



Rating
Sell

Asia
China

Telecommunications
Telecommunications

Company
**Dr. Peng Group
Alert**

Reuters 600804.SS Bloomberg 600804.CH Exchange SHH Ticker 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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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.

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

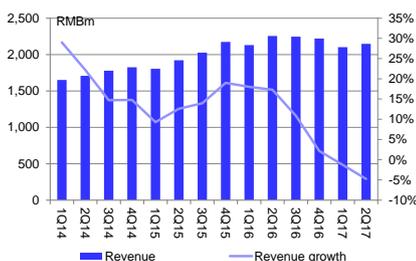
Source: Deutsche Bank

Key data

FYE 12/31	2016A	2017E	2018E
Sales (CNYm)	8,850	8,884	9,748
Net Profit (CNYm)	766.6	776.0	882.1
DB EPS (CNY)	0.56	0.54	0.61
PER (x)	35.8	36.5	32.2
Yield (net) (%)	0.8	0.8	0.9

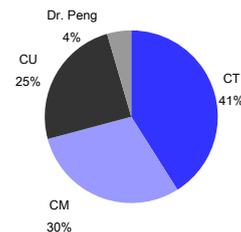
Source: Deutsche Bank

Figure 1: Topline growth sluggish



Source: Deutsche Bank, Company Data

Figure 2: Fixed broadband market share



Source: Deutsche Bank, Company Data