

# Citic 1616

## World's window into China

**BUY (int. coverage)**

### Financial summary

Year to Dec	07A	08A	09F	10F	11F
Turnover (HK\$m)	1,486.12	1,486.42	880.83	397.23	800.6
Net Profit (HK\$m)	262.7	332.1	389.7	480.9	551.4
EPS (HK\$)	0.143	0.168	0.197	0.243	0.279
EPS Δ%	33.1	17.4	17.3	23.4	14.7
P/E (x)	13.9	11.9	10.1	8.2	7.1
P/B (x)	2.84	2.59	2.34	1.97	1.68
EV/EBITDA (x)	8.9	6.4	5.5	4.2	3.3
Yield (%)	2.2	4.2	5.0	6.2	7.1
ROE (%)	31.6	23.7	24.4	26.1	25.3
ROCE (%)	29.4	26.9	28.4	30.2	29.2
N. Gear. (%)	Cash	Cash	Cash	Cash	Cash

Source: SBI E2Capital

### Price Performance

	1 mth	3 mth	12 mth
Relative to HSI (%)	+7.3	-6.3	+29.0
Actual price changes (%)	+7.0	+5.9	+21.3

  

	09F	10F	11F
Consensus EPS (HK\$)	0.197	0.230	0.245
Previous forecasts (HK\$m)	-	-	-
Previous EPS (HK\$)	-	-	-

### Price Chart


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The company's ability to provide operability solutions increases as new 3G and 4G wireless network technologies are launched. Citic 1616's business is broadly separated into the following segments:

- Voice services – voice hubbing services for fixed line, hybrid (mobile and fixed) carriers and mobile carriers
- SMS – SMS hubbing services for carriers in Greater China and Asia. Company supports GSM, CDMA and PHS networks and as an international messaging hub

**Ticker:** 1883.HK

12 mth range: HK\$0.61-2.17

**Price:** HK\$1.99

Market cap: US\$507.8m

**Target:** HK\$2.89 (+45%)

Daily t/o, 3 mth: US\$0.64m

Free float %: 33.4%

### Key points:

- \* Citic 1616 is one of the world and Asia's largest telecoms hubbing operator. It's 5.05b minutes of voice handled in 1H FY12/09A ranks it within the top 10 telcos in the world in terms of voice traffic handled
- \* Company is effectively "world's telecommunications window into China", having handled 50%+ of China's inbound voice minutes and 80% of both inbound and outbound SMS messages
- \* China teleco restructuring would improve Citic 1616's bargaining position going forward. Despite China international minutes falling 12.4% for first five months of 2009, Citic 1616 was able to grow its voice traffic minutes by 5-6% (excl. contribution from recently acquired CMN)
- \* With an asset light model, Citic 1616 has used its cash rich position to do M&As to: 1) improve its China inbound market share and hence bargaining position with China telcos; 2) diversify into new businesses such as VPN and enterprise and 3) expand its geographical footprint and network
- \* Project Citic 1616's net profit to grow 17.2% in FY12/09F, 23.6% in FY12/10F and 14.6% in FY12/11F. Our estimates does not incorporate any unspecified M&As
- \* Citic 1616 is an asset light telecommunications play with China exposure and backed by high growth profile. Initiate coverage with target price of HK\$2.89. BUY

### Company background

**Background.** Citic 1616 is a leading telecommunications hubbing operator. The company has been established since 2000 and has a 10 years track record undertaking hubbing operations with a particular focus in China and Asia. The company was spun off from Citic Pacific (267 HK, HK\$23.70) in March 2007.

**The hubbing business.** The telecommunications industry requires hubbing operators to act as independent and neutral third parties to provide inter-operability, inter-connections and value added services between telecom operators. Citic 1616 adds value in providing solutions to incompatible voice and data technology standards, protocols, and network interfaces.

- **Mobile VAS** – Single IMSI multiple number service (SIMN), mobile roaming call back service, prepaid roaming card service (PRS), Roaming Signaling Transit service (SCCP)
- **Data, VPN and others** – Citic 1616 provides enterprise solutions businesses including data services (international private leased circuit, local private leased circuit, data centres), facilities management and system integration services

**Table 1: Revenue breakdown**

Year to Dec	06A		07A		08A	
	HK\$m	%	HK\$m	%	HK\$m	%
Voice services	1,141.7	83.7	1,162.2	78.2	1,613.4	65.0
SMS services	117.1	8.6	186.8	12.6	247.1	9.6
Mobile value added services	30.9	2.3	59.4	4.0	94.5	4.2
Data business	74.6	5.5	77.4	5.2	531.4	21.3
	<b>1,364.2</b>	<b>100.0</b>	<b>1,486.1</b>	<b>100.0</b>	<b>2,486.4</b>	<b>100.0</b>

Source: Company data

**Key investment theme 1: World’s window into China**

**World’s window into China.** Citic 1616 is effectively the world’s IT and telecommunications window into China. The company accounts for 50%+ of the voice traffic into China and 20% out of China. Moreover, the percentage of voice minutes is weighted in favour of mobile voice. Citic 1616’s SMS traffic share is even greater, accounting for 80% of SMS traffic both into and out of China. Collectively, China’s 3 telcos of **China Mobile (941 HK, HK\$78.8)**, **China Telecom (728 HK, HK\$3.83)** and **China Unicom (762 HK, HK\$10.68)** accounts for around 40% of the company’s revenues, with CM the largest at around 25%. Citic 1616’s operations have around 450 customers.

**Hubbing is essential part of international traffic.** According to data from independent researcher TeleGeography, 56.4% of international voice calls passed through hubbing operations in 2007. In Asia, this percentage is significantly higher at 64.7% (US & Canada: 41.6%, Europe 45.2%). We expect an even higher percentage of international SMS traffic to pass through hubs given the higher degree of protocol fragmentation.

**Why do telcos need Citic 1616.** There are a number of reasons why telcos need to work with Citic 1616. These include:

- Telecoms standards fragmentation (e.g. CDMA, GSM, WCDMA, UTMS etc) and SMS protocol fragmentation (even more fragmented than voice). Citic 1616 thus adds value by providing inter-operability to telcos
- Citic 1616 can provide telco customers with a “plug and play” solution, thereby allowing carriers to save resources in inter-connection and management of multiple carrier relationships
- Citic 1616 is connected to all three China telcos. Citic 1616, as an independent hubbing operator, can offer one-stop connectivity to carriers from rest of the world
- Company’s extensive footprint and market share in Asia increases Citic 1616’s bargaining power, allowing it to offer compelling value to carriers outside Asia
- The company has already integrated TD-SCDMA technology, being adopted by CM. Telcos from the rest of the world can connect into China’s home grown TD standard through Citic 1616 with minimal R&D costs

**Proxy to China telecommunications market, government policies.** With connection to all three China telcos and around 40% of revenue derived from them, Citic 1616 is a proxy to: 1) China’s growth in mobile subscribers, which grew 15.7% to 695.2m for 1-6M 2009 and 2) the increased presence of multinationals in China as well as the recent “China-out” policies. All of this would generate an increased level of voice, SMS and data mobile traffic, and we believe that Citic 1616 stands to be a beneficiary.

**Key investment theme 2: China telco restructuring brings opportunity**

**Inter-dependent relationship between Citic 1616 and Chinese carriers.** Citic 1616’s relationship with the carriers in China is largely a symbiotic one. Effectively, Citic 1616 uses its inbound volume (both voice and SMS) to “swap” for China outbound minutes from the Chinese carriers. Therefore, the more inbound minutes “controlled” by Citic 1616 would given it a better bargaining position with the Chinese carriers. Meanwhile, Chinese carriers, such as CM, need increasing inbound minutes to help grow its international business and overall minutes of use.

**China's telco restructuring brings opportunities.** The recent restructuring in China's telco industry has opened up opportunities for Citic 1616. With an increased addressable market (3 mobile license operator, up from 2) and both CU and CT are aggressively attempting to build out their respective mobile businesses, and this has improved the bargaining position of Citic 1616. The company now has increased options to route its inbound minutes and CU and CT would be more than willing to "swap" outbound minutes in order to increase utilization and growth overall voice/SMS traffic. This has created more competition to secure 1616's inbound voice traffic and undermined and slightly weakened CM's bargaining position and at the same time improved Citic 1616's control within the relationship.

**Citic 1616 consolidates position in weak global economy.** Case in point, recent MIIT data showed that China's international voice minutes fell 12.4% YoY for the first 5 months of 2009 to 1.7b minutes, largely attributable to the downturn in global economic conditions as one of the reasons for the decline. However, despite all this, Citic was able to organically grow its voice minutes by around 5-6% YoY in 1H FY12/09A (excluding contribution from CMN). The company in fact took advantage of the weakness in the economy to outperform consolidate and improve its position by securing a larger share of international voice minutes.

**Key investment theme 3: M&A-led diversification into new markets**

**Asset light model yields strategic advantages.** Relative to traditional telco carriers, Citic 1616's hubbing business model is asset light. The company was able to derive HK\$332.1m net profit in FY12/08A off only HK\$677.0m of non-current assets. Depreciation accounted for only 4.6% of revenues (CM: 17.3%, CT: 28.8%, CU: 32.0%). This asset light business model allows Citic 1616 to be a strong cash generator. Coupled with the current cash of HK\$841.5m and a debt free balance sheet, this enables to Citic 1616 to undertake M&As to: 1) consolidate market share; 2) improve its product portfolio and 3) expand its geographical footprint.

**Solid M&A track record.** The company has a solid M&A track record, having made 3 acquisitions in the 3 years since its listing. Moreover, it has demonstrated a good "eye" for picking up companies that can make use of its existing advantages, assets to enhance its strategic positioning and more importantly, successfully integrate it into its business fold. With a cash hoard of HK\$841.5m at the end of 1H FY12/09A, we expect that the company would continue to put this cash to work to make strategic acquisition and enhance shareholder value.

**Table 2: Citic 1616's M&A track record**

Acquisition target	Date	Consideration	Strategic Assets	Synergies
CPCNet	Nov 2007	HK\$253.0m	License to offer VPN services into China	Strengthens Citic 1616's high growth, high margin data business
China Motion Netcom	Aug 2008	HK\$260.0m	China inbound voice traffic, North America footprint	Consolidates China inbound market share and provides reread access to North America market
Macquarie Telecom	Jul 2009	HK\$56.6m	Enterprise customers, network connections to Africa and Middle East	Develops Citic 1616's enterprise voice and SMS business. Ability to develop new emerging markets

Source: Company data and SBI E2-Capital

**Recent Macquarie Telecom acquisition.** The company's acquisition of Macquarie Telecom in Jul 2009 marks a new phase of growth in our view. MT is an enterprise-focused voice hubbing operator based out of Singapore. Citic 1616's acquisition of MT allows the company to tap its ~1,400 strong customer base (mostly enterprise). Though a voice hubbing operator, MT had previously outsourced most of its operations and therefore had only been a largely breakeven business. Prior to acquisition, MT had outsourced around 40% of its voice and 20% of its data to the company. Citic 1616 saw several areas of potential synergies in MT including:

- Consolidation of higher price points and margins of MT's enterprise level traffic to help sustain margins;
- Ability to lower MT's operating costs by integrating it into Citic 1616's existing operations;
- Relative ease of integration (given that MT had essentially previously outsourced its entire operations) and
- Grab more market share of China inbound minutes, which would continue to give it better bargaining position with China telcos

**Macquarie Telecom allows for strategic entry into new sectors.** Moreover importantly, MT's platform allows the company to horizontally expand in terms of both business verticals and geographical footprint. These include:

- **Business vertical:** Expansion into the enterprise SMS business. This segment has margins that significantly exceeds conventional SMS business.
- **Geographic markets:** Facilitates expansion into the Middle East and Africa markets. In particular, Citic 1616 sees potential in the Middle East market, where telcos still largely rely on direct connections for inter-operability, which results in inefficient costs for telco carriers and mobile users.

**1<sup>st</sup> acquisition: CPCNet gave strategic VPN license.** Aside from the recent MT acquisition, Citic 1616 had previously undertaken two other sizeable M&As, both of which were significant from a strategic perspective. The company's acquisition of CPCNet in Nov 2007 allowed the company to strengthen its emerging enterprise solutions business. CPCNet enabled the company to diversify into providing virtual private network (VPN) services. Due to the Internet access restrictions of China, there are only 4-5 companies (all domestic), that have licenses to provide VPN services in China. The data business grew 22.3% YoY to HK\$296.8m in 1H FY12/09A despite headwinds from the slowing of global economic trade. This segment has been one of the company's fastest growing segments and we expect this growth to be sustained going forward, aided by cross-selling efforts into MT's enterprise customers and entering into new geographical markets. In addition, data business is a higher margin business, which would help the company offset expected margin compression in its traditional voice segment and sustain its overall gross margin.

**2<sup>nd</sup> acquisition CMN consolidated bargaining position and extended footprint to North America.** Citic 1616's second acquisition (since listing) was China Motion Netcom (CMN), a subsidiary of **China Motion Telecom (989 HK, HK\$0.17)** which focuses on wholesale and retail IDD services, with presence in Hong Kong, Taiwan, Singapore, Japan, UK and North America. This acquisition allowed Citic 1616 to: 1) increase its China inbound voice minute market share to improve its bargaining position with China telcos; 2) allowed Citic 1616 to extend its footprint to regions such as North America and 3) gave Citic 1616 last mile access to mobile users to further develop their mobile VAS products.

**North America strategy marks long term growth drivers.** We expect Citic 1616's business strategy in North America to focus on retail i.e. end mobile users (rather than hubbing operations). US and Canada has a high level of ethnic diversity and the company plans to leverage its newly acquired channels (from CMN) to sell its mobile roaming call back service, prepaid roaming card service (PRS), firstly to the Chinese community, then subsequently to other Asian ethnic groups such as the Vietnamese, Philippines etc. This has the dual advantages of: 1) giving the company access to end user subscribers and 2) further consolidating Asia and China bound voice and SMS traffic. Longer term, the company plans to offer its Single IMSI multiple number service (SIMN) for traffic (a product that has proved to be very successful in China/Hong Kong) between Mexico and the US.

### **Financials**

**General.** Between FY12/06A to FY12/08A, Citic 1616's revenue grew at a CAGR of 18.9% to HK\$2,486.4m while net profit grew at a CAGR of 28.4% over the same period to HK\$332.1m. The company has a relatively simple cost structure, with network, operation and support expenses, accounting for 67.2% of turnover in FY12/08A. Other key items are D&A costs (FY12/08A: 4.6%) and staff costs (FY12/08A: 7.2%). On the balance sheet, Citic 1616's fixed assets accounted for only 29.0% of total assets and does not carry any inventory, which is in line with its asset light, service provider business model. The largest items on the balance sheet at end-FY12/08A are cash of HK\$795.0m (34.0% of total assets) and accounts receivables of HK\$864.8m (37.0% of total assets). The company's accounts receivable days of 107 is less than its accounts payable days of 133.

**Introducing our estimates.** We expect Citic 1616's net profit to grow reach HK\$389.7m for FY12/09F, HK\$480.9m for FY12/10F and HK\$551.4m for FY12/11F, representing YoY growth of 17.3%, 23.4% and 14.7% respectively. During this time, we expect SMS and data segments to be the biggest contributor to revenue growth, with voice, as a percentage of overall revenue to fall to 57.5% by FY12/11F (FY12/08A: 64.9%). We are estimating revenue and net profit growth to be higher in FY12/10F owing to: 1) rebound from a weak global economy in 2009 and 2) Shanghai 2010 World Expo generating additional voice traffic. We note that during the Olympic year in 2008, Citic's voice revenue grew 38.8% that year. In terms of margin, we expect operating margin to be sustainable, with a gradual up trend to 17.3% by FY12/11F owing to shift in revenue mix towards higher margin segments such as data and SMS, as well as operating leverage.

**Nominal capex requirements.** Citic 1616, being an asset light company, does not have a high capex requirement. Management indicated that capex budget for FY12/09 is around HK\$130.0m (excluding acquisition), which is largely in line with the previous year. The capex is largely maintenance capex and replacement capex.

**Not less than 50.0% payout.** Company has a dividend policy of not less than 50.0% of net profit.

**Table 3: Key revenue assumptions**

Year to Dec (HK\$m)	07A	08A	09F	10F	11F
Voice services	1,162.4	1,613.4	1795.7	2052.5	2183.9
SMS services	186.8	247.1	296.2	357.8	410.2
Mobile value added services	59.4	94.5	136.2	190.7	266.9
Data business	77.4	531.4	652.7	796.2	939.6
<b>Total</b>	<b>1,486.1</b>	<b>2,486.4</b>	<b>2880.8</b>	<b>3397.2</b>	<b>3800.6</b>

Source: Company data and SBI E2-Capital

**Table 4: Key operating metrics**

Year to Dec	07A	08A	09F	10F	11F
Voice traffic (m mins)	5,605.0	8,103.0	11,301.2	14,352.5	16,074.8
YoY	19.3	44.6	39.5	27.0	12.0
SMS messages (m messages)	1,896.9	1,766.4	1,719.8	2,098.1	2,454.8
YoY	54.4	(6.9)	(2.6)	22.0	17.0

Source: Company data and SBI E2-Capital

**Table 5: Key financial metrics**

Year to Dec	07A	08A	09F	10F	11F
Turnover (HK\$m)	1,486.1	2,486.4	2,878.9	3,399.7	3,802.0
YoY (%)	8.9	67.3	15.8	18.1	11.8
EBITDA (HK\$m)	322.8	491.3	558.2	665.9	748.8
YoY (%)	17.0	52.2	13.6	19.3	12.4
Net profit (HK\$m)	262.7	332.1	389.7	480.9	551.4
YoY (%)	30.4	26.4	17.3	23.4	14.7
EPS (HK\$)	0.143	0.168	0.197	0.243	0.279
YoY (%)	20.1	17.4	17.3	23.4	14.7

Source: Company data and SBI E2-Capital

**Recent IH FY12/09A results.** Citic 1616's IH FY12/09A revenue was up 18.2% YoY to HK\$1,333.5m with net profit coming in at HK\$177.8m, up 17.6% YoY. Revenue growth was driven by broad based increases across each of its four main segments. Aided by the maiden full 6 month consolidation of CMN, Voice was up 15.3% YoY to HK\$842.6m. Meanwhile, SMS was up 17.1% YoY to HK\$137.8m, mobile VAS up 50.4% YoY to HK\$56.3m and data up 22.6% YoY to HK\$296.8m. Citic 1616 handled 5.05b voice minutes for the period, up 45.5% YoY, which was boosted by contribution from CMN. However, rev/min dropped to HK\$0.167 (IH FY12/08A: HK\$0.211) as CMN's voice traffic was essentially inbound traffic into China, which has a lower price point. This shift in product mix led to a one-off shift downwards of the rev/min. SMS messages handled during the period was 0.8b, down 19.3% YoY. The decrease in SMS messages handled was due to the cessation of providing intra-network SMS services to telcos, which was a free service offered previously by Citic 1616. As a result, rev/message was boosted to HK\$0.173 (IH FY12/08A: HK\$0.118).

**Table 6: Interim results**

Six months to Jun	Turnover (HK\$m)	EBITDA (HK\$m)	EBITDA margin (%)	Pre-tax profit (HK\$m)	Tax rate (%)	Net profit (HK\$m)	EPS (HK\$)	DPS (HK\$)
1H FY09	1,333.5	263.5	19.8	214.1	17.0	177.7	0.090	0.024
1H FY08	1,128.1	226.6	20.1	180.9	16.5	151.1	0.076	0.020
YoY (%)	18.2	16.2	(0.3)	18.4	0.5	17.6	18.4	20.0

Source: Company data

**Target price and valuation**

**DCF fair value.** Our DCF model derives a fair value of HK\$3.40 for Citic 1616, based on WACC of 12.0% and terminal growth of 1.0%, which is reflective of the company's strong cash flow generation and debt free balance sheet.

**P/E comparison.** On a peer comparable status, there are essentially no direct comparables to Citic 1616 given that others: 1) do not have the same growth profile and/or geographical exposure to China and Asia and 2) have multiple business lines aside from hubbing operations (e.g. Tata has property and undersea operations while Sybase and Verisign has other data and IT related businesses). Telco hubbing operators are generally trading at 12.3x FY12/10F P/E (ex. Tata Communications). China telcos are trading at an average of 16.8x FY12/10F and Asia telcos are trading at an average of 13.9x FY12/10F P/E though these companies own their network assets.

**Initiate coverage with BUY, target price HK\$2.89.** We initiate coverage on Citic 1616 with a BUY call and target price of HK\$2.89, by applying a 15% discount to our DCF-derived fair value considering the smaller market cap and lower liquidity of the stock. Our target price represents 14.7x FY12/09F and 11.9x FY12/10F P/E, which is conservative, when comparing against other hubbing and/or telco related plays. Our target price represents 45.2% upside potential from current share price.

**Table 7: DCF valuation reference table**

WACC	Terminal Growth				
	0.5%	1.0%	1.5%	2.0%	2.5%
11.0%	3.70	3.80	3.91	4.03	4.17
12.0%	3.33	3.40	3.49	3.58	3.69
13.0%	3.02	3.08	3.14	3.22	3.30
14.0%	2.75	2.80	2.86	2.91	2.97

Source: SBI E2-Capital

**Table 9: P & L**

Year to Dec (HK\$m)	07A	08A	09F	10F	11F
<b>Turnover</b>	<b>1,486.1</b>	<b>2,486.4</b>	<b>2,880.8</b>	<b>3,397.2</b>	<b>3,800.6</b>
Other revenue	62.4	20.8	12.7	16.3	21.1
Other net (loss)/gain	0.1	(11.3)	(7.0)	(17.0)	(19.0)
Network, operations and support expenses	(988.3)	(1670.1)	(1961.7)	(2306.6)	(2588.1)
Depreciation and amortisation	(78.8)	(113.2)	(104.7)	(109.8)	(113.4)
Staff costs	(103.3)	(180.0)	(211.1)	(237.8)	(254.6)
Other operating costs	(71.7)	(133.7)	(142.8)	(169.9)	(190.0)
<b>Profit from operations</b>	<b>306.4</b>	<b>398.8</b>	<b>466.2</b>	<b>572.5</b>	<b>656.5</b>
Finance costs	-	-	-	-	-
Share of profit/(loss) in associates	-	(0.9)	-	-	-
<b>Profit before taxation</b>	<b>306.4</b>	<b>397.9</b>	<b>466.2</b>	<b>572.5</b>	<b>656.5</b>
Income tax	(43.7)	(65.7)	(76.5)	(91.6)	(105.0)
<b>Net Profit</b>	<b>262.7</b>	<b>332.1</b>	<b>389.7</b>	<b>480.9</b>	<b>551.4</b>

Source: Company data and SBI E2-Capital

**Shareholding structure.** Citic Group (through Citic Pacific) is the largest shareholder at 52.57%. Penta Investments hold 8.13% and the Government of Singapore Investment Corporation owns 5.93%. Collectively, the 3 largest shareholders hold 66.63%.

### Risks

**Switching costs is not low.** The largest risk of Citic 1616 is a perceived low switching cost for carriers. However, we disagree with this notion given its: 1) significant market share in Asia and China; 2) bundling of voice, SMS, VAS and even VPN services and 3) the limited availability of options for VPN into China due to license restrictions.

**Other risks.** Other risks include: 1) failure to sustain momentum in high growth segments such as mobile VAS, VPN; 2) integration risk in M&As; 3) execution risks regarding expansion into new geographical markets such as North America, Middle East and 4) significant escalation of price competition.

**Table 8: Valuation table**

Company name	Ticker	Mkt cap (US\$m)	Last Price (Local)	Cur Est P/E (x)	Nxt Est P/E (x)	Est ROE (x)	Est Yield (%)	Daily T/O (US\$)
<u>Telco Hubbing Operator</u>								
Syniverse	SVR US	1,294.0	US\$18.80	13.1	11.5	15.6	-	10.7
Sybase	SY US	2,783.5	US\$34.40	15.1	13.3	15.9	-	52.0
Verisign	VRSN US	3,965.4	US\$20.60	16.0	13.8	-	-	111.8
iBasis	IBAS US	174.5	US\$2.50	-	-	-	-	0.2
TNS	TNS US	682.8	US\$27.00	12.8	10.4	3.6	-	5.5
Tata Communications	TCOM IN	2,984.0	INR510.00	50.2	47.4	6.0	0.9	8.7
<i>Average (ex. Tata)</i>				14.3	12.3			31.5
<u>Asia Pacific Carriers</u>								
SingTel	ST SP	35,287.3	S\$3.20	13.5	12.4	16.6	3.8	50.8
Thaicom	THCOM TB	261.9	THB8.10	-	24.4	-	-	3.8
Telekom Malaysia	T MK	3,120.1	MYR3.10	18.4	18.4	5.3	15.5	11.1
Pakistan Telecom	PTC PA	1,340.3	PKR22.00	10.6	9.4	-	6.3	1.1
Digital Telecom	DGTL PM	196.5	PHP1.50	-	-	-	-	0.1
Telekomunikas	TLKM IJ	17,307.3	IDR8,600.0	14.0	12.8	31.2	4.0	18.2
Hutchison Telecom	215 HK	751.7	HK\$1.20	12.3	10.5	-	5.8	2.2
PCCW	8 HK	1,800.1	HK\$2.10	9.2	9.4	77.4	16.6	5.9
<i>Average</i>				13.0	13.9			11.6
<u>China Carriers</u>								
China Mobile	941 HK	203,964.4	HK\$78.80	12.1	11.8	27.6	3.7	326.3
China Unicom	762 HK	32,753.7	HK\$10.68	19.5	23.0	17.6	1.9	56.2
China Telecom	728 HK	39,996.3	HK\$3.83	17.8	15.5	0.4	2.0	59.6
<i>Average</i>				16.5	16.8			147.4
<i>Total average (ex. Tata)</i>				14.2	14.0			42.6
<b>Citic 1616</b>	<b>1883 HK</b>	<b>507.8</b>	<b>HK\$1.99</b>	<b>10.1</b>	<b>8.2</b>	<b>24.4</b>	<b>5.0</b>	<b>0.64</b>

Source: Bloomberg and SBI E2-Capital

P & L (HK\$m)	07A	08A	09F	10F	11F	Cash Flow (HK\$m)	07A	08A	09F	10F	11F
<b>Year to Dec</b>						<b>Year to Dec</b>					
<b>Turnover</b>	<b>1,486.1</b>	<b>2,486.4</b>	<b>2,880.8</b>	<b>3,397.2</b>	<b>3,800.6</b>	EBIT	244.0	378.0	453.5	556.1	635.4
% chg	8.9	67.3	15.9	17.9	11.9	Depre./amort.	78.8	113.2	104.7	109.8	113.4
Gross profit	497.7	816.3	919.1	1,090.6	1,212.5	Net int. paid	(62.4)	(20.8)	(12.7)	(16.3)	(21.1)
EBITDA	322.8	491.3	558.2	665.9	748.8	Tax paid	(64.4)	(41.5)	(80.7)	(36.1)	(59.0)
Depre./amort.	(78.8)	(113.2)	(104.7)	(109.8)	(113.4)	Dividends received	0.0	0.0	0.0	0.0	0.0
EBIT	244.0	378.0	453.5	556.1	635.4	<b>Gross cashflow</b>	<b>196.0</b>	<b>429.0</b>	<b>464.8</b>	<b>613.5</b>	<b>668.7</b>
Net int. income/(exp.)	62.4	20.8	12.7	16.3	21.1	Chgs. in working cap.	(9.2)	(52.0)	(49.9)	(35.3)	(4.7)
Exceptionals	-	-	-	-	-	<b>Operating cashflow</b>	<b>186.8</b>	<b>377.0</b>	<b>414.9</b>	<b>578.2</b>	<b>664.0</b>
Associates	-	(0.9)	-	-	-	Capex	(27.9)	(297.1)	(186.6)	(130.0)	(130.0)
Jointly-controlled entit.	-	-	-	-	-	<b>Free cashflow</b>	<b>158.9</b>	<b>79.8</b>	<b>228.3</b>	<b>448.2</b>	<b>534.0</b>
<b>Pre-tax profit</b>	<b>306.4</b>	<b>397.9</b>	<b>466.2</b>	<b>572.5</b>	<b>656.5</b>	Dividends paid	(18.8)	(100.9)	(174.0)	(210.4)	(251.4)
Tax	(43.7)	(65.7)	(76.5)	(91.6)	(105.0)	Net distribution to MI	-	-	-	-	-
Minority interests	-	-	-	-	-	Investments	-	-	-	-	-
<b>Net profit</b>	<b>262.7</b>	<b>332.1</b>	<b>389.7</b>	<b>480.9</b>	<b>551.4</b>	Disposals	-	-	-	-	-
% chg	44.5	26.4	17.3	23.4	14.7	New shares	485.0	-	-	-	-
Dividends	(80.1)	(166.1)	(194.9)	(242.2)	(277.9)	Change in loans	112.0	35.4	25.4	32.7	42.2
Retained earnings	182.6	166.0	194.8	238.7	273.5	Others	737.2	14.4	79.6	270.5	324.8
EPS (HK\$) - Basic	0.143	0.168	0.197	0.243	0.279	<b>Net cashflow</b>					
EPS (HK\$) - F.D.	0.143	0.168	0.197	0.243	0.279	Net (debt)/cash - Beg.	43.4	780.6	795.0	874.6	1,145.1
DPS (HK\$)	0.044	0.084	0.099	0.122	0.141	Net (debt)/cash - End.	780.6	795.0	874.6	1,145.1	1,469.9
No. sh.s o/s (m) - W.A.	1,836.6	1,977.8	1,977.7	1,977.7	1,977.7	<b>Interim Results (HK\$m)</b>	<b>07A</b>	<b>08A</b>	<b>09A</b>		
No. sh.s o/s (m) - Y.E.	1,836.6	1,977.8	1,977.7	1,977.7	1,977.7	<b>Six months to Jun</b>					
No. sh.s o/s (m) - F.D.	1,836.6	1,977.8	1,977.7	1,977.7	1,977.7	<b>Turnover</b>	<b>692.2</b>	<b>1,128.1</b>	<b>1,333.5</b>		
<b>Margins (%)</b>						% chg	8.9	63.0	18.2		
Gross	33.5	32.8	31.9	32.1	31.9	Profit from operations	110.2	170.1	215.5		
EBITDA	21.7	19.8	19.4	19.6	19.7	Interest expenses	47.2	10.8	4.1		
EBIT	16.4	15.2	15.7	16.4	16.7	Associates	-	-	(1.3)		
Pre-tax	20.6	16.0	16.2	16.9	17.3	Jointly-controlled entit.	-	-	-		
Net	17.7	13.4	13.5	14.2	14.5	<b>Pre-tax profit</b>	<b>157.4</b>	<b>180.9</b>	<b>214.1</b>		
						Tax	(21.4)	(29.8)	(36.4)		
						Minority interests	-	-	-		
						<b>Net profit</b>	<b>136.0</b>	<b>151.1</b>	<b>177.7</b>		
						% chg	35.0	11.1	17.6		
						EPS (HK\$) - Basic	0.076	0.076	0.090		
						DPS (HK\$)	0.010	0.020	0.024		
<b>Balance Sheet (HK\$m)</b>	<b>07A</b>	<b>08A</b>	<b>09F</b>	<b>10F</b>	<b>11F</b>	<b>Shareholding Structure</b>				<b>Shares o/s (m)</b>	<b>%</b>
<b>Year to Dec</b>						Citic Pacific				1039.8	52.6
Fixed assets	326.5	363.1	388.4	408.6	425.2	Penta Investment				160.8	8.1
Intangible assets	38.2	249.1	250.9	252.7	254.6	Government of Singapore				117.3	5.9
Other LT assets	76.9	64.8	74.4	84.2	96.4	Public				659.8	33.4
Cash	780.6	795.0	874.6	1,145.1	1,469.9	<b>Total</b>				<b>1977.7</b>	<b>100.0</b>
Accounts receivable	594.2	864.8	1,033.2	1,107.1	1,289.1	<b>Background</b>					
Other receivables	-	-	-	-	-	Citic 1616 is a leading telecommunications hubbing operator. The company has been established since 2000 and has a 10 years track record undertaking hubbing operations with a particular focus in China and Asia. The company was spun off from Citic Pacific in March 2007					
Inventories	-	-	-	-	-						
Due from related co.s	-	-	-	-	-						
Other current assets	1.0	0.2	-	-	-						
<b>Total assets</b>	<b>1,817.4</b>	<b>2,337.0</b>	<b>2,621.5</b>	<b>2,997.6</b>	<b>3,535.2</b>						
Accounts payable	(472.4)	(747.0)	(865.4)	(904.0)	(1,081.4)						
Other payable	-	-	-	-	-						
Tax payable	(22.0)	(36.2)	(38.3)	(45.8)	(52.5)						
Due to related co.s	-	-	-	-	-						
ST debts	-	-	-	-	-						
Other current liab.	-	-	-	-	-						
LT debts	-	-	-	-	-						
Other LT liabilities	(35.1)	(36.2)	(38.3)	(45.8)	(52.5)						
<b>Total liabilities</b>	<b>(529.6)</b>	<b>(819.3)</b>	<b>(941.9)</b>	<b>(995.6)</b>	<b>(1,186.4)</b>						
Share capital	197.8	197.8	197.8	197.8	197.8	<b>Key Ratios</b>	<b>07A</b>	<b>08A</b>	<b>09F</b>	<b>10F</b>	<b>11F</b>
Reserves	1,090.0	1,319.9	1,481.8	1,804.3	2,151.0	Net gearing (%)	Cash	Cash	Cash	Cash	Cash
<b>Shareholders' funds</b>	<b>1,287.9</b>	<b>1,517.7</b>	<b>1,679.6</b>	<b>2,002.0</b>	<b>2,348.8</b>	Net ROE (%)	31.6	23.7	24.4	26.1	25.3
Minority interest	-	-	-	-	-	EBIT ROCE (%)	29.4	26.9	28.4	30.2	29.2
<b>Total</b>	<b>1,287.9</b>	<b>1,517.7</b>	<b>1,679.6</b>	<b>2,002.0</b>	<b>2,348.8</b>	Dividend payout (%)	30.5	50.0	50.0	50.4	50.4
Capital employed	1,287.9	1,517.7	1,679.6	2,002.0	2,348.8	Effective tax rate (%)	14.3	16.5	16.4	16.0	16.0
Net (debt)/cash	780.6	795.0	874.6	1,145.1	1,469.9	Net interest coverage (x)	-	-	-	-	-
						A/R turnover (days)	129	107	120	115	115
						A/P turnover (days)	157	133	150	140	140
						Stock turnover (days)	-	-	-	-	-



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