China / Hong Kong

Flash Note

Refer to important disclosures at the end of this report

DBS Group Research . Equity 14 Aug 2020

China Mobile (941 HK) : HOLD

Mkt. Cap: US$155,850m I **3m Avg. Daily Val:** US$164.8m

Last Traded Price (13 Aug 2020): HK$59.00

Price Target 12-mth: HK$51.00 (13.6% downside)

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Company Guide

Summary of our point of view, and highlights the relevant data points, which are actively tracked

China Mobile - iBanking Login

China Mobile - Institution Login

1H20 results in line; higher 5G penetration to drive mobile ARPU recovery

- **1H20 net profit declined by 0.5% y-o-y, in line with market expectations**
- **Expect to achieve 15% 5G penetration to drive mobile ARPU recovery**
- **Raising 5G base station net-adds to 300k with capex budget unchanged at Rmb180bn in FY20**
- **Maintain HOLD despite attractive valuation and 5%+ yield, with TP unchanged at HK$51.0, due to stronger market competition in 5G era**

Forecasts and Valuation

FY Dec (RMB m)	2019A	2020F	2021F	2022F
Turnover	745,917	768,221	809,310	846,499
EBITDA	309,758	298,647	308,814	320,141
Pre-tax Profit	142,133	136,930	141,667	151,736
Net Profit	106,641	103,100	106,667	114,249
Net Profit Gth (Pre-ex) (%)	(9.5)	(3.3)	3.5	7.1
EPS (RMB)	5.21	5.04	5.21	5.58
EPS (HK$)	5.82	5.63	5.82	6.23
EPS Gth (%)	(9.5)	(3.3)	3.5	7.1
Diluted EPS (HK$)	5.82	5.63	5.82	6.23
DPS (HK$)	3.26	3.26	3.26	3.26
BV Per Share (HK$)	60.23	62.60	65.15	68.12
PE (X)	10.1	10.5	10.1	9.5
P/Cash Flow (X)	4.4	4.5	4.2	4.1
P/Free CF (X)	24.1	18.7	16.6	15.0
EV/EBITDA (X)	2.1	2.2	2.1	1.9
Net Div Yield (%)	5.5	5.5	5.5	5.5
P/Book Value (X)	1.0	0.9	0.9	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	9.9	9.2	9.1	9.4
Earnings Rev (%):		(0)	(0)	0
Consensus EPS (RMB)		5.26	5.40	5.57
Other Broker Recs:		B:21	S:1	H:3

Source: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

1H20 results highlights

Total revenue declined by 0.1% y-o-y to Rmb389.9bn in 1H20. Service revenue increased by 1.9% to Rmb358.2bn, driven by 18.5% increase in fixed-line revenue, partly offset by 1.6% decrease in mobile service revenue. EBITDA decreased by 3.6% y-o-y to Rmb145.7bn due to higher operating costs for 5G network. Net profit declined by 0.5% y-o-y to Rmb55.8bn in 1H20. An interim dividend per share (DPS) of HK$1.53 was proposed, representing a payout ratio of c.51% (vs 56% for FY19). The company targets to maintain stable dividend for the full year.

Outlook

We expect China Mobile (CM) to achieve 140m 5G subscribers (subs) by the end of FY20, representing 15% penetration rate. We forecast mobile ARPU to improve from 3.6% y-o-y decline in 1H20 to 1.9% y-o-y growth in 2H20. The company has raised 5G base station net-add target from 250k to 300k for FY20. Thanks to lower 5G equipment pricing, full-year capex budget is maintained at c.Rmb180bn.

Currently, CM has a dominant mobile market share of 60%. China Telecom and China Unicom are co-building and co-sharing one 5G network to match CM's 5G network coverage and quality. This will reduce the competitive advantages that CM had in the 4G era and increase its risks of losing mobile sub market share.

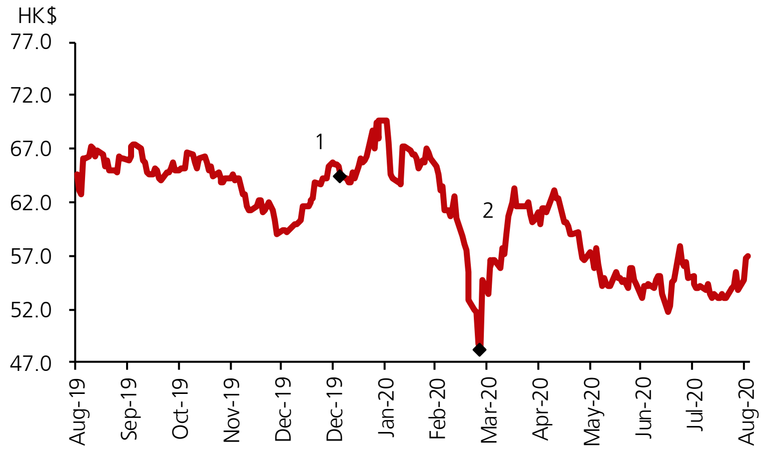
We have maintained our earnings forecast. We forecast net profit to fall by 3% in FY20 and increase by 4% in FY21. We maintain our HOLD rating in view of its potential market share loss in the 5G era despite its attractive valuation, with TP unchanged at HK$51.0. Our TP is based on SOP method: (i) telecom operations at HK$48.0 per share based on 9x FY20 PE excluding Towerco's earnings, and (ii) Towerco's value of HK$3.0 per share.

Interim Income Statement (RMBm)

FY Dec	1H2019	2H2019	1H2020	% chg yoy	% chg hoh
Revenue	389,427	356,490	389,863	0.1	9.4
Cost of Goods Sold	(329,672)	(303,096)	(330,745)	0.3	9.1
Gross Profit	**59,755**	**53,394**	**59,118**	**(1.1)**	**10.7**
Other Oper. (Exp)/Inc	0.0	0.0	0.0	nm	nm
Operating Profit	**59,755**	**53,394**	**59,118**	**(1.1)**	**10.7**
Other Non Opg (Exp)/Inc	1,213	2,816	2,355	94.1	(16.4)
Associates & JV Inc	6,579	6,062	5,998	(8.8)	(1.1)
Net Interest (Exp)/Inc	5,723	6,591	5,416	(5.4)	(17.8)
Exceptional Gain/(Loss)	0.0	0.0	0.0	nm	nm
Pre-tax Profit	**73,270**	**68,863**	**72,887**	**(0.5)**	**5.8**
Tax	(17,151)	(18,191)	(17,023)	(0.7)	(6.4)
Minority Interest	(56.0)	(94.0)	(99.0)	(76.8)	5.3
Net Profit	**56,063**	**50,578**	**55,765**	**(0.5)**	**10.3**
Net profit bef Except.	56,063	50,578	55,765	(0.5)	10.3
EBITDA	158,939	153,698	154,063	(3.1)	0.2
Margins (%)					
Gross Margins	15.3	15.0	15.2		
Opg Profit Margins	15.3	15.0	15.2		
Net Profit Margins	14.4	14.2	14.3		

Source: Company, DBS HK

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	3-Jan-20	HK$65.50	HK$67.00	Hold
2:	19-Mar-20	HK$48.25	HK$51.00	Hold

Source: DBS HK

Analyst: Tsz-Wang TAM, CFA
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DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:
STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)
BUY (>15% total return over the next 12 months for small caps, >10% for large caps)
HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)
SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

**Share price appreciation + dividends*

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Sources for all charts and tables are DBS HK unless otherwise specified.

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