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⊙ Action

We believe China's telecom service operators will find themselves in uncharted territory in FY11F: 1) Unicom needs to stay focused with initial success achieved in the 3G business; 2) China Mobile attempts to regain its technological leadership with TD-LTE and mobile wallet; 3) China Telecom hopes to emerge financially unscathed with a potential tough iPhone negotiation with dominant Apple. China Unicom looks best positioned to take advantage of the operating environment and remains our top pick. Our preference is Unicom > China Mobile > China Telecom.

✂ Catalysts

Better-than-expected financial results, growth of DPS in absolute terms, increase in market share, and higher-than-expected subscriber growth are potential catalysts.

⚓ Anchor themes

Gradual blossoming of smartphone usage, rising mobile data usage and maturing 3G network coverage will put telecom operators back on the growth track.

Stocks for action

BUY China Unicom, where benefits from WCDMA are gradually surfacing. BUY China Mobile, where we expect a re-rating. We are NEUTRAL on China Telecom due to a lack of positive catalysts.

Stock	Rating	Price (HK\$)	Price target
China Mobile (941 HK)	BUY	73.05	95.00
China Telecom (728 HK)	NEUTRAL	4.58	4.80
China Unicom (762 HK)	BUY	13.00	15.80↑

Pricing as of 28 February 2011

Venturing into uncharted territory

① China Unicom learning to compete with a winning attitude

After years of competing as an underdog, we believe it is time for China Unicom to move its 3G mobile business forward swiftly with RMB1,000-priced smartphones and popular Apple products. China Unicom may find itself in unfamiliar territory as a leader in the 3G business, but we believe management is in a better position to compete due to adequate handset models and a matured 3G technology. We raise our PT to HK\$15.80 to reflect our Bullish view.

② China Mobile pushing envelope on TD-LTE and mobile banking

We expect China Mobile to be very ambitious in terms of rolling out TD-LTE trial network (potentially commercialized services) as an alternative to resolve bottleneck issues, such as the congested 2G network and inadequate 3G handset models. To uphold investor confidence regarding management's execution ability, we believe it will have to move forward its mobile banking services in 2011F.

③ China Telecom attempting to humble a giant, Apple

Witnessing the iPhone 4's popularity, China Telecom could be very tempted to negotiate for the right to distribute the new CDMA iPhone in China. We see two major challenges facing China Telecom: 1) a willingness to deviate from its original plan of lowering marketing expense and improving the financial results of its mobile business; and 2) tolerance and compromise its independence in operating its CDMA mobile business after the iPhone launch.

④ Key analyses inside this report

In this report, we list: 1) reasons for raising our PT for China Unicom; 2) analysis of why the development of mobile banking will likely speed up in China; 3) analysis of how Telecom's leasing fee would soon be surpassed by parentco's depreciation expense; and 4) a recap of our most recent visits to Guangzhou and Shenzhen, where fierce telecom battles are mostly fought.

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Any authors named on this report are research analysts unless otherwise indicated.
 See the important disclosures and analyst certifications on pages 47 to 52.

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Executive summary

Investment summary

- **3G momentum of China Unicom ... Fast & Furious.** When we raised China Unicom's PT to HK\$13.50 from HK\$10.80 on 12 October 2010, we expected its share price to price in potential positive catalysts steadily (e.g., improving 3G monthly net adds, 3G's enhancing effect on blended ARPU). Thus far, we have seen positive catalysts emerging more frequently than expected. Following our recent visits to China Unicom's retail shops in Shenzhen, we revise our earnings estimates and raise our 12-month PT from HK\$13.50 to HK\$15.80. We reiterate our BUY rating on China Unicom due to its: 1) steady launch of WCDMA smartphones targeted at the mass market segment; 2) more comprehensive handset offering on the WCDMA platform; 3) potential to be a major beneficiary of the iPhone 4's popularity in China; 4) likely launch of the iPad and corresponding benefits on 3G net adds and data revenue; and 5) relatively high (> 40%) earnings growth we expect for FY11. *[Refer to the company section of China Unicom inside this report]*
- **China Mobile looks set to benefit from mobile phone payment (or mobile wallet service), which we expect to pick up steam in FY11.** After China Mobile completed its acquisition of a 20% stake in Shanghai Pudong Development Bank (SPDB) in 2010, we believe sceptics are questioning whether there are any potential synergies or business opportunities from mobile banking in China. With: 1) NFC-chips embedded mobile handsets to be launched; 2) overseas mobile operators making a steady push; 3) emergence of domestic food chain supporting mobile phone payment; and 4) mainland mobile operators looking for revenue opportunities and lower churn, based on our analysis, we believe China Mobile looks best positioned for any upside potential from mobile phone payment (due to its immense subscriber base). *[See the section "Mobile Banking" inside this report]*
- **Handset subsidy on the rise, the question is whether it will get out of control. In our view, China Mobile will stay disciplined.** We believe China Mobile has been relatively successful in the past few years in: 1) fostering consumer behaviour of not being reliant upon heavy handset subsidies; and 2) exercising strict discipline of not engaging in irrational handset subsidy competition. With all three mainland mobile operators wanting to grow their respective 3G subscriber base, we would expect a mild upward trend of handset subsidies across the industry. However, China Telecom recently reiterated its commitment to lower the ratio of handset subsidy as a percentage of sales from 40% in FY10 to 30% in FY11. Currently, we forecast another 5% y-y increase in handset subsidies by China Mobile in FY11F. We believe the picture of handset subsidy competition in FY11 should be clearer by March when the telecom operators are scheduled to announce their FY10 results. *[Refer to the company section of China Mobile inside this report]*
- **To ensure a leading position in terms of network coverage, we expect China Mobile to increase BTS for both 2G and 3G networks.** In order for China Mobile to retain loyalty of its mobile subscribers (particularly the high-ARPU subscribers), we believe the company has no choice but to continue to pursue excellence in network coverage. With an increased number of mobile subscribers using smartphones on the company's EDGE network (2.75G), we believe such a trend may compromise the voice quality of China Mobile's network. For the company to avoid a notable decline in network quality, we expect China Mobile to increase the number of base transceiver stations (BTS) deployed. In view of this, we believe China Mobile may revise up its original capex guidance for FY11 (RMB98bn) in March when the company announces its FY10 results. *[Refer to the company section of China Mobile inside this report]*

- **Until 3G monthly net adds > 2G monthly net adds at China Telecom, upward trend of blended ARPU will not show up.** China Telecom's monthly net adds are higher than those of China Unicom. For China Telecom, its 3G monthly net adds are smaller than its 2G monthly net adds. As 2G subscribers tend to have lower ARPU than 3G subscribers, China Telecom's blended ARPU will continue to be dragged down by 2G monthly net adds and 2G ARPU, in our view. To reverse this would require China Telecom to deepen its efforts in gaining 3G net adds at a faster pace than in 2G net adds. In the event the company decides to use higher handset subsidies or lower 3G service fees in luring customers to sign up for 3G services, we believe it could have negative implications on the company's P&L. *[Refer to the company section of China Telecom inside this report]*
- **Market may have underestimated the charismatic power of Apple as a brand in China and its lateral benefits on China Unicom's 3G business.** To gauge the popularity of Apple in China, one can look at the number of consumers crowded in its Apple Retail Shop in Shanghai. We observe that most people in Shanghai tend to stay at home on Sunday evenings, but during our recent visit to Shanghai, we saw well over 1,000 people in the Apple Retail Shop trying out various Apple products (particularly the iPhone 4 and the iPad). Based on our discussions with consumers, many mobile subscribers are currently not aware that the true performance of the iPhone 4 or the 3G-version iPad can only be experienced on China Unicom's WCDMA (3G) network. We expect China Unicom to spend resources (advertising, consumer education) to reinforce this to consumers. When more mainland consumers understand this key aspect behind the two products, we expect more mobile subscribers to join China Unicom's 3G network. *[Refer to the company section of China Unicom inside this report]*
- **China Unicom remains our top pick.** We continue to prefer China Unicom over the other two mainland operators, because of China Unicom's: 1) steady launch of WCDMA smartphones targeted at the mass market segment; 2) more comprehensive handset offering on the WCDMA platform; 3) potential to be a major beneficiary of the iPhone 4's popularity in China; 4) likely launch of the iPad and corresponding benefits on 3G net adds and data revenue; and 5) relatively high (> 40%) earnings growth we expect for FY11. **Our order of preference remains China Unicom (BUY) > China Mobile (BUY) > China Telecom (NEUTRAL).**

Exhibit 1. Regional valuation comparison

	Bloomberg code	Rating	Curr.	Local price	Mkt cap (US\$mn)	P/E (x)			EV/EBITDA (x)			Div yield (%)			FCF yield (%)		
						10F	11F	12F	10F	11F	12F	10F	11F	12F	10F	11F	12F
Wireless																	
AIS	ADVANC TB	BUY	THB	79.50	7,694	10.7	11.0	10.9	4.8	4.8	4.8	16.3	11.9	9.0	16.1	12.1	12.0
Axiata Group	AXIATA MK	BUY	MYR	4.88	13,526	15.8	13.5	12.4	6.5	5.9	5.5	0.0	3.3	4.8	12.1	8.5	10.3
Bharti Airtel	BHARTI IN	BUY	INR	331	27,766	19.1	16.9	12.8	9.4	7.7	6.4	0.5	0.9	2.0	(42.9)	1.6	8.0
China Mobile	941 HK	BUY	HK\$	73.05	188,178	10.9	10.2	9.6	4.1	3.7	3.2	3.9	4.4	4.8	8.0	11.7	15.4
Digi.com	DIGI MK	BUY	RM	26.60	6,788	17.6	16.4	16.2	8.6	8.0	7.7	6.1	6.1	6.2	7.7	7.0	7.1
Far EasTone	4904 TT	NEUTRAL	NT\$	42.50	4,652	15.7	15.9	15.6	6.0	6.1	6.0	5.7	5.7	5.8	6.8	8.7	8.8
Globe Telecom	GLO PM	REDUCE	PHP	710	2,157	11.2	11.0	11.0	4.5	4.2	4.2	8.9	8.1	7.6	8.1	7.7	6.4
Idea Cellular	IDEA IN	REDUCE	INR	57.55	4,194	24.8	18.9	13.5	8.3	7.0	6.1	0.0	0.0	0.0	(28.3)	1.1	4.1
Maxis	MAXIS MK	NEUTRAL	RM	5.43	13,366	17.7	17.2	16.9	9.8	9.5	9.3	5.9	5.9	5.9	3.7	5.3	5.8
MobileOne	M1 SP	BUY	S\$	2.38	1,681	13.6	13.4	12.7	7.7	7.4	7.1	5.9	6.0	6.3	3.2	8.7	8.9
PT XL Axiata	EXCL IJ	BUY	IDR	5,700	5,499	16.1	12.2	10.1	6.3	5.2	5.3	0.0	1.9	2.9	7.7	9.2	12.0
Reliance Comm	RCOM IN	REDUCE	INR	86	3,910	10.3	9.9	7.4	6.2	5.4	4.6	1.2	2.7	7.0	(52.9)	3.9	16.7
SK Telecom	017670 KS	BUY	KRW	163,000	11,695	9.4	7.7	6.6	4.3	3.9	3.6	5.8	5.8	5.8	16.4	24.0	24.3
Taiwan Mobile	3045 TT	BUY	NT\$	66.50	8,491	14.1	13.8	13.6	8.8	8.9	8.8	6.4	6.5	6.6	7.6	6.7	6.7
Total Access	DTAC TB	BUY	THB	41.00	3,168	9.7	10.7	12.5	4.2	4.4	4.7	7.6	9.3	10.5	14.1	13.3	12.3
Average						14.5	13.3	12.1	6.6	6.1	5.8	4.9	5.2	5.7	(0.8)	8.6	10.6
Median						14.1	13.4	12.5	6.3	5.9	5.5	5.8	5.8	5.9	7.7	8.5	8.9
Integrated																	
China Telecom	728 HK	NEUTRAL	HK\$	4.58	47,586	21.4	18.7	15.0	5.0	4.7	4.1	1.9	1.9	1.9	8.2	8.0	13.5
China Unicom	762 HK	BUY	HK\$	13.00	39,666	47.9	30.2	21.7	5.5	4.9	4.4	1.4	1.0	1.4	(3.5)	(3.6)	1.4
Chunghwa	2412 TT	BUY	NT\$	88.10	31,569	18.6	18.8	18.8	9.7	9.8	9.9	8.2	5.9	5.9	6.1	5.6	5.6
KT Corp	030200 KS	BUY	KRW	39,100	9,072	8.1	7.4	6.4	3.8	3.8	3.7	5.1	5.1	5.1	5.4	8.0	9.1
LG Uplus	032640 KS	NEUTRAL	KRW	5,670	2,594	8.2	8.1	7.0	3.6	3.2	2.9	5.2	5.2	5.2	7.9	(3.8)	2.9
PLDT	TEL PM	NEUTRAL	PHP	2,160	9,270	9.7	10.0	10.0	5.5	5.4	5.2	7.2	7.0	7.0	9.5	9.8	10.1
PT Indosat	ISAT IJ	BUY	IDR	5,050	3,112	17.9	13.9	11.5	5.2	4.7	4.3	1.6	2.6	4.8	(9.1)	0.7	9.6
PT Telkom	TLKM IJ	NEUTRAL	IDR	7,450	16,684	14.0	12.2	11.8	4.1	3.9	3.9	3.6	4.9	5.5	9.9	11.8	13.0
SingTel	ST SP	NEUTRAL	S\$	2.97	37,293	12.7	12.5	12.0	7.3	7.0	6.6	5.1	5.7	5.7	6.0	6.1	6.5
SK Broadband	033630 KS	REDUCE	KRW	4,730	1,244	na	33.7	na	5.9	4.7	na	0.0	0.0	na	(3.6)	3.1	na
StarHub	STH SP	REDUCE	S\$	2.62	3,532	17.1	15.8	15.1	8.4	7.7	7.4	7.6	7.6	7.6	8.2	7.8	6.4
TM	T MK	NEUTRAL	MYR	3.94	4,581	36.3	22.7	21.0	5.8	5.6	6.0	5.1	5.0	5.0	1.4	6.6	6.9
Telstra	TLS AU	NEUTRAL	A\$	2.79	35,301	9.0	9.8	10.8	4.5	4.7	4.9	10.1	9.3	8.1	13.5	11.8	10.9
True Corp	TRUE TB	REDUCE	THB	6.25	1,443	na	na	na	6.2	6.0	6.1	0.0	0.0	0.0	1.7	3.6	7.1
Average						18.4	16.4	13.4	5.8	5.4	5.3	4.4	4.4	4.9	4.4	5.4	7.9
Median						15.5	13.9	11.9	5.5	4.8	4.9	5.1	5.1	5.2	6.0	6.3	7.1

Note: AIS, Total Access, True Corporate are covered by Capital Nomura Securities and estimates are from Capital Nomura Securities. All other stocks are covered by Nomura, and estimates are Nomura estimates. Pricing as of 28 February 2011.

Source: Bloomberg, Capital Nomura Securities estimates, Nomura estimates

Mobile banking – half glass empty vs. half glass full

Mobile banking: unexplored opportunities

Since China Mobile's announcement of its 20% equity investment in Shanghai Pudong Development Bank (SPDB) in March 2010, we believe the market has had a sceptical take on potential synergies or business opportunities from mobile banking in China. We are of the view that business opportunities from mobile banking are growing and gaining importance in China.

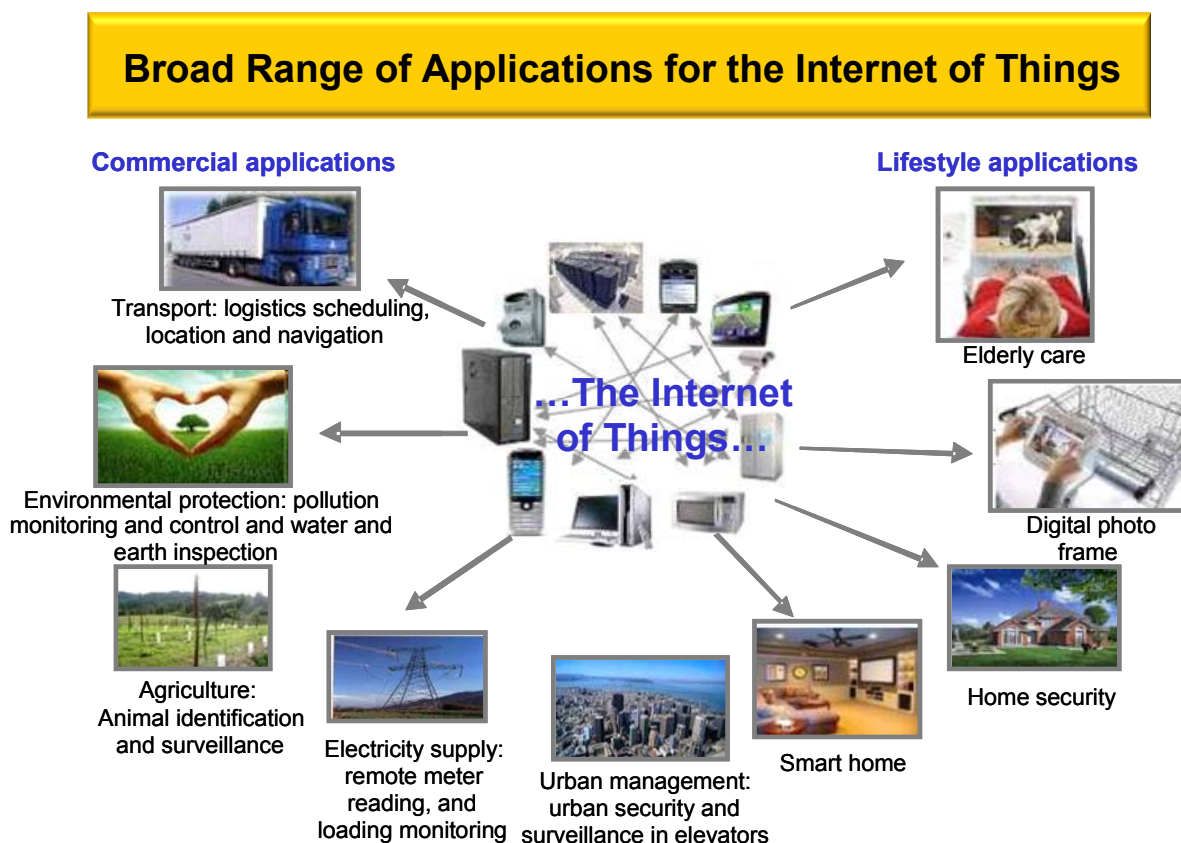
In our view, the major reason for the relatively slow pace of progress in mobile banking in China is the prolonged debate between mainland mobile operators and China banks that own the customer base of mobile banking. As the development of mobile banking in some developing countries is faster than that in China, we expect the mainland authorities to encourage both parties (telecom operators, banks) to take a major stride towards the actual implementation of mobile banking in China in the near future.

From the latest moves made by handset manufacturers (e.g., embedding NFC chipsets into handsets) as well as mainland mobile operators (e.g., setting up business unit targeting mobile phone payment), we expect mobile banking to develop at a much faster pace in China this year.

Market has a sceptical take on business opportunities from mobile banking in China

Development of mobile banking in some developing countries is faster than that in China, which should prompt the Chinese government to study mobile banking carefully

Exhibit 2. China Mobile's vision for the Internet of Things (i.e., mobile banking is part of IoT)



Source: Company data

Forms of mobile banking that are feasible in China

There are numerous forms of mobile banking services. We believe the major mobile banking services that have business potential in China include:

- **Mobile phone payment (or mobile wallet service)** – this includes services such as smart card (either embedded or removable inside mobile handset) payment service with debit/credit card features.
- **Money remittance** – this includes wire transfer of money from one bank account to another bank account via a mobile platform.
- **Mobile e-commerce** – this includes settlement services for e-commerce businesses via a mobile platform.

Mobile phone payment, money remittance, mobile e-commerce are mobile banking services that we think have potential in China

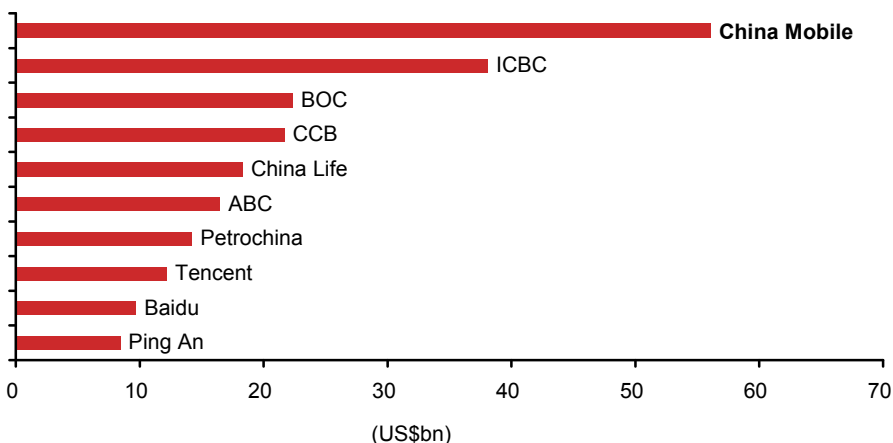
Why developments of mobile banking will speed up in China

- **After investment made in SPDB, a new tick box appears on the scorecard for China Mobile.** Following China Mobile's ~RMB40bn equity investment in SPDB in 2010, we believe the management team of China Mobile has to push forward the development of mobile banking and generate strong key performance indicators to justify the investment decision. Otherwise, we believe the market will continue to question the move and undermine the corporate governance of the company.
- **Looking for revenue growth, mobile operators will expand into every aspect of consumers' lives; mobile banking is part of the whole scheme.** As mobile penetration continues to grow, mainland mobile operators are looking for every possible way to grow revenue. At the Mobile Asia Congress (MAC) 2010 held in Hong Kong, China Mobile's newly appointed CEO (Mr Li Yue) said "... *China Mobile will drive itself to become an even bigger part of the lives of its mobile subscriber base ...*" Given that China Mobile has one of the strongest brands in mainland China (as measured by various advertising agencies), we believe it is a natural move for China Mobile to leverage its brand from pure mobile services to banking-related services.

China Mobile needs to achieve progress in mobile banking, otherwise difficult to justify its investment in SPDB

We see mobile banking fit into China Mobile's scheme of expanding into every aspect of consumers' lives

Exhibit 3. Top 10 most valuable Chinese brands (brand value)



Source: Millward Brown

- **Not just China Mobile, the other two mobile operators have made moves to form strategic alliances with banks.** In May 2010, China Telecom signed a strategic alliance agreement with China UnionPay to develop mobile banking services for its CDMA mobile platform. Similarly, in Apr 2010 and Nov 2010, China Unicom signed a strategic alliance agreement with Bank of Communications and Industrial Bank to develop mobile banking services. We believe all these corporate actions did not happen by coincidence. In our opinion, they have happened because the mobile operators see market conditions gradually maturing for mobile banking to move forward in China.
- **Food chain of mobile banking services is become more comprehensive.** We believe the Chinese government is promoting the notion of self-innovation technology in many areas. China has relied on foreign supplies in many sectors (eg, aviation, railways, telecom equipment) in the past. Increasingly, we note that the government is steering towards self-sufficiency (ie, developing commercial jetliners, exporting telecom equipment to developed and developing countries). In recent years, we note that more mainland companies (involved in food chain of mobile banking services) have established. Therefore, we believe the government will also be supportive of mobile banking developments to benefit the local companies.
- **Mobile wallet service is happening in Europe and picking up momentum quickly.** As reported by The Wall Street Journal (7 February 2011), "... the UK joint venture between France Telecom's Orange and Deutsche Telecom's T-Mobile, has pledged to launch a commercial mobile wallet service in conjunction with Barclaycard by the second quarter of 2011. Across Europe, Orange has pledged to roll out NFC services to most of its European operations by the second half of 2011 ...". At the Mobile World Congress 2011 held in Barcelona, the mobile wallet service (using NFC technology) was among one of the hot topics discussed by telecom operators attending the conference. As China wants to narrow its gap versus overseas mobile operators, we believe the mainland mobile operators will follow the overseas mobile operators in launching the mobile wallet service.
- **Many mobile handsets (with NFC technology embedded) will be launched soon.** Many new handsets launched or to be launched this year have NFC chips embedded inside. It is quite likely that the mobile wallet service will become a standard feature embedded inside every mobile handset in the next one to two years, similar to the camera feature embedded inside a mobile handset. Handset makers that have indicated support for NFC technology include Samsung, Nokia and HTC. In addition, news flow indicated Apple's iPhone 5 may include NFC technology as well.

All three mainland mobile operators are making some moves into mobile banking

More mainland companies involved in the food chain of mobile banking services established recently

Exhibit 4. Google Nexus S (with NFC chip)



Source: Company data

Exhibit 5. Nokia C7 (with NFC chip)



Source: Company data

Exhibit 6. Samsung Galaxy S II (with NFC chip)



Source: Company data

Exhibit 7. Samsung Wave (with NFC chip)



Source: Company data

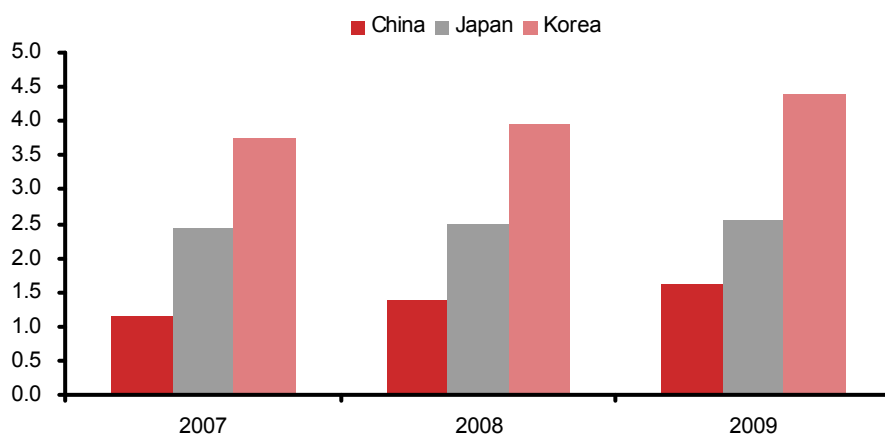
Reasons why mobile banking has good potential in China

As China's social and economic profiles are quite different from many developed countries, we remain optimistic that mobile banking has good potential on the mainland.

- Credit card penetration in China is much lower than that in developed countries.** Unlike many developed countries, China has a relatively low credit card penetration rate. Regardless of transaction volume, many daily transactions are still settled using paper currency. If Chinese consumers perceive the ease and convenience of mobile banking, we believe they will gradually adopt the service on a massive scale. When that happens, the promising market potential of mobile banking can be unleashed, in our view.

China's profiles should make mobile banking a popular service

Exhibit 8. Bank cards per individual



Source: Nomura research

- Mobile penetration in China continues to grow.** In China, mobile penetration is currently 63% and continues to spread from urban areas to rural areas, according to the Ministry of Industry and Information Technology. When moderate mobile penetration is combined with a relatively low credit card penetration rate in China, we believe a favourable business environment exists for mobile banking in China. We believe mainland mobile subscribers will view the mobile banking service as a natural extension of the traditional mobile service.

Mobile penetration far exceeds credit card penetration in China

Exhibit 9. Mobile subscribers and penetration within China

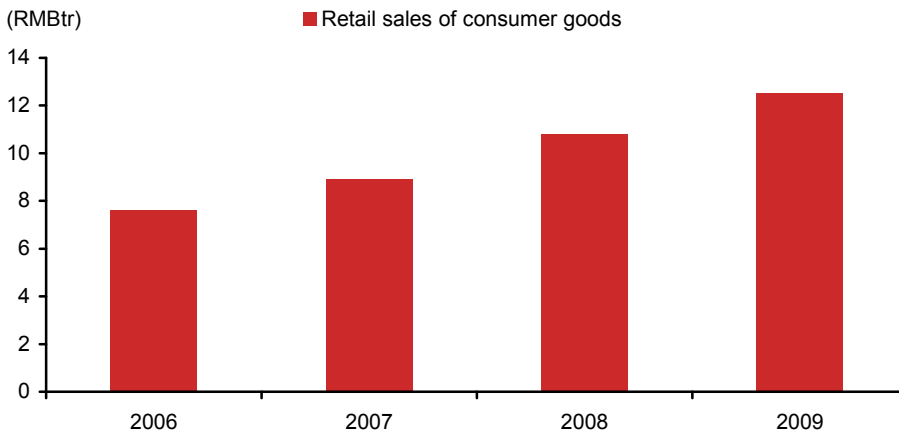
Province	Mobile subs (mn)			Penetration (%)			Province	Mobile subs (mn)			Penetration (%)		
	2008	2009	2010	2008	2009	2010		2008	2009	2010	2008	2009	2010
EASTERN							Jiangxi	12.8	15.5	18.1	29.2	35.2	40.9
Beijing	16.2	18.3	21.3	99.0	107.7	121.4	Jilin	13.6	15.7	18.1	49.9	57.6	65.9
Fujian	23.7	26.4	30.2	66.1	73.2	83.3	Shanxi	17.0	19.5	22.1	50.1	57.3	64.3
Guangdong	84.0	89.4	96.2	88.9	93.6	99.9	WESTERN						
Hainan	4.0	5.0	5.9	46.9	58.1	68.8	Chongqing	12.8	14.4	16.6	45.5	50.8	58.2
Hebei	32.1	37.9	43.5	46.3	54.2	61.9	Gansu	9.0	11.9	13.9	34.2	45.5	52.8
Jiangsu	39.6	49.4	59.2	51.9	64.4	76.7	Guangxi	16.2	19.6	22.1	34.1	40.7	45.6
Liaoning	24.2	28.8	33.4	56.3	66.8	77.4	Guizhou	11.8	14.5	18.0	17.4	38.3	47.4
Shandong	46.3	53.4	61.9	49.4	56.7	65.4	Inner Mongolia	13.4	16.2	20.3	55.9	66.9	84.0
Shanghai	18.8	21.1	23.6	101.2	111.9	122.9	Ningxia	3.2	3.8	4.4	53.0	61.9	70.0
Tianjin	8.7	9.9	10.9	77.6	84.4	88.7	Qinghai	2.5	3.0	4.0	44.8	54.3	71.4
Zhejiang	39.8	44.6	50.5	78.6	87.1	97.4	Shaanxi	19.1	23.4	25.2	51.0	62.1	66.8
CENTRAL							Sichuan	28.5	34.7	41.6	35.1	42.6	50.8
Anhui	17.2	21.5	28.0	28.0	35.1	45.6	Xinjiang	10.5	11.1	13.6	50.2	52.2	63.0
Heilongjiang	16.5	18.7	20.7	43.1	48.9	54.2	Xizang	0.9	1.2	1.6	30.6	43.2	54.4
Henan	35.0	39.9	44.0	37.4	42.3	46.4	Yunnan	16.4	19.4	22.4	36.2	42.6	49.1
Hubei	25.3	31.4	34.5	44.4	54.9	60.4	NATIONWIDE						
Hunan	22.4	27.5	32.6	35.3	43.2	50.8	641.2	747.2	858.6	48.5	56.3	64.4	

Source: The Ministry of Industry and Information Technology (MIIT)

- **State-owned enterprises (SOEs) want to learn best practice from overseas experience, then implement locally.** The Chinese government has emphasized many times that the country has to shift from a labour-intensive economy to a knowledge-driven economy. We believe the development of mobile banking and the reallocation of human resources should fit nicely into the government's directive for a knowledge-driven economy.
- **In some rural areas, mobile operators have relatively stronger presence than commercial banks.** According to China Mobile, the company has succeeded in building a comprehensive distribution network to the extent **there is a China Mobile sales representative in every single village within China.** Meanwhile, we understand commercial banks have not yet expanded their branching network to cover every single village within China. Therefore, we see the mainland mobile operators have a slight advantage over the mainland banks in terms of customer reach (on a geographical basis).
- **Volume of small denomination transactions is huge in China.** With the mass population in China (1.3bn, according to CEIC), the daily volume of small denomination transactions (eg, public transports, convenience stores, fast food restaurants, etc) is huge in China. Even if we assume only 5% of transactions are done on the mobile banking platform, new business opportunities for mobile banking participants are still huge, in our view.

Market size could be huge even if a small proportion of retail sales are transferred to the mobile payment platform

Exhibit 10. Retail sales of consumer goods in China



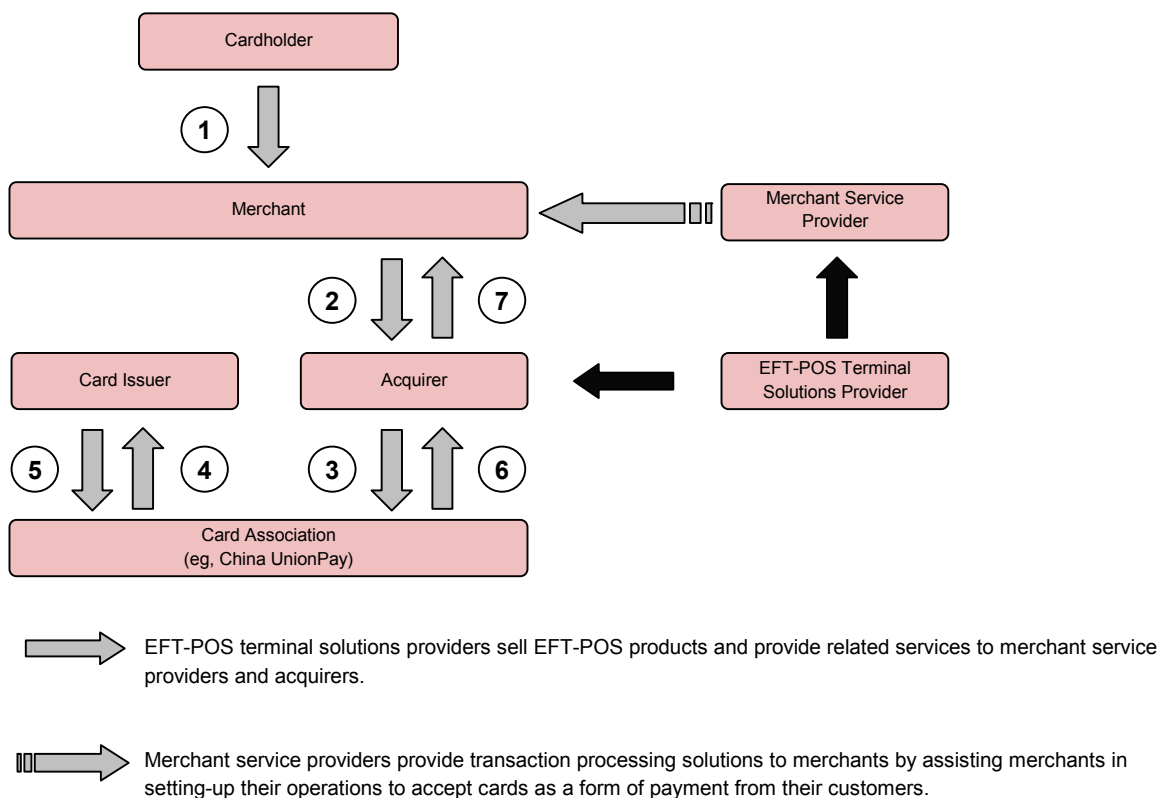
Source: Analysys International

Relevant parties for mobile banking in China

Among the three major mobile banking services: 1) mobile phone payment; 2) money remittance; and 3) mobile e-commerce, we believe China Mobile has been most active in terms of expanding the reach of its mobile phone payment service. Before its equity investment into SPDB, China Mobile could not provide money remittance services due to lack of a banking licence. That is most likely why the company has not made any moves into money remittance services yet. As a case study, we look at who are the relevant parties and the potential for business opportunities in mobile phone payment.

So far, among the three mainland mobile operators, China Mobile has been the most active in promoting the mobile phone payment services

Exhibit 11. Diagram illustrating parties involved in a sample mobile banking transaction



Source: Analysys International

Standard procedures in a mobile banking transaction (illustrated above) are:

- 1) Cardholder pays with a card at a merchant through an EFT-POS terminal.
- 2) The EFT-POS terminal sends transaction data to the acquirer.
- 3&4) The acquirer sends an authorization request and verifies with the card issuer that the card number and transaction amount are both valid through the network of the card association.
- 5&6) The card issuer verifies that the cardholder's credit is sufficient and grants authorization.
- 7) The acquirer receives the response and relays it to the merchants.

- **With regards to mobile banking services, telecom operators and banks need each other for the whole notion to work.** Within the value chain of mobile banking, we believe the mobile network of telecom operators is a valuable asset because it provides the platform for the relevant transaction to take place. At the same time, the customer base of a bank is the other key component of this whole value chain. Without either one of the two parties, we believe the business opportunities from mobile banking cannot be released.

For mobile banking services to work smoothly, telecom operators and banks need each other mutually

Exhibit 12. Telecom operators' partners in mobile payment banking

Telecom operator	Mobile payment banking partner	Bloomberg		
		code	Branches	Sub-branches
China Mobile	SPD Bank	600000 CH	33	518
China Telecom	ABC	1288 HK	na	na
	BOC	3988 HK	322	9,650
	BOCOM	3328 HK	106	2,651
	CCB	939 HK	333	13,036
	China Citic Bank	998 HK	53	511
	China Everbright Bank	na	na	na
	Guangdong Development Bank	na	na	na
	Huaxia Bank	600015 CH	32	330
	ICBC	1398 HK	423	15,752
	Industrial Bank	601166 CH	41	472
China Unicom	BOC	3988 HK	322	9,650
	BOCOM	3328 HK	106	2,651
	CCB	939 HK	333	13,036
	ICBC	1398 HK	423	15,752

Source: Company data

- **Electronic fund transfer point-of-sale (EFT-POS) terminal solutions providers are the other beneficiary.** In order for merchants (eg, public transports, restaurants) to accept mobile phone payment, the merchants need help from EFT-POS terminals to be installed onsite.

Exhibit 13. Mobile electronic fund transfer point-of-sale terminals



Source: Company data

Progress of mobile operators on mobile banking

We summarize the major cooperation agreements signed between mainland mobile operators and mainland banks on developing mobile banking.

- China Mobile making steady progress after formal approval of investment in SPDB is granted.** According to the strategic cooperation agreement entered on 25 Nov 2010, "... China Mobile and SPDB shall cooperate in the areas of mobile finance and mobile e-Commerce businesses such as mobile phone payment which includes on-site payment and remote payment, as well as cooperating in the sharing of customers services and channels resources."

Exhibit 14. Map of Shenzhen merchants accepting mobile wallet service



Source: Nomura research

- **China Telecom taking a cautious approach initially towards mobile banking, unlikely to make a big splash before promising market potential is confirmed.** China Telecom did not make equity investment into any commercial banks. On 24 Jun 2010 when China Telecom's chairman visited China UnionPay, he indicated that "... China Telecom would carry out comprehensive and widespread cooperation with China UnionPay in terms of mobile phone payment, mobile Internet and information service in the principle of win-win cooperation."
- **Latecomer status does not put China Unicom in a disadvantaged position, in our view, with WCDMA network as a valuable asset.** China Unicom did not make equity investment into any commercial banks. However, the mobile operator has signed numerous strategic alliance agreements with banks including Bank of Communications and Industrial Bank. For example, in the strategic alliance agreement signed with Industrial Bank, both parties will cooperate to introduce mobile phone payment and mobile e-commerce services. We expect China Unicom to launch mobile banking services in selective provinces before rolling them out on a nationwide launch.

Stock implications

- **With equity investment in SPDB, China Mobile should have a major say in driving mobile banking forward.** In terms of sub-branches and outlets, SPDB does not rank among the Big Four (ie ICBC, CCB, BOC, BCOM). However, with a 20% equity investment in SPDB, we expect SPDB to work very closely with China Mobile on business initiatives (mobile phone payment, mobile e-commerce). If this strategic cooperation with SPDB over mobile phone payment proves successful, we expect the Big Four to approach China Mobile over possible cooperation opportunities.

Given China Mobile owns a 20% stake in SPDB, we expect the company to have a major say in the development of mobile banking

China Mobile has the largest mobile subscriber base on the mainland and began its mobile banking services well ahead of China Telecom and China Unicom. As such, we believe the operator will likely be the major beneficiary compared to the other two operators if mobile banking takes off in China.

Exhibit 15. Branch and sub-branch numbers by banks

	Branches						Sub-branches and outlets					
	2005	2006	2007	1H08	2008	1H09	2005	2006	2007	1H08	2008	1H09
ICBC	417	418	420	419	421	423	18,227	16,480	16,007	15,935	15,776	15,752
CCB	na	na	329	329	332	333	na	na	13,100	13,057	13,040	13,036
BOC	na	320	320	320	321	322	na	10,277	9,824	9,703	9,659	9,650
BCOM	na	na	100	102	105	106	na	na	2,610	2,627	2,636	2,651
CMB	36	36	40	41	44	47	456	464	534	553	623	648
Citic Bank	40	41	45	46	50	53	375	405	439	458	493	511
Minsheng	21	24	24	24	26	29	219	237	303	322	348	376
SPDB	26	28	30	30	32	33	350	370	408	433	491	518
Industrial Bank	na	32	39	40	40	41	na	351	390	408	441	472
Huaxia Bank	27	28	31	31	31	32	266	279	287	301	313	330
SZDB	18	18	18	18	18	19	237	243	253	260	281	289

Source: Company data, Nomura research

- **Electronic fund transfer point-of-sale (EFT-POS) terminal solutions providers are the other beneficiary.** From Exhibit 11, we note an EFT-POS terminal needs to be installed at the merchant (eg, Starbucks, Kentucky Fried Chicken, McDonald's) or public transport. Companies that provide EFT-POS terminal should benefit as mobile operators seek to expand their mobile phone payment network.

EFT-POS terminal solutions providers will also benefit from expansion of mobile banking services

Exhibit 16. List of major EFT-POS terminal solutions providers in China

Major brands of EFT-POS terminals	Holding company	Listed stock exchange
PAX Technology	PAX Technology	HK Stock Exchange
Fujian Landi Commercial Equipment	Ingenico S.A.	Paris Stock Exchange
VeriFone Electronics (Beijing)	VeriFone Systems	NY Stock Exchange
Xinguodu	Shenzhen Xinguodu Technology	Shenzhen Stock Exchange
Newland	Fujian Newland Computer	Shenzhen Stock Exchange

Source: Nomura research

- **Economics of mobile phone payment.** We note that it is usual for mobile operators to offer free services during a trial period to encourage usage (ie, switching payment from using banknotes and coins to mobile phone payment). Once they generate consumer interest and stickiness to the services, then the mobile operators will be in a more suited position to charge for the services.

In the following exhibit, we analyze potential revenue opportunities for mobile operators from the implementation of mobile phone payment, assuming different levels of transaction volume conducted on the mobile platform. If the mobile operator charges a minimum of 0.5% service fee (international standard ranges from 0.5% to 3%) with transaction volume totalling RMB2tn, incremental revenue for mobile operators could be RMB10bn. If the transaction volume doubles to RMB4tn, incremental revenue for mobile operators could be RMB20bn. The final level of service fee will be determined by negotiations between telecom operators and Unionpay Merchant Services.

Exhibit 17. Sensitivity analysis of potential mobile phone payment revenue opportunities for mobile operators

Service fee (%)	Transactions volume conducted on mobile platform (RMB trillion)								
	1	2	3	4	5	6	7	8	9
0.5	5	10	15	20	25	30	35	40	45
1.0	10	20	30	40	50	60	70	80	90
1.5	15	30	45	60	75	90	105	120	135
2.0	20	40	60	80	100	120	140	160	180
2.5	25	50	75	100	125	150	175	200	225
3.0	30	60	90	120	150	180	210	240	270

Source: Nomura research

Grey-shaded areas represent incremental service revenue (RMBbn) to be collected by mobile operators

⊙ Action

China Mobile recently renewed its TD-SCDMA network leasing agreement. Terms remain favourable, in our view. With the company spearheading efforts in promoting its proprietary technology, we expect the government to provide a benign regulatory environment for China Mobile in return. We see the competition between other brands and Apple likely to benefit China Mobile indirectly with more non-exclusive handsets emerging. We think the Street's overly conservative estimates on China Mobile create an opportunity for the stock to surprise on the upside. BUY.

⚡ Catalysts

Potential catalysts: 1) higher monthly net adds, 2) a sharper MOU recovery, 3) a stable EBITDA margin; and 4) higher take-up rate of 3G services.

⚓ Anchor themes

Gradual blossoming of smartphone usage, rising mobile data usage and maturing 3G network coverage will put telecom operators back on the growth track.

Call of Duty

① TD-SCDMA network leasing agreement renewed

We see China Mobile's renewal of the TD-SCDMA network capacity as a continued promotion of proprietary technologies. The leasing fee agreement is structured relatively favourably for China Mobile, in our view, and we think China Mobile's major role in promulgating TD-LTE (home-grown 4G standard) will be a blessing in disguise (securing a benign regulatory environment from the government in return).

② Indirect beneficiary as other brands compete with Apple

In order to match/exceed the reach of the Apple iPhone among mainland mobile subscribers, we note that smartphones such as Samsung's Galaxy and Lenovo's LePhone (formerly exclusive to WCDMA) have been made available on all platforms (i.e., WCDMA, CDMA EV-DO, TD-SCDMA). With this trend spreading, we believe it will help the line-up of China Mobile's TD-SCDMA handsets.

③ Street seems overly bearish on FY11F growth prospects

Consensus forecasts for China Mobile's y-y earnings growth in FY11F have been flat at ~3%. We believe the Street is not reflecting the estimated ~4% EPS enhancement from Shanghai Pudong Development Bank's (SPDB) annual earnings. If we take into account the strong expected incremental earnings growth following the appointment of China Mobile's new CEO, we believe consensus is too conservative and China Mobile may surprise the Street on the upside.

④ Valuation

China Mobile is trading at 10.2x FY11F P/E. We maintain our BUY rating and price target of HK\$95.

Closing price on 28 Feb	HK\$73.1
Price target	HK\$95.0 (set on 13 Oct 10)
Upside/downside	30.0%
Difference from consensus	5.8%
FY11F net profit (RMBmn)	126,161
Difference from consensus	2.3%
Source: Nomura	

Nomura vs consensus

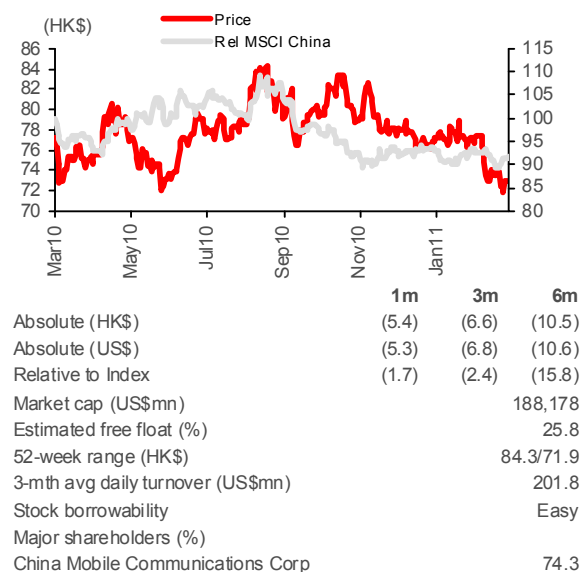
Our FY11F forecast is higher than consensus with the inclusion of SPDB's earnings.

Key financials & valuations

31 Dec (RMBmn)	FY09	FY10F	FY11F	FY12F
Revenue	452,103	492,643	524,274	553,283
Reported net profit	115,166	118,028	126,161	133,994
Normalised net profit	115,166	118,028	126,161	133,994
Normalised EPS (RMB)	5.74	5.88	6.29	6.68
Norm. EPS growth (%)	2.0	2.5	6.9	6.2
Norm. P/E (x)	11.3	10.9	10.2	9.6
EV/EBITDA (x)	4.7	4.1	3.7	3.2
Price/book (x)	2.5	2.2	2.0	1.8
Dividend yield (%)	3.8	3.9	4.4	4.8
ROE (%)	24.3	21.8	20.6	19.4
Net debt/equity (%)		net cash	net cash	net cash
Earnings revisions				
Previous norm. net profit		118,028	126,161	133,994
Change from previous (%)		-	-	-
Previous norm. EPS (RMB)		5.88	6.29	6.68

Source: Company, Nomura estimates

Share price relative to MSCI China



Source: Company, Nomura estimates

Drilling down

Investment summary

- **TD-SCDMA network capacity leasing agreement renewed at favourable terms again, in our view.** In late December 2010, China Mobile announced the renewal of its network capacity leasing agreement with its parentco for the utilization of the TD-SCDMA network (owned by parentco) for another year (2011). We note that the formula for computing the leasing fee remains the same:

Leasing fees = the costs of the related assets of the TD Network Capacity of China Mobile parentco during the period x the average usage of the TD-SCDMA network during the period

The meaning of the above formula is China Mobile's TD leasing fees are based on the annual depreciation expense of China Mobile's parentco multiplied by a factor (i.e., average usage ratio).

Annual cap for TD-SCDMA leasing fee raised; based on past experience, actual expense is much less than annual cap amount

Exhibit 18. Annual cap for leasing fee and actual expense incurred

(RMBmn)	Annual cap	Actual expense	Actual as % of annual cap
FY09	1,000	222	22.2
FY10F	2,000	571	28.5
FY11F	3,000	na	na

Note: Actual expense for FY10F is an estimate based on leasing fee for the nine months ended 30 Sept 2010.
Source: Company data, Nomura research

We are sceptical that the actual network leasing fees in FY11F to be paid to China Mobile's parentco will exceed RMB1bn (< 1% of China Mobile's annual earnings). Overall, we believe the renewal terms of the network capacity leasing agreement are structured favourably for China Mobile.

- **Mobile number portability (MNP): loud thunder, little rain.** The trial phase of MNP in Hainan and Tianjin started in early 2009, just when the telecom industry completed its restructuring in which: 1) the number of mobile operators in China increased from two to three and 2) China Telecom and China Unicom became integrated service operators. In our view, the Ministry of Industry and Information Technology (MIIT) activated the trial phase of MNP in Hainan and Tianjin to study MNP's potential impact on industry competition. Since then, the market share of monthly net adds for each mainland mobile operator has stabilised. Over the past year or so, we repeatedly heard from regulators and senior management of telecom operators that they were fairly satisfied with the current state of competition. If that is the case, we would maintain a sceptical view towards any imminent implementation of the commercial phase of MNP on a nationwide basis.

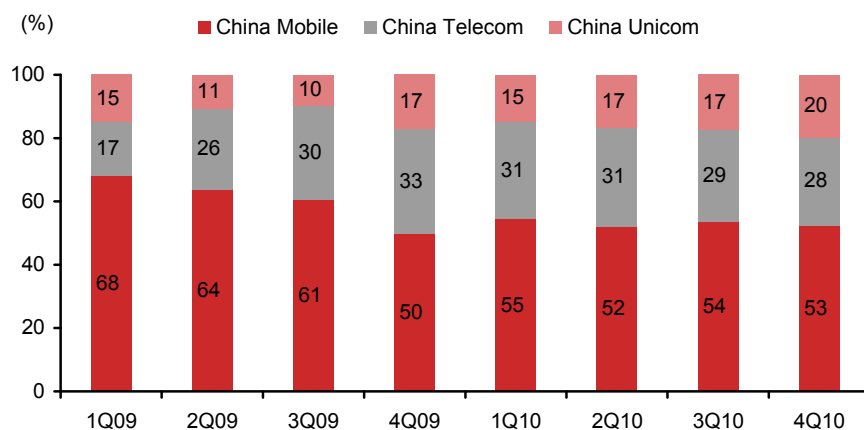
MIIT has repeatedly said it is fairly satisfied with the current state of competition in the telecom industry

Exhibit 19. Mechanism for commercialised MNP in Hainan and Tianjin

	Porting out	Porting in
Hainan province		
China Mobile (CM)	2G	CM (3G), CT (2G / 3G), CU (2G / 3G)
China Mobile (CM)	3G	No porting
China Telecom (CT)	2G / 3G	CM (3G)
China Unicom (CU)	2G / 3G	CM (3G)
Tianjin		
China Mobile (CM)	2G	CM (3G), CT (2G / 3G), CU (2G / 3G)
China Mobile (CM)	3G	No porting
China Telecom (CT)	2G / 3G	CM (2G / 3G), CU (2G / 3G)
China Unicom (CU)	2G / 3G	CM (2G / 3G), CT (2G / 3G)

Source: Ministry of Industry and Information Technology (MIIT)

Exhibit 20. Market share of monthly net adds



Source: Company data

We believe the government's key priority still lies in achieving technological superiority (eg, TD-SCDMA, TD-LTE), despite the beginning of the commercial phase of MNP in Hainan and Tianjin that took effect on 22 November 2010. With China Mobile spearheading efforts to promote proprietary technologies, we expect the government to provide a benign operating environment for China Mobile in return.

Our understanding is the commercial phase of MNP in Hainan and Tianjin will last for six months, then the regulatory body (MIIT) will compile the market data for internal review. Therefore, we do not expect a nationwide MNP policy to be implemented over the next one to two years.

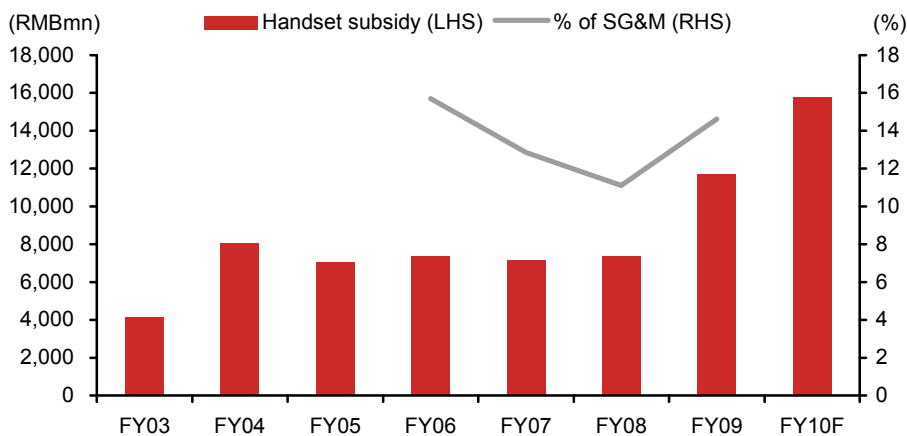
For detailed analysis of MNP in other countries, please refer to our research note *Telecom Services | China: MNP commercial launch may start soon*, 5 November 2010.

- **Handset subsidies on the rise, the question is whether it will get out of control.** We believe China Mobile has been relatively successful in the past few years in: 1) fostering consumer behaviour of not being reliant upon heavy handset subsidies; and 2) exercising strict discipline of not engaging in irrational handset subsidy competition. With all three mainland mobile operators wanting to grow their respective 3G subscriber base, we would expect a mild upward trend of handset subsidies across the industry. However, China Telecom recently reiterated its commitment to lower the ratio of handset subsidy as a percentage of sales from 40% in FY10 to 30% in FY11. Currently, we forecast another 5% y-y increase in handset subsidies by China Mobile in FY11F. We believe the picture of handset subsidy competition in FY11 should be clearer by March when the telecom operators are scheduled to announce their FY10 results.

With China Mobile spearheading many proprietary technology standards, we expect the government to provide a benign operating environment

Handset subsidy competition in FY11 should be clearer by March when telecom operators announce their FY10 results

Exhibit 21. China Mobile – proportion of SG&M incurred on handset subsidies



Source: Company data, Nomura estimates

- To ensure a leading position in terms of network coverage, we expect China Mobile to increase BTS for both 2G and 3G network.** In order for China Mobile to maintain the loyalty of its mobile subscribers (particularly the high-ARPU subscribers), we believe the company has no choice but to continue pursuing excellence in network coverage. With an increased number of mobile subscribers using smartphones on the company's EDGE network (2.75G), we believe such a trend may compromise the voice quality of China Mobile's GSM network.

For the company to avoid a notable decline in network quality, we expect China Mobile to increase the number of base transceiver station (BTS) deployed (as shown below). In view of this, we believe China Mobile may revise up its original capex guidance for FY11 (RMB98bn) in mid-March when the company announces its FY10 results.

- Apart from more BTS for 3G network, China Mobile parentco will also start deploying BTS for TD-LTE (4G) network.** After a successful trial of TD-LTE at the Shanghai World Expo in 2010, China Mobile's parentco will expand the scale of TD-LTE trial network in China, according to the company. We expect the company to deploy ~3,000 TD-LTE base stations in six Chinese cities. As the 3G network is currently owned by China Mobile's parentco, we expect any relevant capex for 4G rollout to be borne by the parentco as well and not incur significant cash outlay for China Mobile.

China Mobile parentco is doing a trial run of TD-LTE (4G) which is bigger than initially indicated

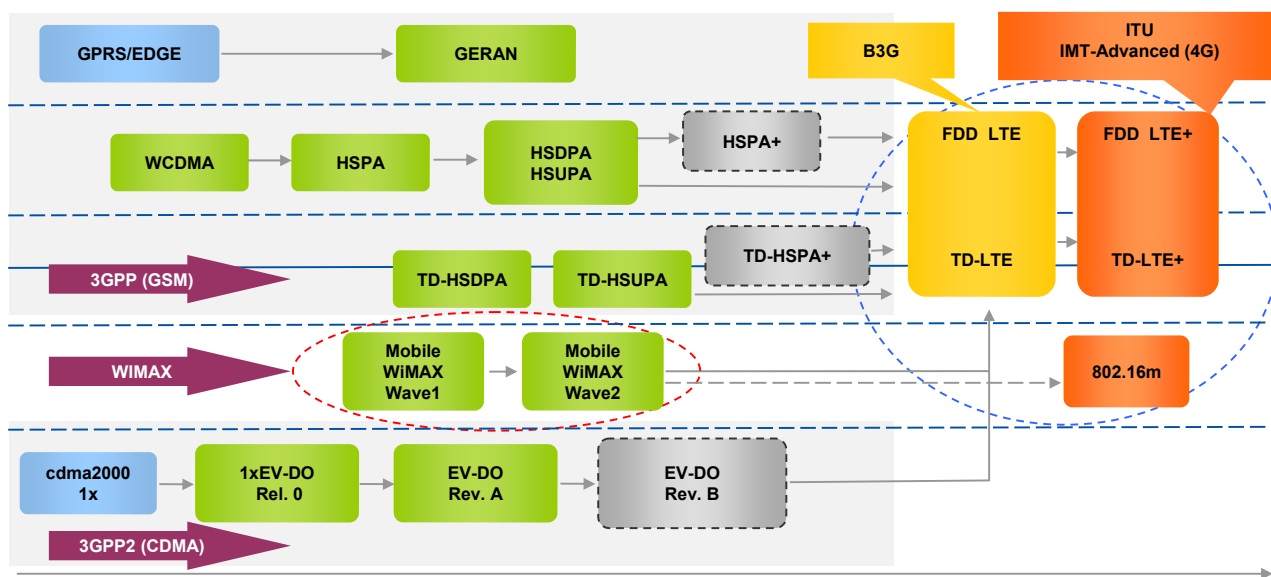
Exhibit 22. BTS comparison of mainland mobile operators

Operator	Network	Number of base station (k)							
		FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10F
China Mobile	GSM	104	na	na	234	307	390	460	520
	TD-SCDMA	na	na	na	na	na	20	80	180
	TD-LTE	na	na	na	na	na	na	na	na
China Telecom	CDMA 1x	na	na	na	na	na	75	60	60
	EV-DO	na	na	na	na	na	45	110	110
China Unicom	GSM	57	82	96	125	154	208	285	317
	WCDMA	na	na	na	na	na	na	107	169

Note: No data given by China Mobile for FY04-05

Source: Company data, Nomura estimates

Exhibit 23. Roadmap for technology evolution



Source: Company data

- Moving closer to a mainland listing.** The news flow of a potential mainland listing of China Mobile has been discussed for quite some time. Initially, we expected it to take place in 2010. As regulations relevant for a mainland international board have not yet been approved, China Mobile's mainland listing is still pending. **Officials from the China Securities Regulatory Commission (CSRC) recently indicated that the regulatory body is actively doing a feasibility study of a mainland international board and will focus on China Mobile as a prime case study.**

CSRC officials indicated China Mobile is used as a prime case study for mainland international board

Overall, we believe a mainland listing of China Mobile would likely have two positive effects on the shares: 1) strong demand from domestic investors as China Mobile has very strong brand recognition in China; 2) a higher likelihood for the listco to pay out more of its earnings (FY10's payout ratio at 43%).

- Two other reasons why we think a mainland listing is possible in 2011.** Our current understanding is no major mega-sized IPOs of state-owned enterprises are scheduled for 2011. Also, there is excessive liquidity in the mainland capital market. In our view, a mainland listing of China Mobile could help the government to drain some excess liquidity in the market.

Exhibit 24. Potential size of China Mobile's mainland listing

Amount raised	% of CM listco shares potentially sold down by Parent Company									
	0.5	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0
(RMBbn)	7.8	15.6	23.5	31.3	39.1	46.9	54.8	62.6	70.4	78.2
(US\$bn)	1.1	2.3	3.4	4.6	5.7	6.8	8.0	9.1	10.3	11.4

Source: Nomura estimates

- With various handset makers aiming to beat Apple iPhone, we expect more exclusivity of other handset brands will loosen up, China Mobile will be an indirect beneficiary, in our view. Since the launch of the Apple iPhone in 2007, the smartphone has gained popularity and traction with mobile subscribers across the globe. Viewing the success of such gadgets, many other handset makers have since launched their own smartphones. In order to match/exceed the reach of the Apple iPhone among mainland mobile subscribers, we note smartphones such as Samsung's Galaxy and Lenovo's LePhone (formerly exclusive to WCDMA) have been made available on all platforms (i.e., WCDMA, CDMA EV-DO, TD-SCDMA). With this trend spreading, we believe it will help the line-up of China Mobile's TD-SCDMA handsets.

With handset makers aiming to beat Apple iPhone, China Mobile should benefit from more variety of handsets from different brands

Exhibit 25. Samsung Galaxy (TD-SCDMA version)



Source: Sina

Exhibit 26. Lenovo LePhone



Source: Company data

- **Revenue and earnings growth rates for Chinese telecom operators have tended to rise significantly in the year when a new CEO assumes his position. If history is repeated, we may see higher earnings growth at China Mobile in FY11F.** In the following exhibit, we look at: 1) revenue y-y growth in the year before and the year after a new CEO's appointment and 2) net profit y-y growth for the corresponding years. Our study shows that in 40% of these cases, revenue growth accelerated. **However, one important observation is that in every case, earnings growth accelerated.** If history repeats itself, we believe China Mobile's FY11F earnings growth will be higher than in FY10F.

Earnings growth tends to accelerate with the appointment of a new CEO (based on past 13 years of Chinese telecom operators' records)

Exhibit 27. Business growth before/after change of CEO

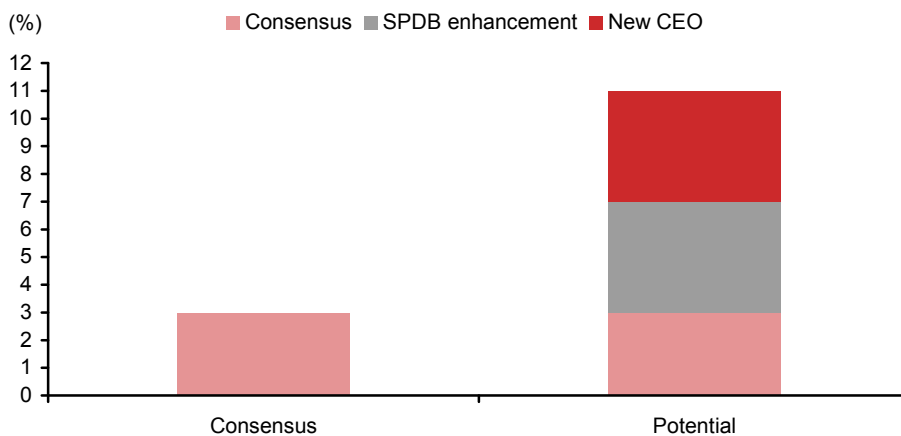
y-y growth (%)	Revenue growth		NP growth	
	Yr before chg	Yr after chg	Yr before chg	Yr after chg
CHINA MOBILE				
Mar-99	70.1	46.6	43.0	45.6
Nov-04	21.3	26.3	17.4	28.3
CHINA TELECOM				
Nov-04	7.7	6.4	3.3	8.0
CHINA UNICOM				
Aug-03	38.0	66.7	(0.1)	6.1
Dec-04	17.8	10.1	(8.9)	9.7

Source: Company data

- **China Mobile's earnings growth in FY11 may blindside the bearish.** Consensus forecast for China Mobile's y-y earnings growth in FY11 has been flat at ~3% for some time. This is the case even after China Mobile completed its acquisition of a 20% stake in SPD Bank in October 2010. We believe the Street is not reflecting the expected ~4% EPS enhancement from the annual earnings of SPD Bank. If we take into account the expected incremental earnings growth from having a new CEO, **we believe consensus forecasts for China Mobile are relatively conservative and the company may surprise the Street on the upside.**

Street estimates have not incorporated ~4% EPS enhancement from annual earnings of SPDB

Exhibit 28. Graphical illustration of street versus actual on China Mobile's y-y earnings growth in FY11F



Source: Nomura research

Valuation methodology

Our price target of HK\$95 is based on 10-years DCF. We assume a WACC of 11.7% and a long-term growth-to-perpetuity rate of 1.5%.

Catalysts

On a short-term basis (three months), we believe catalysts for China Mobile include:

- Monthly net adds, which partially affect revenue growth;
- 4Q10 results, which would serve as China Mobile's report card versus its competitors during the three-month period;
- China's GDP growth;
- The market's acceptance of TD-SCDMA (homegrown 3G technology);
- Subscribers' use of various new services (eg, Mobile Market, e Reading, Mobile Wallet).

On a longer-term basis (12 months), we believe that catalysts for China Mobile include:

- China's overall economic conditions, as MOU tends to grow with the economy;
- Progress on mainland listing, as China Mobile has indicated its intention to be listed on the mainland;
- Dividend policy, as investors would like to receive more cash from the company;
- Progress on TD-SCDMA rollout (ie, foreign brand handset availability and smooth network coverage);
- FY11 results, which reflect the company's effectiveness in increasing earnings;
- A regulatory roadmap drawn out by the Ministry of Industry and Information Technology (China's telecom regulator).

Risks to our price target

The risks to our investment view include: 1) irrational tariff competition — if China Telecom or China Unicom were to lower mobile tariffs in an attempt to gain market share, we believe China Mobile might respond by launching similar tariff plans; 2) the regulatory environment — any significant change in the regulatory environment could have important implications for mainland telecom operators; and 3) new technologies may disrupt the industry landscape — the introduction of new technologies could complement or cannibalise existing technologies (ie, GSM, GPRS and EDGE). Given that telecom operators have invested heavily in their existing networks, the potential obsolescence of networks could lead to asset write-offs, in our view.

Financial statements

Income statement (RMBmn)					
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	412,343	452,103	492,643	524,274	553,283
Cost of goods sold	-	-	-	-	-
Gross profit	412,343	452,103	492,643	524,274	553,283
SG&A	(269,728)	(305,095)	(342,345)	(369,731)	(390,977)
Employee share expense	-	-	-	-	-
Operating profit	142,615	147,008	150,298	154,543	162,306
EBITDA	214,124	227,187	237,259	244,566	250,364
Depreciation	(71,509)	(80,179)	(86,962)	(90,023)	(88,058)
Amortisation	-	-	-	-	-
EBIT	142,615	147,008	150,298	154,543	162,306
Net interest expense	4,452	4,697	4,890	5,779	7,682
Associates & JCEs	-	-	-	4,252	4,803
Other income	2,676	2,131	2,316	2,357	2,399
Earnings before tax	149,743	153,836	157,504	166,931	177,191
Income tax	(36,789)	(38,413)	(39,376)	(40,670)	(43,097)
Net profit after tax	112,954	115,423	118,128	126,261	134,094
Minority interests	(161)	(257)	(100)	(100)	(100)
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	112,793	115,166	118,028	126,161	133,994
Extraordinary items	-	-	-	-	-
Reported NPAT	112,793	115,166	118,028	126,161	133,994
Dividends	(48,364)	(49,544)	(50,752)	(56,772)	(61,637)
Transfer to reserves	64,429	65,622	67,276	69,388	72,357

Subscriber growth and value-added business boosting revenue growth

Valuation and ratio analysis

FD normalised P/E (x)	11.6	11.3	10.9	10.2	9.6
FD normalised P/E at price target (x)	15.1	14.7	14.2	13.3	12.5
Reported P/E (x)	11.4	11.2	10.9	10.2	9.6
Dividend yield (%)	3.8	3.8	3.9	4.4	4.8
Price/cashflow (x)	6.5	5.8	6.1	5.9	5.7
Price/book (x)	2.9	2.5	2.2	2.0	1.8
EV/EBITDA (x)	5.2	4.7	4.1	3.7	3.2
EV/EBIT (x)	7.8	7.2	6.4	5.8	5.0
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
EBITDA margin (%)	51.9	50.3	48.2	46.6	45.3
EBIT margin (%)	34.6	32.5	30.5	29.5	29.3
Net margin (%)	27.4	25.5	24.0	24.1	24.2
Effective tax rate (%)	24.6	25.0	25.0	24.4	24.3
Dividend payout (%)	42.9	43.0	43.0	45.0	46.0
Capex to sales (%)	33.1	28.6	25.0	18.7	14.5
Capex to depreciation (x)	1.9	1.6	1.4	1.1	0.9
ROE (%)	27.6	24.3	21.8	20.6	19.4
ROA (pretax %)	35.0	31.7	28.6	27.9	29.1

Growth (%)

Revenue	15.5	9.6	9.0	6.4	5.5
EBITDA	11.9	6.1	4.4	3.1	2.4
EBIT	14.9	3.1	2.2	2.8	5.0
Normalised EPS	29.3	2.0	2.5	6.9	6.2
Normalised FDEPS	29.4	2.3	3.8	6.9	6.2

Per share

Reported EPS (RMB)	5.63	5.74	5.88	6.29	6.68
Norm EPS (RMB)	5.63	5.74	5.88	6.29	6.68
Fully diluted norm EPS (RMB)	5.54	5.67	5.88	6.29	6.68
Book value per share (RMB)	22.05	25.26	28.68	32.44	36.29
DPS (RMB)	2.41	2.47	2.53	2.83	3.07

Source: Nomura estimates

Cashflow (RMBmn)					
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
EBITDA	214,124	227,187	237,259	244,566	250,364
Change in working capital	22,800	28,295	8,651	7,292	7,928
Other operating cashflow	(37,785)	(32,092)	(33,523)	(33,597)	(32,987)
Cashflow from operations	199,139	223,390	212,387	218,261	225,305
Capital expenditure	(136,300)	(129,400)	(123,000)	(98,000)	(80,400)
Free cashflow	62,839	93,990	89,387	120,261	144,905
Reduction in investments	(7)	1	(39,453)	(4,252)	(4,803)
Net acquisitions	-	-	-	-	-
Reduction in other LT assets	(1,439)	(2,055)	-	-	-
Addition in other LT liabilities	(55)	(286)	-	-	-
Adjustments	-	-	-	-	-
Cashflow after investing acts	61,338	91,650	49,934	116,010	140,101
Cash dividends	(44,560)	(48,364)	(49,544)	(50,752)	(56,772)
Equity issue	465	-	-	-	-
Debt issue	(29)	(2)	-	(5,000)	-
Convertible debt issue	-	-	-	-	-
Others	12,501	2,964	1,253	5,215	4,675
Cashflow from financial acts	(31,623)	(45,402)	(48,291)	(50,537)	(52,097)
Net cashflow	29,715	46,248	1,643	65,472	88,004
Beginning cash	188,544	218,259	264,507	266,150	331,622
Ending cash	218,259	264,507	266,150	331,622	419,626
Ending net debt	(184,638)	(230,888)	(232,531)	(303,003)	(391,007)

Source: Nomura estimates

Balance sheet (RMBmn)					
As at 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Cash & equivalents	218,259	264,507	266,150	331,622	419,626
Marketable securities	-	-	-	-	-
Accounts receivable	6,913	6,405	6,979	7,427	7,838
Inventories	3,494	3,847	4,192	4,461	4,708
Other current assets	11,504	12,596	12,596	12,596	12,596
Total current assets	240,170	287,355	289,917	356,107	444,769
LT investments	7	6	39,459	43,711	48,514
Fixed assets	363,265	406,169	442,207	450,184	442,527
Goodwill	37,192	37,621	37,621	37,621	37,621
Other intangible assets	10,102	11,201	11,201	11,201	11,201
Other LT assets	6,961	9,016	9,016	9,016	9,016
Total assets	657,697	751,368	829,422	907,840	993,647
Short-term debt	68	68	68	68	68
Accounts payable	79,606	95,985	104,592	111,307	117,466
Other current liabilities	100,899	113,752	114,715	116,009	118,436
Total current liabilities	180,573	209,805	219,375	227,384	235,970
Long-term debt	33,553	33,551	33,551	28,551	28,551
Convertible debt	-	-	-	-	-
Other LT liabilities	664	378	378	378	378
Total liabilities	214,790	243,734	253,304	256,313	264,899
Minority interest	629	886	886	886	886
Preferred stock	-	-	-	-	-
Common stock	381,378	381,379	381,379	381,379	381,379
Retained earnings	301,843	366,312	434,796	510,205	587,426
Proposed dividends	-	-	-	-	-
Other equity and reserves	(240,943)	(240,943)	(240,943)	(240,943)	(240,943)
Total shareholders' equity	442,278	506,748	575,232	650,641	727,862
Total equity & liabilities	657,697	751,368	829,422	907,840	993,647

Lots of cash sitting on the balance sheet

Liquidity (x)

Current ratio	1.33	1.37	1.32	1.57	1.88
Interest cover	na	na	na	na	na

Leverage

Net debt/EBITDA (x)	net cash	net cash	net cash	net cash	net cash
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash

Activity (days)

Days receivable	6.2	5.4	5.0	5.0	5.0
Days inventory	na	na	na	na	na
Days payable	na	na	na	na	na
Cash cycle	na	na	na	na	na

Source: Nomura estimates

⊙ Action

Our latest meeting with China Telecom management reaffirmed our NEUTRAL stance. Despite market anticipation of CDMA iPhone in China, the company is much more downbeat on any imminent launch of such device on the mainland. We believe flattish guidance of mobile net adds (~30mn) and broadband net adds (~10mn) for FY11 are inadequate to spark significant investor interest in the underlying shares. Our relative preference remains Unicom > Mobile > Telecom.

✂ Catalysts

Higher CDMA net adds, shorter time to achieve EBITDA breakeven for mobile business, stable growth of fixed-line revenue are catalysts for CT's share price.

⚓ Anchor themes

With 3G rollout moving towards completion in 2010 and availability of 3G handsets expected to improve in China, we believe the Chinese telecom operators will launch different campaigns to migrate 2G subscribers to 3G gradually.

Attempt to humble a giant named Apple

① Downside risks remain

In 3Q10, we highlighted the potential downside risks facing China Telecom investors: 1) monthly net adds could disappoint the market and 2) China Telecom could miss getting the iPhone for its CDMA network. Since then, China Telecom has underperformed China Unicom by 3%. We believe these risks still exist and are not fully priced into China Telecom's share price.

② Uncertain whether CT is ready to face lopsided negotiation (favouring Apple) over iPhone

As China Telecom is keen to lower its marketing expense, if the company decides to partner with Apple on CDMA iPhones, we are sceptical whether the final phase of its three-year campaign to lower marketing expense can be achieved. In addition, we believe the company faces the dilemma of having to give up its independence in operating its CDMA mobile business if it partners with Apple over the CDMA iPhone in China.

③ Upward trend of blended ARPU will not show up soon

China Telecom's 2G monthly net adds > 3G monthly net adds; the reversion of this trend could require considerable effort on China Telecom's part ensuring that 3G net adds run at a faster pace than 2G net adds. If the company decides to use higher handset subsidy or lower 3G service fee to spur customers to sign up for 3G services instead of 2G services, we believe it could have negative implications for the company's P&L.

④ Valuation

China Telecom is trading at 18.7x FY11F P/E. With limited new positive catalysts in the next three-six months, we maintain NEUTRAL.

Closing price on 28 Feb	HK\$4.58
Price target	HK\$4.80
	(set on 13 Oct 10)
Upside/downside	4.8%
Difference from consensus	10.6%
FY11F net profit (RMBmn)	17,422
Difference from consensus	-6.4%
Source: Nomura	

Nomura vs consensus

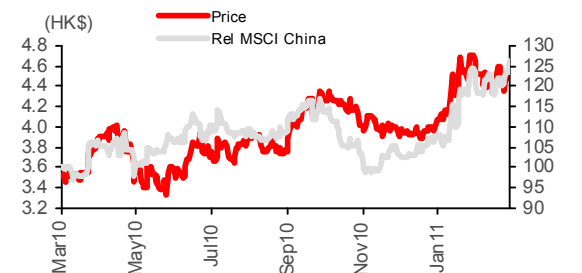
Our 12-month price target is higher than consensus, likely on our expectation of continued CDMA business and potential upside to broadband net adds.

Key financials & valuations

31 Dec (RMBmn)	FY09	FY10F	FY11F	FY12F
Revenue	208,219	228,989	241,304	250,738
Reported net profit	13,271	15,228	17,422	21,675
Normalised net profit	13,271	15,228	17,422	21,675
Normalised EPS (RMB)	0.16	0.19	0.22	0.27
Norm. EPS growth (%)	na	14.7	14.4	24.4
Norm. P/E (x)	24.6	21.4	18.7	15.0
EV/EBITDA (x)	5.3	5.0	4.7	4.1
Price/book (x)	1.5	1.4	1.3	1.3
Dividend yield (%)	1.9	1.9	1.9	1.9
ROE (%)	6.1	6.7	7.3	8.6
Net debt/equity (%)	31.9	26.1	17.6	1.8
Earnings revisions				
Previous nom. net profit		15,228	17,422	21,675
Change from previous (%)		-	-	-
Previous nom. EPS (RMB)		0.19	0.22	0.27

Source: Company, Nomura estimates

Share price relative to MSCI China



	1m	3m	6m
Absolute (HK\$)	(2.6)	14.8	22.5
Absolute (US\$)	(2.5)	14.5	22.3
Relative to Index	1.1	18.9	17.1
Market cap (US\$mn)			47,586
Estimated free float (%)			17.2
52-week range (HK\$)			4.70/3.34
3-mth avg daily turnover (US\$mn)			37.68
Stock borrowability			Easy
Major shareholders (%)			
China Telecommunications Corporation			70.9

Source: Company, Nomura estimates

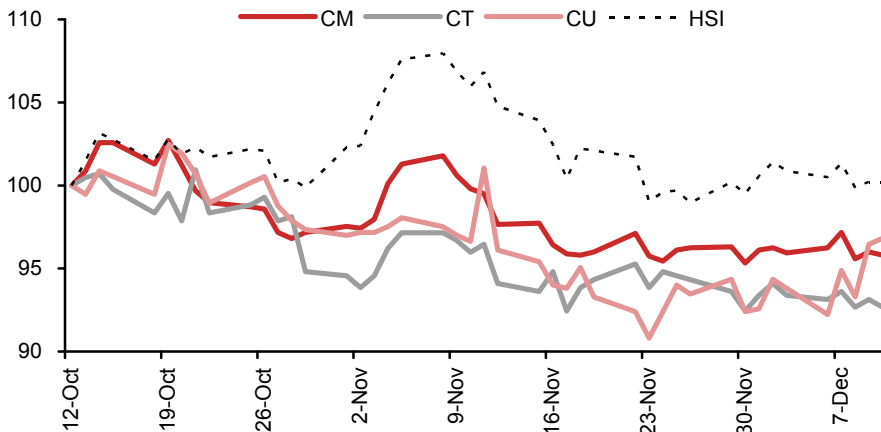
Drilling down

Investment summary

- **Since 12 October 2010, China Telecom has underperformed China Unicom by 3%.** In 3Q10, we highlighted the potential downside risks facing China Telecom investors: 1) monthly net adds could disappoint the market and 2) China Telecom could miss getting the iPhone for its CDMA network. Since then, China Telecom has underperformed China Unicom by 3%. We believe those risks still exist and are not fully priced into China Telecom's share price. Our relative preference remains Unicom (BUY) > China Mobile (BUY) > China Telecom (NEUTRAL).

China Telecom is still facing potential downside risks

Exhibit 29. Relative share price performance



Source: Thomson Reuters Datastream

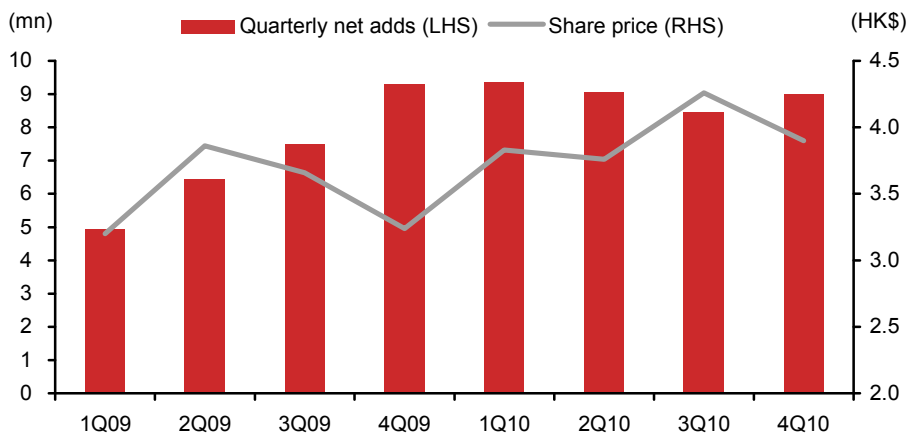
- **For CDMA iPhone, there should be tough negotiation.** Currently, China Unicom is the only partnering operator for Apple iPhone in China. We think the company's competitive advantage lies in its underlying 3G network based on WCDMA technology (fully compatible with iPhone). Some China Mobile subscribers have cut their normal SIM into micro-SIM, but they have to settle for a much slower data speed on GPRS (2.5G) or EDGE (2.75G) network (data downloading speed on GPRS / EDGE networks are widely known to be slower than on WCDMA network). China Telecom (using CDMA technology) could be tempted to negotiate for the right to be a partnering operator for CDMA iPhone. We believe the company needs to overcome two barriers:
 - **Financial barrier:** per our discussion with China Telecom management, it is very keen to stick to its "50/40/30" strategy for sales and marketing expenses of the CDMA business. In terms of sales and marketing expense as a percentage of CDMA service revenue, the company said it is aiming at 50% for Year 1 (FY09), 40% for Year 2 (FY10) and 30% for Year 3 (FY11). However, if China Telecom decides to partner with Apple on the CDMA iPhone, we are sceptical whether the final phase (30% for FY11) can be achieved. We think deviating from the strategy could be viewed as breaking a promise to investors.
 - **Operational barrier:** based on our discussion with a number of iPhone partnering operators in Asia, a consistent message is that the so-called negotiation with Apple is very one-sided (ie, Apple is driving the whole process and making most, if not all, of the decisions). As China Telecom would like to maintain its independence in operating its CDMA mobile business, we believe the company faces the dilemma of giving up that independence to partner Apple.

"Negotiation" with Apple over CDMA iPhone could be difficult

- **Honeymoon period should be over, investor expectation getting higher and higher.** During FY09 and FY10, we note China Telecom's fast pace in terms of gaining CDMA subscribers. We believe the steady upward share price performance of the company is mainly attributable to subscriber additions momentum. Based on discussions with investors, we believe investors expect high net adds momentum (ie, ~30mn per year) for China Telecom now. We think investors are shifting focus to: 1) higher earnings growth and 2) stronger free cashflow from the business. Based on our hypothesis, China Telecom needs to dig deeper into its core strength and generate higher-than-expected earnings growth (ie, consensus at ~15% y-y).

After the honeymoon period of CDMA business, China Telecom needs to deliver higher earnings and stronger free cashflow

Exhibit 30. China Telecom – net adds and share price performance

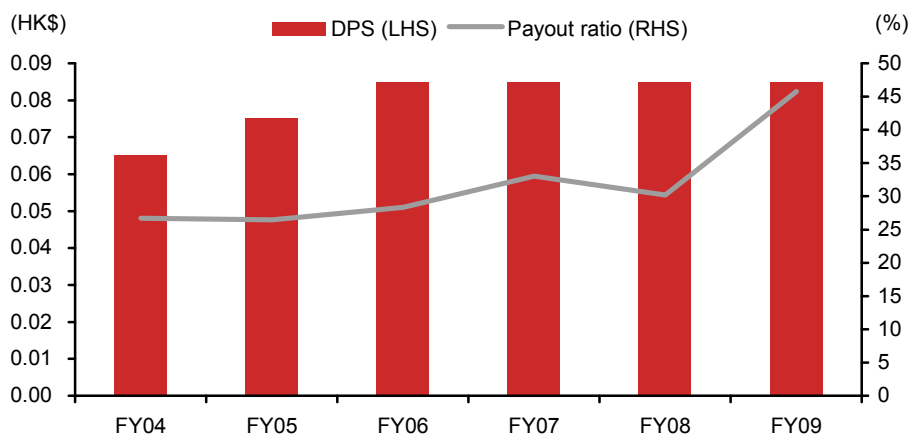


Source: Company data, Thomson Reuters Datastream

- **Until 3G monthly net adds > 2G monthly net adds, upward trend of blended ARPU will not show.** China Telecom's monthly net adds are higher than that of China Unicom. For the former, its 3G monthly net adds is smaller than 2G monthly net adds. Given 2G subscribers tend to have lower ARPU than 3G subscribers, China Telecom's blended ARPU will likely continue to be dragged down by 2G monthly net adds and 2G ARPU. The reversion of this trend would require considerable effort on China Telecom's part ensuring that 3G net adds are at a faster pace than 2G net adds. If the company decides to use higher handset subsidy or lower 3G service fee to spur customers to sign up for 3G services instead of 2G services, we believe it could have negative implications for the company's P&L.
- **With CDMA mobile business turning the corner, investors may want higher earnings payout ratio.** The cash investment required for China Telecom's traditional wireline is trending down and mobile business is turning the corner. We believe the company can raise its earnings payout ratio. Given investors tend to focus more on sustainability of earnings payout, we believe China Telecom will evaluate carefully before deciding on higher earnings payout. If the company eventually decides to raise its earnings payout ratio, we believe this decision would have a positive effect on the share price.

China Telecom's blended ARPU has been dragged down by ARPU of its 2G business

Investors would welcome higher earnings payout ratio from China Telecom

Exhibit 31. China Telecom – DPS and earnings payout ratio

Source: Company data

- **No decision or timing with regards to CDMA network acquisition.** Currently, China Telecom listco is paying 28% of its CDMA service revenue as leasing fee to the parent company for using capacity on the CDMA network (owned by China Telecom parent company). Based on our estimates, we believe the annual depreciation expense of the CDMA network (on parent's book) should be roughly similar to annual leasing fee (on listco's book) paid on using CDMA capacity. As a result, we believe the listco has to conduct a feasibility study on whether to acquire the network from the parent company.

China Telecom is considering whether to acquire the CDMA network from its parentco

Exhibit 32. Comparison of depreciation expense and leasing fee on CDMA

(RMBmn)	Amt invested	FY08	FY09	FY10F	FY11F	FY12F
CDMA capex						
Yr in which capex invested						
NAV @ acquisition	39,720	4,413	8,827	8,827	8,827	8,827
FY08	14,400	514	2,057	2,057	2,057	2,057
FY09	32,400		2,314	4,629	4,629	4,629
Dep'n expense on parentco		4,928	13,198	15,512	15,512	15,512
Leasing fee on listco		1,504	8,383	11,317	14,700	17,097

Source: Company data, Nomura estimates

Valuation

We use a WACC of 10.3% and a long-term growth-to-perpetuity rate of 0.5% to derive our price target.

Catalysts

On a short-term basis (three months), we believe catalysts for China Telecom include:

- Gains in monthly net adds, reflecting the company's ability to gain market share;
- 4Q10 results, which should shed light on ARPU and handset subsidies in the CDMA business;
- Expansion of its handset model offering to include smartphones with further enhanced features;
- A low churn rate for existing CDMA subscribers upon contract renewal, an indication of customer loyalty and revenue stream stability.

On a longer-term basis (12 months), we believe catalysts for China Telecom include:

- Improved EBITDA margin for the CDMA business in FY11F, indicating mobile operations being on track to turn profitable;
- Broadband net adds and improved ARPU, as the contribution from broadband to overall revenue continues to rise;
- Demonstrate continuous commitment to bring down capital expenditure;
- Increased migration of subscribers from the PAS platform to the CDMA platform;
- Improved quality of EV-DO services, reflecting the depth of China Telecom's 3G network;
- A regulatory roadmap drawn up by the Ministry of Industry and Information Technology (China's telecom regulator).

Risks to our price target

The risks to our investment view include: 1) irrational tariff competition — if China Mobile or China Unicom were to lower mobile tariffs in an attempt to gain market share, we believe China Telecom would follow suit; 2) the regulatory environment — any significant change in the regulatory environment could have important implications for mainland telecom operators; and 3) new technologies may disrupt the industry landscape — the introduction of new technologies could complement or cannibalise existing technologies (ie, GSM, GPRS and EDGE). Given that telecom operators have invested heavily in their existing networks, the potential obsolescence of networks could lead to asset write-offs, in our view.

Upside risks include: China Telecom may report better-than-expected CDMA monthly net adds and reverse the flattish/declining trend of monthly net adds. If this happens, the market may take a more positive view on the stock.

Financial statements

Income statement (RMBmn)					
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Revenue	184,779	208,219	228,989	241,304	250,738
Cost of goods sold	-	-	-	-	-
Gross profit	184,779	208,219	228,989	241,304	250,738
SG&A	(157,489)	(185,959)	(204,976)	(214,763)	(219,103)
Employee share expense	-	-	-	-	-
Operating profit	27,290	22,260	24,013	26,540	31,635
EBITDA	81,170	74,503	77,028	78,446	81,270
Depreciation	(53,880)	(52,243)	(53,015)	(51,905)	(49,635)
Amortisation	-	-	-	-	-
EBIT	27,290	22,260	24,013	26,540	31,635
Net interest expense	(5,076)	(4,375)	(3,312)	(3,034)	(2,476)
Associates & JCEs	112	101	50	50	50
Other income	(24,162)	38	5	5	5
Earnings before tax	(1,836)	18,024	20,756	23,562	29,215
Income tax	793	(4,549)	(5,313)	(5,915)	(7,304)
Net profit after tax	(1,043)	13,475	15,442	17,647	21,911
Minority interests	(95)	(204)	(214)	(225)	(236)
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	(1,138)	13,271	15,228	17,422	21,675
Extraordinary items	-	-	-	-	-
Reported NPAT	(1,138)	13,271	15,228	17,422	21,675
Dividends	(6,063)	(6,076)	(6,054)	(6,054)	(6,054)
Transfer to reserves	(7,201)	7,195	9,175	11,368	15,621

EBITDA reflects handset subsidy expense of the CDMA mobile business

Valuation and ratio analysis

FD normalised P/E (x)	na	24.6	21.4	18.7	15.0
FD normalised P/E at price target (x)	na	25.8	22.4	19.6	15.8
Reported P/E (x)	na	24.6	21.4	18.7	15.0
Dividend yield (%)	1.9	1.9	1.9	1.9	1.9
Price/cashflow (x)	3.7	4.7	4.6	4.6	4.4
Price/book (x)	1.5	1.5	1.4	1.3	1.3
EV/EBITDA (x)	5.2	5.3	5.0	4.7	4.1
EV/EBIT (x)	15.5	17.8	16.1	13.9	10.4
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
EBITDA margin (%)	43.9	35.8	33.6	32.5	32.4
EBIT margin (%)	14.8	10.7	10.5	11.0	12.6
Net margin (%)	(0.6)	6.4	6.7	7.2	8.6
Effective tax rate (%)	na	25.2	25.6	25.1	25.0
Dividend payout (%)	na	45.8	39.8	34.7	27.9
Capex to sales (%)	25.2	18.3	19.2	19.1	13.8
Capex to depreciation (x)	0.9	0.7	0.8	0.9	0.7
ROE (%)	(0.5)	6.1	6.7	7.3	8.6
ROA (pretax %)	6.9	5.6	6.1	6.8	8.3

Growth (%)

Revenue	5.4	12.7	10.0	5.4	3.9
EBITDA	(5.6)	(8.2)	3.4	1.8	3.6
EBIT	(19.1)	(18.4)	7.9	10.5	19.2
Normalised EPS	(105.6)	na	14.7	14.4	24.4
Normalised FDEPS	(105.6)	na	14.7	14.4	24.4

Per share

Reported EPS (RMB)	(0.01)	0.16	0.19	0.22	0.27
Norm EPS (RMB)	(0.01)	0.16	0.19	0.22	0.27
Fully diluted norm EPS (RMB)	(0.01)	0.16	0.19	0.22	0.27
Book value per share (RMB)	2.63	2.74	2.86	3.00	3.19
DPS (RMB)	0.07	0.08	0.07	0.07	0.07

Source: Nomura estimates

Cashflow (RMBmn)					
Year-end 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
EBITDA	81,170	74,503	77,028	78,446	81,270
Change in working capital	20,107	(883)	2,134	1,413	2,024
Other operating cashflow	(12,610)	(3,582)	(7,861)	(8,347)	(8,391)
Cashflow from operations	88,667	70,038	71,301	71,512	74,904
Capital expenditure	(46,652)	(38,042)	(44,000)	(46,127)	(34,682)
Free cashflow	42,015	31,996	27,301	25,385	40,223
Reduction in investments	8	(660)	(50)	(50)	(50)
Net acquisitions	(29,511)	-	-	-	-
Reduction in other LT assets	(5,737)	1,821	-	-	-
Addition in other LT liabilities	(3,187)	(2,097)	-	-	-
Adjustments	-	-	-	-	-
Cashflow after investing acts	3,588	31,060	27,251	25,335	40,173
Cash dividends	(6,167)	(6,063)	(6,076)	(6,054)	(6,054)
Equity issue	-	-	-	-	-
Debt issue	18,125	(17,356)	-	-	-
Convertible debt issue	-	-	-	-	-
Others	(7,839)	(658)	(10,859)	(1,737)	4,153
Cashflow from financial acts	4,119	(24,077)	(16,935)	(7,791)	(1,901)
Net cashflow	7,707	6,983	10,315	17,544	38,272
Beginning cash	20,556	28,263	35,246	45,561	63,106
Ending cash	28,263	35,246	45,561	63,106	101,377
Ending net debt	95,016	70,677	60,362	42,817	4,546

Source: Nomura estimates

Healthy free cashflow

Balance sheet (RMBmn)					
As at 31 Dec	FY08	FY09	FY10F	FY11F	FY12F
Cash & equivalents	28,263	35,246	45,561	63,106	101,377
Marketable securities	-	-	-	-	-
Accounts receivable	17,289	17,438	19,113	20,106	20,883
Inventories	2,561	2,628	2,880	3,030	3,147
Other current assets	7,386	5,624	5,624	5,624	5,624
Total current assets	55,499	60,936	73,179	91,866	131,032
LT investments	1,059	1,719	1,769	1,819	1,869
Fixed assets	312,774	297,895	299,313	294,598	273,921
Goodwill	-	-	-	-	-
Other intangible assets	50,769	47,555	47,555	47,555	47,555
Other LT assets	20,236	18,415	18,415	18,415	18,415
Total assets	440,337	426,520	440,231	454,252	472,792
Short-term debt	84,035	53,155	53,155	53,155	53,155
Accounts payable	34,458	34,321	37,618	39,572	41,102
Other current liabilities	58,297	56,005	56,769	57,371	58,760
Total current liabilities	176,790	143,481	147,543	150,098	153,017
Long-term debt	39,244	52,768	52,768	52,768	52,768
Convertible debt	-	-	-	-	-
Other LT liabilities	9,755	7,658	7,658	7,658	7,658
Total liabilities	225,789	203,907	207,969	210,524	213,443
Minority interest	1,512	881	881	881	881
Preferred stock	-	-	-	-	-
Common stock	91,678	91,678	91,678	91,678	91,678
Retained earnings	55,678	64,374	74,023	85,489	101,110
Proposed dividends	-	-	-	-	-
Other equity and reserves	65,680	65,680	65,680	65,680	65,680
Total shareholders' equity	213,036	221,732	231,381	242,847	258,468
Total equity & liabilities	440,337	426,520	440,231	454,252	472,792

Liquidity (x)

Current ratio	0.31	0.42	0.50	0.61	0.86
Interest cover	5.4	5.1	7.2	8.7	12.8

Leverage

Net debt/EBITDA (x)	1.17	0.95	0.78	0.55	0.06
Net debt/equity (%)	44.6	31.9	26.1	17.6	1.8

Activity (days)

Days receivable	33.7	30.4	29.1	29.7	29.9
Days inventory	na	na	na	na	na
Days payable	na	na	na	na	na
Cash cycle	na	na	na	na	na

Source: Nomura estimates

China Unicom 762 HK

TELECOMS | CHINA

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Maintained

BUY

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⊙ Action

China Unicom is seeing more frequent emergence of positive catalysts. Based on our latest channel checks, the company's operational KPIs look set to improve further. As mobile subscribers gradually warm up to "RMB1,000 smartphones", we believe China Unicom will become one of the major beneficiaries. With the stock fairly under-owned among investors and KPIs likely to improve, we expect to see another round of share price rally. Reiterate BUY with PT lifted to HK\$15.80.

✂ Catalysts

Higher monthly net adds, shorter time to generate synergy from fixed-mobile convergence and stable growth in fixed-line revenue are potential catalysts.

⚓ Anchor themes

With the 3G rollout moving towards completion in 2010F, and availability of 3G handsets expected to improve, we expect Chinese telecom operators to launch different campaigns in migrating 2G subscribers onto a 3G platform gradually.

3G momentum... Fast & Furious

① Positive catalysts emerging more frequently

When we upgraded China Unicom's PT to HK\$13.50 from HK\$10.80 on 12 October 2010, we expected its share price to price in potential positive catalysts steadily. Thus far, we have seen positive catalysts emerging more frequently than expected.

② Shop visits; bullish target likely to lead to earnings revision

We visited China Unicom's retail shops and found that RMB1,000-priced smartphones were popular among consumers. When these smartphones are launched in Tier-2 cities, we believe they will command the same response. China Unicom's president recently indicated that the company aims to achieve 30mn 3G net adds in FY11. As the company rarely gives a bullish target, we believe management's confident speech will likely increase the conviction.

③ Stock still quite under-owned; see improved KPIs

From our recent marketing trips, we sense investors are still skeptical of China Unicom's outlook despite its improved 3G monthly net adds and steady growth in 2G monthly net adds. With the company likely to see improving operational key performance indicators (KPIs) in the coming months, we expect investors to gradually warm up to the stock of China Unicom, which could trigger another share price rally.

④ Valuation and rating

Reiterate BUY: 1) a steady launch of WCDMA smartphones targeted at the mass market segment; 2) a more comprehensive handset offering on the WCDMA platform; 3) it would be the major beneficiary of iPhone 4's popularity in China; and 4) the likely launch of iPad by Unicom and corresponding benefits on 3G net adds and data revenue.

Closing price on 28 Feb	HK\$13.00
Price target	HK\$15.80 (from HK\$13.50)
Upside/downside	21.5%
Difference from consensus	44.2%
FY11F net profit (RMBmn)	8,939
Difference from consensus	28.2%
Source: Nomura	

Nomura vs consensus

Our estimates are higher than consensus as we expect better-than-expected monthly net adds and ARPU.

Key financials & valuations

31 Dec (RMBmn)	FY09	FY10	FY11F	FY12F
Revenue	153,945	168,916	189,934	211,928
Reported net profit	9,556	5,625	8,939	12,439
Normalised net profit	9,556	5,625	8,939	12,439
Normalised EPS (RMB)	0.40	0.24	0.38	0.53
Norm. EPS growth (%)	50.6	(40.6)	58.9	39.2
Norm. P/E (x)	28.6	47.9	30.2	21.7
EV/EBITDA (x)	5.7	5.5	4.9	4.4
Price/book (x)	1.3	1.3	1.3	1.2
Dividend yield (%)	1.4	1.4	1.0	1.4
ROE (%)	4.6	2.7	4.2	5.7
Net debt/equity (%)	30.5	38.6	46.1	43.7
Earnings revisions				
Previous norm. net profit		5,625	8,284	11,702
Change from previous (%)		-	7.9	6.3
Previous norm. EPS (RMB)		0.24	0.35	0.50

Source: Company, Nomura estimates

Share price relative to MSCI China



	1m	3m	6m
Absolute (HK\$)	-	22.9	24.3
Absolute (US\$)	0.1	22.5	24.1
Relative to Index	2.1	25.4	17.2
Market cap (US\$mn)			39,666
Estimated free float (%)			29.6
52-week range (HK\$)			13.50/8.74
3-mth avg daily turnover (US\$mn)			53.4
Stock borrowability			Easy
Major shareholders (%)			
Unicom Group			71.0
Telefonica			8.4

Source: Company, Nomura estimates

Drilling down

3G momentum... Fast & Furious

When we upgraded China Unicom's PT to HK\$13.50 from HK\$10.80 on 12 October 2010, we expected its share price to price in potential positive catalysts steadily (eg, improving 3G monthly net adds, 3G's enhancing effect on blended ARPU). Thus far, we have seen positive catalysts emerging more frequently than expected. After our visit to China Unicom's retail shops in Shenzhen last week, we revise our earnings estimates and raise our 12-month PT from HK\$13.50 to HK\$15.80. Reaffirm BUY.

- Key takeaways from latest trip to Shenzhen.** We visited a number of China Unicom's retail shops in Shenzhen. We note that: 1) a majority of its new adds is 3G postpaid subscribers; 2) the monthly ARPU of latest 3G adds remains at relatively high levels (RMB126 and RMB156); 3) the "RMB1,000 smartphones" are receiving good responses from mass market consumers; 4) the percentage of 3G new adds choosing the iPhone remains stable at ~20%; and 5) China Unicom has not hiked its handset subsidies (vs our previous visit to Shenzhen in Dec 2010).

Exhibit 33. Unicom's 3G retail shop in Shenzhen



Source: Nomura research

Exhibit 34. Pamphlets promoting Unicom's plans



Source: Nomura research

- RMB1,000-priced smartphones have yet to reach many Tier-2 cities in China.** As we have highlighted in our research note *China Unicom: Let's get ready ... to rumble* (published on 12 January 2011), the launch of RMB1,000-priced smartphones (affordable for mass consumers) should accelerate Unicom's momentum in gaining 3G subscribers. Our discussion with the company reveals that many of these "RMB1,000 smartphones" have only been launched in some Tier-1 cities, with Tier-2 cities largely underpenetrated. Given the favorable consumer response so far, we expect China Unicom to launch the "RMB1,000 smartphones" in Tier-2 cities soon, which should trigger another wave of high 3G monthly net adds.

Exhibit 35. Specifications of RMB1,000-priced smartphones currently available via China Unicom

Brand Model	Nokia 5235	Samsung B6520	Samsung i5508	Samsung s5750e	Motorola XT300	Sony Ericsson M1i	ZTE X876
							
Screen size (inch)	3.2	2.4	2.8	3.2	3.0	2.4	3.2
Dimensions (mm)	111 x 51.7 x 15.5	116.5 x 61.8 x 11.5	108 x 56 x 12.7	109.5 x 55 x 11.7	90 x 55 x 20	117 x 60 x 12.5	113 x 56.5 x 13.8
Camera (pixels)	2.0 mega	2.0 mega	2.0 mega	3.0 mega	3.0 mega	3.0 mega	3.0 mega
Touch screen	Y	N	Y	Y	Y	Y	Y
Keyboard	N	Y	N	N	Y	Y	N
OS	Symbian	Win Mobile 6.5	Android 2.1	Bada	Android 2.1	Win Mobile 6.5	Android 2.1

Brand Model	ZTE X850	Huawei U8110	Huawei U8100	Huawei U8500	Coolpad W711	K-Touch W366	K-Touch W606
							
Screen size (inch)	2.8	2.8	2.8	3.2	3.5	3.2	3.5
Dimensions (mm)	102 x 55 x 14.5	106 x 57 x 14	na	112 x 58 x 12.8	115.5 x 62 x 12.9	117 x 57 x 14.4	na
Camera (pixels)	3.0 mega	3.0 mega	3.0 mega	3.0 mega	2.0 mega	2.0 mega	2.0 mega
Touch screen	Y	Y	Y	Y	Y	Y	Y
Keyboard	N	N	N	N	N	N	N
OS	Android 2.1	Android 2.1	Android 2.1	Android 2.1	Android 2.1	Win Mobile 6.5	Android 2.1

Source: Company data

- We expect to see many more “RMB1,000 smartphones” launched on the WCDMA platform than on the other two 3G technology platforms.** In our opinion, manufacturers of low-end WCDMA smartphones outside of China are able to export their goods to many regions (eg, Europe, Asia, etc), while those of low-end CDMA smartphones are likely to have a very limited clientele base (eg, Verizon in the US, Reliance Communications in India). We do not think Japan is a viable market for foreign made low-end CDMA smartphones because Japan’s handset market has been a closed-end market traditionally (ie, relying heavily on Japan brands). For low-end TD-SCDMA smartphones, there is only one viable market (China), in our view. As such, we expect to see many more “RMB1,000 smartphones” to be launched on the WCDMA platform than on the other two 3G technology platforms. Indirectly, China Unicom will benefit from this trend with more smartphone choices for its subscribers, in our view.
- 3G version iPad and other tablets to provide additional boost for 3G subscriber growth.** The iPad currently sold by Apple Retail Store in China is the Wi-Fi version. We believe the 3G version iPad is likely to be sold in China soon (if not in 1Q11, we see 2Q11 the latest quarter for the launch). With more Android-based tablets scheduled to be launched globally this year, we expect China Unicom’s 3G subscriber growth to benefit further. In addition, users subscribing to China Unicom’s data service plan will likely contribute to Unicom’s ARPU enhancement because data ARPU on iPad or tablet PC quite often is much higher than China Unicom’s 2G ARPU (~RMB40).

Exhibit 36. Apple iPad



Source: Company data

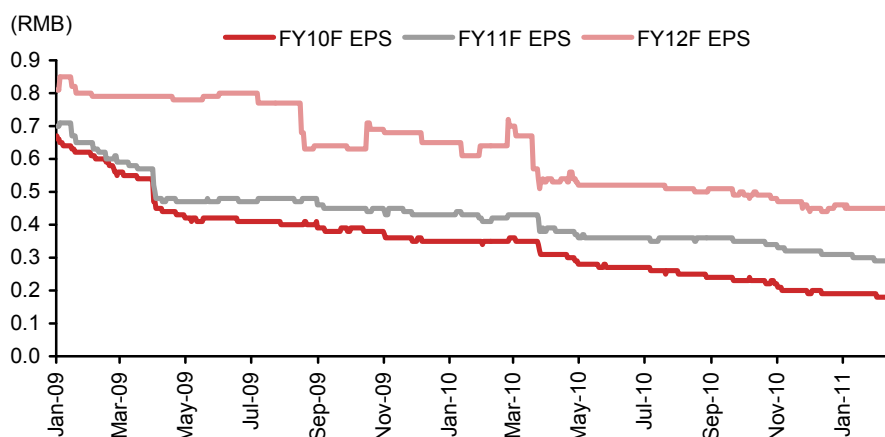
Exhibit 37. Samsung Galaxy Tab



Source: Company data

- China Unicom management reacts to changing market conditions in a more timely manner these days.** In our view, China Unicom management has failed to react to changing market conditions promptly in the past. This could be due to incomplete market information (on provincial levels) passed to headquarters and headquarters' decisions not being properly executed at provincial levels. However, we believe management now reacts more quickly to changing market conditions, as seen from its improved distribution status of iPhone on the mainland in recent months and introduction of a new 3G pricing scheme within a short period of time. We believe this should lead to opportunities for higher revenue and lower expenses.
- China Unicom is still quite under-owned, based on feedback from our recent marketing trips.** From our recent marketing trips, we sense investors are still skeptical of China Unicom's outlook despite its improved 3G monthly net adds and steady growth in 2G monthly net adds. Hence, we believe the stock is under owned by investors across regions. With the company likely to see improving operational key performance indicators (KPIs) in the coming months, we expect investors to gradually warm up to the stock of China Unicom, which could trigger another share price rally.
- Likely to enter into a cycle of earnings upgrade.** As shown by the following exhibit, the Street is still in the process of revising its earnings estimates for China Unicom. We note there are quite a number of outdated or overly bearish earnings estimates for China Unicom. As China Unicom continues to deliver improving 3G monthly net adds at a stable 3G ARPU level, it is highly conceivable these outdated or overly bearish earnings estimates will be revised upward. Therefore, we believe China Unicom is still in an earnings upgrade cycle and the underlying share price is likely to react positively.

Exhibit 38. China Unicom EPS revisions



Source: Institutional Brokers' Estimate System (IBES)

- **Earnings revisions.** We revise our earnings forecasts to take into account: 1) our stable 3G ARPU assumptions; and 2) better monthly net adds for the mobile business.

Exhibit 39. China Unicom: earnings revision summary

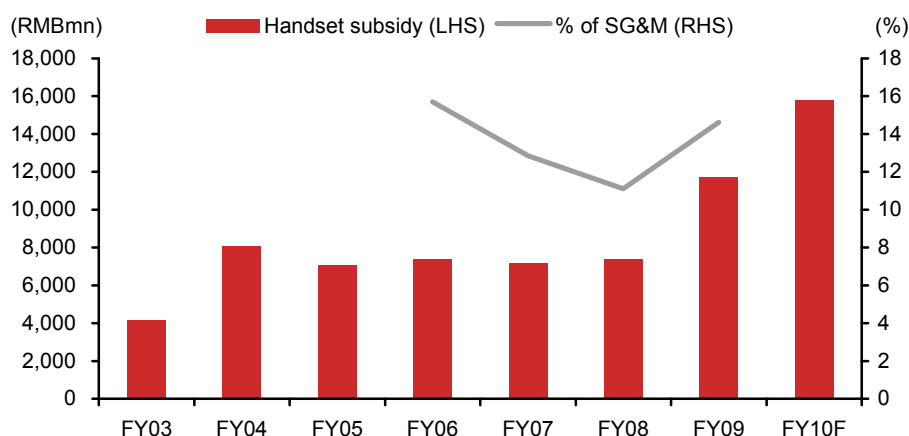
	FY10F	FY11F	FY12F
Mobile net adds (mn)			
- Old assumption	19.8	21.6	21.6
- New assumption	19.8	25.2	25.2
Revision (%)	0.0	16.7	16.7
3G ARPU (RMB)			
- Old assumption	120	108	100
- New assumption	120	108	100
Revision (%)	0.0	0.0	0.0
Blended ARPU (RMB)			
- Old assumption	44	47	49
- New assumption	44	48	50
Revision (%)	0.0	1.3	2.8
Revenue (RMBmn)			
- Old assumption	168,916	187,593	205,466
- New assumption	168,916	189,934	211,928
Revision (%)	0.0	1.2	3.1
Net profit (RMBmn)			
- Old assumption	5,625	8,284	11,702
- New assumption	5,625	8,939	12,439
Revision (%)	0.0	7.9	6.3

Source: Nomura estimates

Consequently, we raise our PT from HK\$13.50 to HK\$15.80 and we reaffirm our BUY rating on China Unicom because of its: 1) steady launch of WCDMA smartphones targeted at the mass market segment; 2) more comprehensive handset offering on the WCDMA platform; 3) potential to be a major beneficiary of iPhone 4's popularity in China; 4) likely launch of the iPad and corresponding benefits on 3G net adds and data revenue; and 5) relatively high (> 40%) earnings growth we expect for FY11. **Our order of preference remains China Unicom (BUY) > China Mobile (BUY) > China Telecom (NEUTRAL).**

What could go wrong with our bullish call on China Unicom?

- **China Mobile may increase handset subsidy significantly.** We believe some of China Mobile's former high-ARPU subscribers have joined China Unicom because of better handset selections available on the latter's WCDMA platform. As China Mobile listco has ~US\$45bn cash on its balance sheet, the company could effectively spend a major chunk of that cash on handset subsidy in 2011 as one measure in retaining mobile subscribers. Although we expect the gross amount of handset subsidy spent by China Mobile to increase gradually over time due to competition (similar to the experience in many other countries), we do not expect the company to dramatically hike its handset subsidy within a short period of time given: 1) China Mobile management often emphasizes the company's belief in rational competition and its good track record so far; and 2) it will be a challenge to wind down the level of handset subsidy after it has been ramped up. When China Mobile announces its FY10 results in mid-March, the company will provide handset subsidy guidance for FY11.

Exhibit 40. China Mobile – proportion of SG&M incurred on handset subsidy

Source: Company data, Nomura estimates

- China Telecom may launch CDMA iPhone very quickly.** We understand some investors often see China Unicom as an “iPhone story”. As a result, these investors tend to see news flow implicating a possible introduction of CDMA iPhone by China Telecom to be a negative to China Unicom (currently the only official iPhone partnering operator in China). In our opinion, the investors may over-react to the negative impact of CDMA iPhone on China Unicom on reasons: 1) only ~20% of China Unicom’s 3G monthly net adds are iPhone users, so China Unicom is not overly reliant on Apple iPhone; and 2) user experience of iPhone on AT&T’s WCDMA network is not good, that’s why some of those users are considering to switch to iPhone on Verizon’s CDMA network. We believe the user experience of iPhone on China Unicom’s WCDMA network is relatively better than that of AT&T’s network in the US, therefore, we do not expect a massive churn of existing iPhone users from China Unicom’s WCDMA network to China Telecom’s CDMA network.

Exhibit 41. Mobile subscriber base of AT&T versus Verizon

(mn)	FY07	FY08	FY09	FY10
Subscribers				
AT&T	70.1	77.0	85.1	95.4
Verizon	65.7	72.1	89.2	94.1
Net adds				
AT&T	na	7.0	8.1	10.3
Verizon	na	6.3	17.1	5.0

Source: Company data

- China Unicom may increase capex spending higher-than-expected.** In the past, mainland mobile subscribers tended to view China Unicom as an operator that had underinvested in its 2G mobile network. Therefore, we believe China Unicom has a bigger incentive to overinvest in its 3G mobile network (ie, as a strategy to change consumer perception of the company). For FY10F, our capex assumption is RMB75bn (same as company guidance). For FY11F, we assume capex to be RMB85bn (no company guidance at the moment). If China Unicom’s capex spending for FY11F and beyond is much higher than the Street’s expectation, then it is likely that the share price may react negatively.

Exhibit 42. Base transceiver stations (BTS) comparison of mainland operators

Operator	Network	Number of BTS (000')							
		FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10F
China Mobile	GSM	104	na	na	234	307	390	460	520
	TD-SCDMA	na	na	na	na	na	20	80	180
	TD-LTE	na	na	na	na	na	na	na	na
China Telecom	CDMA 1x	na	na	na	na	na	75	60	60
	EV-DO	na	na	na	na	na	45	110	110
China Unicom	GSM	57	82	96	125	154	208	285	317
	WCDMA	na	na	na	na	na	na	107	169

Note: No data given by China Mobile for FY04-05

Source: Company data, Nomura estimates

Valuation

We continue to use the discounted cashflow (DCF) methodology to derive our price target, assuming a WACC of 11.2% and a long-term growth-to-perpetuity rate of 1.0%.

Catalysts

On a short-term basis (three months), we believe catalysts for China Unicom include:

- Monthly net adds, which reflect the company's ability to win market share;
- 4Q10 results, which show progress in business integration;
- iPhone subscriptions, which reflect the company's ability to attract data-savvy subscribers and improve its blended ARPU;
- The ability to contain selling and marketing expenses while growing its 3G business.

On a longer-term basis (12 months), we believe catalysts for China Unicom include:

- ARPU of its mobile subscriber base, as this reflects the company's ability to attract high-ARPU subscribers;
- FY10F results, which show financial and operational KPIs;
- The brand perception of China Unicom among consumers, as this affects subscriber take-up and the customer profile;
- A regulatory roadmap drawn out by the Ministry of Industry and Information Technology (China's telecom regulator).

Risks to our price target

The risks to our investment view include: 1) irrational tariff competition — if China Mobile or China Telecom were to lower mobile tariffs in an attempt to gain market share, we believe China Unicom might respond by launching similar tariff plans; 2) the regulatory environment — any significant change in the regulatory environment could have important implications for mainland telecom operators; and 3) new technologies may disrupt the industry landscape — the introduction of new technologies could complement or cannibalise existing technologies (ie, GSM, GPRS and EDGE). Given that telecom operators have invested heavily in their existing networks, the potential obsolescence of networks could lead to asset write-offs, in our view.

Financial statements

Income statement (RMBmn)					
Year-end 31 Dec	FY08	FY09	FY10	FY11F	FY12F
Revenue	148,906	153,945	168,916	189,934	211,928
Cost of goods sold	-	-	-	-	-
Gross profit	148,906	153,945	168,916	189,934	211,928
SG&A	(128,750)	(142,924)	(159,844)	(175,948)	(193,028)
Employee share expense	-	-	-	-	-
Operating profit	20,156	11,021	9,072	13,986	18,900
EBITDA	67,834	58,608	63,836	75,902	84,745
Depreciation	(47,678)	(47,587)	(54,764)	(61,915)	(65,845)
Amortisation	-	-	-	-	-
EBIT	20,156	11,021	9,072	13,986	18,900
Net interest expense	(2,172)	(945)	(2,307)	(2,839)	(3,125)
Associates & JCEs	-	-	-	-	-
Other income	(9,843)	2,201	735	772	810
Earnings before tax	8,141	12,277	7,500	11,919	16,585
Income tax	(1,801)	(2,721)	(1,875)	(2,980)	(4,146)
Net profit after tax	6,340	9,556	5,625	8,939	12,439
Minority interests	(1)	-	-	-	-
Other items	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Normalised NPAT	6,339	9,556	5,625	8,939	12,439
Extraordinary items	-	-	-	-	-
Reported NPAT	6,339	9,556	5,625	8,939	12,439
Dividends	(4,754)	(3,770)	(3,770)	(2,682)	(3,732)
Transfer to reserves	1,585	5,786	1,855	6,257	8,707

Execution key to delivering earnings growth

Valuation and ratio analysis

FD normalised P/E (x)	43.2	28.6	47.9	30.2	21.7
FD normalised P/E at price target (x)	52.5	34.8	58.2	36.6	26.3
Reported P/E (x)	42.9	28.5	47.9	30.2	21.7
Dividend yield (%)	1.7	1.4	1.4	1.0	1.4
Price/cashflow (x)	2.9	3.0	4.5	3.8	3.4
Price/book (x)	1.3	1.3	1.3	1.3	1.2
EV/EBITDA (x)	4.3	5.7	5.5	4.9	4.4
EV/EBIT (x)	14.5	30.4	38.8	26.5	19.6
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
EBITDA margin (%)	45.6	38.1	37.8	40.0	40.0
EBIT margin (%)	13.5	7.2	5.4	7.4	8.9
Net margin (%)	4.3	6.2	3.3	4.7	5.9
Effective tax rate (%)	22.1	22.2	25.0	25.0	25.0
Dividend payout (%)	75.0	39.5	67.0	30.0	30.0
Capex to sales (%)	47.3	73.1	44.4	44.8	35.4
Capex to depreciation (x)	1.5	2.4	1.4	1.4	1.1
ROE (%)	4.2	4.6	2.7	4.2	5.7
ROA (pretax %)	8.4	3.0	2.2	3.2	4.2

Growth (%)

Revenue	49.6	3.4	9.7	12.4	11.6
EBITDA	105.5	(13.6)	8.9	18.9	11.7
EBIT	95.2	(45.3)	(17.7)	54.2	35.1
Normalised EPS	(62.6)	50.6	(40.6)	58.9	39.2
Normalised FDEPS	(62.5)	51.0	(40.3)	58.9	39.2

Per share

Reported EPS (RMB)	0.27	0.40	0.24	0.38	0.53
Norm EPS (RMB)	0.27	0.40	0.24	0.38	0.53
Fully diluted norm EPS (RMB)	0.26	0.40	0.24	0.38	0.53
Book value per share (RMB)	8.70	8.76	8.84	9.06	9.48
DPS (RMB)	0.20	0.16	0.16	0.11	0.16

Source: Nomura estimates

Cashflow (RMBmn)					
Year-end 31 Dec	FY08	FY09	FY10	FY11F	FY12F
EBITDA	67,834	58,608	63,836	75,902	84,745
Change in working capital	37,752	37,478	646	(103)	(97)
Other operating cashflow	(10,530)	(6,257)	(5,028)	(4,714)	(6,105)
Cashflow from operations	95,056	89,829	59,453	71,084	78,543
Capital expenditure	(70,490)	(112,470)	(75,000)	(85,000)	(75,000)
Free cashflow	24,566	(22,641)	(15,547)	(13,916)	3,543
Reduction in investments	-	-	-	-	-
Net acquisitions	(7,492)	(7,307)	-	-	-
Reduction in other LT assets	(3,940)	(10,507)	-	-	-
Addition in other LT liabilities	4,992	(2,004)	-	-	-
Adjustments	-	-	-	-	-
Cashflow after investing acts	18,126	(42,459)	(15,547)	(13,916)	3,543
Cash dividends	(6,082)	(4,572)	(3,770)	(3,770)	(2,682)
Equity issue	-	(8,802)	-	-	-
Debt issue	26,135	41,737	15,541	20,000	-
Convertible debt issue	-	-	-	-	-
Others	(36,023)	13,436	1,751	(161)	(185)
Cashflow from financial acts	(15,970)	41,799	13,521	16,069	(2,867)
Net cashflow	2,157	(660)	(2,026)	2,153	676
Beginning cash	7,319	9,476	8,816	6,790	8,943
Ending cash	9,476	8,816	6,790	8,943	9,620
Ending net debt	20,517	62,914	80,480	98,327	97,651

Source: Nomura estimates

Balance sheet (RMBmn)					
As at 31 Dec	FY08	FY09	FY10	FY11F	FY12F
Cash & equivalents	9,476	8,816	6,790	8,943	9,620
Marketable securities	-	-	-	-	-
Accounts receivable	8,587	8,825	9,683	10,888	12,149
Inventories	1,171	2,412	4,544	4,547	4,550
Other current assets	16,886	10,560	5,439	5,439	5,439
Total current assets	36,120	30,613	26,457	29,818	31,758
LT investments	-	-	-	-	-
Fixed assets	283,912	351,157	371,393	394,478	403,633
Goodwill	2,771	2,771	2,600	2,428	2,257
Other intangible assets	5,326	5,202	5,202	5,202	5,202
Other LT assets	16,795	27,302	27,302	27,302	27,302
Total assets	344,924	417,045	432,953	459,227	470,151
Short-term debt	21,996	63,971	63,971	63,971	63,971
Accounts payable	70,899	108,003	108,003	108,003	108,003
Other current liabilities	32,324	27,851	26,366	27,471	28,637
Total current liabilities	125,219	199,825	198,340	199,445	200,611
Long-term debt	7,997	7,759	23,300	43,300	43,300
Convertible debt	-	-	-	-	-
Other LT liabilities	4,998	2,994	2,994	2,994	2,994
Total liabilities	138,214	210,578	224,634	245,738	246,905
Minority interest	-	2	-	-	-
Preferred stock	-	-	-	-	-
Common stock	169,113	175,745	175,745	175,745	175,745
Retained earnings	60,780	48,808	50,663	55,832	65,589
Proposed dividends	-	-	-	-	-
Other equity and reserves	(23,183)	(18,088)	(18,088)	(18,088)	(18,088)
Total shareholders' equity	206,710	206,465	208,320	213,489	223,246
Total equity & liabilities	344,924	417,045	432,953	459,227	470,151

Liquidity (x)

Current ratio	0.29	0.15	0.13	0.15	0.16
Interest cover	9.3	11.7	3.9	4.9	6.0

Leverage

Net debt/EBITDA (x)	0.30	1.07	1.26	1.30	1.15
Net debt/equity (%)	9.9	30.5	38.6	46.1	43.7

Activity (days)

Days receivable	14.5	20.6	20.0	19.8	19.9
Days inventory	na	na	na	na	na
Days payable	na	na	na	na	na
Cash cycle	na	na	na	na	na

Source: Nomura estimates

Company geared up post merger with China Netcom

Appendix I

Telecom penetration in China

Exhibit 43. Mobile subscribers and penetration within China

Province	Mobile subs (mn)			Penetration (%)			Province	Mobile subs (mn)			Penetration (%)		
	2008	2009	2010	2008	2009	2010		2008	2009	2010	2008	2009	2010
EASTERN													
Beijing	16.2	18.3	21.3	99.0	107.7	121.4	Jiangxi	12.8	15.5	18.1	29.2	35.2	40.9
Fujian	23.7	26.4	30.2	66.1	73.2	83.3	Jilin	13.6	15.7	18.1	49.9	57.6	65.9
Guangdong	84.0	89.4	96.2	88.9	93.6	99.9	Shanxi	17.0	19.5	22.1	50.1	57.3	64.3
Hainan	4.0	5.0	5.9	46.9	58.1	68.8	WESTERN						
Hebei	32.1	37.9	43.5	46.3	54.2	61.9	Chongqing	12.8	14.4	16.6	45.5	50.8	58.2
Jiangsu	39.6	49.4	59.2	51.9	64.4	76.7	Gansu	9.0	11.9	13.9	34.2	45.5	52.8
Liaoning	24.2	28.8	33.4	56.3	66.8	77.4	Guangxi	16.2	19.6	22.1	34.1	40.7	45.6
Shandong	46.3	53.4	61.9	49.4	56.7	65.4	Guizhou	11.8	14.5	18.0	17.4	38.3	47.4
Shanghai	18.8	21.1	23.6	101.2	111.9	122.9	Inner Mongolia	13.4	16.2	20.3	55.9	66.9	84.0
Tianjin	8.7	9.9	10.9	77.6	84.4	88.7	Ningxia	3.2	3.8	4.4	53.0	61.9	70.0
Zhejiang	39.8	44.6	50.5	78.6	87.1	97.4	Qinghai	2.5	3.0	4.0	44.8	54.3	71.4
CENTRAL							Shaanxi	19.1	23.4	25.2	51.0	62.1	66.8
Anhui	17.2	21.5	28.0	28.0	35.1	45.6	Sichuan	28.5	34.7	41.6	35.1	42.6	50.8
Heilongjiang	16.5	18.7	20.7	43.1	48.9	54.2	Xinjiang	10.5	11.1	13.6	50.2	52.2	63.0
Henan	35.0	39.9	44.0	37.4	42.3	46.4	Xizang	0.9	1.2	1.6	30.6	43.2	54.4
Hubei	25.3	31.4	34.5	44.4	54.9	60.4	Yunnan	16.4	19.4	22.4	36.2	42.6	49.1
Hunan	22.4	27.5	32.6	35.3	43.2	50.8	NATIONWIDE						
								641.2	747.2	858.6	48.5	56.3	64.4

Source: The Ministry of Industry and Information Technology (MIIT)

Exhibit 44. Wireline subscribers and penetration within China

Province	Wireline subs (mn)			Penetration (%)			Province	Wireline subs (mn)			Penetration (%)		
	2008	2009	2010	2008	2009	2010		2008	2009	2010	2008	2009	2010
EASTERN													
Beijing	8.8	8.9	8.9	54.2	52.7	50.5	Jiangxi	8.5	7.5	7.1	19.4	17.0	16.0
Fujian	14.3	12.4	10.5	40.0	34.5	28.8	Jilin	6.2	5.8	6.0	22.8	21.3	21.7
Guangdong	35.7	33.7	31.7	37.8	35.3	32.9	Shanxi	8.0	7.6	7.2	23.7	22.2	21.0
Hainan	2.2	1.8	1.8	26.6	21.4	20.8	WESTERN						
Hebei	14.6	13.4	12.5	21.0	19.2	17.8	Chongqing	6.8	6.3	5.8	24.4	22.1	20.4
Jiangsu	29.7	26.6	25.0	38.9	34.7	32.3	Gansu	5.2	4.5	4.1	19.8	17.3	15.6
Liaoning	16.0	15.3	14.3	37.3	35.4	33.1	Guangxi	8.5	7.9	7.1	17.8	16.4	14.6
Shandong	24.2	22.3	19.9	25.8	23.6	21.0	Guizhou	5.0	4.5	4.3	7.4	11.9	11.4
Shanghai	10.2	9.4	9.4	54.7	49.5	48.7	Inner Mongolia	4.6	4.4	4.1	19.2	18.3	17.1
Tianjin	4.0	3.9	3.7	35.5	32.8	29.9	Ningxia	1.2	1.1	1.1	19.9	18.5	17.9
Zhejiang	23.0	21.2	19.9	45.4	41.4	38.3	Qinghai	1.2	1.1	1.0	21.6	19.7	18.5
CENTRAL							Shaanxi	8.8	8.2	7.8	23.5	21.7	20.7
Anhui	13.8	12.7	12.3	22.6	20.7	20.1	Sichuan	16.6	15.5	14.2	20.8	19.1	17.3
Heilongjiang	10.3	8.7	8.1	26.9	22.8	21.3	Xinjiang	6.1	5.5	5.3	24.9	18.8	24.5
Henan	15.6	14.6	14.3	16.7	15.5	15.0	Xizang	0.7	0.5	0.4	20.8	19.1	15.1
Hubei	11.7	10.9	10.3	20.7	19.1	17.9	Yunnan	6.2	5.8	5.6	13.7	12.8	12.3
Hunan	12.6	11.7	10.8	19.8	18.3	16.8	NATIONWIDE						
								340.4	313.7	294.4	25.8	23.6	22.1

Source: The Ministry of Industry and Information Technology (MIIT)

Appendix II

Network locations and ownership

Exhibit 45. China telecom operators – locations and network ownership

	2G	3G	Wireline telephony	Wireline broadband
Operation (provinces)				
China Mobile	31	31	na	na
China Telecom	31	31	21	21
China Unicom	31	31	10	10
Network ownership				
China Mobile	Listco	Parentco	na	na
China Telecom	Parentco	Parentco	Listco	Listco
China Unicom	Listco	Listco	Listco	Listco

Source: Company data

Appendix III

Publications

Exhibit 46. Recent publications on the China telecom services sector

Date	Title of publication
22 Feb, 2011	China Mobile: Preview of FY10 results
15 Feb, 2011	China Mobile: Ambition of TD-LTE unveiled at Mobile World Congress
6 Jan, 2011	China Mobile: Call of Duty
14 Dec, 2010	China Mobile: Pushing the envelope on TD-LTE
1 Dec, 2010	China Mobile: Postcards from Shanghai & Beijing
17 Nov, 2010	China Mobile: Reporting live from MAC 2010
29 Oct, 2010	China Mobile: Scale of TD-LTE trial may exceed initial expectations
20 Oct, 2010	China Mobile: Review of 3Q10 results
13 Oct, 2010	China Mobile: Man vs machine
18 Jan, 2011	China Telecom: Dull guidance on CDMA iPhone
4 Jan, 2011	China Telecom: Clash of the Titans (CT vs Apple)
25 Nov, 2010	China Telecom: Postcards from Shanghai & Beijing
28 Oct, 2010	China Telecom: 3Q10 review – “CDMA express train” lost some steam
15 Oct, 2010	China Telecom: Preview of 3Q10 results
13 Oct, 2010	China Telecom: Catching breath before another dash
24 Jan, 2011	China Unicom: Tying knots after LT dating
12 Jan, 2011	China Unicom: Let's get ready ... to rumble
6 Dec, 2010	China Unicom: Something positive could be brewing in Guangdong
26 Nov, 2010	China Unicom: All they want for X'mas is ... iPhone 4 or iPad
15 Nov, 2010	China Unicom: Benefits from iPhone 4, iPad and smartphone not fully reflected
29 Oct, 2010	China Unicom: Driving a Ferrari (iPhone 4) through highway or local?
13 Oct, 2010	China Unicom: Revenge of the fallen
31 Jan, 2011	Telecoms China: Monthly industry data
27 Jan, 2011	Telecoms China: Three most-asked questions
24 Jan, 2011	Telecoms China: The RMB1,000 revolution
14 Jan, 2011	Telecoms China: Hiccups for MNP commercial launch
11 Jan, 2011	Telecoms Asia: Will telcos run on 3D?
5 Jan, 2011	Telecoms China: Monthly industry data
7 Dec, 2010	Telecoms Asia: 4G – Little excitement for big potential
2 Dec, 2010	ZTE: Three drivers in 2011F
29 Nov, 2010	Telecoms China: Monthly industry data
5 Nov, 2010	Telecoms China: MNP commercial launch may start soon
28 Oct, 2010	ZTE: Sales recovery slower than expected
22 Oct, 2010	Telecoms China: Monthly industry data
20 Oct, 2010	Telecoms China: Spectrum availability, mid-air scare?
13 Oct, 2010	Comba: Takeaway from field trip and communication expo

Source: Nomura research

Appendix IV

Nomura's Asia telco coverage

Please refer to the following Exhibit for specific country responsibilities:

Exhibit 47. Nomura's Asian telecom research team

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Source: Nomura research

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Analyst Certification

We, Danny Chu and Leping Huang, hereby certify (1) that the views expressed in this Research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Research report, (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Research report and (3) no part of our compensation is tied to any specific investment banking transactions performed by Nomura Securities International, Inc., Nomura International plc or any other Nomura Group company.

Issuer Specific Regulatory Disclosures

Mentioned companies

Issuer name	Ticker	Price	Price date	Stock rating	Sector rating	Disclosures
China Mobile	941 HK	73.75 HKD	02-Mar-2011	Buy		4,58
China Telecom	728 HK	4.60 HKD	02-Mar-2011	Neutral		4,58
China Unicom	762 HK	13.08 HKD	02-Mar-2011	Buy		3,4,8,47,48,55,58,123

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Nomura Securities International Inc. makes a market in securities of the company.

Disclosures required in the European Union

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58 Nomura financial interest/business relationships disclosures:

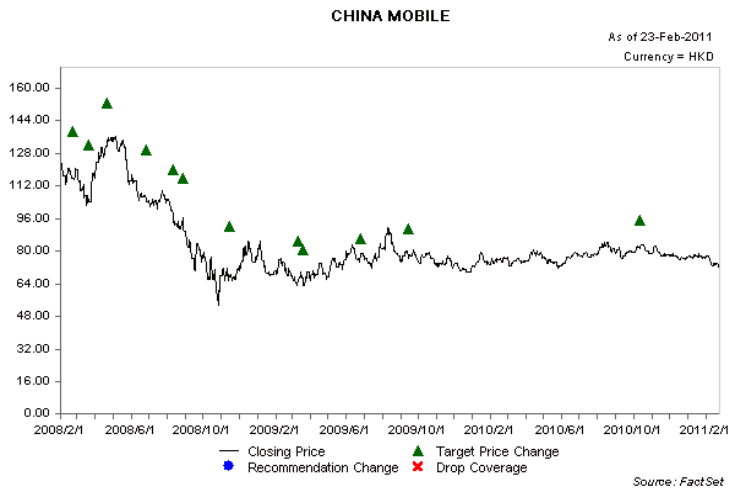
Nomura International (Hong Kong) Limited or an affiliate in the global Nomura group is a market maker or liquidity provider in the securities / related derivatives of the issuer.

Previous Rating

Issuer name	Previous Rating	Date of change
China Mobile	Neutral	28-Nov-2007
China Telecom	Buy	13-Oct-2010
China Unicom	Neutral	11-Feb-2010

China Mobile (941 HK)**73.75 HKD (02-Mar-2011) Buy**

Rating and target price chart (three year history)

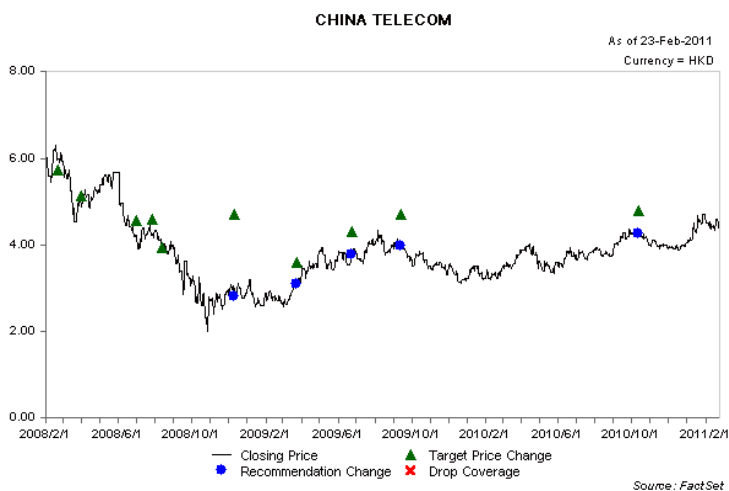


Date	Rating	Target price	Closing price
13-Oct-2010		95.00	81.95
14-Sep-2009		91.00	77.35
25-Jun-2009		86.00	77.00
20-Mar-2009		81.00	63.10
12-Mar-2009		85.00	65.85
14-Nov-2008		92.00	68.05
28-Aug-2008		116.00	90.45
11-Aug-2008		120.00	99.00
26-Jun-2008		130.00	106.20
21-Apr-2008		153.00	134.70
20-Mar-2008		132.00	104.20
22-Feb-2008		139.00	116.10

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

China Telecom (728 HK)**4.60 HKD (02-Mar-2011) Neutral**

Rating and target price chart (three year history)

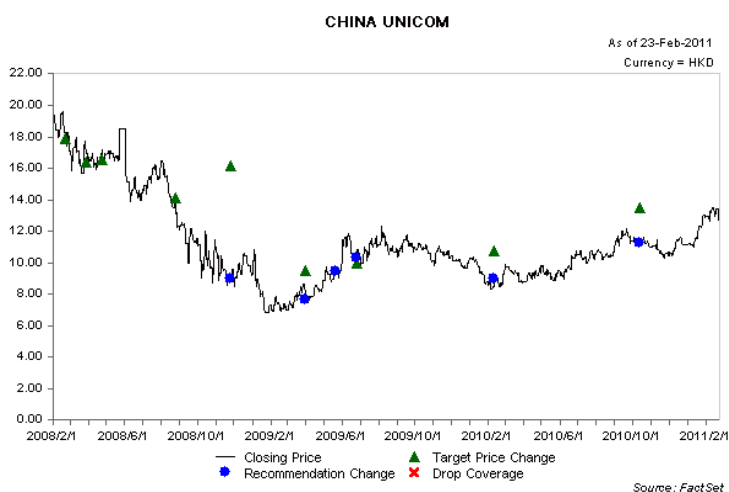


Date	Rating	Target price	Closing price
13-Oct-2010		4.80	4.25
13-Oct-2010	Neutral		4.25
14-Sep-2009		4.70	3.96
25-Jun-2009		4.30	3.78
25-Mar-2009		3.60	3.08
12-Dec-2008		4.70	2.80
12-Dec-2008	Buy		2.80
13-Aug-2008		3.93	3.98
28-Jul-2008		4.61	4.27
02-Jul-2008		4.58	4.13
01-Apr-2008		5.14	4.89
22-Feb-2008		5.75	5.98

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

China Unicom (762 HK)**13.08 HKD (02-Mar-2011) Buy**

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
13-Oct-2010		13.50	11.26
11-Feb-2010		10.80	8.93
11-Feb-2010	Buy		8.93
25-Jun-2009		10.00	10.32
22-May-2009	Neutral		9.46
01-Apr-2009		9.50	7.61
27-Nov-2008		16.20	8.97
27-Nov-2008	Buy		8.97
26-Aug-2008		14.15	13.12
24-Apr-2008		16.56	17.18
28-Mar-2008		16.38	16.92
22-Feb-2008		17.90	18.26

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

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As at 31 December 2010.

*The Nomura Group as defined in the Disclaimer section at the end of this report.

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The rating system is a relative system indicating expected performance against a specific benchmark identified for each individual stock. Analysts may also indicate absolute upside to target price defined as (fair value - current price)/current price, subject to limited management discretion. In most cases, the fair value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as discounted cash flow or multiple analysis, etc.

STOCKS

A rating of '**Buy**', indicates that the analyst expects the stock to outperform the Benchmark over the next 12 months.

A rating of '**Neutral**', indicates that the analyst expects the stock to perform in line with the Benchmark over the next 12 months.

A rating of '**Reduce**', indicates that the analyst expects the stock to underperform the Benchmark over the next 12 months.

A rating of '**Suspended**', indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the company.

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SECTORS

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A '**Bearish**' stance, indicates that the analyst expects the sector to underperform the Benchmark during the next 12 months.

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Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published from 30 October 2008 and in Japan from 6 January 2009

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Target Price - Current Price) / Current Price, subject to limited management discretion. In most cases, the Target Price will equal the analyst's 12-month intrinsic valuation of the stock, based on an appropriate valuation methodology such as discounted cash flow, multiple analysis, etc.

A **'Buy'** recommendation indicates that potential upside is 15% or more.

A **'Neutral'** recommendation indicates that potential upside is less than 15% or downside is less than 5%.

A **'Reduce'** recommendation indicates that potential downside is 5% or more.

A rating of **'Suspended'** indicates that the rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Nomura is acting in an advisory capacity in a merger or strategic transaction involving the subject company.

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SECTORS

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A **'Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Explanation of Nomura's equity research rating system in Japan published prior to 6 January 2009 (and ratings in Europe, Middle East and Africa, US and Latin America published prior to 27 October 2008)

STOCKS

A rating of '1' or **'Strong buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 15% or more over the next six months.

A rating of '2' or **'Buy'**, indicates that the analyst expects the stock to outperform the Benchmark by 5% or more but less than 15% over the next six months.

A rating of '3' or **'Neutral'**, indicates that the analyst expects the stock to either outperform or underperform the Benchmark by less than 5% over the next six months.

A rating of '4' or **'Reduce'**, indicates that the analyst expects the stock to underperform the Benchmark by 5% or more but less than 15% over the next six months.

A rating of '5' or **'Sell'**, indicates that the analyst expects the stock to underperform the Benchmark by 15% or more over the next six months.

Stocks labeled **'Not rated'** or shown as **'No rating'** are not in Nomura's regular research coverage. Nomura might not publish additional research reports concerning this company, and it undertakes no obligation to update the analysis, estimates, projections, conclusions or other information contained herein.

SECTORS

A **'Bullish'** stance, indicates that the analyst expects the sector to outperform the Benchmark during the next six months.

A **'Neutral'** stance, indicates that the analyst expects the sector to perform in line with the Benchmark during the next six months.

A **'Bearish'** stance, indicates that the analyst expects the sector to underperform the Benchmark during the next six months.

Benchmarks are as follows: **Japan:** TOPIX; **United States:** S&P 500, MSCI World Technology Hardware & Equipment; **Europe**, by sector - *Hardware/Semiconductors:* FTSE W Europe IT Hardware; *Telecoms:* FTSE W Europe Business Services; *Business Services:* FTSE W Europe; *Auto & Components:* FTSE W Europe Auto & Parts; *Communications equipment:* FTSE W Europe IT Hardware; **Ecology Focus:** Bloomberg World Energy Alternate Sources; **Global Emerging Markets:** MSCI Emerging Markets ex-Asia.

Explanation of Nomura's equity research rating system for Asian companies under coverage ex Japan published prior to 30 October 2008

STOCKS

Stock recommendations are based on absolute valuation upside (downside), which is defined as (Fair Value - Current Price)/Current Price, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value. Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A **'Strong buy'** recommendation indicates that upside is more than 20%.

A **'Buy'** recommendation indicates that upside is between 10% and 20%.

A **'Neutral'** recommendation indicates that upside or downside is less than 10%.

A **'Reduce'** recommendation indicates that downside is between 10% and 20%.

A **'Sell'** recommendation indicates that downside is more than 20%.

SECTORS

A **'Bullish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A **'Neutral'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

A **'Bearish'** rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Explanation of CNS rating system for Thailand companies under coverage published from 2 March 2009:**Stocks:**

Stock recommendations are based on absolute valuation upside (downside), which is defined as $(\text{Fair Value} - \text{Current Price}) / \text{Current Price}$, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value.

Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A "Buy" recommendation indicates that potential upside is 15% or more.

A "Neutral" recommendation indicates that potential upside is less than 15% or downside is less than 5%.

A "Reduce" recommendation indicates that potential downside is 5% or more.

Explanation of CNS rating system for Thailand companies under coverage published prior to 28 February 2009:**Stocks:**

Stock recommendations are based on absolute valuation upside (downside), which is defined as $(\text{Fair Value} - \text{Current Price}) / \text{Current Price}$, subject to limited management discretion. In most cases, the Fair Value will equal the analyst's assessment of the current intrinsic fair value of the stock using an appropriate valuation methodology such as Discounted Cash Flow or Multiple analysis etc. However, if the analyst doesn't think the market will revalue the stock over the specified time horizon due to a lack of events or catalysts, then the fair value may differ from the intrinsic fair value. In most cases, therefore, our recommendation is an assessment of the difference between current market price and our estimate of current intrinsic fair value.

Recommendations are set with a 6-12 month horizon unless specified otherwise. Accordingly, within this horizon, price volatility may cause the actual upside or downside based on the prevailing market price to differ from the upside or downside implied by the recommendation.

A "Strong Buy" recommendation indicates that upside is more than 20%.

A "Buy" recommendation indicates that upside is between 10% and 20%.

A "Neutral" recommendation indicates that upside or downside is less than 10%.

A "Reduce" recommendation indicates that downside is between 10% and 20%.

A "Sell" recommendation indicates that downside is more than 20%.

Sectors: (No change)

A "Bullish" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a positive absolute recommendation.

A "Neutral" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a neutral absolute recommendation.

A "Bearish" rating means most stocks in the sector have (or the weighted average recommendation of the stocks under coverage is) a negative absolute recommendation.

Target Price

A Target Price, if discussed, reflect in part the analyst's estimates for the company's earnings. The achievement of any target price may be impeded by general market and macroeconomic trends, and by other risks related to the company or the market, and may not occur if the company's earnings differ from estimates.

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