

China Wireless: A niche player

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Recommendation: Not Rated

Hong Kong Telecom

Price	HK\$1.32	Yield (12/06A)	0.93%
12 mth range	HK\$0.325-1.975	ROE (12/06A)	12.4%
Market cap.	US\$337.3m	Net gearing (12/06A)	54.9%
No. shares o/s	2,023.0m	Net debt/sh. (12/06A)	HK\$0.218
Daily t/o, 3 mth	US\$3.40m	BV/sh. (12/06A)	HK\$0.866
Free float %	50.9%	Consensus EPS	
Major shareholder	Guo Deying – 43.3%	- 12/07F	HK\$0.075
Ticker	2369.HK/ 2369 HK	- 12/08F	HK\$0.120

Key points:

- Leading player in a niche market.
- China Mobile - a new customer.
- One of China's only two producers of TD-SCDMA/GSM dual-mode dual-standby handsets.
- Undemanding valuation.

Background. Headquartered in Shenzhen, China Wireless Technologies Ltd (CWT) is China's leading producer of dual-mode dual-standby mobile handsets, mainly CDMA/GSM. The company designs (including hardware platform, operating system and appearance) phones, outsources production and sells final products under its own brand Coolpad.

New client. China Unicom (CU), its main client, represents around 60% of CWT's total turnover. CWT has also started selling handsets to China Mobile (CM) this year but the sales volume (about 60,000 units) is not substantial. However, we expect it to ramp up quickly next year.

3G driver. CM will kick off procurement of 3G handsets by end-2007 and its first order is likely to total 300,000 units. It is reported that CM's total purchase of TD-SCDMA mobile handsets will amount to 2-3m units in 2008. CWT, according to the company, is one of China's seven qualified suppliers of TD-SCDMA/GSM dual-mode handsets and one of the only two producers of dual-stand-by products (the other one is ZTE).

Strong growth in 2007. The company's net profit rose 5.5% YoY in FY12/06A to HK\$53.7m mainly due to increased R&D expenses. EPS dipped 14.8% YoY to HK\$0.108. It rebounded in 1H FY12/07 by 98.2% YoY to HK\$0.124 (before a 1:1 issuance of bonus shares in Sep 2007). Revenue surged 73.6% YoY to HK\$753.8m and net profit 100.0% to HK\$124.6m during the period.

Risk. The company's major risk, in our view, is the lowering of entry barriers in the dual-mode market due to technical advances and entry of big players.

Valuation. The counter is trading at 48.9x P/E multiple, historically. Market expects its EPS to reach HK\$0.075 in FY12/07F and HK\$0.120 in FY12/08F, which implies an undemanding forward P/E of 17.6x and 11.0x.

Corporate governance. The company issued bonus shares on a 1:1 basis in Jun and Sep 2007. Substantial shareholders include Mr. Guo Deying (43.30%) and JAFCO (10.55%)

Table 1: P&L

Year to Dec (HK\$m)	04A	05A	06A	1H06A	1H07A
Revenue	245.5	354.0	640.9	434.3	753.8
Cost of sales	(146.1)	(229.9)	(400.9)	(275.8)	(481.6)
Gross profit	99.4	124.1	240.0	158.6	272.1
Other income	3.0	13.8	17.3	7.0	8.1
Selling and distribution costs	(25.9)	(39.4)	(86.4)	(30.4)	(65.9)
Administrative expenses	(21.8)	(34.9)	(106.8)	(59.4)	(84.8)
Other expenses	(1.4)	(0.3)	(1.0)	(0.2)	(0.3)
Finance costs	(2.0)	(3.0)	(9.5)	(2.4)	(4.6)
Profit before tax	51.2	60.3	53.7	73.3	124.6
Tax	(7.5)	(9.4)	0.0	(11.0)	-
Net profit	43.7	50.9	53.7	62.3	124.6
Dividends	8.0	14.0	19.9	5.0	10.1
EPS - Basic (HK\$)	0.143	0.127	0.108	0.626	0.124
EPS - F.D. (HK\$)	0.143	0.126	0.105	0.619	0.122

Source: Company data