

Analyst: Kelvin Li

Main Board Listing - Research

和記電訊國際有限公司

Hutchison Telecommunication International Limited [Stock Code: 2332]
Global Coordinator, Sole Bookrunner : Goldman Sachs (Asia) L.L.C.

and Sole Sponsor
Joint Lead Manager : Goldman Sachs (Asia) L.L.C.

ABN AMRO Rothschild

Sector : Telecommunication services

Business : Provider of mobile and fixed-line telecommunications services

Total share offer: <u>1,155,000,000</u> shares (25.67% of the share capital) Public Offer: 115,500,000 shares (10%) Placing: 1,039,500,000 shares (90%) Greenshoe: 173,250,000 shares	<u>Business of HTIL</u> The Group is a provider of mobile and fixed-line telecommunications services with operations in eight countries and territories. The Group currently operates mobile network in Hong Kong, India, Israel, Sri Lanka, Paraguay, Ghana and Macau. Besides, the Group also operates 3G mobile and fixed-line communication businesses in Hong Kong and owns interests in companies that provide mobile communications services in Thailand. The Group is a newly formed subsidiary of Hutchison Whampoa (HWL), which began mobile business in 1985 and has been focusing on the development of 3G mobile telecommunications services in more developed markets recently. To maintain clear isolation of businesses of the two entities, HTIL and HWL have entered into a non-competition agreement, which states that HWL's territory comprises Western Europe, Australia, New Zealand, the US, Canada and Argentina while HTIL will cover all remaining countries. The Group offers its subscribers a range of mobile and fixed-line telecommunications services, which include voice services, broadband data services, multimedia services, enhanced calling features, mobile and fixed-line internet services, bandwidth services, IDD, roaming, data centre services and mobile and fixed-line Intranet services.
Price: HK\$6.52 – HK\$7.55 per share Market Cap.: HK\$29.340 billion – HK\$33.975 billion Adjusted NTA per share: HK\$2.12	
HK Public Offer period: 30 th September 2004 - 6 th October 2004 Receiving bank: HSBC Hang Seng Bank Bank of East Asia Share registrar: Computershare Hong Kong Investor Services Limited Listing date: 15 th October 2004	

Major Shareholders after Listing (Assuming the over-allotment option is not exercised)

Hutchison Telecommunications Investment Holdings (100% owned by Hutchison Whampoa)	70.51%
NTT DoCoMo(*)	3.82%
	<u>74.33%</u>

(*) Hutchison Whampoa has the right to dispose of the beneficial ownership of shares worth £80 million (approximately 3.8% of the total ordinary shares) to NTT DoCoMo for the first tranche of payment of the acquisition agreement signed in May 2004.

Use of Proceeds

This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein.

The Group is not issuing any new shares and so will not receive any proceeds from this Global Offering. Hutchison Telecommunications Investment Holdings Limited, the Selling Shareholder and a wholly owned subsidiary of Hutchison Whampoa, will receive all of the net proceeds from the Global Offering.

Financial Highlights

	6 months ended 30 th June 2004 HK\$ in million	2003 HK\$ in million	Year ended 31 st December 2002 HK\$ in million	2001 HK\$ in million
Turnover	6,891	10,104	7,654	6,226
Operating profit /	1,693	925	(306)	(1,688)
Net profit / (loss)	773	(214)	(986)	(1,889)
EPS	HK\$0.17	-	-	-

Breakdown of Turnover by Business Segments

	6 months ended 30 th June 2004		2003		Year ended 31 st December 2002		2001	
	HK\$ in million	%	HK\$ in million	%	HK\$ in million	%	HK\$ in million	%
Hong Kong mobile (including Macau)	1,749	25.4	3,485	34.5	3,730	48.7	3,970	63.8
Hong Kong fixed-line	1,228	17.8	1,628	16.1	860	11.2	-	-
India	3,202	46.5	4,497	44.5	2,974	38.9	2,165	34.8
Thailand	604	8.8	355	3.5	34	0.4	37	0.6
Others	108	1.5	139	1.4	56	0.7	54	0.9
Turnover	<u>6,891</u>	100.0	<u>10,104</u>	100.0	<u>7,654</u>	100.0	<u>6,226</u>	100.0

Strengths/Opportunities

- ✓ The Group is truly a global telecommunications operator in terms of countries and territories currently covered. As most of them are fast-growing emerging markets, the Group should provide a strong growth prospect, versus its peers facing a maturing telecommunications industry in Hong Kong as well as in the mainland China.
- ✓ The Group has operations in many countries and territories around Asia, Africa and South America. Therefore, the threat of adverse economic change in a single country to the Group's overall operation could be minimized via business diversification.
- ✓ Strong subscription growth is seen in major markets like India and Thailand. The number of mobile subscribers in these markets grew at a double-digit CAGR in the past three years. It would provide the Group with excellent organic growth prospect as well as expansion opportunities.
- ✓ The Group's parent company, Hutchison Whampoa, has extensive experience and a well-established telecommunications services network worldwide. It is expected the Group could leverage the synergies from its parent company in technical as well as managerial resources.

Weaknesses/Threats

- × The Group anticipates capital expenditure in 2004 will be approximately 35%-40% higher than that in 2003 (2003 capital expenditure: HK\$5,546 million), due to build-out and expansion of telecommunication networks. The Group may have to reinvest majority of free cash flows arising from daily operations and so there may be absence of dividend payout in the next couple of years.
- × The Group is mainly engaged in providing telecommunications services in countries of which are commonly regarded as emerging markets. The telecommunications sector of these countries is less developed relative to developed and wealthy countries, and characterized by their regulations changing from time to time. It may pose significant regulatory and operational risks to the Group when there is any adverse change in related regulatory arrangements.
- × OFTA, regulatory body of telecommunications sector in Hong Kong, is considering not to renew the two licenses operating in the 800 MHz band of frequencies, one of which is the CDMA license of the Group and expires in November 2005. If the license is not renewed, the Group may incur losses from the discontinued business.
- × The Group's operating profit jumped 242% y-o-y in 1H2004 to HK\$1.693 billion and reported a net profit of HK\$773 million, thank to profit generated by the placement of shares in Hutchison Global Communications Holdings, the fixed line business arm in Hong Kong. However, excluding this one-off gain of HK\$1.3 billion, operating profit for the half year ended 30/06/2004 only amounted to HK\$393 million, which was 20.6% lower on a year-on-year basis. The bottom line would have had even turned into red in the absence of such exceptional item. Besides, the Group's share in profit from Hong Kong fixed line business would be diluted after the placement. For the year ended 31/12/2003, local fixed line operation generated an operating profit of HK\$232 million, accounting for 25.1% of the total operating profit of the Group.
- × The Group reported net losses in the past three years and only turned into operationally profitable since 2002. Due to distortion of the one-off gain in 1H2004, profitability analysis based on 2004 figures would be biased.
- × According to an agreement signed in May 2004, NTT DoCoMo agreed to exchange its 20% investment in Hutchison 3G UK to Hutchison Whampoa (HWL) for a consideration of £120 million via three tranches of payment, while HWL has the option to pay it by the Group shares rather than cash. And under the terms of the agreement, NTT DoCoMo will not dispose of these shares before 31st January 2006. However, it may seek to sell the stake beyond that date. So the issue may overhang and dampen investor sentiments.
- × The Selling Shareholder first intended to raise as much as US\$2 billion from the share offer. However, according to market watchers, due to cool initial response from fund managers during the pre-marketing period, it had to scale back the offer size to US\$1 billion.

Recommendation: Buy cheaper from the market after the counter is listed (for longer term investment purpose)