March 19, 2015

China Mobile Limited

4Q14 Results: Weak Revenue; but Good Cost Control

Industry View	Stock Rating
Attractive	**Equal-weight**

MORGAN STANLEY ASIA LIMITED+

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Retain EW after the release of 4Q14 results. Service revenue was 10% below our estimate, due to the accelerating decline in voice revenue. EBITDA and NPAT were 6-7% above our below-consensus forecasts, thanks to solid cost control. Management guided for a flat 43% dividend payout in 2015.

China Mobile (CM) reported 2014 net profit of Rmb109.3 bn (-10.2% YoY) , 1.5% above our forecast of Rmb107.7 bn but in line with consensus. This implies 4Q14 net profit of Rmb26.7 bn (-11.7% YoY), 6.4% above our forecast of Rmb25.1 bn.

4Q14 service revenue of Rmb136.7 bn (-12.0% YoY; -7.1% QoQ) was 10.1% below our estimate.

- **ARPU** fell 16.6% YoY to Rmb57, 10.1% below our estimate.
- **Voice revenue** decline accelerated from -7% YoY in 1H14 to -21.5% in 2H14, and came 4.7% below our estimate.
- **Data revenue** growth slowed from 27.8% YoY in 1H14 to 17.6% in 2H14, partly due to VAT impact and shift from handset subsidy to tariff rebate, in our view, and came 5.6% below our estimate.
- **Mobile data traffic** increased 152.3% YoY in 4Q14 and came in 12.2% above our estimate, implying average data usage of 170MB (+139.2% YoY). 4G data usage also improved from 729MB in 1H14 to 780MB in FY14.
- **4G net adds** remained largely stable at 16.6 mn in February (vs. 16.7 mn in January), whereas total mobile net adds improve slightly to 2.2 mn (vs. 1.9 mn in January).

4Q14 EBITDA of Rmb58.9 bn (+7.6% YoY; +1.5% QoQ) was 6.9% higher than our estimate. EBITDA margin expanded 790 bps YoY to 43.1% (vs. our estimate of 36.2%).

- Selling and promotion expenses (excluding handset subsidies) reduced Rmb16 bn in 2014 vs. 2013, in line with management's guidance of ~Rmb15 bn savings.

4Q14 net profit of Rmb26.7 bn (-11.7% YoY; +7.3% QoQ) was 6.4% above our forecast, largely reflecting higher EBITDA.

The final dividend of HK$1.38 per share, together with the interim dividend of HK$1.54 per share already paid, represents a 43% payout of 2014 net profit

China Mobile Limited (0941.HK , 941 HK)

Greater China Telecoms and Media / China

Stock Rating	**Equal-weight**
Industry View	**Attractive**
Shr price, close (Mar 18, 2015)	HK$103.50
52-Week Range	HK$108.50-63.65
Sh out, dil, curr (mn)	20,488
Mkt cap, curr (mn)	US$273,312
EV, curr (mn)	US$198,583
Avg daily trading value (mn)	US$218.18

Fiscal Year Ending	**12/13**	**12/14e**	**12/15e**	**12/16e**
ModelWare EPS (Rmb)	5.98	5.26	5.28	5.62
EPS (Rmb)**	5.98	5.26	5.28	5.62
Consensus EPS (Rmb)§	6.24	5.39	5.58	5.83
Revenue, net (Rmb mn)	630,177	642,047	667,829	700,480
EBITDA (Rmb mn)	240,426	231,435	245,290	265,870
ModelWare net inc (Rmb mn)	121,692	107,674	108,122	115,201
P/E	10.5	13.8	15.7	14.8
P/BV	1.6	1.7	1.9	1.7
EV/EBITDA	3.4	4.5	5.2	4.7
Div yld (%)	4.2	3.2	2.8	3.0
FCF yld ratio (%)	7.2	1.0	1.0	3.9
RNOA (%)	33.0	26.5	21.2	19.0
ROE (%)	16.7	13.6	12.7	12.6
Net debt/EBITDA	NM	NM	NM	NM

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework
** = Based on consensus methodology
§ = Consensus data is provided by Thomson Reuters Estimates
e = Morgan Stanley Research estimates

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(in line with our expectation). Management guided for a flat 43% dividend payout in 2015 (also in line with our expectation).

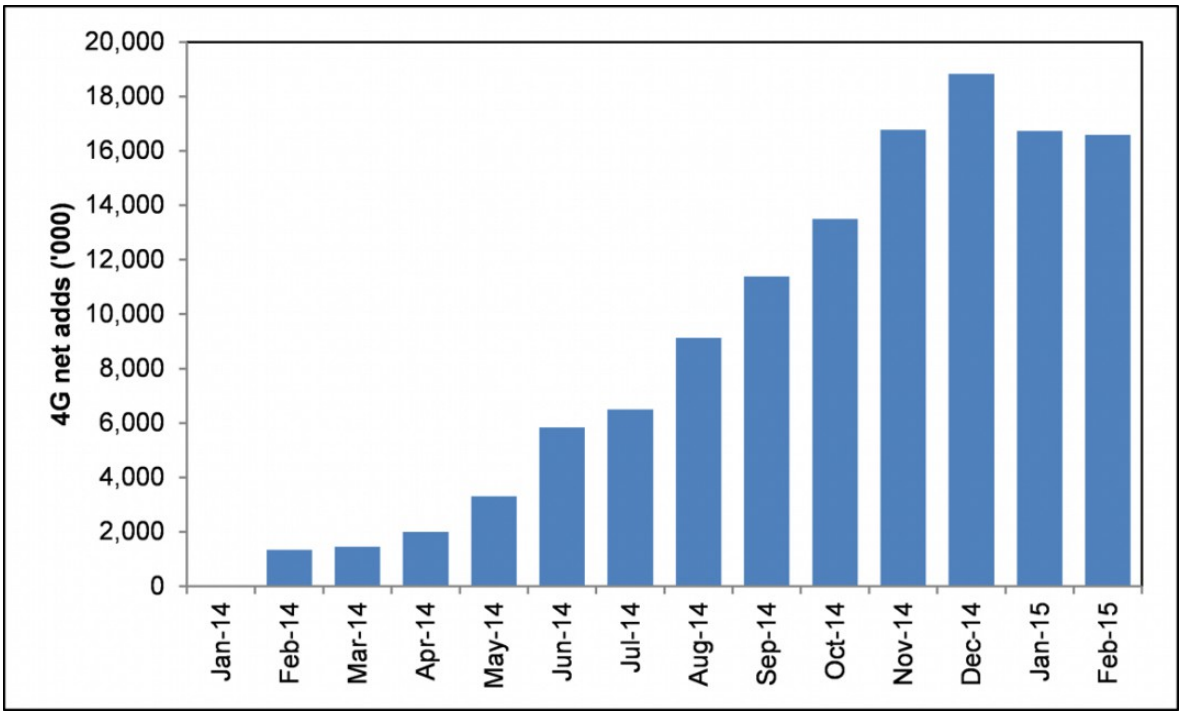
4Q14 Results Summary

Exhibit 1: CM: 4Q14 Results Summary

Years Ending December 31 Rmb mn	4Q13	3Q14	4Q14E	4Q14	% YoY	% QoQ	% vs. MSe
Service revenue	**155,369**	**147,159**	**152,184**	**136,748**	**-12.0%**	**-7.1%**	**-10.1%**
Total revenue	167,169	156,554	160,812	160,213	-4.2%	2.3%	-0.4%
EBITDA	**54,754**	**58,073**	**55,097**	**58,921**	**7.6%**	**1.5%**	**6.9%**
% margin	35.2%	39.5%	36.2%	43.1%	7.8%	3.6%	6.9%
D&A and non-operating items	24,557	33,213	30,026	26,677	8.6%	-19.7%	-11.2%
Profit after taxation	**30,197**	**24,860**	**25,072**	**26,677**	**-11.7%**	**7.3%**	**6.4%**
% margin	19.4%	16.9%	16.5%	19.5%	0.1%	2.6%	3.0%
KPI							
Subscribers ('000)							
2G subs	575,583	513,715	470,817	390,036			
3G subs	191,623	244,461	245,753	245,753			
4G subs	-	40,949	90,064	90,064			
Total subs	767,206	799,125	806,634	806,634			
Net adds							
2G subs	(10,107)	(24,438)	(42,898)	(123,679)			
3G subs	22,123	5,943	1,292	1,292			
4G subs	-	27,006	49,115	49,115			
Total subs	12,016	8,511	7,509	7,509			
ARPU (Rmb)	68	62	63	57	-16.6%	-8.0%	-10.1%
Wireless data traffic (bn MB)							
Mobile	161,900	298,200	363,928	408,447	152.3%	37.0%	12.2%
Wireless DOU (MB)							
Mobile	71	125	151	170	139.2%	35.6%	12.2%

E = Morgan Stanley Research estimates; Source: Company data, Morgan Stanley Research

Exhibit 2: CM: 4G Net Adds



Source: Company data, Morgan Stanley Research

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(as of February 28, 2015)
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Overweight/Buy	**1161**	**35%**	**321**	**41%**	**28%**
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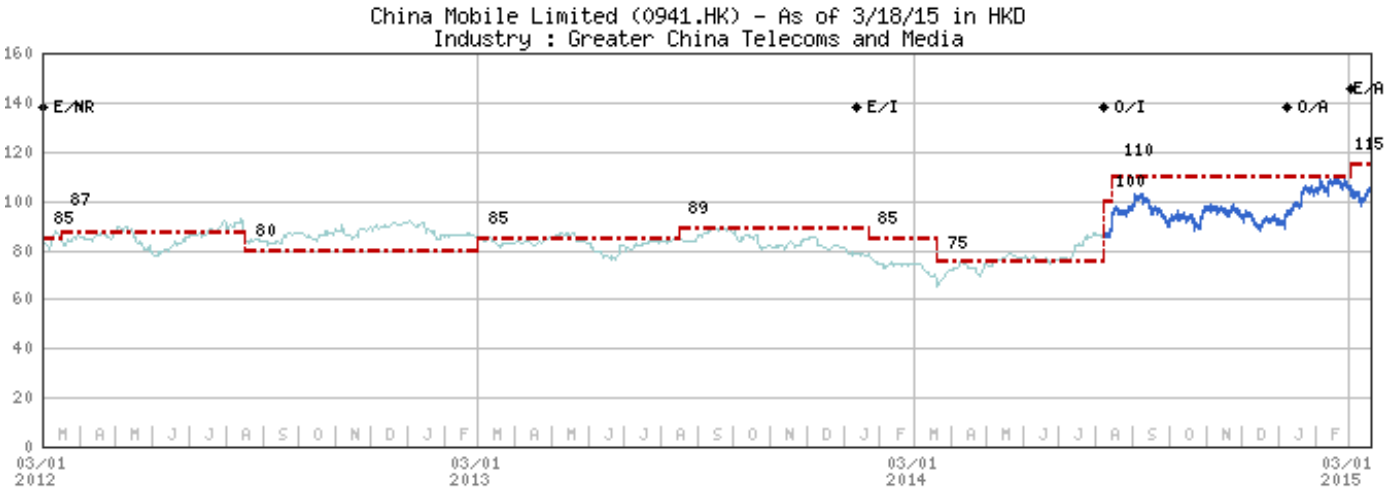

Stock Rating History: 3/1/12 : E/NR; 1/13/14 : E/I; 8/7/14 : O/I; 1/9/15 : O/A; 3/2/15 : E/A

Price Target History: 8/19/11 : 85; 3/16/12 : 87; 8/17/12 : 80; 3/1/13 : 85; 8/16/13 : 89; 1/22/14 : 85; 3/21/14 : 75; 8/7/14 : 100; 8/15/14 : 110; 3/2/15 : 115

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target No Price Target Assigned (NA)
Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst)
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COMPANY (TICKER)	RATING (AS OF)	PRICE* (03/18/2015)
Yu, Gary		
21Vianet (VNET.O)	O (07/01/2011)	US$17.05
China Mobile Limited (0941.HK)	E (03/02/2015)	HK$103.50
China Telecom (0728.HK)	O (03/02/2015)	HK$4.84
China Unicom (0762.HK)	O (01/09/2015)	HK$11.84
Chunghwa Telecom (2412.TW)	E (02/13/2015)	NT$98.60
Dr. Peng Telecom & Media Group (600804.SS)	U (01/07/2015)	Rmb26.22
Far Eastone (4904.TW)	O (10/29/2014)	NT$76.10
HKT Trust and HKT Ltd. (6823.HK)	E (07/23/2014)	HK$9.90
HTHKH (0215.HK)	E (01/09/2015)	HK$3.71
PCCW Ltd (0008.HK)	U (02/12/2015)	HK$4.63
SinoMedia (0623.HK)	E (01/09/2015)	HK$3.57
SmarTone (0315.HK)	O (09/07/2013)	HK$15.26
Taiwan Mobile (3045.TW)	O (10/29/2014)	NT$108.50
Television Broadcasts Limited (0511.HK)	E (01/09/2015)	HK$46.80

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

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