

China Tower (788 HK)

1H21 in-line; tower business remains slow

China Tower released 1H21 results with revenue of RMB42.7bn (+7.2% YoY) and net profit of RMB3.5bn (+16.1% YoY). The result is largely in-line with our/consensus estimates, as rev./NP accounted for 50%/49% and 49%/49% of our/consensus FY21E forecasts. 1H21 revenue was mainly driven by its two wing segments, TSSAI and Energy; however, its tower business (88% of revenue) still remains slow (+3.7% YoY) as we believe telcos' opex is within strict budget control. Our new TP is HK\$1.16 based on lower 4x FY21E EV/EBITDA (vs 4.6x prior) due to continued revenue pressure. Maintain HOLD.

- 1H21 largely in-line; slower tower business and strong TSSAI/Energy as expected.** 1H21 tower business grew at 3.7% YoY, reflecting continued pressure as a result of telcos' co-build co-share strategy. By 1H21, there are 3.4mn TSP and 2.0mn tower sites, up 3.3%/3.2% YoY. Tower tenancy ratio remained at 1.68 and avg. revenue per TSP tower grew 3.1% YoY to RMB9.5k in 1H21. Non-tower businesses, DAS/TSSAI/Energy, delivered strong growth of 21%/47%/181% YoY. Despite rapid growth in new businesses, their revenue contributions are still too small to move the needle, as legacy tower business accounted for 88% of 1H21 total revenue.
- Muted tower outlook as telcos' opex is under strict budget control.** China telcos' FY21E capex budget is RMB340.6bn (+1.7% YoY), of which 54.2% is 5G-related. FY21E 5G BTS rollout announced is 640k (CM: 120k 2.6GHz; CM/CBN: 480k 700MHz for 2 yrs; CU/CT: 320k 2.1GHz/3.5GHz), which is lower than our previous est. of 800k. Meanwhile, CM announced that they would strictly control the growth of tower leasing expense. Although we are positive on China's 5G deployment and we believe China Tower will be a key beneficiary in the long run, we think slower core business will drag overall revenue growth in the near term.
- Maintain HOLD; lower TP to HK\$1.16.** We trimmed our TP based on lower target multiple of 4x FY21E EV/EBITDA (vs 4.6x prior). New TP is adjusted to HK\$1.16 given 1) lack of near-term positive catalysts, 2) telco's opex control of leasing expenses (a major revenue source for China Tower) and 3) co-build co-share strategy to put pressure on profitability. Risks include slowdown of 5G deployment and absence of new lead use case for 5G.

Earnings Summary

(YE 31 Dec)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue (RMB mn)	76,428	81,099	85,903	91,681	97,590
YoY growth (%)	6.4	6.1	5.9	6.7	6.4
EBITDA (RMB mn)	56,696	59,527	63,398	67,479	71,730
Net income (RMB mn)	5,222	6,428	8,117	9,852	10,940
EPS (RMB)	0.030	0.037	0.046	0.056	0.063
YoY growth (%)	66.6	23.6	26.3	21.4	11.0
Consensus EPS	NA	NA	0.047	0.059	0.067
P/E (x)	29.9	24.2	19.1	15.8	14.2
P/B (x)	0.9	0.8	0.8	0.8	0.8
EV/EBITDA (x)	4.6	4.3	4.1	3.8	3.6
Dividend Yield (%)	1.6	2.5	2.8	3.4	3.8
ROE (%)	2.9	3.5	4.3	5.0	5.4
Gearing ratio (%)	38	37	36	34	35

Source: Company data, Bloomberg, CMBIS estimates

HOLD (Maintain)

Target Price	HK\$1.16
(Previous TP)	HK\$1.33)
Up/Downside	+8%
Current Price	HK\$1.07

China Technology Sector

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Stock Data

Mkt. Cap. (RMB mn)	188,329
Avg. 3mths t/o (RMB mn)	304
52W High/Low (RMB)	1.55/1.00
Total Issued Shares (mn)	46,663.9

Source: Bloomberg

Shareholding Structure

Citigroup	8.16%
Hillhouse Capital	7.02%
GIC	6.98%

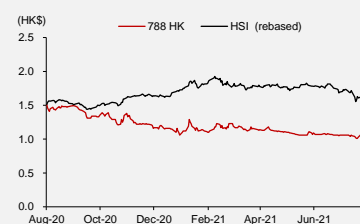
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	3.8%	7.7%
3-mth	-1.7%	7.3%
6-mth	-1.8%	10.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PriceWaterHouse Coopers

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1H20 Results Review

Figure 1: 1H21 results review

RMB mn	1H19	2H19	1H20	2H20	1H21	QoQ	YoY
Revenue	37,980	38,448	39,794	41,305	42,673	3.3%	7.2%
EBITDA	27,815	28,881	29,100	30,427	31,184	2.5%	7.2%
Operating profit	5,626	5,655	5,841	6,171	6,354	3.0%	8.8%
Net profit	2,548	2,674	2,978	3,450	3,457	0.2%	16.1%
EPS (RMB)	0.01	0.02	0.02	0.02	0.02	0.2%	16.1%
EBITDA Margin	73.2%	75.1%	73.1%	73.7%	73.1%	-0.6 ppt	0 ppt
Net Margin	14.8%	14.7%	14.7%	14.9%	14.9%	-0.1 ppt	0.2 ppt

Source: Bloomberg, CMBIS estimates

Earnings Revision

Figure 2: CMBIS earnings revisions

RMB mn	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	85,903	91,681	97,590	85,903	91,681	97,590	0%	0%	0%
Gross Profit	63,398	67,479	71,730	63,139	66,285	70,167	0%	2%	2%
Operating Profit	14,385	16,528	17,964	15,129	16,426	17,572	-5%	1%	2%
Net profit	8,117	9,852	10,940	8,326	9,529	10,519	-3%	3%	4%
EPS (RMB)	0.046	0.056	0.063	0.048	0.054	0.060	-3%	3%	4%
Gross Margin	73.8%	73.6%	73.5%	73.5%	72.3%	71.9%	0.3 ppt	1.3 ppt	1.6 ppt
Operating Margin	16.7%	18.0%	18.4%	17.6%	17.9%	18.0%	-0.9 ppt	0.1 ppt	0.4 ppt
Net Margin	9.4%	10.7%	11.2%	9.7%	10.4%	10.8%	-0.2 ppt	0.4 ppt	0.4 ppt

Source: Company data, CMBIS estimates

Figure 3: CMBIS estimates vs consensus

RMB mn	CMBIS			Consensus			Diff (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	85,903	91,681	97,590	86,660	92,282	96,565	-1%	-1%	1%
Gross Profit	63,398	67,479	71,730	63,260	66,689	69,463	0%	1%	3%
Operating Profit	14,385	16,528	17,964	14,569	17,185	19,021	-1%	-4%	-6%
Net profit	8,117	9,852	10,940	8,014	9,996	11,332	1%	-1%	-3%
EPS (RMB)	0.046	0.056	0.063	0.047	0.059	0.067	0%	-4%	-6%
Gross Margin	73.8%	73.6%	73.5%	73.0%	72.3%	71.9%	0.8 ppt	1.3 ppt	1.6 ppt
Operating Margin	16.7%	18.0%	18.4%	16.8%	18.6%	19.7%	-0.1 ppt	-0.6 ppt	-1.3 ppt
Net Margin	9.4%	10.7%	11.2%	9.2%	10.8%	11.7%	0.2 ppt	-0.1 ppt	-0.5 ppt

Source: Bloomberg, CMBIS estimates

Figure 4: P&L forecast

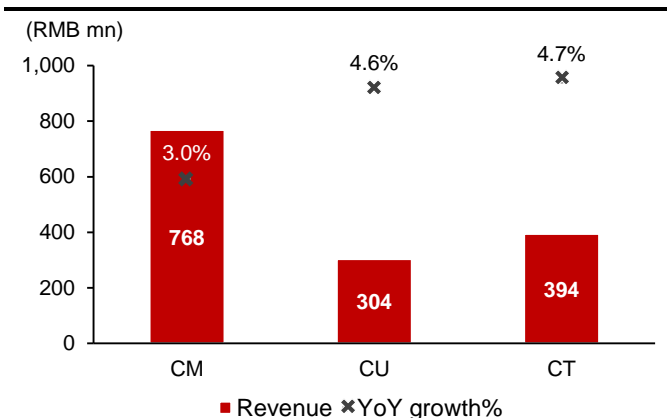
RMB mn	FY19	FY20	FY21E	FY22E	FY23E
Revenue	76,428	81,099	85,903	91,681	97,590
...YoY	6.4%	6.1%	5.9%	6.7%	6.4%
Repairs & maintenance	-5,993	-5,805	-6,149	-6,562	-6,985
% of revenue	-7.8%	-7.2%	-7.2%	-7.2%	-7.2%
EBITDA	56,696	59,527	63,398	67,479	71,730
...YoY	35.7%	5.0%	6.5%	6.4%	6.3%
EBITDA margin (%)	74.2%	73.4%	73.8%	73.6%	73.5%
D&A	(45,415)	(47,515)	(49,013)	(50,951)	(53,766)
% revenue	-59.4%	-58.6%	-57.1%	-55.6%	-55.1%
Operating profit	11,281	12,012	14,385	16,528	17,964
...YoY	24.2%	6.5%	19.8%	14.9%	8.7%
Operating margin (%)	14.8%	14.8%	16.7%	18.0%	18.4%
Net profit	5,222	6,428	8,117	9,852	10,940
...YoY	97.1%	23.1%	26.3%	21.4%	11.0%
NPM (%)	6.8%	7.9%	9.4%	10.7%	11.2%

Source: Company data, CMBIS estimates

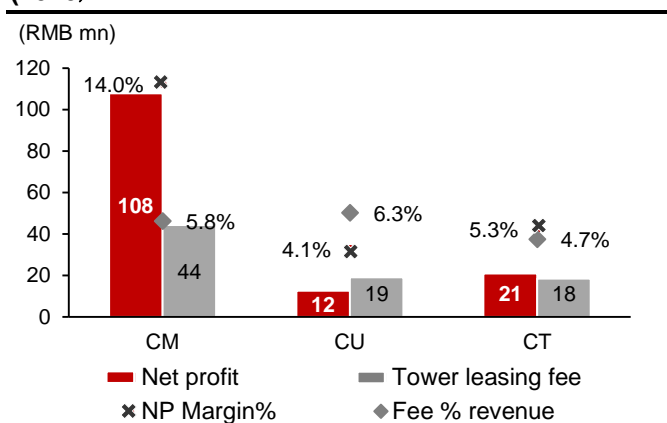
Figure 5: Revenue breakdown

RMB mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Tower business	68,597	71,406	73,371	74,980	77,854	79,946
...YoY	2%	4%	3%	2%	4%	3%
Tower sites ('000)	1,924	1,994	2,023	2,061	2,109	2,187
...YoY	4%	4%	1%	2%	2%	4%
TSP tenants ('000)	2,837	3,063	3,175	3,277	3,437	3,565
...YoY	7%	8%	4%	3%	5%	4%
TSP tenancy ratio	1.47	1.54	1.57	1.59	1.63	1.63
Avg. revenue per TSP tenants	24.2	23.3	23.1	22.9	22.6	22.4
...YoY	-5%	-4%	-1%	-1%	-1%	-1%
Average revenue per site	36.9	37.4	38.0	38.8	39.9	40.3
...YoY	-2%	1%	2%	2%	3%	1%
DAS business	1,819	2,658	3,528	4,586	5,504	6,604
...YoY	42%	46%	33%	30%	20%	20%
TSSAI & energy oper. Business	1,222	2,080	3,939	6,076	8,062	10,779
...YoY	623%	70%	89%	54%	33%	34%
Others	181	284	261	261	261	261
...YoY	43%	57%	-8%	0%	0%	0%
Total	71,819	76,428	81,099	85,903	91,681	97,590
...YoY	4.6%	6.4%	6.1%	5.9%	6.7%	6.4%

Source: Company data, CMBIS estimates

Figure 6: Telco revenue and growth rate (2020)

Source: Company data, CMBIS estimates

Figure 7: Telco's NP margin and tower leasing fees (2020)

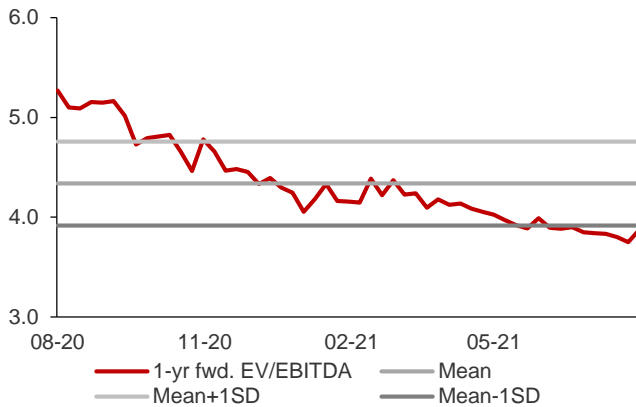
Source: Company data, CMBIS estimates

Valuation

Maintain HOLD and lowered TP to HK\$1.16

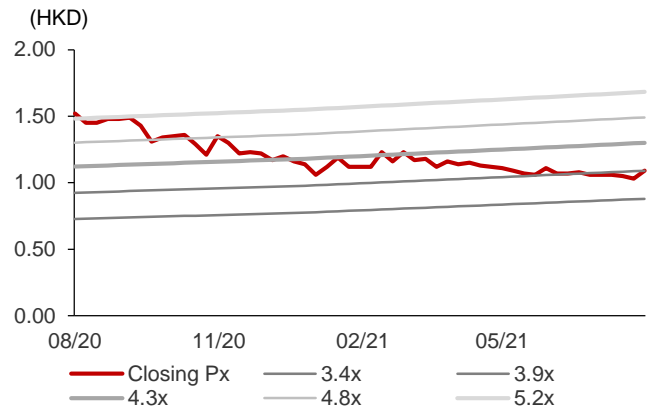
We lowered our TP to HK\$1.16 based on lower 4x FY21E EV/EBITDA, close to 1SD below historical forward EV/EBITDA. We believe this is justified as there is lack of near-term positive catalyst for the Company and the co-build co-share strategy among telco will continue to put pressure on its profitability. Risks include slowing down 5G deployment and absence of new lead use case for 5G.

Figure 8: 12M forward EV/EBITDA chart



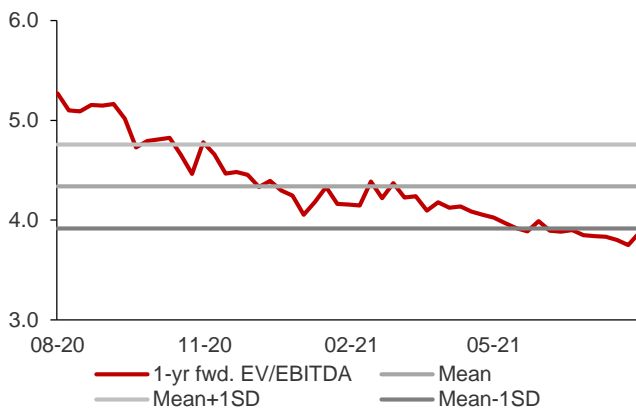
Source: Company data, CMBIS estimates

Figure 9: 12M forward EV/EBITDA band



Source: Company data, CMBIS estimates

Figure 10: 12M forward P/B chart



Source: Company data, CMBIS estimates

Figure 11: 12M forward P/B band



Source: Company data, CMBIS estimates

Financial Summary

Income statement						Cash flow summary					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	76,428	81,099	85,903	91,681	97,590	Net profit	6,837	8,407	10,624	12,895	14,320
D&A	(45,415)	(47,515)	(49,013)	(50,951)	(53,766)	Depreciation/amortization	45,415	47,515	43,404	45,159	47,379
Site oper. lease charges	(639)	-	-	-	-	Change in WC	(6,461)	(1,526)	(12,114)	(2,054)	(13,371)
Repairs & maintenance	(5,993)	(5,805)	(6,149)	(6,562)	(6,985)	Others	4,144	3,152	2,652	2,274	2,229
Employee expenses	(5,863)	(6,115)	(6,477)	(6,913)	(7,358)	CF from operating	49,935	57,548	44,566	58,275	50,556
Other oper expenses	(7,237)	(9,652)	(9,879)	(10,727)	(11,516)	Capex	(27,798)	(37,800)	(29,826)	(37,016)	(39,552)
Operating profit	11,281	12,012	14,385	16,528	17,964	Other	(338)	(97)	6,756	7,091	7,775
Other gains	154	318	337	359	383	CF from investing	(28,136)	(37,897)	(23,070)	(29,925)	(31,777)
Interest income	63	36	29	54	54	Share issuance	-	-	-	-	-
Finance costs	(4,661)	(3,959)	(4,127)	(4,046)	(4,081)	Dividend paid	(396)	(2,561)	(3,934)	(4,383)	(5,320)
Pre-tax profit	6,837	8,407	10,624	12,895	14,320	Other	(20,016)	(18,276)	(16,668)	(17,467)	(19,906)
Income tax expenses	(1,616)	(1,980)	(2,507)	(3,043)	(3,379)	CF from financing	(20,412)	(20,837)	(20,602)	(21,850)	(25,226)
Non-controlling interests	1	1	-	-	-	Net change in cash	1,387	(1,186)	893	6,499	(6,446)
Net profit to shareholders	5,222	6,428	8,117	9,852	10,940	Cash, beginning of the year	4,836	6,223	5,042	5,935	12,435
EBITDA	56,696	59,527	63,398	67,479	71,730	Exchange difference	-	5	-	-	-
						Cash, end of the year	6,223	5,042	5,935	12,435	5,988

Balance sheet						Key ratios					
YE 31 Dec (RMB mn)	FY19A	FY20A	FY21E	FY22E	FY23E	YE 31 Dec	FY19A	FY20A	FY21E	FY22E	FY23E
Current assets	40,995	43,204	55,372	70,102	72,258	Revenue mix					
Prepayments and others	8,514	7,504	8,616	8,839	9,409	Tower business	71,406	73,371	74,980	77,854	79,946
Account receivables	26,258	30,658	40,821	48,828	56,861	DAS business	2,658	3,528	4,586	5,504	6,604
Cash & equivalents	6,223	5,042	5,935	12,435	5,988	TSSAI & energy oper.	2,080	3,939	6,076	8,062	10,779
						Others	284	261	261	261	261
Non-current assets	297,072	294,176	285,104	283,943	284,275	Growth (%)					
PPE	239,925	231,684	223,397	216,208	208,989	Revenue	6.4	6.1	5.9	6.7	6.4
Right-of-use assets	36,140	34,553	36,144	37,848	40,778	Operating profit	46.1	32.7	30.0	20.0	20.0
Deferred tax assets	1,199	1,457	1,002	1,002	1,002	EBITDA	35.7	5.0	6.5	6.4	6.3
Other non-current assets	19,808	26,482	24,561	28,885	33,506	Net profit	97.1	23.1	26.3	21.4	11.0
Total assets	338,067	337,380	340,476	354,045	356,533	Profit & loss ratio (%)					
Current liabilities	128,364	106,635	113,666	115,971	111,511	Operating margin	14.8	14.8	16.7	18.0	18.4
ST borrowings	87,019	61,999	70,906	65,708	64,435	EBITDA margin	74.2	73.4	73.8	73.6	73.5
Lease liabilities	6,992	7,006	6,900	6,900	6,900	Net profit margin	6.8	7.9	9.4	10.7	11.2
Account payables	29,313	31,460	29,729	37,231	34,045						
Other current liabilities	5,040	6,170	6,131	6,131	6,131	Balance sheet ratio					
Non-current liabilities	27,142	44,499	36,927	42,723	44,050	Net debt/total equity (%)	38.5	36.7	36.3	34.4	35.1
LT borrowings	8,480	27,121	17,909	22,512	21,789	Current ratio (x)	0.3	0.4	0.5	0.6	0.6
Lease liabilities	17,862	16,745	18,401	19,594	21,645	Receivable turnover days	82.2	102.5	126.7	153.9	172.5
Other non-current liabilities	800	633	617	617	617	Profitability (%)					
Total liabilities	155,506	151,134	150,593	158,693	155,561	ROE	2.9	3.5	4.3	5.0	5.4
Share capital	176,008	176,008	176,008	176,008	176,008	ROA	1.5	1.9	2.4	2.8	3.1
Reserve	6,551	10,237	13,874	19,343	24,963	Per share data (RMB)					
Minority interest	2	1	1	1	1	EPS	0.030	0.037	0.046	0.056	0.063
Total equity	182,561	186,246	189,883	195,352	200,972	DPS	0.015	0.022	0.025	0.030	0.034
Total liabilities and equity	338,067	337,380	340,476	354,045	356,533						

Source: Company data, CMBIS estimates

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