

China Tower Corporation Ltd. (788 HK)

Strong growth in smart tower and energy businesses

- Expected to benefit from strong growth from smart tower and energy businesses
- We estimate revenue to grow 7.0%/6.0% YoY for 2022-23E
- Telecommunication service providers (TSP) business supported by 5G network development plan by telecom operators
- New smart tower and energy businesses will generate momentum for the Group in 2023E
- Tenancy ratio to grow from 1.70 in 2021 to 1.73/1.80 in 2022-23E
- Our TP of HK\$ 1.10 represents 2.7x/2.6x 2022-23E EV/EBITDA

We expect TSP business revenue to grow 3.6%/2.8% YoY in 2022-23E, thanks to telecom operators' plan to improve 5G network coverage. Tenancy ratio would reach 1.73/1.80 in 2022-23E.

Growing momentum from smart tower and energy businesses. Based on our estimates, smart tower revenue would grow 46.5%/30.0% in 2022-23E, thanks to increasing demand of smart applications and digital usage in different sectors. Energy business revenue would grow 63.0%/42.0% in 2022-23E due to increasing demand for battery exchange and power backup.

Net profit to grow at a CAGR of 22.6% in 2021-24E. Driven by improved tenancy ratio, increased contributions from smart tower and energy businesses, and scale effect, we expect net profit margin to edge up 0.9ppt/1.5ppt to 9.4%/10.9% in 2022-23E.

Valuation. We revise down our 2022-23E net profit by 13.0%/21.0% to reflect the weaker-than-expected 3Q22 results. Our TP of HK\$ 1.10 implies 2.7x/2.6x 2022-23E EV/EBITDA. Recommend **BUY**.

Risk factors: (1) Markup margin may change; (2) Delay in 5G network launch; (3) Business relies heavily on three major telecom operators; (4) Tenancy ratio may be worse than expected.

Results and Valuation

FY ended Dec 31	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	81,099	86,585	92,661	98,215	103,504
Chg (% YoY)	6.1	6.8	7.0	6.0	5.4
Net profit (RMB mn)	6,428	7,329	8,731	10,715	13,515
Chg (% YoY)	23.1	14.0	19.1	22.7	26.1
EPS (RMB)	0.037	0.042	0.050	0.061	0.077
Chg (% YoY)	23.6	14.1	18.3	22.7	26.1
BPS (RMB)	1.07	1.08	1.10	1.14	1.18
Chg (% YoY)	2.5	1.7	1.8	3.0	3.8
P/E (x)	18.1	15.6	14.5	11.8	9.4
P/B (x)	0.62	0.61	0.65	0.63	0.61
ROE (%)	3.5	3.9	4.6	5.4	6.6
ROA (%)	1.9	2.2	2.3	2.4	2.9
DPS (RMB cents)	1.465	2.250	2.728	3.348	4.223
Dividend Yield (%)	2.03	3.13	3.79	4.65	5.87

Note: Exchange rate assumption for FY22E-24E: 1HKD=0.9 RMB
Source(s): Bloomberg, ABCI Securities estimates

Company Report

Oct 24, 2022

Rating: **BUY**
TP: HK\$ 1.10

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Share price (HK\$)	0.80
Est. share price return	37.50%
Est. dividend yield	3.79%
Est. total return	41.29%
Previous Rating & TP	BUY/HK\$2.2
Previous Report Date	Mar 26, 2020

Source(s): Bloomberg, ABCI Securities estimates

Key Data

52Wk H/L (HK\$)	1.050/0.709
Issued shares (mn)	176,008
Issued H-shares (mn)	46,664
H-share market cap (HK\$ mn)	37,331
Avg daily turnover (HK\$ mn)	989

Major shareholder(s)

China Mobile	27.9%
China Unicom	20.7%
China Telecom	20.5%

Source(s): Bloomberg

Share Performance (%)

	Absolute	Relative*
1-mth	(14.0)	(1.9)
3-mth	(22.3)	(1.0)
6-mth	(14.9)	9.9

*Relative to HSI

Source(s): Bloomberg



3Q22 results affected by project and constructions delays

China Tower's 3Q22 revenue was up 5.9% YoY. EBITDA down 3.8% YoY, while net profit jumped 20.9% YoY. The 3Q22 net profit was below our expectation by 8% due to the weaker-than-anticipated revenue growth in TSP business affected by project and construction delays.

Net profit to grow 19.1%/22.7% for 2022-23E

Tenancy ratio reached 1.72 in Sep 2022, compared to 1.69 in Sept 2021. We forecast tenancy ratio to reach 1.80 in 2023E. We expect telecommunication service providers (TSP) business to ramp up in 2023 thanks to strong demand for 5G base stations and distributed antenna systems (DAS) construction.

Smart tower revenue would grow 46.5%/30.0% in 2022-23E, thanks to demand of smart applications and digital usage in different sectors, covering environmental protection, forestry, agriculture, land, water resources, transportation, emergency response, and digital village. Energy business revenue is expected to grow 63.0%/42.0% in 2022-23E on increasing demand for battery exchange and power backup. Proliferation of electric vehicles would support the battery exchange demand.

Exhibit 1: Our estimates for China Tower's operational data

RMB bn	2020	2021	2022E	2023E	2024E
Tenancy ratio	1.66	1.70	1.73	1.80	1.83
Number of sites (mn)	2.02	2.04	2.08	2.11	2.13
Average tower revenue per site (RMB '000)	38.0	39.4	40.0	40.5	40.8

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	98,262	104,484	110,463	92,661	98,215	103,504	(5.7%)	(6.0%)	(6.3%)
Net Profit	10,036	13,563	18,514	8,731	10,715	13,515	(13.0%)	(21.0%)	(27.0%)
EPS (RMB)	0.057	0.077	0.105	0.050	0.061	0.077	(13.0%)	(21.0%)	(27.0%)

Source(s): Group, ABCI Securities estimates

Recommend BUY with TP at HK\$1.10

We lower 2022-23E net profit by 13.0%/ 21.0% to reflect the weaker-than-expected 3Q22 results. Our DCF-derived TP was HK\$ 1.10 (WACC: 12.4%; perpetuity growth rate: 2.0%), which implies 2.7x/2.6x 2022-23E EV/EBITDA. With an 37.50% upside potential, we recommend **BUY** for China Tower.



Consolidated income statement (2020A-2024E)

FY Ended Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
TSP business revenue	76,899	80,197	83,055	85,392	86,960
- Tower business revenue	73,371	75,857	77,282	78,465	79,340
- DAS business revenue	3,528	4,340	5,772	6,927	7,619
Smart tower business	3,004	4,060	5,948	7,732	9,665
Energy business	935	2,071	3,376	4,794	6,567
Others	261	257	283	297	312
Total revenue	81,099	86,585	92,661	98,215	103,504
D&A expenses	(47,515)	(49,982)	(49,110)	(51,072)	(52,787)
Repairs and maintenance	(5,805)	(5,796)	(6,486)	(7,170)	(7,763)
Employee benefits and expenses	(6,115)	(6,875)	(7,876)	(8,348)	(8,798)
Other operating expenses	(9,652)	(10,897)	(14,826)	(14,732)	(13,455)
Operating profit	12,012	13,035	14,362	16,893	20,701
Other gains, net	318	303	295	290	285
Interest income	36	22	32	275	314
Finance costs	(3,959)	(3,745)	(3,308)	(3,489)	(3,680)
Profit before tax	8,407	9,615	11,382	13,968	17,620
Income tax expense	(1,980)	(2,287)	(2,652)	(3,255)	(4,105)
Shareholders' profit	6,428	7,329	8,731	10,715	13,515
Non-controlling interests	(1)	(1)	(1)	(1)	(1)
EBITDA	59,527	63,017	63,473	67,964	73,488
EPS (RMB)	0.037	0.042	0.050	0.061	0.077
DPS (RMB)	0.015	0.023	0.027	0.033	0.042

Source(s): Group, ABCI Securities estimates



Consolidated balance sheet (2020A-2024E)

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
PPE	231,684	221,419	295,839	301,515	305,270
Construction in progress	20,185	14,709	12,503	10,627	9,033
Right-of-use assets	34,553	32,877	32,877	32,877	32,877
Other non-current assets	7,754	5,910	9,322	9,484	9,805
Total non-current assets	294,176	274,915	350,541	354,504	356,985
Cash & cash equivalents	5,042	6,471	54,914	62,841	74,271
Trade and other receivables	30,658	34,194	32,484	30,860	29,317
Prepayments & other current assets	7,504	7,679	8,447	9,292	10,221
Total current assets	43,204	48,344	95,845	102,993	113,808
Total assets	337,380	323,259	446,385	457,497	470,794
Borrowings	61,999	37,142	39,371	41,733	44,237
Accounts payable	31,460	25,264	24,001	22,801	21,661
Others	13,176	13,776	128,494	129,717	131,077
Total current liabilities	106,635	76,182	191,865	194,250	196,974
Borrowings	27,121	41,572	43,651	45,833	48,125
Others	17,378	16,151	16,718	17,350	18,008
Total non-current liabilities	44,499	57,723	60,369	63,183	66,133
Total liabilities	151,134	133,905	252,234	257,433	263,107
Total equity	186,246	189,354	194,151	200,064	207,686

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 tax	8,407	9,615	11,382	13,968	17,620
Others	49,141	50,888	67,190	23,298	22,862
Operating cash flow	57,548	60,503	78,572	37,266	40,482
CAPEX	(37,800)	(32,513)	(30,887)	(29,343)	(27,876)
Others	101	1,160	1,253	1,353	1,461
Investing cash flow	(37,897)	(31,515)	(29,635)	(27,990)	(26,415)
Change in borrowings	27,121	41,572	43,651	45,833	48,125
Others	(47,958)	(69,132)	(44,146)	(47,181)	(50,763)
Financing cash flow	(20,837)	(27,560)	(495)	(1,348)	(2,638)
Net increase in cash and cash equivalents	(1,186)	1,428	48,443	7,928	11,429
Cash and cash equivalents at beginning of year	6,223	5,042	6,471	54,914	62,841
Cash and cash equivalents at end of year	5,042	6,471	54,914	62,841	74,271

Source(s): Group, ABCI Securities estimates

Financial Ratios

As of Dec 31 (RMB mn)	2020A	2021A	2022E	2023E	2024E
<u>Profit margins:</u>					
EBITDA margin (%)	73.4%	72.8%	68.5%	69.2%	71.0%
Operating margin (%)	14.8%	15.1%	15.5%	17.2%	20.0%
Net profit margin (%)	7.9%	8.5%	9.4%	10.9%	13.1%
ROE (%)	3.5%	3.9%	4.6%	5.4%	6.6%
ROA (%)	1.9%	2.2%	2.3%	2.4%	2.9%
<u>YoY Growth:</u>					
Revenue	6.1%	6.8%	7.0%	6.0%	5.4%
Net profit	23.1%	14.0%	19.1%	22.7%	26.1%
EBITDA	5.0%	5.9%	0.7%	7.1%	8.1%

Source(s): Group, ABCI Securities estimates



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Definition of equity rating

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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