

China Mobile (HK) Ltd

Winning the second curve, but question mark on the third curve

Three curves draw out the overall picture

China Mobile lays out three curves of their business development: voice, mobile data, and digital services. Voice and SMS are on a fast declining trend. Voice revenue declined by -20.7% yoy in H214, compared with -5.3% in H114. Mobile data revenue grew by 35% in H214, mostly offsetting the decline in voice revenue. We believe the third curve, digital services, represents the truly value adding growth for the company, but we are unsure if China Mobile, being a SOE telco, can realize this big potential.

Benefiting from largely depreciated 2G network and cost cutting

Given the negative impact from VAT and interconnection rate adjustment, the earnings decline of -10% was better than our expectation of a -20% decline at the beginning of 2014 thanks to: 1) the fast depreciation of 2G network previously (otherwise depreciation could have grown much higher); 2) the Rmb23.5bn cut in selling and marketing costs. The company is going through a virtuous cycle of rising 4G momentum, gaining market share, and so they can afford to pay lower commissions and customer acquisition costs.

Deserves a monopoly value as long as it sits in a monopoly position

Despite China Mobile's value can fall apart easily if competition picks up, we believe the recent news flow shows that the Chinese government still wants to maintain the monopoly position of those large SOEs in the infrastructure based industries such as telecom, and opening for more competition does not seem to be the top priority on the government's agenda. In the poor macro economy situation, those large SOEs with monopoly power will likely be defensive and outperform the market in our view.

Valuation: Neutral rating with PT of HK\$110

We expect the company to report flattish earnings in 2015 and 2016, and dividend pay out to remain at 43%. We remain Neutral rating and DCF based PT of HK\$110 (WACC 7.6% g 2%).

Equities

China
Wireless Communications

12-month rating **Neutral**

12m price target **HK\$110.00**

Price **HK\$100.10**

RIC: 0941.HK **BBG:** 941 HK

Trading data and key metrics

52-wk range HK\$108.30-64.50

Market cap. HK\$2,006bn/US\$270bn

Shares o/s 20,044m (ORD)

Free float 26%

Avg. daily volume ('000) 18,058

Avg. daily value (m) HK\$1,815.4

Common s/h equity (12/14E) Rmb848bn

P/BV (12/14E) 1.9x

Net debt / EBITDA (12/14E) NM

EPS (UBS, diluted) (Rmb)

	UBS	Cons.
12/14E	5.59	5.40
12/15E	5.58	5.58
12/16E	5.49	5.83

Jinjin Wang, CFA

Analyst

S1460514100001

jinjin.wang@ubssecurities.com

+8610-5832 8922

Suresh A Mahadevan, CFA

Analyst

suresh.mahadevan@ubs.com

+65-6495 5906

Highlights (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenues	537,806	581,835	630,177	636,924	655,111	682,555	711,984	749,736
EBIT (UBS)	153,858	152,730	135,649	127,130	125,841	123,103	108,542	106,217
Net earnings (UBS)	125,870	129,274	121,692	112,089	111,882	110,103	99,739	99,350
EPS (UBS, diluted) (Rmb)	6.28	6.45	6.07	5.59	5.58	5.49	4.98	4.96
DPS (Rmb)	2.71	2.78	2.63	2.40	2.40	2.36	2.14	2.13
Net (debt) / cash	304,293	374,216	414,851	381,079	377,932	405,027	448,160	520,351
Profitability/valuation	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
EBIT margin %	28.6	26.2	21.5	20.0	19.2	18.0	15.2	14.2
ROIC (EBIT) %	53.0	51.0	44.3	35.2	28.5	25.0	21.1	20.8
EV/EBITDA (core) x	3.7	4.0	3.8	5.0	4.9	4.6	4.4	4.0
P/E (UBS, diluted) x	9.8	10.6	10.9	14.3	14.4	14.6	16.1	16.2
Equity FCF (UBS) yield %	8.6	7.9	6.6	0.7	2.3	4.2	5.1	6.6
Net dividend yield %	4.4	4.1	4.0	3.0	3.0	2.9	2.7	2.7

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\$100.10 on 19 Mar 2015 20:26 HKT

Investment Thesis

China Mobile (HK) Ltd

Investment case

We have a neutral stance mainly because we expect the company to report an improving earnings trend in 2015. We expect the company to beat FY14 consensus earnings by 3%, which is mainly attributable to the cut in selling and marketing costs mandated by the government. We continue to remain cautious on China Mobile in the medium-to-long term, as: 1) lacklustre industry revenue growth could persist, given the saturated mobile market and OTT cannibalisation; and 2) price competition could pick up in H215, as China Unicom and China Telecom have been granted nationwide FDD licences. However, we feel we can no longer afford to ignore the short-term trends, on which the investment community is likely to extrapolate its long-term assumptions.

Upside scenario

We think the key upside catalyst would be an ARPU increase driven by the 4G business. If China's economy turns around strongly and consumption recovers, China Mobile's ARPU could rise and its revenue growth might recover. On that basis our valuation could rise to HK\$148.00 per share, assuming revenue is 5-10% higher from 2016E. As a result, China Mobile's EBITDA margin could be 3-5ppt higher over the next 10 years, and its earnings could be 30-50% above our base-case estimates. In this scenario, net profit margin remains stable, close to 20% for the next 10 years.

Downside scenario

We think the key downside risk is competition from potential new players that gain equal access to underlying telecom networks through network separation. As a result, China Mobile could suffer from declining revenue and margins, and our valuation could decline to HK\$60.00 per share if we assume revenue is 5-10% below our base-case estimate in the next 10 years, and its capex-to-sales ratio remains above 20% over the next 10 years. As a result, China Mobile's EBITDA margin could decline by 5ppt and earnings could decline 30-50%.

Upcoming catalysts

The MII releases industry-wide data on a monthly basis. We expect the data to show continued weakness in mobile sector revenue and mobile voice traffic.

The company will report Q115 results in late-April 2015, and interim results around mid-August; we expect the company to continue to report resilient results.

The Chinese government granted full FDD-LTE licences to China Telecom and China Unicom at the end of February 2015. Pricing competition could start to pick up in H215.

12-month rating

Neutral

12m price target

HK\$110.00

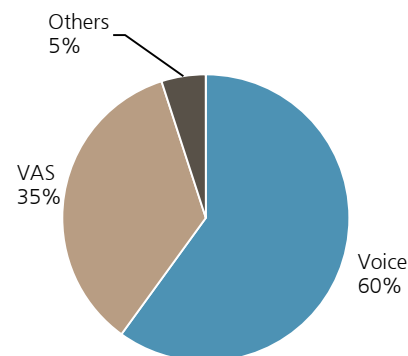
Business description

China Mobile (CMHK) is one of the largest mobile service providers in the world. It operates in 31 provinces and municipalities in China. CMHK was listed on the New York Stock Exchange and the Stock Exchange of Hong Kong in October 1997. The company became a constituent stock of Hong Kong's Hang Seng Index on 27 January 1998.

Industry outlook

We remain cautious on China's overall telecom industry in the mid-to-long term, given: 1) the mobile market is saturated, at close to a 100% penetration rate; 2) accelerating cannibalisation from the mobile internet business, leading to a rapid decline in voice and voice-related revenue; 3) we expect competition to pick up since the Chinese government has granted full FDD-LTE licences to China Telecom and China Unicom; and 4) the capex cycle is in an upwards trend due to aggressive 4G network rollouts.

Revenues by region (%)



EBIT by product segment

(Rmb bn)	2012	2013	2014E	2015E	2016E
EBITDA	232	240	237	249	262

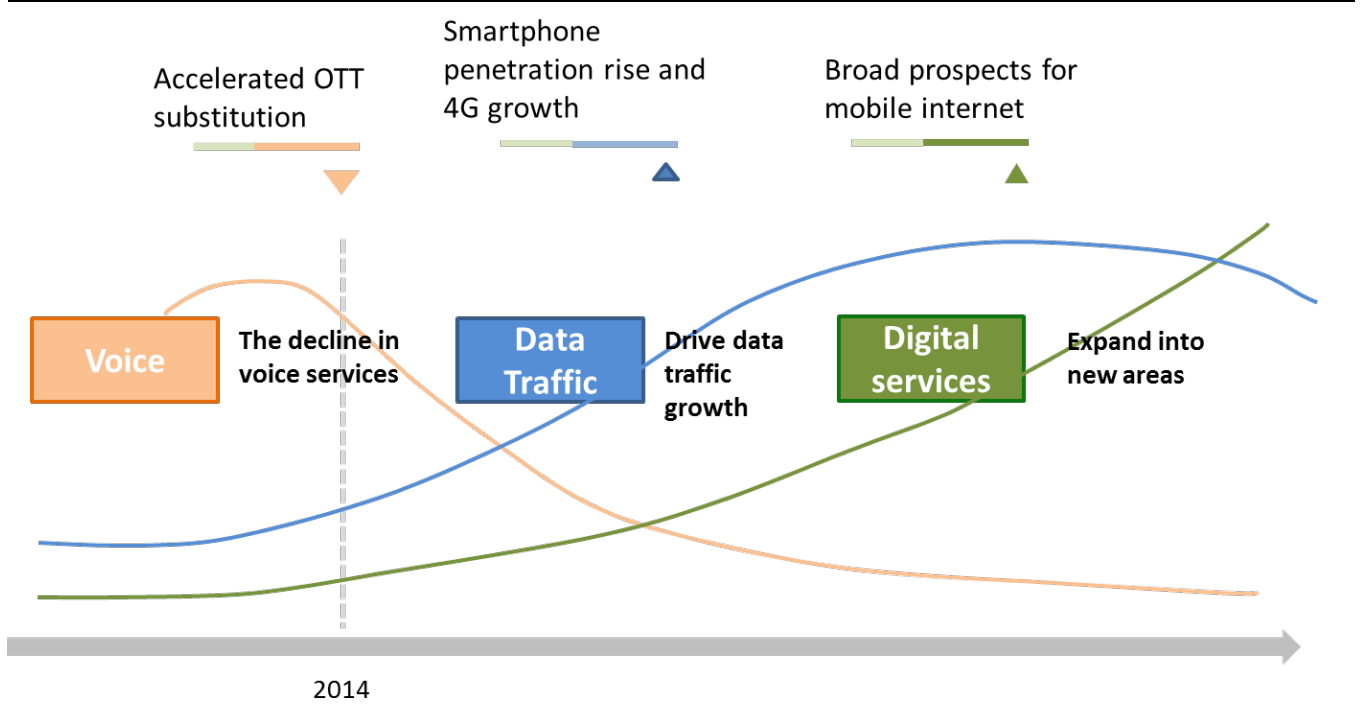
Source: Company data, UBS-S estimates

Three curves point out the overall picture

China Mobile has laid out the following three curves of their businesses.

- The company is currently on the declining curve of voice+SMS businesses, which accounted for 59.1% of service revenue in 2014. Voice revenue declined by -13.1% yoy, by Rmb46.7bn in 2014. The declining pace accelerated to -20.7% in H214, compared with -5.3%/-5.4%/-1.2% in H114/H213/H113. SMS revenue declined by -18% in H214, compared with -13.7%/-8.3%/-4.8% in H114/H213/H113. Voice and SMS are under fierce cannibalization pressure from the internet applications such as WeChat. In this sense, we believe China Mobile's ARPU can hardly surprise on the upside in 2015.
- Mobile data revenue, accounting for 25.9% of service revenue, is on a rising trend. Mobile data revenue grew by 42.9% yoy in 2014, by Rmb45.2bn. The growth rate slowed down to 35% in H214, from 52.6%/56.2%/61.2% in H114/H213/H113 given the enlarging base. China Mobile is taking the lead in 4G services, and will continue to see strong 4G subscriber momentum in 2015 in our view. We believe the rise in mobile data revenue can offset the decline in voice+SMS revenues, but can hardly drive up ARPU. Furthermore, as the mobile data business is by nature a lower margin business compared with voice and SMS, the current high margin (net margin of 18.8% in 2014) cannot be sustainable in the medium to longer term.
- The third curve, the application and information services, should be the truly valuing adding growth for the company in the future. This business accounted for 11.1% of service revenue in 2014, and grew moderately by 12.3% in 2014. We are suspicious if this third curve could play out successfully. Being a telco, particularly a state-owned telco, it will be difficult for China Mobile to cultivate the innovation culture, which is the core spirit of the third curve.

Figure 1: Three curves draw out the business development of China Mobile



Source: Company data

Figure 2: China Mobile's revenue breakdown on semi-annual basis

(Rmb mn)	1H12	2H12	FY12	1H13	2H13	FY13	1H14	2H14	FY14
Voice	177,128	190,937	368,065	175,072	180,614	355,686	165,778	143,181	308,959
Data Service revenue	75,986	90,362	166,348	95,388	111,498	206,886	121,913	127,820	249,733
SMS& MMS	22,122	22,093	44,215	21,066	20,254	41,320	18,173	16,607	34,780
Wireless data	29,318	37,211	66,529	47,255	58,118	105,373	72,094	78,477	150,571
Applications and information	24,521	29,355	53,876	27,044	30,283	57,327	31,578	32,804	64,382
Others	13,417	12,583	26,000	14,211	14,028	28,239	10,219	12,906	23,125
Service revenue	266,530	293,883	560,413	284,671	306,140	590,811	297,910	283,907	581,817
Equipment sales	7,937	13,485	21,422	18,433	20,933	39,366	26,771	32,860	59,631
Total revenue	274,467	307,368	581,835	303,104	327,073	630,177	324,681	316,767	641,448
Yoy growth%									
Voice	2.2%	0.0%	1.1%	-1.2%	-5.4%	-3.4%	-5.3%	-20.7%	-13.1%
Data Service revenue	17.3%	21.2%	19.4%	25.5%	23.4%	24.4%	27.8%	14.6%	20.7%
SMS& MMS	-2.8%	-6.8%	-4.8%	-4.8%	-8.3%	-6.5%	-13.7%	-18.0%	-15.8%
Wireless data	52.3%	48.3%	50.0%	61.2%	56.2%	58.4%	52.6%	35.0%	42.9%
Applications and information	7.7%	13.7%	10.9%	10.3%	3.2%	6.4%	16.8%	8.3%	12.3%
Others	11.2%	1.4%	6.2%	5.9%	11.5%	8.6%	-28.1%	-8.0%	-18.1%
Service revenue	6.6%	5.7%	6.1%	6.8%	4.2%	5.4%	4.7%	-7.3%	-1.5%
Equipment sales	129.1%	112.6%	118.4%	132.2%	55.2%	83.8%	45.2%	57.0%	51.5%
Total revenue	8.3%	8.1%	8.2%	10.4%	6.4%	8.3%	7.1%	-3.2%	1.8%
As % of service revenue									
Voice	66.5%	65.0%	65.7%	61.5%	59.0%	60.2%	55.6%	50.4%	53.1%
Data Service revenue	28.5%	30.2%	29.7%	33.5%	35.5%	35.0%	40.9%	45.0%	42.9%
SMS& MMS	8.3%	7.5%	7.9%	7.4%	6.6%	7.0%	6.1%	5.8%	6.0%
Wireless data	11.0%	12.7%	12.2%	16.6%	19.0%	18.3%	24.2%	27.6%	25.9%
Applications and information	9.2%	10.0%	9.7%	9.5%	9.9%	9.7%	10.6%	11.6%	11.1%
Others	5.0%	4.3%	4.6%	5.0%	4.6%	4.8%	3.4%	4.5%	4.0%
Service revenue	100.0%	100.0%	100.0%	100.0%	99.1%	100.0%	100.0%	100.0%	100.0%

Source: Company data, UBS estimates

Benefitting from largely depreciated 2G network and cost cutting

Excluding VAT impact and the interconnection rate adjustment, China Mobile's net profit was actually up slightly by 1.5% yoy in 2014, which could be attributable to two reasons.

- Depreciation cost increased by 11% yoy, given the capex step up in the past three years (up over 80% from 2012 to 2014). But depreciation cost could have grown more, thanks to the fast depreciation of its 2G network previously, which had built an earnings reserve for today. Plus, the depreciation of its 3G network has been at the Parentco, off the balance sheet of the Listco.

- The company cut Rmb23.5bn in selling and marketing costs in 2014 (Rmb16bn in selling expenses and Rmb7.5bn in handset subsidy costs respectively). The management guided another Rmb20bn cut in selling and marketing costs in 2015. Fortunately market competition works in favour of China Mobile. Hence the company is going through a virtuous cycle of gaining market share, and so the company can afford to pull back on marketing campaigns. Under the same mandate from the government, China Telecom and China Unicom have to cut down sales costs as well, which curbs their capability to compete against China Mobile.

Whether monopoly value can hold up?

As long as China Mobile can sit in a dominant position in the telecom market in China, its high market share, high margin, high profitability, and thus high market cap can be well protected. What could cause the monopoly value fall apart?

- **Asymmetric regulation.** As we discussed in our previous report "Towerco part I: Target to be 40%/30%/30% market shares" on 6 Feb 2015, with the help from the towerco, China Telecom and China Unicom can build out their 4G coverage and capacity in a cheaper and faster way, and the market shares of mobile infrastructures in China could move towards 40%/30%/30% by CM/CT/CU after 2-3 years. Under this situation, any asymmetric regulations, such as market share cap, MNP (mobile number portability) could be detrimental for China Mobile.
- **Network separation and introduction of private players.** In the medium to long term, the Chinese government could potentially form a centralized, neutral network company and offer equal network access to private players. If the government to introduce competition in this way, China Mobile's value could be largely reduced. (Please refer to our previous report "Industry outlook: network separation, SOE reform, and lack of organic growth" on 6 Jan 2015.)

Upgraded to Neutral recently

Recent news flow indicates that the Chinese government will likely maintain the monopoly position of the SOEs (state-owned enterprises) in those infrastructure based industries such as telecom, petrochemicals etc. Further opening up for competition does not seem to be the priorities on the government's agenda in our view. Thus we believe the dominant players in those monopoly industries still deserve a monopoly value, despite the reduction of competition, via administrative way rather than in a market driven way, could weaken the competency of those companies in the long run.

We remain Neutral rating and DCF based PT of HK\$110 (WACC 7.6% and terminal growth of 2%).

China Mobile (HK) Ltd (0941.HK)

Income statement (Rmbm)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Revenues	537,806	581,835	630,177	636,924	1.1	655,111	2.9	682,555	711,984	749,736
Gross profit	-	-	-	-	-	-	-	-	-	-
EBITDA (UBS)	250,971	253,578	240,348	242,363	0.8	253,596	4.6	267,011	269,470	279,282
Depreciation & amortisation	(97,113)	(100,848)	(104,699)	(115,233)	10.1	(127,755)	10.9	(143,907)	(160,928)	(173,065)
EBIT (UBS)	153,858	152,730	135,649	127,130	-6.3	125,841	-1.0	123,103	108,542	106,217
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	4,876	6,299	7,972	7,415	-7.0	8,157	10.0	8,157	8,157	8,157
Net interest	7,848	12,271	14,958	13,464	-10.0	13,350	-0.8	13,745	14,657	16,469
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Profit before tax	166,582	171,300	158,579	148,009	-6.7	147,347	-0.4	145,005	131,355	130,843
Tax	(40,603)	(41,919)	(36,776)	(35,818)	2.6	(35,363)	1.3	(34,801)	(31,525)	(31,402)
Profit after tax	125,979	129,381	121,803	112,191	-7.9	111,984	-0.2	110,204	99,830	99,440
Preference dividends and Minorities	(109)	(107)	(111)	(102)	7.9	(102)	0.2	(100)	(91)	(91)
Extraordinary items	0	0	0	0	-	0	-	0	0	0
Net earnings (local GAAP)	125,870	129,274	121,692	112,089	-7.9	111,882	-0.2	110,103	99,739	99,350
Net earnings (UBS)	125,870	129,274	121,692	112,089	-7.9	111,882	-0.2	110,103	99,739	99,350
Tax rate (%)	24.4	24.5	23.2	24.2	4.4	24.0	-0.8	24.0	24.0	24.0
Per share (Rmb)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
EPS (UBS, diluted)	6.28	6.45	6.07	5.59	-7.9	5.58	-0.2	5.49	4.98	4.96
EPS (local GAAP, diluted)	6.28	6.45	6.07	5.59	-7.9	5.58	-0.2	5.49	4.98	4.96
EPS (UBS, basic)	6.28	6.45	6.07	5.59	-7.9	5.58	-0.2	5.49	4.98	4.96
Net DPS (Rmb)	2.71	2.78	2.63	2.40	-8.5	2.40	-0.2	2.36	2.14	2.13
Book value per share	32.38	36.09	39.35	42.32	7.5	45.49	7.5	48.59	51.20	54.02
Average shares (diluted)	20,043.93	20,043.93	20,043.93	20,043.93	0.0	20,043.93	0.0	20,043.93	20,043.93	20,043.93
Balance sheet (Rmbm)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Cash and equivalents	332,978	402,903	419,908	416,136	-0.9	412,989	-0.8	440,084	468,257	540,448
Other current assets	49,707	43,690	47,281	47,196	-0.2	48,199	2.1	50,094	52,589	55,634
Total current assets	382,685	446,593	467,189	463,332	-0.8	461,188	-0.5	490,178	520,846	596,082
Net tangible fixed assets	408,165	430,509	479,227	568,804	18.7	649,644	14.2	701,357	730,554	741,054
Net intangible fixed assets	37,712	37,818	37,957	37,957	0.0	37,957	0.0	37,957	37,957	37,957
Investments / other assets	123,996	137,189	183,019	187,689	2.6	180,087	-4.1	175,514	173,808	169,123
Total assets	952,558	1,052,109	1,167,392	1,257,782	7.7	1,328,877	5.7	1,405,007	1,463,165	1,544,216
Trade payables & other ST liabilities	273,176	297,728	370,845	371,791	0.3	379,085	2.0	393,093	413,697	438,152
Short term debt	68	68	68	68	0.00	68	0.00	14,993	68	13,725
Total current liabilities	273,244	297,796	370,913	371,859	0.3	379,153	2.0	408,086	413,765	451,877
Long term debt	28,617	28,619	4,989	34,989	NM	34,989	0.0	20,064	20,029	6,372
Other long term liabilities	278	385	766	695	-9.3	710	2.1	737	766	808
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	302,139	326,800	376,668	407,543	8.2	414,851	1.8	428,887	434,560	459,058
Common s/h equity	649,064	723,447	788,773	848,187	7.5	911,870	7.5	973,864	1,026,259	1,082,721
Minority interests	1,355	1,862	1,951	2,053	5.2	2,155	5.0	2,256	2,347	2,437
Total liabilities & equity	952,558	1,052,109	1,167,392	1,257,782	7.7	1,328,877	5.7	1,405,007	1,463,165	1,544,216
Cash flow (Rmbm)	12/11	12/12	12/13	12/14E	% ch	12/15E	% ch	12/16E	12/17E	12/18E
Net income (before pref divs)	125,870	129,274	121,692	112,089	-7.9	111,882	-0.2	110,103	99,739	99,350
Depreciation & amortisation	97,113	100,848	104,699	115,233	10.1	127,755	10.9	143,907	160,928	173,065
Net change in working capital	(11,951)	16,243	42,276	2,117	-95.0	2,383	12.5	4,889	10,141	10,209
Other operating	15,724	(15,656)	(43,682)	(114)	99.7	(4,091)	NM	(662)	765	3,209
Operating cash flow	226,756	230,709	224,985	229,325	1.9	237,929	3.8	258,238	271,574	285,833
Tangible capital expenditure	(123,331)	(123,232)	(138,997)	(217,837)	-56.7	(201,034)	7.7	(191,190)	(189,253)	(178,911)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) / disposals	0	0	0	0	-	0	-	0	0	0
Other investing	(46,025)	(58,100)	(25,489)	7,415	-	8,157	-	8,157	8,157	8,157
Investing cash flow	(169,356)	(181,332)	(164,486)	(210,421)	-27.9	(192,878)	8.3	(183,034)	(181,097)	(170,755)
Equity dividends paid	(52,575)	(55,425)	(55,512)	(52,675)	5.1	(48,198)	8.5	(48,109)	(47,344)	(42,888)
Share issues / (buybacks)	136	531	43	0	-	0	-	0	0	0
Other financing	(5,981)	(403)	(329)	0	-	0	-	0	0	0
Change in debt & pref shares	(4,979)	2	(23,630)	30,000	-	0	-	0	(14,960)	0
Financing cash flow	(63,399)	(55,295)	(79,428)	(22,675)	71.5	(48,198)	-112.6	(48,109)	(62,304)	(42,888)
Cash flow inc/(dec) in cash	(5,999)	(5,918)	(18,929)	(3,772)	80.1	(3,147)	16.6	27,095	28,172	72,191
FX / non cash items	46,631	75,843	35,934	0	-100.0	0	-50.0	0	0	0
Balance sheet inc/(dec) in cash	40,632	69,925	17,005	(3,772)	-	(3,147)	16.6	27,095	28,172	72,191

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

China Mobile (HK) Ltd (0941.HK)

Valuation (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
P/E (local GAAP, diluted)	9.8	10.6	10.9	14.3	14.4	14.6	16.1	16.2
P/E (UBS, diluted)	9.8	10.6	10.9	14.3	14.4	14.6	16.1	16.2
P/CEPS	5.5	6.0	5.8	7.1	6.7	6.3	6.2	5.9
Equity FCF (UBS) yield %	8.6	7.9	6.6	0.7	2.3	4.2	5.1	6.6
Net dividend yield (%)	4.4	4.1	4.0	3.0	3.0	2.9	2.7	2.7
P/BV x	1.9	1.9	1.7	1.9	1.8	1.7	1.6	1.5
EV/revenues (core)	1.7	1.7	1.4	1.9	1.9	1.8	1.7	1.5
EV/EBITDA (core)	3.7	4.0	3.8	5.0	4.9	4.6	4.4	4.0
EV/EBIT (core)	6.0	6.7	6.7	9.5	9.8	9.9	10.9	10.6
EV/OpFCF (core)	8.0	6.9	6.3	NM	22.4	15.1	13.1	10.2
EV/op. invested capital	3.2	3.4	3.0	3.3	2.8	2.5	2.3	2.2
Enterprise value (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Market cap.	1,206,893	1,355,251	1,303,843	1,605,879	1,610,744	1,610,744	1,610,744	1,610,744
Net debt (cash)	(281,487)	(339,254)	(394,533)	(397,965)	(379,506)	(391,480)	(426,594)	(484,255)
Buy out of minorities	1,246	1,862	1,951	2,053	2,155	2,256	2,347	2,437
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	926,652	1,017,859	911,261	1,209,967	1,233,394	1,221,520	1,186,497	1,128,926
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	926,652	1,017,859	911,261	1,209,967	1,233,394	1,221,520	1,186,497	1,128,926
Growth (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Revenue	10.8	8.2	8.3	1.1	2.9	4.2	4.3	5.3
EBITDA (UBS)	4.9	1.0	-5.2	0.8	4.6	5.3	0.9	3.6
EBIT (UBS)	0.5	-0.7	-11.2	-6.3	-1.0	-2.2	-11.8	-2.1
EPS (UBS, diluted)	6.7	2.7	-5.9	-7.9	-0.2	-1.6	-9.4	-0.4
Net DPS	4.9	2.8	-5.6	-8.5	-0.2	-1.6	-9.4	-0.4
Margins & Profitability (%)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Gross profit margin	-	-	-	-	-	-	-	-
EBITDA margin	46.7	43.6	38.1	38.1	38.7	39.1	37.8	37.3
EBIT margin	28.6	26.2	21.5	20.0	19.2	18.0	15.2	14.2
Net earnings (UBS) margin	23.4	22.2	19.3	17.6	17.1	16.1	14.0	13.3
ROIC (EBIT)	53.0	51.0	44.3	35.2	28.5	25.0	21.1	20.8
ROIC post tax	40.1	38.5	34.0	26.6	21.7	19.0	16.0	15.8
ROE (UBS)	20.5	18.8	16.1	13.7	12.7	11.7	10.0	9.4
Capital structure & Coverage (x)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Net debt / EBITDA	(1.2)	(1.5)	(1.7)	(1.6)	(1.5)	(1.5)	(1.7)	(1.9)
Net debt / total equity %	(46.8)	(51.6)	(52.5)	(44.8)	(41.3)	(41.5)	(43.6)	(48.0)
Net debt / (net debt + total equity) %	(87.9)	NM	NM	(81.2)	(70.5)	(70.9)	(77.2)	(92.1)
Net debt/EV %	(32.8)	(36.8)	(45.5)	(31.5)	(30.6)	(33.2)	(37.8)	(46.1)
Capex / depreciation %	127.0	122.2	132.8	189.0	157.4	132.9	117.6	103.4
Capex / revenue %	22.9	21.2	22.1	NM	NM	28.0	26.6	23.9
EBIT / net interest	NM	NM	NM	NM	NM	NM	NM	NM
Dividend cover (UBS)	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Div. payout ratio (UBS) %	43.1	43.2	43.3	43.0	43.0	43.0	43.0	43.0
Revenues by division (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	537,806	581,835	630,177	636,924	655,111	682,555	711,984	749,736
Total	537,806	581,835	630,177	636,924	655,111	682,555	711,984	749,736
EBIT (UBS) by division (Rmbm)	12/11	12/12	12/13	12/14E	12/15E	12/16E	12/17E	12/18E
Others	153,858	152,730	135,649	127,130	125,841	123,103	108,542	106,217
Total	153,858	152,730	135,649	127,130	125,841	123,103	108,542	106,217

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

Forecast returns

Forecast price appreciation	+9.9%
Forecast dividend yield	3.0%
Forecast stock return	+12.9%
Market return assumption	9.3%
Forecast excess return	+3.6%

Statement of Risk

We believe competition and regulations remain the key downside risks as China Mobile has an over 60% subscriber market share, an over 50% revenue market share and a more than 80% net profit market share in China. Competition should not only come from within the sector, but also from rising cannibalisation from over-the-top (OTT) apps. Overall, China Mobile remains a high-margin, dominant operator in an ex-growth industry, for which the government aims to increase competition in the medium to long term.

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12-Month Rating	Definition	Coverage ¹	IB Services ²
Buy	FSR is > 6% above the MRA.	47%	37%
Neutral	FSR is between -6% and 6% of the MRA.	42%	32%
Sell	FSR is > 6% below the MRA.	11%	21%
Short-Term Rating	Definition	Coverage ³	IB Services ⁴
Buy	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%
Sell	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.

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Company Disclosures

Company Name	Reuters	12-month rating	Short-term rating	Price	Price date
China Mobile (HK) Ltd ^{16a, 16b}	0941.HK	Neutral	N/A	HK\$103.50	18 Mar 2015

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

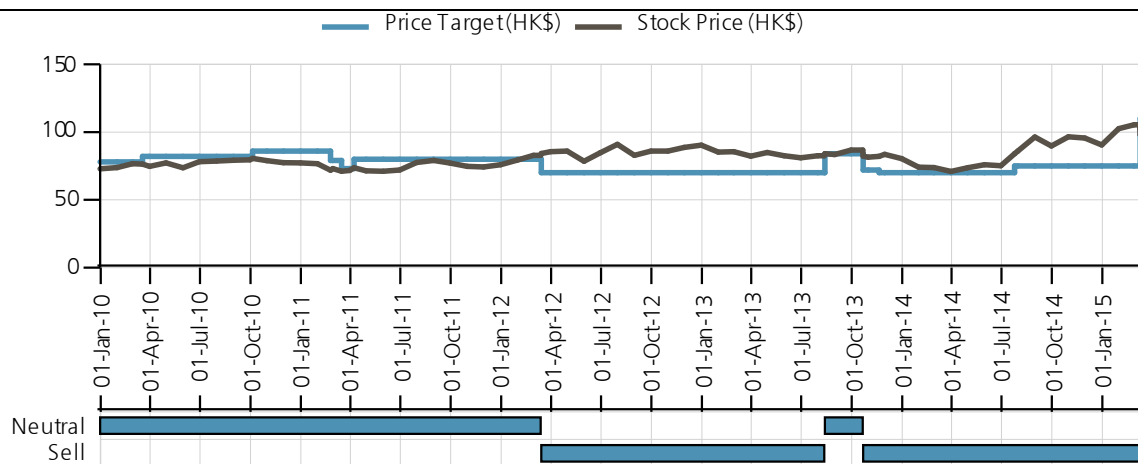
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China Mobile (HK) Ltd (HK\$)



Source: UBS; as of 18 Mar 2015

Additional Prices: China Unicom Ltd., HK\$11.84 (18 Mar 2015); China Telecom, HK\$4.84 (18 Mar 2015); Source: UBS. All prices as of local market close.

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