

China Tower (788 HK)

Stable 1H24 results; Maintain HOLD

The three domestic telcos (China mobile, China Unicom, & China Telecom, all close partners to China Tower), have all released their 1H24 earnings, from which we have noted stable tower-related spending despite 1) a decline in overall capex (5.4% decline projected for FY24E by the trio) and a shift in investment focus from 5G network deployment to cloud/compute capability enhancement, 2) slower growth in telcos' communication service revenue (CM/CU/CT: 2.5%/2.1%/4.3% YoY in 1H24), and 3) continuous cost control with a lower COGS expense ratio (CM/CU/CT: -2.0ppt/-0.8ppt/-0.1ppt in 1H24) and lower SG&A expense ratio (CU/CT: -1.2ppt/-0.5ppt, except a 0.6ppt increase for CM in 1H24). We expect China Tower's legacy business to remain stable with +1% YoY growth in 2024/25E, and DAS/Two Wings businesses to grow double-digit. Besides, mgmt. has decided to increase shareholder returns by announcing an interim dividend (RMB0.0109 in DPS). **Maintain HOLD with adj. TP at HK\$0.95, as we project the company's overall revenue growth to be modest (2%/4% YoY for 2024/25E) and the current valuation is fair.**

■ **Legacy business remained stable.** Tower segment contributed 79% of revenue in 1H24. Quarterly sales were flat during the past quarters (1.7%/0.3% QoQ in 1Q/2Q24). Per Bloomberg, China telcos' revenue is expected to grow only by a mid-single digit for 2024/25. We expect the ongoing cost optimization from China telcos will continue to weigh on China Tower's legacy business. We project its tower business to maintain a similar level in 2024/25, with 1.2%/0.8% YoY revenue growth.

■ **DAS and Two Wings business (Smart tower and Energy operations) may grow at double-digits.** Smart Tower/Energy operations revenues increased by 17.6%/2.4% YoY in 1H24. Specifically, Tower Monitor Business revenue increased by 20.9% YoY to RMB2.5bn, contributing 63% to Smart Tower's revenue. Energy segment also benefitted from the battery exchange business, with revenue up by 18.4% YoY.

■ **Maintain HOLD with TP revised to HK\$0.95, based on 3.1x FY24 EV/EBITDA, equivalent to ~0.5SD below 3-year forward EV/EBITDA multiple, as we estimate the overall growth for China Tower should be mild (4.1%/3.9% for 2024/25E).** We believe the three telcos will continue to maintain cost controls. Their legacy communication services only grew low-to mid-single digit in 1H24; however, the tower-related expenses paid by the trio accounted for 88% of China Tower's revenue in 1H24. We revised up 2024/25E EPS by 1%/17%, on a lower D&A expense ratio (50.4%/49.2% for FY24/25E vs. 53.7%/52.2% for 2022/23) and other cost optimization measures.

Earnings Summary

(YE 31 Dec)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue (RMB mn)	92,170	94,009	97,865	101,661	104,723
YoY growth (%)	6.5	2.0	4.1	3.9	3.0
Net profit (RMB mn)	8,787.0	9,750.0	10,542.8	12,302.3	14,413.2
YoY growth (%)	19.9	11.0	8.1	16.7	17.2
EPS (Reported) (RMB cents)	5.03	5.58	6.03	7.04	8.25
P/E (x)	17.8	16.1	14.9	12.7	10.9
ROE (%)	4.6	5.0	5.3	6.1	6.9

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price **HK\$0.95**
(Previous TP) HK\$0.89)

Up/Downside **N/A**

Current Price **HK\$0.98**

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Stock Data

Mkt Cap (HK\$ mn)	45,730.6
Avg 3 mths t/o (HK\$ mn)	213.6
52w High/Low (HK\$)	1.04/0.71
Total Issued Shares (mn)	46663.9

Source: FactSet

Shareholding Structure

GIC	6.9%
BlackRock	5.7%

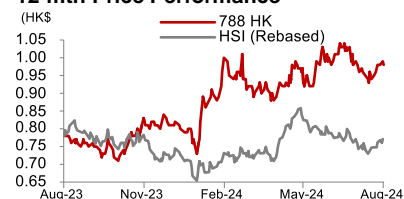
Source: Bloomberg

Share Performance

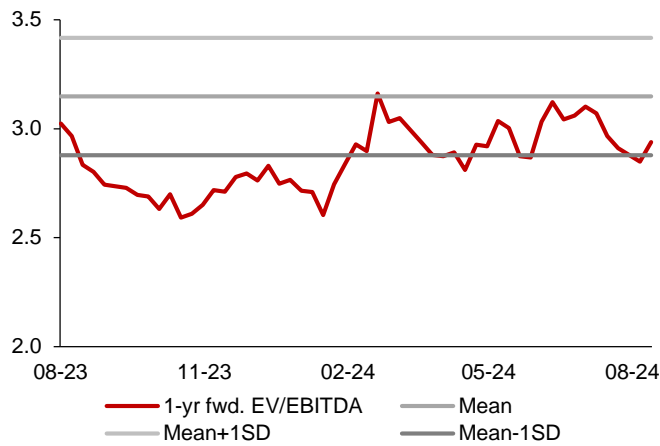
	Absolute	Relative
1-mth	-1.0%	-1.8%
3-mth	5.4%	12.9%
6-mth	-2.0%	-6.9%

Source: FactSet

12-month Price Performance



Source: FactSet

Figure 1: 1-yr forward EV/EBITDA band

Source: Company data, Bloomberg

Figure 2: EV/EBITDA chart

Source: Company data, Bloomberg

Figure 3: Earnings revisions

US\$m	New			Old			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	97,865	101,661	104,723	95,879	97,371	NA	2%	4%	NA
EBITDA	64,905	67,115	69,690	66,017	67,625	NA	-2%	-1%	NA
Net profit	10,543	12,302	14,413	9,839	10,292	NA	7%	20%	NA
EPS (RMB)	0.06	0.07	0.08	0.06	0.06	NA	1%	17%	NA
EBITDA Margin	66.3%	66.0%	66.5%	68.9%	69.5%	NA	-2.5 ppt	-3.4 ppt	NA
Net Margin	10.8%	12.1%	13.8%	10.3%	10.6%	NA	0.5 ppt	1.5 ppt	NA

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs. Bloomberg consensus

US\$m	CMBIGM			Consensus			Diff (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	97,865	101,661	104,723	98,087	102,358	106,241	0%	-1%	-1%
EBITDA	64,905	67,115	69,690	65,870	67,928	69,678	-1%	-1%	0%
Net profit	10,543	12,302	14,413	10,781	12,882	17,399	-2%	-5%	-17%
EPS (RMB)	0.06	0.07	0.08	0.06	0.07	0.10	-4%	-5%	-14%
EBITDA Margin	66.3%	66.0%	66.5%	67.2%	66.4%	65.6%	-0.8 ppt	-0.3 ppt	1 ppt
Net Margin	10.8%	12.1%	13.8%	11.0%	12.6%	16.4%	-0.2 ppt	-0.5 ppt	-2.6 ppt

Source: Company data, CMBIGM estimates, Bloomberg consensus

Financial Summary

INCOME STATEMENT	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Revenue	86,585	92,170	94,009	97,865	101,661	104,723
Operating expenses	(73,550)	(78,858)	(79,507)	(82,316)	(84,538)	(85,449)
Selling expense	(49,982)	(49,532)	(49,049)	(49,356)	(49,992)	(50,416)
Other rental related expenses	(5,161)	(5,857)	(5,393)	(5,886)	(5,911)	(5,880)
Others	(18,407)	(23,469)	(25,065)	(27,074)	(28,634)	(29,153)
Operating profit	13,035	13,312	14,502	15,549	17,123	19,274
Other income	303	1,095	1,114	783	813	838
Interest income	22	124	43	109	163	221
Interest expense	(3,745)	(3,003)	(2,827)	(2,566)	(1,909)	(1,363)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	9,615	11,528	12,832	13,875	16,191	18,969
Income tax	(2,287)	(2,741)	(3,082)	(3,333)	(3,889)	(4,556)
After tax profit	7,328	8,787	9,750	10,543	12,302	14,413
Minority interest	(1)	0	0	0	0	0
Net profit	7,329	8,787	9,750	10,543	12,302	14,413
BALANCE SHEET	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Current assets	48,344	49,706	78,083	72,653	70,190	72,947
Cash & equivalents	6,471	5,117	3,955	7,552	9,686	13,646
Account receivables	34,194	42,260	71,685	62,804	58,119	56,844
Inventories	0	0	0	0	0	0
Prepayment	7,679	2,329	2,443	2,296	2,385	2,457
Other current assets	0	0	0	0	0	0
Contract assets	0	0	0	0	0	0
Non-current assets	274,915	255,854	247,924	234,581	222,185	209,390
PP&E	221,419	209,377	201,542	190,476	178,818	167,258
Right-of-use assets	32,877	31,578	31,083	29,843	27,893	25,200
Intangibles	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0
Other non-current assets	20,619	14,899	15,299	14,261	15,474	16,932
Total assets	323,259	305,560	326,007	307,234	292,375	282,337
Current liabilities	76,182	65,158	63,934	55,615	47,758	35,980
Short-term borrowings	37,142	25,597	23,786	18,173	13,423	3,484
Account payables	25,264	26,646	28,286	25,339	23,403	22,503
Other current liabilities	6,342	5,510	4,825	5,460	5,196	5,017
Lease liabilities	6,913	7,127	6,864	6,624	5,719	4,958
Contract liabilities	0	0	0	0	0	0
Accrued expenses	521	278	173	18	18	17
Non-current liabilities	57,723	46,811	64,379	50,695	39,298	35,851
Long-term borrowings	41,572	31,448	49,329	36,996	26,846	24,391
Other non-current liabilities	16,151	15,363	15,050	13,699	12,452	11,459
Total liabilities	133,905	111,969	128,313	106,309	87,056	71,831
Share capital	176,008	176,008	176,008	176,008	176,008	176,008
Retained earnings	13,346	17,583	21,686	24,916	29,311	34,498
Other reserves	0	0	0	0	0	0
Total shareholders equity	189,354	193,591	197,694	200,924	205,319	210,506
Minority interest	0	0	0	0	0	0
Total equity and liabilities	323,259	305,560	326,007	307,234	292,375	282,337

CASH FLOW	2021A	2022A	2023A	2024E	2025E	2026E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	9,615	11,528	9,750	10,543	12,302	14,413
Depreciation & amortization	49,982	49,532	49,049	49,356	49,992	50,416
Change in working capital	(2,360)	(7,454)	(28,634)	4,434	949	(1,625)
Others	3,266	11,528	2,706	4,495	1,872	1,611
Net cash from operations	60,503	65,134	32,871	68,828	65,115	64,816
Investing						
Capital expenditure	(32,513)	(28,639)	(31,715)	(37,825)	(37,767)	(37,333)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	998	982	2,351	1,944	1,468	978
Net cash from investing	(31,515)	(27,657)	(29,364)	(35,881)	(36,298)	(36,355)
Financing						
Dividend paid	(3,934)	(4,618)	(7,313)	(7,313)	(7,907)	(9,227)
Net borrowings	(10,521)	(21,870)	16,070	(17,946)	(14,900)	(12,393)
Proceeds from share issues	0	0	0	0	0	0
Others	(13,105)	(12,337)	(3,250)	(4,091)	(3,876)	(2,881)
Net cash from financing	(27,560)	(38,825)	5,508	(29,350)	(26,684)	(24,501)
Net change in cash						
Cash at the beginning of the year	5,042	6,471	5,117	3,955	7,552	9,686
Exchange difference	1	(6)	0	0	0	0
Cash at the end of the year	6,471	5,117	3,955	7,552	9,686	13,646

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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