

ZTE (763 HK)

ZTE finished 2021 with good results; Positive potentials could materialize ahead

ZTE announced FY21 preliminary results, expecting FY21 net profit to grow 53-69% YoY to RMB6.5bn-7.2bn. Adjusted FY21 net profit is estimated to be ~RMB3.25bn, up 214% YoY. FY21 EPS is expected to be RMB1.44-1.50. Looking forward, we think the company will be a major beneficiary of global 5G deployment and expect ZTE to gain market share in the telecom business. Meanwhile, consumer and government/enterprise segments will continue to deliver good growth. The company is also seeking opportunities in auto electrification, vehicle intelligence, industry digitization, etc. Maintain BUY with TP adjusted to HK\$29.65 based on 15x FY22E P/E.

- FY21 NP grew at 61% YoY despite the delay in 5G deployment.** FY21 NP grew at 61% YoY despite the delay in 5G deployment. Overall we think ZTE had a good year in 2021, NP grew 61% YoY despite the postponement of 5G deployment. Implied mid-point 4Q21 net profit is expected to reach RMB1.0bn, representing -33% YoY and -42% QoQ. 4Q21 NP decline was mainly due to one-time asset impairment expenses of RMB1.1bn recorded within this quarter. The company prepares key materials in advance against the backdrop of the global chip shortage. Excluding this, FY21 net profit was in line with our estimates (higher by 1%).
- 5G deployment to continue in the following years.** By the end of 2021, 1.425mn 5G base stations were built in China (vs. 588k in 2020), covering 98% of urban areas and 80% of towns, and gradually expanding to all rural areas. According to the 14th Five-Year Plan (2021-2025), 26 5G base stations will be available per 10k users. Although domestic telecom's capex is expected to maintain a similar level in 2022 (vs. 2021), we think ZTE will continue to outperform with additional share gain in overall telecom business.
- Maintain BUY with a new TP of HK\$29.65.** We revised down FY22-23E EPS by 11-13%, and adjusted our TP to HK\$29.65 based on the same 15.0x FY22E P/E. We believe the company will enjoy share gain in telcos' 5G-related deployment in the following years. Potential upsides include auto electrification, vehicle intelligence, industry digitization, etc. Risks include US-China disputes, component restriction, and 5G deployment delays.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	90,737	101,451	115,120	129,803	146,400
YoY growth (%)	6.1	11.8	13.5	12.8	12.8
Gross profit margin (%)	37.2	31.6	35.3	35.2	35.2
Net profit (RMB mn)	5,148	4,260	6,818	7,806	8,975
EPS (RMB)	1.22	0.92	1.46	1.64	1.85
YoY growth (%)	NA	-25%	59%	12%	13%
Consensus EPS (RMB)	NA	0.65	1.62	1.79	2.06
PE (x)	14.1	18.7	11.8	10.5	9.3
PB (x)	2.1	1.8	1.6	1.4	1.3
Yield (%)	0.8	0.8	1.3	1.4	1.6
ROE (%)	19.9	11.8	14.7	14.6	14.6
Net debt/total equity (%)	50.0	43.8	46.2	43.8	39.9

Source: Company data, Bloomberg, CMBIS estimates

BUY (Maintain)

Target Price	HK\$ 29.65
(Previous TP)	HK\$33.06)
Up/Downside	+43%
Current Price	HK\$ 20.75

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Stock Data

Mkt. Cap. (HK\$ mn)	162,515
Avg. 3mths t/o (HK\$ mn)	109
52W High/Low (HK\$)	31.75/18.18
Total Issued Shares (mn)	755.5

Source: Bloomberg

Shareholding Structure

BlackRock	8.36%
Capital Group	5.08%
Schroders	4.93%

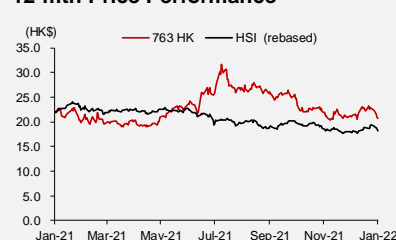
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	0.0%	-2.4%
3-mth	-15.7%	-9.3%
6-mth	-18.2%	-13.8%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Related Report

- ZTE (763 HK) – Expect future share gain under similar 5G capex plan – 16 Oct 2021
- ZTE (763HK) - Solid 1H results with strong OCF – 31 Aug 2021

FY21 Results Review

Figure 1: FY21 results review

RMB mn	2018	2019	2020	2021	YoY
Revenue	85,513	90,737	101,451		
Gross Profit	28,146	33,728	32,071		
Operating Profit	-612	7,552	5,471		
Net profit	(6,984)	5,148	4,260	6,850	61%
EPS (RMB)	-1.67	1.22	0.92		
Gross Margin	32.9%	37.2%	31.6%		
Operating Margin	-0.7%	8.3%	5.4%		
Net Margin	-8.2%	5.7%	4.2%		

Source: Company data, CMBIS estimates

Figure 2: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	115,120	129,803	146,400	116,995	129,879	143,959	-2%	0%	2%
Gross Profit	40,663	45,693	51,515	43,057	47,496	52,841	-6%	-4%	-3%
Operating Profit	8,824	10,192	11,713	9,974	11,313	13,045	-12%	-10%	-10%
Net profit	6,818	7,806	8,975	7,878	8,513	9,822	-13%	-8%	-9%
EPS (RMB)	1.46	1.64	1.85	1.70	1.84	2.12	-14%	-11%	-13%
Gross Margin	35.3%	35.2%	35.2%	36.8%	36.6%	36.7%	-1.5 ppt	-1.4 ppt	-1.5 ppt
Operating Margin	7.7%	7.9%	8.0%	8.5%	8.7%	9.1%	-0.9 ppt	-0.9 ppt	-1.1 ppt
Net Margin	5.9%	6.0%	6.1%	6.7%	6.6%	6.8%	-0.8 ppt	-0.5 ppt	-0.7 ppt

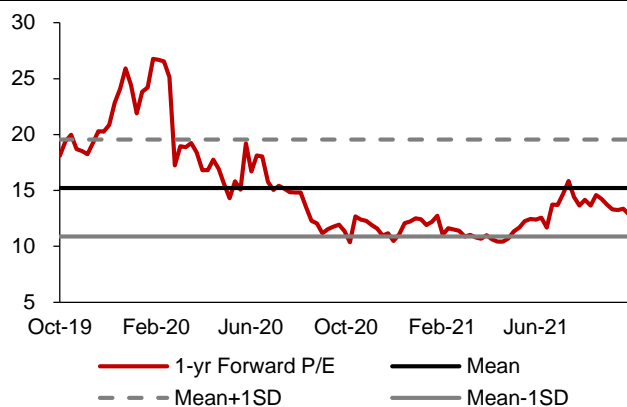
Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	115,120	129,803	146,400	117,416	130,426	144,015	-2%	0%	2%
Gross Profit	40,663	45,693	51,515	42,547	47,157	51,813	-4%	-3%	-1%
Operating Profit	8,824	10,192	11,713	8,646	10,104	11,469	2%	1%	2%
Net profit	6,818	7,806	8,975	7,391	8,134	9,183	-8%	-4%	-2%
EPS (RMB)	1.46	1.64	1.85	1.62	1.79	2.06	-10%	-8%	-10%
Gross Margin	35.3%	35.2%	35.2%	36.2%	36.2%	36.0%	-0.9 ppt	-1 ppt	-0.8 ppt
Operating Margin	7.7%	7.9%	8.0%	7.4%	7.7%	8.0%	0.3 ppt	0.1 ppt	0 ppt
Net Margin	5.9%	6.0%	6.1%	6.3%	6.2%	6.4%	-0.4 ppt	-0.2 ppt	-0.2 ppt

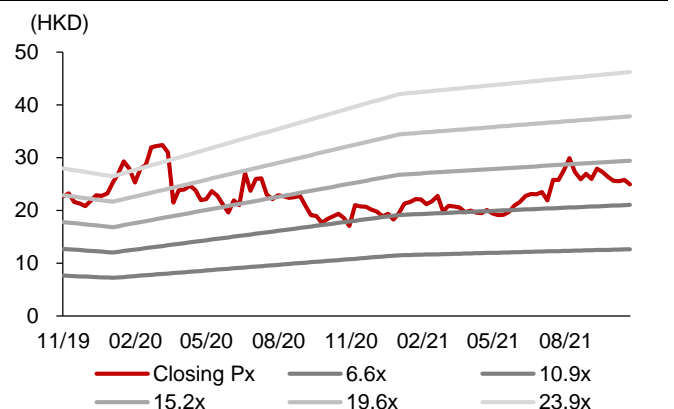
Source: Company data, CMBIS estimates

Figure 4: 12M forward P/E chart



Source: Company data, CMBIS estimates

Figure 5: 12M forward P/E band



Source: Company data, CMBIS estimates

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