

HKBN Ltd. (01310.HK)

Total Revenue Decline, but Core Business Remains Solid
Hong Kong | Telecommunication Services

2 December 2024

Investment Summary

HKBN Ltd. (01310) faced multiple challenges during FY2024 (for the fiscal year ending August 31, 2024), including weak mobile sales and headwinds from the high-interest-rate environment. However, the company's core business performance remained resilient, particularly in EBITDA growth and operational efficiency improvements. Despite a revenue decline, HKBN managed to turn a profit, posting a net profit of HKD 10.277 million, primarily due to sustained cost management and growth in its core telecommunications business. The Board has proposed a final dividend of 16.5 HK cents per share, bringing the full-year dividend payout to 31.5 HK cents per share, reflecting the company's cash flow pressures and the impact of higher interest rates. Overall, HKBN is focused on maintaining steady dividends while enhancing shareholder value and pursuing long-term growth. Our investment rating is "Accumulate", with PT of HKD5.05.

Total Revenue Decline, but Core Business Remains Solid

FY2024, HKBN reported a 9% year-on-year drop in total revenue to HKD 10.651 billion, mainly due to weaker-than-expected sales of mobile and other products. Excluding mobile sales, revenue only declined by 1%, demonstrating the stability of its core fixed telecommunications network services. Enterprise solutions revenue remained flat, although growth in the cloud and ICT services sectors provided some support.

EBITDA Growth and Improved Operational Efficiency

HKBN's EBITDA rose by 3% year-on-year to HKD 2.365 billion, with a particularly strong performance in the second half of FY2024, during which EBITDA grew by 11% year-on-year to HKD 1.214 billion. This reflects significant progress in cost control and capital expenditure management, particularly in driving growth in its Fixed Telecommunications Network Services (FTNS) and ICT solutions.

Return to Profitability

Compared to a loss of HKD 67 million in FY2023, HKBN recorded a net profit of HKD 10 million for FY2024. This positive shift was largely due to the absence of goodwill impairment and growth in its core business. Despite the challenging economic environment, HKBN has demonstrated adaptability and resilience. Adjusted free cash flow declined by 19% year-on-year to HKD 620 million, primarily due to a 41% increase in interest expenses in the high-interest-rate environment.

Enterprise Solutions business experienced a marginal year-on-year revenue decline of 1% to \$6,675 million. However, the business has made notable progress in strengthening core business performance and recorded a 1% increase in enterprise services revenue — excluding international telecommunications services. Residential Solutions business exhibited resilience in a highly competitive marketplace, experiencing a modest revenue decline of 2% to \$2,344 million. This was a result of the company strategic focus on direct subscriptions while deliberately decelerating our resell business. Service revenue remained steady, which features major platforms like Netflix, Disney+, myTV SUPER, and iQIYI. This, in turn, contributed to a notable rise in ARPU, with residential ARPU rising by 2% to \$182.

Accumulate

CMP HKD4.53

(Closing price as of 27 November)

Target HKD 5.05 (11.5%)

COMPANY DATA

| | |
|-----------------------|--------------|
| O/S SHARES (MN) : | 1,311.599356 |
| MARKET CAP (HKD MN) : | 5941.5 |
| 52 - WK HI/LO (HKD): | 4.94/2.19 |

SHARE HOLDING PATTERN, %

| | |
|--------------------------------------|--------|
| Canada Pension Plan Investment Board | 13.91% |
| TPG Wireman, LP | 11.05% |
| Twin Holding Ltd | 11.05% |
| GIC Private Limited | 7.01% |

PRICE VS. HSI



Source: Phillip Securities (HK) Research

KEY FINANCIALS

| HKD mn | FY23 | FY24 | FY25E | FY26E |
|-------------------|-----------|----------|----------|----------|
| Revenue | 11,692.2 | 10,650.9 | 10,887.7 | 11,257.0 |
| Net profit | (1,267.4) | 10.3 | 223.0 | 328.0 |
| Reported EPS | (0.967) | 0.008 | 0.170 | 0.250 |
| P/E ratio, x | - | 577.8 | 26.6 | 18.1 |
| Dividend Yield, % | 8.8% | 7.0% | 7.5% | 9.5% |

Source: Company reports, Phillip Securities Est.

Sr. Research Analyst

Eric Li (+852 2277 6516)

erichyli@phillip.com.hk

Growing Demand for Data and Enterprise Services

The global high-interest-rate environment has put pressure on HKBN's interest expenses, affecting its free cash flow. Additionally, competition in the telecommunications industry remains intense, particularly in the mobile and product sales segments, where the company faces significant challenges from other telecom operators. Despite weak mobile sales, enterprise demand for cloud services and data transmission continues to grow. HKBN has capitalized on this trend by expanding its ICT solutions and cloud services, strengthening its competitiveness in the enterprise market. The company's rollout of high-speed broadband services (e.g., 10Gbps to 25Gbps) is also meeting growing market demand for faster network speeds, which should support stable revenue growth in the future..

Investment Thesis

HKBN faced multiple challenges during FY2024, particularly from the high-interest-rate environment and declining mobile sales. However, the company's stable performance in its core business, as well as its expansion into ICT and cloud services, has laid a solid foundation for long-term growth. Given the potential investors of the company that has received non-binding proposals from China Mobile Hong Kong Company Limited, we expect FY2025E-FY2026E BVPS to be \$1.80 and \$1.71 respectively, with PT of HKD5.05, implies a FY2025E P/B of 2.44x (~the highest average price-to-book ratio in the past five years). Our investment rating is "Accumulate".

Risk factors

1) The prolonged high-interest-rate environment could continue to pressure HKBN's financing costs; 2) Intensifying competition from telecom operators could further erode HKBN's market share; 3) Macroeconomic uncertainties could affect enterprise spending.

Financial

Consolidated Statement of Profit or Loss

| Aug Y/E, HKD '000 | FY22 | FY23 | FY24 | FY25E | FY26E |
|-----------------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue | 11,626,164 | 11,692,176 | 10,650,922 | 10,887,707 | 11,257,046 |
| Other net income | 62,842 | 20,180 | 24,609 | 21,974 | 32,279 |
| Network costs and costs of sales | (7,155,803) | (7,525,019) | (6,661,678) | (6,971,971) | (7,164,744) |
| Other operating expenses | (3,532,453) | (3,446,031) | (3,124,364) | (3,050,857) | (3,228,258) |
| Impairment on goodwill | - | (1,200,000) | - | - | - |
| Finance costs | (239,204) | (702,303) | (860,236) | (599,368) | (468,072) |
| Share of losses of associates | 4,167 | (742) | - | (345) | (179) |
| Share of losses of joint ventures | (53,497) | (69,592) | (128) | (131) | (135) |
| Profit before tax | 712,216 | (1,231,331) | 29,125 | 287,009 | 427,938 |
| Income tax | (158,895) | (36,077) | (18,848) | (64,032) | (99,942) |
| Shareholders Net profit | 553,321 | (1,267,408) | 10,277 | 222,977 | 327,995 |
| Reported EPS, Basic | 0.422 | (0.967) | 0.008 | 0.170 | 0.250 |
| Reported EPS, Diluted | 0.374 | (0.967) | 0.007 | 0.151 | 0.222 |
| DPS | 0.60 | 0.40 | 0.32 | 0.34 | 0.43 |

Key Financial Data

| Aug Y/E, HKD '000 | FY22 | FY23 | FY24 | FY25E | FY26E |
|------------------------|-------|------|-------|-------|-------|
| Valuation Ratio | | | | | |
| P/S ratio, x | 1.2 | 1.9 | 2.3 | 2.5 | 2.6 |
| P/E ratio, x | 10.7 | - | 577.8 | 26.6 | 18.1 |
| Dividend Yield, % | 13.2% | 8.8% | 7.0% | 7.5% | 9.5% |

Per share data (USD)

| | | | | | |
|-----------|------|--------|------|------|------|
| Basic EPS | 0.42 | (0.97) | 0.01 | 0.17 | 0.25 |
| BVPS | 3.76 | 2.33 | 1.95 | 1.80 | 1.71 |
| DPS (HKD) | 0.60 | 0.40 | 0.32 | 0.34 | 0.43 |

Growth & Margin

| | | | | | |
|-------------------|--------|--------|-------|---------|-------|
| Growth | | | | | |
| Revenue Growth | 1.4% | 0.6% | -8.9% | 2.2% | 3.4% |
| Net Profit Growth | 167.5% | - | - | 2069.7% | 47.1% |
| Margin | | | | | |
| Net Profit Margin | 4.8% | -10.8% | 0.1% | 2.0% | 2.9% |

Key Ratios

| | | | | | |
|-----|-------|--------|------|------|-------|
| ROE | 10.6% | -31.8% | 0.4% | 9.1% | 14.2% |
| ROA | 2.6% | -6.6% | 0.1% | 1.3% | 1.9% |

Consolidated Statement of Financial Position

| Aug Y/E, HKD '000 | FY22 | FY23 | FY24 | FY25E | FY26E |
|--------------------------------------|------------|------------|------------|------------|------------|
| Non Current Asset | | | | | |
| PPE | 3,731,436 | 3,418,992 | 3,132,945 | 2,670,099 | 2,265,384 |
| Others | 13,652,410 | 11,895,988 | 11,471,415 | 11,187,694 | 10,916,842 |
| Total Non Current Assets | 17,383,846 | 15,314,980 | 14,604,360 | 13,857,792 | 13,182,226 |
| Current Asset | | | | | |
| Cash & cash equivalents | 1,129,226 | 1,016,769 | 1,217,406 | 1,789,596 | 2,274,155 |
| Trade receivables | 967,414 | 909,394 | 969,297 | 932,841 | 950,298 |
| Inventories | 111,478 | 105,681 | 106,197 | 111,144 | 109,685 |
| Others | 835,134 | 800,781 | 771,572 | 762,936 | 753,806 |
| Total Current Assets | 3,043,252 | 2,832,625 | 3,064,472 | 3,596,517 | 4,087,944 |
| Total Assets | 20,427,098 | 18,147,605 | 17,668,832 | 17,454,309 | 17,270,170 |
| Current Liabilities | | | | | |
| Payables | 778,651 | 927,666 | 945,879 | 938,703 | 964,658 |
| Borrowings | 297,703 | 284,861 | 272,601 | 270,075 | 210,948 |
| Other Non-current Liabilities | 2,054,474 | 1,899,613 | 2,016,848 | 2,013,337 | 2,009,827 |
| Total current Liabilities | 3,130,828 | 3,112,140 | 3,235,328 | 3,222,116 | 3,185,432 |
| Non Current Liabilities | | | | | |
| Bank and other borrowings | 10,913,214 | 10,671,853 | 10,705,002 | 10,704,160 | 10,684,451 |
| Others | 1,458,973 | 1,312,530 | 1,174,238 | 1,163,706 | 1,153,174 |
| Total Non-Current Liabilities | 12,372,187 | 11,984,383 | 11,879,240 | 11,867,866 | 11,837,625 |
| Equity | | | | | |
| Shareholders' equity | 4,924,083 | 3,051,082 | 2,554,264 | 2,364,327 | 2,247,112 |
| Total equity | 4,924,083 | 3,051,082 | 2,554,264 | 2,364,327 | 2,247,112 |
| Total Liabilities and Equity | 20,427,098 | 18,147,605 | 17,668,832 | 17,454,309 | 17,270,170 |

Consolidated Statement of Cash Flow

| Aug Y/E, HKD '000 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|-------------|-------------|-------------|-------------|-------------|
| CFO | | | | | |
| Profit before income tax | 712,216 | (1,231,331) | 29,125 | 287,009 | 427,938 |
| D&A add-back | 1,409,398 | 2,527,628 | 1,249,167 | 1,235,253 | 1,112,122 |
| Others | 533,887 | 1,023,680 | (1,421,838) | (1,546,596) | (1,550,015) |
| Net (inc)/dec working capital | (628,391) | (98,438) | 2,202,013 | 2,106,265 | 1,928,102 |
| Net cash flow from operating activities | 2,027,110 | 2,221,539 | 2,058,467 | 2,081,932 | 1,918,145 |
| CFI | | | | | |
| Purchase of PP&E | (516,124) | (489,391) | (362,711) | (335,501) | (283,390) |
| Others | 207,444 | 25,067 | 10,094 | 8,636 | 9,131 |
| Net cash flow from investing activities | (308,680) | (464,324) | (352,617) | (326,865) | (274,259) |
| CFD | | | | | |
| Dividends paid | (1,016,490) | (524,640) | (459,060) | (412,914) | (445,210) |
| Others | (927,804) | (1,101,575) | (1,044,003) | (769,963) | (714,117) |
| Net cash flows from financing activities | (1,944,294) | (1,626,215) | (1,503,063) | (1,182,877) | (1,159,327) |
| Net Change in Cash | (225,864) | 131,000 | 202,787 | 572,190 | 484,559 |
| Cash and CE at Y/E | 1,129,226 | 1,016,769 | 1,217,406 | 1,789,596 | 2,274,155 |

Current Price as of: November 27

Source: PSHK Est.

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

GENERAL DISCLAIMER

This publication is prepared by Phillip Securities (Hong Kong) Ltd ("Phillip Securities"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication shall not be reproduced in whole or in part, distributed or published by you for any purpose. Phillip Securities shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources which Phillip Securities has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively the "Research") contained in this publication are based on such information and are expressions of belief only. Phillip Securities has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities shall not have any responsibility to maintain the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities be liable for any special, indirect, incidental or consequential damages which may be incurred from the use of the information or Research made available, even if it has been advised of the possibility of such damages.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a financial adviser regarding the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

This publication should not be relied upon as authoritative without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of a security. Any decision to purchase securities mentioned in this research should take into account existing public information, including any registered prospectus in respect of such security.

Disclosure of Interest

Analyst Disclosure: Neither the analyst(s) preparing this report nor his associate has any financial interest in or serves as an officer of the listed corporation covered in this report

Firm's Disclosure: Phillip Securities does not have any investment banking relationship with the listed corporation covered in this report nor any financial interest of 1% or more of the market capitalization in the listed corporation. In addition, no executive staff of Phillip Securities serves as an officer of the listed corporation.

Availability

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Information contained herein is based on sources that Phillip Securities (Hong Kong) Limited ("PSHK") believed to be accurate. PSHK does not bear responsibility for any loss occasioned by reliance placed upon the contents hereof. PSHK (or its affiliates or employees) may have positions in relevant investment products. For details of different product's risks, please visit the Risk Disclosures Statement on <http://www.phillip.com.hk>.

© 2024 Phillip Securities (Hong Kong) Limited

Contact Information (Regional Member Companies)

SINGAPORE

Phillip Securities Pte Ltd

 250 North Bridge Road, #06-00 Raffles City Tower,
Singapore 179101

Tel : (65) 6533 6001 Fax: (65) 6535 3834

www.phillip.com.sg

INDONESIA

PT Phillip Securities Indonesia

 ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A,
Jakarta 10220, Indonesia

Tel (62) 21 5790 0800 Fax: (62) 21 5790 0809

www.phillip.co.id

THAILAND

Phillip Securities (Thailand) Public Co. Ltd.

 15th Floor, Vorawat Building, 849 Silom Road,
Silom, Bangrak, Bangkok 10500 Thailand

Tel (66) 2 2268 0999 Fax: (66) 2 2268 0921

www.phillip.co.th

UNITED STATES

Phillip Futures Inc.

 141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA

Tel (1) 312 356 9000 Fax: (1) 312 356 9005

MALAYSIA

Phillip Capital Management Sdn Bhd

 B-3-6 Block B Level 3, Megan Avenue II,
No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur

Tel (60) 3 2162 8841 Fax (60) 3 2166 5099

www.poems.com.my

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd.

 No 436 Heng Feng Road, Green Tech Tower Unit 604
Shanghai 200 070

Tel (86) 21 5169 9400 Fax: (86) 21 6091 1155

www.phillip.com.cn

FRANCE

King & Shaxson Capital Ltd.

 3rd Floor, 35 Rue de la Bienfaisance
75008 Paris France

Tel (33) 1 4563 3100 Fax : (33) 1 4563 6017

www.kingandshaxson.com

AUSTRALIA

PhillipCapital Australia

 L Level 10, 330 Collins Street
Melbourne VIC 3000 Australia

Tel: (61) 3 9618 8238 Fax: (61) 3 9200 2277

www.phillipcapital.com.au

HONG KONG

Phillip Securities (HK) Ltd

11/F United Centre 95 Queensway Hong Kong

Tel (852) 2277 6600 Fax: (852) 2868 5307

www.phillip.com.hk

JAPAN

Phillip Securities Japan, Ltd

 4-2 Nihonbashi Kabutocho, Chuo-ku
Tokyo 103-0026

Tel: (81) 3 3666 2101 Fax: (81) 3 3664 0141

www.phillip.co.jp

INDIA

PhillipCapital (India) Private Limited

 No. 1, 18th Floor, Urmi Estate, 95 Ganpatrao Kadam Marg,
Lower Parel West, Mumbai 400013

Tel: (9122) 2300 2999 Fax: (9122) 6667 9955

www.phillipcapital.in

UNITED KINGDOM

King & Shaxson Ltd.

 6th Floor, Candlewick House, 120 Cannon Street
London, EC4N 6AS

Tel (44) 20 7929 5300 Fax: (44) 20 7283 6835

www.kingandshaxson.com

SRI LANKA

Asha Phillip Securities Limited

 Level 4, Millennium House, 46/58 Navam Mawatha,
Colombo 2, Sri Lanka

Tel: (94) 11 2429 100 Fax: (94) 11 2429 199

www.ashaphillip.net/home.htm