

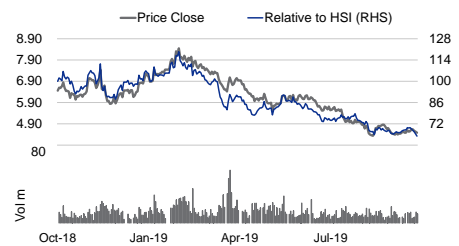
香港

增持 (此前为未评级)

市场共识评级*: 买入 8 持有 3 沽出 1

前收盘价:	HK\$4.48
目标价	HK\$5.89
此前目标价:	HK\$
上升/下跌空间:	31.5%
CGI / 市场共识:	-3.4%
路透股票代码:	0552.HK
彭博股票代码:	552 HK
市值:	US\$3,955m
	HK\$31,029m
平均每日成交额:	US\$5.67m
	HK\$44.43m
目前发行在外股数:	6,926m
自由流通量:	34.5%

*来源: 彭博



来源: 彭博

股价表现	1M	3M	12M
绝对表现 (%)	-3.9	-21	-30.7
相对表现 (%)	-4.1	-14.9	-36.1

主要股东

	持股百分比
中国电信集团有限公司	51.4
中国移动(香港)集团有限公司	8.8
中国联合网络通信集团有限公司	3.4

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中国通信服务
成功转型为综合智慧服务供应商

- 鉴于市场对公司前景的担忧, 中国通信服务(中通服)的股价自2019年3月以来持续受压。
- 我们认为, 市场忧虑和负面因素已大致反映, 而投资者已重置对公司的预期。
- 我们认为, 中国通信服务在软件方面的成就尚未得到市场的充分认可。我们认为, 这是股份获得重估的催化剂。该公司也是国企改革的受益者, 尽管进展略较预期为慢。
- 与设备制造商相比, 中通服的净利润增长似乎表现平平, 但公司是具有规模的防守性股份, 将受益于5G投资和中国投资IT的长远趋势。我们首次覆盖中国通信服务, 给予「增持」评级, 目标价为5.89港元, 基于12倍2019年市盈率, 接近历史平均, 并低于上市同业平均(同业包括基建及设计、无线设备以及IT服务)。

领先的电信基础设施服务供应商

中通服为电信运营商提供专业的电信支援服务。该公司提供电信基础设施服务(TIS), 包括设计、施工和项目监督与管理、业务流程外包服务(BPO)以及应用程序、内容和其他服务(ACO)。中通服是中国三大电信运营商(中国移动、中国电信和中国联通)和中国铁塔的服务提供商, 可帮助电信运营商建设基站、铺设光纤、维护网络等。

市场未充分意识到转型带来的好处

我们认为, 市场未充分意识到中通服在软件方面的成就, 因为投资者普遍仍将中通服视为建筑相关公司, 并认为其业务与运营商的资本开支紧密相关。中通服的ACO业务营业额在2013-2018年以13.1%的复合年增长率增长, 并在19年上半年同比增长21.6%, 与其他上市IT服务股的收入相比属于高水平。鉴于中通服的业务能力, 工业互联网和物联网等5G网络应用将为公司创造巨大的增长潜力。

国企改革是股价催化剂

中通服已被列入国企改革“双百企业”名单中, 管理层表示将借此机会通过内部改革(例如激励机制和提升企业管治)以及借着混合所有制引入战略合作伙伴来推动长远可持续增长。我们相信公司引进战略合作伙伴将有利其业务发展。

首次覆盖并予增持评级

中通服毛利率下降是部分由于公司决定通过建立生态系统和平台来扩展IT相关服务(在ACO业务之下), 例如智能解决方案、云计算和物联网。中通服一直积极控制其销售、一般及行政费用, 因此尽管毛利率受压, 其净利率仍保持稳定。与设备制造商相比, 中通服的净利润增长似乎表现平平, 但公司是具有规模的防守性股份, 将受益于5G投资和中国投资IT的长远趋势。一直以来, 市场未有充分意识到中通服在IT领域的成就, 但我们认为这是中长期的重估催化剂。

主要财务指标

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
收入(百万人民币)	94,572	106,177	118,443	133,186	150,506
经营EBITDA(百万人民币)	2,872	2,761	2,976	3,517	4,524
经营EBITDA利润率(%)	3.04%	2.60%	2.51%	2.64%	3.01%
净利润(百万人民币)	2,714	2,901	3,119	3,604	4,489
每股核心盈利(人民币)	0.39	0.42	0.45	0.52	0.65
每股核心盈利增长	7.0%	6.9%	7.5%	15.6%	24.5%
全面摊薄市盈率(倍)	10.34	9.68	9.00	7.79	6.25
每股派息(人民币)	0.14	0.15	0.14	0.16	0.19
股息率	3.48%	3.72%	3.33%	3.85%	4.80%
EV/EBITDA(倍)	4.19	3.83	3.37	2.42	1.40
股价/股权自由现金流(倍)	32.10	7.36	18.33	10.93	8.25
净负债权益比	(56.5%)	(54.1%)	(53.9%)	(54.3%)	(55.5%)
市净率(倍)	9.9%	9.6%	9.5%	10.4%	11.9%
股本回报率					
每股核心盈利预测的变动			1.00	1.02	1.10

来源: 中国银河国际证券研究部, 公司, 彭博

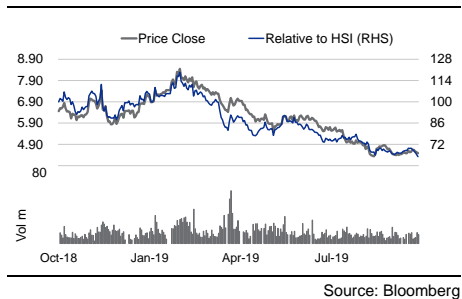
Hong Kong

ADD (previously NOT RATED)

Consensus ratings*: Buy 8 Hold 3 Sell 1

Current price:	HK\$4.48
Target price:	HK\$5.89
Previous target:	HK\$
Up/downside:	31.5%
CGI / Consensus:	-3.4%
Reuters:	0552.HK
Bloomberg:	552 HK
Market cap:	US\$3,955m
	HK\$31,029m
Average daily turnover:	US\$5.67m
	HK\$44.43m
Current shares o/s:	6,926m
Free float:	34.5%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-3.9	-21	-30.7
Relative (%)	-4.1	-14.9	-36.1

Major shareholders	% held
China Telecommunications Corporation	51.4
China Mobile Communications Group	8.8
China United Network Communications Group	3.4

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China Communications Services Corp

Transformed into an integrated smart services provider

- Shares of China Communications Services (CCS) have been under pressure since Mar 2019, given concerns about its outlook.
- We believe that the concerns and negatives have been somewhat priced in and that expectations have been re-set.
- CCS's achievements on the software side haven't been fully appreciated by the market. This is a re-rating catalyst, in our view. CCS is also a beneficiary of SOE reforms, even though progress is somewhat slower than expected.
- CCS's bottom-line growth doesn't look exciting compared to that of the equipment makers, but it is a sizable defensive name, which will also benefit from 5G investment and the secular trend of IT investment in China. We initiate coverage on CCS with an ADD rating and target price of HK\$5.89, based on 12x 2019F P/E, in line with its historical average and lower than the average of its listed peers, including infrastructure and design, wireless equipment, components, and IT services.

A leading telecommunications infrastructure services player

CCS provides specialized telecommunications support services for telecom operators. The Company offers telecommunications infrastructure services (TIS), including design, construction and project supervision and management, business process outsourcing services (BPO), and applications, content and other services (ACO). CCS is the largest service provider for the three Chinese telecom operators (China Mobile, China Telecom and China Unicom) and China Tower, helping telecom operators build base stations, lay fibre, maintain networks, etc.

Transformation not fully appreciated

We believe that CCS's achievements on the software side haven't been fully appreciated by the market, as investors still treat CCS as a construction play and regard its performance as being closely related to operators' CAPEX. CCS's ACO segment turnover grew at a CAGR of 13.1% in 2013–2018, and it reported yoy growth of 21.6% in 1H19, which is sizable compared with the top lines of other listed IT services names. 5G network applications, such as the industrial internet and IoT, will create huge market potential for CCS, given the Company's capability.

SOE reforms are a share price catalyst

CCS has been included in the "Double Hundred" candidate list for SOE reforms, and management said it will take this opportunity to drive long-term sustainable growth through internal reforms and mixed-ownership reforms to introduce strategic partnerships. The introduction of strategic partners will have a positive impact on the Company's business development.

Initiate with an ADD rating

The decline in CCS's gross margin was partly due to the Company's decision to expand IT-related services (under the ACO segment), such as smart solutions, cloud computing and IoT, by building up ecosystems and platforms. CCS has been actively managing its SG&A expenses, so its net profit margin has been stable despite its gross profit margin being under pressure. CCS's bottom-line growth doesn't look exciting compared to that of equipment makers, but CCS is a sizable defensive name, which will also benefit from 5G investment in China. CCS's achievements in the IT segment have not been really appreciated by market, but we believe this is a medium- to long-term re-rating catalyst.

Financial Summary	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue (Rmbm)	94,572	106,177	118,443	133,186	150,506
Operating EBITDA (Rmbm)	2,872	2,761	2,976	3,517	4,524
Operating EBITDA Margin	3.04%	2.60%	2.51%	2.64%	3.01%
Net Profit (Rmbm)	2,714	2,901	3,119	3,604	4,489
Normalised EPS (Rmb)	0.39	0.42	0.45	0.52	0.65
Normalised EPS Growth	7.0%	6.9%	7.5%	15.6%	24.5%
FD Normalised P/E (x)	10.34	9.68	9.00	7.79	6.25
DPS (Rmb)	0.14	0.15	0.14	0.16	0.19
Dividend Yield	3.48%	3.72%	3.33%	3.85%	4.80%
EV/EBITDA (x)	4.19	3.83	3.37	2.42	1.40
P/FCFE (x)	32.10	7.36	18.33	10.93	8.25
Net Gearing	(56.5%)	(54.1%)	(53.9%)	(54.3%)	(55.5%)
ROE	9.9%	9.6%	9.5%	10.4%	11.9%
% Change In Normalised EPS Estimates					
Normalised EPS/consensus EPS (x)			1.00	1.02	1.10

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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Investment Positives

A leading player in rising ICT demand in China

China Communication Services (CCS) is the largest integrated telecom infrastructure service provider in China. To reduce reliance on the telecom operators' CAPEX-sensitive TIS business, CCS has been transformed in several areas: a) increasing exposure to OPEX-related business, b) building up its software and IT-related business, and c) focusing on value creating, profitability and cash flow management. After over a decade's development, CCS is now equipped with strong capabilities in infrastructure construction, business process services, and software and content design.

CCS has transformed itself into an **integrated digital solutions provider**, and is expected to benefit from 5G roll-out and digitalization in China, given its expertise in different areas. CCS drives revenue growth from both the telecom and non-telecom industries. We believe 5G commercialization in China will extend CCS's strong revenue growth momentum. The 5G roll-out is expected to create new business opportunities for non-hardware names in the supply chain, as vertical group-oriented applications, such as VR/AR devices and digital transportation, are gradually introduced to the market.

The CAPEX of telecom operators is expected to resume growth in 2019F. According to guidance by telecom operators, the total 2019F CAPEX budget is Rmb302bn, up 5.2% yoy. China will enter its peak period for 5G network construction in next three years (2020F–2022F). And we note that governments at the provincial and even prefecture level have started to take a more proactive approach to 5G development. In addition to growth from 5G network construction, we believe the broad China ICT market presents increasing opportunities for telecom construction service providers. We expect to see increasing demand for telecom infrastructure upgrades, system integration and customized ICT solutions from the non-telecom operator segment, including government, transportation, manufacturing, healthcare, education, energy and utilities. CCS can provide one-stop solutions in design, construction and implementation for its customers. Over the next 3–5 years, we expect CCS to manage to maintain its dominant position in China's telecom market and to continue to benefit from the pick-up in CAPEX by telecom operators in 2019F–2021F owing to the 5G roll-out. CCS is also gradually unlocking the broad non-telecom market to capture more sustainable growth opportunities from increasing IT investment in China. Overall, we forecast that CCS's revenue will register a CAGR of 12.3% in 2018–2021F, accelerating from 5.6% in 2015–2018.

Figure 1: CAPEX of the Big Three telecom operators in China

	China Mobile			China Unicom			China Telecom		
	2018	2019F	yoy	2018	2019F	yoy	2018	2019F	yoy
CAPEX (Rmb bn)	167.1	166	-0.7%	44.9	58	29.2%	74.94	78	4.1%

SOURCES: CGIS RESEARCH, COMPANY DATA

Figure 2: CAPEX of telecom operators

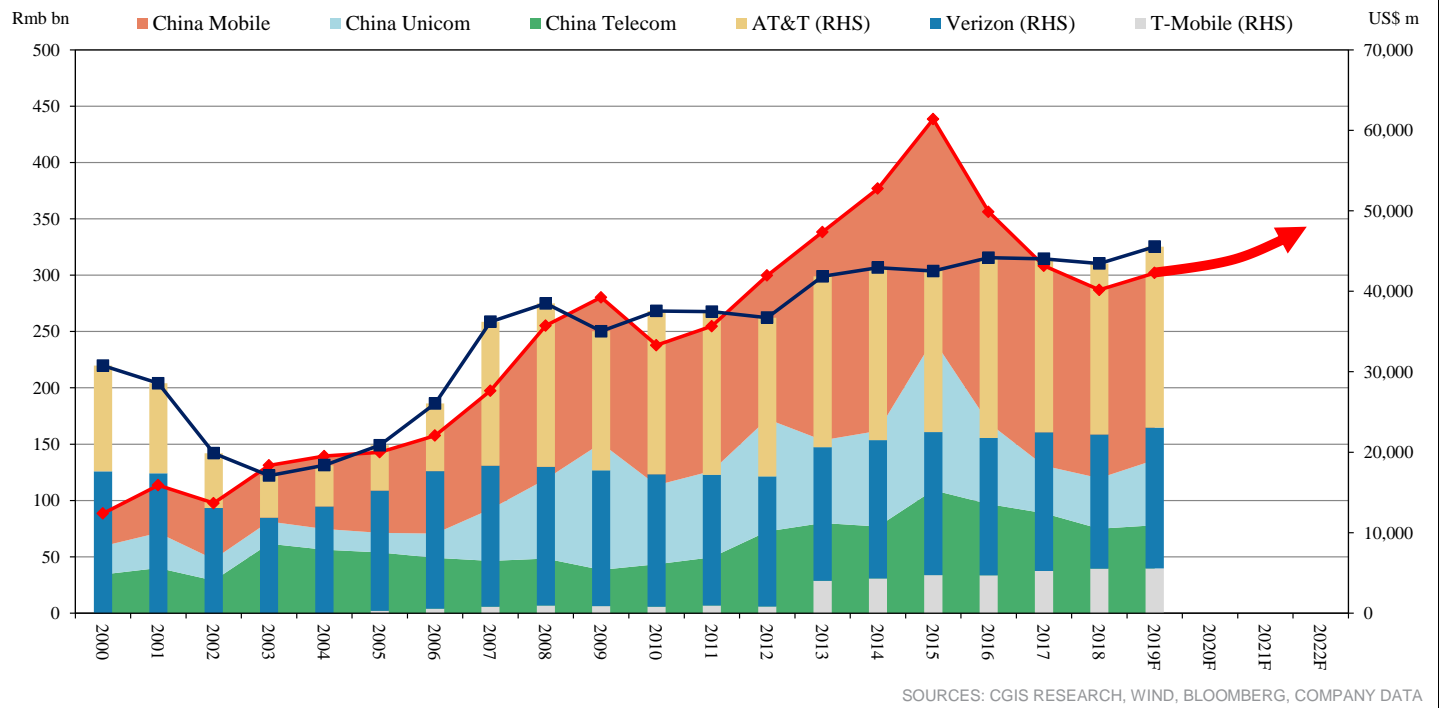


Figure 3a: Number of telecom base stations in China

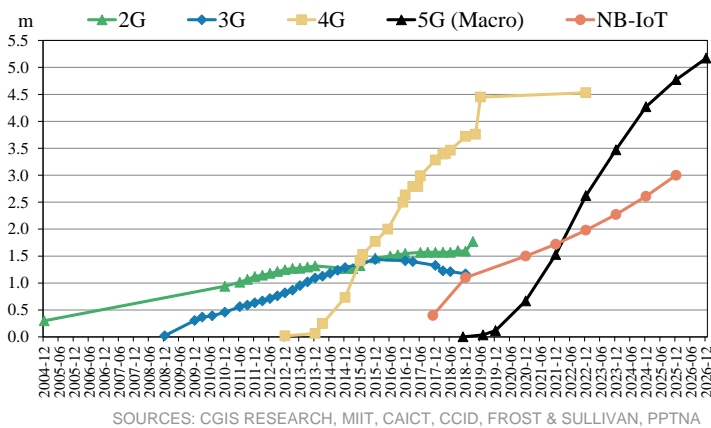
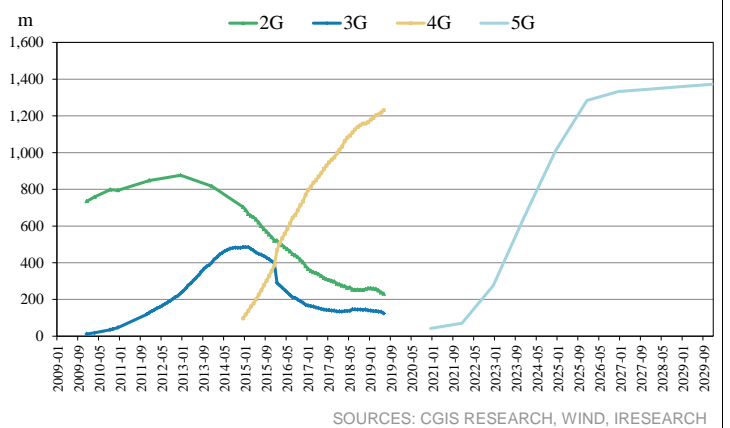


Figure 3b: Number of telecom users in China



Full value chain services to benefit from full CAPEX cycle

Investors used to treat CCS as one of the early telecom operator CAPEX plays, since the TIS segment was a major top and bottom line contributor. CCS has been transforming into a smart solutions provider, and the increasing contribution from the BPO and ACO segments has made CCS's operating performance become less cyclical and not purely reliant on the CAPEX cycle of telecom operators. CCS's business scope covers different parts of the value chain, including design, planning, construction, software development, system integration, and network/system operation and maintenance. To increase 2B business and accelerate the digital transformation process, telecom operators have established various specialized companies (i.e. telecom professional companies focusing on specific operational areas or customer groups) to provide business support, including online marketing, big data, customer services and customer experience. Benefiting from the urgent demand of telecom operators to develop this new business, telecom IT services companies such as CCS have extended their business and should continue to achieve steady growth. Extensive application scenarios in the 5G era mean new requirements for the existing network system of the operators, and network slicing will be needed, which will provide new opportunities for the telecom non-hardware industry. There will be expansion into non-telecom businesses resulting from digitalization and the deepening of ICT. Compared with other vendors, CCS is a solution provider with a nationwide footprint and a centralized platform, which enables the Company to offer turnkey solutions for complicated, large-scale projects, which have high entry barriers.

Figure 4: CCS's smart solutions architecture

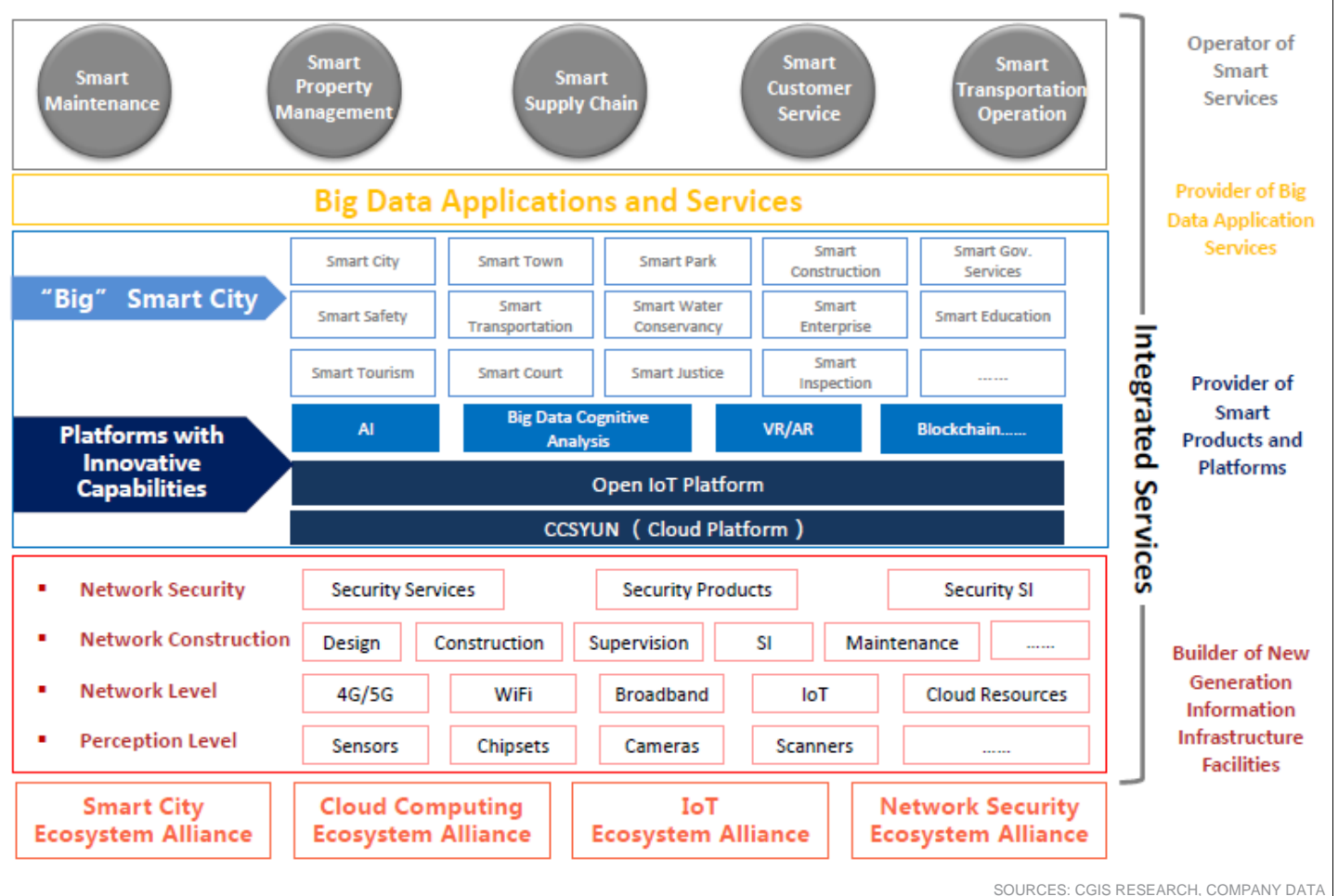
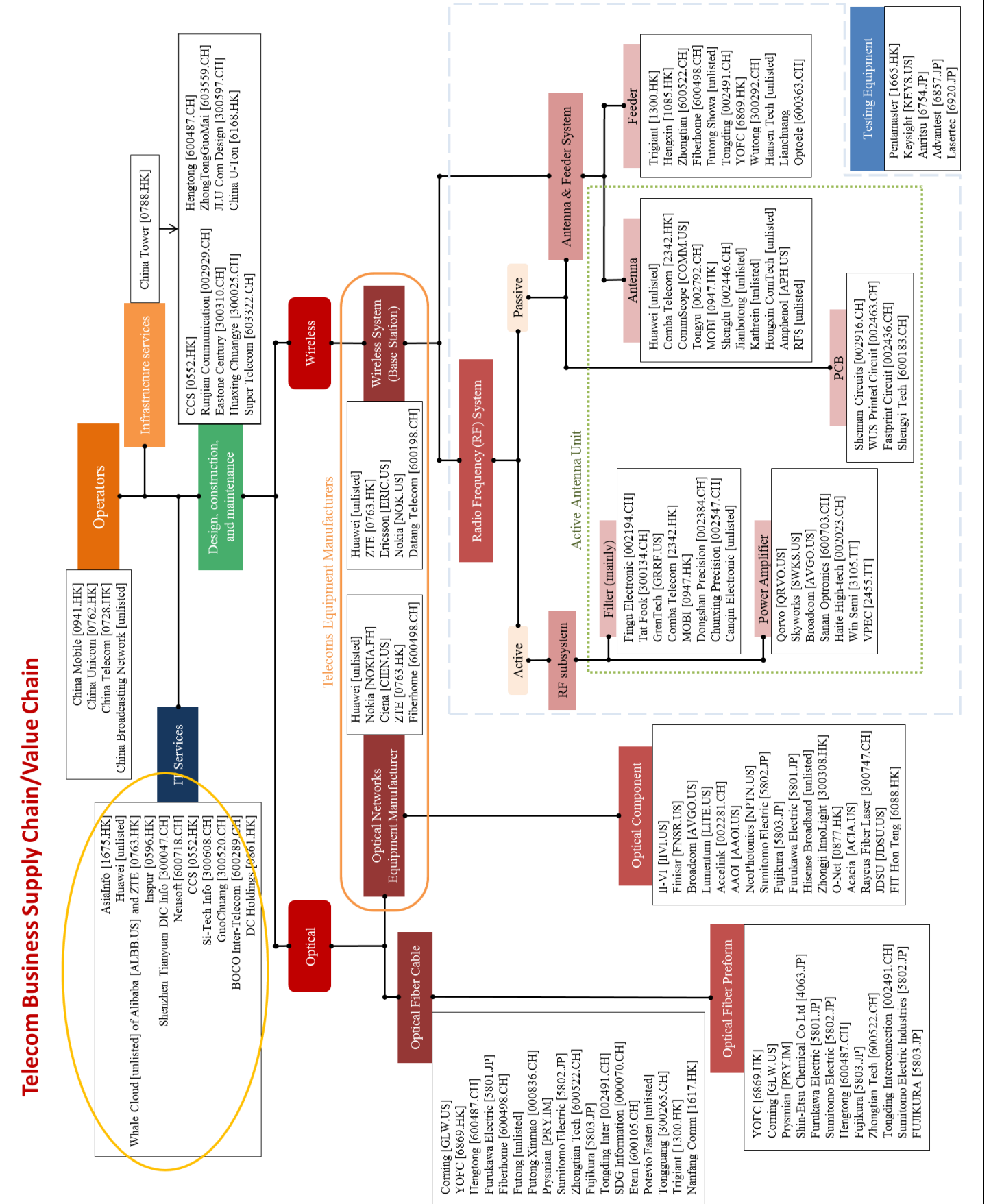


Figure 5: Telecom supply chain


SOURCES: CGIS RESEARCH, COMPANY DATA

Growth drivers remain intact

We believe CCS's operating results in the past several years are proof of the Company's identification of clear new growth drivers that will offset a potential TIS revenue decline because of the cuts in telecom operators' CAPEX at the end of the investment cycle. CCS's business from local telecom operators continued to grow in the past several years owing to a shift from CAPEX- to OPEX-driven business. Although domestic telecom operators reduced their CAPEX in the past several years, CCS maintained steady growth in its TIS business by gaining market share with different customers, especially China Mobile and China Unicom. CCS has focused on opportunities arising from OPEX and continuous maintenance outsourcing from domestic telecom operators, resulting in its network maintenance business maintaining favourable growth. Owing to its CAPEX-related business nature, CCS is expected to be one of the early beneficiaries of 5G investment in China.

We share the view that the market has concerns about the growth outlook for CCS, given the co-build and co-share agreement between China Telecom and China Unicom. However, we maintain the view that CCS can offset any impact from the potential reduction in CAPEX through market share gains. The Company should benefit from non-telecom operators' 5G-related investment in IoT, IoV, etc., so the 5G-related growth phase will be much longer than previously expected. One of the major concerns about CCS is the decline in gross margin. However, owing to tight cost control and improvements in efficiency, CCS has maintained its net profit margin well in the past several years. Net profit has been growing in line with turnover growth despite a yoy decline in the gross margin. CCS's ACO segment turnover grew at a CAGR of 13.1% in 2013–2018, and it reported yoy growth of 21.6% yoy in 1H19. The ACO segment reported turnover of Rmb13,714m in 2018, which is sizable compared with the top lines of other listed IT services names. 5G network applications, such as the industrial internet and IoT, offer huge market potential for CCS, given the Company's capability.

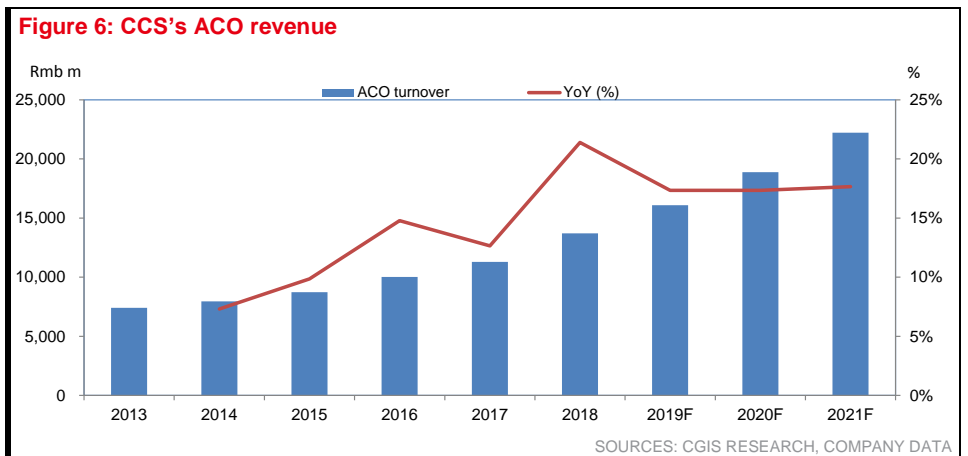


Figure 7: Turnover of China's software industry

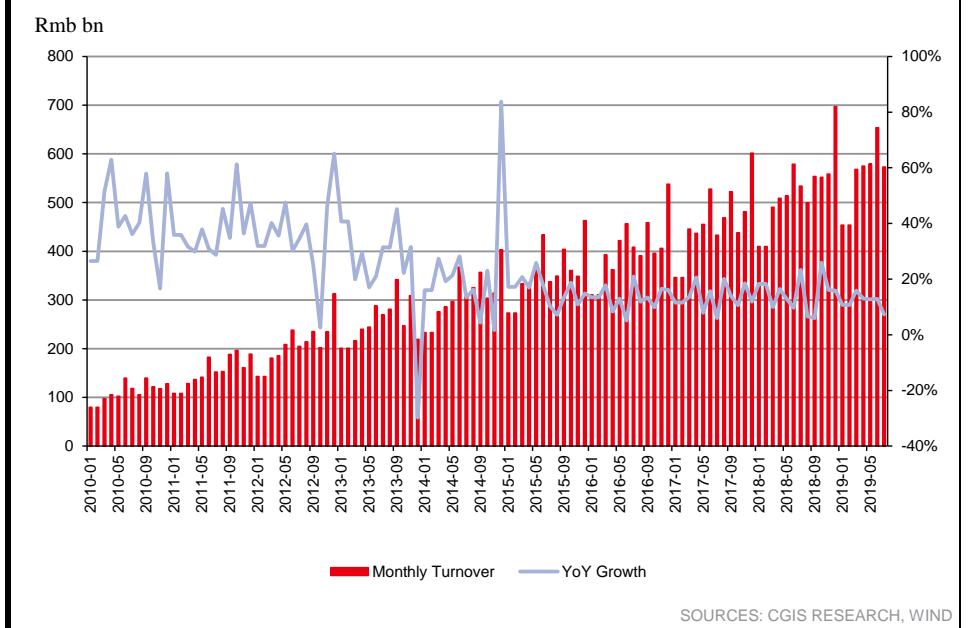
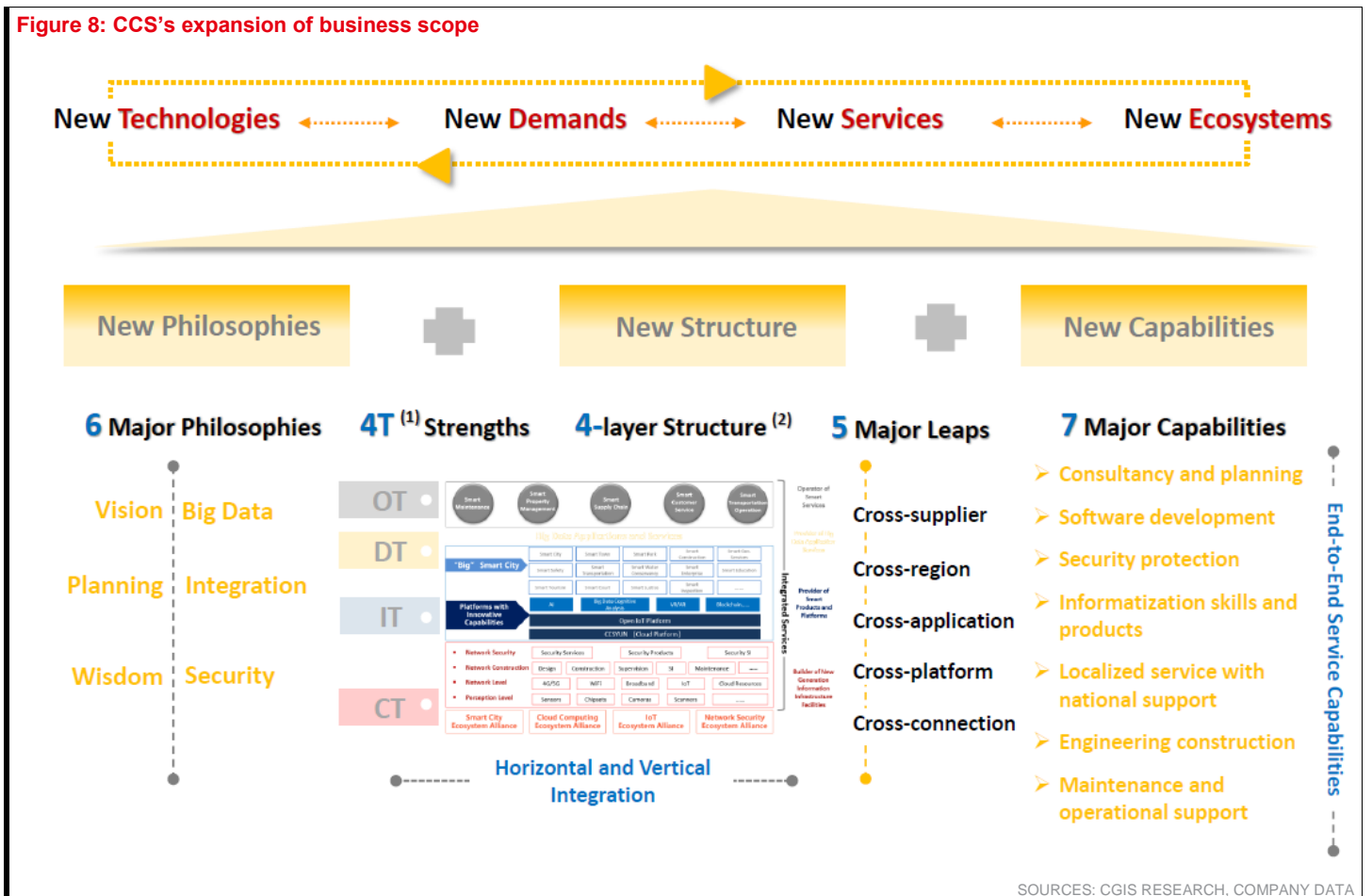


Figure 8: CCS's expansion of business scope



SOE reforms are a share price catalyst

The central government intends to push forward the Digital Transportation informatization process in China in the coming years, which offers significant opportunities for the development of ICT in key sectors, such as government, electricity, transportation, online security, and public healthcare. As a result, local government ICT spending at the provincial, city, and country levels should all ramp up; and we believe CCS is best positioned to benefit from this.

As an SOE (state-owned enterprise) with expertise in the software industry, CCS has an advantage over its peers in winning projects from government and other large SOEs, given the increasing localization trend. CCS is competitive, as it can offer total solutions and is in a strong financial position. CCS also has a good track record in project management in our view.

CCS has been included in the “Double Hundred” candidate list for SOE reforms, and management said CCS will take this opportunity to drive long-term sustainable growth through internal reforms (e.g. an incentive scheme for management and better corporate governance) and mixed-ownership reforms to introduce strategic partnerships. We share the view that the progress of its SOE reforms is somewhat slower than expected. However, based on our understanding, CCS management remains committed to SOE reforms, and we believe the introduction of strategic partners will have a positive impact on the Company’s business development.

Strong capital position

In 2018, CCS had net cash of Rmb17.1bn on its balance sheet, and generated Rmb4.6bn in operating cash flow. Construction requires a large amount of working capital, so its strong cash position stands out as a differentiator. CCS’s cash position is one of the highest among its peers, and the Company can easily obtain bank loans at a low interest rate from large Chinese banks. We expect CCS to maintain its payout ratio in coming years, and the historical yield is about 3.7%.

Business

1) Telecom Infrastructure Services (TIS) Services

CCS is the largest telecommunications infrastructure services provider in China. Through its TIS segment, CCS provides (a) design, (b) construction, and (c) project supervision and management for wireless, wireline, broadband networks and support systems. This segment is the largest top-line contributor to CCS.

The major customers of CCS's TIS segment are local and overseas telecom operators. The TIS segment is CAPEX sensitive and has been highly correlated with telecom operators' CAPEX. Local non-operators are becoming increasingly important to CCS as corporations from various sectors, including government, transportation, energy utilities and financials, are implementing ICT projects.

a) Design services

(i) The design services offered to telecom operators include field survey and design, network planning, network optimization, operation consultancy and technology consultancy services. (ii) The design services offered to non-telecom operators include architectural design, intranet design and IT solution services.

b) Construction services

(i) The construction services offered to telecom operators include laying and installing duct and cable networks for communications systems, civil engineering works, the construction of auxiliary infrastructure, and the installation, adjustment and testing of communications equipment and telecommunications network optimization. By providing construction services, CCS helps telecom operators expand network capacity and coverage to meet their fast-growing business needs. (ii) The construction services offered to non-telecom operators include ancillary communications networks, integrated solutions for informatization, smart solutions for industry intelligentization, and other turnkey services.

c) Project supervision and management services

Project supervision and management services include communications project supervision, civil engineering project supervision, project management, and tender agent services, covering all stages and aspects of a project, which can effectively help customers control the quality, progress, cost and security of related projects.

Its principal customers are telecom operators and large corporate customers, such as Huawei Technologies and ZTE Corporation.

2) Business Process Outsourcing (BPO) Services

CCS is the largest integrated provider of business process outsourcing services in the communications industry in China. Through its BPO segment, CCS provides a) network maintenance, b) facilities management, c) supply chain, and d) products distribution. BPO is an OPEX-driven business, which is benefiting from corporate outsourcing.

a) Network maintenance

Telecom operators and enterprises normally outsource their network maintenance activities. CCS offers maintenance and repair services for telecom networks and enterprise intranet services for telecom operators and corporate customers, including the maintenance of telecom pipelines, fibre optic cables, electric cables, and telecom-related physical premises, base stations, communications equipment rooms and telecom terminal equipment.

Network maintenance is the largest top-line contributor to the BPO services segment, accounting for 54.0% of BPO segment revenue in 2018.

b) Facilities management

CCS provides facilities management services (management, maintenance and security) for telecom operators, government agencies and corporate customers for their communications premises, equipment rooms, office buildings, high-end residential buildings, commercial buildings, data centres, cloud computing bases, high-speed railway stations, airports, etc.

c) Supply chain

Since 2016, CCS has sub-divided the former “distribution of telecommunications services and products business” into its “supply chain business” and “product distribution business”, which highlights the importance and development plan of the supply chain business.

CCS provides logistics, transportation, warehousing, procurement agency, inspection, value-added, distribution, wholesaling, import and export agency services, and auxiliary services along the supply chain to customers from different industries. CCS has established a preliminary all-process, network-wide integrated operation system. Economies of scale have started to emerge, and the service capability has been improved through enhanced synergistic operations. CCS will continue to enhance the synergistic operation of its general facilities management and supply chain businesses and build capabilities in its network through the construction of a unified IT platform and the establishment of unified standards.

In 2016, the Group announced a new brand of distribution business, called “中通福” and set up 92 distribution chain stores for distribution of smartphone devices. The number of the distribution chain stores increased to 213 in 2017. CCS intends to develop “中通福” as a core distributor recognized by operators and a large nationwide chain store recognized by consumers.

d) Products distribution

The products distribution service is not a core BPO service. Products distribution refers to (i) the provision of distribution terminals and device distribution services for domestic telecom operator customers, and (ii) the provision of distribution and procurement services for IT devices, auxiliary machinery, and equipment for domestic non-telecom operator customers.

The products distribution division has the lowest gross margin of all the business segments. CCS has been managing the products distribution segment to control the side effects (margin dilution and high working capital). This segment’s share of BPO revenue dropped to 8.9% in 2019 from 32.2% in 2016.

3) Applications, Content and Other (ACO) Services

Through the ACO segment, CCS provides a) system integration, b) software development and system support, c) value-added services, and d) others. ACO Services is a growth driver for CCS. The Company has leveraged its expertise in TIS and BPO to become a smart solutions provider for companies in different industries.

Starting in 2013, CCS adjusted its ACO business classification in accordance with its business development focus on three types of domestic non-operator customers – government, key industries and SMEs – to develop large-scale turnkey projects, such as “Smart City” projects, industrial solutions and operation outsourcing projects.

a) System integration

CCS provides system integration services (including network systems integration, business integration and applications integration) for telecom

operators, information and media operators, government, and other corporate customers, including network, weak electricity, and integration services for information systems, intelligent systems and computer systems.

b) Software development and system support

CCS provides software development and system support services for telecom operators and non-telecom operators, including the development and construction of OSS, BSS and MSS, and also various software development services for business activities covering e-commerce, mobile payment, security systems, positioning systems, video systems, etc. The Company also provides IT system support and maintenance, and technical support services for telecom operators and non-telecom operators.

c) Value-added services

The “value-added services” item include some services from the former “voice value-added services” item (e.g. call center outsourcing service) and former “internet services” item (Internet Service Provider (ISP) access service, Internet Content Provider (ICP) content service) and other value-added services. The major scope of services includes video phone calls and video conference connections, Internet information, video, games, e-commerce authentication services, etc.

Smart Products portfolio

Regarding informatization and digitalization solutions, CCS’s key areas of focus are government, transportation, construction, Internet and IT, electricity, SMEs, and many other industries and sectors. Currently, there are more than 30 group-level smart products in CCS, up from 8 as at the end of 2018.

Smart City. To bolster precise city management and urban services, and the modernization of urban governance through effective integration and resource sharing of city information, CCS uses Smart City top-level design as the entry point to build a Smart City Big Data Platform, city operation management platform and smart applications that allow flexible disassembly and reorganization.

CCS was an early mover in the Smart City business in China. The Company has a sizable team of consultation experts in the Smart City field, and has a complete service portfolio in top-tier design consultancy, including Smart City integrated planning, specialized planning, top-tier design and execution planning. Its Smart City projects are led by top-tier design, and leverage the CCS Smart City product portfolio. CCS has capabilities to execute complex and professional system integration, and possesses rich practical experience.

Smart Park. CCS provides integrated turnkey solutions for the informatization and construction of smart parks, including consultation, planning, construction, operation and maintenance. Based on a co-sharing platform, CCS provides unified management and differentiated services for smart parks with marketing, management and services the three main integrated application systems. It has developed a Smart Park comprehensive management platform and has been running various applications, including integrated park management, a mobile tourist guide, a touch-screen tourist guide, a 3D online virtual park, and emergency command. Utilizing Big Data generated within the park, analyses can be conducted on park operations, public opinion monitoring, tourist consumption patterns, tourist traffic flow, park environment, etc.

Smart Construction. Leveraging the CCS Smart Construction management platform as the core, CCS offers integration and interconnection among independent building equipment systems, and automation systems of office, security, fire protection, communications, etc. to provide visualized management, operation and service.

CCS’s Smart Construction management platform provides specific functions, including centralized equipment monitoring, centralized alarm management,

overall property management, smart equipment dispatch, integrated property management, integrated operation and maintenance management, and energy consumption management and analysis, which help its customers improve the overall efficiency of their construction projects.

Smart Highway. By integrating frontier technologies, CCS developed a new generation Smart Highway operation and management platform, which has full capabilities in three major highway informatization areas: surveillance, tolls, and maintenance and operation. Through massive real-time data collection and intelligent analysis, it helps highway operators enhance the capabilities of emergency command and dispatch, operation surveillance management, and public travel services.

Smart Town. Leveraging IoT, Big Data and other technologies, CCS successfully constructed the Smart Town comprehensive Big Data management platform and realized five applications: landscape protection, hazard warning, river and water quality protection and monitoring, grid and pipe network, and resource management in towns. Through a combination of platform + application + services, it provides comprehensive Smart Town solutions.

Leveraging smart hardware and facilities, CCS helps enhance the management capabilities of towns by developing smart cloud booths, smart sewage covers and smart light poles, constructing WiFi networks, etc.

CCS Cloud. Based on industry-leading private/hybrid cloud integrated solutions, CCS provides integrated cloud services, covering cloud construction, cloud migration and cloud management, as well as cloud platform products for its customers. Downstream, CCS effectively manages and utilizes cloud computing infrastructure, while upstream, it provides a variety of components and integrated services for software applications.

Open IoT Platform. The Open IoT Platform supports smart applications and can be connected to intelligent devices. It allows data sharing within the platform and enables the establishment of an open, cooperative, win-win ecological chain. The platform opens up to terminals and application vendors, and provides comprehensive, standardized support services through smart services.

Big Data Platform. Leveraging efficient Big Data analysis and mining technologies, CCS covers the full process of data source access, data storage, data processing, data analysis, performance visualization, etc., and provides customers with one-stop Big Data analysis and application solutions.

CCS Network Security Solution. CCS meets the security needs over the full life cycle in informatization construction by providing integrated network security solutions covering both services and products for its telecom operator, government and industrial customers.

Figure 9: Signature projects of CCS's non-telecom operators business



Company Overview

CCS was formed in Aug 2006 as a joint stock company with limited liability. As part of its restructuring, China Telecom transferred its specialized telecommunications support businesses in Shanghai, Zhejiang, Fujian, Hubei, Guangdong and Hainan provinces to CCS in 2006. On 8 Dec 2006, CCS H-shares were listed on the HKEX. CCS further consolidated its construction operations in another 13 provinces in 2007.

CCS primarily provides telecom infrastructure design and construction services, infrastructure maintenance, facilities management, product distribution, and software and application services to both telecom operators and non-operators. CCS also provides services in overseas markets. Currently, China Telecom has a 51.39% stake in CCS and is the single largest shareholder. China Mobile Group and China Unicom Group hold 8.8% and 3.4% stakes in CCS, respectively, as a result of share transfers from China Telecom to the two operators. Public shareholding is 34.53% after a rights issue in 2012. China Telecom is CCS's largest customer, accounting for over 40% of turnover in 2018. Revenue from non-operators, including governments, large corporates in different sectors, and overseas customers, accounted for 34.3% of total turnover in 2018.

CCS offers integrated comprehensive solutions in the field of informatization and digitalization: a) telecommunications infrastructure services, including design, construction, and project supervision and management; b) business process outsourcing services, including management of infrastructure for information technology (network maintenance), general facilities management (facilities management), supply chain and product distribution services; and c) applications, content and other services, including system integration, software development and system support, and value-added services. The Company is the market leader in terms of service capabilities, including business integrity, operational scale and professionalism. CCS provides integrated services covering the key activities in the value chain of telecom operators.

CCS also provides services to domestic non-telecom operator customers, including government agencies, industrial customers and SMEs, as well as overseas customers. Its service coverage is spread across the nation, and it has extended its business to dozens of countries and regions around the world. The Company's overseas customers are located mainly in Africa, the Middle East, and Southeast Asia.

Earnings Forecast

We estimate that CCS's turnover will grow 11.6%, 12.4% and 13.0% in 2019F–2021F, respectively. Major drivers include a) faster TIS turnover growth, owing to 5G-related construction and network maintenance; b) growth in non-operator business, including local governments, downstream applications based on 5G networks; and c) continued outsourcing by telecom operators and major corporations. We believe that CCS will continue to increase its market share in the China Mobile and China Unicom CAPEX market, and that we are unlikely to see a keen competitor emerge in the short term. We expect annual growth of TIS revenue to increase to 12.2% in 2019F–2021F, up from 11.4% in 2018. Regarding BPO services, network maintenance will likely be a growth driver. We estimate 14.8%, 14.8% and 14.9% yoy growth for BPO revenue (excluding product distribution) in 2019F–2021F, respectively. We believe ACO will report turnover growth of 17.3%–17.7% yoy in 2019F–2021F owing to strong increasing demand from both telecom operator and non-telecom operator clients.

CCS has been actively managing its SG&A expenses, so its net profit margin has been stable despite its gross profit margin being under pressure. Going forward, we expect CCS's gross profit to improve in the coming years, as the Company will be able to leverage its expertise and network after several years of development.

We expect CCS's SG&A expenses to surge 7–13% in 2019F–2021F as the company scales up and expands into new markets. In recent years, CCS has managed to contain SG&A yoy growth to the low single digits, slower than turnover growth. Among the three line items included in SG&A, sales expenses fluctuate the most because of the need to penetrate new business segments, especially ACO-related business.

We expect CCS to report net profit growth of 7.5%, 15.6% and 24.7% in 2019F–2021F, respectively, given the acceleration of turnover growth, margin improvement and tight cost control.

CCS adopted an asset-light business model, so annual CAPEX has remained low. We estimate a moderate and stable increase in CAPEX going forward, in line with revenue growth. CCS is expected to maintain its net cash position over our forecast period in 2019F–2021F.

CCS paid out 36% (30% for the final dividend and 6% for the special dividend) of its yearly net profit in dividends in 2017 and 2018. We conservatively assume a payout ratio of 30% in 2019F–2021F. CCS had over Rmb13bn in cash on hand as at end-1H18. However, we may not see further special dividend payments, as the early years of 5G may require more cash for working capital.

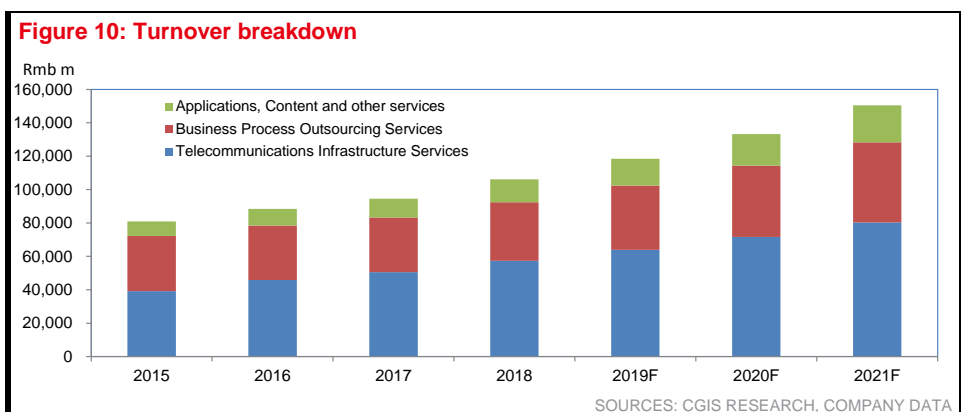
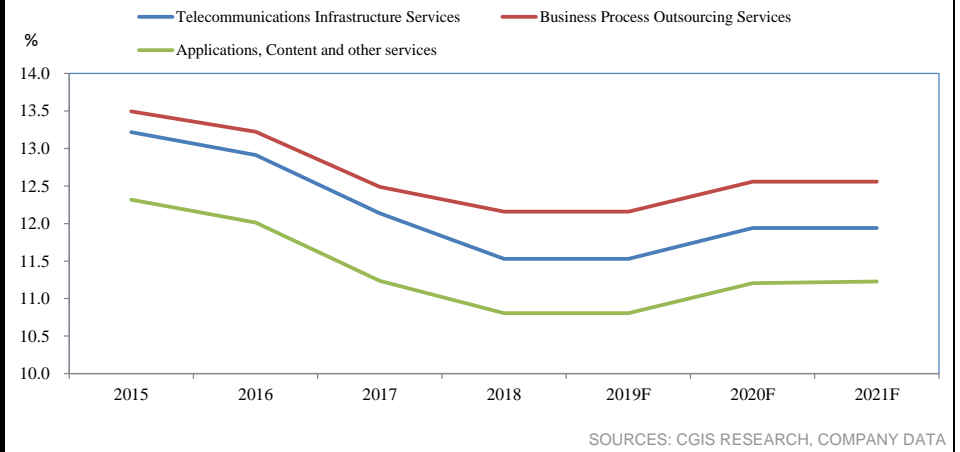


Figure 11: Gross profit margin trend

Figure 12: Assumptions

	2014	2015	2016	2017	2018	2019F	2020F	2021F
Turnover (Rmb m)								
Telecommunications Infrastructure Services	34,008.1	39,209.3	45,887.0	50,511.0	57,359.4	63,874.8	71,656.4	80,387.0
Business Process Outsourcing Services	31,215.4	33,014.0	32,533.6	32,763.7	35,102.8	38,475.3	42,646.0	47,901.2
Applications, Content and other services	7,952.8	8,736.6	10,028.8	11,297.7	13,714.4	16,092.6	18,883.2	22,218.0
Total	73,176.3	80,959.9	88,449.4	94,572.4	106,176.6	118,442.7	133,185.7	150,506.2
YoY Change (%)								
Telecommunications Infrastructure Services		15.3	17.0	10.1	13.6	11.4	12.2	12.2
Business Process Outsourcing Services		5.8	(1.5)	0.7	7.1	9.6	10.8	12.3
Applications, Content and other services		9.9	14.8	12.7	21.4	17.3	17.3	17.7
Total		10.6	9.3	6.9	12.3	11.6	12.4	13.0
Gross margin (%)								
Telecommunications Infrastructure Services		13.2	12.9	12.1	11.5	11.5	11.9	11.9
Business Process Outsourcing Services		13.5	13.2	12.5	12.2	12.2	12.6	12.6
Applications, Content and other services		12.3	12.0	11.2	10.8	10.8	11.2	11.2
Total		13.2	12.9	12.1	11.6	11.6	12.0	12.0
Net margin (%)								
	2.9	2.9	2.9	2.9	2.7	2.6	2.7	3.0
Cost (Rmb m)								
S,G&A		(9,415.3)	(9,596.7)	(10,011.7)	(10,784.8)	(11,497.1)	(12,698.2)	(14,348.5)
Financial Expenses		(51.4)	(46.7)	(47.1)	(25.2)	(28.0)	(31.5)	(35.5)
YoY Change (%)								
S,G&A			1.9	4.3	7.7	6.6	10.4	13.0
Financial Expenses				1.0	(46.6)	11.3	12.2	12.8
CAPEX (Rmb m)								
		467.1	465.6	604.1	543.4	624.9	718.6	826.4

SOURCES: CGIS RESEARCH, COMPANY DATA

Risks

The Company relies substantially on its telecom operator customers, deriving a significant portion of its revenue from them. Although the company is expanding its non-telecom operator business, it still relies substantially on its telecom operator customers. This continued reliance means that factors that could affect demand from these customers for the Company's services could adversely affect its business, results of operations and financial condition. These factors could include, for example, a) the deepening of co-building and co-sharing agreements between China Telecom and China Unicom that would reduce their 5G CAPEX; b) the ability and willingness of each of these customers to fund CAPEX; and c) any move on their part to develop in-house capabilities to undertake services that the Company currently provides to them.

The growth of the telecommunications industry in China may be slower than expected. Demand for the Company's products and services depends on the level of activity in the telecommunications industry in China. Any slowdown in the growth of, or a decline in, demand for telecommunications services provided by telecom operators may result in a reduction in demand for the Company's products and services. Any trend towards an increase in competition in the telecommunications industry in China may put downward pressure on prices of the Company's products and services, and consequently, on its revenue.

Increasing competition in any of its business areas may reduce the Company's profit potential. The Company may face increasing competition in its three main business areas. For example, its key customers may have affiliated entities providing telecommunications network design and construction services. China Tower, a major customer, may use its own personnel to conduct more outsourcing construction and maintenance for telecom operators. Should the Company's customers choose to develop their affiliated entities or outsource more orders to other competitors, this could adversely affect demand for the Company's services.

The growth driver transformation may be below expectations. In 1H19, the Company put forward its new positioning as "New Generation Integrated Smart Service Provider" to develop the domestic non-telecom operator market, by providing customers with integrated comprehensive solutions that support their informatization construction and create value for customer development. The Company wants to adapt to the trend of the digital economy to achieve growth transformation. Any factors that harm the Company's ability to successfully execute the transformation strategy will weaken its competitiveness.

Slower-than-expected market appreciation of the Company's transformation. In 1H19, revenue from the domestic non-telecom operator market accounted for 37.6% of the Company's total revenue, contributing 88.8% of total incremental revenue for 1H19. The Company is focusing on the domestic non-telecom operator market and is effectively leveraging its smart products and integrated solutions to realize rapid revenue growth in this market. However, the market hasn't fully appreciated the Company's achievements on the software side, and still regards the Company solely as a telecommunications infrastructure provider, which has capped its stock price.

SOE reforms may not meet expectations. The Company was included in the list of State-owned Enterprise Reform "Double-hundred Action" by the SASAC in Aug 2018. Although management reiterated that it will actively push ahead with reforms to improve corporate governance, progress has been somewhat slower than expected. There is no guarantee that the SOE reforms will meet expectations.

Valuation

We initiate our coverage of CCS with an ADD rating and a target price of HK\$5.89, based on a target 2019F P/E of 12x. Our target P/E is slightly higher than its historical average of 11x, but lower than the average of HK and China software and 5G names. This is supported by its earnings CAGR of 15.7% for 2018–2021E. Our target P/E for CCS is at a discount to the average of its listed peers. CCS's peers include Chinese telecom services providers, such as China Mobile, China Unicom, China Telecom and China Tower; telecom equipment suppliers, such as ZTE [0763.HK] and Comba [2342.HK]; and non-hardware names, such as Asialfno [1675.HK], Tianyuan DIC and BONC.

Shares of CCS have corrected since the peak in Mar 2019 owing to: a) concerns about its margin trend, and b) news flow on the co-build and co-share agreement between China Unicom and China Telecom. We believe that the concerns have been priced in. We believe that the potential positive impact from 5G and the continuous growth of ACO business have not been fully appreciated by the market. A successful self-transformation in the coming 1–2 years will trigger a further re-rating. Compared with more traditional construction companies, CCS has been trading at a premium for a rather long time. One of the key reasons is the Company's exposure to the IT segment. CCS also has a stronger balance sheet in terms of its net cash position. CCS faces less regulatory risk regarding its revenue growth compared with the telecom operators.

Figure 13: CCS P/E band

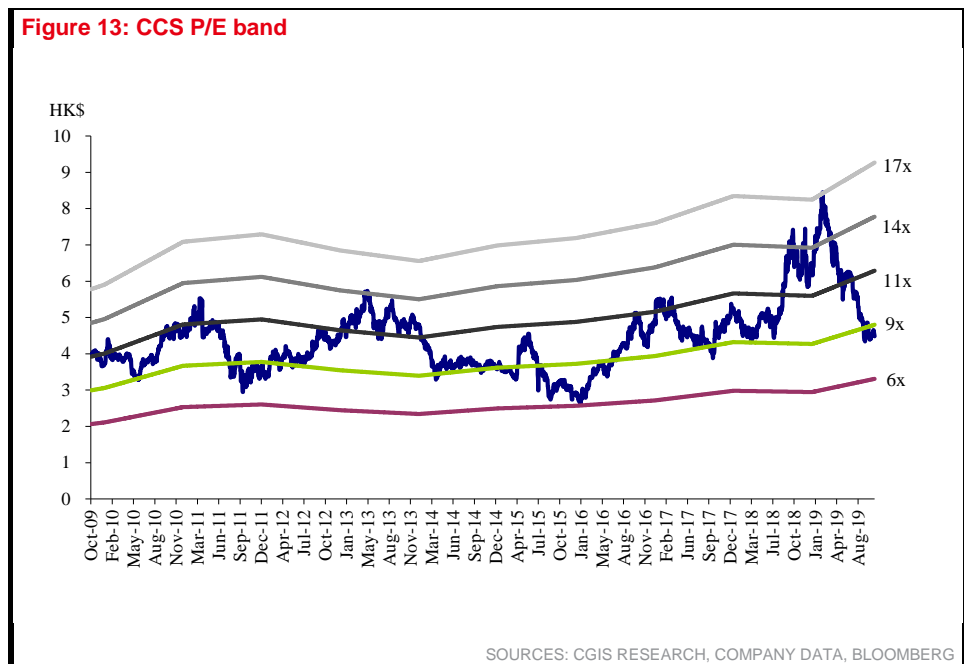
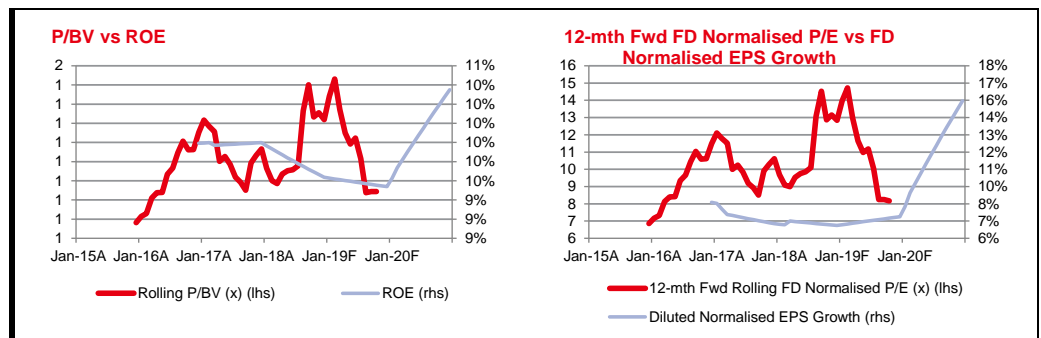


Figure 13: Peer comparison

Sector	Ticker	Company	Price Lcy	Market Cap US\$m	PE		EV/EBITDA		P/B		ROE		ROA		Div yield		Share price performance			
					2019F x	2020F x	2019F x	2020F x	2018 x	2019F x	2018 %	2019F %	2018 %	2019F %	2018 %	2019F %	5D %	1M %	YTD %	
Operators	941 HK	China Mobile Ltd	66.05	172395.2	11.0	11.0	3.1	3.0	1.1	1.1	11.6	10.0	6.7	6.8	4.3	4.8	1.3	0.1	-12.3	
	762 HK	China Unicom Hong Kong Ltd	8.32	32451.6	17.7	13.3	2.5	2.3	0.7	0.7	3.3	4.1	2.0	2.3	n.a.	2.3	-1.4	0.1	-0.5	
	728 HK	China Telecom Corp Ltd-H	3.58	36933.7	11.8	11.1	3.2	3.1	0.8	0.7	6.3	6.4	3.1	3.5	7.3	3.6	-0.6	-1.1	-10.5	
	6823 HK	Hkt Trust And Hkt Ltd-Ss	12.48	12045.6	18.2	17.5	10.5	10.3	2.6	2.5	12.8	13.9	5.3	5.3	5.5	5.6	0.6	-2.2	10.6	
	315 HK	Smartone Telecommunications	6.92	988.7	12.6	13.7	4.3	4.2	1.5	1.5	13.1	11.8	6.4	7.8	5.6	6.0	3.6	-0.7	-20.3	
	215 HK	Hutchison Telecomm Hong Kong	1.47	903.0	19.1	19.9	1.8	1.8	0.6	0.6	2.5	2.6	2.4	2.3	4.2	4.0	10.5	5.8	-33.9	
	8 HK	Pccw Ltd	4.51	4438.0	42.5	33.7	7.0	6.8	2.2	2.3	4.9	5.7	0.9	1.0	7.0	7.1	1.3	3.2	0.0	
	1883 HK	Citic Telecom International	2.85	1328.4	9.9	9.4	7.3	7.0	1.2	1.1	11.0	11.4	5.3	6.5	6.7	6.8	3.6	-3.1	3.6	
		Average			17.9	16.2	4.9	4.8	1.3	1.3	8.2	8.2	4.0	4.4	5.8	5.0	2.4	0.3	-7.9	
		788 HK	China Tower Corp Ltd-H	1.71	38366.1	51.4	33.5	7.7	7.0	1.5	1.5	1.7	2.9	1.2	1.7	n.a.	1.0	-2.3	-8.1	15.5
Infrastructure & Design	552 HK	China Telecom Services Servi-H	4.48	3955.3	9.0	7.8	3.4	2.4	0.8	0.8	9.5	10.4	3.6	3.8	3.3	3.9	-1.5	-3.9	-30.5	
	6168 HK	China U-Ton Holdings Ltd	0.29	77.9	n.a.	n.a.	n.a.	n.a.	4.8	n.a.	-92.1	n.a.	-20.4	n.a.	0.0	n.a.	20.3	-3.3	-67.8	
	002929 CH	Runjian Co Ltd - A	27.08	844.6	20.8	16.4	n.a.	n.a.	2.2	n.a.	10.8	9.9	4.8	6.6	n.a.	n.a.	-2.8	-4.4	-17.1	
		Average			27.1	19.3	4.9	4.5	2.3	1.1	-17.5	7.4	-2.7	4.0	1.6	2.4	3.4	-4.9	-25.0	
		COMM US	Commscope Holding Co Inc	11.40	2212.8	5.5	4.8	10.2	8.9	1.6	1.3	8.2	23.6	-2.6	3.8	0.0	0.0	6.1	-8.9	-30.4
Antenna and RF	APH US	Amphenol Corp-CI A	98.78	29381.9	27.6	24.9	17.1	15.9	7.1	7.4	30.1	26.4	12.0	11.0	0.9	0.9	4.0	3.9	21.9	
	2342 HK	Comba Telecom Systems Holdin	1.77	559.5	28.5	12.8	23.4	9.7	1.3	1.2	-4.9	3.8	-1.0	1.2	0.6	0.5	-1.7	-2.2	37.2	
	002792 CH	Tongyu Communication Inc-A	26.65	1272.1	63.5	31.8	38.3	21.9	4.5	4.4	2.3	5.8	1.8	3.7	n.a.	n.a.	-1.9	-4.1	30.6	
	947 HK	Mobi Development Co Ltd	0.87	90.9	n.a.	n.a.	n.a.	n.a.	0.6	n.a.	1.4	n.a.	1.0	n.a.	6.5	n.a.	-4.4	-6.5	-18.7	
	002446 CH	Guangdong Shenglu Telecomm-A	8.99	1137.9	42.8	30.0	27.6	18.7	2.2	2.1	4.5	5.0	2.8	n.a.	n.a.	n.a.	-5.7	-11.3	13.7	
	QRVO US	Qorvo Inc	79.07	9313.2	15.4	13.1	10.7	5.8	2.2	2.1	-0.8	14.4	3.5	11.0	0.0	0.3	7.9	3.6	30.2	
	SWKS US	Skyworks Solutions Inc	85.66	14708.1	13.9	13.6	9.3	9.0	3.6	3.7	22.5	26.2	19.3	20.1	1.8	1.8	6.1	5.8	27.8	
	002194 CH	Wuhan Fingu Electronic Tec-A	21.56	1720.1	107.8	53.9	n.a.	n.a.	7.2	n.a.	12.1	n.a.	16.5	n.a.	n.a.	n.a.	-6.4	-13.7	240.1	
	300134 CH	Shenzhen Tat Fook Technolo-A	17.22	1867.3	56.1	28.7	n.a.	n.a.	2.5	2.4	0.5	4.5	1.2	3.5	n.a.	0.0	-8.2	-12.4	83.2	
	002384 CH	Suzhou Dongshan Precision-A	19.38	4399.1	21.6	15.8	10.6	8.5	3.5	3.2	10.0	15.1	3.4	4.4	n.a.	0.3	-3.9	-11.5	71.7	
	002547 CH	Suzhou Chunxing Precision-A	8.90	1418.5	n.a.	n.a.	n.a.	n.a.	4.0	n.a.	1.5	n.a.	0.3	n.a.	n.a.	n.a.	-2.1	-14.2	68.2	
		Average			38.3	22.9	18.4	12.3	3.3	3.1	7.3	13.9	4.9	7.4	1.6	0.5	-0.8	-6.0	47.9	
		Huawei																		
	Wireless system	763 HK	Zte Corp-H	20.70	17611.5	17.6	14.6	15.9	14.0	3.2	2.5	-21.9	15.7	2.1	3.1	0.0	1.4	-4.8	-4.8	39.9
		NOK US	Nokia Corp-Spon Adr	5.09	28710.3	21.6	12.7	9.7	7.3	n.a.	1.8	-2.2	5.5	-1.4	0.6	n.a.	4.0	3.7	-1.2	-12.5
600198 CH		Datang Telecom Tech Co-A	10.14	1263.8	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	8.7	n.a.	0.0	n.a.	-5.4	-15.9	50.2	
		Average			19.6	13.6	12.8	10.7	3.2	2.2	-12.0	10.6	3.1	1.9	0.0	2.7	-2.2	-7.3	25.8	
		GLW US	Corning Inc	29.52	23051.2	17.2	15.2	9.4	8.8	2.1	2.0	7.8	11.9	5.6	5.1	2.6	2.8	6.1	4.6	-2.3
Optical Fiber Cable	6869 HK	Yangtze Optical Fibre And-H	12.56	2460.9	10.9	8.4	17.5	14.1	n.a.	1.0	22.2	9.0	n.a.	5.8	n.a.	2.9	-1.4	-5.4	-41.3	
	600487 CH	Hengtong Optic-Electric Co-A	15.42	4147.5	12.7	11.3	13.7	10.7	2.2	2.0	22.0	16.1	5.7	6.1	n.a.	2.1	-1.5	-2.9	-9.6	
	5801 JP	Furukawa Electric Co Ltd	2827.00	1835.3	11.7	10.2	6.8	6.3	0.8	0.8	12.9	6.7	3.5	3.5	n.a.	2.8	5.7	9.7	2.4	
	600498 CH	Fiberhome Telecom Tech Co-A	27.19	4501.2	32.6	26.0	24.6	20.1	3.0	2.9	8.6	9.1	2.8	3.2	n.a.	1.3	-2.1	-5.2	-4.5	
		unlisted	Reconstruction Capital II-B	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	000836 CH	Tianjin Futong Xinmao Sci-A	3.82	652.2	n.a.	n.a.	n.a.	n.a.	3.7	n.a.	4.3	n.a.	2.2	n.a.	n.a.	n.a.	-0.5	-2.8	-1.8	
	PRY IM	Prismian Spa	20.31	6039.6	12.5	10.8	8.3	7.9	2.4	2.2	7.1	17.5	2.3	4.4	n.a.	2.2	3.6	0.5	20.4	
	5802 JP	Sumitomo Electric Industries	1415.50	10324.5	10.9	9.9	5.5	5.2	0.7	0.7	8.1	6.4	3.4	4.2	n.a.	3.4	5.6	0.2	-3.2	
	600522 CH	Jiangsu Zhongtian Technolo-A	8.50	3682.2	11.1	n.a.	n.a.	n.a.	1.3	n.a.	11.4	n.a.	6.5	n.a.	n.a.	n.a.	-2.9	-3.1	4.3	
	5803 JP	Fujikura Ltd	446.00	1212.3	14.9	10.6	6.5	6.1	0.6	0.6	8.7	3.9	-0.3	2.2	n.a.	2.2	6.2	8.3	2.1	
	002491 CH	Tongding Interconnection I-A	7.18	1279.8	14.7	14.4	n.a.	n.a.	1.8	n.a.	11.6	9.0	2.5	n.a.	n.a.	n.a.	-2.7	-5.2	-8.9	
	000070 CH	Shenzhen Sdg Info Co Ltd-A	11.80	1356.0	25.1	21.1	n.a.	n.a.	3.7	3.3	12.8	13.1	3.5	4.5	n.a.	n.a.	-1.8	-9.6	99.4	
	600105 CH	Jiangsu Etern Co Ltd-A	3.88	682.8	n.a.	n.a.	n.a.	n.a.	1.7	n.a.	7.1	n.a.	2.4	n.a.	n.a.	n.a.	-3.2	-11.4	0.5	
	300265 CH	Jiangsu Tongguang Electron-A	7.99	381.0	n.a.	n.a.	n.a.	n.a.	2.6	n.a.	3.8	n.a.	1.9	n.a.	n.a.	n.a.	-0.1	-4.5	-0.6	
	1300 HK	Trigiant Group Ltd	1.40	319.7	n.a.	n.a.	n.a.	n.a.	0.7	n.a.	11.3	n.a.	7.8	n.a.	3.4	n.a.	-0.7	-2.8	33.3	
1617 HK	Nanfeng Communication Holdin	4.39	626.8	n.a.	n.a.	n.a.	n.a.	5.3	n.a.	17.3	n.a.	7.9	n.a.	1.6	n.a.	-0.7	-0.5	-20.8		
	Average			15.9	13.8	11.6	9.9	2.2	1.7	11.1	10.3	3.9	4.3	2.5	2.5	0.6	-1.9	4.3		
Optical Networks Equipment		Huawei																		
	NOKIA FH	Nokia Oyj	4.79	29932.3	20.7	13.2	9.9	7.2	1.9	1.8	-2.2	9.5	-1.4	0.1	n.a.	4.3	6.2	3.7	-4.9	
	CIEN US	Ciena Corp	37.20	5754.7	17.2	14.5	9.8	8.6	2.7	2.7	-17.0	16.5	6.4	9.0	0.0	0.0	-0.3	-8.0	9.7	
	763 HK	Zte Corp-H	20.70	17611.5	17.6	14.6	15.9	14.0	3.2	2.5	-21.9	15.7	2.1	3.1	0.0	1.4	-4.8	-4.8	39.9	
	600498 CH	Fiberhome Telecom Tech Co-A	27.19	4501.2	32.6	26.0	24.6	20.1	3.0	2.9	8.6	9.1	2.8	3.2	n.a.	1.3	-2.1	-5.2	-4.5	
		Average			22.0	17.1	15.1	12.5	2.7	2.5	-8.1	12.7	2.5	3.9	0.0	1.7	-0.2	-3.6	10.1	
	IT Services	861 HK	Digital China Holdings Ltd	4.20	894.6	38.2	18.3	20.8	15.4	0.8	0.8	1.7	2.1	0.0	2.3	0.7	0.9	-6.7	-3.0	16.0
		1675 HK	Asainfo Technologies Ltd	8.97	829.9	18.9	11.1	7.0	5.6	1.7	1.6	6.5	9.8	4.5	7.3	n.a.	2.1	5.0	10.2	-11.9
		596 HK	Inspur International Ltd	3.25	471.8	13.0	10.9	12.9	9.7	1.7	1.5	9.9	14.1	9.2	7.4	1.2	0.9	-5.8	-6.1	-4.1
		354 HK	Chinasoft International Ltd	3.45	1118.9	10.8	9.5	8.3	7.2	1.2	1.2	12.9	11.8	7.1	6.8	1.4	0.6	-0.3	-3.4	-10.8
1782 HK		Vixtel Technologies Holdings	0.61	39.5	10.6	9.5	7.5	6.5	1.6	1.5	18.4	13.6	12.1	10.2	2.2	2.4	-3.2	-12.9	-36.3	
DOX US		Amdocs Ltd	66.25	9002.6	15.4	14.5	10.5	10.1	2.6	2.6	10.0	17.0	7.5	11.0	1.6	1.6	0.9	-0.7	13.1	
300166 CH		Beijing Orient National-A	13.04	1946.8	21.0	16.7	18.0	13.1	2.7	2.4	11.1	11.4	8.9	8.2	n.a.	0.5	2.4	-2.9	25.9	
000555 CH		Digital China Information -A	12.94	1761.4	33.0	26.7	n.a.	n.a.	2.5	2.4	0.9	7.1	-0.8	3.4	n.a.	n.a.	4.3	6.4	38.5	
300047 CH		Shenzhen Tianyuan Dic Info-A	8.02	722.7	18.1	14.3	12.3	9.8												

BY THE NUMBERS

Profit & Loss

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Net Revenues	94,572	106,177	118,443	133,186	150,506
Gross Profit	12,884	13,546	14,473	16,215	18,872
Operating EBITDA	2,872	2,761	2,976	3,517	4,524
Depreciation And Amortisation	(672)	(661)	(692)	(728)	(769)
Operating EBIT	2,201	2,100	2,284	2,789	3,755
Financial Income/(Expense)	156	156	161	175	197
Pretax Income/(Loss) from Assoc.	64	105	113	121	129
Non-Operating Income/(Expense)	812	1,063	1,105	1,150	1,197
Profit Before Tax (pre-EI)	3,232	3,425	3,663	4,234	5,277
Exceptional Items					
Pre-tax Profit	3,232	3,425	3,663	4,234	5,277
Taxation	(483)	(497)	(516)	(597)	(748)
Exceptional Income - post-tax					
Profit After Tax	2,749	2,928	3,147	3,637	4,530
Minority Interests	(35)	(27)	(28)	(33)	(41)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	2,714	2,901	3,119	3,604	4,489
Normalised Net Profit	2,749	2,928	3,147	3,637	4,530
Fully Diluted Normalised Profit	2,714	2,901	3,119	3,604	4,489

Cash Flow

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
EBITDA	2,872	2,761	2,976	3,517	4,524
Cash Flow from Inv. & Assoc.					
Change In Working Capital	3,458	666	(616)	(982)	(865)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,048	1,228	1,270	1,314	1,361
Net Interest (Paid)/Received	156	156	161	175	197
Tax Paid	(573)	(580)	(601)	(696)	(871)
Cashflow From Operations	6,960	4,231	3,190	3,328	4,346
Capex	(604)	(543)	(625)	(719)	(826)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(5,080)	(8)	(1,087)	(104)	(194)
Cash Flow From Investing	(5,684)	(551)	(1,712)	(823)	(1,020)
Debt Raised/(repaid)	(402)	133	53	64	75
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased					
Dividends Paid	(939)	(1,013)	(871)	(936)	(1,081)
Preferred Dividends					
Other Financing Cashflow	42	(40)	(40)	(40)	(40)
Cash Flow From Financing	(1,298)	(921)	(858)	(912)	(1,046)
Total Cash Generated	(22)	2,760	620	1,593	2,279
Free Cashflow To Equity	875	3,813	1,531	2,569	3,401
Free Cashflow To Firm	1,323	3,706	1,506	2,536	3,361

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd
Balance Sheet

(Rmbm)	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Total Cash And Equivalents	16,621	18,235	18,855	20,448	22,728
Total Debtors	42,186	42,979	47,601	53,146	59,635
Inventories	2,276	2,253	2,513	3,077	3,478
Total Other Current Assets	1,263	5,047	5,047	5,047	5,047
Total Current Assets	62,345	68,514	74,016	81,719	90,887
Fixed Assets	4,190	4,385	4,319	4,311	4,370
Total Investments	649	694	735	780	826
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	3,551	7,334	7,498	7,676	7,871
Total Non-current Assets	8,390	12,412	12,552	12,767	13,068
Short-term Debt	309	462	515	580	655
Current Portion of Long-Term Debt					
Total Creditors	29,598	36,928	41,194	46,321	52,345
Other Current Liabilities	11,660	9,341	9,373	9,409	9,448
Total Current Liabilities	41,567	46,731	51,082	56,310	62,448
Total Long-term Debt	18	9	9	9	9
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	329	617	667	720	778
Total Non-current Liabilities	347	626	676	729	787
Total Provisions	2	740	814	896	985
Total Liabilities	41,915	48,097	52,572	57,934	64,220
Shareholders' Equity	28,329	32,331	33,470	35,993	39,135
Minority Interests	491	498	526	559	600
Total Equity	28,820	32,829	33,996	36,552	39,735

Key Ratios

	Dec-17A	Dec-18A	Dec-19F	Dec-20F	Dec-21F
Revenue Growth	6.9%	12.3%	11.6%	12.4%	13.0%
Operating EBITDA Growth	3.2%	(3.9%)	7.8%	18.2%	28.6%
Operating EBITDA Margin	3.04%	2.60%	2.51%	2.64%	3.01%
Net Cash Per Share (Rmb)	2.35	2.56	2.65	2.87	3.19
BVPS (Rmb)	4.09	4.67	4.83	5.20	5.65
Gross Interest Cover	46.7	83.4	81.5	88.6	105.8
Effective Tax Rate	14.9%	14.5%	14.1%	14.1%	14.2%
Net Dividend Payout Ratio	36.0%	36.0%	30.0%	30.0%	30.0%
Accounts Receivables Days	151.1	146.4	139.6	138.4	136.8
Inventory Days	10.05	8.92	8.37	8.75	9.09
Accounts Payables Days	120.7	131.1	137.1	136.9	136.8
ROIC (%)	19.4%	17.2%	14.5%	17.0%	21.4%
ROCE (%)	9.9%	9.1%	8.9%	10.0%	11.8%
Return On Average Assets	3.89%	3.65%	3.57%	3.82%	4.37%

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Appendix: Profiles of directors and senior management

Figure 14: Profiles of selected directors and members of senior management

Member	Positions	Profiles
Mr. WANG Xiaochu	HONORARY CHAIRMAN	Mr. Wang is currently the Chairman of China United Network Communications Group Company Limited and an Executive Director, Chairman and Chief Executive Officer of China Unicom (Hong Kong) Limited. Prior to that, Mr. Wang was the Chairman of China Telecommunications Corporation, and an Executive Director, Chairman and Chief Executive Officer of China Telecom Corporation Limited. Mr. Wang was also the Chairman and a Non-Executive Director of the Company.
Mr. ZHANG Zhiyong	Chairman of Board of Directors and Executive Director	Mr. Zhang is also the Vice President of China Telecommunications Corporation, an Executive Vice President of China Telecom Corporation Limited and a Non-Executive Director of China Tower Corporation Limited. Mr. Zhang is a senior engineer and received a bachelor degree in Radio Engineering from the Changchun Institute of Posts and Telecommunications in 1986, a master degree in Control Engineering from the Yanshan University in 2002 and a master of management degree from the BI Norwegian School of Management in 2005. Mr. Zhang previously worked as the General Manager of Beijing branch of China Telecom Corporation Limited, the General Manager of Xinjiang branch of China Telecom Corporation Limited, the Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation, and also the President and an Executive Director of our Company. Mr. Zhang has over 30 years of operational and management experience in the telecommunications industry in China.
Mr. SI Furong	President and an Executive Director	Mr. Si is also the Managing Director of the Sideline Industrial Management Department of China Telecommunications Corporation and the Chairman of China Communications Services International Limited, a wholly-owned subsidiary of the Company. Mr. Si graduated from Information Engineering University in 1982 with a bachelor degree in radio communications. He also received an EMBA degree from Peking University Guanghua School of Management in 2006. Mr. Si previously served as the Director of the Corporate Affairs Department of China Telecommunications Corporation, the Director of the Corporate Affairs Department of China Telecom Corporation Limited, the General Manager of Shaanxi Telecom Company Limited of China Telecommunications Corporation, the General Manager of Shaanxi branch of China Telecom Corporation Limited, the General Manager of China Telecommunications Corporation Shaanxi network asset branch and Chairman of Shaanxi Communication Services Company Limited and a Director of China Tower Corporation Limited. Prior to joining China Telecommunications Corporation, Mr. Si was the Deputy Director of the Personnel Department of the Ministry of Information Industry. Mr. Si has over 30 years of operational and management experience in the telecommunications industry in China.
Ms. ZHANG Xu	Executive Director, Executive Vice President and Chief Financial Officer	Ms. Zhang graduated from Beijing University of Posts and Telecommunications in 1992 with a bachelor degree in posts and telecommunications management engineering, and she also received a master degree in international commerce from The University of New South Wales in 2003. Prior to joining the Company, Ms. Zhang was Divisional Director of General Finance Division of China Telecommunications Corporation's Finance Department. Prior to that, Ms. Zhang served as Divisional Director of Treasury Division of China Telecommunications Corporation's Finance Department, a Director and Vice President of China Telecom (Hong Kong) International Limited and Divisional Director of Headquarter Finance and Accounting Division of China Telecommunications Corporation's Finance Department. Ms. Zhang has over 20 years of experience in telecommunications industry and financial management.
Mr. XU Chuguo	Executive Vice President	Mr. Xu is a professor-level senior engineer. Mr. Xu is a director and the General Manager of China Communications Services International Limited, a wholly-owned subsidiary of the Company. Mr. Xu graduated from Chongqing University of Posts and Telecommunications in 1987 with a bachelor degree in telecommunications engineering and received an EMBA degree from Peking University Guanghua School of Management in 2006. Mr. Xu previously served as the Director of The 3rd Engineering Bureau and the Deputy General Manager of the predecessor of China International Telecommunications Construction Corporation, the General Manager of China International Telecommunications Construction Corporation (a whollyowned subsidiary of the Company). Mr. Xu has over 30 years of market development, operational and managerial experience in domestic and overseas telecommunications industry.
Mr. CHUNG Wai Cheung, Terence	Company Secretary and Deputy Chief Financial Officer	Mr. Chung graduated from Melbourne University, Australia in 1996, with a bachelor of commerce degree and received a master's degree in business administration from the Australian Graduate School of Management in 2005. Mr. Chung is a member of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Mr. Chung previously worked in an international accounting firm, China Mobile Limited and China Telecom Corporation Limited, and has over 20 years of extensive experience in auditing, company secretary and financial management of listed companies.

SOURCES: CGIS RESEARCH, COMPANY DATA

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- 减持 : 预计股份未来12个月的总回报为0%或以下
- 持有 : 预计股份未来12个月的总回报为0%至10%

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