

# China Tower (788 HK)

Growth steadily in Q3 fully supports 5G construction

Hong Kong | Telecommunication | Update Report

3 Nov 2020

## Investment Summary

CHINA TOWER (the "Company") announces certain selected unaudited consolidated key financial and operating data of the Company for the period ended 30 September 2020. Operating revenue was 60,220 million (RMB, the same below) up by 5.6% yearly, EBITA was 44.019 million up 5.4% yearly, net profit attributable to owners of the Company was 4,564 million up by 17.8% yearly.

### Steady growth in tower business

In the first three quarters of 2020, revenue from tower business was 54,798 million, up by 2.2% yearly. Revenue from Tower business in Q3 was 18,427 million, up by 3.4% yearly and 1% quarterly. As of the end of September, the Company managed a total of 2,020 thousand tower sites, net increase 5,000 quarterly, and representing a net increase of 26,000 compared to the end of last year. Tower tenants reached 3,336 thousand, representing a net increase of 23,000 quarterly, and a net increase of 97,000 compared to the end of last year. We believe that the growth of tower revenue in the third quarter is in line with our expectation, mainly because more 5G base stations are built and the impact of "COVID-19" has reduced. We expect that as more traditional power grids are upgraded to 5G smart grids, more tenants will gradually lease 5G base stations. We expect the tower business in Q4 will continue to grow by 1% quarterly, and the yearly growth rate of full year tower business revenue will reach 2.85%.

### Non-tower business maintained high growth

In the first three quarters of 2020, revenue from DAS business was 2,634 million, up by 36.9% yearly. Revenue from DAS business in Q3 was 914 million, up by 36.42% yearly and 1.44% quarterly. The growth was below our expectation, mainly because the DAS market (such as subways, large venues, high-end commercial buildings and government offices) couldn't expand as expected. We expect revenue from DAS business in Q4 will increase 1.5% quarterly, full year revenue from DAS business up by 34% yearly. Revenue from TSSAI business and energy operation for the first three quarters of 2020 was 2,612 million, up by 92.8% yearly. Revenue from TSSAI business and energy operation in Q3 was 1,030 million, up by 101.76% yearly and 15.16% quarterly, the growth exceeds our expectation. We expect revenue from TSSAI business and energy operation in Q4 would increase 10.94% quarterly, Full year revenue from TSSAI business and energy operation would increase 80.6% yearly. The revenue from non-tower business accounted for 9.0% of total operating revenue for the period, increasing from 6.0% for the same period last year. We expect this would continue in the future.

### Valuation and Investment Recommendation

To conclude, although the growth in DAS business was below our expectation, the overall business is growing steadily. The Company's valuation is currently at the bottom range based on historical record, there is little risk of further drop in current price. We expect the Company's net book value per share to be RMB1.06/1.13/1.21 for 2020/2021/2022, giving a 12-month target price of HK1.54, corresponding to the P/B of 1.28x/1.20x/1.12x. Accumulate rating is maintained.

### Risks

- 1) COVID-19 outbreak in China
- 2) Development of 5G was not as expected
- 3) The number of tenants grow slower than expected

## Accumulate (Maintain)

Current market price HKD1.21  
(Closing price as at 30<sup>th</sup> Oct 2020)  
Target price HKD 1.54 (+27%)

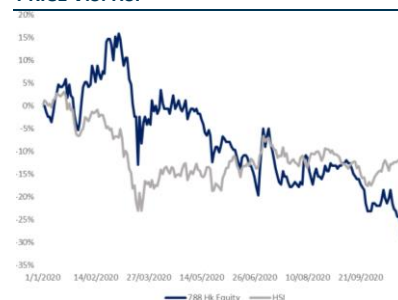
### COMPANY DATA

O/S SHARES(MN):	176,008
MATKET CAP(HKD BN) :	212
52-WK HI/LO (HKD):	2.02/1.21

### MAJOR SHAREHOLDER %

China Mobile	27.93
China Unicom	20.65
China Telecom	20.50

### PRICE V.S. HSI



Source: Wind, PSHK

### KEY FINANCIALS

CNYmn except per share data	FY19	FY20E	FY21E	FY22E
Net Sales	76,428	81,147	87,012	92,660
Net Profit	5,221	6,621	8,208	9,712
EPS, CNY	0.03	0.03	0.05	0.06
P/E x	36.30	28.63	23.09	19.52
BVPS, CNY	1.04	1.06	1.13	1.21
P/BV, x	1.04	1.02	0.95	0.89
ROE%	2.86	3.55	4.13	4.57
ROA%	0.84	1.54	2.21	2.57

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## Financial statements

### Key financial data

FYE DEC	FY18	FY19	FY20E	FY21E	FY22E
<b>Valuation Ratio</b>					
P/E ratio	71.53	36.30	28.63	23.09	19.52
P/B ratio	1.05	1.04	1.02	0.95	0.89
<b>Per share data (RMB)</b>					
EPS	0.02	0.03	0.04	0.05	0.06
Book value per share	1.03	1.04	1.06	1.13	1.21
<b>Growth &amp; Margin</b>					
Revenue growth	5%	6%	6%	7%	6%
Operating income growth	18%	24%	14%	15%	13%
EBITDA growth	4%	36%	5%	8%	6%
Net profit growth	36%	97%	27%	24%	18%
Operating income margin	13%	15%	16%	17%	18%
Adjusted EBITDA margin*	75%	75%	74%	73%	74%
Net profit margin	4%	7%	8%	9%	10%
<b>Key Ratios</b>					
ROE	1.5%	2.9%	3.5%	4.1%	4.6%
ROA	0.6%	0.8%	1.5%	2.2%	2.6%

Closing price as at 30<sup>th</sup> Oct 2020

\*EBITDA Margin is adjusted by PSHK

### Consolidated statement of comprehensive income

(RMB million)

Fiscal year	2017A	2018A	2019A	2020E	2021E	2022E
Fiscal year end date	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Revenue	68,665	71,819	76,428	81,147	87,012	92,660
<b>Operating expenses</b>						
Depreciation and amortization	(32,642)	(32,692)	(45,415)	(46,518)	(49,597)	(51,889)
Site operating lease charges	(11,336)	(12,196)	(639)	-	-	-
Repairs and maintenance	(6,156)	(6,165)	(5,993)	(6,002)	(6,091)	(6,486)
Employee benefits and expenses	(4,229)	(4,917)	(5,863)	(7,298)	(7,831)	(8,339)
Other operating expenses	(6,587)	(6,768)	(7,237)	(8,448)	(8,701)	(9,266)
<b>Operating expenses</b>	<b>(60,950)</b>	<b>(62,738)</b>	<b>(65,147)</b>	<b>(68,266)</b>	<b>(72,220)</b>	<b>(75,981)</b>
<b>Operating profit (EBIT)</b>	<b>7,715</b>	<b>9,081</b>	<b>11,281</b>	<b>12,881</b>	<b>14,792</b>	<b>16,679</b>
Interest income	104	248	63	63	225	484
Interest expense	(5,559)	(6,171)	(4,801)	(4,572)	(4,568)	(4,745)
Other gains	425	317	294	294	294	294
<b>Pretax profit</b>	<b>2,685</b>	<b>3,475</b>	<b>6,837</b>	<b>8,666</b>	<b>10,744</b>	<b>12,712</b>
Taxes	(742)	(825)	(1,616)	(2,045)	(2,536)	(3,000)
<b>Net income</b>	<b>1,943</b>	<b>2,650</b>	<b>5,221</b>	<b>6,621</b>	<b>8,208</b>	<b>9,712</b>
<b>Net profit margin(%)</b>	<b>2.83%</b>	<b>3.69%</b>	<b>6.83%</b>	<b>8.16%</b>	<b>9.43%</b>	<b>10.48%</b>
<b>EPS (RMB\$ cent)</b>	<b>1.13</b>	<b>1.54</b>	<b>3.03</b>	<b>3.84</b>	<b>4.76</b>	<b>5.63</b>

## Consolidated balance sheet

(RMB million)						
Fiscal year	2017A	2018A	2019A	2020E	2021E	2022E
Fiscal year end date	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
<b>Non-current assets</b>						
Property, plant and equipment	258,138	249,055	239,925	231,933	223,646	215,747
Construction in progress	10,930	12,193	12,263	13,020	13,961	14,867
Long-term prepayments	9,910	13,216	-	-	-	-
Deferred income tax assets	689	706	1,199	1,273	1,365	1,454
Other non-current assets	12,459	8,395	7,545	6,485	6,485	6,485
Right-of-use assets	-	-	36,140	33,868	31,596	29,324
	<b>292,126</b>	<b>283,565</b>	<b>297,072</b>	<b>252,711</b>	<b>245,457</b>	<b>238,553</b>
<b>Current assets</b>						
Cash and cash equivalents	7,852	4,836	6,223	9,898	34,622	60,984
Trade and other receivables	15,262	19,158	26,258	27,879	29,894	31,835
Prepayments and other current assets	7,403	7,805	8,514	9,040	9,693	10,322
	<b>30,517</b>	<b>31,799</b>	<b>40,995</b>	<b>46,817</b>	<b>74,209</b>	<b>103,141</b>
<b>Total assets</b>	<b>322,643</b>	<b>315,364</b>	<b>338,067</b>	<b>299,528</b>	<b>319,666</b>	<b>341,694</b>
<b>Non-current liabilities</b>						
Borrowings	43,793	19,064	8,480	12,856	12,856	9,116
Deferred revenue	1,314	1,039	800	849	911	970
Lease liabilities	-	-	17,862	16,678	15,494	14,310
	<b>45,107</b>	<b>20,103</b>	<b>27,142</b>	<b>30,383</b>	<b>29,261</b>	<b>24,396</b>
<b>Current liabilities</b>						
Borrowings	95,260	79,946	87,019	76,893	82,450	87,802
Deferred considerations payables	17,252	382	-	-	-	-
Accounts payable	31,906	30,591	29,313	31,123	33,372	35,538
Accrued expenses and other payables	5,400	3,263	4,641	4,928	5,284	5,627
Current income tax payable	223	577	399	424	454	484
Lease liabilities	-	-	6,992	6,868	6,744	6,620
	<b>150,041</b>	<b>114,759</b>	<b>128,364</b>	<b>120,235</b>	<b>128,304</b>	<b>136,071</b>
<b>Total liabilities</b>	<b>195,148</b>	<b>134,862</b>	<b>155,506</b>	<b>112,944</b>	<b>121,106</b>	<b>128,967</b>
Common stock	129,345	176,008	176,008	176,008	176,008	176,008
Retained earnings/(Accumulated deficits)	(1,850)	4,494	6,551	10,577	22,552	36,719
Other comprehensive income	-	-	-	-	-	-
<b>Non-controlling interests</b>	<b>-</b>	<b>-</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Total equity</b>	<b>127,495</b>	<b>180,502</b>	<b>182,561</b>	<b>186,585</b>	<b>198,560</b>	<b>212,727</b>

## Consolidated statement of cash flow

(RMB million)						
Fiscal year	2017A	2018A	2019A	2020E	2021E	2022E
Fiscal year end date	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Net income	9,298	9,861	10,981	6,621	8,208	9,712
Depreciation and amortization	32,642	32,692	45,415	46,518	49,597	51,889
Decreases / (Increases) in working capital assets	(4,857)	(7,470)	(7,809)	(2,147)	(2,668)	(2,570)
Increases / (Decreases) in working capital liabilities	915	2,652	343	2,121	2,636	2,539
Decrease / (Increase) in other non current assets	(3,063)	7,805	1,005	(1,060)	-	-
Other non current liabilities	-	-	-	-	-	-
<b>Cash from operating activities</b>	<b>34,935</b>	<b>45,540</b>	<b>49,935</b>	<b>52,053</b>	<b>57,773</b>	<b>61,570</b>
<b>Cash from investing activities</b>	<b>(51,915)</b>	<b>(32,923)</b>	<b>(28,136)</b>	<b>(38,526)</b>	<b>(41,310)</b>	<b>(43,991)</b>
<b>Cash from financing activities</b>	<b>7,583</b>	<b>(15,634)</b>	<b>(20,412)</b>	<b>(9,852)</b>	<b>8,261</b>	<b>8,783</b>
<b>Net change in cash during period</b>	<b>(9,397)</b>	<b>(3,017)</b>	<b>1,387</b>	<b>3,675</b>	<b>24,724</b>	<b>26,362</b>
Cash and cash equivalents at beginning of year	17,249	7,852	4,836	6,223	9,898	34,622
Effect of changes in foreign exchange rates on cash and cash equivalents	-	1	-	-	-	-
<b>Cash and cash equivalents at end of year</b>	<b>7,852</b>	<b>4,836</b>	<b>6,223</b>	<b>9,898</b>	<b>34,622</b>	<b>60,984</b>

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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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