

23 October 2018

Hold
Unchanged

业绩成长

中国联通 (00762: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	6,515	14,988	22,582
YoY (%)	-94.04%	193.65%	252.15%	130.06%	50.67%
EPS (Rmb)	0.03	0.07	0.21	0.49	0.74
Diluted EPS (Rmb)	0.03	0.07	0.21	0.49	0.74
ROE (%)	0.10%	0.32%	1.11%	2.67%	4.02%
Liability/asset (%)	62.93%	46.79%	47.39%	43.40%	40.95%
Dividend yield (%)	0.00%	0.32%	0.89%	2.04%	3.07%
PE (x)	388.61	146.05	48.02	20.87	13.85
PB (x)	0.78	0.58	0.73	0.71	0.68
EV/Ebitda (x)	3.78	2.37	2.92	2.33	1.96

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

中国联通披露其盈利预喜，其服务型收入为 2000 亿人民币，同比增长 6.5%，净利润为 88 亿，同比增长 116.6%。增速较高的原因主要是低基数及来自联营公司中国铁塔(788.HK-未评级)的约 15 亿净盈利。我们维持 2018 年 EPS 预测为 0.21Rmb(同比增长 2.5 倍)，19 年 EPS 为 0.49Rmb(同比增长 1.3 倍)，20 年 EPS 为 0.74Rmb(同比增长 50.7%)，我们维持目标价 9.5 港币不变，维持中性评级。

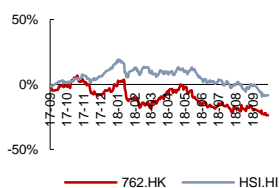
极具挑战的基本面。我们认为公司三季度业绩强劲的主要原因来自营运费用削减及中国铁塔业绩成长。考虑到收入增速下滑，我们对于全年增速仍然维持担忧。根据工信部数据，整体电信服务性收入增速从 2018 年前 2 月同比增速为 4.9% 下降至 1 至 8 月 3.3%。与此同时，中国联通整体服务性收入增速从上半年 8.3% 成长下滑至三季度 6.5% 成长。考虑到如今较大的 4G 用户基数及漫游费取消，我们预计整体行业服务性收入还将在未来持续性下滑。尽管在前 8 个月，中国联通无线用户数同比增长 7.5%。我们预计其 ARPU 还将持续性下滑。对于其固网业务，我们预计此业务收入将在未来维持稳定。

资本支出周期。公司给出 2018 年总资本支出指引为 500 亿元人民币，将重点集中在主要城市，4G 网络以及高数据流量回报的地区。考虑到未来 5G 投入，我们预计公司明年整体资本支出将会同比增长。然而，正如我们之前所言，我们认为 5G 对于本土运营商而言是负担而不是机会。

维持中性。公司于 2017 年完成战略配售，我们预期公司互联网相关业务在未来还将持续性成长，而这将成为公司未来业绩的主要驱动力。我们维持 2018 年 EPS 预测为 0.21Rmb(同比增长 2.5 倍)，19 年 EPS 为 0.49Rmb(同比增长 1.3 倍)，20 年 EPS 为 0.74Rmb(同比增长 50.7%)。公司如今股价对应 0.7x PB。我们维持 9.5 港币目标价不变，对应 9.3% 上升空间。我们维持中性评级。

Market Data: 19 Oct.

Closing Price (HK\$)	8.69
Price Target (HK\$)	9.50
HSCIE	10,222
HSCCI	4,137
52-week High/Low (HK\$)	12.18/8.69
Market Cap (USD Mn)	34,089
Market Cap (HK\$ Mn)	265,897
Shares Outstanding (Mn)	30,598
Exchange Rate (HK\$-US\$)	7.80



Source: Bloomberg

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Related Reports

"China Unicom (00762:HK) — Clear line" 16 March 2018
"China Unicom (00762:HK) — Solid signals" 23 April 2018
"China Unicom (00762:HK) — Diminishing bandwidth" 17 August 2018

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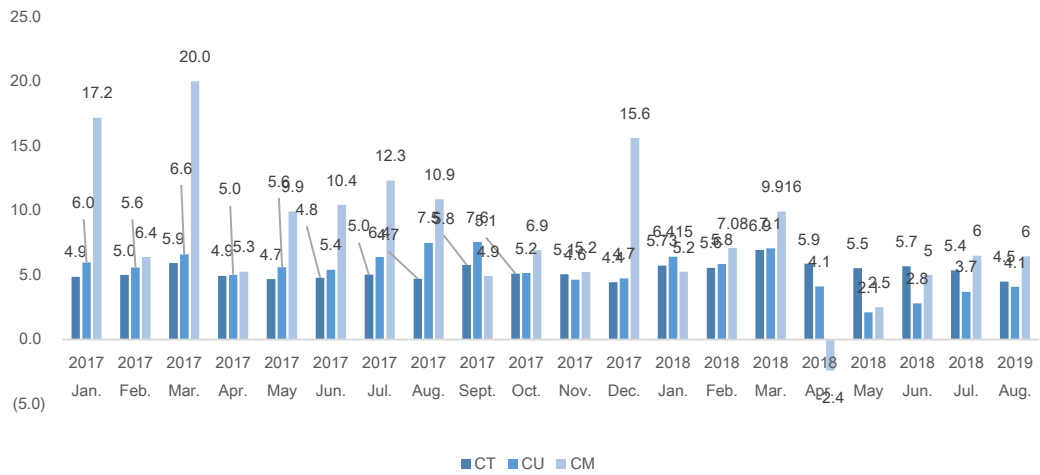
China Unicom released a profit alert, guiding 9M18 service revenue of Rmb200.0bn (+6.5% YoY) and net profit of Rmb8.8bn (+116.6% YoY), thanks to a low-base effect and a Rmb1.5bn increase in the company's share of net profit of associates, driven by China Tower (788:HK – N-R). We maintain our diluted EPS forecasts of Rmb0.21 in 18E (+200% YoY), Rmb0.49 in 19E (+133% YoY), and Rmb0.74 in 20E (+51% YoY). Our target price is unchanged at HK\$9.50. With 9.3% upside, we maintain Hold.

Uncertain future top-line growth. The company guided robust 9M18 results, which we attribute mainly to Opex cuts and the profit contribution from China Tower. Nonetheless, we remain concerned about the company's full-year performance given its moderating top-line growth. According to data from the Ministry of Industry and Information Technology (MIIT), telecom service revenue growth decelerated from +4.9% YoY in the first two months of 2018 to +3.3% YoY in the first eight months of 2018, while China Unicom's service revenue growth decelerated from +8.3% YoY in 1H18 to +6.5% YoY in 9M18. Given its large 4G subscriber base and the cancellation of data roaming fees, we believe the firm's overall telecom service revenue may continue to decline in the coming quarters. Although in the first eight months of the year, the number of wireless subscribers increased by 7.5%, we expect the company's average revenue per user (ARPU) to decrease. As for the company's fixed-line business, we expect revenue to remain stable.

Capex cycle. China Unicom guided total capex of Rmb50bn for 2018. The company will focus investment on key cities, 4G networks, and regions with high data traffic and returns. We expect its Capex to increase next year, given future 5G investment. Nevertheless, as mentioned previously, we see 5G investment as a liability rather than an opportunity for domestic telecom operators.

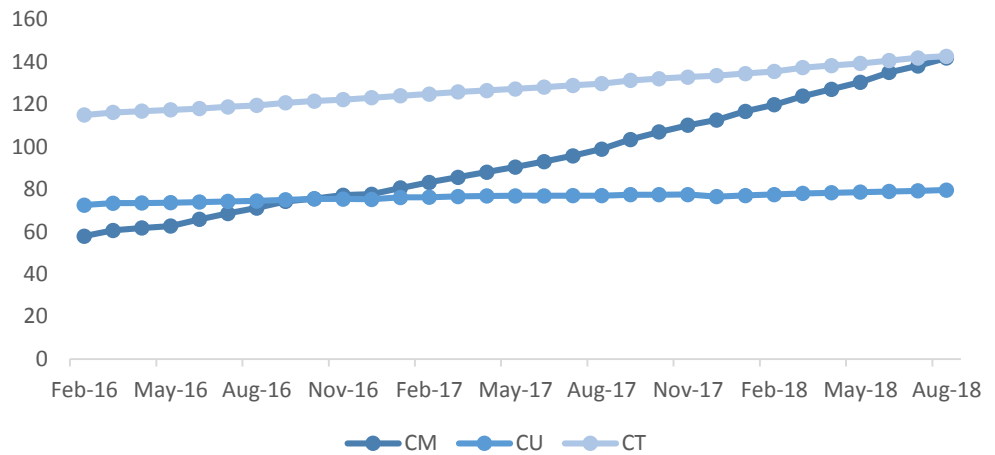
Maintain Hold. Thanks to a share placement completed in 2017, we forecast stronger internet-related revenue growth in the coming years, thus becoming a major growth driver for the company. We maintain our diluted EPS forecasts of Rmb0.21 in 18E (+200% YoY), Rmb0.49 in 19E (+133% YoY), and Rmb0.74 in 20E (+51% YoY). The stock is currently trading at 0.7x 18E PB. Our target price is unchanged at HK\$9.50. With 9.3% upside, we maintain our Hold rating.

Fig 1: 4G subscriber net additions for the three main operators



Source: Company data, SWS Research

Fig 2: Fixed-line broadband subscriber base



Source: Company data, SWS Research

Fig 3: 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)	(58,471)	(62,215)	(66,223)
Employee benefit expenses	(36,907)	(42,471)	(44,888)	(47,932)	(51,269)
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	1,200	1,059	990
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	8,629	19,851	29,910
Income tax expenses	(154)	(743)	(2,114)	(4,864)	(7,328)
Profit for the year	630	1,850	6,515	14,988	22,582

Source: Company, SWS Research

Fig 8: Balance Sheet

	2016	2017	2018E	2019E	2020E
cash and cash equivalent	23,633	32,836	74,564	64,942	60,326
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	117,152	109,106	106,429
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	586,097	561,046	561,281
Non-currentLiability	43,817	25,014	33,308	13,308	3,808
CurrentLiability	342,655	242,622	244,436	230,167	226,015
TotalLiability	386,472	267,636	277,744	243,475	229,823
Equity	227,682	304,347	308,354	317,571	331,459
TotalLiability&Equity	614,154	571,983	586,097	561,046	561,281

Source: Company, SWS Research

Fig 9: Cash Flow statement

	2016	2017	2018E	2019E	2020E
Profit before income tax	625	1,828	6,515	14,988	22,582
Add: depreciation and amortisation	76,805	77,492	73,185	68,982	66,620
Amortisation					
Net working capital	(3,898)	1,966	356	2,509	2,382
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	85,384	88,814	93,830
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)	30,347	7,518	7,559
Net cash outflow from investing activities	(95,749)	(47,336)	(19,682)	(47,667)	(65,251)
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	2,508	5,770	8,694
Net cash inflow from financing activities	22,877	(28,414)	(24,075)	(50,770)	(33,194)
Exchange rate fluctuation	0	0	0	0	0
Net increase (decrease) in cash and cash equivalents	1,878	9,304	41,627	(9,623)	(4,616)
Cash and cash equivalents, beginning of the year	21,755	23,633	32,937	74,564	64,942
Cash and cash equivalents, end of the year	23,633	32,937	74,564	64,942	60,326

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	0.21	0.49	0.74
OperatingCFPerShare	3.11	3.55	2.79	2.90	3.07
DividendPerShare	0.00	0.03	0.08	0.19	0.28
Key Operating Ratios(%)					
NetAssetsPerShare	9.51	12.71	10.08	10.38	10.83
ROIC	0.85%	0.95%	1.54%	3.24%	4.63%
ROE	0.28%	0.61%	2.11%	4.72%	6.81%
GrossProfitMargin					
EBITDAMargin	29.57%	30.30%	29.80%	30.61%	31.33%
EBITMargin	1.56%	2.11%	3.27%	6.69%	9.35%
GrowthRateOfRevenue	-1.03%	0.23%	4.93%	1.38%	1.38%
GrowthRateOfProfit	-94.04%	193.65%	252.15%	130.06%	50.67%
DebtToAssetRatio	0.29	0.13	0.13	0.05	0.01
TurnoverRateOfNetAssets	1.20	0.90	0.94	0.95	0.96
TurnoverRateOfTotalAssets	0.45	0.48	0.49	0.54	0.57
EffectiveTax rate	24.50%	24.50%	24.50%	24.50%	24.50%
DividendYield	0.00%	0.32%	0.89%	2.04%	3.07%
Valuation Ratios (X)					
PE	388.61	146.05	48.02	20.87	13.85
PB	0.78	0.58	0.73	0.71	0.68
EVEBITDA	3.78	2.37	2.92	2.33	1.96

Source: Company, SWS Research

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