Company Report: China Mobile (00941 HK)

公司报告：中国移动 (00941 HK)

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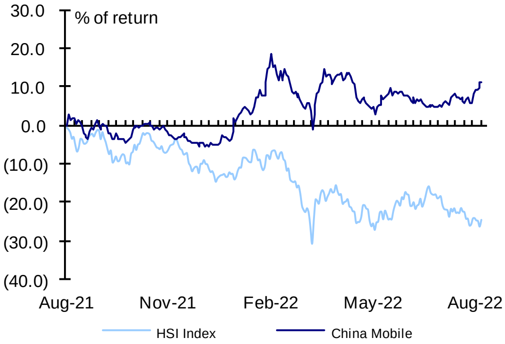
Dividend to Grow Steadily, "Buy"

派息将稳定上升，“买入”

- **We maintain the TP as HK$61.50 but upgrade the investment rating from "Accumulate" to "Buy".** We forecast FY22-FY24 EPS to be RMB5.906/ RMB6.472/ RMB6.941, respectively. Considering rising profitability and dividends, we upgrade the investment rating to "Buy".
- **China Mobile's 1HFY22 results were in line with our expectations.** Revenue from telecom services increased by 8.4% yoy, while EBITDA increased by 7.4% yoy. Shareholders' net profit increased by 18.9% yoy.
- **We expect "home" market revenue and "business" market revenue to still grow rapidly in 2H22.** We expect wireline broadband users to further rise. Due to bandwidth upgrades as well as penetration of value-added applications, we expect broadband blended ARPU to still increase. We expect net addition of corporate customers to still be high in 2H22. With strong market demand and the Company's continuous investment and its strength in cloud and network convergence, we expect DICT revenue to still grow over 40% yoy in 2H22. We expect mobile service revenue to be stable in 2H22.
- **We expect future dividend payout to exceed market expectations.** In 2H22, we expect growth of network, operation and support expenses as well as employee benefit expenses to be higher than growth of service revenue; we expect costs of products sold to still be in line with sales of products. We expect EBITDA margin to decrease yoy but shareholders' net profit to increase steadily. The Company plans to raise dividend payout ratio to over 70% in 2023, and we expect that dividend payout may exceed market expectations in the future.
- **Catalyst:** Increase in dividend payout ratio.
- **Risk warning:** Slower-than-expected growth of DICT business; increased competition may put pressure on ARPU.
- **我们维持 61.50 港元的目标价，但将投资评级由“收集”上调至“买入”。**我们预测 2022-2024 财年的每股盈利为人民币 5.906/ 6.472/ 6.941 元。考虑到公司不断上升的盈利水平和派息，我们上调投资评级至“买入”。
- **中国移动 2022 财年上半年业绩符合我们的预期。**通信服务收入同比上升 8.4%，而 EBITDA 同比上升 7.4%。股东净利同比增长了 18.9%。
- **我们预计 2022 年下半年家庭市场收入和政企市场收入仍将快速增长。**我们预计有线宽带用户将进一步上升。由于带宽升级以及增值应用的渗透，我们预计宽带综合 ARPU 仍将增加。我们预计政企客户净增数在 2022 年下半年仍会较高。凭借强劲的市场需求、公司的持续投资和云网融合实力，我们预计 DICT 收入在 2022 年下半年仍会同比上升超过 40%。我们预计 2022 年下半年移动服务收入将较为稳定。
- **我们预计未来派息水平可能会超过市场预期。**2022 年下半年，我们预计网络、运营和支持费用以及雇员薪酬费用的增长将高于服务收入的增长；我们预计销售产品成本仍将与产品销售保持一致。我们预计 EBITDA 利润率将同比下降，但股东净利将稳步上升。公司计划在 2023 年将派息率提高至 70%以上，我们预计未来派息率可能超过市场预期。
- **催化剂：**派息率的上升。
- **风险提示：**DICT 业务增速慢于预期；竞争加剧使得 ARPU 承压。

Rating:	**Buy** Upgraded
评级：	**买入** (上调)
6-18m TP 目标价:	**HK$61.50** HK$61.50
Share price 股价:	HK$51.750

Stock performance
股价表现



Change in Share Price 股价变动	1 M 1 个月	3 M 3 个月	1 Y 1 年
Abs. % 绝对变动 %	6.1	4.7	4.5
Rel. % to HS Index 相对恒指变动 %	9.4	0.7	28.5
Avg. Share price(HK$) 平均股价（港元）	50.1	49.8	48.4

Source: Bloomberg, Guotai Junan International.

Year End 年结 12/31	Turnover 收入 (RMB m)	Net Profit 股东净利 (RMB m)	EPS 每股净利 (RMB)	EPS 每股净利变动 (△ %)	PER 市盈率 (x)	BPS 每股净资产 (RMB)	PBR 市净率 (x)	DPS 每股股息 (RMB)	Yield 股息率 (%)	ROE 净资产收益率 (%)
2020A	768,070	107,843	5.267	1.1	8.3	56.112	0.8	2.827	6.5	9.6
2021A	848,258	116,148	5.673	7.7	7.4	58.917	0.7	3.424	8.1	9.9
2022F	933,212	126,168	5.906	4.1	7.4	61.035	0.7	3.987	9.1	10.1
2023F	1,006,121	138,270	6.472	9.6	6.8	62.847	0.7	4.660	10.6	10.4
2024F	1,065,299	148,275	6.941	7.2	6.3	64.582	0.7	5.206	11.8	10.9

Shares in issue (m) 总股数 (m)	21,362.8	Major shareholder 大股东	China Mobile Group 69.8%
Market cap. (HK$ m) 市值 (HK$ m)	1,105,524.9	Free float (%) 自由流通比率 (%)	30.2
3 month average vol. 3 个月平均成交股数 (‘000)	20,979.4	FY22 Net gearing (%) FY22 净负债/股东资金 (%)	Net Cash
52 Weeks high/low (HK$) 52 周高/低 (HK$)	58.650 / 45.900	FY22 Est. NAV (HK$) FY22 每股估值（港元）	72.0

Source: the Company, Guotai Junan International.

China Mobile's (the "Company") 1HFY22 results were in line with our expectations. In 1HFY22, revenue from telecommunications services increased steadily at 8.4% yoy to RMB426.4 billion. Revenue from sales of products and others surged by 39.8% yoy to RMB70.5 billion, mainly due to a sharp increase in mobile phone sales. EBITDA as a percentage of services revenue slightly decreased by 0.4 ppt yoy to 40.8%, while EBITDA increased by 7.4% yoy; the Company's shareholders' net profit increased by 18.9% yoy to RMB70.3 billion.

We expect "home" market revenue and "business" market revenue to still grow rapidly in 2HFY22. The number of household broadband customers increased to 230 million as at the end of June 2022, representing a net addition of 12.41 million. Total wireline broadband customers increased by 15.95 million to 256 million. Given the Company's strategy of bundling mobile and broadband services and its high mobile user base, we expect household broadband customers and wireline broadband users to further rise in 2H22. In 1HFY22, wireline broadband ARPU grew by 0.6% yoy to RMB36.3 while household broadband blended ARPU rose by 4.6% yoy to RMB43.0. Due to bandwidth upgrades as well as penetration of value-added applications such as smart home network deployment, home security and voice remote control, we expect broadband blended ARPU to still increase in 2H22. Given the rising user base and ARPU, we expect "home" market revenue to still rise significantly in 2H22. In 1HFY22, revenue from DICT business surged 44.2% to RMB48.2 billion, reflecting great potential from digital transformation. By end of 2022, the Company plans to increase the number of cloud servers to more than 0.66 million and the number of IDC cabinets available for external use to approximately 0.45 million, responding to the national strategy of channeling more computing resources from eastern areas to western areas of China. As the digital transformation deepens, we believe that the Company's digital-related business will face profound potential demand, which will serve as a new growth engine. Corporate customers increased by 2.29 million to 21.12 million in 1H22, and we expect net addition of corporate customers to still be high in 2H22. With strong market demand and the Company's continuous investment and its strength in cloud and network convergence, we expect DICT revenue to still grow over 40% yoy in 2H22.

We expect mobile service revenue to be stable in 2HFY22. The number of mobile subscribers exhibited a net increase of 12.96 million in 1HFY22 and reached 970 million in total; the penetration rate of 5G package customers has risen rapidly and accounts for 52.7% of all customers as at the end of 1H22, up by 12.3 ppt YTD. According to the Ministry of Industry and Information Technology (MIIT) of the People's Republic of China, as at the end of 1H22, a total of 1.854 million 5G base stations have been built across the country, and there were 0.429 million 5G base stations newly built in 1H22. We expect that the number of mobile subscribers will still slightly increase in 2H22 while we expect 5G users to grow with the expanding coverage of 5G networks; however, we expect that the pulling effect of 5G on ARPU will not be significant in the short term. In the long term, 5G co-construction and sharing with China Broadcasting Network (CBN) is expected to expand the diversity of the Company's income sources, and improve the Company's network competitiveness.

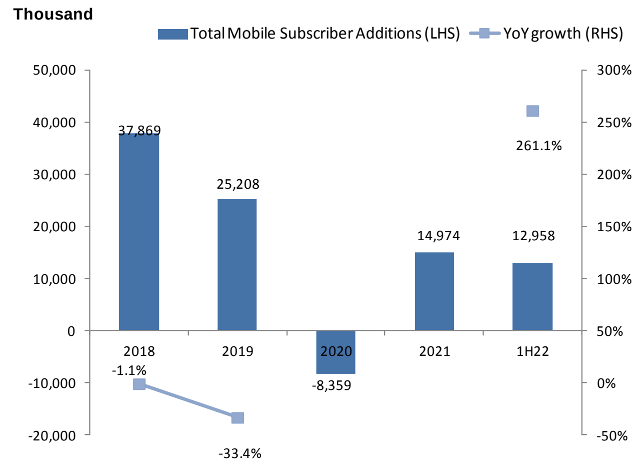
We expect the Company's future dividend payout to exceed market expectations. In 1H22, network, operation and support expenses rose by 14.1% yoy, mainly due to the accelerated construction and commissioning of new information infrastructure, and increased investments to support business transformation; we expect growth rate of network, operation and support expenses in 2H22 to still be higher than the growth rate of service revenue, in reflection of its digital transformation development, but will gradually stabilize in the long term. Employee benefit expenses increased by 14.4% yoy; we expect that growth of employee benefit expenses in 2H22 will be also higher than the growth rate of service revenue. Costs of products sold increased by 37.7% yoy, which was basically in line with revenue growth of sales of products; we expect costs of products sold to still be in line with sales of products in 2H22. Overall, we expect EBITDA margin to decrease yoy but EBITDA will increase yoy in 2H22, and shareholders' net profit will increase steadily. The Company announced an interim dividend of HK$2.20 per share, increased by 34.9% yoy, while the dividend payout ratio also increased significantly, and the Company plans to raise dividend payout ratio to over 70% in 2023. Given the expected steady cash position as well as the expected increase in EPS, we expect the dividend payout to exceed market expectations in the future.

We maintain the TP as HK$61.50 but upgrade the investment rating from "Accumulate" to "Buy". We revise up FY22-FY24 shareholders' net profit forecasts by 0.4%/ 1.6%/ 1.8%, respectively. We expect that the Company will raise its dividend payout ratios while its EPS will also increase steadily, thus the dividend payout level will rise continuously. We upgrade the investment rating from "Accumulate" to "Buy", due to the favorable dividend payout policy. The TP represents 8.9x, 8.1x and 7.5x FY22-FY24 PER.

Catalyst: Increase in dividend payout and dividend payout ratio.

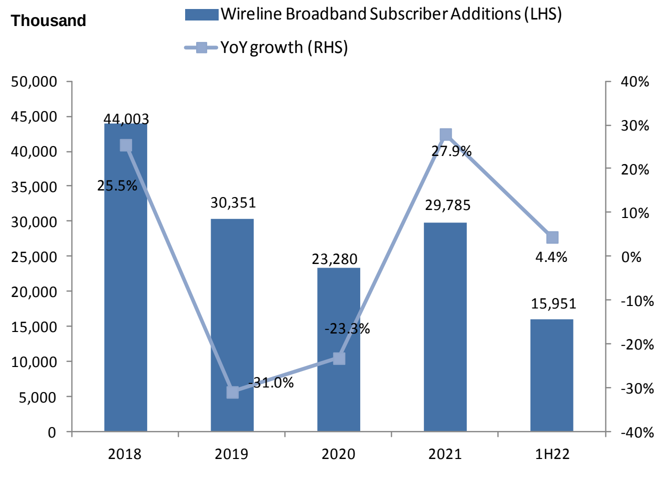
Risk warning: Slower-than-expected growth of DICT business; pressure from increased competition on ARPU.

Figure-1: China Mobile's Total Mobile Subscriber Net Additions and YoY Growth



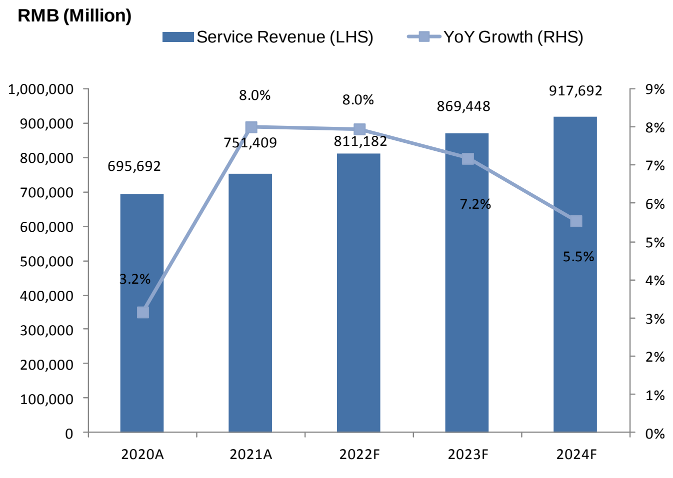
Source: the Company, Guotai Junan International.

Figure-2: China Mobile's Wireline Broadband Subscriber Net Additions and YoY Growth



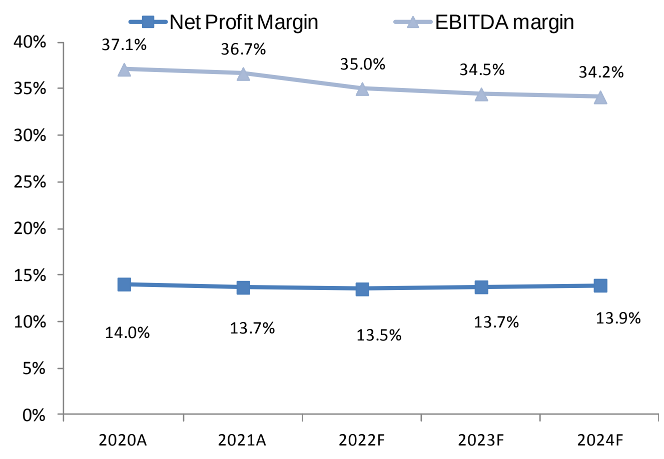
Source: the Company, Guotai Junan International.

Figure-3: China Mobile's Service Revenue



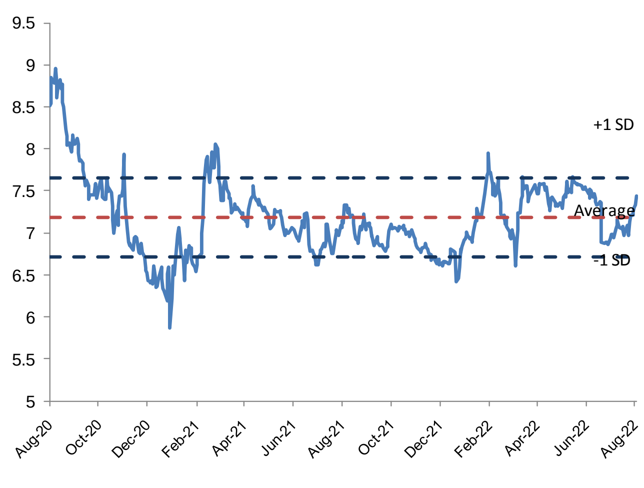
Source: the Company, Guotai Junan International.

Figure-4: China Mobile's Profit Margins



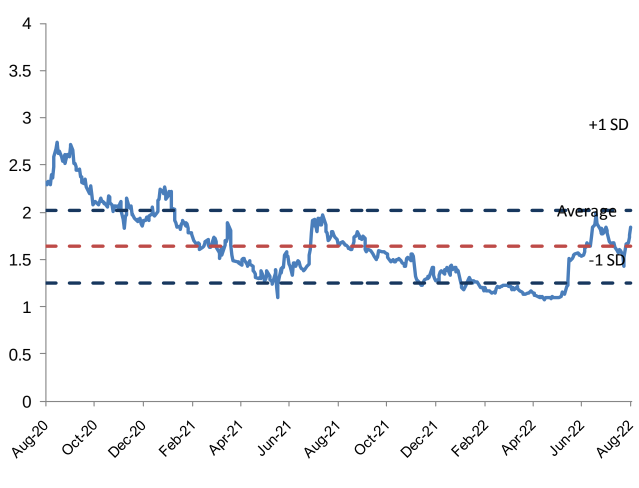
Source: the Company, Guotai Junan International.

Figure-5: China Mobile's PE Graph



Source: Bloomberg, Guotai Junan International.

Figure-6: China Mobile's EV/EBITDA Graph



Source: Bloomberg, Guotai Junan International.

Table-1: Peers Comparison

Company	Ticker	Currency	Price	Market Cap (HKD Mil)	PER 22F	PER 23F	PER 24F	PBR 22F	PBR 23F	PBR 24F	ROE (%) 22F	D/Y (%) 22F	EV/EBITDA 22F
HK Listed Companies													
China Mobile Ltd	00941 HK	HKD	51.750	1,142,612	7.5	7.0	6.6	0.7	0.7	0.7	10.0	8.3	1.8
China Telecom Corp Ltd-H	00728 HK	HKD	2.830	378,246	7.7	6.9	6.2	0.5	0.5	0.5	6.6	8.4	2.2
China Unicom Hong Kong Ltd	00762 HK	HKD	3.890	119,027	6.3	5.5	5.1	0.3	0.3	0.3	4.8	8.0	0.6
Pccw Ltd	00008 HK	HKD	4.170	32,274	33.9	35.6	26.9	3.5	5.4	24.5	3.8	8.5	6.4
Hkt Trust And Hkt Ltd-Ss	06823 HK	HKD	10.920	83,226	16.8	16.3	15.8	2.3	2.3	2.3	13.5	6.8	9.6
Smartone Telecommunications	00315 HK	HKD	4.170	4,610	10.4	10.0	9.7	0.9	0.9	0.8	8.5	7.2	1.5
Hutchison Telecomm Hong Kong	00215 HK	HKD	1.200	5,831	n.a.	171.4	70.6	0.6	0.6	0.6	(0.7)	6.0	1.6
Citic Telecom International	01883 HK	HKD	2.660	9,884	8.9	8.4	7.6	0.9	0.9	0.9	10.8	8.8	5.4
Hkbn Ltd	01310 HK	HKD	8.490	11,031	25.1	17.3	14.7	2.4	2.7	3.1	10.8	9.5	8.1
Simple Average					14.6	31.0	18.1	1.3	1.6	3.7	7.6	7.9	4.1
Weighted Average					8.5	8.4	7.5	0.8	0.8	1.1	9.0	8.2	2.3
US Listed Companies													
At&T Inc	T US	USD	18.040	1,007,354	7.1	7.3	7.2	0.9	0.9	0.8	13.6	6.7	6.7
Verizon Communications Inc	VZ US	USD	44.780	1,473,682	8.6	8.5	8.3	2.1	1.8	1.6	24.6	5.8	7.0
T-Mobile Us Inc	TMUS US	USD	143.610	1,411,226	61.7	22.3	14.8	2.5	2.5	2.5	4.9	0.0	9.1
Simple Average					25.8	12.7	10.1	1.8	1.7	1.6	14.4	4.2	7.6
Weighted Average					27.5	13.2	10.4	1.9	1.8	1.7	14.6	3.9	7.7
Japan Listed Companies													
Nippon Telegraph & Telephone	9432 JP	JPY	3,744.000	794,743	11.4	10.8	10.1	1.6	1.5	1.3	14.9	3.2	6.2
Kddi Corp	9433 JP	JPY	4,151.000	564,785	13.8	13.1	12.2	1.8	1.7	1.6	13.8	3.1	5.5
Softbank Group Corp	9984 JP	JPY	5,315.000	573,661	n.a.	57.7	13.7	0.9	0.8	0.8	(18.1)	0.8	46.4
Simple Average					12.6	27.2	12.0	1.5	1.3	1.2	3.5	2.4	19.4
Weighted Average					12.4	25.4	11.8	1.5	1.4	1.3	4.8	2.5	17.9
EU Listed Companies													
Vodafone Group Plc	VOD LN	GBp	121.220	322,815	19.8	13.6	12.6	0.7	0.7	0.7	3.8	6.1	5.1
Deutsche Telekom Ag-Reg	DTE GR	EUR	18.854	760,136	12.8	11.9	10.6	2.0	1.9	1.8	16.6	3.7	6.9
Telenor Asa	TEL NO	NOK	113.500	130,791	13.6	13.1	12.4	6.7	7.4	8.2	45.2	8.3	5.3
Telefonica Sa	TEF SM	EUR	4.283	199,992	12.2	11.5	10.5	1.2	1.2	1.2	8.2	7.0	5.8
Orange	ORA FP	EUR	10.106	217,353	9.0	8.6	7.9	0.8	0.8	0.7	8.9	7.1	4.7
Bt Group Plc	BT/A LN	GBp	158.000	149,847	12.2	7.6	8.1	1.0	1.0	1.0	9.4	4.2	5.0
Koninklijke Kpn Nv	KPN NA	EUR	3.155	105,331	18.9	17.3	15.9	4.2	4.0	3.8	21.0	4.4	7.6
Telecom Italia Spa	TIT IM	EUR	0.227	38,769	n.a.	28.4	15.1	0.3	0.2	0.2	0.1	0.9	5.9
Simple Average					14.1	14.0	11.6	2.1	2.2	2.2	14.1	5.2	5.8
Weighted Average					13.9	12.1	10.9	1.9	1.9	1.9	14.0	5.2	6.0
Other Developed Market													
Telstra Corp Ltd	TLS AU	AUD	3.960	256,035	27.5	23.6	21.3	3.0	3.0	3.0	11.3	3.5	8.1
Singapore Telecommunications	ST SP	SGD	2.620	249,484	22.2	17.4	15.0	1.5	1.5	1.4	7.1	3.5	13.3
Simple Average					24.9	20.5	18.1	2.3	2.3	2.2	9.2	3.5	10.7
Weighted Average					24.9	20.5	18.2	2.3	2.3	2.2	9.2	3.5	10.7
Overall Average					18.4	21.1	14.0	1.8	1.8	2.2	9.8	4.6	9.5
Overall Weighted Average					17.4	15.9	11.8	1.7	1.6	1.6	10.3	4.7	8.9

Source: Bloomberg.

Financial Statements and Ratios

Income Statement

Year end 31 Dec (RMB m)	2020A	2021A	2022F	2023F	2024F
Service revenue	695,692	751,409	811,182	869,448	917,692
Sales of products and others	72,378	96,849	122,030	136,673	147,607
Total Revenue	768,070	848,258	933,212	1,006,121	1,065,299
Network operation and support expenses	(206,424)	(225,010)	(257,535)	(279,946)	(297,315)
Depreciation and amortization	(172,401)	(193,045)	(198,951)	(207,305)	(213,864)
Employee benefit and related expenses	(106,429)	(118,680)	(132,516)	(142,869)	(151,273)
Selling expenses	(49,943)	(48,243)	(43,804)	(46,081)	(48,638)
Cost of products sold	(73,100)	(96,083)	(119,345)	(133,666)	(144,360)
Other operating expenses	(47,039)	(49,234)	(52,932)	(56,734)	(59,882)
Operating Profit	112,734	117,963	128,129	139,520	149,968
Other gains	5,602	8,257	9,332	8,049	8,522
Interest and other income	14,341	16,729	18,315	23,263	24,793
Finance costs	(2,996)	(2,679)	(2,364)	(2,394)	(2,430)
Income from associate & JV	12,678	11,914	12,825	13,743	14,511
Profit Before Tax	142,359	152,184	166,237	182,182	195,364
Income Tax	(34,219)	(35,878)	(39,897)	(43,724)	(46,887)
Profit After Tax	108,140	116,306	126,340	138,458	148,477
Non-controlling Interest	(297)	(158)	(172)	(188)	(202)
Shareholders' Profit / Loss	107,843	116,148	126,168	138,270	148,275
Basic EPS	5.267	5.673	5.906	6.472	6.941

Cash Flow Statement

Year end 31 Dec (RMB m)	2020A	2021A	2022F	2023F	2024F
Profit before taxation	142,359	152,184	166,237	182,182	195,364
Net interest expenses (income)	(14,145)	(16,449)	(18,007)	(22,924)	(24,420)
Depreciation and amortization	172,401	193,045	198,951	207,305	213,864
Others	(2,914)	(2,826)	6,485	(10,834)	(12,620)
Change in working capital	46,167	28,204	44,360	21,123	36,295
Tax paid	(36,107)	(39,394)	(43,741)	(47,881)	(51,301)
Cash from Operating Activities	307,761	314,764	354,284	328,970	357,183
CAPEX	(189,577)	(202,673)	(185,225)	(186,110)	(187,218)
Bank deposit change	14,673	27,604	2,963	2,495	1,998
Net purchase of FA at FVPTL	(11,414)	(79,126)	(26,240)	(8,826)	(9,206)
Others	(1,788)	15,899	15,191	16,071	19,873
Cash from Investing Activities	(188,106)	(238,296)	(193,310)	(176,370)	(174,554)
Dividends paid	(59,726)	(57,585)	(85,025)	(92,359)	(105,380)
Others	(22,526)	12,384	18,469	(28,194)	(28,121)
Cash from Financing Activities	(82,252)	(45,201)	(66,556)	(120,553)	(133,501)
Net Changes in Cash	37,403	31,267	94,418	32,047	49,128
Cash at Beg of Year	175,933	212,729	243,943	338,361	370,408
FX change	(607)	(53)	0	0	0
Cash at End of Year	212,729	243,943	338,361	370,408	419,536

Source: the Company, Guotai Junan International.

Balance Sheet

Year end 31 Dec (RMB m)	2020A	2021A	2022F	2023F	2024F
PP&E	705,547	723,305	734,548	738,004	736,149
Construction in progress	71,651	71,742	71,111	71,182	71,512
Right-of-use assets	65,091	55,350	56,457	57,586	58,738
Land use rights and others	16,192	15,739	15,896	16,214	16,539
Goodwill	35,344	35,344	35,344	35,344	35,344
Investments in associate & JV	161,811	169,556	182,381	196,124	210,635
Deferred tax assets	38,998	43,216	44,945	46,742	48,612
Restricted bank deposits	8,836	7,046	8,103	9,318	10,716
Others	44,669	124,658	150,534	154,988	159,603
Total Non-current Assets	1,148,139	1,245,956	1,299,318	1,325,504	1,347,849
Inventories	8,044	10,203	12,983	12,985	15,060
Accounts receivable	38,401	34,668	36,401	38,221	40,133
Other receivables	9,923	10,137	10,948	11,824	12,770
Prepayment and other current assets	25,713	28,291	29,706	31,191	32,750
Financial assets at TVTPL	128,603	132,995	135,655	142,438	149,560
Bank deposits	110,382	89,049	84,597	80,367	76,348
Cash & Cash Equivalents	212,729	243,943	338,361	370,408	419,536
Other current assets	45,948	46,085	40,365	41,956	43,698
Total Current Assets	579,743	595,371	689,014	729,390	789,855
Total Assets	1,727,882	1,841,327	1,988,333	2,054,893	2,137,704
Accounts payable	167,990	152,712	193,474	179,165	214,428
Deferred revenue, current portion	79,028	79,068	74,657	85,520	87,355
Accrued expenses and other payables	200,952	274,509	289,049	317,572	323,160
Amount due to ultimate holding	26,714	23,478	24,652	25,884	27,179
Lease liabilities	24,173	26,059	24,756	25,994	27,294
Income tax payable	13,856	13,575	12,896	13,670	14,490
Other current liabilities	4,561	12,747	13,002	13,262	13,527
Total Current Liabilities	517,274	582,148	632,486	661,067	707,432
Lease liabilities – non-current	42,460	30,922	29,376	27,907	26,512
Deferred revenue	8,601	8,487	8,911	9,357	9,825
Other non-current liabilities	6,775	9,478	9,573	9,671	9,774
Total Non-current Liabilities	57,836	48,887	47,860	46,935	46,110
Total Liabilities	575,110	631,035	680,346	708,003	753,543
Share capital	402,130	402,130	403,095	403,095	403,095
Reserves	746,786	804,220	900,779	939,494	976,563
Total Shareholders' Equity	1,148,916	1,206,350	1,303,873	1,342,589	1,379,658
Minority Interest	3,856	3,942	4,114	4,302	4,503
Total Equity	1,152,772	1,210,292	1,307,987	1,346,891	1,384,161

Financial Ratios

	2020A	2021A	2022F	2023F	2024F
EBITDA margin (%)	37.1	36.7	35.0	34.5	34.2
Operating margin (%)	14.7	13.9	13.7	13.9	14.1
Net profit margin (%)	14.0	13.7	13.5	13.7	13.9
ROE (%)	9.6	9.9	10.1	10.4	10.9
ROA (%)	6.4	6.5	6.6	6.8	7.1
Net gearing	Net cash	Net cash	Net cash	Net cash	Net cash

Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Buy	买入	Relative Performance>15%; or the fundamental outlook of the company or sector is favorable.
Accumulate	收集	Relative Performance is 5% to 15%; or the fundamental outlook of the company or sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the company or sector is neutral.
Reduce	减持	Relative Performance is -5% to -15%; or the fundamental outlook of the company or sector is unfavorable.
Sell	卖出	Relative Performance <-15%; or the fundamental outlook of the company or sector is unfavorable.

Sector Rating Definition

The Benchmark: Hong Kong Hang Seng Index

Time Horizon: 6 to 18 months

Rating		Definition
Outperform	跑赢大市	Relative Performance>5%; or the fundamental outlook of the sector is favorable.
Neutral	中性	Relative Performance is -5% to 5%; or the fundamental outlook of the sector is neutral.
Underperform	跑输大市	Relative Performance<-5%; Or the fundamental outlook of the sector is unfavorable.

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