

## **China Mobile falls after profit drop, iPhone boosts expenses**

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**By Bloomberg**

China Mobile Ltd fell the most in a month in Hong Kong trading after posting its third straight drop in quarterly profit as expenses for subsidizing Apple Inc's iPhone and building networks increased.

Shares dropped as much as 2.8%, the most since March 21, 2014. Net income at the world's largest phone company by users fell 9.4% to about 25.24 billion yuan (RM12 billion) in the first quarter, the Beijing-based company reported yesterday. Profit was expected to be 27 billion yuan, based on the median of five analysts' estimates compiled by Bloomberg News.

Chief executive officer Li Yue is counting on a rapid shift to fourth-generation networks and the introduction of popular devices like the iPhone to stem a market share decline and to boost data sales. The push is raising costs for everything from new equipment to smartphone subsidies.

"These results were even worse than expected," Ricky Lai, a Hong Kong-based analyst at Guotai Junan Securities, said yesterday after the announcement. "China Mobile is going to suffer from even heavier pressure in the coming quarters as they raise handset subsidies, so their profit margin is going to further decline."

Sales in the first quarter rose about 7.8% to 154.8 billion yuan, from 143.6 billion yuan a year earlier. That compared with the 142 billion-yuan median of five analysts' estimates in a Bloomberg News survey.

China Mobile dropped 2.4% to HK\$70.15 at 11:07am The shares have declined 13% this year, surpassing the 3.1% drop in the city's benchmark Hang Seng Index.

### **Apple Agreement**

The carrier in December reached agreement with Apple to offer the iPhone after six years of negotiations. Sales of the device didn't start at China Mobile shops until Jan 17, 2014. China Mobile received 1 million preorders for the device before sales started, the company announced Jan 15, 2014.

Subsidies for all phones will rise 29% to 34 billion yuan this year, with introduction of the iPhone being part of the reason, chief financial officer Xue Taohai said in March.

Both of the nation's smaller phone companies offered the iPhone before China Mobile. China Unicom (Hong Kong) Ltd., the nation's No 2 carrier, on April 17, 2014 reported first-quarter net income gained 74% to 3.3 billion yuan.

### **WeChat Competition**

China Mobile's share of the nation's 1.2 billion wireless accounts fell to 62% at the end of February 2014 from 72% in October 2009, when China Unicom introduced the iPhone.

"In the first quarter of 2014, the Group experienced severe challenges in its operations," chairman Xi Guohua said in yesterday's statement. "The traditional communications market became more saturated and horizontal competition among operators in the industry became increasingly fiercer."

To curb the decline in share, China Mobile last year started building a 4G network in advance of receiving a license for commercial service, which was awarded in December.

"We expect this declining profitability trend to continue for now," analysts including Anand Ramachandran at Barclays Plc in Singapore wrote in a note yesterday. "The one positive, in our view, was the robust mobile data volume growth trend, which we believe sustains its top-line growth prospects."

The company expanded total customers 1.8% to 781 million at the end of March 2014, it said yesterday. Still, monthly average revenue per user fell to 62 yuan, from 68 yuan.

### **Fee Reduction**

The decline reflected "continued accelerating substitution effect" from instant messaging applications, Xi said in the statement. Tencent Holdings Ltd's free WeChat application allows users to send voice and text greetings, which many subscribers use in place of traditional calls or texts.

China Mobile also suffered from a reduction in fees paid by the smaller carriers to connect to its infrastructure. Effective Jan 1, 2014, the charges China Telecom Corp and China Unicom paid to connect a call to China Mobile's network dropped to 0.04 yuan per minute from 0.06 yuan, the companies announced in December 2013.

The fee reduction was part of an effort by regulators in the world's largest mobile-phone market to push the three state-run carriers to cut prices, offer more choices and improve customer service.

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