



Rating
Buy

Asia
China

Telecommunications
Telecommunications

Company
**China Telecom Corp
Alert**

Reuters 0728.HK Bloomberg 728 HK Exchange HSI Ticker 0728
ADR Ticker CHA ISIN US1694261033

Date
11 December 2017

Company Update

Price at 11 Dec 2017 (HKD)	3.77
Price target - 12mth (HKD)	4.55
52-week range (HKD)	4.20 - 3.56
HANG SENG INDEX	28,640

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Potential foray into the Philippines a manageable risk for now

Foray likely to occur at the parent company level

The Philippine government has indicated that the Chinese government has "selected" China Telecom to enter the Philippines telecom sector as a third player. Our Philippines telecom analyst believes that, despite potential efforts by the Philippine government to assist in the process, the financial viability of a third operator is daunting due to a number of hurdles ([note here](#)). Our base case is that such investment will occur at the parent company level for CT, similar to that of China Mobile's Pakistani business and, hence, we leave our valuation and rating unchanged. While it may somewhat tarnish CT's reputation and result in management distraction, we think this is mostly reflected in the current share price.

Risks balanced for now and tail risk manageable

CT will most likely need to partner with the local company Philippine Telegraph and Telephone which indicated to Reuters on 21 Nov that due to the national constitution's 40% cap on foreign ownership, a local operator would need to be sought for any foreign operators. With Globe (second largest operator) spending RMB4-5bn p.a. in capex (vs CT's RMB89bn in FY17) and given CT's parent receives RMB5.4bn p.a. from the listco in dividends each year, we think it is within CT parentco's financial resources to invest in the Philippines. The tail risk is that CT invests in the Philippines via the listed entity; however, given CT's minority share and the relatively small investment size, we think such risk should be manageable. Furthermore, we need to balance this tail risk with a positive potential that, should the investment occur at the parentco level, the listco may need to increase its payout ratio to help fund it.

Stock data

Market cap (HKDm)	305,114
Market cap (USDm)	39,091
Shares outstanding (m)	80,932.0
Major shareholders	China Telecom Corp (72.87%)
Free float (%)	16
Avg daily value traded (USDm)	28.7

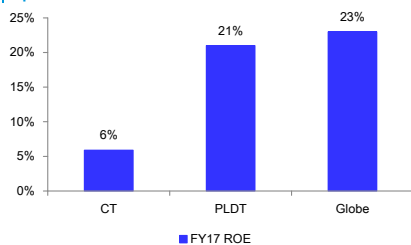
Source: Deutsche Bank

Key data

FYE 12/31	2016A	2017E	2018E
Sales (CNYm)	352,285	373,892	395,112
Net Profit (CNYm)	18,004.0	19,321.6	20,678.1
DB EPS (CNY)	0.22	0.24	0.26
PER (x)	14.6	13.4	12.5
Yield (net) (%)	2.9	2.9	3.0

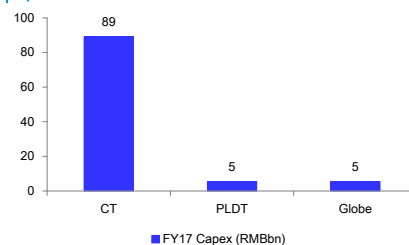
Source: Deutsche Bank

Figure 1: CT ROE vs Philippine operators



Source: Deutsche Bank, Bloomberg Finance LP

Figure 2: CT capex vs Philippine operators



Source: Deutsche Bank, Bloomberg Finance LP

Deutsche Bank AG/Hong Kong

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Distributed on: 11/12/2017 12:30:49 GMT