



China Tower (788 HK)

State monopoly at 10x P/E with rapidly falling depreciation charges



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Summary



1. China Tower (788 HK) is a state-owned enterprise owning the vast majority of all telecommunications towers in China. It was formed in 2014 when China's three largest telecom operators injected their assets into a single entity, meant to reduce duplication of resources and increase efficiency in the sector. China Tower builds tower infrastructure and then leases it out to its telecom operator customers on 5-year contracts.
2. The tower industry enjoys recurring predictable revenues. The demand for data keeps growing at a steady rate. And as networks move to higher frequency spectrums, base station density goes up, increasing the demand for towers.
3. China Tower's profits are a function of the number of sites it operates, multiplied with the number of tenants per site and multiplied with the price per tenant. So far pricing has remained more or flat. China Tower has benefitted from a greater number of tenants/site, though due to high co-location discounts, that benefit is nowhere near as high as in, say, Indonesia or the United States.
4. I expect EBITDA to grow around 6% per year on a secular basis. But the real kicker will come from lower depreciation charges in the next 2-3 years. The initial assets injected into China Tower in 2015 have been depreciated at 6-10 year schedules rather than their economic lives of 10-25 years. That means that once the initial assets have been fully depreciated, D&A will fall by about CNY 10-15 billion. I'm expecting a 2026 P/E of 5.7x and a dividend yield of 10.6%.
5. On the one hand, China Tower benefits from the fact that it's fully backed by the Chinese government. This ensures that competition will remain limited (current market share: 97%). But on the other hand, the fact that its three main shareholders are also its biggest customers introduces conflict of interest. That's the price to pay when investing in a Chinese SOE.

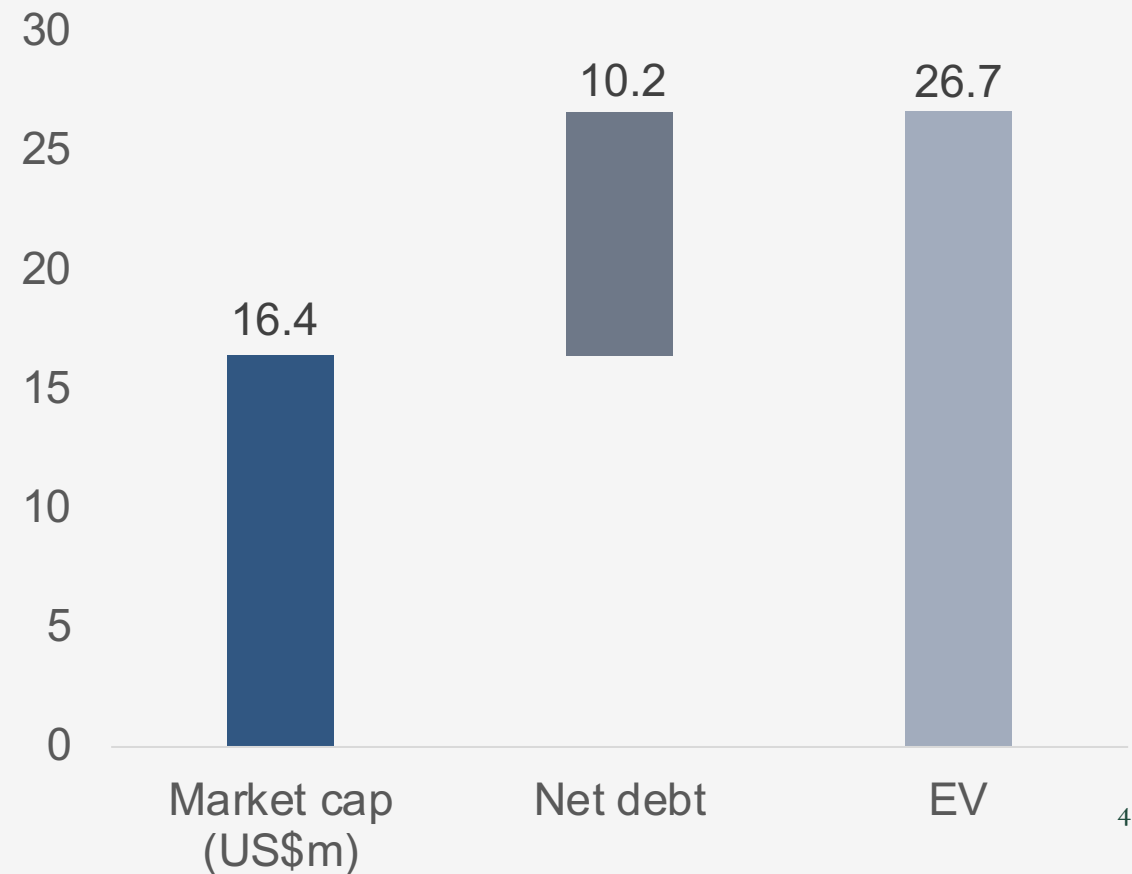
Capitalisation



- Share price: HK\$0.73
- Shares outstanding: 176 billion
- Market cap: US\$16 billion
- Net cash: US\$10 billion
- Enterprise value: US\$27 billion

- Average daily trading volume: US\$10 million

US\$ billion

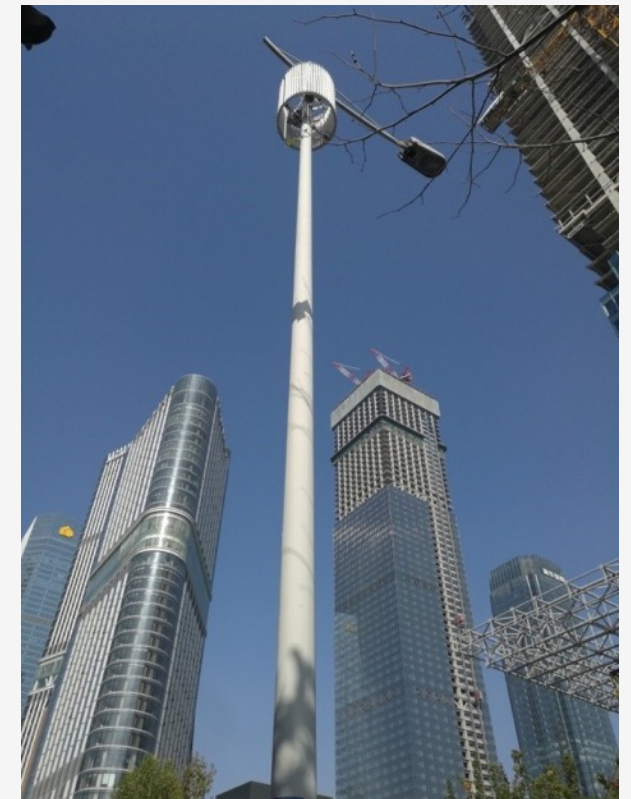


* HK\$ = Hong Kong Dollar. HKD/USD = 7.82

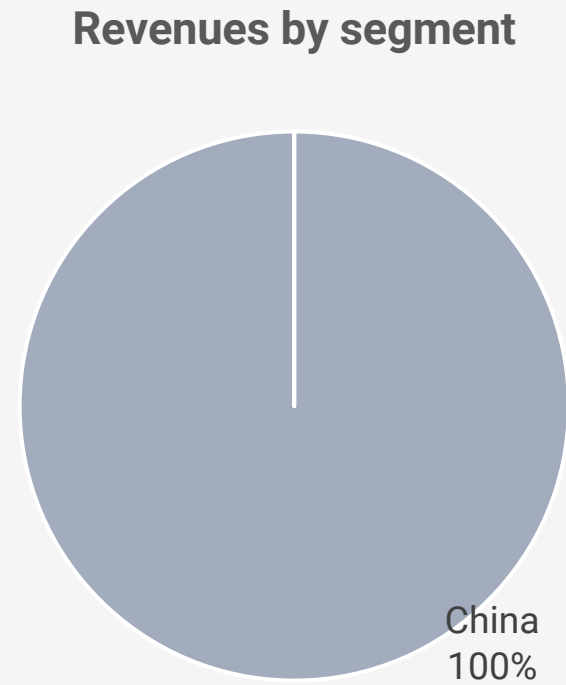
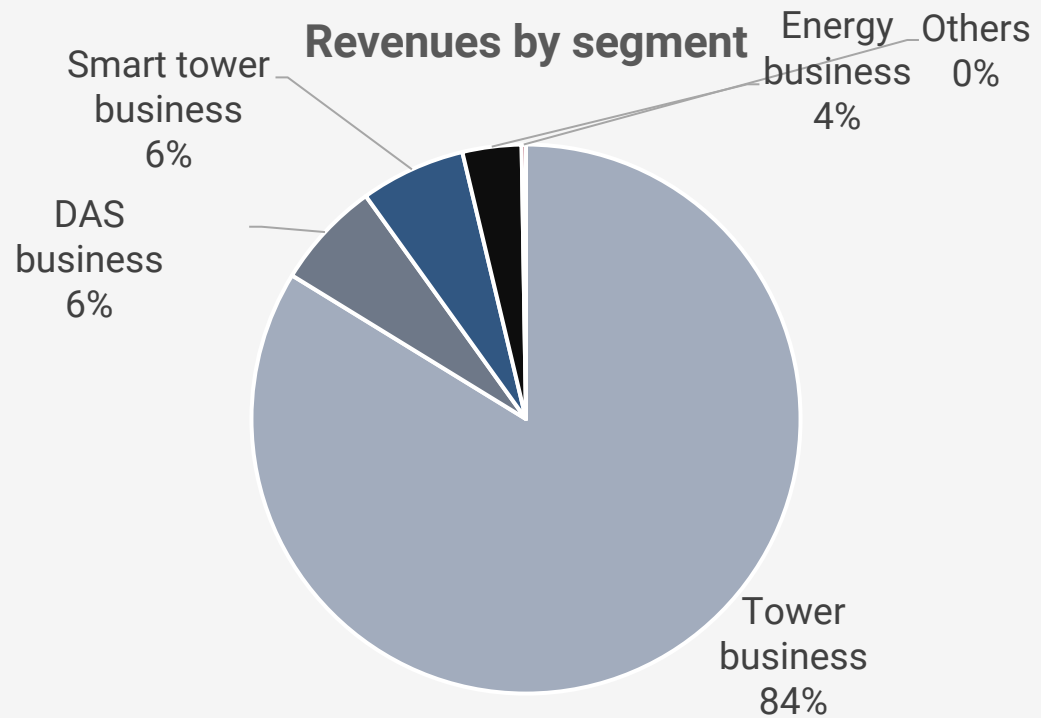
Business overview



- China Tower (788 HK) is a state-owned entity that controls cell towers across the People's Republic of China with a ~97% market share. It's the world's largest tower company by the # of towers and by revenue.
- The company's main business is to construct, maintain and operate cell towers used by telecom companies to place antennas and other network equipment to build wireless networks. The company also offers shelters, power supply and air conditions for these base stations. And has a services arms which helps build wireless networks indoors ("DAS") and companies place other equipment in their towers ("TSSAI").
- China Tower formed in 2014 after three largest Chinese telecom operators China Mobile, China Telecom and China Unicom injected their towers into the company. These three companies remain the largest shareholders of the company and also the three largest customers. The companies have long-term contracts with China Tower, with no price escalators but renegotiations every 5 years.
- China Tower's topline growth has been 6% per year, driven by greater cell density thanks to a shift towards higher frequency spectrums. But the company's margins will also expand thanks to lower depreciation charges after the excess depreciation from the 2014 asset injections roll off.



Segments



Tower companies construct, own and rent towers that host the network equipment operated by telecom operator customers



Demand undertaking

- Tower companies liaise with telecom operators and try to understand their coverage demands
- They then match demand with site resources and try to meet it through construction



Construction

- Identifies and builds new sites, or
- Augments existing sites to meet demand
- Coordinates and negotiates with land or building owners to get usage rights
- Liaises with local governments to make sure they get access to key sites



Maintenance

- Engineers maintain site maintenance to ensure smooth functioning of equipment. Partly through third-party maintenance service providers.
- IT system for handling breakdowns across 1 million+ sites, with sensors that communicate with HQ
- Offers power via State Grid, China Southern Power Grid

China Tower has only been around for about a decade



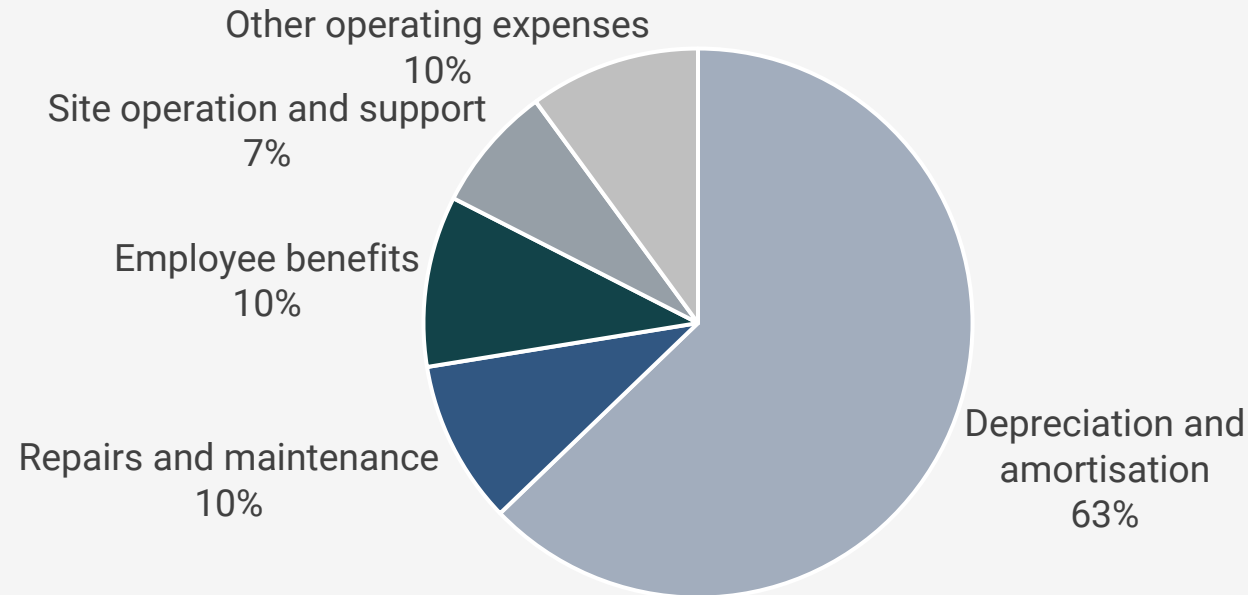
- The company was formed in **2014** and the year after, the three largest Chinese telcos – China Mobile, China Telecom and China Unicom – injected their tower assets into a single company called “*China Communications Facilities Services Corporation Limited*”. After the injection and related share issue, China Mobile held 38%, China Telecom 28%, China Unicom 28% and China Reform 6%. The government pushed the industry to form China Tower to reduce duplicated construction within the industry and increase overall efficiency.
- In **2015**, China Tower obtained the Basic Telecommunications Business Operation License and the Value-added Telecommunications Business Operations License from the Ministry of Industry and Information Technology.
- In **2016**, China Tower entered into commercial pricing agreements with its three customers, lasting for five years each.
- Then in **2018**, China Tower entered into supplemental agreements with the telcos with five-year terms ending 2022. These amendments led to a reduction in cost margins and an increase in co-location discount rates. On 1 January 2018, the estimated useful life of injected tower assets was increased from 10 years to 20 years, which is going to decrease future depreciation charges.
- China Tower’s IPO was also in **2018**. The company raised US\$6.9 billion, with the proceeds mostly used for new site construction and improvement as well as paying back debt. Goldman Sachs and CICC were the joint bookrunners.
- China’s telecom operators launched 5G services in late **2019**, and popularised in 2020, leading to greater demand for small-cell sites and equipment.
- In **2022**, China Towers contracts with telecom operators were renegotiated at similar terms as before, though with somewhat higher discounts (2 percentage points) on shared towers.



China Tower's expenses have two major portions: 1) employee salaries and 2) depreciation & amortisation



China Tower cost structure





The core tower segment

- In the main tower business, the company provides towers and shelters or cabinets to telecom operators to host their antennas and other **macro cell** equipment.
- China Tower also operates a micro cell business, providing telecom operators with sites for **micro cell** equipment, for example in areas with high population density. Examples includes poles, rooftop small cells, cabinets or shared municipal facility small cells.
- These towers are then connected to core networks and the Internet through high-speed backhaul connections. These are often fiber optic lines.
- China Tower enters into long-term (~5 year) agreements with the telcos with no price escalators. They almost always renew their contracts, with some improvements to pricing.
- The average price per tenant is about CNY 25,600 and this number has gone up slowly over time.
- Many of the sites have several tenants, and China Tower offers co-location discounts to increase the tenant/tower ratio. These discounts are 37.4% for 2x tenants, 47.4% for the third tenants, which means that China Tower makes 1x, 1.3x or 1.6x for 1, 2 and 3 tenants, respectively. But despite the high discounts, co-location still leads to margin improvement.



China Tower also has several other key businesses



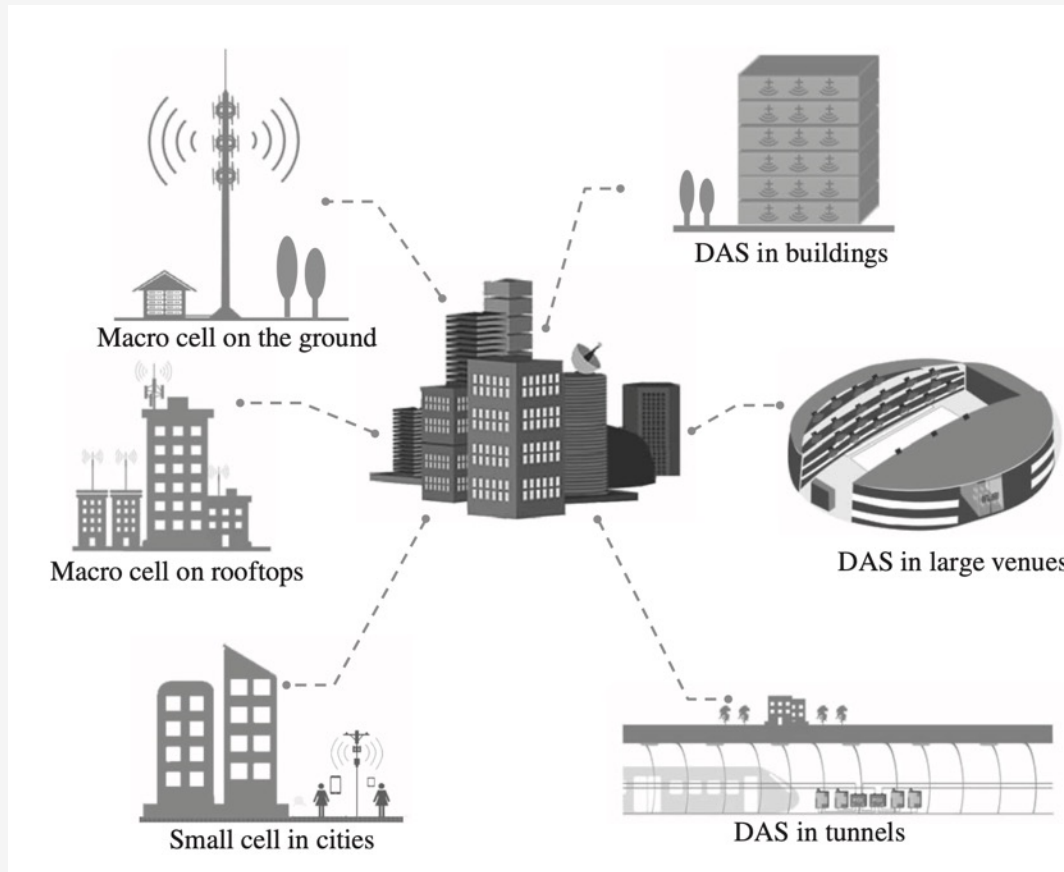
- **Distributed Antenna System (DAS):** Indoor distributed antennas systems to telecom operators. China Tower helps them achieve indoor coverage for their networks, e.g. in large buildings or tunnels.
- **Trans-sector site application and information (TSSAI):** Helping customers from different industries build their own networks across China Tower's sites. The company also helps them with data collection, transmission, analysis and application.
- **Energy operation:** Providing energy services to customers, including power guarantees using back-up power assets such as power generators and batteries. China Tower has also dabbled in scooter battery exchange schemes, which seem dubious to me.



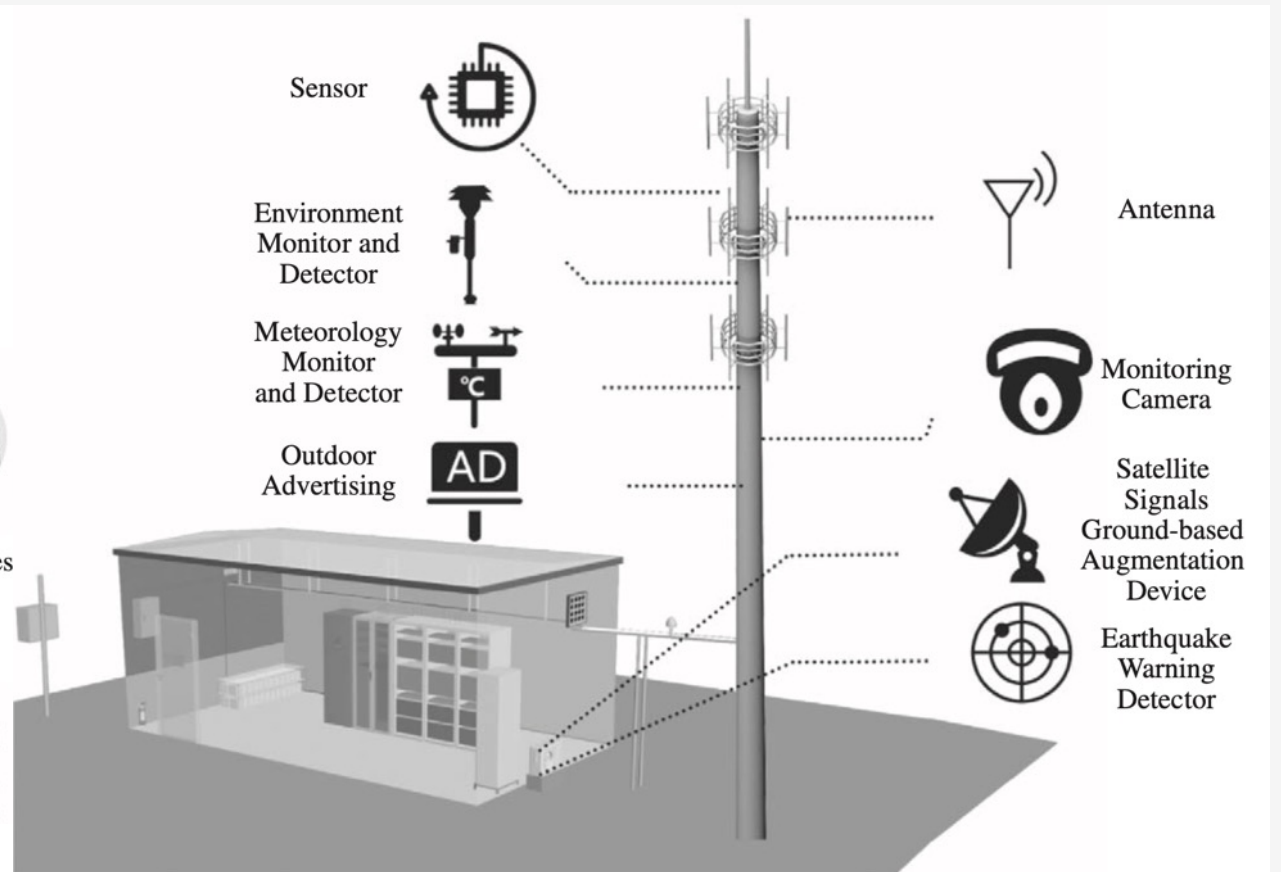
China Tower's "two wings": providing indoor coverage ("DAS") and placing non-telecom equipment on their sites ("TSSAI")



Tower & DAS business



TSSAI business



China Tower's pricing is basically built on a cost-plus model, but profitability increases with site sharing, despite discounts



- China Tower's contracts with its three telco customers are set in reference to costs (cost-plus method).
- The prices for tower are the total of the **base price, site fee and power access fee** after applying certain fixed **co-location discounts**
 - Base price: calculated based on the costs of a certain tower product plus a cost mark-up
 - Site fee: rents, slotting fees and coordination costs
 - Power access fee: construction cost/10 years depreciation with a 5% mark-up
 - Co-location discount of 32.4% for 2x and 42.4% for 3x tenants
- The price for **distributed antenna systems** products is the total of the base price, site fee and fixed co-location discounts
- The price for TSSAI services is set through market forces, though the costs incurred and internal benchmarks are also important.

Figure 33: China Tower's Pricing Method for Towers

Product price	①	$(1 - R_{CoDiscount}^1) \times \text{Base price} + (1 - R_{CoDiscount}^2) \times (\text{site fee} + \text{power access fee})$																		
	②	$(1 - R_{CoDiscount}^1) \times \text{Base price} + (1 - R_{CoDiscount}^2) \times \text{site fee}$																		
Base price	①	$(1 + R_{Cost}) \times \left[C_{maintenance} + \sum \frac{C_{construction}}{Y_{depreciation}} \times (1 + R_{Impair}) \right]$																		
	②	$(1 + R_{Cost}) \times \left[C_{maintenance} + \sum \frac{C_{construction}}{Y_{depreciation}} \times (1 + R_{Impair}) \times R_{Discount} \right]$																		
C _{maintenance} means Maintenance Cost	①	Including the cost for outsourcing maintenance, repair and consumable materials, to be determined according to the bidding price, the maintenance contents and quality indicators agreed by the relevant provincial branches/subsidiaries of the parties to the agreements.																		
	②	Including the cost for outsourcing maintenance, repair and consumable items and to be determined according to prices set out in existing contracts or the market-oriented bidding and procurement results.																		
Pricing for additional antennas or systems	①	Three sets of antennas (as one system) serve as one basic product unit. The number of systems shall be rounded up to the nearest whole number if the number of antennas is not the integrate multiples of three. If there is more than one basic product unit, additional charges will be applied based on certain standards.																		
	②	Prior to the December 31, 2015, all products built by the Telecom Shareholders and their branches/subsidiaries shall be deemed as a whole and priced at the base price of the product unit with the highest antenna mounting height on the relevant acquired towers. The newly added product unit of the acquired towers (including the product units constructed and added by the Company prior to the aforementioned date) shall be priced the base price of the corresponding product unit of the acquired towers. Every additional three antennas (one system) shall be charged at 30% of the price for a product unit and every one additional system (excluding the antennas) which expands the facility space shall be charged at 10% of the price for a newly added product unit.																		
R _{CoDiscount} ¹	means "co-location discount rate 1", about the discount of base price																			
R _{CoDiscount} ²	means "co-location discount rate 2", about the discount of site fee and/or power access fee																			
		<table border="1"> <thead> <tr> <th></th> <th>shared by</th> <th>normal tenant</th> <th>anchor tenant</th> </tr> </thead> <tbody> <tr> <td rowspan="2">R_{CoDiscount}¹</td> <td>2 tenants</td> <td>30%</td> <td>35%</td> </tr> <tr> <td>3 tenants</td> <td>40%</td> <td>45%</td> </tr> <tr> <td rowspan="2">R_{CoDiscount}²</td> <td>2 tenants</td> <td>40%</td> <td>45%</td> </tr> <tr> <td>3 tenants</td> <td>50%</td> <td>55%</td> </tr> </tbody> </table>		shared by	normal tenant	anchor tenant	R _{CoDiscount} ¹	2 tenants	30%	35%	3 tenants	40%	45%	R _{CoDiscount} ²	2 tenants	40%	45%	3 tenants	50%	55%
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	3 tenants	50%	55%																	
C _{construction}	means "Standard Construction Cost", which shall include the costs for materials, construction, design, supervision, crop compensation and other things in relation to towers, shelters and ancillary facilities but exclude the cost for environmental evaluation.																			
	(i) The standard construction cost shall be determined through the replacement cost method with reference to the wind pressure, antenna mounting height, types of the ancillary facilities and types of towers. (ii) The standard construction cost applied to different provinces shall be the adjusted national standard construction cost according to certain geographical coefficients.																			
Y _{depreciation}	means "Years of depreciation": The rounded-up average years of depreciation of the corresponding assets previously owned by the Telecom Shareholders, which are:																			
	<table border="1"> <thead> <tr> <th>towers</th> <th></th> </tr> </thead> <tbody> <tr> <td>self-owned shelters attached to ground towers</td> <td>10 years</td> </tr> <tr> <td>each of self-owned shelters attached to rooftop towers, rented shelters and integrated cabinet and ancillary facilities</td> <td>6 years</td> </tr> </tbody> </table>	towers		self-owned shelters attached to ground towers	10 years	each of self-owned shelters attached to rooftop towers, rented shelters and integrated cabinet and ancillary facilities	6 years													
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R _{Impair}	means "Impairment rate" = 2% (covering relocation, overhaul and damages)																			
R _{Cost}	means "Cost margin" = 10%																			
Site fee:	For each site, a lump sum or on an itemised basis, to be determined by the provincial branches/subsidiaries of the parties to the agreement (after taking into account factors including the site rents, one-time slotting fees and coordination cost).																			

Source: Company, CGIS Research

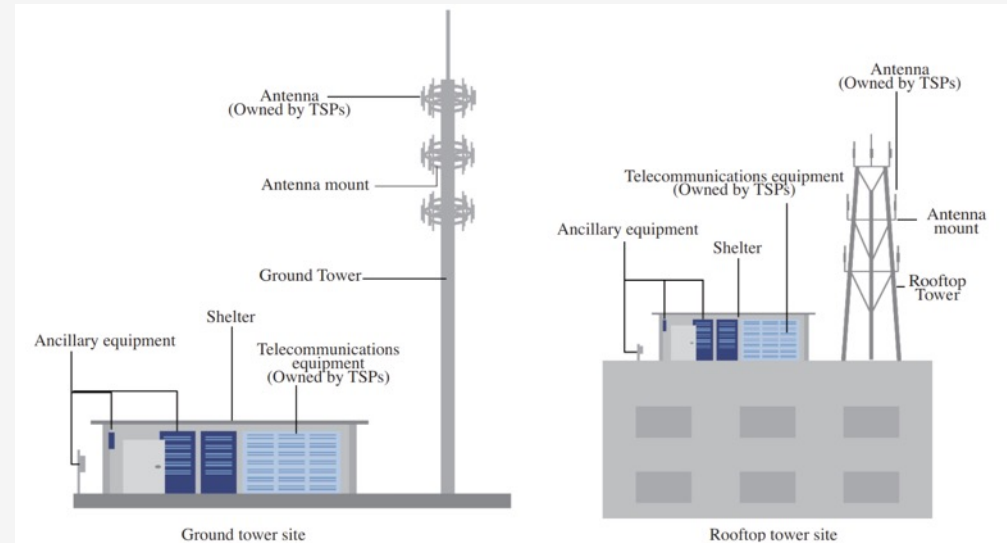
China Tower's assets



- China Tower has 2.1 million tower sites and 3.6 million tower tenants, with only 1.77 tenants per tower. These sites are spread across China 31 provinces, municipalities and autonomous regions.
- These towers include ground towers and rooftop towers. China Tower owns the ancillary equipment including power, the physical towers and antenna mounts, while its telecom operator customers own the equipment including the antennas.
- Some sites and properties are owned, and others leased from third parties. These include warehouses, staff dormitories and offices.
- The number of tenants per site tends to go up over time due to the difficulties of replacing occupied sites, as this revenue tends to be high-margin.
- Each tower can carry not only mobile network equipment, but also sensors for air quality monitoring, earthquake warning detectors, fire monitoring and also hubs to collect data from video surveillance cameras.

Types of sites managed by China Tower

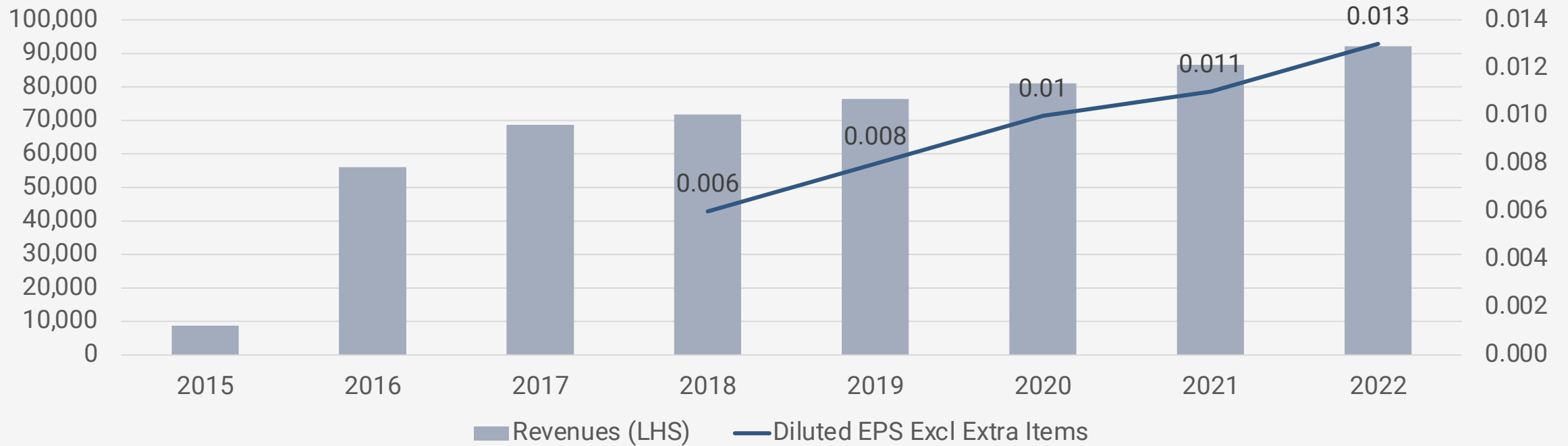
Tower sites	Ground tower site	General ground tower	Monopole
			Lattice
			Angle-steel tower
	Rooftop tower site	General rooftop tower	General landscaped tower
			Camouflage tower
			Pole
Rooftop tower site	Rooftop pole	Lamp pole	
		Guyed pole	
		Rack	
DAS sites	Building DAS site		
	Tunnel DAS site		



China Tower's EPS growth has been impressive



China Tower (788 HK)

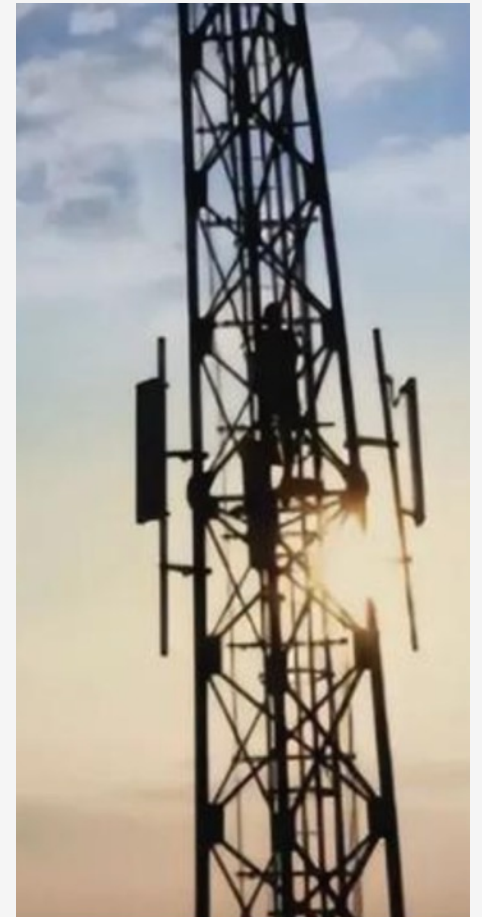


Source: TIKR

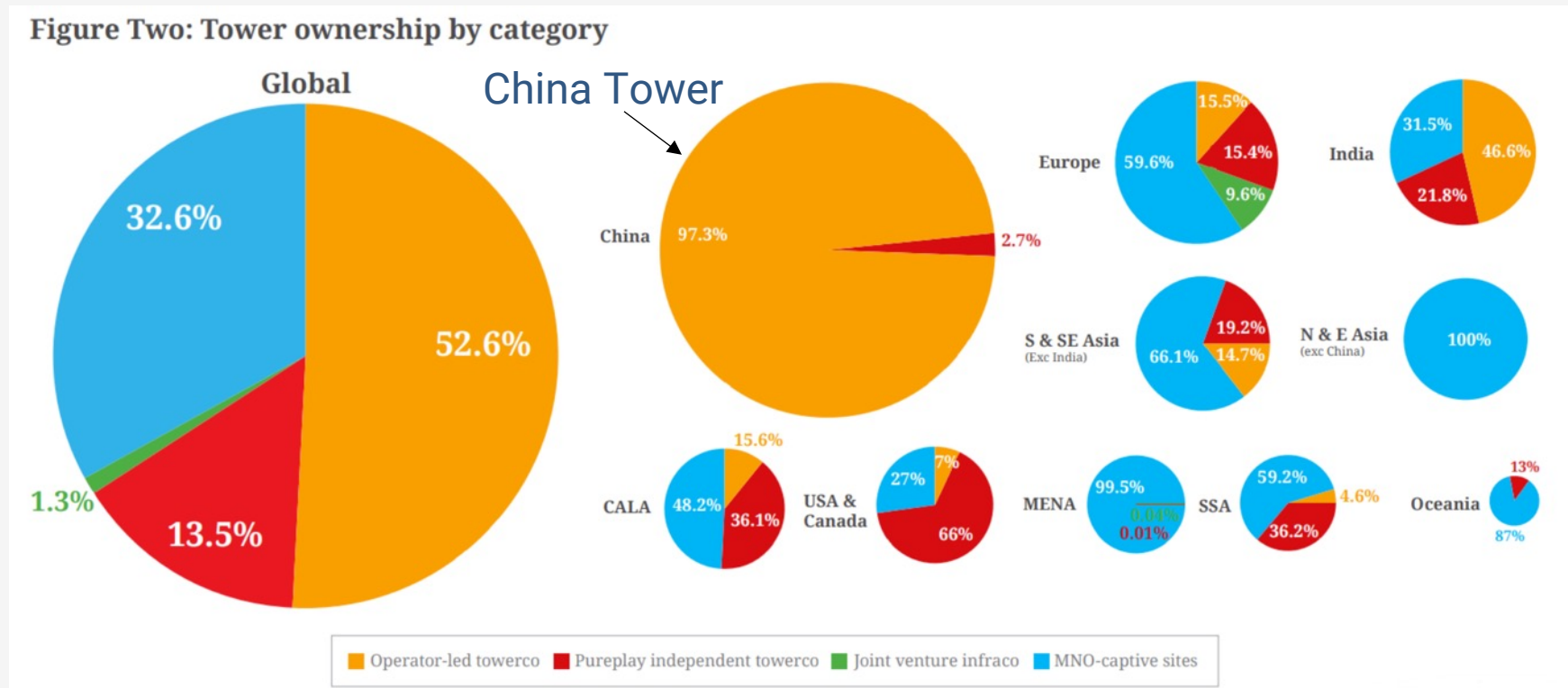
Competitive advantages



- **Regulated monopoly:** China Tower has essentially zero competition, enjoying a market share of 97%. Its three customers and owners have a combined 100% market share in wireless telecom. They have strong incentives to maintain the status quo. The risk of new competition is close to zero.
- **Site scarcity:** The scarcity of cell tower sites provides bargaining power for China Tower, since operators end up being forced to share sites, which provides greater overall margins for the company.
- **Full access to public facilities:** Under PRC law, public utility tower and pole resources are open for use by state-owned enterprises such as China Tower. As wireless networks go up into higher spectrum bands, China Tower will rely more on such public resources and therefore save on capital expenditures.
- **Recurring revenues:** China Tower's revenues and cash flows are stable and predictable. Inertia on the part of customers increases visibility.
- **Decent execution:** In 2018, China Tower reported that 120 towers were managed by one technician, on average. That number is higher than China Tower's overseas peers and can be attributed to strong IT and sensor systems. The strong execution can also be seen in China Tower's EBITDA margins of ~60%, at the top end of the global range.



China's tower industry is unique in that China Tower enjoys an almost complete monopoly

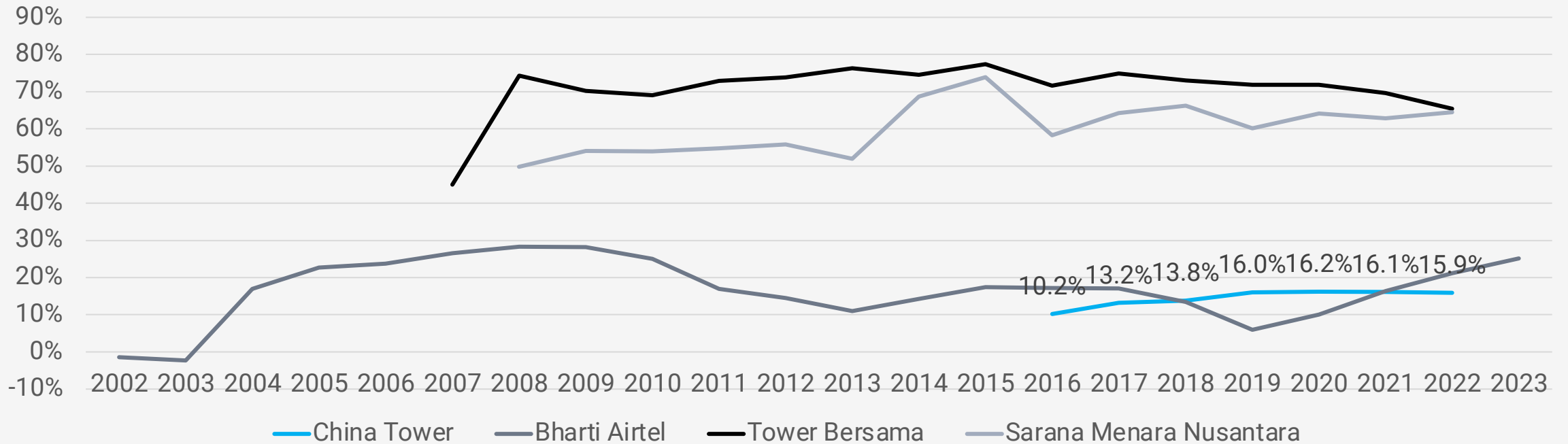


Source: China Galaxy

China Tower's operating margins are low in a regional perspective... perhaps due to pressure from its telco shareholders



Operating margins

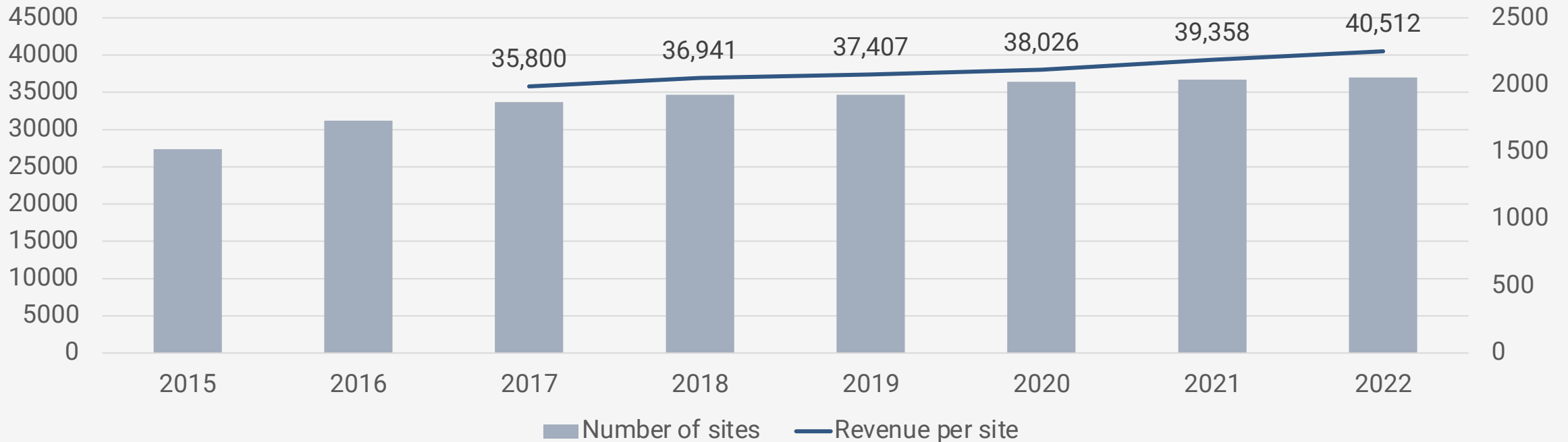


Source: TIKR

The number of sites is growing surprisingly slowly. But luckily, revenue per site is going up thanks to co-location



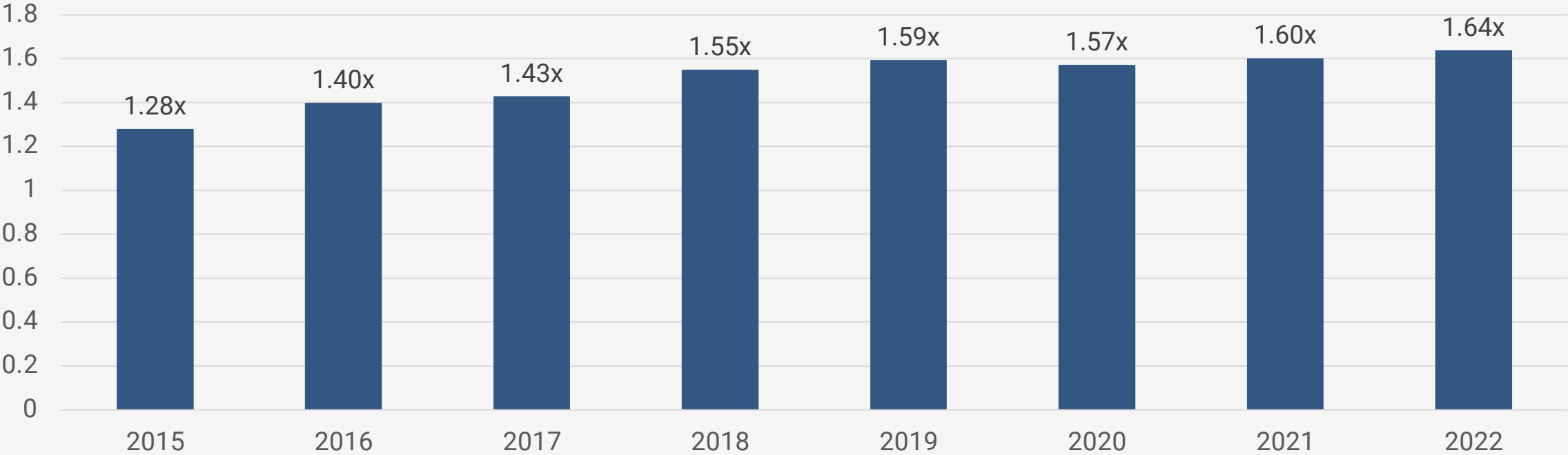
China Tower site



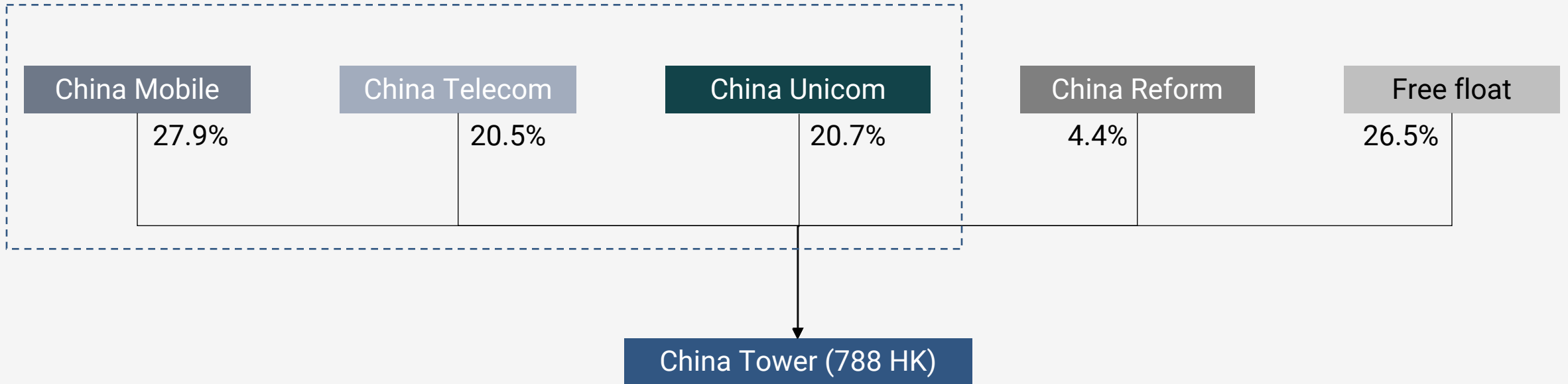
The driver behind greater revenue/site is co-location: more tenants per site



Tenants/site



China Tower is dominated by its three telco shareholders



Source: China Tower Interim Report 2023

China Tower's management team are all SOE life-timers



- The company is run like a typical Chinese state-owned enterprise. It has a Communist Party Committee that plays a leading role in setting the direction for the company.
- Since 2021, China Tower's Chairman has been **Zhiyong Zhang**. He was previously with China Telecom from many years, including in charge of the Xinjiang branch from 2010 to 2014 and General Manager of executive Vice President from 2018 to 2021. He graduated from Changchun Institute of Posts and Telecommunications (Jilin University) in 1986 with a bachelor's degree of wireless communications. He also has a master's degree in engineering from Yanshan University in Qinhuangdao and an Master's degree in management BI Norwegian Business School.
- China Tower's General Manager is **Xiaomin Gu**. He's been General Manager of China Tower since 2019 and Deputy general Manager in the five years prior. His background is also in the telecommunications industry, specifically with China Unicom where he worked in the finance department and strategy department. He has a degree from Nanjing Institute of Posts and Telecommunications (Nanjing University of Posts and Telecommunications) in 1985, a bachelor's degree in engineering from Jiaotong University, a bachelor's of law from Peking University in 2001 and several other degrees.
- Their salaries are at rock-bottom levels, with Gu Xiaomin only getting CNY 1 million per year (US\$190,000). He only owns 465,000 shares worth around US\$63,000. How do they support their lifestyles?



Zhiyong Zhang



Xiaomin Gu

Corporate governance and capital allocation



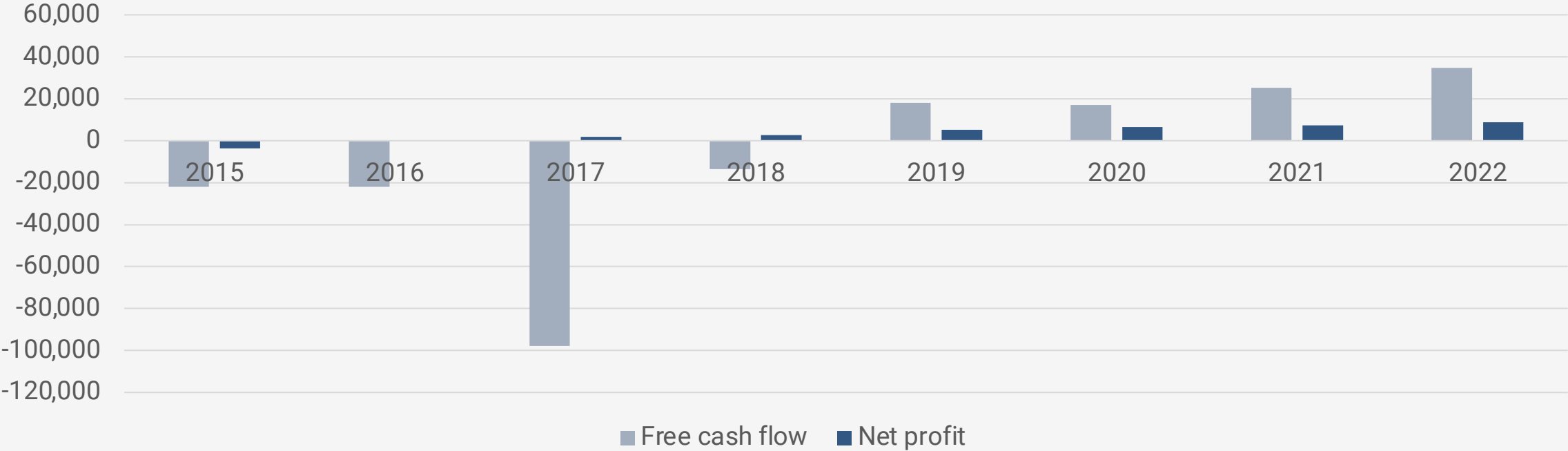
- Since the company was formed in 2014, it entered into subscription agreements with its key shareholders in 2016, causing the share count to go up significantly.
- The IPO in 2018 caused dilution with the company raising US\$6.9 billion at a US\$35 billion valuation.
- Since then, the share count has been more or less flat with zero dilution.
- China Tower has significant related party transactions with its three largest telco shareholders China Mobile, China Telecom and China Unicom. These introduce conflicts of interests, specifically with regards to keeping prices low. At the same time, not so low that capital expenditures are discouraged.



In recent years, China Tower's free cash flows (post-capex and lease expenses) have been far higher than net profit



Free cash flow vs net profit



China Tower's share price is touching its October 2022 lows





Long-term industry trends

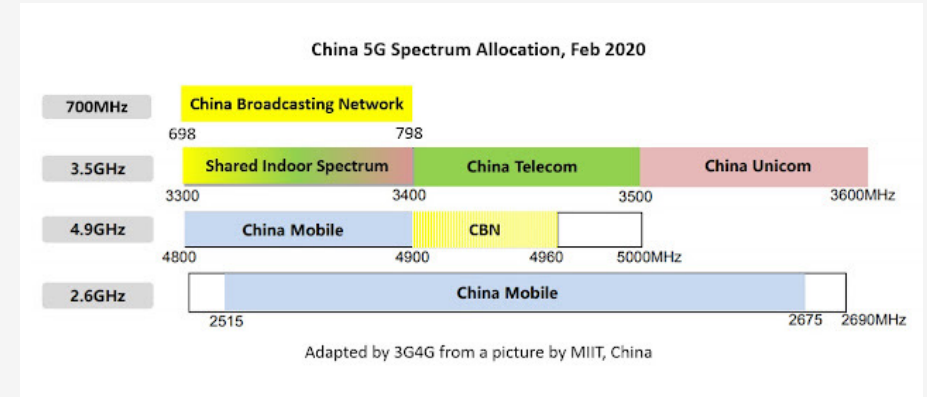
1. **Higher data traffic:** Mobile data traffic is increasing at a 29% CAGR, putting constant pressure on network equipment to handle greater data traffic. Some analysts are forecasting a peak in mobile data traffic in 20207.
2. **Popularisation of 5G:** The roll-out of 5G connectivity from 2019 forward has increased the demand for cell towers as tower density went up. This trend will continue for a few years.
3. **Small-cell infrastructure:** Small cells have been taking market share as base station density has gone up. This could be problematic for China Tower, since small cell and DAS infrastructure is mostly owned by the telecom operators themselves.
4. **Lower capex:** As site coverage reaches a certain level, incremental demand from the telcos can often be met by sharing existing sites, which leads to higher margins. That explains why capex has been falling over time. The government is also pushing for greater sharing of site resources.



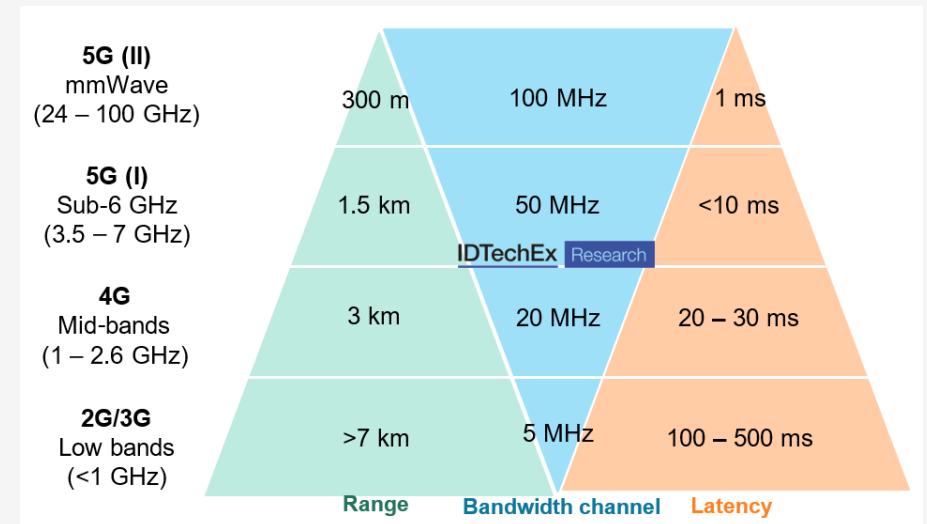
The switch to 5G is increasing demand for tower infrastructure



- China's 5G networks operate in the 3-5GHz spectrums. This means that frequencies are only modestly higher than the 2GHz spectrum used for 4G services.
- The range of a base station operating in the Sub-6GHz spectrum is roughly 1.5km. For a 4G base station, that number would be roughly 3km.
- This shorter range means greater base station density, and greater demand for towers.
- To some extent, this greater demand for towers will be met through co-location. But also by placing antennas on buildings, lamp posts and other public resources outside of towers.



Source: Zahid Ghadialy



Source: IDTechEx

What is going to change for China Tower

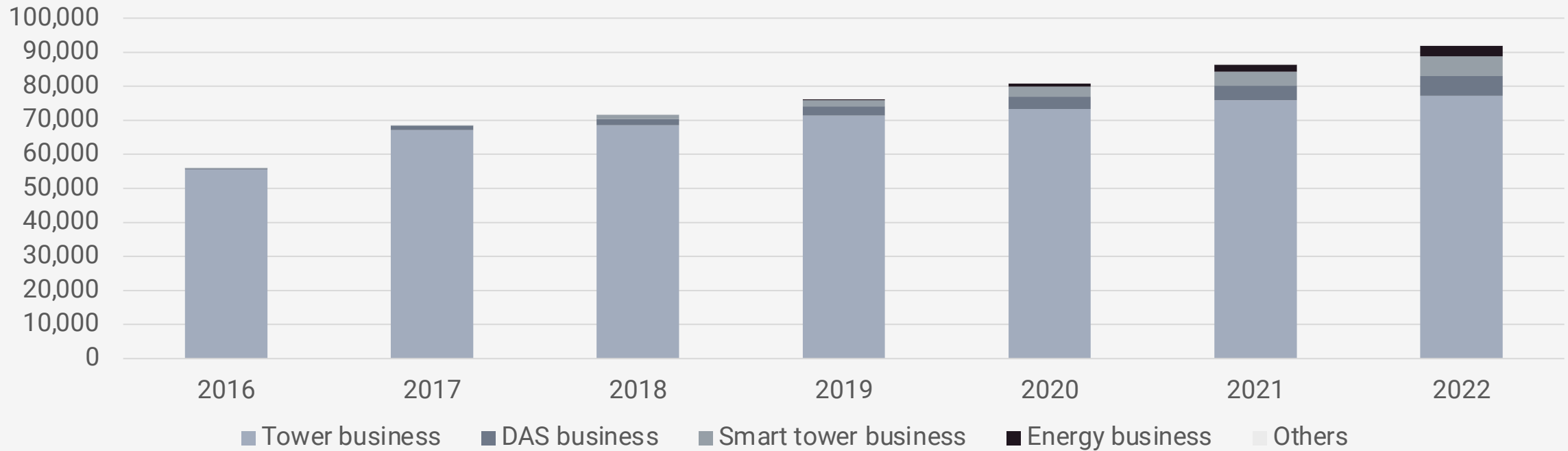


- 1. Continued 5G roll-out:** Greater base station density increases the demand for China Tower's facilities, despite some loss to non-tower competitors (buildings, lamp posts, etc). High 5G capex will continue through 2025.
- 2. High tenants/tower ratio:** The current number of tenants for the company's tower stations is only 1.8x compared to 2.1x for American Tower. If China Tower can bring in new tenants, incremental margins will be high and accretive to the bottom line despite the new, higher discounts from 1 January 2023. In the first half of 2023, 95% of new 5G projects were based on co-location.
- 3. Lower depreciation charges:** When the three telcos injected their tower assets into China Tower in 2015 have been depreciated across 6-10 year schedules, compared to ordinary useful lives of 10-25 years. When these initial assets have been fully depreciated in 2025, China Tower's depreciation & amortisation charges will therefore drop around CNY 10-15 billion.

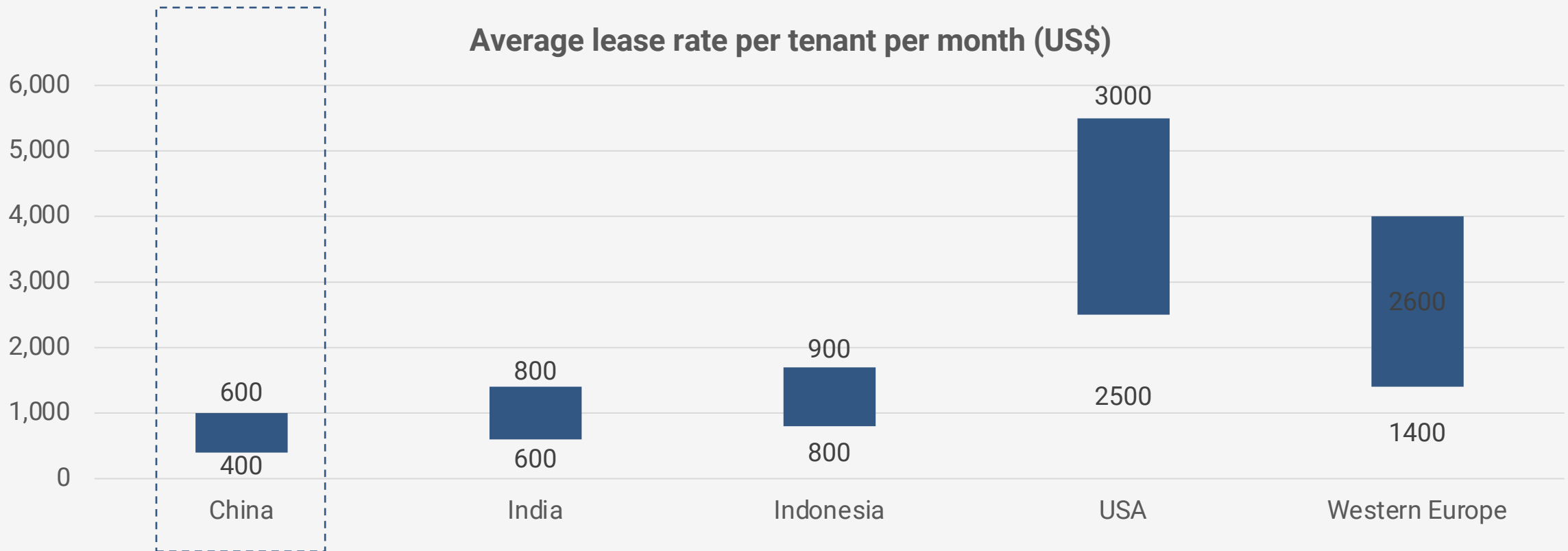
Much of growth has come from the non-tower businesses.
Unfortunately, they're not making much profit.



Segment revenues



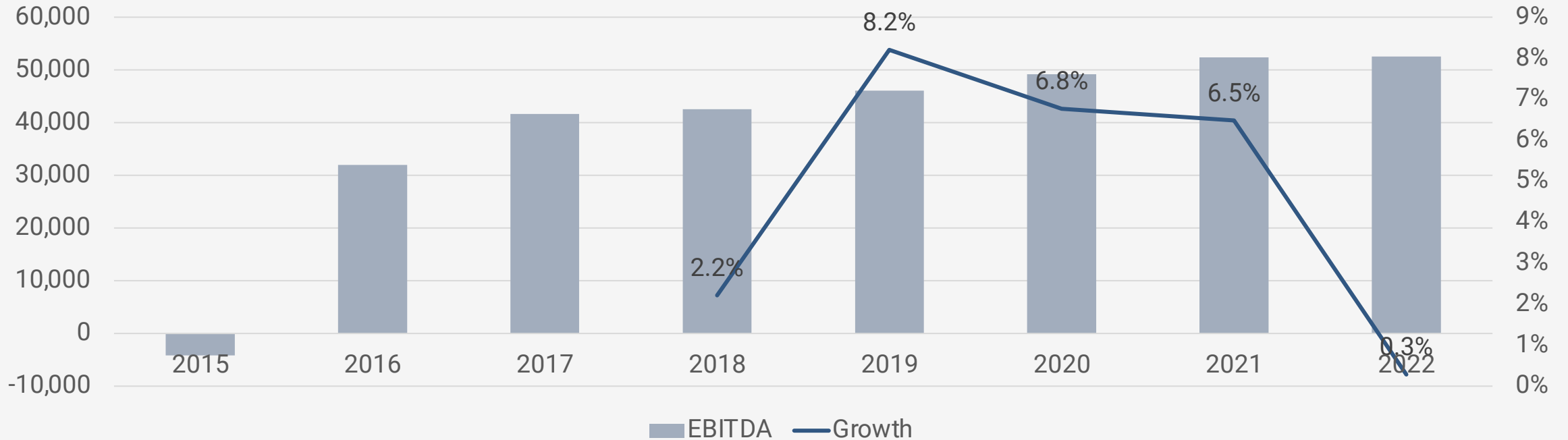
China's lease rate per tenant are low in an international perspective. Bulls will argue that provides upside to revenues.



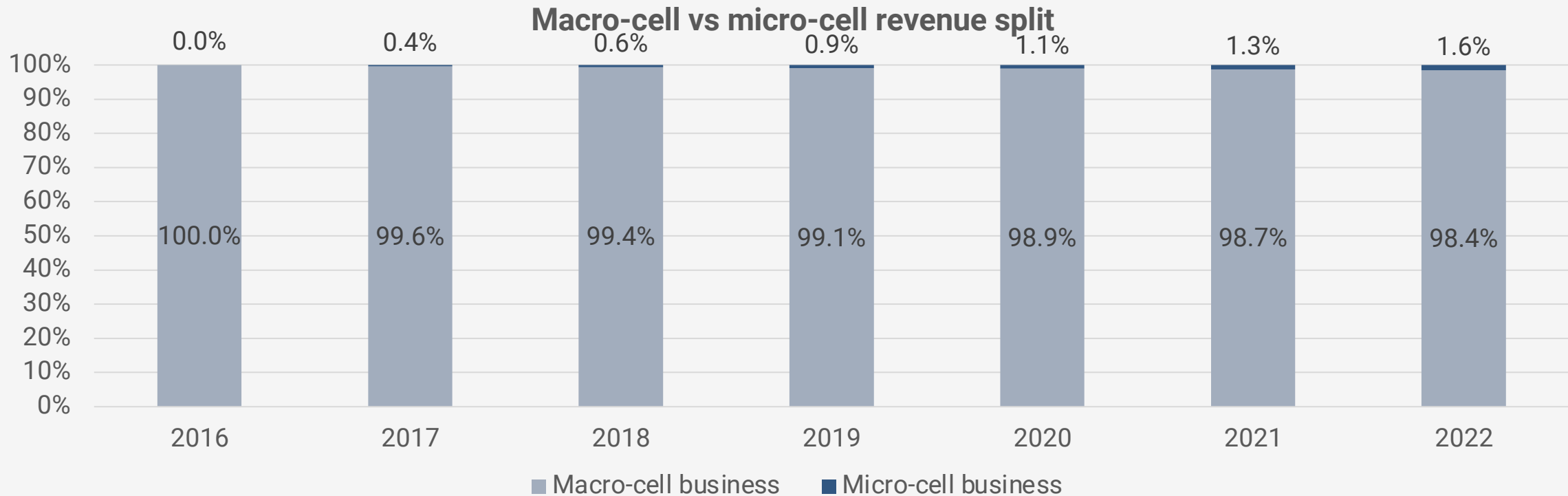
China Tower's EBITDA growth of 6-8% tells you something about underlying demand



China Tower EBITDA growth



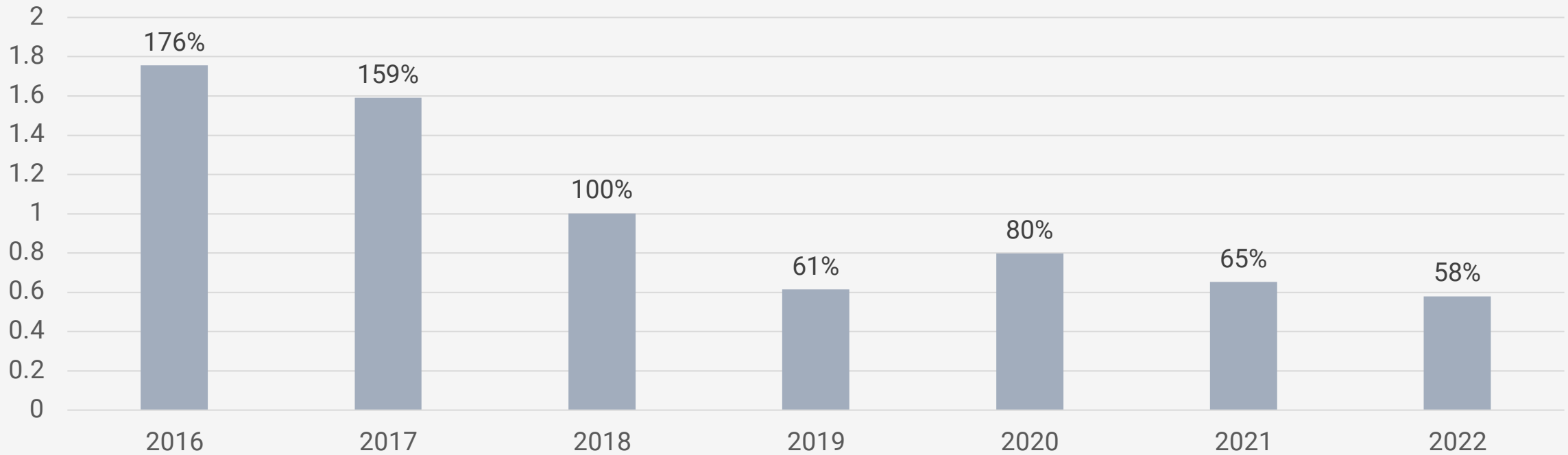
There is a shift to smaller cells but it's gradual... though the low revenue contribution could be due to China Tower's low market share.



Depreciation now far exceeds capex



Adj capex/D&A



China Tower's depreciation expenses are going to fall significantly until the end of 2025



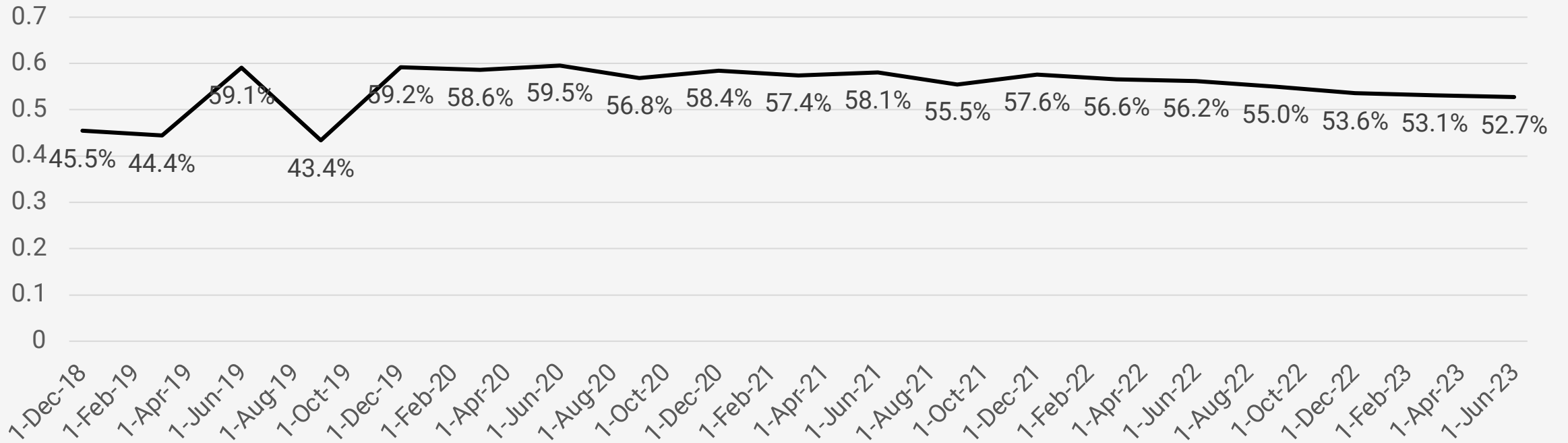
Estimated useful lives	China Tower	American Tower	SBA Communications	Tower Bersama
Towers	10-25 years	Up to 20 years	3-15 years	40 years

- When the three telcos injected their tower assets into China Tower in 2015, the company paid CNY 203 billion for the assets.
- These injected assets were depreciated using a 6-10 year schedule, compared to ordinary useful lives of 10-25 years according to China Tower's straight-line depreciation schedule.
- In fact, 10-25 years is actually conservative compared to say American Tower and Tower Bersama.
- Given the 6-10 year schedule, injected assets will be fully depreciated by 4Q2025, which means that by 2026, D&A will fall significantly and earnings will rise commensurately.
- How much? Well, the difference between 8 years and 17.5 years in estimated useful life for the CNY 203 billion is roughly CNY 14 billion. In other words, 2020 D&A of CNY 48 billion would have been CNY 34 billion if it wasn't for the fast depreciation of injected assets. That would have been equivalent to a D&A/sales ratio of 42%.
- If we apply that ratio to China Tower's 2026 D&A and assume ~6% top-line growth, we get to an EBIT of CNY 31x and a 2026e P/E of 5.7x.

The D&A/revenue ratio is starting to come down



China Tower trailing 12 month D&A/revenues



China Tower trades at a significant discount to the global peer group, especially on EV/EBITDA

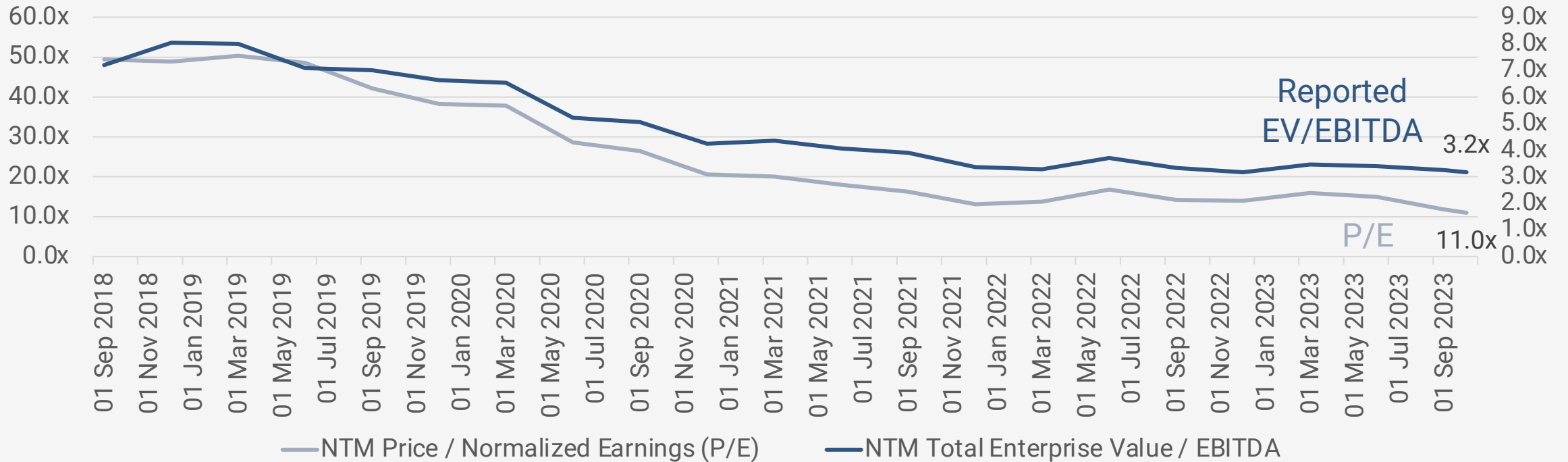


Tower operators (NTM)	Ticker	Region	Mkt cap (US\$m)	EV/Sales	EV/EBITDA	P/E	Div yield
China Tower	788 HK	China	16,419	2.12x	4.2x	11.0x	5.9%
Bharti Airtel	BHARTI IN	India	64,203	4.70x	9.6x	30.0x	0.6%
Tower Bersama	TBIG IJ	Indonesia	2,940	10.95x	12.7x	29.8x	1.6%
Sarana Menara Nusantara	TOWR IJ	Indonesia	2,782	7.34x	8.6x	12.7x	2.7%
Infrastrutture Wireless Italiane	INW IM	Italy	10,378	13.87x	15.3x	25.7x	4.7%
Cellnex Telecom	CLNX SM	Spain	20,693	9.78x	13.3x	-105.2x	0.2%
American Tower	AMT US	United States	83,066	12.02x	18.9x	37.1x	3.6%
Crown Castle	CCI US	United States	40,323	10.47x	16.5x	32.2x	6.7%
SBA Communications	SBAC US	United States	22,612	13.60x	19.3x	26.6x	1.8%
Average ex-China Tower			30,875	10.34x	14.3x	11.1x	2.7%
Median ex-China Tower			21,653	10.71x	14.3x	28.2x	2.3%

The P/E has come down from the historical median of 19x P/E.
 EV/EBITDA has also come down... though measured properly, now 4.2x



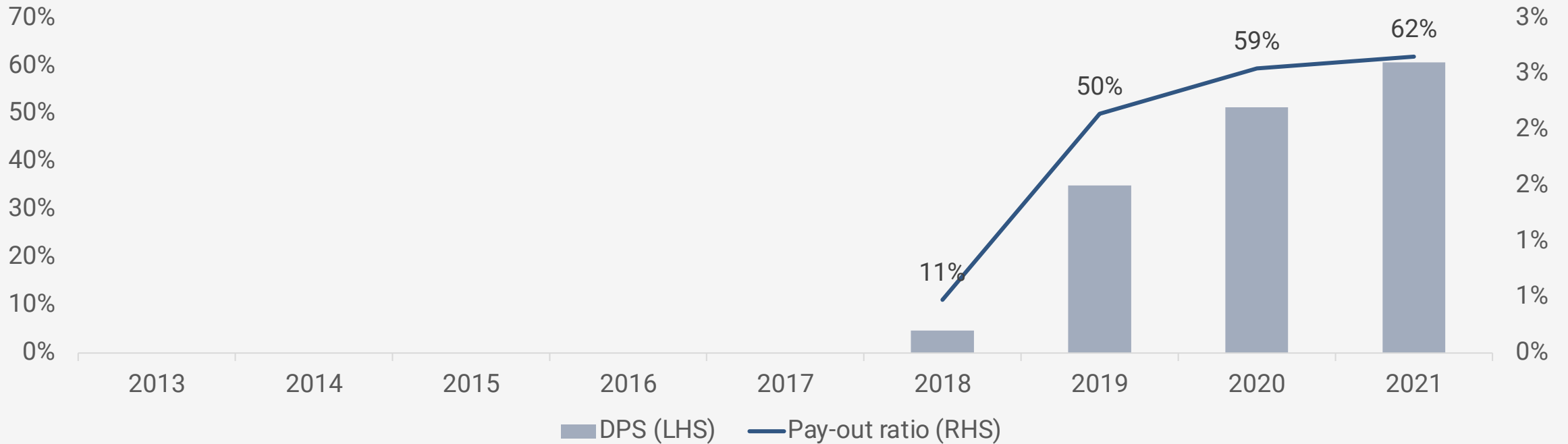
China Tower valuation multiples



China Tower's policy is to pay out at least 50% of earnings as dividends and the number has been closer to 60% recently



China tower dividend per share & pay-out ratio



With D&A falling as a % of revenues, a near-tripling of EBIT is likely, causing P/E to drop to 6x. Or EV/(EBITDA-MCX) of 5x.

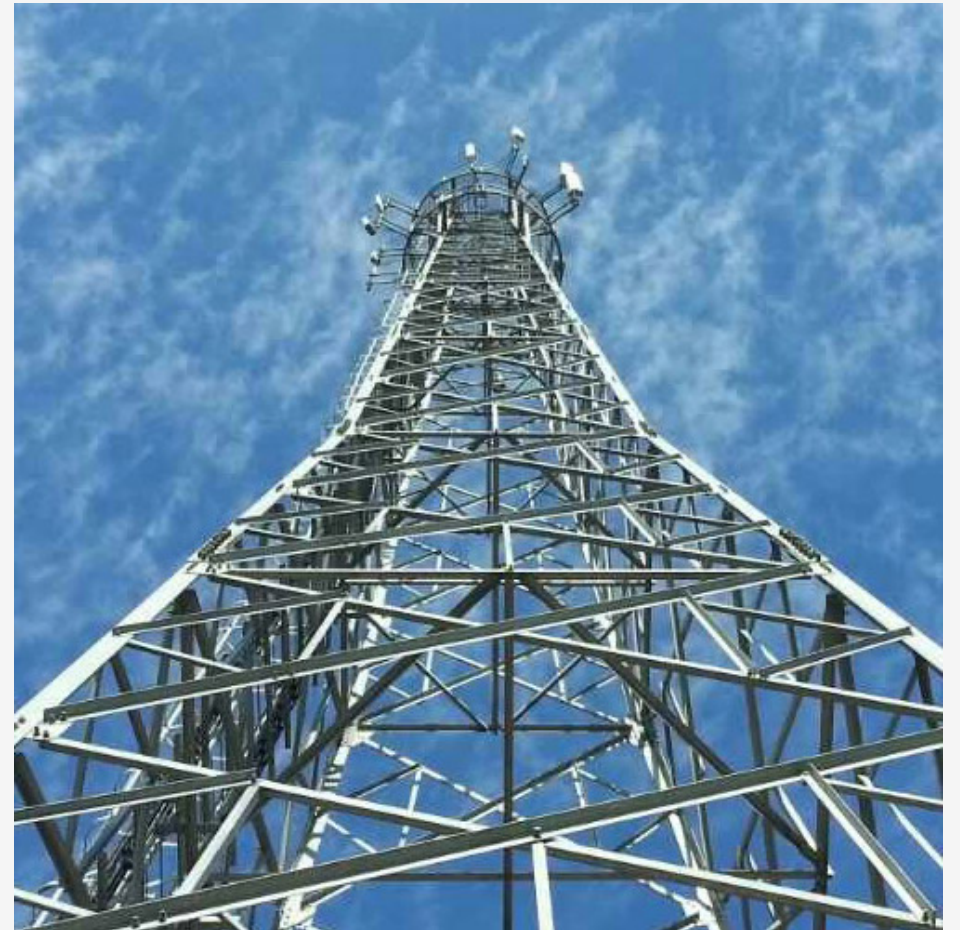


China Tower (788 HK)	2019	2020	2021	2022	2023	2024	2025	2026
Total revenues	76.4	81.1	86.6	92.2	97.7	103.6	109.8	116.4
Depreciation & amortisation	-45.4	-47.5	-50.0	-49.5	-49.6	-49.6	-49.3	-48.9
Repairs & maintenance	-6.0	-5.8	-5.8	-7.6	-7.3	-7.8	-8.2	-8.7
Employee benefits and expenses	-5.9	-6.1	-6.9	-7.9	-8.4	-8.9	-9.5	-10.0
Site operation and support expenses	0.0	0.0	-5.2	-5.9	-6.2	-6.6	-7.0	-7.4
Other operating expenses	-7.9	-9.7	-5.7	-7.9	-8.4	-8.9	-9.5	-10.0
Operating profit	11.3	12.0	13.0	13.3	17.7	21.8	26.3	31.3
Other gains	0.2	0.3	0.3	1.1	0.5	0.5	0.5	0.6
Interest income	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Finance costs	-4.7	-4.0	-3.7	-3.0	-3.0	-2.8	-2.5	-2.2
Pretax profit	6.8	8.4	9.6	11.5	15.3	19.6	24.5	29.8
Income tax	-1.6	-2.0	-2.3	-2.7	-3.7	-4.7	-5.9	-7.2
Net profit	5.2	6.4	7.3	8.8	11.6	14.9	18.6	22.7
EPS (CNY)	0.030	0.037	0.042	0.050	0.066	0.085	0.106	0.129
P/E	24.6x	20.0x	16.2x	13.5x	11.1x	8.6x	6.9x	5.7x
EV/(EBITDA-Capex)	10.5x	8.1x	7.3x	7.4x	6.7x	6.1x	5.6x	5.1x
Div yield	2.1%	3.0%	3.6%	4.4%	5.4%	7.0%	8.7%	10.6%

Potential downside risks



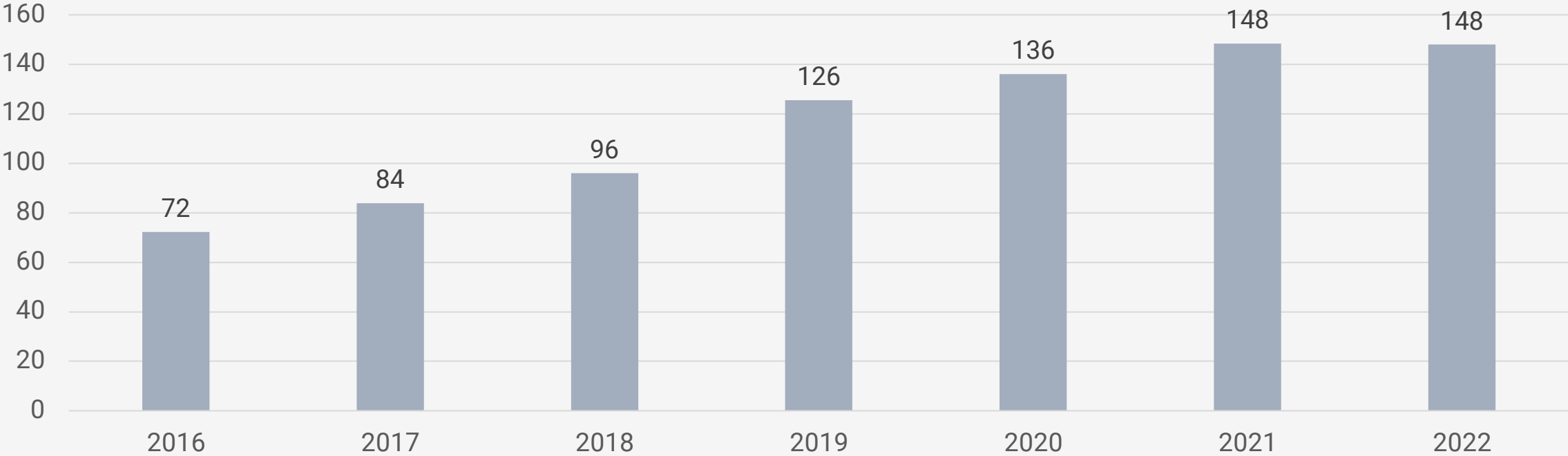
- **Related party transactions:** There are clear conflicts of interests between China Tower and its three major shareholders, who are also the biggest customers. They could plausibly push China Tower hard on pricing. The government / communist party might not care since it does not receive dividends directly from the China Tower ListCo. If the three telcos merge, China Tower's bargaining power would suffer.
- **Inflation:** With limited ability to pass on costs until long-term contracts are renegotiated, China Tower can be likened to a fixed income security whose value would be eroded in a climate of significant inflation.
- **Satellite communication:** At some point, smartphones might be able to communicate with base stations located on low-orbit satellites. Starlink offers similar functionality but requires dish-like user terminals that are far bulkier than normal phones. At some point, the technology could improve.
- **Receivables collection:** China Towers' receivables collection is somewhat weak. Since 2021, local governments are strapped for cash.



China Tower's receivable days are elevated at 148 days vs American Towers' 34 days



Receivable days



Catalysts



- Depreciation charges falling in the next two years through the fourth quarter of 2025.
- Lower interest rates, which would cause fixed income-like investments to gain in popularity again.



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