

China Mobile

Granted FDD license, enhancing its long-run network competitiveness

Flash Analysis

What happened

On April 3, China Mobile announced that the Ministry of Industry & Information Technology (MIIT) has granted it a basic telecom service permit for LTE FDD. CM plans to vigorously promote the development of mobile IoT and industrial Internet on a nationwide basis, actively initiate the scale application for a TDD/FDD convergence network and enhance network quality in rural areas.

Comments

FDD license gives CM more network construction options. Although CM did not reveal its FDD network's specific spectrum (we believe 900MHz), or if it also received a permit for 2G refarming, we can conclude: **1) CM will establish a nationwide FDD network** to accelerate the development of its IoT business (NB-IoT only allows FDD networks); and, **2) CM will utilize FDD to enhance 4G network coverage in rural areas**, implying it won't be adopted in urban areas.

Long-term positive for CM. The FDD license will improve CM's networks over the long run, as: **1) CM will quickly build nationwide NB-IoT coverage to compete with CU and CT**, raising competitiveness in the IoT market and ramping up its IoT connections. NB-IoT is more advantageous in signal intensity & network load than its previous 2G/3G network; and, **2) CM will continue to enhance its 4G network quality**; we believe it will establish a TDD/FDD convergence network in rural areas to improve its network speed & stability, facilitating the capability to offer VoLTE services.

Should have very limited impact on Capex. We believe CM will rapidly implement FDD network construction & complete its establishment before year-end. Compared to CT's nationwide 800Mhz refarming (only using 300k base stations), we believe CM will likely use fewer base stations; thus, its Capex related to FDD network construction should be very limited and we maintain our previous forecast of Rmb166bn (-6% YoY).

Still watch for short-term operational risks. Although the new license is a long-term positive, CM's results will mainly be influenced by tariff reduction policies in the short run, which we believe will put more pressure on its ARPU and growth. **We maintain our HOLD rating and HK\$70 target price**, 2.5x 2018e EV/EBITDA (3.8% dividend yield).

Risks

Policy uncertainties over tariff cuts; fiercer market competition.

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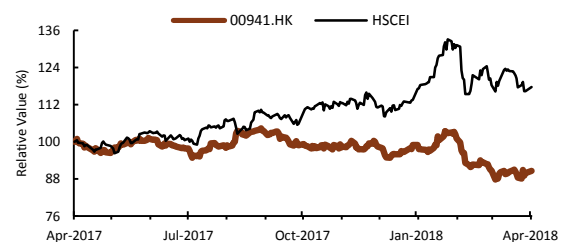
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Maintain HOLD

Ticker	00941.HK
CICC investment rating	HOLD
Last close	HK\$72.55
CICC target	HK\$70.00
52wk price range	HK\$84.71~69.65
Market cap (bn)	HK\$1,485
Daily value (mn)	HK\$1,300.78
Shares outstanding (mn)	20,475
Free float (%)	100
Daily volume (mn sh)	18.15
Business sector	Telecom Services



(Rmb mn)	2016A	2017A	2018E	2019E
Revenue	708,421	740,514	722,612	711,568
(+/-)	6.0%	4.5%	-2.4%	-1.5%
Net profit	108,741	114,279	93,343	82,949
(+/-)	0.2%	5.1%	-18.3%	-11.1%
EPS	5.31	5.58	4.56	4.05
BPS	47.81	48.14	50.42	52.49
DPS	2.39	5.42	2.10	1.86
CPS	12.39	12.29	14.19	11.08
P/E	12.2	10.8	12.6	14.2
P/B	1.4	1.3	1.1	1.1
EV/EBITDA	4.9	4.1	3.8	3.8
Dividend yield	3.7%	9.0%	3.6%	3.2%
ROAA	7.4%	7.5%	6.1%	5.3%
ROAE	11.5%	11.6%	9.3%	7.9%

Source: Wind, Bloomberg, Corporate filings, CICC Research



Financial summary

Financial statement (Rmb mn)	2016A	2017A	2018E	2019E	Financial ratios	2016A	2017A	2018E	2019E
Income statement					Growth ability				
Revenue	708,421	740,514	722,612	711,568	Revenue	6.0%	4.5%	-2.4%	-1.5%
Other ops income (expense)	394,251	409,007	406,854	411,682	Operating profit	14.7%	1.7%	-21.9%	-16.5%
Operating profit	118,088	120,126	93,851	78,395	EBITDA	6.9%	5.4%	-5.4%	-5.8%
Finance costs	-15,770	-15,673	-16,249	-18,673	Net profit	0.2%	5.1%	-18.3%	-11.1%
Other income (expense)	17,268	17,642	17,849	20,073	Profitability				
Profit before income tax	144,462	148,137	121,801	108,267	Operating margin	16.7%	16.2%	13.0%	11.0%
Income tax	35,623	33,723	28,258	25,118	EBITDA margin	36.2%	36.5%	35.4%	33.8%
Minority interest	-98	-135	-200	-200	Net margin	15.3%	15.4%	12.9%	11.7%
Net profit	108,741	114,279	93,343	82,949	Liquidity				
EBITDA	256,677	270,421	255,782	240,826	Current ratio	1.09	1.05	1.13	1.20
Recurrent net income	114,178	114,279	98,524	87,389	Quick ratio	1.08	1.03	1.11	1.19
Balance sheet					Cash ratio	0.17	0.23	0.42	0.50
Cash and bank balances	90,413	120,636	215,187	257,199	Liabilities / assets	35.4%	35.0%	33.3%	32.6%
Trade and bill receivables	19,045	24,153	15,897	15,655	Net debt / equity	net cash	net cash	net cash	net cash
Inventories	8,832	10,222	8,671	8,539	Return				
Other current assets	468,355	403,185	342,533	341,594	RoA	7.4%	7.5%	6.1%	5.3%
Total current assets	586,645	558,196	582,289	622,986	RoE	11.5%	11.6%	9.3%	7.9%
Fixed assets and CIP	712,209	726,141	722,799	718,446	Per-share data				
Intangible assets and others	222,140	237,776	248,392	257,592	EPS (Rmb)	5.31	5.58	4.56	4.05
Total non-current assets	934,349	963,917	971,191	976,038	BPS (Rmb)	47.81	48.14	50.42	52.49
Total assets	1,520,994	1,522,113	1,553,480	1,599,025	DPS (Rmb)	2.39	5.42	2.10	1.86
Short-term borrowings	4,998	0	0	0	Cash flow per share (Rmb)	12.39	12.29	14.19	11.08
Trade and bill payables	252,044	236,472	245,688	252,607	Valuation				
Other current liabilities	279,347	293,510	268,786	264,811	P/E	12.2	10.8	12.6	14.2
Total current liabilities	536,389	529,982	514,475	517,417	P/B	1.4	1.3	1.1	1.1
Long-term borrowings	0	0	0	0	EV/EBITDA	4.9	4.1	3.8	3.8
Total non-current liabilities	2,467	3,250	3,250	3,250	Dividend yield	3.7%	9.0%	3.6%	3.2%
Total liabilities	538,856	533,232	517,725	520,667					
Share capital	402,130	402,130	402,130	402,130					
Retained profit	576,891	583,506	630,180	672,582					
Equity	979,021	985,636	1,032,310	1,074,712					
Total liabilities & equity	1,520,994	1,522,113	1,553,480	1,599,025					
Cash flow statement									
Pretax profit	144,462	148,137	121,801	108,267					
Depreciation & amortization	139,032	156,559	161,681	162,232					
Change in working capital	23,187	-1,324	54,951	4,257					
Others	-52,980	-51,640	-47,861	-47,809					
Cash flow from operations	253,701	251,732	290,571	226,947					
Capital expenditure	-188,209	-177,500	-166,201	-163,661					
Others	-6,314	15,883	16,549	18,973					
Cash flow from investing	-194,523	-161,617	-149,651	-144,688					
Equity financing	0	0	0	0					
Bank borrowings	0	0	0	0					
Others	-48,958	-108,435	-46,369	-40,247					
Cash flow from financing	-48,958	-108,435	-46,369	-40,247					
Foreign exchange gain (loss)	351	0	0	0					
Net changes in cash	10,571	-18,320	94,551	42,012					

Source: Corporate filings, CICC Research

Company description

China Mobile is a leading mobile service provider in mainland China, and has the world's largest mobile network and the world's largest mobile customer base. Main operations are mobile communications, data communications, IP communications, and multimedia services. China Mobile Limited was incorporated in Hong Kong in 1997. The company was listed in New York and Hong Kong in 1997.



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