China Mobile Ltd

NYSE: CHL
# Table of Contents

<table>
<thead>
<tr>
<th>Investment Thesis</th>
<th>Technical Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company Overview &amp; History</td>
<td>Fundamental Analysis</td>
</tr>
<tr>
<td>Products</td>
<td>Valuation</td>
</tr>
<tr>
<td>Competitors</td>
<td>Recent News</td>
</tr>
<tr>
<td>Global Footprint</td>
<td>Proposal</td>
</tr>
</tbody>
</table>
**Investment Thesis**

- **Company**
  - Largest Telecom company in the world in terms of customers (>60% market share in China)
  - Increasing moat against competitors with moves into 4G
  - Rapid growth of increased usership

- **Macro Perspective**
  - China Mobile is nearly guaranteed to continue expanding with minimal competition
  - China has the world’s largest fixed-line and mobile network in terms of network capacity and number of subscribers
  - Global trend of moving from voice services towards mobile data (4G)
  - Strong support from Chinese government
    - Combined 5G expenditure to hit a peak of 313.3 billion yuan in 2023.

*Overall, one of the safest ways to invest in China's long term growth*
Overview & Company History
● China Mobile is a Telecommunications service that provides wireline broadband and 4G data services to its customers.
● China Mobile has several subsidiaries that it uses to deploy its services.
History of the Firm

03 September 97’
China Mobile Incorporates in Hong Kong.

October 97’
China Mobile goes public on the HKG exchange and the NYSE.

November 00’
acquisition of Beijing Mobile, Shanghai Mobile, Tianjin Mobile, Hebei Mobile, Liaoning Mobile, Shandong Mobile and Guangxi Mobile.

December 13’
China Mobile was granted a 4G license and started creating 4G infrastructure.

2016
20th listing anniversary, company paid out a 2x special dividend.

2017
The Company’s growth rate of revenue from telecommunications services achieved a five-year high and ranked the first in the industry.

July 02’
acquisition of Anhui Mobile, Jiangxi Mobile, Chongqing Mobile, Sichuan Mobile, Hubei Mobile, Hunan Mobile, Shaanxi Mobile and Shanxi Mobile.
Leadership

Mr. SHANG Bing  Executive Director & Chairman

Mr. LI Yue  Executive Director & CEO

Mr. LIU Aili  Executive Director & Vice President

Mr. SHA Yuejia  Executive Director & Vice President

Mr. DONG Xin  Executive Director, Vice President & CFO
Footprint

4G Customers
535 million

4G Base Stations
1.51 million

The World's Largest Customer Base and Network

Wireline Broadband Customers (in thousands)
- 2017 Q1: 85,681
- 2017 Q2: 93,041
- 2017 Q3: 103,425

4G Customers (in thousands)
- 2017 Q1: 568,074
- 2017 Q2: 593,651
- 2017 Q3: 621,757

Total Mobile Customers (in thousands)
- 2017 Q1: 856,485
- 2017 Q2: 866,506
- 2017 Q3: 877,708

SCHOOL OF BUSINESS INVESTMENT PROGRAM
Competitors

- China Mobile
- China Unicom
- China Telecom
# Metrics for Competitors

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>CHL</td>
<td>$49.16</td>
<td>199,309</td>
<td>12.0</td>
<td>11.3</td>
<td>3.7%</td>
<td>.01</td>
<td>27.05 (CNY)</td>
</tr>
<tr>
<td>CHU</td>
<td>$13.5</td>
<td>41,619</td>
<td>67.2</td>
<td>29.8</td>
<td>-</td>
<td>.18</td>
<td>1.33 (CNY)</td>
</tr>
<tr>
<td>CHA</td>
<td>$48.08</td>
<td>38,871</td>
<td>13.7</td>
<td>11.8</td>
<td>2.8%</td>
<td>.03</td>
<td>23.18 (CNY)</td>
</tr>
</tbody>
</table>
## Metrics for Competitors

<table>
<thead>
<tr>
<th>Metric</th>
<th>ROA TTM</th>
<th>ROE TTM</th>
<th>Operating Mg</th>
<th>Gross Mg</th>
<th>Payout Ratio(%)</th>
<th>ROIC</th>
</tr>
</thead>
<tbody>
<tr>
<td>CHL</td>
<td>7.23%</td>
<td>11.2%</td>
<td>16.5%</td>
<td>80%</td>
<td>44.0%</td>
<td>9.57%</td>
</tr>
<tr>
<td>CHU</td>
<td>.52%</td>
<td>1.34%</td>
<td>2.10%</td>
<td>90.4%</td>
<td>104.2 ('16)</td>
<td>3.19%</td>
</tr>
<tr>
<td>CHA</td>
<td>2.89%</td>
<td>5.90%</td>
<td>7.7%</td>
<td>72.3%</td>
<td>40%</td>
<td>7.05%</td>
</tr>
<tr>
<td>T: AT&amp;T</td>
<td>3.03%</td>
<td>10.34%</td>
<td>15.5%</td>
<td>52.6%</td>
<td>93.8%</td>
<td>6.87%</td>
</tr>
<tr>
<td>VZ: Verizon</td>
<td>6.45%</td>
<td>67.33%</td>
<td>24.6%</td>
<td>59.2%</td>
<td>59.6%</td>
<td>15.16%</td>
</tr>
</tbody>
</table>

T: AT&T  VZ: Verizon
## SWOT Analysis

**Strengths:**
- Market share & presence
- Leader in 5G network construction
- Strong leadership and corporate governance

**Weaknesses:**
- Geographic concentration risk (95% concentration in Mainland China)
- If government allows more competition to enter

<table>
<thead>
<tr>
<th>Opportunities:</th>
<th>Threats:</th>
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<tbody>
<tr>
<td>- Increasing demand for IoT and machine-to-machine technology</td>
<td>- Increasing competition</td>
</tr>
<tr>
<td>- Increasing adoption of LTE services</td>
<td>- Regulations/tariffs</td>
</tr>
</tbody>
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- Government has controlling interest in company
Fundamental Analysis
Financial Highlights

Telecommunications Services Revenue +6.7%
Reached 5-year High
Ranked 1st in Industry

Revenue from telecommunications services (RMB million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Voice</th>
<th>SMS/MMS</th>
<th>Wireless data traffic</th>
<th>Wireline broadband</th>
<th>Applications and information services</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>584,089</td>
<td>(51,947)</td>
<td>(2,689)</td>
<td>87,321</td>
<td>7,279</td>
<td>(399)</td>
</tr>
<tr>
<td>2016</td>
<td>623,422</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Service revenue structure

<table>
<thead>
<tr>
<th>Service</th>
<th>1H2017</th>
<th>54.0%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wireless data traffic</td>
<td>32.2%</td>
<td></td>
</tr>
<tr>
<td>Applications and information services</td>
<td>8.7%</td>
<td></td>
</tr>
<tr>
<td>Wireline broadband</td>
<td>5.1%</td>
<td></td>
</tr>
<tr>
<td>Voice, SMS &amp; MMS and others</td>
<td>20.0%</td>
<td></td>
</tr>
</tbody>
</table>

Service revenue growth structure

<table>
<thead>
<tr>
<th>Service</th>
<th>2017</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wireless data traffic</td>
<td>207.7%</td>
<td>207.7%</td>
<td>207.7%</td>
</tr>
<tr>
<td>Applications and information services</td>
<td>26.4%</td>
<td>26.4%</td>
<td>26.4%</td>
</tr>
<tr>
<td>Voice, SMS &amp; MMS and others</td>
<td>14.5%</td>
<td>14.5%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Others</td>
<td>-148.6%</td>
<td>-148.6%</td>
<td>-148.6%</td>
</tr>
</tbody>
</table>
Sustaining Strong Cash Flow

Free cash flow

(RMB Mil)

2015: 39,512
2016: 66,410

Increase: 68.1%

EBITDA

(RMB Mil)

2015: 240,028
2016: 256,677

Increase: 6.9%

EBITDA margin

2015: 41.1%
2016: 41.2%

EBITDA / revenue from telecommunications services

2015: 35.9%
2016: 36.2%
Four Growth Engines - 2016 Results

**Financial Highlights**

**Mobile Market**
- Mobile service revenue up 4.7% in 2016
- Handset data traffic up 127% while data revenue grew 44.9%
  - 4G data traffic accounts for 94%
  - 99% of population under 4G by year-end

**Household Market**
- Wireline broadband service revenue up 40%
- Committed to boosting network speed and quality
Financial Highlights

Corporate Customer Market

Scale development of key products

- Data dedicated lines revenue +32.1%
- IDC revenue +76.3%
- Corporate telecom and informatization service revenue up +29.4%
- Market share of about 1/3 achieved

Emerging Business Market

Applications and information services revenue (RMB Mil)

- Undergoing active development
  - IOT connectivity scale
  - Mobile payment services ("and-Wallet")
  - Big data applications

- 1H2016: 27,137
- 1H2017: 30,408

12.1% increase
Currency Risk

USD to CNY
USD to CNY against CHL (% change)
China’s motto - “Raise speed, drop prices”

- Apart of China’s 13th Five-Year Plan for telecom, tech & media
- Starting earlier this year, pledges were made too..
  - reduce internet access prices for small and medium sized enterprises
  - cut international long-distance call tariffs
  - from October 1st, 2017, cease to charge domestic long distance and roaming fees on mobile handset subscribers
- Overall, price cuts are less severe than in previous plans

Outcome: Limited impact on China Mobile
- started price reductions in Q3 2016
  - demand is strong
News
● Last month, company announced that they will roll out a 2-billion-yuan ($303 M) subsidy program next year for customers who purchase its IoT technology
  ○ Subsidy will go towards financing companies that make IoT modules - to make devises cheaper
  ○ Aims to increase its market share - currently having 200 M IoT devices, expected to grow by 120 M by the end of 2018
  ○ Promote the uses of its wireless devices by lowering the cost for industrial customers

● Qualcomm, ZTE, and China Mobile have recently set teams up to create a data testing system for 5G networking
Q3 results (CTL)
- Total “Core” revenue decline of 8% Y/Y
  - Enterprise revenue decline of 11.2% Y/Y
  - Consumer revenue decline of 5.8%

Q3 Results (Lvl3)
- 1.8% increase in revenue (core network services)
● They clearly overpaid for the merger.
● Their current Debt to Equity is at 193 proving they are way over leveraged.
● After re-running CTL through the model we believe there is still significant downside with some negative growth rates.
● We also cannot expect them to maintain a dividend with their current debt level.
Investment Proposal
Sell All CenturyLink (~12,051)
Buy 142 shares of CHL at $49
~ $7,000 (>5% excl. cash)

Telecom/Utilities/Real Estate Allocation: 12%
Current Portfolio

Holdings

- CTL
- V
- ORCL
- SKT
- MDT
- LUV
- ELY
- BAC
- DEO
- ANDV
Portfolio Configuration

Holdings

- V
- ORCL
- SKT
- MDT
- LUV
- ELY
- BAC
- DEO
- ANDV
- TGT
- TGT
- CHL

Graph with percentage breakdown of holdings.
Questions?