China Mobile (0941.HK)

Performance falling is not an inflection point

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0941.HK | 0941.HK | 0941.HK
Industry: Telecoms, Media & Technology

Phillip Securities (Hong Kong) Ltd
Phillip Securities Research

2013-10-30

Quarterly report review

Rating: Neutral CP: HK$80.20 TP: HK$80.73

Company Profile

China Mobile is the largest mobile communication service provider in China's mainland, and has a maximum number of mobile users and the largest scale of mobile communication network in the world. The company mainly operates the business of mobile voice, data, VoIP, and multimedia, and it has the international networking unit management right of computer &internet and the business management right of the Bureau of International Gateway. By the end of 2012, the base stations of the company had exceeded 1.07 million in total, and the total customers had surpassed 700 million.

Investment Overview

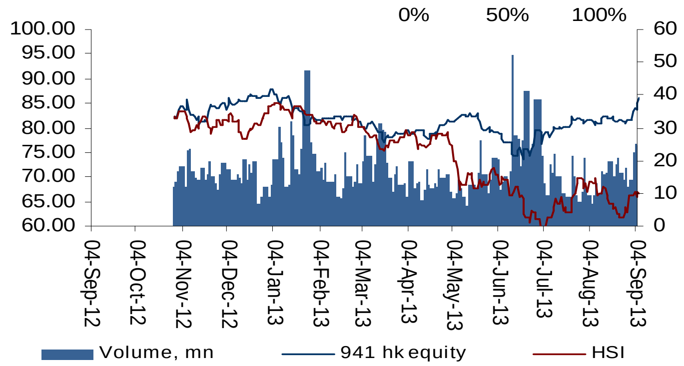
The 3Q13 report of China Mobile shows that the company's operating revenue of the past three quarters was 463 billion Yuan, with the year-on-year growth of 9.4%. However, the EBITDA was 185.7 billion Yuan, with its year-on-year falling of 0.9%, and the net profit was 91.5 billion Yuan, with A drop of 1.9%, which was the first falling since its going public. It's mainly because the explosion of WeChat and other OTT businesses has brought a huge shock to the business of voice, SMS, and value-added service of China Mobile, and higher operating expenditure and increasing capital spending have brought down the company's total earning capability.

The company's wireless business is soaring. Looking forwards, this business is hopeful to continue to keep its high growth for many years, with China's speeding up of implementing the strategy of information consumption and the expanding and acceleration of the wireless network coverage range. If this business conducts compound growth of 40% for the future three years and other services keep their steady growth, the revenue ratio of this business will be expected to reach more than 30%, and then it will spur higher-speed growth of the performance.

Because it is a proprietary intellectual property right, 4G TD-LTE is best supported by the government, and it is now a fact for China Mobile to build TD-LTE. The Government is predicted to rely more on TD-LTE as the network backbone, and is likely to issue TD-LTE license in advance. 4G network can provide data download speed of 100M, and differentiated network service will become an important means for China Mobile to improve its competitiveness. Therefore, the company is expected to turn its relative disadvantage by this in the 3G generation.

China Mobile

Rating	**3.00**	**Neutral**
- Previous Rating	-	*Not Rated*
Target Price (HKD)	**80.73**	
- Previous Target Price (HKD)	-	
Closing Price (HKD)	80.20	
Expected Capital Gains (%)	0.7%	
Expected Dividend Yield (%)	4.3%	
Expected Total Return (%)	**5.0%**	
Raw Beta (Past 2yrs w eekly data)	-	
Market Cap. (HKD mn)	1,612,185	
Enterprise Value (HKD mn)	846,485	
52 w eek range (HKD)	74.9 - 91.8	
Closing Price in 52 w eek range		



Key Financial Summary

FYE	**2011**	**2012**	**2013F**	**2014F**
Revenue (RMB mn)	527999	560413	613652	653540
Net Profit, adj. (RMB mn)	125870	129274	128783	131633
EPS, adj. (RMB)	6.27	6.43	6.41	6.55
P/E (X),adj.	10.2	9.9	9.9	9.7
BVPS (RMB)	32.34	35.99	39.71	43.51
P/B (X)	2.0	1.8	1.6	1.5
DPS (RMB)	2.73	2.77	2.76	2.82
Div. Yield (%)	4.3%	4.4%	4.3%	4.4%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/E (X)

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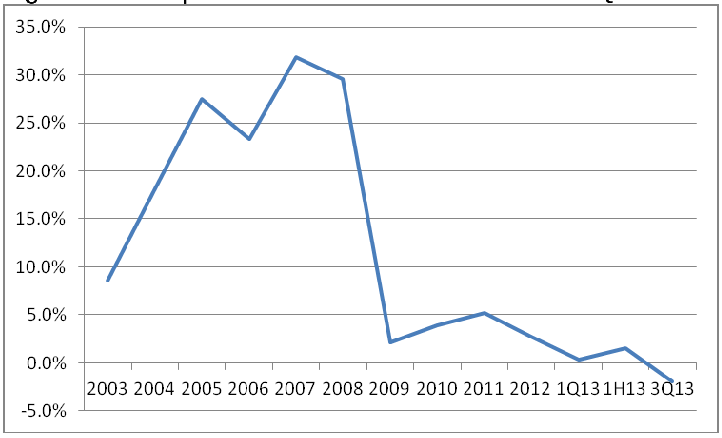
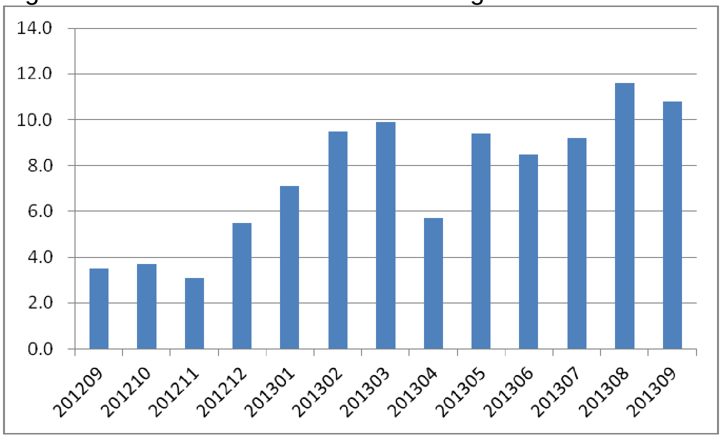
After the financial crisis in 2008, the company's average P/E is nearly 10 times. Basing on some positive factors like 4G license issue, even if we conservatively give the valuation level of 10X P/E for 2013EPS, the target price will reach HK$80.73. We grant it "Neutral" rating.

Figure 1: CM's performance takes first decline in 3Q13



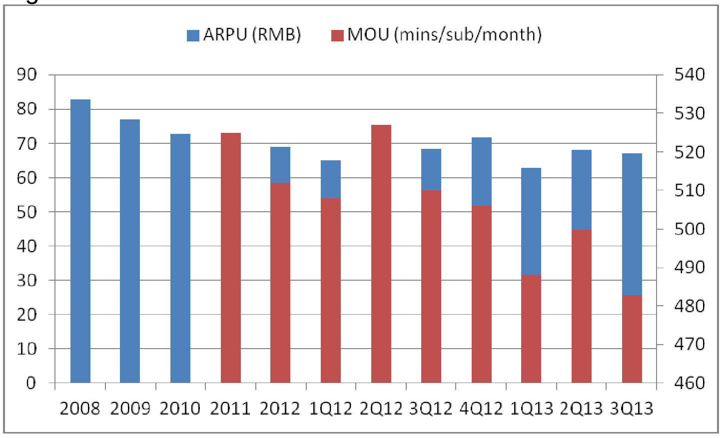
Sources: Company reports, Phillip Securities

Figure 2: 3G net additions is accelerating



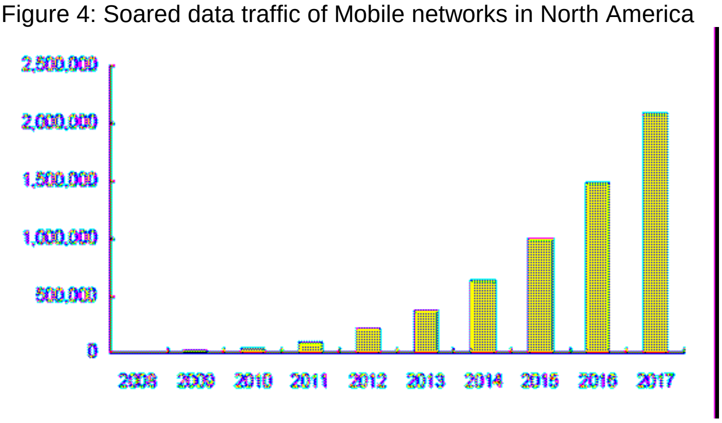
Sources: Company reports, Phillip Securities

Figure 3: Decreased ARPU and MOU of CM



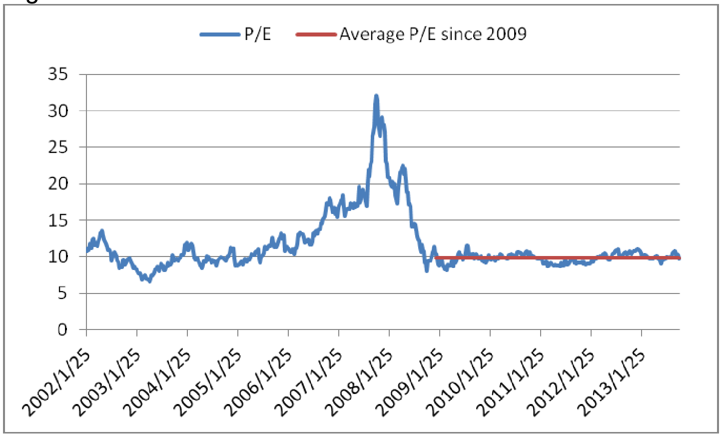
Sources: Company reports, Phillip Securities

Figure 4: Soared data traffic of Mobile networks in North America



Sources: Cisco VNI, Phillip Securities

Figure 5: Historical P/E Valuation of CM



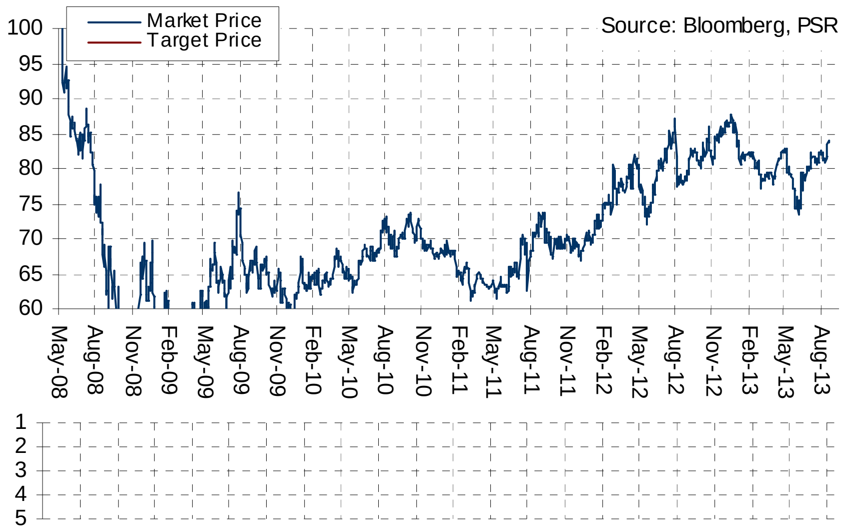
Sources: Bloomberg, Phillip Securities

Financial Status

Periodicity:	2011	2012	2013F	2014F
Valuation Ratios				
Price Earnings	10.15	9.90	9.93	9.72
Price to Book	1.97	1.77	1.60	1.46
Dividend Yield	4.29%	4.36%	4.33%	4.42%
Per share data(RMB)				
EPS Adjusted	6.27	6.43	6.41	6.55
Book Value Per Share	32.34	35.99	39.71	43.51
Dividends Per Share	2.73	2.77	2.76	2.82
Growth &Margin				
Revenue growth	8.81%	6.14%	9.50%	6.50%
Operating profit growth	2.93%	-2.61%	-3.94%	1.69%
Net profit growth	5.21%	2.70%	-0.38%	2.21%
Operating Margin	30.25%	27.76%	24.35%	23.25%
Net Profit Margin	23.84%	23.07%	20.99%	20.14%
Dividend Payout Ratio %	43.14%	43.18%	43.00%	43.00%
Key ratios				
Return on Assets	13.87%	12.90%	11.62%	10.78%
Return on Equity	20.55%	18.84%	16.91%	15.74%
Liability ratio	68.28%	68.94%	68.50%	68.50%
Effective Tax Rate	24.37%	24.47%	24.00%	24.00%
Income Statement				
Revenue	**527,999**	**560,413**	**613,652**	**653,540**
Operating expenses	376,700	409,891	469,378	506,792
Operating Profit	**159,714**	**155,549**	**149,424**	**151,948**
- Interest Expense	565	390	350	380
- Foreign Exchange Losses (Gain	9	-17	-30	10
- Net Non-Operating Losses (Gain	-7,442	-16,124	-20,500	-21,800
Pretax Income	166,582	171,300	169,604	173,358
- Income Tax Expense	40,603	41,919	40,705	41,606
Income Before XO Items	125,979	129,381	128,899	131,752
- Minority Interests	109	107	116	119
Net Profit	**125,870**	**129,274**	**128,783**	**131,633**

Source: Company reports, Phillip Securities

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
<-20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk rew ard profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

Total Return	Recommendation	Rating	Remarks
>+20%	Buy	1	>20% upside from the current price
+5% to +20%	Accumulate	2	+5% to +20%upside from the current price
-5% to +5%	Neutral	3	Trade within ± 5% from the current price
-5% to -20%	Reduce	4	-5% to -20% downside from the current price
<-20%	Sell	5	>20%downside from the current price

PHILLIP RESEARCH STOCK SELECTION SYSTEMS

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