

23 April 2018

Outperform
Unchanged

强劲信号

中国联通 (762:HK)

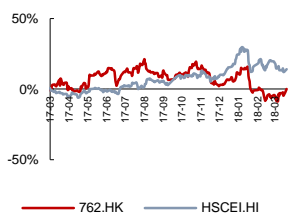
Financial summary and valuation

	2016	2017	2018E	2019E	2020E
Revenue (Rmbm)	274,197	274,829	288,371	302,488	318,846
YoY (%)	-1.03%	0.23%	4.93%	1.38%	1.38%
Net income (Rmbm)	630	1,850	11,162	19,858	28,235
YoY (%)	-94.04%	193.65%	503.33%	77.91%	42.19%
EPS (Rmb)	0.03	0.07	0.36	0.65	0.92
Diluted EPS (Rmb)	0.03	0.07	0.36	0.65	0.92
ROE (%)	0.10%	0.32%	1.90%	3.50%	4.95%
Liability/asset (%)	62.93%	46.79%	47.15%	42.96%	40.24%
Dividend yield (%)	0.00%	0.29%	1.35%	2.40%	3.42%
PE (x)	465.08	174.79	33.54	18.85	13.26
PB (x)	0.93	0.70	0.87	0.84	0.79
EV/Ebitda (x)	4.21	2.79	3.08	2.47	2.07

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

Market Data: 20 April

Closing Price (HK\$)	10.40
Price Target (HK\$)	12.10
HSCIE	12,054
HSSCI	4,439
52-week High/Low (HK\$)	12.36/9.32
Market Cap (USD Mn)	40,797
Market Cap (HK\$ Mn)	318,219
Shares Outstanding (Mn)	30,598
Exchange Rate (HK\$-US\$)	7.80



Source: Bloomberg

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"China Unicom (762:HK) — Temporary outage" 5 March 2018

"China Unicom (762:HK) — Clear line" 16 March 2018

中国联通 2018 年 1 季度服务收入同比增速为 8.4% (对比 17 年同比增速为 4.6%)。净利润为 30 亿, 同比增长 3 倍, 主要由于去年低基数原因。我们将 18 年 EPS 预测从 0.36Rmb 略微调整至 0.39Rmb(同比增长 5 倍)。19 年 EPS 维持为 0.65Rmb(同比增长 77.91%)。20 年 EPS 预测从 0.91Rmb 略微调整至 0.92Rmb(同比增长 42.19%)。我们将目标价从 10.97 港币调整至 12.1 港币。维持增持评级。

健康的业绩增长。中国联通服务性收入增长维持良好。其无线网服务收入同比增长 11.6%, 其无线用户 ARPU 略微成长值 47.9Rmb。固网业务收入同比增长约 3.4%。公司预计其全年 4G 用户增量为 7000 万而其 ARPU 将维持稳定。根据其 1 季度数据, 公司业绩符合预期。然而, 考虑到下半年流量漫游费用取消, 我们维持全年收入同比增长为 6.1%。令人惊喜的是, 依赖其与战略投资者合作, 其工业互联网业务收入同比增长 36%, 对比公司 30% 指引。

资本支出周期。中国联通预计 2018 年全年资本支出约为 500 亿人民币。公司将专注于重点城市, 重流量支出地区 4G 网络建设。5G 商用将会在 2020 年。我们预期公司 2019 年资本支出约为 550 亿。公司将在未来 3 年或更久的时间内逐步关停其 2G 网络。如今, 大约 20% 联通无线网用户来自于 2G 用户。

其他更新。我们认为中国铁塔将于今年上市, 可能将成为运营商的股价催化剂。然而中国铁塔租赁费用下调将会对公司基本面造成较大影响。在一季度中国联通铁塔费用同比有单位数下降。

维持增持。公司如今股价对应约 0.9x 18E PB。我们将目标价从 10.97 港币上调至 12.10 港币。基于 0.9x 18E Pb 以及调整后铁塔每股价值 1.9 港币 (过去为 2.55 港币), 目标价对应 16.35% 上涨空间, 我们维持增持评级。

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China Unicom reported 1Q18 service revenue of Rmb66.6bn, representing growth of 8.4% YoY (full-year 2017: 4.6% YoY) and net profit of Rmb3bn, up 2.5x YoY, due mainly to a low base in the comparable period. We adjust our EPS forecasts from Rmb0.39 to Rmb0.36 in 18E (+5.1x YoY), maintain our forecast at Rmb0.65 in 19E (+80.6% YoY) and raise our forecast from Rmb0.91 to Rmb0.92 in 20E (+41.5% YoY). We lift our target price from HK\$10.97 to HK\$12.10, and maintain our Outperform rating.

Healthy growth. Unicom's service revenue remains healthy, with mobile service revenue for the quarter up 11.6% YoY while average revenue per mobile subscriber (Arpu) increased slightly to Rmb47.90. Fixed-line service revenue grew 3.4% YoY. The company guided a net addition of 70m 4G subscribers in 2018, while anticipating stable Arpu for the year. We view the first quarter results as signaling solid fundamentals. However, bearing in mind the government's moves to force telecoms operators abandon inter-provincial mobile data roaming fees in 2H18, we maintain our service revenue growth forecast for the year at 6.1% YoY. With that said, we do note positive industrial internet revenue growth, rising 36% YoY in 1Q18, vs company guidance of 30% YoY, which we attribute to the firm's cooperation with strategic investors.

Capex cycle. Unicom guided total capex of Rmb50bn for 2018. The company will focus investment on key cities, 4G networks and regions with high data traffic & returns. With 5G commercial launch scheduled for 2020, we forecast 2019 Capex of just Rmb55bn. Meanwhile, we see the termination of the firm's 2G network service as unlikely within the next three years, given that, at present, c.20% of Unicom's total mobile subscriber base are still subscribed to 2G service.

Other updates. We believe China Towerco, the firm into which the three telcos injected mobile infrastructure assets, may IPO in Hong Kong this year, which we view as a potential catalyst for the telcos. While a tower leasing price cut this year may put pressure on China Towerco fundamentals, it will ease pressure on the telcos; we note that Unicom recorded single-digit tower usage fees in 1Q18.

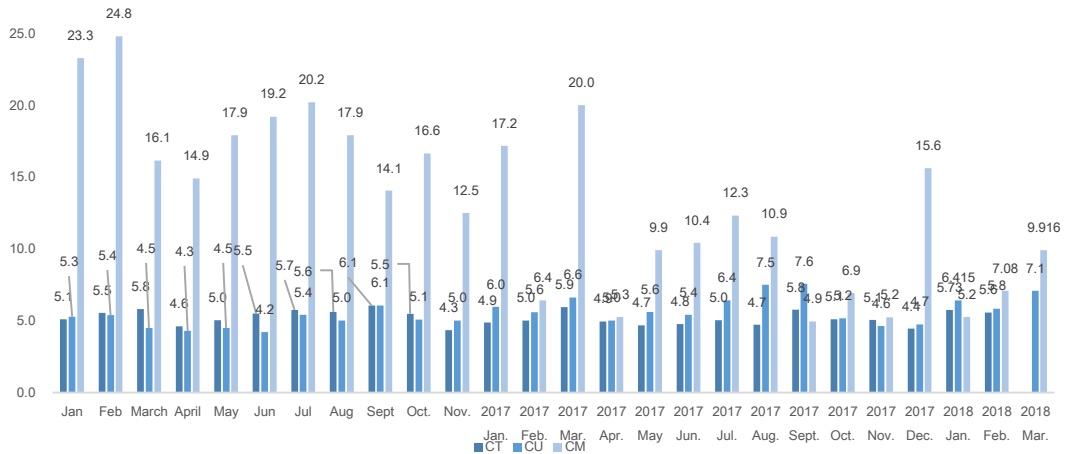
Maintain Outperform. The company is currently trading at 0.9x 18E PB. We lift our target price from HK\$10.97 to HK\$12.10, based on an unchanged 0.9x 18E PB multiple, but with a lowered per-share addition of HK\$1.90 (previously: HK\$2.55) to reflect value accretion from China Towerco). With 16.4% upside, we maintain our Outperform rating.

Fig 1: 1Q18 results highlights

Item	Result
Ebitda growth	14.0% YoY
Wireless revenue growth	11.6% YoY
4G subscriber monthly data usage	6.5GB
Industrial internet revenue	Rmb5.9bn
Wireless Arpu growth	2.6% YoY

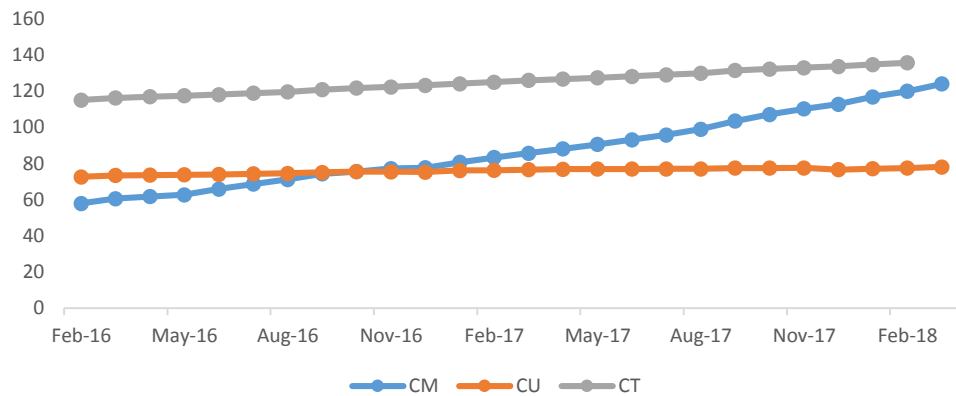
Source: Company data, SWS Research

Fig 2: 4G subscriber net additions for the three main operators



Source: Company data, SWS Research

Fig 3: fix-line broadband subscriber base



Source: Company data, SWS Research

Fig 4: Capex

(Rmbbn)	2017A	2018E	YoY
Total Capex	42.1	Less than 50	+18.7%
Of which: spending on mobile networks	16.0	Less than 18.5	+15.6%
spending on fixed-line broadband & data	8.8	Less than 10	+13.6%
spending on Infrastructure, transmission & others	17.3	Less than 21.5	+24.3%

Source: China Unicom, SWS Research

Company financials

Fig 7: Income Statement

	2016	2017	2018E	2019E	2020E
Revenue	274,197	274,829	288,371	302,488	318,846
Interconnection charges	(12,739)	(12,617)	(14,284)	(15,252)	(16,314)
Depreciation and amortization	(76,805)	(77,492)	(76,531)	(72,380)	(70,091)
Networks, operations and support expenses	(51,167)	(54,507)	(58,971)	(62,915)	(66,423)
Employee benefit expenses	(36,907)	(42,471)	(38,275)	(40,870)	(43,716)
Costs of telecommunications products sold	(36,529)	(26,643)	(26,242)	(22,044)	(18,406)
Other operating expenses	(57,357)	(57,166)	(58,538)	(62,444)	(66,738)
Finance costs	(5,017)	(5,734)	(3,189)	(2,630)	(2,085)
Interest income	1,160	1,647	1,242	1,148	1,124
Other income - net	1,364	1,365	1,366	1,367	1,368
Other income- net	1,591	1,854	0	0	0
Profit before income tax	784	2,593	14,784	26,301	37,397
Income tax expenses	(154)	(743)	(3,622)	(6,444)	(9,162)
Profit for the year	630	1,850	11,162	19,858	28,235

Source: Company, SWS Research

Fig 8: Balance Sheet

	2016	2017	2018E	2019E	2020E
cash and cash equivalent	23,633	32,836	77,364	70,882	69,271
inventory and consumables	2,431	2,239	2,257	1,896	1,583
account receivable	13,622	13,964	14,732	15,608	16,634
Prepayments and other current assets	14,023	13,801	13,617	14,538	15,600
Amounts due from related parties	22,724	3,274	3,274	3,274	3,274
Amounts due from domestic carriers	3,908	4,683	2,884	3,025	3,188
Short-term bank deposits	1,754	5,526	5,425	5,664	5,664
Financial Asset	123	160	160	160	160
CurrentAsset	82,218	76,722	119,952	115,046	115,374
FixedAsset	451,115	416,596	389,907	372,380	374,644
Lease prepayments	9,436	9,313	9,499	9,689	9,883
GoodWill	2,771	2,771	2,771	2,771	2,771
Interests in the Associate Companies	32,248	33,233	33,233	33,233	33,233
co-company sharing	1,175	2,368	2,368	2,368	2,368
receivable from related company	0	0	0	0	0
Financial assets at fair value through other comprehensive income	4,326	4,286	4,286	4,286	4,286
Other assets	24,879	20,721	20,908	21,240	21,694
Deferred income tax assets	5,986	5,973	5,973	5,973	5,973
Non-currentAsset	531,936	495,261	468,946	451,940	454,853
TotalAsset	614,154	571,983	588,897	566,986	570,227
Non-currentLiability	43,817	25,014	33,308	13,308	3,808
CurrentLiability	342,655	242,622	244,378	230,254	225,631
TotalLiability	386,472	267,636	277,686	243,562	229,439
Equity	227,682	304,347	311,211	323,424	340,788
TotalLiability&Equity	614,154	571,983	588,897	566,986	570,227

Source: Company, SWS Research

Fig 9: Cash Flow statement

	2016	2017	2018E	2019E	2020E
Profit before income tax	625	1,828	11,162	19,858	28,235
Add: depreciation and amortisation	76,805	77,492	73,185	68,982	66,620
Amortisation					
Net working capital	(3,898)	1,966	(202)	1,954	2,211

Other non-cash adjustments	1,061	3,766	1,983	(1,062)	(1,225)
Proceeds from China Tower					
Net cash inflow from operating activities	74,593	85,054	89,473	93,129	99,311
Cash flow from Investment activities					
Proceeds from disposal of property	6,392	22,121	3,504	3,545	3,616
Purchase of property, plant and equipment	(98,293)	(61,489)	(50,000)	(55,000)	(72,500)
Other fixed assets	0	0	(3,532)		
Decrease (increase) in short-term bank deposits	68	0	0	0	0
Less: investment increase	(181)	0	0	0	0
Other investment activities	(3,735)	(7,968)	30,847	8,218	7,259
Net cash outflow from investing activities	(95,749)	(47,336)	(19,182)	(46,967)	(65,551)
Increase in debt	226,116	0	0	0	0
Less: decrease in debt	197,759	0	0	0	0
Net debt increase	28,357	(103,368)	(21,567)	(45,000)	(24,500)
Capital increase	0	74,954	0	0	0
Total dividend paid	(4,071)	0	4,297	7,645	10,870
Net cash inflow from financing activities	22,877	(28,414)	(25,864)	(52,645)	(35,370)
Exchange rate fluctuation	0	0	0	0	0
Net increase (decrease) in cash and cash equivalents	1,878	9,304	44,427	(6,483)	(1,610)
Cash and cash equivalents, beginning of the year	21,755	23,633	32,937	77,364	70,882
Cash and cash equivalents, end of the year	23,633	32,937	77,364	70,882	69,271

Source: Company, SWS Research

Fig 10: Key Financial Ratios

	2016	2017	2018E	2019E	2020E
Ratios per share (Rmb)					
Earnings per share	0.03	0.07	0.36	0.65	0.92
OperatingCFPerShare	3.11	3.55	2.92	3.04	3.25
DividendPerShare	0.00	0.03	0.14	0.25	0.36
Key Operating Ratios(%)					
NetAssetsPerShare	9.51	12.71	10.17	10.57	11.14
ROIC	0.85%	0.95%	2.52%	4.20%	5.67%
ROE	0.28%	0.61%	3.59%	6.14%	8.29%
GrossProfitMargin					
EBITDAMargin	29.57%	30.30%	31.92%	32.72%	33.64%
EBITMargin	1.56%	2.11%	5.39%	8.79%	11.65%
GrowthRateOfRevenue	-1.03%	0.23%	4.93%	1.38%	1.38%
GrowthRateOfProfit	-94.04%	193.65%	503.33%	77.91%	42.19%
DebtToAssetRatio	0.29	0.13	0.12	0.05	0.01
TurnoverRateOfNetAssets	1.20	0.90	0.93	0.94	0.94
TurnoverRateOfTotalAssets	0.45	0.48	0.49	0.53	0.56
EffectiveTax rate	24.50%	24.50%	24.50%	24.50%	24.50%
DividendYield	0.00%	0.29%	1.35%	2.40%	3.42%
Valuation Ratios (X)					
PE	465.08	174.79	33.54	18.85	13.26
PB	0.93	0.70	0.87	0.84	0.79
EVEBITDA	4.21	2.79	3.08	2.47	2.07

Source: Company, SWS Research

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