



China Mobile (941 HK)

Data consumption to ramp up

- With the largest mobile data market share in China, China Mobile is expected to benefit from the strong demand of mobile data boosted by the cut in service tariff and higher mix of 4G users
- The Group showed the fastest growth in fixed-line users thanks to aggressive pricing strategy and the launch of bundled service packages
- Initiate **BUY** with TP of HK\$ 83, which implies 12.3x/12.0x FY19E/20E P/E

A large pool of low-end mobile users migrating to the 4G platform. As of Aug 2018, China had over 910mn users (of which 683mn are 4G users), representing a 4G user penetration rate of 75.1%. China Mobile added 33.8 mn of 4G users in 7M18, down 52.3% YoY. Thanks to the large pool of low-end users opting for migration, a steady growth in 4G penetration rate was evident.

Robust data usage growth. Handset data traffic usage per customer grew 136.6% YoY to 2.6GB in 1H18 (while 4G users' average handset data usage grew 122.2% YoY to 3.1GB in 1H18). We forecast mobile data usage to sustain robust growth in FY18E. The better growth in data traffic volume is expected to help partially offset the negative effect of the drop in mobile data service tariff.

Strong demand for wireline business in China. Despite the impact of tariff reduction, we expect to see moderate improvement in wireline broadband ARPU in FY18 on improved transmission speed and value-added services. High speed wireline broadband demand in China has been growing, driven by demand from high-def IPTV, PC online games and video contents.

Valuation. We initiate **BUY** on China Mobile with the DCF-derived TP of HK\$ 83, implying 12.3x/ 12.0x FY19E/ FY20E P/E.

Risk factors:1) Low financial leverage limiting shareholders' potential return and capping stock valuation; 2) 2H18 net profit to drop 4.2% YoY based on our estimates .

Results and Valuation

FY ended Dec 31	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue (RMB mn)	708,421	740,514	751,052	768,796	786,593
Chg (% YoY)	6.0	4.5	1.4	2.4	2.3
Net profit (RMB mn)	108,741	114,279	115,059	117,542	120,491
Chg (% YoY)	0.2	5.1	0.7	2.2	2.5
EPS (RMB)	5.31	5.58	5.62	5.74	5.88
Chg (% YoY)	0.2	5.1	0.7	2.2	2.5
BPS (RMB)	47.81	48.14	51.24	55.11	58.22
Chg (% YoY)	6.7	0.7	6.5	7.5	5.6
P/E (x)	12.7	11.3	11.5	11.2	10.9
P/B (x)	1.4	1.3	1.3	1.2	1.1
ROAE (%)	11.5	11.6	11.3	10.8	10.4
ROAA (%)	7.4	7.5	7.4	7.1	7.0
DPS (HKD)	2.73	6.41	3.17	3.24	3.32
Dividend Yield (%)	3.6	8.5	4.2	4.3	4.4

Source(s): Bloomberg, ABCI Securities estimates

*Exchange rate assumption for FY18E-20E:1RMB=0.850HKD

* Net profit = net profit attributable to shareholders of the Company

Company Report

Initiation

Sep 13, 2018

Rating: BUY

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Share price (US\$)	75.75
Est. share price return	9.6%
Est. dividend yield	4.2%
Est. total return	13.8%

Source(s): Bloomberg, ABCI Securities

Key Data

52Wk H/L(HK\$)	84.1/67.9
Issued shares (mn)	20,475.5
Market cap (HK\$ mn)	1,551,019
Avg daily turnover (HK\$ mn)	1,077.0
Major shareholder(s)	
China Mobile Holdings	73.0%
BlackRock	1.1%
Vanguard	0.9%

Source(s): Company, ABCI Securities

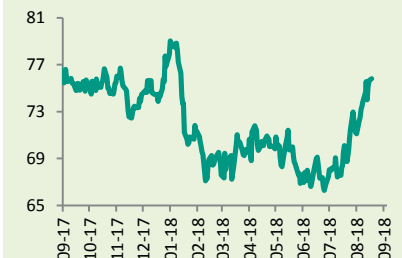
Share Performance (%)

	Absolute	Relative*
1-mth	8.4	15.0
3-mth	8.6	26.2
6-mth	9.7	29.6

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

Share performance(HK\$)



Source(s): Bloomberg, ABCI Securities



Contents

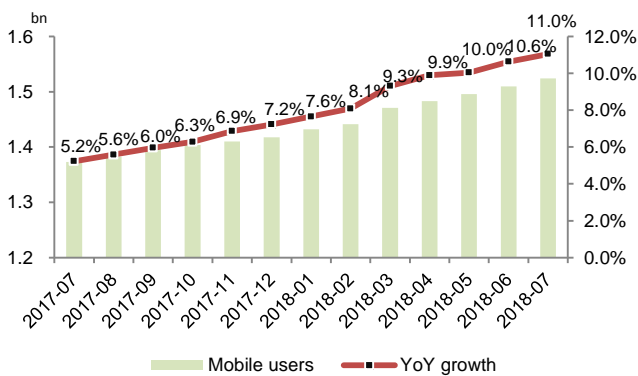
Industry analysis	3
China Mobile has the largest mobile market share in China	4
Strong growth in wireline business	5
Financial outlook	8
Healthy financial ratios	11
Capex Analysis.....	11
Recommend BUY with TP at HK\$ 83.....	12
Risk factors	13

Industry analysis

Thanks to unlimited data packages launched by the telecom operators, China's mobile users reached 1.52 billion in July 2018, up 11.1% YoY. According to MIIT, there were over 107mn additions of mobile users in 7M18. Related to the mixed ownership reform, China Unicom, among the Chinese telecom operators, issued the highest number of unlimited SIM cards through cooperation with internet companies. Although the launch of unlimited SIM cards has helped China Unicom to improve user growth, mobile ARPU was pressured. China's overall mobile internet users exceeded 1.27bn in July 2018, accounting for 83.4% of total mobile users. 4G users reached 1.13bn, or 73.9% of total mobile users. According to MIIT, as of July 2018, 4G users represented 73.9% of total mobile users in China, up 6.7 ppt YoY, thanks to migration of low-end users (from 2G/3G platforms). We expect 4G penetration rate to further increase in FY18-19. As of July 2018, China's mobile users reached over 1.5bn, up 11.1% YoY, with the addition of 100mn of new mobile users in 7M18. 4G users reached over 1.13bn in July 2018. Mobile internet users, as a percentage of mobile users, rose from 81.8% in July 2017 to 82.6% in July 2018, driven by the reduced mobile data service tariff. The average mobile data per user reached over 4.6 GB in July 2018, up 174.3% YoY.

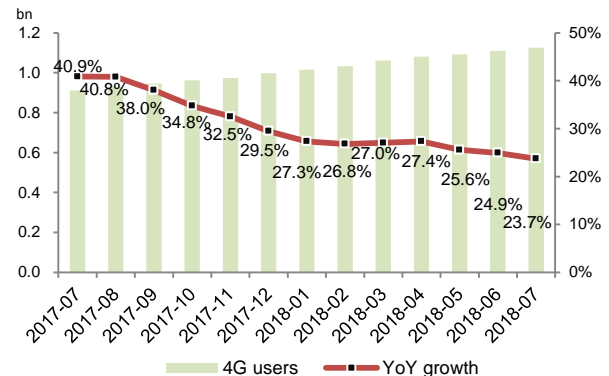
The average mobile data per user reached over 4.6 GB in July 2018, up 174.3% YoY, signaling the robust demand for mobile data in China.

Exhibit 1: China's mobile users and growth



Source(s): MIIT

Exhibit 2: China's 4G users and growth



Source(s): MIIT

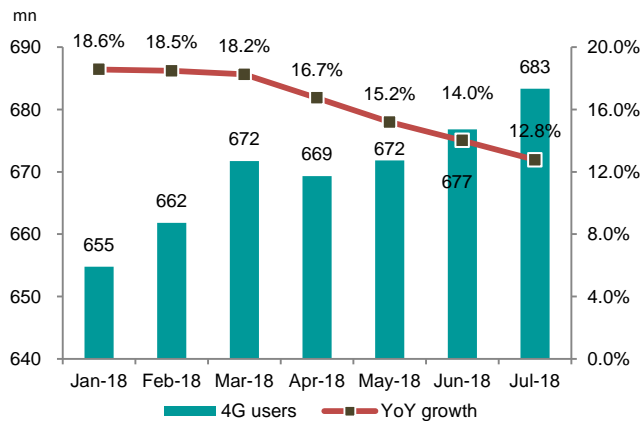
According to MIIT, fixed-line broadband users with transmission speed of 100Mbps or above reached 214mn in July 2018 and FTTH (fiber to the home) users reached 313mn, or 87.3% of total fixed-line users. The strong user growth in fixed-line network was due to the launch of value-added services and quality video contents by telecom operators. Users are seeking fixed-line broadband network with higher transmission speed to ensure a more stable quality for IPTV, video content transmission, and for online gaming purposes. China's IPTV users reached 145mn with over 11.7mn additions in 7M18. Telecom operators are expected to launch more bundled services packages and improve transmission speed in a bid to gain market share.

In Aug 2018, the MIIT and NDRC released the "Three-Year Action Plan for Expanding and Upgrading Information Consumption (2018-20)" to reach optical coverage in urban areas with access of more than 100Mbps by 2020 and make optical fiber readily accessible for 98% of administrative villages with 4G network coverage.

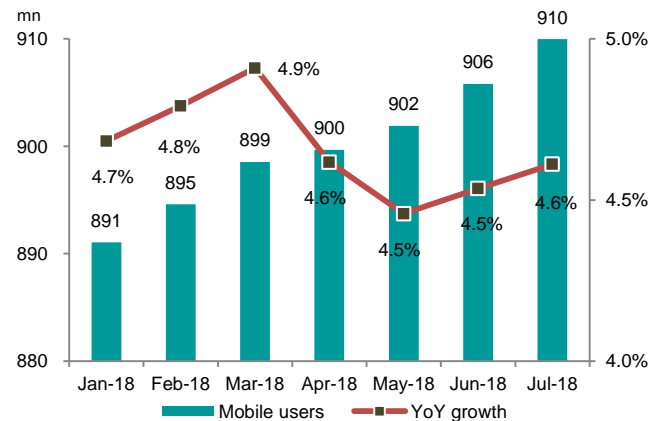
China Mobile has the largest mobile market share in China

As of July 2018, China Mobile had over 910 mn of mobile users (of which 683mn were 4G users), representing 4G user penetration rate of 75.1%. China Mobile added 33.8 mn of 4G users in 7M18, down 52.3% YoY. According to MIIT, China's overall mobile users reached 1.37bn in July 2018 with 73.5% as 4G users. There was a steady growth in 4G penetration rate thanks to the large pool of low-end users opting for migration. As of July 2018, China Mobile still had over 226.6mn of non-4G users that are expected to upgrade to the 4G telecom platform in near future. As of July 2018, the Group had the largest 4G user market share of 61.4%.

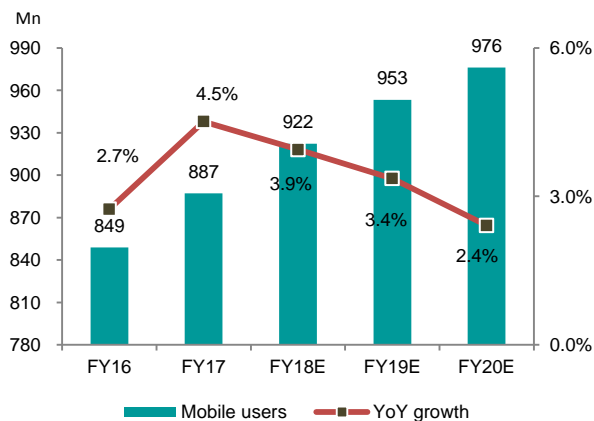
We forecast China Mobile's mobile users to grow by 3.9%/ 3.4%/ 2.4% to 922 mn/ 953 mn/ 976 mn in FY18E-20E on the back of low-end user migration, effective pricing strategy, and network coverage improvement.

Exhibit 3: China Mobile's 4G users and growth


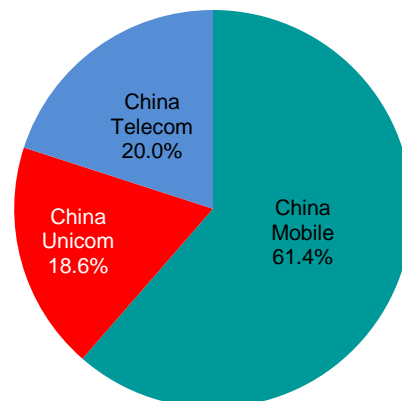
Source(s): Company

Exhibit 4: China Mobile's mobile users and growth


Source(s): Company

Exhibit 5: China Mobile's mobile user forecasts and growth


Source(s): Company, ABCI Securities estimates

Exhibit 6: 4G user market share distribution in China in July 2018


Source(s): Companies

Exhibit 7: Mobile operational metrics of telecom operators in Jan to July 2018:

(Mn)	China Mobile	China Unicom	China Telecom	Total
Mobile users additions	22.8	20.4	36.9	80.1
YoY	8.6%	195.4%	107.2%	-84.2%
Aggregate Mobile users	910.0	304.5	286.9	1,501.4
YoY	4.6%	12.5%	23.2%	9.4%
4G user additions	33.8	31.9	40.6	106.3
YoY	-52.3%	-21.6%	15.5%	-24.3%
Aggregate 4G users	683.3	206.8	222.7	1,112.8
YoY	12.8%	42.4%	41.8%	22.2%
% 4G to total mobile users ratio	75.1%	67.9%	77.6%	74.1%

Source(s): Companies

Exhibit 8: Mobile and wireline ARPU comparisons in 1H18:

(RMB)	China Mobile	China Unicom	China Telecom
Mobile ARPU	58.1	47.9	52.4
YoY	-6.6%	-0.2%	-7.7%
Wireline ARPU	35.0	46.1	47.2
YoY	0.3%	-1.9%	-9.2%

Source(s): Companies

Strong growth in wireline business

Owing to aggressive pricing strategy, China Mobile added 25.5mn of wireline broadband users in 7M18, up 41% YoY; its overall wireline broadband users reached 138 mn, up 25.4% YoY. The FIFA World Cup content was introduced in 1H18 to its digital media platform "MIGU" to acquire new customers. Wireline broadband ARPU was RMB35.0 in 1H18, up 0.3% YoY. China Mobile was the only telecom operator with a risen wireline ARPU in 1H18, compared to China Telecom's RMB 47.2 (-9.2% YoY) and China Unicom's RMB 46.1 (-1.9% YoY). The improvement is attributable to its lower ARPU base and the introduction of value-added services such as IPTV, faster transmission speed, and video contents. China mobile has launched the set top box "Mobaihe" to provide popular and quality videos with diversified types of channels for better entertainment videos and contents. We expect the demand for high-speed optical wireline network to ramp up driven from the need for high-def video transmission, online games, and short videos. We project China Mobile's wireline broadband users to grow 31.1%/ 25.1%/ 16.2% in FY18E-20E, driven by the launch of bundled service packages and aggressive pricing strategy.

Despite the impact of tariff reduction, we expect moderate improvement in wireline broadband ARPU in FY18 on improved transmission speed and value-added services. High speed wireline broadband demand in China has been growing, driven by demand from high-def IPTV, PC online games and video contents. Wireline users are seeking high transmission network to improve video quality, speed, and high-def video subscriptions.

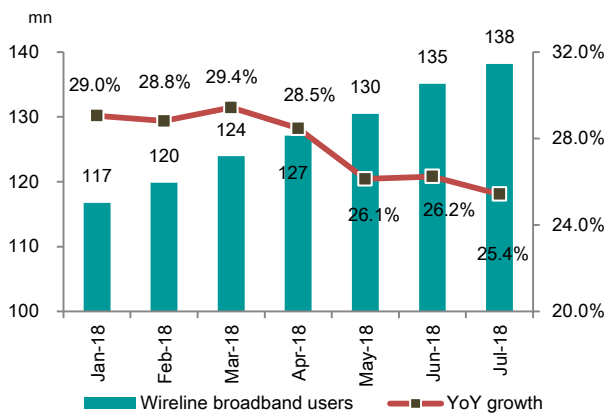


Exhibit 9: Wireline operational metrics of telecom operators in Jan to July 2018

(mn)	China Mobile	China Unicom	China Telecom	Total
Wireline broadband user additions	25.5	4.0	8.4	37.9
YoY	40.5%	128.0%	42.9%	32.5%
Aggregate broadband users	138.1	79.2	141.9	359.2
YoY	44.3%	2.9%	10.0%	10.3%

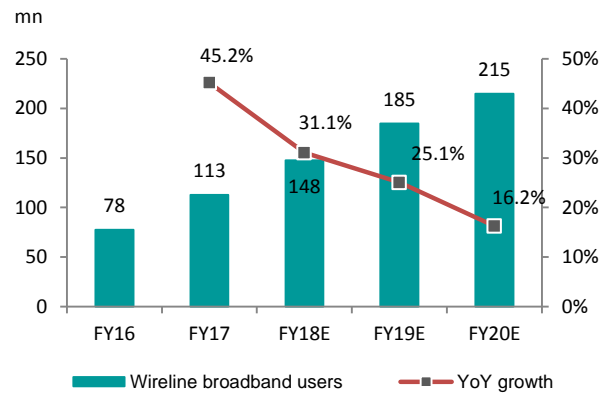
Source(s): Companies

Exhibit 10: China Mobile's wireline broadband users and growth



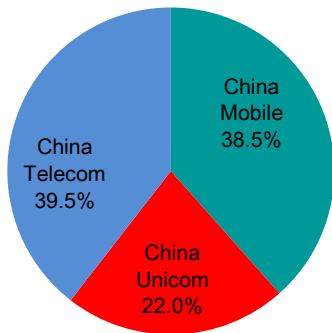
Source(s): Company

Exhibit 11: China Mobile's wireline broadband user forecasts and growth



Source(s): Company, ABCI Securities

Exhibit 12: Wireline broadband user market share in China in July 2018



Source(s): Companies



Exhibit 13: China Mobile's Key Operational Metrics Assumptions:

(Mn)	FY18E	FY19E	FY20E
Mobile user additions	35.0	31.0	23.0
YoY	-8.6%	-11.4%	-25.8%
Mobile users	922	953	976
YoY	3.9%	3.4%	2.4%
Mobile ARPU (RMB)	56.5	55.1	54.2
YoY	-9.6%	-2.5%	-1.7%
Aggregate broadband users	147.7	184.7	214.7
YoY	31.1%	25.1%	16.2%
Wireline ARPU (RMB)	35.2	35.4	35.5
YoY	0.3%	0.5%	0.2%

Source(s): Company, ABCI Securities estimates

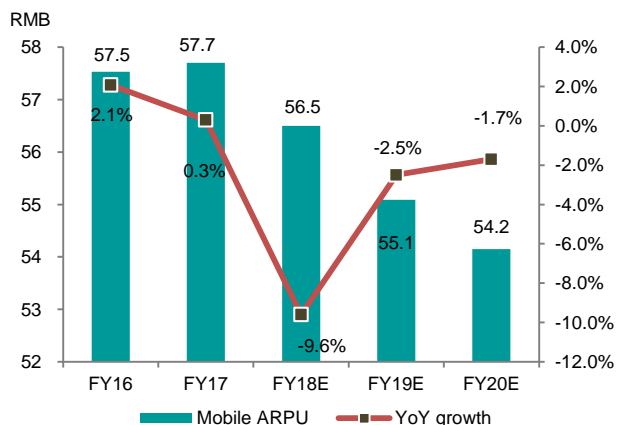


Financial outlook

China Mobile canceled the domestic data roaming tariff in July 2018 and is expected to lower its data service fee by over 30% in FY18E to support the government's policy of "Tariff Reduction and Speed Upgrade", after slashing the data traffic fee by more than 42% YoY in FY17. The reduction in mobile data service tariff is expected to stimulate data consumption. Handset data traffic usage per customer grew 136.6% YoY to 2.6GB in 1H18 (while 4G users' average handset data usage grew 122.2% YoY to 3.1GB in 1H18). We forecast mobile data usage to sustain robust growth in FY18. Better growth in data traffic volume will help alleviate the negative effect of the drop in service tariff. Nonetheless, ARPU will be pressured in FY18.

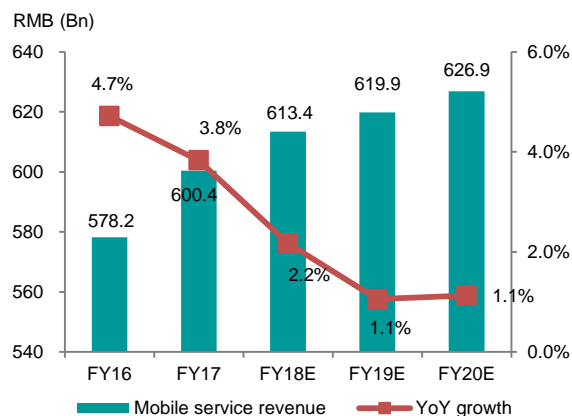
Complying with the policy of "Speed Upgrade and Tariff Reduction", China Mobile launched the unlimited data service package in 1H18 to compete with peers. We estimate China Mobile's mobile ARPU to decline by 9.6%/ 2.5%/1.7% to RMB 56.5/ RMB 55.1/ RMB 54.2 in FY18E-20E. Service revenue would grow by 2.2%/ 1.1%/1.1% in FY18E-20E, based on our assumptions on user and ARPU growth.

Exhibit 14: Mobile ARPU and growth outlook



Source(s): Company, ABCI Securities estimates

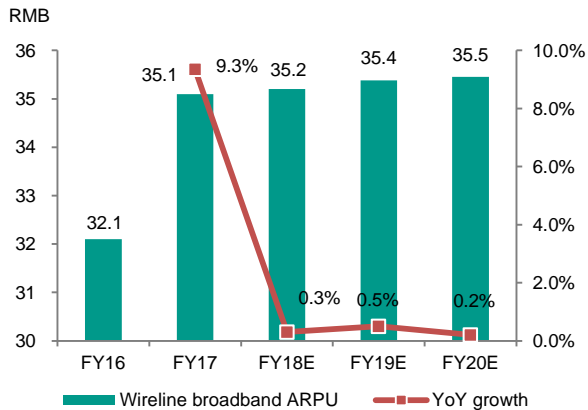
Exhibit 15: Mobile service revenue and growth



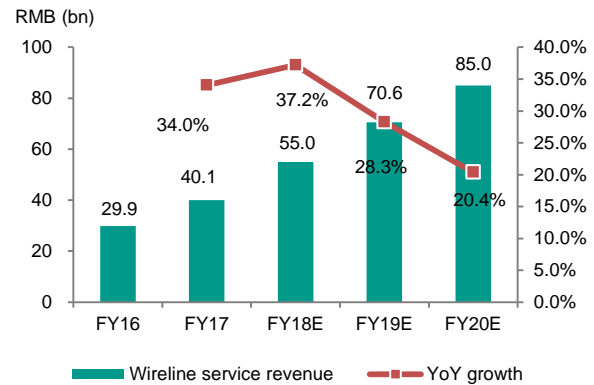
Source(s): Company, ABCI Securities estimates

China Mobile's wireline broadband ARPU is expected to edge up by 0.3%/ 0.5%/ 0.2% in FY18E-20E with the introduction of value-added services, although we believe market competition would remain stiff. The Group would record a higher-than-peer wireline broadband ARPU growth thanks to its lower base and the launch of bundled plans and video contents.

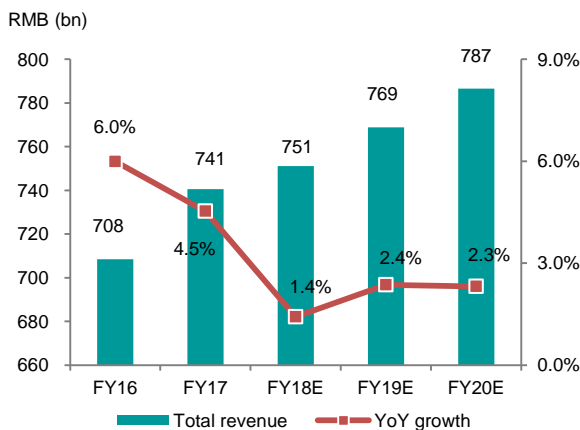
EBITDA grew 3.7% YoY to RMB145.9bn in 1H18, driven by moderate growth in telecom service revenue and reduced handset subsidies. 1H18 handset subsidies fell 64.7% YoY due to the change in marketing strategy. China Mobile is expected to lower the handset subsidies further to alleviate the negative effect of the lower mobile service tariff. Service EBITDA margin ("EBITDA as a percentage of service revenue") improved 0.6ppt to 41.0% in 1H18 thanks to better cost control with lower spending for handset subsidies. We expect service EBITDA margin ("EBITDA as a percentage of service revenue") to be 40.7%/ 40.5%/ 40.5% in FY18E-20E, representing 0.2 ppt/-0.2 ppt/ 0.0ppt changes. Net profit margin ("net profit attributable to shareholders per total revenue") in FY18E-20E is estimated to be 15.3%/ 15.3%/ 15.3%.

Exhibit 16: China Mobile's wireline broadband ARPU and growth


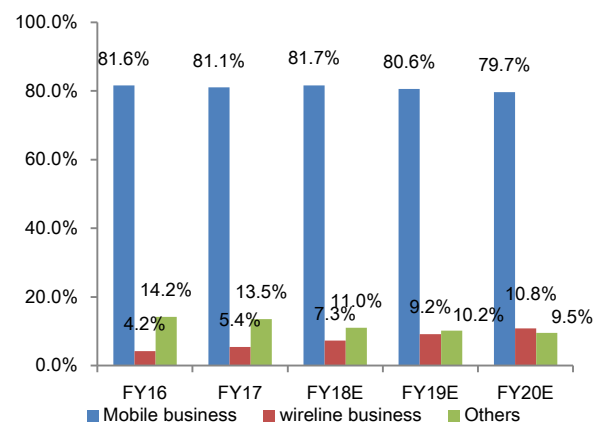
Source(s): Company, ABCI Securities estimates

Exhibit 17: China Mobile's wireline service revenue and growth


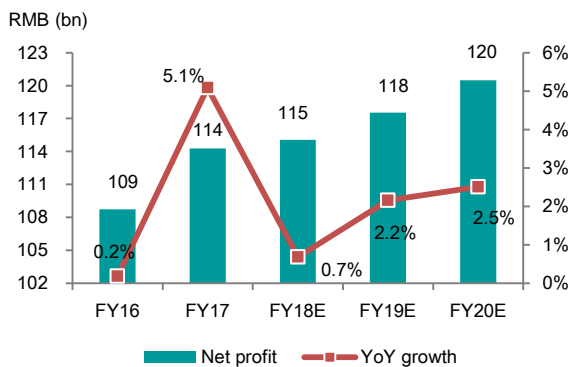
Source(s): Company, ABCI Securities estimates

Exhibit 18: Total revenue and growth


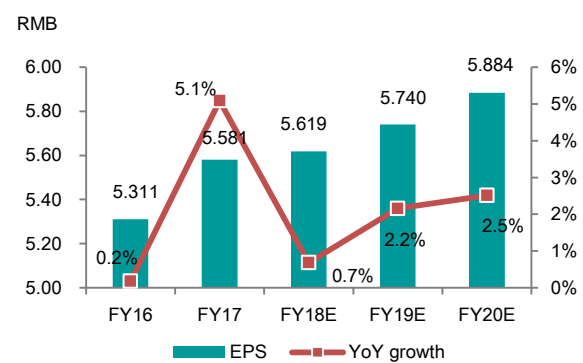
Source(s): Company, ABCI Securities estimates

Exhibit 19: Revenue distribution


Source(s): Company, ABCI Securities estimates

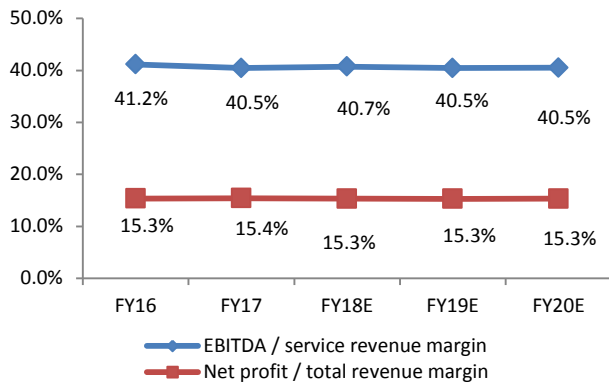
Exhibit 20: China Mobile's net profit and growth


Source(s): Company, ABCI Securities estimates

Exhibit 21: China Mobile's EPS and growth


Source(s): Company, ABCI Securities estimates

Exhibit 22: Margins trend



Source(s): Company, ABCI Securities estimates



Healthy financial ratios

China Mobile has the best financial position among the three major telecom operators in China. As of June 2018, China Mobile is net cash in its net gearing ratio, thanks to RMB394.8 billion cash & cash deposits with no debt. Such sturdy financial status would expand China Mobile's range of investment opportunities as well as retributing investors with dividends.

We forecast China Mobile's ROAE in FY18E-20E to be 11.3%/ 10.9%/ 10.6%, respectively.

Capex Analysis

China Mobile lowered its 1H18 CAPEX by 6.8% YoY to RMB 79.5bn due to lower expenses in 4G network expansion and prudent spending on 5G telecom network since the technology standard has yet to be finalized. We forecast FY18E CAPEX to decline by 6.4% YoY to RMB 166.1bn. As the 5G technology standard has not been finalized, we believe China Mobile will be focusing on 5G scale tests and application demonstrations instead of 5G network developments in FY18E.

In FY18, China Mobile further improves its 4G network quality and constructs a full-fibre broadband network to popularize 100Mbps products. The Group targets to start 5G trials in five Chinese cities in 2018 including Hangzhou, Shanghai, Guangzhou, Suzhou and Wuhan, with the establishment of more than 100 5G base stations in each city for 5G tests.

The MIIT has granted the FDD-LTE (Frequency Division Duplexing) operating license to China Mobile in Apr 2018 for developing the LTE network. Before that, the Group has been relying solely on the TD-LTE network. Hence, we expect the LTE network will help improve 4G network transmission speed. For FY19E, we expect CAPEX to increase due to the establishment of more 5G base stations with increased allocation for 5G telecom network development. FY19E/20E CAPEX would be RMB177.7 bn/ RMB188.4 bn, up 7%/6% YoY.

Exhibit 23: Margin estimates

	FY16	FY17	FY18E	FY19E	FY20E
EBITDA / service revenue margin	41.2%	40.5%	40.7%	40.5%	40.5%
Operating profit / service revenue margin	18.9%	18.0%	17.9%	17.7%	17.6%
Net profit / total revenue margin	15.3%	15.4%	15.3%	15.3%	15.3%

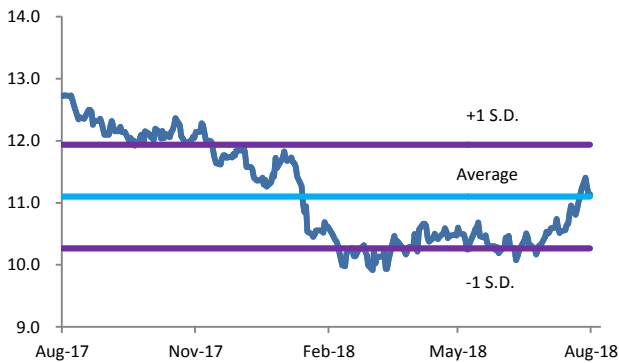
Source(s): Company, ABCI Securities estimates



Recommend BUY with TP at HK\$ 83

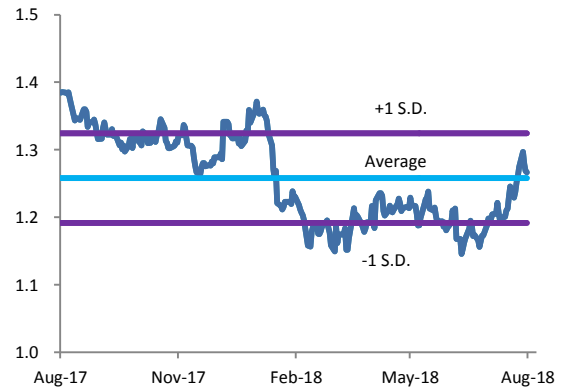
We initiate BUY on China Mobile with a DCF-derived TP of HK\$ 83 (WACC: 13.1%; D/ (D+E) =0.7%; perpetuity growth rate: 2%), implying 12.3x/12.0x FY19E/20E P/E. The counter is now trading at 11.7x FY18E P/E , compared to China Unicom’s 28.4x and China Telecom’s 13.8x FY18E P/E, representing an 17.6% discount to the weighted market average in HK but is similar to the weighted market average in the US. China Mobile is expected to benefit from its dominant share in China’s mobile user market and robust growth in fixed-line business. Although the mobile service tariff will be affected by the launch of “Speed Upgrade and Tariff Reduction”, average mobile data usage to be propelled rapidly. China Mobile showed the strongest growth in fixed-line business in 7M18 and we believe the segment will further be boosted by the launch of more bundled service plans and value-added services. Overall, we deem its valuation attractive.

Exhibit 24: China Mobile’s P/E graph



Source(s): Company, ABCI Securities estimates

Exhibit 25: China Mobile’s P/B Graph



Source(s): Company, ABCI Securities estimates

Exhibit 26: Peer Comparison Table

	Ticker	Price	P/E				P/B				ROE	ROA	EV/EBITDA
			17A	18E	19E	20E	17A	18E	19E	20E	18E	18E	18E
China Market													
China Unicom	762 HK	9.06	114.3	28.4	18.0	12.9	0.8	0.8	0.7	0.7	2.6	1.5	2.8
China Mobile	941 HK	75.75	11.7	11.7	11.4	11.1	1.3	1.3	1.2	1.2	11.7	7.3	3.2
China Telecom	728 HK	3.82	15.0	13.8	12.7	11.8	0.8	0.8	0.8	0.7	6.1	3.2	3.2
Simple Average			47.0	18.0	14.1	11.9	1.0	1.0	0.9	0.9	6.8	4.0	3.1
Weighted Average			25.7	14.2	12.5	11.4	1.2	1.2	1.1	1.0	9.7	5.9	3.2
US Market													
AT&T	T US	32.39	6.7	9.1	8.8	8.7	1.4	1.2	1.2	1.2	14.3	4.3	7.2
Verizon	VZ US	54.12	7.3	11.6	11.4	11.1	5.1	4.1	3.4	2.9	38.7	7.6	7.0
Sprint	S US	6.05	n.a.	3.2	n.a.	n.a.	1.3	0.9	0.9	0.9	32.7	8.7	4.6
T-Mobile	TMUS US	65.56	11.9	19.8	16.3	13.9	2.5	2.2	2.0	1.8	12.9	6.4	6.7
Simple Average			8.7	10.9	12.1	11.2	2.6	2.1	1.9	1.7	24.7	6.8	6.4
Weighted Average			7.5	11.0	10.7	10.3	3.0	2.5	2.2	2.0	25.2	6.1	7.0

Price at 12th Sept 2018

Source(s): Bloomberg



Risk factors

Low financial leverage limiting shareholders' potential return and capping stock valuation

We predict China Mobile to achieve an ROA of 7.4% in FY18E, higher than comparable peers in the US. However, the US peers are trading at EV/EBITDA of 7.0x; whereas China Mobile's EV/EBITDA is at 3.2x. The relative low valuation of China Mobile is due to its lower ROE (11.7%) compared to its US peers (average 25.2%).

Expecting net profit to drop 4.2% YoY in 2H18

We project China Mobile's net profit to grow 0.7% YoY to RMB 115 bn in FY18E. Based on the reported 1H18 net profit, our forecasted net profit in 2H18 implies 4.2% YoY decline to RMB 49 bn. The drop in 2H18 net profit is mainly due to the cancellation of domestic data roaming and the expected cut in data service fee by more than 30% in FY18E.



Consolidated income statement (2016A-2020E)

FY Ended Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Service revenue	623,422	668,351	684,662	705,725	726,360
Sales of products and others	84,999	72,163	66,390	63,070	60,232
Total revenue	708,421	740,514	751,052	768,796	786,593
Leased lines & network assets	(39,083)	(46,336)	(44,914)	(49,972)	(51,129)
Interconnection	(21,779)	(21,762)	(21,781)	(19,989)	(19,665)
Depreciation	(138,090)	(149,780)	(154,049)	(158,082)	(163,431)
Personnel	(79,463)	(85,513)	(87,637)	(89,627)	(92,248)
Selling expenses	(57,493)	(61,086)	(62,304)	(64,221)	(66,099)
Cost of products sold	(87,352)	(73,668)	(67,474)	(63,937)	(60,995)
Other operating expenses	(167,073)	(182,243)	(190,444)	(198,062)	(204,994)
Total operating expenses	(590,333)	(620,388)	(628,602)	(643,890)	(658,560)
Operating Profits	118,088	120,126	122,450	124,906	128,033
Non-operating income	1,968	2,389	2,023	2,071	2,118
Interest income	16,005	15,883	17,153	17,618	18,014
Finance costs	(235)	(210)	(184)	(193)	(196)
Share of profit in investments	8,636	9,949	10,944	11,272	11,610
Profit before tax	144,462	148,137	152,385	155,674	159,580
Tax	(35,623)	(33,723)	(37,190)	(37,993)	(38,946)
Profit after tax	108,839	114,414	115,195	117,681	120,634
Minority interests	(98)	(135)	(136)	(139)	(142)
Shareholders' net profit	108,741	114,279	115,059	117,542	120,491
EBITDA	256,677	270,421	278,893	285,614	294,295
EPS (RMB)	5.311	5.581	5.619	5.740	5.884
DPS (HKD)	2.732	6.405	3.173	3.242	3.323
Payout ratio	45.1%	97.1%	48.0%	48.0%	48.0%

Note: Including a special cash dividend of HKD3.20/ share in FY17

Source(s): Company, ABCI Securities estimates



Consolidated balance sheet (2016A-2020E)

As of Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
PPE	622,356	648,029	636,433	643,731	663,265
CIP	89,853	78,112	68,415	66,963	73,481
Land lease prepayments	26,720	28,322	32,570	35,827	39,410
Goodwill	35,343	35,343	35,343	35,344	35,345
Interest in associates	124,039	132,499	205,643	278,964	323,319
Deferred tax assets	29,767	33,343	35,010	36,761	38,599
Other non-current assets	6,271	8,269	8,857	9,213	9,588
Total non-current assets	934,349	963,917	1,022,271	1,106,803	1,183,007
Cash & cash equivalents	90,413	120,636	131,417	132,466	129,920
Deposits in bank	335,297	279,371	268,196	257,468	247,170
Available for sale financial assets	31,897	65,630	82,038	90,241	97,461
Others	129,038	92,559	99,481	106,211	112,874
Total current assets	586,645	558,196	581,132	586,386	587,425
Total assets	1,520,994	1,522,113	1,603,403	1,693,189	1,770,432
Accounts payable	250,838	233,169	228,506	217,080	206,226
Accrued expenses and other payable	180,950	190,866	208,044	226,768	247,177
Others	104,601	105,947	110,755	113,769	117,437
Total current liabilities	536,389	529,982	547,304	557,618	570,840
Deferred revenue	2,175	2,888	3,032	3,184	3,343
Others	292	362	387	403	419
Total non-current liabilities	2,467	3,250	3,420	3,587	3,762
Total liabilities	538,856	533,232	550,724	561,205	574,602
Equity attributable to shareholders	979,021	985,636	1,049,298	1,128,464	1,192,168
Non-controlling interests	3,117	3,245	3,381	3,520	3,662
Total equity	982,138	988,881	1,052,679	1,131,984	1,195,830

Source(s): Company, ABCI Securities estimates



Consolidated Cash Flow Statement (2016A-2020E)

As of Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
Operating profit before change in working capital	270,255	289,519	271,416	275,126	281,484
Change in working capital	23,187	(6,546)	11,357	4,073	7,032
Tax	(236)	(135)	(37,190)	(37,993)	(38,946)
Others	(39,505)	(37,324)	(38,444)	(39,597)	(40,785)
Operating cash flow	253,701	245,514	207,139	201,609	208,784
CAPEX	(188,209)	(193,015)	(166,100)	(177,727)	(188,391)
Change in restricted bank deposits	(11,439)	(30,746)	(16,408)	(8,204)	(7,219)
Change in available-for-sale financial asset	(12,102)	54,467	11,166	10,711	10,282
Others	17,227	62,761	30,957	31,861	32,646
Investing cash flow	(194,523)	(106,533)	(140,385)	(143,359)	(152,681)
Dividend paid	(46,991)	(106,036)	(55,228)	(56,420)	(57,836)
Others	(1,967)	(2,195)	(191)	(200)	(203)
Financing cash flow	(48,958)	(108,231)	(55,419)	(56,620)	(58,038)
Net increase in cash & cash equivalents	10,220	30,750	11,334	1,630	(1,935)
Cash & cash equivalents at beginning of year	79,842	90,413	120,636	131,417	132,466
Effect of changes in foreign exchange rate	351	(527)	(553)	(581)	(610)
Cash & cash equivalents at end of year	90,413	120,636	131,417	132,466	129,920
Financial Ratios:					
EBITDA / service revenue margin (%)	41.2	40.5	40.7	40.5	40.5
Operating profit / service revenue margin (%)	18.9	18.0	17.9	17.7	17.6
Net profit / total revenue margin (%)	15.3	15.4	15.3	15.3	15.3
ROAA (%)	7.4	7.5	7.4	7.1	7.0
ROAE (%)	11.5	11.6	11.3	10.8	10.4
YoY Growth:					
Service revenue (%)	6.7	7.2	2.4	3.1	2.9
EBITDA (%)	6.2	5.4	3.1	2.4	3.0
Net profit (%)	0.2	5.1	0.7	2.2	2.5

Source(s): Company, ABCI Securities estimates

Disclosures

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Definition of equity rating

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 2005 (HSI total return index 2005-17 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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