

COMPANY NOTE

Company Update

China | Telecommunications | Telecom Services

26 May 2015

Jefferies

China Mobile Limited (941 HK) China TMT Tour: Key Takeaways from Meeting with China Mobile

Key Takeaway

During Jefferies 13th China TMT tour, we hosted a meeting with China Mobile. Key takeaways: (1) 4G net adds driven by affordable handsets (2) Expect FY15 Capex reduction to be more than 6.5% after 4G Capex peak. (3) Mobile data tariff is expected to decline by 35%+ in FY15, similar magnitude as seen in FY14. Expect strong price elasticity for data usage. Buy.

Affordable handsets drive migration to 4G network. 4G handsets are now affordable for the mass market with 3 or 5-mode handsets priced at as low as RMB400/500 per unit, respectively. Management noted that over 50% of CM's 4G net adds are low-end subs. The weaker-than-expected April net adds was due to seasonality. Management reiterated FY15 4G subs guidance at 250mn, implying more than 160mn 4G net adds in FY15. We reiterate our view that blended ARPU will increase from FY16 (+0.8% YoY) as 4G scales up, higher ARPU 4G subs account for over 50% of total subs in 2016, and VAT impact subsides.

As expected, FY16 Capex will fall. Capex guidance assumed no tower build-out. FY14/15 are the Capex peak for 4G network build-out. Management indicated that the rate of decline in Capex in FY16 will be more than the 6.5% YoY decline in FY15E. FY15E Capex guidance is maintained at RMB199.7bn, which includes 300K 4G BTS build-out to reach 1mn 4G BTS by YE2015. The guided Capex has already assumed the Tower Co to be responsible for all tower build-outs in FY15. Details of asset injection into the Tower Co are still in negotiation.

Data tariff to decline at a similar rate to that of FY14; expect strong elasticity. According to management, FY15 data tariff is expected to decline 35%+ YoY, which is at a similar magnitude as seen in FY14. Expect strong price elasticity for data usage. We maintain our FY15 service revenue growth assumptions of 1.5% YoY unchanged.

Valuation/Risks

Reiterate Buy and PT of HK\$119, implying FY15E FCF yield of 3.4%, and FY15E EV/EBITDA of 6.3x. As CM's Capex already starts falling after the 2014-15 peak, FCF yield is forecast to more than double in the next 3 years from 3.4% in FY15 to 8.3% in FY18. A potential FDD license will further enhance CM's 4G LTE user experience and advantage, in our view. At the current price, CM is trading at 5.4x FY15E EV/EBITDA, a 36% discount to wireless operator peer group average in emerging Asia. Key risks include competition and regulatory changes.

RMB	Prev.	2014A	Prev.	2015E	Prev.	2016E	Prev.	2017E
Rev. (MM)	--	641,448.0	--	671,417.0	--	674,476.0	--	687,870.0
EBITDA (MM)	--	237,352.0	--	240,442.0	--	247,996.0	--	256,346.0
EV/EBITDA		5.5x		5.4x		5.2x		5.0x
Net Profit	--	109,279.0	--	103,164.0	--	99,924.0	--	104,732.0
Chg (% YoY)	--	(10.2)%	--	(5.6)%	--	(3.1)%	--	4.8%
P/B		2.0x		1.9x		1.8x		1.7x
Div Yield	--	2.90%	--	2.50%	--	2.50%	--	2.60%
EPS								
FY Dec	--	5.38	--	5.05	--	4.89	--	5.12
FY P/E		15.8x		16.9x		17.4x		16.6x

BUY

Price target HK\$119.00

Price HK\$106.40

ADR Price target \$76.70

ADR Price \$68.58

Bloomberg HKSE: 941 HK

Reuters: 0941.HK

Bloomberg NYSE: CHL

Financial Summary

Book Value (MM):	HK
	\$1,070,720.0
Book Value/Share:	HK\$52.80
Net Debt (MM):	(HK\$518,121.0)
Cash & ST Invest. (MM):	HK\$524,446.0

Market Data

52 Week Range:	HK\$118.00 - HK\$73.75
Total Entprs. Value (MM):	HK\$1,617,539.8
Market Cap. (MM):	HK\$2,135,660.8
Institutional Ownership:	7.3%
Shares Out. (MM):	20,072.0
Float (MM):	5,583.7
Avg. Daily Vol.:	19,864,340

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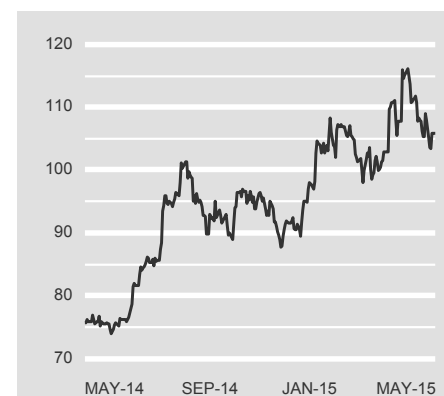
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Price Performance



Jefferies China TMT Tour Takeaways

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Chart 1: Financial Summary

Profit and Loss statement						Cash flow statement					
Rmb mn	2013A	2014A	2015E	2016E	2017E	Rmb mn	2013A	2014A	2015E	2016E	2017E
Revenues	630,177	641,448	671,417	674,476	687,870	PBT ex. Exceptionals	158,579	142,592	134,141	129,491	135,597
Operating expenses	(389,751)	(407,783)	(433,277)	(428,897)	(433,941)	Depreciation and amortization	100,916	104,777	116,331	130,136	144,265
EBITDA	240,426	233,665	238,140	245,579	253,929	Change in working cap.	19,406	5,640	28,210	(547)	5,942
Adjusted EBITDA	242,500	237,352	240,442	247,996	256,346	Others	(53,916)	(41,987)	(30,404)	(30,332)	(42,620)
Depreciation/Amortization	(104,777)	(116,331)	(130,136)	(144,265)	(149,012)	CF from operations	224,985	211,022	248,277	228,748	243,184
Operating profit	135,649	117,334	108,004	101,314	104,917	Capex	(138,997)	(170,776)	(199,700)	(172,226)	(161,794)
Other income	0	0	0	0	0	Others	(32,478)	24,557	(1,107)	(1,007)	(283)
Non-operating income	7,972	9,337	9,832	10,890	11,742	CF from investing	(171,475)	(146,219)	(200,807)	(173,233)	(162,077)
EBIT	143,621	126,671	117,835	112,204	116,659	Free cash flow	51,671	7,753	51,572	60,493	85,683
Interest income	15,289	16,149	16,534	17,515	19,166	Equity raised/ (repaid)	43	8,215	0	0	0
Finance cost	(331)	(228)	(228)	(228)	(228)	Dividends paid	(55,512)	(50,934)	(44,530)	(43,132)	(45,207)
Profit before tax	158,579	142,592	134,141	129,491	135,597	Others	(23,962)	(225)	(228)	(228)	(228)
Taxation	(36,776)	(33,187)	(30,977)	(29,567)	(30,865)	CF from financing	(79,431)	(42,944)	(44,759)	(43,360)	(45,435)
Minority	(111)	(126)	0	0	0	Total net cash provided / (used)	(25,975)	21,813	2,712	12,155	35,672
Net income	121,692	109,279	103,164	99,924	104,732	Exchange rate effect	(54)	(46)	0	0	0
Shares outstanding	20,103	20,438	20,438	20,438	20,438	Beginning net cash / (debt)	70,906	44,931	66,744	69,456	81,611
Weighted average share	20,101	20,293	20,293	20,293	20,293	Ending net cash / (debt)	44,931	66,744	69,456	81,611	117,283
EPS (Rmb)	6.05	5.38	5.05	4.89	5.12						
DPS (HK\$)	3.31	2.92	2.74	2.66	2.78						
Balance sheet						Ratio Analysis (%)					
Rmb mn	2013A	2014A	2015E	2016E	2017E		2013A	2014A	2015E	2016E	2017E
Cash	44,931	66,744	69,456	81,611	117,283	EBITDA margin	38.2%	36.4%	35.5%	36.4%	36.9%
Deposits with banks	374,977	352,813	370,454	388,976	408,425	Operating margin	21.5%	18.3%	16.1%	15.0%	15.3%
Accounts receivable	13,907	16,340	17,189	17,354	17,787	Net profit margin	19.3%	17.0%	15.4%	14.8%	15.2%
Prepayments	11,832	17,344	18,154	18,237	18,599	FCF margin	8.2%	1.2%	7.7%	9.0%	12.5%
Other current asset	21,542	24,342	24,297	24,404	24,833	Revenue growth	8.3%	1.8%	4.7%	0.5%	2.0%
Current asset	467,189	477,583	499,550	530,583	586,927	EBITDA growth	-5.2%	-2.8%	1.9%	3.1%	3.4%
Fixed assets and CIP	564,227	658,136	725,397	750,941	761,305	Net profit growth	-5.9%	-10.2%	-5.6%	-3.1%	4.8%
Other non-current asset	135,976	160,730	161,688	161,786	162,214	EPS growth	-5.9%	-11.1%	-6.2%	-3.1%	4.8%
Non-current asset	700,203	818,866	887,085	912,727	923,519	BVPS	39.2	42.2	45.1	47.9	50.8
Total Assets	1,167,392	1,296,449	1,386,636	1,443,309	1,510,446	Interest coverage (x)	433.9	555.6	516.7	492.0	511.5
Short-term loan	0	0	0	0	0	Net debt to total capital	-52.1%	-48.0%	-47.1%	-47.5%	-50.1%
Accounts payable	173,157	223,503	239,851	239,800	243,834	Net debt to equity	-52.5%	-48.3%	-47.4%	-47.8%	-50.4%
Accrued expenses and other payables	125,811	134,725	144,579	144,549	146,980	Sales/assets	56.8%	52.1%	50.0%	47.7%	46.6%
Current portion of deferred revenue	61,789	62,615	67,195	67,181	68,311	Assets/equity	1.48	1.51	1.51	1.48	1.46
Other current liabilities	10,156	11,033	11,804	11,781	11,798						
Current liabilities	370,913	431,876	463,429	463,311	470,923	ROA	12.2%	9.5%	8.1%	7.2%	7.1%
Long-term bank loan	4,989	4,992	4,992	4,992	4,992	ROE	16.1%	13.3%	11.6%	10.6%	10.5%
Other non-current liabilities	766	938	938	938	938	ROCE	17.5%	14.1%	12.1%	10.7%	10.4%
Long-term liabilities	5,755	5,930	5,930	5,930	5,930						
Total liabilities	376,668	437,806	469,359	469,241	476,853						
Net debt	(414,851)	(414,497)	(434,850)	(465,528)	(520,648)						
Minority interest	1,951	2,067	2,067	2,067	2,067						
Shareholder's equity	788,773	856,576	915,210	972,002	1,031,526						
Total liability and equity	1,167,392	1,296,449	1,386,636	1,443,309	1,510,446						

Source: Company data, Jefferies

Company Description

China Mobile is China's largest mobile carrier, providing GSM and TD-SCDMA mobile services. It has three brands, including the flagship brand "GoTone", basic prepaid brand "Easyown" and a premium prepaid brand targeting youth "M-zone".

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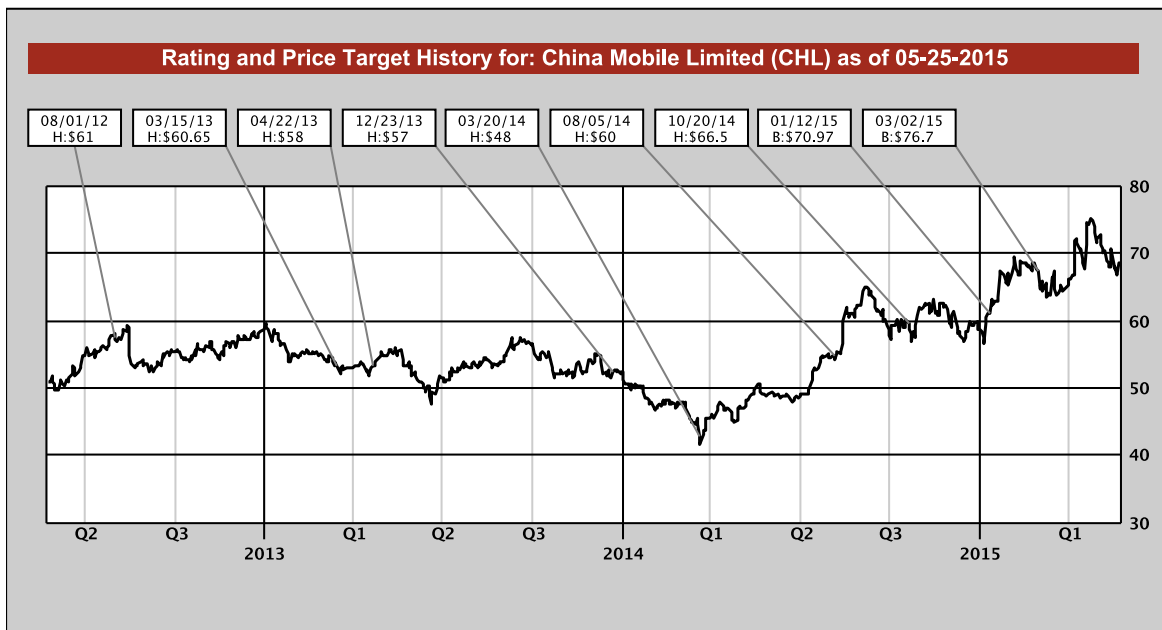
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			Count	Percent
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