

China Tower (788 HK)

A clearing event that investors have been waiting for; Maintain HOLD

China Tower announced its new five-year (2023-2027) agreement with China telcos on 14 Dec 2022. We view this event as a positive development for the Company as it removes investors' concerns over a possible significant pricing discount or lower cost markup in the anticipated new agreement. In response, the Company's share price surged 13.41% to close the day (14 Dec) with HK\$0.93. Maintain HOLD with TP of HK\$1.01.

- **New agreement will provide better clarity and certainty over the Company's business going forward.** China Tower will continue to provide relevant services of tower, DAS, transmission and service products to China telco for another term of five years. **Principal amendments** to the agreement **include an additional 2.4% discount** to co-location tenants. **Cost margin of 10% remains unchanged.** The Company expects 1) a flat revenue generated under the agreement (mainly tower plus DAS businesses), 2) an increased total revenue and 3) a stable operating margin for 2023, which is in line with our previous expectation.
- **2023/24 revenues are expected to maintain single-digit growth (4.4%/4.2% YoY).** China telco's business (tower plus DAS) contributed ~91% of 9M22 revenue. We tracked a key indicator¹ to estimate China telco's tower leasing burden (figure 2), which showed a declining trend, possibly due to softening 5G spending. Looking forward, we expect its legacy business to remain flat (1.7%/1.7% growth) in 2023/24E, offsetting higher growth (29.3%/22.4%) from new business segments.
- **Maintain HOLD, with unchanged TP of HK\$1.01.** We think the telecom investment focus has shifted from 5G to higher growth areas (industrial digitalization and cloud computing, etc.). Therefore, overall growth for China Tower is limited. Maintain HOLD. TP of HK\$1.01 is based on the same 2.7x EV/EBITDA, which is ~1SD below 2-year forward EV/EBITDA multiple.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Turnover (RMB mn)	81,099	86,585	92,481	96,537	100,566
YoY growth (%)	6.1%	6.8%	6.8%	4.4%	4.2%
EBITDA (RMB mn)	59,527	63,017	64,986	67,499	70,315
Net profit (RMB mn)	6,428	7,329	8,668	9,649	10,698
EPS (RMB)	0.04	0.04	0.05	0.06	0.06
YoY growth (%)	23.6%	14.0%	18.3%	11.3%	10.9%
Consensus EPS (RMB)	NA	NA	0.05	0.05	0.06
EV/EBITDA (x)	3.9	3.4	3.1	2.6	2.1
PB (x)	0.8	0.8	0.8	0.7	0.7
Yield (%)	2.7%	3.2%	3.9%	4.5%	5.1%
ROE (%)	3.5%	3.9%	4.5%	4.9%	5.3%
Net gearing (%)	45.1%	38.2%	27.8%	14.7%	2.3%

Source: Company data, Bloomberg, CMBIGM estimates

¹ China Tower's telco revenue over telco's COGS plus related operating exp.

HOLD (Maintain)

Target Price	HK\$1.01
(Previous TP)	HK\$1.01)
Up/Downside	+8.4%
Current Price	HK\$0.93

China Technology Sector

Lily Yang, Ph.D

(852) 3916 3716

lilyyang@cmbi.com.hk

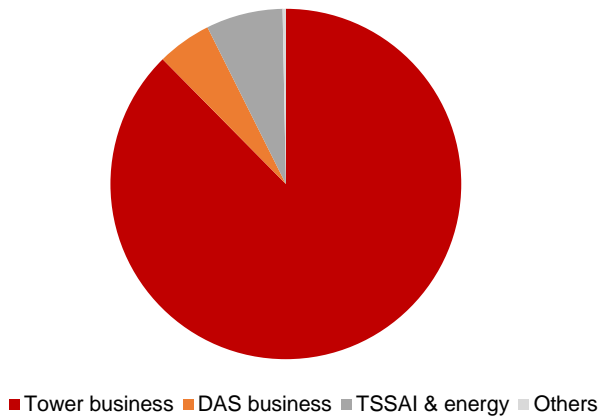
Alex Ng

(852) 3900 0881

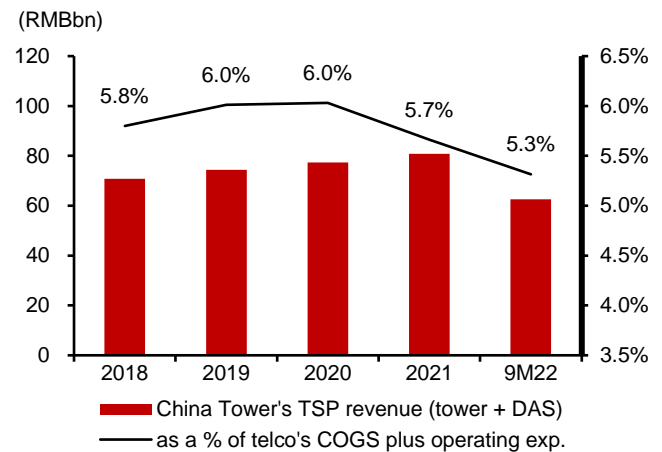
alexng@cmbi.com.hk

Related Reports

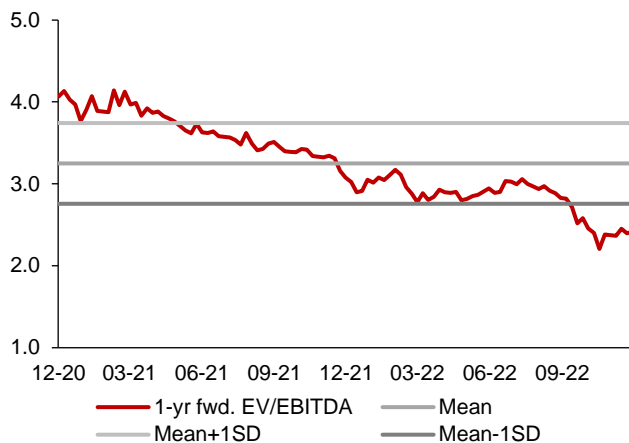
1. China 5G Sector – Expect telecom names continue to show strength in broad market weakness – 16 Sep 2022 ([Link](#))
2. “China 5G Sector: Defensive play with upside potential” – 4 May 2022 ([Link](#))

Figure 1: Revenue breakdown: Legacy business (tower & DAS) contributed 91% of 9M22 revenue


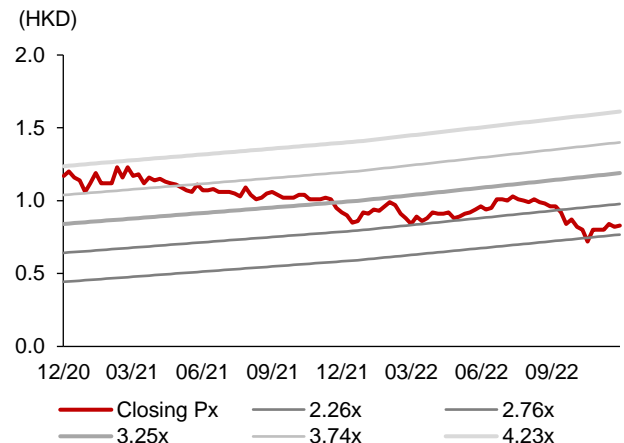
Source: Company data, CMBIGM estimates

Figure 2: China Tower's revenue accounted for a smaller % of telco's COGS & operating exp.


Source: Company data, CMBIGM estimates

Figure 3: 12M forward EV/EBITDA band


Source: Company data, CMBIGM estimates

Figure 4: 12M forward EV/EBITDA chart


Source: Company data, CMBIGM estimates

Financial Summary – China Tower (788 HK)

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	81,099	86,585	92,481	96,537	100,566
Selling exp	(4,627)	(5,161)	(5,098)	(5,322)	(5,544)
Admin exp	(5,805)	(5,796)	(7,089)	(7,641)	(7,960)
R&D exp	(6,115)	(6,875)	(7,683)	(8,116)	(8,455)
Finance costs	(3,923)	(3,723)	(3,415)	(2,936)	(2,649)
Other operating exp.	89,557	95,105	101,111	105,095	108,631
Operating profit	12,012	13,035	14,654	15,456	16,542
Other non-oper exp.	(3,605)	(3,420)	(3,260)	(2,774)	(2,480)
Pre-tax profit	8,407	9,615	11,394	12,682	14,061
Income tax expense	(1,980)	(2,287)	(2,726)	(3,034)	(3,364)
Minority interests	(1)	(1)			
Net profit to shareholders	6,428	7,329	8,668	9,649	10,698

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	8,407	9,615	8,668	9,649	10,698
Depreciation/amortization	47,515	49,982	38,704	40,254	41,940
Change in working capital	(2,814)	(6,581)	(11,673)	545	(1,690)
Others	4,440	7,487	20,574	14,281	14,009
Net cash from operating	57,548	60,503	56,273	64,728	64,956
Capex	(37,800)	(32,513)	(30,519)	(30,892)	(31,175)
Other	(97)	998	1,172	1,093	1,150
Net cash from investing	(37,897)	(31,515)	(29,347)	(29,799)	(30,026)
Share issuance	0	0	0	0	0
Dividend paid	(2,561)	(3,934)	(4,618)	(5,635)	(6,465)
Other	(18,276)	(23,626)	(17,563)	(8,741)	(8,533)
Net cash from financing	(20,837)	(27,560)	(22,181)	(14,376)	(14,998)
Net change in cash	(1,186)	1,428	4,745	20,553	19,932
Cash at beginning of the year	6,223	5,042	6,471	11,216	31,768
Exchange difference	5	1	0	0	0
Cash at the end of the year	5,042	6,471	11,216	31,768	51,701

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	43,204	48,344	62,284	78,321	98,140
Cash & equivalents	5,042	6,471	11,216	31,768	51,701
Account receivables	30,658	34,194	44,812	40,022	39,637
Inventory	0	0	0	0	0
Prepayment	7,504	7,679	6,256	6,531	6,803
Other current assets	0	0	0	0	0
Non-current assets	294,176	274,915	251,155	230,408	208,155
PPE	231,684	221,419	203,705	185,299	164,449
Deferred tax assets	1,457	1,892	2,601	4,106	5,605
Other non-current assets	61,035	51,604	44,848	41,003	38,101
Total assets	337,380	323,259	313,439	308,729	306,295
Current liabilities	106,635	76,182	70,449	62,625	58,093
ST borrowings	61,999	37,142	31,193	26,999	23,907
Account payables	31,460	25,264	25,204	22,403	21,681
Tax payable	0	0	0	0	0
Other current liabilities	13,176	13,776	14,051	13,222	12,505
Non-current liabilities	44,499	57,723	49,586	48,687	46,553
LT borrowings	27,121	41,572	33,793	33,749	32,345
Deferred tax liability	0	0	0	0	0
Other non-current liabilities	17,378	16,151	15,793	14,938	14,208
Total liabilities	151,134	133,905	120,034	111,312	104,646
Share capital	176,008	176,008	176,008	176,008	176,008
Reserve	0	0	0	0	0
Retained earnings	10,237	13,346	17,396	21,410	25,642
Other			0	0	(0)
Minority interest	1	0	0	0	0
Total equity	186,246	189,354	193,404	197,418	201,650
Total liabilities and equity	337,380	323,259	313,439	308,729	306,295

Key ratios

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix					
Tower business	73,371	75,857	77,533	78,522	79,481
DAS business	3,528	4,340	5,742	6,190	6,672
TSSAI & energy	3,939	6,131	8,949	11,568	14,155
Others	261	257	257	257	257
Growth (%)					
Revenue	6.1%	6.8%	6.8%	4.4%	4.2%
Operating profit	6.5%	8.5%	12.4%	5.5%	7.0%
Net profit	23.1%	14.0%	18.3%	11.3%	10.9%
Profit & loss ratio (%)					
Operating margin	14.8%	15.1%	15.8%	16.0%	16.4%
Net profit margin	7.9%	8.5%	9.4%	10.0%	10.6%
Balance sheet ratio					
Net debt/total equity (%)	45.1%	38.2%	27.8%	14.7%	2.3%
Current ratio (x)	0.4	0.6	0.9	1.3	1.7
Receivable turnover days	102	113	135	140	125
Inventory turnover days	0	0	0	0	0
Payable turnover days	137	120	100	90	80
Profitability (%)					
ROE	3.5%	3.9%	4.5%	4.9%	5.3%
ROA	1.9%	2.3%	2.8%	3.1%	3.5%
Per share data (RMB)					
EPS	0.04	0.04	0.05	0.06	0.06
DPS (H - share, in HKD)	0.02	0.03	0.03	0.04	0.04
BPS	1.07	1.08	1.11	1.13	1.15

Source: Company data, CMBIGM estimates

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY	: Stock with potential return of over 15% over next 12 months
HOLD	: Stock with potential return of +15% to -10% over next 12 months
SELL	: Stock with potential loss of over 10% over next 12 months
NOT RATED	: Stock is not rated by CMBIGM

OUTPERFORM	: Industry expected to outperform the relevant broad market benchmark over next 12 months
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

CMB International Global Markets Limited

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

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.