

China Tower (788 HK)

Core tower business to grow at slower pace; Maintain HOLD

China Tower announced 1Q22 key operational data. Revenue of RMB22.6bn grew 7% YoY, mainly driven by non-tower business. EBITDA grew 0.8% YoY to RMB15.7bn. NP grew 28.7% YoY to RMB2.2bn and NPM improved to 9.6% in 1Q22 from 8.5% in FY21. Looking forward, we expect 2022-23E revenue to grow at mid-single-digit rate. Although we expect non-tower business to deliver double-digit growth, its revenue contribution will be only 14% in FY22E. We forecast core business to grow at 2.9%/2.5% YoY, a slower pace considering telco have stronger incentive to lift profitability and potential plan to increase dividend payout ratio. Next catalyst for China Tower is the telco's service contract renewal, which could result in a declining expenses ratio for telco to pay for China Tower's services. Maintain HOLD, with adjusted TP of HK\$1.01.

- Non-tower business outperformed; however, its revenue contribution is insignificant.** China Tower's 1Q22 revenue grew 7% YoY, mainly driven by higher growth from non-tower business (3.1%/38.9% for tower/non-tower). However, non-tower's revenue contribution only accounted for 14% of total revenue. 1Q22 NPM rose to 9.6%, as a result of lower debt level in our view.
- Pressure remains given telcos's profitability concerns and potential leasing fee reduction.** We see telco's expenses for China Tower's services have accounted for a smaller portion of telco's total COGS (7%/5%/3% decline for China Mobile/China Telecom/China Unicom). We expect the trend will continue given 1) telco's incentive to improve profitability, 2) telco's plan to increase dividend payout ratio and 3) potential lower leasing fee from telcos as the service contract will be renewed at the end of this year. According to news report (Bloomberg), the last pricing agreement reduced its leasing fees to 10% above its overhead for 2018-22, down from 15% in 2017.
- Maintain HOLD; lower TP to HK\$1.01.** We trimmed our TP based on lower EPS and reduced target multiple of 3.0x FY22E EV/EBITDA (vs 4.0x prior), close to 1-SD below 2-year avg. Potential upside: favorable terms under the new services contract with the telco.

Earnings Summary

(YE 31 Dec)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue (RMB mn)	81,099	86,585	91,942	96,760	100,977
YoY growth (%)	6.1%	6.8%	6.2%	5.2%	4.4%
EBITDA (RMB mn)	59,845	63,320	67,349	70,868	73,962
Net income (RMB mn)	6,428	7,329	8,858	10,432	11,836
EPS (RMB)	0.04	0.04	0.05	0.06	0.07
YoY growth (%)	23.6%	14.0%	20.9%	17.8%	13.5%
Consensus EPS (RMB)	NA	NA	0.05	0.05	0.00
P/E (x)	20.3	17.8	14.7	12.5	11.0
P/B (x)	0.7	0.7	0.7	0.7	0.6
Yield (%)	3.0%	3.5%	4.4%	5.4%	6.3%
ROE (%)	3.5%	3.9%	4.6%	5.3%	5.8%
Net gearing (%)	45.1%	38.2%	30.4%	22.3%	12.7%

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$1.01
(Previous TP)	HK\$1.16)
Up/Downside	+9.6%
Current Price	HK\$0.92

China Technology Sector

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Stock Data

Mkt Cap (RMBmn)	161,928
Avg 3 mths t/o (RMBmn)	146
52w High/Low (RMB)	1.12/0.74
Total Issued Shares (mn)	46,663.9

Source: Bloomberg

Shareholding Structure

Citigroup	8.16%
Hillhouse Capital	7.02%
GIC	6.99%

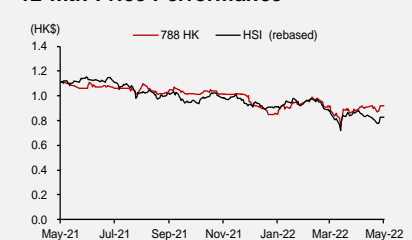
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	4.5%	9.3%
3-mth	-2.1%	10.5%
6-mth	-8.9%	8.4%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PriceWaterHouse Coopers

Related Reports

- 1H21 in-line; tower business remains slow – 10 Aug 2021
- 1Q21 in-line; tower business remains slow – 20 Apr 2021

Financials

Figure 1: Operational data

Operational data (RMBk)	2019A	2020A	2021A	2022E	2023E	2024E
Tower data						
Tower tenants (k)	3,063.0	3,175.0	3,260.0	3,325.2	3,375.1	3408.8
YoY%	8.0%	3.7%	2.7%	2.0%	1.5%	1.0%
Tower No. (k)	1,994.0	2,023.0	2,038.0	2,048.2	2,054.3	2057.4
YoY%	3.6%	1.5%	0.7%	0.5%	0.3%	0.2%
TSP tenancy ratio (TSP Tenant/ Tower)	1.54	1.57	1.60	1.62	1.64	1.66
YoY%	4.2%	2.2%	1.9%	1.5%	1.2%	0.8%
Avg Revenue per TSP tenant	23.3	23.1	23.3	23.6	23.9	24.3
YoY%	-3.6%	-0.9%	0.7%	1.4%	1.4%	1.6%
Avg Revenue per TSP tower	35.8	36.3	37.2	38.3	39.3	40.3
YoY%	0.5%	1.3%	2.6%	2.9%	2.6%	2.5%
TSSAI data						
TSSAI tenants (k)	176.0	186.0	199.0	209.0	216.3	220.6
YoY%	25.1%	5.7%	7.0%	5.0%	3.5%	2.0%
Tower No. (k)	1,994.0	2,023.0	2,038.0	2,048.2	2,054.3	2,057.4
YoY%	3.6%	1.5%	0.7%	0.5%	0.3%	0.2%
TSSAI tenancy ratio (TSSAI Tenant/ Tower)	0.09	0.09	0.10	0.10	0.11	0.11
YoY%	20.8%	4.2%	6.2%	4.5%	3.2%	1.8%
Avg Revenue per TSP tenant	10.7	16.2	20.4	24.5	28.2	31.0
YoY%	23.4%	50.6%	26.3%	20.0%	15.0%	10%
Avg Revenue per TSP tower	0.9	1.5	2.0	2.5	3.0	3.3
YoY%	49.1%	56.9%	34.2%	25.4%	18.7%	12.0%
DAS data						
Covered area (mn sqm)	257.0	406.0	499.0	573.9	631.2	662.8
YoY%	76.0%	58.0%	22.9%	15.0%	10.0%	5.0%
Avg Revenue per covered area	10.3	8.7	8.7	8.7	8.7	8.7
YoY%	-17.0%	-16.0%	0.1%	0.1%	0.1%	0.1%

Source: Company data, CMBIGM estimates

Figure 2: Revenue breakdown

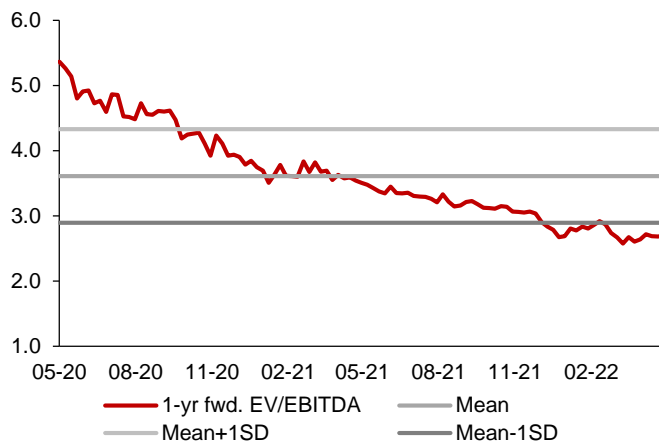
Revenue breakdown (RMBmn)	2019A	2020A	2021A	2022E	2023E	2024E
Tower business	71,406	73,371	75,857	78,468	80,720	82,866
YoY%	4.1%	2.8%	3.4%	3.4%	2.9%	2.7%
DAS business	2,658	3,528	4,340	4,995	5,500	5,780
YoY%	46.1%	32.7%	23.0%	15.1%	10.1%	5.1%
TSSAI & energy	2,080	3,939	6,131	8,222	10,283	12,074
YoY%	70.2%	89.4%	55.6%	34.1%	25.1%	17.4%
TSSAI business	1,887	3,004	4,060	5,116	6,089	6,832
YoY%	na	59.2%	35.2%	26.0%	19.0%	12.2%
Energy operations	193	935	2,071	3,107	4,194	5,242
YoY%	na	384.5%	121.5%	50.0%	35.0%	25.0%
Others	284	261	257	257	257	257
YoY%	56.9%	-8.1%	-1.5%	0.0%	0.0%	0.0%
Total	76,428	81,099	86,585	91,942	96,760	100,977
YoY%	6.4%	6.1%	6.8%	6.2%	5.2%	4.4%

Source: Company data, CMBIGM estimates

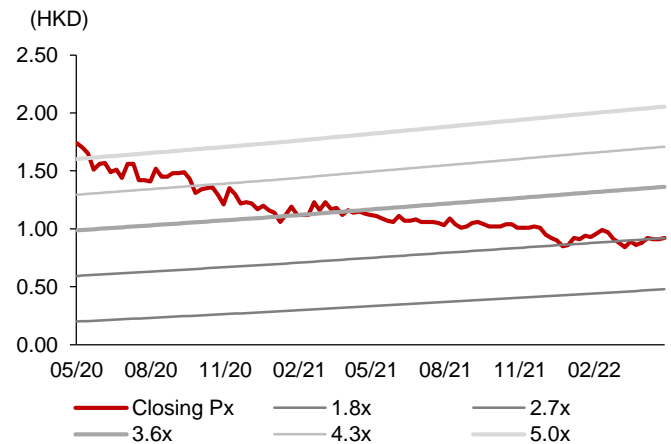
Figure 3: CMBIGM estimates vs consensus

US\$ mn	CMBIGM			Consensus			Diff (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	91,942	96,760	100,977	92,165	95,993	100,387	0%	1%	1%
EBITDA	67,349	70,868	73,962	66,531	68,976	71,471	1%	3%	3%
Operating Profit	14,726	16,162	17,229	15,023	15,809	17,489	-2%	2%	-1%
Net profit	8,858	10,432	11,836	8,835	9,549	10,751	0%	9%	10%
EPS (US\$ cents)	0.05	0.06	0.07	0.05	0.05	0.06	2%	9%	14%
EBITDA Margin	73.3%	73.2%	73.2%	72.2%	71.9%	71.2%	1.1 ppt	1.4 ppt	2.1 ppt
Operating Margin	16.0%	16.7%	17.1%	16.3%	16.5%	17.4%	-0.3 ppt	0.2 ppt	-0.4 ppt
Net Margin	9.6%	10.8%	11.7%	9.6%	9.9%	10.7%	0 ppt	0.8 ppt	1 ppt

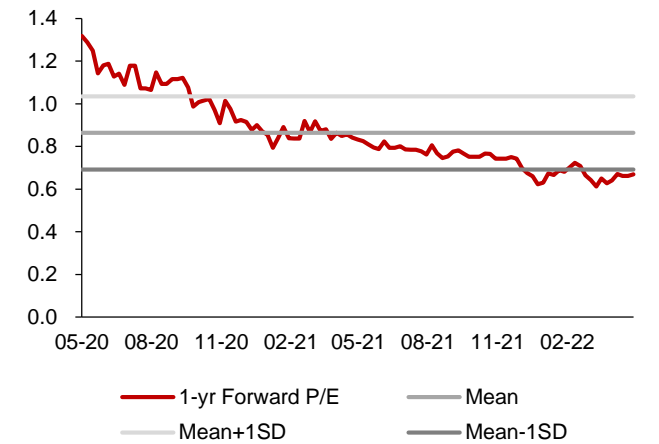
Source: Company data, CMBIGM estimates

Figure 4: 12M forward EV/EBITDA band

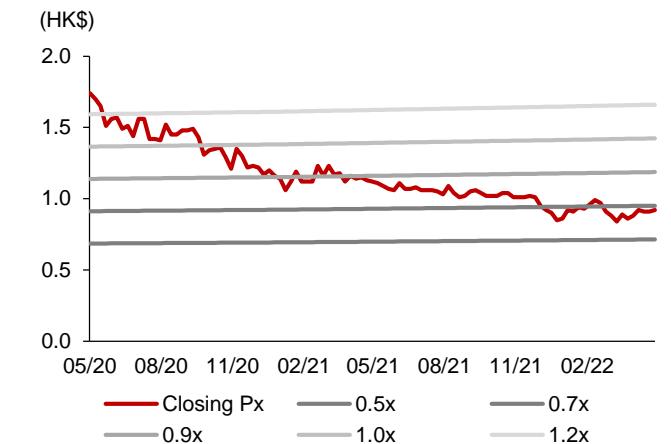
Source: Company data, CMBIGM estimates

Figure 5: 12M forward EV/EBITDA chart

Source: Company data, CMBIGM estimates

Figure 6: 12M forward P/B band

Source: Company data, CMBIGM estimates

Figure 7: 12M forward P/B chart

Source: Company data, CMBIGM estimates

Financial Summary

Income statement

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	81,099	86,585	91,942	96,760	100,977
Selling exp	(4,627)	(5,161)	(5,480)	(5,767)	(6,019)
Admin exp	(5,805)	(5,796)	(6,063)	(6,380)	(6,658)
R&D exp	(6,115)	(6,875)	(7,300)	(7,683)	(8,018)
Finance costs	(3,923)	(3,723)	(3,462)	(2,844)	(2,092)
Other operating exp.	89,557	95,105	99,522	103,272	106,536
Operating profit	12,012	13,035	14,726	16,162	17,229
Other non-oper exp.	(3,605)	(3,420)	(3,121)	(2,495)	(1,723)
Pre-tax profit	8,407	9,615	11,605	13,667	15,506
Income tax expense	(1,980)	(2,287)	(2,747)	(3,235)	(3,670)
Minority interests	(1)	(1)			
Net profit to shareholders	6,428	7,329	8,858	10,432	11,836

Cash flow summary

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Net profit	8,407	9,615	8,858	10,432	11,836
Depreciation/amortization	47,515	49,982	40,863	41,856	42,749
Change in working capital	(2,814)	(6,581)	(8,777)	(10,750)	(9,933)
Others	4,440	7,487	14,512	15,052	15,113
Net cash from operating	57,548	60,503	55,456	56,591	59,764
Capex	(37,800)	(32,513)	(34,438)	(33,699)	(32,701)
Other	(97)	998	2,545	2,635	2,720
Net cash from investing	(37,897)	(31,515)	(31,892)	(31,065)	(29,981)
Share issuance	0	0	0	0	0
Dividend paid	(2,561)	(3,934)	(4,618)	(5,759)	(6,991)
Other	(18,276)	(23,626)	(17,644)	(18,659)	(22,041)
Net cash from financing	(20,837)	(27,560)	(22,262)	(24,418)	(29,031)
Net change in cash	(1,186)	1,428	1,302	1,108	752
Cash at beginning of the year	6,223	5,042	6,471	7,773	8,881
Exchange difference	5	1	0	0	0
Cash at the end of the year	5,042	6,471	7,773	8,881	9,633

Balance sheet

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Current assets	43,204	48,344	54,780	60,031	66,129
Cash & equivalents	5,042	6,471	7,773	8,881	9,633
Account receivables	30,658	34,194	39,192	42,796	47,845
Inventory	0	0	0	0	0
Prepayment	7,504	7,679	7,815	8,354	8,651
Other current assets	0	0	0	0	0
Non-current assets	294,176	274,915	255,576	233,371	207,824
PPE	231,684	221,419	194,558	165,769	135,027
Deferred tax assets	1,457	1,892	3,104	4,401	5,479
Other non-current assets	61,035	51,604	57,915	63,201	67,318
Total assets	337,380	323,259	310,357	293,402	273,953
Current liabilities	106,635	76,182	59,111	36,648	11,831
ST borrowings	61,999	37,142	23,909	8,150	-11,464
Account payables	31,460	25,264	22,596	17,168	13,264
Tax payable	0	0	0	0	0
Other current liabilities	13,176	13,776	12,605	11,330	10,031
Non-current liabilities	44,499	57,723	57,652	58,487	59,010
LT borrowings	27,121	41,572	42,767	45,001	46,966
Deferred tax liability	0	0	0	0	0
Other non-current liabilities	17,378	16,151	14,886	13,486	12,044
Total liabilities	151,134	133,905	116,763	95,134	70,840
Share capital	176,008	176,008	176,008	176,008	176,008
Reserve	0	0	0	0	0
Retained earnings	10,237	13,346	17,586	22,260	27,105
Other			0	0	0
Minority interest	1	0	0	0	0
Total equity	186,246	189,354	193,594	198,268	203,113
Total liabilities and equity	337,380	323,259	310,357	293,402	273,953

Key ratios

YE 31 Dec (RMB mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue mix					
Tower business	73,371	75,857	78,468	80,720	82,866
DAS business	3,528	4,340	4,995	5,500	5,780
TSSAI & energy	3,939	6,131	8,222	10,283	12,074
Others	261	257	257	257	257
Growth (%)					
Revenue	6.1%	6.8%	6.2%	5.2%	4.4%
Operating profit	6.5%	8.5%	13.0%	9.8%	6.6%
Net profit	23.1%	14.0%	20.9%	17.8%	13.5%
Profit & loss ratio (%)					
Operating margin	14.8%	15.1%	16.0%	16.7%	17.1%
Net profit margin	7.9%	8.5%	9.6%	10.8%	11.7%
Balance sheet ratio					
Net debt/total equity (%)	45.1%	38.2%	30.4%	22.3%	12.7%
Current ratio (x)	0.4	0.6	0.9	1.6	5.6
Receivable turnover days	102	113	125	135	145
Inventory turnover days	0	0	0	0	0
Payable turnover days	137	120	95	75	55
Profitability (%)					
ROE	3.5%	3.9%	4.6%	5.3%	5.8%
ROA	1.9%	2.3%	2.9%	3.6%	4.3%
Per share data (RMB)					
EPS	0.04	0.04	0.05	0.06	0.07
DPS (H - share, in HKD)	0.02	0.03	0.03	0.04	0.05
BPS	1.07	1.08	1.11	1.13	1.16

Source: Company data, CMBIGM estimates

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