



Equity Research
Telecom/ Hong Kong

Kevin Tam
+852 2135 0236
kevin.tam@oriental-patron.com.hk

OP Express

Not Rated

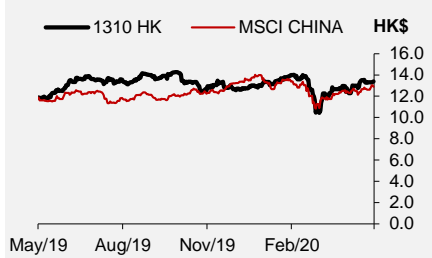
Close price: **HK\$13.06**

Key Data

HKEx code	1310 HK
12 Months High (HK\$)	15.32
12 Month Low (HK\$)	10.42
3M Avg Dail Vol. (mn)	2.93
Issue Share (mn)	1,311.60
Market Cap (HK\$m)	17,129.49
Fiscal Year	08/2019
Major shareholder (s)	William Yeung & NiQ Lai (4.57%)

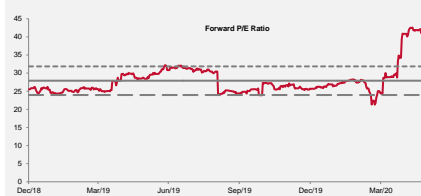
Source: Company data, Bloomberg, OP Research
Closing price are as of 22/05/2020

Price Chart



	1mth	3mth	6mth
Absolute %	2.58	-6.57	0.90
Rel. MSCI CHINA %	-0.85	-2.71	-3.61

PE



Company profile

HKBN is a major provider of symmetric 100 Mbps plus fibre broadband services in Hong Kong. Its main business mainly consists of broadband, VoIP, MetroNet private network services.

Hong Kong Broadband Network (1310 HK)

Challenge to becoming domestic broadband leader

Challenger in enterprise broadband. Having consolidated WTT and JOS (acquisitions completed in Apr and Dec19 respectively), HKBN is eyeing to raise market share to 30% in 5 to 7 years by grabbing enterprise market share from HKT (6823 HK). In particular, WTT's strong enterprise clientele can complement HKBN's lack of corporate presence; while JOS' system integration business will make way for more cross sell and up sell opportunities. HKBN's enterprise clientele acquisition is resuming amid easing coronavirus in the city. In spite of selling at 20% to 30% less expensive than that to HKT for enterprise solutions, we reckon more corporate revenue will bode well for its profitability given higher ARPU of enterprise clients.

Potential cost synergies can lift profitability by 4 pts. Management targets cost saving synergy with WTT at 7% to 10% of combined cash operating expenses and HK\$60 mn annual capex savings. We expect HK\$150 mn opex savings in FY20E and there is good chance that the cost savings in FY21E may exceed its HK\$300 mn target. On pro forma basis this is equivalent to 3 pts EBITDA margin enhancement. Moreover, HKBN plans to refinance its senior notes with bank note before year end, which is 2.20 pts lower in financing cost. We project the refinancing could save up to 15% of financing cost, and feed into 0.95 pts net margin improvement.

Highly visible dividend growth. We believe HKBN is capable to achieve mid to high double digit adj net profit (mainly excludes amortization of intangible assets) growth, on the back of grabbing enterprise market share with more economical packages, plus significant cost synergies with WTT, and the earnings visibility is strong. Together with HK\$1 bn plus FCF, we expect dividend growth to maintain at the same pace, and the FY20E/21E dividend yield at 5.9%/7.3% are attractive.

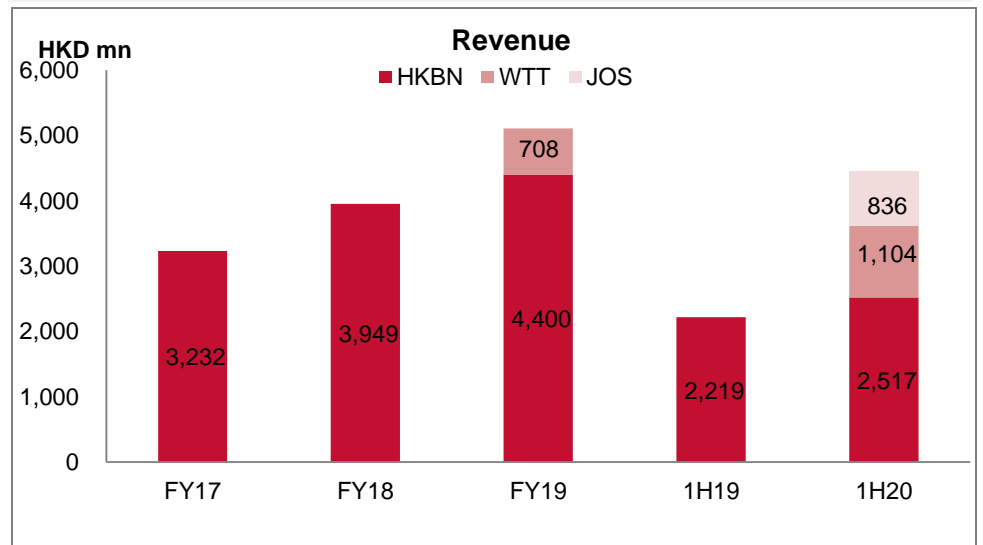
Risks. (1) prolonged global recession; (2) intensifying domestic competition; (3) fastening trend of fixed network migrating to mobile.

Exhibit 1: Financial Summary

Year to August (HKD mn)	FY15	FY16	FY17	FY18	FY19
Revenue (mn)	2,341.1	2,784.0	3,232.3	3,949.0	5,107.6
Growth (%)		18.9	16.1	22.2	29.3
Net Income (mn)	104.3	244.7	171.1	396.9	214.5
Growth (%)		134.7	(30.1)	132.0	(45.9)
Gross margin (%)	86.9	83.8	78.0	68.4	64.1
Profit margin (%)	4.5	8.8	5.3	10.1	4.2
ROE (%)	6.605	17.006	13.731	36.651	5.052
ROA (%)	1.9	4.0	2.6	6.0	1.6
EPS	0.1	0.2	0.2	0.4	0.2
P/E (x)	126	53	76.374	32.980	67.320
P/B (x)	8.7	9.6	11.6	12.7	2.3
Dividend yield (%)	1.5	3.1	3.4	4.3	5.4
EV/EBITDA (X)	11.8	12.4	10.6	12.7	19.0

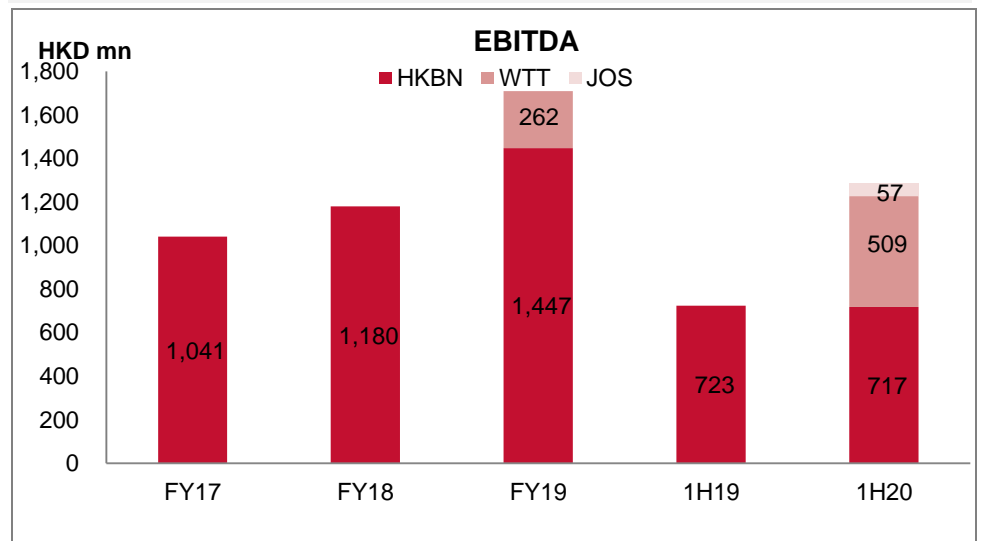
Source: Bloomberg, OP Research

Exhibit 2: WTT and JOS fully consolidated in 1H20



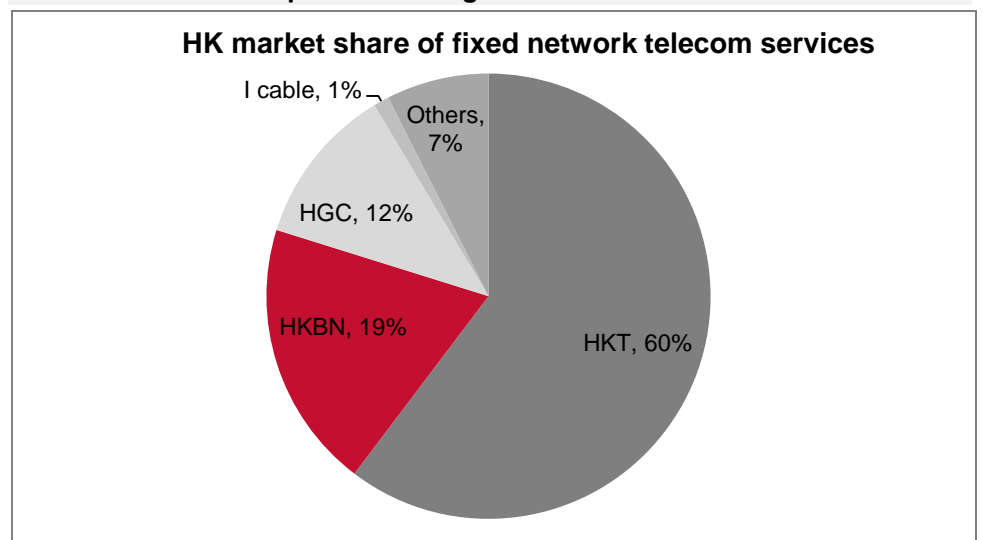
Source: Company

Exhibit 3: WTT and JOS to account for 44% of 1H20 EBITDA



Source: Company

Exhibit 4: HKBN well positioned to gain market share



Source: Company, OP Research

Exhibit 5: 1H20 result snapshot			
(6 months ended Feb, HK\$ mn)	1H19	1H20	YoY%
Revenue	2,219	4,457	100.9%
Enterprise	786	2,276	189.6%
Residential	1,223	1,252	2.4%
Product	210	930	342.9%
Other income	11	19	72.7%
Network and other COGS	(634)	(1,409)	122.2%
Cost of inventories	(199)	(818)	311.1%
Advertising and marketing	(190)	(214)	12.6%
Amortization	(108)	(145)	34.3%
Talent costs	(264)	(509)	92.8%
Other opex	(498)	(1,014)	103.6%
Finance cost	(87)	(286)	228.7%
Pre-tax profit	249	80	-67.9%
Income tax	(50)	52	-204.0%
Net profit	199	132	-33.7%
Net margin	9.0%	3.0%	-6.0%
Amortization of intangible assets	65	301	
Others	-8	-87	
Adj net profit	256	345	34.8%
Adj net margin	11.5%	7.7%	-3.8%

Source: Company

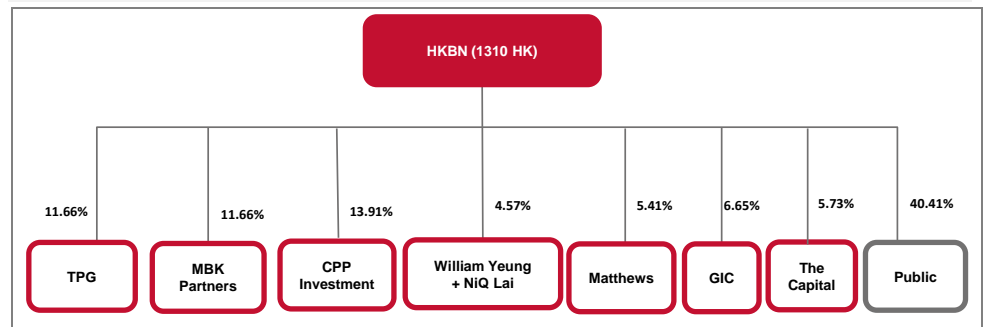
Appendix I: Financials Summary

(year ended August HKD mn)	FY16	FY17	FY18	FY19
Income Statement				
Revenue	2,784.0	3,232.3	3,949.0	5,107.6
Gross Profit	2,332.9	2,522.1	2,701.9	3,273.6
Other Operating Income	7.3	16.7	12.2	14.9
Operating Expenses	(1,868.1)	(2,079.4)	(2,108.4)	(2,727.1)
Operating Income	472.2	459.3	605.7	561.3
Pretax Income	334.6	257.2	489.3	309.4
Income Tax Expense	(89.9)	(86.0)	(92.4)	(94.8)
Net Income, GAAP	244.7	171.1	396.9	214.5
Net Income, Adj	245.1	208.1	413.5	286.9
Balance Sheet				
Total Assets				
Cash, Cash Equivalents	355.0	385.1	373.3	662.8
Accounts Receivables	148.1	205.2	247.2	557.4
Inventories	50.5	11.8	32.7	29.2
Other ST Assets	272.3	275.6	301.2	256.0
Total Current Assets	825.9	877.6	954.4	1,747.1
Property, Plant & Equip, Net	2,419.9	2,289.8	2,294.0	4,341.6
LT Investments & Receivables	0.0	0.0	0.0	222.0
Other LT Assets	3,359.0	3,418.1	3,328.0	14,071.3
Total Noncurrent Assets	5,778.9	5,707.9	5,622.0	18,634.9
Total Assets	6,604.7	6,585.5	6,576.4	20,382.0
Liabilities & Shareholders' Equity				
Payables & Accruals	693.5	586.7	719.7	1,442.5
ST Debt	9.0	9.0	9.0	9.0
Other ST Liabilities	123.2	166.7	179.5	293.6
Total Current Liabilities	825.8	762.4	908.2	1,745.1
LT Debt	3,764.2	3,865.2	3,898.5	9,639.2
Other LT Liabilities	651.4	829.0	732.7	1,541.2
Total Noncurrent Liabilities	4,415.6	4,694.2	4,631.3	11,180.3
Total Liabilities	5,241.4	5,456.6	5,539.5	12,925.5
Share Capital & APIC	528.4	106.0	0.1	3,792.6
Retained Earnings	232.3	403.4	413.4	694.5
Other Equity	602.7	619.5	623.4	2,969.5
Equity Before Minority Interest	1,363.4	1,128.9	1,036.9	7,456.6
Minority Interest	0.0	0.0	0.0	0.0
Total Equity	1,363.4	1,128.9	1,036.9	7,456.6
Cash Flow Statement				
Cashflow from operating	821.9	793.0	974.6	1,075.9
Cashflow from investing	(1,042.8)	(361.5)	(460.2)	(554.1)
Cashflow from financing	249.5	(402.8)	(525.4)	(230.7)
Net cash changes	26.0	30.1	(11.8)	289.5

Source: Bloomberg

Appendix II: Shareholding and management

Exhibit 6: Shareholding structure



Source: Company, OP Research

Key management profile of HKBN

Mr. Bradley Jay HORWITZ, aged 64, is an Independent Non-executive Director, and Chairman of the Company. Mr. Horwitz has over 30 years of experience in telecommunication industry. Mr. Horwitz founded Trilogy International Partners in 2005 and has been its President and Chief Executive Officer since it was founded. Trilogy International Partners was established to acquire wireless assets in Haiti and Bolivia and to develop additional international wireless assets, primarily in South America and the Caribbean. Prior to establishing Trilogy International, Mr. Horwitz served as the President of Western Wireless International, having founded the company in 1995. Before that, Mr. Horwitz was the founder and the Chief Operating Officer of SmarTone Mobile Communications.

Mr. Chu Kwong YEUNG William, aged 58, is the Executive Vice-chairman, and Executive Director of the Company. Mr. Yeung joined the Group in October 2005 as the Chief Operating Officer. In November 2008, Mr. Yeung was appointed as the Chief Executive Officer with the responsibility of developing corporate strategies and overseeing operations. On 1 September 2018, Mr. Yeung was appointed as the Executive Vice-chairman, stepping up to focus on engaging key strategic partners and exploring new business opportunities. Prior to joining the Group, Mr. Yeung was the Director of customers division at SmarTone Mobile Communications, and served as a police inspector with the Hong Kong Police Force.

Mr. Ni Quiaque LAI, aged 49, is the Chief Executive Officer and Executive Director of the Company. Mr. Lai joined the Group in 2004 and was appointed as Chief Financial Officer in 2006, the Chief Talent & Financial Officer in 2016 and the Chief Operating Officer in 2017. Mr. Lai took the helm as the Chief Executive Officer in September 2018. Prior to joining the Group, Mr. Lai was an analyst and the Director and the Head of Asia Telecom Research for Credit Suisse. Prior to Credit Suisse, Mr. Lai held positions in HKT as a strategic planning manager, and Kleinwort Benson Securities (Asia).

Exhibit 7: Peer Group Comparison

Company	Ticker	Price	Mkt cap (US\$m)	3-mth avg t/o (US\$m)	PER	PER	PER	EPS FY1 YoY%	EPS FY2 YoY%	3-Yr EPS Cagr (%)	PEG (x)	Div yld	Div yld	P/B	P/B	EV/	EV/	Gross margin Hist	Gross Net margin Hist (%)	ROE	ROE	Sh px	Sh px	
					Hist	FY1	FY2					Hist	FY1	Hist	FY1	Hist	FY1			Hist	FY1	Hist	FY1	1-mth
Hkbn	1310 HK	13.06	2,209	4.9	67.3	41.1	24.6	63.9	67.0	49.7	0.83	5.6	5.8	2.43	2.76	19.2	10.4	120.5	64.1	4.2	3.5	9.0	(0.2)	(9.1)
HSI		22,930.14			9.5	10.6	9.1	(9.8)	16.1	5.5	1.91	4.1	3.7	0.95	0.92					10.0	8.7	(4.0)	(16.0)	
HSCEI		9,426.78			7.8	8.2	7.3	(5.1)	12.1	6.0	1.37	4.0	4.1	0.98	0.92					12.7	11.3	(2.5)	(12.6)	
CSI300		3,824.06			14.3	12.1	10.5	18.4	15.0	4.1	2.94	2.2	2.6	1.66	1.53					11.6	12.7	(0.4)	(7.8)	
Adjusted sector avg*					12.5	15.6	16.4	(19.3)	(4.3)	(10.2)	N.A.	6.8	5.7	1.22	1.22	4.7	4.6	35.3	58.8	10.3	9.4	8.6	(9.0)	(17.9)
Hkt-Ss	6823 HK	11.36	11,097	20.8	16.5	16.1	15.6	2.3	3.5	2.4	6.83	6.2	6.3	2.27	2.27	10.0	9.7	105.9	52.3	15.8	13.8	14.4	(5.5)	(4.7)
Smartone Telecom	315 HK	4.09	592	0.5	7.3	10.0	10.5	(27.7)	(4.7)	(16.1)	N/A	8.7	7.3	0.90	0.92	3.4	3.1	0.0	N/A	7.5	11.3	8.8	(15.5)	(29.5)
Hutchtel Hk	215 HK	1.23	764	0.6	13.8	20.5	23.2	(32.6)	(11.7)	(16.9)	N/A	5.4	3.7	0.50	0.48	0.9	1.0	0.0	65.2	7.7	3.1	2.7	(6.1)	(19.6)

* Outliners and "N/A" entries are in red and excl. from the calculation of averages

Source: Bloomberg

Our recent reports

Date	Company / Sector	Stock Code	Title	Rating	Analyst
18/05/2020	Skyworth	751	The sky getting clear	NR	Kevin Tam
14/05/2020	Ausnutria Dairy	1717	Premium products brought up GPM in 1Q20	BUY	Megan Jin/Dallas Cai
14/05/2020	China Youzan	8083	1Q loss narrowed as economies of scale kicking in	BUY	Dallas Cai
05/05/2020	HKTV	1137	HK based ecommerce on the rise	BUY	Kevin Tam/Megan Jin
23/04/2020	Edvantage Group	382	License fee saving may come earlier	BUY	Megan Jin/Dallas Cai
22/04/2020	361 Degrees Intl	1361	1Q20 retail sales in line	BUY	Megan Jin
21/04/2020	Xtep Intl	1368	1Q20 sales performance better than feared	BUY	Megan Jin/Dallas Cai
20/04/2020	Li-Ning	2331	1Q20 delivered satisfactory retail sales	BUY	Megan Jin/Dallas Cai
16/04/2020	Anta Sports	2020	Robust online FILA sales to drive 1Q20 sales beat	BUY	Dallas Cai/Megan Jin
15/04/2020	China Youzan	8083	FY19 GMV saw growth acceleration	BUY	Dallas Cai
02/04/2020	Greentown Services	2869	FY19 results largely in line	HOLD	Dallas Cai
31/03/2020	TCL Electronics	1070	FY19 results up to expectations	BUY	Dallas Cai
30/03/2020	Li-Ning	2331	A head start in FY20E with resilient operation	BUY	Dallas Cai/Megan Jin
27/03/2020	CH Display OPT	334	Lower order visibility ahead in FY20E	HOLD	Dallas Cai
27/03/2020	ChinaSoft Int'l	354	Cloud business ready to accelerate in FY20E	BUY	Dallas Cai
25/03/2020	Anta Sports	2020	FY20E strive for positive growth	BUY	Dallas Cai/Megan Jin
25/03/2020	China Overseas PPT	2669	FY19 results up to expectations	HOLD	Dallas Cai
23/03/2020	CG Services	6098	FY19 saw solid set of results	BUY	Dallas Cai
20/03/2020	Kingdee Int'l	268	Ambitious cloud target to weigh on FY20E earnings	HOLD	Dallas Cai
20/03/2020	Xtep Intl	1368	FY19 results in line with expectations	BUY	Dallas Cai/Megan Jin
19/03/2020	A-Living	3319	Unfolding a new 3-year plan	BUY	Dallas Cai
19/03/2020	Ausnutria Dairy	1717	Robust growth momentum to keep up in FY20E	BUY	Dallas Cai/Megan Jin
19/03/2020	361 Degrees Intl	1361	FY19 results up to expectations	BUY	Megan Jin
18/03/2020	Sunny Optical	2382	FY19 results clean beat on GPM	BUY	Dallas Cai
10/03/2020	Q Tech	1478	FY19 results beat on better CCM product mix	BUY	Dallas Cai
09/03/2020	Edvantage Group	382	1H20/21E positive profit alert - BUY	BUY	Dallas Cai/Megan Jin
24/02/2020	361 Degrees Intl	1361	COVID-19 impact to be inevitable on 1H20E	BUY	Megan Jin

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CONTACT

27/F, Two Exchange Square,
8 Connaught Place, Central, Hong Kong

www.oriental-patron.com.hk
Kevin.tam@oriental-patron.com.hk

Tel: (852) 2135 0236
Fax: (852) 2135 0295