



## China Communications Services (552 HK)

### Benefit from 5G CAPEX cycle; initiate with BUY

- China Communications Services (the "Company" or "CCS") was established and listed on HKEx in 2006. It mainly engages in providing telecom infrastructure services for telecom operators
- 5G network development in 2020 is expected to benefit the Company with more telecom infrastructure development. We forecast revenue to grow at a CAGR of 8.2% in FY19-22E
- Net profit is estimated to grow at a CAGR of 10.8% in FY19-22E
- Initiate BUY and TP of HK\$6.1. The TP represents 11.1x FY20E P/E and 1.85x FY20E EV/EBITDA.

**Overview of CCS.** CCS was established and listed on HKEx in 2006. It mainly engages in providing telecom infrastructure services for telecom operators. Its major core businesses are: (1) Telecom infrastructure services; (2) Business process outsourcing services; (3) Applications, content and other services.

**Solid revenue driver from shareholders and domestic telecom operators.** The Company's major shareholders and major customers are both domestic telecom operators, which contributed to 61.7% of CCS's total revenue in FY19.

**Developing overseas markets for more opportunities.** CCS is expanding the overseas opportunities based on huge demand from overseas telecom operators for network infrastructure. Demand from the Belt-and-Road regions is also rising as telecom coverage and penetration are still low in these regions.

**We project revenue to grow at a CAGR of 8.2% in FY19-22E.** Demand for telecom infrastructure project and network maintenance services has been increasing with the implementation of the Speed Upgrade and Tariff Reduction policy in China.

**Net profit would grow at a CAGR of 10.8% in FY19-22E,** driven by 5G network development and telecom operators' rise in CAPEX cycle.

**Valuation.** We initiate CCS with **BUY** and TP of HK\$6.1. The TP represents 11.1x FY20E P/E and 1.85x FY20E EV/EBITDA.

**Risks:** (1) Slowdown in 5G network development; (2) Revenue highly depends on domestic telecom operators; (3) Business may be affected by international trade tensions.

### Results and Valuation

FY ended Dec 31	FY18A	FY19A	FY20E	FY21E	FY22E
Revenue (RMB mn)	106,177	117,413	128,041	138,998	148,618
Chg (% YoY)	12.3%	10.6%	9.1%	8.6%	6.9%
Net profit (RMB mn)	2,901	3,049	3,425	3,758	4,145
Chg (% YoY)	6.9%	5.1%	12.3%	9.7%	10.3%
EPS (RMB)	0.419	0.440	0.494	0.543	0.598
Chg (% YoY)	6.9%	5.1%	12.3%	9.7%	10.3%
BPS (RMB)	4.67	4.99	5.31	5.65	6.04
Chg (% YoY)	14.1%	6.9%	6.3%	6.5%	6.8%
P/E (x)	10.8	10.4	9.4	8.6	7.8
P/B (x)	1.0	0.9	0.9	0.8	0.8
ROAE (%)	9.6%	9.1%	9.6%	9.9%	10.2%
ROAA (%)	3.8%	3.6%	3.6%	3.6%	3.6%
DPS (RMB)	0.151	0.159	0.178	0.195	0.215
Dividend Yield (%)	3.3%	3.5%	3.8%	4.2%	4.6%

Source(s): Bloomberg, ABCI Securities estimates

\*Exchange rate assumption for FY20E-22E: HKD 1 = RMB 0.90

## Company Report Initiation

Aug 10, 2020

Rating: BUY

TP: HK\$6.1

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Share price (HK\$)	5.16
Est. share price return	18.2%
Est. dividend yield	3.8%
Est. total return	22.0%

Source(s): Bloomberg, ABCI Securities estimates

### Key Data

52Wk H/L (HK\$)	6.6/4.1
Issued shares (mn)	6,926
Market cap (HK\$ mn)	35,738
Avg daily turnover (HK\$ mn)	120.0
Major shareholder(s)	
China Telecom Corporation	51.4%
China Mobile	
Communications Group	8.8%
China United Network	
Communications Group	3.4%

Source(s): Company, ABCI Securities estimates

### Share Performance (%)

	Absolute	Relative*
1-mth	4.0	(0.0)
3-mth	(7.2)	(10.7)
6-mth	(3.9)	9.6

\*Relative to HSI

Source(s): Bloomberg



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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Communications Services Corporation Ltd. (552 HK, BUY)

China Telecom Sector

Aug 10, 2020

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## Company Overview

China Communications Services Corporation Ltd. (the "Company" or "CCS") was established and listed on HKEx (552 HK) in 2006. It mainly engages in providing telecom infrastructure services for telecom operators. The Company's major shareholders are China Telecom Corporation (51.4%), China Mobile Communications Group Co. Ltd. (8.8%), and China United Network Communications Group Company Limited (3.4%). CCS's major customers are the three major Chinese telecom operators and China Tower Corp. Ltd. (788 HK).

The Company's three major core businesses are: (1) Telecom infrastructure services (TIS); (2) Business process outsourcing services (BPO); (3) Applications, content and other services (ACO).

### Exhibit 1: CCS's milestones

Date	Events
Aug 2006	Established in China with its primary service areas including Shanghai, Zhejiang Province, Fujian Province, Hubei Province, Guangdong Province and Hainan Province
Dec 2006	Listed on HK Stock Exchange with the stock code of 552HK
Aug 2007	Acquired businesses of specialized telecommunications support services in 13 provinces from China Telecommunications Corporation
Apr 2008	Completed the placement of 327 mn new H Shares
Mar 2009	Completed the transfer of 506,880,000 and 236,300,000 domestic shares of the Company to China Mobile Communications Corporation and China United Network Communications Group Company Limited respectively
Nov 2013	Partner with China Telecom and SAP to offer SAP's cloud solution to the enterprises in China
Aug 2018	The Company has been included in the list of State-owned Enterprise Reform "Double-hundred Action" by the State-owned Assets Supervision and Administration Commission of the State Council
Dec 2019	Domestic non-telecom operator customers became the largest customer group for the first time

Source(s): the Company

### (1) Telecom Infrastructure Service (TIS)

The Company's telecom infrastructure service business mainly consists of design, construction and supervision, and business process outsourcing services. It cover services including telecom project planning, design, infrastructure construction and project supervision for both of fixed-line and mobile networks. The TIS segment was the Company's major revenue contributor, supported by telecom operators' demand in China.

### (2) Business Process Outsourcing (BPO) services

In this business segment, the Company provides network maintenance services for telecom operators covering fiber optic cables, electric cables, mobile base stations, network equipment and terminals. The services include management of infrastructure for information technology (Network Maintenance), general facilities management (Property Management), supply chain, and products distribution.

The sites of property management services are related to data centers, cloud computing bases, commercial buildings, high-end residential buildings, high-speed railway stations and airports, etc. The Company offers logistics and transportation, warehousing and auxiliary services, procurement agent, inspection service and value-added services of supply chain to customers.



### (3) Applications, Content and Other (ACO) services

The Company's applications, content and other services business segment provides services to customers related to system design and construction, software development and system support, and other value added services.

Recent developments in 5G, Cloud, Internet of Things (IoT), Big Data, and Artificial Intelligence (AI) will promote growth in ACO business. CCS's ACO business recorded the highest revenue growth in 2019 (+17.3% YoY) among its business segments (ACO, TIS and BPO).

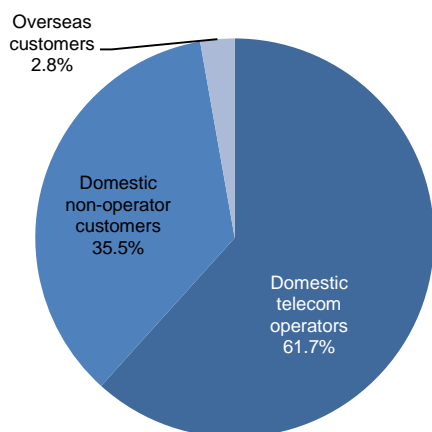
#### Domestic telecom operators contributed to over 61.7% of the Company's revenue in 2019

In 2019, revenue contributions from domestic telecom operators/ domestic non-operator customers/ overseas customers accounted for 61.7%/ 35.5%/ 2.8%, respectively. There was an increment for the revenue distribution from domestic non-operator customers with the rise from 31.4% in 2018 to 35.5% in 2019 due to the Company's expansion strategy with the development of non-operator customers to boost revenue growth. We expect domestic telecom operators will remain as the Company's major revenue driver in FY20-22 based on their 5G network development plans.

#### Core business: Telecom infrastructure services

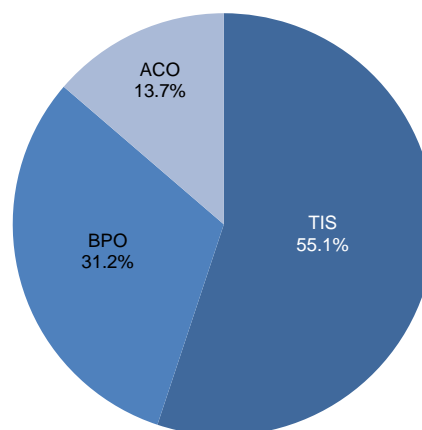
Telecom infrastructure services contributed for over 55.1% of revenue for the Company in 2019, thanks to its strong network and shareholding structure with domestic telecom operators, which provide the Company with a solid revenue support.

**Exhibit 2: CCS's revenue breakdown by customer in 2019**



Source(s): the Company

**Exhibit 3: CCS's revenue breakdown by business segments in 2019**



Source(s): the Company

#### Expansion strategy for overseas

Revenue driven from overseas markets grew 3.6% YoY in 2019. CCS is expanding the overseas opportunities based on huge demand from overseas telecom operators for network infrastructure. We expect opportunities to arise from the Belt-and-Road

regions as the telecom coverage and penetration is still low in these regions. The Company has advantages in the domestic telecom market given its tight relationships with the Chinese telecom operators and equipment providers; it can leverage its knowledge, experience, and resources to expand overseas.

**Exhibit 4: CCS's revenue breakdown by customers**

(In RMB million, except percentages)	2019	2018	YoY
Domestic telecommunications operator customers	72,420	69,705	3.9%
Of which: China Telecom	40,633	41,279	(1.6%)
China Mobile, China Unicom, China Tower	31,787	28,426	11.8%
Domestic non-operator customers	41,727	33,317	25.2%
Overseas customers	3,266	3,155	3.6%
<b>Total</b>	<b>117,413</b>	<b>106,177</b>	<b>10.6%</b>

Source(s): the Company

**Exhibit 5: CCS's revenue breakdown by businesses**

(In RMB '000, except percentages)	2019	2018	YoY
<b>Telecommunications Infrastructure Services</b>			
Design services	10,239,043	10,605,020	(3.5%)
Construction services	50,734,438	42,862,805	18.4%
Project supervision and management services	3,715,334	3,891,611	(4.5%)
<b>Segment total</b>	<b>64,688,815</b>	<b>57,359,436</b>	<b>12.8%</b>
<b>Business Process Outsourcing Services</b>			
Management of infrastructure for information technology (Network Maintenance)	15,826,644	14,793,165	7.0%
General facilities management (Property Management)	6,168,074	5,277,821	16.9%
Supply chain	10,320,178	10,148,648	1.7%
<b>Sub-total of Core BPO Services</b>	<b>32,314,896</b>	<b>30,219,634</b>	<b>6.9%</b>
Products distribution	4,322,284	4,883,188	(11.5%)
<b>Segment total</b>	<b>36,637,180</b>	<b>35,102,822</b>	<b>4.4%</b>
<b>Applications, Content and Other Services</b>			
System integration	9,108,195	7,372,535	23.5%
Software development and system support	2,856,311	2,501,901	14.2%
Value added services	2,035,012	1,934,382	5.2%
Others	2,087,576	1,905,561	9.6%
<b>Segment total</b>	<b>16,087,094</b>	<b>13,714,379</b>	<b>17.3%</b>
<b>Total</b>	<b>117,413,089</b>	<b>106,176,637</b>	<b>10.6%</b>

Source(s): the Company

## Industry analysis

### Investments for 5G network increases in 2020 in China

The Speed Upgrade and Tariff Reduction policy implemented in the telecom sector targets to improve the network coverage and network speed. The Chinese telecom operators are pacing up their 5G network development in China, with 2020 CAPEX reaching RMB 334.8bn (+11.7% YoY, including RMB180.3bn for 5G). Over 600,000 new 5G base stations are estimated to be completed by end-2020 and aggregate 5G base stations will reach over 800,000. The massive 5G network development is expected to benefit the network equipment providers (such as ZTE [763 HK] and Huawei) and network solution providers (such as China Communication Services Corporation Ltd. [552 HK]). Telecom operators will develop the 5G standalone network in 2020 to improve network speed and transmission quality.

#### Exhibit 6: Chinese telecom operators' CAPEX in 2020E

RMB bn	China Mobile (941 HK)	China Unicom (762 HK)	China Telecom (728 HK)
Overall CAPEX	179.8	70.0	85.0
YoY Growth	8.4%	24.1%	9.6%
5G CAPEX	100.0	35.0	45.3
YoY Growth	316.7%	343.0%	388.9%
5G CAPEX to overall CAPEX ratio	55.6%	50.0%	53.3%

Source(s): the Companies

### More cooperation among telecom service providers

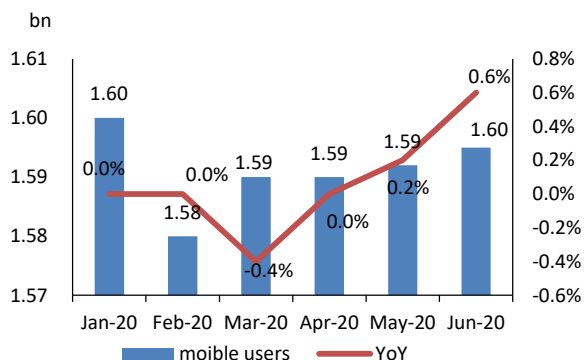
Cooperation among telecom operators for 5G network development has increased. China Telecom has teamed up with China Unicom to co-build and co-share 5G telecom network; meanwhile, China Mobile has partnered with China Broadcast Network Corporation Ltd. (600831 CH) for 5G network development. As the 5G telecom network requires a much higher capital investment than the 4G network, cooperation among telecom operators can help save costs and improve network efficiency. Total 5G users are estimated to reach over 200mn by the end of 2020.

### Speed Upgrade and Tariff Reduction policy is expected to continue

The Speed Upgrade and Tariff Reduction policy trims the mobile data fee in a bid to boost mobile internet penetration. As of June 2020, China's mobile users reached 1.59bn and average mobile data per user reached over 10.1 GB (up 29.3% YoY). The average mobile data per user surged, driven by the lower mobile data tariff.

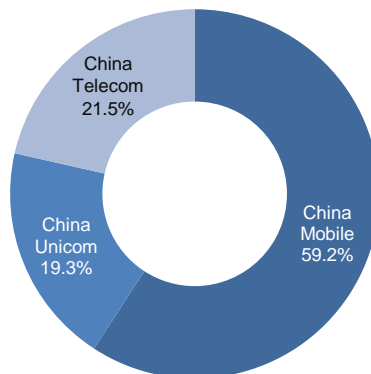


Exhibit 7: China's mobile users and growth



Source(s): MIIT

Exhibit 8: Market share of mobile users in China (as of June 2020)



Source(s): MIIT

Exhibit 9: Telecom operators' mobile operational data comparison table

	China Mobile (941 HK)	China Unicom (762 HK)	China Telecom (728 HK)
Aggregate mobile users in June 2020 (mn)	946.7	309.5	353.5
YoY	1.2%	(4.6%)	9.3%
Net additions of mobile users in 1H20 (mn)	(3.5)	(8.9)	7.9

Source(s): Companies

### China Mobile has the highest mobile user market share

China Telecom recorded the highest YoY growth in mobile users due to the recent launch of mobile phone number portability scheme that allows users to transfer their mobile numbers to other telecom service providers. Since the scheme was launched in Dec 2019, 10mn users have changed their telecom operators. The mobile number portability scheme will benefit the consumers with better telecom services and pricing. As of June 2020, the mobile user market shares of China Mobile/ China Unicom/ China Telecom were 59.2%/ 19.3%/ 21.5%, respectively.

### Fixed-line users grew 7.0% YoY in 1H20

China's fixed-line users reached 440 mn in June 2020, up 7.0% YoY. China Mobile recorded the highest growth in fixed-line users, driven by its expansion plan to the remote regions and large mobile user base. The fixed-line tariff fee is expected to fall further in 2020, boosting user growth. The fixed line broadband transmission speed also increased recently with more demand from IPTV, online games, online videos, and video conferences. Unlike the mobile user market, we expect room for user growth still exists for the fixed-line segment.

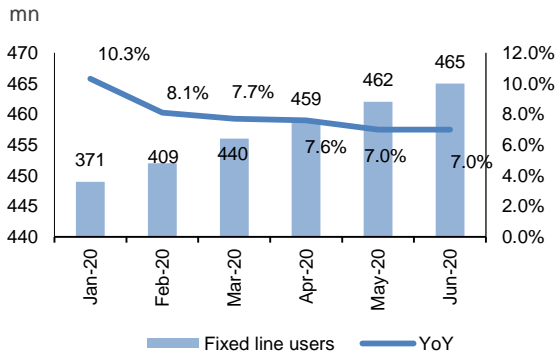
Exhibit 10: Telecom operators' fixed line operational data comparison table

	China Mobile (941 HK)	China Unicom (762 HK)	China Telecom (728 HK)
Aggregate fixed-line users in June 2020 (mn)	197.1	88.9	154.1
YoY	12.7%	6.6%	2.6%
Net additions of fixed-line users in 6M20 (mn)	10.1	(2.1)	1.0

Source(s): Companies

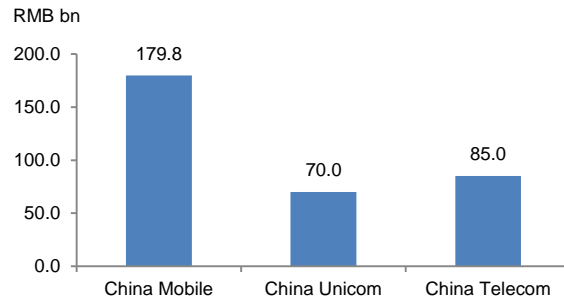


Exhibit 11: China's fixed line users and growth



Source(s): MIIT

Exhibit 12: Telecom operators' CAPEX in 2020



Source(s): MIIT





## Financial forecasts

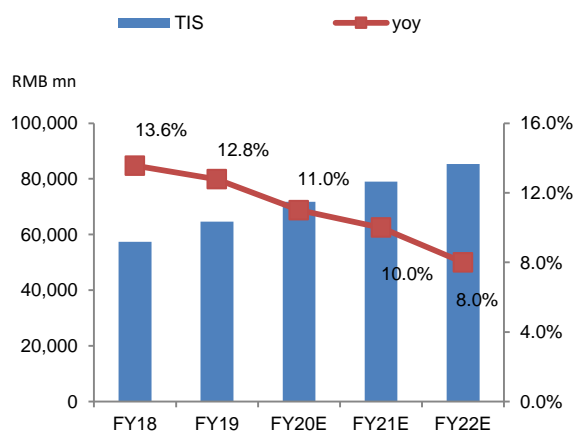
**TIS:** The Company's largest revenue source that accounted for 55.1% of total revenue in 2019 (compared to 54.0% in 2018). In 2019, the Company's telecommunications infrastructure services revenue grew 12.8% YoY, driven by network expansion strategy and 5G network development in China. The Company will benefit from the 5G network development with increase in CAPEX from the major Chinese telecom operators. In 2020, Chinese telecom operators are estimated to spend RMB 334.8bn CAPEX (+11.7% YoY), including RMB 180.3bn for 5G. We forecast the segment's revenue to grow by 11.0% YoY to RMB71.8 bn in FY20E.

**BPO services:** BPO accounted for 31.2% of total revenue in 2019 (compared to 33.1% in 2018). The rise of sharing economy among the Chinese telecom operators has benefited the Company due to the shift of telecom operators' expenses from CAPEX investment to operating expenses. BPO service revenue grew 4.4% YoY in 2019 on higher maintenance and after sales demand following the completion of previous network projects. We project this segment's revenue to grow by 3.0% to RMB37.7 bn in FY20E.

**ACO services:** We believe opportunities are arising from the development of smart cities and digitalization transformation of government and enterprises. Driven by more demand from emerging businesses (such as 5G, AI, and cloud computing), we forecast ACO revenue to grow by 15.0% to RMB18.5 bn in FY20E.

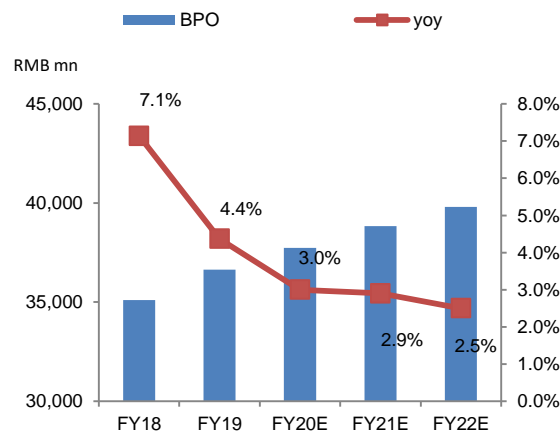
**Overall revenue is projected to grow by 9.1%/ 8.6%/ 6.9% in FY20-22E.** Driven by solid revenue contribution from domestic telecom operators, we forecast the Company's overall revenue to grow at a CAGR of 8.2% in FY19-22E.

Exhibit 13: CCS's TIS revenue



Source(s): the Company, ABCI Securities estimates

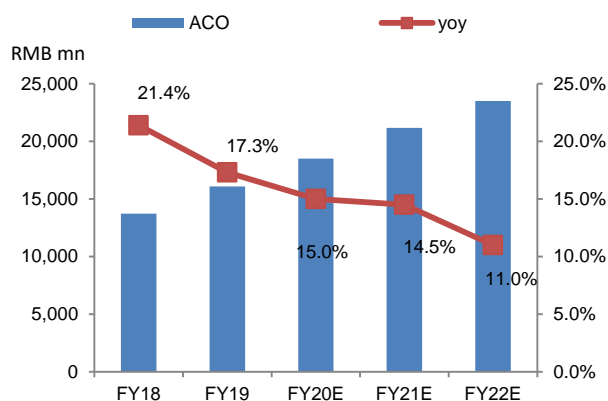
Exhibit 14: CCS's BPO revenue



Source(s): the Company, ABCI Securities estimates

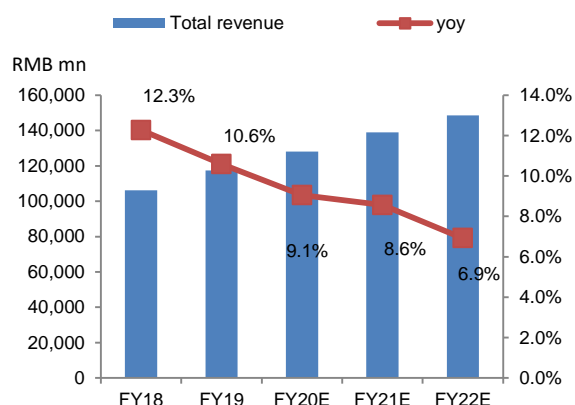


Exhibit 15: CCS's ACO revenue



Source(s): the Company, ABCI Securities estimates

Exhibit 16: CCS's total revenue



Source(s): the Company, ABCI Securities estimates

Exhibit 17: CCS's revenue breakdown by services and customers in 2019

Businesses	Domestic telecom operators customers	Domestic non-telecom operators customers and overseas customers	Total
TIS	63.6%	36.4%	100%
BPO	66.7%	33.3%	100%
ACO	42.4%	57.6%	100%

Source(s): the Company

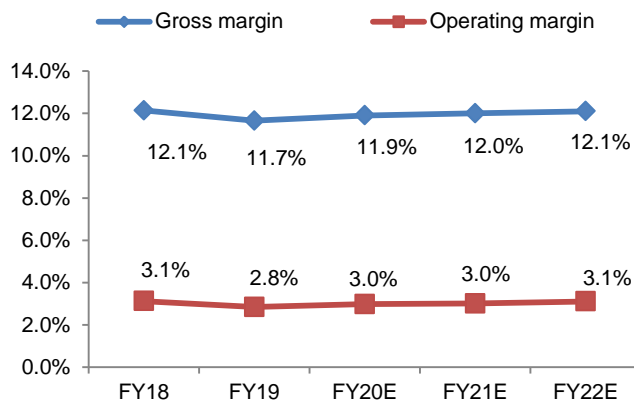


### Gross profit margin is expected to grow 0.2ppt YoY in FY20E

The Company's gross profit margin fell by 0.5ppt YoY to 11.7% in FY19. We expect a slight rebound of 0.2ppt for FY20E, driven by increased contribution from higher-margin 5G projects. We forecast gross profit to grow at a CAGR of 9.5% in FY19-22E to reach RMB18.0 bn in FY22E.

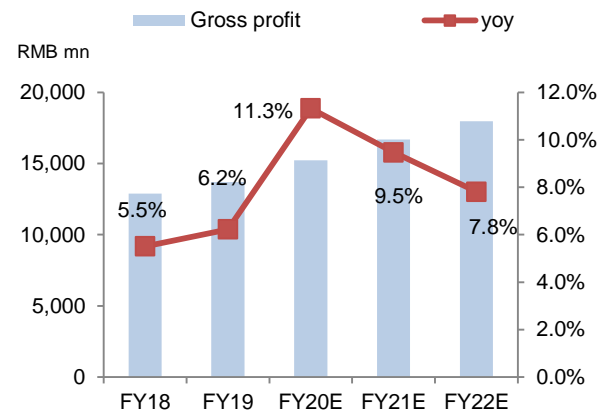
Operating profit margin is expected to edge up by 0.2ppt YoY to 3.0% in FY20E on higher gross margin and revenue with the 5G-related projects.

**Exhibit 18: CCS's gross profit margin and operating profit margin**



Source(s): the Company, ABCI Securities estimates

**Exhibit 19: CCS's gross profit and growth**

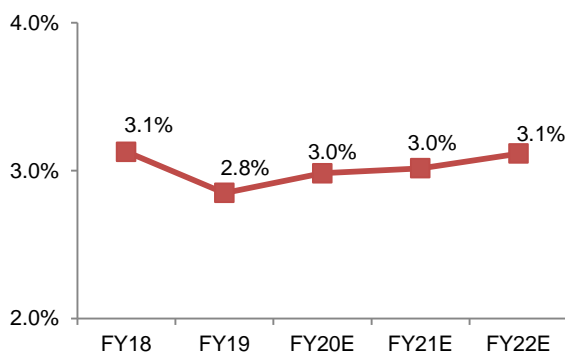


Source(s): the Company, ABCI Securities estimates

### Net profit to grow at a CAGR of 10.8% in FY19-22E

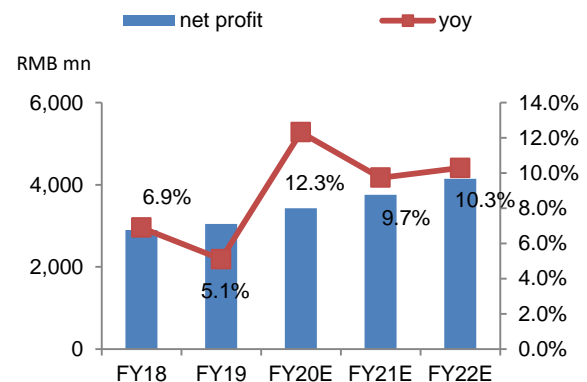
Thanks to its strategic partnership with domestic telecom operators, the Company is expected to benefit from solid revenue contributions. Net profit grew 5.1% YoY in FY19. Driven by 5G network and smart city development, we forecast net profit to grow at a CAGR of 10.8% in FY19-22E from RMB3.0 bn in FY19 to RMB4.1 bn in FY22E. We project net profit margin to edge up 0.1ppt YoY to 2.7% in FY20E due to increased contribution from 5G network projects. The Company has a stable dividend payout ratio at around 36% (36.2% in 2019; 35.7% in 2018), and we expect a similar level to persist for FY20-22E.

**Exhibit 20: CCS's net profit margin**



Source(s): the Company, ABCI Securities estimates

**Exhibit 21: CCS's net profit and growth**



Source(s): the Company, ABCI Securities estimates



## Valuations

### Recommend BUY with TP at HK\$ 6.1

We derive the Company's valuation based on the DCF model analysis (WACC: 15.2%; perpetuity growth rate: 2%). We set TP at HK\$6.1. Our TP represents 11.1x FY20E P/E and 1.85x FY20E EV/EBITDA. We initiate the Company with **BUY**.

According to Bloomberg consensus, CCS's share (HK\$5.16) is trading at 9.9x FY20E P/E ratio and 1.70x FY20E EV/EBITDA ratio, which is much lower than the sector average of 13.8x FY20E P/E ratio and 6.8x FY20E EV/EBITDA ratio. According to our estimation, CCS's share (HK\$5.16) is trading at 9.4x FY20E P/E ratio and 1.57x FY20E EV/EBITDA ratio. We think the present valuation is attractive. Domestic telecom operators are both the Company's shareholders and customers, which provide a solid revenue growth and mutually beneficial relationships.

### Exhibit 22: Peer Comparison Table

			P/E				P/B				ROE	ROA	EV/EBITDA
	Ticker	Price*	19A	20E	21E	22E	19A	20E	21E	22E	20E	20E	20E
China Mobile	941 HK	53.85	9.1	9.3	9.1	8.7	0.9	0.9	0.8	0.8	9.7	6.4	2.3
China Unicom	762 HK	4.35	11.0	10.5	9.1	8.2	0.4	0.4	0.4	0.4	3.8	2.1	1.3
China Telecom	728 HK	2.28	8.1	8.4	7.7	7.1	0.5	0.5	0.4	0.4	5.7	2.8	2.0
China Comm Services	552 HK	5.16	10.3	9.9	8.2	7.4	0.9	0.9	0.8	0.8	9.0	3.6	1.7
ZTE	763 HK	22.7	17.3	18.8	14.8	12.0	3.1	2.8	2.4	2.0	14.5	3.8	17.0
Comba Telecom	2342 HK	3.44	53.1	27.3	18.2	17.7	2.3	2.1	2.0	1.8	6.1	2.1	30.0
Yangtze Optical	6869 HK	14.22	12.7	12.5	10.3	9.5	1.2	1.1	1.0	1.0	9.0	5.7	15.4
<b>Average</b>			17.4	13.8	11.1	10.1	1.3	1.2	1.1	1.0	8.2	3.8	6.8

\*Based on closing price on Aug 7, 2020

Source(s): Bloomberg



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China Telecom Sector

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## Risk factors

### **Revenue highly dependent on domestic telecom operators**

In 2019, over 61.7% of revenue was generated from domestic telecom operators. Changes in CAPEX policy of telecom operators may affect the Company's revenue.

### **Revenue highly dependent on a single business segment (telecom infrastructure services)**

The Company generated 55.1% of revenue from telecom infrastructure services in FY19. Slowdown in revenue growth from this business segment (telecom infrastructure services) may affect the Company's income substantially.

### **Our forecasts may deviate from actual results**

We make our forecasts relies on a number of assumptions. The actual results may deviate from our estimates.

### **Slowdown in 5G network development may affect earnings**

The Company's business may be affected if there are any changes in 5G network development progress.

### **Business may be affected by trade tension**

International trade tension or disputes may affect CCS's and other telecom network providers' ability to secure electronic components for manufacturing network equipment for network infrastructure.

**農銀國際**

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

China Communications Services Corporation Ltd. (552 HK, BUY)

China Telecom Sector

Aug 10, 2020

**Financial Statements****Consolidated income statement (2018A-2022E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2018A</b>	<b>2019A</b>	<b>2020E</b>	<b>2021E</b>	<b>2022E</b>
Telecommunications infrastructure services	57,359	64,689	71,805	78,985	85,304
Business process outsourcing services	35,103	36,637	37,736	38,831	39,801
Applications, content and other services	13,714	16,087	18,500	21,183	23,513
<b>Total revenue</b>	<b>106,177</b>	<b>117,413</b>	<b>128,041</b>	<b>138,998</b>	<b>148,618</b>
Cost of revenue	(93,292)	(103,726)	(112,804)	(122,319)	(130,635)
<b>Gross profit</b>	<b>12,885</b>	<b>13,687</b>	<b>15,237</b>	<b>16,680</b>	<b>17,983</b>
Other operating income	1,245	1,555	1,695	1,841	1,968
Selling, general and admin expenses	(10,611)	(11,494)	(12,676)	(13,761)	(14,713)
Other operating expenses	(174)	(333)	(363)	(486)	(520)
Finance costs	(25)	(69)	(75)	(82)	(89)
Others	105	148	162	176	188
Profit before tax	3,425	3,494	3,980	4,367	4,816
Tax	(497)	(464)	(577)	(633)	(698)
Profit after tax	2,928	3,030	3,403	3,734	4,118
<b>Net profit</b>	<b>2,901</b>	<b>3,049</b>	<b>3,425</b>	<b>3,758</b>	<b>4,145</b>
Non-controlling interests	27	(19)	(22)	(24)	(26)
<b>EPS (RMB)</b>	<b>0.419</b>	<b>0.440</b>	<b>0.494</b>	<b>0.543</b>	<b>0.598</b>
<b>DPS (RMB)</b>	<b>0.151</b>	<b>0.159</b>	<b>0.178</b>	<b>0.195</b>	<b>0.215</b>

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
PPE	4,385	4,369	4,282	4,196	4,112
Equity instruments at fair value through other comprehensive income	3,738	4,088	4,293	4,507	4,733
Others	4,290	5,831	5,831	5,846	5,876
<b>Total non-current assets</b>	<b>12,412</b>	<b>14,289</b>	<b>14,406</b>	<b>14,550</b>	<b>14,720</b>
Cash & cash equivalents	16,106	19,221	23,358	27,950	33,062
Accounts and bills receivable, net	18,668	19,093	20,047	21,050	22,102
Contract assets, net	15,665	17,154	18,011	18,912	19,857
Others	18,075	17,785	24,389	27,816	31,651
<b>Total current assets</b>	<b>68,514</b>	<b>73,252</b>	<b>85,806</b>	<b>95,728</b>	<b>106,672</b>
<b>Total assets</b>	<b>80,926</b>	<b>87,541</b>	<b>100,212</b>	<b>110,278</b>	<b>121,392</b>
Interest bearing borrowings	462	511	557	607	662
Accounts and bills payable	28,280	30,675	33,742	37,116	40,828
Others	17,989	19,498	26,781	30,925	35,531
<b>Total current liabilities</b>	<b>46,731</b>	<b>50,684</b>	<b>61,080</b>	<b>68,648</b>	<b>77,021</b>
Deferred tax liabilities	740	834	884	937	979
Others	626	986	987	993	1,003
<b>Total non-current liabilities</b>	<b>1,367</b>	<b>1,819</b>	<b>1,871</b>	<b>1,930</b>	<b>1,982</b>
<b>Total liabilities</b>	<b>48,097</b>	<b>52,503</b>	<b>62,951</b>	<b>70,578</b>	<b>79,003</b>
<b>Total equity</b>	<b>32,829</b>	<b>35,038</b>	<b>37,261</b>	<b>39,700</b>	<b>42,389</b>

Source(s): Company, ABCI Securities estimates



Consolidated Cash Flow Statement (2018A-2022E)

As of Dec 31 (RMB mn)	2018A	2019A	2020E	2021E	2022E
Operating profit before tax	3,425	3,494	3,980	4,367	4,816
Others	836	1,318	1,716	1,931	2,169
<b>Operating cash flow</b>	<b>4,261</b>	<b>4,812</b>	<b>5,696</b>	<b>6,298</b>	<b>6,985</b>
CAPEX	(932)	(1,026)	(1,077)	(1,131)	(1,187)
Others	381	714	737	761	785
<b>Investing cash flow</b>	<b>(551)</b>	<b>(311)</b>	<b>(340)</b>	<b>(370)</b>	<b>(402)</b>
Change in borrowings	133	27	46	50	55
Others	(1,019)	(1,412)	(1,264)	(1,385)	(1,526)
<b>Financing cash flow</b>	<b>(886)</b>	<b>(1,385)</b>	<b>(1,218)</b>	<b>(1,335)</b>	<b>(1,471)</b>
<b>Net increase in cash and cash equivalents</b>	<b>2,824</b>	<b>3,115</b>	<b>4,138</b>	<b>4,593</b>	<b>5,112</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>13,267</b>	<b>16,106</b>	<b>19,221</b>	<b>23,358</b>	<b>27,950</b>
FX change effect	15	(1)	(1)	(1)	(1)
<b>Cash and cash equivalents at end of year</b>	<b>16,106</b>	<b>19,221</b>	<b>23,358</b>	<b>27,950</b>	<b>33,062</b>

Source(s): Company, ABCI Securities estimates

Financial ratios (2018A-2022E)

As of Dec 31	2018A	2019A	2020E	2021E	2022E
<b>Growth:</b>					
Revenue	12.3%	10.6%	9.1%	8.6%	6.9%
Net profit	6.9%	5.1%	12.3%	9.7%	10.3%
<b>Ratios:</b>					
ROAA	3.8%	3.6%	3.6%	3.6%	3.6%
ROAE	9.6%	9.1%	9.6%	9.9%	10.2%
GPM	12.1%	11.7%	11.9%	12.0%	12.1%
Operating profit margin	3.1%	2.8%	3.0%	3.0%	3.1%
Net profit margin	2.7%	2.6%	2.7%	2.7%	2.8%

Source(s): Company, ABCI Securities estimates





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Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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