

5 March 2017

Outperform Downgrade

短期业绩担忧

中国联通(762:HK)

Market Data: 2 March

Closing Price (HK\$)	9.95
Price Target (HK\$)	11.62
HSCEI	12,204
HSCCI	4,4456
52-week High/Low (HK\$)	12.36/9.32
Market Cap (USD Mn)	39,032
Market Cap (HK\$ Mn)	304,450
Shares Outstanding (Mn)	30,598
Exchange Rate (HK\$-US\$)	7.80



Source: Bloomberg
Analyst

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Related Reports

- "China Unicom (762:HK) — Return to glory" 21 August 2017
- "China Unicom (762:HK) — fully charged" 20 October 2017
- "China Unicom (762:HK) — Back on form" 30 October 2017

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Financial summary and valuation

	2015	2016	2017E	2018E	2019E
Revenue (Rmbm)	277,049	274,197	277,447	288,371	302,488
YoY (%)	-2.68%	-1.03%	1.19%	3.94%	1.36%
Net income (Rmbm)	10,562	630	1,830	12,264	20,525
YoY (%)	-12.38%	-94.04%	190.42%	570.32%	67.35%
EPS (Rmb)	0.44	0.03	0.08	0.40	0.67
Diluted EPS (Rmb)	0.44	0.03	0.08	0.40	0.67
ROE (%)	1.73%	0.10%	0.31%	1.96%	3.37%
Liability/asset (%)	62.12%	62.93%	60.86%	49.77%	46.28%
Dividend yield (%)	2.01%	0.00%	0.30%	1.55%	2.60%
PE (x)	26.54	444.96	153.21	29.20	17.45
PB (x)	0.88	0.89	0.89	0.82	0.79
EV/Ebitda (x)	3.72	4.10	3.51	2.67	2.12

Note: Diluted EPS is calculated as if all outstanding convertible securities, such as convertible preferred shares, convertible debentures, stock options and warrants, were exercised.

中国联通发布盈利预告，其服务性收入为 2490 亿，同比增长 4.6%，与我们预期 2491 亿一致。净利润为 18 亿，对比我们的 48 亿预期。公司表示，如果剔除一次性资产损失所带来的影响，其净利润为 40 亿。我们将 17 年 EPS 从 0.2Rmb 调整至 0.08Rmb (同比增长 1.9 倍)。18 年 EPS 从 0.43 调整至 0.40Rmb(同比增长 4 倍),19 年 EPS 从 0.73Rmb 调整至 0.67Rmb(同比增长 67.5%)。我们将目标价从 16.2 港币下调至 11.62 港币。我们将评级下调至增持。

健康的基本面。我们相信公司的收入增长维持良好态势。多亏其无线流量套餐推出，联通 4G 用户在 17 年增长约 7000 万，比我们预期 6500 万更好。如今，其 63% 联通用户已为 4G 用户，然而其渗透率仍然低于中国移动 (941.HK, 未评级) 与中国电信 (728.HK, 增持)。考虑到未来受中国移动的竞争影响，我们仍然维持一个平稳的收入增长，我们预计 18 年业务收入将增长约 4.2%。我们之前有提到，如今国内运营商仍然寄希望于提升其平均每户收入。然而考虑到未来竞争加剧及政府管控，每户用户收入可能将面临进一步下滑风险。

资本支出周期。我们预计 5G 网络将在 2020 年正式商用。于 2018 年进行商用实验，于 2019 年在特定城市商用试点。考虑到公司 17 年足够低的资本支出基数，我们认为中国联通资本支出将在 18 年有温和上升，但是其中并不会包含较多 5G 资本投入。考虑到公司在今年进行了约 29 亿资产报废集体，我们预计公司将从现在开始有进一步运营成本节省及更快的收入增长。

混合所有制改革。倚靠多样化的董事会 (已选举) 广阔背景和市场化机制，我们坚信中国联通将进一步缩减其运营成本，提升其运营效率。通过与大互联网公司的深度合作，中国联通得以以更低的成本获得新用户，同时拓展包括物联网，内容分发网络，工业互联网和网络金融在内的新业务。尽管公司业绩于 17 年低于大家预期，我们仍然坚信混合所有制改革将会对公司未来业绩有明显的正向影响。

下调至增持。公司如今估值约为 3.5x EV/Ebitda, 0.9x 17E PB。我们将 17 年 EPS 从 0.2Rmb 调整至 0.08Rmb (同比增长 1.9 倍)。18 年 EPS 从 0.43 调整至 0.40Rmb(同比增长 4 倍),19 年 EPS 从 0.73Rmb 调整至 0.67Rmb(同比增长 67.5%)。我们将目标价从 16.2 港币下调至 11.62 港币，对应 0.8 倍 PB 和每股相较于中国铁塔 \$2.55 港币的增值。对应约 16.8% 上升空间。我们将评级从买入下调至增持。

China Unicom issued a profit alert guiding service revenue of Rmb249.0bn (+4.6% YoY), vs our forecast of Rmb249.1bn, and net profit of Rmb1.8bn, vs our expectation of Rmb4.8bn, although the company noted that, adjusted for a loss from disposal of assets, net profit hit Rmb4.0bn. We lower our EPS forecasts from Rmb0.20 to Rmb0.08 (+1.9x YoY), and, to reflect changes in the firm's share capital, from Rmb0.43 to Rmb0.40 in 18E (+4.0x YoY) and from Rmb0.73 to Rmb0.67 in 19E (+67.5% YoY). We lower our target price from HK\$16.20 to HK\$11.62, and thus downgrade to Outperform rating.

Healthy fundamentals. We believe the company's top line remains healthy. Net 4G subscriber additions during the year reached 70m, well above our expectation of 65m, thanks to its unlimited data package promotion. At present, 63% of Unicom subscribers have signed up to its 4G service, a still low rate compared with rivals China Mobile (941:HK – N-R) and China Telecom (728:HK – O-PF). While noting competitive pressure from China Mobile, we maintain our modest service revenue growth expectation of 4.2% YoY in 18E. We have noted previously that telcos are struggling to boost average revenue per user (Arpu), and continue to highlight the possibility that operator Arpu may fall further on intensified competition and government regulation.

Capex cycle. We expect commercialised 5G services by 2020, with outdoor field trials in 2018 and pre-commercial trials in selected cities in 2019. Considering its low capex base in 17E, we believe Unicom will modestly increase its capex in 18E, although we highlight our view that the firm is unlikely to make substantial investment in 5G networks in 18E. Following the firm's guided loss of Rmb2.9bn from a one-time asset disposal loss in 17E, we expect Unicom to begin recording Opex savings and faster top line growth in 18E.

Ownership reform. Thanks to its diversified board (which has already been elected by Unicom) and the liberalisation of its hiring and management mechanisms, we believe China Unicom will lower operating expenses and, therefore, improve its operating efficiency. Backed by its cooperation with large internet companies, we believe China Unicom will attract more subscribers at a lower cost, while expanding its business model to Internet of Things (IoT), content delivery network (CDN), industrial internet, and internet finance. The 17E earnings miss notwithstanding, we remain confident that ownership reforms will have a positive impact on the firm's 18-19E performance.

Downgrade to Outperform. The company is currently trading at 3.5x 17E EV/Ebitda and 0.9x 17E PB. We lower our EPS forecasts from Rmb0.20 to Rmb0.08 (+1.9x YoY), and, to reflect changes in the firm's share capital, from Rmb0.43 to Rmb0.40 in 18E (+4.0x YoY) and from Rmb0.73 to Rmb0.67 in 19E (+67.5% YoY). We lower our target price from HK\$16.20 to HK\$11.62, based on 0.8x 18E PB plus HK\$2.55 to account for value accretion from China Towerco). With 16.8% downside, we downgrade from BUY to Outperform rating.

Fig 1: Key data

4G net additions	Fixed line broadband	Capex level	Net margin	Operating side
70m	Stable	Rmb45bn	1.8bn Rmb	No indication of shutting down 2G network in the future

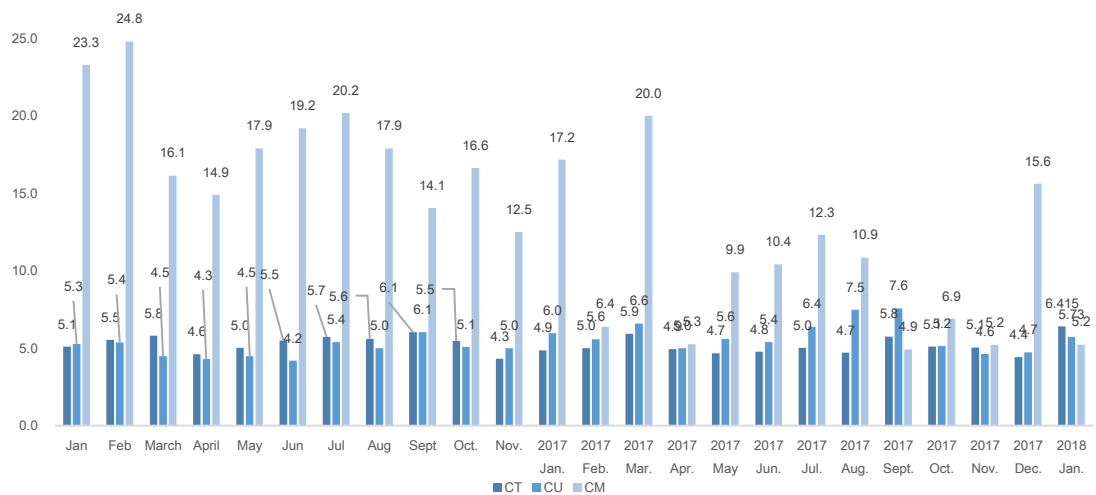
Source: Company, SWS Research

Fig 2: 3Q major changes

Service revenue	4.1% YoY
1H wireless revenue	3.2% YoY
Wireless revenue	6.7% YoY
1H wireless revenue	5.2% YoY
EBITDA	5.9% YoY
Handset subsidy	Down 58.8% YoY
Net profits	155% YoY

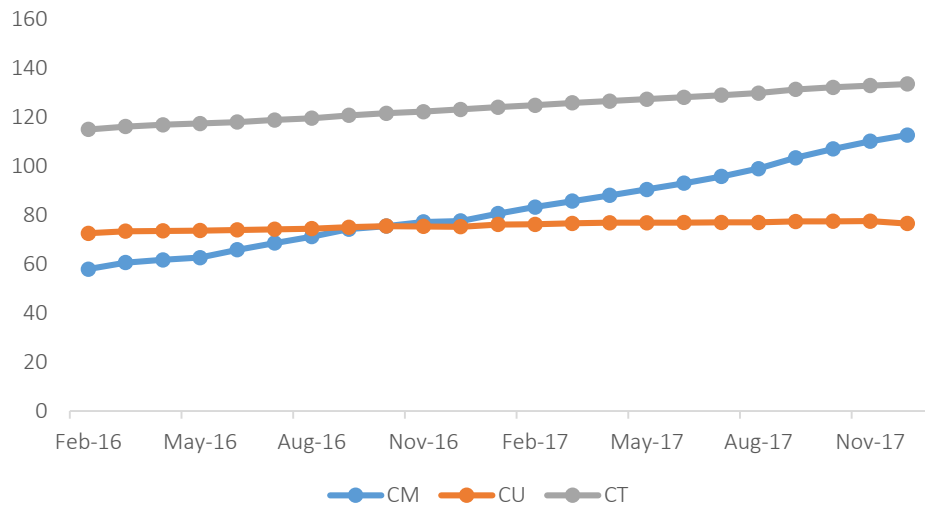
Source: Company, SWS Research

Fig 3: 4G subscriber net additions for the three main operators



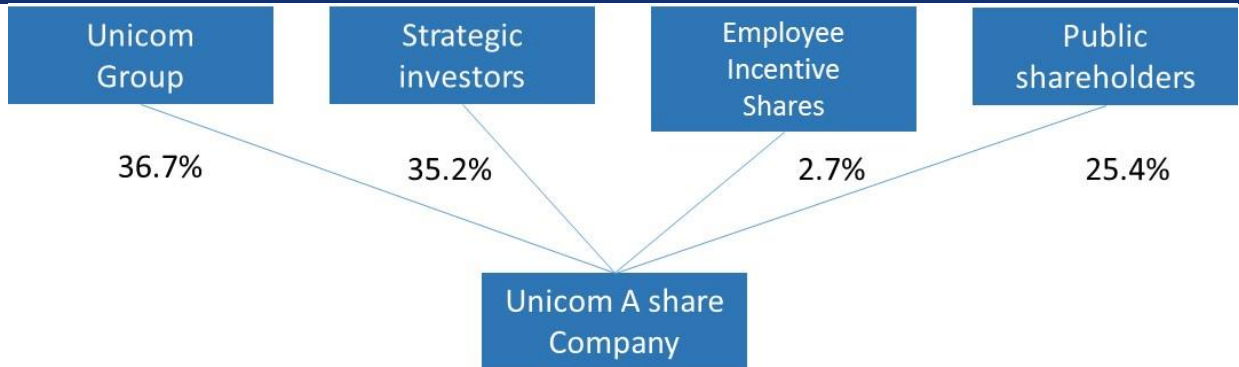
Source: Company, SWS Research

Fig 4: fix-line broadband subscriber base



Source: Company, SWS Research

Fig 5: Shareholding structure post mixed-ownership reform



Source: Company, SWS Research

Fig 6: List of strategic investors



Source: Company, SWS Research

Company financials

Fig 7: Income Statement

	2015	2016	2017E	2018E	2019E
Revenue	277,049	274,197	277,447	288,371	302,488
Interconnection charges	(13,093)	(12,739)	(12,959)	(14,284)	(15,252)
Depreciation and amortization	(76,738)	(76,805)	(79,493)	(75,440)	(71,830)
Networks, operations and support expenses	(42,308)	(51,167)	(52,635)	(58,971)	(62,915)
Employee benefit expenses	(35,140)	(36,907)	(37,307)	(38,275)	(40,870)
Costs of telecommunications products sold	(44,046)	(36,529)	(30,491)	(26,242)	(22,044)
Other operating expenses	(54,960)	(57,357)	(56,339)	(58,538)	(62,444)
Finance costs	(6,934)	(5,017)	(3,540)	(3,189)	(2,630)
Interest income	438	1,160	504	1,612	1,482
Other income - net	1,363	1,364	1,365	1,366	1,367
Other income- net	10,568	1,591	(2,900)	0	0
Profit before income tax	14,035	784	2,589	16,244	27,185
Income tax expenses	(3,473)	(154)	(759)	(3,980)	(6,660)
Profit for the year	10,562	630	1,830	12,264	20,525

Source: Company, SWS Research

Fig 8: Balance Sheet

	2015	2016	2017E	2018E	2019E
cash and cash equivalent	21,755	23,633	31,850	105,682	97,017
inventory and consumables	3,946	2,431	2,622	2,257	1,896
account receivable	14,957	13,622	13,720	14,379	15,255
Prepayments and other current assets	10,864	14,023	13,198	14,044	14,995
Amounts due from related parties	2,846	22,724	22,724	22,724	22,724
Amounts due from domestic carriers	1,994	3,908	2,774	2,884	3,025
Short-term bank deposits	202	1,754	1,754	1,754	1,754
Financial Asset	106	123	123	123	123
CurrentAsset	56,670	82,218	88,766	163,847	156,789
FixedAsset	454,631	451,115	414,499	379,974	369,106
Lease prepayments	9,148	9,436	9,625	9,817	10,014
GoodWill	2,771	2,771	2,771	2,771	2,771
Interests in the Associate Companies	31,997	32,248	32,248	32,248	32,248
co-company sharing	978	1,175	1,175	1,175	1,175
receivable from related company	18,322	0	0	0	0
Financial assets at fair value through other comprehensive income	4,852	4,326	4,326	4,326	4,326
Other assets	25,335	24,879	25,178	25,641	26,244
Deferred income tax assets	5,642	5,986	5,986	5,986	5,986
Non-currentAsset	553,676	531,936	495,808	461,938	451,870
TotalAsset	610,346	614,154	584,574	625,785	608,659
Non-currentLiability	43,056	43,817	45,862	33,308	13,308
CurrentLiability	336,074	342,655	309,905	278,127	268,378
TotalLiability	379,130	386,472	355,767	311,435	281,686
Equity	231,216	227,682	228,807	314,350	326,973
TotalLiability&Equity	610,346	614,154	584,574	625,785	608,659

Source: Company, SWS Research

Fig 9: Cash Flow statement

	2015	2016	2017E	2018E	2019E
Profit before income tax	10,562	625	1,830	12,264	20,525
Add: depreciation and amortisation	76,738	76,805	75,465	71,337	67,631
Amortisation					
Net working capital	(3,340)	(3,898)	2,277	2,096	2,914
Other non-cash adjustments	341	1,061	1,959	(955)	(1,092)
Proceeds from China Tower					
Net cash inflow from operating activities	84,301	74,593	85,559	88,845	94,177
Cash flow from Investment activities					
Proceeds from disposal of property	2,336	6,392	3,151	3,189	3,237

Purchase of property, plant and equipment	(88,465)	(98,293)	(42,000)	(40,000)	(60,000)
Other fixed assets		0	(4,328)	(4,565)	
Decrease (increase) in short-term bank deposits	19	68	0	0	0
Less: investment increase	(1,077)	(181)	0	0	0
Other investment activities	(4,167)	(3,735)	13,441	8,782	11,626
Net cash outflow from investing activities	(91,354)	(95,749)	(29,736)	(32,595)	(49,940)
Increase in debt	190,884	226,116	0	0	0
Less: decrease in debt	182,815	197,759	0	0	0
Net debt increase	8,069	28,357	(46,902)	(55,696)	(45,000)
Capital increase	1	0	0	78,000	0
Total dividend paid	(4,643)	(4,071)	704	4,722	7,902
Net cash inflow from financing activities	3,427	22,877	(47,606)	17,582	(52,902)
Exchange rate fluctuation	73	0	0	0	0
Net increase (decrease) in cash and cash equivalents	(3,553)	1,878	8,217	73,832	(8,665)
Cash and cash equivalents, beginning of the year	25,308	21,755	23,633	31,850	105,682
Cash and cash equivalents, end of the year	21,755	23,633	31,850	105,682	97,017

Source: Company, SWS Research

Fig 10: Key Financial Ratios

	2015	2016	2017E	2018E	2019E
Ratios per share (Rmb)					
Earnings per share	0.44	0.03	0.08	0.40	0.67
OperatingCFPerShare	3.52	3.11	3.57	2.90	3.08
DividendPerShare	0.20	0.00	0.03	0.15	0.26
Key Operating Ratios(%)					
NetAssetsPerShare	9.66	9.51	9.55	10.27	10.69
ROIC	2.10%	0.85%	1.05%	2.68%	4.26%
ROE	4.57%	0.28%	0.80%	3.90%	6.28%
GrossProfitMargin					
EBITDAMargin	31.58%	29.57%	30.57%	31.92%	32.72%
EBITMargin	3.89%	1.56%	1.92%	5.76%	8.97%
GrowthRateOfRevenue	-2.68%	-1.03%	1.19%	3.94%	1.36%
GrowthRateOfProfit	-12.38%	-94.04%	190.42%	570.32%	67.35%
DebtToAssetRatio	0.24	0.29	0.22	0.12	0.05
TurnoverRateOfNetAssets	1.20	1.20	1.21	0.92	0.93
TurnoverRateOfTotalAssets	0.45	0.45	0.47	0.46	0.50
EffectiveTax rate	24.75%	24.50%	24.50%	24.50%	24.50%
DividendYield	2.01%	0.00%	0.30%	1.55%	2.60%
Valuation Ratios (X)					
PE	26.54	444.96	153.21	29.20	17.45
PB	0.88	0.89	0.89	0.82	0.79
EVEBITDA	3.72	4.10	3.51	2.67	2.12

Source: Company, SWS Research

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Outperform: Share price performance is expected to generate between 10-20% upside over a 12-month period.

Hold: Share price performance is expected to generate between 10% downside to 10% upside over a 12-month period.

Underperform: Share price performance is expected to generate between 10-20% downside over a 12-month period.

SELL: Share price performance is expected to generate more than 20% downside over a 12-month period.

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