

# Your Money

**Centa-City Index**  
www.centanet.com/ccti.htm  
**49.41**  
(ANNOUNCED ON 24/12/2004)  
Indicating that the value of second-hand premises in Hong Kong +0.7% CEN2002

Telecom juggernauts are well placed to perform, writes Andy Mantel

## Sleeping giants poised to stir

The two stock picks this month focus on large China-related plays that have underperformed compared to other large caps listed in Hong Kong.

These recommendations have been partly influenced by the corporate scandals plaguing smaller, privately owned companies operating in the mainland.

China Telecom and China Mobile are two juggernauts in the fixed-line and mobile-phone sectors. While other large-cap stocks listed in Hong Kong have outperformed this year, the Chinese telecom stocks have been lacklustre for most of the year.

Since 1994, China's telecom industry has been through rapid changes as the government sought to increase penetration and efficiency. The government has recognised the need for foreign capital to build a modern telecommunica-

tions industry and the restructuring process has been very successful. The listings of the dominant mobile operators China Mobile and China Unicom in October 1997 and June 2000, respectively, were important in the rapid evolution of the mobile sector.

Over the past few years, the government has accelerated the development of the fixed-line industry in preparation for WTO membership. Initially, eight fixed-line carriers were awarded telecom licences while the mobile sector remained a cosy duopoly. The listings of China Telecom in 2002 and China Netcom last month have further accelerated much-needed reforms.

Although it will be difficult to maintain the growth rates of the past few years, the Chinese telecom industry is still attractive, with low penetration rates. At the end of November, China had 313 million

fixed-line services and 330 mobile-phone subscribers, according to official figures.

China Telecom provides fixed-line telephone, data and internet, and leased-line services in 20 provinces. The other major national operator is China Netcom, which operates in 10 provinces in the north. Both companies are able to enter each other's territory and compete for customers.

With close to 200 million fixed lines, China Telecom gets about half its revenue from local calls. High entry barriers will provide stable revenue growth.

The data and internet division contributes about 10 per cent and should represent a large growth opportunity.

It recorded first-half turnover of 80 billion yuan and earnings of 14.7 billion yuan, increases of 8 per cent and 13 per cent respectively. Broad-

band will be the next important revenue driver with significant growth of 52 per cent to 6.6 billion yuan.

The company is expected to have stable cash flows, maintain reasonable valuations (nine times this year's earnings) and offer a dividend yield of around 2-3 per cent.

China Mobile is the world's largest mobile-phone company by subscribers. In July, it completed the acquisition of mobile companies in 10 provinces and became the first overseas-listed mainland telecom operating across China.

At the end of last month the number of subscribers had reached 201 million, including 35 million added this year.

China Mobile recorded first-half turnover of 86.4 billion yuan and profits of 18.8 billion yuan, increases of 12.7 per cent and 7.8 per cent respectively. Average revenue

per user (arpu) has been trending downwards and at the end of the first half this year it was 96 yuan. The numbers reported were for only 21 provinces as the acquisition of the 10 remaining provinces was not completed until July.

The government has not set a timetable for issuing 3G licences. China Mobile's management has indicated that capital expenditure for 70-80 per cent coverage would be 100 to 110 billion yuan.

The company has a valuation of 14 times current earnings with a 1.5 per cent dividend yield. Negative concerns include the cost of building the 3G network and falling arpu numbers.

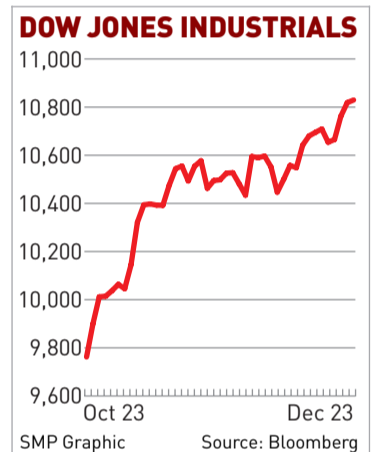
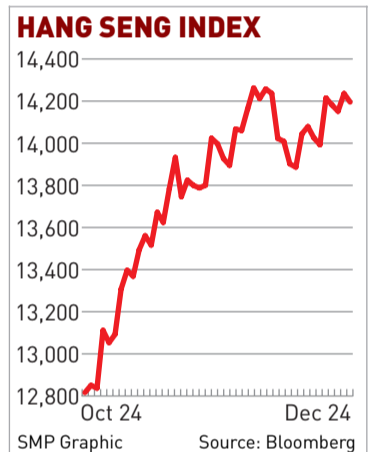
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MANTEL'S CHOICE		Price on recommendation	Friday price
		Jan 21	
China Resources		\$10.40	\$11.75
Qiao Xing Universal		US\$15.00	\$8.18
Telephone (Nasdaq short)			
		Feb 29	
Kwang Sung Electronics		\$1.76	\$0.95
Weichai Power		\$10.50	\$20.50
		Mar 28	
Jilin Chemical		\$1.68	\$2.825
GES		\$50.665	\$0.675
		May 28	
CNOOC		\$3.325	\$4.25
Zhenhai Refining		\$6.60	\$7.95
		Jul 16	
CIMC		\$11.88	\$15.63
Shanghai Petrochemical		\$2.75	\$2.825
		Aug 13	
Nanjing Panda		\$1.49	\$1.04
Guangdong Kelon		\$2.875	\$1.45
		Sep 24	
Huaneng Power		\$6.20	\$5.85
Guangdong Power		\$4.92	\$4.10
		Oct 22	
Tianjin Capital		\$2.275	\$2.65
Luoyang Glass		\$0.90	\$0.92
		Nov 26	
China Green		\$1.55	\$1.59
ZTE corp		\$22	\$25.45
		Dec 24	
China Telecom		\$2.925	\$2.925
China Mobile		\$26.60	\$26.60

SMP Graphic

### UPDATE

Your Money welcomes your ideas and contributions. Just e-mail us at [money@scmp.com](mailto:money@scmp.com)



The market is expected to trade quietly this week, with investors largely on the sidelines.

"Brokers and dealers have made their money this year - there's no need to window-dress [their positions] so many will stay out of the market for the rest of the year," says Peter Lai, director at DBS Vickers.

Last week the Hang Seng Index gained 202.46 points, or 1.4 per cent, to close at 14,196.9.

Mr Lai expects the market to move within a range of 13,750 and 14,500, supported by continued gains in property developers Cheung Kong and Sun Hung Kai Properties. In the near-term, further gains in Macau concept stocks, mostly companies linked to the casino industry, are expected. *AFP*

Wall Street stocks should maintain their 3½-year highs this week as they ring out 2004, helped by investor interest in large-cap stocks and a steady rebound in beaten-down drug companies.

Large-cap companies such as General Electric could give the market strength. It could gain from a weaker dollar as it makes the prices of its goods more competitive overseas, strategists say. Trading volume is expected to be extremely light.

Last week, the Dow Jones industrial average closed at 10,827.12, up 1.66 per cent; the S&P 500 at 1,210.13, up 1.33 per cent, and the Nasdaq at 2,160.62, up 1.19 per cent. For the year, the Dow is up almost 4 per cent, the S&P 500 up 9 per cent and the Nasdaq up nearly 8 per cent. *Reuters*

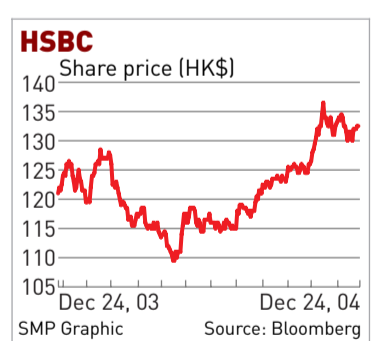
### WHAT THE BROKER SAYS

Merrill Lynch has lowered its recommendation on HSBC to "neutral" from "buy" and revised down slightly its cash pretax profit forecast for 2004 to US\$19.9 billion.

A rise of 23 per cent since early May has left HSBC's share price close to the broker's previous price objective of \$140.

HSBC is trading broadly in line with the global developed markets banks average while the broker's calculations show the bank is trading above fair value. With earnings momentum declining into next year, and low single-digit cash earnings per share growth, the stock's attractions are waning.

The broker says it now trades more expensively on a risk-adjust-



ed return on equity than most of the other mega-banks - Bank of America, Citigroup, JPM, Royal Bank of Scotland and Wells Fargo. The counter closed at \$132.50 on Friday.

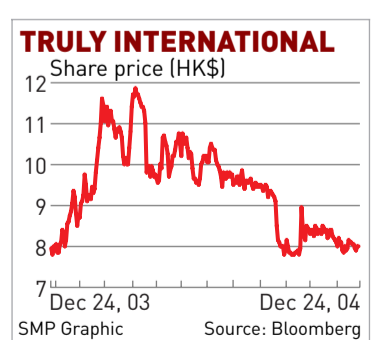
### WHAT THE BROKER SAID

About a year ago the success of new products launched by Truly International, a manufacturer of advanced technological items in the telecommunications sector, led to a "buy" recommendation on the stock by Core Pacific-Yamaichi.

The broker said Truly had reported strong sales and net profit growth over the past few quarters, driven by colour super-twist nematic (CSTN) and organic light emitting diode (Oled) modules for cell phone handsets, which had been well received.

Truly started to make CSTN panels on a mass scale last year and production yield had improved from about 30 per cent during the initial production run to about 85 per cent.

The company had secured licensed Oled technology from Kodak for a one-time charge of US\$4 million, plus 5 per cent fee on sales of Oled modules, and shipments amounted to about 150,000 pieces



per month. Production costs had been kept under control and the profit margin was comfortable. The broker had raised its target price to \$8.50. The counter was trading at \$7.70 a year ago.

Last month Truly International said sales rose 181 per cent year on year to \$2.39 billion in the first nine months of this year, while net profit surged 269 per cent to \$376.7 million. The counter closed on Friday at \$8.



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Welcome to UBS in Hong Kong.

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