

China Tower

Bloomberg: 788 HK Equity | Reuters: 0788.HK

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DBS Group Research . Equity

20 Apr 2022

BUY

Last Traded Price (19 Apr 2022): HK\$0.920 (HSI : 21,028)
Price Target 12-mth: HK\$1.22 (33% upside) (Prev HK\$1.25)

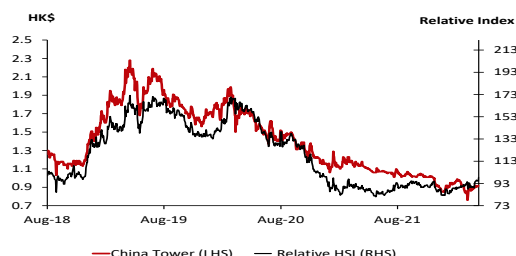
Analyst

Tsz Wang Tam +852 36684195 tszwangtam@dbs.com
Harry Zhuang harryzhuangy@dbs.com

What's New

- 1Q22 EBITDA grew 0.8% y-o-y, below market expectations
- Revenue increased by 7% y-o-y with contribution from non-tower business expanding 3.3ppt to 14.2%
- Tower tenants increased by 34k in 1Q22, with tower tenancy ratio reaching 1.71x
- Maintain BUY for benefiting from 5G network rollouts, despite a lower TP of HK\$1.22

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2020A	2021A	2022F	2023F
Turnover	81,099	86,585	92,151	96,065
EBITDA	59,527	63,017	65,243	68,590
Pre-tax Profit	8,407	9,615	11,259	13,620
Net Profit	6,428	7,329	8,602	10,405
Net Profit Gth (Pre-ex) (%)	23.1	14.0	17.4	21.0
EPS (RMB)	0.04	0.04	0.05	0.06
EPS (HK\$)	0.05	0.05	0.06	0.07
EPS Gth (%)	23.6	14.0	17.4	21.0
Diluted EPS (HK\$)	0.05	0.05	0.06	0.07
DPS (HK\$)	0.03	0.03	0.04	0.05
BV Per Share (HK\$)	1.31	1.33	1.36	1.39
PE (X)	20.4	17.9	15.2	12.6
P/Cash Flow (X)	2.3	2.2	3.2	2.8
P/Free CF (X)	6.6	4.7	12.2	8.0
EV/EBITDA (X)	3.6	3.2	3.1	2.8
Net Div Yield (%)	3.0	3.5	4.3	5.6
P/Book Value (X)	0.7	0.7	0.7	0.7
Net Debt/Equity (X)	0.5	0.4	0.4	0.3
ROAE (%)	3.5	3.9	4.5	5.3

EBITDA Rev (%)		(1.9)	(1.5)
Consensus EPS (RMB)		0.05	0.06
Other Broker Recs:	B:12	S:1	H:7

Source of all data on this page: Company, DBS Bank (Hong Kong) Limited ("DBS HK"), Thomson Reuters

A beneficiary of 5G network buildouts

Investment Thesis

Continue to benefit from 5G construction. Expect tower business growth to remain solid, with c.600k 5G base stations (BTS) being deployed per annum in the next three years. Strong indoor coverage demand will support the growth of the DAS business.

Attractive valuation with steady growth. China Tower is trading at a c.3x FY22 EV/EBITDA, c.1SD below its historical average of c.4x, with an EBITDA CAGR of 4% in FY21-23F.

Increase in dividend payout ratio a potential catalyst. The company has increased its payout ratio of annual distributable net profit from 50% in FY18 to 70% in FY21. A further increase in the payout ratio will be positive for the share price, which is also supported by its strong free cash flow.

Valuation:

Our TP of HK\$1.22 is based on a 4x FY21 EV/EBITDA (unchanged), in line with its historical average.

Where we differ:

Downside limited from renewal of leasing agreements. The market is overly concerned about pricing pressure from telecom operators. We expect limited downside risk from the coming renewal of the leasing agreement in 2022.

Key Risks to Our View:

Co-building and co-sharing by CM/CBN and CT/CU. Co-building and co-sharing of a 5G network between CM and China Broadcast Network (CBN), as well as CT and CU will reduce the demand for tower services in China.

Slowdown of non-tower business. Revenue contribution from the non-tower business is increasing due to its rapid growth. Any slowdown of the non-tower business will drag down overall revenue growth.

At A Glance

Issued Capital (m shrs)	176,008
Mkt Cap (HKm/US\$m)	160,167 / 20,424
Major Shareholders (%)	
GIC Private Limited	7.0
Free Float (%)	93.0
3m Avg. Daily Val. (US\$m)	19.22
GICS Industry: Communication Services / Telecommunication Services	



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China Tower

WHAT'S NEW

1Q22 results below market expectations; margin contraction dragged down EBITDA growth

1Q22 results highlight

Operating revenue grew by 7% y-o-y to Rmb22.6bn in 1Q22, driven by a 4.7% increase in the TSP business and a 45.5% increase in the Two Wings (Smart Tower and Energy) business. Revenue contribution of the non-tower business expanded 3.3ppts from 10.9% in 1Q21 to 14.2% in 1Q22.

Tower sites increased by 7k from 2,038k to 2,045k and the total number of tower tenants increased by 34k from 3,459k to 3,493k, with the tower tenancy ratio increasing from 1.70x to 1.71x, compared to the end of Dec 2021.

EBITDA increased by 0.8% y-o-y to Rmb15.7bn in 1Q22, with the EBITDA margin contracting 4.2ppts to 69.3%. Net profit increased by 28.7% y-o-y to Rmb2.2bn in 1Q22.

Outlook

The tower business will continue to benefit from the 5G network construction with low single-digit growth in FY22. There were 134k 5G base transceiver station (BTS) net addition in 1Q21 and MIIT has maintained the target of 600k 5G BTS net additions in 2022, despite COVID-19 resurgences in different areas in China. The DAS business grew by 35.7% in 1Q22. The strong demand for indoor coverage for buildings, high-speed railway tunnels, and subways will continue to drive the growth of the DAS business.

The company will continue to capture the development opportunities driven by the strategy of "Digital China" to further expand its Smart Tower business. The company will

also continue to improve innovative operation and focus on key offerings such as battery exchange and power backup, to accelerate the expansion of the Energy business, riding on the national "dual carbon" goal.

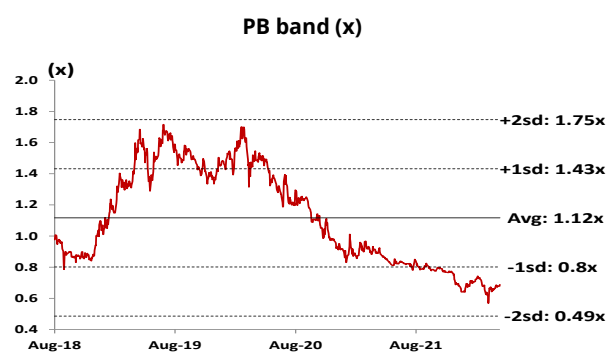
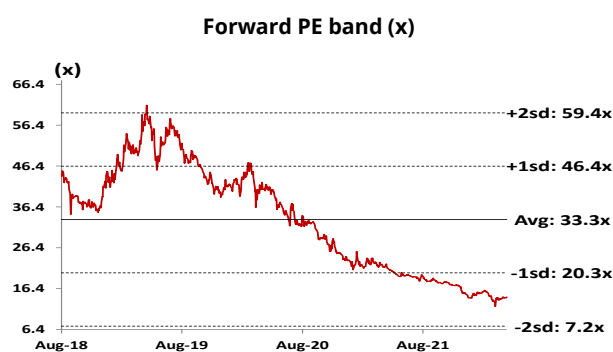
EBITDA margin contraction in 1Q22 was mainly due to (1) c.1ppt impact from additional repairment and maintenance expenses for extending useable life for assets over depreciation period, (2) c.1.5ppts impact from asset disposal losses, (3) higher revenue contribution from Two Wings business, which has lower margin than TSP business. Looking forward, the additional assets repairment and maintenance will continue at least in 2Q22 and 3Q22, while asset disposal will have less impact on EBITDA margin. Margins for Two Wings will gradually recover in remaining quarters due to seasonality impact in 1Q22.

We have cut our EBITDA forecast by 1.9% and 1.5% for FY22 and FY23, respectively, with a lower EBITDA margin assumption. We forecast EBITDA to grow by 3.5% and 5.1% for FY22 and FY23, respectively. We maintain BUY on the counter with a lower TP of HK\$1.22. Our TP is based on a 4x FY22 EV/EBITDA (unchanged), in line with its historical average.

Company Background

China Tower is the largest tower company in China with c.2m tower sites and a 90%+ market share. It was established as the result of the consolidation of towers between CM, CU, and CT in 2014.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Tower

Key Assumptions

FY Dec	2019A	2020A	2021A	2022F	2023F
Total number of tenants (Macro+small+TSSAI) ('000)	3,239.0	3,361.0	3,459.0	3,556.0	3,651.0
Tenancy ratio	1.6	1.6	1.6	1.5	1.5
EBITDA margin (%)	74.2	73.4	72.8	70.8	71.4

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenues (RMB m)					
Tower business	71,406	73,371	75,857	77,861	79,865
DAS business	2,658	3,528	4,340	5,425	6,076
Smart Tower and Energy business	2,080	3,939	6,131	8,605	9,864
Others	284	261	257	260	260
Total	76,428	81,099	86,585	92,151	96,065

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Revenue	76,428	81,099	86,585	92,151	96,065
Cost of Goods Sold	0	0	0	0	0
Gross Profit	76,428	81,099	86,585	92,151	96,065
Other Opg (Exp)/Inc	(65,147)	(69,087)	(73,550)	(77,576)	(79,465)
Operating Profit	11,281	12,012	13,035	14,574	16,600
Other Non Opg (Exp)/Inc	154	318	303	300	300
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(4,598)	(3,923)	(3,723)	(3,615)	(3,280)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	6,837	8,407	9,615	11,259	13,620
Tax	(1,616)	(1,980)	(2,287)	(2,657)	(3,214)
Minority Interest	(1)	(1)	(1)	0	0
Preference Dividend	0	0	0	0	0
Net Profit	5,222	6,428	7,329	8,602	10,405
Net Profit before Except.	5,222	6,428	7,329	8,602	10,405
EBITDA	56,696	59,527	63,017	65,243	68,590
Growth					
Revenue Gth (%)	6.4	6.1	6.8	6.4	4.2
EBITDA Gth (%)	35.7	5.0	5.9	3.5	5.1
Opg Profit Gth (%)	24.2	6.5	8.5	11.8	13.9
Net Profit Gth (%)	97.1	23.1	14.0	17.4	21.0
Margins & Ratio					
Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margin (%)	14.8	14.8	15.1	15.8	17.3
Net Profit Margin (%)	6.8	7.9	8.5	9.3	10.8
ROAE (%)	2.9	3.5	3.9	4.5	5.3
ROA (%)	1.6	1.9	2.2	2.7	3.3
ROCE (%)	3.0	3.1	3.4	3.9	4.5
Div Payout Ratio (%)	49.0	61.2	63.0	65.0	70.0
Net Interest Cover (x)	2.5	3.1	3.5	4.0	5.1

Source: Company, DBS HK

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Interim Income Statement (RMB m)

FY Dec	2H2019	1H2020	2H2020	1H2021	2H2021
Revenue	38,448	39,794	41,305	42,673	43,912
Cost of Goods Sold	0	0	0	0	0
Gross Profit	38,448	39,794	41,305	42,673	43,912
Other Oper. (Exp)/Inc	(33,371)	(33,953)	(35,134)	(36,319)	(37,231)
Operating Profit	5,077	5,841	6,171	6,354	6,681
Other Non Opg (Exp)/Inc	117	120	198	69	234
Associates & JV Inc	0	0	0	0	0
Net Interest (Exp)/Inc	(2,269)	(2,064)	(1,859)	(1,865)	(1,858)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,925	3,897	4,510	4,558	5,057
Tax	(830)	(920)	(1,060)	(1,101)	(1,186)
Minority Interest	(1)	(1)	0	0	(1)
Net Profit	2,096	2,978	3,450	3,457	3,872
Net profit bef Except.	2,096	2,978	3,450	3,457	3,872

Growth

Revenue Gth (%)	5.4	4.8	7.4	7.2	6.3
Opg Profit Gth (%)	17.5	(5.9)	21.5	8.8	8.3
Net Profit Gth (%)	45.6	(4.7)	64.6	16.1	12.2

Margins

Gross Margins (%)	100.0	100.0	100.0	100.0	100.0
Opg Profit Margins (%)	13.2	14.7	14.9	14.9	15.2
Net Profit Margins (%)	5.5	7.5	8.4	8.1	8.8

Source: Company, DBS HK

China Tower

Balance Sheet (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Net Fixed Assets	239,925	231,684	221,419	216,352	205,591
Invt in Associates & JVs	0	0	0	0	0
Other LT Assets	57,147	62,492	53,496	47,489	46,287
Cash & ST Invt	6,223	5,042	6,471	6,830	7,314
Inventory	0	0	0	0	0
Debtors	26,258	30,658	34,194	41,546	47,939
Other Current Assets	8,514	7,504	7,679	8,063	8,466
Total Assets	338,067	337,380	323,259	320,280	315,598
ST Debt	87,019	61,999	37,142	40,000	38,000
Creditors	29,313	31,460	25,264	20,443	17,946
Other Current Liab	12,032	13,176	13,776	13,776	13,776
LT Debt	8,480	27,121	41,572	36,572	31,572
Other LT Liabilities	18,662	17,378	16,151	16,151	16,151
Shareholder's Equity	182,559	186,245	189,354	193,338	198,152
Minority Interests	2	1	0	0	0
Total Cap. & Liab.	338,067	337,380	323,259	320,280	315,598
Non-Cash Wkg. Capital	(6,573)	(6,474)	2,833	15,390	24,683
Net Cash/(Debt)	(89,276)	(84,078)	(72,243)	(69,742)	(62,258)
Debtors Turn (avg days)	108.4	128.1	136.7	150.0	170.0
Creditors Turn (avg days)	(240.7)	(233.4)	(207.1)	(164.6)	(134.8)
Inventory Turn (avg days)	N/A	N/A	N/A	N/A	N/A
Asset Turnover (x)	0.2	0.2	0.3	0.3	0.3
Current Ratio (x)	0.3	0.4	0.6	0.8	0.9
Quick Ratio (x)	0.3	0.3	0.5	0.7	0.8
Net Debt/Equity (X)	0.5	0.5	0.4	0.4	0.3
Net Debt/Equity ex MI (X)	0.5	0.5	0.4	0.4	0.3
Capex to Debt (%)	29.1	42.4	41.3	39.2	43.1
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2019A	2020A	2021A	2022F	2023F
Pre-Tax Profit	6,837	8,407	9,615	11,259	13,620
Dep. & Amort.	45,415	47,515	49,982	41,074	41,962
Tax Paid	(1,987)	(2,184)	(2,597)	(2,629)	(3,184)
Assoc. & JV Inc/(loss)	0	0	0	0	0
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(5,847)	(1,213)	(1,088)	(12,557)	(9,292)
Other Operating CF	5,517	5,023	4,591	3,615	3,280
Net Operating CF	49,935	57,548	60,503	40,762	46,386
Capital Exp.(net)	(27,798)	(37,800)	(32,513)	(30,000)	(30,000)
Other Invt.(net)	0	0	0	0	0
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(338)	(97)	998	0	0
Net Investing CF	(28,136)	(37,897)	(31,515)	(30,000)	(30,000)
Div Paid	(396)	(2,561)	(3,934)	(4,618)	(5,591)
Chg in Gross Debt	(3,932)	(6,594)	(10,521)	(2,142)	(7,000)
Capital Issues	0	0	0	0	0
Other Financing CF	(16,084)	(11,682)	(13,105)	(3,643)	(3,310)
Net Financing CF	(20,412)	(20,837)	(27,560)	(10,403)	(15,901)
Currency Adjustments	0	5	1	0	0
Chg in Cash	1,387	(1,181)	1,429	359	484
Opg CFPS (RMB)	0.32	0.34	0.35	0.31	0.32
Free CFPS (RMB)	0.13	0.11	0.16	0.06	0.09

Source: Company, DBS HK

China Tower

Target Price & Ratings History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	20-Oct-21	HK\$1.04	HK\$1.30	Buy
2:	10-Mar-22	HK\$0.84	HK\$1.25	Buy

Source: DBS HK

Analyst: Tsz Wang Tam
Harry Zhuang

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BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

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*Share price appreciation + dividends

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DBS Bank (Hong Kong) Limited

13th Floor One Island East, 18 Westlands Road, Quarry Bay, Hong Kong

Tel: (852) 3668-4181, Fax: (852) 2521-1812

China Tower

DBS Regional Research Offices

HONG KONG

DBS Bank (Hong Kong) Ltd

Contact: Carol Wu

13th Floor One Island East,
18 Westlands Road, Quarry Bay, Hong Kong

Tel: 852 3668 4181

Fax: 852 2521 1812

e-mail: dbsvhk@dbs.com

SINGAPORE

DBS Bank Ltd

Contact: Janice Chua

12 Marina Boulevard,
Marina Bay Financial Centre Tower 3
Singapore 018982

Tel: 65 6878 8888

e-mail: groupresearch@dbs.com

Company Regn. No. 196800306E

INDONESIA

PT DBS Vickers Sekuritas (Indonesia)

Contact: Maynard Priajaya Arif

DBS Bank Tower
Ciputra World 1, 32/F
Jl. Prof. Dr. Satrio Kav. 3-5
Jakarta 12940, Indonesia

Tel: 62 21 3003 4900

Fax: 6221 3003 4943

e-mail: indonesiaesearch@dbs.com

THAILAND

DBS Vickers Securities (Thailand) Co Ltd

Contact: Chanpen Sirithanarattanakul

989 Siam Pivat Tower Building,
9th, 14th-15th Floor

Rama 1 Road, Pathumwan,

Bangkok Thailand 10330

Tel. 66 2 857 7831

Fax: 66 2 658 1269

e-mail: research@th.dbs.com

Company Regn. No 0105539127012

Securities and Exchange Commission, Thailand