

China Mobile Limited ----- Maintain OUTPERFORM**FY14: Thesis confirmed as EBITDA exceeds expectations, and capex starts declining****EPS: ▲ TP: ◀▶**

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- Snap reaction. FY14 service revenue at Rmb581.8 bn, down 1.5% YoY and 1.6% below our forecast, FY14 EBITDA at Rmb235.3 bn, down 2.1% YoY but 3.2% above our forecast, FY14 net profit at Rmb109.3 bn, down 10.2% YoY and 4.9% above our forecast.
- Our OUTPERFORM rating on China Mobile is predicated on cash flow generation having troughed in FY14, and then rising rapidly into FY15 and beyond as capex requirement slows and 4G monetisation is realised.
- Both aspects of this thesis seem on track. Firstly, wireless data revenue grew by 42.2% YoY into FY14 as the 4G subscriber base began to ramp up. Secondly, FY14 capex of Rmb213.5 bn was slightly below guidance of Rmb225.2 bn despite construction of 720,000 4G BTS. Importantly, capex guidance for FY15 was set at Rmb199.7 bn, implying a 6.5% YoY decline in capex.
- Our FY15 EBITDA and EPS are revised up by 1.0% and 0.3% respectively, and our DCF-based TP is maintained. With cash flows set to expand, we rate China Mobile as OUTPERFORM.

Bbg/RIC	941 HK / 0941.HK	Price (19 Mar 15 , HK\$)		100.10	
Rating (prev. rating)	O (O)	TP (prev. TP HK\$)		120.00 (120.00)	
Shares outstanding (mn)	20,475	Est. pot. % chg. to TP		20	
Daily trad vol - 6m avg (mn)	18.1	52-wk range (HK\$)		108.3 - 64.5	
Daily trad val - 6m avg (US\$ mn)	225.8	Mkt cap (HK\$/US\$ bn)		2,049.5/ 264.2	
Free float (%)	25.7	Performance		1M	3M 12M
Major shareholders	China Mobile Comm Corp (74.24%)	Absolute (%)	(6.6)	10.9	44.0
		Relative (%)	(7.7)	2.0	21.8
Year	12/13A	12/14A	12/15E	12/16E	12/17E
Revenue (Rmb mn)	630,177	641,448	689,122	727,065	765,747
EBITDA (Rmb mn)	240,426	235,259	242,272	260,557	280,920
Net profit (Rmb mn)	121,692	109,279	104,512	105,423	118,868
EPS (Rmb)	6.05	5.38	5.10	5.15	5.80
- Change from prev. EPS (%)	n.a.	n.a.	0.3	1	4
- Consensus EPS (Rmb)	n.a.	n.a.	5.58	5.83	6.17
EPS growth (%)	(5.9)	(11.1)	(5.3)	0.9	12.8
P/E (x)	13.2	14.8	15.7	15.5	13.8
Dividend yield (%)	3.3	2.9	2.7	2.8	3.6
EV/EBITDA (x)	5.1	5.2	5.4	4.8	4.2
P/B (x)	2.0	1.9	1.8	1.7	1.6
ROE (%)	16.1	13.3	11.8	11.1	11.8
Net debt(cash)/equity (%)	(52.3)	(48.4)	(34.6)	(38.7)	(44.5)

Note 1: ORD/ADR=5.00. Note 2: China Mobile Limited is the leading cellular service provider in China.

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Service revenue missed our forecast by 1.6%...

Across FY14 as a whole, China Mobile's cellular service revenue declined 1.5% YoY to reach Rmb581.8 bn, missing our forecast by 1.6%, and 4Q14 cellular revenue declined by 0.9% QoQ and 9.8% YoY. The negative (intra-day) post-results share price movement seems to be a reaction to this, but we would reiterate that the revenue figures were of course affected by both the 'first order' and 'second order' (i.e. shift from handset subsidies to airtime discounts) introduction of VAT.

Indeed, looking through these two VAT impacts, the future revenue trajectory is looking brighter. Firstly, revenue from wireless data revenue grew by 42.2% to reach Rmb153.9 bn, as China Mobile (finally) began to properly monetise data. We see two positive indicators that this will continue. Firstly, China Mobile's 4G subscriber

numbers have shown a dramatic pick-up, with the 4G net addition rate rising from circa 1.34mn in February 2014 to a recent peak of 18.8 mn in December 2014; as at January 2015 China Mobile had 106.8mn 4G subscribers, representing 13.2% of its total subscriber base. Second, our analysis of China Mobile's 4G pricing has suggested that current TD-LTE plans do monetize data use. There was confirmation of this in the analyst briefing; TD LTE ARPU was stated to be 1.7x the blended average ARPU level (therefore circa Rmb100/month), with 4G customers using on average 780MB of data per month.

..but YoY EBITDA declined only 2.1%—a better-than-expected result...

China Mobile's EBITDA declined by 2.1% YoY to Rmb235.3 bn, beating our forecast by 3.2%. Familiar cost pressures over recent years continued to be evident, with leased line expenses rising 12.6% YoY and other operating expenses rising 7.8%. However, in what is now a clear trend across all three China telcos, the key offsetting factor to (and indeed a key driver behind) weak revenue was a sharp reduction in handset subsidy costs, amounting to 28.5% YoY in China Mobile's case. Overall, selling expenses (including handset subsidies) declined by 17.4% YoY (Rmb16.1 bn) to Rmb75.8 bn in FY14, and FY14 EBITDA beat our forecast by 3.2%

Figure 1: China Mobile—FY14 results and versus CS estimates

RMB mn	FY14A	FY13A	YoY%	CSFY14E	Diff %
Service revenue	581,817	590,811	-1.5%	591,006	-1.6%
EBITDA	235,259	240,426	-2.1%	228,026	3.2%
EBITDA margin (%)	40.40%	38.20%	2.3%	40.40%	0.0%
Net Profit	109,279	121,692	-10.2%	104,151	4.9%

Source: Company data, Credit Suisse estimates. *EBITDA margin on operating revenue

... and net profit declined 10.2%

Below the EBITDA line, depreciation charges rose by 11.1% YoY, only slightly more than we had forecast despite the 4G capex ramp-up (since some of the 2G assets are now becoming fully depreciated). Furthermore, the actual FY14 capex of Rmb213.5 bn was slightly below than the guidance of Rmb225.2 bn given one-year ago. China Mobile, therefore, achieved very good 'bang for the buck', having completed 720,000 4G BTS, well ahead of the 500,000 4G BTS initially guided in last year's analyst briefing. Importantly, capex guidance for FY15 was set at Rmb199.7 bn implying a 6.5% YoY decline in capex, and management confirmed in the analyst briefing that a further decline in capex should be expected in FY16. Given that China Mobile will have 1mn TD-LTE BTS in place by the end of FY15, facilitating full nationwide coverage down to village level, we would expect a fairly sharp decline in capital intensity YoY into FY16.

Figure 2: Model amendments

FY15	Previous	Current	Chg (%)
Service revenue	620,781	610,840	-1.6%
EBITDA	239,783	242,272	1.0%
EPS	5.08	5.1	0.3%

Source: Company data, Credit Suisse estimates.

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Companies Mentioned (Price as of 19-Mar-2015)

China Mobile Limited (0941.HK, HK\$100.1, OUTPERFORM, TP HK\$120.0)
China Telecom (0728.HK, HK\$5.03, OUTPERFORM, TP HK\$5.7)
China Unicom Hong Kong Ltd (0762.HK, HK\$11.94, OUTPERFORM, TP HK\$17.8)
China United Network Communications Ltd (600050.SS, Rmb5.64, NEUTRAL, TP Rmb5.3)

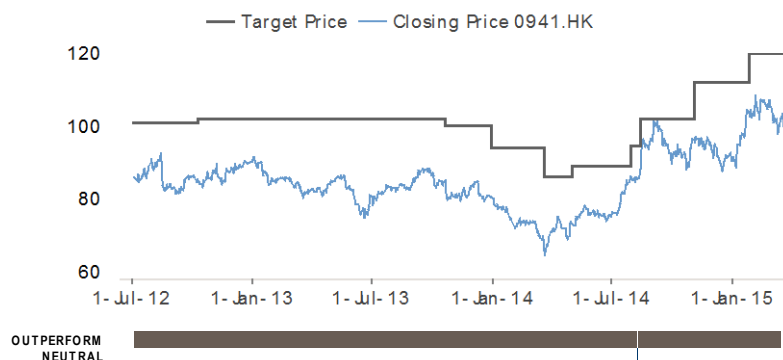
Disclosure Appendix
Important Global Disclosures

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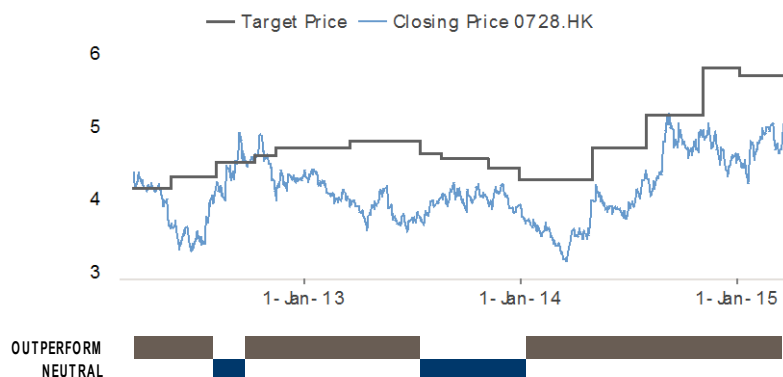
0941.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
04-Jul-12	85.85	101.00	O
10-Oct-12	84.70	102.00	
21-Oct-13	85.05	100.00	
30-Dec-13	80.50	94.00	
20-Mar-14	67.00	86.00	
02-May-14	73.10	89.00	
31-Jul-14	85.90	94.50	
11-Aug-14	85.65	94.50	N
14-Aug-14	88.30	102.00	O
04-Nov-14	96.65	112.00	
27-Jan-15	102.70	120.00	

* Asterisk signifies initiation or assumption of coverage.


3-Year Price and Rating History for China Telecom (0728.HK)

0728.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
20-Mar-12	4.36	4.15	U
22-May-12	3.66	4.30	O
06-Aug-12	4.18	4.50	
25-Sep-12	4.51	4.50	N
10-Oct-12	4.58	4.60	
15-Nov-12	3.99	4.70	O
20-Mar-13	3.93	4.80	
15-Jul-13	3.75	4.62	
21-Aug-13	4.06	4.55	N
07-Nov-13	3.97	4.42	
30-Dec-13	3.92	4.26	
06-Feb-14	3.53	4.26	O
02-May-14	3.98	4.70	
31-Jul-14	4.39	5.15	
04-Nov-14	4.95	5.80	
05-Jan-15	4.54	5.70	

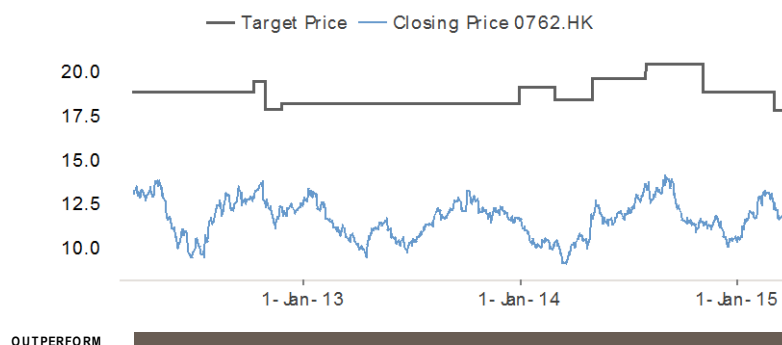
* Asterisk signifies initiation or assumption of coverage.



3-Year Price and Rating History for China Unicom Hong Kong Ltd (0762.HK)

0762.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
22-Mar-12	13.12	18.80	O
10-Oct-12	12.84	19.45	
29-Oct-12	12.58	17.85	
26-Nov-12	12.30	18.20	
30-Dec-13	11.68	19.10	
28-Feb-14	10.34	18.40	
02-May-14	11.68	19.60	
31-Jul-14	13.60	20.40	
04-Nov-14	11.48	18.85	
04-Mar-15	12.20	17.80	

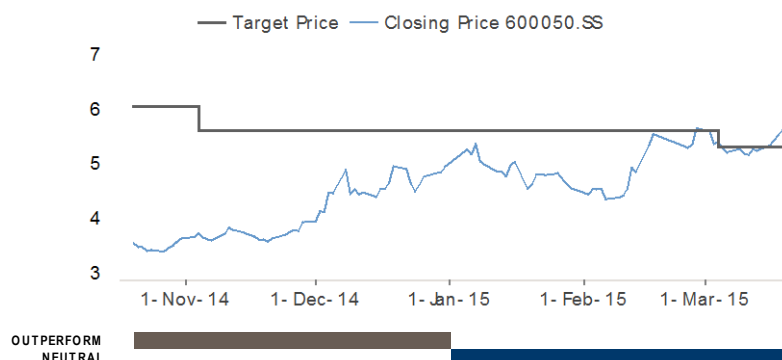
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3-Year Price and Rating History for China United Network Communications Ltd (600050.SS)

600050.SS	Closing Price	Target Price	
Date	(Rmb)	(Rmb)	Rating
20-Oct-14	3.54	6.05	O *
04-Nov-14	3.72	5.60	
02-Jan-15	4.95	5.60	N
04-Mar-15	5.40	5.30	

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Underperform/Sell*	16%	(43% banking clients)
Restricted	3%	

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Method: Our discounted cash flow (DCF) analysis, based on an estimated 10.2% weighted average cost of capital and a 1.5% terminal growth rate, supports a valuation of HK\$120/share for China Mobile. At our target price of HK\$120, China Mobile would trade at an FY15E EV/EBITDA multiple of 6.9x and a P/E of 18.6x.

Risk: The risks that may impede achievement of our HK\$120 target price for China Mobile are: (1) either faster-than-expected, or slower-than-expected growth in the cellular market, from the current penetration level; (2) the prospect that competitors take a larger or smaller proportion of the market share of net additions; (3) that capex forecasts prove higher or lower than expected due to competitive pressures or pressures from the regulator; and (4) that competition leads to higher or lower attrition of revenue per user than expected, for example through a price war.

Price Target: (12 months) for China Telecom (0728.HK)

Method: Our discounted cash flow (DCF) analysis, based on an estimated 10.5% cost of capital and a 2.5% terminal growth rate for cellular, -2.5% for fixed line, supports our HK\$5.7 target price for China Telecom. At HK\$5.7, China Telecom would trade at an enterprise value-to-earnings before interest, taxes, depreciation, and amortisation (EV/EBITDA) multiple of 4.1x for FY15.

Risk: The risks that may impede achievement of our target price of HK\$5.7 for China Telecom are: (1) either faster-than-expected, or slower-than-expected growth in the cellular market, from the current level; (2) the prospect that competitors take a larger or smaller proportion of the market share of net additions; (3) that capex forecasts prove higher or lower than expected; and (4) that competition leads to higher or lower attrition of revenue per user than expected. For China Telecom's fixed line division, key risks to our target price include: (1) faster or slower cannibalisation of voice revenue per line by cellular competition; (2) faster or slower rollout of broadband lines than expected; (3) better success in reducing employment-related costs; and (4) better success in lowering capex requirements.

Price Target: (12 months) for China Unicom Hong Kong Ltd (0762.HK)

Method: Our discounted cash flow (DCF) analysis, based on an estimated 10.4% cost of capital and a 2.1% terminal growth rate for cellular, -2.5% for fixed line, supports our HK\$17.8 target price for China Unicom. At HK\$17.8, Unicom would trade at an enterprise value-to-earnings before interest, taxes, depreciation, and amortisation (EV/EBITDA) multiple of 4.8x for FY15.

Risk: The risks that may impede achievement of our target price of HK\$17.8 for China Unicom are: (1) either faster-than-expected, or slower-than-expected growth in the cellular market, from the current level; (2) the prospect that competitors take a larger or smaller proportion of the market share of net additions; (3) that capex forecasts prove higher or lower than expected; and (4) that competition leads to higher or lower attrition of revenue per user than expected. For Unicom's fixed line division, key risks to our target price include: (1) faster or slower cannibalisation of voice revenue per line by cellular competition; (2) faster or slower rollout of broadband lines than expected; (3) better success in reducing employment-related costs; and (4) better success in lowering capex requirements.

Price Target: (12 months) for China United Network Communications Ltd (600050.SS)

Method: Our discounted cash flow (DCF) analysis, based on an estimated 10.4% WACC and a 2.1% terminal growth rate for cellular, -2.5% for fixed line, supports our Rmb5.3 target price for China Unicom A.

Risk: The risks that may impede achievement of our target price of Rmb5.3 for China Unicom are 1) either faster-than-expected or slower-than-expected growth in the cellular market, from the current level, 2) the prospect that competitors take a larger or smaller proportion of the market share of net additions, 3) the capex are higher or lower than expected, 4) competition leads to higher or lower attrition of revenue per user than expected.

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