

China Tower (788 HK)

FY20 in-line; 5G revenue growth remains uncertain

China Tower released FY20 results with revenue/net profit growth of 6.1%/ 23.1% YoY, largely in-line with our/consensus estimates. Tower business grew 3% YoY while DAS/TSSAI & Energy biz grew 33%/89% YoY. EBITDA margin was slightly lower at 73.4% (vs 74.2% in FY19) on higher opex. Payout ratio of 68% is a positive (vs 60% in FY19). For 2021, mgmt. guided 1) steady growth on tower biz and rapid non-telco growth, 2) stable EBITDA margin with more tower sharing, and 3) lower CAPEX of RMB30bn (vs RMB37bn in FY20) and D&A expense. Overall, we believe China slower 5G rollout, telco's network sharing (CT/CT, 700MHz) and cost control will offset Tower's 5G growth. We slightly adjusted our TP to HK\$1.40 based on lower 4.75x FY21E EV/EBITDA (vs 4.9x prior) due to near-term revenue/opex pressure. Maintain HOLD.

- FY20 largely in-line; slower tower revenue and faster non-telco biz.** Tower/DAS/TSSAI & Energy businesses grew 3%/33%/89% YoY. By 2020, there are 3.2mn TSP tenants and 2.0mn tower sites, up 4%/2% YoY. Tower tenancy ratio reached 1.67 in FY20 (vs 1.62 in FY19) and avg. revenue per TSP tower grew 1.3% YoY to RMB36.3k in FY20. EBITDA margin came in at 73.4% (vs 74.2% in FY19) with higher site lease charges (new accounting standard) and higher opex on two-wings biz promotion.
- Beneficiary of 5G network expansion, but near-term pressure on network sharing and telco cost control.** For 2021, mgmt. remains positive on China 5G rollout and guided CAPEX of RMB30bn, lower than RMB37bn in FY19 due to more network sharing, in our view. Although next phase of 5G deployment is on the way, we think telco's network sharing and cost control strategy will limit 5G revenue upside for China Tower. In particular, under CM/CBN's agreement of 700MHz network sharing, telco operators can reduce costs of 5G network expansion to rural areas given less 5G BTS deployment, implying less 5G revenue upside for China Tower.
- Maintain HOLD; adjust TP to HK\$1.40.** We adjusted our estimates and slightly raised TP to HK\$1.40 (lower 4.75x FY21E EV/EBITDA) to reflect 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 | 86,489 | 92,261 | 6,837 |
| YoY growth (%) | 6.4 | 6.1 | 6.6 | 6.7 | 6.4 |
| EBITDA (RMB mn) | 56,696 | 59,527 | 63,310 | 67,258 | 71,365 |
| Net income (RMB mn) | 5,222 | 6,428 | 8,441 | 10,921 | 4,836 |
| EPS (RMB) | 0.030 | 0.037 | 0.048 | 0.062 | 0.073 |
| YoY growth (%) | 66.6 | 23.6 | 31.3 | 29.4 | 17.7 |
| Consensus EPS | NA | NA | 0.048 | 0.062 | 0.070 |
| P/E (x) | 34.3 | 27.8 | 21.1 | 16.3 | 13.9 |
| P/B (x) | 1.0 | 1.0 | 0.9 | 0.9 | 0.9 |
| EV/EBITDA (x) | 4.9 | 4.6 | 4.4 | 4.1 | 3.9 |
| Dividend Yield (%) | 1.4 | 2.2 | 2.5 | 3.3 | 3.9 |
| ROE (%) | 2.9 | 3.5 | 4.4 | 5.6 | 6.3 |
| Gearing ratio (%) | 38 | 37 | 34 | 30 | 27 |

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price **HK\$1.40**
 (Previous TP **HK\$1.31**)
 Up/Downside **+14%**
 Current Price **HK\$1.23**

China Technology Sector

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Stock Data

| | |
|--------------------------|-----------|
| Mkt. Cap. (RMB mn) | 216,490 |
| Avg. 3mths t/o (RMB mn) | 722 |
| 52W High/Low (RMB) | 1.93/1.03 |
| Total Issued Shares (mn) | 46,663.9 |

Source: Bloomberg

Shareholding Structure

| | |
|-------------------|-------|
| Citigroup | 8.98% |
| GIC | 7.11% |
| Hillhouse Capital | 7.02% |

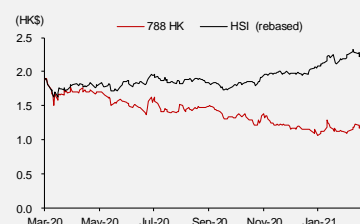
Source: Bloomberg

Share Performance

| | Absolute | Relative |
|-------|----------|----------|
| 1-mth | 9.8% | 10.5% |
| 3-mth | 1.7% | -7.4% |
| 6-mth | -17.4% | -30.2% |

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PriceWaterHouse Coopers

Recent Report:

China 5G Technology - Picking structural winners amid uncertainties; Initiate at Outperform – 18 Dec 2020

FY20 Results Review

Figure 1: FY20 results review

| RMB mn | FY18 | FY19 | FY20 | YoY | CMBIS estimates | | Consensus | |
|------------------|--------|--------|--------|----------|-----------------|----------|-----------|----------|
| | | | | | FY20E | Diff% | FY20E | Diff % |
| Revenue | 71,819 | 76,428 | 81,099 | 6% | 81,316 | 0% | 81,215 | 0% |
| Gross Profit | 41,773 | 56,696 | 59,527 | 5% | 59,849 | -1% | 59,712 | 0% |
| Operating Profit | 9,081 | 11,281 | 12,012 | 6% | 12,684 | -5% | 12,815 | -6% |
| Net profit | 2,650 | 5,222 | 6,428 | 23% | 6,441 | 0% | 6,336 | 1% |
| EPS (RMB) | 0.02 | 0.03 | 0.04 | 24% | 0.04 | 0% | 0.04 | -3% |
| Gross Margin | 58.2% | 74.2% | 73.4% | -0.8 ppt | 73.6% | -0.2 ppt | 73.5% | -0.1 ppt |
| Operating Margin | 12.6% | 14.8% | 14.8% | 0.1 ppt | 15.6% | -0.8 ppt | 15.8% | -1 ppt |
| Net Margin | 3.7% | 6.8% | 7.9% | 1.1 ppt | 7.9% | 0 ppt | 7.8% | 0.1 ppt |

Source: Bloomberg, CMBIS estimates

Figure 2: 2H20 results review

| RMB mn | 1H19 | | 2H19 | | 1H20 | | 2H20 | | HoH | YoY |
|------------------|--------|--------|--------|--------|--------|--------|---------|----------|-----|-----|
| | 1H19 | 2H19 | 1H19 | 2H19 | 1H20 | 2H20 | 1H20 | 2H20 | | |
| Revenue | 35,335 | 36,484 | 37,980 | 38,448 | 39,794 | 41,305 | 3.8% | 7.4% | | |
| Gross Profit | 20,907 | 20,866 | 27,815 | 28,881 | 29,100 | 30,427 | 4.6% | 5.4% | | |
| Operating Profit | 4,760 | 4,321 | 5,626 | 5,655 | 5,841 | 6,171 | 5.6% | 9.1% | | |
| Net profit | 1,210 | 1,440 | 2,548 | 2,674 | 2,978 | 3,450 | 15.8% | 29.0% | | |
| EPS (RMB) | 0.01 | 0.01 | 0.01 | 0.02 | 0.02 | 0.02 | 15.9% | 29.6% | | |
| Gross Margin | 59.2% | 57.2% | 73.2% | 75.1% | 73.1% | 73.7% | 0.5 ppt | -1.5 ppt | | |
| Operating Margin | 13.5% | 11.8% | 14.8% | 14.7% | 14.7% | 14.9% | 0.3 ppt | 0.2 ppt | | |
| Net Margin | 3.4% | 3.9% | 6.7% | 7.0% | 7.5% | 8.4% | 0.9 ppt | 1.4 ppt | | |

Earnings Revision

Figure 3: CMBIS earnings revisions

| RMB mn | New | | | Old | | | Change (%) | | |
|------------------|--------|--------|--------|--------|--------|-------|------------|----------|-------|
| | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E |
| Revenue | 86,489 | 92,261 | 98,164 | 86,639 | 92,916 | NA | 0% | -1% | NA |
| Gross Profit | 63,310 | 67,258 | 71,365 | 63,246 | 67,457 | NA | 0% | 0% | NA |
| Operating Profit | 15,300 | 18,266 | 20,621 | 15,450 | 18,210 | NA | -1% | 0% | NA |
| Net profit | 8,441 | 10,921 | 12,851 | 8,302 | 10,455 | NA | 2% | 4% | NA |
| EPS (RMB) | 0.048 | 0.062 | 0.073 | 0.047 | 0.060 | NA | 2% | 4% | NA |
| Gross Margin | 73.2% | 72.9% | 72.7% | 73.1% | 71.2% | NA | -0.2 ppt | 1.5 ppt | NA |
| Operating Margin | 17.7% | 19.8% | 21.0% | 19.9% | 21.7% | NA | -0.2 ppt | -0.8 ppt | NA |
| Net Margin | 9.8% | 11.8% | 13.1% | 11.5% | 13.1% | NA | 0.2 ppt | -0.2 ppt | NA |

Source: Company data, CMBIS estimates

Figure 4: CMBIS estimates vs consensus

| RMB mn | CMBIS | | | Consensus | | | Diff (%) | | |
|------------------|--------|--------|--------|-----------|--------|--------|----------|----------|----------|
| | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E | FY21E | FY22E | FY23E |
| Revenue | 86,489 | 92,261 | 98,164 | 86,721 | 92,691 | 93,308 | 0% | 0% | 5% |
| Gross Profit | 63,310 | 67,258 | 71,365 | 63,621 | 67,734 | 66,461 | 0% | -1% | 7% |
| Operating Profit | 15,300 | 18,266 | 20,621 | 15,249 | 18,465 | 20,239 | 0% | -1% | 2% |
| Net profit | 8,441 | 10,921 | 12,851 | 8,364 | 10,693 | 12,244 | 1% | 2% | 5% |
| EPS (RMB) | 0.048 | 0.062 | 0.073 | 0.048 | 0.062 | 0.070 | 1% | 1% | 5% |
| Gross Margin | 73.2% | 72.9% | 72.7% | 73.4% | 73.1% | 71.2% | -0.2 ppt | -0.2 ppt | 1.5 ppt |
| Operating Margin | 17.7% | 19.8% | 21.0% | 17.6% | 19.9% | 21.7% | 0.1 ppt | -0.1 ppt | -0.7 ppt |
| Net Margin | 9.8% | 11.8% | 13.1% | 9.6% | 11.5% | 13.1% | 0.1 ppt | 0.3 ppt | 0 ppt |

Source: Bloomberg, CMBIS estimates

Figure 5: P&L forecast

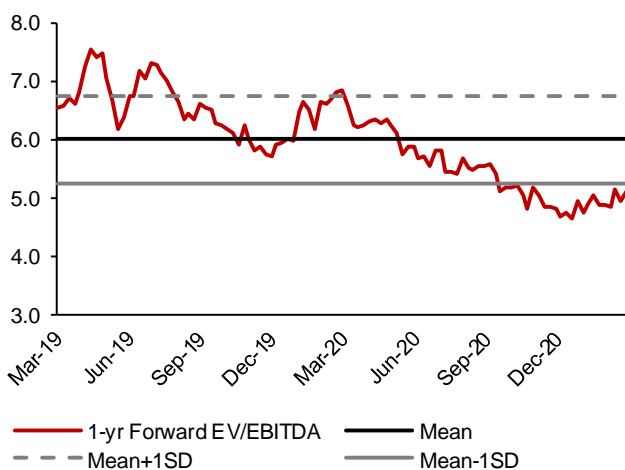
| RMB mn | FY19 | 1Q20 | 2Q20 | 3Q20 | 4Q20 | FY20 | FY21E | FY22E | FY23E |
|----------------------------------|-----------------|---------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|-----------------|
| Revenue | 76,428 | 19,690 | 20,104 | 20,426 | 20,879 | 81,099 | 86,489 | 92,261 | 98,164 |
| ...YoY | 6.4% | 4% | 5% | 7% | 8% | 6.1% | 6.6% | 6.7% | 6.4% |
| Repairs & maintenance | -5,993 | | | | | -5,805 | -6,487 | -7,012 | -7,657 |
| % revenue | -7.8% | | | | | -7.2% | -7.5% | -7.6% | -7.8% |
| Employee expenses | -5,863 | | | | | -6,115 | -6,746 | -7,381 | -7,853 |
| % revenue | -7.7% | | | | | -7.5% | -7.8% | -8.0% | -8.0% |
| EBITDA | 56,696 | 14,532 | 14,568 | 14,919 | 15,508 | 59,527 | 63,310 | 67,258 | 71,365 |
| ...YoY | 35.7% | 6.9% | 2.4% | 6.9% | 3.9% | 5.0% | 6.4% | 6.2% | 6.1% |
| EBITDA margin (%) | 74.2% | 73.8% | 72.5% | 73.0% | 74.3% | 73.4% | 73.2% | 72.9% | 72.7% |
| D&A | (45,415) | | | | | (47,515) | (48,010) | (48,992) | (50,744) |
| % revenue | -59.4% | | | | | -58.6% | -55.5% | -53.1% | -51.7% |
| Operating profit | 11,281 | | | | | 12,012 | 15,300 | 18,266 | 20,621 |
| ...YoY | 24.2% | | | | | 6.5% | 27.4% | 19.4% | 12.9% |
| Operating margin (%) | 14.8% | | | | | 14.8% | 17.7% | 19.8% | 21.0% |
| Net profit | 5,222 | 1,452 | 1,526 | 1,586 | 1,864 | 6,428 | 8,441 | 10,921 | 12,851 |
| ...YoY | 97.1% | 12.9% | 21.0% | 20.4% | 36.9% | 23.1% | 31.3% | 29.4% | 17.7% |
| NPM (%) | 6.8% | 7.4% | 7.6% | 7.8% | 8.9% | 7.9% | 9.8% | 11.8% | 13.1% |

Source: Company data, CMBIS

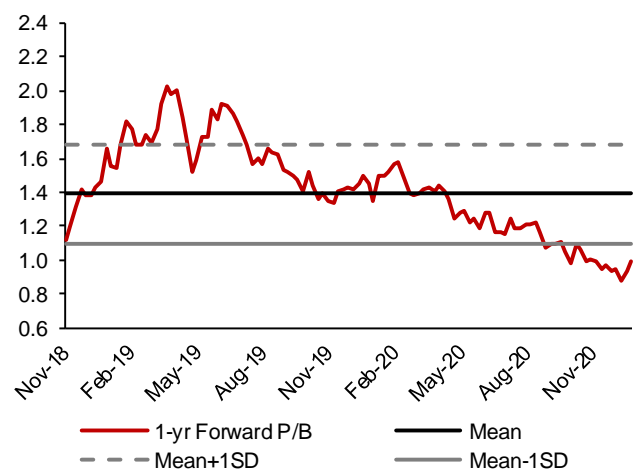
Valuation

Maintain HOLD and adjust TP to HK\$1.40

We slightly adjust our TP to HK\$1.40 based on lower 4.75x 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-sharing strategy among telco will continue to put pressure on its profitability. Risks include slowing down capex of Telcos 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 | 86,489 | 92,261 | 98,164 |
| D&A | (45,415) | (47,515) | (48,010) | (48,992) | (50,744) |
| Site oper. lease charges | (639) | - | - | - | - |
| Repairs & maintenance | (5,993) | (5,805) | (6,487) | (7,012) | (7,657) |
| Employee expenses | (5,863) | (6,115) | (6,746) | (7,381) | (7,853) |
| Other oper expenses | (7,237) | (9,652) | (9,946) | (10,610) | (11,289) |
| Operating profit | 11,281 | 12,012 | 15,300 | 18,266 | 20,621 |
| Other gains | 154 | 318 | 173 | 185 | 196 |
| Interest income | 63 | 36 | 44 | 82 | 127 |
| Finance costs | (4,661) | (3,959) | (4,468) | (4,237) | (4,124) |
| Pre-tax profit | 6,837 | 8,407 | 11,049 | 14,295 | 16,821 |
| Income tax expenses | (1,616) | (1,980) | (2,608) | (3,374) | (3,970) |
| Non-controlling interests | 1 | 1 | - | - | - |
| Net profit to shareholders | 5,222 | 6,428 | 8,441 | 10,921 | 12,851 |

Cash flow summary

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|---|-----------------|-----------------|-----------------|-----------------|---------------|
| Net profit | 6,837 | 8,407 | 11,049 | 14,295 | 16,821 |
| Depreciation/amortization | 45,415 | 43,800 | 43,584 | 44,207 | 45,570 |
| Change in WC | (6,461) | 342 | (3,922) | (3,063) | (4,052) |
| Others | 4,144 | 2,311 | 2,478 | 1,538 | 882 |
| Net cash from operating | 49,935 | 54,860 | 53,189 | 56,977 | 59,220 |
| Capex | (27,798) | (36,811) | (29,661) | (31,654) | (33,781) |
| Other | (338) | 4,885 | 5,539 | 5,973 | 6,442 |
| Net cash from investing (28,136) | (31,926) | (24,123) | (25,681) | (27,339) | |
| Share issuance | - | - | - | - | - |
| Dividend paid | (396) | (2,561) | (3,934) | (4,558) | (5,897) |
| Other | (20,016) | (22,354) | (16,862) | (19,047) | (15,596) |
| Net cash from financing (20,412) | (24,915) | (20,796) | (23,606) | (21,493) | |
| Net change in cash | 3,374 | (1,981) | 8,270 | 7,690 | 10,388 |
| Cash, beginning of the year | 4,836 | 6,223 | 4,242 | 12,512 | 20,202 |
| Exchange difference | - | - | - | - | - |
| Cash, end of the year | 6,223 | 4,242 | 12,512 | 20,202 | 30,590 |

Balance sheet

| YE 31 Dec (RMB mn) | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Current assets | 40,995 | 43,204 | 55,081 | 67,580 | 82,996 |
| Prepayments and others | 8,514 | 7,504 | 8,649 | 9,226 | 9,816 |
| Account receivables | 26,258 | 30,658 | 33,920 | 38,152 | 42,589 |
| Cash & equivalent | 6,223 | 5,042 | 12,512 | 20,202 | 30,590 |
| Non-current assets | 297,072 | 294,176 | 284,083 | 275,572 | 268,301 |
| PPE | 239,925 | 231,684 | 223,879 | 216,620 | 210,262 |
| 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 | 339,163 | 343,153 | 351,297 |
| Current liabilities | 128,364 | 106,635 | 113,338 | 108,211 | 110,218 |
| ST borrowings | 87,019 | 61,999 | 67,662 | 60,033 | 60,209 |
| Lease liabilities | 6,992 | 7,006 | 6,900 | 6,900 | 6,900 |
| Account payables | 29,313 | 31,460 | 32,606 | 35,108 | 36,938 |
| 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 | 148,994 | 146,620 | 147,811 |
| Share capital | 176,008 | 176,008 | 176,008 | 176,008 | 176,008 |
| Reserve | 6,551 | 10,237 | 14,160 | 20,523 | 27,477 |
| Minority interest | 2 | 1 | 1 | 1 | 1 |
| Total equity | 182,561 | 186,246 | 190,169 | 196,532 | 203,486 |
| Total liabilities and equity | 338,067 | 337,380 | 339,163 | 343,153 | 351,297 |

Key ratios

| YE 31 Dec | FY19A | FY20A | FY21E | FY22E | FY23E |
|------------------------------------|--------|--------|--------|--------|--------|
| Revenue mix | | | | | |
| Tower business | 71,406 | 73,371 | 75,566 | 78,434 | 80,520 |
| 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 | 6.6 | 6.7 | 6.4 |
| Operating profit | 46.1 | 32.7 | 30.0 | 20.0 | 20.0 |
| EBITDA | 35.7 | 5.0 | 6.4 | 6.2 | 6.1 |
| Net profit | 97.1 | 23.1 | 31.3 | 29.4 | 17.7 |
| Profit & loss ratio (%) | | | | | |
| Operating margin | 14.8 | 14.8 | 17.7 | 19.8 | 21.0 |
| EBITDA margin | 74.2 | 73.4 | 73.2 | 72.9 | 72.7 |
| Net profit margin | 6.8 | 7.9 | 9.8 | 11.8 | 13.1 |
| Balance sheet ratio | | | | | |
| Net debt/total equity (%) | 38.5 | 36.7 | 33.8 | 30.1 | 26.5 |
| Current ratio (x) | 0.3 | 0.4 | 0.5 | 0.6 | 0.8 |
| Receivable turnover days | 82.2 | 102.5 | 111.7 | 119.6 | 127.1 |
| Profitability (%) | | | | | |
| ROE | 2.9 | 3.5 | 4.4 | 5.6 | 6.3 |
| ROA | 1.5 | 1.9 | 2.5 | 3.2 | 3.7 |
| Per share data (RMB) | | | | | |
| EPS | 0.030 | 0.037 | 0.048 | 0.062 | 0.073 |
| DPS | 0.015 | 0.022 | 0.026 | 0.034 | 0.039 |

Source: Company data, CMBIS estimates

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MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

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