

## China Mobile 4G-LTE capex kicks off

June 24, 2013

### Quick Note

According to a purchase announcement released on China Mobile's website on 21 June, China Mobile had officially started its 4G-LTE base station bidding process, including 207k base stations and 550k carrier sectors. Bids must be submitted by 15 July, and results will be announced in August.

We expect the bidding process will shed-light on the price for different types of base stations (upgrade vs. New and 1.9GHz vs. 2.6GHz). Given the tight schedule to finish the deployment within 2013, we also expect the majority of the deployment will be upgrades, which will mainly benefit local equipment suppliers (eg ZTE).

#### **Bid size estimated to be CNY25bn**

Based on historical results, if we assume per-carrier sector ASP of CNY45k, the bidding amount could be as high as CNY25bn (~USD4bn), making it the largest telecom equipment bid in China this year.

#### **ZTE expected to capture 25-30% share**

We expect major telecom equipment vendors, including Huawei, ZTE, ALU, NSN, and Datang, to participate in this bid. Based on TD-LTE bidding results in 2012, ZTE won 23% share in the 20k nationwide TD-LTE trial deployment and 100% share in China Mobile's TD-LTE deployment in Hong Kong.

Assuming ZTE captures 25% of the contract (~CNY6.2bn), it will account for 7% of its FY13F sales and a significant portion (20-25%) of its FY13F operating profit.

#### **Comba and CCS will also benefit**

Comba will see benefit from selling antenna used in the base stations. CCS will provide construction services in building and upgrading the base stations.

#### **Capex concerns lifted and positive to ZTE/CCS/Comba**

The market had been uneasy about delays in China Mobile's 4G-LTE capex, which was leading to further concerns on ZTE's ability to recognize 4G-LTE related revenue and whether the 200k TD-LTE base stations can be done this year. The latest development had shed light on the situation and is positive for ZTE, CCS, and Comba, in our view.

#### **China Telecom Chairman Mr. Wang Xiaochu indicates a hybrid-LTE network is necessary**

On 21 June, Mr. Wang Xiaochu gave a speech in 2013 Tianyi Handset Fair & Mobile Internet Forum, stating the necessity to build a hybrid-LTE network in the 4G era. This is also the first public statement by China Telecom to accept a TDD-LTE license.

According to Mr. Wang Xiaochu, the operational model under the hybrid network is to use FDD-LTE for broad area coverage and use TDD-LTE to provide supplementary coverage in metropolitan areas where voice and data services are highly concentrated.

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See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

**For further reading, please refer to the reports below:**

[China communication equipment - TD-LTE: How to benefit?](#)

[ZTE Corp \(763 HK, Buy\) - Core earnings could turn around in 2Q13F](#)

[China Communications Services \(552 HK, Buy\) - A good proxy for mobile traff](#)

## APPEDIX

**Fig. 1: Market share by network technology and equipment vendors**

Operator/Technology	China Mobile			China Unicom		China Telecom
	GSM	TD-SCDMA	TD-LTE	GSM	WCDMA	CDMA
Ericsson	26%	8%	10%	20%	27%	
Huawei	24%	24%	25%	25%	30%	29%
Alcatel-Lucnet	18%	13%	13%	5%	11%	20%
NSN	16%	8%	5%	20%	11%	
ZTE	5%	29%	23%	18%	21%	30%
Others	11%	18%	24%	12%	0%	21%

Source: C114, China Mobile

**Fig. 2: China telecom industry forecast**

CNY bn	FY07	FY08	FY09	FY10	FY11	FY12	FY13F	FY14F	FY15
China Telecom industry CAP	228	295	372	302	333	361	393	402	364
Y-Y	4%	30%	26%	-19%	10%	8%	9%	2%	-9%
Capex-sales ratio	31%	36%	43%	32%	32%	34%	33%	32%	27%
China Mobile (group)	122	162	162	169	160	173	222	210	195
China Telecom (group)	43	62	92	70	72	73	75	84	69
China Unicom (group)	46	71	113	70	77	100	80	91	85
Others	17	1	6	(7)	25	16	16	16	16
Total									
Mobile	101	162	199	150	131	142	147	179	142
2G	63	79	92	62	76	59	38	32	32
3G/4G	38	83	107	88	55	82	109	147	110
Fixedline broadband	55	69	94	96	111	143	107	137	137
Infrastructure/Others	72	64	79	57	91	77	138	85	85
<b>China Mobile Group</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13F</b>	<b>FY14</b>	<b>FY15</b>
<b>Total</b>	<b>122</b>	<b>162</b>	<b>162</b>	<b>169</b>	<b>160</b>	<b>173</b>	<b>222</b>	<b>210</b>	<b>195</b>
GSM/WiFi	63	79.1	55.6	54.7	73.2	56.1	38.3	30	30
TD-LTE							41.5	53	39
Transmission	17	24.5	29.8	28.6	23.1	35.7	59.0	59.0	59.0
Business Development	7	8.2	15.5	16.2	7.7	7.6	11.4	11.4	11.4
BSS	7	9.5	10.4	8.7	7.7	10.2	11.4	11.4	11.4
Infrastructure	8	10.9	11.6	11.2	11.6	14.0	24.7	12.0	12.0
Others	2	4.1	6.5	5.0	5.1	3.8	3.8	3.8	3.8
TD-SCDMA (3G)	17	26	33	45	12	21	22	19	18
TD-LTE (4G)						5			
Wireline (Railcom)					19	20	10	10	10
<b>China Unicom Group</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13F</b>	<b>FY14</b>	<b>FY15</b>
<b>Total</b>	<b>46.0</b>	<b>70.5</b>	<b>112.5</b>	<b>70.2</b>	<b>76.7</b>	<b>99.8</b>	<b>80</b>	<b>91</b>	<b>85</b>
Mobile netw orks (3G)	15.8	33.1	20.3	15.7	21.4	37.7	25.6	11.7	7.4
4G/FD-LTE								23.8	21.5
Broadband & data	8.1	9.2	19.1	22.5	19.8	25.5	19.2	20.0	20.0
Mobile netw orks (2G)	0.0	0.0	36.0	7.5	2.5	3.2		2.0	2.0
Transmission	14.0	18.3	24.8	17.0	15.4	25.5	19.2	18.0	18.0
Others	8.0	9.9	12.4	7.6	17.6	7.8	16	16.0	16.0
<b>China Telecom Group</b>	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13F</b>	<b>FY14F</b>	<b>FY15</b>
<b>Total CAPEX</b>	<b>43.0</b>	<b>62.0</b>	<b>92.0</b>	<b>70.0</b>	<b>71.6</b>	<b>72.5</b>	<b>75.0</b>	<b>84.4</b>	<b>68.7</b>
Wireless(CDMA)	5.0	24.0	54.0	27.0	22.0	18.8	20.0	13.2	
4G/LTE								26.2	23.7
Fixedline (listco)	38.0	38.0	38.0	43.0	49.6	53.7	55.0	45.0	45.0
Fixedline breakdown			38.0	43.0	49.6	53.7			

Source: Company disclosure, Nomura estimates

# Appendix A-1

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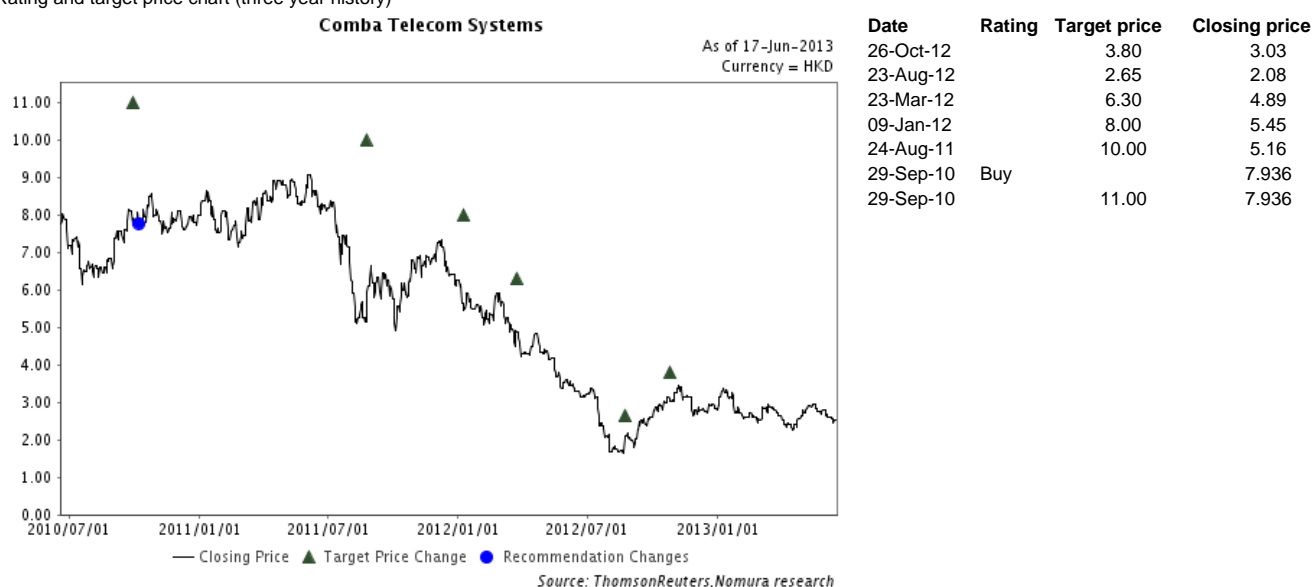
Issuer	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
Comba Telecom Systems	2342 HK	HKD 2.44	21-Jun-2013	Buy	Not rated	
China Communications Services	552 HK	HKD 4.60	21-Jun-2013	Buy	Not rated	A10
ZTE Corp	763 HK	HKD 11.64	21-Jun-2013	Buy	Not rated	A10

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### Comba Telecom Systems (2342 HK)

HKD 2.44 (21-Jun-2013) Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



For explanation of ratings refer to the stock rating keys located after chart(s)

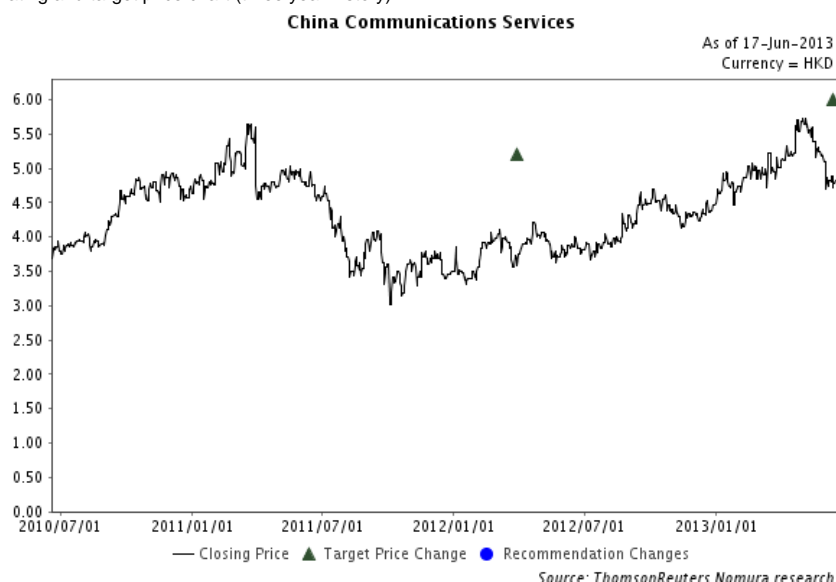
**Valuation Methodology** Our target price for Comba of HKD3.80 is based on 14x FY13F EPS of HKD0.28. Our target P/E 14x is a 20% premium to the HK/China technology average, reflecting faster earnings growth we expect driven by 4G capex.

**Risks that may impede the achievement of the target price** Downside risks include: 1) high dependency on China Mobile (57% of 1H11 sales), 2) delayed capex on 4G TD-LTE, and 3) wage inflation (while our earnings forecast assumes 15% wage inflation, we estimate 10% more inflation would cut OPM by 2pp).

**China Communications Services (552 HK)**

**HKD 4.60 (21-Jun-2013)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
13-Jun-13		6.00	4.71
29-Mar-12		5.20	3.59

For explanation of ratings refer to the stock rating keys located after chart(s)

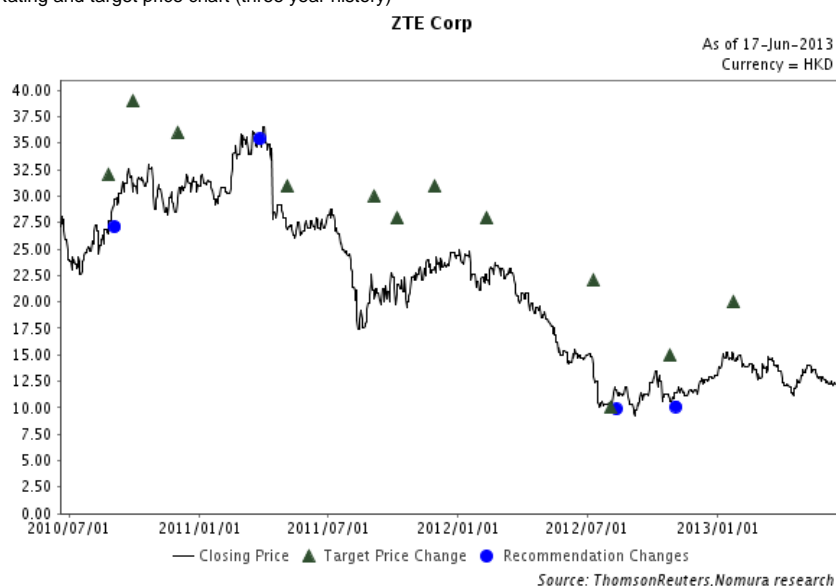
**Valuation Methodology** We derive our TP of HKD6.0 based on 12.0x FY13F EPS of CNY0.39/HKD0.50.

**Risks that may impede the achievement of the target price** Major risks to our investment view include: 1) CCS's China concentration means that if business slows in China, it could have a significant impact on the company's revenue; 2) higher material and labour costs could lower the company's profitability; 3) an increase in the number of competitors could threaten CCS's position among China telecom operators; 4) since revenue is largely dependent on a few major customers in China, losing any particular customer could subject CCS's revenue to downside risk; and 5) telecom operators may cut capex.

**ZTE Corp (763 HK)**

**HKD 11.64 (21-Jun-2013)** Buy (Sector rating: Not rated)

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
24-Jan-13		20.00	14.68
26-Oct-12	Buy		10.66
26-Oct-12		15.00	10.66
03-Aug-12	Neutral		10.42
03-Aug-12		10.00	10.42
10-Jul-12		22.00	12.90
10-Feb-12		28.00	22.05
29-Nov-11		31.00	23.30
07-Oct-11		28.00	21.70
05-Sep-11		30.00	20.30
04-May-11		31.00	26.80
18-Mar-11	Buy		35.95
02-Dec-10		36.00	29.80
29-Sep-10		39.00	31.15
26-Aug-10	Buy		27.65
26-Aug-10		32.00	27.65

For explanation of ratings refer to the stock rating keys located after chart(s)

**Valuation Methodology** We derive our TP of HKD20 by applying a target P/E of 26x (in line with cycle average) to our 2013F EPS forecast of CNY0.64.

**Risks that may impede the achievement of the target price** Downside risks include 1) any regulatory policy change that is unfavourable to Chinese vendors; 2) larger-than-expected capex reduction plans by Chinese and overseas operators; 3) mounting price competition in the 2G/3G market; and 4) a significant increase in bad-debt and failure to control operating costs.

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