

China Tower (788 HK)

1Q21 in-line; tower business remains slow

China Tower released 1Q21 results with revenue of RMB21.2bn (+7% YoY) and net profit of RMB1.7bn (+17% YoY). The result is largely in-line with our estimate but lower than consensus, as net profit accounted for 23%/17% of our/consensus FY21E NP forecasts. 1Q21 revenue was mainly driven by its two wing segments, TSSAI and Energy; however, its tower business (89% of revenue) remains slow (+3.9% YoY, vs 4.5% in 4Q20) as we believe telcos' opex is within strict budget control. Our new TP is HK\$1.33 based on lower 4.6x FY21E EV/EBITDA (vs 4.75x prior) due to near-term revenue/opex pressure. Maintain HOLD.

- 1Q21 largely in-line; slower tower business and strong TSSAI/Energy as expected.** 1Q20 tower business grew at 3.9% YoY, reflecting continued pressure as a result of telcos' co-build co-share strategy. By 1Q21, there are 3.4mn TSP and 2.0mn tower sites, up 3.7%/1.0% YoY. Tower tenancy ratio reached 1.68 (vs. 1.66 in FY20) and avg. revenue per TSP tower grew 2.8% YoY to RMB9.3k in 1Q21. Non-tower businesses, DAS/TSSAI/Energy, delivered strong growth of 20%/55%/225% YoY, driven by informatization, digitalization and new energy applications. 1Q21 EBITDA/NP margin remained at 73.5%/8.0% (vs 73.4%/7.9% in FY20).
- Muted tower outlook as telcos' opex is under strict budget control.** China telcos' FY21E capex budget is RMB340.6bn (+1.7% YoY), of which 54.2% is 5G-related. FY21E 5G BTS rollout announced is 640k (CM: 120k 2.6GHz; CM/CBN: 400k 700MHz for 2 yrs; CU/CT: 320k 2.1GHz/3.5GHz), which is lower than our previous est. of 800k. Meanwhile, CM announced that they would strictly control the growth of tower leasing expense. Although we are positive on China's 5G deployment and we believe China Tower will be a key beneficiary in the long run, we think slower core business will drag overall revenue growth in the near term.
- Maintain HOLD; adjust TP to HK\$1.33.** We trimmed our estimates to reflect more conservative EBITDA margin, and reduced our TP to HK\$1.33 (lower 4.6x FY21E EV/EBITDA) for near-term revenue/opex uncertainty. We expect near-term overhang on stock price due to telco opex pressure. Potential risks include less-than-expected 5G investments of telco and slower adoption of new 5G use cases.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	76,428	81,099	85,903	91,681	97,590
YoY growth (%)	6.4	6.1	5.9	6.7	6.4
EBITDA (RMB mn)	56,696	59,527	63,139	66,285	70,167
Net income (RMB mn)	5,222	6,428	8,326	9,529	10,519
EPS (RMB)	0.030	0.037	0.048	0.054	0.060
YoY growth (%)	66.6	23.6	29.5	14.5	10.4
Consensus EPS	NA	NA	0.058	0.066	0.073
P/E (x)	32.9	26.6	20.6	18.0	16.3
P/B (x)	0.9	0.9	0.9	0.9	0.9
EV/EBITDA (x)	4.8	4.5	4.3	4.1	3.8
Dividend Yield (%)	1.5	2.3	2.6	3.0	3.3
ROE (%)	2.9	3.5	4.4	4.9	5.2
Gearing ratio (%)	38	37	34	30	27

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$1.33
(Previous TP)	HK\$1.40
Up/Downside	+13%
Current Price	HK\$1.18

China Technology Sector

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Stock Data

Mkt. Cap. (RMB mn)	207,690
Avg. 3mths t/o (RMB mn)	712
52W High/Low (RMB)	1.77/1.03
Total Issued Shares (mn)	46,663.9

Source: Bloomberg

Shareholding Structure

Citigroup	8.39%
Hillhouse Capital	7.02%
GIC	6.98%

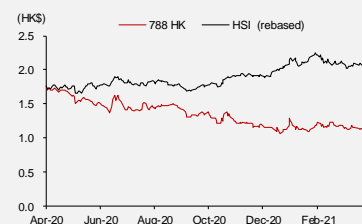
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-2.5%	-1.1%
3-mth	-3.4%	-3.7%
6-mth	-15.4%	-28.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PriceWaterHouse Coopers

Recent Report:

- FY20 in-line; 5G revenue growth remains uncertain – 9 Mar 2021
- China 5G Technology - Picking structural winners amid uncertainties; Initiate at Outperform – 18 Dec 2020

1Q20 Results Review

Figure 1: Quarterly results review

RMB mn	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	QoQ	YoY
Revenue	19,387	19,690	20,104	20,426	20,879	21,151	1.3%	7.4%
EBITDA	14,922	14,532	14,568	14,919	15,508	15,553	0.3%	7.0%
Net profit	1,349	1,452	1,526	1,586	1,864	1,694	-9.1%	16.7%
EPS (RMB)	0.01	0.01	0.01	0.01	0.01	0.01	-8.7%	17.2%
EBITDA Margin	77.0%	73.8%	72.5%	73.0%	74.3%	73.5%	-0.7 ppt	-0.3 ppt
Net Margin	7.0%	7.4%	7.6%	7.8%	8.9%	8.0%	-0.9 ppt	0.6 ppt

Source: Bloomberg, CMBIS estimates

Earnings Revision

Figure 2: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	85,903	91,681	97,590	86,489	92,261	98,164	-1%	-1%	-1%
Gross Profit	63,139	66,285	70,167	63,310	67,258	71,365	0%	-1%	-2%
Operating Profit	15,129	16,426	17,572	15,300	18,266	20,621	-1%	-10%	-15%
Net profit	8,326	9,529	10,519	8,441	10,921	12,851	-1%	-13%	-18%
EPS (RMB)	0.048	0.054	0.060	0.048	0.062	0.073	-1%	-13%	-18%
Gross Margin	73.5%	72.3%	71.9%	73.2%	72.9%	72.7%	0.3 ppt	-0.6 ppt	-0.8 ppt
Operating Margin	17.6%	17.9%	18.0%	17.7%	19.8%	21.0%	-0.1 ppt	-1.9 ppt	-3 ppt
Net Margin	9.7%	10.4%	10.8%	9.8%	11.8%	13.1%	-0.1 ppt	-1.4 ppt	-2.3 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	85,903	91,681	97,590	92,834	96,606	99,262	-7%	-5%	-2%
Gross Profit	63,139	66,285	70,167	68,016	69,729	70,709	-7%	-5%	-1%
Operating Profit	15,129	16,426	17,572	17,444	19,609	25,553	-13%	-16%	-31%
Net profit	8,326	9,529	10,519	9,733	10,121	10,310	-14%	-6%	2%
EPS (RMB)	0.048	0.054	0.060	0.058	0.066	0.073	-18%	-17%	-18%
Gross Margin	73.5%	72.3%	71.9%	73.3%	72.2%	71.2%	0.2 ppt	0.1 ppt	0.7 ppt
Operating Margin	17.6%	17.9%	18.0%	18.8%	20.3%	25.7%	-1.2 ppt	-2.4 ppt	-7.7 ppt
Net Margin	9.7%	10.4%	10.8%	10.5%	10.5%	10.4%	-0.8 ppt	-0.1 ppt	0.4 ppt

Source: Bloomberg, CMBIS estimates

Figure 4: P&L forecast

RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	76,428	81,099	85,903	91,681	97,590
...YoY	6.4%	6.1%	5.9%	6.7%	6.4%
Repairs & maintenance	-5,993	-5,805	-6,443	-7,334	-7,905
% of revenue	-7.8%	-7.2%	-7.5%	-8.0%	-8.1%
Employee expenses	-5,863	-6,115	-6,443	-7,334	-8,002
% of revenue	-7.7%	-7.5%	-7.5%	-8.0%	-8.2%
EBITDA	56,696	59,527	63,139	66,285	70,167
...YoY	35.7%	5.0%	6.1%	5.0%	5.9%
EBITDA margin (%)	74.2%	73.4%	73.5%	72.3%	71.9%
D&A	(45,415)	(47,515)	(48,010)	(49,859)	(52,595)
% revenue	-59.4%	-58.6%	-55.9%	-54.4%	-53.9%
Operating profit	11,281	12,012	15,129	16,426	17,572
...YoY	24.2%	6.5%	25.9%	8.6%	7.0%
Operating margin (%)	14.8%	14.8%	17.6%	17.9%	18.0%
Net profit	5,222	6,428	8,326	9,529	10,519
...YoY	97.1%	23.1%	29.5%	14.5%	10.4%
NPM (%)	6.8%	7.9%	9.7%	10.4%	10.8%

Source: Company data, CMBIS estimates

Figure 5: Revenue breakdown

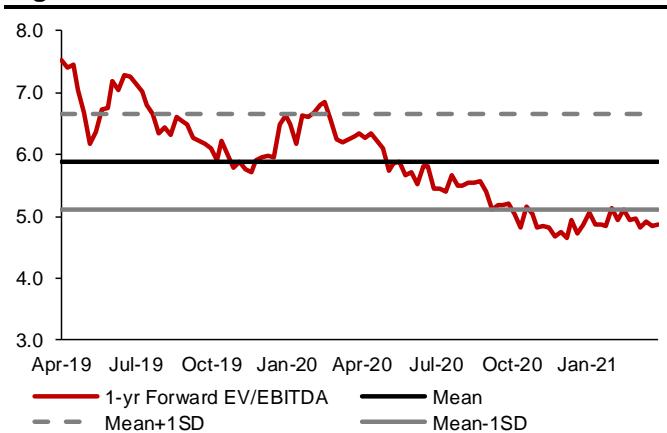
RMB mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Tower business	68,597	71,406	73,371	74,980	77,854	79,946
...YoY	2%	4%	3%	2%	4%	3%
Tower sites ('000)	1,924	1,994	2,023	2,061	2,109	2,187
...YoY	4%	4%	1%	2%	2%	4%
TSP tenants ('000)	2,837	3,063	3,175	3,277	3,437	3,565
...YoY	7%	8%	4%	3%	5%	4%
TSP tenancy ratio	1.47	1.54	1.57	1.59	1.63	1.63
Avg. revenue per TSP tenants	24.2	23.3	23.1	22.9	22.6	22.4
...YoY	-5%	-4%	-1%	-1%	-1%	-1%
Average revenue per site	36.9	37.4	38.0	38.8	39.9	40.3
...YoY	-2%	1%	2%	2%	3%	1%
DAS business	1,819	2,658	3,528	4,586	5,504	6,604
...YoY	42%	46%	33%	30%	20%	20%
TSSAI & energy oper. Business	1,222	2,080	3,939	6,076	8,062	10,779
...YoY	623%	70%	89%	54%	33%	34%
Others	181	284	261	261	261	261
...YoY	43%	57%	-8%	0%	0%	0%
Total	71,819	76,428	81,099	85,903	91,681	97,590
...YoY	4.6%	6.4%	6.1%	5.9%	6.7%	6.4%

Source: Company data, CMBIS estimates

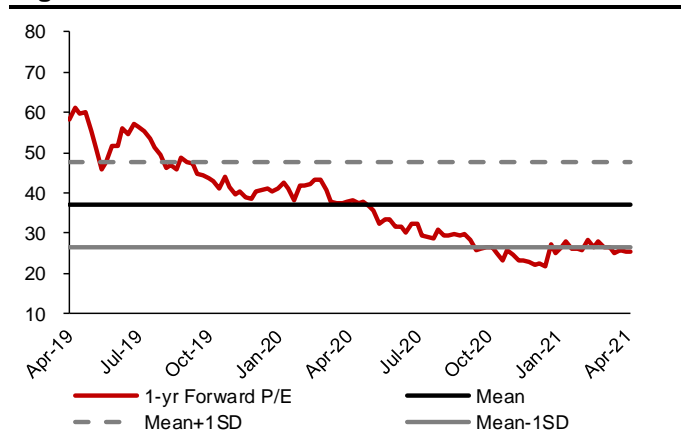
Valuation

Maintain HOLD and adjust TP to HK\$1.33

We slightly adjusted our TP to HK\$1.33 based on lower 4.6x FY21E EV/EBITDA, below 2-year historical forward EV/EBITDA. We believe this is justified as there is lack of near-term positive catalyst for the Company and the co-build co-share strategy among telco will continue to put pressure on its profitability. Risks include slowing down 5G deployment and absence of new lead use case for 5G.

Figure 6: 12M forward EV/EBITDA band

Source: Company data, CMBIS estimates

Figure 7: 12M forward P/B band

Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	76,428	81,099	85,903	91,681	97,590
D&A	(45,415)	(47,515)	(48,010)	(49,859)	(52,595)
Site oper. lease charges	(639)	-	-	-	-
Repairs & maintenance	(5,993)	(5,805)	(6,443)	(7,334)	(7,905)
Employee expenses	(5,863)	(6,115)	(6,443)	(7,334)	(8,002)
Other oper expenses	(7,237)	(9,652)	(9,879)	(10,727)	(11,516)
Operating profit	11,281	12,012	15,129	16,426	17,572
Other gains	154	318	172	183	195
Interest income	63	36	39	76	125
Finance costs	(4,661)	(3,959)	(4,442)	(4,212)	(4,124)
Pre-tax profit	6,837	8,407	10,898	12,473	13,768
Income tax expenses	(1,616)	(1,980)	(2,572)	(2,944)	(3,249)
Non-controlling interests	1	1	-	-	-
Net profit to shareholders	5,222	6,428	8,326	9,529	10,519

Cash flow summary

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net profit	6,837	8,407	10,898	12,473	13,768
Depreciation/amortization	45,415	43,800	43,584	45,075	47,421
Change in WC	(6,461)	342	(4,230)	(2,592)	(4,462)
Others	4,144	2,311	2,492	1,947	1,603
CF from operating	49,935	54,860	52,744	56,902	58,329
Capex	(27,798)	(36,811)	(29,661)	(31,654)	(33,781)
Other	(338)	4,885	5,539	5,973	6,442
CF from investing	(28,136)	(31,926)	(24,123)	(25,681)	(27,339)
Share issuance	-	-	-	-	-
Dividend paid	(396)	(2,561)	(3,934)	(4,496)	(5,146)
Other	(20,016)	(22,354)	(18,282)	(17,587)	(15,598)
CF from financing	(20,412)	(24,915)	(22,216)	(22,083)	(20,744)
Net change in cash	3,374	(1,981)	6,405	9,138	10,246
Cash, beginning of the year	4,836	6,223	4,242	10,648	19,785
Exchange difference	-	-	-	-	-
Cash, end of the year	6,223	4,242	10,648	19,785	30,032

Balance sheet

YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	40,995	43,204	53,090	67,011	82,259
Prepayments and others	8,514	7,504	8,590	9,168	9,759
Account receivables	26,258	30,658	33,853	38,058	42,468
Cash & equivalents	6,223	5,042	10,648	19,785	30,032
Non-current assets	297,072	294,176	284,083	274,705	265,583
PPE	239,925	231,684	223,879	215,753	207,544
Right-of-use assets	36,140	34,553	32,265	31,013	30,100
Deferred tax assets	1,199	1,457	1,457	1,457	1,457
Other non-current assets	19,808	26,482	26,482	26,482	26,482
Total assets	338,067	337,380	337,173	341,716	347,842
Current liabilities	128,364	106,635	111,463	108,219	109,788
ST borrowings	87,019	61,999	66,221	60,033	60,209
Lease liabilities	6,992	7,006	6,900	6,900	6,900
Account payables	29,313	31,460	32,172	35,117	36,509
Other current liabilities	5,040	6,170	6,170	6,170	6,170
Non-current liabilities	27,142	44,499	35,656	38,409	37,593
LT borrowings	8,480	27,121	19,338	22,967	22,791
Lease liabilities	17,862	16,745	15,685	14,809	14,170
Other non-current liabilities	800	633	633	633	633
Total liabilities	155,506	151,134	147,119	146,629	147,381
Share capital	176,008	176,008	176,008	176,008	176,008
Reserve	6,551	10,237	14,045	19,078	24,451
Minority interest	2	1	1	1	1
Total equity	182,561	186,246	190,054	195,087	200,460
Total liabilities and equity	338,067	337,380	337,173	341,716	347,842

Key ratios

YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue mix					
Tower business	71,406	73,371	74,980	77,854	79,946
DAS business	2,658	3,528	4,586	5,504	6,604
TSSAI & energy oper.	2,080	3,939	6,076	8,062	10,779
Others	284	261	261	261	261
Growth (%)					
Revenue	6.4	6.1	5.9	6.7	6.4
Operating profit	46.1	32.7	30.0	20.0	20.0
EBITDA	35.7	5.0	6.1	5.0	5.9
Net profit	97.1	23.1	29.5	14.5	10.4
Profit & loss ratio (%)					
Operating margin	14.8	14.8	17.6	17.9	18.0
EBITDA margin	74.2	73.4	73.5	72.3	71.9
Net profit margin	6.8	7.9	9.7	10.4	10.8
Balance sheet ratio					
Net debt/total equity (%)	38.5	36.7	33.9	30.3	27.0
Current ratio (x)	0.3	0.4	0.5	0.6	0.7
Receivable turnover days	82.2	102.5	112.4	120.2	127.6
Profitability (%)					
ROE	2.9	3.5	4.4	4.9	5.2
ROA	1.5	1.9	2.5	2.8	3.0
Per share data (RMB)					
EPS	0.030	0.037	0.048	0.054	0.060
DPS	0.015	0.022	0.026	0.029	0.032

Source: Company data, CMBIS estimates

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