

I Hong Kong

ADD (no change)

Consensus ratings*: Buy 12 Hold 1 Sell 0

Current price: HK\$3.89
 Target price: ▼ HK\$5.57
 Previous target: HK\$6.19
 Up/downside: 43.2%
 CGI / Consensus: 4.2%

Reuters: 0552.HK
 Bloomberg: 552 HK
 Market cap: US\$3,442m
 HK\$26,942m

Average daily turnover: US\$3.78m
 HK\$29.51m

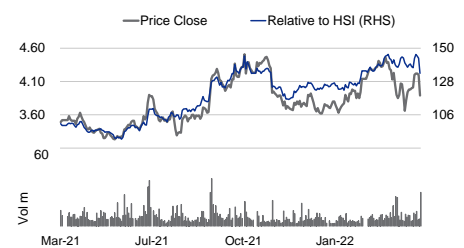
Current shares o/s: 6,926m

Free float: 34.5%

*Source: Bloomberg

Key changes in this note

- 22F and 23F revenue decreased by 2% and 3%, respectively.
- 22F and 23F net profit decreased by 9.0% and 9.1% respectively.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-9.3	3.7	11.1
Relative (%)	-7.2	7.5	33.3

Major shareholders

	% held
China Telecommunications Corporation	51.4
China Mobile Communications Group	8.8
China United Network Communications Group	3.4

Analyst

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China Communications Services Corp

2021 results miss, but the market overreacted

- China Communications Services Corporation Limited (CCS) released its 2021 annual results, which were lower than our expectations.
- But we believe that the market should appreciate the Company's strategy of focusing on quality growth in the current macro environment. We also believe that the market seems to have overreacted to the results miss.
- We lowered our revenue and net profit forecasts for 22F and 23F after the 2021 results announcement.
- We reiterate our ADD rating, with a lower target price of HK\$5.57 (based on 10x 2022F P/E, lowered from 11x).

2021 results highlights

CCS's 2021 operating revenue was Rmb133,991m, up 9.2% yoy from Rmb122,649m in 2020. The Company's revenue growth in 2021 was slower than our expectation of 10.5% because of lower revenue from TIS (Telecommunications Infrastructure Services). Its gross profit margin (GPM) decreased by 0.2ppt yoy, from 11.2% in 2020 to 11.0% in 2021 (same as our expectation of 11.0%). The Company's gross profit margin rebounded 0.7ppt hoh in 2H21 because of its strategy of focusing on projects in the enterprise segment. CCS's 2021 net profit was Rmb3,157m, up 2.5% yoy from Rmb3,081m in 2020. The Company's 2021 net profit was lower than our expectation of Rmb3,250m. By segment, a) revenue from TIS was Rmb71,889m, up 7.0% yoy; b) revenue from BPO (Business Process Outsourcing Services) was Rmb40,624, up 9.0% yoy; and revenue from ACO (Applications, Content and Other Services) was Rmb21,478m, up 18.0% yoy.

Growth will be driven mostly by non-telecom operator business

There are concerns about the CCS's business growth, given softer-than-expected activity from telecom operators. However, according to management, the ITS business is expected to continue to deliver positive growth, given the CAPEX plan of the telecom operators (lower single-digit yoy growth). Management reiterate that CCS's BPO will benefit from telecom operators' expansion into new business activities. The non-telecom operator business will continue to be the growth driver. We still expect CCS' non-operator business growth to remain resilient, as the business is likely ride on rapid industry growth supported by digital upgrading in society, industry and government. We believe that the market should appreciate the Company's strategy of focusing on quality growth during current macro-environment. We also believe that the market overreacted to the 2021 results miss.

SOE reforms expected to unleash potential

In 1H21, CCS introduced State Grid ITT as strategic shareholder as part of its overall reforms, and its supply chain subsidiary introduced four strategic shareholders as part of its reforms. The introduction of State Grid ITT as strategic shareholder has been fruitful, as contracts from the State Grid ITT in 2021 rose 20% yoy. CCS will enhance cooperation with these strategic shareholders to implement the digital transformation of their industries (energy IoT, and port and warehouse logistics).

Reiterate ADD with a lower target price

We cut our 2022F–2023F revenue forecasts by 2% and 3%, respectively, and lowered our 2022F–2023F net profit forecasts by 9.0% and 9.1%, respectively. We reiterate our ADD rating, with a lower target price of HK\$5.57, based on 10x 2022F P/E (lowered from 11x).

Financial Summary

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (Rmbm)	122,649	133,991	146,871	161,301	177,504
Operating EBITDA (Rmbm)	2,365	2,314	2,466	2,677	2,915
Operating EBITDA Margin	1.93%	1.73%	1.68%	1.66%	1.64%
Net Profit (Rmbm)	3,081	3,157	3,215	3,440	3,703
Normalised EPS (Rmb)	0.44	0.46	0.46	0.50	0.53
Normalised EPS Growth	1.06%	2.47%	1.84%	6.97%	7.67%
FD Normalised P/E (x)	7.09	6.92	6.80	6.36	5.90
DPS (Rmb)	0.16	0.14	0.14	0.15	0.16
Dividend Yield	5.07%	4.33%	4.41%	4.72%	5.08%
EV/EBITDA (x)	(0.93)	(0.46)	(1.39)	(1.84)	(2.59)
P/FCFE (x)	7.35	72.37	6.51	8.63	5.86
Net Gearing	(62.3%)	(56.6%)	(59.1%)	(60.5%)	(62.7%)
ROE	8.65%	8.41%	8.13%	8.31%	8.53%
% Change In Normalised EPS Estimates			(8.99%)	(9.12%)	
Normalised EPS/consensus EPS (x)			0.86	0.83	0.57

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 1: Change in assumptions

	2022F			2023F		
	Old	New	% change	Old	New	% change
Turnover (RMBm)						
Telecommunications Infrastructure Services	81,932.7	77,437.9	-5%	90,597.5	83,467.5	-8%
Business Process Outsourcing Services	42,964.3	43,918.6	2%	46,179.9	47,508.2	3%
Applications, Content and other services	24,959.8	25,514.4	2%	29,188.6	30,325.5	4%
Total	149,856.7	146,871.0	-2%	165,966.1	161,301.2	-3%
YoY Change (%)						
Telecommunications Infrastructure Services	10.5	7.7		10.6	7.8	
Business Process Outsourcing Services	7.4	8.1		7.5	8.2	
Applications, Content and other services	16.8	18.8		16.9	18.9	
Total	10.6	9.6	(1.0)	10.7	9.8	(0.9)
			ppt			ppt
Gross margin (%)						
Telecommunications Infrastructure Services	10.3	10.3	0	10.3	10.3	0
Business Process Outsourcing Services	12.2	12.2	0	12.2	12.2	0
Applications, Content and other services	10.8	10.8	0	10.9	10.9	0
Total	12.0	12.0	0	12.0	12.0	0
Net margin (%)						
	2.4	2.2	(0.2)	2.3	2.1	(0.1)
Cost (RMBm)						
S,G&A	(14,487.6)	(14,396.3)	(0.0)	(16,044.0)	(15,810.0)	(0.0)
Financial Expenses	(160.5)	(272.5)	0.7	(177.8)	(299.2)	0.7
YoY Change (%)						
S,G&A	10.3	9.3		10.7	9.8	
Financial Expenses	10.6	246.5		10.7	9.8	
CAPEX (RMBm)						
	770.2	582.9		885.7	670.3	
Net profit						
	3,533.1	3,215.5	-9.0%	3,784.7	3,439.5	-9.1%
ACO turnover						
	24,959.8	25,514.4	2.2%	29,188.6	30,325.5	3.9%
YoY (%)						
	16.8	18.8		16.9	18.9	

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

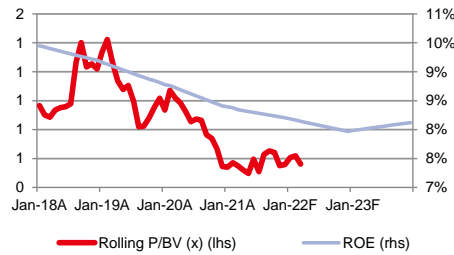
Figure 2: Assumptions

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
Turnover (RMBm)												
Telecommunications Infrastructure Services	32,036	34,008	39,209	45,887	50,511	57,359	64,689	67,165	71,889	77,438	83,468	90,021
Business Process Outsourcing Services	29,012	31,215	33,014	32,534	32,764	35,103	36,637	37,277	40,624	43,919	47,508	51,421
Applications, Content and other services	7,411	7,953	8,737	10,029	11,298	13,714	16,087	18,207	21,478	25,514	30,325	36,063
Total	68,459	73,176	80,960	88,449	94,572	106,177	117,413	122,649	133,991	146,871	161,301	177,504
YoY Change (%)												
Telecommunications Infrastructure Services			15.3	17.0	10.1	13.6	12.8	3.8	7.0	7.7	7.8	7.9
Business Process Outsourcing Services			5.8	(1.5)	0.7	7.1	4.4	1.7	9.0	8.1	8.2	8.2
Applications, Content and other services			9.9	14.8	12.7	21.4	17.3	19.2	18.0	18.8	18.9	18.9
Total			10.6	9.3	6.9	12.3	10.6	4.5	9.2	9.6	9.8	10.0
Gross margin (%)												
Telecommunications Infrastructure Services			14.1	13.2	12.9	12.1	11.6	10.7	10.3	10.3	10.3	10.3
Business Process Outsourcing Services			14.3	13.5	13.2	12.5	12.2	12.2	12.2	12.2	12.2	12.2
Applications, Content and other services			13.2	12.3	12.0	11.2	10.8	10.8	10.8	10.8	10.9	10.9
Total			13.2	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3	12.3
Net margin (%)												
	3.3	2.9	2.9	2.9	2.9	2.7	2.6	2.5	2.4	2.2	2.1	2.1
Cost (RMBm)												
S,G&A			(9,415)	(9,597)	(10,012)	(10,785)	(11,828)	(12,043)	(13,166)	(14,396)	(15,810)	(17,397)
Financial Expenses			(51.4)	(46.7)	(47.1)	(25.2)	(68.9)	(63.5)	(78.6)	(272.5)	(299.2)	(329.3)
YoY Change (%)												
S,G&A			1.9	4.3	7.7	9.7	1.8	9.3	9.3	9.8	10.0	10.0
Financial Expenses			1.0	(46.6)	173.6	(7.8)	23.9	246.5	9.8	10.0	10.0	10.0
CAPEX (RMBm)												
			467.1	465.6	604.1	543.4	506.4	440.8	506.9	582.9	670.3	770.9
Net profit												
	2,238	2,150	2,337	2,536	2,714	2,901	3,049	3,081	3,157	3,215	3,440	3,703
ACO turnover												
	7,411	7,953	8,737	10,029	11,298	13,714	16,087	18,207	21,478	25,514	30,325	36,063
YoY (%)												
		7.3	9.9	14.8	12.7	21.4	17.3	19.2	18.0	18.8	18.9	18.9

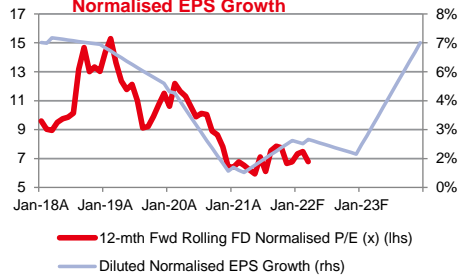
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS

P/BV vs ROE



12-mth Fwd FD Normalised P/E vs FD Normalised EPS Growth



Profit & Loss

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	122,649	133,991	146,871	161,301	177,504
Gross Profit	14,408	15,480	16,863	18,487	20,313
Operating EBITDA	2,365	2,314	2,466	2,677	2,915
Depreciation And Amortisation	(670)	(695)	(725)	(758)	(797)
Operating EBIT	1,694	1,619	1,742	1,919	2,119
Financial Income/(Expense)	227	294	144	145	164
Pretax Income/(Loss) from Assoc.	169	92	98	105	113
Non-Operating Income/(Expense)	1,397	1,574	1,648	1,716	1,787
Profit Before Tax (pre-EI)	3,488	3,578	3,632	3,885	4,183
Exceptional Items					
Pre-tax Profit	3,488	3,578	3,632	3,885	4,183
Taxation	(398)	(393)	(388)	(415)	(447)
Exceptional Income - post-tax					
Profit After Tax	3,089	3,186	3,244	3,470	3,736
Minority Interests	(8)	(28)	(29)	(31)	(33)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Preference Dividends (Australia)					
Net Profit	3,081	3,157	3,215	3,440	3,703
Normalised Net Profit	3,089	3,186	3,244	3,470	3,736
Fully Diluted Normalised Profit	3,081	3,157	3,215	3,440	3,703

Cash Flow

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	2,365	2,314	2,466	2,677	2,915
Cash Flow from Inv. & Assoc.					
Change In Working Capital	1,426	425	2	27	59
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	1,922	2,099	2,173	2,241	2,312
Net Interest (Paid)/Received	227	294	144	145	164
Tax Paid	(476)	(470)	(464)	(496)	(534)
Cashflow From Operations	5,464	4,662	4,321	4,594	4,917
Capex	(441)	(507)	(583)	(670)	(771)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,803)	(4,265)	(597)	(1,637)	(692)
Cash Flow From Investing	(2,244)	(4,772)	(1,180)	(2,307)	(1,463)
Debt Raised/(repaid)	(246)	412	220	246	276
Proceeds From Issue Of Shares	0	0	0	0	0
Shares Repurchased					
Dividends Paid	(1,108)	(925)	(947)	(965)	(1,032)
Preferred Dividends					
Other Financing Cashflow	(10)	(10)	(10)	(10)	(10)
Cash Flow From Financing	(1,364)	(523)	(738)	(729)	(765)
Total Cash Generated	1,856	(633)	2,403	1,558	2,688
Free Cashflow To Equity	2,974	302	3,360	2,533	3,730
Free Cashflow To Firm	3,283	(31)	3,413	2,586	3,783

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

BY THE NUMBERS... cont'd

Balance Sheet

(Rmbm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	23,874	22,733	25,136	26,695	29,383
Total Debtors	47,613	50,891	55,385	60,394	65,991
Inventories	1,677	1,492	1,635	1,796	1,977
Total Other Current Assets	3,099	3,365	3,365	3,365	3,365
Total Current Assets	76,262	78,481	85,521	92,250	100,715
Fixed Assets	4,331	4,144	4,004	3,918	3,894
Total Investments	1,990	2,192	2,303	2,421	2,544
Intangible Assets	0	0	0	0	0
Total Other Non-Current Assets	11,906	14,416	14,627	14,857	15,109
Total Non-current Assets	18,226	20,752	20,934	21,196	21,547
Short-term Debt	704	723	793	870	958
Current Portion of Long-Term Debt					
Total Creditors	44,341	47,769	52,361	57,505	63,282
Other Current Liabilities	10,183	9,821	9,892	9,972	10,060
Total Current Liabilities	55,229	58,314	63,046	68,347	74,300
Total Long-term Debt	0	0	0	0	0
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	1,177	1,270	1,388	1,521	1,669
Total Non-current Liabilities	1,177	1,270	1,388	1,521	1,669
Total Provisions	896	745	819	901	992
Total Liabilities	57,302	60,328	65,254	70,770	76,960
Shareholders' Equity	36,718	38,407	40,675	42,118	44,711
Minority Interests	469	498	526	557	590
Total Equity	37,187	38,905	41,202	42,676	45,301

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	4.5%	9.2%	9.6%	9.8%	10.0%
Operating EBITDA Growth	(7.04%)	(2.13%)	6.57%	8.53%	8.91%
Operating EBITDA Margin	1.93%	1.73%	1.68%	1.66%	1.64%
Net Cash Per Share (Rmb)	3.35	3.18	3.51	3.73	4.10
BVPS (Rmb)	5.30	5.55	5.87	6.08	6.46
Gross Interest Cover	26.69	20.59	6.39	6.41	6.43
Effective Tax Rate	11.4%	11.0%	10.7%	10.7%	10.7%
Net Dividend Payout Ratio	36.0%	30.0%	30.0%	30.0%	30.0%
Accounts Receivables Days	138.2	134.2	132.1	131.0	130.3
Inventory Days	6.17	4.88	4.39	4.39	4.39
Accounts Payables Days	143.9	141.8	140.6	140.4	140.6
ROIC (%)	11.6%	11.5%	10.4%	11.4%	12.6%
ROCE (%)	7.23%	7.22%	7.40%	7.65%	7.95%
Return On Average Assets	3.14%	2.99%	3.01%	3.02%	3.03%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Telecommunications Infrastructure Services YoY Cha	3.8	7.0	7.7	7.8	7.9
Business Process Outsourcing Services YoY Change (1.7	9.0	8.1	8.2	8.2
Applications, Content and other services YoY Chang	13.2	18.0	18.8	18.9	18.9

SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

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619 companies under coverage for quarter ended on 31 Dec 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Spitzer Chart for stock being researched (2 year data)

China Communications Services Corp (552 HK)

RECOMMENDATION FRAMEWORK

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