



HONG KONG

941 HK Outperform

Price (at 07:59, 19 Mar 2015 GMT) HK\$103.50

Valuation HK\$ 112.00
- DCF

12-month target HK\$ 112.00

Upside/Downside % +8.2

12-month TSR % +11.3

Volatility Index Low

GICS sector

Telecommunication Services

Market cap HK\$bn 2,100

Market cap US\$m 261,837

30-day avg turnover US\$m 189.0

Number shares on issue m 20,293

Investment fundamentals

Year end 31 Dec		2014A	2015E	2016E	2017E
Revenue	bn	581.8	673.8	727.0	752.8
EBIT	bn	119.0	135.2	146.9	165.9
EBIT growth	%	-12.3	13.6	8.7	12.9
Reported profit	bn	109.3	115.4	125.5	141.6
Adjusted profit	bn	109.3	115.4	125.5	141.6
EPS rep	Rmb	5.38	5.68	6.18	6.97
EPS rep growth	%	-11.1	5.5	8.7	12.8
EPS adj	Rmb	5.38	5.68	6.18	6.97
EPS adj growth	%	-11.1	5.5	8.7	12.8
PER rep	x	15.4	14.6	13.5	11.9
PER adj	x	15.4	14.6	13.5	11.9
Total DPS	Rmb	2.32	2.44	2.66	3.00
Total div yield	%	2.8	2.9	3.2	3.6
ROA	%	9.7	10.0	10.1	10.7
ROE	%	13.3	13.0	13.0	13.6
EV/EBITDA	x	5.2	4.6	4.3	4.0
Net debt/equity	%	-48.5	-47.1	-52.5	-57.2
P/BV	x	2.0	1.8	1.7	1.6

941 HK rel HSI performance, & rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015

(all figures in Rmb unless noted, TP in HKD)

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19 March 2015

China Mobile

Singing in the rain

Event

- China Mobile reported a 10% y-y earnings decline, which is more or less expected by the market beforehand. Despite the earnings decline in 2014 results, management stayed upbeat about the potential business opportunities created by a robust 4G (TD-LTE) network already in place. We adjust our earnings estimates for FY15-16E by -7%. We roll forward our DCF model and update our TP from HK\$105 to HK\$112.

Impact

- Financial highlights.** Revenue up by 1.8% y-y to RMB641.4bn (service revenue: -1.5% y-y; handsets sale revenue: +51.5% y-y), EBITDA fell 2.1% to RMB235.3bn and net profit was RMB109.3bn. In-line with its 43% payout ratio, the company declared final DPS of HK\$1.38 (2013: HK\$1.615).
- Negative: Blended ARPU was tainted by VAT (value-added tax) implementation.** China Mobile reported 22.3% y-y growth of mobile data revenue. As VAT was implemented on 1-Jun-14, China Mobile's blended ARPU fell 7.7% y-y to RMB61 (2013: RMB67). With 2H15 and 2H14 both subjected to VAT, we expect the increasing mobile data revenue be adequate to arrest an ARPU decline.
- Positive: Campaign of controlling marketing costs continues in 2015.** 2014's handset subsidies was RMB18.8bn (-28.5% y-y). As part of a 3-year campaign, China Mobile will further reduce selling expenses (inclusive of handset subsidies) by RMB20bn in 2015. If China Mobile manages to retain a bigger portion of such SG&A savings (not offering massive tariff subsidies), we could see further operating leverage in the years ahead.
- Positive: 2015's capex budget set at RMB199.7bn (-6.5% y-y).** For 2014, China Mobile's capex grew 15.5% y-y to RMB213.5bn (5.2% lower than guidance). For 2015, the company's focus of capex spend will shift from outdoor coverage to indoor coverage. Management sounds open to the idea of capex falling further in 2016. **We believe the guidance for lower capex in 2015 and further lower capex in 2016 appeals to investors.**

Earnings and target price revision

- We adjust our 2015-16E EPS by -7%. We also roll our DCF model forward, our new TP is HK\$112 from HK\$105.

Price catalyst

- 12-month price target: HK\$112.00 based on a DCF methodology.
- Catalyst: 1Q15 results to be released on April 20.

Action and recommendation

- Maintain Outperform driven by the following: (1) blended ARPU should eventually move up (likely in 2H15); (2) acceleration of 4G subscriber base growth; (3) ecosystem of 4G handsets supporting the growth; (4) 4G network coverage to improve; (5) potential capex savings if tower facilities company is effectively run.

For 2014, China Mobile reported operating revenue of RMB641.4bn (+1.8% y-y), EBITDA of RMB235.3bn (-2.1% y-y) and net profit of RMB109.3bn (-10.2% y-y). Within the operating revenue, mobile service revenue came in at RMB581.8bn (-1.5% y-y) and handset sales revenue came in at RMB59.6bn (+51.5% y-y). We note net profit is in-line with market expectation.

Fig 1 China Mobile – comparison of actual versus consensus estimates

(RMB m)	Macquarie FY14E	Actual FY14	vs. Consensus (%)	Consensus FY14E
Revenue	602,375	641,448	(0.5)	644,775
EBITDA	254,479	235,259	(1.4)	238,693
EBITDA margin (%)	42.2	36.7		37.0
Net profit	113,989	109,279	0.3	108,923

Source: Company data, Bloomberg, Macquarie Research, March 2015

Key takeaways from results and analyst briefing

We see three major takeaways from the results and analyst briefing:

Blended ARPU in 2H14 was tainted by VAT (value-added tax) implementation. China Mobile reported 22.3% y-y growth of mobile data revenue. As VAT was implemented on 1-Jun-14, China Mobile's blended ARPU fell 7.7% y-y to RMB61 (2013: RMB67). With 2H15 and 2H14 both subjected to VAT, we believe there is a decent chance that the increasing mobile data revenue could be adequate to arrest an ARPU decline in 2H15.

Campaign of controlling marketing costs continues in 2015. 2014's handset subsidies were ~RMB18.8bn (-28.5% y-y). As part of a 3-year campaign, China Mobile will further reduce selling expenses (inclusive of handset subsidies) by RMB20bn in 2015. If China Mobile manages to retain a bigger portion of such SG&A savings (not offering massive tariff subsidies), we could see further operating leverage in the years ahead.

2015's capex budget set at RMB199.7bn (-6.5% y-y). For 2014, China Mobile's capex grew 15.5% y-y to RMB213.5bn (5.2% lower than guidance). For 2015, the company's focus of capex spend will shift from outdoor coverage to indoor coverage. Management sounds open to the idea of falling capex in 2016. We believe the latter idea will appeal to investors.

Fig 2 China Mobile – quarterly financial results

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	FY13	FY14
Revenue (RMB m)	134,700	149,971	150,628	155,512	143,953	153,957	147,017	136,890	590,811	581,817
q-q change (%)	(11.3)	11.3	0.4	3.2	(7.4)	6.9	(4.5)	(6.9)		
y-y change (%)	5.7	7.8	6.0	2.4	6.9	2.7	(2.4)	(12.0)		(1.5)
EBITDA (RMB m)	61,213	62,474	61,985	54,754	57,592	60,673	58,073	58,921	240,426	235,259
q-q change (%)	(7.7)	2.1	(0.8)	(11.7)	5.2	5.3	(4.3)	1.5		
y-y change (%)	0.8	0.2	(3.5)	(17.5)	(5.9)	(2.9)	(6.3)	7.6		(2.1)
EBITDA margin (%)	45.4	41.7	41.2	35.2	40.0	39.4	39.5	43.0	40.7	40.4
Net profit (RMB m)	27,879	35,249	28,367	30,197	25,244	32,498	24,860	26,677	121,692	109,279
q-q change (%)	(22.5)	26.4	(19.5)	6.5	(16.4)	28.7	(23.5)	7.3		
y-y change (%)	0.3	2.5	(8.8)	(16.0)	(9.5)	(7.8)	(12.4)	(11.7)		(10.2)

Note: The revenue figures shown above represent telecommunications services revenue, excluding handset sales.

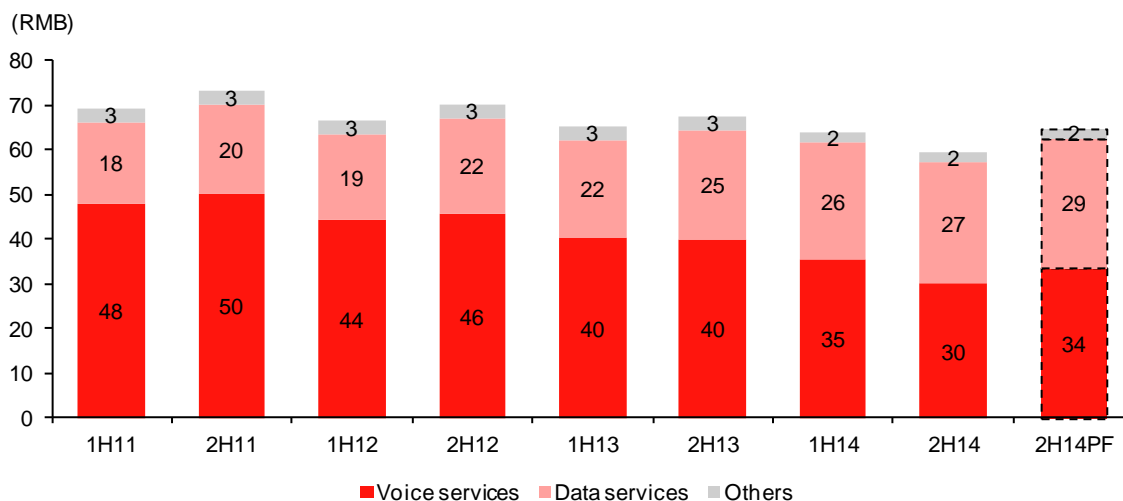
Source: Company data, Macquarie Research, March 2015

Fig 3 China Mobile – trend of blended ARPU and MOU (2G/3G/4G combined)

	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	FY13	FY14
ARPU (RMB)	63	68	67	68	62	65	62	57	67	61
q-q change (%)	(12.9)	9.0	(1.5)	1.4	(9.0)	5.3	(5.6)	(7.8)		
y-y change (%)	(3.1)	(0.7)	(2.1)	(5.2)	(0.9)	(4.2)	(8.2)	(16.5)		(7.7)
MOU (min)	488	500	483	480	456	463	452	450	486	453
q-q change (%)	(3.6)	2.5	(3.5)	(0.6)	(5.0)	1.5	(2.4)	(0.5)		
y-y change (%)	(3.9)	(4.6)	(5.8)	(5.2)	(6.6)	(7.5)	(6.4)	(6.3)		(6.7)

Source: Company data, Macquarie Research, March 2015

Uptick of blended ARPU is just a matter of timing. Back when Telecom and Unicom were migrating their 2G subscribers onto 3G platform, both companies experienced ARPU uplift because formerly voice-centric subscribers began to bring in data revenue. For China Mobile, we believe one reason why it did not experience ARPU uplift in the 2G-to-3G migration is TD-SCDMA (3G standard adopted by China Mobile) offers relatively slow data download speed (~1Mbps). As a result, in this ongoing migration of 2G/3G subscribers onto 4G platform, we believe China Mobile should be more successful in monetizing the mobile data traffic. Based on our [scenario analysis](#), we expect China Mobile's blended ARPU to move up in 2H15/1H16.

Fig 4 China Mobile – split of blended ARPU into voice, data and others

Note: 2H14PF represents what 2H14 would be by excluding value-added tax impacts. Without VAT, blended ARPU should have trended up already.

Source: Company data, Macquarie Research, March 2015

Subscriber growth targets (2G/3G/4G). China Mobile management indicated a target of having 250m 4G subscribers by end of 2015. That implies 4G net adds of 160m for this year. With the feedback of good user experience from the company's 4G network, we expect a "word-of-mouth marketing" should help for the company to achieve its 4G subscriber target. With Telecom and Unicom are likely to be more active in the 4G space in 2H15, we believe China Mobile may even want to add a bigger portion of its 4G subscriber target in 1H of this year instead.

Fig 5 China Mobile – mobile subscriber base (2G/3G/4G)

(m)	1Q13	2Q13	3Q13	4Q13	1Q14	2Q14	3Q14	4Q14	FY13	FY14
Mobile subs	726.3	740.2	755.2	767.2	781.1	790.6	799.1	806.6	767.2	806.6
Net adds	16.0	13.8	15.0	12.0	13.9	9.5	8.5	7.5	56.9	39.4
2G subs	611.9	602.3	585.7	575.6	553.3	538.2	513.7	470.8	575.6	470.8
Net adds	(10.4)	(9.7)	(16.6)	(10.1)	(22.3)	(15.2)	(24.4)	(42.9)	(46.8)	(104.8)
3G subs	114.4	137.9	169.5	191.6	225.0	238.5	244.5	245.8	191.6	245.8
Net adds	26.4	23.5	31.6	22.1	33.4	13.5	5.9	1.3	103.7	54.1
4G subs	0.0	0.0	0.0	0.0	2.8	13.9	40.9	90.1	0.0	90.1
Net adds	0.0	0.0	0.0	0.0	2.8	11.2	27.0	49.1	0.0	90.1

Source: Company data, Macquarie Research, March 2015

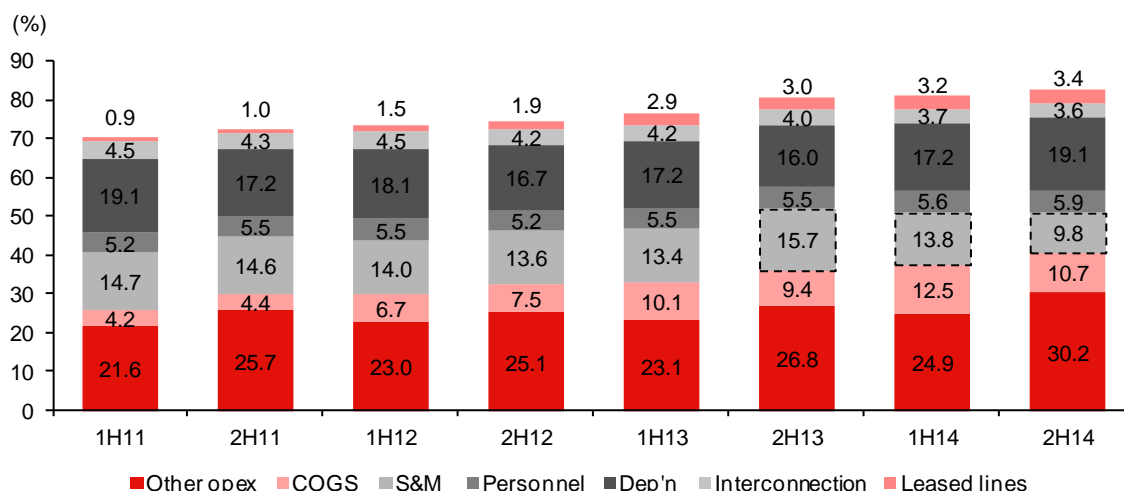
With the outdoor coverage of China Mobile's 4G network is getting more comprehensive, we note data traffic is shifting back to mobile network from Wi-Fi. Given China Mobile's 4G network is capable of offering ~50Mbps data download speed, the user experience is better than Wi-Fi network (~10Mbps). Back in 1H13, we note 75% of China Mobile's data traffic was on its Wi-Fi network. **By 2H14, the company did not even bother to disclose the data traffic volume on its Wi-Fi network, that probably implies more data traffic was handled by the company's mobile network (2G/3G/4G combined, 4G mostly though).** In our view, the latter figure suggests China Mobile is monetizing more of its data traffic.

Fig 6 China Mobile – data revenue and traffic over mobile network vs. Wi-Fi network

(RMB m)	1H11	2H11	1H12	2H12	1H13	2H13	1H14	2H14	FY13	FY14
Mobile data rev	18,972	24,717	28,481	38,048	46,121	59,252	70,097	80,474	105,373	150,571
WLAN data rev	308	431	737	991	1,282	1,584	1,877	1,478	2,866	3,355
Composition (%)										
Mobile data rev	98	98	97	97	97	97	97	98	97	98
WLAN data rev	2	2	3	3	3	3	3	2	3	2
Traffic (MB bn)										
Mobile data	69	92	122	168	223	304	427	706	527	1,133
WLAN data	68	133	267	482	669	816	822	na	1,485	na
Composition (%)										
Mobile data	50	41	31	26	25	27	34	na	26	na
WLAN data	50	59	69	74	75	73	66	na	74	na
Tariff (RMB per MB)										
Mobile network (A)	0.2742	0.2692	0.2331	0.2270	0.2070	0.1949	0.1644	0.1139	0.2000	0.1329
WLAN network (B)	0.0045	0.0033	0.0028	0.0021	0.0019	0.0019	0.0023	na	0.0019	na
(A) / (B)	60	83	84	111	108	100	72	na	104	na

Source: Company data, Macquarie Research, March 2015

Stringent measures controlling marketing costs will continue. Back in mid-2014, China Mobile indicated that it will reduce selling expenses (inclusive of handset subsidies) by RMB20bn (of which RMB15bn was taken out from handset subsidies). The company managed to cut RMB16bn in the end. Going into 2015, management indicated its target is to lower selling expenses (inclusive of handset subsidies) by another RMB20bn. We believe some of the low-hanging fruits for cost cutting (e.g. closure of VIP lounge in domestic airports) were already picked last year. Therefore, we expect China Mobile may have to look elsewhere for cost cutting in 2015.

Fig 7 China Mobile – operating expenses as % of operating revenue

Note: Operating revenue includes handset sales revenue.
Source: Company data, Macquarie Research, March 2015

2015's capex is 7% lower than 2014, but the company sheds light on 2016. China Mobile provided a capex guidance of RMB199.7bn for 2015. We note such figure is 7% lower than that of 2014. Given most of the 4G outdoor and indoor coverage should be mostly completed by end of 2015, we believe there is a decent possibility that China Mobile's capex should finally trend down in 2016. In our view, a downward trend of capex should be welcomed by investors.

Fig 8 China Mobile – composition of capital expenditure

Composition (%)	2009	2010	2011	2012	2013	2014	2015E
Network construction	43	44	57	44	24	10	3
New business	12	13	6	6	5	4	8
Transmission	23	23	18	28	37	34	33
BSS	8	7	6	8	5	4	5
Infrastructure	14	9	9	11	9	8	13
Others	0	4	4	3	4	2	2
4G	0	0	0	0	16	38	36
Listco capex (RMB bn)	129.4	124.3	128.5	127.4	184.9	213.5	199.7
y-y change (%)		(3.9)	3.4	(0.9)	45.1	15.5	(6.5)

Source: Company data, Macquarie Research, March 2015

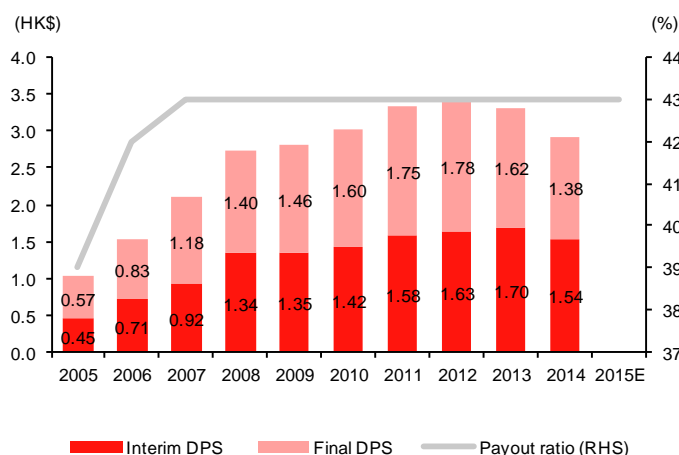
Fig 9 China Mobile – composition of capital expenditure

(RMB bn)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015E
1st guidance	32.3	45.5	76.0	96.0	109.0	110.5	80.4	125.5	125.0	na
2nd guidance	53.8	78.0	98.0	119.0	131.0	98.0	130.4	130.0	na	na
3rd guidance	83.3	99.8	127.2	133.9	123.0	132.4	131.9	190.2	225.2	199.7
Actual capex (RMB bn)	87.0	105.1	136.3	129.4	124.3	128.5	127.4	184.9	213.5	
vs. final guidance (%)	4.4	5.3	7.2	(3.4)	1.1	(2.9)	(3.4)	(2.8)	(5.2)	

Note: 1st guidance represents guidance figure released 3 years before the actual year, 2nd guidance represents guidance figure released 2 years before the actual year, etc.

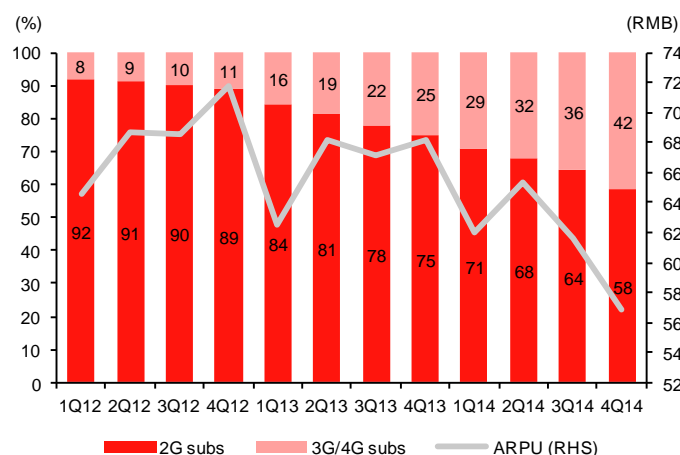
Source: Company data, Macquarie Research, March 2015

Fig 10 CM – Dividend per share and payout ratio



Source: Company data, Macquarie Research, March 2015

Fig 11 CM – subscriber composition and ARPU



Source: Company data, Macquarie Research, March 2015

Key assumptions of our earnings forecasts

Post release of FY14 results, we update our model. We are lowering our earnings estimates for FY15-16E by ~7%. We roll forward our DCF model and raise price target from HK\$105 to HK\$112. Maintain Outperform.

Fig 12 China Mobile – summary of key assumptions

	2015E	2016E	2017E		2015E	2016E	2017E
Total 4G subs (m)				Revenue (RMB m)			
- Old assumption	130.0	214.0	na	- Old assumption	660,894	708,859	na
- New assumption	246.1	330.1	405.1	- New assumption	673,783	726,978	752,779
Change (%)	89.3	54.2	na	Change (%)	2.0	2.6	na
Total 3G subs (m)				EBITDA (RMB m)			
- Old assumption	299.6	317.6	na	- Old assumption	278,879	297,266	na
- New assumption	269.8	287.8	299.8	- New assumption	270,725	289,038	305,947
Change (%)	(10.0)	(9.4)	na	Change (%)	(2.9)	(2.8)	na
Total 2G subs (m)				EBITDA margin (%)			
- Old assumption	437.6	374.6	na	- Old assumption	42.2	41.9	na
- New assumption	329.8	266.8	215.8	- New assumption	40.2	39.8	40.6
Change (%)	(24.6)	(28.8)	na				
				Net profit (RMB m)			
				- Old assumption	123,407	135,446	na
				- New assumption	115,415	125,489	141,603
				Change (%)	(6.5)	(7.4)	na

Source: Macquarie Research, March 2015

4G net adds. We raise our FY15 assumption for 4G net adds to 160m. This is in-line with the company's target to achieve ~250m 4G subscribers by end of 2015.

Blended ARPU. As 4G service is introduced to the mass market, we expect downward pressure on 4G ARPU. Given the rising proportion of 4G subscribers in total subscribers, the blended ARPU could be impacted.

EBITDA margin. Despite China Mobile announced its plans to lower 2015 SG&A expenses by RMB20bn (2014: RMB20bn), the network operating expenses should increase as well because of much more 4G base stations are in service (2015: 1m; 2014: 700k).

Fig 13 China Mobile – DCF valuation (RMB m)

Year	2016E	2017E	2018E	2019E	2020E	2021E
EBIT	146,949	165,921	168,181	169,338	169,149	169,842
Tax	(38,514)	(41,872)	(47,243)	(48,434)	(49,328)	(49,907)
NOPAT	108,435	124,049	120,938	120,904	119,821	119,935
Depreciation	142,089	140,027	137,372	134,265	130,381	125,906
Working cap movement	18,106	8,782	3,553	784	(467)	(192)
Capex	(150,000)	(145,000)	(140,000)	(135,000)	(125,000)	(120,000)
FCF	118,630	127,857	121,862	120,953	124,735	125,649
Terminal growth rate (g)	0.5%					
Risk-free rate	4.0%					
Stock beta (equity)	0.90					
Equity risk premium	7.0%					
Cost of equity	10.3%					
Cost of debt	7.0%					
WACC	10.3%					

Source: Macquarie Research, March 2015

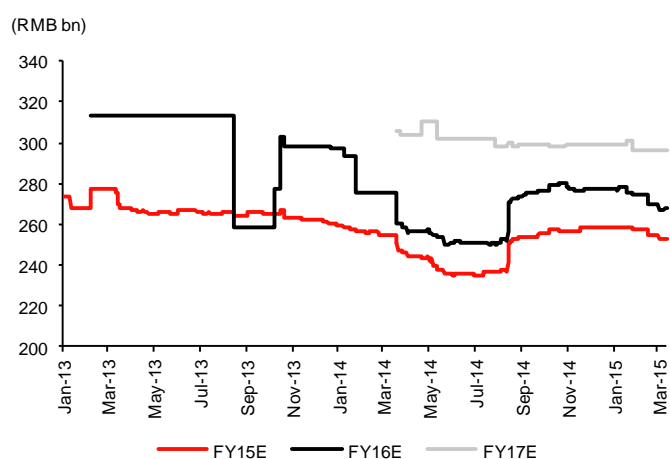
Catalysts

In the short-term (<12 months), we believe catalysts that could drive the share price include:

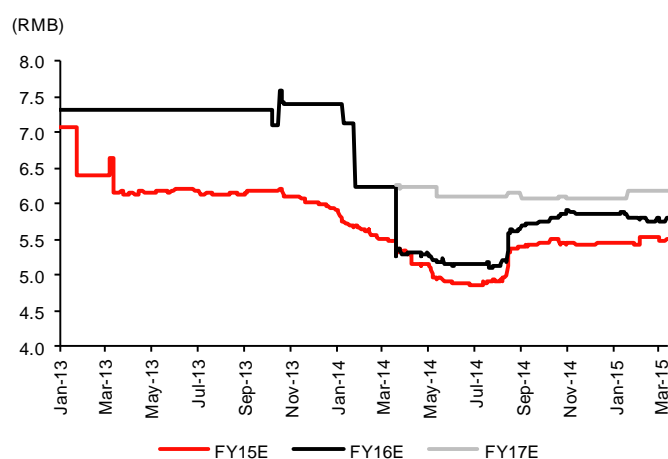
- 4G monthly net adds as well as 4G ARPU as a higher net adds market share would suggest China Mobile is winning back subscribers;
- More chipset providers who can produce chipsets that go into multi-mode 4G handsets (e.g. handsets that work smoothly in multiple mobile technology standards and multiple frequency bands);
- Availability of low-priced 4G smartphones to drive data service penetration;
- Recovery of EBITDA margin as the market would like to see improvements in operational efficiency.

In the long-term (>12 months), we believe catalysts that could drive the share price include:

- User feedback on 4G (TD-LTE) service (particularly indoors and subway system) in cities with 4G network coverage;
- Blended ARPU as an upward trend would suggest 4G is benefiting ARPU;
- Return of earnings growth momentum;
- The tower company which may help China Mobile to lower its capex spend;
- Capital management plan as investors are interested in a higher earnings payout ratio;
- Regulatory roadmap to be drawn out by Ministry of Industry and Information Technology.

Fig 14 China Mobile – consensus forecast of EBITDA

Source: Company data, Bloomberg, Macquarie Research, March 2015

Fig 15 China Mobile – consensus forecast of EPS

Source: Company data, Bloomberg, Macquarie Research, March 2015

Fig 16 Our recent publications on China telecom services sector

Date	Title of publication
4 Feb, 2015	China Mobile: Eyes on me
19 Jan, 2015	China Mobile: Afternoon Tea Series — 4G business progress ahead of schedule
8 Jan, 2015	China Mobile: The force awakens
23 Dec, 2014	China Mobile: Regulator's soft tone is best Xmas gift
8 Dec, 2014	China Mobile: TD-LTE (Episode 8) — Network test in Beijing and Shanghai
18 Mar, 2015	China Telecom: Keep calm while capex budget is up (FY14 review)
8 Jan, 2015	China Telecom: Embracing challenge with open arms
7 Jan, 2015	China Telecom: Dim Sum Lunch — Optimistic towards issuance of FDD licences in 2015
6 Jan, 2015	China Telecom: 2015 annual work conf, scale development is one key focus
28 Oct, 2014	China Telecom: Good to have subscriber growth back (3Q14 review)
4 Mar, 2015	China Unicom: Extracts of Q&A at analyst briefing and investor conf call
3 Mar, 2015	China Unicom: The maze runner (FY14 review)
27 Jan, 2015	China Unicom: What a difference a year makes
20 Jan, 2015	China Unicom: Better late than never
8 Jan, 2015	China Unicom: You can run, but you cannot hide...from 4G
5 Mar, 2015	China telecom sector: Monthly industry data (January stats)
27 Feb, 2015	China telecom sector: FDD licences finally coming through
12 Feb, 2015	China telecom sector: United we stand, divided we fall?
21 Jan, 2015	China telecom sector: Monthly industry data (December stats)
15 Jan, 2015	China telecom sector: Reality check on MVNOs
8 Jan, 2015	China telecom sector: The neverending story (Thematic report)
17 Dec, 2014	China telecom sector: CT/CU — All I want for Christmas is...expansion of LTE hybrid network

Source: Macquarie Research, March 2015

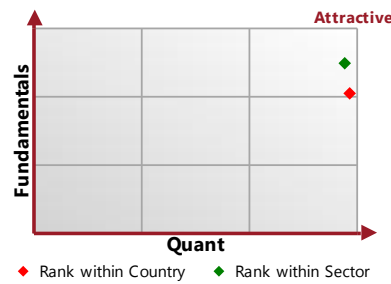
Macquarie Quant View

The quant model currently holds a strong positive view on China Mobile. The strongest style exposure is Quality, indicating this stock is likely to have a superior and more stable underlying earnings stream. The weakest style exposure is Growth, indicating this stock has weak historic and/or forecast growth. Growth metrics focus on both top and bottom line items.

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Global Alpha Model
Sector Rank

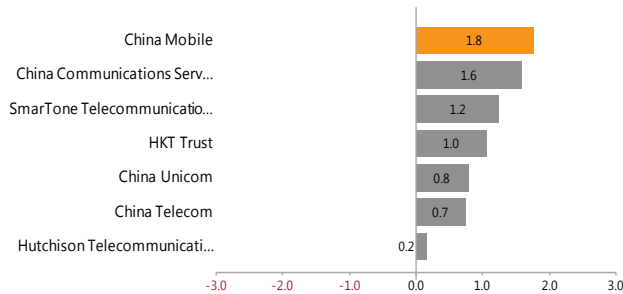
% of BUY recommendations 69% (20/29)
Number of Price Target downgrades 0
Number of Price Target upgrades 13



Displays where the company's ranked based on the fundamental consensus Price Target and Macquarie's Quantitative Alpha model. The rankings are displayed relative to the sector and country.

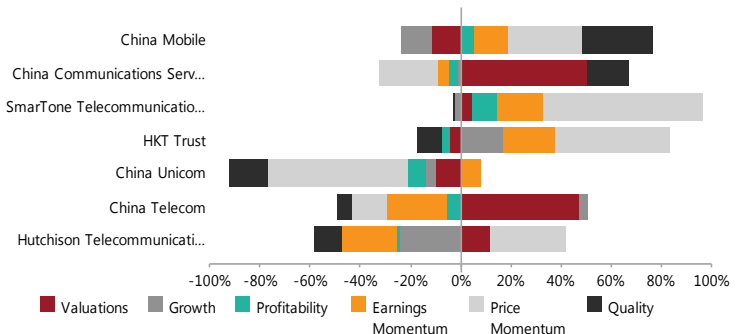
Macquarie Alpha Model ranking

A list of comparable companies and their Macquarie Alpha model score (higher is better).



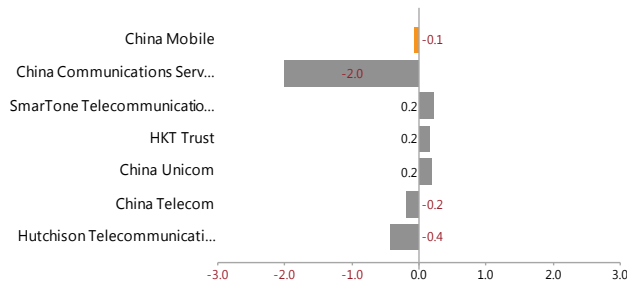
Factors driving the Alpha Model

For the comparable firms this chart shows the key underlying styles and their contribution to the current overall Alpha score.



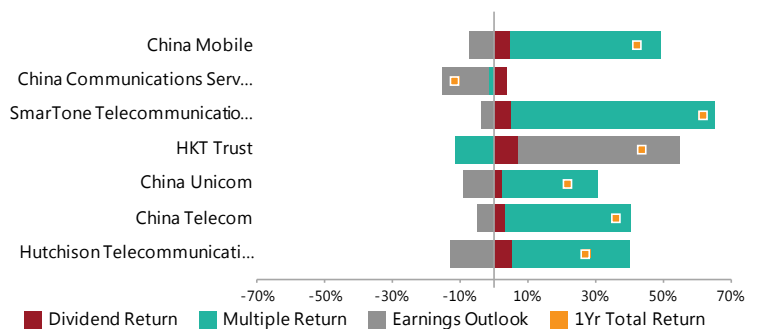
Macquarie Earnings Sentiment Indicator

The Macquarie Sentiment Indicator is an enhanced earnings revisions signal that favours analysts who have more timely and higher conviction revisions. Current score shown below.



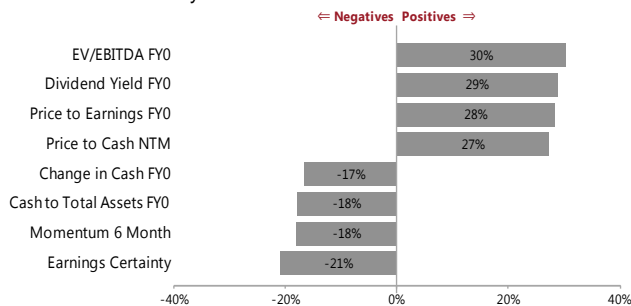
Drivers of Stock Return

Breakdown of 1 year total return (local currency) into returns from dividends, changes in forward earnings estimates and the resulting change in earnings multiple.



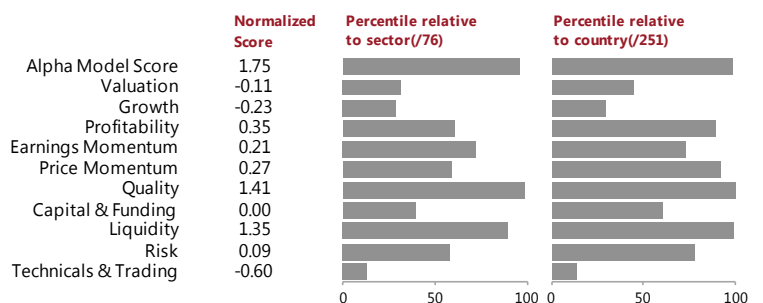
What drove this Company in the last 5 years

Which factor score has had the greatest correlation with the company's returns over the last 5 years.



How it looks on the Alpha model

A more granular view of the underlying style scores that drive the alpha (higher is better) and the percentile rank relative to the sector and country.



For more details on the Macquarie Alpha model or for more customised analysis and screens, please contact the Macquarie Global Quantitative/Custom Products Group (cpg@macquarie.com)

China Mobile (941 HK, Outperform, Target Price: HK\$112.00)

Interim Results					Profit & Loss						
	2H/14A	1H/15E	2H/15E	1H/16E		2014A	2015E	2016E	2017E		
Revenue	m	290,909	336,891	336,891	363,489	Revenue	m	581,817	673,783	726,978	752,779
Gross Profit	m	290,909	336,891	336,891	363,489	Gross Profit	m	581,817	673,783	726,978	752,779
Cost of Goods Sold	m	0	0	0	0	Cost of Goods Sold	m	0	0	0	0
EBITDA	m	117,630	135,362	135,362	144,519	EBITDA	m	235,259	270,725	289,038	305,947
Depreciation	m	58,113	67,771	67,771	71,045	Depreciation	m	116,225	135,543	142,089	140,027
Amortisation of Goodwill	m	0	0	0	0	Amortisation of Goodwill	m	0	0	0	0
Other Amortisation	m	0	0	0	0	Other Amortisation	m	0	0	0	0
EBIT	m	59,517	67,591	67,591	73,474	EBIT	m	119,034	135,182	146,949	165,921
Net Interest Income	m	7,961	4,604	4,604	5,196	Net Interest Income	m	15,921	9,208	10,392	12,397
Associates	m	4,124	4,330	4,330	4,547	Associates	m	8,248	8,660	9,093	9,548
Exceptionals	m	0	0	0	0	Exceptionals	m	0	0	0	0
Forex Gains / Losses	m	0	0	0	0	Forex Gains / Losses	m	0	0	0	0
Other Pre-Tax Income	m	-306	502	502	527	Other Pre-Tax Income	m	-611	1,003	1,053	1,106
Pre-Tax Profit	m	71,296	77,027	77,027	83,744	Pre-Tax Profit	m	142,592	154,054	167,487	188,972
Tax Expense	m	-16,594	-19,257	-19,257	-20,936	Tax Expense	m	-33,187	-38,514	-41,872	-47,243
Net Profit	m	54,703	57,770	57,770	62,808	Net Profit	m	109,405	115,541	125,615	141,729
Minority Interests	m	-63	-63	-63	-63	Minority Interests	m	-126	-126	-126	-126
Reported Earnings	m	54,640	57,707	57,707	62,745	Reported Earnings	m	109,279	115,415	125,489	141,603
Adjusted Earnings	m	54,640	57,707	57,707	62,745	Adjusted Earnings	m	109,279	115,415	125,489	141,603
EPS (rep)		2.69	2.84	2.84	3.09	EPS (rep)		5.38	5.68	6.18	6.97
EPS (adj)		2.69	2.84	2.84	3.09	EPS (adj)		5.38	5.68	6.18	6.97
EPS Growth yoy (adj)	%	-10.3	5.5	5.5	8.7	EPS Growth (adj)	%	-11.1	5.5	8.7	12.8
						PE (rep)	x	15.4	14.6	13.5	11.9
						PE (adj)	x	15.4	14.6	13.5	11.9
EBITDA Margin	%	40.4	40.2	40.2	39.8	Total DPS		2.32	2.44	2.66	3.00
EBIT Margin	%	20.5	20.1	20.1	20.2	Total Div Yield	%	2.8	2.9	3.2	3.6
Earnings Split	%	50.0	50.0	50.0	50.0	Basic Shares Outstanding	m	20,312	20,312	20,312	20,312
Revenue Growth	%	-6.8	15.8	15.8	7.9	Diluted Shares Outstanding	m	20,293	20,312	20,312	20,312
EBIT Growth	%	-5.7	13.6	13.6	8.7						
Profit and Loss Ratios					Cashflow Analysis						
	2014A	2015E	2016E	2017E		2014A	2015E	2016E	2017E		
Revenue Growth	%	-1.5	15.8	7.9	3.5	EBITDA	m	233,559	270,725	289,038	305,947
EBITDA Growth	%	-2.1	15.1	6.8	5.9	Tax Paid	m	-36,776	-33,187	-38,514	-41,872
EBIT Growth	%	-12.3	13.6	8.7	12.9	Chgs in Working Cap	m	54,904	31,302	18,106	8,782
Gross Profit Margin	%	100.0	100.0	100.0	100.0	Net Interest Paid	m	15,921	9,208	10,392	12,397
EBITDA Margin	%	40.4	40.2	39.8	40.6	Other	m	0	0	0	0
EBIT Margin	%	20.5	20.1	20.2	22.0	Operating Cashflow	m	267,608	278,049	279,022	285,254
Net Profit Margin	%	18.8	17.1	17.3	18.8	Acquisitions	m	0	0	0	0
Payout Ratio	%	43.1	43.0	43.0	43.0	Capex	m	-225,200	-220,000	-150,000	-145,000
EV/EBITDA	x	5.2	4.6	4.3	4.0	Asset Sales	m	0	0	0	0
EV/EBIT	x	10.0	8.8	8.1	7.2	Other	m	0	0	0	0
Balance Sheet Ratios					Investing Cashflow	m	-225,200	-220,000	-150,000	-145,000	
ROE	%	13.3	13.0	13.0	13.6	Dividend (Ordinary)	m	-52,675	-47,170	-49,628	-53,960
ROA	%	9.7	10.0	10.1	10.7	Equity Raised	m	0	0	0	0
ROIC	%	24.3	22.9	22.5	26.1	Debt Movements	m	0	0	0	0
Net Debt/Equity	%	-48.5	-47.1	-52.5	-57.2	Other	m	11,913	9,664	10,147	10,654
Interest Cover	x	nmf	nmf	nmf	nmf	Financing Cashflow	m	-40,762	-37,506	-39,481	-43,306
Price/Book	x	2.0	1.8	1.7	1.6	Net Chg in Cash/Debt	m	1,646	20,542	89,540	96,948
Book Value per Share		42.2	45.5	49.3	53.6	Free Cashflow	m	42,408	58,049	129,022	140,254
					Balance Sheet						
	2014A	2015E	2016E	2017E		2014A	2015E	2016E	2017E		
Cash	m	421,557	442,099	531,640	628,587	Cash	m	421,557	442,099	531,640	628,587
Receivables	m	16,340	18,923	20,417	21,141	Receivables	m	16,340	18,923	20,417	21,141
Inventories	m	9,130	10,573	11,408	11,813	Inventories	m	9,130	10,573	11,408	11,813
Investments	m	0	0	0	0	Investments	m	0	0	0	0
Fixed Assets	m	588,202	672,659	680,570	685,544	Fixed Assets	m	588,202	672,659	680,570	685,544
Intangibles	m	35,300	35,300	35,300	35,300	Intangibles	m	35,300	35,300	35,300	35,300
Other Assets	m	225,920	225,920	225,920	225,920	Other Assets	m	225,920	225,920	225,920	225,920
Total Assets	m	1,296,449	1,405,475	1,505,255	1,608,305	Total Assets	m	1,296,449	1,405,475	1,505,255	1,608,305
Payables	m	223,503	258,831	279,266	289,177	Payables	m	223,503	258,831	279,266	289,177
Short Term Debt	m	68	68	68	68	Short Term Debt	m	68	68	68	68
Long Term Debt	m	4,992	4,992	4,992	4,992	Long Term Debt	m	4,992	4,992	4,992	4,992
Provisions	m	6,020	11,347	14,705	20,076	Provisions	m	6,020	11,347	14,705	20,076
Other Liabilities	m	203,223	203,223	203,223	203,223	Other Liabilities	m	203,223	203,223	203,223	203,223
Total Liabilities	m	437,806	478,461	502,254	517,536	Total Liabilities	m	437,806	478,461	502,254	517,536
Shareholders' Funds	m	856,576	924,821	1,000,682	1,088,324	Shareholders' Funds	m	856,576	924,821	1,000,682	1,088,324
Minority Interests	m	2,067	2,193	2,319	2,445	Minority Interests	m	2,067	2,193	2,319	2,445
Other	m	0	0	0	0	Other	m	0	0	0	0
Total S/H Equity	m	858,643	927,014	1,003,001	1,090,769	Total S/H Equity	m	858,643	927,014	1,003,001	1,090,769
Total Liab & S/H Funds	m	1,296,449	1,405,475	1,505,255	1,608,305	Total Liab & S/H Funds	m	1,296,449	1,405,475	1,505,255	1,608,305

All figures in Rmb unless noted.

Source: Company data, Macquarie Research, March 2015

Important disclosures:**Recommendation definitions****Macquarie - Australia/New Zealand**

Outperform – return >3% in excess of benchmark return
 Neutral – return within 3% of benchmark return
 Underperform – return >3% below benchmark return

Benchmark return is determined by long term nominal GDP growth plus 12 month forward market dividend yield

Macquarie – Asia/Europe

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie First South - South Africa

Outperform – expected return >+10%
 Neutral – expected return from -10% to +10%
 Underperform – expected return <-10%

Macquarie - Canada

Outperform – return >5% in excess of benchmark return
 Neutral – return within 5% of benchmark return
 Underperform – return >5% below benchmark return

Macquarie - USA

Outperform (Buy) – return >5% in excess of Russell 3000 index return
 Neutral (Hold) – return within 5% of Russell 3000 index return
 Underperform (Sell) – return >5% below Russell 3000 index return

Volatility index definition*

This is calculated from the volatility of historical price movements.

Very high–highest risk – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

High – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

Medium – stock should be expected to move up or down at least 30–40% in a year.

Low–medium – stock should be expected to move up or down at least 25–30% in a year.

Low – stock should be expected to move up or down at least 15–25% in a year.

* Applicable to Asia/Australian/NZ/Canada stocks only

Recommendations – 12 months

Note: Quant recommendations may differ from Fundamental Analyst recommendations

Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense
 Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

EPS = adjusted net profit / efpowa*

ROA = adjusted ebit / average total assets

ROA Banks/Insurance = adjusted net profit / average total assets

ROE = adjusted net profit / average shareholders funds

Gross cashflow = adjusted net profit + depreciation

*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

Recommendation proportions – For quarter ending 31 December 2014

	AU/NZ	Asia	RSA	USA	CA	EUR	
Outperform	51.80%	58.06%	45.07%	44.42%	60.54%	46.81%	(for US coverage by MCUSA, 5.29% of stocks followed are investment banking clients)
Neutral	31.80%	27.37%	30.99%	50.10%	35.37%	33.51%	(for US coverage by MCUSA, 3.08% of stocks followed are investment banking clients)
Underperform	16.39%	14.57%	23.94%	5.48%	4.08%	19.68%	(for US coverage by MCUSA, 0.44% of stocks followed are investment banking clients)

941 HK vs HSI, & rec history

(all figures in HKD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, March 2015

12-month target price methodology

941 HK: HK\$112.00 based on a DCF methodology

Company-specific disclosures:

941 HK: Macquarie Capital Securities Limited makes a market in the securities of China Mobile (Hong Kong) Limited.

Important disclosure information regarding the subject companies covered in this report is available at www.macquarie.com/disclosures.

Date	Stock Code (BBG code)	Recommendation	Target Price
02-Sep-2014	941 HK	Outperform	HK\$105.00
20-Mar-2014	941 HK	Neutral	HK\$75.00
20-Feb-2014	941 HK	Neutral	HK\$79.00
29-May-2013	941 HK	Neutral	HK\$87.00
15-Mar-2013	941 HK	Underperform	HK\$72.00
17-Aug-2012	941 HK	Neutral	HK\$76.00
16-Mar-2012	941 HK	Neutral	HK\$80.00

Target price risk disclosures:

941 HK: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

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