

2 May 2018

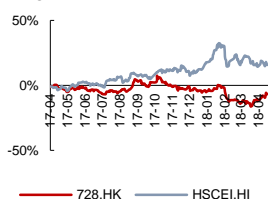
Outperform
Unchanged

符合预期

中国电信 (728:HK)

Market Data: 30 Apr.

Closing Price (HK\$)	3.84
Price Target (HK\$)	4.20
HSCEI	12,331
HSCCI	4,540
52-week High/Low (HK\$)	4.20/3.41
Market Cap (USD Mn)	39,843
Market Cap (HK\$ Mn)	310,779
Shares Outstanding (Mn)	80,932
Exchange Rate (HK\$-US\$)	7.80



Source: Bloomberg

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Related Reports

- "China Telecom (728:HK)—Strong signal" 30 October 2017
- "China Telecom (728:HK)—Ringing the changes" 23 Feb 2018
- "China Telecom (728:HK)—Narrowing bandwidth" 29 March 2018

Financial summary and valuation

	2016	2017	2018E	2019E	2020E
Revenue (Rmbm)	352,534.0	366,229.0	389,059.6	399,895.0	408,765.6
YoY (%)	6%	4%	6%	3%	2%
Net income (Rmbm)	18,018	18,617	18,205	22,197	25,349
YoY (%)	-10.15%	3.32%	-2.21%	21.93%	14.20%
EPS (Rmb)	0.22	0.23	0.22	0.27	0.31
Diluted EPS (Rmb)	0.2	0.2	0.2	0.3	0.3
ROE (%)	5.7	5.7	5.4	6.3	6.8
Debt/asset (%)	17.2	15.6	17.4	17.1	16.6
Dividend Yield (%)	2.7	3.0	3.0	3.0	3.0
PE (x)	13.8	13.4	13.7	11.2	9.8
PB (x)	0.79	0.76	0.73	0.70	0.67
EV/Ebitda (x)	2.93	3.33	2.92	2.58	2.33

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

中国电信公布其 1 季度服务性收入为 880 亿人民币 (同比增长 7.1%), 净利润为 57 亿人民币 (同比增长 6.5%), 与我们预期一致。我们维持 18 年 EPS 预测为 0.22Rmb(同比下滑 2.2%), 19 年 EPS 为 0.27Rmb(同比增长 21.9%), 20 年 EPS 为 0.31Rmb(同比增长 14.2%), 我们将目标价从 3.95 港币上调至 4.2 港币 (对应 0.8x 18E PB), 对应 9.4% 上升空间, 我们维持增持评级。

极具挑战的基本面。 中国电信无线业务收入同比增长 10.6%, 固网业务同比增长 4.2%。其主要增长来自于用户基数扩张及 Arpu 提升。公司预计今年无线网用户增长为 4000 万, 4G 用户增长为 6000 万, 考虑到下半年资费下调, 其 Arpu 将会有略微下滑。中国电信 4G 平均每月流量在一季度已达到 3.9Gb, 对比 2017 年为 2Gb。尽管中电信一季度业绩较为强劲, 我们仍然对其全年业绩表示担忧。考虑到下半年资费下调影响带来的 Arpu 下滑, 一季度业绩增长不可持续。此外, 考虑到中国移动较为激进的固网业务营销, 我们认为中移动用户基数将在今年超过中国电信。

未来营运成本增长。 公司预计其 18 年资本支出为 760 亿, 对比去年为 870 亿。5G 将于今年开始逐渐建设, 然而大规模商用将会在 2020 年。对于今年, 如何控制成本对于运营商而言是一个大挑战, 中国电信预计其全年营运成本增长将会低于其业务收入增长。尽管中国铁塔已经下调其资费, 考虑到今年的资本支出计划, 中国电信仍然预计今年铁塔的费用将会增长。

其他更新。 我们预计中国铁塔将于今年登录港股市场, 而这也将成为电信板块的一个股价催化剂。作为防守型板块, 中国电信的估值极具吸引力。

维持增持。 我们维持 18 年 EPS 预测为 0.22Rmb(同比下滑 2.2%), 19 年 EPS 为 0.27Rmb(同比增长 21.9%), 20 年 EPS 为 0.31Rmb(同比增长 14.2%), 我们将目标价从 3.95 港币上调至 4.2 港币 (对应 0.8x 18E PB), 对应 9.4% 上升空间, 我们维持增持评级。

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China Telecom reported 1Q18 service revenue of Rmb88bn (+7.1% YoY) and net profit of Rmb5.7bn (+6.5% YoY), roughly in line with our expectations. As such, we maintain our EPS forecasts of Rmb0.22 in 18E (-2.2% YoY), Rmb0.27 in 19E (+21.9% YoY) and Rmb0.31 in 20E (+14.2% YoY). We slightly raise our target price from HK\$3.95 to HK\$4.20 (0.8x 18E PB) and with 9.4% upside, we maintain our Outperform recommendation.

Challenging fundamental. China Telecom's wireless revenue grew by 10.6% YoY while its fixed-line broadband business grew 4.2% YoY. The major driver was wireless subscriber base expansion and average revenue per user (Arpu) increase. Management guided 40m mobile subscriber increase and 60m 4G subscriber net adds this year while Arpu will witness a modest decline considering the tariff reduction measures in 2H. China Telecom's 4G Average Handset Data Traffic per Month (DOU) reached 3.9Gb in 1Q18, vs 2Gb in 2017. Even though China Telecom reported robust 1Q results, we are still concerned about full-year performance given the unclear impact of tariff reductions in 2H18. In our view, 1Q service revenue growth is not sustainable considering future Arpu contraction. In addition, considering China Mobile's heavy fix-line promotion, we believe its fix-line subscriber base will exceed China Telecom's this year.

Upcoming operating expenses. Company guide total Capex of 76bnRmb in 2018 vs Rmb87bn in 2017. We note that 5G pilots will commence this year, while scale commercial use will roll out in 2020. Since this year, we believe the key concern for operators centres on cost controls, while china telecom expect its overall operating cost growth will be lower than revenue growth. Although China Towerco has reached an agreement with operators to cut the mark-up premium, China Telecom expects Towerco costs might witness modest growth in this year considering Capex plans.

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. As a defensive sector, China Telecom's current valuation remains quite attractive.

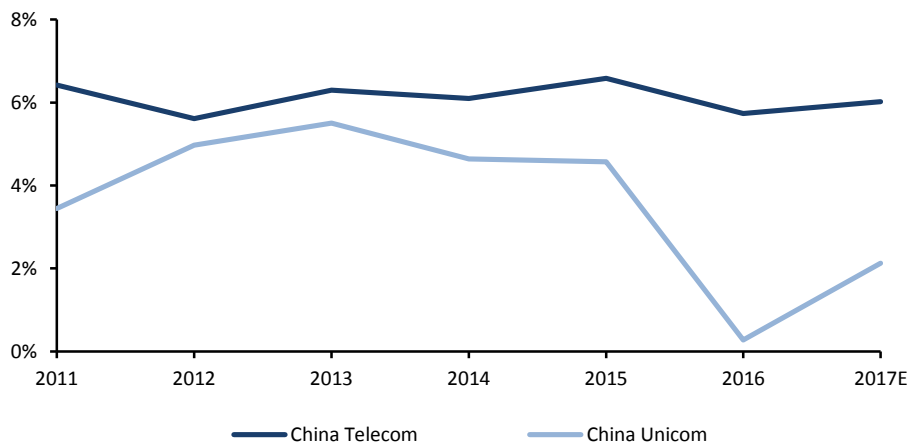
Maintain Outperform. We maintain our forecast of Rmb0.22 in 18E (-2.2% YoY), Rmb0.27 in 19E (+21.9% YoY) and Rmb0.31 in 20E (+14.2% YoY). The company's stock is currently trading at 13.7x 18E PE and 0.73x 18E PB. We slightly raise our target price from HK\$3.95 to HK\$4.20 (0.8x 18E PB) and with 9.4% upside, we maintain our Outperform recommendation.

Fig 1: 2018E guidance

Capex	Rmb75bn
Mobile subscriber net addition	40mn
4G subscriber net addition	60mn
wireline broadband subscriber net addition	10mn
Overall operating cost	Growth rate less than revenue
D&A cost	Growth rate less than revenue
Personnel	Growth rate Slightly higher than revenue

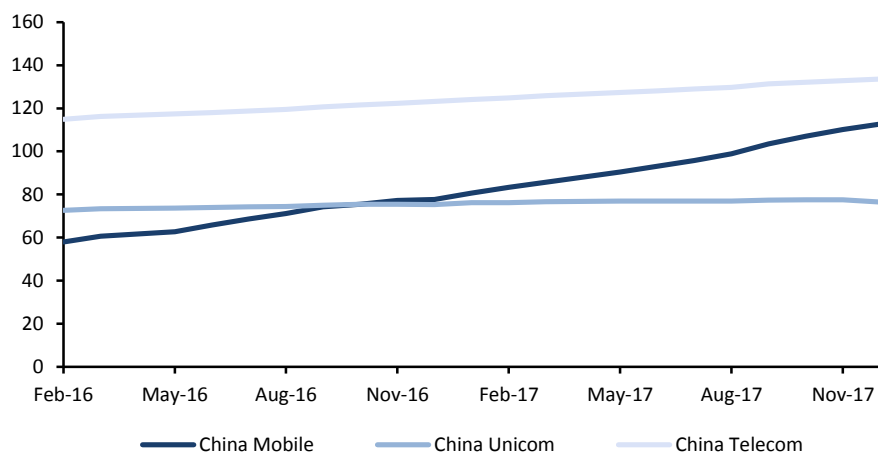
Source: Company, SWS Research

Fig 2: China Telecom and Unicom ROE



Source: Company, SWS Research

Fig 3: Wireline subscriber trends



Source: Company, SWS Research

Income Statement	2016	2017	2018E	2019E	2020E
Revenue	352,534	366,229	389,060	399,895	408,766
D&A	-67,942	-74,951	-81,621	-82,350	-82,399
Networks, operation and support expenses	-94,156	-103,969	-92,505	-93,171	-94,419
SG&A	-56,426	-58,434	-66,140	-67,982	-69,490
Employee benefit expenses	-54,504	-56,043	-66,918	-68,782	-70,308
other income-net	-52,286	-45,612	-54,011	-54,423	-54,760
Total operating expense	-325,314	-339,009	-361,196	-366,708	-371,376
Operating profits	27,220	27,220	27,864	33,187	37,390
Financing cost	-3,235	-3,291	-3,490	-3,490	-3,490
Other cost	131	1024			
Profit before income tax	24,116	24,953	24,373	29,696	33,899
Income tax expense	-5,993	-6,192	-6,093	-7,424	-8,475
Profit for the year	18,123	18,761	18,280	22,272	25,424
Minority interest	105	144	75	75	75
Net income	18,018	18,617	18,205	22,197	25,349

Source: Company, SWS Research

Balance sheet	2016	2017	2018E	2019E	2020E
Current Assets	27,948	22,510	57,301	79,573	97,848
Bank balances and cash	40,893	44,224	47,275	47,940	48,485
Trade and other receivables	5,081	4,123	5,081	5,081	5,081
Inventories	1,535	1,154	1,154	1,154	1,154
Other current assets	389,648	406,257	422,564	414,939	412,524
Long-term investment	11,244	12,391	17,568	19,502	22,440
PP&E	652,368	661,194	696,096	706,613	727,398
Intangible and other assets	27,948	22,510	57,301	79,573	97,848
Total Assets	40,893	44,224	47,275	47,940	48,485
Current Liabilities	112,426	104,300	121,062	121,062	121,062
Borrowings	123,550	119,725	129,147	130,056	131,447
Trade and other payables	91,088	98,695	93,451	95,401	96,998
Other current liabilities	9,370	48,596	17,075	17,075	17,075
Long-term liabilities	336,073	334,497	352,669	355,529	358,517
Total Liabilities	971	830	830	830	830
Minority Interests	315,324	325,867	338,663	354,254	372,051
Shareholder Equity	112,426	104,300	121,062	121,062	121,062
Total Liabilities and equity	652,368	661,194	696,096	706,613	727,398

Source: Company, SWS Research

Cash Flow statement	2016	2017	2018E	2019E	2020E
Profit before taxation	18,123	18,761	18,280	22,272	25,424
Plus : Depr. and amortisation	-67,942	-74,951	-81,621	-82,350	-82,399
Finance cost	-3,235	-3,291	-3,490	-3,490	-3,490
Losses from investments	5,643	8,235	-8,244	1,950	1,597
Change in working capital	9,545	-5,445	7,318	244	847
Others					
CF from operating activities	101,130	96,502	98,975	106,817	110,266
CAPEX	96,772	89,000	80,000	85,000	87,500
Proceeds from disposal of property	2,550	0	0	0	0
Other CF from investing activities	-99,038	-85,263	-76,822	-81,863	-84,364
CF from investing activities	0	0	0	0	0
Equity financing	-2,979	-8,126	17,824	-4,000	0
Net change in liabilities	-6,489	5,628	5,484	6,682	7,627
Dividend and interest paid	-87	-2,393	0	0	0
Other CF from financing activities	-9,555	-16,147	12,340	-2,682	-7,627
CF from financing activities	-7,252	-4,908	34,492	22,272	18,275
Net cash flow	101,130	96,502	98,975	106,817	110,266

Source: Company, SWS Research

Key Financial Ratios					
	2016	2017	2018E	2019E	2020E
Ratios per share (Rmb)					
Earnings per share	0.22	0.23	0.22	0.27	0.31
Operating CF per share	1.25	1.19	1.22	1.32	1.36
Dividend per share	0.08	0.09	0.09	0.09	0.09
Net assets per share	3.91	4.04	4.19	4.39	4.61
Key Operating Ratios (%)					
ROE	5.70%	5.70%	5.36%	6.25%	6.80%
EBITDA Margin	26.99%	27.90%	28.14%	28.89%	29.30%
EBIT Margin	7.72%	7.43%	7.16%	8.30%	9.15%
Growth rate of Revenue(YoY)	6.44%	3.88%	6.23%	2.79%	2.22%
Growth rate of Profit(YoY)	-10.15%	3.32%	-2.21%	21.93%	14.20%
Debt-to-asset ratio	17.23%	15.60%	17.38%	17.12%	16.63%
Turnover rate of net assets	111.46%	112.10%	114.60%	112.62%	109.62%
Turnover rate of total assets	54.04%	55.39%	55.89%	56.59%	56.20%
Effective tax rate (%)	-25.00%	-25.00%	-25.00%	-25.00%	-25.00%
Dividend yield (%)	3.12%	3.41%	3.41%	3.41%	3.41%
Valuation Ratios (X)					
P/E	13.80	13.35	13.66	11.20	9.81
P/B	0.79	0.76	0.73	0.70	0.67
EV/Sales	0.79	0.93	0.82	0.74	0.68
EV/EBITDA	2.93	3.33	2.92	2.58	2.33

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.

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