

# China Tower (788 HK)

## 2Q23 results in-line with expectations; cash flow under temporary pressure

China Tower released its 1H23 results, posting revenue and NP growth of 2.2% and 14.6% YoY. The sales from the legacy business (81% of total revenue) declined by 2.9% YoY, mainly due to additional pricing discount under the new Commercial Pricing Agreement (the number should grow 3.4% YoY under previous agreement). Their DAS and Two Wings business grew double-digit (30.4% in 1H23); however, the impact is minimal given their revenue contribution is less than 20%. Looking forward, we expect China Tower's overall growth will be in low single digits, affected by continuous cost optimization in major China telecoms. **Maintain HOLD with TP at HK\$0.89.**

- Cost optimization from China telcos will continue to weigh on legacy tower business growth.** This segment's sales grew 3.4%/1.8% YoY in 2021/22. We tracked a key indicator to estimate China telco's tower leasing burden (figure 2), which clearly showed a declining trend. Therefore, we expect the tower sales will decline low single-digit (2.4%/3.6% YoY) in 2023/24E, factoring in the new pricing discount. DAS and Two Wings business (smart tower business and energy operations) may grow at double-digit. However, we think these segments do not have a meaningful impact on total revenue. Overall sales of the Company is likely to be flat (2.1%/1.9% YoY for 2023/24E).
- Company's free cash flow under temporary pressure due to new pricing agreements with China telcos and heavier capex.** Free cash flow plunged by more than 105% in 1H23 to RMB-1.27bn as the Company's accounts receivable surged by more than 50% in 1H23 compared to FY22. Meanwhile, Company's capex grew by 41.1% YoY in 1H23 as it accelerated investments in the Two Wings business segments and ongoing constructions. However, mgmt. suggests the temporary cash flow pressure is unlikely to impact its full year dividend pay-out. We expect the Company's cash flow condition to return to normal level in 2H23-2024 as we are currently in the beginning phase of the new pricing agreements.
- Maintain HOLD with TP adjusted to HK\$0.89,** based on 2.7x FY24 EV/EBITDA, which is ~1SD below 1-year forward EV/EBITDA multiple, as we think the overall growth for China Tower is limited.

### Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue (RMB mn)	86,585	92,170	94,098	95,879	97,371
YoY growth (%)	6.8	6.5	2.1	1.9	1.6
Operating profit (RMB mn)	13,035	13,312	14,279	14,208	14,175
YoY growth (%)	8.5	2.1	7.3	(0.5)	(0.2)
EBITDA (RMB mn)	63,017	62,844	64,228	66,017	67,625
Net profit (RMB mn)	7,329.0	8,787.0	9,406.1	9,838.7	10,292.3
YoY growth (%)	14.0	19.9	7.0	4.6	4.6
EPS (RMB)	0.04	0.05	0.05	0.06	0.06
ROE (%)	3.9	4.6	4.8	4.9	5.1
EV/EBITDA (x)	3.16	2.84	2.76	2.38	2.00
Dividend yield (%)	3.6	4.5	5.0	5.4	5.8

Source: Company data, Bloomberg, CMBIGM estimates

**HOLD (Maintain)**

Target Price **HK\$0.89**  
 (Previous TP) HK\$1.01  
 Up/Downside **14.1%**  
 Current Price **HK\$0.78**

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### Stock Data

Mkt Cap (HK\$ mn)	137,286.6
Avg 3 mths t/o (HK\$ mn)	82.9
52w High/Low (HK\$)	1.00/0.71
Total Issued Shares (mn)	46,663.9

Source: FactSet

### Shareholding Structure

Citigroup	9.0%
GIC	7.0%

Source: Bloomberg

### Share Performance

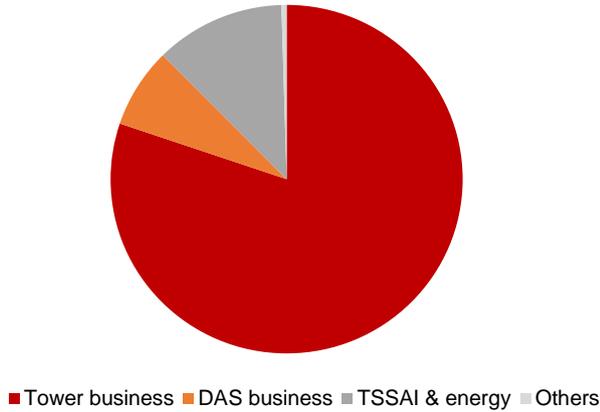
	Absolute	Relative
1-mth	-7.1%	-4.8%
3-mth	-13.3%	-9.0%
6-mth	-9.3%	-0.3%

Source: FactSet

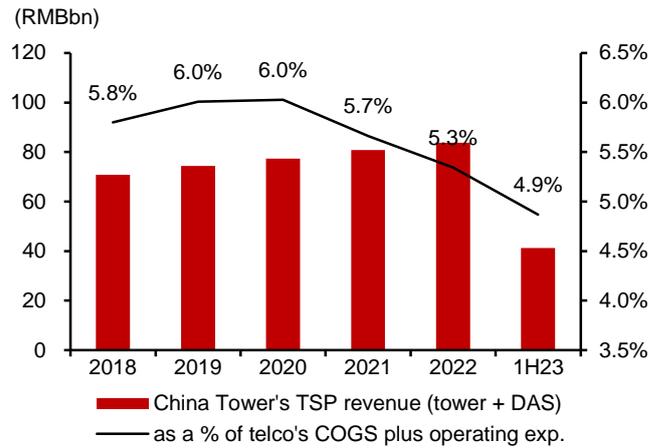
### 12-mth Price Performance



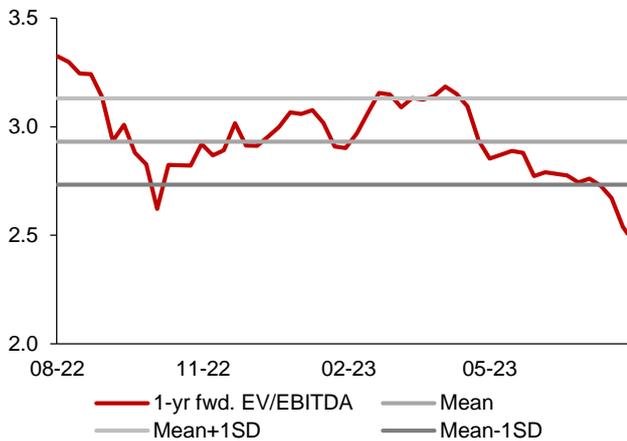
Source: FactSet

**Figure 1: Revenue breakdown: Tower business contributed 80% of 6M23 revenue**


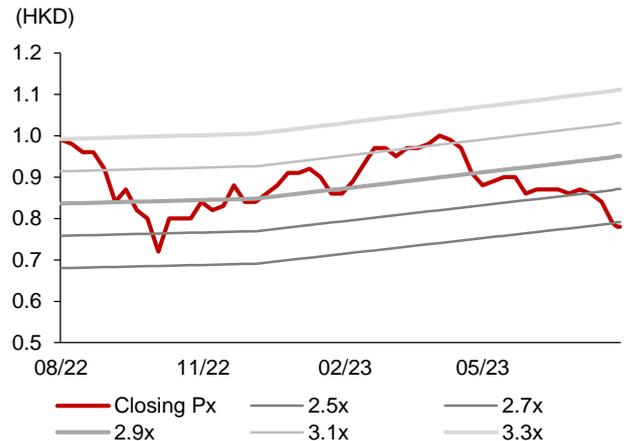
Source: Company data, CMBIGM estimates

**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

**Figure 5: CMBIGM estimates vs. consensus**

RMB mn	CMBI estimates			Consensus			Diff (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	94,098	95,879	97,371	94,687	99,371	103,820	-1%	-4%	-6%
Operating Profit	14,279	14,208	14,175	14,941	16,985	20,601	-4%	-16%	-31%
Net profit	9,406	9,839	10,292	9,541	10,964	14,180	-1%	-10%	-27%
EPS (RMB)	0.05	0.06	0.06	0.05	0.06	0.08	-1%	-8%	-25%
<b>Operating Margin</b>	15.2%	14.8%	14.6%	15.8%	17.1%	19.8%	-0.6 ppt	-2.3 ppt	-5.3 ppt
<b>Net Margin</b>	10.0%	10.3%	10.6%	10.1%	11.0%	13.7%	-0.1 ppt	-0.8 ppt	-3.1 ppt

Source: Company data, CMBIGM estimates

**Figure 6: Earnings revision**

RMB mn	New		Old		Diff (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	94,098	95,879	96,537	100,566	-3%	-5%
Operating Profit	14,279	14,208	15,456	16,542	-8%	-14%
Net profit	9,406	9,839	9,649	10,698	-3%	-8%
EPS (RMB)	0.05	0.06	0.06	0.06	-10%	-6%
<b>Operating Margin</b>	10.0%	10.3%	10.0%	10.6%	0 ppt	-0.4 ppt
<b>Net Margin</b>	94,098	95,879	96,537	100,566	-3%	-5%

Source: Company data, CMBIGM estimates

## Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
Revenue	81,099	86,585	92,170	94,098	95,879	97,371
Operating expenses	(69,087)	(73,550)	(78,858)	(79,819)	(81,671)	(83,196)
D&A	(47,515)	(49,982)	(49,532)	(49,949)	(51,809)	(53,450)
Admin expense	(6,115)	(6,875)	(7,940)	(8,103)	(8,065)	(7,996)
Repairs and maintenance	(5,805)	(5,796)	(7,593)	(7,292)	(7,238)	(7,156)
Site operating lease expenses	(4,627)	(5,161)	(5,857)	(5,352)	(5,262)	(5,149)
Others	(5,025)	(5,736)	(7,936)	(9,122)	(9,298)	(9,445)
<b>Operating profit</b>	<b>12,012</b>	<b>13,035</b>	<b>13,312</b>	<b>14,279</b>	<b>14,208</b>	<b>14,175</b>
Other income	318	303	1,095	573	584	593
Interest income	36	22	124	0	0	0
Interest expense	(3,959)	(3,745)	(3,003)	(2,512)	(1,884)	(1,266)
Other income/expense	0	0	0	0	0	0
<b>Pre-tax profit</b>	<b>8,407</b>	<b>9,615</b>	<b>11,528</b>	<b>12,340</b>	<b>12,908</b>	<b>13,503</b>
Income tax	(1,980)	(2,287)	(2,741)	(2,934)	(3,069)	(3,211)
<b>After tax profit</b>	<b>6,427</b>	<b>7,328</b>	<b>8,787</b>	<b>9,406</b>	<b>9,839</b>	<b>10,292</b>
Minority interest	(1)	(1)	0	0	0	0
<b>Net profit</b>	<b>6,428</b>	<b>7,329</b>	<b>8,787</b>	<b>9,406</b>	<b>9,839</b>	<b>10,292</b>
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
<b>YE 31 Dec (RMB mn)</b>						
<b>Current assets</b>	<b>43,204</b>	<b>48,344</b>	<b>49,706</b>	<b>61,419</b>	<b>59,037</b>	<b>57,783</b>
Cash & equivalents	5,042	6,471	5,117	4,112	9,537	15,010
Account receivables	30,658	34,194	42,260	54,954	47,104	40,338
Inventories	0	0	0	0	0	0
Prepayment	7,504	7,679	2,329	2,352	2,397	2,434
Other current assets	0	0	0	0	0	0
Contract assets	0	0	0	0	0	0
<b>Non-current assets</b>	<b>294,176</b>	<b>274,915</b>	<b>255,854</b>	<b>242,302</b>	<b>228,068</b>	<b>212,310</b>
PP&E	231,684	221,419	209,377	199,548	187,682	174,697
Right-of-use assets	34,553	32,877	31,578	29,362	26,323	22,525
Intangibles	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0
Other non-current assets	27,939	20,619	14,899	13,392	14,063	15,089
<b>Total assets</b>	<b>337,380</b>	<b>323,259</b>	<b>305,560</b>	<b>303,721</b>	<b>287,106</b>	<b>270,093</b>
<b>Current liabilities</b>	<b>106,635</b>	<b>76,182</b>	<b>65,158</b>	<b>46,842</b>	<b>33,416</b>	<b>20,023</b>
Short-term borrowings	61,999	37,142	25,597	9,634	0	(10,144)
Account payables	31,460	25,264	26,646	24,914	22,369	20,315
Other current liabilities	5,752	6,342	5,510	5,596	5,290	4,976
Lease liabilities	7,006	6,913	7,127	6,477	5,548	4,679
Contract liabilities	0	0	0	0	0	0
Accrued expenses	418	521	278	222	209	197
<b>Non-current liabilities</b>	<b>44,499</b>	<b>57,723</b>	<b>46,811</b>	<b>59,594</b>	<b>52,870</b>	<b>45,746</b>
Long-term borrowings	27,121	41,572	31,448	44,960	39,610	33,813
Other non-current liabilities	17,378	16,151	15,363	14,634	13,260	11,934
<b>Total liabilities</b>	<b>151,134</b>	<b>133,905</b>	<b>111,969</b>	<b>106,437</b>	<b>86,285</b>	<b>65,770</b>
Share capital	176,008	176,008	176,008	176,008	176,008	176,008
Retained earnings	10,237	13,346	17,583	21,277	24,812	28,315
Other reserves	0	0	0	0	0	0
<b>Total shareholders equity</b>	<b>186,245</b>	<b>189,354</b>	<b>193,591</b>	<b>197,285</b>	<b>200,820</b>	<b>204,323</b>
Minority interest	1	0	0	0	0	0
<b>Total equity and liabilities</b>	<b>337,380</b>	<b>323,259</b>	<b>305,560</b>	<b>303,721</b>	<b>287,106</b>	<b>270,093</b>

<b>CASH FLOW</b>	<b>2020A</b>	<b>2021A</b>	<b>2022A</b>	<b>2023E</b>	<b>2024E</b>	<b>2025E</b>
<b>YE 31 Dec (RMB mn)</b>						
<b>Operating</b>						
<b>Profit before taxation</b>	<b>8,407</b>	<b>9,615</b>	<b>11,528</b>	<b>9,406</b>	<b>9,839</b>	<b>10,292</b>
Depreciation & amortization	47,515	49,982	49,532	49,949	51,809	53,450
Change in working capital	(4,901)	(2,360)	(7,454)	(14,714)	5,393	5,311
Others	6,527	3,266	11,528	2,404	249	(703)
<b>Net cash from operations</b>	<b>57,548</b>	<b>60,503</b>	<b>65,134</b>	<b>47,045</b>	<b>67,289</b>	<b>68,350</b>
<b>Investing</b>						
Capital expenditure	(37,800)	(32,513)	(28,639)	(33,623)	(33,300)	(32,845)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	(97)	998	982	(2,404)	(3,111)	(3,862)
<b>Net cash from investing</b>	<b>(37,897)</b>	<b>(31,515)</b>	<b>(27,657)</b>	<b>(36,027)</b>	<b>(36,412)</b>	<b>(36,707)</b>
<b>Financing</b>						
Dividend paid	(2,561)	(3,934)	(4,618)	(5,712)	(6,303)	(6,790)
Net borrowings	(6,594)	(10,521)	(21,870)	(2,451)	(14,984)	(15,941)
Proceeds from share issues	0	0	0	0	0	0
Others	(11,682)	(13,105)	(12,337)	(3,860)	(4,166)	(3,439)
<b>Net cash from financing</b>	<b>(20,837)</b>	<b>(27,560)</b>	<b>(38,825)</b>	<b>(12,023)</b>	<b>(25,453)</b>	<b>(26,170)</b>
<b>Net change in cash</b>						
Cash at the beginning of the year	6,223	5,042	6,471	5,117	4,112	9,537
Exchange difference	5	1	(6)	0	0	0
<b>Cash at the end of the year</b>	<b>5,042</b>	<b>6,471</b>	<b>5,117</b>	<b>4,112</b>	<b>9,537</b>	<b>15,010</b>

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