

4G Drives the Outbreak of the Performance

HONG KONG | TMT | Event Review

Since the second half year of 2013, especially the issuance of 4G license, domestic 4G construction has been sped up significantly. Mobi Development has grown into a supplier of aerial systems and subsystem products of radio-frequency base stations for leading equipment manufacturers with the largest share, and the share advantage has been further expanded. From the perspective of production and supply, the company has made multiple preparations, besides the substantial increase of operating personnel, it has also established a strategic partnership with the world's leading test and measurement company, Agilent Technologies Inc., which aims to establish a long-term partnership in the aspect of test and measurement devices and other technological aspects, and assists the company in expanding the capacity. In general, under the two-wheeled driving of both demand and supply, we expect that the company will realize rapid growth of performance in 2014, close to the peak in 3G era.

At the end of April, the Ministry of Industry and Information Technology indicated that three basic telecommunication enterprises were discussing to organize a communication facility company jointly, which took responsibility for planning the construction of communication towers as a whole, further enhancing the level of constructing and sharing telecommunication infrastructure together. For this reason, the market worries that corresponding demands will shrink, leading to the worry about the growth of Mobi Development and other companies. However, in terms of the current situation that the country just plans to found the State Tower Company, it is still a relatively long process to realize the reduction of demand on towers, therefore, its medium and long-term influence is extremely limited.

MIMO technology may guide the new development of the company. Currently, domestic companies with MIMO technology and mass production capacity are numbered, only Huawei, Mobi, etc., while most of other companies still lie in the stage of initial research and development. Therefore, the company will possess a starting technological superiority. Secondly, in the era of 4G, radio frequency resources are expensive and limited, so the most effective method of enhancing network performance is multi-input multi-output (MIMO) technology, especially in the aspect of sharing base stations in the future, it is more likely to accelerate such processes. Thirdly, MIMO antenna has strong profitability. Its cost is expected to increase several decades of percents, while the price is expected to rise by several times.

Investment Action

4G can provide the company with the opportunity of regaining growth. The company made a profit instead of suffering a loss in 2013, and it is expected to accelerate its growth and worth looking forward to the performance in 2014. In the aspect of valuation, the company's valuation has been decreasing since it was listed, and the price-to-book ratio was as low as 0.36 times previously. We think the company's valuation is expected to return to a normal level under the new market opportunity and competitive situation. We temporarily give it 1 times corresponding to the valuation of book value per share in 2015, with the target price of 2 HKD and the "Buy" rating.

Key Financial Summary

FYE	12/12	12/13	12/14F	12/15F
Revenue (RMB mn)	688	888	1,423	1,565
Net Profit, adj. (RMB mn)	-39	19	78	97
EPS, adj. (RMB)	-0.05	0.02	0.10	0.12
P/E (X),adj.	-	55.6	11.1	9.3
BVPS (RMB)	1.25	1.28	1.36	1.46
P/B (X)	0.89	0.87	0.82	0.76
DPS (HK\$)	0.00	0.02	0.02	0.02
Div. Yield (%)	0.0%	1.4%	1.8%	2.2%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Rating:

Buy

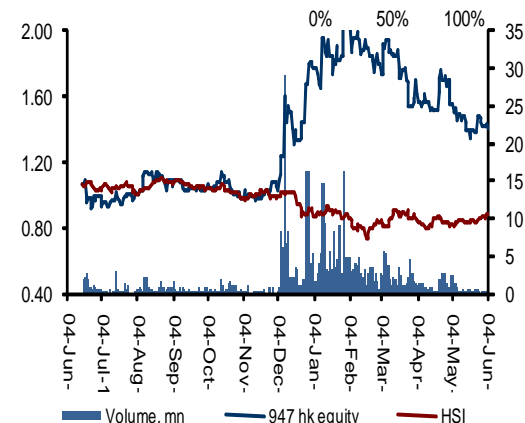
	Upgrade to Buy
Target Price (HKD)	2.00
Forecast Dividend (HKD)	0.02
Closing Price (HKD)	1.40
Potential Upside	42.9%

Company Description

MOBI Development has developed into one of the suppliers of wireless communication and RF components, whose main businesses include designing, manufacturing, marketing and selling base station antenna, RF subsystem and coverage extension solution. It sells products directly to China and overseas operators, and also supplies products to several providers of world's leading network solutions.

Company Data

Raw Beta (Past 2yrs weekly data)	-0.04
Market Cap. (HKD mn)	1,140
Enterprise Value (HKD mn)	836
52 w week range (HKD)	0.88 - 2.15
Closing Price in 52 w week range	



Major Shareholders

1. Fangyi Collaboration Holdings Limited	28.96%
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Valuation Method

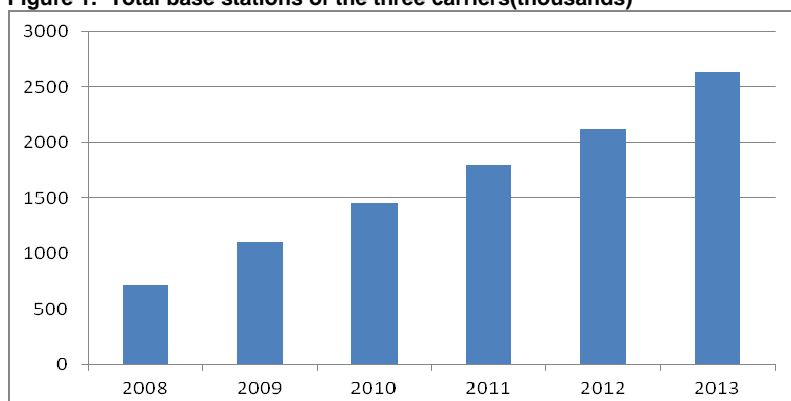
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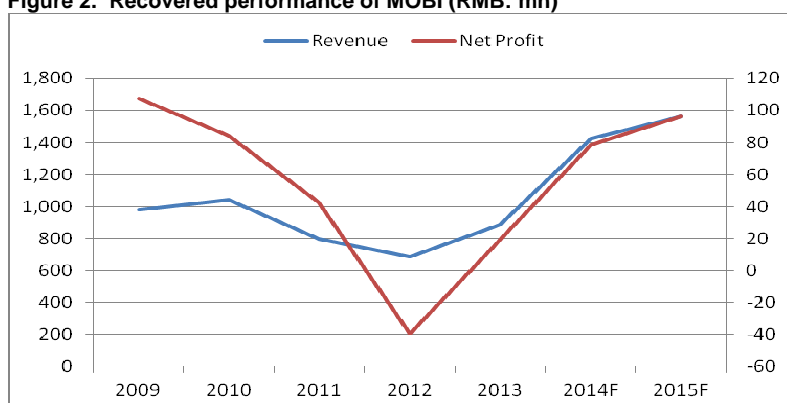
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Figure 1. Total base stations of the three carriers(thousands)



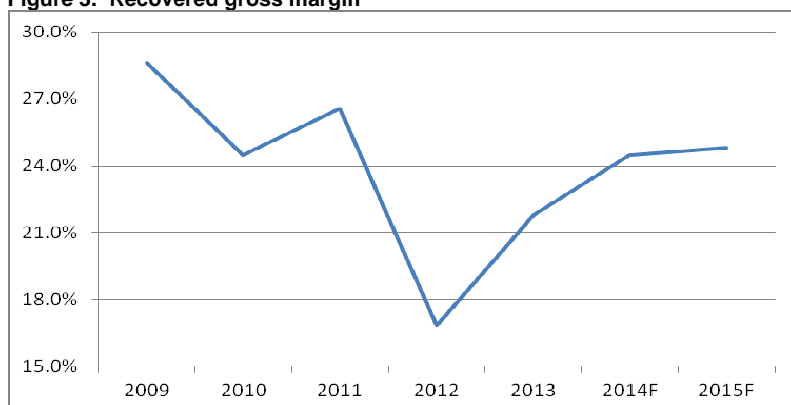
Source: PSR

Figure 2. Recovered performance of MOBI (RMB: mn)



Source: PSR, Company report

Figure 3. Recovered gross margin



Source: PSR, Company report

Periodicity:	2011	2012	2013	2014F	2015F
Valuation Ratios					
Price Earnings	20.96	-	55.56	11.11	9.26
Price to Book	0.83	0.89	0.87	0.82	0.76
Dividend Yield	1.5%	0.0%	1.4%	1.8%	2.2%
Per share data(RMB)					
EPS Adjusted	0.05	(0.05)	0.02	0.10	0.12
Book Value Per Share	1.34	1.25	1.28	1.36	1.46
Dividends Per Share	0.02	0.00	0.02	0.02	0.02
Growth & Margin					
Revenue growth	-23.4%	-13.8%	29.1%	60.2%	10.0%
Gross profit growth	-16.8%	-45.5%	67.7%	79.9%	11.2%
Net profit growth	-49.6%	-193.2%	-	310.5%	24.4%
Gross Margin	26.6%	16.8%	21.8%	24.5%	24.8%
Operating Margin	6.6%	-6.1%	2.7%	6.5%	7.3%
Net Profit Margin	5.3%	-5.7%	2.1%	5.5%	6.2%
Dividend Payout Ratio %	45.9%	0.0%	20.8%	20.0%	20.0%
Key ratios					
Return on Assets	2.5%	-2.4%	1.1%	3.9%	4.4%
Return on Equity	4.0%	-3.8%	1.9%	7.4%	8.5%
Liability ratio	36.02%	34.99%	45.20%	48.00%	48.00%
Effective Tax Rate	19.9%	0.0%	20.8%	15.0%	15.0%
Income Statement(RMB: mn)					
Revenue	798	688	888	1,423	1,565
- Cost of Goods Sold	586	572	694	1,074	1,177
Gross Income	212	116	194	349	388
- Selling, General & Admin Expenses	166	172	177	270	290
Operating Income	53	-42	24	92	114
Pretax Income	53	-43	24	92	114
- Income Tax Expense	11	-4	5	14	17
Net Profit	42	-39	19	78	97



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 \pm 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

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 reward 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

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