

Rating Sell

Asia China

Telecommunications

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Dr. Peng Group Alert

Reuters Bloomberg 600804.SS 600804 CH Exchange Ticker SHH 600804

Date

28 September 2017

Company Update

Price at 28 Sep 2017 (CNY)	19.72
Price target - 12mth (CNY)	15.00
52-week range (CNY)	23.90 - 16.14
Shanghai Composite	3,345

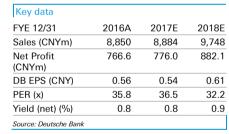
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Stock data	
Market cap (CNYm)	28,113
Market cap (USDm)	4,235
Shares outstanding (m)	1,425.6
Major shareholders	_
Free float (%)	83
Avg daily value traded (USDm)	25.9
Source: Deutsche Bank	



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Dr. Peng to acquire 49% of Citic Network

A positive step in the long run but negative in the short term

Dr. Peng announced today that it would look to acquire 49% of Citic Networks' shares for RMB1.34bn. It came through after a failed attempt by Citic Telecom to acquire the asset due to concerns around foreign ownership. While the deal brings Dr. Peng closer to an integrated fixed broadband provider, restrictions remain around full private ownership of backhaul assets in China with no clear sight of when such rules could be relaxed. Without full operational control, the deal is likely to result in a near-term earnings drag for Dr. Peng and with its top-line growth remaining sluggish, we retain our SELL rating.

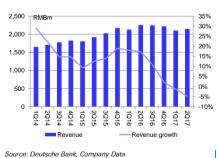
Limited impact on the major operators

Given Dr. Peng only has 14m fixed broadband subs, representing only 4% of the market, we see a limited competitive threat to the major operators even if Dr. Peng is able to improve its backhaul capabilities via the deal.

Citic Networks' losses continue

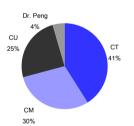
Citic Networks is the only backbone operator in China outside of the major telcos with 32,000km of fiber backhaul connecting the capital cities of almost all provinces in China. It reported a RMB104m loss after tax in FY16 with the trend continuing in 1H17. It was also loss making in FY14 and FY15.

Figure 1: Topline growth sluggish



ource: Deutsche Bank, Company Data

Figure 2: Fixed broadband market share



Source: Deutsche Bank, Company Data

Deutsche Bank AG/Hong Kong

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