

Hong Kong Telecom Sector

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Dec 2022

2023 Outlook: Prefer mobile plays on strong roaming recovery

- **Expect roaming revenue to recover to 65%-70% of pre-COVID levels**
- **Stable residential broadband market, with steady sub growth and ARPU improvement**
- **Enterprise business is resilient; supported by continuous enterprise digitalisation**
- **Benefited from roaming rebound, upgrade [HT \(215 HK\)](#) to BUY with [SMT \(315 HK\)](#) as top pick, given its higher dividend yield of c.9%**

Strong earnings rebound supported by roaming recovery. In FY23, we expect roaming revenue to recover to 65%-70% of pre-COVID levels and contribute 8%-15% of mobile service revenue. Thanks to the 50%+ roaming profit margin, we expect Smartone's and Hutchison Telecom's earnings to rebound by 23% and to HK\$236m y-o-y (from net loss of HK\$17m in FY22) in FY23, respectively, 20% and 50% higher than market expectations.

Stable growth in residential broadband market. We expect residential broadband subscribers to grow 1.4% and 2.1% y-o-y in FY23 and FY24, respectively, with the supply of new housing. We expect the ARPU of fixed-line operators to rebound in FY23 with healthier competition, and operators are also upselling bandwidth and cross-selling more value-added services.

Resilient enterprise business. Demand for telecom services such as broadband and VPN has been resilient. We forecast the Hong Kong enterprise market will grow c.2% p.a. from FY22 onwards, supported by continuous enterprise digitalisation, despite companies shifting from full work-from-home mode to hybrid mode.

Upgrade Hutchison Telecom to BUY and name Smartone as top pick. We prefer mobile to fixed-line operators, as the former enjoys a strong earnings rebound from roaming recovery, while we prefer Smartone to Hutchison Telecom on its higher dividend yield of c.9%.

HSI: 18,736

ANALYST

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Recommendation & valuation

Company	Price	Target Price	Rec	Mkt Cap	FY23F Yield
	HK\$	HK\$		US\$m	%
HKBN (1310 HK)	5.29	11.10	BUY	892	13.1
HKT Trust (6823 HK)	9.38	13.60	BUY	9,139	8.3
Smartone Telecom (315 HK)	4.06	7.10	BUY	577	9.1
Hutchison Telecom (215 HK)	1.15	1.40	BUY	712	6.5

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

Closing price as of 1 Dec 2022

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Introduction

The Hong Kong Telecom market has been negatively impacted by the loss of roaming revenue since 2019 due to travel restrictions amid the COVID outbreak. We expect mobile operators to benefit from roaming revenue recovery thanks to gradual border re-opening. We estimate Smartone's earnings to grow by 23% in FY6/23. On the other hand, the overall fixed-line market, including residential and enterprise, should be stable, supporting HKT (6823 HK)'s and HKBN (1310 HK)'s dividend yields of c.8% and c.13%, respectively.

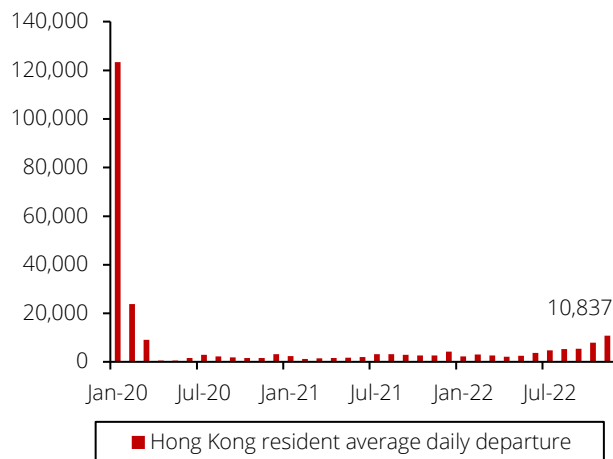
Mobile market outlook

Before the COVID outbreak, 12%-20% of Hong Kong mobile operators' revenue was contributed by the roaming segment, but this reduced to 4%-8% in FY21. In FY23, we expect roaming revenue to recover to 65%-70% of the pre-COVID level and contribute 8%-15% of mobile service revenue. Thanks to the 50%+ profit margin, we expect SMT ("SMT")'s and Hutchison ("HT")'s earnings to rebound by 23% and HK\$253m y-o-y (from net loss of HK\$17m in FY22) in FY23, respectively, 20% and 50% higher than market expectations.

Expect robust earnings rebound from roaming recovery

On 26 Sep 2022, the Hong Kong Government relaxed travel restrictions with a "0+3" policy for travellers arriving or returning to Hong Kong. According to the Hong Kong Immigration Department, the number of daily passenger departures rebounded from 2,000-3,000 per day in the second half of 2021 to over 10,000 in November 2022. We expect the number will continue to increase with more flight capacity in place. Cathy Pacific expects its capacity to return to 70% of pre-COVID levels by the end of 2023, with the aim to reach 100% in 2024. The policy is supporting outbound travel, and thus outbound roaming recovery. We expect inbound roaming to pick up in 2Q23.

Hong Kong resident average daily departure



Source: HK Immigration Department daily

We raised roaming revenue forecasts of HKT, SMT, and HT by 32%, 27%, and 29%, respectively, for FY23, representing 65%-70% of pre-COVID levels. This will also be translated to 8%, 10%, and 15% of their respective mobile service revenues in FY23.

Pure mobile operators will be more sensitive to mobile roaming revenue recovery and enjoy stronger earnings recovery. In FY6/22, SMT's roaming revenue recovered to 39% of pre-COVID levels, representing 6.3% of its mobile service revenue. Recently, the company has also disclosed that the number has reached 51% in September 2022 via an interview with local media. We expect its earnings to further rebound by 11% to HK\$585m in FY6/24. For HT, we expect its earnings to grow by 64% to HK\$386m for FY24.

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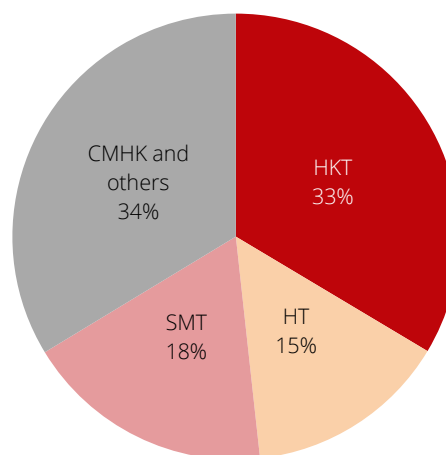
Roaming estimation summary

		FY19	FY22E	FY23E
HKT	Roaming revenue (\$HK, m)	1,010	505	707
	% of mobile service revenue	12%	6%	8%
	% of pre COVID level	-	50%	70%
SMT*	Roaming revenue (\$HK, m)	725	285	471
	% of mobile service revenue	16%	6%	10%
	% of pre COVID level	-	39%	65%
HT	Roaming revenue (\$HK, m)	738	369	517
	% of mobile service revenue	20%	11%	15%
	% of pre COVID level	-	50%	70%

*FY6/22 actual and FY6/23 estimate for SMT

Source: Companies, DBS HK

Mobile post-paid sub market share (FY21)



Source: Companies, OFCA, DBS HK

Roaming plan (APAC example)

	1 day	5 days	7 days	14 days
cs.l/1010	\$138	\$188 <\$38/day>	-	-
Smartone	\$78	-	\$178 <\$25/day>	\$318 <\$23/day>
3HK	\$98	-	\$98 <\$14 day>	-

Source: Company data

Source: Companies, DBS HK

Change in % of roaming recovery vs. % change in FY23 NP

	-10ppts	-5ppts	0%	+5ppts	+10ppts
HKT	-0.8%	-0.4%	-	0.4%	0.8%
SMT*	-5.5%	-2.8%	-	2.8%	5.5%
HT	-11.5%	-5.7%	-	5.7%	11.5%

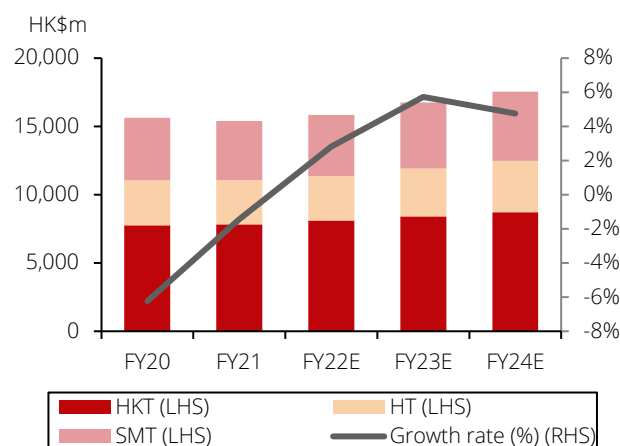
*FY6/23 estimate for Smartone

Source: Companies, DBS HK

Steady mobile ARPU amid rational competition

Setting aside roaming recovery, we expect competition to remain rational, partly due to the financial pressure of pure mobile operators in the absence of roaming revenue. We expect a steady mobile ARPU uplift from 5G upgrades. Overall, we forecast total mobile service revenue to grow 2.8%, 5.7%, and 4.7% y-o-y in FY22, FY23, and FY24, respectively. Given the high-net profit margin nature of the roaming business, a roaming rebound has more impact on mobile operators' earnings than on revenue.

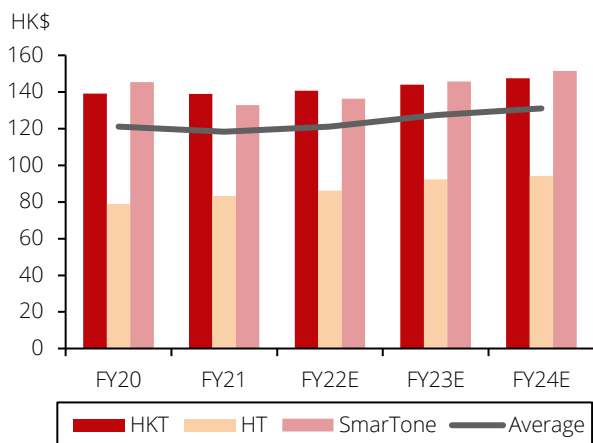
Mobile service revenue



Source: Companies, DBS HK

Hong Kong Telecom Sector

Mobile blended ARPU



Source: Companies, DBS HK

5G SIM-only plan for port-in sub – Oct2022

5G (HK\$ / month)	Oct 2022				
	SMT	Three	csl.	1010	CMHK
8GB				299	
10GB					118
12GB				389	
20GB					125
30GB				198	
50GB			358	419	149
60GB		189			
65GB					
80GB		228	398	459	
100GB		288	468	539	199
110GB	298				
150GB				559	
200GB		388			398
250GB					250
300GB		688		759	498
Unlimited				1,010	

Source: Companies, DBS HK

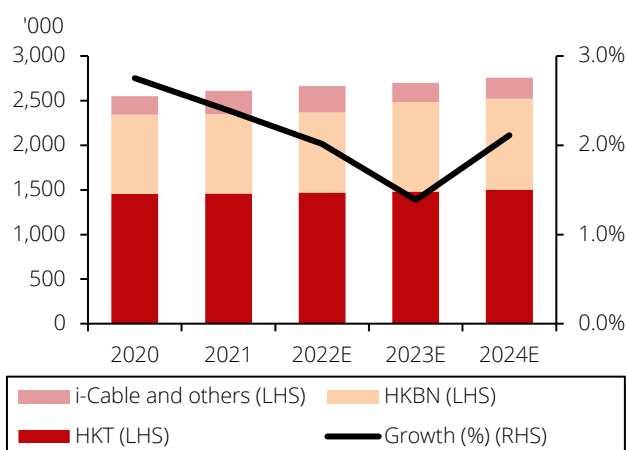
Fixed-line market outlook

Stable residential sub growth in 2023 and 2024

We expect residential broadband subscribers to grow 1.4% and 2.1% y-o-y in 2023 and 2024, respectively, mainly driven by the launch of new housing units, including first-hand private residential units, public rental housing, and other subsidised sales flats.

The Hong Kong residential broadband market is almost saturated, with penetration at 99% as of July 2022, according to the OFCA. Industry growth will mainly come from new housing units. There could be 95k potential first-hand private residential units and 95k public rental housing and other subsidised sales flats in the next four years, according to the Transport and Housing Bureau and Housing Authority, respectively. We expect total residential broadband subscribers to grow at a CAGR of 1.8% in 2021-2024E, increasing from 2,609k in 2021 to 2,755k in 2024.

Hong Kong residential broadband sub number



Source: Companies, OFCA, DBS HK

Further deterioration of competition unlikely

In 2021, HKBN set an aggressive target of 1m residential broadband subscribers by FY8/22 (from a 886m customer base). Despite the partnership with OTT content providers like Disney+ and Netflix and aggressive price cuts, its subscribers only increased by 11k or 1% y-o-y to 897k (c.10% of its 114k net addition target), with ARPU dropping by 3% y-o-y to HK\$184 in FY22. We believe this is a moving target and expect HKBN will do more cross-selling instead of continuing its price cutting strategy, therefore leading to a more rational competition environment overall.

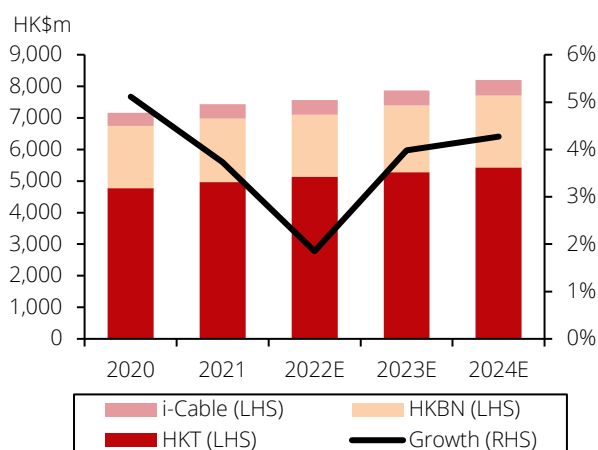
We expect APRU of fixed-line operators to rebound in FY23 with healthier competition, and operators are also upselling bandwidth and cross-selling more value-added services such as home gateway products and over-the-top content services.

The percentage of broadband internet access lines with downstream speed of 1Gbps+ has increased by 11.4ppts since December 2020, to 60.1% in August 2022.

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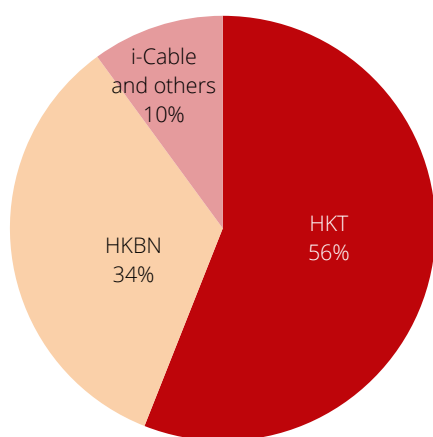
We forecast overall residential broadband revenue to increase by 1.9%, 4%, and 4.3% y-o-y for FY22, FY23, and FY24, respectively.

Hong Kong residential broadband revenue



Source: Companies, DBS HK

Hong Kong residential broadband sub market share (2021)



Source: Companies, DBS HK

Enterprise business supported by enterprise digitalisation

Demand for enterprise telecom services such as broadband and VPN has been resilient. According to the OFCA, the number of business broadband subscribers were stable, at around 321k-323k, and the percentage of business lines with downstream speed of 100Mbps+ has expanded 3ppt since September 2020 to c.66% in August 2022. Looking forward, we forecast the Hong Kong enterprise market will grow c.2% y-o-y in FY22 and onwards, supported by

continuous enterprise digitalisation despite companies shifting from full work-from-home mode to hybrid mode.

Interest rate sensitivity analysis

Fixed-line telecom operators, such as HKT and HKBN, are characterised by a higher net debt-to-EBITDA ratio.

HKBN has the highest net debt-to-EBITDA ratio of 3.8x as at the end of FY8/22, followed by HKT's 3.4x as at the end of FY21. SMT and HT have net cash of HK\$967m and HK\$3,975m as of December 2021.

Both HKT and HKBN paid out dividends to shareholders from its free cash flow generated.

In the interest rate upcycle, they will be facing a higher earnings and dividend risk. In FY8/22, HKBN changed its payout ratio to 75%, from 100% which it had been adopting since listing in 2015.

If we were to assume that all debt is floating, we estimate that every 1% hike in interest would increase interest cost by HK\$437m and HK\$117m, respectively, for HKT and HKBN, reducing dividend by 7.9% and 14.9%, respectively. HKBN stands to suffer the most from an increase in interest rates, assuming no interest rate hedging.

Debt with floating/fixed rate mix

FY21	Floating rate	Fixed rate
HKT	49%	51%
HKBN*	94%	6%
SMT*	4%	96%
HT	0%	0%

*FY8/22 for HKBN, FY6/22 for SMT

Source: Companies, DBS HK

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Interest rate sensitivity analysis

	Net debt to EBITDA as at the end of FY21*	Total borrowings (HK\$m) as at end of FY21*	% of Total borrowings		1% int. rate impact (floating only)		1% int. rate impact (assume all floating)	
			Fixed-rate	Floating-rate	Dollar amount (HK\$m)	% change of dividend in FY21*	Dollar amount (HK\$m)	% change of dividend in FY21*
HKT	3.4x	43,689	51%	49%	212	3.8%	437	7.9%
HKBN*	3.8x	11,690	6%	94%	110	14.0%	117	14.9%
SMT*	Net cash	1,511	96%	4%	1	0.2%	15	4.5%
HT	Net cash	-	0%	0%	-	0.0%	-	0.0%

*FY8/22 for HKBN, FY6/22 for SMT

Source: Companies, DBS HK

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Valuation and recommendations

We prefer mobile operators to fixed-line or integrated operators, as the former enjoys a strong earnings rebound from roaming recovery, which has not been fully priced in by the market. We like SMT more, given its higher dividend yield of c.9%. Overall, our pecking order is: SMT > HT > HKBN > HKT.

Smartone (315 HK, BUY). We lift our roaming revenue forecast by 27% and 33% and earnings estimation by 3% and 9% for FY6/23 and FY6/24, respectively. We forecast the company's earnings to increase by 23% and 11% y-o-y in FY6/23 and FY6/24, respectively. The stock is trading at a c.8x FY6/23 PE, 1.5SD below its historical average, and offers a c.9% dividend yield. We maintain BUY on SMT with a higher TP of at HK\$7.1 due to the earnings revision. Our TP is based on 15x FY6/23 PE, in line with its historical average.

Hutchison Telecom (215 HK, BUY). We raise our roaming revenue forecast by 27%, 29%, and 33% in FY22, FY23, and FY24, respectively. As a result, we lift our FY22 earnings estimation from -HK\$72m to -HK\$17m and lift our earnings estimation by 54% and 38% for FY23 and FY24, respectively. We now forecast the company's earnings to change by -HK\$21m, +HK\$253m, and +HK\$150m y-o-y in FY22, FY23, and FY24, respectively. We upgrade HT from HOLD to BUY with a higher TP of HK\$1.4 due to the earnings revision. Our TP is based on sum of the parts: (1) HK\$0.6 per share for the mobile business at 15x FY23 PE, in line with the target multiple for its major peer and (2) net cash of HK\$0.8 per share.

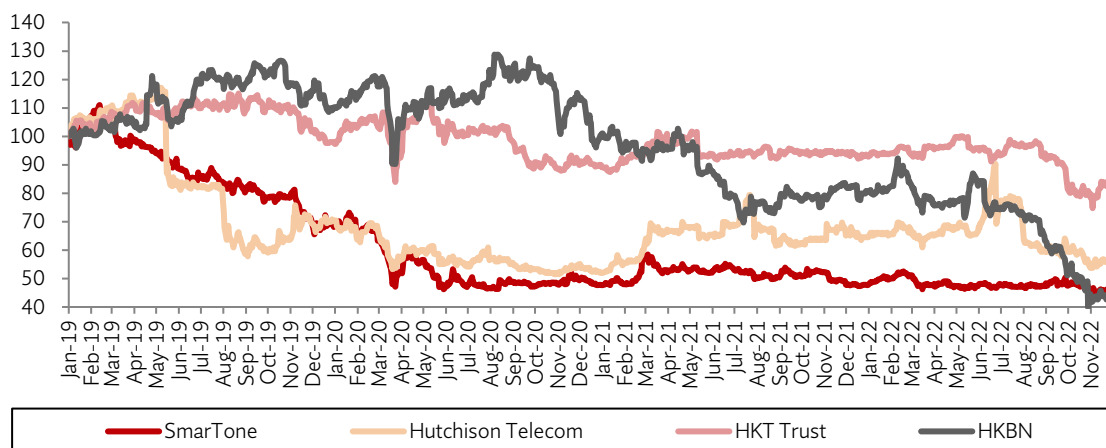
HKBN (1310 HK, BUY). We lift our adjusted free cash flow (AFF) forecast slightly by 1-2% for FY8/23, FY8/24 and FY8/25, as we expect ARPU improvement given healthier competition environment going forward. Although management reset its dividend distribution ratio to a lower level of 75% going forward, vs. 100% since listing, we are confident about business recovery and forecast AFF to grow by 5% and 16% for FY8/23 and FY8/24, respectively. This will translate to DPS of HK\$0.68 and HK\$0.79, respectively. Overall, we remain positive about the company's outlook. Maintain BUY for its attractive dividend yield of c.13% and lift the TP to HK\$11.1, based on a dividend discount model (DDM), assuming 7.9% cost of equity and 1% terminal growth rate.

HKT (6823 HK, BUY). We lift our AFF forecast by 1.3%, 1.7%, and 2.5% for FY22, FY23, and FY24, respectively, due to increased roaming revenue in their mobile service segment, while largely keeping the assumptions for TSS, payTV, and others segment unchanged. We forecast AFF to grow by 4.2%, 3.0%, and 3.0% in FY22, FY23, and FY24, respectively. The company offers an attractive dividend yield of c.8% with stable AFF growth in the next few years. We maintain our BUY call with a higher TP of HK\$13.6 due to AFF revision. Our TP is based on DDM, assuming cost of equity of 7.2% and terminal growth rate of 1%.

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Share price performance

Rebased (1 Jan 19 = 100)



Source: Thomson Reuters

Share price performance table

Share price performance (%)	1-mth	3-mth	6-mth	12-mth	YTD
SmarTone	3.0	(2.2)	(2.9)	(2.4)	(2.2)
Hutchison Telecom	9.5	(0.9)	(12.2)	(10.2)	(8.0)
HKT Trust	4.5	(9.5)	(12.5)	(11.2)	(10.5)
HKBN	6.2	(29.1)	(47.1)	(45.8)	(44.7)
HSI	21.2	(4.4)	(12.0)	(20.8)	(19.9)

Source: Thomson Reuters

Valuation

Company Name	Currency Code	Price Local\$	Mkt Cap US\$m	Fiscal Yr	PE	PE	Yield	Yield	P/Bk	P/Bk	EV/EBITDA	FCF	Yield	Yield	
					23F x	24F x	23F %	24F %	23F x	24F x	23F x	24F x	23F %	24F %	
Hong Kong telecom operators															
HKT Trust*	6823 HK	HKD	9.38	9,139	Dec	13.9	13.2	8.3	8.6	2.0	2.0	8.5	8.5	9.7	9.4
Hutchison Telecom*	215 HK	HKD	1.15	712	Dec	23.5	14.3	6.5	6.5	0.5	0.5	1.0	0.7	20.5	21.3
Smartone Telecom*	315 HK	HKD	4.06	577	Jun	8.6	7.7	9.1	10.2	0.8	0.8	1.5	1.2	40.9	44.3
HKBN*	1310 HK	HKD	5.29	892	Aug	13.1	9.6	12.9	14.9	1.5	1.5	6.1	5.5	21.9	24.6
Average						14.8	11.2	9.2	10.0	1.2	1.2	4.3	4.0	23.3	24.9

FY23: FY24; FY24: FY25

Source: Thomson Reuters, *DBS HK

China / Hong Kong Company Update

SmarTone

Bloomberg: 315 HK EQUITY | Reuters: 0315.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Dec 2022

BUY

Last Traded Price (1 Dec 2022): HK\$4.06 (HSI : 18,736)
Price Target 12-mth: HK\$7.10 (75% upside) (Prev HK\$6.30)

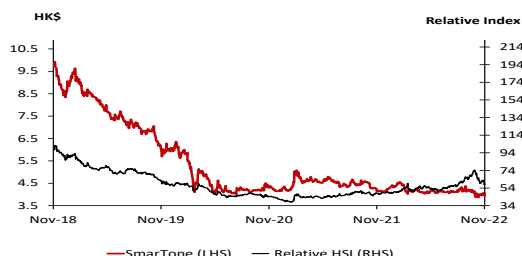
Analyst

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What's New

- Raising mobile roaming revenue by 27%, and thus earnings by 3% in FY6/23
- Expect F6/23 roaming revenue to recover to 65% of its FY6/19 level, contributing 10% to mobile service revenue
- Forecast earnings to grow by 23% and 12% for FY23 and FY24, respectively
- Maintain BUY on c.9% dividend yield

Price Relative



Forecasts and Valuation

FY Jun (HK\$m)	2022A	2023F	2024F	2025F
Turnover	6,957	7,418	7,645	8,069
EBITDA	2,132	2,296	2,402	2,636
Pre-tax Profit	600	738	822	1,018
Net Profit	423	522	582	720
Net Pft (Pre Ex) (core profit)	423	522	582	720
Net Profit Gth (Pre-ex) (%)	(4.8)	23.4	11.4	23.8
EPS (HK\$)	0.38	0.47	0.52	0.65
EPS (HK\$)	0.38	0.47	0.52	0.65
EPS Gth (%)	(4.3)	23.4	11.4	23.8
Diluted EPS (HK\$)	0.38	0.47	0.52	0.65
DPS (HK\$)	0.30	0.37	0.41	0.51
BV Per Share (HK\$)	4.66	4.81	4.95	5.14
PE (X)	10.6	8.6	7.7	6.3
P/Cash Flow (X)	2.2	1.9	1.8	1.6
P/Free CF (X)	3.4	2.4	2.3	2.0
EV/EBITDA (X)	1.8	1.5	1.2	0.9
Net Div Yield (%)	7.4	9.1	10.2	12.6
P/Book Value (X)	0.9	0.8	0.8	0.8
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	8.2	10.0	10.8	12.9
Earnings Rev (%)		3	9	New
Consensus EPS (HK\$)		0.41	0.46	0.51
Other Broker Recs:		B:6	S:0	H:1

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Close to inflection point

Investment Thesis

5G launch to improve mobile ARPU outlook. We expect SmarTone (SMT) to resume its earnings growth, thanks to the launch of 5G services, which leads to higher data usage and ARPU.

Roaming revenue recovery. Roaming revenue accounted for only c.5% of mobile service revenue during the pandemic vs. c.16% before COVID-19. A recovery in roaming revenue will be positive for earnings growth.

Expect 5G capex to be manageable. We expect the company to manage the 5G capex to match the development of new business applications. We forecast its capex to drop to HK\$550-650m in FY6/23.

Valuation:

Our TP of HK\$7.1 is pegged at 15x FY6/23 PE, in line with its historical average.

Where we differ:

More positive about ARPU outlook. The market has not fully priced in the roaming recovery factor for mobile operators, we are more positive about the ARPU outlook for the industry as we expect roaming business will return to c.70% of pre-COVID levels in FY23.

Key Risks to Our View:

Irrational market competition. Hong Kong's mobile market is crowded with four major players. Irrational pricing may lead to a price war.

New entrant to the market. A new entrant to the mobile market will intensify competition and lead to subscriber loss and pricing pressure for existing players.

At A Glance

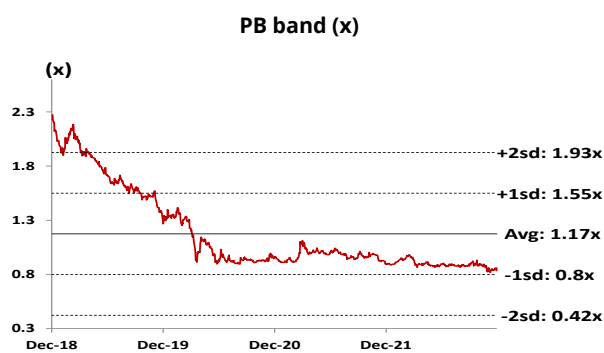
Issued Capital (m shrs)	1,106
Mkt Cap (HKm/US\$m)	4,490 / 577
Major Shareholders (%)	
Cellular 8 Holdings Ltd.	69.0
Free Float (%)	31.0
3m Avg. Daily Val. (US\$m)	0.19
GICS Industry: Communication Services / Telecommunication Services	

SmarTone

Company Background

SmarTone (SMT) is a mobile operator in Hong Kong focusing on the high-end customer segment. It has a c.16% mobile submarket share. Its major shareholder is Sun Hung Kai Properties.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

SmarTone

Key Assumptions

FY Jun	2021A	2022A	2023F	2024F	2025F
Mobile Sub number (k)	2,737.0	2,748.0	2,768.0	2,788.0	2,828.0
Mobile ARPU (HK\$)	133.0	136.0	146.0	152.0	163.0

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Jun	2021A	2022A	2023F	2024F	2025F
Revenues (HK\$ m)					
Mobile service	4,339	4,489	4,826	5,053	5,477
Handset and accessory sales	2,381	2,469	2,592	2,592	2,592
Total	6,720	6,957	7,418	7,645	8,069

Source: Company, DBS HK

SmarTone

Income Statement (HK\$ m)

FY Jun	2021A	2022A	2023F	2024F	2025F
Revenue	6,720	6,957	7,418	7,645	8,069
Cost of Goods Sold	(2,316)	(2,402)	(2,527)	(2,540)	(2,540)
Gross Profit	4,405	4,555	4,890	5,105	5,529
Other Opng (Exp)/Inc	(3,730)	(3,811)	(4,047)	(4,183)	(4,417)
Operating Profit	674	744	843	922	1,112
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(78)	(144)	(106)	(100)	(94)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	596	600	738	822	1,018
Tax	(153)	(177)	(218)	(242)	(300)
Minority Interest	2	0	2	2	2
Preference Dividend	0	0	0	0	0
Net Profit	445	423	522	582	720
Net Profit before Except.	445	423	522	582	720
EBITDA	2,117	2,132	2,296	2,402	2,636
Growth					
Revenue Gth (%)	(3.8)	3.5	6.6	3.1	5.5
EBITDA Gth (%)	3.4	0.7	7.7	4.6	9.7
Opg Profit Gth (%)	29.7	10.3	13.4	9.3	20.6
Net Profit Gth (%)	17.3	(4.8)	23.4	11.4	23.8
Margins & Ratio					
Gross Margins (%)	65.5	65.5	65.9	66.8	68.5
Opg Profit Margin (%)	10.0	10.7	11.4	12.1	13.8
Net Profit Margin (%)	6.6	6.1	7.0	7.6	8.9
ROAE (%)	8.8	8.2	10.0	10.8	12.9
ROA (%)	4.2	3.6	4.2	4.7	5.9
ROCE (%)	6.4	5.8	6.0	6.7	8.1
Div Payout Ratio (%)	75.0	78.5	78.5	78.5	78.5
Net Interest Cover (x)	8.6	5.2	8.0	9.2	11.9

Source: Company, DBS HK

Interim Income Statement (HK\$ m)

FY Jun	2H2020	1H2021	2H2021	1H2022	2H2022
Revenue	2,730	3,244	3,476	3,792	3,166
Cost of Goods Sold	(550)	(1,039)	(1,277)	(1,492)	(910)
Gross Profit	2,180	2,206	2,199	2,299	2,256
Other Oper. (Exp)/Inc	(2,019)	(1,826)	(1,905)	(1,908)	(1,903)
Operating Profit	161	380	294	391	353
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(24)	(38)	(41)	(55)	(88)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	137	342	254	336	264
Tax	(56)	(78)	(76)	(83)	(93)
Minority Interest	33	2	0	(1)	1
Net Profit	114	267	178	251	172
Net profit bef Except.	114	267	178	251	172
Growth					
Revenue Gth (%)	(15.4)	(23.8)	27.3	16.9	(8.9)
Opg Profit Gth (%)	(58.1)	5.9	82.7	2.9	19.9
Net Profit Gth (%)	(62.1)	0.4	56.8	(5.7)	(3.5)
Margins					
Gross Margins (%)	79.9	68.0	63.3	60.6	71.3
Opg Profit Margins (%)	5.9	11.7	8.5	10.3	11.1
Net Profit Margins (%)	4.2	8.2	5.1	6.6	5.4

Source: Company, DBS HK

SmarTone

Balance Sheet (HK\$ m)

FY Jun	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	3,584	3,654	3,548	3,418	3,249
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	3,878	5,526	5,051	4,566	4,081
Cash & ST Invt	2,160	2,195	2,616	3,092	3,692
Inventory	57	100	100	100	100
Debtors	332	344	356	368	381
Other Current Assets	639	762	762	762	762
Total Assets	10,650	12,581	12,432	12,307	12,266
ST Debt	77	1,445	1,445	1,445	1,445
Creditors	414	239	138	80	46
Other Current Liab	2,169	2,407	2,498	2,524	2,552
LT Debt	1,511	66	66	66	66
Other LT Liabilities	1,382	3,270	2,967	2,724	2,477
Shareholder's Equity	5,119	5,154	5,320	5,471	5,686
Minority Interests	(22)	0	(2)	(4)	(6)
Total Cap. & Liab.	10,650	12,581	12,432	12,307	12,266
Non-Cash Wkg. Capital	(1,554)	(1,441)	(1,418)	(1,374)	(1,354)
Net Cash/(Debt)	572	684	1,105	1,581	2,181
Debtors Turn (avg days)	18.8	17.7	17.2	17.3	17.0
Creditors Turn (avg days)	181.0	117.7	64.2	37.6	22.7
Inventory Turn (avg days)	24.5	28.3	34.0	34.4	35.9
Asset Turnover (x)	0.6	0.6	0.6	0.6	0.7
Current Ratio (x)	1.2	0.8	0.9	1.1	1.2
Quick Ratio (x)	0.9	0.6	0.7	0.9	1.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	53.6	47.1	37.7	36.4	36.4
Z-Score (X)	1.7	1.8	1.9	NA	NA

Source: Company, DBS HK

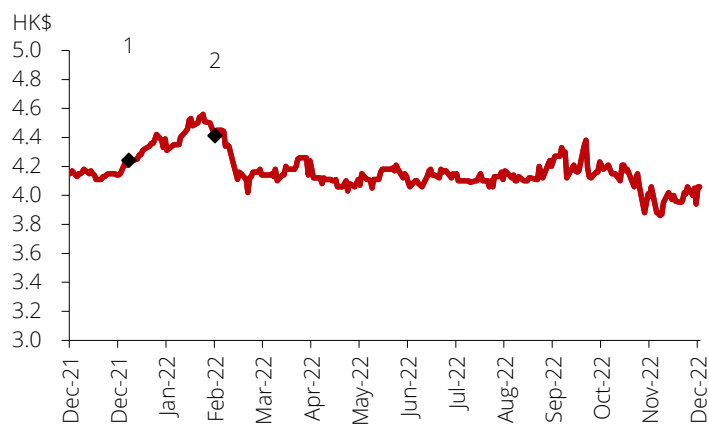
Cash Flow Statement (HK\$ m)

FY Jun	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	596	600	738	822	1,018
Dep. & Amort.	1,768	1,820	1,938	1,970	2,018
Tax Paid	(130)	(109)	(218)	(242)	(300)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	17	11	0	0	0
Chg in Wkg.Cap.	169	(265)	(91)	(48)	(23)
Other Operating CF	0	(21)	45	45	44
Net Operating CF	2,420	2,036	2,413	2,546	2,757
Capital Exp.(net)	(851)	(712)	(570)	(550)	(550)
Other Invt.(net)	(204)	(1,693)	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(81)	(217)	(378)	(386)	(399)
Net Investing CF	(1,136)	(2,622)	(948)	(936)	(949)
Div Paid	(328)	(342)	(356)	(431)	(505)
Chg in Gross Debt	(223)	(96)	0	0	0
Capital Issues	(26)	0	0	0	N/A
Other Financing CF	(741)	(686)	(689)	(703)	N/A
Net Financing CF	(1,318)	(1,124)	(1,045)	(1,133)	(1,208)
Currency Adjustments	1	0	0	0	0
Chg in Cash	(33)	(1,709)	421	476	600
Opg CFPS (HK\$)	2.02	2.08	2.26	2.34	2.51
Free CFPS (HK\$)	1.41	1.19	1.66	1.80	1.99

Source: Company, DBS HK

SmarTone

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	5-Jan-22	HK\$4.21	HK\$6.10	Buy
2:	24-Feb-22	HK\$4.44	HK\$6.30	Buy

Source: DBS HK

Analyst: Tsz Wang Tam

Hutchison Telecom

Bloomberg: 215 HK Equity | Reuters: 0215.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Dec 2022

BUY (Upgrade from Hold)

Last Traded Price (1 Dec 2022): HK\$1.15 (HSI : 18,736)
Price Target 12-mth: HK\$1.40 (22% upside) (Prev HK\$1.20)

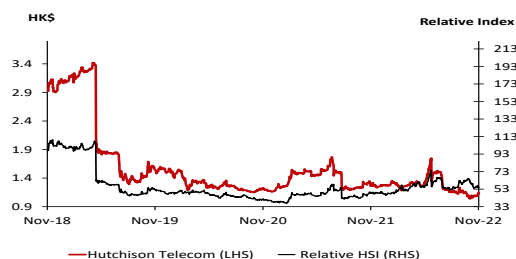
Analyst

Tsz Wang Tam +852 36684195 tszwangtam@dbs.com

What's New

- Raising mobile roaming revenue by 29%, and thus earnings by 54% in FY23
- Expect FY23 roaming revenue to recover to 70% of its FY19 level, contributing 15% to mobile service revenue
- Forecast earnings to grow to HK\$236m and HK\$386m in FY23 and FY24, from -HK\$17m and HK\$236m in FY22 and FY23, respectively
- Upgrade to BUY; with attractive dividend yield of c.7%

Price Relative



Forecasts and Valuation

	2021A	2022F	2023F	2024F
Turnover	5,385	4,980	5,450	5,717
EBITDA	1,416	1,409	1,668	1,857
Pre-tax Profit	86	23	288	471
Net Profit	4	(17)	236	386
Net Pft (Pre Ex) (core profit)	4	(17)	236	386
Net Profit Gth (Pre-ex) (%)	(98.9)	N/A	N/A	63.6
EPS (HK\$)	0.00	0.00	0.05	0.08
EPS Gth (%)	(98.9)	N/A	N/A	63.6
Diluted EPS (HK\$)	0.00	0.00	0.05	0.08
DPS (HK\$)	0.27	0.07	0.07	0.07
BV Per Share (HK\$)	2.24	2.17	2.14	2.14
PE (X)	1385.5	nm	23.5	14.3
P/Cash Flow (X)	1.6	6.3	3.6	3.8
P/Free CF (X)	2.2	11.4	4.9	4.7
EV/EBITDA (X)	1.1	1.4	1.0	0.7
Net Div Yield (%)	23.7	6.5	6.5	6.5
P/Book Value (X)	0.5	0.5	0.54	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE(%)	0.0	(0.2)	2.3	3.7
Earnings Rev (%)		NA	54	38
Consensus EPS (HK\$)		(0.00)	0.02	0.04
Other Broker Recs:		B:1	S:0	H:4

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Waiting for mobile roaming recovery

Investment Thesis

Roaming revenue recovery. Roaming revenue accounted for only c.8% during the pandemic vs. c.20% before COVID-19. A recovery in roaming revenue will be positive for earnings growth.

Expect higher 5G penetration to drive ARPU recovery. We forecast mobile ARPU will improve by 4%, 7%, and 2% in FY22, FY23, and FY24.

Huge cash position to be unlocked. We estimate Hutchison Telecom to have net cash of c.HK\$3.6bn at the end of 2022, equivalent to c.HK\$0.8 per share. The value could be unlocked with further special dividends in the future.

Valuation:

Our TP of HK\$1.4 is based on a SOTP valuation: (1) HK\$0.6 per share for the mobile business, at 15x FY23 PE, in line with its major peer, and (2) net cash of HK\$0.8 per share.

Where we differ:

More cautious about earnings recovery. Due to the slowdown of local service revenue growth and increasing network costs, we are more cautious about Hutchison Telecom's earnings recovery trajectory compared to its peers.

Key Risks to Our View:

Irrational market competition (downside risk). Hong Kong's mobile market is crowded with four major players. Irrational pricing may lead to a price war.

Recovery of mobile roaming revenue (upside risk). Faster-than-expected mobile roaming revenue will lead to higher EBITDA and earnings, as the mobile roaming business enjoys a higher margin.

At A Glance

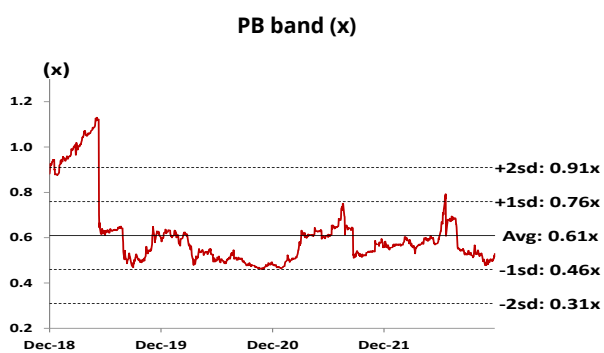
Issued Capital (m shrs)	4,819
Mkt Cap (HKm/US\$m)	5,542 / 712
Major Shareholders (%)	
CK Hutchison Holdings Ltd.	66.1
Li Ka Shing Foundation	7.3
Free Float (%)	26.6
3m Avg. Daily Val. (US\$m)	0.4
GICS Industry: Communication Services / Telecommunication Services	

Hutchison Telecom

Company Background

Hutchison Telecom (HT) has now become a pure mobile operator following the sale of its fixed-line assets, operating under the brand "3 Hong Kong". It has a c.20% mobile subscriber market share. Its major shareholder is CK Hutchison Holdings Limited.

Historical PB band



Source: Thomson Reuters, DBS HK

Hutchison Telecom

Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
Mobile sub number (k)	3,279.0	3,202.0	3,041.3	3,271.9	3,389.4
Mobile ARPU (HK\$)	79.0	83.3	86.3	92.4	94.3

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenues (HK\$ m)					
Mobile service	3,285	3,241	3,234	3,500	3,767
Fixed line	0	0	0	0	0
Hardware sales	1,260	2,144	1,746	1,950	1,950
Total	4,545	5,385	4,980	5,450	5,717

Source: Company, DBS HK

Hutchison Telecom

Income Statement (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	4,545	5,385	4,980	5,450	5,717
Cost of Goods Sold	(1,238)	(2,082)	(1,694)	(1,892)	(1,892)
Gross Profit	3,307	3,303	3,286	3,559	3,826
Other Opng (Exp)/Inc	(2,921)	(3,183)	(3,231)	(3,260)	(3,359)
Operating Profit	386	120	55	299	466
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(4)	(4)	(4)	(4)	(4)
Net Interest (Exp)/Inc	62	(30)	(28)	(7)	9
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	444	86	23	288	471
Tax	(83)	(82)	(40)	(52)	(85)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	361	4	(17)	236	386
Net Profit before Except.	361	4	(17)	236	386
EBITDA	1,606	1,416	1,409	1,668	1,857
Growth					
Revenue Gth (%)	(18.6)	18.5	(7.5)	9.4	4.9
EBITDA Gth (%)	2.4	(11.8)	(0.5)	18.3	11.4
Opg Profit Gth (%)	0.0	(68.9)	(54.2)	443.4	56.1
Net Profit Gth (%)	(15.9)	(98.9)	N/A	N/A	63.6
Margins & Ratio					
Gross Margins (%)	72.8	61.3	66.0	65.3	66.9
Opg Profit Margin (%)	8.5	2.2	1.1	5.5	8.2
Net Profit Margin (%)	7.9	0.1	(0.3)	4.3	6.8
ROAE (%)	3.0	0.0	(0.2)	2.3	3.7
ROA (%)	2.5	0.0	(0.1)	1.6	2.6
ROCE (%)	2.5	0.0	(0.3)	1.9	3.0
Div Payout Ratio (%)	100.0	32,875.0	N/A	152.9	93.5
Net Interest Cover (x)	NM	4.0	1.9	45.8	NM

Source: Company, DBS HK

Interim Income Statement (HK\$ m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	1,982	2,563	2,565	2,820	2,298
Cost of Goods Sold	(315)	(923)	(911)	(1,171)	(723)
Gross Profit	1,667	1,640	1,654	1,649	1,575
Other Oper. (Exp)/Inc	(1,530)	(1,391)	(1,568)	(1,615)	(1,623)
Operating Profit	137	249	86	34	(48)
Other Non Opng (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(2)	(2)	(2)	(2)	(2)
Net Interest (Exp)/Inc	52	10	(10)	(20)	(23)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	187	257	74	12	(73)
Tax	(41)	(42)	(43)	(39)	(23)
Minority Interest	0	0	0	0	0
Net Profit	146	215	31	(27)	(96)
Net profit bef Except.	146	215	31	(27)	(96)
Growth					
Revenue Gth (%)	(21.2)	(16.4)	29.4	10.0	(10.4)
Opg Profit Gth (%)	(8.1)	5.1	(37.2)	(86.3)	(155.8)
Net Profit Gth (%)	(22.3)	(10.8)	(78.8)	N/A	N/A
Margins					
Gross Margins (%)	84.1	64.0	64.5	58.5	68.5
Opg Profit Margins (%)	6.9	9.7	3.4	1.2	(2.1)
Net Profit Margins (%)	7.4	8.4	1.2	(1.0)	(4.2)

Source: Company, DBS HK

Hutchison Telecom

Balance Sheet (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	2,551	3,001	3,075	3,147	3,218
Invts in Associates & JVs	282	215	211	207	203
Other LT Assets	5,558	7,253	6,888	6,522	6,263
Cash & ST Invts	5,251	3,975	3,623	3,934	4,175
Inventory	92	96	74	83	83
Debtors	839	729	635	858	709
Other Current Assets	241	177	177	177	177
Total Assets	14,814	15,446	14,684	14,928	14,828
ST Debt	0	0	0	0	0
Creditors	1,495	1,693	1,309	1,678	1,455
Other Current Liab	518	452	452	452	452
LT Debt	0	0	0	0	0
Other LT Liabilities	754	2,486	2,486	2,486	2,600
Shareholder's Equity	12,047	10,815	10,437	10,312	10,321
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	14,814	15,446	14,684	14,928	14,828
Non-Cash Wkg. Capital	(841)	(1,143)	(874)	(1,012)	(939)
Net Cash/(Debt)	5,251	3,975	3,623	3,934	4,175
Debtors Turn (avg days)	56.3	53.1	50.0	50.0	50.0
Creditors Turn (avg days)	39,159.3	744.0	1,632.7	1,051.3	1,151.3
Inventory Turn (avg days)	1,916.3	43.9	92.6	55.3	60.9
Asset Turnover (x)	0.3	0.4	0.3	0.4	0.4
Current Ratio (x)	3.2	2.3	2.6	2.4	2.7
Quick Ratio (x)	3.0	2.2	2.4	2.2	2.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	1.8	1.3	1.4	1.4	NA

Source: Company, DBS HK

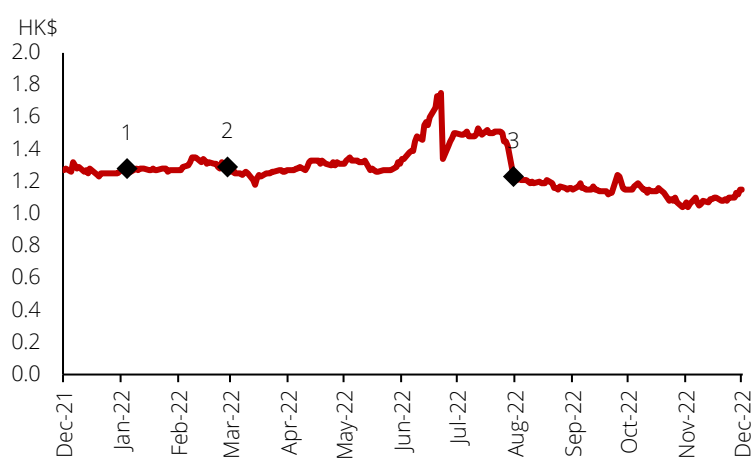
Cash Flow Statement (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	444	86	23	288	471
Dep. & Amort.	1,224	1,300	1,358	1,373	1,395
Tax Paid	(24)	0	(40)	(52)	(85)
Assoc. & JV Inc/(loss)	4	4	4	4	4
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(102)	2,155	(269)	138	(73)
Other Operating CF	(249)	(169)	(194)	(218)	(247)
Net Operating CF	1,297	3,376	883	1,533	1,464
Capital Exp.(net)	(593)	(874)	(397)	(397)	(283)
Other Invts.(net)	(202)	(2,040)	(103)	(103)	(217)
Invts in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	46	(2,586)	2,593	43	59
Net Investing CF	(749)	(5,500)	2,093	(457)	(441)
Div Paid	(291)	(1,315)	(361)	(361)	(377)
Chg in Gross Debt	(422)	(398)	(405)	(405)	(405)
Capital Issues	0	0	0	0	0
Other Financing CF	0	0	0	0	0
Net Financing CF	(713)	(1,713)	(766)	(766)	(782)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(165)	(3,837)	2,209	310	241
Opg CFPS (HK\$)	0.29	0.25	0.24	0.29	0.32
Free CFPS (HK\$)	0.15	0.52	0.10	0.24	0.25

Source: Company, DBS HK

Hutchison Telecom

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	5-Jan-22	HK\$1.26	HK\$1.40	BUY
2	28-Feb-22	HK\$1.32	HK\$1.10	HOLD
3	1-Aug-22	HK\$1.42	HK\$1.20	HOLD

Source: DBS HK

Analyst: Tsz Wang Tam

China / Hong Kong Company Update

HKBN Ltd.

Bloomberg: 1310 HK Equity | Reuters: 1310.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Dec 2022

BUY

Last Traded Price (1 Dec 2022): HK\$5.29 (HSI : 18,736)
Price Target 12-mth: HK\$11.10 (110% upside) (Prev HK\$10.70)

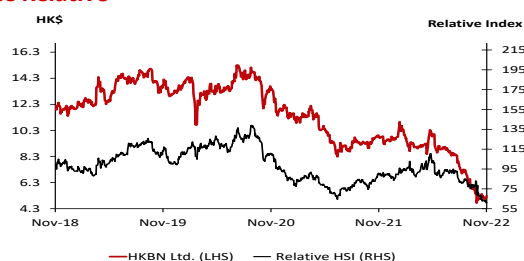
Analyst

Tsz Wang Tam +852 36684195 tszwangtam@dbs.com

What's New

- FY8/22 AFF stable, but payout ratio lower at 78%
- Management is re-setting distribution ratio at 75% of AFF
- Expect a healthier competition environment in FY8/23; revised up ARPU estimation for its broadband business
- Maintain BUY; with attractive dividend yield of c.13%

Price Relative



Forecasts and Valuation

FY Aug (HK\$m)	2022A	2023F	2024F	2025F
Turnover	11,626	12,467	13,081	13,584
EBITDA	2,571	2,688	2,899	2,930
Pre-tax Profit	712	703	931	980
Net Profit	553	530	720	761
Net Pft (Pre Ex) (core profit)	553	530	720	761
Net Profit Gth (Pre-ex) (%)	167.5	(4.2)	35.9	5.7
EPS (HK\$)	0.42	0.40	0.55	0.58
EPS Gth (%)	167.5	(4.2)	35.9	5.7
Diluted EPS (HK\$)	0.37	0.36	0.49	0.51
DPS (HK\$)	0.60	0.68	0.79	0.79
BV Per Share (HK\$)	3.75	3.62	3.43	3.22
PE (X)	12.5	13.1	9.6	9.1
P/Cash Flow (X)	3.7	3.3	3.0	3.1
P/Free CF (X)	5.2	4.6	4.1	4.1
EV/EBITDA (X)	6.6	6.1	5.5	5.4
Net Div Yield (%)	11.3	12.9	14.9	14.9
P/Book Value (X)	1.4	1.5	1.5	1.6
Net Debt/Equity (X)	2.0	2.0	2.0	2.1
ROAE (%)	10.6	11.0	15.6	17.4
Earnings Rev (%)		8	8	13
Consensus EPS (HK\$)		0.30	0.41	0.46
Other Broker Recs:		B:3	S:2	H:2

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Surfing on digitalisation wave

Investment Thesis

Attractive dividend yield of c.14%. HKBN offers an attractive dividend yield of c.14% and a decent adjusted free cash flow (AFF) CAGR of c.7% in FY8/23-FY8/25.

Unlocking cost synergies from the integration of WTT and Jardine OneSolution (JOS) with HKBN's enterprise business, which accounts for c.60% of its total service revenue. The integration also allows HKBN to cross-sell different services and offer one-stop solutions for digital transformation to an enlarged customer base.

Expect market share gain in residential broadband market through Disney+. HKBN's partnership with Disney+ could help it gain market share in new housing and from small residential broadband service providers.

Valuation:

Our target price (TP) of HK\$11.1 is based on a dividend discount model (DDM), assuming a 7.9% cost of equity and a 1% terminal growth rate.

Where we differ:

Positive on medium-term outlook. The market expects HKBN's growth to slow down after WTT's integration in FY8/21. However, we believe enterprises will speed up investments in digitalisation in a post-COVID-19 world, supporting stronger growth for HKBN, which offers one-stop digitalisation solutions.

Key Risks to Our View:

Price war. Competitors irrationally undercutting HKBN's prices for a prolonged period is negative for HKBN.

Protracted COVID-19 impact will increase uncertainties in the economic environment and limit information technology (IT) spending by enterprises.

At A Glance

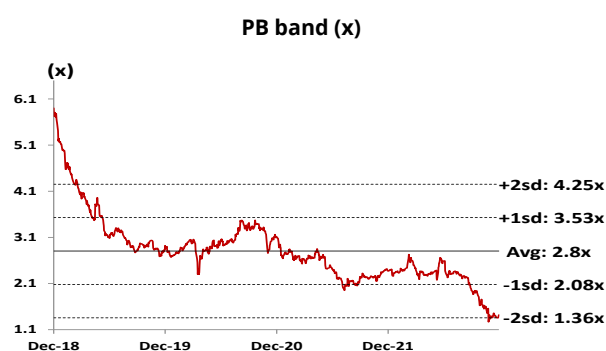
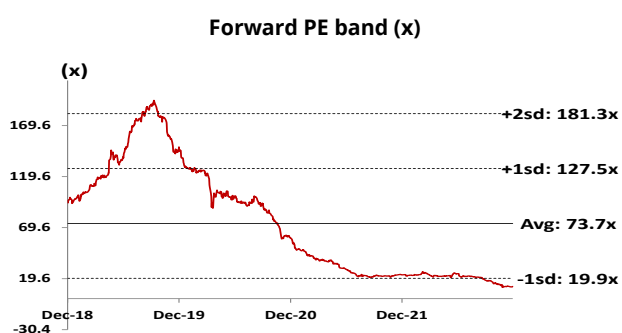
Issued Capital (m shrs)	1,312
Mkt Cap (HKm/US\$m)	6,940 / 892
Major Shareholders (%)	
CPP Investment Board	13.9
MBK Partners K.K.	11.1
TPG Capital, L.P.	11.1
GIC Private Limited	8.0
Free Float (%)	56.0
3m Avg. Daily Val. (US\$m)	2.9
GICS Industry: Communication Services / Telecommunication Services	

HKBN Ltd.

Company Background

HKBN is a broadband service provider in Hong Kong which was previously under City Telecom (now renamed HKTV [1137 HK]) founded by Ricky Wong in 1992. In 2012, HKBN was sold to CVC Capital Partner in a management buyout and was listed in 2014. It has become the second largest player in the residential as well as enterprise broadband markets with market shares of c.34% and c.37%, respectively. The company has a dividend policy of paying at least 75% of adjusted free cash flow (AFF).

Historical PE and PB band



Source: Thomson Reuters, DBS HK

HKBN Ltd.
Key Assumptions

FY Aug	2021A	2022A	2023F	2024F	2025F
Residential broadband sub (k)	886.0	897.0	937.0	977.0	1,017.0
Residential broadband ARPU (HK\$)	190.0	184.0	187.0	189.0	191.0
Mobile sub base (k)	254.0	241.0	241.0	241.0	241.0
Mobile ARPU (HK\$)	111.0	110.0	111.1	112.2	113.2

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Aug	2021A	2022A	2023F	2024F	2025F
Revenues (HK\$ m)					
Residential revenue	2,465	2,433	2,508	2,615	2,719
Enterprise revenue	4,966	4,427	4,519	4,651	4,760
Product revenue	4,033	4,766	5,440	5,814	6,105
Total	11,464	11,626	12,467	13,081	13,584

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Aug	2021A	2022A	2023F	2024F	2025F
Revenue	11,464	11,626	12,467	13,081	13,584
Cost of Goods Sold	(6,951)	(7,156)	(8,022)	(8,401)	(8,822)
Gross Profit	4,513	4,470	4,445	4,680	4,762
Other Opng (Exp)/Inc	(3,698)	(3,532)	(3,415)	(3,430)	(3,458)
Operating Profit	815	938	1,030	1,250	1,304
Other Non Opg (Exp)/Inc	21	60	29	29	17
Associates & JV Inc	(32)	(49)	(25)	(20)	(15)
Net Interest (Exp)/Inc	(479)	(236)	(331)	(328)	(326)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	325	712	703	931	980
Tax	(118)	(159)	(173)	(211)	(219)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	207	553	530	720	761
Net Profit before Except.	207	553	530	720	761
EBITDA	2,529	2,571	2,688	2,899	2,930
Growth					
Revenue Gth (%)	21.3	1.4	7.2	4.9	3.8
EBITDA Gth (%)	4.6	1.7	4.6	7.9	1.0
Opg Profit Gth (%)	37.2	15.1	9.8	21.3	4.3
Net Profit Gth (%)	112.9	167.5	(4.2)	35.9	5.7
Margins & Ratio					
Gross Margins (%)	39.4	38.5	35.7	35.8	35.1
Opg Profit Margin (%)	7.1	8.1	8.3	9.6	9.6
Net Profit Margin (%)	1.8	4.8	4.3	5.5	5.6
ROAE (%)	3.4	10.6	11.0	15.6	17.4
ROA (%)	0.9	2.6	2.6	3.6	3.8
ROCE (%)	2.8	4.1	4.4	5.6	6.0
Div Payout Ratio (%)	485.0	142.2	168.4	143.8	135.5
Net Interest Cover (x)	1.7	4.0	3.1	3.8	4.0

Source: Company, DBS HK

HKBN Ltd.
Balance Sheet (HK\$ m)

FY Aug	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	3,901	3,731	3,573	3,390	3,187
Invt in Associates & JVs	23	74	74	74	74
Other LT Assets	14,229	13,578	13,073	12,616	12,203
Cash & ST Invt	1,527	1,129	1,702	2,119	2,461
Inventory	111	111	114	116	118
Debtors	1,073	967	987	1,006	1,027
Other Current Assets	905	835	773	787	802
Total Assets	21,768	20,427	20,295	20,108	19,871
ST Debt	481	298	298	298	298
Creditors	936	779	818	858	901
Other Current Liab	2,447	2,054	2,133	2,214	2,267
LT Debt	10,831	10,913	10,913	10,913	10,913
Other LT Liabilities	1,535	1,459	1,389	1,322	1,261
Shareholder's Equity	5,538	4,924	4,745	4,502	4,229
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	21,768	20,427	20,295	20,108	19,871
Non-Cash Wkg. Capital	(1,294)	(919)	(1,077)	(1,163)	(1,222)
Net Cash/(Debt)	(9,786)	(10,082)	(9,508)	(9,092)	(8,750)
Debtors Turn (avg days)	38.7	32.0	28.6	27.8	27.3
Creditors Turn (avg days)	61.6	56.7	45.8	45.3	44.6
Inventory Turn (avg days)	9.2	7.3	6.5	6.2	5.9
Asset Turnover (x)	0.5	0.6	0.6	0.6	0.7
Current Ratio (x)	0.9	1.0	1.1	1.2	1.3
Quick Ratio (x)	0.7	0.7	0.8	0.9	1.0
Net Debt/Equity (X)	1.8	2.0	2.0	2.0	2.1
Net Debt/Equity ex MI (X)	1.8	2.0	2.0	2.0	2.1
Capex to Debt (%)	5.1	4.6	5.1	5.1	5.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (HK\$ m)

FY Aug	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	325	712	703	931	980
Dep. & Amort.	1,855	1,696	1,454	1,445	1,422
Tax Paid	(232)	(166)	(236)	(271)	(273)
Assoc. & JV Inc/(loss)	0	(4)	0	0	0
(Pft)/ Loss on disposal of FAs	16	(47)	0	0	0
Chg in Wkg.Cap.	(125)	(628)	(161)	(156)	(183)
Other Operating CF	515	299	331	328	326
Net Operating CF	2,354	1,862	2,091	2,278	2,271
Capital Exp.(net)	(572)	(516)	(570)	(570)	(570)
Other Invt.(net)	41	0	0	0	0
Invt in Assoc. & JV	(40)	(60)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(13)	267	6	9	11
Net Investing CF	(584)	(309)	(564)	(561)	(559)
Div Paid	(1,139)	(1,146)	(709)	(964)	(1,033)
Chg in Gross Debt	566	(455)	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	(355)	(343)	(245)	(336)	(336)
Net Financing CF	(928)	(1,944)	(953)	(1,300)	(1,370)
Currency Adjustments	9	(6)	0	0	0
Chg in Cash	850	(397)	573	416	342
Opg CFPS (HK\$)	1.89	1.90	1.72	1.86	1.87
Free CFPS (HK\$)	1.36	1.03	1.16	1.30	1.30

Source: Company, DBS HK

HKBN Ltd.

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	5-Jan-22	HK\$9.50	HK\$13.60	BUY
2	22-Apr-22	HK\$9.00	HK\$13.60	BUY
3	28-Oct-22	HK\$5.83	HK\$10.70	BUY

Source: DBS HK

Analyst: Tsz Wang Tam

China / Hong Kong Company Update

HKT Trust

Bloomberg: 6823 HK Equity | Reuters: 6823.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

2 Dec 2022

BUY

Last Traded Price (1 Dec 2022): HK\$9.38 (HSI : 18,736)
Price Target 12-mth: HK\$13.60 (45% upside) (Prev HK\$13.30)

Analyst

Tsz Wang Tam +852 36684195 tszwangtam@dbs.com

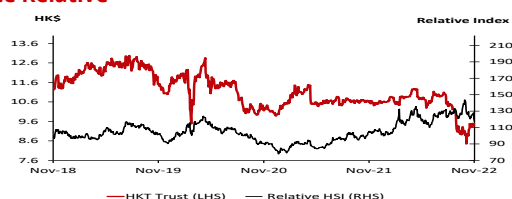


View our full data-driven analysis and more at [DBS Insights Direct](#)

What's New

- Raising mobile roaming revenue by 32%, and thus AFF by 2% in FY23
- Expect FY23 roaming revenue to recover to 70% of its FY19 level, contributing 8% to mobile service revenue
- Forecast AFF to grow by 3% in FY23 and FY24
- Maintain BUY on c.8% dividend yield

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2021A	2022F	2023F	2024F
Turnover	33,961	34,864	35,669	36,424
EBITDA	12,619	13,227	13,605	14,022
Pre-tax Profit	5,819	6,020	6,156	6,452
Net Profit	4,808	5,013	5,126	5,374
Net Pft (Pre-Ex) (core profit)	4,808	5,013	5,126	5,374
Net Profit Gth (Pre-ex) (%)	(9.3)	4.3	2.3	4.8
EPS (HK\$)	0.63	0.66	0.68	0.71
EPS Gth (%)	(9.3)	4.2	2.3	4.8
Diluted EPS (HK\$)	0.63	0.66	0.68	0.71
DPS (HK\$)	0.73	0.76	0.78	0.80
BV Per Share (HK\$)	4.90	4.76	4.67	4.59
PE (X)	14.8	14.2	13.9	13.2
P/Cash Flow (X)	6.7	6.3	6.2	6.1
P/Free CF (X)	13.1	10.8	10.3	10.7
EV/EBITDA (X)	8.9	8.6	8.5	8.5
Net Div Yield (%)	7.8	8.1	8.3	8.6
P/Book Value (X)	1.9	2.0	2.0	2.0
Net Debt/Equity (X)	1.1	1.2	1.3	1.4
ROAE(%)	12.8	13.7	14.3	15.3
AFF	5,513	5,743	5,917	6,098
AFF Gth (%)	2.4	4.2	3.0	3.0
AFF Rev (%)		1.3	1.9	2.5
Consensus EPS (HK\$)		0.63	0.65	0.68
Other Broker Recs:		B:11	S:0	H:0

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

Still a trusted pick

Investment Thesis

Attractive dividend yield of c.8% with steady AFF growth at an expected CAGR of c.3% in FY22-FY24.

Roaming revenue recovery. Roaming revenue accounted for only c.4% during the pandemic vs. c.12% before COVID-19. Thus, any roaming revenue recovery will be positive for AFF growth.

Expect higher 5G penetration to drive ARPU recovery. We forecast post-paid mobile ARPU to improve by 2.4% and 2.8% in FY22 and FY23, respectively.

Valuation:

Our TP of HK\$13.6 is based on a dividend discount model (DDM), assuming a 7.2% cost of equity.

Where we differ:

The market is concerned about the impact of lower IT spending in the enterprise market due to COVID-19. We believe that the impact is manageable, as demand for telecommunication services such as broadband is relatively stable.

Key Risks to Our View:

Price war in mobile market. Hong Kong's mobile market is crowded with four major players and a price war would put pressure on the company's mobile ARPU.

Interest rate upcycle. Any increase in interest rates will reduce the adjusted funds flow (AFF) and thereby dividend distribution.

At A Glance

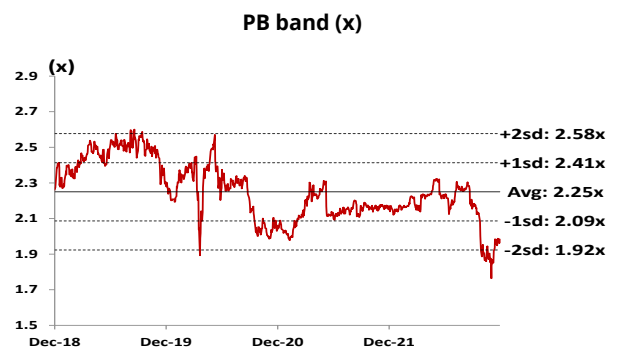
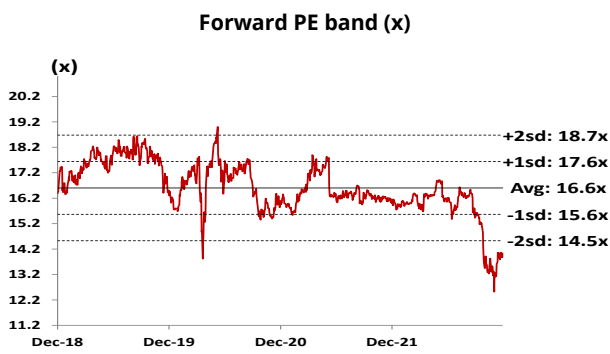
Issued Capital (m shrs)	7,576
Mkt Cap (HKm/US\$m)	71,063 / 9,134
Major Shareholders (%)	
PCCW Ltd	52.0
Free Float (%)	48.0
3m Avg. Daily Val. (US\$m)	8.3
GICS Industry: Communication Services / Telecommunication Services	

HKT Trust

Company Background

HKT is an integrated telecom service provider in Hong Kong, with the largest market share in the fixed-line and mobile markets. The company's broadband services are provided via the brand "Netvigator" and its mobile services are provided via the brands "csl.", "1010", and "SUN Mobile". HKT is 52%-owned by PCCW (8 HK).

Historical PE and PB band



Source: Thomson Reuters, DBS HK

HKT Trust

Key Assumptions

FY Dec	2020A	2021A	2022F	2023F	2024F
Fixed-line sub growth (%)	(2.9)	(3.1)	(1.5)	(1.5)	(1.5)
Broadband sub growth (%)	0.5	0.3	0.7	0.7	1.4
Mobile sub growth (%)	(1.6)	3.6	1.3	1.3	1.0
Mobile ARPU	139.0	139.0	141.0	144.0	148.0
EBITDA margin (%)	38.7	37.5	37.9	38.1	38.5

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenues (HK\$ m)					
TSS	22,357	21,812	22,320	22,717	23,072
Mobile	10,366	11,748	12,037	12,339	12,639
PayTV	647	2,456	2,579	2,708	2,843
Other businesses	241	872	959	1,007	1,037
Eliminations	(1,222)	(2,927)	(3,032)	(3,102)	(3,167)
Total	32,389	33,961	34,864	35,669	36,424

Source: Company, DBS HK

HKT Trust

Income Statement (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	32,389	33,961	34,864	35,669	36,424
Cost of Goods Sold	(15,703)	(16,729)	(17,015)	(17,347)	(17,663)
Gross Profit	16,686	17,232	17,849	18,323	18,761
Other Opng (Exp)/Inc	(9,498)	(10,127)	(10,350)	(10,486)	(10,566)
Operating Profit	7,188	7,105	7,499	7,837	8,195
Other Non Opng (Exp)/Inc	361	(8)	0	0	0
Associates & JV Inc	(79)	(130)	(125)	(120)	(120)
Net Interest (Exp)/Inc	(1,296)	(1,148)	(1,354)	(1,562)	(1,623)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	6,174	5,819	6,020	6,156	6,452
Tax	(855)	(997)	(993)	(1,016)	(1,065)
Minority Interest	(16)	(14)	(14)	(14)	(14)
Preference Dividend	0	0	0	0	0
Net Profit	5,303	4,808	5,013	5,126	5,374
Net Profit before Except.	5,303	4,808	5,013	5,126	5,374
EBITDA	12,529	12,619	13,227	13,605	14,022
Growth					
Revenue Gth (%)	(2.2)	4.9	2.7	2.3	2.1
EBITDA Gth (%)	(2.2)	0.7	4.8	2.9	3.1
Opg Profit Gth (%)	(6.6)	(1.2)	5.5	4.5	4.6
Net Profit Gth (%)	1.6	(9.3)	4.3	2.3	4.8
Margins & Ratio					
Gross Margins (%)	51.5	50.7	51.2	51.4	51.5
Opg Profit Margin (%)	22.2	20.9	21.5	22.0	22.5
Net Profit Margin (%)	16.4	14.2	14.4	14.4	14.8
ROAE (%)	14.0	12.8	13.7	14.3	15.3
ROA (%)	5.2	4.5	4.5	4.6	4.7
ROCE (%)	7.0	6.4	6.7	6.9	7.1
Div Payout Ratio (%)	101.5	114.7	114.6	115.4	113.5
Net Interest Cover (x)	5.5	6.2	5.5	5.0	5.0

Source: Company, DBS HK

Interim Income Statement (HK\$ m)

FY Dec	1H2020	2H2020	1H2021	2H2021	1H2022
Revenue	14,606	17,783	15,643	18,318	16,157
Cost of Goods Sold	(6,941)	(8,762)	(7,550)	(9,179)	(8,134)
Gross Profit	7,665	9,021	8,093	9,139	8,023
Other Oper. (Exp)/Inc	(4,608)	(4,890)	(5,127)	(5,000)	(5,014)
Operating Profit	3,057	4,131	2,966	4,139	3,009
Other Non Opng (Exp)/Inc	(50)	411	0	(8)	3
Associates & JV Inc	(30)	(49)	(63)	(67)	(38)
Net Interest (Exp)/Inc	(658)	(638)	(561)	(587)	(627)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,319	3,855	2,342	3,477	2,347
Tax	(414)	(441)	(434)	(563)	(435)
Minority Interest	(7)	(9)	(8)	(6)	(2)
Net Profit	1,898	3,405	1,900	2,908	1,910
Net profit bef Except.	1,898	3,405	1,900	2,908	1,910
Growth					
Revenue Gth (%)	(3.3)	(1.2)	7.1	3.0	3.3
Opg Profit Gth (%)	(9.1)	(4.6)	(3.0)	0.2	1.4
Net Profit Gth (%)	(12.2)	11.5	0.1	(14.6)	0.5
Margins					
Gross Margins (%)	52.5	50.7	51.7	49.9	49.7
Opg Profit Margins (%)	20.9	23.2	19.0	22.6	18.6
Net Profit Margins (%)	13.0	19.1	12.1	15.9	11.8

Source: Company, DBS HK

HKT Trust

Balance Sheet (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Net Fixed Assets	24,221	25,387	26,487	27,558	28,602
Invt in Associates & JVs	813	915	890	870	850
Other LT Assets	68,400	72,175	72,809	73,437	74,491
Cash & ST Invt	2,737	3,070	2,722	2,673	2,165
Inventory	820	1,218	1,249	1,278	1,308
Debtors	3,253	3,953	4,058	4,007	4,091
Other Current Assets	2,927	2,894	2,873	2,851	2,830
Total Assets	103,171	109,612	111,088	112,674	114,338
ST Debt	1,552	61	61	61	61
Creditors	3,945	5,250	5,594	5,703	5,807
Other Current Liab	9,872	10,892	10,892	10,892	10,892
LT Debt	40,719	43,628	45,628	47,628	49,628
Other LT Liabilities	9,183	12,584	12,748	12,914	13,095
Shareholder's Equity	37,838	37,141	36,095	35,391	34,758
Minority Interests	62	56	70	84	98
Total Cap. & Liab.	103,171	109,612	111,088	112,674	114,338
Non-Cash Wkg. Capital	(6,817)	(8,077)	(8,306)	(8,459)	(8,469)
Net Cash/(Debt)	(39,534)	(40,619)	(42,967)	(45,016)	(47,524)
Debtors Turn (avg days)	38.6	38.7	41.9	41.3	40.6
Creditors Turn (avg days)	110.7	151.5	177.3	179.9	179.3
Inventory Turn (avg days)	28.6	33.6	40.3	40.3	40.3
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3
Current Ratio (x)	0.6	0.7	0.7	0.6	0.6
Quick Ratio (x)	0.4	0.4	0.4	0.4	0.4
Net Debt/Equity (X)	1.0	1.1	1.2	1.3	1.4
Net Debt/Equity ex MI (X)	1.0	1.1	1.2	1.3	1.4
Capex to Debt (%)	11.3	12.0	10.1	9.7	10.2
Z-Score (X)	1.7	1.6	1.6	1.6	NA

Source: Company, DBS HK

Cash Flow Statement (HK\$ m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	6,174	5,819	6,020	6,156	6,452
Dep. & Amort.	5,341	5,652	5,853	5,888	5,947
Tax Paid	(516)	27	(599)	(613)	(643)
Assoc. & JV Inc/(loss)	79	130	25	20	20
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(1,717)	(2,322)	(1,481)	(1,563)	(1,711)
Other Operating CF	1,179	1,335	1,402	1,609	1,669
Net Operating CF	10,540	10,641	11,220	11,496	11,735
Capital Exp.(net)	(4,765)	(5,223)	(4,630)	(4,630)	(5,088)
Other Invt.(net)	0	(2)	0	0	0
Invt in Assoc. & JV	(1,815)	(292)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(39)	108	0	0	0
Net Investing CF	(6,619)	(5,409)	(4,630)	(4,630)	(5,088)
Div Paid	(5,336)	(5,428)	(6,058)	(5,830)	(6,007)
Chg in Gross Debt	1,818	1,444	2,000	2,000	2,000
Capital Issues	48	0	0	0	0
Other Financing CF	(809)	(932)	(2,879)	(3,086)	(3,146)
Net Financing CF	(4,279)	(4,916)	(6,938)	(6,916)	(7,154)
Currency Adjustments	33	3	0	0	0
Chg in Cash	(325)	319	(348)	(50)	(507)
Opg CFPS (HK\$)	1.62	1.71	1.68	1.72	1.77
Free CFPS (HK\$)	0.76	0.72	0.87	0.91	0.88

Source: Company, DBS HK

HKT Trust

Target Price & Ratings History



S.No.	Date	Closing Price	Target Price	Rating
1	5-Jan-22	HK\$10.64	HK\$13.30	BUY
2	25-Feb-22	HK\$10.70	HK\$13.30	BUY
3	12-Aug-22	HK\$10.92	HK\$13.30	BUY

Source: DBS HK

Analyst: Tsz Wang Tam

Hong Kong Telecom Sector

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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