

China Unicom (762 HK)

Mobile user and ARPU rebound

- China Unicom (or "the Company") is expected to improve mobile user growth and ARPU in 2021, thanks to 5G network improvement and distribution channel expansion
- Mobile ARPU is expected to go up by 2.0% YoY in 2021E on higher 5G user penetration rate
- Supported by industrial internet, cloud computing and smart home applications, fixed-line revenue would grow 9.1% YoY in 2021E.
- Recommend BUY with TP of HK\$ 5.60, which implies 1.5x/1.4x 2021E/22E EV/EBITDA

Mobile ARPU is expected to grow 2.0% YoY in 2021E. Driven by higher 5G user penetration rate with higher data usage and ARPU improvement, we expect mobile service revenue to grow 1.9%/ 3.9% in 2021E/22E. China Unicom's mobile user growth has been improving with better 5G network coverage, distribution channels expansion, and bundled service packages. We forecast mobile users to grow by 2.8% YoY in 2021E.

Fixed-line users are expected to grow 10.2% YoY in 2021E. Driven by industrial internet, cloud computing, AI technology, and smart home applications, we forecast fixed-line service revenue to go up by 9.1%/ 7.8% YoY in 2021E/22E. Fixed-line ARPU is expected to lower by 3.0% YoY in 2021E due to Speed Upgrade and Tariff Reduction policy.

We revise up 2021E net profit by 1.6%. Due to the adjustment of user growth and ARPU estimates, we revise up 2021E/22E net profit by 1.6%/ 0.7%.

Valuation. Recommend BUY with TP of HK\$ 5.60, implying 1.5x/ 1.4x 2021E/ 22E EV/EBITDA.

Risk factors: 1) Slower-than-expected 5G business development; 2) Further reduction in mobile and broadband data tariff by regulators; 3) Lower ROAA and ROAE than peers; 4) CAPEX change.

Results and Valuation

FY ended Dec 31	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	290,515	303,838	318,359	335,391	350,866
Chg (% YoY)	(0.1)	4.6	4.8	5.3	4.6
Net profit (RMB mn)	11,330	12,493	14,212	16,752	17,959
Chg (% YoY)	11.1	10.3	13.8	17.9	7.2
EPS (RMB)	0.370	0.408	0.464	0.547	0.587
Chg (% YoY)	11.1	10.3	13.8	17.9	7.2
BVPS (RMB)	10.48	10.70	10.99	11.35	11.72
Chg (% YoY)	2.1	2.1	2.6	3.3	3.2
P/E (x)	10.3	9.237	8.2	7.0	6.5
P/B (x)	0.36	0.35	0.35	0.34	0.33
ROAE (%)	3.6	3.9	4.3	4.9	5.1
ROAA (%)	2.1	2.2	2.4	2.6	2.4
DPS (RMB)	0.15	0.16	0.19	0.22	0.24
Dividend Yield (%)	3.88	4.30	4.89	5.76	6.18

*Exchange rate assumption for FY21E-23E: 1 HKD=0.85 RMB

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Apr 29, 2021

Rating: BUY

TP: HK\$ 5.60

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Share price (HK\$)	4.49
Est. share price return	24.7%
Est. dividend yield	4.9%
Est. total return	29.6%
Previous Rating & TP	HOLD/HK\$4.5
Previous Report Date	July 13, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$)	6.70/3.95
Issued shares (mn)	30,598
Market cap (HK\$ mn)	137,385
Avg daily turnover (HK\$ mn)	466.2
Major shareholder(s)	
China Unicom Group	52.2%
Capital Group Cos Inc	1.3%
Blackrock	1.0%

Source(s): Company, ABCI Securities estimates

Share Performance (%)

	Absolute	Relative*
1-mth	3.4%	0.8%
3-mth	3.0%	5.0%
6-mth	(11.5%)	(28.5%)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities estimates



Rebounding mobile user and ARPU

1Q21 revenue and net profit were up 8.2%/21.4% YoY in 1Q21, thanks to growth in mobile user and ARPU.

Mobile service revenue grew 8.8% YoY in 1Q21. The Company recorded 3.48mn new mobile users in 1Q21, ending the four consecutive quarters of net loss in mobile users, thanks to the rise in 5G users. There were 21.0mn new 5G users in 1Q21; aggregate 5G users reached 91.9mn in Mar 2021; meanwhile, 5G user penetration rate reached 30%. We revise up our 2021E/22E mobile users by 4.5%/ 6.7%, respectively.

China Unicom's mobile user addition and ARPU are rebounding with the rising average mobile data usage. We expect mobile ARPU to grow 2.0%/1.7% in 2021E/22E on higher 5G user penetration rate. We adjust 2021E/22E mobile ARPU by 11.1%/ 13.2%.

Fixed line revenue growth is accelerating

Fixed-line service revenue grew 8.1% in 1Q21. China Unicom added 2.0mn of new fixed-line users in 1Q21, compared to -0.5mn in 4Q20. Overall fixed-line users reached 88.1mn in Mar 2021. Fixed-line ARPU reached RMB 41.8 in 1Q21, down 2.2% YoY, due to Speed Upgrade and Tariff Reduction policy. We expect fixed line ARPU to lower by 3.0%/ 2.4% in 2021E/22E. The Company managed to boost its fixed-line user addition in 1Q21 with more bundled service packages partnering with distributors. We revise up 2021E/22E fixed-line users by 4.5%/ 5.5%. Driven by industrial internet, cloud computing, AI technology, and smart home applications, we forecast fixed-line service revenue to grow by 9.1%/ 7.8% YoY in 2021E/22E.

Exhibit 1: China Unicom's user additions

	1Q20	2Q20	3Q20	4Q20	1Q21
Mobile user additions (mn)	(6.0)	(7.5)	(0.4)	(3.4)	3.5
Fixed line user additions (mn)	1.4	1.0	0.7	(0.5)	2.0

Source(s): the Company

Exhibit 2: Major assumptions:

	FY19	FY20	FY21E	FY22E	FY23E
Overall mobile users (mn)	318.475	305.475	313.9	318.9	321.9
YoY	1.1%	(4.1%)	2.8%	1.6%	0.9%
Mobile ARPU (RMB)	40.40	42.10	42.9	43.6	44.1
YoY	(11.6%)	4.2%	2.0%	1.7%	1.0%
Fixed line users (mn)	80.9	83.5	92.0	102.0	109.5
YoY	5.7%	3.2%	10.2%	10.9%	7.4%
Fixed line ARPU (RMB)	41.6	41.5	40.4	39.4	38.6
YoY	(10.2%)	(0.2%)	(3.0%)	(2.4%)	(1.9%)

Source(s): the Company, ABCI Securities estimates



Exhibit 3: Changes in our financial estimates

(RMB Bn)	OLD			NEW			CHANGE		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	293,729	298,744	N/A	318,359	335,391	350,866	8.4%	12.3%	N/A
Net Profit	13,985	16,629	N/A	14,212	16,752	17,959	1.6%	0.7%	N/A

Source(s): Company, ABCI Securities estimates

Recommend BUY with TP of HK\$ 5.60

We revise up 2021E/22E net profits by 1.6%/ 0.7% to reflect the adjusted user growth and ARPU estimates. The Company's TP rises from HK\$ 4.50 to HK\$ 5.60 based on our DCF model (WACC: 12.1%; perpetuity growth rate: 2.3%), which represents 1.5x/1.4x 2021E/22E EV/EBITDA.

Exhibit 4: Peer comparison

Ticker	Price	P/E					P/B				ROE	ROA	EV/EBITDA
		20A	21E	22E	23E	20A	21E	22E	23E	21E	21E	21E	
China Market													
China Unicom	762 HK	4.49	9.7	8.0	7.2	6.3	0.4	0.3	0.3	0.3	4.3	2.4	1.0
China Mobile	941 HK	51.80	8.8	8.0	7.7	7.5	0.8	0.7	0.7	0.7	9.5	6.4	1.8
China Telecom	728 HK	2.74	9.4	8.4	7.9	7.4	0.5	0.5	0.5	0.5	6.2	3.3	1.7
China Tower	788 HK	1.12	27.0	20.7	16.5	14.9	0.9	0.9	0.8	0.8	4.2	2.3	3.7
Simple Avg.			13.7	11.3	9.8	9.0	0.6	0.6	0.6	0.6	6.0	3.6	2.1
US Market													
AT&T	T US	31.01	n.a.	9.7	9.8	9.6	1.4	1.3	1.3	1.2	12.9	3.9	7.4
Verizon	VZ US	56.48	13.1	11.1	10.9	10.6	3.4	3.0	2.7	2.4	28.1	6.2	7.8
T-Mobile	TMUS US	132.52	49.6	45.6	37.7	19.5	2.5	2.5	2.3	2.2	5.5	1.8	8.7
Simple Avg.			31.3	22.1	19.4	13.2	2.4	2.2	2.1	1.9	15.5	4.0	8.0

*Based on closing price on Apr 28, 2021

Note: Estimates are based on Bloomberg's consensus

Source(s): Bloomberg's market consensus



Consolidated income statement (2019A-2023E)

FY Ended Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Mobile service revenue	156,381	156,671	159,603	165,853	169,629
Fixed line service revenue	105,659	116,899	127,537	137,485	146,421
Others	28,475	30,268	31,220	32,053	34,816
Total revenue	290,515	303,838	318,359	335,391	350,866
Interconnection charges	(11,513)	(10,574)	(10,257)	(9,949)	(9,651)
D&A	(83,080)	(83,017)	(85,508)	(88,586)	(90,800)
Network operation & support	(43,236)	(46,286)	(47,562)	(49,756)	(51,737)
Employee benefit expenses	(50,516)	(55,740)	(57,623)	(60,035)	(62,454)
Cost of product sold	(26,412)	(26,862)	(28,146)	(29,850)	(31,929)
Other operating expenses	(64,480)	(70,237)	(75,856)	(81,924)	(88,396)
Total operating expenses	(279,237)	(292,716)	(304,951)	(320,100)	(334,967)
Operating Profits	11,278	11,122	13,408	15,291	15,899
Finance cost	(2,123)	(1,747)	(2,145)	(2,874)	(3,619)
Interest income	1,272	1,366	1,300	2,978	4,391
Others (including associates, JV & others)	3,740	5,286	5,669	6,096	6,368
Profit before tax	14,167	16,027	18,233	21,491	23,039
Tax	(2,795)	(3,450)	(3,925)	(4,626)	(4,959)
Profit after tax	11,372	12,577	14,308	16,865	18,079
Minority interests	42	84	96	113	121
Shareholders' net profit	11,330	12,493	14,212	16,752	17,959
EPS (RMB)	0.370	0.408	0.464	0.547	0.587
DPS (RMB)	0.148	0.164	0.187	0.220	0.236

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2019A-2023E)

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
PPE	367,401	364,187	373,292	384,490	396,025
Interest in associates	36,445	38,802	39,578	40,370	41,177
Other non-current assets	75,058	68,991	50,402	50,062	142,916
Total non-current assets	478,904	471,980	463,272	474,922	580,118
Cash & cash equivalents	34,945	23,085	67,889	105,404	143,466
Accounts receivables	17,233	16,287	15,700	17,459	19,226
Others	31,417	69,264	68,453	69,054	69,787
Total current assets	83,595	108,636	152,042	191,916	232,479
Total assets	562,499	580,616	615,314	666,839	812,597
Accounts payable and accrued liabilities	121,564	134,437	105,536	113,053	120,529
Loans	14,559	7,740	4,918	3,216	2,187
Others	69,067	79,851	130,114	166,042	294,793
Total current liabilities	205,190	222,028	240,567	282,312	417,509
Promissory notes	2,998	1,999	1,199	720	432
Others	33,556	29,069	37,373	36,575	36,181
Total non-current liabilities	36,554	31,068	38,572	37,295	36,613
Total liabilities	241,744	253,096	279,139	319,607	454,122
Shareholders' equity	320,047	326,587	335,781	346,825	358,055
Non-controlling interests	708	933	394	407	420
Total equity	320,755	327,520	336,175	347,232	358,474

Source(s): Company, ABCI Securities estimates



Consolidated Cash Flow Statement (2019A-2023E)

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
Operating profit before change in working capital	14,167	16,027	18,233	21,491	23,039
Change in working capital	(7,001)	3,016	1,406	(68)	(327)
Others	89,337	89,694	90,689	94,534	97,529
Tax	(2,825)	(3,186)	(6,069)	(7,500)	(8,579)
Operating cash flow	93,678	105,551	104,259	108,457	111,662
CAPEX	(56,187)	(53,981)	(56,680)	(59,514)	(62,490)
Others	(2,866)	(38,037)	(3,117)	(3,031)	(2,815)
Investing cash flow	(59,053)	(92,018)	(59,797)	(62,545)	(65,305)
Dividend paid	(4,100)	(5,447)	(5,018)	(5,709)	(6,729)
Others	(25,665)	(19,763)	5,525	(2,541)	(1,432)
Financing cash flow	(29,765)	(25,210)	507	(8,250)	(8,161)
Net increase in cash & cash equivalents	4,860	(11,677)	44,969	37,663	38,196
Cash & cash equivalents at beginning of year	30,060	34,945	23,085	67,889	105,404
Effect of changes in foreign exchange rate	25	(183)	(165)	(148)	(133)
Cash & cash equivalents at end of year	34,945	23,085	67,889	105,404	143,466

Source(s): Company, ABCI Securities estimates

Financial Ratios

As of Dec 31 (RMB mn)	2019A	2020A	2021E	2022E	2023E
<u>Profit margins:</u>					
EBITDA margin (%)	32.5%	31.0%	31.1%	31.0%	30.4%
Operating margin (%)	3.9%	3.7%	4.2%	4.6%	4.5%
Net profit margin (%)	3.9%	4.1%	4.5%	5.0%	5.1%
<u>Costs ratios:</u>					
<u>% to revenue:</u>					
Interconnection charges	4.0%	3.5%	3.2%	3.0%	2.8%
D&A	28.6%	27.3%	26.9%	26.4%	25.9%
Networks, operations and support expenses	14.9%	15.2%	14.9%	14.8%	14.7%
Employee benefit expenses	17.4%	18.3%	18.1%	17.9%	17.8%
Cost of product sold	9.1%	8.8%	8.8%	8.9%	9.1%
Other operating expenses	3.1%	8.9%	8.0%	8.0%	7.9%
ROAA (%)	2.1%	2.2%	2.4%	2.6%	2.4%
ROAE (%)	3.6%	3.9%	4.3%	4.9%	5.1%
<u>YoY Growth:</u>					
Revenue	(0.1%)	4.6%	4.8%	5.3%	4.6%
EBITDA (%)	11.1%	(0.2%)	5.1%	5.0%	2.7%
Net profit (%)	11.1%	10.3%	13.8%	17.9%	7.2%

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 (For reference: HSI total return index 2008-20CAGR at 9.2%)

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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