



Rating
Buy

Asia
China

Telecommunications
Fixed Line

Company
**China Telecom Corp
Ltd Alert**

Reuters 0728.HK	Bloomberg 728 HK	Exchange HKG	Ticker 0728
ADR Ticker CHA	ISIN US1694261033		

Date
18 March 2015

Results

Price at 18 Mar 2015 (HKD)	4.84
Price target - 12mth (HKD)	5.60
52-week range (HKD)	5.17 - 3.15
HANG SENG INDEX	23,901

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4Q in line; confident 2015 tone

4Q in line; confident with regard to 2015 prospects

China Telecom reported 4Q14 operating rev of RMB80.8b (-3%YoY/+4%QoQ), 2% behind DBE and in line with consensus, Net profit was RMB1.5b (-47%YoY/-68%QoQ), 1% ahead of DBE and in line with most street estimates. 2014 blended ARPU was RMB54 (-1.5%YoY/-4.4% HoH). We expect 4G to drive both user and blended ARPU improvements in 2015, as CT leverages its full FDD license and broad upcoming base station deployment. Marketing spend and cash subsidies should continue to go down.

4G focus on coverage across cities; user growth momentum

The co intends to cover all cities with 4G services in 2015, representing 92% by population and 80% by geographical span. CT plans to expand its network to over 320k macro 4G base stations (+200k YoY) and over 140k indoor distribution systems (+80k YoY) by 2015-end, making its claimed 4G network quality comparable with that of China Mobile in urban areas. 4G users ramped to 7m at 2014-end. CT seems confident in bringing on some 60m users by 2015-end. 4G ARPU was ~RMB90 at 2014-end and should trend down as mid-low end users come on board. The co delivered Feb-2015 mobile net adds of 0.9m, including a 0.9m 2G user loss and 1.8m 3G+4G user adds. We believe the extensive deployment of base stations will trigger a clear user recovery in 2015. Nearly all subscribers should be 4G by 2016-end.

Capex budget hikes; opex structure improvements likely to continue

Given a full FDD license award and accelerated deployment, the co increased its 2015 capex budget to RMB107.8b, including RMB6b in tower spend which the TowerCo could instead absorb. The co expects continued decline in S&M expense and handset subsidies per the govt dictate in 2015. Given already intense competition, we do not expect tariffs to deteriorate in 2015. We envision some margin improvement coming from cost cutting efforts in 2015.

Maintain TP and Buy

We tweak 2015/16E NP forecast by +1%/0%, and maintain our operating rev forecast, and launch 2017 forecast. We derive our TP using a DCF approach which utilizes a 8.9% WACC (9.3% cost of equity; 0.973 beta) and a 0% perpetual growth rate. Our cost of debt assumption and target Debt/Equity ratio are 4.5% and 10/90, respectively. Downside risks: higher spending in marketing and subsidies, heavier tariff competition, higher capex, slower mobile net adds.

Stock data

Market cap (HKDm)	391,713
Market cap (USDm)	50,452
Shares outstanding (m)	80,932.0
Major shareholders	China Telecom Corp (72.87%)
Free float (%)	16
Avg daily value traded (USDm)	36.2

Source: Deutsche Bank

Key data

FYE 12/31	2014A	2015E	2016E
Sales (CNYm)	324,394	333,059	349,623
Net Profit (CNYm)	17,680.0	20,315.8	24,214.5
DB EPS (CNY)	0.22	0.25	0.30
PER (x)	15.0	15.5	13.0
Yield (net) (%)	2.3	1.9	1.9

Source: Deutsche Bank

Deutsche Bank AG/Hong Kong

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