

ZTE (763 HK)

Corp Day Takeaways: Stable growth for 2022E

We hosted an investor call with ZTE during our Technology Corporate Day. We maintain our positive outlook on the Company. We expect 2022E revenue to grow to RMB130bn, driven by share gain from wireless/optical transmission network market, industrial digitalization trend, etc. Maintain BUY, with unchanged TP of HK\$29.65.

- We maintain our positive outlook for ZTE's domestic carrier business in 2022.** The Company's wireless market share is expected to reach 35% in 2022 (vs. 31%/33% in 2020/21). The share improvement will offset the total 5G capex decline of 3% this year. Optical transmission network sales will also rise driven by favorable policy and increasing demand for data. ZTE's share in this market is expected to increase to 30% from currently 24-25%. In addition, as the telcos are increasing investment allocation to industrial digitalization/IDC/cloud resources, cloud-related market opportunities could be the new growth driver for ZTE, i.e., servers, routers, switches. The Company is a leader in the telecom server market, with 20% share in 2021, which is expected to grow to 25% in 2022. The Company is also eyeing on enterprise server market for financials/internet clients.
- Non-carrier business will maintain double-digit growth in 2022.** Consumer business will maintain double-digit growth in 2022. CPE business (60% of consumer segment rev.) experienced fast growth of 80% YoY in 2021, driven by stay-at-home economy, favorable policy and competence landscape change. We expect the growth to be slower as the market share will remain stable this year, but still remain double-digit. Mobile device sales (40% of segment rev.) were at early stage of development but managed to achieve positive growth in 1Q22 despite smartphone market weakness. The outlook for gov/enterprises businesses also remains positive as the industrial digitalization is trending.
- Maintain BUY with TP unchanged at HK\$29.65.** Potential risks include China-US trade tensions, additional component restriction/technology ban, and 5G deployment delays.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Turnover (RMB mn)	101,451	114,522	129,803	146,400	163,351
YoY growth (%)	11.8%	12.9%	13.3%	12.8%	11.6%
Gross margin (%)	31.6%	35.2%	35.6%	35.2%	35.0%
Net profit (RMB mn)	4,260	6,813	7,845	9,096	10,253
YoY growth (%)	-17.3%	59.9%	15.1%	15.9%	12.7%
Diluted EPS (RMB)	0.92	1.47	1.66	1.92	2.17
YoY growth (%)	-24.8%	59.8%	12.8%	15.9%	12.7%
Consensus EPS (RMB)	NA	NA	1.72	1.98	2.11
PE (x)	15.6	9.7	8.6	7.5	6.6
Yield (%)	0.9%	0.9%	0.9%	0.9%	0.9%
ROE (%)	9.8%	13.2%	13.4%	13.7%	13.5%
Net gearing (%)	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Company data, Bloomberg, CMBIGM estimates

BUY (Maintain)

Target Price	HK\$29.65
(Previous TP)	HK\$29.65)
Up/Downside	+68.5%
Current Price	HK\$17.6

China Technology Sector

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Stock Data

Mkt. Cap. (HK\$ mn)	132,309
Avg. 3mths t/o (HK\$ mn)	111
52W High/Low (HK\$)	31.75/12.7
Total Issued Shares (mn)	755.5

Source: Bloomberg

Shareholding Structure

BlackRock	10.09%
Capital Group	5.08%
Schroders	4.93%

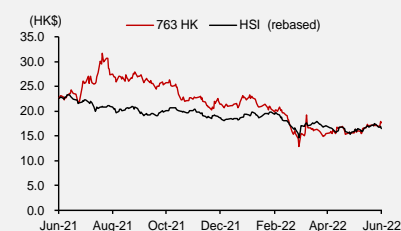
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	14.3%	6.8%
3-mth	38.7%	19.8%
6-mth	-16.7%	-8.5%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: Ernst & Young

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	101,451	114,522	129,803	146,400	163,351	Net profit	4,722	7,036	8,087	9,377	10,570
Cost of sales	(69,379)	(74,160)	(83,607)	(94,875)	(106,239)	Depreciation/amortization	1,465	1,671	1,687	1,723	1,777
Gross profit	32,071	40,362	46,196	51,526	57,112	Change in working capital	(1,965)	2,615	(2,364)	(6,318)	(3,939)
Selling exp	(7,579)	(8,733)	(9,898)	(11,164)	(12,457)	Others	6,011	4,401	6,434	7,411	7,776
Admin exp	(4,995)	(5,445)	(5,929)	(6,541)	(7,134)	Net cash from operating	10,233	15,724	13,844	12,193	16,185
R&D exp	(14,797)	(18,804)	(21,313)	(23,424)	(26,136)	Capex	(6,472)	(5,686)	(3,993)	(4,476)	(4,902)
Finance costs	(421)	(963)	212	473	814	Other	(610)	(4,906)	(1,430)	1,110	1,218
Other operating exp.	1,191	2,259	472	416	520	Net cash from investing	(7,082)	(10,592)	(5,423)	(3,366)	(3,684)
Operating profit	5,471	8,676	9,740	11,286	12,719	Share issuance	14,167	538	0	0	0
Other non-oper exp.	(407)	(177)	(225)	(254)	(284)	Dividend paid	(2,951)	(2,618)	(2,531)	(2,726)	(2,974)
Pre-tax profit	5,064	8,499	9,515	11,032	12,435	Other	(11,505)	4,859	2,474	6,284	6,141
Income tax expense	(342)	(1,463)	(1,427)	(1,655)	(1,865)	Net cash from financing	(290)	2,779	(57)	3,559	3,167
Minority interests	(446)	(223)	(243)	(281)	(317)	Net change in cash	2,861	7,910	8,365	12,386	15,667
Net profit to shareholders	4,260	6,813	7,845	9,096	10,253	Cash at beginning of the year	28,506	31,403	39,071	47,436	59,821
						Exchange difference	37	(242)	0	0	0
						Cash at the end of the year	31,403	39,071	47,436	59,821	75,488
Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E	YE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	106,977	127,871	140,763	162,262	179,434	Revenue mix					
Cash & equivalents	35,660	50,713	62,173	74,559	90,226	Carrier business	74,018	75,712	80,327	85,338	90,343
Account receivables	15,891	17,509	18,053	20,452	20,722	Consumer business	16,160	25,731	32,497	39,989	47,986
Inventory	33,689	36,317	36,983	40,996	40,502	Gov. and enterprise	11,272	13,079	16,979	21,073	25,022
Prepayment	322	607	495	576	633	Growth (%)					
Other current assets	21,415	22,725	23,058	25,679	27,353	Revenue	11.8%	12.9%	13.3%	12.8%	11.6%
Non-current assets	43,658	40,892	38,889	38,456	38,252	Gross profit	-4.9%	25.8%	14.5%	11.5%	10.8%
PPE	11,914	11,437	11,102	11,000	11,055	Operating profit	-27.6%	58.6%	12.3%	15.9%	12.7%
Deferred tax assets	3,437	3,195	3,023	3,377	3,663	Net profit	-17.3%	59.9%	15.1%	15.9%	12.7%
Other non-current assets	28,307	26,261	24,764	24,079	23,534	Profit & loss ratio (%)					
Total assets	150,635	168,763	179,652	200,717	217,686	Gross margin	31.6%	35.2%	35.6%	35.2%	35.0%
Current liabilities	74,395	78,685	79,183	85,989	87,788	Operating margin	5.4%	7.6%	7.5%	7.7%	7.8%
ST borrowings	10,559	8,947	8,701	10,024	11,317	Net profit margin	4.2%	5.9%	6.0%	6.2%	6.3%
Account payables	14,998	16,102	18,347	20,499	22,232	Balance sheet ratio					
Tax payable	0	0	0	0	0	Net debt/total equity (%)	Net cash	Net cash	Net cash	Net cash	Net cash
Other current liabilities	48,838	53,637	52,134	55,467	54,240	Current ratio (x)	1.4	1.6	1.8	1.9	2.0
Non-current liabilities	30,117	36,791	40,021	45,849	51,395	Receivable turnover days	64	53	50	48	46
LT borrowings	22,614	29,908	32,629	37,590	42,438	Inventory turnover days	(161)	(172)	(160)	(150)	(140)
Deferred tax liability	134	150	161	180	195	Payable turnover days	(93)	(96)	(90)	(75)	(60)
Other non-current liabilities	7,369	6,732	7,231	8,079	8,762	Profitability (%)					
Total liabilities	104,512	115,476	119,204	131,838	139,183	ROE	9.8%	13.2%	13.4%	13.7%	13.5%
Share capital	4,613	4,731	4,731	4,731	4,731	ROA	2.8%	4.0%	4.4%	4.5%	4.7%
Reserve	23,276	25,360	25,360	25,360	25,360	Per share data (RMB)					
Retained earnings	14,824	20,651	27,502	35,573	44,791	EPS	0.92	1.47	1.66	1.92	2.17
Other	583	740	808	886	974	DPS	0.20	0.20	0.20	0.20	0.20
Minority interest	2,826	1,806	2,048	2,330	2,647	BPS	9.35	10.88	12.34	14.07	16.03
Total equity	46,123	53,288	60,448	68,879	78,503						
Total liabilities and equity	150,635	168,763	179,652	200,717	217,686						

Source: Company data, CMBIGM estimates

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