

26 March 2015

买入
上调

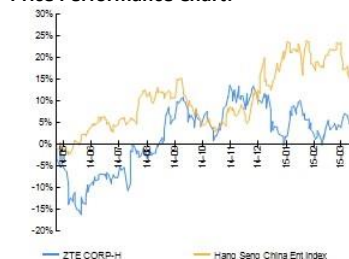
受益于 4G，毛利持续改善，上调至买入

中兴通讯 (763:HK)

Market Data: Mar,25

Closing Price (HK\$)	17.28
Price Target (HK\$)	21.5
HSCEI	11,969
HSCCI	4,525
52-week High/Low (HK\$)	18.88/13.80
Market Cap (USD Mn)	7,684
Market Cap (HK\$ Mn)	59,607
Shares Outstanding (Mn)	3,438
Exchange Rate (RMB-HK\$)	1.26

Price Performance Chart:



Source: Bloomberg

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Related Reports

"ZTE (763:HK) Result in line" Jan 20,2015

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Financial summary and valuation

	2013	2014	2015E	2016E	2017E
Revenue (RMB million)	75,233.70	81,471.30	92,554.76	101,942.00	109,345.08
YOY (%)	(10.56)	8.29	13.60	10.14	7.26
Net income (RMB million)	1,357.62	2,632.91	3,380.18	3,906.10	4,277.17
YOY (%)	-	90.23	33.28	15.56	9.50
EPS (RMB)	0.39	0.77	0.98	1.14	1.24
Diluted EPS (RMB)	0.39	0.76	0.98	1.13	1.24
ROE (%)	6.07	31.42	10.64	10.79	10.28
Debt/asset (%)	75.29	75.05	69.63	67.74	65.56
Dividend Yield (%)	0.22	1.45	1.79	2.07	2.27
P/E (x)	34.73	17.91	13.95	12.07	11.02
P/B (x)	2.00	5.43	1.38	1.21	1.05
EV/EBITDA (x)	10.46	3.91	2.23	1.72	1.36

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised. P/E is calculated as closing price divided by each year's EPS.

投资要点：

● **年度业绩公布。**根据香港会计准则，中兴通讯报告了 2014 年全年收入 814.7 亿人民币（同比上升 13.6%）。其中运营商网络板块的营业收入为 467.7 亿元（同比上升 14.9%），主要原因是国内外 4G 系统设备、国内外路由器及交换机、国内光通信系统等产品营业收入上升所致；手机终端业务收入为 231.2 亿元（同比上升 6.5%），主要是由于国内外 4G 手机收入上升所致；电信软件系统、服务及其他产品收入为 115.9 亿元（同比下滑 9.7%），主要原因是国际服务营业收入下降所致。此外，净利润为 26.3 亿元（同比上升 90.23%）。年度业绩结果和 1 月 19 日公布的业绩快报吻合。

● **毛利率改善。**根据香港会计准则，2014 年总体毛利率为 29.1%，上升 1.9 个百分点主要是由于运营商网络板块的毛利上升 1 个百分点到 35.6%，电信软件系统、服务及其他产品板块的毛利上升 5.9 个百分点到 30.8%。从地域来说，海外公司从低价抢份额、搬迁设备转向了合理价格竞标，因此海外业务的毛利有所改善，例如非洲和亚洲（不含中国）。我们认为，未来 ZTE 在海外通过低价损害毛利将越来越少，主要是因为中兴 4G 主设备相对 3G 主设备技术更强、更成熟。国内业务来看，我们认为 2H15 及以后运营商扩容订单占比将增加，而扩容订单的毛利率要比首次安装的 4G 设备要高。因此，我们估计未来 3 年毛利率将会持续改善，15 年-17 年毛利率分别为 30.1%，30.8% 和 31.1%

● **4G 主设备市场份额扩大。**根据我们的渠道调研，中兴通讯在中移动 TDD-LTE 主设备三期集采中份额为 38%，相较二期的 34%和一期的 26%都有所上升；在中联通的 FDD-LTE 主设备二期集采中份额为 34%，相较一期的 25%有所提升；在中电信的一期和二期 FDD-LTE 主设备采购中均为约 40%。市场份额扩大也体现了运营商对中兴 4G 设备的技术优势和稳定性的认可。

● **铁塔公司受益者。**在中国联通和中国电信相继公布超预期的 2015 年资本开支指引（联通 1000 亿，电信 1100 亿），和 4G 发展战略后，我们维持之前的观点，即联通和电信将积极利用铁塔共享的机遇和节省下来的开支，购买更多的主设备，在城市加深加厚覆盖，在农村追赶中移动的覆盖。因此中兴通讯也将会是铁塔公司受益者。

● **上调至买入评级。**考虑到毛利率持续提升，4G 主设备三家运营商集采份额不断提高，我们将 15 年 EPS 从人民币 0.95 调高到人民币 0.98 元（同比上升 33.3%），将 16 年 EPS 从 1.1 元上调至 1.14 元（同比上升 15.6%），并预估 17 年 EPS 为 1.24 元（同比上升 9.5%）。因此，我们将目标价从港币 20.93 元上调至港币 21.5 元，对应 17.4 倍 15 年 PE，15 倍 16 年 PE 和 13.7 倍 17 年 PE。对应 24.4%上涨空间，我们将评级从增持上调至买入。截止到 3 月 25 日收盘，H 股相对 A 股折价约为 40%，处于历史折价高位。

Results announced. ZTE reported 2014 full-year operating revenue of Rmb81.5bn (+13.6% YoY). Of this, revenue from carriers' networks was Rmb46.8bn (+14.9% YoY), boosted by 4G system products, routers and switches; revenue from sales of handsets was Rmb23.1bn (+6.5% YoY) and revenue from telco software system, services and other products reached Rmb11.6bn (-9.7% YoY). Net profit was Rmb2.63bn (+90.2% YoY), in line with the company's preliminary results announcement on 19 January 2015.

Recovering margin. Overall gross margin increased 1.9ppts YoY to 29.1%, mainly due to a 1ppt recovery in the carrier's network segment margin to 35.6% and a 5.9ppts YoY improvement in its software system segment to 30.8%. In international projects, the company's shift from a low-bid strategy to one of offering relatively fair bid prices helped rebuild margin in Africa and Asia (ex-China). We believe the company has less need to compete on price as intensely as before, as it has larger bargaining power with operators for 4G equipment. For domestic business, the procurement of follow-up 4G capacity expansion by operators may see higher margin than initial procurement. Therefore, we expect the gross margin to rise to 30.1% in 15E, 30.8% in 16E and 31.1% in 17E.

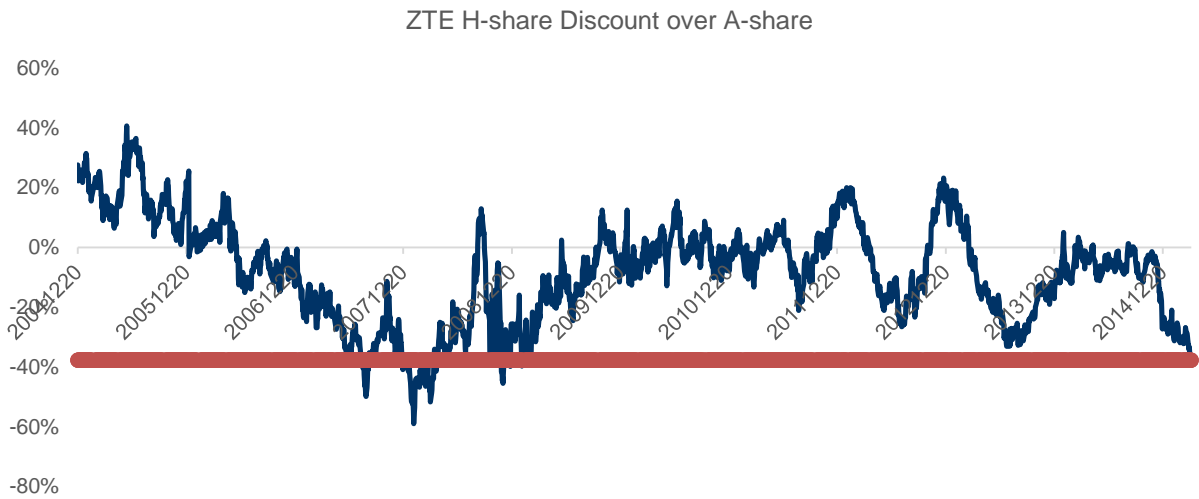
Expanded market share. According to our channel checks, ZTE bid c.38% China Mobile (941:HK)'s phase III procurement of TDD-LTE equipment comparing with 34% market share in phase II and 26% in phase I. For China Unicom (762:HK), ZTE received c.34% market share in phase II procurement of FDD-LTE equipment, comparing with 25% in phase I. For China Telecom (728:HK), ZTE's market share of FDD-LTE equipment in phase I and II are both 40%. ZTE's superior technology in 4G equipment is the major reason.

Beneficiary of tower sharing. After China Unicom and China Telecom announced the larger-than-expected 2015 Capex guidance, we maintain our previous view that the above two operators are willing to catch up the coverage with China Mobile by utilizing shared tower sites. ZTE is likely to see additional demand for 4G equipment.

Upgrade to BUY. Considering the recovering margin and expanded market share, we revise up our EPS forecasts from Rmb0.95 to Rmb0.98 (+33.3% YoY) in 15E, from Rmb1.10 to Rmb1.14 (+15.6% YoY) in 16E, and forecast EPS of Rmb1.24 (+9.5% YoY) in 17E. We revise up our target price from HK\$20.93 to HK\$21.5, representing 17.4x 15E, 15.0x 16E PE and 13.7x 17E. With 24.4% upsides, we upgrade our rating from Outperform to BUY. ZTE's H-shares are currently trading at a c.40% discount to its A-shares, a historical high.

APPENDIX

Figure 1: ZTE H-share premium/discount over A-share ZTE



Source: Wind, SWS Research

Table 1: Consolidated Income Statement

million RMB	2013	2014	2015E	2016E	2017E
Revenue	75233.70	81471.30	92554.76	101942.00	109345.08
CostofSales	54775.10	57759.00	64654.33	70553.12	75315.13
GrossProfit	20458.60	23712.30	27900.43	31388.88	34029.95
OtherIncome	4905.30	4561.23	4820.00	4850.00	4851.00
SGAExpenses	21920.20	23120.54	26285.55	28849.58	30835.31
EBITDA	1428.01	3951.26	5498.12	6997.64	8262.78
EBIT	(1461.60)	591.76	1614.88	2539.29	3194.63
FinanceCosts	1650.40	1629.43	1804.82	2038.84	2186.90
ProfitBeforeTax	1827.80	3537.57	4630.06	5350.45	5858.73
IncomeTaxExpense	394.20	810.49	995.46	1150.35	1259.63
MinorityInterests	75.98	94.16	254.42	294.01	321.94
ProfitfortheYear	1357.62	(263.00)	718.67	863.52	1011.07

Source: SWS Research

Table 2: Consolidated Cash Flow Statement

million RMB	2013	2014	2015E	2016E	2017E
ProfitBeforeTaxation	1827.80	3537.57	4630.06	5350.45	5858.73
DeprAndAmortisation	2889.61	3359.50	3883.24	4458.35	5068.14
FinanceCost	1650.40	1629.43	1804.82	2038.84	2186.90
LossesFromInvestments	100.00	120.00	120.00	120.00	0.00
ChangeInWorkingCapital	2591.14	(3768.89)	(113.93)	(1144.75)	(116.94)
Others	(341.86)	667.73	4138.51	361.54	601.75
CFFFromOperatingActivities	2574.58	5545.33	14462.69	11184.43	13598.59
CAPEX	2138.00	2393.00	2647.00	2653.00	2655.00
OtherCFFFromInvestingActivities	865.26	1230.80	459.00	495.00	498.00
CFFFromInvestingActivities	(1662.17)	(1162.20)	(2188.00)	(2158.00)	(2157.00)
EquityFinancing	75.98	94.16	254.42	294.01	321.94
NetChangeInLiabilities	700.00	5568.45	537.35	600.00	600.00
DividendAndInterstPaid	(1753.58)	(1334.19)	(1289.30)	(1439.03)	(1289.53)
OtherCFFFromFinancingActivities	(4919.34)	(8705.74)	(6355.30)	(5885.40)	(5985.40)
CFFFromFinancingActivities	(2681.67)	(4377.33)	(6852.83)	(6430.42)	(6352.99)
NetCashFlow	(2541.36)	5.80	5421.86	2596.01	5088.59
FCFF	5762.95	1764.87	7035.72	7355.54	9541.21
FCFE	4812.55	4928.00	(1577.52)	920.29	637.99

Source : SWS Research

Table 3: Consolidated Balance Sheet

million RMB	2013	2014	2015E	2016E	2017E
CurrentAssets	76405.28	68421.08	80630.91	88548.69	97835.49
BankBalancesAndCash	20903.04	18115.87	25545.94	28141.95	33230.55
TradeAndOtherReceivables	42099.04	43593.58	28366.43	31207.60	33429.52
Inventories	12434.35	12033.13	11755.33	12827.84	13693.66
OtherCurrentAssets	751.41	4420.00	4421.00	4422.00	4423.00
LongTermInvestment	2108.31	2209.66	810.00	815.00	817.00
PPE	7449.48	8528.42	8810.14	8922.13	8865.19

IntangibleAndOtherAssets	1236.76	2334.16	2638.29	2903.90	3136.04
TotalAssets	93412.73	92201.13	105789.32	114364.70	124005.71
CurrentLiabilities	60970.81	74029.62	65959.19	69071.02	72290.60
Borrowings	18720.33	20347.77	15200.00	15200.00	15200.00
TradeAndOtherPayables	42424.60	55208.63	44589.19	47671.02	50888.60
OtherCurrentLiabilities	1077.74	1263.50	4750.00	4775.00	4776.00
LongTermLiabilities	15343.10	13206.47	7638.92	8338.92	8938.92
TotalLiabilities	70326.10	69193.00	73663.11	77474.95	81294.53
MinorityInterests	1093.04	1413.93	3682.88	4270.89	4914.76
ShareholderEquity	0.00	0.00	0.00	0.00	0.00
ShareCapital	3437.54	3437.54	3437.54	3437.54	3437.54
Reserves	88882.15	87349.65	98668.90	106656.27	115653.40
EquityAttributable	92319.69	90787.20	102106.44	110093.81	119090.94
TotalLiabilitiesAndEquity	93412.73	14156.00	16294.58	17145.87	18272.30

Source: SWS Research

Table 4: Key Financial Ratios

	2013	2014	2015E	2016E	2017E
Ratios per share (RMB)					
Earnings per share	0.3949	0.7659	0.9833	1.1363	1.2443
OperatingCFPerShare	0.7490	1.6132	4.2073	3.2536	3.9559
DividendPerShare	0.0300	0.1986	0.2458	0.2841	0.3111
Key Operating Ratios(%)					
NetAssetsPerShare	6.8728	2.5252	9.9406	11.3263	13.0198
ROIC	(4.2115)	1.6439	14.2294	27.9918	32.9986
ROE	6.0680	31.4167	10.6364	10.7876	10.2759
GrossProfitMargin	27.1934	29.1051	30.1448	30.7909	31.1216
EBITDAMargin	1.8981	4.8499	5.9404	6.8643	7.5566
EBITMargin	(1.9427)	0.7263	1.7448	2.4909	2.9216
GrowthRateOfRevenue	(10.5627)	8.2910	13.6041	10.1424	7.2621
GrowthRateOfProfit		90.2255	33.2784	15.5590	9.4997
DebtToAssetRatio	75.2854	75.0457	69.6319	67.7438	65.5571
TurnoverRateOfNetAssets	3.1844	3.0987	2.8672	2.7288	2.5548
TurnoverRateOfTotalAssets	0.8054	0.8836	0.8749	0.8914	0.8818
EffectiveTaxRate	21.5669	21.5000	21.5000	21.5000	21.5000
DividendYield	0.2189	1.4480	1.7925	2.0714	2.2682
Valuation Ratios (X)					
PE	34.7250	17.9054	13.9470	12.0692	11.0221
PB	1.9954	5.4311	1.3796	1.2108	1.0533
EVSale	0.9767	0.9335	0.6528	0.5798	0.5054
EVEBITDA	10.4585	11.7514	2.9051	2.7304	2.4550

Source: SWS Research

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