

# China Telecoms Sector

## Ground Reality on 4G: CM Now Our Top Pick, CT Cut to Sell

- **CM now preferred to CU** — Following our visits to five key provinces in China to gauge 4G trends – the next big driver for the telecoms sector – we switch our top pick to CM from CU. Our findings are: 1) The market is underestimating CM's 4G strengths over CU/CT, even after CM's recent share-price rally; 2) Selling cost cuts and rapid declines in 4G smartphone prices will improve 4G returns more for CM than for peers; and 3) 4G demand is rising quickly.
- **Market underestimating CM's 4G strengths; CT downgraded to Sell** — With a head-start in 4G, CM stands to gain larger service revenue and EBITDA market shares in FY14-16E, mainly at the expense of CT. We raise our target price for CM to HK\$115 (from HK\$100) and lower it for CU to HK\$14 (from HK\$15) on a revenue growth slowdown and earnings pressure. CT is downgraded to Sell from Neutral (TP stays HK\$4.30) after its share-price rally post 3Q results.
- **4G smartphone prices declining rapidly** — CM will maintain a clear advantage in 4G smartphone supply and network coverage, in our view, with around 50 4G smartphone models already priced below Rmb800. CM is winning back high-end users in the markets we visited through its 4G head-start, improved brand image in mobile data and customer service. Selling cost cuts are unlikely to slow CM's growth momentum, especially with 4G demand growing rapidly.
- **CU, CT have more 4G growth challenges than thought** — Delayed FD-LTE licensing and the requirement that all 4G smartphones should support TD-LTE will only slow network build-out and smartphone supplies for CU and CT, making it even more difficult for them to catch up with CM in 4G. CU could therefore miss consensus estimates after FY15, and CT could lag its peers in revenue share and margin recovery. Any data supporting these trends would lead to CM outperforming its peers, in our view.
- **CM earnings 6-8% above consensus** — Our FY15-16E earnings estimates are 6-8% ahead of IBES consensus for CM and 4-10% below for CU/CT. Continued strong 4G subs growth and an earnings growth rebound from 2H15E are potential upside catalysts for CM.
- **4G strategies compared** — In this report we have compared Chinese telcos' strategies and relative positions in 4G service promotions, marketing policy changes, 4G smartphone supply, and 4G network coverage.

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Company	Ticker	Rating		Target Price		Current Year Earnings Estimates	
		Old	New	Old	New	Old	New
China Tel	0728.HK	2	3	HK\$4.30	HK\$4.30	Rmb0.223	Rmb0.220
China Unicom	0762.HK	1	1	HK\$15.00	HK\$14.00	Rmb0.497	Rmb0.539
China Mobile	0941.HK	1	1	HK\$100.00	HK\$115.00	Rmb5.482	Rmb5.480

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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## Investment Thesis

### **We switch our top pick to CM from CU**

Following our visits to five key provinces in China, which account for 32% of China's mobile users and 26% of its population, we switch our top pick to CM from CU, maintain Buy on CU and downgrade CT to Sell. We increase our CM target price to HK\$115 (was HK\$100), reduce it for CU to HK\$14 (was HK\$15), and maintain it for CT at HK\$4.30. We are more positive on Chinese telcos with better 4G returns and earnings growth prospects due to strict selling cost cuts and fast 4G smartphone price declines.

### **The market is underestimating CM's 4G strengths over CU/CT**

Our findings are: 1) The market is underestimating CM's 4G strengths over CU/CT, even after CM's recent share-price rally; 2) Selling cost cuts and rapid declines in 4G smartphone prices will improve 4G returns more for CM than for peers; 3) 4G demand is rising quickly and growing in relevance, which could continue to drive CM's relative share performance.

### **Our visits indicate that CM had a clear edge in 4G smartphone supply and network coverage**

Our visits indicate that CM had a clear edge in 4G smartphone supply and network coverage, and will likely maintain such advantages in the long term. CM has started to win back some high-end users from rivals with 4G a selling point, as its brand image and customer service still lead in most local markets. We expect CM will deliver positive surprises in revenue and earnings growth from FY15E as it sustains its competitive edge in 4G market.

### **More growth challenges for CU and CT relative to CM**

We see more growth challenges for CU and CT due to: 1) regulators' strong support of TD-LTE. Delayed FD-LTE licensing and regulators' requirement that all 4G smartphones need to support TD-LTE will negatively impact the network build-out pace and smartphone supplies of CU and CT; 2) CU's increased focus on near-term earnings, and less focus on revenue and user growth, could hurt long-term earnings; 3) CT's big challenges in 4G smartphone supply and 4G capex pressure; 4) CM's aggressive 4G capex and success of developing a TD-LTE smartphone supply chain; 5) We don't expect significant earnings contribution to any telco from a tower company in the next two years.

Previous share price movements of Chinese telcos factored in more the regulatory impact (like the tower company and mixed ownership) and part of the selling costs cut impact, but less the 4G market impact, a key driver of telcos' financials. We expect 4G revenue and earnings benefits for CM to beat market expectations and sustain the re-rating. CU could have a small earnings miss after FY15E with a fast revenue growth slowdown, although selling costs cut and profitable 3G/4G growth could largely offset earnings pressure from a revenue growth slowdown.

### **We downgrade CT to Sell from Neutral based on its YTD outperformance**

We downgrade CT to Sell from Neutral based on its YTD outperformance and its unjustified share-price rally, in our view, post 3Q results. 4G should help CM increase service revenue and EBITDA market share in FY14-16E. EBITDA margin of each Chinese telco will trend up in FY14-16E, on our estimates, driven by forecast 6-17% yoy selling cost declines. CM's EBITDA market share gain is likely to be at the expense of CT, as CT's revenue share declines and margin recovers slower than rivals. We don't think such trends are in line with market expectations. Any substantiation of such trends will help the relative share price performance of CM over CT, in our view.

### **Long-term earnings growth trends of telcos could be different from the 3Q14**

The long-term earnings growth trends of Chinese telcos could be different from the 3Q14 results. More positive 3Q14 earnings growth of CT and CU over CM was partly due to the interconnection fee change implemented in FY14. The interconnection fee change is unlikely to have a continued impact on earnings growth of each telco from FY15E. Also CM's relatively more aggressive 4G promotions could lead to less short-term earnings benefit from selling costs cut than for rivals, but could lead to faster top-line growth and margin recovery in future.

A sector re-rating is possible when Chinese telcos move down the peak 4G capex cycle and VAT starts to make a positive impact on YoY earnings growth of each telco from 2H15E, in our view.

We have compared Chinese telcos' strategies and relative positions in 4G service promotions, marketing policy change, 4G smartphone supply and 4G network coverage. We see CM as a clear long-term winner with 4G a strong growth driver, after factoring in the impact from 4G and selling cost cuts in our financial estimates.

Figure 1. Summary Views on Chinese Telcos with 4G and Selling Costs Cut Impact

	China Mobile	China Unicom	China Telecom
4G smartphone supply	50 4G smartphone models priced below Rmb800; CM will likely maintain a clear lead in 4G smartphone supply with mature TD-LTE value chain and regulators' strong support on TD-LTE industry growth	c.15 4G models priced below Rmb1,300; inferior 4G smartphone supply to CM likely to continue partly due to regulators' support of TD-LTE; no significant smartphone supply pressure with technology advantage	Less than 10 4G models priced below Rmb1,300; big pressure in 4G smartphone supply due to relatively small 4G market share and challenges to combine CDMA with TD-LTE/FD-LTE
4G network coverage and quality	Targets 700k 4G BTS by 2014; aggressive 4G capex to speed up outdoor and indoor coverage; good 4G network quality in top-tier cities	Targets 100k 4G BTS by 2014; conservative 4G capex as CU is lack of cash and focuses on maximizing the usage of 3G network	Targets 140k 4G BTS by 2014; aggressive capex but network deployment pace is slower than CM with much less existing towers to support 4G network expansion
4G service promotion efforts in local markets	Most aggressive, with higher tariff discount level than rivals	Conservative in 2Q14 and 3Q14, but increased handset subsidy scale in 4Q14	Promotion intensity between CM and CU; Limited 4G smartphone models so far, and offers aggressive handset subsidies in some local markets
4G's benefit to financials in FY14-16E	We expect 4G will help CM increase service revenue and EBITDA market share in FY14-16E; CM will see much slower mobile subs share decline than before, and have more ARPU benefit from 4G than rivals as it will significantly increase 3G+4G subs market share	We expect CU will maintain largely flat revenue and EBITDA market share; defensive position in 4G could halt its fast market share gain and ARPU growth in the previous 3G market; CU could lose some high-end user share as CM levels the mobile data playground	We expect CT could lose revenue and EBITDA market share, with 4G growth challenges and likely high-end user market share loss to CM. CT will see continued 4G network coverage and smartphone supply issues in the next two years in our view
Selling costs cut impact on earnings	Small short-term earnings accretion due to more aggressive 4G opex and capex than rivals; possibly significant benefit to long-term earnings growth after CM enhances its 4G market position	Most significant benefit to short-term earnings growth as CU has the biggest operating leverage; however revenue growth slowdown could offset selling costs cut benefit in long term	Significant earnings benefit, but more reinvestment to drive 4G growth will reduce the benefit over time; CT will see slower selling costs decline than rivals due to its 4G value chain issues and its less compelling 3G service than CU
Conclusion	Move CM to sector top pick; our CM FY15-16E earnings are 6-8% higher than IBES consensus; possibly to have more 4G benefit than market expectations	Our CU FY15-16E earnings are 4-5% lower than consensus; continued subs and revenue growth slowdown will have negative earnings impact	Downgrade CT to Sell; our CT FY15-16E earnings are 5-10% lower than consensus; possibly bigger 4G growth challenges than market expectations

Source: Citi Research

Major downside risk for CM could be regulatory interference. However given regulators' strong initiative to make TD-LTE succeed, we expect any major regulatory efforts to balance market share could be slower than expected, leaving room for CM to deliver solid earnings growth turnaround with 4G. Major upside risk for CT could be better-than-expected execution of the tower company.

Figure 2. Chinese Telcos' YTD Relative Price Performance to MSCI China



Source: Bloomberg, Citi Research

Figure 3. China Telecoms — Summary Forecasts

	China Mobile (941 HK)			China Unicom (762 HK)			China Telecom (728 HK)		
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
<b>Financials (Rmb m)</b>									
Revenues	647,371	689,973	749,288	289,156	305,507	326,562	322,730	334,964	350,872
growth yoy	3%	7%	9%	-2%	6%	7%	0%	4%	5%
EBITDA	240,596	258,831	283,924	93,760	100,807	110,084	96,788	101,878	107,665
growth yoy	0%	8%	10%	12%	8%	9%	0%	5%	6%
margin	37.2%	37.5%	37.9%	32.4%	33.0%	33.7%	30.0%	30.4%	30.7%
Net Profit	111,478	115,156	126,955	12,763	14,377	17,072	17,835	19,499	21,065
growth yoy	-8%	3%	10%	23%	13%	19%	2%	9%	8%
<b>Mobile Operating KPIs</b>									
Mobile subs (m)	806	846	880	299	319	336	186	197	207
growth yoy	5%	5%	4%	6%	7%	5%	0%	6%	5%
market share	62%	62%	62%	23%	23%	24%	14%	14%	15%
Mobile ARPU (Rmb)	62.8	62.6	64.9	45.4	45.1	46.1	54.4	55.4	56.5
growth yoy	-6%	0%	4%	-6%	-1%	2%	-1%	2%	2%
Mobile MOU (mins)	453	421	396	276	274	271	295	291	285
growth yoy	-7%	-7%	-6%	-5%	-1%	-1%	1%	-1%	-2%

Source: Citi Research estimates

Figure 4. China Telecoms — Valuation Comps

Company	RIC	Rating	TP	Price (HK\$)	P/E (x)		EV/EBITDA (x)		P/B (x)		Div Yield (%)	
				28-Oct-14	14E	15E	14E	15E	14E	15E	14E	15E
China Mobile	0941.HK	1	115.0	91.45	13.2	12.7	4.5	4.4	1.7	1.6	3.3%	3.4%
China Unicom	0762.HK	1	14.0	11.38	16.6	14.8	3.1	2.9	0.9	0.9	2.0%	2.3%
China Tel	0728.HK	3	4.3	4.91	17.6	16.1	4.2	4.1	1.1	1.0	2.1%	2.3%
MSCI China				62.91	9.4	8.5	7.5	6.8	1.3	1.2	3.5%	3.8%

Source: Bloomberg, Citi Research estimates

**We visited five cities in five provinces to investigate 4G service promotions and user demand in local markets**

## Ground Reality: CM to Maintain Advantages

We visited five cities (Hangzhou, Nanjing, Shanghai, Guangzhou and Zhengzhou) in five provinces in late Sep and Oct to investigate 4G service promotions and user demand in local markets. The five provinces collectively have 32% of China's mobile users and 26% of China's population. Key findings suggest: 1) CM's 4G strength over CU/CT is underestimated by the market, even after CM's recent share price rally; 2) selling costs cut is positive to sector earnings, and won't reduce CM's 4G growth momentum; 3) 4G demand is growing fast and 4G is rising in relevance, which could continue to drive CM's relative share performance.

One major on-the-ground feedback is CM has clear advantages in 4G smartphone supply and network coverage, and such advantages could sustain longer-term. CM's brand image and customer service still lead its rivals in most local markets, and 4G is starting to meaningfully improve user perception of CM's mobile data service quality.

### CM has significant 4G smartphone supply advantage

Detailed analysis on current 4G smartphone supply and future trends suggests the clear lead in 4G smartphone supply will be a major 4G growth driver for CM. Our store visits to the local markets show that CM offers more low-cost 4G smartphone models than CU and CT. After additional checks with distributors and online sales channels, we have found around 100 CM 4G smartphone models commercially launched with prices below Rmb2,000, and around 50 CM 4G smartphone models priced below Rmb800 as of mid Oct. The cheapest 4G smartphone of CM is currently priced at Rmb399, and the retail price of CM's entry-level 4G smartphone that supports 5 modes and 10-band spectrum has already decreased to Rmb599. In comparison, CU only has 15 models and CT less than 10 models for 4G smartphones priced below Rmb1,300, with their entry level 4G models priced above Rmb700.

We expect continued and fast 4G smartphone price decline for CM, with more 4G low-cost chipset solutions from MediaTek and Spreadtrum that support TD-LTE and TD-SCDMA technologies of CM. CM is positioned to extend its success in developing the TD-LTE smartphone value chain, which will help it maintain a dominant share in China's 4G market.

Figure 5. Low-cost 4G Smartphone Model Comparison of Chinese Telcos

Model*	Retail Price in Oct 2014 (Rmb)	Launch Time	Display	Processor Speed (MHz)	OS	Camera Pixel (Megapixels)
<b>China Mobile 4G</b>						
ZTE Q505T	399	2014/06	4.5"480x854	1.2GHz, quad core	Android OS 4.3	5.0
Coolpad 8017	399	2014/07	4.0"480x800	1.2GHz, quad core	Android OS 4.4	2.0
K-Touch Touch 2	405	2014	4.5"480x854	1.2GHz, quad core	Android OS 4.3	5.0
Coolpad 8702	415	2014/05	4.5"480x854	1.2GHz, quad core	Android OS 4.3	5.0
ZTE Q507T	428	2014/09	4.5"480x854	1.3GHz, quad core	Android OS 4.4	5.0
Hisense HS-E600M	438	2014/05	4.5"480x854	1.2GHz, quad core	Android OS 4.3	5.0
Lenovo A360T	458	2014/06	4.5"480x854	1.3GHz, quad core	Android OS 4.4	5.0
Callbar T58	480	2014/09	4.5"480x854	1.3GHz, quad core	Android OS 4.4	2.0
Hisense X5T	499	2014/02	5.5"540x960	1.4GHz, dual core	Android OS 4.2	5.0
Coolpad 8705	499	2014/03	4.7"480x854	1.2GHz, quad core	Android OS 4.3	5.0
ICOCO T3	499	2014/04	5.0"540x960	1.2GHz, quad core	Android OS 4.3	8.0
TCL P301M	499	2014/09	4.0"480x800	1.3GHz, quad core	Android OS 4.4	2.0
ZTE Q802T	508	2014/03	5.0"480x854	1.2GHz, quad core	Android OS 4.3	5.0
K-Touch Touch 3	515	2014/01	5.0"540x960	1.2GHz, quad core	Android OS 4.3	8.0
CM M811	549	2014/06	5.0"720x1280	1.2GHz, quad core	Android OS 4.3	8.0
OPSSON Q5	580	2014/08	4.5"540x960	1G-1.2GHz, quad core	Android OS 4.3	5.0
OPSSON IUSAI X2	598	2014/04	5.0"720x1280	1G-1.2GHz, quad core	Android OS 4.3	13.0
NIECHE LT18	598	2014/05	5.5"540x960	1G-1.2GHz, quad core	Android OS 4.3	8.0
Hisense HS-X6T	599	2013/10	5.0"720x1280	1.4GHz, dual core	Android OS 4.2	13.0
AOLE LT18	599	2014/03	5.0"540x960	1.3GHz, quad core	Android OS 4.3	8.0
Hisense X8T	599	2014/03	5.0"480x854	1.2GHz, quad core	Android OS 4.3	5.0
Lenovo A788T	599	2014/03	5.0"480x854	1.2GHz, quad core	Android OS 4.3	8.0
Amoi L855	599	2014/04	5.0"480x854	1.2GHz, quad core	Android OS 4.3	5.0
KliTON T5	599	2014/04	5.0"540x960	1.3GHz, quad core	Android OS 4.3	8.0
Hisense X68T	599	2014/08	5.5"540x960	1.2GHz, quad core	Android OS 4.3	8.0
TCL P331M	599	2014/09	4.5"480x854	1.3GHz, quad core	Android OS 4.4	5.0
Coolpad 8720L	639	2013/09	5.0"720x1280	1.2GHz, quad core	Android OS 4.3	5.0
Huawei G521	649	2014/04	4.5"480x854	1.2GHz, quad core	Android OS 4.3	5.0
B-ray G2	649	2014/07	5.0"720x1280	1G-1.2GHz, quad core	Android OS 4.3	8.0
Coolpad 8729	677	2014/04	5.5"540x960	1.2GHz, quad core	Android OS 4.3	8.0
K-Touch Touch1	699	2013/10	5.5"720x1280	1.4GHz, dual core	Android OS 4.2	13.0
Bird Ruiqin	699	2014/04	5.0"540x960	1G-1.2GHz, quad core	Android OS 4.3	5.0
Vimoo parallel lines V6	699	2014/06	5.0"720x1280	1.2GHz, quad core	Android OS 4.3	8.0
Uniscope US818	699	2014/07	5.0"540x960	1.2GHz, quad core	Android OS 4.3	8.0
Hisense HS-E620M	699	2014/08	5.0"480x854	1.2GHz, quad core	Android OS 4.3	5.0
Dakele A380 Spring	699	2014/09	5.5"540x 960	1.2GHz, quad core	Android OS	8.0
Coolpad 8736	748	2013/09	5.0"720x1280	1.5GHz, quad core	Android OS 4.2	8.0
Huawei G620	748	2014/04	5.0"540x960	1.2GHz, quad core	Android OS 4.3	5.0
OPSSON Q3	759	2014/03	5.0"540x960	1G-1.2GHz, quad core	Android OS 4.3	8.0
Lenovo S810T	769	2014/06	5.5"720x1280	1.2GHz, quad core	Android OS 4.3	8.0
Coolpad 8730L	788	2014/02	5.5"720x1280	1.2GHz, quad core	Android OS 4.3	8.0
Nokia Lumia 638	788	2014/06	4.5"480x854	1.2GHz, quad core	Windows Phone 8.1	5.0
Samsung SM-G3568V	788	2014/08	4.3"480x800	1.2GHz, quad core	Android OS 4.4	5.0
Disney Magic 2	799	2014/03	5.0"720x1280	1.2GHz, quad core	Android OS 4.3	8.0
Noain M8	799	2014/04	5.0"540x960	1G-1.2GHz, quad core	Android OS 4.3	8.0
Huawei honor 3C	799	2014/05	5.0"720x1280	1.6GHz, quad core	Android OS 4.4 )	8.0
Uniscope US828	799	2014/05	5.2"720x1280	1.2GHz, quad core	Android OS 4.3	8.0
ASUS_T001	799	2014/08	4.5"	1.3GHz, quad core	Android OS 4.4	5.0
Nokia XL	799	2014/08	5.0"480x800	1.2GHz, quad core	Nokia X 1.1	5.0
Xiaomi Hongmi 1S	799	2014/08	4.7"720x1280	1.3GHz, quad core	Android OS 4.4	8.0
<b>China Unicom 4G</b>						
Huawei G620	770	2014/09	5.0"540x960	1.2GHz, quad core	Android OS	5.0
ZTE Q801U	798	2014/04	5.0"480x854	1.2GHz, quad core	Android OS 4.3	5.0
Nokia Lumia 636	799	2014/07	4.5"480x854	1.2GHz, quad core	WindowsPhone 8.1	5.0
Lenovo A606	799	2014/08	5.0"480x854	1.3GHz, quad core	Android OS 4.4	5.0
Coolpad K1 7620L	828	2014/03	5.5"540x960	1.2GHz, quad core	Android OS 4.3	8.0
Huawei honor 3C	868	2014/01	5.0"720x1280	1.3GHz, quad core	Android OS 4.2	8.0
Lenovo A8	996	2014/07	5.0"720x1280	1.4GHz, octa core	Android OS 4.4	13.0
Lenovo A806	998	2014/08	5.0"720x1280	1.7Ghz, octa core	Android OS 4.4	13.0
K-Touch Touch 3W	999	2014/08	5.0"480x854	1.2GHz, quad core	Android OS 4.3	5.0
Xiaomi Hongmi Note	1,035	2014/08	5.5"720x1280	1.6GHz, octa core	Android OS 4.4	13.0
Samsung G3586V	1,055	2014/06	4.6"480x800	1.2GHz, dual core	Android OS 4.3	5.0
OPPO R830S	1,099	2014/04	4.5"480x854	1.2GHz, quad core	Android OS 4.3	5.0
Lenovo A916	1,198	2014/09	5.5"720x1280	1.4GHz, octa core	Android OS	13.0
Lenovo S856	1,199	2014/08	5.5"720x1280	1.2GHz, quad core	Android OS 4.4	8.0
Samsung E110S Galaxy SII	1,200	NA	4.5"480x800	1.5GHz, dual core	Android OS 4.0	8.0
<b>China Telecom 4G</b>						
Coolpad 5892	759	2014/07	5.0"480x854	1.2GHz, quad core	Android OS 4.3	5.0
ZTE Q801L	799	2014/07	5.0"480x854	1.2GHz, quad core	Android OS 4.3	5.0
Huawei Honor FreePlay	799	2014/09	5.0"720x1280	1.2GHz, quad core	Android OS 4.4	8.0
Huawei C8817L	869	2014/04	5.0"540x960	1.2GHz, quad core	Android OS 4.3	5.0
Coolpad F1	888	2014/09	5.0"720x1280	1.7GHz, quad core	Android OS 4.3	13.0
Coolpad 5952	1,049	2014/06	5.5"720x1280	1.2GHz, quad core	Android OS 4.3	8.0
Lenovo S860e	1,049	2014/08	5.5"720x1280	1.3GHz, quad core	Android OS 4.4	8.0
Coolpad T1	1,077	2014/06	5.5"720x1280	1.2GHz, quad core	Android OS 4.4	8.0

Note: \*The table includes 4G smartphone models priced below Rmb800 for CM, and those priced below Rmb1,300 for CU and CT, based on local market store visits and online sales research.

Source: JD.com, Tmall and PCPOP.com for hardware specs and retail prices of certain models; Citi Research



## CT and CU could have less 4G smartphone supply

**The 4G smartphone supply of CU and CT will continue to suffer from regulators' strong support for TD-LTE**

The 4G smartphone supply of CU and CT will continue to suffer from regulators' strong support for TD-LTE. One major factor that significantly impacts 4G smartphone supply trends is MIIT's requirement that 4G smartphones sold in China should at least support TD-LTE. As a result, CU can only launch 4-mode smartphone that support TD-LTE/FD-LTE/WCDMA/GSM even for low-end models, and cannot commercially launch the 3-mode FD-LTE smartphone models that are widely available in the overseas markets. According to smartphone vendors we talked to, such regulation is strictly implemented, and regulators most likely won't loosen the regulation anytime soon. As such CU's 4G market position becomes less compelling than our previous view that CU could have better 4G smartphone supply than CM with FD-LTE. CT also has to launch 4G smartphones that at least support 4 modes (TD-LTE/FD-LTE/CDMA/GSM), and currently has less 4G smartphone supply than CU.

**Delayed FD-LTE licensing is another factor that will drive smartphone vendors to partner more closely with CM**

The delayed FD-LTE licensing (we expect over one year gap between TD-LTE and FD-LTE licensing) is another factor that will drive smartphone vendors to partner more closely with CM. China could issue FD-LTE nationwide licenses for CU and CT in 1H15. The MIIT approved CU and CT for TD-LTE/FD-LTE hybrid network trials in only 40 cities so far. Because of delayed FD-LTE licensing (and hence much smaller 4G smartphone sales volume of CU and CT than CM) and the requirement that all 4G smartphones commercially launched in China should support TD-LTE, handset vendors tend to first produce 5-mode 4G smartphone models for CM, and then modify such model to a 4-mode smartphone for CU and CT. This will negatively impact the availability of 4G smartphone models and the time-to-market for 4G smartphones of CU and CT. CU and CT will likely continue to have smaller no. of 4G smartphone models than CM in the foreseeable future, especially for the low-end models.

**CT will likely have bigger challenges in 4G smartphone supply than CU**

CT will likely have bigger challenges in 4G smartphone supply than CU, especially for the low-end segment, partly because CDMA/LTE compatible smartphones are not mainstream globally. Many smartphone vendors are less active to supply customized 4G smartphones to CT due to likely smaller sales volume than similar 4G smartphones of CM and CU. Also the CDMA function of CT smartphone incurs higher royalty fee costs for smartphone vendors, compared with similar 4G models for CM and CU.

Our local market feedback indicates CT's major challenge is 4G smartphone supply. CT sees big competitive pressure in some local markets like Jiangsu province partly due to smartphone supply issue, and sometimes has to use larger scale of handset subsidies than rivals to reduce mobile user churn in Jiangsu province.

## CM is aggressively expanding 4G network coverage

**CM recently revised up its 4G base station (BTS) targets to 700k by 2014, from 500k+**

CM recently revised up its 4G base station (BTS) targets to 700k by 2014, from 500k+, according to CM Chairman Mr. Xi Guohua in an industry conference. CM hopes to efficiently address its data network user experience issue, and grasp the 4G growth time window in the next one year. 4G network coverage is still a major user complaint for CM. The 4G coverage issue is more important for CM than rivals as CM has inferior 3G network. To address a data network bottleneck, CM has a big capex budget for FY14-15, and its 4G network deployment is so far ahead of schedule, which gives it a competitive edge in 4G but also pressures near-term earnings. CM earnings may not have positive surprises in the next 6 months (although subs and revenue will), but we see a possible earnings growth turnaround after 2H15.



The three China telcos plan to build c.940K 4G BTS in total by end-2014, with 564K 4G BTS already built in 1H14. CM targets 700k 4G BTS and had 410k 4G BTS as of June, covering over 300 cities. CM maintains its guidance of 100m 4G handset sales and 50m 4G users by 2014. CU added 68k 4G BTS in 1H14 and targets 100k 4G BTS by 2014, most of which are FD-LTE BTS covering c.200 cities. CT targets total 4G BTS of 140k by 2014 and had 86k 4G BTS as of Jun14.

On-the-ground feedback indicates CU's key weakness is 4G network coverage due to relatively conservative 4G capex. We expect CM to add 400-500k 4G BTS in 2015, CU 150-200k, and CT around 200k. A relatively conservative 4G network deployment plan of CU could hurt its long-term growth momentum.

Figure 6. 4G Network Deployment Roadmap of Chinese Telcos

	Jun-14		Dec-14	
	No. of 4G BTS	Coverage	Target No. of 4G BTS	Coverage
China Mobile	410,000	> 100 cities	700,000	> 300 cities
China Unicom	68,000	56 cities	100,000	c.200 cities
China Telecom	86,000		140,000	c.100 cities

Source: Company, Citi Research

**CM will maintain a significant 4G network coverage advantage over CU and CT**

CM will likely have big 4G network coverage advantage over CU and CT before mid-2015, and will maintain significant 4G coverage advantage even after FD-LTE licensing with big cash pile to fund necessary capex. According to the current 4G capex plan, CU's 4G network deployment will likely be slower than CT. However, CU will likely revise up its 4G capex budget due to CM's competition pressure, and its 4G network construction is more cost effective than CT due to more seamless upgrade to FD-LTE from WCDMA. CT will likely have bigger challenges and much higher capex pressure in 4G network than CU, mainly due to a lack of BTS towers. Tower company can only partially solve CT's 4G network issues, we think, and such benefit is likely fully reflected in its recent share price rally.

**We forecast the aggregate capex of Chinese telcos will increase by 11% in 2014 and 2% in 2015**

We forecast the aggregate capex of Chinese telcos will increase by 11% in 2014 and 2% in 2015, driven by LTE and transmission network investments. Industry LTE capex could grow by 226% in 2014E and by 22% in 2015E. Chinese telcos could see peak LTE capex between 2H14E and 2H15E before seeing a decline. The sector could re-rate around mid-2015, in our view, with positive earnings prospects on capex declines, waning negative earnings impact (and positive earnings impact on yoy earnings growth from 2016E) from VAT and telcos' marketing policy change.

Figure 7. Capex of Chinese Telcos

	2013	2014E	2015E	2016E
<b>CM</b>				
LTE Capex (Rmb m)	30,300	80,000	75,000	65,000
Total Capex (Rmb m)	184,900	225,200	220,000	195,000
<b>CU</b>				
LTE Capex (Rmb m)	0	11,000	30,000	23,000
Total Capex (Rmb m)	73,459	78,316	86,926	75,121
<b>CT</b>				
LTE Capex (Rmb m)	10,000	40,300	55,000	47,000
Total Capex (Rmb m)	79,992	80,300	95,000	85,000
<b>Industry</b>				
Industry LTE capex (Rmb m)	40,300	131,300	160,000	135,000
yoy growth		225.8%	21.9%	-15.6%

Source: Company, Citi Research

CT is likely to have higher capex burden in LTE than CM and CU, and its overall capex could surprise negatively in the next two years mainly due to high buildings and infrastructure capex for new base station towers and transmission network. CT only had 366k base stations at June 2013, much less than CM's 1,810k and CU's 914k, and needs to find more site locations than rivals for LTE network deployment. The tower company, which can help release part of CT's capex pressure, cannot benefit CT significantly before 2016, on our analysis, when each telco already moves down their peak LTE capex levels. The tower company can only start building new towers in 1H15E and the existing tower assets injection process will possibly be slower than expected.

Figure 8. No. of Base Stations of Chinese Telcos as of Jun14 ('000)

	China Mobile	China Unicom	China Telecom
2G	900	423	5
3G	500	423	275
4G	410	68	86
Total	1,810	914	366

Source: Company, Citi Research

# 4G Rising in Relevance

## 4G demand is increasing fast

Telcos' promotional service packages are focused on 4G in the local markets, especially for CM which has cancelled almost all promotions for 2G/3G. According to local operators, they adopt largely uniform 4G promotion policies across each province and their selling cost cuts have yet to significantly drag 4G service promotions by scaling back marketing resources for 2G and 3G. As a result, 4G user demand in developed local markets like Zhejiang and Guangdong provinces is growing fast, and 4G is becoming a key user growth driver for local operators.

Mobile services normally see inflection of S curve growth after penetration reaches 15% in the local markets we visited, indicating a speed up of 4G penetration in China from mid-2015. CM will likely see much earlier and stronger S curve growth inflection in 4G than rivals due to its head start in 4G commercial service and aggressive 4G investments.

## CM taking high-end subs back from CU/CT

Our feedback from local markets indicates CM is gaining back some high-end users from rivals with 4G a selling point, as CM's brand image and customer service still lead its rivals in most local markets. CM has good 4G network quality in top-tier cities, and has seen word-of-mouth effect for its fast-speed 4G services in Hangzhou and Guangzhou where 4G network coverage is better than in other cities we visited. The iPhone 6 launch will likely further help CM maintain and even grow high-end user market share, which is an import driver for its long term earnings growth.

The slower organic ARPU decline of CM (excl. VAT and tariff discount impact) from 1Q14, and faster-than-expected ARPU decline of CU since 2Q14 can be one indication of CM's high-end user market share gain through its 4G user growth.

The TD-LTE industry value chain is becoming comparable to FD-LTE, with CM's aggressive investments and fast 4G user growth. CM will likely maintain its 4G growth momentum, and increases pressure on CU and CT, if CU and CT don't respond aggressively to defend 4G market share.

The financial results and marketing efforts in 3Q14 indicate CU focuses more on near-term earnings growth and less on revenue and mobile subs growth. We expect such a strategy will increase CU earnings growth pressure after FY15, as it could result in continued top line growth pressure and lower operating leverage. CU had disappointing earnings and share performance in 1H12 after it significantly reduced its iPhone subsidy level in FY11. CT had more handset subsidies cut than market expectations in 3Q, partly due to 4G smartphone supply delays, in our view.

## Concerns over 4G tariff discount should ease

### Subsidies are declining and being replaced by service discounts

A study of local mobile service promotions indicates that Chinese telcos are aggressively cutting selling costs (especially handset subsidies) and replacing part of the selling costs cut with tariff discounts (ie. tariff credit subsidies).

Selling costs control has become strict KPI to local subsidiaries of each telco so that local operators are making concerted efforts to cut selling costs. CU still kept handset subsidies in the cities we visited as of mid Oct, albeit with smaller no. of handset models available for subsidies than before. CM and CT had cancelled or suspended handset subsidies in most of these cities. All three telcos recently

launched more tariff discount plans mainly for new 4G contract users, as a major substitute marketing policy to replace handset subsidies. CM overall is more aggressive in tariff discounts than CU and CT.

We believe the marketing policy change is positive to telcos' earnings as overall budgets including handset subsidies and tariff credit subsidies will decline compared with previous market competition environment as telcos comply with SASAC guidance to protect their earnings away from fierce competition.

CU and CT will likely deliver positive earnings from such marketing policy change in 2H14 and CM from FY15. Most industry contacts in the local markets we spoke to believe the overall competition intensity is reduced due to SASAC guidance, and the marketing policy change won't have significant pressure on mobile user growth. Each telco is also significantly cutting their advertising and commission costs, which should be more than enough to offset the earnings impact from likely user growth slowdown due to overall handset and tariff credit subsidy budget decline.

We are more positive on telcos' 4G investment returns as local operators are mindful that SASAC's guidance is to urge telcos to protect earnings growth away from heavy competition for the next three years. Hence we believe selling costs cut and switch to tariff discount are overall beneficial to earnings of each telco and such benefit will likely surprise on the upside in long term, as Chinese telcos normally only pass part of the selling costs cut on to tariff discount and 4G demand is growing fast.

Figure 9. Availability of Handset Subsidies in Five Cities as of Mid Oct

	Hangzhou, Zhejiang Province	Nanjing, Jiangsu Province	Shanghai	Guangzhou, Guangdong Province	Zhengzhou, Henan Province
China Mobile	No	No	No	No	No
China Unicom	Yes	Yes	Yes	Yes	Yes
China Telecom	No	Yes	No	No	No

Source: Citi Research

4G handset subsidy levels of CU and CT are declining to 20-30% from formerly 30-40% in the five cities, in line with their efforts to cut overall subsidies. CU has more aggressive handset subsidies than rivals, which is partly due to relatively more subsidy budget left in 2H, as CU saw the fastest handset subsidy yoy decline (21% decline) in 1H14 among all three telcos. CM barely offers any handset subsidies as it only has 27% of full year subsidy budget left for 2H14. We view more prevalent CU handset subsidies also as an indication of its increased user growth challenges. After a sharp QoQ decline of CU handset subsidies in 3Q14 and associated very weak mobile subs data of CU in 3Q, CU should have become more aggressive to use its excessive remaining FY14 handset subsidy budget to improve user growth pace in 4Q14, according to the local market promotion packages in Oct. This will likely help improve CU's mobile subs growth in the next few months.

Figure 10. Handset Subsidies of Chinese Telcos (Rmb m)

	1H13	2H13	1H14	2H14E
China Mobile	14,200	12,100	15,300	5,740
yoy growth	14.3%	6.2%	7.7%	-52.6%
China Unicom	4,220	3,578	3,332	2,467
yoy growth	20.1%	38.3%	-21.0%	-31.1%
China Telecom	14,075	8,720	11,586	6,590
yoy growth	21.9%	-14.6%	-17.7%	-24.4%

Source: Company, Citi Research estimates

The complete handset subsidy suspension of CM and CT in many cities is partly because local operators have to reserve some handset subsidy budgets for iPhone 6 and year-end promotions with big reduction of overall FY14 handset subsidy budgets.

Figure 11. Operator Handset Subsidies for Selected 4G Smartphones in Five Cities as of Mid Oct

Handset Model	Retail price in Oct 2014 (Rmb)	Minimum guaranteed spending over contract period to get a free handset (Rmb)	Estimated operator procurement cost (Rmb)	Handset subsidy as % of guaranteed spending	Display size (inch)	Processor speed (Hz)
<b>CU 4G in Hangzhou</b>						
Lenovo A606	799	1,824	639	35%	5.0"480x854	1.3GHz, quad core
Huawei Honor 3C	799	3,264	639	20%	5.0"720x1280	1.6GHz, quad core
Lenovo A806	998	2,544	798	31%	5.0"720x1280	1.7Ghz, octa core
Lenovo S856	1,199	3,264	959	29%	5.5"720x1280	1.2GHz, quad core
<b>CU 4G in Nanjing</b>						
Coolpad K1 7620L	828	2,544	662	26%	5.5"540x960	1.2GHz, quad core
Huawei Honor 3C	799	2,544	639	25%	5.0"720x1280	1.6GHz, quad core
Lenovo A916	1,198	2,544	958	38%	5.5"720x1280	1.4GHz, octa core
Xiaolajiao LA5-W	1,399	3,264	1119	34%	5.5"720x1280	1.4GHz, octa core
SONY Xperia C3 S55u	1,699	4,704	1359	29%	5.5"720x1280	1.2GHz, quad core
<b>CT 4G in Nanjing</b>						
Coolpad 5892	759	3,096	645	21%	5.0"480x854	1.2GHz, quad core
ZTE Q801L	799	3,096	679	22%	5.0"480x854	1.2GHz, quad core
Huawei C8817L	869	3,096	739	24%	5.0"540x960	1.2GHz, quad core
Coolpad 5952	1,049	4,056	892	22%	5.5"720x1280	1.2GHz, quad core
Coolpad S6	1,699	4,776	1444	30%	5.95"720x1280	1.2GHz, quad core
<b>CU 4G in Shanghai</b>						
Lenovo A606	799	2,304	639	28%	5.0"480x854	1.3GHz, quad core
Huawei honor 3C	799	2,544	639	25%	5.0"720x1280	1.6GHz, quad core
Coolpad K1 7620L	828	2,544	662	26%	5.5"540x960	1.2GHz, quad core
K-Touch Touch 3W	999	2,544	799	31%	5.0"480x854	1.2GHz, quad core
<b>CU 4G in Guangzhou</b>						
Lenovo A606	799	1,824	639	35%	5.0"480x854	1.3GHz, quad core
Huawei Honor 3C	799	2,544	639	25%	5.0"720x1280	1.6GHz, quad core
Coolpad K1 7620L	828	2,544	662	26%	5.5"540x960	1.2GHz, quad core
Lenovo A806	998	2,544	798	31%	5.0"720x1280	1.7Ghz, octa core
<b>CU 4G in Zhengzhou</b>						
Lenovo A606	799	1,824	639	35%	5.0"480x854	1.3GHz, quad core
Coolpad K1 7620L	828	2,544	662	26%	5.5"540x960	1.2GHz, quad core
Nokia Lumia 636	799	2,544	639	25%	4.5"480x854	1.2GHz, quad core
Lenovo A806	998	2,544	798	31%	5.0"720x1280	1.7Ghz, octa core

Note: \*Assuming operator procurement cost is 80% of handset retail price (cheapest price from online sales channels) for CM and CU, and 85% for CT; Handset subsidy as % of guaranteed spending is calculated based on package with the lowest guaranteed spending for a user to get a free handset.

Source: JD.com, Tmall, and PCPOP.com for retail price; Company, Citi Research

### Service discount model far more profitable vs. handset subsidy model

The mainstream promotional plan for 4G in the local markets is offering tariff discounts such as refunding free tariff credits for users with lock-up contracts. The tariff discount % is similar to each telco's former handset subsidies as % of user guaranteed revenue. CM offers tariff discounts normally in the range of 40-50% in the five cities we visited, while CU's tariff discount level are the least aggressive at around 30%. This is partly because CU also offers more handset subsidies than its rivals. CT has more unified tariff discount plans in the cities we visited, offering 4G users tariff credits worthy of 10x contracted monthly fees after the users sign up two-year lock-up contracts.

Figure 12. Operator 4G Tariff Discount in Five Cities as of Mid Oct for New Users with Two-year Lock-up Contracts

Guaranteed monthly fee (Rmb)	Tariff discount in Hangzhou*	Tariff discount in Nanjing	Tariff discount in Shanghai	Tariff discount in Guangzhou	Tariff discount in Zhengzhou
<b>China Mobile</b>					
128	29%	52%	42%	55%	NA
138	NA	NA	NA	NA	45%
158	29%	50%	42%	53%	45%
188	29%	51%	42%	51%	44%
<b>China Unicom</b>					
136	28%	28%	28%	28%	28%
166	30%	30%	30%	30%	30%
196	30%	30%	30%	30%	30%
<b>China Telecom</b>					
129	42%	42%	42%	42%	42%
169	42%	42%	42%	42%	42%
199	42%	42%	42%	42%	42%

Note: \*Tariff credits of CT in Hangzhou are limited to price of one handset a customer purchased.

Source: Company, Citi Research

Chinese telcos' 3Q14 results indicate positive earnings contribution from selling costs cut at each of the Chinese telcos. CM and CU saw major qoq EBITDA margin rebound in 3Q, and CT saw flat margins. The 3Q earnings growth of CU and CT was a significant beat to Street expectations partly due to replacing handset subsidies with tariff discounts.

Overall marketing budgets including handset subsidies and tariff credit subsidies will likely decline over the next three years as telcos comply with SASAC guidance. The decline of overall promotion budgets is pushing handset vendors to aggressively develop their non-telco distribution channels, driving much higher % of smartphones to be sold through open channels without any subsidies. Such trends together with rising 4G user demand would lead to more cost-effective 4G growth and positive earnings impact on telcos' earnings in long term.

We expect Chinese telcos will cut handset subsidies by 15-26% each year in FY14-16E. China has already launched c.300 4G smartphone models, according to statistics from the MIIT. Handset vendors are quickly shifting from 3G to 4G due to competition and consumer demand. We expect low-cost 4G smartphone will become more abundant from 4Q14 after MediaTek launches its 5-mode 4G chipset solution in 3Q14. We believe the developed 4G smartphone supply and fast price decline will help telcos less rely on handset subsidies.

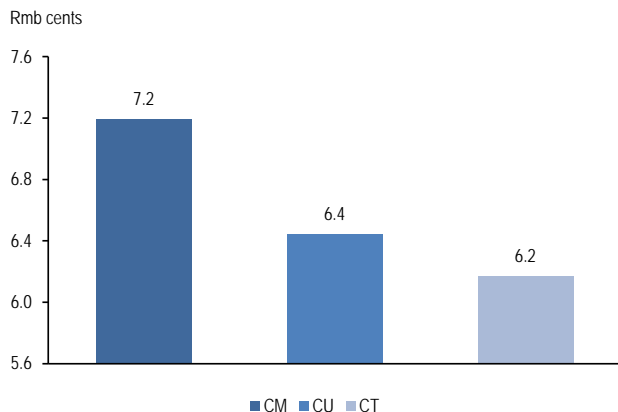
We expect Chinese telcos to see 6-17% yoy selling costs decline each year in FY14-16E, compared with our former estimates of slight selling costs decline in FY15-16E. We are more convinced Chinese telcos will effectively comply with SASAC's guidance without hurting their long term sales and earnings growth pace, after investigating the local 4G market development and 4G smartphone price trends.

### CM's more aggressive tariff discounts is not a major concern

CM is unlikely to be a price challenger for 4G and tough price war isn't on the cards. We listed standard 4G tariff plans for each operator to compare their mobile data and voice tariffs. The key finding is CM has more expensive 4G tariffs than CU and CT, and hence CM's more aggressive tariff discounts in local markets just make its effective tariff similar to that of rivals.

CM 4G data and voice tariffs are overall more expensive than the 4G tariffs of CU and CT. The 4G voice tariff gap between CM and its rivals is much bigger than the data tariff gap, as CM still generates most earnings from voice business. As such we believe CM will continue to adopt 4G tariff discipline, and its promotional tariff discounts won't be too aggressive to hurt its earnings growth. This is positive to 4G investment return and long term growth of each Chinese telco in our view.

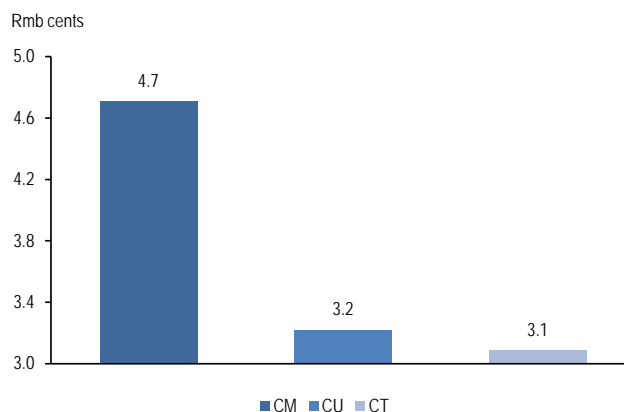
Figure 13. Effective 4G Data Tariffs for Comparable Packages of Chinese Telcos (Rmb cents/MB)



Note: Effective tariffs for 4G packages with monthly fee of Rmb268 for CM, Rmb296 for CU, and Rmb299 for CT

Source: Company, Citi Research

Figure 14. Effective 4G Voice Tariffs for Comparable Packages of Chinese Telcos (Rmb cents/min)



Note: Effective tariffs for 4G packages with monthly fee of Rmb268 for CM, Rmb296 for CU, and Rmb299 for CT

Source: Company, Citi Research



Figure 15. 4G Tariff Comparison of Chinese Telcos

Package monthly fee (Rmb)	Inclusive domestic /local data traffic (MB)	Inclusive outgoing domestic call mins (min)	Effective tariff for inclusive data traffic (Rmb/MB)	Effective voice tariff for inclusive mins (Rmb/min)	Tariff for data traffic exceeding air time (Rmb/MB)	Tariff for outgoing calls exceeding air time (Rmb/min)	Data traffic fair value as % of total package fair value	Voice fair value as % of total package fair value	Data traffic Rev.	Voice Rev.	CU/CT data tariff discount to comparable CM tariff	CU/CT voice tariff discount to comparable CM tariff
<b>CM 4G Package</b>												
58	500	50	0.11	0.07	0.29	0.19	94%	6%	54	4	-	-
88	700	200	0.11	0.07	0.29	0.19	84%	16%	74	14	-	-
138	1,024	500	0.10	0.07	0.29	0.19	76%	24%	105	33	-	-
158	2,048	500	0.07	0.04	0.29	0.19	86%	14%	136	22	-	-
238	2,048	1,000	0.09	0.06	0.29	0.19	76%	24%	180	58	-	-
268	3,072	1,000	0.07	0.05	0.29	0.19	82%	18%	221	47	-	-
338	3,072	2,000	0.08	0.05	0.29	0.19	70%	30%	237	101	-	-
588	6,144	4,000	0.07	0.04	0.29	0.19	70%	30%	412	176	-	-
<b>CU 4G/3G Integrated Package</b>												
76	400	200	0.15	0.08	0.30	0.15	80%	20%	61	15	-40%	-7%
106	800	300	0.11	0.06	0.30	0.15	84%	16%	89	17	-5%	20%
136	1,024	500	0.11	0.05	0.30	0.15	80%	20%	109	27	-5%	20%
166	2,048	500	0.07	0.04	0.30	0.15	89%	11%	148	18	-9%	17%
196	3,072	500	0.06	0.03	0.30	0.15	92%	8%	181	15	33%	49%
296	4,096	1,000	0.06	0.03	0.30	0.15	89%	11%	264	32	10%	32%
396	6,144	2,000	0.06	0.03	0.30	0.15	86%	14%	341	55	28%	45%
596	11,264	3,000	0.05	0.02	0.30	0.15	88%	12%	526	70	30%	47%
<b>CT 4G Package</b>												
59	500	100	0.11	0.05	0.30	0.15	91%	9%	54	5	1%	25%
79	700	200	0.10	0.05	0.30	0.15	88%	13%	69	10	7%	29%
99	1,024	300	0.08	0.04	0.30	0.15	87%	13%	86	13	nm	nm
129	1,024	500	0.10	0.05	0.30	0.15	80%	20%	104	25	1%	24%
169	2,048	700	0.07	0.04	0.30	0.15	85%	15%	144	25	-6%	19%
199	3,072	700	0.06	0.03	0.30	0.15	90%	10%	179	20	34%	50%
299	4,096	1,500	0.06	0.03	0.30	0.15	85%	15%	253	46	14%	35%
399	6,144	2,000	0.06	0.03	0.30	0.15	86%	14%	343	56	28%	45%
599	11,264	3,000	0.05	0.02	0.30	0.15	88%	12%	529	70	30%	47%

Source: Company, Citi Research

### Entry-level 4G monthly fee still higher than 3G

CM has implemented nationwide unified 4G tariffs, unlike its uneven 3G tariffs in local markets. CM's 4G tariffs are 30-40% lower than its 3G tariffs in unit data price, but with higher monthly flat fee for entry-level package than 3G. CM's lowest monthly flat fee for 4G is Rmb58, and that for 3G is below Rmb20. Such pricing strategy is so far positive to ARPU when CM users migrate from 2G/3G to 4G, according to CM management.

We expect 4G tariff discount can cultivate mobile data demand of Chinese smartphone users, which just have an average of c.200MB data usage per month. Data usage surge with enriched mobile internet services, and mobile data price elasticity (Chinese telcos don't have any unlimited data plan) could drive up sector revenue growth in long term.

### No evidence that declining selling costs has hurt CM's 4G momentum

CM has seen escalating 4G user growth in FY14, even after implementing selling costs cut from end- 2Q. CM had 11.4m 4G net adds in Sep with 5% 4G user penetration to its total mobile users, compared with 9.1m 4G net adds in Aug. We believe CM's selling costs cut won't have significantly drag on 4G growth, as CM shifts its 2G and 3G marketing resources to 4G, and its 4G ecosystem is developing fast.

## CM now most preferred

We move our sector top Buy to CM from CU, post our local market investigations and 4G smartphone supply research. 4G will, in our view, help CM increase service revenue and EBITDA market share in FY14-16E, mainly at the expense of CT. CM is set to maintain momentum in mobile user growth in the next two years, and 4G should help its significantly reduce mobile user market share decline and increase revenue market share. CM will more likely deliver positive earnings surprise than rivals after FY15 with its mobile revenue market share beating market expectations.

## CM revenue estimates revised up and CU/CT revenues revised down

We have already factored in most of the revenue and earnings impact from marketing policy change and reduced selling costs of Chinese telcos post their interim results. After recent local market research, we slightly increase CM revenue estimates and reduce our CU and CT mobile subs and revenue growth forecasts in the next two years, due to impact from 4G market position and telcos' marketing policy changes. We increase our CM ARPU forecasts, but reduce mobile ARPU forecasts of CU and CT in FY14-15E as we expect CM will benefit more in ARPU growth with dominant market share in 4G.

We estimate CM's subs adds market share will stay at around 56% in FY15E and FY16E, compared with lower than 50% between FY11-13, driven by 4G. CM will likely continue to lose total mobile subs share, but with much slower pace than before, as it's 4G growth will partly be driven by migration from 2G and 3G. CU and CT will continue to slightly grow total subs share from 2014 to 2016, which is a market trend that regulators will likely tolerate.

More importantly, we see CM increasing its 3G+4G user market share, and hence improve its mobile broadband service market position and revenue growth pace significantly. CM's 3G+4G share will increase to 59% in FY16E from 53% in FY14E, on our estimates, which should help slow down its total mobile user market share decline.

Figure 16. Mobile Subs of Chinese Telcos

Mobile subs	2012	2013	2014E	2015E	2016E
CM subs (m)	710	767	806	846	880
Growth	9.3%	8.0%	5.0%	5.0%	4.1%
CU subs (m)	239	281	299	319	336
Growth	19.9%	17.4%	6.4%	6.8%	5.3%
CT subs (m)	161	186	186	197	207
Growth	27.0%	15.5%	0.3%	5.8%	4.9%
Mobile sub adds market share	2012	2013	2014E	2015E	2016E
CM	45.1%	46.1%	67.5%	56.2%	56.5%
CU	29.5%	33.7%	31.4%	28.6%	27.7%
CT	25.4%	20.2%	1.0%	15.1%	15.8%
Mobile subs market share	2012	2013	2014E	2015E	2016E
CM	64.0%	62.2%	62.4%	62.1%	61.9%
CU	21.6%	22.8%	23.2%	23.4%	23.6%
CT	14.5%	15.0%	14.4%	14.5%	14.5%

Source: Company, Citi Research

We forecast CM's 4G subs to reach 372m with 75% market share, accounting for 42% of CM's total subs by 2016. 4G is likely to account for 35% of total mobile subs of the industry by 2016. CU will have 13% 4G subs market share in 2016, slightly higher than the 12% share of CT, on our estimates. Although CT will likely aggressively promote 4G service in the following years, we see it losing 4G share to CU after 2015 due to CU's advantages in integrated 3G/4G network and

smartphone supply. As such, CU will possibly have comparable 4G market share to CT after 2015.

Figure 17. 4G Subs of Chinese Telcos

	2014E	2015E	2016E
<b>CM</b>			
4G subs (m)	62.0	201.5	371.7
Market share	86.6%	77.8%	74.9%
as % of CM total subs	7.7%	23.8%	42.2%
3G+4G subs (m)	307.0	454.5	623.1
Market share	52.9%	56.4%	58.8%
<b>CU</b>			
4G subs (m)	4.2	29.4	64.2
Market share	5.9%	11.3%	12.9%
as % of CU total subs	1.4%	9.2%	19.1%
3G+4G subs (m)	152.0	196.4	246.8
Market share	26.2%	24.4%	23.3%
<b>CT</b>			
4G subs (m)	5.4	28.2	60.6
Market share	7.5%	10.9%	12.2%
as % of CT total subs	2.9%	14.3%	29.3%
3G+4G subs (m)	121.1	154.7	189.5
Market share	20.9%	19.2%	17.9%
<b>Industry</b>			
Industry 4G subs	71.6	259.1	496.5
as % of total industry subs	5.5%	19.0%	34.9%
Industry 3G+4G subs	580.1	805.6	1,059.4
as % of total industry subs	44.9%	59.1%	74.4%

Source: Company, Citi Research

We expect non-voice revenue will drive up CM ARPU from 2H15E. CU and CT will regain ARPU growth from FY15E on our estimates after double hit from VAT and marketing policy change in FY14.

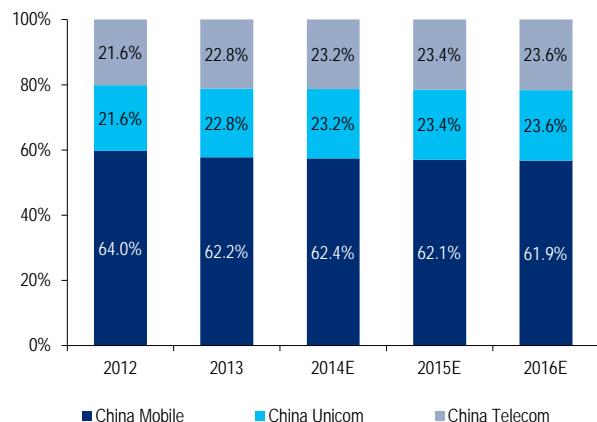
Figure 18. Mobile ARPU Forecasts (Rmb)

	2012	2013	2014E	2015E	2016E
<b>CM</b>	<b>68.7</b>	<b>66.6</b>	<b>62.8</b>	<b>62.6</b>	<b>64.9</b>
growth	-3.7%	-3.0%	-5.8%	-0.4%	3.7%
<b>CU</b>	<b>47.9</b>	<b>48.4</b>	<b>45.4</b>	<b>45.1</b>	<b>46.1</b>
growth	2.0%	1.2%	-6.2%	-0.6%	2.1%
<b>CT</b>	<b>53.9</b>	<b>54.8</b>	<b>54.4</b>	<b>55.4</b>	<b>56.5</b>
growth	2.8%	1.6%	-0.7%	2.0%	1.9%

Source: Company, Citi Research estimates

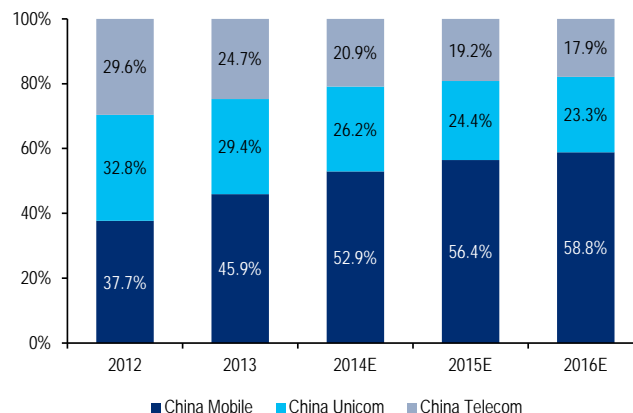
The strong 3G+4G mobile subs trends and ARPU rebound will lead to service revenue market share gain of CM in FY15-16E, mainly at the expense of CT, on our estimates. We expect such trends that are contrary to Street expectations are very likely, given the feedback from our local market investigation and 4G smartphone value chain research. Major downside risk to our CM projections is any regulatory interference to balance telcos' market shares. However, any such regulatory change could be slower than market expectations, given regulators' strong support on TD-LTE.

Figure 19. Mobile Subs Market Share of Chinese Telcos



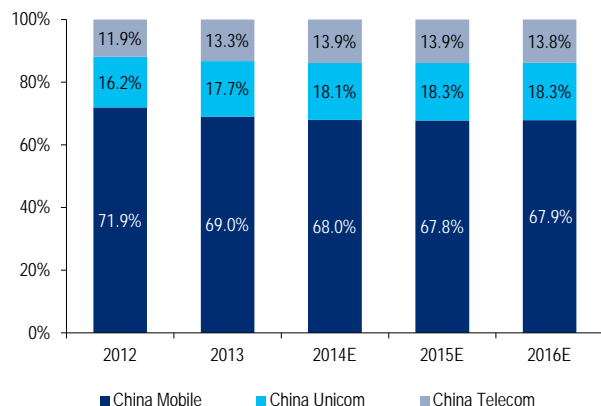
Source: Company, Citi Research

Figure 20. 3G+4G Subs Market Share of Chinese Telcos



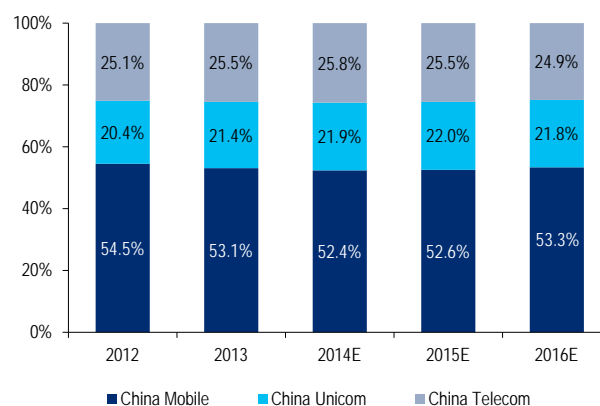
Source: Company, Citi Research

Figure 21. Mobile Service Revenue Market Share of Chinese Telcos



Source: Company, Citi Research

Figure 22. Total Service Revenue Market Share of Chinese Telcos



Source: Company, Citi Research

### CM EBITDA market share will likely grow at the expense of CT/CU

We expect CM will see faster earnings growth rebound than market expectations, benefiting from its effective 4G business execution and selling costs cut. CM will gain EBITDA market share from FY15E, on our estimates, mainly at the expense of CT. Expect more positive than negative earnings surprises from the marketing policy change of each telco. The benefit from marketing policy change will likely augment over time as 4G demand increases. We expect each Chinese telco will see 6-17% yoy selling costs decline in FY14-16E, compared with our previous estimates of slight selling costs declines in FY15-16E.

Chinese telcos plan to reduce selling costs by 11-17% yoy in FY14, in response to SASAC's guidance to protect earnings growth. This will likely make profound change in marketing policies of Chinese telcos. We expect Chinese telcos will cut their handset subsidies and advertising costs by 10-26% each year for the next three years. Commission costs to 3<sup>rd</sup> party distributors will also decline, albeit with slower decline pace than total selling costs decline of each telco in our view. In the meantime, tariff discounts will be widely adopted as key promotional policy to drive

user growth. We expect such marketing policy changes will likely reduce near-term user and revenue growth pace for Chinese telcos (few impact on long term top line growth pace after 2H15 with industry 4G growth inflection), but will be earnings accretive by significantly improving margins.

We estimate CM will transfer over 50% of its selling costs cut to tariff credit subsidies before 2Q15, and the % will decline over time with more positive earnings impact in long term. CM's 4G promotions are more aggressive than rivals, indicate it will focus on 4G user scale in the next one year which is a favorable time window for CM to grow 4G. After CM enhances a strong 4G market position, CM will possibly reduce 4G promotional efforts to avoid likely monopoly position and risk of any likely asymmetric regulations that target to balance market share.

Figure 23. Total Selling Costs of Chinese Telcos (Rmb m)

	2012	2013	2014E	2015E	2016E
<b>China Mobile</b>	<b>104,906</b>	<b>118,134</b>	<b>97,780</b>	<b>86,796</b>	<b>78,251</b>
as % of total service revenue	18.7%	20.0%	16.5%	14.0%	11.7%
Growth (%)	8.3%	12.6%	-17.2%	-11.2%	-9.8%
<b>China Unicom</b>	<b>41,139</b>	<b>50,789</b>	<b>43,382</b>	<b>38,724</b>	<b>36,016</b>
as % of total service revenue	19.6%	21.3%	17.5%	15.0%	13.1%
Growth (%)	19.1%	23.5%	-14.6%	-10.7%	-7.0%
<b>China Telecom</b>	<b>54,442</b>	<b>62,010</b>	<b>55,110</b>	<b>49,373</b>	<b>46,596</b>
as % of total service revenue	21.1%	21.8%	18.9%	16.4%	14.9%
Growth (%)	-3.2%	13.9%	-11.1%	-10.4%	-5.6%

Source: Company, Citi Research

We have reduced our handset subsidy estimates of each telco, and expect each telco will have 15-26% handset subsidy yoy decline in FY14-16E. Chinese telcos will likely be conservative in handset subsidy budget after VAT reform, and will have similar efforts to aggressively reduce handset subsidies. However, we expect CT will see slower total selling costs decline than rivals as it could use relatively more aggressive commission and advertising costs to address its likely inferior 4G market position.

Figure 24. Handset Subsidies of Chinese Telcos (Rmb m)

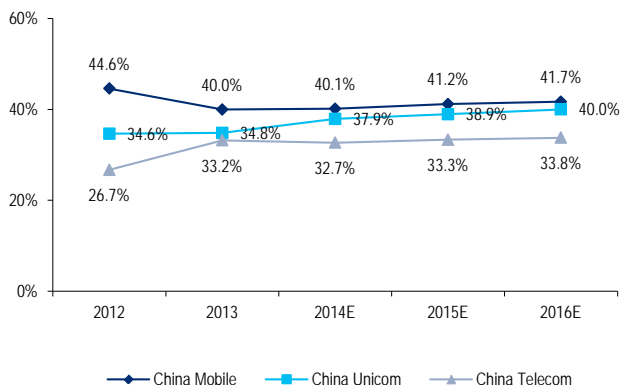
	2012	2013	2014E	2015E	2016E
<b>China Mobile</b>	<b>23.8</b>	<b>26.3</b>	<b>21.0</b>	<b>17.9</b>	<b>15.2</b>
as % of mobile service revenue	4.2%	4.5%	3.6%	2.9%	2.3%
Growth (%)	38.4%	10.5%	-20.0%	-15.0%	-15.0%
<b>China Unicom</b>	<b>6.1</b>	<b>7.8</b>	<b>5.8</b>	<b>4.7</b>	<b>4.0</b>
as % of mobile service revenue	4.8%	5.2%	3.7%	2.8%	2.2%
Growth (%)	5.4%	27.8%	-25.6%	-18.5%	-15.7%
<b>China Telecom</b>	<b>21.8</b>	<b>22.8</b>	<b>18.2</b>	<b>15.3</b>	<b>13.0</b>
as % of mobile service revenue	23.4%	20.0%	15.0%	12.0%	9.5%
Growth (%)	39.1%	4.8%	-20.3%	-15.9%	-14.7%

Source: Company, Citi Research

We expect EBITDA margin of each Chinese telco to trend up between FY14-16E driven by significant selling costs decline. CM will see more significant benefit than rivals from 4G, which, together with selling costs cut, will offset mobile data leased line costs and network operating costs increase and reverse its formerly fast margin decline trend, on our estimates. CU will likely grow 3G/4G mobile broadband users more cost effectively than CT due to the advantage of WCDMA+FD-LTE smartphone supply, and has less fixed-line revenue growth pressure.

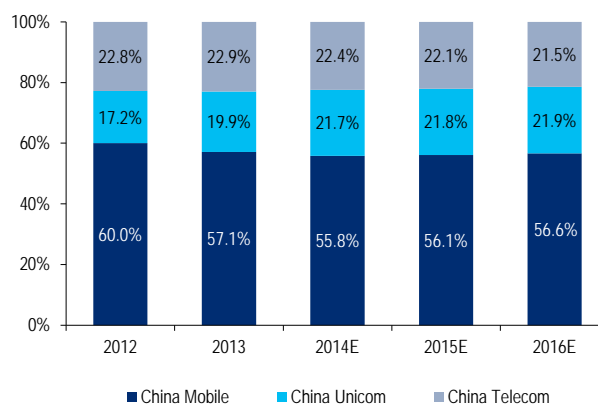
We expect CM's EBITDA margin rebound will help it gain EBITDA market share from FY15E. CM's EBITDA market share gain will likely be mainly at the expense of CT, as we expect CT will see revenue share decline and slower margin recovery pace than rivals. We don't think such trends are in line with the current market's expectation. Any substantiation of such trends will help improve relative share price performance of CM over CT, in our view.

Figure 25. Service EBITDA Margin of Chinese Telcos



Source: Company, Citi Research

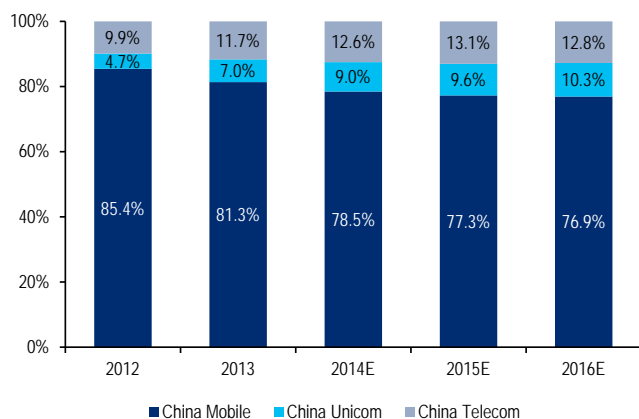
Figure 26. EBITDA Market Share of Chinese Telcos



Source: Company, Citi Research

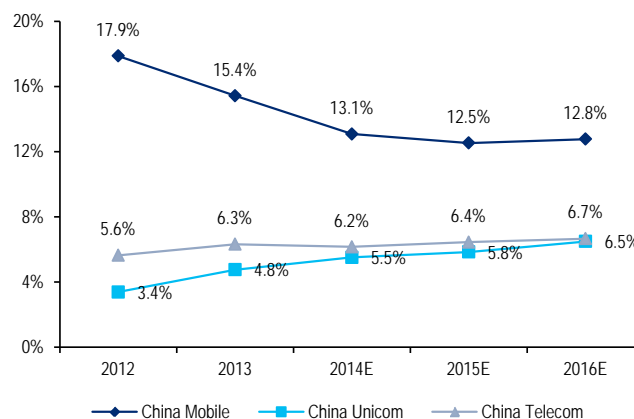
CM's net profit market share will decline in FY14-16E, on our analysis, partly due to depreciation cost increases, but with a much slower decline pace than before. We expect CM to see an ROE rebound from FY16E, while the ROE increase of CU and CT should slow down after FY14E.

Figure 27. Net Profit Market Share of Chinese Telcos



Source: Company, Citi Research

Figure 28. ROE of Chinese Telcos



Source: Company, Citi Research

### FY15-16E earnings raised for CM and reduced for CU/CT

We maintain our CM FY14E earnings largely unchanged and increase CM FY15-16E earnings by 2-3% each year, on higher revenue and margin assumptions. Positive earnings impact from higher revenue and margin assumptions is partially offset by higher D&A costs on our estimates. Our FY14-16E earnings are 2-8% higher than the current IBES consensus. We believe CM will deliver more positive

earnings surprise in long term driven by its strong market position in 4G market. Recent local market investigations and a study of 4G smartphone value chain and network coverage progress make us more positive on CM's 4G investment returns and its mobile market share. The earnings growth turnaround of CM driven by 4G will likely be stronger than market expectations. We increase our DCF-driven CM target price to HK\$115 from HK\$100. Maintain Buy.

We increase our CU FY14E earnings by 9%, on higher margin assumptions with selling costs cut, but reduce our FY15-16E earnings by 1-12% mainly on lower revenue assumptions. Our FY14-16E earnings are 2-5% lower than current IBES consensus. We expect CM's effective 4G promotions could reduce CU's 3G service time window, and CU's conservative plan in 4G network roll out and lack of commitment on enhancing mobile user market share will reduce its long term growth pace. However we believe CU will possibly see higher near-term earnings benefit than rivals from telcos' selling costs cut, and CU has less mobile data profitability challenges than rivals with technology advantage. We reduce our DCF-based target price to HK\$14 from HK\$15 and retain our Buy rating on CU.

We reduce CT's FY14-16E earnings by 1-3% each year, mainly on higher margin assumptions. 4G capex and smartphone supply challenges will likely be a drag on CT's earnings growth, and its selling costs decline in the next three years will be slower than that of rivals. CT will likely face big value-chain and smartphone-supply challenges when migrating CDMA to LTE, and its relatively low market share in 4G could lead to slow pace to improve such position in our view. Our FY14-16E earnings are 4-10% lower than current IBES consensus. We maintain our target price of HK\$4.3, but downgrade the stock to Sell after the stock's share price rally.

Figure 29. Chinese Telcos — Estimate Revisions

	China Mobile (941 HK)			China Unicom (762 HK)			China Telecom (728 HK)		
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
<b>Revenue (Rmb m)</b>									
New	647,371	689,973	749,288	289,156	305,507	326,562	322,730	334,964	350,872
Old	640,680	677,154	728,689	301,728	322,883	350,313	331,385	343,477	361,441
% change	1.0%	1.9%	2.8%	-4.2%	-5.4%	-6.8%	-2.6%	-2.5%	-2.9%
<b>EBITDA (Rmb m)</b>									
New	240,596	258,831	283,924	93,760	100,807	110,084	96,788	101,878	107,665
Old	238,354	251,191	271,280	91,845	99,950	111,354	98,635	103,055	109,060
% change	0.9%	3.0%	4.7%	2.1%	0.9%	-1.1%	-1.9%	-1.1%	-1.3%
<b>Net Profit (Rmb m)</b>									
New	111,478	115,156	126,955	12,763	14,377	17,072	17,835	19,499	21,065
Old	111,513	113,285	123,223	11,750	14,467	19,350	18,013	19,812	21,650
% change	0.0%	1.7%	3.0%	8.6%	-0.6%	-11.8%	-1.0%	-1.6%	-2.7%

Source: Citi Research



Figure 30. Citi Forecasts vs. Consensus

	Citi			Consensus			Difference		
	2014E	2015E	2016E	2014E	2015E	2016E	2014E	2015E	2016E
<b>China Mobile</b>									
Revenue (Rmb m)	647,371	689,973	749,288	643,589	679,692	725,301	0.6%	1.5%	3.3%
EBITDA (Rmb m)	240,596	258,831	283,924	238,401	251,064	272,153	0.9%	3.1%	4.3%
EBITDA margin	37.2%	37.5%	37.9%	37.0%	36.9%	37.5%	0.1%	0.6%	0.4%
Net Profit (Rmb m)	111,478	115,156	126,955	109,171	108,142	117,455	2.1%	6.5%	8.1%
EPS (Rmb)	5.48	5.66	6.24	5.44	5.50	5.85	0.7%	3.0%	6.6%
<b>China Unicom</b>									
Revenue (Rmb m)	289,156	305,507	326,562	299,311	316,015	335,797	-3.4%	-3.3%	-2.8%
EBITDA (Rmb m)	92,923	100,064	109,415	93,777	100,267	107,885	-0.9%	-0.2%	1.4%
EBITDA margin	32.1%	32.8%	33.5%	31.3%	31.7%	32.1%	0.8%	1.0%	1.4%
Net Profit (Rmb m)	12,763	14,377	17,072	13,008	14,982	17,882	-1.9%	-4.0%	-4.5%
EPS (Rmb)	0.54	0.61	0.72	0.55	0.63	0.75	-1.6%	-3.5%	-3.1%
<b>China Telecom</b>									
Revenue (Rmb m)	322,730	334,964	350,872	334,715	351,588	369,657	-3.6%	-4.7%	-5.1%
EBITDA (Rmb m)	96,788	101,878	107,665	98,738	104,269	112,009	-2.0%	-2.3%	-3.9%
EBITDA margin	30.0%	30.4%	30.7%	29.5%	29.7%	30.3%	0.5%	0.8%	0.4%
Net Profit (Rmb m)	17,835	19,499	21,065	18,607	20,523	23,511	-4.1%	-5.0%	-10.4%
EPS (Rmb)	0.22	0.24	0.26	0.23	0.25	0.29	-5.0%	-5.1%	-9.9%

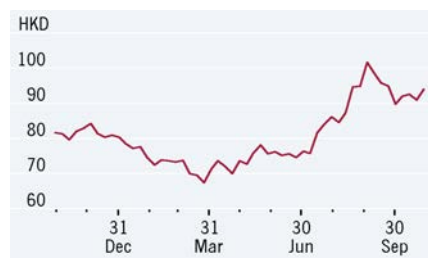
Source: IBES, Citi Research estimates

## Company Focus

- Target Price Change
- Estimate Change

Buy	1
Price (30 Oct 14)	HK\$94.50
Target price	HK\$115.00
from HK\$100.00	
Expected share price return	21.7%
Expected dividend yield	3.2%
Expected total return	24.9%
Market Cap	HK\$1,925,865M
	US\$248,346M

Price Performance  
(RIC: 0941.HK, BB: 941 HK)



## China Mobile (0941.HK)

### Now Top Pick: 4G Gains Likely to Surprise Positively

- **Key beneficiary of 4G; CM our top pick among Chinese telcos** — CM becomes our top sector Buy (displacing CU), given its clear advantages in 4G network coverage and smartphone supply in China, as borne out by our recent investigation of 4G markets in five provinces. We expect CM to deliver positive surprises in revenue and earnings growth from FY15 as a result of its competitive edge in 4G. Our target price is raised HK\$115 (from HK\$100).
- **CM should maintain lead in 4G smartphone supply** — CM offers a greater array of low-cost 4G smartphone models than CU and CT, according to our on-the-ground checks, and we expect it to maintain market leadership in 4G smartphones partly due to regulators' strong support for TD-LTE. Prices for CM's 4G smartphones should continue to decline at a rapid rate, with more 4G low-cost chipset solutions from MediaTek and Spreadtrum supporting CM's TD-LTE and TD-SCDMA technologies. Continued success in developing the TD-LTE smartphone value chain would maintain CM's dominance of China's 4G market.
- **Clear advantage in 4G network coverage** — CM has a big capex budget for FY14-15, and its 4G network deployment so far is ahead of schedule. While this gives CM a competitive edge in 4G, it also puts pressure on near-term earnings, though. We expect a big advantage for CM in 4G network coverage before mid-2015, which could sustain even after FD-LTE licensing given CM has a big cash pile to fund necessary capex.
- **Earnings revised up on 4G-driven growth** — Our FY15-16E earnings for CM are raised by 2-3%, on higher revenue and margin assumptions though partially offset by higher D&A costs. Our FY14-16E earnings are 2-8% higher than for IBES consensus.

#### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(RmbM)	(Rmb)	(%)	(x)	(x)	(%)	(%)
2012A	129,274	6.355	2.6	11.7	2.1	18.8	3.7
2013A	121,692	5.982	-5.9	12.4	1.9	16.1	3.5
2014E	111,478	5.480	-8.4	13.6	1.8	13.6	3.2
2015E	115,156	5.661	3.3	13.2	1.6	13.0	3.3
2016E	126,955	6.241	10.2	11.9	1.5	13.3	3.6

Source: Powered by dataCentral

0941.HK: Fiscal year end 31-Dec						Price: HK\$94.50; TP: HK\$115.00; Market Cap: HK\$1,925,865m; Recomm: Buy					
Profit & Loss (Rmbm)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	581,835	630,177	647,371	689,973	749,288	PE (x)	11.7	12.4	13.6	13.2	11.9
Cost of sales	-76,497	-106,088	-120,768	-135,672	-144,743	PB (x)	2.1	1.9	1.8	1.6	1.5
Gross profit	505,338	524,089	526,603	554,301	604,545	EV/EBITDA (x)	4.5	4.6	4.7	4.6	3.9
Gross Margin (%)	86.9	83.2	81.3	80.3	80.7	FCF yield (%)	0.5	4.1	2.2	0.2	3.1
EBITDA (Adj)	247,109	228,361	225,448	235,672	270,521	Dividend yield (%)	3.7	3.5	3.2	3.3	3.6
EBITDA Margin (Adj) (%)	42.5	36.2	34.8	34.2	36.1	Payout ratio (%)	44	43	43	43	43
Depreciation	-100,848	-104,699	-116,216	-129,348	-141,636	ROE (%)	18.8	16.1	13.6	13.0	13.3
Amortisation	-68	-78	0	0	0	Cashflow (Rmbm)	2012	2013	2014E	2015E	2016E
EBIT (Adj)	152,730	135,649	124,380	129,483	142,287	EBITDA	253,646	240,426	240,596	258,831	283,924
EBIT Margin (Adj) (%)	26.2	21.5	19.2	18.8	19.0	Working capital	13,077	19,204	-44,120	20,463	29,289
Net interest	12,271	14,958	14,448	13,243	14,722	Other	-36,014	-34,645	5,143	8,469	13,901
Associates	5,684	7,062	8,053	9,030	10,389	Operating cashflow	230,709	224,985	201,619	287,763	327,114
Non-op/Except	615	910	910	910	910	Capex	-123,232	-138,997	-225,200	-220,000	-195,000
Pre-tax profit	171,300	158,579	147,791	152,666	168,308	Net acq/disposals	0	0	0	0	0
Tax	-41,919	-36,776	-36,209	-37,403	-41,236	Other	-67,944	-32,478	0	0	0
Extraord./Min.Int./Pref.div.	-107	-111	-103	-107	-118	Investing cashflow	-191,176	-171,475	-225,200	-220,000	-195,000
Reported net profit	129,274	121,692	111,478	115,156	126,955	Dividends paid	-55,425	-55,491	-48,054	-48,420	-51,625
Net Margin (%)	22.2	19.3	17.2	16.7	16.9	Financing cashflow	-55,297	-79,410	-48,054	-48,420	-51,625
Core NPAT	129,274	121,692	111,478	115,156	126,955	Net change in cash	-15,764	-25,900	-71,635	19,343	80,489
Per share data	2012	2013	2014E	2015E	2016E	Free cashflow to s/holders	8,266	62,536	33,801	3,056	47,184
Reported EPS (Rmb)	6.355	5.982	5.480	5.661	6.241						
Core EPS (Rmb)	6.355	5.982	5.480	5.661	6.241						
DPS (Rmb)	2.773	2.589	2.372	2.450	2.701						
CFPS (Rmb)	11.342	11.060	9.911	14.145	16.080						
FCFPS (Rmb)	0.406	3.074	1.662	0.150	2.319						
BVPS (Rmb)	35.565	38.773	41.891	45.172	48.875						
Wtd avg ord shares (m)	20,342	20,343	20,343	20,343	20,343						
Wtd avg diluted shares (m)	20,342	20,343	20,343	20,343	20,343						
Growth rates	2012	2013	2014E	2015E	2016E						
Sales revenue (%)	8.2	8.3	2.7	6.6	8.6						
EBIT (Adj) (%)	-0.7	-11.2	-8.3	4.1	9.9						
Core NPAT (%)	2.7	-5.9	-8.4	3.3	10.2						
Core EPS (%)	2.6	-5.9	-8.4	3.3	10.2						
Balance Sheet (Rmbm)	2012	2013	2014E	2015E	2016E						
Cash & cash equiv.	402,903	419,908	345,690	356,498	423,502						
Accounts receivables	11,722	13,907	12,210	13,445	14,739						
Inventory	0	0	0	0	0						
Net fixed & other tangibles	513,115	578,309	761,280	851,932	905,295						
Goodwill & intangibles	36,894	36,894	36,894	36,894	36,894						
Financial & other assets	87,475	118,374	123,484	122,118	124,425						
Total assets	1,052,109	1,167,392	1,279,558	1,380,887	1,504,856						
Accounts payable	123,896	173,157	145,063	156,843	177,069						
Short-term debt	0	0	0	0	0						
Long-term debt	28,619	4,989	4,989	4,989	4,989						
Provisions & other liab	174,285	198,522	275,254	297,959	326,255						
Total liabilities	326,800	376,668	425,306	459,791	508,313						
Shareholders' equity	723,447	788,773	852,198	918,934	994,264						
Minority interests	1,862	1,951	2,054	2,161	2,279						
Total equity	725,309	790,724	854,252	921,096	996,543						
Net debt (Adj)	-374,284	-414,919	-340,701	-351,509	-418,513						
Net debt to equity (Adj) (%)	-51.6	-52.5	-39.9	-38.2	-42.0						

For definitions of the items in this table, please click [here](#).

## China Mobile

### Company description

China Mobile offers 2G GSM mobile services throughout China, and it offers 3G TD-SCDMA and 4G TD-LTE mobile services in major cities. CM is listed on the Hong Kong Stock Exchange, with ADRs listed on the New York Stock Exchange in October 1997.

### Investment strategy

We rate China Mobile shares as Buy. CM is a defensive story with 4G a significant growth driver, in our view. CM has seen significant improvements in 3G and 4G smartphone supply, resulting in a leveling out of the mobile data market. In the longer term, CM should be a key beneficiary of China's promotion of proprietary standards, and 4G should drive a turnaround in earnings growth. We also see potential upside in cash returns post a likely A-share listing.

### Valuation

We set our target price for China Mobile at HK\$115 based on a DCF valuation methodology. Our model assumptions include a WACC of 9.8% and a terminal growth rate of 2%. Our key assumptions include a risk-free rate of 3.5%, cost of equity of 10.5% and cost of debt of 5.0%. Our HK\$115 target price represents 16.3x FY15E P/E and EV/EBITDA of 5.9x.

### Risks

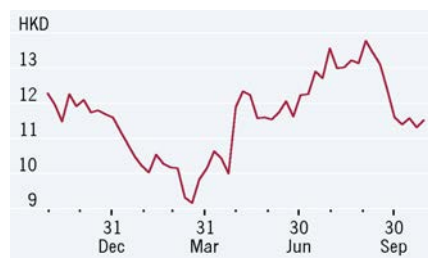
Two major risks for China Mobile are excessive competition and heavy-handed government intervention in the telecom market, with asymmetric regulations helping smaller/weaker telecom operators at China Mobile's expense. Regarding excessive competition, in the worst case, cutthroat competition could result in significant declines in operators' profit margins across the board. Cost overruns from aggressive use of handset subsidies and tariff cuts could hit price elasticity, a key assumption in our long-term industry revenue growth model. Any of these risks could prevent the shares from reaching our target price.

## Company Focus

- Target Price Change
- Estimate Change

Buy	1
Price (30 Oct 14)	HK\$11.48
Target price	HK\$14.00
from HK\$15.00	
Expected share price return	22.0%
Expected dividend yield	2.2%
Expected total return	24.2%
Market Cap	HK\$274,512M
	US\$35,399M

Price Performance  
(RIC: 0762.HK, BB: 762 HK)



## China Unicom (0762.HK)

### Conservative 4G Plan to Drag on Mobile Data Growth

- **Remains a Buy on reduced competitive intensity and profitable 3G/4G growth** — CU could slightly miss earnings in FY15 on a sharp slowdown in revenue growth resulting from a decline in its share of mobile broadband subs, although the impact would be largely offset by cuts in marketing costs and profitable 3G/4G growth. TP trimmed to HK\$14 (from HK\$15).
- **Cuts in marketing costs to buffer earnings** — To comply with SASAC guidance, after fierce and expensive competition, telcos will aggressively reduce selling costs. CU has the biggest operating leverage among the China telcos and thus should enjoy the most significant benefits to short-term earnings, with the gains to be evident from 2H14.
- **Increased focus on near-term earnings to hurt long term** — CU is focusing more on near-term earnings growth and less on revenue and mobile subs growth, which we believe is mainly due to its adherence to SASAC's targets. Such a strategy will likely increase pressure on earnings growth after FY15, as it could be a drag on the top-line and could lower operating leverage.
- **4G network coverage is relatively weak** — A relatively conservative 4G network deployment plan will likely hurt CU's long-term growth momentum. We expect CU to add 150-200k 4G BTS in 2015.
- **FY15-16E earnings cut on 4G challenges** — Our earnings for FY14E are raised by 9%, on higher margin assumptions with reduced selling costs, but for 15-16E are pared by 1-12%, mainly on lower revenue assumptions. Our 14-16E earnings are 2-5% lower than for IBES consensus. CM's 4G promotions could reduce the time-window for CU's 3G service, and CU's conservative plan to roll out its 4G network and a lack of commitment to enhance its share of mobile users will reduce the pace of long-term growth. However, we remain at Buy on CU given reduced marketing costs and as it has a technology advantage that means fewer challenges to mobile data profitability than for competitors.

#### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(RmbM)	(Rmb)	(%)	(x)	(x)	(%)	(%)
2012A	7,096	0.301	68.5	30.0	1.0	3.4	1.3
2013A	10,409	0.440	46.1	20.6	1.0	4.9	1.7
2014E	12,763	0.539	22.6	16.8	0.9	5.7	2.0
2015E	14,377	0.608	12.6	14.9	0.9	6.0	2.3
2016E	17,072	0.722	18.7	12.5	0.8	6.7	2.7

Source: Powered by dataCentral

0762.HK: Fiscal year end 31-Dec						Price: HK\$11.48; TP: HK\$14.00; Market Cap: HK\$274,512m; Recomm: Buy					
Profit & Loss (Rmbm)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	248,926	295,039	289,156	305,507	326,562	PE (x)	30.0	20.6	16.8	14.9	12.5
Cost of sales	-67,412	-72,885	-74,377	-80,259	-86,372	PB (x)	1.0	1.0	0.9	0.9	0.8
Gross profit	181,514	222,154	214,779	225,248	240,190	EV/EBITDA (x)	4.0	3.6	3.2	2.9	2.5
Gross Margin (%)	72.9	75.3	74.3	73.7	73.6	FCF yield (%)	-7.9	3.5	1.0	4.7	15.3
EBITDA (Adj)	72,659	83,964	93,760	100,807	110,084	Dividend yield (%)	1.3	1.7	2.0	2.3	2.7
EBITDA Margin (Adj) (%)	29.2	28.5	32.4	33.0	33.7	Payout ratio (%)	38	35	34	34	34
Depreciation	-61,057	-68,196	-73,827	-79,411	-85,540	ROE (%)	3.4	4.9	5.7	6.0	6.7
Amortisation	0	0	0	0	0	Cashflow (Rmbm)	2012	2013	2014E	2015E	2016E
EBIT (Adj)	11,602	15,768	19,933	21,396	24,543	EBITDA	72,659	83,964	93,760	100,807	110,084
EBIT Margin (Adj) (%)	4.7	5.3	6.9	7.0	7.5	Working capital	633	316	-7,980	1,950	4,340
Net interest	-3,424	-2,940	-3,802	-3,113	-2,667	Other	-2,672	-5,272	-7,170	-7,018	-7,471
Associates	0	0	0	0	0	Operating cashflow	70,620	79,008	78,610	95,739	106,952
Non-op/Except	1,343	887	887	887	887	Capex	-86,783	-72,758	-78,316	-86,926	-75,121
Pre-tax profit	9,521	13,715	17,018	19,170	22,763	Net acq/disposals	-12,697	-4,352	0	0	0
Tax	-2,425	-3,306	-4,254	-4,792	-5,691	Other	0	0	0	0	0
Extraord./Min.Int./Pref.div.	0	0	0	0	0	Investing cashflow	-99,480	-77,110	-78,316	-86,926	-75,121
Reported net profit	7,096	10,409	12,763	14,377	17,072	Dividends paid	-2,283	-2,686	0	0	0
Net Margin (%)	2.9	3.5	4.4	4.7	5.2	Financing cashflow	32,004	1,926	-1,000	-1,000	-1,000
Core NPAT	7,096	10,409	12,763	14,377	17,072	Net change in cash	3,144	3,824	-706	7,813	30,831
Per share data	2012	2013	2014E	2015E	2016E	Free cashflow to s/holders	-16,772	7,481	2,045	10,049	32,787
Reported EPS (Rmb)	0.301	0.440	0.539	0.608	0.722						
Core EPS (Rmb)	0.301	0.440	0.539	0.608	0.722						
DPS (Rmb)	0.115	0.154	0.181	0.204	0.242						
CFPS (Rmb)	2.997	3.340	3.323	4.047	4.521						
FCFPS (Rmb)	-0.712	0.316	0.086	0.425	1.386						
BVPS (Rmb)	8.891	9.253	9.792	10.400	11.121						
Wtd avg ord shares (m)	23,565	23,658	23,658	23,658	23,658						
Wtd avg diluted shares (m)	23,565	23,658	23,658	23,658	23,658						
Growth rates	2012	2013	2014E	2015E	2016E						
Sales revenue (%)	19.0	18.5	-2.0	5.7	6.9						
EBIT (Adj) (%)	115.2	35.9	26.4	7.3	14.7						
Core NPAT (%)	68.5	46.7	22.6	12.6	18.7						
Core EPS (%)	68.5	46.1	22.6	12.6	18.7						
Balance Sheet (Rmbm)	2012	2013	2014E	2015E	2016E						
Cash & cash equiv.	18,282	21,560	20,854	28,668	59,499						
Accounts receivables	13,753	14,842	15,433	16,184	17,052						
Inventory	5,803	5,536	6,199	6,468	6,681						
Net fixed & other tangibles	430,997	431,625	433,123	440,637	430,218						
Goodwill & intangibles	2,771	2,771	2,771	2,771	2,771						
Financial & other assets	44,518	52,837	55,854	56,832	57,178						
Total assets	516,124	529,171	534,233	551,560	573,399						
Accounts payable	108,486	102,212	96,213	97,469	99,712						
Short-term debt	139,240	129,470	100,000	100,000	100,000						
Long-term debt	2,536	13,483	41,953	40,953	39,953						
Provisions & other liab	56,357	65,107	64,405	67,099	70,622						
Total liabilities	306,619	310,272	302,571	305,520	310,287						
Shareholders' equity	209,505	218,899	231,662	246,040	263,112						
Minority interests	0	0	0	0	0						
Total equity	209,505	218,899	231,662	246,040	263,112						
Net debt (Adj)	123,494	121,393	121,099	112,285	80,454						
Net debt to equity (Adj) (%)	58.9	55.5	52.3	45.6	30.6						

For definitions of the items in this table, please click [here](#).

## China Unicom

### Company description

China Unicom offers 2G GSM and 3G WCDMA mobile services in China, as well as fixed-line voice and data telecom services. Unicom plans to use FD-LTE/TD-LTE hybrid network for 4G services.

### Investment strategy

We rate China Unicom shares as Buy. We believe CU is an attractive telco play as strong momentum in mobile data revenue and improved cost controls will drive mid-term earnings growth, in our view. CU should enjoy significant earnings gains from reduced marketing costs by Chinese telcos and a sharp decline in 4G smartphone prices. We believe enriched mobile Internet services will drive mobile data demand by Chinese users, and that CU is well placed to capitalize given its technology advantage. HSPA+ and FD-LTE smartphones will help CU defend its mobile data revenue growth from CM's TD-LTE promotions, which can partly offset the negative impact from delayed FD-LTE licensing.

### Valuation

Our target price of HK\$14 for CU is based on a DCF valuation methodology. Our model assumptions include a WACC of 11.7% and a terminal growth rate of 2%. Our key assumptions include a risk-free rate of 3.5%, cost of equity of 13.1% and cost of debt of 5.0%.

### Risks

China Unicom is a high beta trade compared to its peers. The stock price is volatile on monthly 3G and 4G subs data, while high operating leverage gives limited visibility on earnings growth. Downside risks that could mean the CU share price fails to achieve our target price include: 1) Increased competition from China Mobile, which is promoting the TD-LTE service. China Unicom could potentially lose market share and traffic to China Mobile as well as to China Telecom due to intensified competition, posing risk to operating revenues and profit; 2) Higher-than-expected selling & marketing expenses; 3) Execution risks, especially if the company focuses on short-term earnings and sacrifices long-term growth potential.

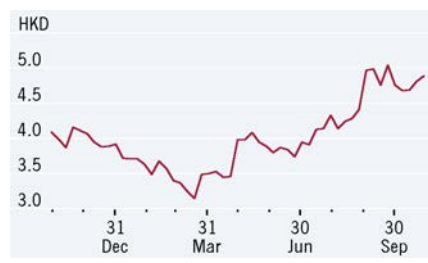


## Company Focus

- Rating Change
- Estimate Change

Sell	3
<i>from Neutral</i>	
Price (30 Oct 14)	HK\$4.84
Target price	HK\$4.30
Expected share price return	-11.2%
Expected dividend yield	2.3%
Expected total return	-8.9%
Market Cap	HK\$391,713M
	US\$50,513M

Price Performance  
(RIC: 0728.HK, BB: 728 HK)



## China Telecom (0728.HK)

### Downgrade to Sell: Share Rally Overlooks 4G Challenges

- **Major challenges in 4G, partly due to official support for TD-LTE** — Delayed FD-LTE licensing and a regulatory requirement that all 4G smartphones need to support TD-LTE are negative for CT, in our view, impacting the operator's network build-out pace and smartphone supply. Nor will a tower company significantly reduced capex pressure in the coming two years. We maintain our target price on CT of HK\$4.3, but downgrade to Sell (from Neutral) after a share price rally post the 3Q results that we see as hard to justify.
- **Weak 4G smartphone supply** — CT is facing bigger challenges in 4G smartphone supply than competitors, especially in the low-end segment, partly because CDMA/LTE-compatible smartphones are not mainstream globally. Many smartphone vendors are less active in supplying customized 4G smartphones to CT due to sales volume likely being smaller than for similar 4G smartphones for CM and CU. Also, the CDMA function of CT smartphone carries higher royalty fees for smartphone vendors than similar 4G models for CM and CU. Smartphone supply issues could constrain mobile subs growth for CT and lead to more opex (and hence earnings) pressure than the market is expecting.
- **Highest 4G capex burden in sector** — We expect more negative 4G capex surprises for CT in the next two years than for CM and CU, as it builds out new base station towers and its transmission network. The tower company will not significantly ease CT's capex pressure before 2016, by when capex for all telcos will be below their peak LTE levels. The tower company will not begin building towers until 1H15, and the injection of existing tower assets could prove a slower process than expected. The tower company has been a major positive share price catalyst for CT, but we expect its contribution to disappoint in the coming two years.
- **Earnings reduced on 4G challenges** — Our FY14-16E earnings for CT are reduced by 1-3%, mainly on higher margin assumptions. We expect 4G capex and smartphone supply challenges will drag on earnings growth, and marketing costs will decline at a slower rate than for competitors in the next three years. CT faces challenges in the value chain and in smartphone supply with its migration from CDMA to LTE, and scaling up its low market share in 4G could prove tough. Our FY14-16E earnings are 4-10% lower than for IBES consensus.

#### Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Dec	(RmbM)	(Rmb)	(%)	(x)	(x)	(%)	(%)
2012A	14,949	0.185	-8.9	20.6	1.2	5.7	1.8
2013A	17,545	0.217	17.4	17.6	1.1	6.5	2.0
2014E	17,835	0.220	1.7	17.3	1.1	6.3	2.1
2015E	19,499	0.241	9.3	15.8	1.0	6.6	2.3
2016E	21,065	0.260	8.0	14.7	1.0	6.8	2.5

Source: Powered by dataCentral

0728.HK: Fiscal year end 31-Dec						Price: HK\$4.84; TP: HK\$4.30; Market Cap: HK\$391,713m; Recomm: Sell					
Profit & Loss (Rmbm)	2012	2013	2014E	2015E	2016E	Valuation ratios	2012	2013	2014E	2015E	2016E
Sales revenue	283,176	321,584	322,730	334,964	350,872	PE (x)	20.6	17.6	17.3	15.8	14.7
Cost of sales	-65,979	-53,102	-65,041	-70,949	-76,239	PB (x)	1.2	1.1	1.1	1.0	1.0
Gross profit	217,197	268,482	257,689	264,014	274,633	EV/EBITDA (x)	5.0	4.0	4.2	4.0	3.8
Gross Margin (%)	76.7	83.5	79.8	78.8	78.3	FCF yield (%)	7.3	-5.2	0.1	-1.7	3.8
EBITDA (Adj)	70,874	96,551	96,788	101,878	107,665	Dividend yield (%)	1.8	2.0	2.1	2.3	2.5
EBITDA Margin (Adj) (%)	25.0	30.0	30.0	30.4	30.7	Payout ratio (%)	37	35	37	37	37
Depreciation	-49,666	-69,083	-67,566	-70,763	-74,513	ROE (%)	5.7	6.5	6.3	6.6	6.8
Amortisation	0	0	0	0	0	Cashflow (Rmbm)	2012	2013	2014E	2015E	2016E
EBIT (Adj)	21,208	27,468	29,222	31,115	33,153	EBITDA	70,874	96,551	96,788	101,878	107,665
EBIT Margin (Adj) (%)	7.5	8.5	9.1	9.3	9.4	Working capital	6,009	-25,844	-4,285	434	2,086
Net interest	-1,562	-5,153	-5,595	-5,298	-5,276	Other	-6,161	17,644	-12,994	-13,313	-14,368
Associates	78	103	0	0	0	Operating cashflow	70,722	88,351	79,509	88,998	95,383
Non-op/Except	93	670	0	0	0	Capex	-50,028	-79,992	-80,300	-95,000	-85,000
Pre-tax profit	19,817	23,088	23,626	25,816	27,876	Net acq/disposals	0	0	0	0	0
Tax	-4,753	-5,422	-5,670	-6,196	-6,690	Other	1,733	0	0	0	0
Extraord./Min.Int./Pref.div.	-115	-121	-121	-121	-121	Investing cashflow	-48,295	-79,992	-80,300	-95,000	-85,000
Reported net profit	14,949	17,545	17,835	19,499	21,065	Dividends paid	-5,625	-5,522	-6,098	-6,599	-7,215
Net Margin (%)	5.3	5.5	5.5	5.8	6.0	Financing cashflow	-19,802	5,049	-6,098	-6,599	-7,215
Core NPAT	14,949	17,545	17,835	19,499	21,065	Net change in cash	2,625	13,408	-6,889	-12,600	3,169
Per share data	2012	2013	2014E	2015E	2016E	Free cashflow to s/holders	22,454	-15,995	435	-5,150	11,635
Reported EPS (Rmb)	0.185	0.217	0.220	0.241	0.260						
Core EPS (Rmb)	0.185	0.217	0.220	0.241	0.260						
DPS (Rmb)	0.068	0.075	0.082	0.089	0.096						
CFPS (Rmb)	0.874	1.092	0.982	1.100	1.179						
FCFPS (Rmb)	0.277	-0.198	0.005	-0.064	0.144						
BVPS (Rmb)	3.276	3.432	3.577	3.736	3.907						
Wtd avg ord shares (m)	80,932	80,932	80,932	80,932	80,932						
Wtd avg diluted shares (m)	80,932	80,932	80,932	80,932	80,932						
Growth rates	2012	2013	2014E	2015E	2016E						
Sales revenue (%)	15.5	13.6	0.4	3.8	4.7						
EBIT (Adj) (%)	-11.7	29.5	6.4	6.5	6.5						
Core NPAT (%)	-8.9	17.4	1.7	9.3	8.0						
Core EPS (%)	-8.9	17.4	1.7	9.3	8.0						
Balance Sheet (Rmbm)	2012	2013	2014E	2015E	2016E						
Cash & cash equiv.	32,829	18,357	13,160	2,379	7,949						
Accounts receivables	18,782	20,022	21,902	21,547	22,378						
Inventory	0	0	0	0	0						
Net fixed & other tangibles	440,168	451,468	464,238	488,474	498,962						
Goodwill & intangibles	39,132	37,962	37,962	37,962	37,962						
Financial & other assets	14,380	15,430	15,456	15,755	16,386						
Total assets	545,291	543,239	552,718	566,117	583,636						
Accounts payable	68,948	81,132	78,629	77,559	78,059						
Short-term debt	16,735	47,759	47,759	47,759	47,759						
Long-term debt	83,070	62,617	62,617	62,617	62,617						
Provisions & other liab	110,438	73,067	73,191	74,640	77,686						
Total liabilities	279,191	264,575	262,196	262,574	266,121						
Shareholders' equity	265,139	277,741	289,478	302,378	316,229						
Minority interests	961	923	1,044	1,165	1,286						
Total equity	266,100	278,664	290,522	303,543	317,515						
Net debt (Adj)	66,976	92,019	97,216	107,997	102,427						
Net debt to equity (Adj) (%)	25.2	33.0	33.5	35.6	32.3						

For definitions of the items in this table, please click [here](#).

## China Telecom

### Company description

China Telecom provides nation-wide mobile services with its newly acquired CDMA network. CT has adopted CDMA 2000 EV-DO Rev A, a 3G technology widely used in North America, and plans to use FD-LTE/TD-LTE hybrid network for 4G. China Telecom is also the incumbent fixed-line telecom service provider in 20 southern provinces. It is listed on the Stock Exchange of Hong Kong, with ADRs listed on the New York Stock Exchange in November 2002.

### Investment strategy

We rate China Telecom shares as Sell. We expect CT's focus on mobile market share growth to lead to relatively aggressive selling costs and network operating costs in the next two years, which will likely be a drag on earnings growth. Migration from CDMA to LTE and the related high capex and opex will likely be key headwinds. Broadband competitive pressures from China Mobile and broadcasters will also add long term growth uncertainty, in our view. If China Telecom effectively addresses its 4G growth challenges and controls costs, we expect the market to start focusing on its longer-term improvement in mobile market share and margin recovery.

### Valuation

We set our target price for China Telecom at HK\$4.3 using a sum-of-the-parts (SOTP) valuation based on: 1) 3.4x EV/EBITDA for CT's fixed-line operation, implying HK\$3.3 per share at end-FY14E. This is a discount to the multiple for regional peers given intensifying broadband market competition, which puts pressure on cash flow growth; 2) 5.2x EV/EBITDA for CT's mobile operation, in line with regional mobile operator average.

### Risks

We think the most significant upside risk for China Telecom is asymmetrical regulatory initiatives that target to reduce the market share of China Mobile and support the growth of its competitors. If execution on CT's tower company is better than market expectations due to regulatory support, it could become a positive share price catalyst. Other upside risks that could mean the CT share price exceeds our target price include continual improvement in mobile subs growth, higher-than-expected data usage, and lower-than-expected fixed line competition from cable operators and China Mobile.



## Appendix A-1

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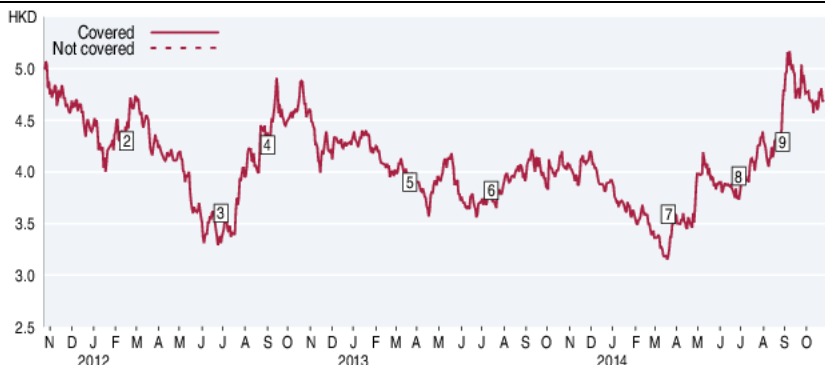
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##### Ratings and Target Price History Fundamental Research

Analyst: Bin Liu



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	16-Feb-12	2	*5.00	4.40
3	28-Jun-12	2	*3.80	3.31

\* Indicates change

	Date	Rating	Target Price	Closing Price
4	3-Sep-12	2	*4.50	4.38
5	21-Mar-13	2	*4.30	3.93
6	15-Jul-13	2	*4.00	3.75

	Date	Rating	Target Price	Closing Price
7	20-Mar-14	2	*3.50	3.19
8	27-Jun-14	2	*4.00	3.73
9	28-Aug-14	2	*4.30	4.66

Rating/target price changes above reflect Eastern Standard Time

#### China Telecom (0728.HK)

##### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Bin Liu



	Date	Rating	Target Price	Closing Price
1	14-Feb-14	*REM LP	-	3.58

\* Indicates change

Rating/target price changes above reflect Eastern Standard Time

## China Unicom (0762.HK)

### Ratings and Target Price History

### Fundamental Research

Analyst: Bin Liu



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	16-Feb-12	1	*17.00	14.54

\* Indicates change

	Date	Rating	Target Price	Closing Price
3	23-Mar-12	1	*16.50	13.24
4	28-Jun-12	1	*17.00	9.50

	Date	Rating	Target Price	Closing Price
5	22-Mar-13	1	*16.00	10.74
6	15-Jul-13	1	*15.00	10.68

Rating/target price changes above reflect Eastern Standard Time

## China Unicom (0762.HK)

### Ratings and Target Price History

### Best Ideas Research

### Relative Call (3 Month)

Analyst: Bin Liu



	Date	Rating	Target Price	Closing Price
1	2-Aug-12	*ADD MP	-	11.46

\* Indicates change

	Date	Rating	Target Price	Closing Price
2	14-Feb-14	*REM MP	-	10.48

Rating/target price changes above reflect Eastern Standard Time

## China Mobile (0941.HK)

### Ratings and Target Price History

### Fundamental Research

Analyst: Bin Liu



	Date	Rating	Target Price	Closing Price
1	7-Oct-11	Stock rating system changed		
2	16-Feb-12	1	*95.00	81.45
3	14-Dec-12	1	*105.00	88.90
4	15-Jul-13	1	*95.00	81.65

\* Indicates change

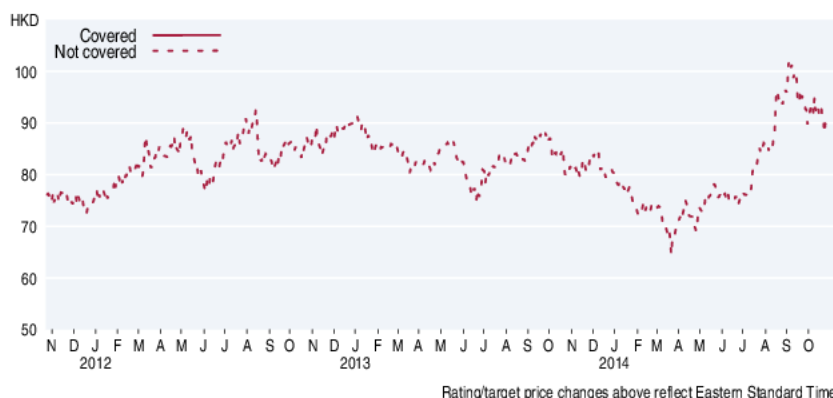
	Date	Rating	Target Price	Closing Price
5	10-Oct-13	1	*101.00	84.00
6	16-Dec-13	1	*98.00	80.30
7	8-Jan-14	1	*95.00	78.45
8	21-Mar-14	1	*88.00	64.50

	Date	Rating	Target Price	Closing Price
9	27-Jun-14	1	*90.00	75.60
10	15-Aug-14	1	*100.00	93.40

Rating/target price changes above reflect Eastern Standard Time

**China Mobile (0941.HK)**  
**Ratings and Target Price History**  
**Best Ideas Research**  
**Relative Call (3 Month)**

Analyst: Bin Liu



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