China Telecom

Surfing the wave of industrial digitalisation

16 April 2026

Company Overview

China Telecom (CT) is an integrated telecom operator in Mainland China. It provides 2G/3G services via code-division multiple access (CDMA) technology and 4G services mainly through Frequency Division-Long Term Evolution (FD-LTE) technologies, as well as 5G services based on 5G SA network. Its fixed-line business mainly covers southern China. Mobile service revenue account for 40%+ of CT's total service revenue. The major drivers are the penetration of 5G subscribers (subs) for mobile ARPU and number of mobile subscribers. The remaining service revenue is attributable to fixed-line segment, with growth primarily driven by information and application services, which comprise of e-surfing HK and other smart family services, wireline DICT and other wireline data services.

Investment Overview

An integrated player with strong presence in Southern China. China Telecom is the second largest operator in China, with c.302mn 5G package subscribers and 201mn wireline broadband subscribers as of FY25, representing c.26% and c.31% market share respectively. The company co-builds and co-shares its 5G network with China Unicom to narrow the competitive gap with China Mobile.

Industrial digitalisation business the key growth driver, pivoting to an AI-centric model. Strategic emerging businesses are the core growth engine. Cloud revenue reached RMB120.7bn (+6.0% y/y, public cloud IaaS #2 in China), AIDC revenue was RMB34.5bn, and intelligent revenue grew 38.2% y/y to RMB12.3bn. Management is shifting the operational focus to Token services, supported by a dataset of over 10 trillion tokens, to capture AI-driven demand. This segment accounted for c.30% of service revenue in FY25.

Dividend commitment upheld with disciplined capex shift, despite traditional revenue pressure. The company delivered a 75% payout ratio for FY25 (v.s. 72% in FY24), achieving its original FY26 target one year ahead, with DPS of RMB0.272 (+4.7% y/y). 2026 capex is guided down 9.2% to RMB73bn, with the mix pivoting towards computing power (35% of total, up from 25% in 2025). This discipline occurs against a backdrop of moderating traditional service revenue (+0.7% y/y) and a 6.9% y/y decline in lower-margin goods sales, which together weighed on total revenue growth.

Maintain BUY, with still-decent dividend yield of 6%. We maintain BUY for the strategic pivot to high-growth digital services, attractive c.6% yield, and cost discipline. Our revised TP of HKD5.9 (previously HKD7.1) is based on c.15x FY26F PE, slightly lower than regional peers average of 17x (lowered from 16x due to the VAT adjustment and moderating growth in traditional business).

Risks

Policy risks. China's telecom sector is exposed to policy risks, management reshuffles, and tariff cuts. This could be unfavourable to business performance.

Price war in the mobile market. Irrational competition for market share could lead to higher ARPU pressure.

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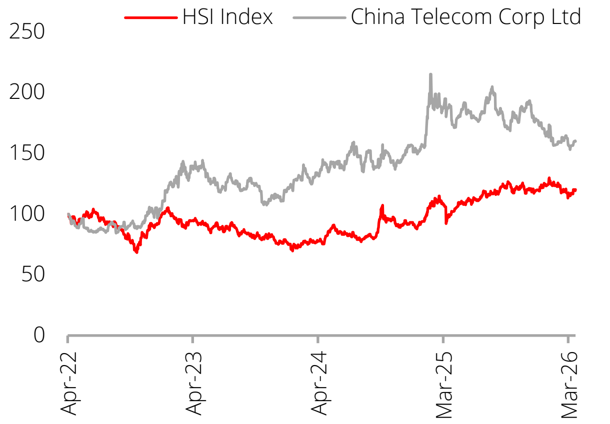
Key Financial Data

Bloomberg Ticker	728 HK
Sector	Telecommunication Services
Share Price (HKD)	4.99
DBS Rating	BUY
12-mth Target Price (HKD)	5.90
Market Cap (USDbn)	74.67
Volume (mn shares)	27.26
Dividend yield (%)	6.07
Fwd. P/E (x)	12.38
P/Book (x)	0.89
ROE (%)	7.27

Closing Price as of 14 Apr 2026
Source: Twelve Data, DBS, Visible Alpha

Indexed Share price vs Composite Index Performance

(normalised)



Source: S&P

DBS

Financial Summary (CNYmn)

FY Dec	FY2023 (A)	FY2024 (A)	FY2025 (A)	FY2026 (F)	FY2027 (F)
Sales	513,551	529,417	529,559	533,575	539,871
% y/y	*6.7*	*3.1*	*0.0*	*0.8*	*1.2*
Gross Profit	513,551	529,417	529,559	533,575	539,871
% y/y	*6.7*	*3.1*	*0.0*	*0.8*	*1.2*
EBITDA	139,238	143,444	147,266	144,697	144,826
% y/y	*5.0*	*3.0*	*2.7*	*(1.7)*	*0.1*
Net Profit (Loss)	30,446	33,012	33,185	31,973	33,967
% y/y	*10.3*	*8.4*	*0.5*	*(3.7)*	*6.2*
FCF	48,954	56,532	44,705	72,674	82,183
% y/y	*1.4*	*15.5*	*(20.9)*	*62.6*	*13.1*
CAPEX	(88,554)	(88,517)	(80,364)	(73,700)	(70,200)
% y/y	*0.5*	*(0.0)*	*(9.2)*	*(8.3)*	*(4.7)*
EBITDA Margin (%)	27.1	27.1	27.8	27.1	26.8
Net Margin (%)	5.9	6.2	6.3	6.0	6.3
ROA (%)	3.7	3.9	3.8	3.6	3.7
ROE (%)	7.0	7.4	7.3	6.9	7.2
Tax Rate (%)	22.4	21.8	22.2	22.2	22.2

Source: Company, DBS

Valuation Metrics

FY Dec	FY2023 (A)	FY2024 (A)	FY2025 (A)	FY2026 (F)	FY2027 (F)
PE (x)	12.9	11.9	11.8	12.3	11.6
P/B (x)	0.9	0.9	0.9	0.8	0.8
Dividend Yield (%)	5.4	6.1	6.3	6.2	6.7
EV/EBITDA (x)	2.7	2.5	2.3	2.0	1.6
FCF Yield (%)	13.2	15.9	13.2	25.5	36.4
Net DPS (HKD)	0.3	0.3	0.3	0.3	0.3
BV Per Share (HKD)	5.3	5.3	5.6	5.8	5.9

Source: Company, DBS

Credit & Cashflow Metrics

FY Dec	FY2023 (A)	FY2024 (A)	FY2025 (A)	FY2026 (F)	FY2027 (F)
Debt / Equity (x)	0.1	0.1	0.1	0.1	0.1
Net Debt / Equity (x)	cash	cash	cash	cash	cash
Debt / Assets (x)	0.1	0.1	0.1	0.1	0.0
EBITDA / Int Exp (x)	419.4	629.1	379.6	nm	nm
Debt / EBITDA (x)	0.5	0.4	0.3	0.3	0.3
Receivables Days	22.8	29.1	36.1	41.1	44.5
Days Payable	(1,001.8)	(1,071.0)	(1,072.8)	(1,111.6)	(1,209.9)
Inventory Days	(12.7)	(12.1)	(11.7)	(12.1)	(12.5)

Source: Company, DBS

Target Price & Ratings History

Note: Share price and Target price are adjusted for corporate actions

S.No.	Date	Closing Price	Target Price	Rating
1	6-Jun-25	HKD5.69	HKD7.10	BUY
2	30-Mar-26	HKD4.86	HKD5.90	BUY

Source: DBS

Analysts: Andy YU
Sachin MITTAL

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HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)
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**Share price appreciation + dividends*

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