

ZTE (763 HK)

MWC 2024: Industry moves towards developing 6G

As the Mobile World Congress (MWC) unfolded in Barcelona on Monday, AI/5G+6G innovations emerged as a dominant theme, with leading suppliers in the telecom industry showcasing their latest technologies. ZTE's A-share (000063 CH) and H-share (763 HK) prices surged by 10.0% and 10.6%, respectively, on Tuesday, buoyed by the company's direct involvement in 6G development. Maintain BUY on ZTE (000063 CH/763 HK) with unchanged TPs at RMB36.9 and HK\$27.4, respectively.

- In the race for 6G dominance, the US, along with its allies such as Australia, Canada, and several other European nations, released a joint statement ([link](#)) on 26 Feb endorsing principles for the development of 6G wireless communication systems. This coalition aims to cultivate a future where connectivity is open, secure, and universally accessible, marking a significant move in the strategic competition with China over telecom standards.
- ZTE has furthered its participation in extensive 6G network testing, contributing significantly to its R&D efforts while collaborating with major domestic telcos. The company has showcased its technological prowess across various domains, including distributed autonomous networks, computing power network technologies, and communication-sensing integration. ZTE's contributions have played a crucial role in advancing 6G concepts and have demonstrated successful voice and text verification processes. ([link](#))
- We maintain BUY on ZTE (000063 CH/763 HK) with unchanged TPs at RMB36.9 and HK\$27.4, respectively. Additionally, ZTE will be announcing its FY2023 earnings next week, and we encourage investors to follow ZTE's FY2023 performance as it may provide a potential timeline of a broader recovery in the telecom sector.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	114,522	122,954	120,067	126,542	134,289
YoY growth (%)	12.9	7.4	(2.3)	5.4	6.1
Gross margin (%)	35.2	37.2	42.8	42.1	41.7
Net profit (RMB mn)	6,813	8,080	9,371	10,872	12,078
YoY growth (%)	59.9	18.6	16.0	16.0	11.1
P/E (x)	11.2	9.6	8.6	7.5	6.8
ROE (%)	14.4	14.7	14.8	15.0	14.8

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price **HK\$27.4**
 (Previous TP) HK\$27.4)
Up/Downside **56.2%**
Current Price **HK\$17.54**

China Semi

Lily YANG, Ph.D
 (852) 3916 3716
 lilyyang@cmbi.com.hk

Kevin ZHANG
 (852) 3761 8727
 kevinzhang@cmbi.com.hk

Stock Data

Mkt Cap (HK\$ mn) 11,982.2
 Avg 3 mths t/o (HK\$ mn) 87.5
 52w High/Low (HK\$) 31.95/13.58
 Total Issued Shares (mn) 755.5
 Source: FactSet

Shareholding Structure

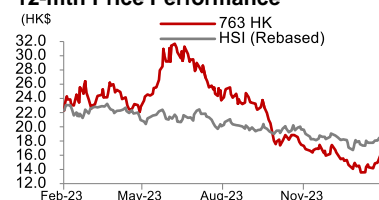
BlackRock 7.1%
 Vanguard Group 4.2%
 Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	9.8%	5.3%
3-mth	-9.3%	-4.2%
6-mth	-33.2%	-27.9%

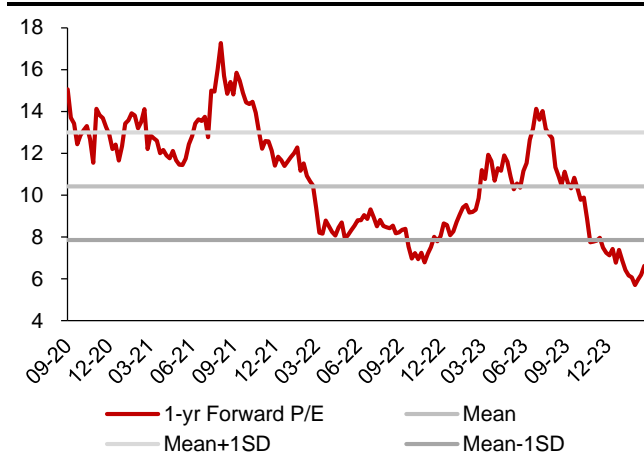
Source: FactSet

12-mth Price Performance



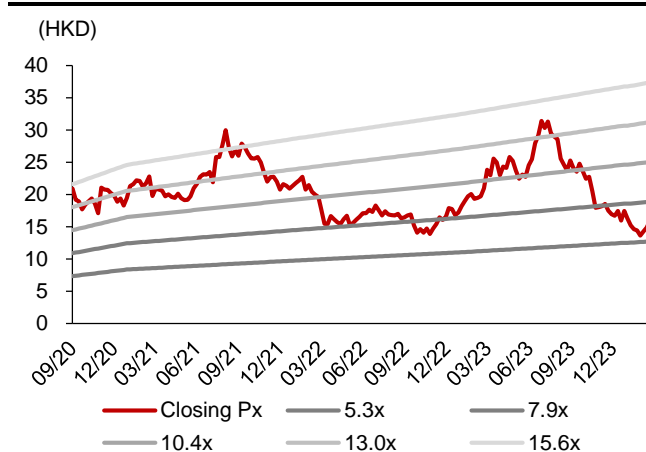
Source: FactSet

Figure 1: 12M forward P/E band



Source: Company data, Bloomberg, CMBIGM

Figure 2: 12M forward P/E chart



Source: Company data, Bloomberg, CMBIGM

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UNDERPERFORM	: Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

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