

Analyst: Kelvin Li

## **CHINA MOBILE LIMITED** (中國移動)

Sector	: Telecommunications	Chairman	: XI Guohua
HKSE Code	: 00941	CEO	: LI Yue
Market Price	: HK\$98.35 (20/03/2015)		
HSI	: 24,375.24 (20/03/2015)		
Shares Issued	: 20,475 million		
Mkt. Cap.	: HK\$2,013,667 million		
52 weeks Hi/ Lo	: HK\$108.50 / HK\$63.65		

### **SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2014**

#### **Final Results Highlights**

	<b>FY2014</b>	<b>FY2013</b>	
	<u>RMB million</u>	<u>RMB million</u>	<i>Change</i>
• Turnover	641,448	630,177	1.8%
• EBITDA	235,259	240,426	-2.1%
• Operating profit	117,334	135,649	-13.5%
• Share of profit of associates	8,248	7,062	16.8%
• <b>Profit attributable to shareholders</b>	<b>109,279</b>	<b>121,692</b>	<b>-10.2%</b>
• EPS – basic	RMB5.38	RMB6.05	-11.1%
• DPS – interim	HK\$1.540	HK\$1.696	-9.2%
• DPS – final	HK\$1.380	HK\$1.615	-14.6%
• DPS – total	HK\$2.920	HK\$3.311	-11.8%

- Earnings in mobile giant China Mobile (the “Group”) fell for the second straight year in 2014, amid VAT reform as well as keen competition in the saturating PRC mobile market. The Group reported net profit of RMB109.3 billion for the year ended 31<sup>st</sup> December 2014, down 10.2% from a year earlier, despite higher net interest income (+6.4% y-o-y) from its hefty cash holdings and better profit contribution (+16.8%) from its 20%-owned Shanghai Pudong Development Bank (SPDB). The bottom line was in line with consensus forecast of RMB109 billion.
- Turnover inched up by 1.8% y-o-y to RMB641.4 billion in FY14, supported by wireless data services and handset sales. EBITDA slipped 2.1% to RMB235.3 billion on rivalry, while EBITDA margin narrowed by 1.5 percentage points to 36.7% in FY14 from 38.2% a year earlier.
- Operating expenses rose 6.0% y-o-y to RMB524.1 billion in FY14 on increased costs of products (handset) sold (+21.3% y-o-y), leased line costs (+12.6% y-o-y), depreciation charges (+11.0% y-o-y) as well as maintenance costs (+13.9% y-o-y). Operating expenses as a percentage of total revenue surged to 81.7% in FY14 from 78.5% a year earlier. As a result, the Group’s operating profit dropped 13.5% y-o-y to RMB117.3 billion in FY14.
- EPS for FY14 was RMB5.38 (FY13: RMB6.05). A final dividend of HK\$1.38 per share was proposed, which implied a full-year payout ratio of 43%, unchanged from a year earlier.

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- As of 31<sup>st</sup> Dec 2014, the Group had hefty net cash of RMB423 billion, compared with net cash of RMB420 billion by end of 2013.

### **Business highlights**

- Breakdown of turnover by activities

	<b>FY2014</b>		<b>FY2013</b>		<b>Change</b>
	(RMB million)	%	(RMB million)	%	
Voice services	308,959	48.2%	355,686	56.4%	-13.1%
Data services	253,088	39.5%	206,886	32.8%	+22.3%
Other services	19,770	3.1%	28,239	4.5%	-30.0%
Sales of products and others	59,631	9.3%	39,366	6.2%	+51.5%
<b>Total</b>	<b>641,448</b>	<b>100.0%</b>	<b>630,177</b>	<b>100.0%</b>	<b>+1.8%</b>

- Revenue from the Group's **voice services** (voice usage and value-added services) revenue fell 13.1% y-o-y in FY14, amid accelerating non-voice business substitution following the VAT reform in June 2014 (non-voice value-added services are subject to a lower VAT rate). On a half-on-half basis, voice service revenue fell by 13.6% in 2H14. The Group added 39.4 million new subscribers in 2014, which included addition of 3G/4G subscribers of 144.8 million (2G subscribers down by 104.8 million amid service upgrade). By the end of Dec 2014, the Group's total subscriber base totalled 806.6 million, up 5.1% y-o-y, which represented a market share of 61% (Dec 2013: 67%). Out of which 335.8 million or 41.6% was 3G/4G customers, compared with 191.6 million 3G customers or 25.0% as at the end of 2013, respectively.
- Revenue from the Group's **data services** segment (SMS, MMS, wireless data traffic, and applications & information services) surged 22.3% y-o-y to RMB253.1 billion in FY14, accounting for 39.5% (FY13: 32.8%) of the Group's total. The strong revenue growth was driven by a sharp 42.9% growth in mobile data traffic revenue to RMB150.6 billion recorded in FY14 on a 115% jump in mobile data traffic volume.
- Overall, China Mobile's monthly ARPU (average revenue per user) was RMB61 in FY14, down 9% from RMB67 in FY13.

### **Outlook & Prospects**

- Competition may heat up in 2015** Rivals China Telecom (00728) and China Unicom (00762) were granted the FDD-LTE licenses in late Feb 2015 to operate the 4G business nationwide. Both the smaller rivals said they will raise capex budget sharply in 2015 to speed up network upgrade in order to broaden their respective FDD-LTE 4G coverage. Following the aggressive marketing efforts by China Mobile in 4Q14 (which led to a 15% y-o-y decline in ARPU) to expand its 4G presence, it is expected the other two rivals would fight back in 2015 after the grant of FDD-LTE licenses, which would heat up industry competition and pressure on ARPU amongst the mobile carrier trio.
- Flat dividend payout ratio in 2015 implies lower yield amid bottom-line weakness** 2014 was proven a challenging year for China Mobile on the VAT reform. The latest VAT reform made handset subsidy no longer a good market strategy with a much higher VAT rate on handset sales. In order to defend its market leader position, China Mobile needed to cut tariff aggressively to boost subscriber growth in 4Q14. As the competitive landscape should remain intact in 2015, we find the counter unattractive at 14.1x FY2015E P/E and dividend yield of just 3% (despite its hefty net cash). Accordingly, we maintain a 'SELL' rating on the counter.

### **Recommendation: SELL**

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