

China telecoms sector

Top management reshuffle in boost CU's competitiveness

	Ticker	Rec	Mkt cap	Price	PT	Up/	PER (x)		EV/EBITDA (x)		Yield (%)	
			(US\$m)	(HK\$)	(HK\$)	dn (%)	2015E	2016E	2015E	2016E	2015E	2016E
China Telecom	728 HK	Outperform	45.7	4.34	6.1	40.6	16.3	15.0	4.1	4.0	2.1	2.3
China Unicom	762 HK	Outperform	33.6	10.92	15.5	41.9	16.5	14.6	3.5	3.4	2.3	2.9
China Comservice	552 HK	Outperform	3.0	2.68	5.5	105.2	6.8	6.3	2.5	2.2	4.4	4.8

Source: Company data, CSCI estimates, prices as of morning session closes of 24 Aug 2015

- **China telcos announced reshuffles of top management, which see Wang Xiaochu and Chang Xiaobing being swapped as Chairmans between China Telecom (CT) and China Unicom (CU) while Shang Bing will replace Xi Guohua's positions.**
- **We believe with Wang Xiaochu's leadership (strong in execution and strategic planning), CU would be able to fully capitalize on its advantages in 3G (WCDMA) and 4G (FDD LTE) technologies.**
- **We reiterate our Outperform on CU (being our sector top pick) and maintain our Outperform on CT as a valuation call.**

China telcos announced new round of top management reshuffle

China government announced a new round of reshuffle of top management among the three telcos. Wang Xiaochu and Shang Xiaobing will be swapped as Chairmans between CT and CU, while Shang Bing (former MIIT deputy minister) will take over Xi Guohua's positions. These reshuffle will take effect immediately on 24 Aug 2015.

With stronger leadership, CU is likely to gain competitiveness

In our view, this top management reshuffle is positive on CU, but negative, at least in near term, on the other two telcos. Among the three telcos' top management, Wang Xiaochu has been well received for his strong leadership in execution and strategic planning, with strong historical performance record. With Wang Xiaochu's leadership, CU could better capitalize on its advantages in 3G and 4G technologies in our view.

- **Leadership advantage.** With Wang Xiaochu as the Chairman, market is likely to grant CU a premium for management going forward in our view.
- **Execution to be boosted.** Weakness in execution has been blamed for CU's lacklustre performance in spite of its advantages in 3G technologies.
- **Technology advantages to be better capitalized.** Capitalizing on CU's advantages in 3G and 4G technologies, we believe Wang Xiaochu would be able to boost CU's competitiveness in mobile business.

We prefer CU

We believe the management reshuffle would not have immediate impacts on telco's operation. Instead, we see CU likely the beneficiary from this reshuffle, with a near-term re-rating for its new management.

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Company Rating Definition

The Benchmark: Hong Kong Hang Seng Index; Time Horizon: 12 months

Outperform	Relative Performance >10%
Neutral	Relative Performance is -10% to 10%
Underperform	Relative Performance <10%

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