

Hutchison Telecom

Bloomberg: 215 HK Equity | Reuters: 0215.HK

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DBS Group Research . Equity

16 Jan 2024

HOLD

Last Traded Price (15 Jan 2024): HK\$1.10 (HSI : 16,216)
Price Target 12-mth: HK\$1.00 (9% downside) (Prev HK\$1.20)

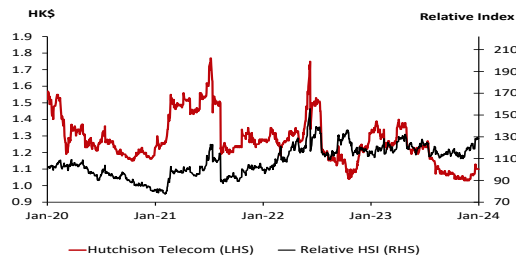
Analyst

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What's New

- Mobile roaming recovery on track; roaming revenue should return to 70% and 90% of pre-COVID level in FY23 and FY24
- Lifted earnings forecasts by 82%, 9%, and 26% for FY23-FY25, on higher interest income assumptions
- Expect earnings to increase by HK\$234m to HK\$76m in FY23, and increase by 127% and 67% in FY24 and FY25, respectively
- Maintain HOLD with TP of HK\$1.0

Price Relative



Forecasts and Valuation

FY Dec (HK\$m)	2022A	2023F	2024F	2025F
Turnover	4,882	4,854	5,118	5,214
EBITDA	1,358	1,500	1,658	1,780
Pre-tax Profit	(109)	92	209	348
Net Profit	(158)	76	171	285
Net Profit Gth (Pre-ex) (%)	N/A	N/A	126.6	66.6
EPS (HK\$)	(0.03)	0.02	0.04	0.06
EPS (HK\$)	(0.03)	0.02	0.04	0.06
EPS Gth (%)	N/A	N/A	126.6	66.6
Diluted EPS (HK\$)	(0.03)	0.02	0.04	0.06
DPS (HK\$)	0.07	0.07	0.07	0.07
BV Per Share (HK\$)	2.13	2.07	2.03	2.01
PE (X)	nm	70.1	31.0	18.6
P/Cash Flow (X)	4.7	7.8	2.7	6.3
P/Free CF (X)	8.4	19.0	3.1	12.1
EV/EBITDA (X)	1.2	1.4	0.7	0.9
Net Div Yield (%)	6.8	6.8	6.8	6.8
P/Book Value (X)	0.5	0.5	0.5	0.5
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	(1.5)	0.7	1.7	2.9
Earnings Rev (%)		82	9	26
Consensus EPS (HK\$)		0.02	0.03	0.05
Other Broker Recs:		B:2	S:0	H:2

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

Roaming business recovery to support future earnings growth

Investment Thesis

One of the two pure mobile players in Hong Kong. Hutchison Telecom is now a pure mobile operator after selling its fixed-line assets to a private equity fund. The company has c.15% market share by total mobile subscribers and is second in the market after HKT.

Roaming recovery is the key growth driver. Roaming revenue accounted for only c.6% of total service revenues during the pandemic vs c.12% before COVID-19. Roaming revenue is ramping up with increasing number of inbound and outbound travelers. We expect roaming revenue will recover to c.70% and c.90% of pre-COVID level in FY23 and FY24, respectively.

Mobile ARPU uptrend mainly driven by roaming recovery. We expect flattish local mobile service revenue growth in FY24 due to the intensifying competitive environment. However, we expect robust roaming recovery will support the growth of ARPU and future earnings of the company.

Maintain HOLD with lowered TP of HK\$1.0. We maintain our HOLD rating with a lower TP of HK\$1.0 (previously HK\$1.2), which is based on sum of the parts: (1) HK\$0.1 per share for the mobile business at 10x FY24 PE (lowered from 15x FY24 PE as we believe the positive impact from roaming recovery has been largely priced in and expect keen competition ahead), in line with the target multiple for its major peer and (2) net cash of HK\$0.8 per share.

Key Risks

Irrational market competition (downside risk). Hong Kong's mobile market is crowded with four major players. Irrational pricing may lead to a price war.

Recovery of mobile roaming revenue (upside risk). Faster-than-expected mobile roaming revenue will lead to higher earnings, as mobile roaming business enjoys a higher margin.

At A Glance

Issued Capital (m shrs)	4,819
Mkt Cap (HKm/US\$m)	5,301 / 678
Major Shareholders (%)	
CK Hutchison Holdings Ltd.	66.1
Li Ka Shing Foundation	7.3
Free Float (%)	26.6
3m Avg. Daily Val. (US\$m)	0.16
GICS Industry: Communication Services / Telecommunication Services	

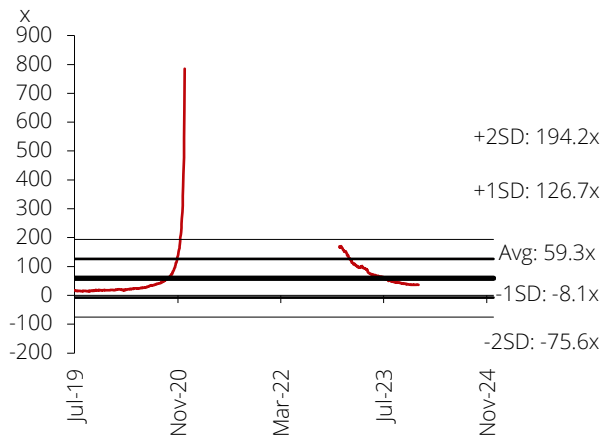
Hutchison Telecom

Company Background

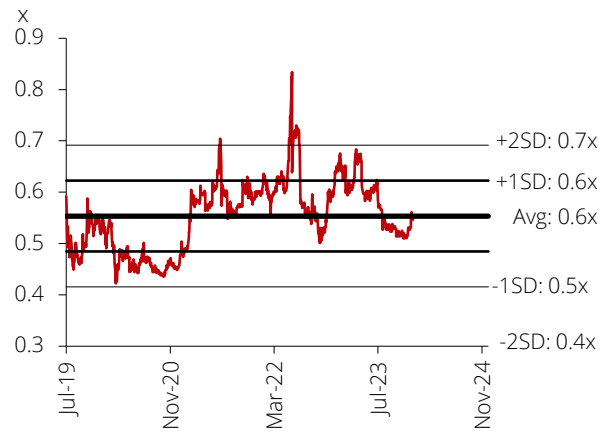
Hutchison Telecom (HT) has now become a pure mobile operator following the sale of its fixed-line assets, operating under the brand "3 Hong Kong". It has a c.17% mobile subscriber market share. Its major shareholder is CK Hutchison Holdings Limited.

Historical PE and PB band

Forward PE band (x)



PB band (x)



Source: Thomson Reuters, DBS HK

Hutchison Telecom

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Mobile sub number (k)	3,202.0	3,278.0	3,395.5	3,535.4	3,683.5
Mobile ARPU (HK\$)	83.3	84.3	87.5	90.6	89.2

Source: Company, DBS HK

Segmental Breakdown (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (HK\$ m)					
Mobile service	3,241	3,278	3,504	3,768	3,864
Fixed line	0	0	0	0	0
Hardware sales	2,144	1,604	1,350	1,350	1,350
Total	5,385	4,882	4,854	5,118	5,214

Source: Company, DBS HK

Income Statement (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	5,385	4,882	4,854	5,118	5,214
Cost of Goods Sold	(2,082)	(1,571)	(1,323)	(1,323)	(1,323)
Gross Profit	3,303	3,311	3,531	3,795	3,891
Other Opng (Exp)/Inc	(3,183)	(3,405)	(3,506)	(3,634)	(3,625)
Operating Profit	120	(94)	25	160	267
Other Non Opg (Exp)/Inc	0	0	0	0	0
Associates & JV Inc	(4)	(4)	(4)	(4)	(4)
Net Interest (Exp)/Inc	(30)	(11)	71	53	85
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	86	(109)	92	209	348
Tax	(82)	(49)	(17)	(38)	(63)
Minority Interest	0	0	0	0	0
Preference Dividend	0	0	0	0	0
Net Profit	4	(158)	76	171	285
Net Profit before Except.	4	(158)	76	171	285
EBITDA	1,416	1,358	1,500	1,658	1,780
Growth					
Revenue Gth (%)	18.5	(9.3)	(0.6)	5.4	1.9
EBITDA Gth (%)	(11.8)	(4.1)	10.5	10.5	7.4
Opg Profit Gth (%)	(68.9)	(178.3)	(126.8)	536.8	66.2
Net Profit Gth (%)	(98.9)	N/A	N/A	126.6	66.6
Margins & Ratio					
Gross Margins (%)	61.3	67.8	72.7	74.1	74.6
Opg Profit Margin (%)	2.2	(1.9)	0.5	3.1	5.1
Net Profit Margin (%)	0.1	(3.2)	1.6	3.3	5.5
ROAE (%)	0.0	(1.5)	0.7	1.7	2.9
ROA (%)	0.0	(1.0)	0.5	1.2	2.0
ROCE (%)	0.0	(0.7)	0.2	1.1	1.8
Div Payout Ratio (%)	32,875.0	N/A	477.6	210.8	126.5
Net Interest Cover (x)	4.0	(8.5)	NM	NM	NM

Source: Company, DBS HK

Hutchison Telecom

Balance Sheet (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	3,001	3,007	3,003	2,997	2,981
Invt in Associates & JVs	215	157	153	149	145
Other LT Assets	7,253	7,015	6,640	6,371	5,989
Cash & ST Invt	3,975	3,700	3,238	4,061	3,774
Inventory	96	100	84	84	84
Debtors	729	784	720	866	750
Other Current Assets	177	193	193	193	193
Total Assets	15,446	14,956	14,031	14,722	13,916
ST Debt	0	0	0	0	0
Creditors	1,693	1,649	1,011	1,794	1,063
Other Current Liab	452	468	467	467	467
LT Debt	0	0	0	0	0
Other LT Liabilities	2,486	2,570	2,570	2,684	2,684
Shareholder's Equity	10,815	10,269	9,984	9,778	9,702
Minority Interests	0	0	0	0	0
Total Cap. & Liab.	15,446	14,956	14,031	14,722	13,916
Non-Cash Wkg. Capital	(1,143)	(1,040)	(480)	(1,118)	(503)
Net Cash/(Debt)	3,975	3,700	3,238	4,061	3,774
Debtors Turn (avg days)	53.1	56.6	56.6	56.6	56.6
Creditors Turn (avg days)	744.0	5,303.6	(3,111.2)	(2,864.4)	(2,679.7)
Inventory Turn (avg days)	43.9	311.0	(215.5)	(172.0)	(158.0)
Asset Turnover (x)	0.4	0.3	0.3	0.4	0.4
Current Ratio (x)	2.3	2.3	2.9	2.3	3.1
Quick Ratio (x)	2.2	2.1	2.7	2.2	3.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	1.3	1.4	1.4	NA	NA

Source: Company, DBS HK

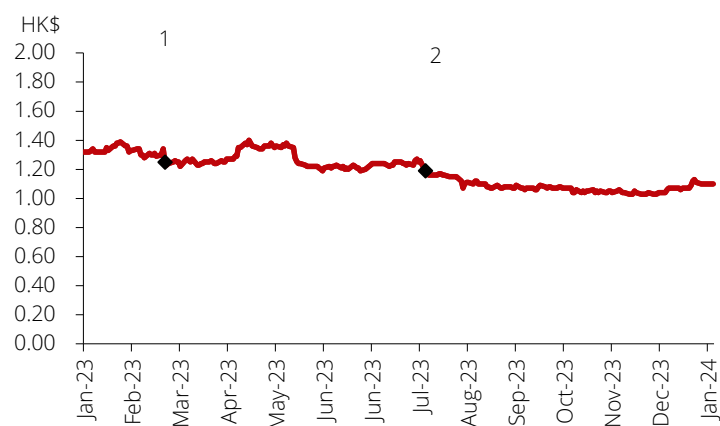
Cash Flow Statement (HK\$ m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	86	(109)	92	209	348
Dep. & Amort.	1,300	1,456	1,479	1,502	1,518
Tax Paid	0	0	(17)	(38)	(63)
Assoc. & JV Inc/(loss)	4	4	4	4	4
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	2,155	(24)	(559)	638	(615)
Other Operating CF	(169)	(198)	(323)	(318)	(356)
Net Operating CF	3,376	1,129	677	1,997	837
Capital Exp.(net)	(874)	(496)	(397)	(283)	(397)
Other Invt.(net)	(2,040)	(138)	(103)	(217)	(103)
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	0	0	0	0	0
Other Investing CF	(2,586)	1,941	760	130	162
Net Investing CF	(5,500)	1,307	260	(370)	(338)
Div Paid	(1,315)	(361)	(361)	(377)	(361)
Chg in Gross Debt	(398)	(402)	(425)	(425)	(425)
Capital Issues	0	0	0	0	0
Other Financing CF	0	0	0	0	0
Net Financing CF	(1,713)	(763)	(786)	(802)	(786)
Currency Adjustments	0	0	0	0	0
Chg in Cash	(3,837)	1,673	151	824	(287)
Opg CFPS (HK\$)	0.25	0.24	0.26	0.28	0.30
Free CFPS (HK\$)	0.52	0.13	0.06	0.36	0.09

Source: Company, DBS HK

Hutchison Telecom

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	1-Mar-23	HK\$1.34	HK\$1.20	Hold
2:	31-Jul-23	HK\$1.26	HK\$1.20	Hold

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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