349
<b>Total</b>	<b>24,638</b>	<b>25,318</b>	<b>27,317</b>	<b>33,277</b>	<b>38,863</b>	<b>40,832</b>	<b>42,411</b>	<b>43,349</b>
<b>EBIT (UBS) by division (HK\$m)</b>	<b>12/11</b>	<b>12/12</b>	<b>12/13</b>	<b>12/14E</b>	<b>12/15E</b>	<b>12/16E</b>	<b>12/17E</b>	<b>12/18E</b>
Others	3,780	3,723	4,156	4,947	6,261	6,975	7,555	7,884
<b>Total</b>	<b>3,780</b>	<b>3,723</b>	<b>4,156</b>	<b>4,947</b>	<b>6,261</b>	<b>6,975</b>	<b>7,555</b>	<b>7,884</b>

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

## Forecast returns

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Forecast price appreciation	-10.4%
Forecast dividend yield	4.1%
Forecast stock return	-6.3%
Market return assumption	6.7%
Forecast excess return	-13.0%

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## Statement of Risk

In addition to market and regulatory risk, the following are the company specific risks that PCCW faces: 1) 97% of PCCW's revenues come from HKT. Increased competition in HKT's primary markets such as mobile and broadband would likely impact PCCW's financial performance adversely; 2) PCCW faces execution risk in terms of HKT's inability to integrate CSLNW successfully, impacting consolidated financial performance negatively; 3) PCCW has in-principle approval to launch FTA channel in HK. Higher-than-expected investment in the media business and an inability to obtain commensurate advertising revenues can impact media business performance; and 4) There remains a risk that PCCW may overpay for overseas or domestic acquisition which could destroy equity value.

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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
<b>Buy</b>	FSR is > 6% above the MRA.	47%	37%
<b>Neutral</b>	FSR is between -6% and 6% of the MRA.	42%	32%
<b>Sell</b>	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
<b>Buy</b>	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%
<b>Sell</b>	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	less than 1%	less than 1%

Source: UBS. Rating allocations are as of 31 December 2014.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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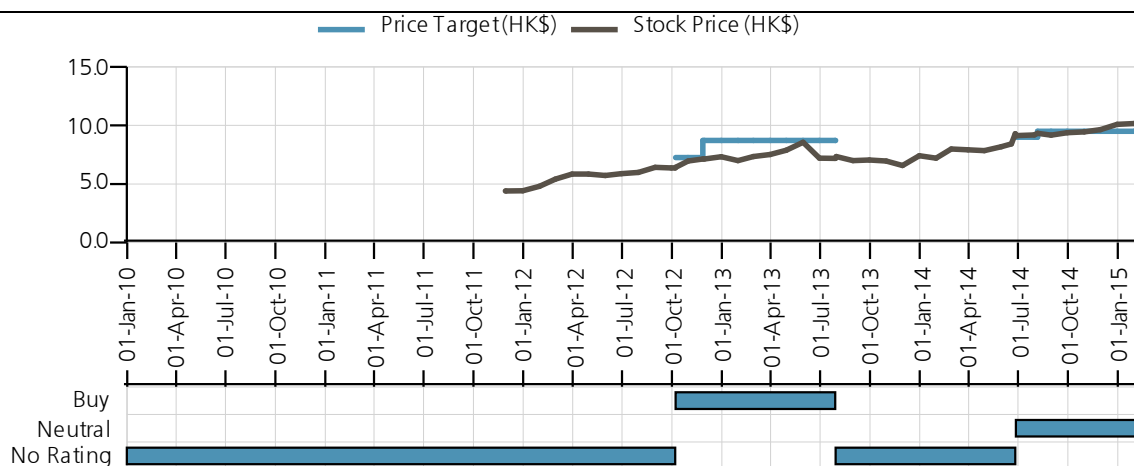
Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
HKT Trust	6823.HK	Neutral	N/A	HK\$10.14	11 Feb 2015
PCCW	0008.HK	Sell	N/A	HK\$5.30	11 Feb 2015

Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

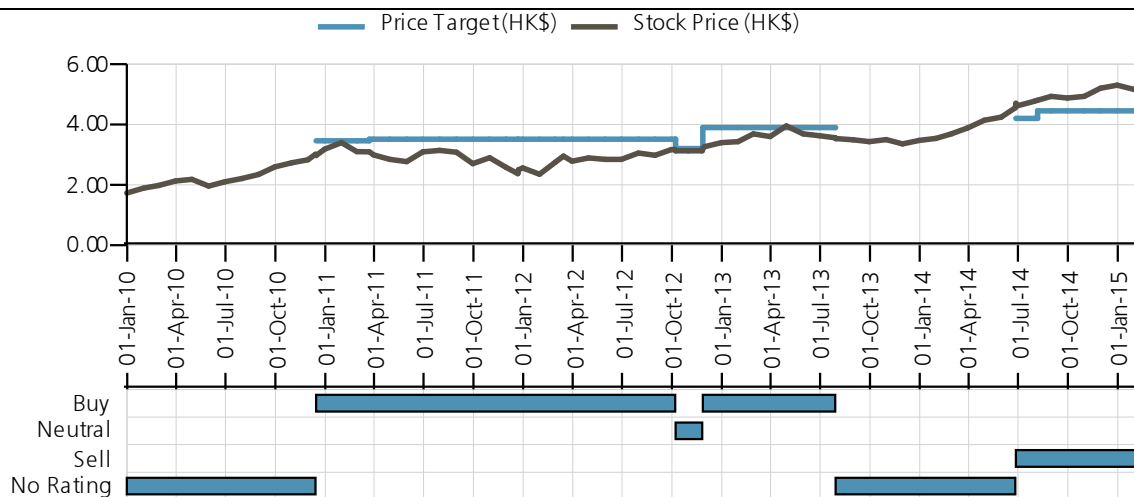
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

### HKT Trust (HK\$)



Source: UBS; as of 11 Feb 2015

### PCCW (HK\$)



Source: UBS; as of 11 Feb 2015



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