

China Tower (788 HK)

Earnings supported by D&A roll-off while growth remained limited

China Tower's FY25 revenue went up by 2.7% YoY to RMB100.4bn, in-line with our estimate of RMB101.4bn and Bloomberg consensus of RMB100.87bn. Net profit rose 8.4% YoY to RMB11.6bn, 1.0% above our estimate and 3.5% below Bloomberg consensus. Net margin improved 0.6ppt to 11.6%, primarily driven by a lower D&A expense ratio (48.3% of revenue in FY25 vs. 51.4% in FY24), as tower assets acquired in 2015 rolled off depreciation in Nov 2025 (two months recognized in FY25), while certain DAS equipment saw useful life extensions. EBITDA declined 1.1% YoY to RMB65.8bn (margin -2.6ppt to 65.5%), as other OpEx went up by 23.5% YoY on higher bad debt provisions and lower asset disposal gains. In 4Q25, quarterly revenue was RMB26.1bn (+3.0% YoY, +5.6% QoQ), showing a typical seasonal pick-up. The Company declared a full-year DPS of RMB0.458 (+9.8% YoY), with a payout ratio of 77% (vs. 70%/72%/75%/76% during FY21-24). **Maintain HOLD, with TP adjusted to HK\$12.1 (prev. HK\$13.1).**

■ **Tower business remained under pressure as we expected; telco capex to continue declining.** Tower revenue (75% of total sales) was RMB75.5bn, down 0.3% YoY. In 2025, three domestic telcos' combined capex declined by 10.5% YoY to RMB285.5bn, and the guided 2026 budget was further reduced by 8.4% YoY to RMB261.4bn (CM/CU/CT: RMB136.6bn/50.0bn/74.84bn), with spending increasingly directed towards computing/AI instead of network buildout (e.g., China Unicom guides 35% of its 2026 capex for computing). We expect tower-related spending from the telcos to remain under structural pressure as 5G matures, while the lack of a clear roadmap for commercial 6G deployment at present may limit near-term visibility on the next round of network investment. **We project China Tower's Tower revenue to decline 1.5% YoY in 2026E, reflecting flattish site counts and ongoing pricing pressure.**

■ **DAS and Two Wings segments maintained solid growth.** DAS revenue grew 9.5% YoY, benefiting from signal upgrade and indoor/underground coverage demand. Within the Two Wings segment, Smart Tower revenue grew 14.2% YoY to RMB10.2bn, and Energy grew 7.5% to RMB4.8bn. Together, DAS and Two Wings accounted for 24% of total revenue in FY25, up from 22.3%/19.8% in FY24/FY23, further diversifying the revenue mix. **We forecast DAS/Two Wings to grow 11.6%/13.4% YoY in 2026E.**

■ **Maintain HOLD, with TP adjusted to HK\$12.1 (previously HK\$13.1 on 4.0x 2025E EV/EBITDA), corresponding to 3.6x 2026E EV/EBITDA, equivalent to 1-SD above its 5-year average forward EV/EBITDA, given the D&A tailwind is significant but could be partially offset by rising maintenance costs.** The Company continues to enhance shareholder returns with payout ratio increasing to 77% in FY25, implying a forward dividend yield of ~6.0% per our estimate, which is still lower than the three telcos' (CM (941 HK): 6.8%; CU (762 HK): 6.7%; and CT (728 HK): 6.3%, per Bloomberg data). **Upside risks:** better-than-expected telco capex recovery, favorable pricing agreement renewal in 2027E, further shareholder return enhancement, etc.; **downside risks:** continued cost optimization from three telcos, unfavorable pricing agreement, deteriorating dividend payout ratio, etc..

HOLD (Maintain)

Target Price	HK\$12.10
(Previous TP)	HK\$13.10)
Up/Downside	13.2%
Current Price	HK\$10.69

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Stock Data

Mkt Cap (HK\$ mn)	49,883.7
Avg 3 mths t/o (HK\$ mn)	152.2
52w High/Low (HK\$)	12.78/10.24
Total Issued Shares (mn)	4666.4

Source: FactSet

Shareholding Structure

Blackrock	6.1%
GIC	6.0%

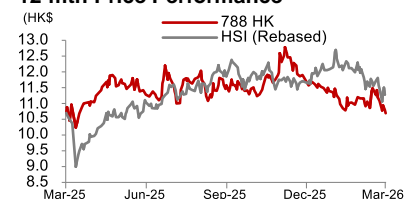
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	-4.1%	2.3%
3-mth	-10.5%	-7.4%
6-mth	-7.7%	-3.3%

Source: FactSet

12-mth Price Performance



Source: FactSet

Earnings Summary

(YE 31 Dec)	FY24A	FY25A	FY26E	FY27E	FY28E
Revenue (RMB mn)	97,772	100,411	102,132	103,249	103,351
YoY growth (%)	4.0	2.7	1.7	1.1	0.1
EBITDA (RMB mn)	66,559.0	65,814.0	62,509.6	63,143.3	63,381.1
Net profit (RMB mn)	10,729.0	11,630.0	15,362.3	15,693.9	15,765.3
YoY growth (%)	10.0	8.4	32.1	2.2	0.5
EPS (Reported) (RMB)	0.61	0.67	0.88	0.90	0.90

Source: Company data, Bloomberg, CMBIGM estimates

Figure 1: Earnings revision

RMBmn	New			Old			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	102,132	103,249	103,351	102,468	104,352	NA	-0.3%	-1.1%	NA
EBITDA	62,510	63,143	63,381	70,510	72,277	NA	-11.3%	-12.6%	NA
Net profit	15,362	15,694	15,765	11,955	12,455	NA	28.5%	26.0%	NA
EPS (RMB)	0.88	0.90	0.90	0.68	0.71	NA	29.2%	26.4%	NA
EBITDA margin	61.2%	61.2%	61.3%	68.8%	69.3%	NA	-7.6 ppt	-8.1 ppt	NA
Net margin	15.0%	15.2%	15.3%	11.7%	11.9%	NA	3.4 ppt	3.3 ppt	NA

Source: Company data, CMBIGM estimates

Figure 2: CMBIGM estimates vs. BBG consensus

RMBmn	CMBIGM			BBG Consensus			Diff (%)		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	102,132	103,249	103,351	102,776	105,621	107,185	-0.6%	-2.2%	-3.6%
EBITDA	62,510	63,143	63,381	64,094	65,499	66,563	-2.5%	-3.6%	-4.8%
Net profit	15,362	15,694	15,765	15,361	16,055	16,238	0.0%	-2.2%	-2.9%
EPS (RMB)	0.88	0.90	0.90	0.88	0.93	0.99	0.4%	-2.9%	-8.6%
EBITDA margin	61.2%	61.2%	61.3%	62.4%	62.0%	62.1%	-1.2 ppt	-0.9 ppt	-0.8 ppt
Net margin	15.0%	15.2%	15.3%	14.9%	15.2%	15.1%	0.1 ppt	0 ppt	0.1 ppt

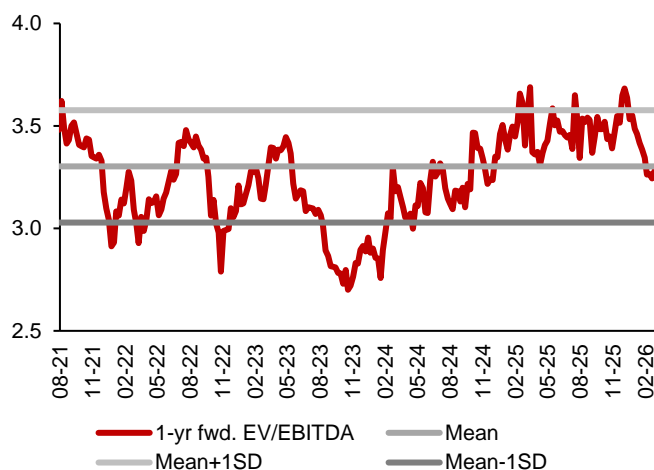
Source: Bloomberg consensus, CMBIGM estimates

Figure 3: China Tower: Target Valuation

RMBmn	FY26E
Adjusted EBITDA	71,034
Target FY26E EV/EBITDA (x)	3.6
Target EV	254,300
Net Cash	27,642
- Net Debt	(71,034)
- Minority interest	(2)
Target Equity Valuation	210,906
Valuation Per Share (HKD)	12.10

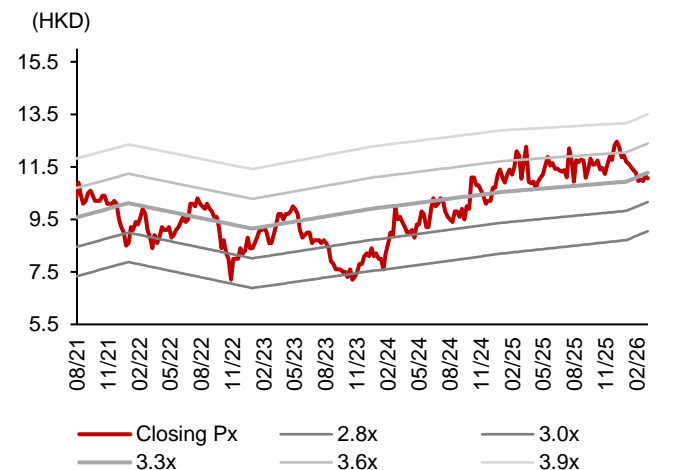
Source: CMBIGM estimates

Figure 4: Forward EV/EBITDA chart



Source: Company data, CMBIGM estimates

Figure 5: EV/EBITDA band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Revenue	94,009	97,772	100,411	102,132	103,249	103,351
Operating expenses	(79,507)	(81,442)	(83,051)	(79,841)	(80,743)	(80,927)
Selling expense	(49,049)	(50,229)	(48,454)	(40,218)	(40,638)	(40,957)
Other rental related expenses	(5,393)	(5,504)	(6,125)	(6,332)	(6,505)	(6,614)
Others	(25,065)	(25,709)	(28,472)	(33,291)	(33,601)	(33,356)
Operating profit	14,502	16,330	17,360	22,292	22,506	22,424
Other income	1,114	365	415	422	427	427
EBITDA	63,551	66,559	65,814	62,510	63,143	63,381
Interest income	43	63	36	88	179	258
Interest expense	(2,827)	(2,639)	(2,446)	(2,319)	(2,186)	(2,089)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	12,832	14,119	15,365	20,483	20,925	21,020
Income tax	(3,082)	(3,389)	(3,734)	(5,121)	(5,231)	(5,255)
After tax profit	9,750	10,730	11,631	15,362	15,694	15,765
Minority interest	0	1	1	0	0	0
Net profit	9,750	10,729	11,630	15,362	15,694	15,765
BALANCE SHEET	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Current assets	78,083	91,360	104,069	103,358	134,672	136,169
Cash & equivalents	3,955	2,598	12,312	24,325	49,859	56,956
Account receivables	71,685	85,907	88,510	75,930	81,676	76,073
Inventories	0	0	0	0	0	0
Prepayment	2,443	2,855	3,247	3,103	3,137	3,140
Other current assets	0	0	0	0	0	0
Contract assets	0	0	0	0	0	0
Non-current assets	247,924	241,474	232,510	219,274	206,345	192,626
PP&E	201,542	192,770	184,099	178,054	170,421	162,107
Right-of-use assets	31,083	32,247	31,873	26,839	21,813	16,734
Intangibles	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0
Other non-current assets	15,299	16,457	16,538	14,381	14,111	13,784
Total assets	326,007	332,834	336,579	322,632	341,017	328,795
Current liabilities	63,934	75,799	80,565	66,678	78,375	61,099
Short-term borrowings	23,786	28,525	31,409	31,255	28,414	25,352
Account payables	28,286	33,269	34,545	21,418	35,157	21,474
Other current liabilities	4,825	6,280	6,818	6,535	6,908	6,660
Lease liabilities	6,864	7,378	7,376	7,070	7,473	7,205
Contract liabilities	0	0	0	0	0	0
Accrued expenses	173	347	417	400	422	407
Non-current liabilities	64,379	57,056	52,106	46,669	47,865	47,400
Long-term borrowings	49,329	41,084	36,025	31,255	31,572	31,691
Other non-current liabilities	15,050	15,972	16,081	15,415	16,293	15,709
Total liabilities	128,313	132,855	132,671	113,348	126,240	108,499
Share capital	176,008	176,008	17,601	17,601	17,601	17,601
Retained earnings	21,686	23,970	186,305	191,682	197,175	202,693
Total shareholders equity	197,694	199,978	203,906	209,283	214,776	220,294
Minority interest	0	1	2	2	2	2
Total equity and liabilities	326,007	332,834	336,579	322,632	341,017	328,795

CASH FLOW	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	9,750	10,729	11,630	15,362	15,694	15,765
Depreciation & amortization	49,049	50,229	48,454	40,218	80,855	80,855
Change in working capital	(29,286)	(15,656)	(3,015)	(2,167)	6,408	(9,697)
Others	3,327	4,166	(953)	3,879	3,711	3,343
Net cash from operations	32,840	49,468	56,116	57,292	106,669	90,267
Investing						
Capital expenditure	(33,464)	(29,783)	(29,486)	(29,463)	(29,785)	(29,815)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	1,559	1,804	2,174	2,280	2,343	2,401
Net cash from investing	(31,905)	(27,979)	(27,312)	(27,184)	(27,443)	(27,414)
Financing						
Dividend paid	(5,653)	(8,442)	(7,700)	(9,985)	(10,201)	(10,247)
Net borrowings	15,997	(1,905)	(2,175)	(4,924)	(2,523)	(2,943)
Proceeds from share issues	0	0	0	0	0	0
Others	(12,440)	(12,498)	(9,215)	(3,185)	(749)	(2,667)
Net cash from financing	(2,096)	(22,845)	(19,090)	(18,095)	(13,474)	(15,858)
Net change in cash						
Cash at the beginning of the year	5,117	3,955	2,598	12,312	24,325	49,859
Exchange difference	(1)	(1)	0	0	0	0
Cash at the end of the year	3,955	2,598	12,312	24,325	49,859	56,956
GROWTH	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Revenue	2.0%	4.0%	2.7%	1.7%	1.1%	0.1%
Operating profit	8.9%	12.6%	6.3%	28.4%	1.0%	(0.4%)
EBITDA	1.1%	4.7%	(1.1%)	(5.0%)	1.0%	0.4%
Net profit	11.0%	10.0%	8.4%	32.1%	2.2%	0.5%
PROFITABILITY	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Operating margin	15.4%	16.7%	17.3%	21.8%	21.8%	21.7%
EBITDA margin	67.6%	68.1%	65.5%	61.2%	61.2%	61.3%
Return on equity (ROE)	5.0%	5.4%	5.8%	7.4%	7.4%	7.2%
GEARING/LIQUIDITY/ACTIVITIES	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
Current ratio (x)	1.2	1.2	1.3	1.6	1.7	2.2
VALUATION	2023A	2024A	2025A	2026E	2027E	2028E
YE 31 Dec						
P/E	16.9	15.4	14.2	10.7	10.5	10.5

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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