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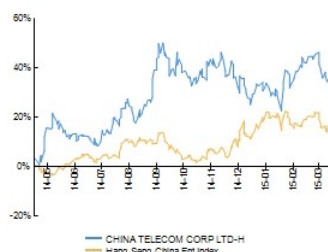
增持  
上调

## 年报点评：清晰明智的 3G/4G 战略，上调至增持 中国电信 (728:HK)

### Market Data: Mar,18

Closing Price (HK\$)	4.84
Price Target (HK\$)	5.4
HSCEI	11,981
HSCCI	4,463
52-week High/Low (HK\$)	5.22/3.32
Market Cap (US\$m)	48,284
Market Cap (HK\$m)	374,717
Shares Outstanding (m)	80,932
Exchange Rate (Rmb-HK\$)	1.26

### Price Performance Chart:



Source: Bloomberg

### Analyst

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### Related Reports

"CHINA TELECOM (728.HK) -Licence  
to preview" Mar 3,2015

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### Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (Rmbm)	321,584.00	324,394.00	330,324.63	343,882.73	357,951.03
YoY (%)	13.60	0.87	1.83	4.10	4.09
Net income (Rmbm)	17,666.00	17,759.00	21,640.46	27,307.69	34,293.21
YoY (%)	17.46	0.53	21.86	26.19	25.58
EPS (Rmb)	0.22	0.22	0.27	0.34	0.42
Diluted EPS (Rmb)	0.22	0.22	0.27	0.34	0.42
ROE (%)	6.34	6.19	5.94	9.11	109.11
Debt/asset (%)	48.70	48.31	42.76	44.73	44.39
Dividend yield (%)	1.79	2.10	2.12	2.59	3.27
PE (x)	17.58	17.45	14.33	11.33	9.02
PB (x)	1.11	1.07	0.85	0.81	0.76
EV/Ebitda (x)	4.12	3.80	3.70	3.39	2.98

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercise..

### 投资要点:

- **业绩略低于一致预期。** 中国电信发布 2014 年经营收入（含话机销售）为人民币 3244 亿元（申万宏源预期 3220 亿元，彭博一致预期 3244 亿元），2014 年全年净利润为 177 亿元（申万宏源预期 174 亿元，彭博一致预期 183 亿元）。净利润略低于彭博一致预期主要原因是营改增负面影响和一次性小灵通（PAS）清频退网减值损失约人民币 13 亿元。公司也提供了不考虑营改增负面影响的备考 14 年全年净利润（即在原先营业税体制下）为人民币 215 亿元（同比上升 22.5%）。
- **资本开支增加符合预期。** 不考虑铁塔公司如期注入存量铁塔资产带来的 60 亿元资本开支节约，公司指引 2015 年资本开支 1080 亿元（申万宏源预期 1100 亿元）。作为三大运营商中拥有铁塔数量最少，电信可通过共享铁塔站址迅速提高网络覆盖，是最大的受益者。公司指引 15 年底 4G 室外宏基站达到 32 万个（15 年新建 20 万个），室内分布系统达到 14 万套（15 年新建 8 万套）。
- **清晰有竞争力的 4G 战略。** 公司计划建设 4G 网络覆盖 120 个重点城市，而这些重点城市代表了全网 75% 的数据流量消耗。此外，3G 设备预计将会从城市转移到农村，借助共享铁塔增厚覆盖。最终 3G 网络将覆盖全国 92% 人口和 80% 的地域。公司估计联发科（2454.TT）今年 6 月推出六模全网通芯片（GSM、WCDMA、TD-SCDMA、CDMA、TDD-LTE、FDD-LTE）将丰富中电信的 4G 话机产业链，促进 4G 迁移。
- **频谱的优势。** 根据我们和行业专家的了解，中电信 1800MHz 的 FDD-LTE 基站可以覆盖 3 倍于中移动 2600MHz TDD-LTE 基站的面积，中电信 800MHz 的 CDMA 3G 基站可以覆盖 10 倍于中移动 2600MHz TDD-LTE 基站的面积。简言之，借助铁塔公司共享基站、频谱和 FDD-LTE 的优势，中电信可以在 120 个重点城市提供比中移动室内/室外更好的 4G LTE 覆盖，在农村地带可以提供接近于中移动 4G 的 3G 覆盖。
- **ARPU 反转。** 我们估计中电信 14 年 1-4 季度平均移动 Arpu 分别为人民币 55.0 元、58.0 元、52.6 元和 50.4 元，主要是由于下半年有营改增和营销方式转变的影响。然而，我们估计 15 年中电信的移动 Arpu 将面临反转，从 14 年人民币 54.0 元（同比下滑 1.5%）提升到 15 年人民币 54.8 元（同比上升 1.5%）。同时我们注意到中电信是三家受 OTT 影响最小的运营商，用户平均每月通话分钟数稳中有升，14 年 1-4 季度分别为 277 分钟、308 分钟、310 分钟和 302 分钟。
- **上调至增持评级。** 考虑到 Arpu 反转和有效的成本管控，我们维持 15E EPS 0.27 元（同比增加 21.9%）不变，上调 16 年 EPS 从 0.33 元到人民币 0.34 元（同比增加 25.2%），同时预计 17 年 EPS 为 0.42 元（同比增加 25.6%）。我们维持目标价 5.4 港币不变，对应 16.0 倍 15 年 PE，12.6 倍 16 年 PE 和 10.1 倍 17 年 PE。对应 11.6% 的上涨空间，我们上调评级从持有到增持。中国电信仍然作为我们三大运营商的首选标的。

**2014 results.** China Telecom reported 2014 full-year revenue of Rmb324.4bn (above SWS forecast of Rmb322.0bn but in line with Bloomberg consensus of Rmb324.4bn) and full-year net profit of Rmb17.7bn (SWS estimate Rmb17.4bn vs Bloomberg consensus Rmb18.3bn). The lower than consensus net income was mainly due to the impact of VAT reform in the telecom sector, as well as a one-time write-off of c.Rmb1.3bn associated with the aging Personal Access System (PAS). The company reported pro forma net profit (excluding the VAT impact) of Rmb21.5bn (+22.5% YoY).

**Expected aggressive Capex guidance.** The company guided a c.Rmb108bn (SWS forecast of Rmb110bn) Capex budget for 2015 without consideration of a c.Rmb6bn benefit from its tower sharing joint venture with other telcos. As the largest beneficiary of the JV, China Telecom plans to expand its network to 320k (+200k in 2015) 4G base stations, and 140k (+80k in 2015) indoor radio distribution system stations by end-2015.

**Clear and competitive 4G strategy.** The company plans to build a 4G network covering the 120 cities in which c.75% of mobile data traffic in China is consumed, and will likely shift 3G equipment to rural areas to expand its 3G network to cover 92% of the population. Furthermore, the company expects MediaTek's (2454: TT) six-mode LTE communication chipset to be released June-2015 will enrich its handsets offerings and support 4G migration.

**Advantage of spectrums.** According to our interview with industry experts, one China Telecom base station with sub-1800MHz FDD-LTE technology could provide coverage over an area three times the size of that of China Mobile's sub-2600MHz TDD-LTE technology, and each China Telecom base station with sub-800MHz CDMA 3G technology could cover 10x the area of China Mobile's TDD-LTE stations. Simply speaking, China Telecom could provide equivalent 3G coverage under 800MHz to China Mobile's 4G coverage in rural areas, and better indoor/outdoor 4G coverage under 1800MHz in urban areas than China Mobile's 4G coverage.

**Arpu turning around.** We estimate blended mobile average revenue per user (Arpu) Rmb55.0 in 1Q14, Rmb58.0 in 2Q14, Rmb52.6 in 3Q14 and Rmb50.4 in 4Q14 mainly because of VAT reform and transformation of marketing system in 2H14. However, we expect Arpu will turn around from Rmb54.0 (-1.5% YoY) in 2014 to Rmb54.8 (+1.5% YoY) in 2015. Also, we note that China Telecom is the least negatively affected by over-the-top (OTT) competition.

**Upgrade to Outperform.** We maintain our EPS forecast of Rmb0.27 (+21.9% YoY) in 15E, slightly revise up our EPS forecasts from Rmb0.33 to Rmb0.34 (+26.2% YoY) in 16E, and expect EPS of Rmb0.42 (+25.6% YoY) in 17E. We maintain our target price of HK\$5.4, representing 16.0x 15E, 12.6x 16E PE and 10.1x 17E PE. With 11.6% upside, we upgrade our rating from Hold to Outperform. China Telecom remains our top pick among the three operators.

## Appendix

**Table 1: Consolidated Income Statement**

million RMB	2013	2014	2015E	2016E	2017E
Revenue	321584.00	324394.00	330324.63	343882.73	357951.03
CostofSales	154585.00	166822.00	161687.82	168318.46	173099.53
GrossProfit	166999.00	157572.00	168636.81	175564.27	184851.51
OtherIncome	773.00	40.00	50.00	50.00	50.00
SGAExpenses	139531.00	129064.00	134349.52	133720.68	133693.90
EBITDA	90929.56	93272.12	102499.11	114218.19	127317.21
EBIT	27468.00	28508.00	34287.29	41843.59	51157.61
FinanceCosts	5153.00	5291.00	5500.00	5500.00	5500.00
ProfitBeforeTax	23088.00	23257.00	28837.29	36393.59	45707.61
IncomeTaxExpense	5422.00	5498.00	7196.82	9085.90	11414.40
MinorityInterests	121.00	79.00	120.00	81.92	102.88
ProfitfortheYear	17666.00	17759.00	21640.46	27307.69	34293.21

**Table 2: Consolidated Cash Flow Statement**

million RMB	2013	2014	2015E	2016E	2017E
ProfitBeforeTaxation	23088.00	23257.00	28837.29	36393.59	45707.61
DeprAndAmortisation	63461.56	64764.12	68211.82	72374.60	76159.60
FinanceCost	5153.00	5291.00	5500.00	5500.00	5500.00
LossesFromInvestments	0.00	0.00	0.00	0.00	0.00
ChangeInWorkingCapital	(25892.00)	6833.00	(7114.18)	5250.72	3499.92
Others	(1731.48)	8823.81	254.28	(112.54)	(188.06)
CFFFromOperatingActivities	88351.00	95933.93	82259.21	105976.38	117249.08
CAPEX	79292.75	80902.49	110868.08	104501.37	94640.32
OtherCFFFromInvestingActivities	(1023.50)	(4019.46)	(7301.00)	(3430.00)	(5531.00)
CFFFromInvestingActivities	(107948.00)	(79686.95)	(112639.08)	(102401.37)	(94641.32)
EquityFinancing	0.00	0.00	0.00	0.00	0.00
NetChangeInLiabilities	4490.00	12665.00	44750.00	29750.00	9750.00
DividendAndInterstPaid	(5522.25)	(6491.65)	(6541.60)	(7982.95)	(10073.53)
OtherCFFFromFinancingActivities	1353.74	(3523.77)	(2055.27)	(4132.28)	(4190.28)
CFFFromFinancingActivities	5637.00	2649.58	36153.13	17634.76	(4513.82)
NetCashFlow	(13960.00)	18896.56	5773.26	21209.77	18093.94
FCFF	138908.31	175509.61	199056.19	214884.39	214043.06
FCFE	138245.31	182883.61	238306.19	239134.39	218293.06

**Table 3: Consolidated Balance Sheet**

million RMB	2013	2014	2015E	2016E	2017E
CurrentAssets	52783.00	59543.00	83271.05	105735.72	124928.91
BankBalancesAndCash	16070.00	20436.00	40739.82	61949.59	80044.52
TradeAndOtherReceivables	20022.00	21562.00	22021.64	22925.52	23863.40
Inventories	6523.00	4225.00	5389.59	5610.62	5769.98
OtherCurrentAssets	7881.00	11941.00	12000.00	12000.00	12000.00

LongTermInvestment	2132.00	2050.00	2200.00	2470.00	2470.00
PPE	418498.00	426057.00	480087.83	512411.53	531271.09
IntangibleAndOtherAssets	37962.00	37909.88	37892.84	37695.91	37317.07
TotalAssets	543239.00	561274.00	636151.72	688813.16	726488.07
CurrentLiabilities	200098.00	206325.00	188929.05	215204.67	219803.85
Borrowings	16735.00	0.00	30000.00	50000.00	50000.00
TradeAndOtherPayables	150765.00	160900.00	155469.05	161844.67	166441.85
OtherCurrentLiabilities	1203.00	2150.00	2870.00	2750.00	2751.00
LongTermLiabilities	64477.00	65448.00	80388.00	90168.00	99920.00
TotalLiabilities	264575.00	271166.00	272037.05	308122.67	322474.85
MinorityInterests	923.00	925.00	989.92	1071.84	1174.72
ShareholderEquity	277246.75	289183.10	304106.96	323281.71	347352.38
ShareCapital	80932.00	80932.00	80932.00	80932.00	80932.00
Reserves	104011.80	107332.80	110394.13	114328.00	119307.55
EquityAttributable	92302.95	100918.30	112780.83	128021.71	147112.83
TotalLiabilitiesAndEquity	543239.00	561274.10	577133.94	632476.22	671001.96

**Table 4: Key Financial Ratios**

	2013	2014	2015E	2016E	2017E
Ratios per share (RMB)					
Earnings per share	0.2168	0.2185	0.2659	0.3364	0.4225
OperatingCFPerShare	1.0917	1.1854	1.0164	1.3094	1.4487
DividendPerShare	0.0682	0.0802	0.0808	0.0986	0.1245
Key Operating Ratios(%)					
NetAssetsPerShare	3.4432	3.5458	4.4990	4.7038	4.9920
ROIC	7.9782	8.3386	8.5224	9.4237	11.1846
ROE	6.3395	6.1884	5.9433	9.1141	109.1141
GrossProfitMargin					
EBITDAMargin	28.2755	28.7527	31.0298	33.2143	35.5683
EBITMargin	8.5415	8.7881	10.3799	12.1680	14.2918
GrowthRateOfRevenue	13.6046	0.8738	1.8282	4.1045	4.0910
GrowthRateOfProfit	17.4601	0.5264	21.8563	26.1881	25.5808
DebtToAssetRatio	48.7032	48.3126	42.7629	44.7324	44.3882
TurnoverRateOfNetAssets	1.1540	1.1182	1.0827	1.0602	1.0270
TurnoverRateOfTotalAssets	0.5920	0.5780	0.5193	0.4992	0.4927
EffectiveTaxRate	24.2976	23.6809	25.0000	25.0000	25.0000
DividendYield	1.7904	2.1047	2.1209	2.5882	3.2660
Valuation Ratios (X)					
PE	17.5797	17.4454	14.3322	11.3288	9.0211
PB	1.1068	1.0748	0.8471	0.8102	0.7634
EVSale	1.1645	1.0924	1.1476	1.1275	1.0602
EVEBITDA	4.1186	3.7993	3.6983	3.3946	2.9806

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