China Telecom

3Q26 result: Resilient result on a comparable basis, maintain OW

China Telecom reported 3Q26 results. Reported net profit was down 14.7% YoY to RMB 6.6bn and service revenue was down 1.5% YoY to RMB 115.2bn, largely in line with consensus. Both service revenue/operating profit YoY decline narrowed from -2.6%/-16.7% in 2Q26 to -1.5%/-14.1% in 3Q26. Excluding the impact of the VAT item adjustment, the company's operating revenue was broadly stable on a comparable basis, and profit attributable to equity holders maintained solid growth, reflecting resilient underlying operations rather than fundamental deterioration. We continue to expect CT's profit to resume growth in 2027E.

- **Healthy cash flow with disciplined capex:** 9M26 operating cash flow rose 12.6% YoY to RMB 98.4bn, while capex declined 1.9% YoY to RMB 44.0bn. Against the company's RMB 73bn annual capex guidance (down 9% YoY), we think the company's spending is disciplined, and combined with its healthy OCF, should enhance funding capacity and support future dividend payouts.
- **We maintain OW on CT-H/CT-A, as we view its 2026E dividend yield of 6.2%/3.8% as attractive.** We prefer CM-H to CT-H on more resilient earnings in 2026 and higher dividend yield (CM-H 7.0% vs CT-H 6.2%).

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J.P. Morgan Securities (China) Company Limited

0728.HK, 728 HK
Overweight
Price: HK$4.32
23 Oct 2026
Price Target: HK$5.20
PT End Date: 31 Dec 2027

601728.SS, 601728 CH
Overweight
Price: Rmb6.84
23 Oct 2026
Price Target: Rmb7.00
PT End Date: 31 Dec 2027

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Table 1: China Telecom 3Q26 earnings review

YE 31 Dec RMBm, except for EPS	Actual	Consensus	3Q26 % delta	3Q25 Actual	2Q26 Actual	YoY %	QoQ %
Total revenues	**121,931**	**122,500**	**0%**	**125,529**	**128,504**	**-3%**	**-5%**
Service revenue	115,229			117,031	121,371	-2%	-5%
Product revenue	6,702			8,498	7,133	-21%	-6%
Total cost	**(88,249)**			**(90,485)**	**(88,022)**	-2%	0%
Network operations and support	(32,576)			(36,602)	(37,825)	-11%	-14%
SG&A	(14,832)			(16,489)	(15,638)	-10%	-5%
Personnel expenses	(27,632)			(24,780)	(20,734)	12%	33%
Interconnect charges	(4,463)			(4,463)	(3,298)	0%	35%
Cost of goods sold and other expenses	(8,746)			(8,151)	(10,527)	7%	-17%
EBITDA	**33,682**			**35,044**	**40,482**	**-4%**	**-17%**
Depreciation & Amortization	25,785			25,854	25,654	0%	1%
EBIT	**7,897**			**9,190**	**14,828**	**-14%**	**-47%**
PBT	8,605			9,855	16,439	-13%	-48%
Net income	**6,619**	**6,846**	**-3%**	**7,756**	**12,238**	**-15%**	**-46%**
Basic EPS (Rmb)	0.07	0.07	**3%**	0.08	0.13	-15%	-46%

Source: China Telecom 3Q26 earnings report, J.P. Morgan estimates, Bloomberg Finance L.P. (as of Oct 23, 2026)

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China Telecom Corp LTD *(Overweight; Price Target: HK$5.20)*

Investment Thesis

China Telecom (CT) is the second-largest telecom operator in China by service revenue. It owns the largest cloud by revenue size among the Big 3 and its cloud revenue/cloud revenue exposure ranks No.1 among the 3 major telecom operators. Therefore, it is considered to be a 'cloud proxy stock' among the 3 major telecom operators, leading to its P/E premium vs CM/CU. We are OW on CT-H, as we view its 2026E based dividend yield of 6.2% as attractive. While we forecast its profit to decline 14% YoY in 2026E due to VAT policy change and a decline in legacy telco service revenue, we expect its profit to rebound by 7%/8% in 2027E/28E on growth of intelligence service, less depreciation cost due to lower capex, and opex optimization.

Valuation

Our Dec-27 PT of HK$5.20 is based on 2027E DPS of HK$0.3 and a one-year forward dividend yield of 5.7%, at a premium to the local market yield (HSI at 3.3%) given the relatively lower earnings growth of CT.

Risks to Rating and Price Target

Downside risks to our rating and price target include:

- US investment restrictions (i.e. sanctions-related designations).
- While telco service is generally a 'staples' service, weaker-than-expected economy could also impact willingness to spend.
- Cloud revenue growth could potentially be slower-than-expected if there is a lack of new development in AI service (e.g. DeepSeek in 1Q25) and a weak macro could also weigh on enterprise spending on AI/cloud.

China Telecom Corp LTD - A *(Overweight; Price Target: Rmb7.00)*

Investment Thesis

China Telecom (CT) is the second-largest telecom operator in China by service revenue. Its cloud revenue/cloud revenue exposure ranks No.1 among the 3 major telecom operators. Therefore, it is considered to be a 'cloud proxy stock' among the 3 major telecom operators. We are positive on CT's share price outlook on a 12M view, as: 1) the resumption of chip supply in China could be positive to China's IaaS value chain, particularly for cloud/AIDC operators (shovel seller). Further growth of AI use cases in China (e.g. Kuaishou's Kling) could lead to higher cloud/AIDC demand for China telco operators and drive a further multiple re-rating for CT. 2) CT-A's current dividend yield appears attractive vs SHSZ300. Comparing CT-A vs CT-H, we see the H-share offers a higher dividend yield, thus we prefer CT-H over CT-A.

Valuation

Our Dec-27 PT of Rmb7.0 is based on 2027E DPS of Rmb0.25 and a one-year forward dividend yield of 3.6%, at a premium to the local market yield (SHSZ300 at 2.6%) given the relatively low earnings growth of CT.

Risks to Rating and Price Target

Downside risks to our rating and price target include:

- US investment restrictions (i.e. sanctions-related designations).
- While telco services is generally a 'staples' service, a weaker-than-expected economy could also impact consumers' willingness to spend.
- Cloud revenue growth could potentially be slower than expected if there is a lack of new development in AI services (e.g. DeepSeek in 1Q25) and weak macro could also weigh on enterprise spending on AI/cloud.

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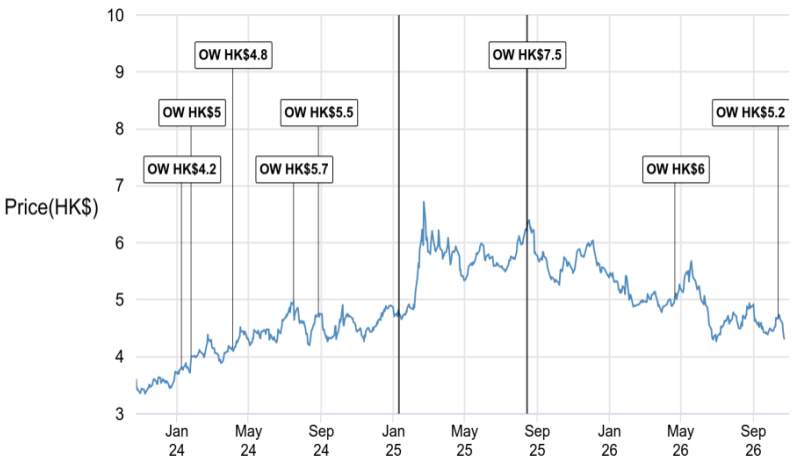
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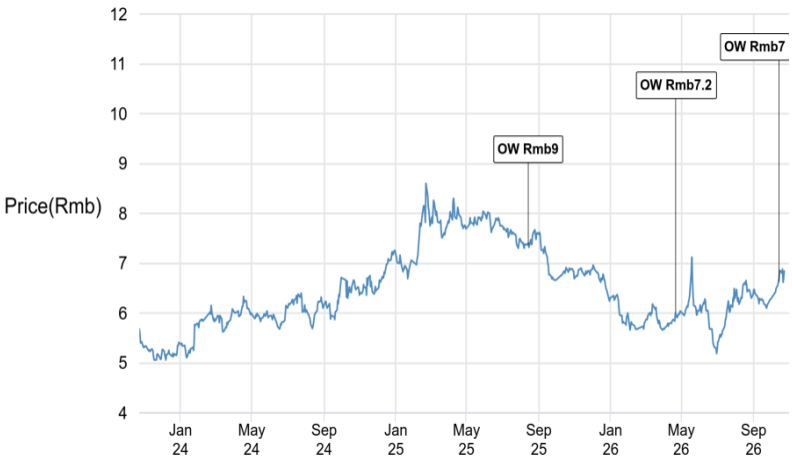
China Telecom - H (0728.HK, 728 HK) Price Chart



Date	Rating	Price (HK$)	Price Target (HK$)
09-Jan-24	OW	3.80	4.2
26-Jan-24	OW	4.00	5
05-Apr-24	OW	4.16	4.8
17-Jul-24	OW	4.97	5.7
28-Aug-24	OW	4.76	5.5
14-Aug-25	OW	6.23	7.5
22-Apr-26	OW	5.05	6
14-Oct-26	OW	4.68	5.2

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Feb 22, 2006. All share prices are as of market close on the previous business day.
Break in coverage Jan 10, 2025 - Aug 14, 2025.

China Telecom - A (601728.SS, 601728 CH) Price Chart



Date	Rating	Price (Rmb)	Price Target (Rmb)
14-Aug-25	OW	7.37	9
22-Apr-26	OW	6.00	7.2
14-Oct-26	OW	6.62	7

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Aug 14, 2025. All share prices are as of market close on the previous business day.



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Date	Rating	Price (HK$)	Price Target (HK$)
09-Jan-24	OW	65.40	74.5
26-Jan-24	OW	67.65	83
05-Apr-24	OW	67.55	85
17-Jul-24	OW	76.80	95
28-Aug-24	OW	76.35	93
14-Aug-25	OW	88.80	110
22-Apr-26	OW	83.70	100

Source: Bloomberg Finance L.P. and J.P. Morgan; price data adjusted for stock splits and dividends.
Initiated coverage Jan 17, 2006. All share prices are as of market close on the previous business day.
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