

BUY

Last Traded Price (6 Feb 2024): HK\$3.28 (HSI : 16,137)
Price Target 12-mth: HK\$4.90 (49% upside) (Prev HK\$5.00)

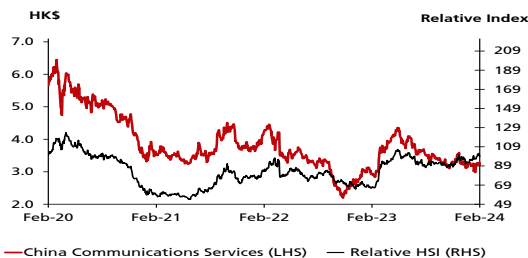
Analysts

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What's New

- Orders related to industrial internet and digitalisation grew 30% in 1H23, supporting future revenue growth
- Lowered earnings forecasts by 1%/3%/3% for FY23/24/25, on assumption of higher operating expenses
- Expect earnings to grow by 7%/7%/8% in FY23/24/25, respectively
- Maintain BUY for its attractive dividend yield of 7%; TP of HK\$4.9

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	140,746	148,525	156,421	164,750
EBITDA	4,933	5,701	5,638	5,519
Pre-tax Profit	3,835	4,088	4,381	4,729
Net Profit	3,358	3,580	3,836	4,140
Net Profit Gth (Pre-ex) (%)	6.4	6.6	7.2	7.9
EPS (RMB)	0.48	0.52	0.55	0.60
EPS (HK\$)	0.53	0.56	0.60	0.65
EPS Gth (%)	6.4	6.6	7.2	7.9
Diluted EPS (HK\$)	0.53	0.56	0.60	0.65
DPS (HK\$)	0.21	0.23	0.25	0.27
BV Per Share (HK\$)	6.34	6.69	7.06	7.47
PE (X)	6.2	5.8	5.5	5.0
P/Cash Flow (X)	4.3	1.3	1.0	0.8
P/Free CF (X)	5.6	1.4	1.1	0.9
EV/EBITDA (X)	0.0	nm	nm	nm
Net Div Yield (%)	6.4	7.0	7.5	8.1
P/Book Value (X)	0.5	0.5	0.5	0.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	8.5	8.6	8.8	9.0
Earnings Rev (%)		(1)	(3)	(3)
Consensus EPS (RMB)		0.52	0.56	0.61
Other Broker Recs:		B:7	S:0	H:2

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

Two motivators to drive growth

Investment Thesis

Leading infrastructure services provider in China. CCS provides telecom infrastructure services, including design, construction, and project supervision, as well as software development, to its telecom customer base. The company expanded to non-operator customers by offering business process outsourcing services and software development services.

Stronger growth from its non-operator business. The telecom operator market will continue to benefit from the construction and maintenance of telecommunications infrastructure, with an expected revenue growth rate of c.5% in FY24. We expect CCS's non-operator business to register slightly higher revenue growth of c.6%, supported by more industrial digitalisation projects based on the national digitalisation initiatives.

Operators' capex the key driver. The capex of telecom operators represents spending on telecom network construction, which is an indicator of the demand for the company's telecom services. In a backdrop where a stabilising trend is seen in operators' mobile infrastructure investment, the short to medium-term driver supporting the growth of CCS's business will be based on increasing investments related to industrial internet and enterprise digitalisation from operators and corporates.

Rate BUY with a TP of HK\$4.9. The stock is trading at c.5x FY24 PE, 1SD below its historical average. We maintain BUY on the stock with a TP of HK\$4.9 (previously: HK\$5.0) for its attractive dividend yield of c.7%. Our TP is based on an 8x FY24 PE (unchanged), in line with its historical average.

Key Risks

Capex cuts by telecom operators. Declines in the capex of telecom operators – due to network investments levelling off or regulatory changes – will impact CCS's earnings outlook.

CT/CU merger. A CT/CU merger may lead to lower total telecom investment for the industry, which could, in turn, result in increased uncertainty for CCS's business outlook.

At A Glance

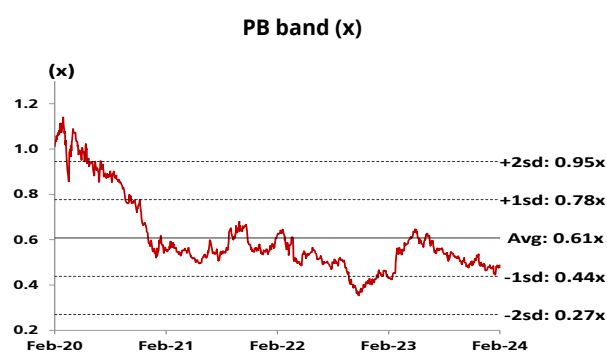
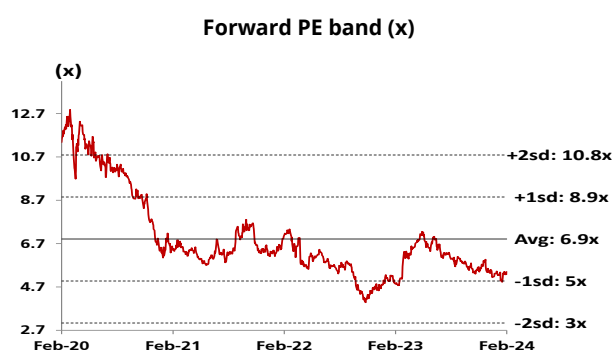
Issued Capital (m shrs)	6,926
Mkt Cap (HKm/US\$m)	22,717 / 2,904
Major Shareholders (%)	
Kopernik Global Investors, LLC	5.0
Free Float (%)	95.0
3m Avg. Daily Val. (US\$m)	2.37
GICS Industry: Information Technology / Software & Services	

China Communications Services

Company Background

China Communications Services (CCS) is a leading telecom infrastructure service provider in China, with services covering design, construction, and project supervision for telecom networks and support systems. It is also engaged in business process outsourcing and information technology (IT) application services. CCS was 49%-owned by China Telecom Group after the 2.4% share transfer to State Grid ITT Group.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Communications Services

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Domestic operator rev gth %	5.5	4.6	5.0	5.0	5.0
Domestic non-operator rev gth %	15.9	5.5	6.2	5.7	5.7
Gross Margin %	11.0	11.4	11.3	11.4	11.4

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
TIS	71,889	72,907	76,577	80,405	84,426
BPO	40,624	43,072	45,229	47,490	49,865
ACO	21,478	24,767	26,720	28,526	30,459
Total	133,991	140,746	148,525	156,421	164,750

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	133,991	140,746	148,525	156,421	164,750
Cost of Goods Sold	(119,207)	(124,765)	(131,718)	(138,657)	(146,003)
Gross Profit	14,784	15,981	16,807	17,764	18,746
Other Opng (Exp)/Inc	(13,166)	(14,101)	(14,556)	(15,595)	(16,722)
Operating Profit	1,619	1,879	2,251	2,169	2,024
Other Non Opg (Exp)/Inc	1,574	1,363	1,230	1,261	1,293
Associates & JV Inc	92	93	93	93	93
Net Interest (Exp)/Inc	294	500	514	858	1,319
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	3,578	3,835	4,088	4,381	4,729
Tax	(393)	(356)	(380)	(407)	(439)
Minority Interest	(28)	(121)	(129)	(138)	(149)
Preference Dividend	0	0	0	0	0
Net Profit	3,157	3,358	3,580	3,836	4,140
Net Profit before Except.	3,157	3,358	3,580	3,836	4,140
EBITDA	4,814	4,933	5,701	5,638	5,519
Growth					
Revenue Gth (%)	9.2	5.0	5.5	5.3	5.3
EBITDA Gth (%)	4.4	2.5	15.6	(1.1)	(2.1)
Opg Profit Gth (%)	(4.5)	16.1	19.8	(3.6)	(6.7)
Net Profit Gth (%)	2.5	6.4	6.6	7.2	7.9
Margins & Ratio					
Gross Margins (%)	11.0	11.4	11.3	11.4	11.4
Opg Profit Margin (%)	1.2	1.3	1.5	1.4	1.2
Net Profit Margin (%)	2.4	2.4	2.4	2.5	2.5
ROAE (%)	8.4	8.5	8.6	8.8	9.0
ROA (%)	3.2	3.2	3.0	2.9	2.7
ROCE (%)	3.5	3.9	4.5	4.1	3.6
Div Payout Ratio (%)	38.0	40.0	41.0	41.0	41.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

China Communications Services

Interim Income Statement (RMB m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	64,099	69,892	69,254	71,492	73,170
Cost of Goods Sold	(57,266)	(61,941)	(61,960)	(62,805)	(65,336)
Gross Profit	6,833	7,951	7,294	8,687	7,834
Other Oper. (Exp)/Inc	(5,562)	(7,604)	(5,997)	(8,104)	(6,430)
Operating Profit	1,271	347	1,297	582	1,404
Other Non Opg (Exp)/Inc	678	896	693	670	618
Associates & JV Inc	34	58	39	54	54
Net Interest (Exp)/Inc	130	163	205	295	262
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	2,114	1,464	2,234	1,601	2,339
Tax	(292)	(101)	(277)	(79)	(226)
Minority Interest	(11)	(17)	(62)	(60)	(78)
Net Profit	1,811	1,346	1,895	1,463	2,034
Net profit bef Except.	1,811	1,346	1,895	1,463	2,034
Growth					
Revenue Gth (%)	19.1	1.6	8.0	2.3	5.7
Opg Profit Gth (%)	20.5	(45.7)	2.0	67.6	8.2
Net Profit Gth (%)	14.1	(9.9)	4.6	8.7	7.3
Margins					
Gross Margins (%)	10.7	11.4	10.5	12.2	10.7
Opg Profit Margins (%)	2.0	0.5	1.9	0.8	1.9
Net Profit Margins (%)	2.8	1.9	2.7	2.0	2.8

Source: Company, DBS HK

China Communications Services

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	6,789	6,697	6,182	5,736	5,359
Invt in Associates & JVs	1,286	1,308	1,401	1,493	1,586
Other LT Assets	12,677	18,059	17,978	17,891	17,797
Cash & ST Invt	23,528	24,254	37,951	56,271	78,053
Inventory	1,492	1,367	1,253	1,148	1,052
Debtors	29,356	33,249	34,911	34,842	34,921
Other Current Assets	24,899	25,330	25,330	25,330	25,330
Total Assets	100,028	110,264	125,006	142,713	164,098
ST Debt	723	752	752	752	752
Creditors	45,411	54,111	66,463	81,636	100,272
Other Current Liab	12,180	11,732	11,756	11,783	11,815
LT Debt	90	129	129	129	129
Other LT Liabilities	2,015	1,917	1,917	1,917	1,917
Shareholder's Equity	38,407	40,359	42,596	44,964	47,532
Minority Interests	1,203	1,263	1,392	1,531	1,680
Total Cap. & Liab.	100,028	110,264	125,006	142,713	164,098
Non-Cash Wkg. Capital	(1,843)	(5,897)	(16,725)	(32,098)	(50,784)
Net Cash/(Debt)	22,715	23,373	37,070	55,390	77,172
Debtors Turn (avg days)	77.9	81.2	83.8	81.4	77.3
Creditors Turn (avg days)	136.9	147.5	169.8	197.9	230.7
Inventory Turn (avg days)	4.9	4.2	3.7	3.2	2.8
Asset Turnover (x)	1.4	1.3	1.3	1.2	1.1
Current Ratio (x)	1.4	1.3	1.3	1.2	1.2
Quick Ratio (x)	0.9	0.9	0.9	1.0	1.0
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	214.7	135.5	176.5	182.4	188.6
Z-Score (X)	2.6	2.6	2.6	NA	NA

Source: Company, DBS HK

Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	3,578	3,835	4,088	4,381	4,729
Dep. & Amort.	1,529	1,597	2,127	2,116	2,109
Tax Paid	(475)	(492)	(356)	(380)	(407)
Assoc. & JV Inc/(loss)	(92)	(93)	(93)	(93)	(93)
(Pft)/ Loss on disposal of FAs	(326)	(84)	34	34	34
Chg in Wkg.Cap.	419	197	10,805	15,347	18,653
Other Operating CF	(127)	(53)	(217)	(217)	(217)
Net Operating CF	4,506	4,908	16,387	21,187	24,808
Capital Exp.(net)	(1,745)	(1,194)	(1,555)	(1,607)	(1,662)
Other Invt.(net)	(77)	(147)	0	0	0
Invt in Assoc. & JV	2	(1)	(9)	(9)	(9)
Div from Assoc & JV	325	258	178	178	178
Other Investing CF	(2,175)	(1,205)	0	0	0
Net Investing CF	(3,670)	(2,289)	(1,387)	(1,438)	(1,493)
Div Paid	(1,131)	(1,258)	(1,343)	(1,468)	(1,573)
Chg in Gross Debt	129	43	0	0	0
Capital Issues	0	0	0	0	0
Other Financing CF	374	(529)	0	0	0
Net Financing CF	(628)	(1,744)	(1,343)	(1,468)	(1,573)
Currency Adjustments	(46)	39	39	39	39
Chg in Cash	163	914	13,697	18,320	21,782
Opg CFPS (RMB)	0.59	0.68	0.81	0.84	0.89
Free CFPS (RMB)	0.40	0.54	2.14	2.83	3.34

Source: Company, DBS HK

China Communications Services

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	16-Feb-23	HK\$2.85	HK\$4.80	Buy
2:	29-Mar-23	HK\$3.72	HK\$4.80	Buy
3:	24-Aug-23	HK\$3.38	HK\$5.00	Buy

Source: DBS HK

Analyst: Tsz Wang Tam

Andy Yu

DBS Group Research 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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Sources for all charts and tables are DBS HK unless otherwise specified.

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China Communications Services

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