

China / Hong Kong Company Update

HKT Trust

Bloomberg: 6823 HK Equity | Reuters: 6823.HK

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DBS Group Research . Equity

16 Jan 2024

BUY

Last Traded Price (15 Jan 2024): HK\$9.52 (HSI : 16,216)

Price Target 12-mth: HK\$13.10 (38% upside)

Analyst

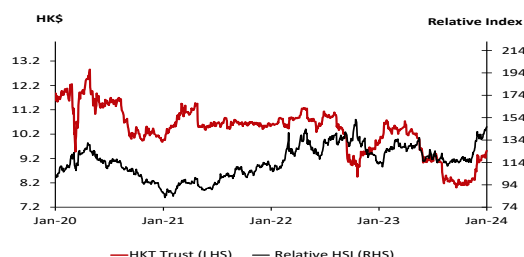
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What's New

- Expect local data services revenue to grow by 4% y-o-y in FY24, supported by higher residential ARPU and enterprise business
- Mobile roaming recovery on track; expect revenue reach 90% of the pre-COVID level in FY24
- We expect AFF to grow by 2%, 4%, and 4% for FY23, FY24, and FY25, respectively
- Maintain BUY on attractive dividend yield of c.9%; TP of HK\$13.1

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2022A	2023F	2024F	2025F
Turnover	34,125	34,980	35,671	36,298
EBITDA	12,956	13,565	13,964	14,243
Pre-tax Profit	5,560	5,609	5,637	5,789
Net Profit	4,901	4,944	4,969	5,103
Net Profit Gth (Pre-ex) (%)	1.9	0.9	0.5	2.7
EPS (HK\$)	0.65	0.65	0.66	0.67
EPS (HK\$)	0.65	0.65	0.66	0.67
EPS Gth (%)	1.9	0.8	0.5	2.7
Diluted EPS (HK\$)	0.65	0.65	0.66	0.67
DPS (HK\$)	0.75	0.76	0.79	0.82
BV Per Share (HK\$)	4.80	4.64	4.52	4.39
PE (X)	14.7	14.6	14.5	14.1
P/Cash Flow (X)	6.7	6.4	6.2	6.1
P/Free CF (X)	12.7	10.4	10.7	9.7
EV/EBITDA (X)	8.8	8.6	8.5	8.5
Net Div Yield (%)	7.8	8.0	8.3	8.6
P/Book Value (X)	2.0	2.1	2.1	2.2
Net Debt/Equity (X)	1.1	1.3	1.4	1.5
ROAE (%)	13.3	13.8	14.3	15.1
AFF Rev (%)		Nil	Nil	Nil
Consensus EPS (HK\$)		0.65	0.67	0.70
Other Broker Recs:		B:6	S:0	H:1

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

Still a trusted choice

Investment Thesis

Largest integrated telecom operator in Hong Kong. HKT is an integrated telecom service provider in Hong Kong, and has the largest market share in the fixed-line and mobile markets. The company has c.55% and c.35% market share in terms of residential broadband subscribers and mobile post-paid subscribers, respectively. The company's broadband services are provided via the brand "Netvigator", and its mobile services are via the brands "csl.", "1010", and "SUN Mobile", targeting low to high-end mobile users.

Mobile roaming is the medium-term earnings driver. Roaming revenue accounted for only c.4% of total revenue during the pandemic years vs. c.12% before Covid-19. Roaming revenue is ramping up with the increasing number of inbound and outbound travellers. We expect roaming revenue to recover to c.70% and c.90% of pre-Covid level in FY23 and FY24, respectively.

Mobile and broadband ARPU on an uptrend. Increasing 5G adoption and mobile roaming recovery will drive the mobile ARPU uptrend. On the broadband side, we expect broadband ARPU to revert to a growth trajectory as operators focus on ARPU maximisation, instead of market share gains. The increase in ARPUs will support the company's AFF growth in the future.

BUY with TP of HK\$13.1. We maintain our BUY call with unchanged TP of HK\$13.1 for its attractive dividend yield of c.9% with stable y-o-y AFF growth of c.3% in the next few years. Our TP is based on DDM, assuming cost of equity of 7.2% and 1% terminal growth rate.

Key Risks

Price war in mobile market. Hong Kong's mobile market is crowded with four major players and a price war would put pressure on the company's mobile ARPU.

Interest rate impact. Any increase in interest rates will reduce the adjusted funds flow (AFF) and thereby dividend distribution.

At A Glance

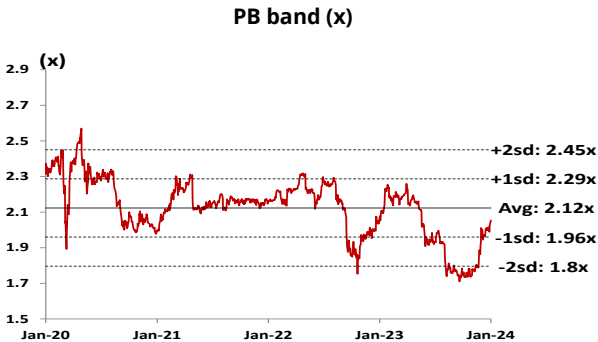
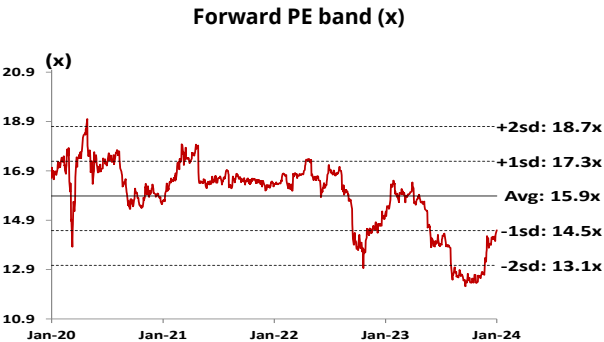
Issued Capital (m shrs)	7,580
Mkt Cap (HKm/US\$m)	69,888 / 8,938
Major Shareholders (%)	
PCCW Ltd	52.3
Free Float (%)	47.7
3m Avg. Daily Val. (US\$m)	5.94
GICS Industry: Communication Services / Telecommunication Services	

HKT Trust

Company Background

HKT is an integrated telecom service provider in Hong Kong, with the largest market share in the fixed-line and mobile markets. The company's broadband services are provided via the brand "Netvigator", and its mobile services are provided via the brands "csl.", "1010", and "SUN Mobile". HKT is 52%-owned by PCCW (8 HK).

Historical PE and PB band



Source: Thomson Reuters, DBS HK

HKT Trust

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Fixed-line sub growth (%)	(3.1)	(4.1)	(1.5)	(1.5)	(1.5)
Broadband sub growth (%)	0.3	0.3	0.7	1.4	1.3
Mobile sub growth (%)	3.6	0.4	1.3	1.0	1.0
Mobile ARPU	139.0	139.0	142.0	146.0	148.0
EBITDA margin (%)	37.5	38.3	38.8	39.1	39.2

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (HK\$ m)					
TSS	21,812	23,972	24,558	24,974	25,405
Mobile	11,748	11,566	11,849	12,142	12,361
PayTV	2,456	N/A	N/A	N/A	N/A
Other businesses	872	881	925	953	972
Eliminations	(2,927)	(2,294)	(2,351)	(2,398)	(2,440)
Total	33,961	34,125	34,980	35,671	36,298

Source: Company, DBS HK

HKT Trust

Income Statement (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	33,961	34,125	34,980	35,671	36,298
Cost of Goods Sold	(16,729)	(17,094)	(17,074)	(17,356)	(17,631)
Gross Profit	17,232	17,031	17,906	18,315	18,667
Other Opng (Exp)/Inc	(10,127)	(9,777)	(9,980)	(10,397)	(10,489)
Operating Profit	7,105	7,254	7,925	7,918	8,178
Other Non Opng (Exp)/Inc	(8)	(8)	0	0	0
Associates & JV Inc	(130)	(97)	(97)	(97)	(97)
Net Interest (Exp)/Inc	(1,148)	(1,589)	(2,220)	(2,183)	(2,292)
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	5,819	5,560	5,609	5,637	5,789
Tax	(997)	(641)	(647)	(650)	(667)
Minority Interest	(14)	(18)	(18)	(18)	(18)
Preference Dividend	0	0	0	0	0
Net Profit	4,808	4,901	4,944	4,969	5,103
Net Profit before Except.	4,808	4,901	4,944	4,969	5,103
EBITDA	12,619	12,956	13,565	13,964	14,243
Growth					
Revenue Gth (%)	4.9	0.5	2.5	2.0	1.8
EBITDA Gth (%)	0.7	2.7	4.7	2.9	2.0
Opg Profit Gth (%)	(1.2)	2.1	9.3	(0.1)	3.3
Net Profit Gth (%)	(9.3)	1.9	0.9	0.5	2.7
Margins & Ratio					
Gross Margins (%)	50.7	49.9	51.2	51.3	51.4
Opg Profit Margin (%)	20.9	21.3	22.7	22.2	22.5
Net Profit Margin (%)	14.2	14.4	14.1	13.9	14.1
ROAE (%)	12.8	13.3	13.8	14.3	15.1
ROA (%)	4.5	4.4	4.4	4.4	4.5
ROCE (%)	6.4	6.9	7.5	7.4	7.6
Div Payout Ratio (%)	114.7	115.2	116.5	120.5	121.9
Net Interest Cover (x)	6.2	4.6	3.6	3.6	3.6

Source: Company, DBS HK

Interim Income Statement (HK\$ m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	15,643	18,318	16,157	17,968	16,400
Cost of Goods Sold	(7,550)	(9,179)	(8,134)	(8,960)	(8,279)
Gross Profit	8,093	9,139	8,023	9,008	8,121
Other Oper. (Exp)/Inc	(5,127)	(5,000)	(5,014)	(4,763)	(4,812)
Operating Profit	2,966	4,139	3,009	4,245	3,309
Other Non Opng (Exp)/Inc	0	(8)	3	(11)	9
Associates & JV Inc	(63)	(67)	(38)	(59)	(60)
Net Interest (Exp)/Inc	(561)	(587)	(627)	(962)	(925)
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,342	3,477	2,347	3,213	2,333
Tax	(434)	(563)	(435)	(206)	(379)
Minority Interest	(8)	(6)	(2)	(16)	(2)
Net Profit	1,900	2,908	1,910	2,991	1,952
Net profit bef Except.	1,900	2,908	1,910	2,991	1,952
Growth					
Revenue Gth (%)	7.1	3.0	3.3	(1.9)	1.5
Opg Profit Gth (%)	(3.0)	0.2	1.4	2.6	10.0
Net Profit Gth (%)	0.1	(14.6)	0.5	2.9	2.2
Margins					
Gross Margins (%)	51.7	49.9	49.7	50.1	49.5
Opg Profit Margins (%)	19.0	22.6	18.6	23.6	20.2
Net Profit Margins (%)	12.1	15.9	11.8	16.6	11.9

Source: Company, DBS HK

HKT Trust

Balance Sheet (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	25,387	26,463	27,433	28,378	29,300
Invt in Associates & JVs	915	903	912	921	930
Other LT Assets	72,175	72,669	73,116	73,990	74,399
Cash & ST Invt	3,070	2,488	1,660	1,216	1,186
Inventory	1,218	1,607	1,248	1,278	1,290
Debtors	3,953	3,254	3,929	4,007	4,077
Other Current Assets	2,894	3,811	3,842	3,873	3,904
Total Assets	109,612	111,195	112,140	113,662	115,086
ST Debt	61	3,950	3,950	3,950	3,950
Creditors	5,250	5,500	5,613	5,706	5,797
Other Current Liab	10,892	13,159	13,159	13,159	13,159
LT Debt	43,628	39,888	41,888	44,188	46,488
Other LT Liabilities	12,584	12,269	12,289	12,305	12,322
Shareholder's Equity	37,141	36,369	35,162	34,258	33,256
Minority Interests	56	60	78	96	114
Total Cap. & Liab.	109,612	111,195	112,140	113,662	115,086
Non-Cash Wkg. Capital	(8,077)	(9,987)	(9,753)	(9,708)	(9,684)
Net Cash/(Debt)	(40,619)	(41,350)	(44,178)	(46,922)	(49,252)
Debtors Turn (avg days)	38.7	38.5	37.5	40.6	40.6
Creditors Turn (avg days)	151.5	173.8	178.9	184.2	183.0
Inventory Turn (avg days)	33.6	45.7	46.0	41.1	40.9
Asset Turnover (x)	0.3	0.3	0.3	0.3	0.3
Current Ratio (x)	0.7	0.5	0.5	0.5	0.5
Quick Ratio (x)	0.4	0.3	0.2	0.2	0.2
Net Debt/Equity (X)	1.1	1.1	1.3	1.4	1.5
Net Debt/Equity ex MI (X)	1.1	1.1	1.3	1.4	1.5
Capex to Debt (%)	12.0	11.4	9.6	10.1	8.7
Z-Score (X)	1.6	1.6	1.6	NA	NA

Source: Company, DBS HK

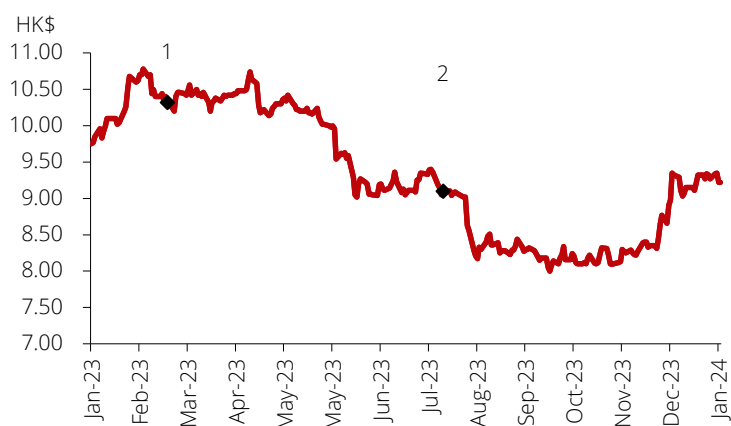
Cash Flow Statement (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	5,819	5,560	5,609	5,637	5,789
Dep. & Amort.	5,652	5,807	5,737	6,143	6,163
Tax Paid	27	(84)	(390)	(392)	(403)
Assoc. & JV Inc/(loss)	130	97	(9)	(9)	(9)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	(2,322)	(2,438)	(1,839)	(2,008)	(1,981)
Other Operating CF	1,335	1,749	2,251	2,201	2,303
Net Operating CF	10,641	10,691	11,357	11,573	11,861
Capital Exp.(net)	(5,223)	(4,996)	(4,400)	(4,858)	(4,400)
Other Invt.(net)	(2)	0	0	0	0
Invt in Assoc. & JV	(292)	(156)	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	108	310	0	0	0
Net Investing CF	(5,409)	(4,842)	(4,400)	(4,858)	(4,400)
Div Paid	(5,428)	(5,561)	(6,151)	(5,873)	(6,105)
Chg in Gross Debt	1,444	301	2,000	2,300	2,300
Capital Issues	0	43	0	0	0
Other Financing CF	(932)	(1,003)	(3,592)	(3,542)	(3,644)
Net Financing CF	(4,916)	(6,220)	(7,743)	(7,116)	(7,449)
Currency Adjustments	3	(43)	(43)	(43)	(43)
Chg in Cash	319	(414)	(828)	(444)	(30)
Opg CFPS (HK\$)	1.71	1.73	1.74	1.79	1.83
Free CFPS (HK\$)	0.72	0.75	0.92	0.89	0.98

Source: Company, DBS HK

HKT Trust

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	24-Feb-23	HK\$10.40	HK\$12.90	Buy
2:	3-Aug-23	HK\$9.05	HK\$13.10	Buy

Source: DBS HK

Analyst: Tsz Wang Tam
Andy Yu

DBS HK recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

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

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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