

China / Hong Kong Company Update

China Mobile

Bloomberg: 941 HK EQUITY | Reuters: 0941.HK

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Feb 2024

BUY

Last Traded Price (6 Feb 2024): HK\$66.75 (HSI : 16,137)
Price Target 12-mth: HK\$93.00 (39% upside) (Prev HK\$97.00)

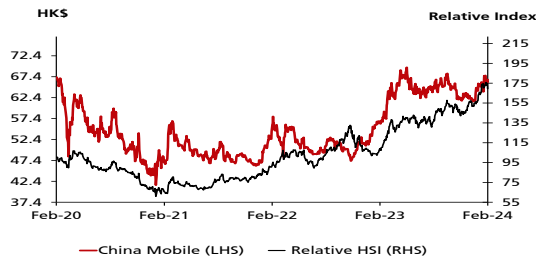
Analysts

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What's New

- Expect DICT revenue (inc. IDC and cloud) to grow 20% y-o-y, supporting 6% service revenue growth in FY24
- Lowered earnings by 1%/4%/6% for FY23/24/25, mainly to factor in slightly softer enterprise spending amidst a weak macro
- Forecast earnings to grow by 7% p.a. in FY23/24/25, respectively
- CM is our sector top pick given its highest yield of 8% and share price defensiveness; TP of HK\$93

Price Relative



Forecasts and Valuation

FY Dec (RMBm)	2022A	2023F	2024F	2025F
Turnover	937,259	1,005,654	1,061,781	1,121,141
EBITDA	329,176	348,914	364,646	381,617
Pre-tax Profit	162,872	174,822	187,511	199,807
Net Profit	125,459	134,664	144,438	153,910
Net Profit Gth (Pre-ex) (%)	8.0	7.3	7.3	6.6
EPS (RMB)	6.13	6.58	7.05	7.52
EPS (HK\$)	6.67	7.16	7.67	8.18
EPS Gth (%)	8.0	7.3	7.3	6.6
Diluted EPS (HK\$)	6.67	7.16	7.67	8.18
DPS (HK\$)	4.49	5.15	5.53	5.89
BV Per Share (HK\$)	68.93	71.27	73.61	76.08
PE (X)	10.0	9.3	8.7	8.2
P/Cash Flow (X)	4.5	3.8	3.7	3.5
P/Free CF (X)	13.8	8.7	7.4	6.5
EV/EBITDA (X)	2.8	2.4	2.1	1.7
Net Div Yield (%)	6.7	7.7	8.3	8.8
P/Book Value (X)	1.0	0.9	0.9	0.9
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	10.0	10.2	10.6	10.9
Earnings Rev (%)		(1)	(4)	(6)
Consensus EPS (RMB)		6.31	6.77	7.19
Other Broker Recs:		B:28	S:0	H:0

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

Bargain sale

Investment Thesis

Largest mobile operator in China, with a market share of c.58% by mobile subscribers. China Mobile also has the largest 5G subscriber base with more than a 50% share among operators. The company has a massive network infrastructure that covers almost all parts of China. In addition, it also has better cost efficiency to deploy its 5G network by co-sharing CBN's 700Mhz spectrum for 5G buildout.

DICT business the key growth driver. Its data, information, and communications technology (DICT) business (including IDC, cloud computing, etc.) is the key revenue growth driver, contributing c.50% of incremental service revenue. We expect the DICT business to maintain its strong c.20% y-o-y growth in FY24, supported by the national digitalisation initiatives.

Dividend hike to improve shareholder return. Following China Telecom's dividend hike, China Mobile will also raise its payout ratio to at least 70% by FY23. Its solid earnings growth of c.7% in FY23 will support a further upside in dividends. The payout hike would be a positive catalyst that would trigger a share price re-rating with an c.8% dividend yield on offer.

Rate BUY with a TP of HK\$93 (vs. HK\$97 previously). We maintain BUY on CM for its stable earnings growth and attractive yield of c.8%. We set our TP at HK\$93, based on 12x FY24 PE (unchanged), c.2SD above its historical average, supported by its increasing dividend payout ratio.

Key Risks

Price war in the mobile market. Irrational competition for mobile subscriber market share could lead to higher ARPU pressure.

Policy risk. China's telecom sector is subject to policy risks such as management reshuffles and tariff cuts. This may not bode well for the company's business performance.

At A Glance

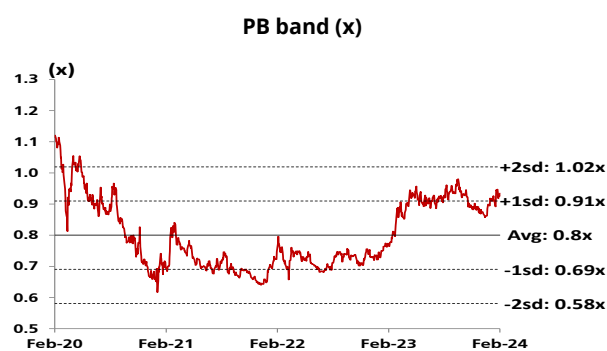
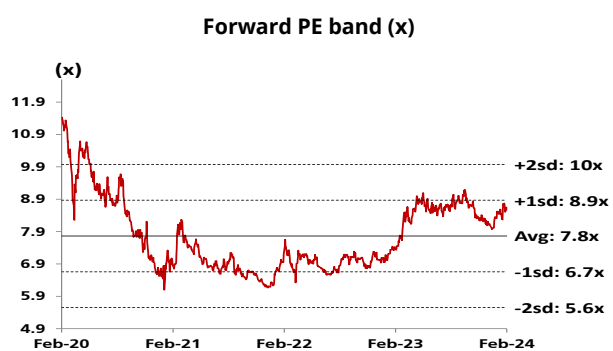
Issued Capital (m shrs)	21,363
Mkt Cap (HKm/US\$m)	1,425,980 / 182,289
Major Shareholders (%)	
China Mobile Communications Group Co., Ltd.	72.7
Free Float (%)	27.3
3m Avg. Daily Val. (US\$m)	124.51
GICS Industry: Communication Services / Telecommunication Services	

China Mobile

Company Background

China Mobile (CM) is the largest mobile operator in Mainland China. It provides 2G services based on GSM technology and 3G/4G services based on Chinese-developed TD-SCDMA/TD-LTE technologies, as well as 5G services based on the 5G SA network. It also operates fixed-line services, after acquiring Tietong.

Historical PE and PB band



Source: Thomson Reuters, DBS HK

China Mobile

Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Mobile sub net add (m)	15.0	18.1	16.0	3.0	3.0
Mobile ARPU (Rmb)	48.8	49.0	49.5	50.0	51.0
Broadband sub net add (m)	29.8	32.1	26.1	10.0	10.0
EBITDA margin (%)	36.7	35.1	34.7	34.3	34.0

Source: Company, DBS HK

Segmental Breakdown (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenues (RMB m)					
Voice services	76,163	75,032	92,368	113,108	140,814
SMS & MMS services	31,100	31,344	31,971	32,291	32,613
Wireless data traffic services	392,859	395,933	399,892	403,891	407,930
Wireline broadband services	94,230	105,030	117,874	125,330	129,540
Applications and information services	136,961	182,461	209,830	230,813	253,894
Other services	20,096	22,258	22,258	22,258	22,258
Sales of products and others	96,849	125,201	131,461	134,090	134,090
Total	848,258	937,259	1,005,654	1,061,781	1,121,141

Source: Company, DBS HK

Income Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	848,258	937,259	1,005,654	1,061,781	1,121,141
Cost of Goods Sold	(514,138)	(577,002)	(611,361)	(637,463)	(667,230)
Gross Profit	334,120	360,257	394,293	424,318	453,911
Other Opng (Exp)/Inc	(216,157)	(231,158)	(252,971)	(270,307)	(287,603)
Operating Profit	117,963	129,099	141,322	154,011	166,307
Other Non Opng (Exp)/Inc	8,257	9,388	6,000	6,000	6,000
Associates & JV Inc	11,914	10,986	12,000	12,000	12,000
Net Interest (Exp)/Inc	14,050	13,399	15,500	15,500	15,500
Dividend Income	0	0	0	0	0
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	152,184	162,872	174,822	187,511	199,807
Tax	(35,878)	(37,278)	(40,013)	(42,917)	(45,732)
Minority Interest	(158)	(135)	(145)	(155)	(166)
Preference Dividend	0	0	0	0	0
Net Profit	116,148	125,459	134,664	144,438	153,910
Net Profit before Except.	116,148	125,459	134,664	144,438	153,910
EBITDA	311,008	329,176	348,914	364,646	381,617
Growth					
Revenue Gth (%)	10.4	10.5	7.3	5.6	5.6
EBITDA Gth (%)	9.1	5.8	6.0	4.5	4.7
Opg Profit Gth (%)	4.6	9.4	9.5	9.0	8.0
Net Profit Gth (%)	7.7	8.0	7.3	7.3	6.6
Margins & Ratio					
Gross Margins (%)	39.4	38.4	39.2	40.0	40.5
Opg Profit Margin (%)	13.9	13.8	14.1	14.5	14.8
Net Profit Margin (%)	13.7	13.4	13.4	13.6	13.7
ROAE (%)	9.9	10.0	10.2	10.6	10.9
ROA (%)	6.5	6.6	6.8	7.0	7.1
ROCE (%)	7.3	7.5	7.6	8.0	8.3
Div Payout Ratio (%)	60.4	67.3	72.0	72.0	72.0
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS HK

China Mobile

Interim Income Statement (RMB m)

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	443,647	404,611	496,934	440,325	530,719
Cost of Goods Sold	(270,660)	(243,478)	(306,558)	(270,444)	(324,028)
Gross Profit	172,987	161,133	190,376	169,881	206,691
Other Oper. (Exp)/Inc	(110,471)	(105,686)	(115,928)	(115,230)	(126,404)
Operating Profit	62,516	55,447	74,448	54,651	80,287
Other Non Opg (Exp)/Inc	2,707	5,550	3,076	6,312	4,003
Associates & JV Inc	6,527	5,387	6,195	4,791	4,953
Net Interest (Exp)/Inc	5,946	8,104	7,630	5,769	9,435
Exceptional Gain/(Loss)	0	0	0	0	0
Pre-tax Profit	77,696	74,488	91,349	71,523	98,678
Tax	(18,510)	(17,368)	(21,012)	(16,266)	(22,439)
Minority Interest	(68)	(90)	(62)	(73)	(66)
Net Profit	59,118	57,030	70,275	55,184	76,173
Net profit bef Except.	59,118	57,030	70,275	55,184	76,173
Growth					
Revenue Gth (%)	13.8	7.0	12.0	8.8	6.8
Opg Profit Gth (%)	5.7	3.4	19.1	(1.4)	7.8
Net Profit Gth (%)	6.0	9.5	18.9	(3.2)	8.4
Margins					
Gross Margins (%)	39.0	39.8	38.3	38.6	38.9
Opg Profit Margins (%)	14.1	13.7	15.0	12.4	15.1
Net Profit Margins (%)	13.3	14.1	14.1	12.5	14.4

Source: Company, DBS HK

China Mobile

Balance Sheet (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	810,786	829,360	819,770	791,937	754,430
Invt in Associates & JVs	169,556	175,649	185,249	194,849	204,449
Other LT Assets	265,614	474,158	487,150	499,973	512,885
Cash & ST Invt	502,034	348,086	420,283	508,030	611,826
Inventory	10,203	11,696	11,124	12,152	10,625
Debtors	44,805	53,083	56,957	60,135	63,497
Other Current Assets	38,329	43,506	45,422	46,994	48,657
Total Assets	1,841,327	1,935,538	2,025,955	2,114,071	2,206,370
ST Debt	0	0	0	0	0
Creditors	439,968	396,871	425,832	449,598	474,734
Other Current Liab	142,180	136,466	141,958	146,464	151,230
LT Debt	0	0	0	0	0
Other LT Liabilities	48,887	100,778	112,594	128,321	144,048
Shareholder's Equity	1,206,350	1,297,348	1,341,351	1,385,312	1,431,817
Minority Interests	3,942	4,075	4,220	4,375	4,541
Total Cap. & Liab.	1,841,327	1,935,538	2,025,955	2,114,071	2,206,370
Non-Cash Wkg. Capital	(488,811)	(425,052)	(454,287)	(476,780)	(503,184)
Net Cash/(Debt)	502,034	348,086	420,283	508,030	611,826
Debtors Turn (avg days)	20.0	19.1	20.0	20.1	20.1
Creditors Turn (avg days)	462.4	405.2	371.9	374.3	373.3
Inventory Turn (avg days)	10.4	10.6	10.3	10.0	9.2
Asset Turnover (x)	0.5	0.5	0.5	0.5	0.5
Current Ratio (x)	1.0	0.9	0.9	1.1	1.2
Quick Ratio (x)	0.9	0.8	0.8	1.0	1.1
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)	2.5	2.5	2.3	NA	NA

Source: Company, DBS HK

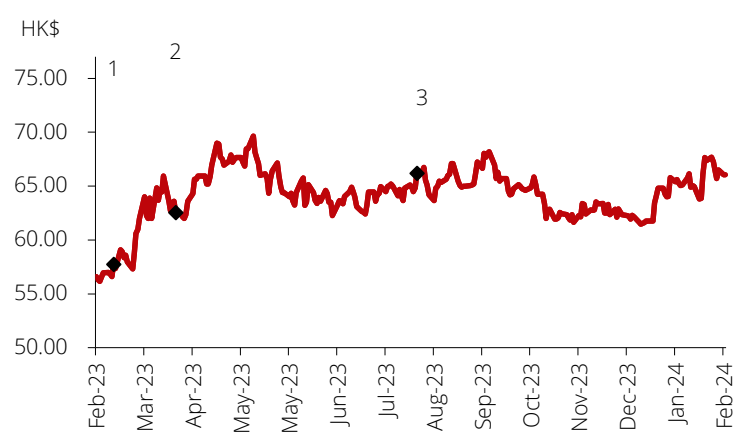
Cash Flow Statement (RMB m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	152,184	162,872	174,822	187,511	199,807
Dep. & Amort.	193,045	200,077	193,319	196,363	201,037
Tax Paid	(39,394)	(41,154)	(37,278)	(40,013)	(42,917)
Assoc. & JV Inc/(loss)	(11,914)	(10,986)	(12,000)	(12,000)	(12,000)
(Pft)/ Loss on disposal of FAs	0	0	0	0	0
Chg in Wkg.Cap.	28,204	(22,811)	29,235	22,493	26,404
Other Operating CF	(7,361)	(7,248)	(17,901)	(13,990)	(13,990)
Net Operating CF	314,764	280,750	330,198	340,364	358,341
Capital Exp.(net)	(207,311)	(189,588)	(185,240)	(170,040)	(165,040)
Other Invt.(net)	(35,432)	(53,346)	18,000	18,000	18,000
Invt in Assoc. & JV	0	0	0	0	0
Div from Assoc & JV	3,926	4,356	2,400	2,400	2,400
Other Investing CF	521	525	0	0	0
Net Investing CF	(238,296)	(238,053)	(164,840)	(149,640)	(144,640)
Div Paid	(57,585)	(86,837)	(90,661)	(100,477)	(107,405)
Chg in Gross Debt	0	0	0	0	0
Capital Issues	48,695	3,286	0	0	0
Other Financing CF	(36,311)	(36,963)	(2,500)	(2,500)	(2,500)
Net Financing CF	(45,201)	(120,514)	(93,161)	(102,977)	(109,905)
Currency Adjustments	(53)	980	0	0	0
Chg in Cash	31,214	(76,837)	72,197	87,747	103,796
Opg CFPS (RMB)	14.00	14.83	14.70	15.52	16.21
Free CFPS (RMB)	5.25	4.45	7.08	8.32	9.44

Source: Company, DBS HK

China Mobile

Target Price & Ratings 12-mth History



S.No.	Date	Closing Price	12-mth Target Price	Rating
1:	16-Feb-23	HK\$56.60	HK\$74.00	Buy
2:	24-Mar-23	HK\$63.60	HK\$92.00	Buy
3:	11-Aug-23	HK\$64.85	HK\$97.00	Buy

Source: DBS HK

Analyst: Tsz Wang Tam
Andy Yu

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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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China Mobile

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