

Analyst: Sam Ho

Main Board Listing- Research

華潤萬眾電話有限公司

China Resources Peoples Telephone Company Limited - [Stock Code: 0331]
Global Coordinator, Bookrunner, Sponsor and Lead Manager

: UBS Investment Bank

Sector : Mobile

Business : Provision of mobile voice, mobile data and international call services

Total share offer: 268,525,000 shares (36.2% of the enlarged share capital)	<u>Business of Peoples</u>
Placement: 241,672,500 shares (90%) - 122,597,500 new shares - 119,075,000 sale shares	The Company is one of the 6 primary operators providing mobile voice and data communications services in Hong Kong. Its services range from mobile voice services, mobile data services and international call services to handset sales.
IPO: 26,852,500 shares (10%)	Its mobile voice services are divided into post-paid and pre-paid services, with a variety of value-added services attached to each. Moreover, mobile data services include messaging and infotainment services. It also offers international call services consisting of roaming, IDD and international call forwarding to its customers.
Greenshoe: 40,278,000 shares	Currently, it promotes, sells and distributes its services and products through 46 outlets in Hong Kong, 34 of which are wholly-owned and operated by itself while the rest are owned and operated by its sole and exclusive post-paid distributor, Telepaging.
Price: HK\$4.55-HK\$5.65 per share Market cap. : HK\$3,383.5 million-HK\$4,193.8 million	As at 31/12/2003, it had a total of 1.05 million subscribers, with a market share of 14.6%. Post-paid users totalled 618,744 while there were 430,203 pre-paid users. As at 31/01/2004 the Company had 978 base stations, 3 MSCs (mobile switching centre) and 6 BSCs (base station controller).
Staffing: 691	
Historical 2003 P/E: 9.3x-11.5x (fully-diluted) Adjusted NAV per share: HK\$1.24-HK\$1.45	
IPO commences: 22 nd March 2004 IPO ends: 25 th March 2004	
Share registrar: Tricor Investor Services Receiving bank: Bank of East Asia Bank of China (Hong Kong)	
Listing date: 31 st March 2004	

Major Shareholders after Listing

(Assuming the over-allotment option is not exercised)

China Resources (Holdings)	47.5%
Onwel Capital, wholly-owned by Leung Kai Hung, Michael (vice chairman and an executive director of the Company)	15.7%
Celtel International	0.6%
	<u>63.8%</u>

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Use of Proceeds

Net proceeds from the offer are estimated to be HK\$1,172.2 million-HK\$1,459.2 million.

(Assuming the over-allotment option is not exercised)

	HK\$ million
To repay shareholders' loans and related accrued interest	925.5
To serve as general working capital	balance

Financial Highlights

	Year ended 31 st December		
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Turnover			
<i>Sales of handsets and accessories</i>	297,445	288,301	225,962
<i>Airtime and service charges</i>	<u>1,344,856</u>	<u>1,216,854</u>	<u>824,261</u>
	<u>1,642,301</u>	<u>1,505,155</u>	<u>1,050,223</u>
Operating profit	390,504	339,812	20,252
Net profit/ (loss)	<u>270,076</u>	<u>344,546</u>	<u>(98,691)</u>
EPS/ Loss per share- basic	<u>HK\$0.62</u>	<u>HK\$0.80</u>	<u>(HK\$0.23)</u>

Selected Operation Statistics

	2001	2002	2003
Total number of customers	642,981	804,778	1,048,947
Market share	11.3%	12.9%	14.6%
Average monthly churn rate	5.0%	3.7%	3.8%
ARPU- post-paid	HK\$156.7	HK\$177.8	HK\$171.2
ARPU- pre-paid	HK\$37.6	HK\$28.5	HK\$27.9

Strengths

- ✓ Peoples has developed a well-deserved reputation as a value provider, focusing on the provision of low-priced, value-for-money mobile services. Its low cost base should help its bottom line when price competition intensifies.
- ✓ Peoples has no 3G licence and is not subject to the heavy capex on 3G. Instead, it opts to deploy funds on EDGE 2.75G upgrade, which requires substantially-lower capex than 3G. This will allow it to start paying out the majority of its free cashflow as dividends in the near term. Indeed, the Company promised to distribute HK\$0.12 and HK\$0.17 as interim and final DPS in 2004, translating to a dividend yield of 5.1%-6.4%.
- ✓ Valuation of Peoples (2003 P/E: 9.3x-11.5x) is fair when compared with other peers. Sunday Communications (stock code: 0866) is trading at a 2004E P/E of 29x, while SmarTone Telecommunications (stock code: 0315) is trading at 11x 2004E earnings.

Weaknesses

- × Competition in Hong Kong mobile market is very keen, with 6 operators (2G). There is no industry consolidation so far as all operators are still profitable. Competition will further intensify as Hutchison Whampoa (stock code: 0013) has just launched its 3G operation and other 3 operators that have 3G licences is expected to launch their new service later this year. There may also be another new 3G operator as the Ofca plans to auction a new CDMA2000 licence.
- × The mobile-communications market in Hong Kong has been quite matured, with a penetration rate of 105.6% at the end of 2003. It will be difficult for Peoples to further grow its customer base.
- × Most of the proceeds from the IPO would be used to repay shareholders' loans and related accrued interest leaving very little for business expansion.

Recommendation: Trading buy