

Citic 1616

Beneficiary of 2010 Shanghai Expo

to summarize...

- 2H FY12/09A results was in line with our expectation with 1.8% YoY growth in top line and 7.1% YoY growth in bottom line.
- CTM acquisition expected to be completed in April 2010, which would further improve the cash position of the company.
- With hub connects China with over 62 countries or regions, Citic 1616 would benefit from the coming Shanghai Expo.
- Rich cash position and good dividend payout.
- Keep growth with geographic expansion, new products, and M&A.
- Maintain BUY, revised up target price to HK\$3.06 in considering the added value of CTM acquisition.

2H FY12/09A results. Citic 1616 results were in line with our expectation. The revenue increased 1.8% YoY to HK\$1,383.1m while the net profit increased 7.1% YoY to HK\$193.8m for 2H FY12/09A. The revenue growth was mainly driven by the 14.5% YoY growth in SMS service with 14.7% ASP growth and 0.2% volume drop. The revenue from voice service increased 0.2% with 9.8% volume growth and 8.8% ASP drop. Mobile VAS revenue decreased 2.2% YoY and other business increased 1.9% YoY. The management said that the growth slowdown because of global economic recession and the company's strong performed in Olympic year in 2008.

Table 1. 2H FY12/09A Interim results

Six months to Dec	Turnover (HK\$m)	EBITDA (HK\$m)	EBITDA margin (%)	Pre-tax profit (HK\$m)	Tax rate (%)	Net profit (HK\$m)	DPS (HK\$)
2H FY09	1,383.1	290.5	21.0	447.0	16.8	193.8	0.071
2H FY08	1,358.3	264.1	19.4	397.9	16.6	181.0	0.064
YoY (%)	1.8	10.0	1.6	12.3	0.2	7.1	10.9

Source: Company data

Table 2. 2H FY12/09A revenue breakdown

Six months to Dec	2H FY08 (HK\$m)	2H FY09 (HK\$m)	YoY (%)	% of total (%)
Voice Services	882.4	884.1	0.2	65.0
SMS Services	129.8	148.6	14.5	9.6
Mobile VAS	57.3	56.0	(2.2)	4.2
VPN and others	288.9	294.3	1.9	21.3
Total	1,358.3	1,383.1	1.8	100.0

Source: Company data

CTM to be a strong cash generator. Citic 1616 announced that it will acquire 20% Companhia De Telecomunicacoes de Macau (CTM) from Citic Pacific (267 HK) by cash of HK\$467.0m and consideration shares of HK\$933.4 with 405.8m new shares at price of HK\$2.3. The acquisition valuation is 10.3x FY12/08A P/E. Citic Pacific will hold from 52.57% of the company to 60.65% after the completion of the acquisition, which was expected to be in April 2010. CTM is the only full telecom service provider in Macau. CTM's other shareholders include Cable & Wireless (51.0%), Portugal Telecom (28.0%), and Macau Government (1.0%). We think that Citic 1616 acquires CTM for its: 1) rich cash position and strong dividend payout given that CTM currently has about HK\$600m net cash on hand and 100% dividend payout ratio; 2) potential to leverage its platform for Citic 1616's geographic expansion.

Beneficiary of 2010 Shanghai Expo. With strong market position in voice traffic into China and SMS traffic into and out of china, the sale of Citic 1616 got strong

Please refer to important disclosures at the end of this report

Ticker	1883 HK
Rating	BUY(Unchanged)
Price (HK\$)	2.39
Target Price (HK\$)	3.06(+28%)
12m Price Range (HK\$)	1.05-3.00
Market cap. (US\$m)	609.9
Daily t/o (US\$m)	0.83
Free float (%)	42.1

Financial summary

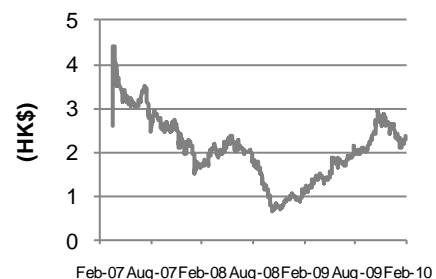
Year to Dec	08A	09A	10F	11F	12F
Turnover (HK\$m)	2,486.4	2,716.6	3,290.8	3,667.2	4,033.0
Net Profit (HK\$m)	332.1	371.5	552.2	666.0	731.8
EPS (HK\$)	0.168	0.188	0.232	0.279	0.307
P/E (x)	18.2	16.3	13.2	11.0	10.0
P/B (x)	4.0	3.5	3.6	2.8	2.4
EV/EBITDA (x)	10.7	9.7	9.7	7.9	6.6
Yield (%)	2.7	3.1	4.0	4.8	5.0
ROE (%)	23.7	23.0	29.5	28.7	25.7
ROCE (%)	26.9	27.4	28.8	26.7	24.0
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI/Bloomberg

	10F	11F	12F
Consensus EPS (HK\$)	0.232	0.264	0.270
Previous earnings (HK\$m)	480.9	551.4	-
Previous EPS (HK\$)	0.243	0.279	-

Price performance

Year to Dec	1m	3m	12m
Relative to HSI (%)	+9.6	-2.6	+49.4
Actual price changes (%)	+2.6	-12.5	+123.4



Source: Bloomberg

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improvement in 2008 Beijing Olympic. So far, its independent hub connects with about 470 telecoms operators in 62 countries or regions. We would expect that the strong demand of connection of China with other countries during the 2010 Shanghai Expo would boost the demand for the international voice traffic and SMS traffic and hence would strongly increase the demand for the service of Citic 1616. We estimate that the voice traffic volume would increase about 25% YoY and SMS traffic volume about 19.9% YoY for FY12/10F with a stronger 2H.

Table 4: Key operating metrics

Year to Dec	08A	09A	10F	11F	12F
Voice traffic (m mins)	8103.0	10135	12670.7	14191.2	15326.5
YoY	44.6	25.1	25.0	12.0	8.0
SMS messages (m messages)	1766.4	1564.5	1876.0	2194.9	2458.3
YoY	(6.9)	(11.4)	19.9	17.0	12.0

Source: Company data and SBI E2-Capital

Rich cash position and high dividend payout ratio. Citic 1616 had cash of HK\$686.2m by the end of FY12/09. Even after paying the cash of HK\$467.0m for the new acquisition, we think that the company could still hold a rich cash position from its operation and cash contribution from CTM. In FY12/09A, the dividend payout ratio was 50.6%, representing 3.1% yield for FY12/09A. The company said that they will keep its current dividend payout ratio.

Development strategy. Citic 1616 plans to keeps its growth by: 1) further geographic expansion to Middle East, Africa and Latin America; 2) developing new product supporting 3G business requirements of the PRC operator, such as providing 3G-VT video phone transit services between PRC operators and their counterparts in HK, Macau, Taiwan and other countries in Asia Pacific; 3) M&A.

Maintain BUY with target price HK\$3.06. We revised our sales estimate to HK\$3290.8m in FY12/10F and HK\$3667.2m in FY12/11F (from HK\$3397.2m in FY12.10F and HK\$3800.6m in FY12/11F) and net profit estimate to HK\$552.2m in FY12/10F and 666.0m in FY12/11F (from HK\$480.9m in FY12/10F and HK\$551.4m). We revised up our target price to HK\$3.06 (from HK\$2.89) in considering added value from CTM acquisition, representing 13.2x FY12/10F P/E and 9.7x EV/EBITDA. The stock price of the counter increased 20.1% since we issued our previous report in August 2009. We think that there would be more upside potential from: 1) potential beneficiary of 2010 Shanghai Expo; 2) good cash position and dividend yield with stable business development. Maintain BUY.

Table 9: P & L

Year to Dec (HK\$m)	08A	09A	10F	11F	12F
Turnover	2486.4	2716.6	3290.8	3667.2	4033.0
Other revenue	20.8	5.5	7.0	9.0	11.5
Other net (loss)/gain	(11.3)	0.5	(16.5)	(18.3)	(20.2)
Network, operations and support expenses	(1670.1)	(1801.0)	(2173.2)	(2429.1)	(2667.3)
Depreciation and amortisation	(113.2)	(110.9)	(118.7)	(123.7)	(137.2)
Staff costs	(180.0)	(220.5)	(279.7)	(293.4)	(322.6)
Other operating costs	(133.7)	(141.9)	(164.5)	(183.4)	(201.6)
Profit from operations	398.8	448.3	545.2	628.3	695.4
Finance costs	(0.0)	0.0	0.0	0.0	0.0
Share of profit/(loss) in associates	(0.9)	(1.3)	112.2	164.6	181.0
Profit before taxation	397.9	447.0	657.4	792.8	876.4
Income tax	(65.7)	(75.4)	(105.2)	(126.9)	(144.6)
Net Profit	332.1	371.5	552.2	666.0	731.8

Source: Company data and SBI E2-Capital

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