

China Tower (788 HK)

1H25 results in-line; Maintain HOLD

China Tower released its 1H25 earnings. Revenue went up by 2.8%/0.2% YoY/HoH to RMB49.6bn (vs. BBG consensus: RMB49.7bn). NP went up by 8.0%/6.6% YoY/HoH to RMB5.8bn (vs. BBG consensus: RMB5.7bn). NPM slightly improved to 11.6%, 0.6ppt higher than 1H24/FY24. 1H25 revenue/NP accounted for 49%/50% of our FY25 projections, similar to 1H24. 1H25 EBITDA increased by 3.6% YoY to RMB34.2bn; while EBITDA margin was 69.0% (vs. 68.5% in 1H24). China Tower's FCF declined by 14.7% YoY to RMB16.3bn from a high base, but still remained at a very healthy level (CFO grew 172% HoH). The Company declared a 1H25 dividend of RMB0.13 per share, increasing shareholder returns. **Maintain HOLD, with TP adjusted to HK\$13.1 (prev. HK\$13.7).**

■ **We maintain our previous outlook: legacy business to remain stable; while DAS and Two Wings business to realize double-digit growth.** By segment, Tower revenue (76% of 1H25 revenue) was stable at RMB37.8bn in 1H, flattish YoY. DAS (9%) and Two Wings (14%) businesses continued to grow by double digits, reaching RMB4.7bn (+12% YoY) and RMB13.4bn (+15% YoY). China telcos' capex is guided to shrink another 9% to RMB289.8bn this year on top of a 9% decrease in 2024, with a greater share towards computing instead of 5G (e.g., China Mobile announced that 25%/42% of its capex will be spent on computing/5G in 2025 vs. 23%/38% in 2024). In addition, the telcos are likely to remain focusing on operation optimization. We anticipate China Tower's legacy revenue to stay at a similar level going forward, and the rest of the business to continue double-digit growth, benefiting from ongoing 5G rollouts and rising demand for indoor and underground coverage upgrades. **We expect the overall revenue to be RMB100bn in 2025E (+3% YoY).**

■ **China Tower to further enhance shareholder returns.** In 2024, the Company's full-year DPS was RMB0.42, up 11.5% YoY. This represented a payout ratio of 76%. In 1H25, the Company increased its mid-term DPS again by 21.6% YoY to RMB0.13. The stock's dividend yield is 4.1% (vs. CM/CT/CU: 5.9%/4.8%/4.6% per BBG).

■ **Maintain HOLD**, given limited topline/EBITDA upside (2.7%/3.1% YoY in 2025E by our estimates). We slightly adjust down 2025E EBITDA forecast to reflect continued industry headwinds and lagging legacy tower business. TP is HK\$13.1, based on the same 4.0x FY25E EV/EBITDA, which is the 5-year avg. **Upside risks** include better-than-expected macroeconomic recovery, increased spending from the domestic telcos, and further shareholder return enhancement. **Downside risks** include continued cost optimization from domestic telcos, and deteriorating dividend payout ratio.

Earnings Summary

(YE 31 Dec)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue (RMB mn)	94,009	97,772	100,409	102,468	104,352
YoY growth (%)	2.0	4.0	2.7	2.0	1.8
EBITDA (RMB mn)	63,551.0	66,559.0	68,642.6	70,510.1	72,276.7
Net profit (RMB mn)	9,750.0	10,729.0	11,516.0	11,954.6	12,454.9
YoY growth (%)	11.0	10.0	7.3	3.8	4.2
EPS (Reported) (RMB)	0.56	0.61	0.66	0.68	0.71
P/E (x)	18.7	17.0	15.9	15.3	14.7

Source: Company data, Bloomberg, CMBIGM estimates

HOLD (Maintain)

Target Price	HK\$13.10
(Previous TP)	HK\$13.70)
Up/Downside	14.6%
Current Price	HK\$11.43

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Stock Data

Mkt Cap (HK\$ mn)	53,336.8
Avg 3 mths t/o (HK\$ mn)	185.1
52w High/Low (HK\$)	12.26/1.21
Total Issued Shares (mn)	4666.4

Source: FactSet

Shareholding Structure

Blackrock	6.5%
GIC	6.0%

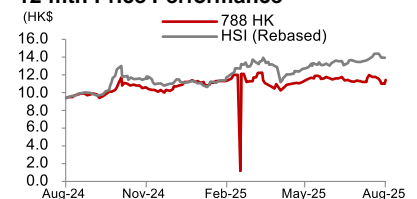
Source: Bloomberg

Share Performance

	Absolute	Relative
1-mth	0.4%	-3.5%
3-mth	2.1%	-7.8%
6-mth	2.1%	-15.6%

Source: FactSet

12-mth Price Performance



Source: FactSet

Figure 1: Earnings revision

RMBmn	New			Old			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	100,409	102,468	104,352	101,796	104,386	108,429	-1%	-2%	-4%
EBITDA	68,643	70,510	72,277	69,055	71,216	74,458	-1%	-1%	-3%
Net profit	11,516	11,955	12,455	12,121	13,718	16,107	-5%	-13%	-23%
EPS (RMB)	0.66	0.68	0.71	0.69	0.78	0.92	-5%	-12%	-23%
EBITDA margin	68.4%	68.8%	69.3%	67.8%	68.2%	68.7%	0.5 ppt	0.6 ppt	0.6 ppt
Net margin	11.5%	11.7%	11.9%	11.9%	13.1%	14.9%	-0.4 ppt	-1.5 ppt	-2.9 ppt

Source: CMBIGM estimates

Figure 2: CMBIGM estimates vs. Bloomberg consensus

RMBmn	CMBIGM			BBG Consensus			Diff (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	100,409	102,468	104,352	101,914	105,723	111,682	-1%	-3%	-7%
EBITDA	68,643	70,510	72,277	68,301	70,168	74,611	1%	0%	-3%
Net profit	11,516	11,955	12,455	13,065	21,305	29,547	-12%	-44%	-58%
EPS (RMB)	0.66	0.68	0.71	0.74	0.99	1.49	-11%	-31%	-52%
EBITDA margin	68.4%	68.8%	69.3%	67.0%	66.4%	66.8%	1.3 ppt	2.4 ppt	2.5 ppt
Net margin	11.5%	11.7%	11.9%	12.8%	20.2%	26.5%	-1.4 ppt	-8.5 ppt	-14.5 ppt

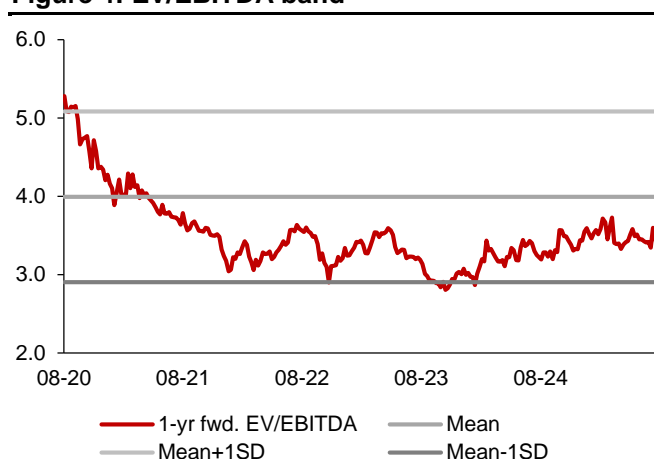
Source: Bloomberg consensus, CMBIGM estimates

Figure 3: EV/EBITDA chart



Source: Company data, CMBIGM estimates

Figure 4: EV/EBITDA band



Source: Company data, CMBIGM estimates

Financial Summary

INCOME STATEMENT	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Revenue	92,170	94,009	97,772	100,409	102,468	104,352
Operating expenses	(78,858)	(79,507)	(81,442)	(83,381)	(85,207)	(86,888)
Selling expense	(49,532)	(49,049)	(50,229)	(51,614)	(53,249)	(54,813)
Other rental related expenses	(5,857)	(5,393)	(5,504)	(5,392)	(5,400)	(5,395)
Others	(23,469)	(25,065)	(25,709)	(26,375)	(26,558)	(26,680)
Operating profit	13,312	14,502	16,330	17,029	17,261	17,464
Other income	1,095	1,114	365	402	410	418
EBITDA	62,844	63,551	66,559	68,643	70,510	72,277
Interest income	124	43	63	76	176	305
Interest expense	(3,003)	(2,827)	(2,639)	(2,353)	(2,117)	(1,798)
Other income/expense	0	0	0	0	0	0
Pre-tax profit	11,528	12,832	14,119	15,153	15,730	16,389
Income tax	(2,741)	(3,082)	(3,389)	(3,637)	(3,776)	(3,934)
After tax profit	8,787	9,750	10,730	11,516	11,955	12,455
Minority interest	0	0	1	0	0	0
Net profit	8,787	9,750	10,729	11,516	11,955	12,455

BALANCE SHEET	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Current assets	49,706	78,083	91,360	92,159	96,744	99,213
Cash & equivalents	5,117	3,955	2,598	4,868	12,535	17,600
Account receivables	42,260	71,685	85,907	84,467	81,327	78,678
Inventories	0	0	0	0	0	0
Prepayment	2,329	2,443	2,855	2,825	2,883	2,936
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	233,576	224,617	214,782
PP&E	209,377	201,542	192,770	183,787	174,420	164,755
Right-of-use assets	31,578	31,083	32,247	32,935	33,108	32,785
Intangibles	0	0	0	0	0	0
Goodwill	0	0	0	0	0	0
Other non-current assets	14,899	15,299	16,457	16,854	17,089	17,241
Total assets	305,560	326,007	332,834	325,736	321,361	313,995
Current liabilities	65,158	63,934	75,799	70,418	69,152	65,285
Short-term borrowings	25,597	23,786	28,525	29,418	26,693	23,748
Account payables	26,646	28,286	33,269	27,252	28,895	28,284
Other current liabilities	5,510	4,825	6,280	6,839	6,747	6,592
Lease liabilities	7,127	6,864	7,378	6,818	6,727	6,572
Contract liabilities	0	0	0	0	0	0
Accrued expenses	278	173	347	91	90	88
Non-current liabilities	46,811	64,379	57,056	52,265	45,954	39,085
Long-term borrowings	31,448	49,329	41,084	35,506	29,421	22,930
Other non-current liabilities	15,363	15,050	15,972	16,759	16,534	16,155
Total liabilities	111,969	128,313	132,855	122,683	115,106	104,370
Share capital	176,008	176,008	176,008	176,008	176,008	176,008
Retained earnings	17,583	21,686	23,970	27,044	30,246	33,616
Total shareholders equity	193,591	197,694	199,978	203,052	206,254	209,624
Minority interest	0	0	1	1	1	1
Total equity and liabilities	305,560	326,007	332,834	325,736	321,361	313,995

CASH FLOW	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	8,787	9,750	10,729	11,516	11,955	12,455
Depreciation & amortization	49,532	49,049	50,229	51,614	53,249	108,062
Change in working capital	(7,454)	(29,286)	(15,656)	(6,052)	3,328	610
Others	14,269	3,327	4,166	3,908	3,292	2,791
Net cash from operations	65,134	32,840	49,468	60,986	71,823	123,918
Investing						
Capital expenditure	(28,639)	(33,464)	(29,783)	(45,698)	(46,635)	(47,492)
Acquisition of subsidiaries/ investments	0	0	0	0	0	0
Others	982	1,559	1,804	2,158	2,292	2,426
Net cash from investing	(27,657)	(31,905)	(27,979)	(43,540)	(44,342)	(45,066)
Financing						
Dividend paid	(4,618)	(5,653)	(8,442)	(8,442)	(8,752)	(9,086)
Net borrowings	(21,870)	15,997	(1,905)	(4,685)	(8,810)	(9,436)
Proceeds from share issues	0	0	0	0	0	0
Others	(12,337)	(12,440)	(12,498)	(2,049)	(2,252)	(2,017)
Net cash from financing	(38,825)	(2,096)	(22,845)	(15,176)	(19,814)	(20,538)
Net change in cash						
Cash at the beginning of the year	6,471	5,117	3,955	2,598	4,868	12,535
Exchange difference	(6)	(1)	(1)	0	0	0
Cash at the end of the year	5,117	3,955	2,598	4,868	12,535	17,600
GROWTH	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Revenue	6.5%	2.0%	4.0%	2.7%	2.0%	1.8%
Operating profit	2.1%	8.9%	12.6%	4.3%	1.4%	1.2%
EBITDA	(0.3%)	1.1%	4.7%	3.1%	2.7%	2.5%
Net profit	19.9%	11.0%	10.0%	7.3%	3.8%	4.2%
PROFITABILITY	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Operating margin	14.4%	15.4%	16.7%	17.0%	16.8%	16.7%
EBITDA margin	68.2%	67.6%	68.1%	68.4%	68.8%	69.3%
Return on equity (ROE)	4.6%	5.0%	5.4%	5.7%	5.8%	6.0%
GEARING/LIQUIDITY/ACTIVITIES	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
Current ratio (x)	0.8	1.2	1.2	1.3	1.4	1.5
VALUATION	2022A	2023A	2024A	2025E	2026E	2027E
YE 31 Dec						
P/E	20.8	18.7	17.0	15.9	15.3	14.7

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

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