

CHINA MOBILE LIMITED (中國移動)

Sector	: Telecommunications	Chairman & CEO	: WANG Jianzhou
HKSE Code	: 0941		
Market Price	: HK\$107.60 (19/03/2008)		
HSI	: 21,866.94 (19/03/2008)		
Shares Issued	: 20,034.74 million		
Mkt. Cap.	: HK\$2,155,738 million		
52 weeks Hi/ Lo	: HK\$160.00 / HK\$68.80		

SUMMARY OF THE FINAL RESULTS FOR THE YEAR ENDED 31ST DECEMBER 2007

Final Results Highlights

	FY2007	FY2006	Change
	<u>RMB million</u>	<u>RMB million</u>	
• Turnover	356,959	295,358	+20.9%
• EBITDA	194,003	159,574	+21.6%
• Operating profit	124,068	91,925	+35.0%
• Profit attributable to shareholders	87,062	66,026	+31.9%
• EPS	RMB4.35	RMB3.32	+31.0%
• Interim DPS	HK\$0.837	HK\$0.620	+35.0%
• Interim special DPS	HK\$0.085	HK\$0.090	-5.6%
• Final DPS	HK\$1.160	HK\$0.763	+52.0%
• Final special DPS	HK\$0.016	HK\$0.069	-76.8%
• Total DPS	HK\$2.098	HK\$1.542	+36.1%

- China Mobile reported a 31.9% y-o-y rise in net profit to RMB87.1 billion FY2007, above consensus forecast of RMB83.5 billion. The FY07 results again showed the Group's leading position in the Mainland mobile and telecom industry, with strong subscriber growth, overwhelming market share and rising minute of usage (MOU).
- Turnover increased 20.9% y-o-y to RMB357.0 billion in FY07, while EBITDA grew 21.6% to RMB194.0 billion. As a result, EBITDA margin inched up to 54.3% in FY07 from 54.0% a year earlier.
- EPS for FY07 was RMB4.35 (FY06: RMB3.32). A final dividend of HK\$1.16 and a final special dividend of HK\$0.016 were proposed, bringing the total DPS for FY07 to HK\$2.098 (FY06: HK\$1.542). Dividend payout ratio (excluding special dividends) for FY07 was 43%, up from 42% a year earlier. Special dividends proposed were to offset the impact of higher depreciation expense arising from accounting changes.
- At end of FY07, China Mobile had total debt of RMB35.50 billion (31/12/2006: RMB38.85 billion). With rich cash on hand of RMB188.5 billion (31/12/2006: RMB153.5 billion), China Mobile's net-cash position further strengthened to RMB153.0 billion from RMB114.6 billion a year earlier.
- The blended ARPU of China Mobile was RMB89 in FY07, down slightly from FY06's RMB90, amid rural expansion. Better penetration and a strong customer base lifted MOU, which offset pressure on average revenue per minute and helped sustain the overall ARPU.

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Business highlights

- Breakdown of turnover by activities

	FY2007 (RMB million)	%	FY2006 (RMB million)	%	Change
Usage Fees	226,488	63.4%	189,710	64.2%	+19.4%
Monthly Fees	20,856	5.8%	21,629	7.3%	-3.6%
Value-added service fees	91,609	25.7%	69,309	23.5%	+32.2%
Others	18,006	5.0%	14,710	5.0%	+22.4%
Total	356,959	100.0%	295,358	100.0%	+20.9%

- The combined usage and monthly fees and other revenue of China Mobile's core **voice business** rose a combined 17.4% y-o-y to RMB265.4 billion last year, accounting for 74.3% of the total (FY06: 76.5%). Strong subscriber growth and higher usage continued to support business momentum. The number of subscribers grew 22.6% y-o-y to 369.3 million, while the Group's share in the Mainland's mobile market increased to 69% from 68% a year earlier. Total voice usage grew a sharp 45.3% y-o-y to 1,819 billion minutes in FY07. In fact, the growth in voice usage accelerated substantially in FY07, up from a rise of 38.6% in FY06, mainly driven by low tariff, better market penetration and substitution from fixed-line usage.
- Revenue from the Group's **value-added service** (VAS) segment (SMS – short message service, and other data and voice-added services) amounted to RMB91.6 billion in FY07, up 32.2% y-o-y and accounting for 25.7% (FY06: 23.5%) of the Group's total. All the sub-segments of the Group's VAS business performed well during FY07, registering revenue growth ranging from 18% to 46%.

Outlook & Prospects

- **Cost control showed good progress** Despite a speed-up in depreciation expense due to accounting change, the Group's operating expense as a % of total revenue further dropped to 65.2% in FY07, compared with 68.8% in FY06, as cost control measures continued to proceed well.
- **Speeding up capex to support future growth** The Group plans to raise its capex by 21.0% y-o-y to RMB127.2 billion in FY08 from RMB105.1 billion last year in order to fulfil the rising demand for service capacity on strong subscriber and usage growth.
- **Domestic A share to be small in scale** Management reveals that the upcoming A-share issue would be small in size. We think it is reasonable, given the Group's strong net cash position.
- **Non-voice business to drive growth** China Mobile saw good progress in its value-added service business in FY07. We see the segment to show rising importance and earnings contribution in coming years, as growth in VAS usage is expected to catch up with the growth in subscriber base. Meanwhile, China Mobile revealed that it has held study not only with Apple's iPhone but also other handset vendors to source handset products that could enhance the platform for its VAS applications and usage.
- **Subscriber growth stays robust** Subscriber growth remained solid in FY07, which helped lift China Mobile's share in the Mainland mobile service market and net subscriber additions further. Net additions of subscriber even rose further in Jan 08 (+7.04 million) and Feb 08 (+7.97 million). China Mobile expects net additions to exceed 80 million in 2008, compared with that 68 million in FY07.
- **Little update on 3G development** China Mobile did not deliver much update on the Mainland's 3G development but only revealed that commercial trial of TD-SCDMA would commence in April.
- **All-round strength - BUY** China Mobile's FY07 results was sound, with its leading position in the Mainland's mobile and telecom market further strengthened in 2007. Following recent market weakness, China Mobile's valuation has turned more attractive at 17.6x FY08E P/E. Accordingly, we retain our "BUY" recommendation on the counter.

Recommendation: BUY

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