NOMURA

Global Markets Research

25 August 2026

China telecoms

EQUITY: TELECOMS

Core business continues to face headwinds...

...but token plans and AI compute to help new business regain strength

1H26 review: core business faced headwinds; cloud and computing business became key growth driver

Based on data from the Ministry of Industry and Information Technology (MIIT), the China telecoms sector posted a weak performance in 1H26, with **services revenues declining 2.1% y-y (vs. +1.0% y-y in 1H25) to CNY887.3bn, owing to a slowdown in the core business and moderation in emerging business growth**, in our view. 5G network subscribers rose to 1,288mn as of end-June 2026, a penetration rate of 69.8% (1H25: 1,118mn/61.8%). The proportion of users with 100Mbps+ broadband access was at 95.6%, while users with access to 1,000Mbps+ broadband was at 36.8%, according to MIIT. We think the three operators (China Mobile [CM; 941 HK, Buy], China Telecom [CT; 728 HK, Neutral] and China Unicom [CU; 762 HK, Neutral]) now face increased growth pressure in a saturated market with intensifying price competition and higher VAT rates. However, we think the three companies' cloud and computing businesses should partially offset the decline in mobile and broadband communication service revenues. CM/CT/CU in 1H26 recorded computing service revenues of CNY52.9bn/CNY31.1bn/CNY41.9bn, representing 14%/7%/13% y-y growth, while CM/CT's 1H26 AIDC revenues increased by 486%/9.3% y-y.

FY26F outlook: core business remains in a downtrend; accelerating business transformation into AI-related areas

For FY26F, we think the three telcos' core businesses will remain in a downtrend, dragged down by higher VAT and lower ARPU. We believe the three telcos will exercise stricter cost control measures and accelerate their transformation into emerging business areas and AI-related services to mitigate the impact from increased VAT rates. We estimate **declines of -0.4%/-1.5%/-1.2% y-y in services revenues and declines of -6.5%/-3.7%/-7.9% y-y in earnings in 2026F for CM/CT/CU**. In terms of capex, we believe **the three telcos' total investments will remain in a downward trajectory**, but they will likely continue to focus on computing infrastructure investment. We estimate **CM/CT/CU will each record a 9% y-y capex decline in FY26F, with computing investments increasing 62%/27%/55% y-y in FY26F**, totaling CNY80.85bn, or 31% of total capex (vs. 19% in FY25).

Emerging business areas: AIDC and cloud businesses will likely gradually regain strength owing to buoyant AI demand domestically

We expect the three telcos to see their cloud business growth start to recover in FY26F, driven by: (1) buoyant AI demand from consumer and enterprise markets, led by the development of domestic AI models (large language models and multi-modal models) with better capabilities; (2) robust inference demand and token economy due to agent-based AI applications; and (3) continued proactive investments in computing infrastructure and R&D, which strengthen their competitiveness in the AI value chain. **We estimate 9-15%/9-16%/8-15% y-y cloud revenue growth for CM/CT/CU in FY26-28F, contributing 13%/28%/23% to their service revenues in 2026F.**

Stocks for action: maintain our Buy rating on CM, and Neutral on CT/CU; cut TPs of CM/CT/CU to HKD95/HKD5.0/HKD6.1

We believe CM/CT/CU will continue to be considered defensive plays amid a volatile stock market, due to their high dividend payout ratios. However, slowing fundamentals and a tightening policy environment (more VAT impact) could curb their attractiveness as high dividend yield plays. We maintain our Buy rating on CM as we think its strong cash reserve will likely help sustain a stable dividend outlook. Meanwhile, we maintain our Neutral rating on CT/CU and cut our DCF-based TPs to HKD5.0/HKD6.1, as we think they

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will likely face increased downward pressure in a competitive market. We prefer China Mobile (941 HK, Buy) in the sector.

Fig. 1: China telecom sector – stocks for action

Company	Ticker	Rating	Mkt Cap (USD mn)	Avg. TO (USD mn)	Target Price	Price	Upside (%)
China Mobile	941 HK	Buy	232,420	166	95.00 ↓	80.15	18.5%
China Telecom	728 HK	Neutral	82,896	43	5.00 ↓	4.94	1.2%
China Unicom	762 HK	Neutral	22,674	29	6.10 ↓	5.78	5.5%

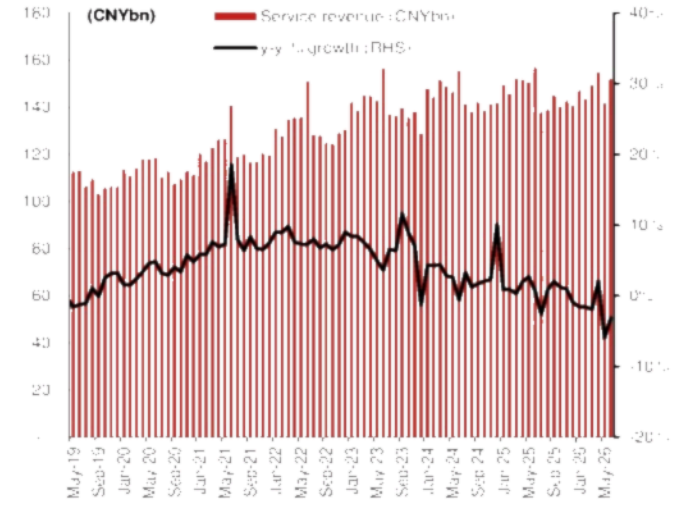
Note: Priced as of close of 25 August 2026
Source: Bloomberg Finance L.P., Nomura estimates

1H26 review: core business continued to decline; emerging business growth moderated

According to MIIT, the telecom sector recorded a 2.1% y-y decline in services revenues to CNY887.3bn in 1H26 (vs. 1.0% y-y in 1H25), due to a slowdown in the core business and moderation in emerging business growth, in our view. In the core business, 5G network subscribers rose to 1,288mn as of end-June 2026, suggesting a penetration rate of 69.8% (1H25: 1,118mn / 61.8%). The proportion of users with 100Mbps+ broadband access was at 95.6%, while users with access to 1000Mbps+ broadband was at 36.8%. In addition, Data of Usage (DOU) in 1H26 grew 17.7% y-y to 219.7bn GB. The number of 5G base stations have increased by 264k units since end-2025, and the total number reached 5.1mn as of 1H26. The total length of optical cable lines in China reached 76.12mn kilometers as of 1H26, +3.2 y-y.

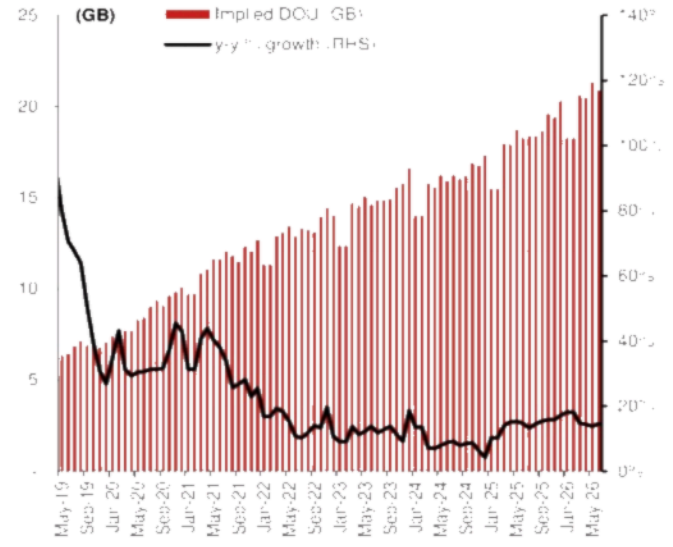
Emerging businesses including cloud computing, IDC, big data, IoT and others continued to slow down in 1H26 but some regions with concentrated AIDCs maintained healthy growth. For instance, emerging business in Ningxia grew 18.2% y-y in 1H26, with IDC and cloud computing businesses becoming the core growth drivers, according to the Ningxia Communications Administration. As all telecom operators are now proactively selling token plans, we think the AI cloud demand may gradually drive a nationwide recovery of IDC and cloud computing business. Moreover, smart terminals, 6G, and satellite communications should gradually be commercialized. The types of smart terminals based on 5G are continuously diversifying, with products such as AI smartphones and computers, smart robots, AI glasses, and AI toys gradually opening up the market. The 6GHz band test frequency usage licence has been approved, and the second phase of 6G technology trials is accelerating. China Telecom Satellite Company (unlisted) showcased the industry's first direct mobile phone connection satellite technology jointly developed with Huawei (unlisted) at the 2026 Mobile World Congress.

Fig. 2: China telecom industry: services revenue trend



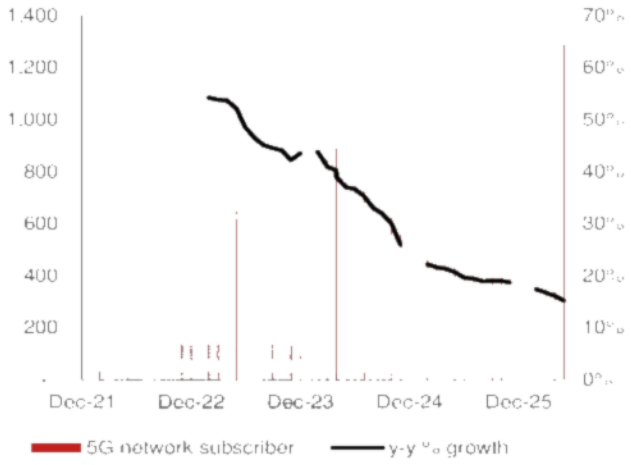
Source: MIIT, Nomura research

Fig. 3: China telecom industry – DOU trend



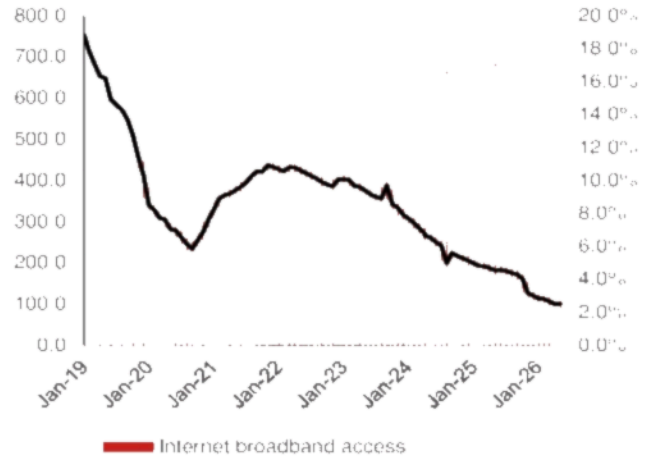
Source: MIIT, Nomura research

Fig. 4: Growth trend of 5G network subscribers



Source: MIIT, Nomura research

Fig. 5: Growth trend of internet broadband access



Source: MIIT, Nomura research

1H26 capex spending and dividend

In 1H26, capex undertaken by CM/CT/CU were CNY61.0bn/CNY32.4bn/CNY24.1bn, representing +4.5%/-5.3%/+19.3% y-y growth. Of which, computing investment amounted CNY15.6bn/CNY15.4bn/CNY8.9bn, representing +71.3%/+97.0%/+80% y-y growth. We note, these three telcos have allocated more toward computing network construction, and we expect the same trend to continue in 2H26F.

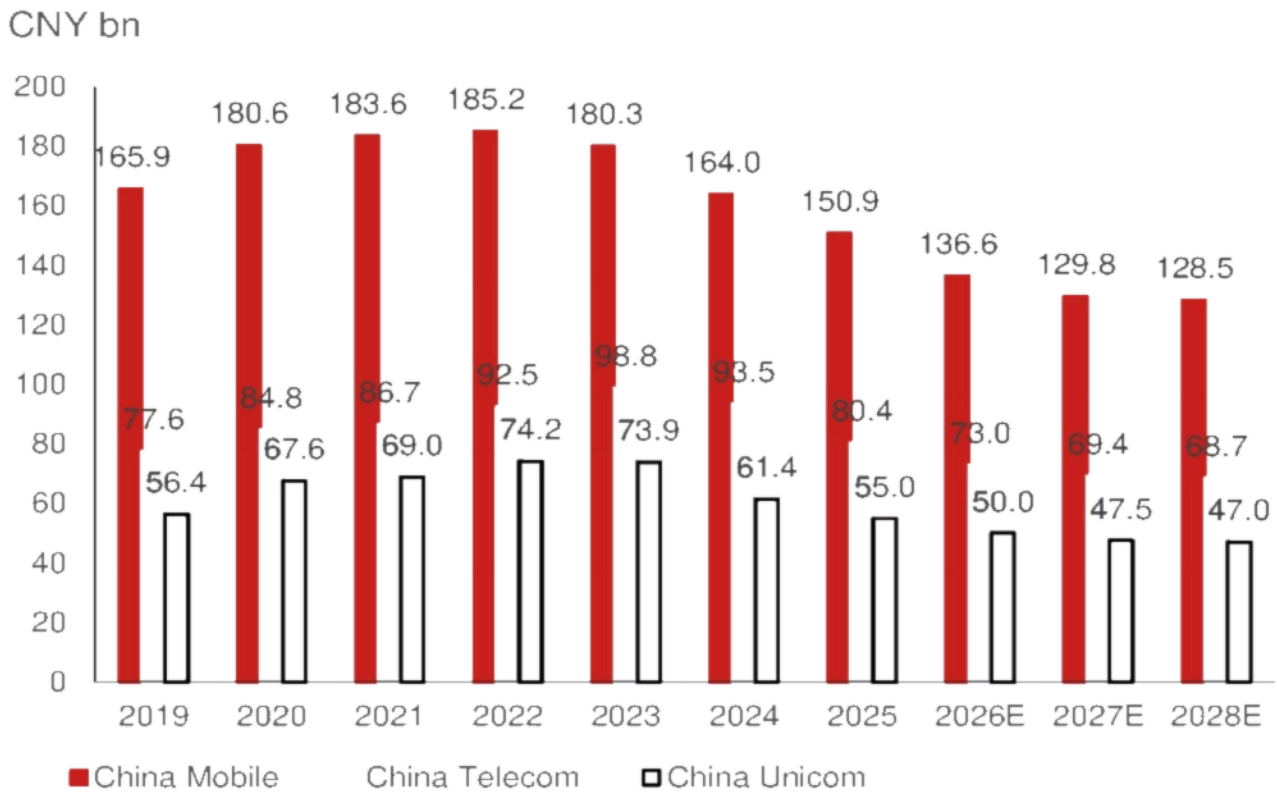
The interim dividend for 2026 will be CNY2.51/CNY0.16 per share for CM/CT, according to managements, representing a paying ratio of 69%/75%. Despite challenging topline growth and profitability growth, we expect CM and CT to deliver a **stable-to-rising** dividend payout ratio in FY26F.

FY26F earnings revisions and capex outlook (FY26-FY28F)

We believe that core business has dragged down the three telcos' revenue growth in FY26F, and that they will continue to shift their business from core business to emerging business areas. In our view, the adjustment in VAT since 2026 should add to the pressure on their earnings growth in the short term. We believe the three telcos will exercise stricter cost control measures while also accelerating the transformation into emerging and AI-related business areas to mitigate the negative impact from increased VAT rates. We estimate -0.4%/-1.5%/-1.2% y-y service revenue declines and -6.5%/-3.7%/-7.9% y-y earnings declines in 2026F for CM/CT/CU.

For capex, we believe the three telcos will maintain a downward trajectory for total investment, while allocating more investments to AI computing and AI applications in both consumer and enterprise markets. We estimate CM/CT/CU will each record a 9% y-y capex decline in FY26F, with computing investments increasing 62%/27%/55% y-y in FY26F, totaling CNY80.85bn, or 31% of total capex (vs. 19% in FY25). We estimate the FY26-28F CAGR of computing investments for CM/CT/CU at 27%/17%/9%.

Fig. 6: China telecom operators – capex trends (CNY bn)



Source: Company data, Nomura research

Fig. 7: China telecom operators – capex forecasts

China Telcos' total capex (CNY mn)	2021	2022	2023	2024	2025	2026F	2027F	2028F
China Mobile	183,600	185,200	180,300	164,000	150,900	136,600	129,770	128,472
y-y		1%	-3%	-9%	-8%	-9%	-5%	-1%
China Telecom	86,723	92,528	98,838	93,513	80,400	73,000	69,350	68,657
y-y		7%	7%	-5%	-14%	-9%	-5%	-1%
China Unicom	69,000	74,200	73,900	61,400	55,000	50,000	47,500	47,025
y-y		8%	0%	-17%	-10%	-9%	-5%	-1%
Total	339,323	351,928	353,038	318,913	286,300	259,600	246,620	244,154
					19%	31%		

China Telcos' computing power investment (CNY mn)	2021	2022	2023	2024	2025	2026F	2027F	2028F
China Mobile		33,500	39,100	37,100	23,300	37,800	49,140	61,425
y-y			17%	-5%	-37%	62%	30%	25%
China Telecom		17,886	23,496	21,582	20,100	25,550	30,660	35,259
y-y			31%	-8%	-7%	27%	20%	15%
China Unicom		6,158	7,390	8,794	11,256	17,500	19,250	20,790
y-y			20%	19%	28%	55%	10%	8%
Total		57,544	69,986	67,476	54,656	80,850	99,050	117,474

Note: Computing investment of China Telecom before 2025 is adjusted based on the proportion of FY25 computing infrastructure to industrial digitalization
Source: Company data, Nomura estimates

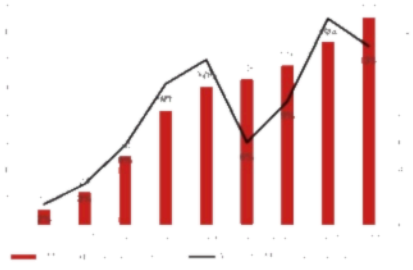
AI business trend: token business becoming one of the major focus areas; cloud and computing business re-accelerating

The three telcos all launched tokens plans for individual and enterprise customers in May 2026, and all stated that they would establish an integrated token management system combining "computing power + models + AI applications" services. Management statements from the three telcos regarding tokens at their 1H26 earnings briefings include: 1) China Mobile will launch a nationwide unified token package pricing; 2) China Telecom's internal and external token consumptions have reached 2tn tokens per day; 3) China Unicom's four platforms—Wanxiang, Xingluo, Wanwu, and Yunxi have API of over 40bn times daily. We think the token plan whould be a new growth driver for the companies, driven by fast growing inference demand from the latest AI applications with more token consumption.

In 2026, Computing Power Network was included in the planning scope of major engineering projects under the 15th Five-Year Plan. The National Development and Reform Commission disclosed that relevant institutions estimate that the construction of computing power networks will add CNY4tn in direct investment during the 15th Five-Year Plan period (*link*). We believe that telecom operators, which operate national backbone communication networks, have a natural advantage in computing power infrastructure layout, which could benefit their AIDC business. Revenue from computing services reached CNY52.9bn/CNY31.1bn/CNY41.9bn for CM/CT/CU in 1H26, representing +14%/+7%/+13% y-y growth. CM/CT's AIDC revenue increased by 486%/9.3% y-y in 1H26.

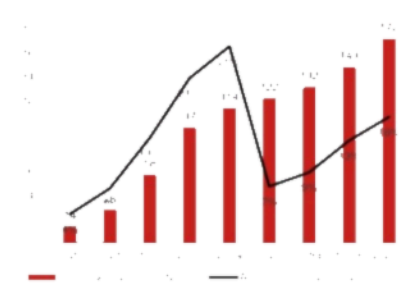
For the cloud business, we think the three telcos should have gradually witnessed growth recovery since FY26F, driven by: 1) buoyant AI demand from both consumer and enterprise markets, aided by the development of domestic AI models (large language models and multi-modal models) with better capabilities; 2) robust inference demand and token economy due to agent-based AI applications; and 3) continued proactive investments on computing infrastructure and R&D, which strengthen their competitiveness in the AI value chain. We estimate 9-15%/9-16%/8-15% y-y cloud revenue growth for CM/CT/CU in FY26-28F, contributing 13%/28%/23% of their service revenue in 2026F.

Fig. 8: China Mobile - cloud revenue growth



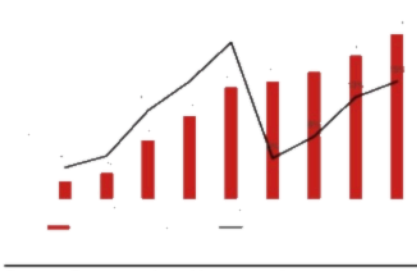
Source: Company data, Nomura estimates

Fig. 9: China Telecom - cloud revenue growth



Source: Company data, Nomura estimates

Fig. 10: China Unicom - cloud revenue growth



Source: Company data, Nomura estimates

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EQUITY: TELECOMS

Transitioning to AI cloud and token businesses

Still a defensive play in the China telecom sector

Action: Maintain Buy; cut TP to HKD95, implying 18.5% upside

We believe China Mobile (CM) remains a defensive play in China's telecom sector, as strong cash flows should help it secure stable dividend growth despite short-term challenges to top-line and profitability growth in 2026F. In 1H26, CM recorded a **1.1% y-y decline** in services revenue (**2Q26: -3.0% y-y**) and a **6.3% y-y decline** in earnings (**2Q26: -7.5% y-y).** We expect the company's core business (mobile and broadband services) to continue to decline in 2H26F, due to a saturated market and increased VAT rates for some telecom services. Meanwhile, we believe CM will shift its focus toward emerging businesses such as AIDC, token packages, AI applications and IoT, allocating more resources into these businesses. We cut our FY26-27F service revenue forecasts by 1.3%-2.2% to reflect the decline in the core business, and raise FY26-27F earnings forecasts by 0.1%-1.3% as we expect CM to exercise tighter cost control. We also introduce our FY28F revenue/earnings forecasts that imply 1.3%/2.4% y-y growth. We maintain our Buy rating and cut DCF-based TP to HKD95 (from HKD96), implying 13.8x FY27F EPS of CNY5.99, 1.2x FY27F BVPS of CNY69.0, 4.5x FY27F EV/EBITDA, and 5.3% FY27F dividend yield. The stock is trading at 12x FY27F EPS.

Core business: Continued downward pressure on mobile communications; broadband network market remains on the slow growth track

CM's **mobile ARPU declined 8.9% y-y to CNY45.1** in 1H26, and we believe CM's mobile data ARPU will continue to face downward pressure, owing to a saturated market and higher VAT rates, in our view. We think the broadband business will remain a steady contributor, with low-single-digit growth for FY26F, driven by broadband upgrades and smart home value-added services. We estimate -4%/+5% revenue CAGRs for the mobile communication/broadband network markets over FY26-28F.

Emerging business: shifting toward computing and AI services

CM's total intelligent computing capacity reached **112,700 PFLOPS (FP16) in 1H26,** with the utilization rate of in-service resources exceeding 90%. We believe CM is accelerating its transition into emerging business areas, and will allocate increasingly more capex to AI computing and AI services. We estimate a 14% revenue CAGR for mobile Cloud revenue over FY26-28F.

Rating Remains	**Buy**
Target price Reduced from HKD 96.00	**HKD 95.00**
Closing price 25 August 2026	**HKD 80.15**
Implied upside	**+18.5%**
Market Cap (USD mn)	218,435.8
ADT (USD mn)	166.5

Relative performance chart



Source: LSEG, Nomura

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Year-end 31 Dec	FY25		FY26F		FY27F		FY28F
Currency (CNY)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	1,050,187	1,062,689	1,045,853	1,077,945	1,050,730	0	1,064,806
Reported net profit (mn)	137,095	135,267	128,148	133,932	128,787	0	131,845
Normalised net profit (mn)	137,095	135,267	128,148	133,932	128,787	0	131,845
FD normalised EPS	6.37	6.29	5.96	6.22	5.99		6.13
FD norm. EPS growth (%)	-5.7	-0.6	-6.5	-1.0	0.5		2.4
FD normalised P/E (x)	11.3	–	12.1	–	12.0	–	11.8
EV/EBITDA (x)	3.2	–	3.7	–	3.6	–	3.5
Price/book (x)	1.1	–	1.1	–	1.1	–	1.1
Dividend yield (%)	6.7	–	6.2	–	6.3	–	6.5
ROE (%)	9.7	9.4	8.9	9.1	8.8		8.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash		net cash

Source: Company data, Nomura estimates

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on China Mobile

Performance

(%)	1M	3M	12M		
Absolute (HKD)	-2.0	-6.3	-11.3	M cap (USDmn)	218,435.8
Absolute (USD)	-1.9	-6.3	-11.6	Free float (%)	18.3
Rel to Hang Seng Index	-4.2	-5.9	-10.1	3-mth ADT (USDmn)	166.5

Income statement (CNYmn)

Year-end 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue	1,040,759	1,050,187	1,045,853	1,050,730	1,064,806
Cost of goods sold	0	0	0	0	0
Gross profit	1,040,759	1,050,187	1,045,853	1,050,730	1,064,806
SG&A	-898,169	-901,255	-890,950	-893,239	-901,666
Employee share expense					
Operating profit	142,590	148,932	154,903	157,491	163,140
EBITDA	378,246	385,686	342,038	341,848	345,456
Depreciation	-235,656	-236,754	-187,134	-184,358	-182,317
Amortisation					
EBIT	142,590	148,932	154,903	157,491	163,140
Net interest expense	3,002	1,635	1,075	964	1,088
Associates & JCEs	11,097	12,456	8,647	8,475	8,263
Other income	21,700	12,585	1,162	-316	-1,920
Earnings before tax	178,389	175,608	165,788	166,613	170,570
Income tax	-39,863	-38,344	-37,522	-37,709	-38,605
Net profit after tax	138,526	137,264	128,265	128,904	131,966
Minorities	-153	-169	-117	-117	-120
Other items					
Preferred dividends					
Normalised NPAT	138,373	137,095	128,148	128,787	131,845
Extraordinary items					
Reported NPAT	138,373	137,095	128,148	128,787	131,845
Dividends	-100,149	-103,532	-96,776	-97,258	-100,886
Transfer to reserves	38,224	33,563	31,373	31,529	30,959
Valuations and ratios					
Reported P/E (x)	10.7	11.3	12.1	12.0	11.8
Normalised P/E (x)	10.7	11.3	12.1	12.0	11.8
FD normalised P/E (x)	10.7	11.3	12.1	12.0	11.8
Dividend yield (%)	6.5	6.7	6.2	6.3	6.5
Price/cashflow (x)	2.4	4.4	5.1	4.7	4.5
Price/book (x)	1.2	1.1	1.1	1.1	1.1
EV/EBITDA (x)	3.1	3.2	3.7	3.6	3.5
EV/EBIT (x)	8.2	8.3	8.1	7.9	7.4
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
EBITDA margin (%)	36.3	36.7	32.7	32.5	32.4
EBIT margin (%)	13.7	14.2	14.8	15.0	15.3
Net margin (%)	13.3	13.1	12.3	12.3	12.4
Effective tax rate (%)	22.3	21.8	22.6	22.6	22.6
Dividend payout (%)	72.4	75.5	75.5	75.5	76.5
ROE (%)	11.8	9.7	8.9	8.8	8.8
ROA (pretax %)	15.4	8.1	8.0	8.0	8.1
Growth (%)					
Revenue		0.9	-0.4	0.5	1.3
EBITDA		2.0	-11.3	-0.1	1.1
Normalised EPS		-5.7	-6.5	0.5	2.4
Normalised FDEPS		-5.7	-6.5	0.5	2.4

Source: Company data, Nomura estimates

Cashflow statement (CNYmn)

Year-end 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
EBITDA	378,246	385,686	342,038	341,848	345,456
Change in working capital	267,845	-25,608	-37,933	-13,102	-4,441
Other operating cashflow	-41,744	-8,999	0	0	0
CF from operations	604,347	351,079	304,105	328,746	341,015
Capital expenditure	-155,979	-156,951	-142,825	-135,684	-134,327
Free cashflow	448,368	194,128	161,280	193,062	206,688
Reduction in investments	2,622	-8,769	0	0	0
Net acquisitions					
Dec in other LT assets	-81,006	-84,604	0	0	0
Inc in other LT liabilities	-12,671	-6,547	0	0	0
Adjustments	-226,766	-51,692	-75,046	-76,995	-79,585
CF after investing acts	130,547	42,516	86,233	116,067	127,102
Cash dividends	-97,458	-103,410	-103,532	-96,776	-97,258
Equity issue	0	0	0	0	0
Debt issue	-29,037	-44,049	50,000	50,000	50,000
Convertible debt issue					
Others	163,257	34,901	0	0	0
CF from financial acts	36,762	-112,558	-53,532	-46,776	-47,258
Net cashflow	167,309	-70,042	32,701	69,291	79,845
Beginning cash	167,309	97,267	129,968	199,260	
Ending cash	167,309	97,267	129,968	199,260	279,105
Ending net debt	-138,151	-87,519	-70,220	-89,512	-119,357

Balance sheet (CNYmn)

As at 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
Cash & equivalents	167,309	97,267	129,968	199,260	279,105
Marketable securities	86,272	79,251	79,251	79,251	79,251
Accounts receivable	75,741	99,762	126,413	153,863	182,658
Inventories	11,229	16,613	22,917	31,614	43,610
Other current assets	228,008	204,753	204,753	204,753	204,753
Total current assets	568,559	497,646	563,303	668,741	789,377
LT investments	198,563	214,353	214,353	214,353	214,353
Fixed assets	788,765	768,961	772,943	772,560	772,862
Goodwill	0	0	0	0	0
Other intangible assets	152,290	162,668	162,668	162,668	162,668
Other LT assets	399,950	484,554	484,554	484,554	484,554
Total assets	2,108,127	2,128,182	2,197,821	2,302,876	2,423,814
Short-term debt	0	0	0	0	0
Accounts payable	246,698	190,927	185,950	208,994	245,345
Other current liabilities	386,320	422,633	422,633	422,633	422,633
Total current liabilities	633,018	613,560	608,583	631,627	667,978
Long-term debt	0	9,748	59,748	109,748	159,748
Convertible debt					
Other LT liabilities	78,570	72,023	72,023	72,023	72,023
Total liabilities	711,588	695,331	740,354	813,398	899,749
Minority interest	4,507	4,376	4,376	4,376	4,376
Preferred stock	0	0	0	0	0
Common stock	461,838	468,445	468,445	468,445	468,445
Retained earnings	930,194	960,030	984,646	1,016,657	1,051,245
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	1,392,032	1,428,475	1,453,091	1,485,102	1,519,690
Total equity & liabilities	2,108,127	2,128,182	2,197,821	2,302,876	2,423,815

Liquidity (x)

Current ratio	0.90	0.81	0.93	1.06	1.18
Interest cover	–	–	–	–	–

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

Per share

Reported EPS (CNY)	6.76	6.37	5.96	5.99	6.13
Norm EPS (CNY)	6.76	6.37	5.96	5.99	6.13
FD norm EPS (CNY)	6.76	6.37	5.96	5.99	6.13
BVPS (CNY)	64.69	66.39	67.53	69.02	70.63
DPS (CNY)	4.65	4.81	4.50	4.52	4.69

Activity (days)

Days receivable	30.5	39.5	48.7	57.8	
Days inventory	–	–	–	–	
Days payable	–	–	–	–	
Cash cycle	0.0	–	–	–	–

Source: Company data, Nomura estimates

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Company profile

China Mobile is one of the telecom operators in China, providing wireline & mobile telecommunications services, Internet access services, information services and other value-added telecommunications services.

Valuation Methodology

Our TP of HKD95.00 implies a P/E ratio of 13.8x on 2027F EPS of CNY5.99, P/B of 1.2x on 2027F BVPS of CNY69.0, 4.5x 2027F EV/EBITDA, and 5.3% 2027F dividend yield. Our DCF valuation assumes a WACC of 9.2%, market risk premium of 7% and terminal growth rate of 0%. The benchmark index for this stock is the Hang Seng Index.

Risks that may impede the achievement of the target price

Downside risks to our investment thesis include: 1) further intensified competition, which would hurt CM's EBITDA margin and market share; 2) a higher-than-expected 5G capex and faster-than-expected 5G rollout; and 3) potential asymmetric regulatory risk.

ESG

China Mobile is taking social responsibility by offering telecom network infrastructure and affordable mobile/fixed-line services to consumers and enterprises. The "co-share co-build" project with China Broadcasting Network helps to save infrastructure investment and is more environmentally friendly. As an SOE, the company still has room to improve in terms of corporate governance.

1H26 and 2Q26 results review

Fig. 11: China Mobile – 1H26 and 2Q26 results review

(CNY mn)	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	y-y	q-q	1H24	2H24	1H25	2H25	1H26	y-y	h-h
	A	A	A	A	A	A			A	A	A	A	A		
Sales	263,760	280,009	250,897	255,521	266,478	271,557	-3.0%	1.9%	546,744	494,015	543,769	506,418	538,035	-1.1%	6.2%
% chg yoy	0.0%	-1.1%	2.5%	2.5%	1.0%	-3.0%			3.0%	3.2%	-0.5%	2.5%	-1.1%		
Service revenue	222,374	244,615	216,157	212,384	219,853	232,810	-4.8%	5.9%	463,589	425,879	466,989	428,541	452,663	-3.1%	5.6%
% chg yoy	1.4%	0.1%	0.8%	0.5%	-1.1%	-4.8%			2.5%	3.6%	0.7%	0.6%	-3.1%		
OPEX	(183,060)	(174,709)	(171,497)	(182,021)	(189,778)	(174,657)	0.0%	-8.0%	(364,444)	(342,615)	(357,769)	(353,518)	(364,435)	1.9%	3.1%
EBITDA	80,700	105,300	79,400	73,500	76,700	96,900	-8.0%	26.3%	182,300	151,400	186,000	152,900	173,600	-6.7%	13.5%
% chg yoy	3.5%	1.0%	-1.7%	4.1%	-5.0%	-8.0%			-0.6%	-4.2%	2.0%	1.0%	-6.7%		
% of service revenue	36.3%	43.0%	36.7%	34.6%	34.9%	41.6%			39.3%	35.6%	39.8%	35.7%	38.4%		
Pretax income	39,312	67,761	39,725	28,810	37,566	61,518	-9.2%	63.8%	103,149	75,240	107,073	68,535	99,084	-7.5%	44.6%
Reported NPAT	30,631	53,604	31,188	21,672	29,342	49,592	-7.5%	69.0%	80,201	58,172	84,235	52,860	78,934	-6.3%	49.3%
% chg yoy	3.5%	6.0%	1.7%	-21.2%	-4.2%	-7.5%			5.3%	4.6%	5.0%	-9.1%	-6.3%		
% of service revenue	13.8%	21.9%	14.4%	10.2%	13.3%	21.3%			17.3%	13.7%	18.0%	12.3%	17.4%		
KPIs															
Total mobile subscriber	1,003	1,005	1,009	1,005	1,009	1,011	0.6%	0.2%	1,000	1,004	1,005	1,005	1,011	0.6%	0.6%
5G package users															
Penetration rate															
5G network users	578	599	622	642	668	687			514	552	599	642	687		
Penetration rate	57.6%	59.6%	61.7%	63.9%	66.2%	67.9%			51.4%	55.0%	59.6%	63.9%	67.9%		
Total broadband subscriber	320	323	329	324	333	337	4.2%	1.1%	309	315	323	324	337	4.2%	3.9%
Ratio analysis															
EBITDA	36.3%	43.0%	36.7%	34.6%	34.9%	41.6%	-1.4pp	6.7pp	39.3%	35.6%	39.8%	35.7%	38.4%	-1.5pp	2.7pp
Net income	11.6%	19.1%	12.4%	8.5%	11.0%	18.3%	-0.9pp	7.3pp	14.7%	11.8%	15.5%	10.4%	14.7%	-0.8pp	4.2pp

Source: Company data, Nomura research

Earnings forecast revisions

We cut our FY26-27F service revenue forecasts by 1.3%-2.2% to reflect the decline in the company's core business, and raise FY26-27F earnings forecasts by 0.1%-1.3% as we believe CM will exercise tighter cost control. We also introduce our FY28F revenue/earnings forecasts that imply 1.3%/2.4% y-y growth.

Fig. 12: China Mobile – earnings forecast revisions

(CNY mn)	2023	2024	2025	2026F	2027F	2028F	2026F	2027F	2026F	2027F
	A	A	A	NOM	NOM	NOM	OLD	OLD	Diff.	Diff.
Sales	1,009,309	1,040,759	1,050,187	1,045,853	1,050,730	1,064,806	1,057,875	1,070,506	-1.1%	-1.8%
% chg yoy	7.7%	3.1%	0.9%	-0.4%	0.5%	1.3%	0.7%	1.2%		
Service revenue	863,514	889,468	895,530	887,755	889,115	899,595	899,777	908,891	-1.3%	-2.2%
% chg yoy	6.3%	3.0%	0.7%	-0.9%	0.2%	1.2%	0.5%	1.0%		
OPEX	(667,831)	(707,059)	(711,287)	(703,815)	(708,882)	(719,350)	(714,689)	(726,818)	-1.5%	-2.5%
EBITDA	341,478	333,700	338,900	342,038	341,848	345,456	343,185	343,688	-0.3%	-0.5%
% chg yoy	3.7%	-2.3%	1.6%	0.9%	-0.1%	1.1%	1.3%	0.1%		
% of service revenue	39.5%	37.5%	37.8%	38.5%	38.4%	38.4%	38.1%	37.8%		
Pretax income	170,531	178,389	175,608	165,788	166,613	170,570	165,666	164,462	0.1%	1.3%
Reported NPAT	131,766	138,373	137,095	128,148	128,787	131,845	128,054	127,124	0.1%	1.3%
% chg yoy	5.0%	5.0%	-0.9%	-6.5%	0.5%	2.4%	-6.6%	-0.7%		
% of service revenue	15.3%	15.6%	15.3%	14.4%	14.5%	14.7%	14.2%	14.0%	0.2pp	0.5pp
KPIs										
Total mobile subscriber	991	1,004	1,005	1,006	1,007	1,008	1,013	1,020	-0.7%	-1.3%
5G package users	795	0	0	10	10	10	70	70	-85.7%	-85.7%
Penetration rate	80.2%	0.0%	0.0%	1.0%	1.0%	1.0%	6.9%	6.9%		
5G network users										
Penetration rate										
Total broadband subscriber	298	315	324	329	333	338	329	333	0.0%	0.0%
Ratio analysis										
EBITDA	39.5%	37.5%	37.8%	38.5%	38.4%	38.4%	38.1%	37.8%	0.4pp	0.6pp
Net income	13.1%	13.3%	13.1%	12.3%	12.3%	12.4%	12.1%	11.9%	0.1pp	0.4pp

Source: Company data, Nomura estimates

Our FY26F-28F revenue forecasts are 1%-3% lower than Bloomberg consensus estimates, and our FY26-28F earnings forecasts are 4%-7% lower than consensus, as we expect adverse impact from the increase in VAT on both the top line and bottom line.

Fig. 13: China Mobile – Nomura estimates vs consensus

	2025	2026F			2027F			2028F		
(CNY mn)		(NOM)	(CON)	diff	(NOM)	(CON)	diff	(NOM)	(CON)	diff
Revenue	1,050,187	1,045,853	1,057,216	-1%	1,050,730	1,075,935	-2%	1,064,806	1,093,157	-3%
EBITDA	341,478	338,900	336,707	1%	342,038	339,553	1%	352,891	337,506	5%
Pretax Profit	175,608	165,788	172,220	-4%	166,613	177,881	-6%	170,570	182,177	-6%
Net Profit (Adjusted)	137,095	128,148	133,373	-4%	128,787	138,049	-7%	131,845	142,373	-7%
EPS(Adjusted)	6.37	5.96	6.20	-4%	5.99	6.41	-7%	6.13	6.64	-8%

Source: Company data, Bloomberg Finance L.P., Nomura estimates

Valuation methodology and risks

Our new TP of HKD95 implies 13.8x FY27F EPS of CNY5.99, 1.2x FY27F BVPS of CNY69.0, 4.5x FY27F EV/EBITDA, and 5.3% FY27F dividend yield. Our DCF valuation assumes a WACC of 9.2% (previously 9.3%), a market risk premium of 7% (unchanged) and a terminal growth rate of 0%. The benchmark for this stock is the Hang Seng Index.

Fig. 14: China Mobile – DCF valuation

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F	2028F	2029F	2030F	2031F	Terminal
Period													1	2	3	4	5	
Service revenue	584.089	623.422	668.351	670.907	674.392	695.692	751.409	812.058	863.514	889.468	895.530	887.755	889.115	899.595	919.876	950.432	992.141	
Profit after tax	108.539	108.741	114.279	117.781	106.641	107.843	116.148	125.459	131.766	138.373	137.095	128.148	128.787	131.845	138.846	150.935	168.508	
CAPEX	-173.905	-190.765	-194.243	-195.164	-204.965	-190.449	-207.311	-189.588	-181.263	-155.979	-156.951	-142.825	-135.684	-134.327	-145.073	-152.327	-155.374	
FCF	92.346	59.178	138.981	-6.080	183.385	119.655	76.468	42.697	98.081	130.547	42.516	86.233	116.067	127.102	127.568	136.269	156.930	1 698.359
Discount factor													0.92	0.84	0.77	0.70	0.64	0.64
PV													106.249	106 510	97.858	95.691	100.878	1.091.738

Assumptions		PV of corporate value	1 598.924
		+ cash	176.518
Risk free rate	3.0%	- borrowing	(9.748)
Market risk premium	7.0%	minority interest	(4.376)
Beta	0.9	PV of equity value	1.761.318
Terminal growth rate	0.0%		
WACC	9.2%	# of shares outstanding	21 517
		Valuation per share (CNY)	82
			HKD 95

Source: Company data, Nomura estimates

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Global Markets Research

25 August 2026

China Telecom 0728.HK 728 HK

EQUITY: TELECOMS

ARPU in downward trend; AI cloud maintains growth

Continues to invest in AIDC infrastructure

Action: Maintain Neutral and lower TP to HKD5.0, implying 1.2% upside

China Telecom (CT) reported 1H26 results with service revenue declining 2.0% y-y (**2Q26: -2.4% y-y**), and earnings declining **14.9% y-y** in 1H26 (**2Q26: -13.5% y-y**). Management noted that the revenue from core businesses remained stable and earnings maintained favourable growth on a comparable basis. We think CT is facing both top-line and bottom-line growth pressure from the higher VAT (value-added tax) for the core business, and we believe CT is actively transforming its business focus towards the emerging businesses, such as AIDC, cloud, and AI applications. We lower our FY26-27F service revenue/earnings forecasts by 2.9-3.8%/3.4-5.9%, to reflect the impact from VAT. We also introduce FY28F service revenue/earnings forecasts with 2.7%/8.2% y-y growth. We think CT's capex in FY26F should be maintained at CNY73bn as management previously guided (-9% y-y), while AI and cloud infrastructure will continue to be its major focus. The dividend payout ratio reached 75% in 1H26, and we expect CT will maintain at least such a level of dividend payout for FY26F. We maintain our Neutral rating and cut our DCF-based TP to HKD5.0 (from HKD5.5), assuming a WACC of 9.2% (previously 8.8%, due to changes in the debt/equity ratio) and a terminal growth rate of 0% (unchanged). Our TP implies 11.8x 2027F EPS of CNY0.37, 0.8x 2027F BVPS of CNY5.2, 2.7x 2027F EV/EBITDA, and a 6.3% 2027F dividend yield. The stock is currently trading at 12.1x 2027F EPS.

Core business on downward trajectory with declining mobile and broadband ARPU, while VAT also took a toll

We think CT's core business growth was affected by a higher VAT, alongside competitive pressure. In 1H26, CT's mobile ARPU reduced by 5.4% y-y to CNY43.5, while broadband blended ARPU reduced by 5.2% y-y to CNY45.8, leading to a 3.3% y-y decline in communication service revenue in 1H26. We estimate an FY26-28F CAGR for mobile communication service/wireline & smart family services of -2%/+2%.

IDC/Cloud business recovering with robust AI demand

CT's Telecom Cloud segment's revenue increased 7.8% y-y to CNY61.8bn in 1H26, and we expect its cloud business' revenue growth to continue recovering and achieve 9.0% y-y in FY26F, driven by AI infra and AI applications, in our view. CT's total intelligent computing power reached 118.8 EFLOPS as of June 2026, +30.5% y-y. We estimate FY26-28F Cloud/Industrial Digitalization revenue CAGRs of 14%/6%.

Year-end 31 Dec	FY25		FY26F		FY27F		FY28F
Currency (CNY)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	529,559	539,641	519,324	547,813	522,588	0	532,884
Reported net profit (mn)	33,185	29,741	31,943	33,032	33,495	0	36,252
Normalised net profit (mn)	33,185	29,741	31,943	33,032	33,495	0	36,252
FD normalised EPS	36.26c	32.50c	34.91c	36.10c	36.60c		39.62c
FD norm. EPS growth (%)	0.5	-6.5	-3.7	11.1	4.9		8.2
FD normalised P/E (x)	12.2	–	12.7	–	12.1	–	11.2
EV/EBITDA (x)	2.7	–	2.6	–	2.6	–	2.3
Price/book (x)	0.9	–	0.9	–	0.9	–	0.9
Dividend yield (%)	6.1	–	6.1	–	6.3	–	6.9
ROE (%)	7.3	6.4	6.9	7.0	7.1		7.5
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash		net cash

Source: Company data, Nomura estimates

Rating Remains	**Neutral**
Target price Reduced from HKD 5.50	**HKD 5.00**
Closing price 25 August 2026	**HKD 4.94**
Implied upside	**+1.2%**
Market Cap (USD mn)	57,669.1
ADT (USD mn)	42.5

Relative performance chart



Source: LSEG, Nomura

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Key data on China Telecom

Performance

(%)	1M	3M	12M		
Absolute (HKD)	6.9	-8.3	-20.7	M cap (USDmn)	57,669.1
Absolute (USD)	7.0	-8.4	-21.0	Free float (%)	18.3
Rel to Hang Seng Index	4.7	-8.0	-19.5	3-mth ADT (USDmn)	42.5

Income statement (CNYmn)

Year-end 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue	529,417	529,559	519,324	522,588	532,884
Cost of goods sold	0	0	0	0	0
Gross profit	529,417	529,559	519,324	522,588	532,884
SG&A	-489,614	-489,885	-481,105	-481,982	-488,715
Employee share expense					
Operating profit	39,803	39,674	38,219	40,606	44,170
EBITDA	140,847	143,872	139,424	138,699	139,301
Depreciation	-76,044	-78,827	-75,834	-72,722	-69,760
Amortisation	-25,000	-25,371	-25,371	-25,371	-25,371
EBIT	39,803	39,674	38,219	40,606	44,170
Net interest expense	-149	-229	-321	-709	-724
Associates & JCEs	0	0	0	0	1
Other income	2,518	3,235	3,234	3,234	3,234
Earnings before tax	42,172	42,680	41,132	43,131	46,680
Income tax	-9,197	-9,457	-9,208	-9,655	-10,449
Net profit after tax	32,975	33,223	31,924	33,476	36,231
Minorities	37	-38	19	20	21
Other items					
Preferred dividends					
Normalised NPAT	33,012	33,185	31,943	33,495	36,252
Extraordinary items					
Reported NPAT	33,012	33,185	31,943	33,495	36,252
Dividends	-23,774	-24,890	-24,597	-25,793	-27,915
Transfer to reserves	9,238	8,295	7,346	7,703	8,337
Valuations and ratios					
Reported P/E (x)	12.3	12.2	12.7	12.1	11.2
Normalised P/E (x)	12.3	12.2	12.7	12.1	11.2
FD normalised P/E (x)	12.3	12.2	12.7	12.1	11.2
Dividend yield (%)	5.8	6.1	6.1	6.3	6.9
Price/cashflow (x)	2.1	3.0	2.6	3.3	2.5
Price/book (x)	0.9	0.9	0.9	0.9	0.9
EV/EBITDA (x)	2.7	2.7	2.6	2.6	2.3
EV/EBIT (x)	9.5	9.9	9.4	8.8	7.3
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
EBITDA margin (%)	26.6	27.2	26.8	26.5	26.1
EBIT margin (%)	7.5	7.5	7.4	7.8	8.3
Net margin (%)	6.2	6.3	6.2	6.4	6.8
Effective tax rate (%)	21.8	22.2	22.4	22.4	22.4
Dividend payout (%)	72.0	75.0	77.0	77.0	77.0
ROE (%)	7.4	7.3	6.9	7.1	7.5
ROA (pretax %)	5.2	5.0	4.8	5.1	5.6
Growth (%)					
Revenue	3.1	0.0	-1.9	0.6	2.0
EBITDA	2.9	2.1	-3.1	-0.5	0.4
Normalised EPS	8.4	0.5	-3.7	4.9	8.2
Normalised FDEPS	8.4	0.5	-3.7	4.9	8.2

Source: Company data, Nomura estimates

Cashflow statement (CNYmn)

Year-end 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
EBITDA	140,847	143,872	139,424	138,699	139,301
Change in working capital	19,001	-40,715	18,416	-17,068	20,368
Other operating cashflow	30,268	33,898	0	0	1
CF from operations	190,116	137,055	157,840	121,631	159,669
Capital expenditure	-89,928	-73,115	-66,535	-63,208	-62,576
Free cashflow	100,188	63,940	91,305	58,423	97,094
Reduction in investments	0	0	0		
Net acquisitions					
Dec in other LT assets	0	0	0		
Inc in other LT liabilities	0	0	0		
Adjustments	-58,571	-39,159	-31,647	-32,481	-33,289
CF after investing acts	41,617	24,781	59,659	25,941	63,804
Cash dividends	-23,527	-25,064	-24,890	-24,597	-25,793
Equity issue	0	0	0	0	0
Debt issue	-17,462	-22,758	6,922	6,922	6,922
Convertible debt issue					
Others	533	2,228	0	0	0
CF from financial acts	-40,456	-45,594	-17,968	-17,675	-18,871
Net cashflow	1,161	-20,813	41,691	8,266	44,934
Beginning cash	81,046	82,207	61,394	103,085	111,351
Ending cash	82,207	61,394	103,085	111,351	156,284
Ending net debt	-38,668	-28,768	-63,537	-64,881	-102,892

Balance sheet (CNYmn)

As at 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
Cash & equivalents	82,207	61,394	103,085	111,351	156,284
Marketable securities	0	0			
Accounts receivable	78,007	86,991	74,818	88,008	78,026
Inventories	3,267	3,431	2,808	3,003	2,409
Other current assets	24,644	54,319	54,319	54,319	54,319
Total current assets	188,125	206,135	235,029	256,681	291,038
LT investments	0	0			
Fixed assets	485,880	472,664	455,511	438,144	423,107
Goodwill					
Other intangible assets	124,506	117,456	125,309	133,162	141,015
Other LT assets	68,114	74,389	74,389	74,389	74,389
Total assets	866,625	870,644	890,238	902,376	929,549
Short-term debt	1,238	1,466	1,466	1,466	1,466
Accounts payable	162,960	151,267	156,887	153,204	162,996
Other current liabilities	161,179	170,980	170,980	170,980	170,980
Total current liabilities	325,377	323,713	329,333	325,650	335,442
Long-term debt	42,301	31,160	38,082	45,004	51,926
Convertible debt					
Other LT liabilities	42,395	47,511	47,511	47,511	47,511
Total liabilities	410,073	402,384	414,926	418,165	434,879
Minority interest	4,162	7,432	7,432	7,432	7,432
Preferred stock	0	0			
Common stock	91,507	91,507	91,507	91,507	91,507
Retained earnings	360,883	369,321	376,374	385,272	395,731
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	452,390	460,828	467,881	476,779	487,238
Total equity & liabilities	866,625	870,644	890,239	902,376	929,549

Liquidity (x)

Current ratio	0.58	0.64	0.71	0.79	0.87
Interest cover	267.1	173.2	119.0	57.2	61.0

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

Per share

Reported EPS (CNY)	36.08c	36.26c	34.91c	36.60c	39.62c
Norm EPS (CNY)	36.08c	36.26c	34.91c	36.60c	39.62c
FD norm EPS (CNY)	36.08c	36.26c	34.91c	36.60c	39.62c
BVPS (CNY)	4.94	5.04	5.11	5.21	5.32
DPS (CNY)	0.26	0.27	0.27	0.28	0.31

Activity (days)

Days receivable	50.3	56.9	56.9	56.9	57.0
Days inventory	–	–	–	–	
Days payable	–	–	–	–	
Cash cycle	50.3	–	–	–	–

Source: Company data, Nomura estimates

Company profile

China Telecom is one of the telecom operators in China, providing wireline & mobile telecommunications services, Internet access services, information services and other value-added telecommunications services. As at the end of 2020, the company had mobile subscribers of 351 million, wireline broadband subscribers of 159 million and access lines in service of about million.

Valuation Methodology

Our TP of HKD5.00 is based on our DCF valuation methodology, with a WACC of 9.2% and a terminal growth rate of 0%. This valuation implies 11.8x 2027F EPS of CNY0.37, 0.8x 2027F BVPS of CNY5.2, 2.7x 2027F EV/EBITDA, and a 6.3% 2026F dividend yield. The benchmark for this stock is the Hang Seng Index.

Risks that may impede the achievement of the target price

Downside risks include: 1) irrational tariff and handset subsidy competition; 2) fierce competition from CM in the broadband business; and 3) slower-than-expected progress in new business development. Upside risks include: 1) relieved competition in mobile and broadband market; 2) price hike for enterprise customers to support revenue / earnings growth; 3) faster-than-expected progress in emerging business.

ESG

China Telecom is taking social responsibility by offering telecom network infrastructure and affordable mobile/fixed-line services to consumers and enterprises. The "co-share co-build" project with China Unicom helps to save infrastructure investment and is more environmentally friendly. As an SOE, the company still has room to improve in terms of corporate governance.

1H26 and 2Q26 results review

1H26 service revenue declined 2.0% y-y (**2Q26: -2.4% y-y**), earnings declining **14.9% y-y** in 1H26 (**2Q26: -13.5% y-y**), and achieved earnings growth on a comparable basis **(excluding the VAT impact)**, according to the company. **Communication service** revenue (including mobile, fixed-line, IoT, satellite, and information services, etc.) reduced by 3.3% y-y to CNY213.0bn, while **Intelligent revenue** (including computing power, platforms, data, models, AI applications, etc.) recorded CNY31.1bn with 7.1% y-y growth.

Fig. 15: China Telecom – 1H26 and 2Q26 results review

(CNY mn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	y-y	q-q	1H24	2H24	1H25	2H25	1H26	y-y	h-h
	A	A	A	A	A	A	A	A	A	A			A	A	A	A	A		
Sales	135,493	132,518	126,707	134,699	135,498	135,971	125,529	132,561	131,967	128,504	-5.5%	-2.6%	268,011	261,406	271,469	258,090	260,471	-4.1%	0.9%
Service revenue	124,347	121,888	116,651	119,147	124,700	124,412	117,188	119,124	122,700	121,400	-2.4%	-1.1%	246,235	235,798	249,112	236,312	244,100	-2.0%	3.3%
Y-Y	5.0%	3.7%	2.5%	3.4%	0.3%	2.1%	0.5%	0.0%	-1.6%	-2.4%			4.3%	3.0%	1.2%	0.2%	-2.0%		
Operating Expense	(100,393)	(90,826)	(92,476)	(104,875)	(98,798)	(92,071)	(90,529)	(104,289)	(98,067)	(88,004)			(191,219)	(197,351)	(190,869)	(194,818)	(186,071)		
EBITDA	35,100	41,692	34,231	29,824	36,700	43,900	35,000	28,272	33,900	40,500	-7.7%	19.5%	76,792	64,055	80,600	63,272	74,400	-7.7%	17.6%
% of service revenue	28.2%	34.2%	29.3%	25.0%	29.4%	35.3%	29.9%	23.7%	27.6%	33.4%			31.2%	27.2%	32.4%	26.8%	30.5%		
Y-Y	3.6%	5.6%	6.0%	-4.4%	4.6%	5.3%	2.2%	5.2%	-7.6%	-7.7%			4.7%	0.9%	5.0%	1.2%	-7.7%		
Depreciation and amortisation	(24,548)	(24,984)	(25,107)	(26,405)	(25,987)	(26,052)	(25,854)	(26,305)	(25,724)	(25,654)	-1.5%	-0.3%	(49,532)	(51,512)	(52,039)	(52,159)	(51,378)	-1.3%	-1.5%
Y-Y	2.8%	4.2%	4.7%	-5.3%	5.9%	4.3%	3.0%	-0.4%	-1.0%	-1.5%			3.5%	-0.7%	5.1%	1.3%	-1.3%		
EBIT	10,552	16,708	9,124	3,419	10,713	17,848	9,146	1,967	8,176	14,846			27,260	12,543	28,561	11,113	23,022	19.4%	107.2%
Pretax income	11,090	17,149	9,473	4,460	11,318	12,446	15,686	(2,601)	9,324	16,439			28,239	13,933	29,595	13,085	25,763	-12.9%	96.9%
Taxes	(2,462)	(3,811)	0	0	(2,490)	(4,114)	(2,075)	(806)	(2,051)	(4,227)			(6,273)	(2,924)	(6,576)	(2,881)	(6,278)		
Minority adjustments	(31)	(123)	113	78	36	29	(67)	31	77	26			(154)	191	(2)	(36)	103		
Reported NPAT	8,597	13,215	7,487	3,713	8,864	14,153	7,756	2,412	7,350	12,238	-13.5%	66.5%	21,812	11,200	23,017	10,168	19,588	-14.9%	92.6%
% chg yoy	7.7%	8.6%	7.8%	11.0%	3.1%	7.1%	3.6%	35.0%	17.1%	13.5%			8.2%	8.8%	5.5%	9.2%	14.9%		
Ratio analysis																			
EBITDA	28.2%	34.2%	29.3%	25.0%	29.4%	35.3%	29.9%	23.7%	27.6%	33.4%	-1.9pp	5.7pp	31.2%	27.2%	32.4%	26.8%	30.5%	-1.9pp	3.7pp
Net income	6.9%	10.8%	6.4%	3.1%	7.1%	11.4%	6.6%	2.0%	6.0%	10.1%	-1.3pp	4.1pp	8.9%	4.7%	9.2%	4.3%	8.0%	-1.2pp	3.7pp

Source: Company data, Nomura research

Earnings forecast revisions

We cut our FY26-27F service revenue/earnings forecasts by 2.9-3.8%/3.4-5.9%, to reflect the adverse impact from higher VAT and its pressure on pricing strategy. We also introduce our FY28F service revenue/earnings forecasts with 2.7%/8.2% y-y growth.

Fig. 16: China Telecom – earnings forecast revision

(CNY mn)	2022	2023	2024	2025	2026F	2027F	2028F	2026F	2027F	2026F	2027F
	A	A	A	A	NOM	NOM	NOM	OLD	OLD	Diff.	Diff.
Sales	481,448	513,551	529,417	529,559	519,324	522,588	532,884	531,572	535,585	-2.3%	-2.4%
Service revenue	434,928	464,965	482,033	485,424	478,215	484,298	497,220	492,670	503,241	-2.9%	-3.8%
Y-Y	8.0%	6.9%	3.7%	0.7%	-1.5%	1.3%	2.7%	1.5%	2.1%		
Operating Expense	(351,089)	(376,721)	(388,570)	(385,687)	(379,900)	(383,889)	(393,584)	(390,483)	(393,215)	-3%	-2%
EBITDA	130,359	136,830	140,847	143,872	139,424	138,699	139,301	141,088	142,370	-1%	-3%
% of service revenue	30.0%	29.4%	29.2%	29.6%	29.2%	28.6%	28.0%	28.6%	28.3%	0.5pp	0.3pp
Y-Y	5.2%	5.0%	2.9%	2.1%	-3.1%	-0.5%	0.4%	-1.9%	0.9%		
Depreciation and amortisation	(96,932)	(99,702)	(101,044)	(104,198)	(101,205)	(98,093)	(95,131)	(101,444)	(98,904)	0%	-1%
Y-Y	4.3%	2.9%	1.3%	3.1%	-2.9%	-3.1%	-3.0%	-2.6%	-2.5%		
EBIT	33,427	37,128	39,803	39,674	38,219	40,606	44,170	39,645	43,466	-4%	-7%
Pretax income	35,714	39,204	42,172	42,680	41,132	43,131	46,679	42,557	45,832	-3%	-6%
Taxes	(8,038)	(8,776)	(9,197)	(9,457)	(9,208)	(9,655)	(10,449)	(9,527)	(10,260)		
Minority adjustments	(83)	18	37	(38)	19	20	21	20	21		
Reported NPAT	27,593	30,446	33,012	33,185	31,943	33,495	36,251	33,050	35,593	-3.4%	-5.9%
% chg yoy	6.3%	10.3%	8.4%	0.5%	-3.7%	4.9%	8.2%	-0.4%	7.7%		
Ratio analysis											
EBITDA	30.0%	29.4%	29.2%	29.6%	29.2%	28.6%	28.0%	28.6%	28.3%	0.5pp	0.3pp
Net income	6.3%	6.5%	6.8%	6.8%	6.7%	6.9%	7.3%	6.7%	7.1%	0.0pp	-0.2pp

Source: Company data, Nomura estimates

Our FY26-28F revenue forecasts are 2-3% lower than the Bloomberg consensus estimates, as we are cautious about the impact from VAT and market competition. Our FY26-28F earnings forecasts are 7-9% above the consensus, as we think the company should be able to implement tighter cost controls to maintain profitability.

Fig. 17: China Telecom – Nomura vs consensus

(CNY mn)	2025	2026F (NOM)	2026F (CON)	diff	2027F (NOM)	2027F (CON)	diff	2028F (NOM)	2028F (CON)	diff
Revenue	529,559	519,324	528,443	-2%	522,588	536,939	-3%	532,884	547,343	-3%
EBITDA	143,872	139,424	139,905	0%	138,699	143,797	-4%	139,301	148,998	-7%
Depreciation	(104,198)	(101,205)	(102,917)	-2%	(98,093)	(104,928)	-7%	(95,131)	(108,083)	-12%
Pretax Profit	42,680	41,132	38,371	7%	43,131	40,461	7%	46,680	42,955	9%
Net Profit (Adjusted)	33,185	31,943	29,865	7%	33,495	31,485	6%	36,252	33,418	8%

Source: Company data, Bloomberg Finance L.P., Nomura estimates

Valuation methodology and risks

Our new TP of HKD5.0 (HKD5.5 earlier) is based on an unchanged DCF valuation methodology, with a WACC of 9.2% (previously 8.8%, due to changes in the debt/equity ratio) and a terminal growth rate of 0% (unchanged). Our TP implies 11.8x 2027F EPS of CNY0.37, 0.8x 2027F BVPS of CNY5.2, 2.7x 2027F EV/EBITDA, and a 6.3% 2027F dividend yield. The benchmark for this stock is the Hang Seng Index.

Downside risks include: 1) irrational tariff and handset subsidy competition; 2) fierce competition from China Mobile (741 HK, Buy) in the broadband business, and; 3) slower-than-expected progress in new business development.

Upside risks include: 1) lesser competition in the mobile and broadband market; 2) price hike for enterprise customers to support revenue/earnings growth, and; 3) faster-than-expected progress in emerging businesses.

Fig. 18: China Telecom – DCF valuation

CNYmn	2017	2018	2019	2020	2021	2022	2023	2024	2025F	2026F	2027F	2028F	2029F	2030F	2031F	Terminal
Period											1	2	3	4	5	
Service revenue	331,044	350,434	357,610	373,798	402,827	434,928	464,965	482,033	485,424	478,215	484,298	497,220	514,404	536,745	563,473	
Profit after tax	18,617	21,210	20,517	20,850	25,948	27,593	30,446	33,012	33,185	31,943	33,495	36,251	40,746	46,302	52,041	
CAPEX	-87,423	-83,855	-83,163	-88,968	-84,847	-89,705	-89,866	-89,928	-73,115	-66,535	-63,208	-62,576	-63,827	-65,104	-65,104	
FCF	11,239	13,344	35,386	45,183	57,246	39,636	42,016	41,617	24,781	59,659	25,941	63,804	22,303	74,010	29,812	322,536
Discount factor											0.92	0.84	0.77	0.70	0.64	0.64
PV											23,746	53,464	17,108	51,966	19,161	207,307

Assumptions		PV of corporate value	372,752
Risk-free rate	3.0%	+ cash	61,394
Market risk premium	7.0%	borrowing	32,626
Beta	1.0	- minority interest	7,432
Terminal growth rate	0.0%	PV of equity value	394,088
WACC	9.2%		
		# of shares outstanding	91,507
			CNY
		Value per share	4.3

HKD
5.0

Source: Company data, Nomura estimates

NOMURA

Global Markets Research
25 August 2026

China Unicom 0762.HK 762 HK

EQUITY: TELECOMS

Earnings decline leads to concerns about dividend...

...More initiatives needed to improve shareholder confidence

Action: Maintain Neutral with a lower TP of HKD6.1, implying 5.5% upside

China Unicom (CU) reported 1H26 results. Service revenue declined only 0.2% y-y (**2Q26: +0.5% y-y**), compared with industry service revenue decline of 2.1% y-y (source: MIIT data). However, the company's earnings declined **34.6% y-y** in 1H26 (**2Q26: -46.4% y-y)**, impacted by VAT and increased staff cost, according to the company. 1H26 capex was CNY24.1bn, of which computing power investment mix increased to 37%, with an over 80% y-y increase. We assess CU is facing the same challenges as the other two telcos – the core business is losing growth momentum due to a saturated market and price competition, further burdened by the VAT hike. As a result, we lower FY26-27F service revenue by 2.7-3.4%, and we cut FY26-27F earnings by 4.4% each. We introduce FY28F service revenue/earnings with 1.2%/2.0% y-y growth. We maintain Neutral and cut our DCF-based TP to HKD6.1, assuming a WACC of 8.5% (previously: 8.6%) and a terminal growth rate of 0% (unchanged). Our TP implies 8.9x FY27F EPS of CNY0.59, 0.4x FY27F BVPS of CNY12.6, 1.5x FY27F EV/EBITDA, and 7.4% FY27F dividend yield. The stock is currently trading at 8.4x FY27F EPS.

Headwinds for core business; computing power business momentum accelerates

For its core business, CU is facing the same challenges as its other two peers, and we estimate the core business to decline around 1% y-y in FY26F. For the emerging business, computing power revenue reached CNY41.9bn (+13% y-y) in 1H26, of which, IDC revenue increased 11% y-y, and computing service revenue increased 9% y-y. We expect its cloud/ IDC businesses to maintain the growth momentum in FY26F, and the token business should emerge as a major focus for CU in 2H26F. We estimate 8.0% y-y growth of cloud revenue in FY26F, and estimate a 14.0% CAGR over FY26-28F, accounting for 29% of service revenue in FY28F.

OCF improving; dividend payout under pressure

OCF was CNY32.9bn in 1H26, +13.6% y-y, led by better management of accounts receivables, in our view. Management expects OCF to continue to improve in 2H26E. CU did not declare an interim dividend for 2026, which we think might lower shareholders' confidence, and we believe CU should come up with a competitive FY26F dividend plan to strengthen shareholders' confidence.

Rating Remains	Neutral
Target price Reduced from HKD 8.00	HKD 6.10
Closing price 25 August 2026	HKD 5.78
Implied upside	+5.5%
Market Cap (USD mn)	22,562.3
ADT (USD mn)	28.8

Relative performance chart



Source: LSEG, Nomura

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Year-end 31 Dec	FY25		FY26F		FY27F		FY28F
Currency (CNY)	Actual	Old	New	Old	New	Old	New
Revenue (mn)	392,223	401,453	389,054	406,184	390,049	0	395,010
Reported net profit (mn)	20,790	19,873	19,180	19,000	18,123	0	18,483
Normalised net profit (mn)	20,790	19,873	19,180	19,000	18,123	0	18,483
FD normalised EPS	67.95c	64.95c	62.68c	62.10c	59.23c		61.17c
FD norm. EPS growth (%)	0.9	-5.2	-7.7	-4.4	-5.5		3.3
FD normalised P/E (x)	7.6	–	8.3	–	8.8	–	8.5
EV/EBITDA (x)	1.5	–	1.3	–	1.0	–	0.8
Price/book (x)	0.4	–	0.4	–	0.4	–	0.4
Dividend yield (%)	8.1	–	7.9	–	7.8	–	7.9
ROE (%)	5.7	5.3	5.2	5.0	4.8		4.8
Net debt/equity (%)	net cash	net cash	net cash	net cash	net cash		net cash

Source: Company data, Nomura estimates

See Appendix A-1 for analyst certification, important disclosures and the status of non-US analysts.

Key data on China Unicom

Performance

(%)	1M	3M	12M		
Absolute (HKD)	-12.4	-27.0	-44.5	M cap (USDmn)	22,562.3
Absolute (USD)	-12.4	-27.1	-44.7	Free float (%)	20.0
Rel to Hang Seng Index	-14.6	-26.7	-43.3	3-mth ADT (USDmn)	28.8

Income statement (CNYmn)

Year-end 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
Revenue	389,589	392,223	389,054	390,049	395,010
Cost of goods sold					
Gross profit	389,589	392,223	389,054	390,049	395,010
SG&A	-373,561	-373,634	-370,338	-371,567	-375,233
Employee share expense					
Operating profit	16,028	18,589	18,717	18,482	19,777
EBITDA	99,420	99,420	98,604	98,973	100,483
Depreciation	-83,392	-80,831	-79,887	-80,491	-80,706
Amortisation					
EBIT	16,028	18,589	18,717	18,482	19,777
Net interest expense	197	495	318	159	15
Associates & JCEs	0	0			
Other income	9,029	6,369	4,458	3,567	2,853
Earnings before tax	25,254	25,453	23,493	22,207	22,645
Income tax	-4,521	-4,543	-4,193	-3,964	-4,042
Net profit after tax	20,733	20,910	19,300	18,243	18,603
Minorities	-120	-120	-120	-120	-120
Other items					
Preferred dividends					
Normalised NPAT	20,613	20,790	19,180	18,123	18,483
Extraordinary items					
Reported NPAT	20,613	20,790	19,180	18,123	18,483
Dividends	-12,370	-12,759	-12,331	-12,196	-12,438
Transfer to reserves	8,243	8,031	6,848	5,927	6,045
Valuations and ratios					
Reported P/E (x)	7.7	7.6	8.3	8.8	8.5
Normalised P/E (x)	7.7	7.6	8.3	8.8	8.5
FD normalised P/E (x)	7.7	7.6	8.3	8.8	8.5
Dividend yield (%)	7.8	8.1	7.9	7.8	7.9
Price/cashflow (x)	1.8	1.8	1.6	1.7	1.8
Price/book (x)	0.5	0.4	0.4	0.4	0.4
EV/EBITDA (x)	1.4	1.5	1.3	1.0	0.8
EV/EBIT (x)	8.8	7.9	6.6	5.6	4.3
Gross margin (%)	100.0	100.0	100.0	100.0	100.0
EBITDA margin (%)	25.5	25.3	25.3	25.4	25.4
EBIT margin (%)	4.1	4.7	4.8	4.7	5.0
Net margin (%)	5.3	5.3	4.9	4.6	4.7
Effective tax rate (%)	17.9	17.8	17.8	17.8	17.8
Dividend payout (%)	60.0	61.4	64.3	67.3	67.3
ROE (%)	5.8	5.7	5.2	4.8	4.8
ROA (pretax %)	2.6	2.9	2.9	2.9	3.0
Growth (%)					
Revenue	4.6	0.7	-0.8	0.3	1.3
EBITDA	-0.4	0.0	-0.8	0.4	1.5
Normalised EPS	10.1	0.9	-7.7	-5.5	3.3
Normalised FDEPS	10.1	0.9	-7.7	-5.5	3.3

Source: Company data, Nomura estimates

Cashflow statement (CNYmn)

Year-end 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
EBITDA	99,420	99,420	98,604	98,973	100,483
Change in working capital	-12,899	-17,606	-2,101	-5,812	-10,825
Other operating cashflow	2,881	8,361	463	-358	-1,293
CF from operations	89,402	90,175	96,966	92,802	88,364
Capital expenditure	-75,740	-67,641	-61,553	-58,476	-57,891
Free cashflow	13,662	22,534	35,412	34,327	30,474
Reduction in investments	0	0	0	0	0
Net acquisitions					
Dec in other LT assets	-18,352	-13,477	0	0	0
Inc in other LT liabilities	-6,501	-7,034	0	0	0
Adjustments					
CF after investing acts	-11,191	2,023	35,412	34,327	30,474
Cash dividends	-11,683	-13,472	-12,759	-12,331	-12,196
Equity issue	0	0	0	0	0
Debt issue	-12,528	-11,532	0	0	0
Convertible debt issue					
Others	16,149	19,610	0	0	0
CF from financial acts	-8,062	-5,394	-12,759	-12,331	-12,196
Net cashflow	-19,253	-3,371	22,653	21,995	18,278
Beginning cash	47,733	28,480	25,109	47,762	69,758
Ending cash	28,480	25,109	47,762	69,758	88,035
Ending net debt	-22,682	-17,117	-39,770	-61,766	-80,043

Balance sheet (CNYmn)

As at 31 Dec	FY24	FY25	FY26F	FY27F	FY28F
Cash & equivalents	28,480	25,109	47,762	69,758	88,035
Marketable securities	0	0			
Accounts receivable	53,730	65,994	84,357	107,830	137,833
Inventories	2,463	2,431	2,448	2,465	2,482
Other current assets	74,127	75,425	75,425	75,425	75,425
Total current assets	158,800	168,959	209,993	255,477	303,776
LT investments	0	0			
Fixed assets	351,530	345,611	327,277	305,262	282,447
Goodwill					
Other intangible assets	60,772	41,436	41,436	41,436	41,436
Other LT assets	100,135	113,612	113,612	113,612	113,612
Total assets	671,237	669,618	692,318	715,787	741,271
Short-term debt	3,670	4,064	4,064	4,064	4,064
Accounts payable	171,346	189,493	205,772	223,450	242,646
Other current liabilities	95,656	73,433	73,433	73,433	73,433
Total current liabilities	270,672	266,990	283,269	300,947	320,143
Long-term debt	2,128	3,928	3,928	3,928	3,928
Convertible debt					
Other LT liabilities	34,867	27,833	27,833	27,833	27,833
Total liabilities	307,667	298,751	315,030	332,708	351,904
Minority interest	2,525	2,585	2,585	2,585	2,585
Preferred stock	0	0	0	0	0
Common stock	254,056	254,056	254,056	254,056	254,056
Retained earnings	106,989	114,226	120,647	126,439	132,726
Proposed dividends					
Other equity and reserves					
Total shareholders' equity	361,045	368,282	374,703	380,495	386,782
Total equity & liabilities	671,237	669,618	692,318	715,787	741,271

Liquidity (x)

Current ratio	0.59	0.63	0.74	0.85	0.95
Interest cover	–	–	–	–	–

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

Per share

Reported EPS (CNY)	67.37c	67.95c	62.68c	59.23c	61.17c
Norm EPS (CNY)	67.37c	67.95c	62.68c	59.23c	61.17c
FD norm EPS (CNY)	67.37c	67.95c	62.68c	59.23c	61.17c
BVPS (CNY)	11.80	12.19	12.40	12.59	12.80
DPS (CNY)	0.40	0.42	0.41	0.40	0.41

Activity (days)

Days receivable	43.4	55.7	70.5	89.9	113.8
Days inventory	–	–	–	–	–
Days payable	–	–	–	–	–
Cash cycle	–	–	–	–	–

Source: Company data, Nomura estimates

Company profile

China Unicom is one of the telecom operators in China, providing wireline & mobile telecommunications services, Internet access services, information services and other value-added telecommunications services.

Valuation Methodology

Our TP of HKD6.10 is based on a DCF valuation methodology with a WACC of 8.5% and a terminal growth rate of 0%. Our TP implies 8.9x 2027F EPS of CNY0.59, 0.4x 2027F BVPS of CNY12.6, 1.5x 2027F EV/EBITDA, and 7.4% 2026F dividend yield. The benchmark index is the Hang Seng Index.

Risks that may impede the achievement of the target price

Downside risks include: 1) irrational tariff and handset subsidy competition; 2) fierce competition from CM in the broadband business; and 3) slower-than-expected progress in new business development. Upside risks include: 1) relieved competition in mobile and broadband market; 2) price hike for enterprise customers to support revenue / earnings growth; 3) faster-than-expected progress in emerging business.

ESG

China Unicom, as a social responsibility, offers telecom network infrastructure and affordable mobile/fixed-line services to consumers and enterprises. The "co-share co-build" project with China Telecom helps to save infrastructure investment and is more environment friendly. As an SOE, the company still has room to improve in terms of corporate governance.

1H26 and 2Q26 results review

1H26 service revenue declined 0.2% y-y (**2Q26: +0.5% y-y**), better than the industry service revenue decline of 2.1% y-y in 1H26 (source: MIIT data). While the company recorded a **34.6% y-y earnings decline** in 1H26 (**2Q26: 46.4% y-y)**, impacted by VAT and increases in staff cost, according to the company.

Fig. 19: China Unicom - 1H26 and 2Q26 results review

(CNY mn)	1Q24	2Q24	3Q24	4Q24	1Q25	2Q25	3Q25	4Q25	1Q26	2Q26	y-y	q-q	1H24	2H24	1H25	2H25	1H26	y-y	h-h
	A	A	A	A	A	A	A	A	A	A			A	A	A	A	A		
Sales	99,496	97,845	92,782	99,466	103,354	96,848	92,783	99,238	102,824	98,540	1.7%	-4.2%	197,341	192,248	200,202	192,021	201,364	0.6%	4.9%
Service revenue	89,043	86,613	83,130	87,189	90,881	87,475	83,281	86,101	90,058	87,898	0.5%	-2.4%	175,656	170,319	178,356	169,382	177,956	-0.2%	5.1%
% chg yoy	3.4%	2.0%	2.0%	5.5%	2.1%	1.0%	0.2%	-1.2%	-0.9%	0.5%			2.7%	3.8%	1.5%	-0.6%	-0.2%		
OPEX	(99,496)	(42,835)	(67,392)	(80,446)	(103,354)	(42,608)	(92,783)	(99,238)	(102,824)	(98,540)			(142,331)	(147,838)	(145,962)	(146,841)	(153,944)		
Depreciation	(21,182)	(21,179)	(20,855)	(20,176)	(20,202)	(20,118)	(20,149)	(20,362)	(20,055)	(19,958)			(42,361)	(41,031)	(40,320)	(40,511)	(40,013)		
% chg yoy	-1%	0%	-1%	-6%	-5%	5%	-3%	1%	-1%	-1%			0%	-3%	-5%	-1%	-1%		
Pretax income	7,239	9,680	6,629	1,706	7,599	10,188	6,943	723	6,114	5,193	-49.0%	-15.1%	16,919	8,335	17,787	7,666	11,307	-36.4%	47.5%
% chg yoy	11%	10%	10%	8%	5%	5%	5%	-58%	-20%	-49%			10%	9%	5%	-8%	-36%		
Reported NPAT	5,613	8,180	5,237	1,583	5,929	8,555	5,516	816	4,885	4,583	-46.4%	-6.2%	13,793	6,820	14,484	6,332	9,468	-34.6%	49.5%
% chg yoy	8.9%	13.0%	7.9%	7.0%	5.6%	4.6%	5.3%	-48.5%	-17.6%	-46.4%			11.3%	7.7%	5.0%	-7.2%	34.6%		
Normalised NPAT	5,613	8,180	5,237	1,583	5,929	8,555	5,516	816	4,885	4,583									
Ratio Analysis																			
Reported NPAT	6.3%	9.4%	6.3%	1.8%	6.5%	9.8%	6.6%	0.9%	5.4%	5.2%	-4.6pp	-0.2pp	7.9%	4.0%	8.1%	3.7%	5.3%	0.3pp	4.1pp

Source: Company data, Nomura research

Earnings forecast revisions

We lower FY26-27F service revenue by 2.7-3.4%, and cut FY26-27F earnings by 4.4% each, to reflect the adverse impact of VAT and growth pressure for the core business. We also introduce FY28F service revenue/earnings forecasts with 1.2%/2.0% y-y growth.

Fig. 20: China Unicom - earnings forecast revision

(CNY mn)	2023	2024	2025	2026F	2027F	2028F	2026F	2027F	2026F	2027F
	A	A	A	NOM	NOM	NOM	OLD	OLD	Diff.	Diff.
Sales	372,597	389,589	392,223	389,054	390,049	395,010	398,742	401,975	-2.4%	-3.0%
Service revenue	335,170	345,975	347,738	343,681	343,769	347,806	353,368	355,695	-2.7%	-3.4%
% chg yoy	5.0%	3.2%	0.5%	-1.2%	0.0%	1.2%	1.6%	0.7%		
OPEX	(272,787)	(290,169)	(292,803)	(290,450)	(291,076)	(294,527)	(298,772)	(302,414)	-2.8%	-3.7%
Depreciation	(84,847)	(83,392)	(80,831)	(79,887)	(80,491)	(80,706)	(80,175)	(80,058)	-0.4%	0.5%
% chg yoy	-2.3%	-1.7%	-3.1%	-1.2%	0.8%	0.3%	-0.8%	-0.1%		
Pretax income	22,945	25,254	25,453	23,493	22,207	22,645	24,570	23,228	-4.4%	-4.4%
% chg yoy	11.4%	10.1%	0.8%	-7.7%	-5.5%	2.0%	-3.5%	-5.5%		
Reported NPAT	18,726	20,613	20,816	19,180	18,123	18,483	20,065	18,962	-4.4%	-4.4%
% chg yoy	11.8%	10.1%	1.0%	-7.9%	-5.5%	2.0%	-3.6%	-5.5%		
Normalised NPAT										
Ratio Analysis										
Reported NPAT	5.6%	6.0%	6.0%	5.6%	5.3%	5.3%	5.7%	5.3%	-0.1pp	-0.1pp

Source: Company data, Nomura estimates

Our FY26-28F revenue estimates are 1-2% lower than Bloomberg consensus, while FY27-28F earnings are 9-14% lower, as we are more cautious about the impact from increased VAT on profitability.

Fig. 21: China Unicom – Nomura vs consensus

	2025	2026F			2027F			2028F		
(CNY mn)		(NOM)	(CON)	diff	(NOM)	(CON)	diff	(NOM)	(CON)	diff
Revenue	392,223	389,054	392,719	-1%	390,049	398,280	-2%	395,010	405,110	-2%
EBITDA	99,420	98,604	97,338	1%	98,973	171,984	-42%	100,483	98,289	2%
Net Profit (adjusted)	20,790	19,180	19,013	1%	18,123	19,965	-9%	18,483	21,473	-14%
EPS(adjusted)	0.68	0.63	0.64	-2%	0.59	0.67	-11%	0.61	0.72	-15%

Source: Company data, Bloomberg Finance L.P., Nomura estimates

Valuation methodology and risks

To derive our DCF-based TP of HKD6.1, we assume a WACC of 8.5% (previously: 8.6%) and a terminal growth rate of 0% (unchanged). Our TP implies 8.9x FY27F EPS of CNY0.59, 0.4x FY27F BVPS of CNY12.6, 1.5x FY27F EV/EBITDA, and 7.4% FY27F dividend yield.

Downside risks include: 1) irrational tariff and handset subsidy competition; 2) fierce competition from China Mobile (941 HK, Buy) in the broadband business, and; 3) slower-than-expected progress in new business development.

Upside risks include: 1) relieved competition in the mobile and broadband market; 2) price hikes for enterprise customers to support revenue / earnings growth, and; 3) faster-than-expected progress in emerging businesses.

Fig. 22: China Unicom - DCF valuation

(CNY mn)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026F	2027F	2028F	2029F	2030F	2031F	Terminal
Period													1	2	3	4	5	
Service revenue	235,278	238,033	249,015	263,683	264,387	275,814	296,153	319,348	335,170	345,975	347,738	343,681	343,769	347,806	355,550	367,104	378,217	
Profit after tax	10,562	625	1,828	10,197	11,330	12,493	14,368	16,745	18,726	20,613	20,816	19,180	18,123	18,483	13,291	8,701	3,668	
CAPEX	88,465	98,293	61,489	52,176	56,187	53,981	72,047	72,470	79,375	75,740	67,641	61,553	58,476	57,891	60,785	62,609	64,487	
FCF	7,053	21,156	37,718	31,208	34,625	13,533	35,852	44,425	16,848	4,746	20,522	35,412	34,327	30,474	23,545	16,603	6,863	80,600
Discount factor													0.92	0.85	0.78	0.72	0.66	0.66
PV													31,633	25,879	18,426	11,974	4,561	53,568

Assumptions			
		PV of corporate value	146,041
		+ cash	25,109
Risk-free rate	3.0%	- borrowing	7,992
Market risk premium	7.0%	- minority interest	2,585
Beta	0.8	PV of equity value	160,573
Terminal growth rate	0.0%		
WACC	8.5%	H share Shares outstanding	30,598

HKD
6.1

Source: Company data, Nomura estimates