

ZTE Corporation

Beneficiary of government policy; upgrade to Buy

Domestic capex likely to remain high in the next three years

Premier Li visited the Ministry of Industry and Information Technology (MIIT) on 15 June 2015. We believe this is a clear sign that the central leadership would like to push for further pricing cuts and accelerate the network upgrade progress. We believe this is in general negative for telcos but positive for equipment vendors like ZTE. Lower data tariffs should trigger an exponential growth of mobile data usage which could lead to rising capex pressure in our view.

Domestic capex to remain a major growth driver in 2015-16

We estimate the top-three telecom operators' capex increased 14.1% YoY in 2014 and for it to rise 6.2% YoY in 2015, becoming a major revenue growth driver in 2015-16. Although we estimate the top-three telecom operators' capex will fall 1.5% in 2016, revenue from some of the businesses in 2015 is likely to be booked in 2016. Therefore, downside pressure on industry capex may not show up until 2017.

New businesses and overseas business to be mid/long-term growth drivers

We expect revenue growth to accelerate from 8.3% in 2014 to 11.3%/9.1% in 2015/16, and then slow to 6.1%/8.1% in 2017/18 based on lower industry capex. As new businesses (eg, government and enterprise, automobile battery charging, big data and cloud computing) and overseas businesses grow, we expect revenue growth to rebound to 10.3%/10.4% in 2019/20. Since 2012, business development in Europe and the US has played a major role in driving the company forward.

Valuation: Upgrade to Buy given recent share price pull back

We raise our rating from Neutral to Buy for two reasons: 1) government policy becomes incrementally positive for ZTE; 2) share price pulled back by 15% from recent high. We remain price target at HK\$25, which implies 27% upside potential from current share price. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCam tool with WACC assumption of 9%.

Equities

China
Communications Technology

12-month rating **Buy**
Prior: Neutral

12m price target **HK\$25.00**

Price **HK\$19.70**

RIC: 0763.HK **BBG:** 763 HK

Trading data and key metrics

52-wk range HK\$23.65-12.32

Market cap. HK\$124bn/US\$16.1bn

Shares o/s 756m (ORD)

Free float 67%

Avg. daily volume ('000) 9,154

Avg. daily value (m) HK\$180.2

Common s/h equity (12/15E) Rmb27.7bn

P/BV (12/15E) 2.3x

Net debt / EBITDA (12/15E) 0.9x

EPS (UBS, diluted) (Rmb)

| | UBS | Cons. |
|---------------|------|-------|
| 12/15E | 0.86 | 0.82 |
| 12/16E | 0.97 | 0.94 |
| 12/17E | 1.08 | 1.05 |

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| Highlights (Rmbm) | 12/12 | 12/13 | 12/14 | 12/15E | 12/16E | 12/17E | 12/18E | 12/19E |
|---------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|
| Revenues | 84,219 | 75,234 | 81,471 | 90,702 | 98,953 | 105,019 | 113,510 | 125,181 |
| EBIT (UBS) | (1,272) | 3,247 | 5,435 | 6,318 | 6,953 | 7,218 | 7,915 | 9,007 |
| Net earnings (UBS) | (2,841) | 1,358 | 2,637 | 3,557 | 3,990 | 4,438 | 4,937 | 5,722 |
| EPS (UBS, diluted) (Rmb) | (0.80) | 0.38 | 0.74 | 0.86 | 0.97 | 1.08 | 1.20 | 1.39 |
| DPS (Rmb) | 0.00 | 0.02 | 0.19 | 0.22 | 0.24 | 0.27 | 0.30 | 0.35 |
| Net (debt) / cash | (5,420) | (5,945) | (9,096) | (7,225) | (5,119) | (3,235) | (1,605) | 1,128 |
| Profitability/valuation | 12/12 | 12/13 | 12/14 | 12/15E | 12/16E | 12/17E | 12/18E | 12/19E |
| EBIT margin % | -1.5 | 4.3 | 6.7 | 7.0 | 7.0 | 6.9 | 7.0 | 7.2 |
| ROIC (EBIT) % | (4.7) | 11.8 | 17.6 | 18.5 | 19.7 | 19.2 | 19.5 | 21.1 |
| EV/EBITDA (core) x | >100 | 9.6 | 8.5 | 13.9 | 12.7 | 12.3 | 11.3 | 10.0 |
| P/E (UBS, diluted) x | (13.3) | 24.9 | 14.7 | 18.3 | 16.3 | 14.7 | 13.2 | 11.4 |
| Equity FCF (UBS) yield % | 2.9 | (1.0) | (3.7) | 2.7 | 3.1 | 2.9 | 2.8 | 4.0 |
| Net dividend yield % | 0.0 | 0.3 | 1.8 | 1.4 | 1.5 | 1.7 | 1.9 | 2.2 |

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of HK\$19.70 on 19 Jun 2015 15:56 HKT

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Investment Thesis

ZTE Corporation

Investment case

Our views on ZTE are intact: we believe it is still the best proxy to the robust growth of domestic 4G subscribers, mobile internet, and fibre broadband in the next three to five years. With the implementation of China's national cyber security strategy, the Chinese government's support for domestic telecom suppliers has helped ZTE to increase domestic market share, ZTE's products are becoming more competitive and the gap with European and US suppliers is narrowing, the 4G investment boom is a strategic opportunity for domestic equipment suppliers. We have a Buy rating and view the recent share price pull back as a buying opportunity.

Upside scenario

The key upside catalyst would be higher-than-expected revenue growth driven by new businesses (such as the government and enterprise business, automobile battery charging, big data and cloud computing) and overseas businesses. If the new business and globalisation strategy performs well and assuming revenue is 2-3% higher from 2016E, our valuation would be HK\$30.00.

Downside scenario

The key downside risks are slow realisation of the company's new business strategy and intense competition leading to a sluggish globalisation process. In developed markets (like Europe and Oceania), the competition may come from high-end device providers. If the new business and globalisation strategy does not perform well and assuming revenue is 5% lower from 2016E, our valuation would be HK\$12.50.

Upcoming catalysts

ZTE reporting strong interim results in late August 2015 and Q315 results in late October 2015.

The share price could also benefit from fund inflow from the A-share market, as ZTE - A is trading at a premium to the H share.

12-month rating

Buy

12m price target

HK\$25.00

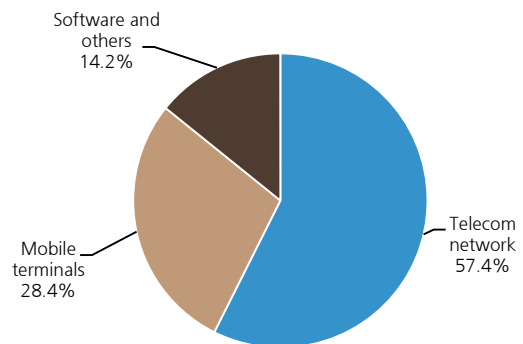
Business description

ZTE is one of China's top-two networking hardware companies, with products ranging from wireless, wireline, data/optical equipment and handsets, to services and software. It has one of the top market shares among Chinese vendors in China and sells its GSM/CDMA 2G/2.5G products in South Asia and Africa. ZTE competes for China's 3G and 4G network contracts, particularly for the country's self-developed TD-SCDMA technology.

Industry outlook

Rising capex for 4G investment is a bright spot for ZTE, but the handset segment has started to indicate weakness in domestic and overseas markets.

Revenues by region (%)



Source: Company data

Gross profit by product segment

| Rmb bn | 2013 | 2014 | 2015E | 2016E | 2017E |
|---------------------|------|------|-------|-------|-------|
| Telecom network | 14.1 | 17.2 | 19.9 | 21.6 | 21.8 |
| Mobile terminals | 3.2 | 3.5 | 3.6 | 3.8 | 3.9 |
| Software and others | 3.2 | 2.9 | 3.1 | 3.7 | 4.8 |
| Total gross profit | 20.5 | 23.6 | 26.6 | 29.0 | 30.5 |

Source: Company data, UBS-S estimate

Government intention to upgrade network and lower tariff

Domestic capex likely to remain high in the next three years

Premier Li visited the Ministry of Industry and Information Technology (MIIT) on 15 June 2015. We believe this is a clear sign that the central leadership would like to push for further pricing cuts and accelerate the network upgrade progress. The backdrop is that Premier Li made some remarks around mid-April that data speed in China is still relatively slow and data pricing is still high. Consequently, the State Council, together with the MIIT, issued various guidelines on 16 May 2015 aimed at strengthening infrastructure build-out and lowering tariffs. The three Chinese telcos launched new data plans with lower tariffs on 17 May. However, various press reports called them cosmetic rather than material. We believe the three telcos will cut tariffs further following Premier Li's visit to the MIIT.

Following remarks by Premier Li in mid-April that data transmission speeds are relatively slow and data pricing is still high, the State Council together with the MIIT issued the following guidelines on 16 May 2015 aimed at strengthening infrastructure build-out in China.

By the end of 2015:

- 100Mbps optical fibre coverage ratio in big cities (all municipal-level cities and parts of non-municipal-level cities) should reach 80%.
- Over 50% municipal-level cities should be fully covered by optical fibre.
- The average broadband speed should be faster than 20Mbps in major municipal cities and provincial capitals, and faster than 10Mbps in remaining cities.
- The broadband network (either fixed-line or mobile) should cover over 95% of administrative villages.
- 4G base stations should reach 1.3m and 4G subscribers 300m by the end of 2015.

By the end of 2017:

- 100Mbps optical fibre should cover all municipal-level cities and most non-municipal-level cities.
- Average broadband speed should be faster than 30Mbps/20Mbps in major/non-major cities, respectively.
- Optical fibre should cover over 80% of administrative villages.
- 4G network should cover all cities and villages.

The Chinese government wants to see higher capex and lower tariffs

Figure 1: Network build-out KPIs issued by the State Council on 16 May 2015

| | By 2015 | By 2017 |
|--|--------------------------|-------------------------|
| 100Mbps, municipal | 80% | 100% |
| Optical fibre full coverage, municipal | 50% | 100% |
| Broadband speed, major cities | >20Mbps | >30Mbps |
| Broadband speed, other cities | >10Mbps | >20Mbps |
| Network, villages | 95% | 100% |
| 4G coverage | Most cities and villages | All cities and villages |

Source: MII

The State Council also announced the following policies to reduce data pricing

- Free upgrade of 4Mbps network to 8Mbps.
- Cut 100Mbps optical fibre service prices.
- Encourage the three telcos to transfer unused data to the following month.

The three telcos launched price cuts right away

On 15 May 2015 (two days before "Telecom Day" on 17 May in China), China Mobile, China Unicom and China Telecom announced sharply reduced mobile data and broadband prices. We believe this could trigger the exponential growth of mobile data in China, while leading to capex pressure in our view.

The three telcos cut mobile data pricing right after State Council announced guidelines

- **Mobile data price cut significantly.** China Mobile, China Unicom and China Telecom cut data package prices 29%, 80% and 50%, respectively. China Mobile lowered its 2GB data package from Rmb70.00 to Rmb50.00 while China Unicom cut the 1.5GB data package from Rmb48.00 to Rmb10.00. China Telecom cut its 2GB data package price from Rmb100.00 to Rmb50.00.
- **Broadband price cut moderately.** China Unicom offered different discounts depending on bandwidth. The discounts range from 17% to 40% (see the Figure 2 below). China Telecom announced a reduction in the 100M broadband price from Rmb3,000 per year to Rmb2,000 per year.
- **Minimal voice and SMS changes.** China Unicom and China Telecom did not cut voice and SMS prices. China Mobile introduced three unlimited plans for voice and SMS usage. However, these plans are expensive (the cheapest costs Rmb338.00 per month) and we do not expect significant uptake.

Figure 2: The three telcos cut various prices following State Council guidelines

| | China Mobile | China Unicom | China Telecom |
|--|--|---|--|
| Cheaper voice & SMS plan | Introduced three plans with unlimited voice and SMS usage: Rmb338/m including 3GB data usage Rmb418/m including 6GB data usage Rmb518/m including 11GB data usage | N.A | N.A |
| Special data plan | Off-peak data plan: Night data plan: Rmb10/GB, only available from 23:00 to 7:00 Holiday data plan: Rmb10/GB, only available during holidays | Video website data plan: Cheapest plan: Rmb18/month for 6GB data usage | N.A |
| Cheaper data plan | Cheaper data package: cut 2GB data package price from Rmb70 to Rmb50 Cheaper data unit price: Rmb0.06-Rmb0.1/MB | Cheaper data package: Rmb10 for 1.5GB local data usage expires in six months | Cheaper data package: cut 2GB data package price from Rmb100 to Rmb49 for 2GB data usage |
| International data roaming plan | International data plan: Rmb30/Rmb60/Rmb90 per day for unlimited data usage in 48 countries and regions | N.A | N.A |
| Surplus data rollover | Surplus data can be rolled over to following month | N.A | Multi-month data package |
| Data transfer | Data can be transferred to others | Data can be transferred to others | Data can be transferred to others |
| Fixed-line broadband | N.A | Cheaper broadband plans: 20M: Cut from Rmb1,780/yr to Rmb1480/yr 50M: Cut from Rmb2,680/yr to Rmb1790/yr 100M: Cut from Rmb3,280/yr to Rmb1,980/yr | Cheaper broadband plans: 100M: cut from Rmb3,000/yr to Rmb2,000/yr |

Source: Company data

Domestic capex likely to remain major growth driver in 2015-16

ZTE's domestic market share has increased in the past three years for the following reasons: 1) with the implementation of China's national cyber security strategy, government support for domestic telecom suppliers has helped ZTE to increase domestic market share; 2) ZTE's products are becoming more competitive, and the gap with European and US suppliers is narrowing; 3) the 4G investment boom is a strategic opportunity for domestic equipment suppliers.

As the domestic 4G business has a high gross margin, growth in 4G revenue drove up ZTE's overall gross margin. As shown in the Figure 4 below, the gross margin of ZTE's Chinese business bottomed at 23.7% in H212 and rebounded to 34.7% in 2014.

We expect ZTE to continue to benefit from the capex upcycle in China

Figure 3: ZTE has been improving its market share in three telcos' capex

| | 2010 | 2013 | 2014 |
|-----------------------|------|------|---------|
| China Mobile | | | |
| 4G access network | N.M. | 26% | 33%-34% |
| 4G core network (EPC) | N.M. | 23% | 25% |
| 3G (TD-SCDMA) | 28% | 28% | 35% |
| 2G (GSM) | 5% | 7% | 7% |
| Transmission network | 15% | 25% | 30% |
| China Telecom | | | |
| 4G access network | N.M. | 40% | 40% |
| 4G core network (EPC) | N.M. | 55% | 55% |
| 3G (CDMA 2000) | 35% | 40% | 45% |
| Transmission network | 20% | 25% | 30% |
| Fibre broadband | 30% | 30% | 40% |
| China Unicom | | | |
| 4G access network | N.M. | 21% | 34% |
| 4G core network (EPC) | N.M. | 35% | 25% |
| 3G (WCDMA) | 20% | 25% | 25% |
| 2G (GSM) | 25% | 25% | 25% |
| Transmission network | 20% | 25% | 30% |
| Fibre broadband | 25% | 35% | 35% |

Source: Company data, UBS-S estimates

Domestic operators' network market should be ZTE's main growth driver in the next two years. We raise our industry capex forecasts 1.7% in 2015, and 10.3%/11.0%/12.5% in 2016/17/18. Previously we expected industry capex to decline by a high single-digit percentage in 2016-18, but we now forecast a flat trend. As shown in the Figure 4 below, we estimate the top-three telecom operators' capex increased 14.1% YoY in 2014 and we expect it to rise 6.2% in 2015, becoming the main driver of revenue growth in 2015-16.

Although we estimate the top-three telecom operators' capex will fall 1.5% in 2016, some capex in 2015 will not be booked into revenue until 2016, and pressure from reduced capex in the industry will not appear until 2017E. For example, we estimate that ZTE only booked half of the revenue from China Mobile's 4G equipment purchase in 2014/15 in the year of purchase, and the other half was booked in the next year (as shown in the Figure 5 below). We therefore expect ZTE's revenue from domestic telecom operators to peak in 2016, one year after the peak of capex in China's telecom industry.

Therefore, we estimate ZTE's revenue growth will improve from 8.3% in 2014 to 11.3%/9.1% in 2015/16E and then slow to 6.1%/8.1% in 2017/18E.

Figure 4: We expect industry capex to grow 6.2% in 2015

| in RMB mn | 2010 | 2011 | 2012 | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| China Mobile Group | 164,800 | 168,400 | 179,900 | 226,696 | 257,673 | 242,459 | 241,262 | 244,228 | 239,482 | 238,749 | 238,355 |
| China Unicom Group | 70,190 | 76,659 | 99,790 | 73,459 | 84,881 | 99,626 | 97,056 | 93,748 | 88,460 | 87,840 | 87,163 |
| China Telecom Group | 77,037 | 84,001 | 85,025 | 68,694 | 78,389 | 104,753 | 101,746 | 98,796 | 90,190 | 86,588 | 82,889 |
| Total industry capex | 312,027 | 329,060 | 364,715 | 368,849 | 420,943 | 446,837 | 440,064 | 436,772 | 418,131 | 413,177 | 408,408 |
| Growth % | | | | | | | | | | | |
| China Mobile Group | -14% | 2.2% | 6.8% | 26.0% | 13.7% | -5.9% | -0.5% | 1.2% | -1.9% | -0.3% | -0.2% |
| China Unicom Group | -38% | 9.2% | 30.2% | -26.4% | 15.5% | 17.4% | -2.6% | -3.4% | -5.6% | -0.7% | -0.8% |
| China Telecom Group | -20% | 9.0% | 1.2% | -19.2% | 14.1% | 33.6% | -2.9% | -2.9% | -8.7% | -4.0% | -4.3% |
| Total industry capex | -22% | 5.5% | 10.8% | 1.1% | 14.1% | 6.2% | -1.5% | -0.7% | -4.3% | -1.2% | -1.2% |

Source: UBS-S estimates

Figure 5: UBS assumptions for ZTE's recognition ratio of the three telecom operators' 4G capex

| | 2013E | 2014E | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| China Mobile Group | 25% | 50% | 50% | 70% | 80% | 80% | 80% | 80% |
| China Unicom Group | 80% | 60% | 60% | 70% | 80% | 80% | 80% | 80% |
| China Telecom Group | 80% | 60% | 60% | 70% | 80% | 80% | 80% | 80% |

Source: UBS-S estimates

Growth in new and overseas businesses to be mid-to-long-term growth drivers

As new businesses (such as the government and enterprise business, automobile battery charging, big data and cloud computing) and overseas businesses grow, we expect revenue growth to rebound to 10.3%/10.4% in 2019/20.

- **Launched a strategic transformation to focus on emerging industries.**
The telecom industry as a whole has seen growth slow, putting heavy pressure on equipment suppliers. ZTE's management recognises this challenge and proposed a strategic target of "rebuilding ZTE in emerging industries" in early 2014. After a year of effort, ZTE has made some progress in the government and enterprise network, smart city and automobile battery charging businesses.
- **The development of the overseas business** since 2013, especially in the US and European markets, has contributed significantly to getting the company out of the trough. As shown in the Figure 6 below, ZTE's revenue from the US, Europe and Oceania accounted for 23.7% of the total in 2011, but this share rose to 27.7% in 2014. Gross margin in these regions climbed to 24.5% in 2014 from 18.8% in 2011. We note that revenue from overseas markets accounted for 50.2% of the total in Q115, which indicates ZTE's international strategy is progressing well and business growth is no longer limited to the Chinese market.

In addition, ZTE's historical bad debt (from the Middle Eastern, African and Asian markets) was digested in 2012-14. Management also made multiple changes to the internal management mechanism in order to control bad-debt risk.

We forecast ZTE's telecom network revenue growth to slow to 9.6% in 2016 after strong growth of 15.1%/15.3% in 2014/15, and barely any growth in 2017. This forecast mainly reflects the three major operators' investment cycles. We expect

revenue growth to resume in 2018, mainly due to government and enterprise customers (domestic non-operator clients) and growth in overseas business revenue.

Figure 6: ZTE's revenue and gross margin by region

| | H111 | H211 | 2011 | H112 | H212 | 2012 | H113 | H213 | 2013 | H114 | H214 | 2014 |
|--------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue ratio by region | | | | | | | | | | | | |
| China | 44.1% | 47.1% | 45.8% | 49.0% | 44.9% | 47.0% | 50.1% | 44.7% | 47.4% | 51.1% | 48.7% | 49.8% |
| Asia (excluding China) | 18.3% | 18.0% | 18.1% | 18.8% | 19.4% | 19.1% | 16.8% | 20.0% | 18.4% | 15.6% | 14.3% | 14.9% |
| Africa | 13.5% | 11.6% | 12.4% | 9.2% | 9.4% | 9.3% | 8.1% | 7.5% | 7.8% | 5.9% | 9.1% | 7.6% |
| Europe, America and Oceania | 24.2% | 23.4% | 23.7% | 23.0% | 26.4% | 24.7% | 25.0% | 27.9% | 26.4% | 27.5% | 27.9% | 27.7% |
| Gross margin by region | | | | | | | | | | | | |
| China | 33.9% | 33.2% | 33.5% | 29.1% | 23.7% | 26.6% | 29.5% | 37.6% | 33.3% | 37.0% | 32.6% | 34.7% |
| Asia (excluding China) | 22.5% | 28.5% | 25.9% | 23.1% | 18.0% | 20.5% | 22.2% | 26.6% | 24.6% | 31.4% | 31.5% | 31.4% |
| Africa | 41.4% | 51.3% | 46.7% | 38.8% | 20.2% | 29.6% | 27.8% | 23.6% | 25.8% | 28.2% | 41.6% | 36.8% |
| Europe, America and Oceania | 21.2% | 16.9% | 18.8% | 19.5% | 19.2% | 19.3% | 27.2% | 26.4% | 26.8% | 25.1% | 24.1% | 24.5% |

Source: Company data

Figure 7: Revenue by segment

| Rmb bn | 2010 | 2011 | 2012 | 2013 | 2014 | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Telecom network | 42.0 | 46.6 | 41.6 | 40.7 | 46.8 | 54.0 | 59.2 | 59.6 | 63.0 | 71.1 | 80.2 |
| Mobile terminals | 17.9 | 26.9 | 25.8 | 21.7 | 23.1 | 24.0 | 25.1 | 26.3 | 27.6 | 28.9 | 30.3 |
| Software and others | 10.3 | 12.8 | 16.8 | 12.8 | 11.6 | 12.7 | 14.7 | 19.1 | 22.9 | 25.2 | 27.7 |
| Total revenue | 70.3 | 86.3 | 84.2 | 75.2 | 81.5 | 90.7 | 99.0 | 105.0 | 113.5 | 125.2 | 138.2 |
| Annual growth% | | | | | | | | | | | |
| Telecom network | 5.0% | 10.9% | -10.6% | -2.2% | 15.1% | 15.3% | 9.6% | 0.8% | 5.7% | 12.8% | 12.8% |
| Mobile terminals | 37.1% | 50.2% | -4.1% | -16.0% | 6.5% | 3.7% | 4.8% | 4.8% | 4.8% | 4.8% | 4.8% |
| Software and others | 43.3% | 23.7% | 31.1% | -23.5% | -9.7% | 10.0% | 15.0% | 30.0% | 20.0% | 10.0% | 10.0% |
| Total revenue | 16.6% | 22.8% | -2.4% | -10.7% | 8.4% | 11.2% | 9.1% | 6.1% | 8.1% | 10.3% | 10.4% |
| Revenue breakdown | | | | | | | | | | | |
| Telecom network | 59.8% | 54.0% | 49.4% | 54.1% | 57.4% | 59.5% | 59.8% | 56.8% | 55.5% | 56.8% | 58.0% |
| Mobile terminals | 25.5% | 31.2% | 30.7% | 28.8% | 28.4% | 26.4% | 25.4% | 25.1% | 24.3% | 23.1% | 21.9% |
| Software and others | 14.7% | 14.8% | 19.9% | 17.1% | 14.2% | 14.1% | 14.8% | 18.1% | 20.1% | 20.1% | 20.0% |
| Total revenue | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: Company data, UBS-S estimates

Valuation: upgrade to Buy, remain PT of HK\$25

We raise our rating from Neutral to Buy for two reasons: 1) government policy becomes incrementally positive for ZTE; 2) share price pulled back by 15% from recent high. We remain price target at HK\$25. We derive our price target from a DCF-based methodology and explicitly forecast long-term valuation drivers using UBS's VCAM tool with WACC assumption of 9%.

Upgrade to Buy given recent share price pull back

Potential downside risks: 1) if the emerging and overseas businesses do not make up for the drop in domestic telecom operators' capex, the company may come under double pressure from sluggish growth and a declining profit margin; and 2) in a UBS Evidence Lab survey in November 2014, ZTE's mobile phones

received a relatively low score compared with international and domestic brands. A sluggish performance in its mobile phone business is a downside risk.

Figure 8: Key assumptions of VCAM model of ZTE

| Relative year | +1E | +2E | +3E | +4E | +5E | +6E | +7E | +8E | +9E | +10E |
|-------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Fiscal year | 2015E | 2016E | 2017E | 2018E | 2019E | 2020E | 2021E | 2022E | 2023E | 2024E |
| EBIT | 6,318 | 6,953 | 7,218 | 7,915 | 9,007 | 9,280 | 9,981 | 10,710 | 11,464 | 12,241 |
| D&A* | 1,366 | 1,379 | 1,356 | 1,319 | 1,387 | 1,591 | 1,681 | 1,773 | 1,865 | 1,959 |
| Capex | (1,814) | (1,979) | (2,100) | (2,270) | (2,504) | (2,519) | (2,592) | (2,659) | (2,720) | (2,775) |
| Chg. in wkg. cap. | (2,156) | (1,920) | (2,121) | (3,020) | (3,016) | (2,542) | (2,637) | (2,677) | (2,708) | (2,729) |
| Tax (operating) | (1,375) | (1,516) | (1,575) | (1,728) | (1,969) | (1,531) | (1,647) | (1,767) | (1,892) | (2,020) |
| Other | (277) | (248) | (182) | (255) | (350) | (222) | (226) | (229) | (232) | (233) |
| Free Cash Flow | 2,061 | 2,669 | 2,596 | 1,961 | 2,556 | 4,057 | 4,562 | 5,150 | 5,778 | 6,444 |
| <i>growth</i> | | 29.5% | -2.7% | -24.5% | 30.4% | 58.7% | 12.4% | 12.9% | 12.2% | 11.5% |

| Valuation | |
|-----------------------------------|---------------|
| PV of explicit cash flow | 48,659 |
| PV of terminal value (yr. 20) | 38,751 |
| Enterprise Value | 87,410 |
| <i>% terminal</i> | 44% |
| Associates & other | 1,720 |
| - Minority interests | 1,465 |
| Surplus cash** | 16,410 |
| - Debt*** | 27,349 |
| Equity value | 76,726 |
| Shares outstanding [m] | 4,125.0 |
| Equity per share (HK\$/sh) | 23.20 |
| Cost of equity | 9.6% |
| Dividend yield | 1.4% |
| 1-year Price Target (HK\$/sh) | 25.20 |

| Long Term Assumptions | | | |
|-----------------------|-------|-------|-------|
| Relative year | +10E | +15E | +25E |
| Sales growth | 5.0% | 5.0% | 5.0% |
| EBIT margin | 7.5% | 8.0% | 8.0% |
| Capex/sales | 1.7% | 1.4% | 1.4% |
| ROIC | 13.9% | 14.9% | 15.6% |

| Valuation-Implied Metrics | | | |
|---------------------------|-------|-------|-----------|
| Fiscal year | 2015E | 2016E | 1-yr Fwd. |
| EV / EBITDA | 11.4x | 10.5x | 10.9x |
| EV / EBIT | 13.8x | 12.6x | 13.2x |
| FCF Yield | 2.4% | 3.1% | 2.7% |
| P / E (PV) | 21.6x | 19.2x | 20.4x |
| P / E (Target) | 23.4x | 20.8x | 22.1x |

| WACC | |
|-----------------|-------------|
| Risk free rate | 4.19% |
| ERP | 5.0% |
| Beta | 1.08 |
| Debt / equity** | 39.8% |
| Marg. tax rate | 20.0% |
| Cost of equity | 9.6% |
| Cost of debt | 5.2% |
| WACC | 9.0% |

| Terminal Assumptions | |
|----------------------|-------|
| VCH (years) | 20 |
| Impl. FCF gr. | 2.7% |
| Incr. ROIC | 16.7% |
| EV / EBITDA | 8.1x |

Figures in Rmb m, unless noted otherwise.

* Depreciation and non-goodwill amortization

** The portion of cash not required to maintain operations

*** Assumes market value of equity and includes market value/seasonal adjustments for debt and debt-deemed obligations.

Source: UBS-S estimate

ZTE Corporation (0763.HK)

| Income statement (Rmbm) | 12/12 | 12/13 | 12/14 | 12/15E | % ch | 12/16E | % ch | 12/17E | 12/18E | 12/19E |
|---|----------------|----------------|----------------|----------------|--------------|----------------|--------------|----------------|----------------|----------------|
| Revenues | 84,219 | 75,234 | 81,471 | 90,702 | 11.3 | 98,953 | 9.1 | 105,019 | 113,510 | 125,181 |
| Gross profit | 18,674 | 20,459 | 23,712 | 26,595 | 12.2 | 29,002 | 9.0 | 30,496 | 32,858 | 36,518 |
| EBITDA (UBS) | 260 | 4,425 | 6,497 | 7,683 | 18.3 | 8,332 | 8.4 | 8,574 | 9,234 | 10,395 |
| Depreciation & amortisation | (1,532) | (1,178) | (1,062) | (1,366) | 28.6 | (1,379) | 1.0 | (1,356) | (1,319) | (1,387) |
| EBIT (UBS) | (1,272) | 3,247 | 5,435 | 6,318 | 16.2 | 6,953 | 10.1 | 7,218 | 7,915 | 9,007 |
| Associates & investment income | 1,313 | 1,096 | 258 | (50) | - | (50) | 0.0 | (50) | (50) | (50) |
| Other non-operating income | (136) | (865) | (590) | (109) | 81.6 | (99) | 9.1 | (105) | (114) | (125) |
| Net interest | (1,888) | (1,650) | (1,562) | (1,409) | 9.8 | (1,476) | -4.8 | (1,137) | (1,159) | (1,191) |
| Exceptionals (incl goodwill) | 0 | 0 | 0 | 0 | - | 0 | - | 0 | 0 | 0 |
| Profit before tax | (1,983) | 1,828 | 3,542 | 4,750 | 34.1 | 5,328 | 12.2 | 5,927 | 6,593 | 7,641 |
| Tax | (621) | (394) | (810) | (1,045) | -28.9 | (1,172) | -12.2 | (1,304) | (1,450) | (1,681) |
| Profit after tax | (2,605) | 1,434 | 2,731 | 3,705 | 35.7 | 4,156 | 12.2 | 4,623 | 5,142 | 5,960 |
| Preference dividends and Minorities | (236) | (76) | (94) | (148) | -57.4 | (166) | -12.2 | (185) | (206) | (238) |
| Extraordinary items | 0 | 0 | 0 | 0 | - | 0 | - | 0 | 0 | 0 |
| Net earnings (local GAAP) | (2,841) | 1,358 | 2,637 | 3,557 | 34.9 | 3,990 | 12.2 | 4,438 | 4,937 | 5,722 |
| Net earnings (UBS) | (2,841) | 1,358 | 2,637 | 3,557 | 34.9 | 3,990 | 12.2 | 4,438 | 4,937 | 5,722 |
| Tax rate (%) | 0.0 | 21.6 | 22.9 | 22.0 | -3.9 | 22.0 | 0.0 | 22.0 | 22.0 | 22.0 |
| Per share (Rmb) | 12/12 | 12/13 | 12/14 | 12/15E | % ch | 12/16E | % ch | 12/17E | 12/18E | 12/19E |
| EPS (UBS, diluted) | (0.80) | 0.38 | 0.74 | 0.86 | 16.3 | 0.97 | 12.2 | 1.08 | 1.20 | 1.39 |
| EPS (local GAAP, diluted) | (0.80) | 0.38 | 0.74 | 0.86 | 16.3 | 0.97 | 12.2 | 1.08 | 1.20 | 1.39 |
| EPS (UBS, basic) | (0.80) | 0.38 | 0.74 | 0.86 | 16.3 | 0.97 | 12.2 | 1.08 | 1.20 | 1.39 |
| Net DPS (Rmb) | 0.00 | 0.02 | 0.19 | 0.22 | 11.8 | 0.24 | 12.2 | 0.27 | 0.30 | 0.35 |
| Book value per share | 6.03 | 6.32 | 6.98 | 6.73 | -3.6 | 7.48 | 11.2 | 8.31 | 9.24 | 10.33 |
| Average shares (diluted) | 3,565.99 | 3,565.99 | 3,556.00 | 4,125.05 | 16.0 | 4,125.05 | 0.0 | 4,125.05 | 4,125.05 | 4,125.05 |
| Balance sheet (Rmbm) | 12/12 | 12/13 | 12/14 | 12/15E | % ch | 12/16E | % ch | 12/17E | 12/18E | 12/19E |
| Cash and equivalents | 24,126 | 20,903 | 18,116 | 19,987 | 10.3 | 22,093 | 10.5 | 23,977 | 25,607 | 28,340 |
| Other current assets | 60,977 | 57,919 | 68,175 | 72,220 | 5.9 | 77,640 | 7.5 | 82,465 | 89,141 | 96,983 |
| Total current assets | 85,104 | 78,822 | 86,290 | 92,207 | 6.9 | 99,733 | 8.2 | 106,442 | 114,748 | 125,324 |
| Net tangible fixed assets | 8,011 | 7,698 | 7,664 | 8,235 | 7.4 | 8,896 | 8.0 | 9,636 | 10,514 | 11,483 |
| Net intangible fixed assets | 2,625 | 3,081 | 3,742 | 3,619 | -3.3 | 3,558 | -1.7 | 3,563 | 3,636 | 3,784 |
| Investments / other assets | 14,172 | 12,871 | 12,558 | 13,343 | 6.2 | 13,593 | 1.9 | 13,778 | 14,035 | 14,390 |
| Total assets | 109,911 | 102,473 | 110,255 | 117,404 | 6.5 | 125,781 | 7.1 | 133,418 | 142,933 | 154,980 |
| Trade payables & other ST liabilities | 52,976 | 48,021 | 52,793 | 56,345 | 6.7 | 61,268 | 8.7 | 65,144 | 70,422 | 77,451 |
| Short term debt | 22,448 | 15,343 | 17,172 | 17,172 | 0.00 | 17,172 | 0.00 | 17,172 | 17,172 | 17,172 |
| Total current liabilities | 75,424 | 63,364 | 69,965 | 73,517 | 5.1 | 78,441 | 6.7 | 82,316 | 87,594 | 94,623 |
| Long term debt | 7,098 | 11,505 | 10,040 | 10,040 | 0.0 | 10,040 | 0.0 | 10,040 | 10,040 | 10,040 |
| Other long term liabilities | 4,751 | 3,978 | 3,957 | 4,575 | 15.6 | 4,792 | 4.7 | 4,951 | 5,174 | 5,480 |
| Preferred shares | 0 | 0 | 0 | 0 | - | 0 | - | 0 | 0 | 0 |
| Total liabilities (incl pref shares) | 87,273 | 78,847 | 83,962 | 88,132 | 5.0 | 93,272 | 5.8 | 97,307 | 102,808 | 110,143 |
| Common s/h equity | 21,502 | 22,533 | 24,879 | 27,748 | 11.5 | 30,848 | 11.2 | 34,289 | 38,116 | 42,604 |
| Minority interests | 1,136 | 1,093 | 1,414 | 1,524 | 7.8 | 1,660 | 8.9 | 1,822 | 2,009 | 2,233 |
| Total liabilities & equity | 109,911 | 102,473 | 110,255 | 117,404 | 6.5 | 125,781 | 7.1 | 133,418 | 142,933 | 154,980 |
| Cash flow (Rmbm) | 12/12 | 12/13 | 12/14 | 12/15E | % ch | 12/16E | % ch | 12/17E | 12/18E | 12/19E |
| Net income (before pref divs) | (2,841) | 1,358 | 2,637 | 3,557 | 34.9 | 3,990 | 12.2 | 4,438 | 4,937 | 5,722 |
| Depreciation & amortisation | 1,532 | 1,178 | 1,062 | 1,366 | 28.6 | 1,379 | 1.0 | 1,356 | 1,319 | 1,387 |
| Net change in working capital | 4,569 | (3,070) | (4,655) | (600) | 87.1 | (530) | 11.7 | (974) | (1,433) | (862) |
| Other operating | (700) | 981 | 1,212 | 160 | -86.8 | 186 | 16.4 | 211 | 237 | 273 |
| Operating cash flow | 2,559 | 447 | 256 | 4,482 | NM | 5,025 | 12.1 | 5,031 | 5,060 | 6,521 |
| Tangible capital expenditure | (1,258) | (904) | (2,026) | (1,814) | 10.4 | (1,979) | -9.1 | (2,100) | (2,270) | (2,504) |
| Intangible capital expenditure | 0 | 0 | 0 | 0 | - | 0 | - | 0 | 0 | 0 |
| Net (acquisitions) / disposals | 42 | 6 | 72 | 0 | - | 0 | - | 0 | 0 | 0 |
| Other investing | (3,161) | (273) | 260 | (110) | - | (50) | - | (50) | (50) | (50) |
| Investing cash flow | (4,377) | (1,171) | (1,693) | (1,924) | -13.6 | (2,029) | -5.4 | (2,150) | (2,320) | (2,553) |
| Equity dividends paid | (686) | 0 | (103) | (688) | NM | (889) | -29.3 | (997) | (1,110) | (1,234) |
| Share issues / (buybacks) | 8 | 19 | 254 | 0 | - | 0 | - | 0 | 0 | 0 |
| Other financing | 222 | 18 | (860) | 0 | - | 0 | - | 0 | 0 | 0 |
| Change in debt & pref shares | 4,306 | (1,082) | (1,310) | 0 | - | 0 | - | 0 | 0 | 0 |
| Financing cash flow | 3,850 | (1,045) | (2,019) | (688) | 65.9 | (889) | -29.3 | (997) | (1,110) | (1,234) |
| Cash flow inc/(dec) in cash | 2,033 | (1,769) | (3,456) | 1,871 | - | 2,107 | 12.6 | 1,883 | 1,630 | 2,733 |
| FX / non cash items | 622 | (1,454) | 669 | 0 | - | 0 | - | 0 | 0 | 0 |
| Balance sheet inc/(dec) in cash | 2,654 | (3,223) | (2,787) | 1,871 | - | 2,107 | 12.6 | 1,883 | 1,630 | 2,733 |

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

ZTE Corporation (0763.HK)

| Valuation (x) | 12/12 | 12/13 | 12/14 | 12/15E | 12/16E | 12/17E | 12/18E | 12/19E |
|---|----------------|---------------|---------------|----------------|----------------|----------------|----------------|----------------|
| P/E (local GAAP, diluted) | NM | 24.9 | 14.7 | 18.3 | 16.3 | 14.7 | 13.2 | 11.4 |
| P/E (UBS, diluted) | (13.3) | 24.9 | 14.7 | 18.3 | 16.3 | 14.7 | 13.2 | 11.4 |
| P/CEPS | NM | 13.4 | 10.5 | 13.2 | 12.1 | 11.2 | 10.4 | 9.2 |
| Equity FCF (UBS) yield % | 2.9 | (1.0) | (3.7) | 2.7 | 3.1 | 2.9 | 2.8 | 4.0 |
| Net dividend yield (%) | 0.0 | 0.3 | 1.8 | 1.4 | 1.5 | 1.7 | 1.9 | 2.2 |
| P/BV x | 1.8 | 1.5 | 1.6 | 2.3 | 2.1 | 1.9 | 1.7 | 1.5 |
| EV/revenues (core) | 0.5 | 0.6 | 0.7 | 1.2 | 1.1 | 1.0 | 0.9 | 0.8 |
| EV/EBITDA (core) | >100 | 9.6 | 8.5 | 13.9 | 12.7 | 12.3 | 11.3 | 10.0 |
| EV/EBIT (core) | NM | 13.0 | 10.2 | 16.9 | 15.2 | 14.6 | 13.1 | 11.6 |
| EV/OpFCF (core) | NM | 9.6 | 8.5 | 13.9 | 12.7 | 12.3 | 11.3 | 10.0 |
| EV/op. invested capital | 1.6 | 1.5 | 1.8 | 3.1 | 3.0 | 2.8 | 2.6 | 2.4 |
| Enterprise value (Rmbm) | 12/12 | 12/13 | 12/14 | 12/15E | 12/16E | 12/17E | 12/18E | 12/19E |
| Market cap. | 44,255 | 44,623 | 47,927 | 99,638 | 99,638 | 99,638 | 99,638 | 99,638 |
| Net debt (cash) | (1,814) | (1,814) | 7,521 | 7,521 | 6,172 | 4,177 | 2,420 | 2,420 |
| Buy out of minorities | 1,136 | 1,093 | 1,414 | 1,524 | 1,660 | 1,822 | 2,009 | 2,233 |
| Pension provisions/other | 54 | 96 | 115 | 55 | 55 | 55 | 55 | 55 |
| Total enterprise value | 43,631 | 43,998 | 56,977 | 108,738 | 107,526 | 105,692 | 104,123 | 104,347 |
| Non core assets | (1,139) | (1,697) | (1,807) | (1,807) | (1,807) | (68) | (68) | (77) |
| Core enterprise value | 42,492 | 42,300 | 55,169 | 106,931 | 105,719 | 105,625 | 104,056 | 104,269 |
| Growth (%) | 12/12 | 12/13 | 12/14 | 12/15E | 12/16E | 12/17E | 12/18E | 12/19E |
| Revenue | -2.4 | -10.7 | 8.3 | 11.3 | 9.1 | 6.1 | 8.1 | 10.3 |
| EBITDA (UBS) | -95.0 | NM | 46.8 | 18.3 | 8.4 | 2.9 | 7.7 | 12.6 |
| EBIT (UBS) | - | - | 67.4 | 16.2 | 10.1 | 3.8 | 9.7 | 13.8 |
| EPS (UBS, diluted) | - | - | 94.8 | 16.3 | 12.2 | 11.2 | 11.2 | 15.9 |
| Net DPS | - | - | NM | 11.8 | 12.2 | 11.2 | 11.2 | 15.9 |
| Margins & Profitability (%) | 12/12 | 12/13 | 12/14 | 12/15E | 12/16E | 12/17E | 12/18E | 12/19E |
| Gross profit margin | 22.2 | 27.2 | 29.1 | 29.3 | 29.3 | 29.0 | 28.9 | 29.2 |
| EBITDA margin | 0.3 | 5.9 | 8.0 | 8.5 | 8.4 | 8.2 | 8.1 | 8.3 |
| EBIT margin | -1.5 | 4.3 | 6.7 | 7.0 | 7.0 | 6.9 | 7.0 | 7.2 |
| Net earnings (UBS) margin | NM | 1.8 | 3.2 | 3.9 | 4.0 | 4.2 | 4.3 | 4.6 |
| ROIC (EBIT) | (4.7) | 11.8 | 17.6 | 18.5 | 19.7 | 19.2 | 19.5 | 21.1 |
| ROIC post tax | NM | 5.5 | 13.3 | 14.4 | 15.4 | 15.0 | 15.3 | 16.5 |
| ROE (UBS) | (12.4) | 6.2 | 11.1 | 13.5 | 13.6 | 13.6 | 13.6 | 14.2 |
| Capital structure & Coverage (x) | 12/12 | 12/13 | 12/14 | 12/15E | 12/16E | 12/17E | 12/18E | 12/19E |
| Net debt / EBITDA | 20.8 | 1.3 | 1.4 | 0.9 | 0.6 | 0.4 | 0.2 | (0.1) |
| Net debt / total equity % | 23.9 | 25.2 | 34.6 | 24.7 | 15.7 | 9.0 | 4.0 | (2.5) |
| Net debt / (net debt + total equity) % | 19.3 | 20.1 | 25.7 | 19.8 | 13.6 | 8.2 | 3.8 | (2.6) |
| Net debt/EV % | 12.8 | 14.1 | 16.5 | 6.8 | 4.8 | 3.1 | 1.5 | (1.1) |
| Capex / depreciation % | 82.1 | 76.7 | 190.7 | 132.8 | 143.5 | 154.9 | 172.1 | 180.5 |
| Capex / revenue % | 1.5 | 1.2 | 2.5 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| EBIT / net interest | NM | 2.0 | 3.5 | 4.5 | 4.7 | 6.4 | 6.8 | 7.6 |
| Dividend cover (UBS) | - | 15.2 | 3.8 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| Div. payout ratio (UBS) % | - | 6.6 | 26.0 | 25.0 | 25.0 | 25.0 | 25.0 | 25.0 |
| Revenues by division (Rmbm) | 12/12 | 12/13 | 12/14 | 12/15E | 12/16E | 12/17E | 12/18E | 12/19E |
| Others | 84,219 | 75,234 | 81,471 | 90,702 | 98,953 | 105,019 | 113,510 | 125,181 |
| Total | 84,219 | 75,234 | 81,471 | 90,702 | 98,953 | 105,019 | 113,510 | 125,181 |
| EBIT (UBS) by division (Rmbm) | 12/12 | 12/13 | 12/14 | 12/15E | 12/16E | 12/17E | 12/18E | 12/19E |
| Others | (1,272) | 3,247 | 5,435 | 6,318 | 6,953 | 7,218 | 7,915 | 9,007 |
| Total | (1,272) | 3,247 | 5,435 | 6,318 | 6,953 | 7,218 | 7,915 | 9,007 |

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

| | |
|-----------------------------|--------|
| Forecast price appreciation | +26.9% |
| Forecast dividend yield | 1.4% |
| Forecast stock return | +28.3% |
| Market return assumption | 9.2% |
| Forecast excess return | +19.1% |

Statement of Risk

We believe a slowdown in the global telecom industry recovery would be the key risk for ZTE. In China, if 4G subscriber development is slower than expected, the high capex momentum would also slow. We believe the underperformance of handset business could present a downside risk for the company in the medium to longer term.

Required Disclosures

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UBS Investment Research: Global Equity Rating Definitions

| 12-Month Rating | Definition | Coverage ¹ | IB Services ² |
|-------------------|---|-----------------------|--------------------------|
| Buy | FSR is > 6% above the MRA. | 45% | 37% |
| Neutral | FSR is between -6% and 6% of the MRA. | 43% | 33% |
| Sell | FSR is > 6% below the MRA. | 12% | 20% |
| Short-Term Rating | Definition | Coverage ³ | IB Services ⁴ |
| Buy | Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event. | less than 1% | less than 1% |
| Sell | Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event. | less than 1% | less than 1% |

Source: UBS. Rating allocations are as of 31 March 2015.

1:Percentage of companies under coverage globally within the 12-month rating category. 2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category. 4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

KEY DEFINITIONS: **Forecast Stock Return (FSR)** is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months. **Market Return Assumption (MRA)** is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium). **Under Review (UR)** Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation. **Short-Term Ratings** reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case. **Equity Price Targets** have an investment horizon of 12 months.

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UBS Securities Co. Limited: Jinjin Wang, CFA. **UBS Securities Pte. Ltd.:** Suresh A Mahadevan, CFA.

Company Disclosures

| Company Name | Reuters | 12-month rating | Short-term rating | Price | Price date |
|-------------------------------------|---------|-----------------|-------------------|-----------|-------------|
| ZTE Corporation¹⁶ | 0763.HK | Neutral | N/A | HK\$19.70 | 19 Jun 2015 |

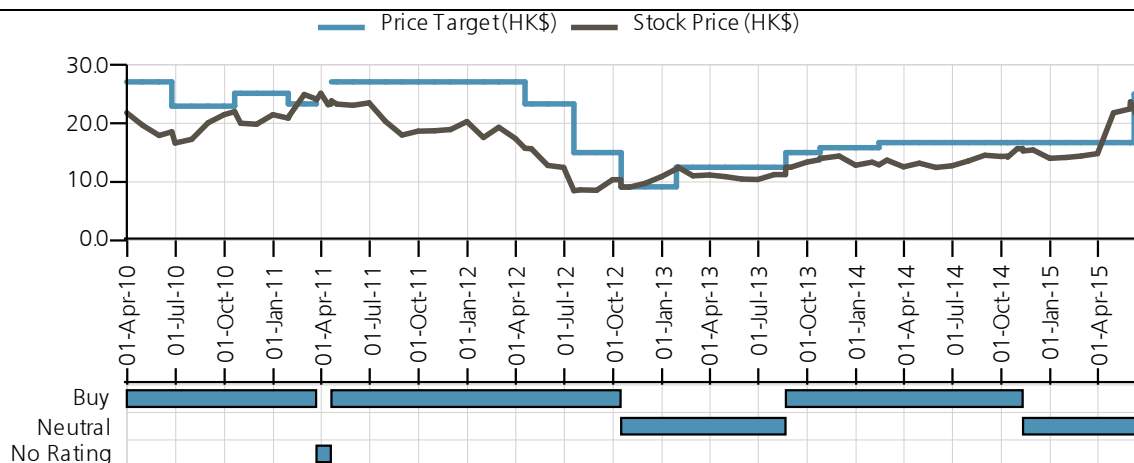
Source: UBS. All prices as of local market close.

Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

16. UBS Securities (Hong Kong) Limited is a market maker in the HK-listed securities of this company.

Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

ZTE Corporation (HK\$)



Source: UBS; as of 19 Jun 2015

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