

China Mobile Limited ----- Maintain OUTPERFORM

China Mobile 4G net adds recover: Up 70.7% MoM to 17.2 mn

EPS: ◀▶ TP: ▶▶

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- The total number of subscribers in the China market declined by 0.630 mn in May. This could be due to more aggressive implementation of 'real user registration'. Unicom suffered a decline of 1.913 mn subscribers (a slight improvement versus April's 2.532 mn reduction), while China Mobile added just 0.373 mn total net adds, and China Telecom added 0.910 mn.
- However, more importantly (at least in terms of ARPU and revenue generation), all three operators reported growth in their 3G/4G subscriber bases. China Mobile reported a very strong bounce-back in 4G net adds, up 70.7% MoM to 17.188 mn in May. China Telecom's 3G/4G net add rate declined by 13.4% to 2.01 mn in May, but remained close to the YTD average run rate.
- Unicom remains the key disappointment on these metrics, but its 4G/4G net add figure improved by 5.9% MoM to 0.732 mn for May.
- On the expectation of rapid growth in data volumes in the China cellular market, we maintain our OUTPERFORM ratings on China Mobile, Unicom 762 HK and China Telecom. China Mobile is a CS AxJ Focus List Stock.

May has been 16.1 mn 4G net adds per month. To meet our forecast of 240 mn 4G data subscribers by year-end (slightly below China Mobile's 'guidance' for 250 mn 4G handsets), China Mobile simply needs to deliver 12.5 mn 4G net adds per month on average.

Indeed, with a rapidly rising 4G subscriber base, a positive surprise on revenue growth in 3Q15, which will be the first quarter in which the VAT impacts wash through, now looks possible for China Mobile. Rising revenue, together with declining capex, is set to result in cash flows rising dramatically into FY15 and beyond, and this underpins our OUTPERFORM rating on the stock.

China Telecom continues to make steady progress ...

China Telecom's total net add numbers also declined slightly, down 4.2% MoM to 0.91 mn subs in May from April's 0.95 mn net adds. Again, real user registration could be a contributing factor.

China Telecom's number of 3G/4G net adds also declined, by 13.4% from 2.32 mn in April to 2.01 mn in May, but its rate of 3G/4G net additions has been extremely steady relative to both China Mobile and Unicom, with a YTD average run-rate of 2.11 mn per month. The ongoing growth suggests that the overall market for 3G/4G subscribers continues to expand as smartphone price points fall, together with declining price per MB as data volumes expand; we do not believe data growth in China should be a 'zero sum game', leaving all three players with room to grow.

... while Unicom improves only marginally (and is weak YTD)

Unicom recorded a decline of 1.913 mn total cellular customers for May 2015, an improvement versus the decline of 2.532 mn recorded in April. More importantly, the number of 3G/4G net adds remained in positive territory, with the net addition figure improving by 5.9% MoM to 0.732 mn for May, from the 0.691 mn recorded in April.

On the other hand, notwithstanding this modest improvement, YTD Unicom's net add numbers have clearly remained weak-looking. While China Mobile's much-improved data network, driven by the launch of its TD-LTE service (which works, as opposed to its home-grown TD-SCDMA 3G service), it is unclear why Unicom's 3G/4G net add rate has slowed so much more than that of China Telecom. One driver could be the relative pace of Unicom's 4G coverage expansion. However, with a full nationwide licence having been granted on 27 February 2015, together with Rmb100 bn in consolidated capex in FY15 (heavily tilted towards 4G), we do not believe Unicom should suffer from network inferiority; quite the opposite, given its strong underlying blanket of HSPA+ '3.75G' coverage nationwide. It therefore seems reasonable to expect the pick-up in Unicom's 3G/4G net additions to continue as the year progresses.

Bbg/RIC	941 HK / 0941.HK	Price (19 Jun 15, HK\$)	99.55		
Rating (prev. rating)	O (O)	TP (prev. TP HK\$)	133.00 (133.00)		
Shares outstanding (mn)	20,475	Est. pot. % chg. to TP	34		
Daily trad vol - 6m avg (mn)	18.85	52-wk range (HK\$)	116.1 - 74.0		
Daily trad val - 6m avg (US\$ mn)	252.0	Mkt cap (HK\$/US\$ bn)	2,038.3/ 263.0		
Free float (%)	25.7	Performance	1M 3M 12M		
Major shareholders	China Mobile Comm Corp (74.24%)	Absolute (%)	(5.9) (1.8) 31.2		
		Relative (%)	1.9 (10.6) 8.2		
Year	12/13A	12/14A	12/15E	12/16E	12/17E
Revenue (Rmb mn)	630,177	641,448	674,837	715,175	755,625
EBITDA (Rmb mn)	240,426	235,259	242,366	260,611	281,883
Net profit (Rmb mn)	121,692	109,279	104,567	105,399	119,469
EPS (Rmb)	6.05	5.38	5.10	5.15	5.83
- Change from prev. EPS (%)	n.a.	n.a.	0	0	0
- Consensus EPS (Rmb)	n.a.	n.a.	5.40	5.72	6.21
EPS growth (%)	(5.9)	(11.1)	(5.2)	0.8	13.3
P/E (x)	13.2	14.8	15.6	15.5	13.7
Dividend yield (%)	3.3	2.9	2.8	2.8	3.7
EV/EBITDA (x)	5.1	5.2	5.4	4.8	4.2
P/B (x)	2.0	1.9	1.8	1.7	1.6
ROE (%)	16.1	13.3	11.8	11.1	11.9
Net debt(cash)/equity (%)	(52.3)	(48.4)	(34.5)	(38.7)	(44.4)

Note 1: ORD/ADR=5.00. Note 2: China Mobile is the leading cellular service provider in China.

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China Mobile 4G net adds improve to 17.188 mn

China Mobile recorded 0.373 mn total cellular net additions in May 2015, representing a marginal further decline from the 0.582 mn overall net adds recorded in April. However, the 4G net add figure bounced back meaningfully, up 70.7% MoM to 17.188 mn in May, compared with only 10.067 mn 4G net additions in April.

Weak overall net addition numbers could lend some additional credence to Unicom's comments that 'real user registration' is having a dampening impact on prepaid subscriber figures across the industry. However, the sharp improvement in 4G net addition numbers at China Mobile, together with a MoM improvement in Unicom's 3G/4G net adds, could suggest that there was also a seasonal element to April's slowdown in 3G/4G net adds. The April recovery puts China Mobile firmly on track to exceed expectations; YTD, China Mobile's implied average 4G run rate including

Figure 1: China Telco comparative multiples

	Close Target Upside			Normalized PE		EV/EBITDA		FCF yield	
	Price	Price	(%)	15E	16E	15E	16E	15E	16E
China Telecom	4.59	6.70	46.0%	14.6	12.9	4.0	3.8	-5.8%	2.3%
Unicom (762 HK)	12.02	25.68	113.6%	17.9	14.8	3.7	3.4	-5.3%	4.1%
China Mobile	99.55	133.00	33.6%	15.6	15.5	5.4	4.8	1.9%	6.3%
Unicom A	7.66	7.69	0.4%	42.1	33.7	6.4	6.0	-2.5%	1.9%
NJA - Integrated				18.9	17.7	7.2	6.8	1.8%	5.4%
NJA - Mobile				17.2	16.7	6.9	6.3	3.2%	7.3%

Source: Company data, Credit Suisse estimates

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Companies Mentioned (Price as of 22-Jun-2015)

China Mobile Limited (0941.HK, HK\$99.55, OUTPERFORM, TP HK\$133.0)
China Telecom (0728.HK, HK\$4.59, OUTPERFORM, TP HK\$6.7)
China Unicom Hong Kong Ltd (0762.HK, HK\$12.02, OUTPERFORM, TP HK\$25.68)
China United Network Communications Ltd (600050.SS, Rmb7.66, NEUTRAL, TP Rmb7.69)

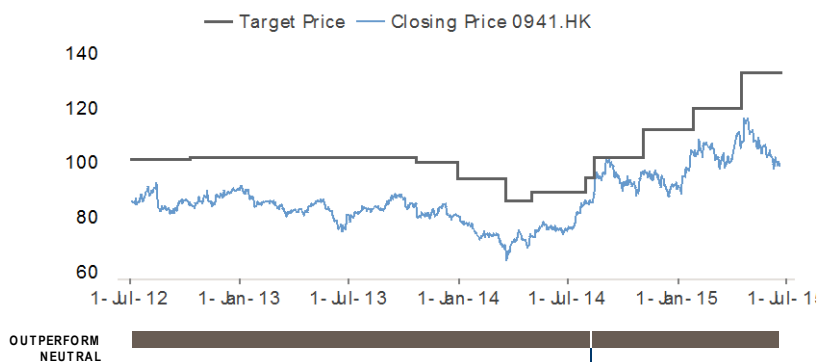
Disclosure Appendix

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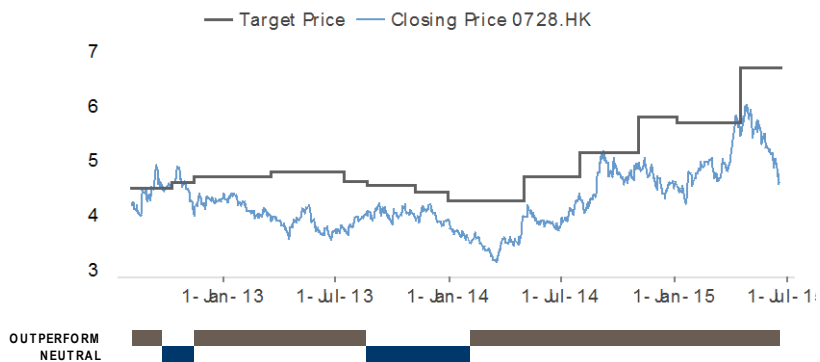
0941.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
04-Jul-12	85.85	101.00	O
10-Oct-12	84.70	102.00	
21-Oct-13	85.05	100.00	
30-Dec-13	80.50	94.00	
20-Mar-14	67.00	86.00	
02-May-14	73.10	89.00	
31-Jul-14	85.90	94.50	
11-Aug-14	85.65	94.50	N
14-Aug-14	88.30	102.00	O
04-Nov-14	96.65	112.00	
27-Jan-15	102.70	120.00	
17-Apr-15	107.70	133.00	



* Asterisk signifies initiation or assumption of coverage.

3-Year Price and Rating History for China Telecom (0728.HK)

0728.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
06-Aug-12	4.18	4.50	O
25-Sep-12	4.51	4.50	N
10-Oct-12	4.58	4.60	
15-Nov-12	3.99	4.70	O
20-Mar-13	3.93	4.80	
15-Jul-13	3.75	4.62	
21-Aug-13	4.06	4.55	N
07-Nov-13	3.97	4.42	
30-Dec-13	3.92	4.26	
06-Feb-14	3.53	4.26	O
02-May-14	3.98	4.70	
31-Jul-14	4.39	5.15	
04-Nov-14	4.95	5.80	
05-Jan-15	4.54	5.70	
17-Apr-15	5.46	6.70	

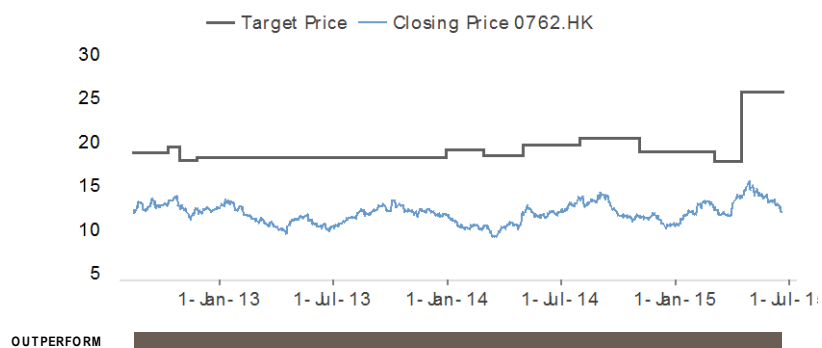


* Asterisk signifies initiation or assumption of coverage.

3-Year Price and Rating History for China Unicom Hong Kong Ltd (0762.HK)

0762.HK	Closing Price	Target Price	
Date	(HK\$)	(HK\$)	Rating
16-Aug-12	12.18	18.80	O
10-Oct-12	12.84	19.45	
29-Oct-12	12.58	17.85	
26-Nov-12	12.30	18.20	
30-Dec-13	11.68	19.10	
28-Feb-14	10.34	18.40	
02-May-14	11.68	19.60	
31-Jul-14	13.60	20.40	
04-Nov-14	11.48	18.85	
04-Mar-15	12.20	17.80	
17-Apr-15	13.68	25.68	

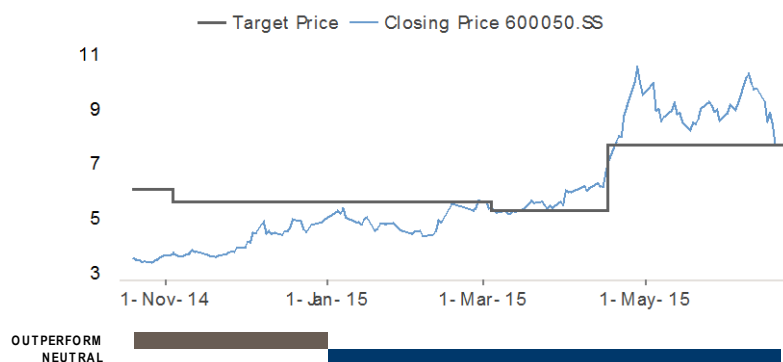
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3-Year Price and Rating History for China United Network Communications Ltd (600050.SS)

600050.SS	Closing Price	Target Price	
Date	(Rmb)	(Rmb)	Rating
20-Oct-14	3.54	6.05	O*
04-Nov-14	3.72	5.60	
02-Jan-15	4.95	5.60	N
04-Mar-15	5.40	5.30	
17-Apr-15	7.07	7.69	

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Price Target: (12 months) for China Mobile Limited (0941.HK)

Method: Our discounted cash flow (DCF) analysis, based on an estimated 10.1% weighted average cost of capital and a 1.5% terminal growth rate, supports a valuation of HK\$133/share for China Mobile. At our target price of HK\$133, China Mobile would trade at an FY15E EV/EBITDA multiple of 7.5x and a P/E of 20.5x.

Risk: The risks that may impede achievement of our HK\$133 target price for China Mobile are: (1) either faster-than-expected, or slower-than-expected growth in the cellular market, from the current penetration level; (2) the prospect that competitors take a larger or smaller proportion of the market share of net additions; (3) that capex forecasts prove higher or lower than expected due to competitive pressures or pressures from the regulator; and (4) that competition leads to higher or lower attrition of revenue per user than expected, for example through a price war.

Price Target: (12 months) for China United Network Communications Ltd (600050.SS)

Method: Our discounted cash flow (DCF) analysis, based on an estimated 10.4% WACC and a 2.1% terminal growth rate for cellular, -2.5% for fixed line, supports our Rmb7.69 target price for China Unicom A.

Risk: The risks that may impede achievement of our target price of Rmb7.69 for China Unicom are 1) either faster-than-expected or slower-than-expected growth in the cellular market, from the current level, 2) the prospect that competitors take a larger or smaller proportion of the market share of net additions, 3) the capex are higher or lower than expected, 4) competition leads to higher or lower attrition of revenue per user than expected.

Price Target: (12 months) for China Unicom Hong Kong Ltd (0762.HK)

Method: Our discounted cash flow (DCF) analysis, based on an estimated 10.4% cost of capital and a 2.1% terminal growth rate for cellular, -2.5% for fixed line, supports our HK\$25.68 target price for China Unicom. At HK\$25.68, Unicom would trade at an enterprise value-to-earnings before interest, taxes, depreciation, and amortisation (EV/EBITDA) multiple of 6.4x for FY15.

Risk: The risks that may impede achievement of our target price of HK\$25.68 for China Unicom are: (1) either faster-than-expected, or slower-than-expected growth in the cellular market, from the current level; (2) the prospect that competitors take a larger or smaller proportion of the market share of net additions; (3) that capex forecasts prove higher or lower than expected; and (4) that competition leads to higher or lower attrition of revenue per user than expected. For Unicom's fixed line division, key risks to our target price include: (1) faster or slower cannibalisation of voice revenue per line by cellular competition; (2) faster or slower rollout of broadband lines than expected; (3) better success in reducing employment-related costs; and (4) better success in lowering capex requirements.

Price Target: (12 months) for China Telecom (0728.HK)

Method: Our discounted cash flow (DCF) analysis, based on an estimated 10.5% cost of capital and a 2.5% terminal growth rate for cellular, -2.5% for fixed line, supports our HK\$6.7 target price for China Telecom. At HK\$6.7, China Telecom would trade at an enterprise value-to-earnings before interest, taxes, depreciation, and amortisation (EV/EBITDA) multiple of 5.5x for FY15.

Risk: The risks that may impede achievement of our target price of HK\$6.7 for China Telecom are: (1) either faster-than-expected, or slower-than-expected growth in the cellular market, from the current level; (2) the prospect that competitors take a larger or smaller proportion of the market share of net additions; (3) that capex forecasts prove higher or lower than expected; and (4) that competition leads to higher or lower attrition of revenue per user than expected. For China Telecom's fixed line division, key risks to our target price include: (1) faster or slower cannibalisation of voice revenue per line by cellular competition; (2) faster or slower rollout of broadband lines than expected; (3) better success in reducing employment-related costs; and (4) better success in lowering capex requirements.

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