CHINA MOBILE LIMITED (941.HK)

The Hong Kong Society of Financial Analysts
University Investment Research 2007-2008

BUY with Target Price HK$158.8

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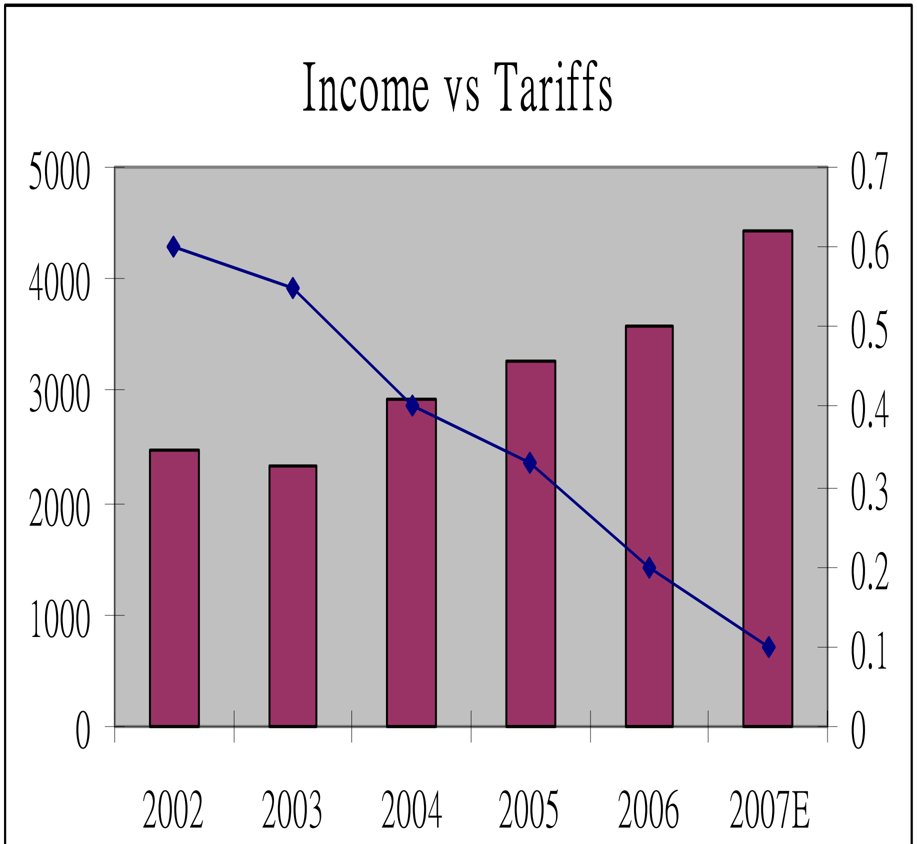
Elephant Runs Faster than Expectation

1. EBITDA Margin
   - Rural Opportunity
   - The increase of VAS usage
2. Market is overly pessimistic about the restructuring
3. 3G has minimal impact

Rural Opportunity

Rural Opportunity



- Rising affordability
- Income with an expected 14% increase in 2007.
- Tariffs RMB 0.1

Nong Xin Tong

- Current User: 25 Million
- Rural Population: 737 Million
- Accurate information
- Increase productivity
- Subscriber rate increase

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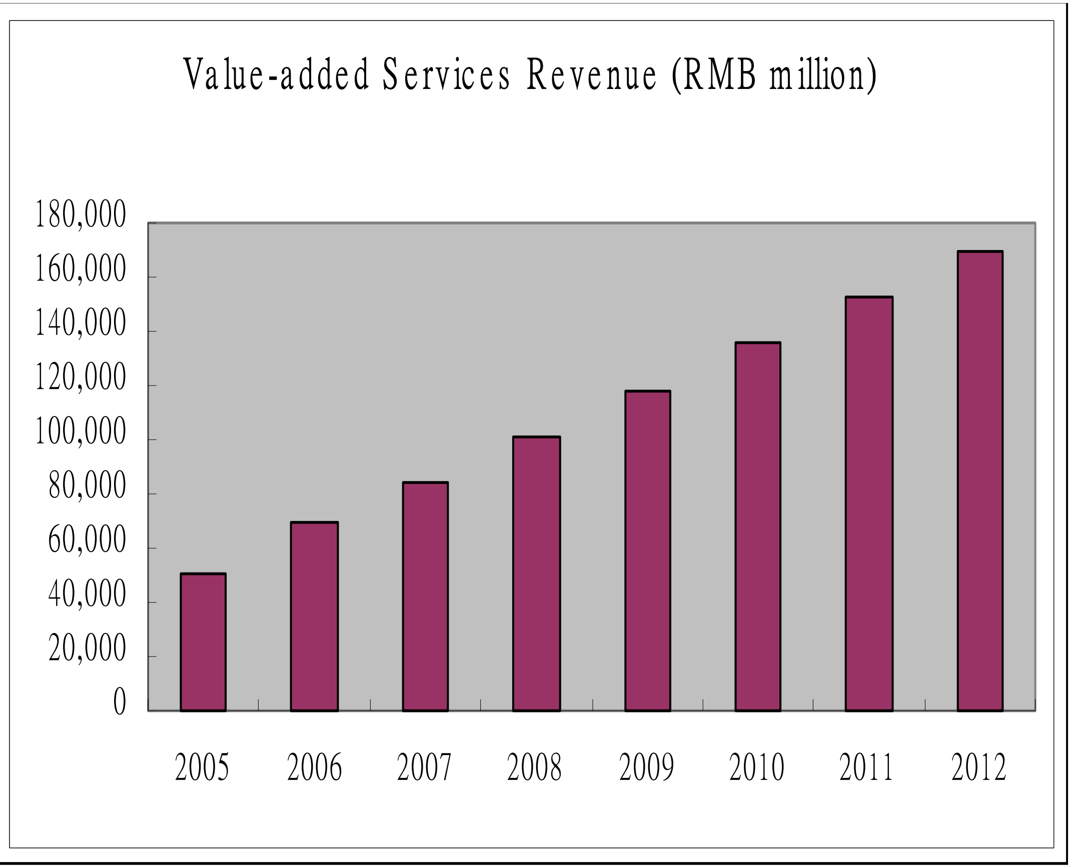
The increase of VAS usage

The increase of VAS usage



- SMS, Color Ring, WAP, MMS, Instant Message
- High profit margin of VAS

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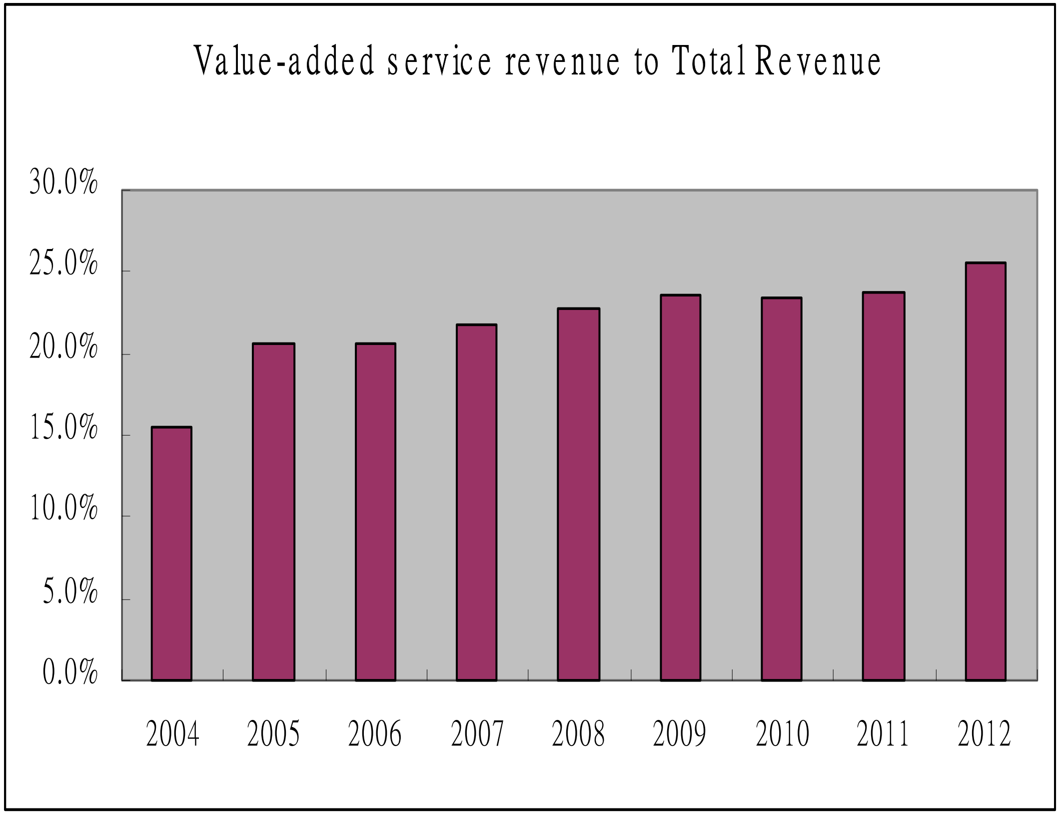
Estimated Growth of VAS



- SK : 28%
- 2012: 26%

Future Uncertainties

Restructuring

3G Licensing

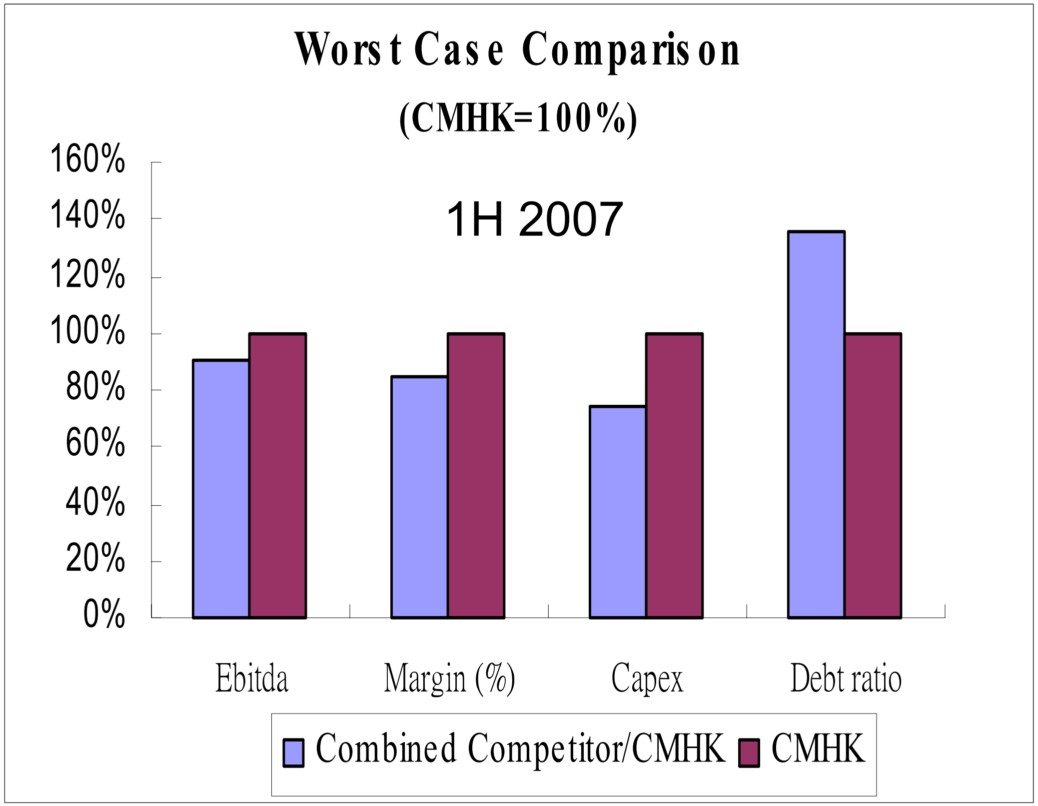
Restructuring – Worst Case Scenario

China Mobile	**China Unicom + China Netcom + China Telecom**
GSM + TD-SCDMA	Fixed line (South) + Fixed line (North) + GSM + CDMA + WCDMA

The combined company is unlikely to threaten China Mobile because:

1. Proactive approach (Capex, Rural market)
2. China Mobile’s EBITDA was larger than the sum of rivals’ EBITDA in 1H 2007
3. Competitors are in a weaker capital position

The Worst Case



- Difficult to compete with China Mobile
- China Mobile = First Mover
- Estimated Price = $131.1

3G Licensing – TD-SCDMA

- Most likely operated by CMHK because:
  - Parent Company has enough resources to improve the quality of 3G at the moment
  - 3G licenses will be granted when technology is mature

Limited Downside Risk of 3G

- China Mobile will most likely lease the 3G network from its parent company
- The 3G business will not be injected into CMHK until it is profitable

Valuation

DCF Modeling

	2006	2007	2008	2009	2010	2011
EBITDA	159,574	196,275	227,771	266,640	300,421	338,750
Tax Rate	33%	33%	25%	25%	25%	25%
Tax	-52,659	-64,771	-56,943	-66,660	-75,105	-84,688
Depreciation	64,574	69,940	78,374	87,298	96,206	108,764
Tax Shield on depreciation	21,309	23,080	19,594	21,824	24,051	27,191
(Increase)/decrease on WC	10,380	20,997	8,339	16,301	13,775	13,966
Capex	-76,969	-109,780	-108,106	-103,451	-99,040	-100,736
FCFF RMB	61,635	65,801	90,655	134,654	164,102	194,483
PV(FCFF) RMB		65,801	81,661	109,262	119,946	128,050
HKD/RMB conversion ratio		1.05	1.103	1.158	1.216	1.276
PV(FCFF) HKD		69,092	90,031	126,484	145,795	163,427
Total DCF HKD	3,262,786					
Net Debt (Net Cash)	-88,595					
Equity Value	3,174,191					
No. of shares (m)	19,993					
Fair Value HKD	158.8					

Source: Company data, HKBU Estimates

Valuation – DCF Modeling

DCF Model Assumptions

Terminal Growth Rate	3%
WACC	11.01%
FCF Growth Rate **2012-2020**	7%

Target Price:	HK$158.8
Implied FY07 PER:	35.8 x
Implied FY07 PBR:	9.0 x

Current price HK$129.8 (13 Nov 2007)

Upside 22.3%

Sensitivity Analysis

Sensitivity Analysis of Equity Value (HKD) to WACC and Terminal Growth Rate						
		WACC				
		10.0%	**10.5%**	**11.0%**	**11.5%**	**12.0%**
Terminal Growth Rate	**2.0%**	173.5	161.0	150.0	140.2	131.5
	2.5%	184.0	166.1	154.3	143.9	134.6
	3.0%	186.4	171.8	159.1	147.9	138.0
	3.5%	194.4	178.4	164.5	152.4	141.8
	4.0%	203.8	186.0	170.7	157.6	146.1

Target Price

Catalysts and Uncertainties

Catalysts

- Rural Opportunities
- Go West Policy
- Penetration is sky rocketing
- iPhone

Uncertainties

- Political /Policy risk
  - Restructuring
  - 3G

Thank you

Q&A

iPhone

- Increase Revenue
  - AT&T-40% of new subscribers are iPhone Users
  - Revenue went up US $1b last quarter
- Young and energetic brand image
- Increase usage of data service

Worst Case Scenario Valuation

Total DCF HKD	2,709,883
Net Debt	-88,595
Equity Value	2,621,289
No . Of shares(m)	19,993
Fair Value	HKD131.1

Major Assumption : Market Share-67.5%

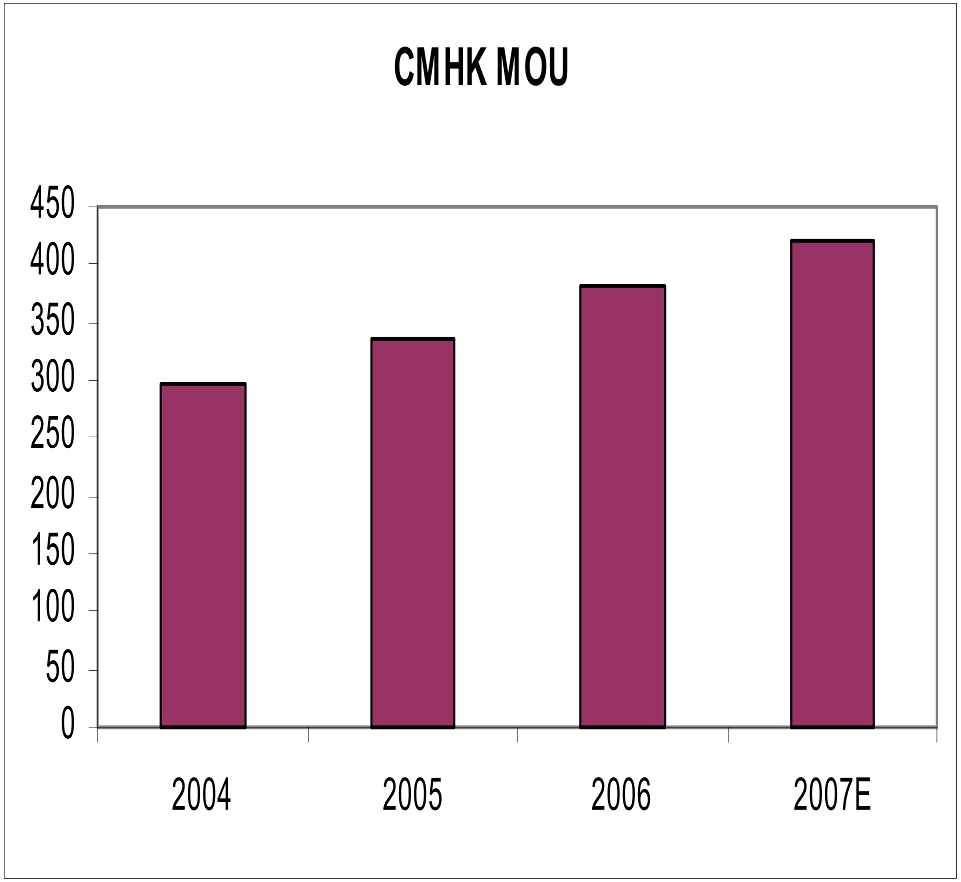
Remain Stable

3G Licensing

- Industry Norm
  - Loss at the beginning
  - Increase the industry competition
  - Quality of TD-SCDMA

The growth of voice usage

The growth of voice usage



- Fixed line is substituted by Mobile Phone.
- Increasing MOU

3G ➡ 4G

- Will be implement within 1-2 years
- May skip 3G
- Save cost
- Catch up with the global trend