



# China Tower Corporation Ltd. (788 HK)

## 5G ramp-up to bring growth

- China Tower has a stable revenue contribution from telecom operators and enjoys a dominant position in the telecom tower industry
- The Group's tenancy ratio is expected to improve with the need of network upgrade and the launch of 5G telecom network
- Operating profit margin is expected to improve by 0.7ppt/ 2.5ppt/ 3.2ppt to 11.9%/ 14.4%/ 17.6% in FY18E-20E on lower depreciation expenses resulted from the extension of tower useful lives.
- Initiate **BUY** with TP of HK\$1.35, implying 41.3x/27.7x FY19E/20E P/E and 1.0x/1.0x FY19E/20E P/B.

**Strong relationship with telecom operators in China.** China's three major telecom operators are the Group's major shareholders as well as the main revenue contributors.

**Stronger demand for telecom towers in China.** Chinese telecom operators are improving 4G telecom network coverage, which will drive up demand for towers. Moreover, the 5G frequency spectrum is much higher than that of the 4G network and telecom operators will need to build a denser base station network to support the 5G system. Therefore, we expect tenancy ratio to ramp up from 1.44 in 2017 to 1.52 in 2020.

**Operating profit margin to improve with the adjustment of tower useful life.** The Group has adjusted the useful life of ground towers from 10 years to 20 years in Jan 2018, which can lower the depreciation expenses and improve profit margin.

**We initiate BUY** on China Tower with the DCF-derived valuation. The TP is HK\$1.35, implying 42.9x/28.8x FY19E/20E P/E and 1.1x/ 1.1x FY19E/20E P/B. The Group deserves to be traded at a premium to its peers given its dominant position in China's tower industry and the favorable demand prospects from telecom operators on 4G network upgrade and 5G launch in the near future.

**Risk factors:** Markup margin may change; (2) Delay in 5G network launch; (3) Business relies heavily on three Chinese telecom operators; (4) Challenges in small cell and DAS business; (5) Failure or delay in collecting trade receivables could affect financial condition.

### Results and Valuation

FY ended Dec 31	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue (RMB mn)	55,997	68,665	72,997	77,349	81,899
Chg (% ,YoY)	n.a.	22.6	6.3	6.0	5.9
Net profit (RMB mn)	76	1,943	2,678	4,618	6,869
Chg (% ,YoY)	n.a.	2,456.6	37.8	72.4	48.8
EPS (RMB)	0.001	0.015	0.016	0.027	0.040
Chg (% ,YoY)	n.a.	2,456.6	3.4	72.4	48.8
BPS (RMB)	0.97	0.99	1.05	1.07	1.09
Chg (% ,YoY)	0.1	1.5	6.2	1.8	2.5
P/E (x)	1,822.7	65.8	65.1	37.8	25.4
P/B (x)	1.1	1.0	1.0	0.9	0.9
ROAE (%)	0.1	1.5	1.7	2.5	3.7
ROAA (%)	0.0	0.6	0.8	1.2	1.7
DPS (HKD)	n.a.	n.a.	0.01	0.01	0.02
Dividend Yield (%)	n.a.	n.a.	0.8	1.3	2.0

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

Oct 29, 2018

Rating: **BUY**  
TP: **HK\$1.35**

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Share price (HK\$)	1.19
Est. share price return	13.4%
Est. dividend yield	0.8%
Est. total return	14.2%

Source(s): Bloomberg, ABCI Securities

### Key Data

52Wk H/L(HK\$)	1.30/1.03
Issued H-shares (mn)	46,664
Market cap (HK\$ mn)	54,130
Avg daily turnover (HK\$ mn)	640.5
Major shareholder(s)	
China Mobile	28.5%
China Unicom	21.1%
China Telecom	20.9%

Source(s): Company, ABCI Securities

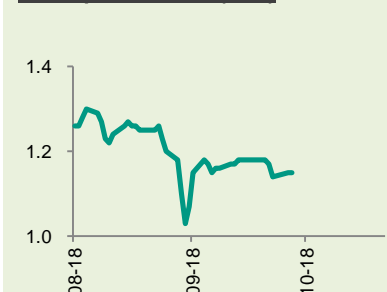
### Share Performance (%)

	Absolute	Relative*
1-mth	3.6	8.7
3-mth	N/A	N/A
6-mth	N/A	N/A

\*Relative to HSI

Source(s): Bloomberg, ABCI Securities

### Share performance (HK\$)



Source(s): Bloomberg, ABCI Securities



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## Industry Analysis

Growing tower demand in China has been fueling development of telecom infrastructure in China. According to Frost and Sullivan's ( F&S) report, the size of the PRC telecom tower infrastructure market is expected to increase from RMB 70.6bn in 2017 to RMB 109.1bn in 2020, representing a CAGR of 9.1%. Tower tenant growth in PRC is supported by the need to improve network coverage with better penetration. The number of tenants in the PRC telecom tower infrastructure market is expected to increase from 2.8mn in 2017 to 4.9mn in 2022, representing a CAGR of 11.9%; among which, the number of TSP tenants is expected to increase from 2.8mn in 2017 to 4.5mn in 2022, representing a CAGR of 10.2%. Demand for mobile applications and wireless communications data traffic is driving growth in the wireless communications market.

### Exhibit 1: Mobile data usage comparisons in 1H18:

	2017	2018E	2019E	2020E
Numbers of wireless communication user (Mn)	1,112.0	1,417.5	1,435.9	1,463.7
Wireless communications data traffic (bn GB)	0.9	24.6	35.0	48.2
Average annual wireless communication data traffic per user (GB)	0.8	17.4	24.4	33.6

Source(s): F&S Report

More favorable policies have been rolled out to support the telecom sector. The PRC government is encouraging expansion of 4G network coverage, particularly in the rural areas. In Dec 2016, the National Development and Reform Commission (NDRC) and the Ministry of Industry and Information Technology (MIIT) issued the "Three-Year Action Plan for Construction of Substantial Information Infrastructures", which promotes the comprehensive and in-depth coverage of 4G network in towns and densely populated administrative villages. In addition, the density of 4G base stations in the PRC market can be further enhanced.

According to the F&S, from 2014 to 2017, the number of 4G base stations in the PRC market increased from ~843k units to 3.3 mn units, representing a CAGR of 57.3%. It is expected that the number of 4G base stations will further increase to ~4.5mn units in 2022, representing a CAGR of 6.7% from 2017-22.

Since the commercial launch of 5G network will start in 2020, a new round of demand for large-scale network build-out by telecom operators can be expected. As the rate and frequency of 5G network have increased faster than those of the 4G network the transmission distance of 5G signals will reduce and the coverage radius of a single 5G base station will be smaller. Telecom operators will need to deploy a denser distribution of 5G telecom network. According to F&S, China is expected to invest a total of RMB1.2tr for 5G network build-out within the next 5-10 years. The number of 5G base stations in the PRC market is estimated to reach ~2.4mn units in 2020.

Through site co-location, telecom operators can improve cost efficiency by enjoying a discount by sharing the same tower with other operators. Further enhancement of 4G network coverage and commercial launch of 5G network will spur network build-out and site co-location. According to F&S, the telecom service provider (TSP) tenancy ratio in the PRC telecom tower infrastructure market increased from 1.23 in Dec, 2015 to 1.42 in Dec, 2017, and is expected to further increase to 1.62 in Dec, 2022.



**Company Overview**

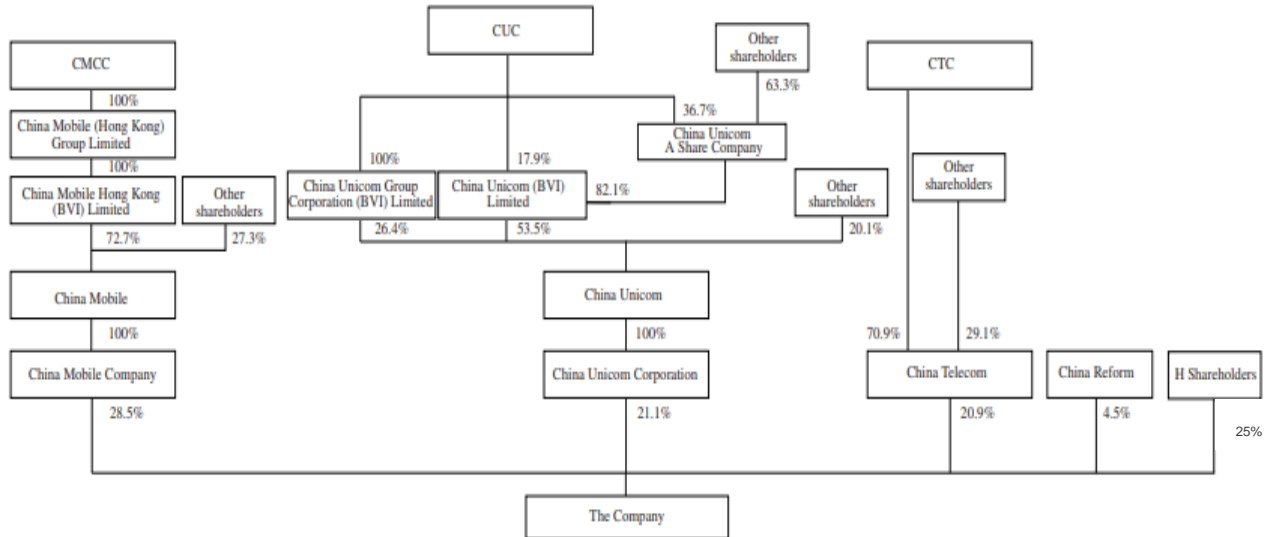
The Group was listed in the HKEx in 2018, with major shareholders including China Mobile (28.5%), China Telecom (20.9%), China Unicom (21.1%) and China Reform (4.5%).

**Exhibit 2: China Tower's milestones**

Date	Events
2014	Established under the name "China Communications Facilities Services Corporation Limited" (中国通信设施服务股份有限公司).
2015	Acquired certain existing telecommunications towers and related assets from the Telecom Group Companies and their respective subsidiaries, and the Telecom Shareholders
2015	Obtained the Basic Telecommunications Business Operation License (domestic telecommunications facilities service business) (基础电信业务经营许可证(国内通信设施服务业务)) and the Value-added Telecommunications Business Operation License (web hosting) (增值电信业务经营许可证(网络托管)) issued by the MIIT.
2016	Entered into the Commercial Pricing Agreements with each of China Mobile, Company, China Unicom Corporation and China Telecom.
2018	Listed in HKEX with the stock code of 788 HK

Source(s): Company.

**Exhibit 3: The Group's shareholding structure**



Source(s): Company, ABCI Securities

## Business Model

The Group mainly engages in three major businesses, which include (1) tower business, (2) DAS business (indoor distributed antenna system), and (3) TSSAI business (trans-sector site application and information business).

### (1) Tower business

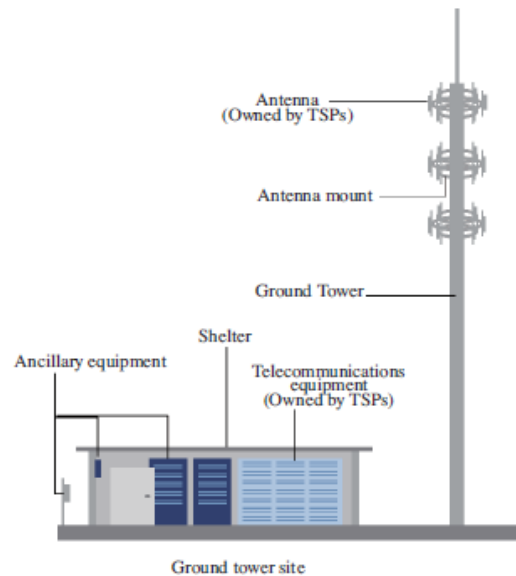
The tower business comprises macro cell and small cell businesses.

#### (i) Macro cell business

China Tower provides site space, maintenance services and power services in their macro cell business. It has extensive tower sites throughout China and provides site space on towers as well as shelters or cabinets to TSPs to host their antennas and other macro cell equipment. The Group also provides ancillary equipment and various services to ensure the smooth operations of infrastructure and power and support continuous functioning of TSPs' macro cell equipment. China Tower also offers equipment maintenance services to tenants.

Macro cell business is China Tower's major revenue driver, which accounted for 99.5%/ 99.2%/ 97.3% of the Group's total operating revenue in FY15-17.

**Exhibit 4: The Group's macro cell business**



Source(s): Company

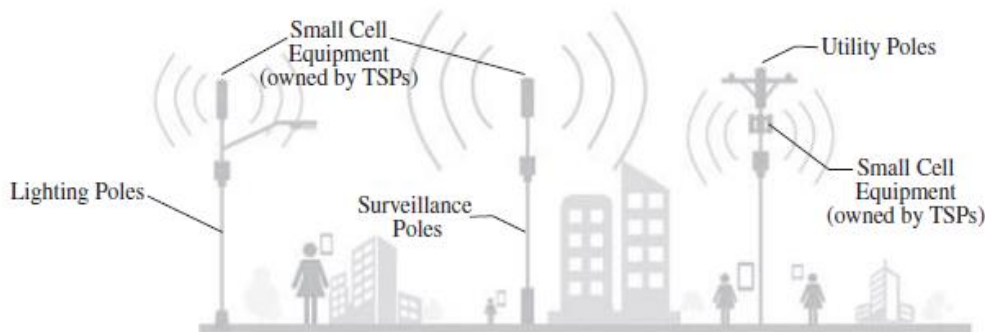


(ii) Small cell business

The Group provides tower site space to host TSPs' small cell equipment and provide ancillary equipment and various services to ensure smooth operations of tenants.

The small cell equipment is becoming a key component of the wireless communications networks of TSPs, and is widely used in commercial districts, streets, residential communities, tourist attractions, and transportation hubs. The Group works with a number of enterprises, communities and other entities in the PRC to use their lighting poles, surveillance poles, utility poles, bus stop boards, sides of bridges, building rooftops in communities and building walls as their sites and reserve space for hosting small cell equipment.

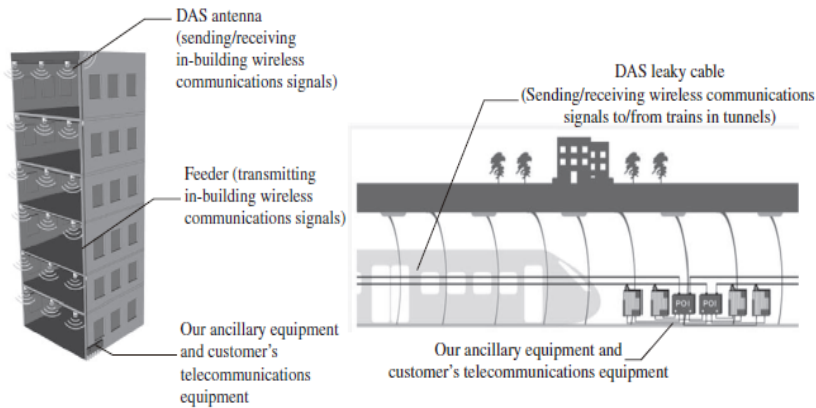
Exhibit 5: The Group's small cell business



Source(s): Company

(2) DAS business

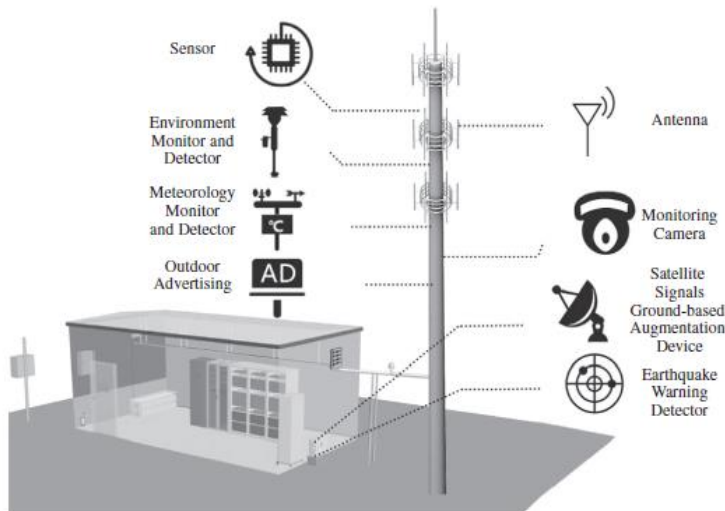
The Group provides indoor distributed antenna systems to TSPs and to attach their telecommunications equipment, helping TSPs achieve in-depth coverage of wireless communications network in buildings and tunnels. The Group carries out DAS construction work in commercial buildings, large venues, as well as subway tunnels, high-speed railway tunnels, expressway tunnels, and other scenarios where indoor wireless communications coverage are required by TSPs to meet demands from TSPs for in-depth communication coverage indoors. China Tower offer DAS sites to TSP tenants and connect their telecommunications equipment to indoor distributed antenna systems, helping them receive and send indoor wireless communication signals, and enable such signals to spread cross buildings and tunnels. The Group also provides ancillary equipment, maintenance services and power services to tenants.

**Exhibit 6: The Group's DAS Business**


Source(s): Company

**(3) TSSAI business**

Besides TSP customers, the Group also offers a variety of services to customers from different industries in TSSAI business. Site resource services, including infrastructure, maintenance services and power services, are provided to host different types of devices for customers from different industries and support them to build up different types of nationwide or regional networks. The Group also integrates data collection devices, transmission networks, data platforms and other resources in their sites.

**Exhibit 7: The Group's TSSAI business**


Source(s): Company

## Financial outlook

China Tower generates most of its revenue from macro cell business. The Group's macro cell, small cell, DAS, TSSAI and others businesses accounted for 97.3%/ 0.4%/ 1.9%/ 0.2%/ 0.2% in FY17. We believe macro cell business would remain as China Tower's core business due to the increasing demand for telecom towers on network upgrade and improvement.

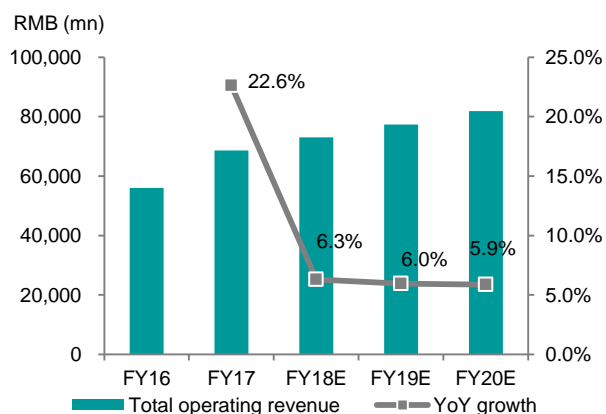
Since the frequency spectrum of 5G telecom network is much higher than that of the 4G network, it is estimated that 5G base stations would require a much denser distribution. As a result, tower demand is expected to rise.

In Jan 2018, The Group formed a new agreement with three TSPs by reducing the tower cost margin from 15% to 10% and also increases the co-location discount rates, which suppresses the Group's pricing. The higher discount rates, however, encourage telecom operators to lease more towers and share with operators to improve their network coverage at lower operational costs.

As of Sep, 2018, the Group operated and managed 1.9mn sites and served 2.9 mn tenants, representing a tenancy ratio of 1.49 (compared to 1.42 for the same period last year).

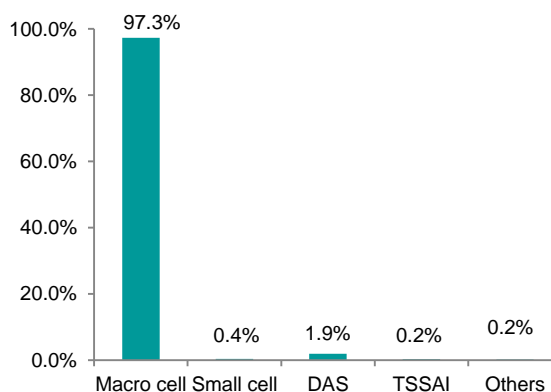
9M18 revenue grew 6.1% YoY. Tower business revenue improved 3.7% YoY, thanks to a higher tenancy ratio supported by improved network coverage of telecom operators with better discount rates when sharing towers with other operators. DAS business revenue surged 79.3% YoY because of stronger demand for indoor antenna system distribution. Tenancy ratio has gone up in recent years (1.28/ 1.40/ 1.44 in FY15/16/17), and is expected to further improve thanks to higher average sharing tenants per site location. Following the regulatory instruction, TSPs are upgrading and improving their 4G LTE network coverage in FY16-17 to raise mobile transmission speed. Meanwhile, 5G trial networks are carried out in various cities in preparation for the commercial launch in 2020. The 5G telecom network requires a denser network distribution, which is expected to drive up tenancy ratio. We forecast the Group's revenue to grow 6.3%/ 6.0%/ 5.9% YoY in FY18E-20E, driven by higher tenancy ratio spurred by the telecom network upgrade cycle and the launch of 5G telecom network.

**Exhibit 8: China Tower's total revenue and growth**



Source(s): Company, ABCI Securities estimates

**Exhibit 9: China Tower's revenue distribution in FY17**

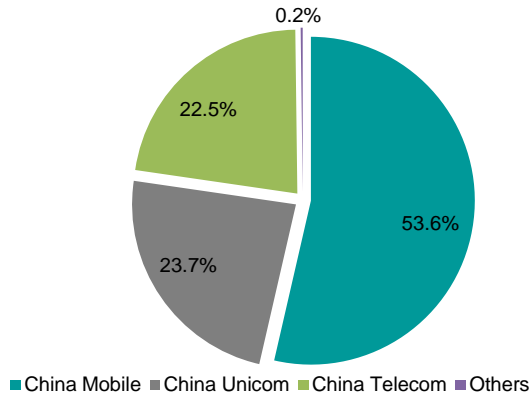


Source(s): Company, ABCI Securities estimates



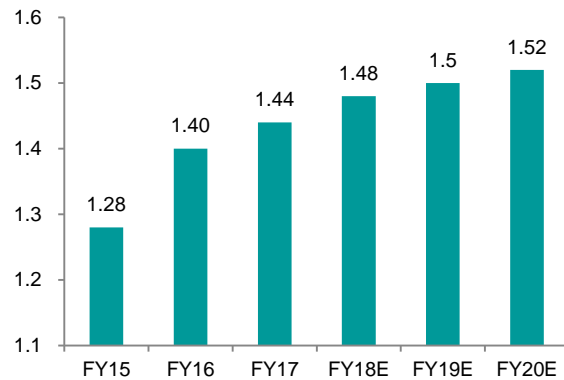


Exhibit 10: China Tower's FY17 revenue contribution by customer



Source(s): Company, ABCI Securities estimates

Exhibit 11: China Tower's tenancy ratio

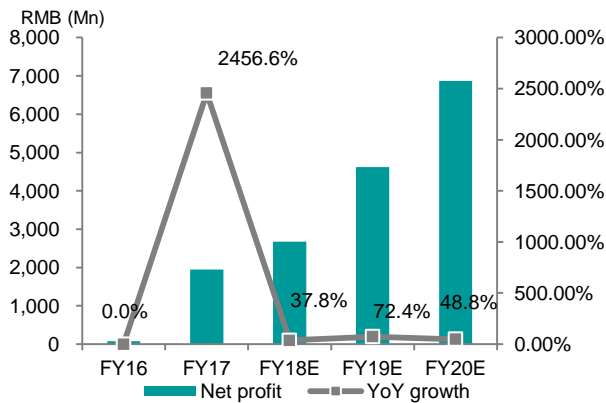


Source(s): Company, ABCI Securities estimates

D&A expenses are the Group's major operating expenses accounting for 54.2%/ 53.6% of total revenue in FY16-17. Starting from Jan 2018, the estimated useful life of self-built ground towers has been adjusted from 10 years to 20 years. The extension of tower useful life can help the Group lower their depreciation expenses. We expect D&A expenses per total operating revenue to decline by 2.5 ppt/ 0.3 ppt to 44.5%/ 44.2% in FY19E-20E. The lower depreciation expenses would help alleviate the impact of the rise in discount rate and the lower tower cost margin.

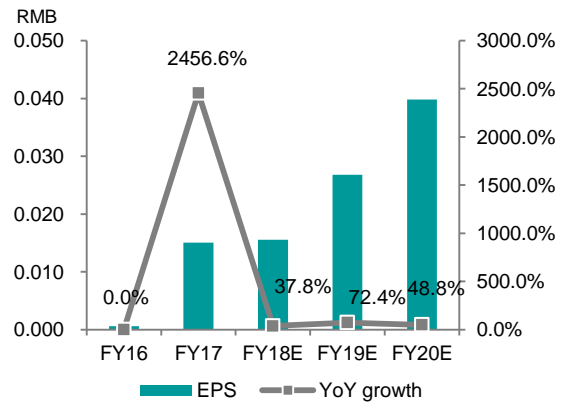
We forecast EBITDA margin to be 58.9%/ 58.9%/ 61.8% in FY18E-20E. While, operating profit margin is expected to grow 0.7ppt/ 2.5ppt/ 3.2ppt to 11.9%/ 14.4%/ 17.6% in FY18E-20E. Tax rate was lowered from 29.1% in 9M17 to 23.7% in 9M18 because some branches located in western provinces enjoyed a preferential tax rate of 15%. Branches of the Company obtained the approval and were entitled to this preferential income tax rate of 15% until 2020. Based on our estimates of revenue growth and operating expenses forecasts, we project China Tower's net profit to grow 37.8%/ 72.4%/ 48.8% in FY18E-20E.

Exhibit 12: China Tower's net profit and growth



Source(s): Company, ABCI Securities estimates

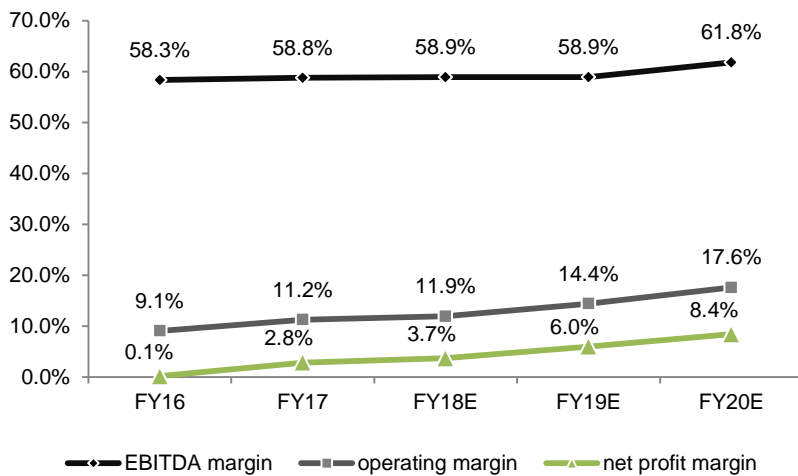
Exhibit 13: China Tower's EPS and growth



Source(s): Company, ABCI Securities estimates



Exhibit 14: China Tower's profit margins



Source(s): Company, ABCI Securities estimates

### Recommend BUY with TP at HK\$1.35

We derive the Group's valuation based on DCF model. We initiate the Group with TP of HK\$ 1.35 (WACC: 9.3%; D/ (D+E) =48.2%; perpetuity growth rate: 1%) implies 42.9x/28.8x FY19E/20E P/E and 1.1x/ 1.1x FY19E/20E P/B and 4.4x/4.0x FY19E/20E EV/EBITDA. We recommend **BUY**, and believe the Group deserves to be traded at a premium to its peers given its dominant position in China's tower industry and the favorable demand prospects from telecom operators on 4G network upgrade and 5G launch in the near future.



Exhibit 15: Peer Comparison Table

	Ticker	Price	P/E				P/B				ROE	ROA	EV/EBITDA
			17A	18E	19E	20E	17A	18E	19E	20E	19E	19E	19E
<b>China Market</b>													
China Unicom	762 HK	8.73	108.0	27.5	17.5	12.8	0.7	0.7	0.7	0.7	4.2	2.2	2.3
China Mobile	941 HK	73.05	11.3	11.5	11.4	11.0	1.3	1.3	1.2	1.1	10.9	7.1	2.8
China Telecom	728 HK	3.85	14.5	13.6	12.6	11.7	0.8	0.8	0.8	0.8	6.4	3.5	2.9
China Tower	788 HK	1.19	n.a.	85.0	33.1	22.5	1.0	1.0	1.0	1.0	2.8	1.3	6.0
Simple Average			44.6	34.4	18.6	14.5	0.9	1.0	0.9	0.9	6.1	3.5	3.5
Weighted Average			24.3	20.5	14.3	12.3	1.1	1.1	1.1	1.0	8.7	5.5	3.1
<b>US Market</b>													
At&T Inc	T US	29.09	6.1	8.3	8.1	7.9	1.3	1.2	1.1	1.1	14.7	4.3	6.3
Verizon	VZ US	55.51	7.5	11.9	11.8	11.5	5.3	4.2	3.5	3.0	33.2	7.6	6.8
Sprint Corp	S US	5.84	n.a.	3.2	n.a.	n.a.	1.2	0.9	0.8	0.8	0.3	(0.0)	4.7
T-Mobile Us Inc	TMUS US	65.11	12.1	20.0	16.3	14.0	2.5	2.2	2.0	1.9	12.8	5.6	6.1
Crown Castle Intl	CCI US	103.54	102.5	72.7	63.0	49.1	3.9	3.5	3.8	4.5	5.6	2.5	18.5
Sba Communications	SBAC US	151.21	175.8	512.6	99.0	72.1	(6.8)	(5.3)	(4.5)	(4.0)	(5.6)	3.9	19.8
Simple Average			74.5	124.1	47.5	36.7	1.2	1.1	1.1	1.2	9.3	3.9	11.2
Weighted Average			28.6	43.2	23.3	19.7	3.9	3.2	2.8	2.5	23.0	6.0	8.6
<b>Indonesia Market</b>													
Sarana Menara	Towr IJ	486.00	11.8	7.5	6.8	8.8	3.5	3.1	1.3	2.4	28.3	11.6	5.9
Tower Bersama	TBIG IJ	4,750.00	9.1	21.5	17.8	15.8	6.8	6.5	5.8	5.2	28.0	4.3	10.4
Simple Average			10.5	14.5	12.3	12.3	5.2	4.8	3.6	3.8	28.1	8.0	8.1
Weighted Average			10.6	14.0	11.9	12.0	5.0	4.7	3.4	3.7	28.1	8.2	8.0

Price at 29<sup>th</sup> Oct 2018

Source(s): Bloomberg



## Risk factors

### **Markup margin may change**

The markup margin has lowered from 15% to 10% in 1H18, affecting the Group's revenue income and lowering profit margin. The regulatory may request the Group to further trim their markup margin to help telecom operators to improve network coverage with more tower leasing.

### **Delay in 5G network launch**

If there is any change in the commercial launch of 5G networks in China, tower demand in China may be impacted.

### **Business relies heavily on three Chinese telecom operators**

In 2017, revenue contributed from three Chinese telecom operators accounted for 99.8% of total operating revenue. If the customers reduce their spending, this could adversely affect China Tower's revenue income.

### **May face challenges in small cell and DAS business**

The Group's current and potential small cell and DAS customers may decide to develop their own networks instead. This would affect the Group's small cell and DAS revenue income.

### **Failure or delay in collecting trade receivables could affect financial condition**

The Group carries out business activities with customers in terms of trade receivables. As the Group generates most of their operating revenue from the three telecom operators, the Group is exposed to a high concentration risk with respect to trade receivables. Delay in settling receivables by customers may affect the Group's cash flow and increase working capital needs. If a customer defaults on its payments under a contract, liquidity could be strained, limiting capital resources potentially available for other purposes.



**Consolidated income statement (2016A-2020E)**

<b>FY Ended Dec 31 (RMB mn)</b>	<b>2016A</b>	<b>2017A</b>	<b>2018E</b>	<b>2019E</b>	<b>2020E</b>
Tower business revenue	55,552	67,085	69,694	72,180	74,384
DAS revenue	421	1,284	1,990	2,687	3,452
TSSAI revenue	19	169	1,014	1,876	3,001
Others	5	127	298	606	1,060
<b>Total revenue</b>	<b>55,997</b>	<b>68,665</b>	<b>72,997</b>	<b>77,349</b>	<b>81,899</b>
D&A expenses	(27,585)	(32,642)	(34,308)	(34,420)	(36,199)
Site operating lease charges	(9,121)	(11,336)	(12,117)	(12,917)	(13,292)
Repairs and maintenance	(5,750)	(6,156)	(6,351)	(6,575)	(6,798)
Employee benefits and expenses	(3,743)	(4,229)	(4,380)	(4,564)	(4,668)
Other operating expenses	(4,728)	(6,587)	(7,154)	(7,735)	(6,552)
Other gains	48	149	343	463	537
Interest income	65	104	47	402	431
Finance costs	(5,077)	(5,283)	(5,562)	(5,966)	(6,401)
Profit before tax	106	2,685	3,514	6,037	8,956
Tax	(30)	(742)	(836)	(1,419)	(2,087)
<b>Net profit</b>	<b>76</b>	<b>1,943</b>	<b>2,678</b>	<b>4,618</b>	<b>6,869</b>
<b>EBITDA</b>	<b>32,655</b>	<b>40,357</b>	<b>42,995</b>	<b>45,559</b>	<b>50,589</b>
<b>EPS (RMB)</b>	<b>0.001</b>	<b>0.015</b>	<b>0.016</b>	<b>0.027</b>	<b>0.040</b>
<b>DPS (RMB)</b>	<b>0.000</b>	<b>0.000</b>	<b>0.008</b>	<b>0.013</b>	<b>0.020</b>
<b>Payout ratio</b>	<b>0.0%</b>	<b>0.0%</b>	<b>50.0%</b>	<b>50.0%</b>	<b>50.0%</b>

Source(s): Company, ABCI Securities estimates

\*Net profit = shareholders' profit



Consolidated balance sheet (2016A-2020E)

As of Dec 31 (RMB mn)	2016A	2017A	2018E	2019E	2020E
PPE	245,788	258,138	263,648	266,335	268,364
CIP	13,592	10,930	9,291	7,897	6,712
Long term prepayments	5,385	9,910	10,901	11,991	13,190
Deferred income tax assets	1,208	689	482	338	236
Other non-current assets	6,130	12,459	13,331	52,946	60,351
<b>Total non-current assets</b>	<b>272,103</b>	<b>292,126</b>	<b>297,653</b>	<b>339,507</b>	<b>348,853</b>
Cash & cash equivalents	17,249	7,852	66,924	71,836	82,433
Trade and other receivables	15,789	15,262	14,499	13,774	13,085
Prepayments & other current assets	6,524	7,375	8,113	8,924	9,816
Others	3	28	(3,262)	(37,537)	(42,753)
<b>Total current assets</b>	<b>39,565</b>	<b>30,517</b>	<b>86,274</b>	<b>56,997</b>	<b>62,582</b>
<b>Total assets</b>	<b>311,668</b>	<b>322,643</b>	<b>383,927</b>	<b>396,504</b>	<b>411,435</b>
Interest bearing borrowings	32,316	95,260	100,976	107,034	113,456
Deferred consideration payables - current portion	90,499	17,252	16,389	15,570	14,791
Accounts payable	39,840	31,906	30,311	28,795	27,355
Others	8,913	5,623	6,348	7,169	8,096
<b>Total current liabilities</b>	<b>171,568</b>	<b>150,041</b>	<b>154,024</b>	<b>158,568</b>	<b>163,699</b>
Borrowings	12,280	43,793	48,172	52,990	58,288
Others	2,268	1,314	1,248	1,186	1,127
<b>Total non-current liabilities</b>	<b>14,548</b>	<b>45,107</b>	<b>49,421</b>	<b>54,175</b>	<b>59,415</b>
<b>Total liabilities</b>	<b>186,116</b>	<b>195,148</b>	<b>203,445</b>	<b>212,743</b>	<b>223,114</b>
<b>Total equity</b>	<b>125,552</b>	<b>127,495</b>	<b>180,482</b>	<b>183,761</b>	<b>188,321</b>

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 tax	106	2,685	3,514	6,037	8,956
Others	27,488	32,250	32,820	33,267	35,389
<b>Operating cash flow</b>	<b>27,594</b>	<b>34,935</b>	<b>36,334</b>	<b>39,303</b>	<b>44,346</b>
CAPEX	(64,103)	(43,836)	(37,261)	(33,535)	(31,858)
Others	18,080	(8,079)	(8,725)	(9,423)	(10,177)
<b>Investing cash flow</b>	<b>(46,023)</b>	<b>(51,915)</b>	<b>(45,986)</b>	<b>(42,958)</b>	<b>(42,035)</b>
Change in borrowings	12,280	43,793	48,172	52,990	58,288
Others	9,745	(36,210)	20,552	(44,423)	(50,002)
<b>Financing cash flow</b>	<b>22,025</b>	<b>7,583</b>	<b>68,724</b>	<b>8,567</b>	<b>8,286</b>
<b>Net increase in cash and cash equivalents</b>	<b>3,596</b>	<b>(9,397)</b>	<b>59,072</b>	<b>4,912</b>	<b>10,597</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>13,653</b>	<b>17,249</b>	<b>7,852</b>	<b>66,924</b>	<b>71,836</b>
<b>Cash and cash equivalents at end of year</b>	<b>17,249</b>	<b>7,852</b>	<b>66,924</b>	<b>71,836</b>	<b>82,433</b>
<b>Financial ratio:</b>					
<u>Growth rate:</u>					
Revenue	0.0%	22.6%	6.3%	6.0%	5.9%
Operating profit	N/A	2456.6%	37.8%	72.4%	48.8%
Net profit	3242.4%	23.6%	6.5%	6.0%	11.0%
ROAE	0.1%	1.5%	1.7%	2.5%	3.7%
ROAA	0.0%	0.6%	0.8%	1.2%	1.7%
EBITD / service revenue margin	58.3%	58.8%	58.9%	58.9%	61.8%
Operating profit margin	9.1%	11.2%	11.9%	14.4%	17.6%
net profit margin	0.1%	2.8%	3.7%	6.0%	8.4%

Source(s): Company, ABCI Securities estimates

**Disclosures****Analyst Certification**

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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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