

Company Report

China Merchants Securities (HK) Co., Ltd
Hong Kong Equity Research

China Mobile (941 HK)

In the midst of 4G transition; Maintain BUY

- FY14 results in-line; Expect weaker ARPU to recover in FY15E
- Multiple catalysts ahead: improving 4G network quality/coverage, stabilising ARPU, TowerCo progress, stronger data revenue growth
- Maintain BUY with DCF-derived TP HK\$105

4Q14 results in-line despite weaker ARPU on tariff subsidy

China Mobile (CM) reported 4Q14 revenue of RMB160.8bn (-4% YoY), below our/consensus estimates by 5%/3%, with in-line 4Q EBITDA (+8% YoY) and net profit (-12% YoY). 4Q14 EBITDA margin declined 30bps qoq to 36.8% on higher personnel cost and network costs. CM's ARPU further declined by 12% YoY to RMB60 (vs -9% YoY in 3Q14), due to VAT impact, IC change and higher tariff subsidy, while 4G ARPU came in at RMB104 (1.7x blended ARPU). Mgmt guided ARPU to be stable in FY15E or reverse the decline trend in 2H15, which is positive in our view.

FY15E: CAPEX peaked, strict cost control, faster data growth

FY15E CAPEX is guided to decline YoY to RMB199.7bn (vs RMB213.5bn in FY14), with RMB72bn for 4G (vs RMB81bn in FY14), mainly for improving network coverage and quality. 4G BTS is expected to reach 1mn by FY15E (vs 720k in FY14), and 4G subs to reach 250mn by FY15E (vs 123.4mn in Feb15), accounting for ~30% of CM's total subs in FY15E. We are positive on mgmt guidance of selling expense decline by another RMB20bn in FY15E (following Rmb23bn cut in FY14). Mobile data revenue growth is impressive (+43% YoY in FY14), driven by 115% mobile traffic YoY growth, which we believe should continue to offset voice revenue decline (-13% YoY in FY14, vs -3% in FY13).

Valuation/ Risks

In the near term, we expect market concern over weaker ARPU trend, margin pressure and higher depreciation. However, we expect CM to leverage its 4G first-mover advantage and maturing TD-LTE supply chain to boost mobile sub/ARPU and further widen 4G leadership in FY15. Maintain BUY with DCF-derived TP of HK\$105, implying FY15E 15.2x PE and 5.1x EV/EBITDA with 3.7% dividend yield. Future catalysts include stabilising ARPU, expanding 4G user base, internet-related business, better 4G network, and tower company progress.

Financials

| RMB mn | 2012 | 2013 | 2014 | 2015E | 2016E |
|------------|---------|---------|---------|---------|---------|
| Revenue | 581,835 | 630,177 | 641,448 | 713,624 | 772,718 |
| Growth (%) | 10.2% | 8.3% | 1.8% | 11.3% | 8.3% |
| Net profit | 129,274 | 121,692 | 109,279 | 118,385 | 127,587 |
| Growth (%) | 2.7% | -5.9% | -10.2% | 8.2% | 7.8% |
| EPS (RMB) | 6.43 | 6.05 | 5.38 | 5.89 | 6.35 |
| DPS (HKD) | 3.33 | 3.25 | 2.92 | 3.17 | 3.41 |
| P/E (x) | 11.1 | 11.8 | 14.5 | 13.3 | 12.3 |
| P/B (x) | 2.2 | 2.0 | 1.8 | 1.7 | 1.6 |
| ROE (%) | 17.8% | 15.4% | 12.7% | 12.9% | 12.8% |

Source: Company data, CMS (HK) estimates

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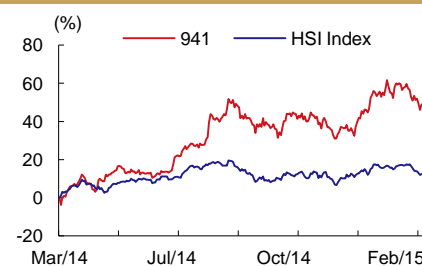
WHAT'S NEW

N/A

BUY

| | |
|--|---------------|
| Previous | BUY |
| Price | HK\$100.1 |
| 12-month Target Price (Potential upside) | HK\$105 (+5%) |
| Previous | HK\$105 |

Price Performance



Source: Bigdata

| % | 1m | 6m | 12m |
|--------|-------|-------|------|
| 941 HK | (3.7) | 7.3 | 55.0 |
| HSI | (2.9) | (0.2) | 11.8 |

Industry: Technology, Media & Telecom

| | |
|-----------------|-------|
| Hang Seng Index | 24469 |
| HSCEI | 12122 |

Key Data

| | |
|------------------------|-------------|
| 52-week range (HK\$) | 63.65-108.5 |
| Market cap (HK\$ bn) | 2049.5 |
| Avg. daily volume (mn) | 19.05 |
| BVPS (HK\$) | 52.87 |

Shareholdings Structure

| | |
|---------------------------|----------|
| China Mobile HK BVI Ltd | 72.73% |
| BlackRock | 0.96% |
| Vanguard | 0.76% |
| No. of shares outstanding | 20475.0M |
| Free float | 27.27% |

Related Research

- 1) China Mobile (941 HK) – Accelerating profitability easing transitional pain; Assume coverage with BUY and TP HK\$105 – 23 Oct 2014
- 2) China Mobile (941 HK) - Key takeaways from CM Global Partner Conference; FY15 4G strategy affirms our positive view – 24 Dec 2014

4Q14 Financials Review

Figure 1: FY14 Summary

| RMB mn | 2013 | 2014 | YoY% | CMS 2014E | Diff% | Consensus 2014E | Diff% |
|---------------|---------|---------|--------|--------------|-------|--------------------|-------|
| Total revenue | 630,177 | 641,448 | 1.8% | 649,505 | -1.2% | 646,289 | -0.7% |
| EBITDA | 240,426 | 235,259 | -2.1% | 239,018 | -1.6% | 237,728 | -1.0% |
| Net profit | 121,692 | 109,279 | -10.2% | 107,332 | 1.8% | 109,319 | 0.0% |
| EPS (RMB) | 6.05 | 5.38 | -11.0% | 5.34 | 0.9% | 5.37 | 0.3% |
| EBITDA margin | 38.2% | 36.7% | | 36.8% | | 36.8% | |
| Net margin | 19.3% | 17.0% | | 16.5% | | 16.9% | |

Source: Company, CMS(HK)

Figure 2: 4Q14 Summary

| RMB mn | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | % YoY | % QoQ |
|--------------------------|----------------|----------------|----------------|----------------|----------------|---------------|-------------|
| Operating revenue | 167,169 | 154,828 | 169,853 | 156,554 | 160,213 | -4.2% | 2.3% |
| yoy growth (%) | 10.1% | 7.8% | 6.5% | -2.1% | -4.2% | | |
| EBITDA | 54,754 | 57,592 | 60,673 | 58,073 | 58,921 | 7.6% | 1.5% |
| yoy growth (%) | -17.5% | -5.9% | -2.9% | -6.3% | 7.6% | | |
| Margin (%) | 32.8% | 37.2% | 35.7% | 37.1% | 36.8% | | |
| Net profit | 30,197 | 25,244 | 32,498 | 24,860 | 26,677 | -11.7% | 7.3% |
| yoy growth (%) | -16.0% | -9.5% | -7.8% | -8.5% | -11.7% | | |
| Margin (%) | 18.1% | 16.3% | 19.1% | 15.9% | 16.7% | | |

Source: Company, CMS(HK)

Figure 3: 4Q14 Operating Data

| | 4Q13 | 1Q14 | 2Q14 | 3Q14 | 4Q14 | % YoY | % QoQ |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|
| Total Mobile subs (mn) | 767.21 | 781.08 | 790.61 | 799.13 | 806.63 | 5.1% | 0.9% |
| 2G | 575.59 | 553.31 | 538.15 | 513.72 | 470.82 | -18.2% | -8.4% |
| 3G | 191.62 | 224.98 | 238.52 | 244.46 | 245.75 | 28.3% | 0.5% |
| 4G | - | 2.79 | 13.94 | 40.95 | 90.06 | N/A | 119.9% |
| Mobile Net adds (mn) | 12.02 | 13.88 | 9.53 | 8.52 | 7.50 | -37.6% | -11.9% |
| 2G | -10.10 | -22.26 | -15.16 | -24.43 | -42.90 | 324.8% | 75.6% |
| 3G | 22.12 | 33.35 | 13.54 | 5.94 | 1.29 | -94.2% | -78.2% |
| 4G | 0 | 2.79 | 11.15 | 27.01 | 49.11 | N/A | 81.8% |
| Blended ARPU (RMB) | 68.1 | 62.0 | 65.4 | 61.3 | 59.7 | -12.3% | -2.6% |
| yoy growth (%) | -4.1% | -1.6% | -4.1% | -8.7% | -12.3% | | |
| Total voice usage (Min bn) | 1,095.7 | 1,043.3 | 1,090.8 | 1,077.0 | 1,082.8 | -1.2% | 0.5% |
| yoy growth (%) | 2.4% | 0.6% | -0.8% | -0.5% | -1.2% | | |
| MOU (Min/Sser/Mth) | 476.0 | 456.0 | 460.0 | 452.0 | 456.9 | -4.0% | 1.1% |
| yoy growth (%) | -5.4% | -6.6% | -8.0% | -6.4% | -4.0% | | |
| Mobile data traffic (Mb bn) | 161.9 | 190.1 | 236.4 | 298.2 | 408.2 | 152.1% | 36.9% |
| yoy growth (%) | 80.5% | 83.8% | 98.0% | 109.9% | 152.1% | | |
| SMS usage (Message bn) | 163.8 | 153.0 | 152.8 | 149.5 | 156.1 | -4.7% | 4.4% |
| yoy growth (%) | -10.3% | -20.6% | -19.2% | -20.7% | -4.7% | | |

Source: Company, CMS(HK)

Figure 4: Key assumptions

| | 2012 | 2013 | 2014 | 2015E | 2016E |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Mobile Subscribers (mn) | | | | | |
| 2G Subs | 622 | 576 | 471 | 435 | 345 |
| - Net adds | 24 | (47) | (105) | (36) | (90) |
| yoy growth (%) | 4% | -8% | -18% | -8% | -21% |
| 3G Subs | 88 | 192 | 246 | 290 | 310 |
| - Net adds | 37 | 104 | 54 | 44 | 20 |
| yoy growth (%) | 72% | 118% | 28% | 18% | 7% |
| 4G Subs | 0 | 0 | 90 | 150 | 250 |
| - Net adds | 0 | 0 | 90 | 60 | 100 |
| yoy growth (%) | 0% | 0% | 0% | 67% | 67% |
| Total Mobile Subs | 710 | 767 | 807 | 875 | 905 |
| Blended ARPU (RMB/User/Mth) | | | | | |
| | 68.0 | 67.0 | 61.0 | 64.8 | 66.9 |
| yoy growth (%) | -4.2% | -1.5% | -9.0% | 6.2% | 3.3% |
| Blended MOU (Min/User/Mth) | | | | | |
| | 512 | 486 | 453 | 429 | 408 |
| yoy growth (%) | -2.5% | -5.1% | -6.8% | -5.2% | -5.0% |
| Total Voice Usage (Min bn) | | | | | |
| | 4,192 | 4,316 | 4,294 | 4,325 | 4,314 |
| yoy growth (%) | 7.8% | 3.0% | -0.5% | 0.7% | -0.3% |
| Mobile data traffic (Mb bn) | | | | | |
| | 290 | 527 | 1133 | 2191 | 3506 |
| yoy growth (%) | 80% | 82% | 115% | 93% | 60% |
| SMS usage (Message bn) | | | | | |
| | 745 | 734 | 611 | 684 | 663 |
| yoy growth (%) | 1.1% | -1.4% | -16.7% | 11.8% | -3.0% |
| Capex (RMB mn) | | | | | |
| | 127,400 | 184,900 | 213,500 | 202,888 | 162,311 |
| as % of revenue | 21.9% | 29.3% | 33.3% | 28.4% | 21.0% |
| yoy growth (%) | -0.9% | 45.1% | 15.5% | -5.0% | -20.0% |
| Income Stmt (RMB mn) | | | | | |
| Voice services | 368,025 | 355,686 | 308,959 | 302,744 | 293,359 |
| Data services | 166,348 | 206,886 | 253,088 | 323,552 | 387,414 |
| Other services | 26,040 | 28,239 | 19,770 | 32,328 | 33,944 |
| Sales of products | 21,422 | 39,366 | 59,631 | 55,000 | 58,000 |
| Total Revenue | 581,835 | 630,177 | 641,448 | 713,624 | 772,718 |
| yoy growth (%) | 10.2% | 8.3% | 1.8% | 11.3% | 8.3% |
| EBITDA | | | | | |
| | 253,600 | 240,426 | 235,259 | 264,754 | 286,678 |
| yoy growth (%) | 1.0% | -5.2% | -2.1% | 12.5% | 8.3% |
| Margin (%) | 43.6% | 38.2% | 36.7% | 37.1% | 37.1% |

Source: Company, CMS(HK)

Valuation

Maintain BUY and DCF-based 12-m TP at HK\$105

Our 12-m target price is based on a 10-year DCF valuation that assumes a WACC of 16.7% derived from cost of equity of 16.7%, cost of debt of 6.5%, risk premium of 11.5% and a risk-free rate of 4.0%. We assume a beta of 1.1 and terminal growth rate of 1.0%.

CM is trading at FY15E/FY16E 4.3x/4.0x EV/EBITDA and 13.3x/12.3 P/E, with a 3.9% dividend yield. Our target price of HK\$105 implies a P/E of 15.2x/13.9x and EV/EBITDA of 5.1x/4.5x for FY15E/FY16E.

Catalysts include improving blended ARPU, expanding 4G user base, internet-related business, better 4G network coverage, and CAPEX saving from Tower company. Key downside risks include intensified competition, higher capex plan, and slower 4G network coverage/quality.

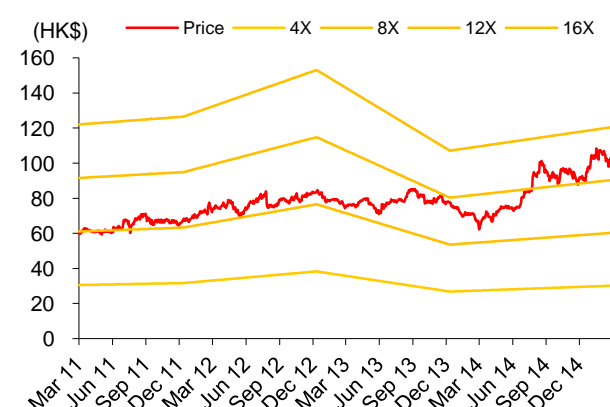
Figure 5: CM's DCF analysis

| RMB million | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E |
|-----------------------|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| EBIT | 124,220 | 138,575 | 150,525 | 161,981 | 168,875 | 175,239 | 180,044 | 180,044 | 185,446 | 189,155 |
| (-) Tax | (32,060) | (35,362) | (38,110) | (40,495) | (42,219) | (43,810) | (45,011) | (45,011) | (46,361) | (47,289) |
| NOPAT | 92,160 | 103,213 | 112,415 | 121,486 | 126,657 | 131,430 | 135,033 | 135,033 | 139,084 | 141,866 |
| (+) Depre. & Amort. | 114,798 | 126,179 | 136,153 | 142,280 | 147,971 | 153,150 | 157,744 | 161,688 | 164,922 | 168,220 |
| (-) Working capital | (9,998) | 17,737 | (13,143) | 19,715 | 22,672 | 24,939 | 26,934 | 28,550 | 29,692 | 30,286 |
| (-) CAPEX | (225,431) | (202,888) | (162,311) | (129,848) | (110,371) | (99,334) | (91,387) | (85,904) | (81,609) | (77,528) |
| Free Cash Flow | (28,471) | 44,241 | 73,114 | 153,632 | 186,928 | 210,185 | 228,325 | 239,368 | 252,090 | 262,844 |

| | | WACC Assumptions | |
|---------------------------------|--------------|------------------|--------------|
| Terminal growth rate | 1.0% | Cost of equity | 16.7% |
| PV of Terminal value | 663,062 | Cost of debt | 6.5% |
| Implied Terminal FCF multiple | 8.597 | Tax rate | 25.0% |
| Sum of NPV | 1,286,366 | Risk-free rate | 4.0% |
| Net Cash / (Debt) | 414,919 | Risk Premium | 11.5% |
| Net Value | 1,701,285 | Beta | 1.1 |
| Shares outstanding (mn) | 20,210 | Target D/(D+E) | 0.20 |
| Equity value (RMB/share) | 84.2 | Exchange Rate | 0.80 |
| Equity value (HKD/share) | 105.0 | WACC | 14.3% |

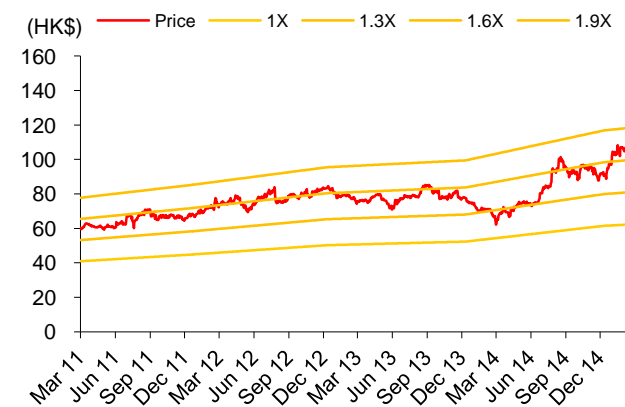
Source: Company, CMS(HK)

Figure 6: PE Band



Source: Company, CMS(HK)

Figure 7: PB Band



Source: Company, CMS(HK)

Figure 8: Asia peers valuation comparison

| Name | Ticker | Price (LC) | Mkt Cap (USD mn) | PE | | | EV/EBITDA | | | PB | | | ROE | | | DY | |
|--------------------------|-----------|------------|------------------|-------------|-------------|-------------|-------------|-------------|-------------|------------|------------|------------|-------------|-------------|-------------|------------|-----|
| | | | | FY13A | FY14E | FY15E | FY13A | FY14E | FY15E | FY13A | FY14E | FY15E | FY13A | FY14E | FY15E | | |
| CHINA MOBILE | 941 HK | 100.1 | 264,093 | 14.5 | 13.3 | 12.3 | 4.9 | 4.3 | 4.0 | 1.8 | 1.7 | 1.6 | 12.7 | 12.9 | 12.8 | 3.4 | |
| CHINA UNICOM | 762 HK | 11.94 | 36,844 | 19.7 | 16.1 | 15.0 | 4.0 | 3.6 | 3.4 | 1.2 | 1.2 | 1.1 | 4.8 | 5.9 | 6.1 | 2.1 | |
| CHINA TELECOM | 728 HK | 5.03 | 52,457 | 13.5 | 16.0 | 14.3 | 3.9 | 3.8 | 3.7 | 1.1 | 1.1 | 1.0 | 7.0 | 6.5 | 6.8 | 2.2 | |
| China Average | | | | 15.9 | 15.1 | 13.9 | 4.3 | 3.9 | 3.7 | 1.4 | 1.3 | 1.2 | 8.2 | 8.4 | 8.6 | 2.6 | |
| HUTCHISON TELECOM | 215 HK | 3.77 | 2,341 | 23.3 | 19.3 | 17.5 | 7.7 | 8.6 | 8.0 | 1.6 | 1.6 | 1.5 | 6.9 | 8.2 | 8.8 | 3.8 | |
| SMARTONE TELECOM | 315 HK | 14.98 | 2,032 | 26.9 | 19.9 | 18.7 | 5.0 | 5.7 | 5.5 | 4.9 | 4.3 | 4.0 | 19.7 | 23.8 | 22.9 | 3.2 | |
| PCCW LTD | 8 HK | 4.69 | 4,504 | 14.4 | 13.9 | 12.2 | 8.8 | 6.6 | 5.5 | 3.0 | 3.1 | 2.9 | 24.3 | 23.2 | 24.5 | 5.2 | |
| HKT TRUST AND HKT | 6823 HK | 10.16 | 9,913 | 23.5 | 19.3 | 17.7 | 14.0 | 10.9 | 8.9 | 2.0 | 2.0 | 2.0 | 9.3 | 10.3 | 11.1 | 5.3 | |
| Hong Kong Average | | | | 22.0 | 18.1 | 16.5 | 8.9 | 8.0 | 7.0 | 2.9 | 2.8 | 2.6 | 15.1 | 16.4 | 16.8 | 4.4 | |
| CHUNGHWA TELECOM | 2412 TT | 99 | 24,428 | 20.1 | 20.3 | 19.8 | 9.3 | 9.4 | 9.3 | 2.2 | 2.1 | 2.1 | 10.6 | 10.5 | 10.8 | 4.7 | |
| TAIWAN MOBILE | 3045 TT | 109.5 | 11,915 | 19.6 | 20.4 | 19.1 | 13.9 | 13.6 | 13.0 | 5.4 | 5.4 | 5.3 | 26.1 | 25.2 | 26.5 | 4.7 | |
| Taiwan Average | | | | 19.9 | 20.4 | 19.4 | 11.6 | 11.5 | 11.1 | 3.8 | 3.8 | 3.7 | 18.4 | 17.9 | 18.7 | 4.7 | |
| KT CORP | 030200 KS | 29950 | 6,988 | #N/A | N/A | 12.5 | 11.3 | 4.2 | 5.6 | 4.0 | 0.7 | 0.7 | 0.7 | -5.8 | 5.2 | 5.6 | 2.6 |
| SK TELECOM | 017670 KS | 290500 | 20,961 | 12.4 | 10.4 | 9.9 | 6.0 | 6.1 | 5.6 | 1.6 | 1.4 | 1.3 | 12.5 | 13.9 | 13.3 | 3.4 | |
| LG UPLUS CORP | 032640 KS | 11200 | 4,370 | 20.3 | 12.1 | 10.1 | 5.0 | 4.6 | 4.0 | 1.2 | 1.1 | 1.0 | 6.0 | 9.4 | 10.3 | 2.5 | |
| Korea Average | | | | 16.3 | 11.3 | 10.0 | 5.5 | 5.4 | 4.8 | 1.4 | 1.3 | 1.2 | 9.2 | 11.6 | 11.8 | 2.9 | |
| NTT DOCOMO INC | 9437 JP | 2231 | 80,689 | 18.1 | 20.8 | 18.8 | 6.3 | 6.3 | 7.2 | 1.6 | 1.6 | 1.6 | 9.2 | 7.8 | 8.4 | 2.9 | |
| KDDI CORP | 9433 JP | 8290 | 61,611 | 20.5 | 15.9 | 14.1 | 9.0 | 7.4 | 6.8 | 2.6 | 2.3 | 2.1 | 13.9 | 15.5 | 15.8 | 2.0 | |
| SOFTBANK CORP | 9984 JP | 7032 | 69,956 | 16.9 | 12.3 | 15.0 | 15.9 | 9.7 | 8.5 | 4.1 | 3.2 | 2.5 | 25.2 | 29.1 | 21.8 | 0.6 | |
| Japan Average | | | | 18.5 | 16.4 | 16.0 | 10.4 | 7.8 | 7.5 | 2.8 | 2.4 | 2.1 | 16.1 | 17.5 | 15.3 | 1.8 | |
| BHARTI AIRTEL LTD | BHARTI IN | 381.95 | 24,411 | 49.8 | 26.8 | 22.3 | 8.7 | 7.7 | 6.8 | 2.5 | 2.3 | 2.1 | 5.5 | 8.9 | 9.4 | 0.6 | |
| RELIANCE COMM | RCOM IN | 63.65 | 2,533 | 11.3 | 18.4 | 13.3 | 10.1 | 8.8 | 9.0 | 0.4 | 0.4 | 0.4 | 3.7 | 2.6 | 3.1 | 0.6 | |
| India Average | | | | 30.5 | 22.6 | 17.8 | 9.4 | 8.3 | 7.9 | 1.5 | 1.4 | 1.3 | 4.6 | 5.8 | 6.2 | 0.6 | |
| M1 LTD | M1 SP | 3.78 | 2,552 | 20.1 | 18.6 | 17.6 | 12.0 | 11.5 | 10.8 | 8.6 | 8.5 | 8.2 | 44.1 | 47.0 | 47.4 | 4.9 | |
| SINGAPORE TELECOM | ST SP | 4.23 | 48,723 | 18.5 | 17.8 | 16.8 | 14.7 | 15.1 | 14.9 | 2.7 | 2.7 | 2.6 | 14.9 | 15.5 | 15.5 | 4.1 | |
| PHILIPPINE LONG DIST. | TEL PM | 2850 | 13,745 | 16.6 | 17.5 | 17.0 | 9.1 | 9.5 | 9.4 | 4.5 | 4.5 | 4.4 | 27.3 | 26.3 | 26.4 | 5.3 | |
| TELEKOM MALAYSIA | T MK | 7 | 7,059 | 29.7 | 26.5 | 24.4 | 8.7 | 8.1 | 7.6 | 3.5 | 3.4 | 3.3 | 11.8 | 12.7 | 13.9 | 3.5 | |
| Others Average | | | | 21.2 | 20.1 | 18.9 | 11.1 | 11.1 | 10.7 | 4.8 | 4.8 | 4.6 | 24.5 | 25.4 | 25.8 | 4.5 | |

Source: Company, Bloomberg, CMS(HK)

Financial Summary

Balance Sheet

| RMB million | 2012 | 2013 | 2014 | 2015E | 2016E |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|
| Current Assets | 446,593 | 467,189 | 477,583 | 514,115 | 607,593 |
| Cash & equivalents | 402,903 | 419,908 | 421,557 | 459,080 | 551,461 |
| Accounts receivable | 11,722 | 13,907 | 16,340 | 16,472 | 14,437 |
| Other receivables | 8,605 | 11,649 | 14,398 | 12,845 | 13,909 |
| Prepayments | 15,913 | 11,832 | 15,344 | 14,272 | 15,454 |
| Inventories | 7,195 | 9,152 | 9,130 | 10,704 | 11,591 |
| Other current assets | 8,860 | 12,390 | 15,212 | 13,586 | 14,650 |
| Non-current assets | 605,516 | 700,203 | 818,866 | 795,545 | 766,703 |
| Investment property | 0 | 0 | 3 | 0 | 0 |
| Property, Plant & Eq. | 430,509 | 479,227 | 564,795 | 507,409 | 453,116 |
| Intangible assets | 37,818 | 37,957 | 36,066 | 37,957 | 37,957 |
| Other non-current assets | 137,189 | 183,019 | 218,005 | 250,180 | 275,630 |
| Total assets | 1,052,109 | 1,167,392 | 1,296,449 | 1,309,661 | 1,374,296 |
| Current liabilities | 297,796 | 370,913 | 431,876 | 386,406 | 374,360 |
| Bank loans | 0 | 0 | 0 | 0 | 0 |
| Trade payables | 125,055 | 174,517 | 224,177 | 177,796 | 149,203 |
| Prepaid Accounts | 0 | 0 | 3 | 0 | 0 |
| Other liquid liabilities | 172,741 | 196,396 | 207,699 | 208,611 | 225,157 |
| Long term Liabilities | (29,004) | (5,755) | (5,930) | (5,755) | (5,755) |
| Loans | (28,619) | (4,989) | (4,992) | (4,989) | (4,989) |
| Others | (385) | (766) | (938) | (766) | (766) |
| Total Liabilities | 326,800 | 376,668 | 437,806 | 392,161 | 380,115 |
| Issued capital | 2,142 | 2,142 | 400,737 | 2,142 | 2,142 |
| Capital reserves | 0 | 0 | 3 | 0 | 0 |
| Reserves | 721,305 | 786,631 | 455,839 | 913,406 | 990,088 |
| Minority interests | 1,862 | 1,951 | 2,067 | 1,951 | 1,951 |
| Others | 0 | 0 | 3 | 0 | 0 |
| Total equity and liabilities | 1,052,109 | 1,167,392 | 1,296,449 | 1,309,661 | 1,374,296 |

Cashflow Statement

| RMB million | 2012 | 2013 | 2014E | 2015E | 2016E |
|---------------------------|------------------|------------------|------------------|------------------|------------------|
| Operating cashflow | 230,709 | 224,985 | 238,960 | 297,130 | 290,425 |
| Profit before tax | 171,300 | 158,579 | 139,392 | 153,747 | 165,697 |
| Deprec & Amort. | 101,262 | 105,162 | 114,798 | 126,179 | 136,153 |
| Finance costs, net | (12,271) | (14,958) | (15,172) | (15,172) | (15,172) |
| Investment income | (5,695) | (7,096) | 0 | 0 | 0 |
| Working capital chg | 13,077 | 19,204 | (9,998) | 17,737 | (13,143) |
| Others | (36,964) | (35,906) | 9,940 | 14,638 | 16,890 |
| CF from IA | (191,176) | (171,475) | (210,160) | (187,617) | (147,039) |
| Capital expenditure | (123,232) | (138,997) | (225,431) | (202,888) | (162,311) |
| Other investments | (67,944) | (32,478) | 15,272 | 15,272 | 15,272 |
| CF from FA | (54,897) | (79,431) | (52,427) | (46,252) | (51,005) |
| Borrowings | 0 | 0 | 0 | 0 | 0 |
| Share capital | 531 | 43 | 0 | 0 | 0 |
| Changes of reserves | 0 | 0 | 0 | 0 | 0 |
| Dividends | (55,425) | (55,512) | (52,328) | (46,153) | (50,906) |
| Others | (3) | (23,962) | (100) | (100) | (100) |
| Net cash flow | (15,364) | (25,921) | (23,627) | 63,261 | 92,380 |

Source: Company data, CMS (HK) estimates

Profit & Loss Statement

| RMB million | 2012 | 2013 | 2014 | 2015E | 2016E |
|-------------------------|----------------|----------------|----------------|----------------|----------------|
| Revenues | 581,835 | 630,177 | 641,448 | 713,624 | 772,718 |
| Leased lines | (9,909) | (18,727) | (21,083) | (21,409) | (23,182) |
| Interconnection | (25,140) | (25,998) | (23,389) | (32,113) | (34,772) |
| Personnel | (31,256) | (34,376) | (36,830) | (39,249) | (41,727) |
| Selling Expense | (80,232) | (91,834) | (75,781) | (97,053) | (104,317) |
| Cost of prod. sold | (41,448) | (61,363) | (74,464) | (71,362) | (77,272) |
| Other opex | (140,272) | (157,531) | (176,342) | (187,683) | (204,770) |
| Depreciation | (100,848) | (104,699) | (116,225) | (126,179) | (136,153) |
| EBIT | 152,730 | 135,649 | 117,334 | 138,575 | 150,525 |
| Other income | 615 | 910 | 1,089 | 0 | 0 |
| Fin income, net | 12,271 | 14,958 | 15,921 | 15,172 | 15,172 |
| Profit from assoc. | 5,684 | 7,062 | 8,248 | 0 | 0 |
| PBT | 171,300 | 158,579 | 142,592 | 153,747 | 165,697 |
| Taxes | (41,919) | (36,776) | (33,187) | (35,362) | (38,110) |
| Profit after tax | 129,381 | 121,803 | 109,405 | 118,385 | 127,587 |
| Minority interests | 107 | 111 | 126 | 0 | 0 |
| Net Profit | 129,274 | 121,692 | 109,279 | 118,385 | 127,587 |
| EPS (RMB) | 6.43 | 6.05 | 5.398 | 5.89 | 6.35 |

Financial

| | 2012 | 2013 | 2014 | 2015E | 2016E |
|-------------------------------|-------|-------|--------|-------|-------|
| YoY growth rate | | | | | |
| Revenue | 10.2% | 8.3% | 1.8% | 11.3% | 8.3% |
| EBITDA | 1.0% | -5.2% | -2.1% | 12.5% | 8.3% |
| Net profit | 2.7% | -5.9% | -10.2% | 8.2% | 7.8% |
| Profitability | | | | | |
| EBITDA margin | 43.6% | 38.2% | 36.7% | 37.1% | 37.1% |
| NP margin | 22.2% | 19.3% | 17.1% | 16.6% | 16.5% |
| ROE | 17.8% | 15.4% | 12.7% | 12.9% | 12.8% |
| ROIC | 37.1% | 33.4% | 26.6% | 25.7% | 27.9% |
| Liquidity | | | | | |
| Debt to Asset | 31.1% | 32.3% | 33.8% | 29.9% | 27.7% |
| Net Debt to Equity | 45.1% | 47.6% | 51.0% | 42.7% | 38.2% |
| Liquid ratio | 1.50 | 1.26 | 1.11 | 1.33 | 1.62 |
| Quick ratio | 1.42 | 1.20 | 1.04 | 1.26 | 1.55 |
| Operating efficiency | | | | | |
| Asset turnover | 0.55 | 0.54 | 0.47 | 0.54 | 0.56 |
| AR turnover | 55.7 | 49.2 | 42.4 | 50.0 | 50.0 |
| AP turnover | 2.7 | 2.6 | 2.1 | 2.6 | 3.0 |
| Per share ratios (RMB) | | | | | |
| EPS | 6.43 | 6.05 | 5.38 | 5.89 | 6.35 |
| CFPS | -0.76 | -1.29 | 4.55 | 3.15 | 4.60 |
| BVPS | 36.1 | 39.3 | 42.3 | 45.6 | 49.5 |
| DPS (HKD) | 3.36 | 3.28 | 2.92 | 3.17 | 3.41 |
| Valuation ratios | | | | | |
| P/E | 12.1 | 12.9 | 14.5 | 13.3 | 12.3 |
| P/B | 2.2 | 2.0 | 1.8 | 1.7 | 1.6 |
| EV/EBITDA | 4.5 | 4.7 | 4.9 | 4.3 | 4.0 |

Investment Ratings

| Rating | Definition |
|---------|--|
| BUY | Expected to outperform the market index by >10% over the next 12 months |
| NEUTRAL | Expected to outperform or underperform the market index by 10% or less over the next 12 months |
| SELL | Expected to underperform the market index by >10% over the next 12 months |

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