

China Tower (788 HK)

2024 results in-line with expectations; Maintain HOLD

China Tower released its FY24 results. Revenue went up by 4.0% YoY to RMB97.8bn, in-line with our estimate and Bloomberg consensus. Net profit went up by 10.0% to RMB10.7bn, 1.8% above our estimate but 2.2% below Bloomberg consensus. By segment, Tower revenue (77% of total revenue) was RMB75.7bn, up 0.9% YoY, while DAS (9%) and Two Wings (14%) business continued to grow at double-digits, reaching RMB8.4bn (18% YoY) and RMB13.4bn (16% YoY). The company announced a stock consolidation (1 for 10) in Feb 2025 to optimize its capital structure and potentially enhance shareholders' value. **We maintain our HOLD rating, with new TP at HK\$13.7, based on 4.0x rollover FY25E EV/EBITDA, from 3.1x FY24 EV/EBITDA previously.**

- **Legacy business to remain stable.** Tower business was flattish QoQ in 4Q24, with a quarterly revenue at RMB19bn. China telcos' sales are projected to grow by a low single-digit during 2025-27E per Bloomberg consensus. We think China Tower's legacy business will face ongoing headwinds, considering continuous cost optimization pressures from China telcos.
- **DAS (distributed antenna system) and Two Wings (smart tower and energy) to maintain double-digit growth.** We expect DAS revenue to grow 14.0%/11.6% YoY in 2025/26E, seizing market opportunities such as signal strength upgrade projects. Within the Two Wings segment, Smart Tower business had a record revenue of RMB2.8bn in 4Q24 (vs. ~RMB2bn in 1Q-3Q/24), mainly due to an incremental revenue from the national disaster alert and farmland protection project, which was all recognized in 4Q. Looking forward, we forecast Two Wings business to grow 17.5%/16.2% YoY in 2025/26E.
- **Maintain HOLD**, as we think the overall growth upside for China Tower is limited. Our **new TP is HK\$13.7**, based on 4.0x FY25 EV/EBITDA (vs. previously 3.1x), which is equivalent to its 5-year average forward EV/EBITDA. We adopt a higher valuation as we see the company is aiming to enhance shareholders' return. In 2024, China Tower's total dividends declared was RMB0.42 per share (including an interim DPS of RMB0.11), implying a payout ratio of 76% (vs 70%/72%/75% during 2021-23). **Upside risks** include better-than-expected macroeconomic recovery, increased spending from the domestic telcos, etc. **Downside risks** include continued cost optimization from domestic telcos, and decreased dividend payout ratio.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	94,009	97,772	101,796	104,386	108,429
YoY growth (%)	2.0	4.0	4.1	2.5	3.9
EBITDA (RMB mn)	63,551.0	66,559.0	69,054.6	71,215.7	74,458.4
Net profit (RMB mn)	9,750.0	10,729.0	12,121.0	13,717.8	16,106.9
YoY growth (%)	11.0	10.0	13.0	13.2	17.4
EPS (Reported) (RMB)	0.56	0.61	0.69	0.78	0.92
P/E (x)	20.4	18.6	16.4	14.5	12.4

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price **HK\$13.70**
 (Previous TP) **HK\$9.50**
Up/Downside **11.9%**
Current Price **HK\$12.24**

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Stock Data

Mkt Cap (HK\$ mn)	57,116.6
Avg 3 mths t/o (HK\$ mn)	1,752.4
52w High/Low (HK\$)	12.26/1.21
Total Issued Shares (mn)	4666.4

Source: FactSet

Shareholding Structure

Citigroup	9.0%
GIC	7.0%

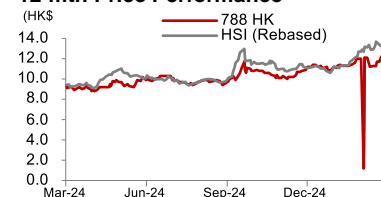
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	2.0%	-4.5%
3-mth	13.3%	-7.5%
6-mth	26.2%	-7.7%

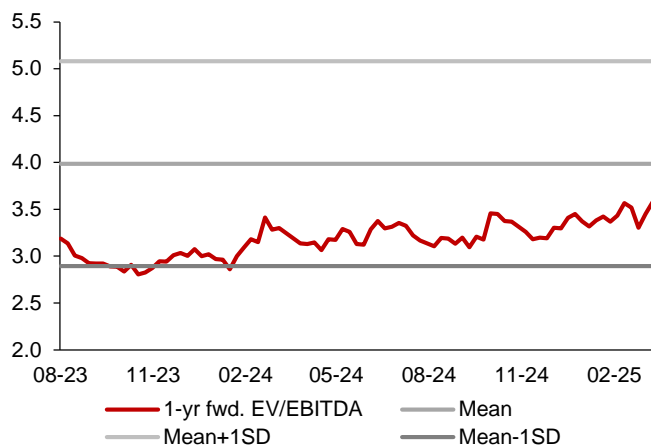
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12-mth Price Performance



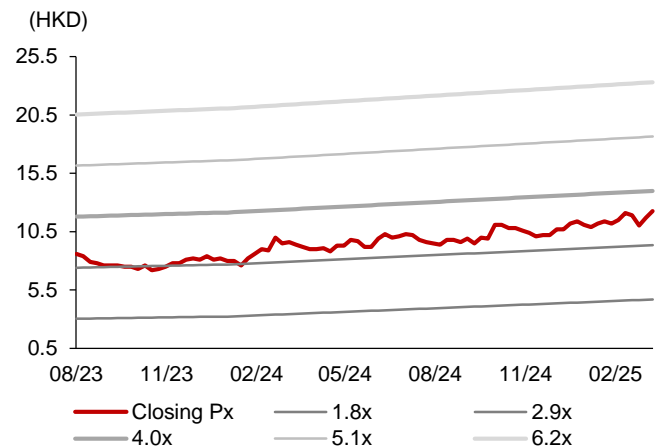
Source: FactSet

Figure 1: EV/EBITDA band



Source: Company data, CMBIGM estimates

Figure 2: EV/EBITDA chart



Source: Company data, CMBIGM estimates times

Figure 3: Earnings revisions

(RMBmn)	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	101,796	104,386	108,429	101,661	104,723	N/A	0%	0%	N/A
EBITDA	69,055	71,216	74,458	67,115	69,690	N/A	3%	2%	N/A
Net profit	12,121	13,718	16,107	12,302	14,413	N/A	-1%	-5%	N/A
EPS (RMB)	0.69	0.78	0.92	0.70	0.82	N/A	-1%	-5%	N/A
Gross margin	67.8%	68.2%	68.7%	66.0%	66.5%	N/A	1.8 ppt	1.7 ppt	N/A
Net margin	11.9%	13.1%	14.9%	12.1%	13.8%	N/A	-0.2 ppt	-0.7 ppt	N/A

Source: Company data, CMBIGM estimates

Figure 4: CMBIGM estimates vs. Bloomberg consensus

(RMBmn)	CMBIGM			Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	101,796	104,386	108,429	101,914	105,723	111,682	0%	-1%	-3%
EBITDA	69,055	71,216	74,458	68,301	70,168	74,611	1%	1%	0%
Net profit	12,121	13,718	16,107	13,065	21,305	29,547	-7%	-36%	-45%
EPS (RMB)	0.69	0.78	0.92	0.74	0.99	1.49	-7%	-21%	-38%
Gross margin	67.8%	68.2%	68.7%	67.0%	66.4%	66.8%	0.8 ppt	1.9 ppt	1.9 ppt
Net margin	11.9%	13.1%	14.9%	12.8%	20.2%	26.5%	-0.9 ppt	-7 ppt	-11.6 ppt

Source: Company data, CMBIGM estimates, Bloomberg consensus

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	92,170	94,009	97,772	101,796	104,386	108,429
Operating expenses	(78,858)	(79,507)	(81,442)	(84,078)	(85,100)	(86,524)
Selling expense	(49,532)	(49,049)	(50,229)	(51,336)	(51,930)	(52,553)
Other rental related expenses	(5,857)	(5,393)	(5,504)	(5,629)	(5,668)	(5,779)
Others	(23,469)	(25,065)	(25,709)	(27,113)	(27,503)	(28,192)
Operating profit	13,312	14,502	16,330	17,718	19,286	21,906
Other income	1,095	1,114	365	380	390	405
EBITDA	62,844	63,551	66,559	69,055	71,216	74,458
Interest income	124	43	63	95	149	152
Interest expense	(3,003)	(2,827)	(2,639)	(2,244)	(1,774)	(1,268)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	11,528	12,832	14,119	15,949	18,050	21,194
Income tax	(2,741)	(3,082)	(3,389)	(3,828)	(4,333)	(5,087)
After tax profit	8,787	9,750	10,730	12,121	13,718	16,107
Minority interest	0	0	1	0	0	0
Net profit	8,787	9,750	10,729	12,121	13,718	16,107

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	49,706	78,083	91,360	94,369	92,941	96,068
Cash & equivalents	5,117	3,955	2,598	7,280	8,212	7,615
Account receivables	42,260	71,685	85,907	84,331	81,901	85,516
Inventories	0	0	0	0	0	0
Prepayment	2,329	2,443	2,855	2,758	2,828	2,938
Other current assets	0	0	0	0	0	0
Contract assets	0	0	0	0	0	0
Non-current assets	255,854	247,924	241,474	226,476	212,173	199,049
PP&E	209,377	201,542	192,770	183,976	175,684	169,724
Right-of-use assets	31,578	31,083	32,247	23,136	14,366	5,947
Intangibles	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0
Other non-current assets	14,899	15,299	16,457	19,364	22,123	23,377
Total assets	305,560	326,007	332,834	320,845	305,114	295,117
Current liabilities	65,158	63,934	75,799	74,810	58,603	42,820
Short-term borrowings	25,597	23,786	28,525	31,075	17,804	3,723
Account payables	26,646	28,286	33,269	30,877	29,181	28,450
Other current liabilities	5,510	4,825	6,280	6,054	5,757	5,568
Lease liabilities	7,127	6,864	7,378	6,471	5,543	4,771
Contract liabilities	0	0	0	0	0	0
Accrued expenses	278	173	347	335	318	308
Non-current liabilities	46,811	64,379	57,056	42,377	38,347	38,452
Long-term borrowings	31,448	49,329	41,084	27,622	24,925	26,060
Other non-current liabilities	15,363	15,050	15,972	14,755	13,421	12,391
Total liabilities	111,969	128,313	132,855	117,187	96,950	81,272
Share capital	176,008	176,008	176,008	176,008	176,008	176,008
Retained earnings	17,583	21,686	23,970	27,649	32,155	37,836
Total shareholders equity	193,591	197,694	199,978	203,657	208,163	213,844
Minority interest	0	0	1	1	1	1
Total equity and liabilities	305,560	326,007	332,834	320,845	305,114	295,117

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	11,528	9,750	10,730	12,121	13,718	16,107
Depreciation & amortization	49,532	49,049	50,229	51,336	51,930	52,553
Change in working capital	(7,454)	(28,634)	(10,667)	(2,275)	(774)	(5,863)
Others	11,528	2,675	(824)	2,901	2,179	1,733
Net cash from operations	65,134	32,840	49,468	64,083	67,052	64,530
Investing						
Capital expenditure	(28,639)	(33,464)	(31,941)	(34,611)	(35,491)	(36,866)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	982	1,559	(700)	(1,177)	(1,583)	(1,984)
Net cash from investing	(27,657)	(31,905)	(32,641)	(35,788)	(37,075)	(38,850)
Financing						
Dividend paid	(4,618)	(5,653)	(6,536)	(8,442)	(9,212)	(10,426)
Net borrowings	(21,870)	15,997	(3,506)	(10,913)	(15,967)	(12,946)
Proceeds from share issues	0	0	(8,142)	0	0	0
Others	(12,337)	(12,440)	0	(4,259)	(3,866)	(2,905)
Net cash from financing	(38,825)	(2,096)	(18,184)	(23,613)	(29,045)	(26,277)
Net change in cash						
Cash at the beginning of the year	6,471	5,117	3,955	2,598	7,280	8,212
Exchange difference	(6)	(1)	0	0	0	0
Cash at the end of the year	5,117	3,955	2,598	7,280	8,212	7,615
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	6.5%	2.0%	4.0%	4.1%	2.5%	3.9%
Operating profit	2.1%	8.9%	12.6%	8.5%	8.8%	13.6%
EBITDA	(0.3%)	1.1%	4.7%	3.7%	3.1%	4.6%
Net profit	19.9%	11.0%	10.0%	13.0%	13.2%	17.4%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Operating margin	14.4%	15.4%	16.7%	17.4%	18.5%	20.2%
EBITDA margin	68.2%	67.6%	68.1%	67.8%	68.2%	68.7%
Return on equity (ROE)	4.6%	5.0%	5.4%	6.0%	6.7%	7.6%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	0.8	1.2	1.2	1.3	1.6	2.2
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	22.7	20.4	18.6	16.4	14.5	12.4

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

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