



China Mobile (941 HK/600941 CH)

Benefit from economies of scale

- China Mobile ("the Group") will benefit from the rise in 5G users and economies of scale
- We estimate revenue to grow 11.8%/11.0% in 2022E/23E on increased 5G user base and ARPU growth
- We forecast 2022E/23E net profit to grow 13.9%/9.3% YoY
- ROE and ROA are expected to rise 0.6ppt/0.4ppt to 10.5%/6.9% in 2022E
- Recommend **BUY** with TP of HK\$ 81.0 for China Mobile-H (941 HK), which implies 4.5x/4.1x 2022E/23E EV/EBITDA, and **BUY** for China Mobile-A (600941 CH) with TP of RMB 97.0, equivalent to 5.9x/ 5.4x 2022E/23E EV/EBITDA

We expect the Group's 5G users to grow 55.1%/26.1% in 2022E/23E. China Mobile added 45.9mn 5G users in 3Q22, outpacing China Unicom's 15.9mn and China Telecom's 19.4mn, thanks to improved 5G network coverage and large mobile user base. With the higher 5G user penetration rate, we forecast the Group's mobile ARPU to improve 1.1%/1.8% YoY in 2022E/23E.

2022E/23E net profit to grow 13.9%/9.3% YoY. D&A expense-to-revenue ratio is expected to lower by 0.5ppt/0.1ppt YoY to 25.2%/25.1% in 2022E/23E. Driven by the economies of scale, improvement in mobile ARPU, stringent costs control, and rising 5G contributions, we expect net profit to grow 13.9%/9.3% YoY for 2022E/23E.

Valuation. We recommend **BUY** for both H/A-shr with TP at HK\$ 81.0/ RMB 97.0. H-shr TP implies 4.5x/4.1x 2022E/23E EV/EBITDA, while A-shr TP represents 5.9x/5.4x 2022E/23E EV/EBITDA.

Risk factors: 1) Fierce market competition may lower mobile ARPU; 2) User saturation; 3) Pressure from MIIT to cut fixed line broadband service tariff for SMEs.

Results and Valuation

FY ended Dec 31	2020A	2021A	2022E	2023E	2024E
Revenue (RMB mn)	768,070	848,258	948,750	1,053,291	1,163,125
Chg (% YoY)	3.0	10.4	11.8	11.0	10.4
Net profit (RMB mn)	107,843	116,148	132,262	144,515	157,543
Chg (% YoY)	1.1	7.7	13.9	9.3	9.0
EPS (RMB)	5.27	5.67	6.19	6.76	7.37
Chg (% YoY)	1.1	7.7	9.1	9.3	9.0
BPS (RMB)	56.11	58.92	61.83	64.25	66.78
Chg (% YoY)	4.1	5.0	4.9	3.9	3.9
P/E (x) –HK shr	7.77	7.98	7.32	6.70	6.14
P/E (x) –A shr	12.76	11.84	10.85	9.93	9.11
P/B (x) –HK shr	0.73	0.77	0.73	0.70	0.68
P/B (x) –A shr	1.20	1.14	1.09	1.05	1.01
ROE (%)	9.6	9.9	10.5	10.7	11.3
ROA (%)	6.4	6.5	6.9	7.1	7.4
DPS (RMB)	2.83	3.42	4.21	4.74	5.16
Dividend Yield (%) –HK shr	6.24	7.56	9.30	10.46	11.40
Dividend Yield (%) –A shr	4.21	5.10	6.27	7.05	7.68

*Exchange rate assumption for FY22E-24E: 1 HKD = 0.93 RMB

Source(s): Bloomberg, ABCI Securities estimates

Company Report

Oct 25, 2022

Rating (HK): BUY
Rating (A): BUY
TP(HK): HK\$ 81.0
TP(A): RMB 97.0

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Price (HK/A shr)	HK\$48.70/ RMB67.19
Est. s price return (H/A shr)	66.32%/44.37%
Est. dividend yield (H/A shr)	9.30%/6.27%
Est. total return (H/A shr)	75.62%/50.64%
Last Rating & TP (H/A shr)	BUY HK\$85.0/ BUY RMB93.0
Previous Report Date	Jan 31, 2022
Source(s): Bloomberg, ABCI Securities estimates	

Key Data

52Wk H/L (HK\$) (HK shr)	54.02/41.27
52Wk H/L (RMB) (A shr)	71.28/57.58
Total issued shares (mn)	21,362.8
Issued HK shr (mn)	20,460.1
Issued A shr (mn)	902.8
HK-shr market cap (HK\$ mn)	996,404.9
A-shr market cap (RMB mn)	60,659.1

Source(s): Bloomberg

Major shareholder(s) :

China Mobile Com. Group Co. Ltd	69.7%
Foresight Fund	0.4%
Vanguard	0.3%

Source(s): the Group



3Q22 results in line with our expectations

In 3Q22, China Mobile's revenue grew 10.5% YoY to RMB 226.6bn, EBITDA rose 2.7% YoY to RMB 77.6bn, while net profit edged up 0.4% YoY to RMB 28.2bn.

Higher-than-peer 5G user additions

China Mobile added 45.9mn 5G users in 3Q22, outpacing China Unicom's 15.9mn and China Telecom's 19.4mn. The increase can be attributed to the Group's widening 5G network coverage and the launch of competitive 5G smartphones. We expect the Group to maintain strong 5G user additions in 2023E, thanks to the improved 5G network coverage and increasing varieties of 5G service packages. We revise up 2022E/23E mobile users by 1.0%/1.4% to 977.9mn/994.9mn. As of Sep 2022, the 5G user penetration rate of China Mobile was 57.2%, lower than the industry average of over 60%, implying room for growth in 2023E. We revise up 2022E/23E ARPU by 2.3%/3.0% to RMB49.3/RMB50.2. Driven by a higher 5G user base, we forecast the Group's mobile ARPU to go up 1.1%/1.8% YoY for 2022E/23E. We have changed our mobile ARPU forecast and user estimations. Subsequently, we revise up 2022E/23E revenue by 5.3%/ 11.6%.

Net profit to go up 13.9%/ 9.3% in 2022E/23E

Net profit margin is expected to benefit from a lower D&A expense-to-revenue ratio. The Group's 5G-related CAPEX in 2022E would dip 3.5% YoY to RMB 110 bn, which can lower the D&A expense-to-revenue ratio by 0.5ppt/0.1ppt YoY to 25.2%/25.1% in 2022E/23E. Based on the economies of scale, lower D&A expense-to-revenue ratio, and the rise in 5G users and mobile ARPU, we forecast net profit to rise 13.9%/ 9.3% YoY in 2022E/23E.

Exhibit 1: Major assumptions for our forecasts

	2020A	2021A	2022E	2023E	2024E
Overall mobile users (mn)	941.9	956.9	977.9	994.9	1,009.9
YoY	(0.9%)	1.6%	2.2%	1.7%	1.5%
5G users (mn)	165.0	386.8	600.0	760.0	890.0
YoY	N/A	134.4%	55.1%	26.7%	17.1%
Mobile ARPU (RMB)	47.4	48.8	49.3	50.2	51.2
YoY	(3.5%)	3.0%	1.1%	1.8%	2.0%
Fixed line users (mn)	210.3	240.1	265.1	291.1	318.1
YoY	12.4%	14.2%	10.4%	9.8%	9.3%
Fixed line ARPU (RMB)	34.0	34.7	34.7	34.9	35.3
YoY	3.7%	2.1%	0.1%	0.5%	1.2%

Source(s): Group, ABCI Securities estimates



Exhibit 2: Changes in our financial estimates

	OLD			NEW			CHANGE		
(RMB bn)	2022E	2023E	2024E	2022E	2023E	2024E	2022E	2023E	2024E
Revenue	901,212	943,668	N/A	948,750	1,053,291	1,163,125	5.3%	11.6%	N/A
Operating profit	133,72	138,31	N/A	138,061	153,934	170,947	3.2%	11.3%	N/A
Net profit	121,945	128,306	N/A	132,262	144,515	157,543	8.5%	12.6%	N/A

Source(s): Group, ABCI Securities estimates

Recommend BUY for H/A-shr (941 HK/600941 CH)

We revise up China Mobile's 2022E/23E net profit by 8.5%/12.6% to reflect higher 5G user base and mobile ARPU. Our valuations for China Mobile-H/A (941 HK/600941 CH) are based on DCF model (WACC: 12.9%/12.3%; perpetuity growth rate: 2.0%/2.0%). We lower H-shr TP from HK\$ 85.0 to HK\$ 81.0 due to depreciation of RMB to HKD and the rise in US risk-free rate. The TP implies 4.5x/4.1x 2022E/23E EV/EBITDA. Due to the adjustment of earnings estimates, we revise up the A-shr TP from RMB 93.0 to RMB 97.0, representing 5.9x/5.4x 2022E/23E EV/EBITDA.



Consolidated income statement (2020A-2024E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Revenue from telecommunications services	695,692	751,409	823,815	898,372	977,221
Revenue from sales of products and others	72,378	96,849	124,935	154,920	185,904
Total revenue	768,070	848,258	948,750	1,053,291	1,163,125
Network operation and support expenses	(206,424)	(225,010)	(247,624)	(271,749)	(296,597)
Depreciation and amortization	(172,401)	(193,045)	(207,601)	(225,491)	(243,328)
Employee benefit and related expenses	(106,429)	(118,680)	(128,515)	(138,349)	(148,538)
Selling expenses	(49,943)	(48,243)	(49,429)	(53,004)	(56,679)
Cost of products sold	(73,100)	(96,083)	(125,677)	(156,328)	(189,988)
Other operating expenses	(47,039)	(49,234)	(51,843)	(54,436)	(57,048)
Profit from operations	112,734	117,963	138,061	153,934	170,947
Other gains	5,602	8,257	11,385	12,639	13,957
Interest and other income	14,341	16,729	14,771	14,013	13,280
Finance costs	(2,996)	(2,679)	(2,238)	(1,987)	(1,977)
Income from investments accounted for using the equity method	12,678	11,914	11,318	10,752	10,215
Profit before taxation	142,359	152,184	173,298	189,352	206,422
Taxation	(34,219)	(35,878)	(40,856)	(44,641)	(48,665)
Profit for the year	108,140	116,306	132,442	144,712	157,757
Shareholders' profit	107,843	116,148	132,262	144,515	157,543
Non-controlling interests	297	158	180	197	214
EBITDA	287,967	314,255	349,546	383,615	418,795
EPS (RMB)	5.267	5.673	6.191	6.765	7.375
DPS (RMB)	2.827	3.424	4.210	4.735	5.162

Source(s): Group, ABCI Securities estimates



Consolidated balance sheet (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Property, plant and equipment	705,547	723,305	731,985	740,768	749,658
Investments accounted for using the equity method	161,811	169,556	174,643	179,882	185,278
Financial assets measured at fair value through profit or loss	0	78,600	80,958	83,387	85,888
Deferred tax assets	38,998	43,216	45,377	47,646	50,028
Others	241,783	231,279	227,611	224,227	221,110
Total non-current assets	1,148,139	1,245,956	1,260,573	1,275,910	1,291,962
Cash and cash equivalents	212,729	243,943	370,671	434,184	501,812
Financial assets measured at fair value through profit or loss	128,603	132,995	139,645	146,627	153,958
Bank deposits	110,382	89,049	85,487	83,777	82,102
Accounts receivable	38,401	34,668	36,055	37,497	38,997
Others	89,628	94,716	100,020	105,986	112,634
Total current assets	579,743	595,371	731,878	808,071	889,503
Total assets	1,727,882	1,841,327	1,992,450	2,083,981	2,181,465
Accounts payable	167,990	152,712	159,584	166,765	174,270
Accrued expenses and other payables	200,952	274,509	301,960	332,156	365,371
Contract liabilities	79,028	79,068	79,068	79,068	79,068
Others	69,304	75,859	78,287	80,854	83,571
Total current liabilities	517,274	582,148	618,899	658,843	702,280
Deferred revenue	8,601	8,487	8,911	9,357	9,825
Lease liabilities – non-current	42,460	30,922	29,685	28,498	27,358
Others	6,775	9,478	9,928	10,400	10,894
Total non-current liabilities	57,836	48,887	48,525	48,255	48,077
Total liabilities	575,110	631,035	667,423	707,098	750,357
Equity attributable to shareholders	1,148,916	1,206,350	1,320,905	1,372,564	1,426,576
Non-controlling interests	3,856	3,942	4,122	4,319	4,533
Total equity	1,152,772	1,210,292	1,325,027	1,376,883	1,431,108

Source(s): Group, ABCI Securities estimates



Consolidated Cash Flow Statement (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Operating profit before change in working capital	297,701	325,954	504,168	469,304	498,241
Change in working capital	46,167	28,204	28,328	31,107	34,152
The mainland of China and other countries and regions' enterprise income tax paid	(35,776)	(38,991)	(40,856)	(44,641)	(48,665)
HK profits tax paid	(331)	(403)	(415)	(428)	(440)
Operating cash flow	307,761	314,764	491,225	455,343	483,288
CAPEX	(189,577)	(202,673)	(185,200)	(190,756)	(196,479)
Change in available-for-sale financial asset	14,673	27,604	3,670	1,812	1,773
Others	(13,202)	(63,227)	(74,948)	(85,986)	(96,681)
Investing cash flow	(188,106)	(238,296)	(256,478)	(274,930)	(291,386)
Dividend paid	(59,726)	(57,585)	(71,951)	(80,928)	(88,224)
Subscription funds received from issuance of RMB Shares	0	48,695	0	0	0
Others	(22,526)	(36,311)	(36,024)	(35,934)	(36,016)
Financing cash flow	(82,252)	(45,201)	(107,975)	(116,863)	(124,240)
Net increase in cash & cash equivalents	37,403	31,267	126,773	63,551	67,661
Cash & cash equivalents at beginning of year	175,933	212,729	243,943	370,671	434,184
Effect of changes in foreign exchange rate	(607)	(53)	(45)	(38)	(33)
Cash & cash equivalents at end of year	212,729	243,943	370,671	434,184	501,812

Source(s): Group, ABCI Securities estimates

Financial Ratios

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
Profit margins:					
EBITDA margin (%)	37.5	37.0	36.8	36.4	36.0
Operating margin (%)	16.2	15.7	16.8	17.1	17.5
Net profit margin (%)	14.0	13.7	13.9	13.7	13.5
ROA (%)	6.4	6.5	6.9	7.1	7.4
ROE (%)	9.6	9.9	10.5	10.7	11.3
YoY Growth:					
Revenue (%)	3.0	10.4	11.8	11.0	10.4
EBITDA (%)	(3.6)	9.1	11.2	9.7	9.2
Net profit (%)	1.1	7.7	13.9	9.3	9.0

Source(s): Group, ABCI Securities estimates



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

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 2009 (HSI total return index 2009-21 averaged 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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