

China Telecom upbeat despite 3G worries

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As wealthier Chinese in big cities snap up multi-functioning mobile phones and those living in remoter areas buy their first basic handsets, the country's biggest phone carrier would seemingly be on a roll. Yet even as China Telecom prepares to launch third-generation mobile networks and expand its service areas nationwide, its bottom line is actually seeing a slight retreat.

On Wednesday, the carrier announced that its net profit for 2005 reached \$3.492 billion (27.91 billion yuan), which was above most analysts' expectations but slightly lower than the \$3.493 billion (28.02 billion yuan) reached in the previous year. It was also the first time the company did not report year-on-year profits in five years.

One reason for the earnings decline is that there have been more new subscribers to mobile services and bypassing fixed-line connections altogether, which is where China Telecom dominates. Meanwhile, competition in the domestic market for 3G networks is expected to be fierce, even though the government is expected to favor granting licenses to domestic companies over foreign multinationals as the country prepares to host the summer Olympic Games in 2008 that will be an opportunity to showcase China's economic development -- including its communications systems -- to the world. The government said earlier this year that TC-SCDMA, a 3G network not found outside of China, will become the country's first national standard for mobile broadband. The most widely used 3G network in the world is the WCDMA standard. Currently, however, neither China Telecom nor any other competitor, domestic or foreign, has been officially awarded a 3G

license by the government.

One key factor why China Telecom and other domestic carriers including the No. 2 provider China Netcom might not benefit immediately from the introduction of 3G is simply that the sheer size of cost in rolling out the expensive network might not pay off for a number of years. Yet in a news briefing in Hong Kong to announce the company's latest earnings results, Wang said that regarding the debate between TC-SCDMA and WCDMA, "we would be keen to ask the government to let the consumer choose," thus suggesting that China Telecom might well adopt the global standard rather than the uniquely Chinese network.

While the 3G network continues to be a hot topic for debate within telecommunications circles, most industry analysts broadly agree that longer-term prospects for China Telecom look bright. Moreover, the company itself remains upbeat even about its immediate outlook, in large part due to the boom of the Internet in the country.

"Internet access and value-added services rose by 37.6 percent, accounting for 17.1 percent of our operating revenue," China Telecom Chairman Wang Xiaochu said in a statement.

Indeed, demand for high-speed Internet access via broadband has been a major source of profit for telecommunications providers, especially as the country is now the world's second-largest Internet market in terms of the sheer number of people who go online.

Meanwhile, China Telecom is preparing to expand its outreach beyond the wealthy urban areas and make more effort to offer its services to the poorer, rural areas. It pointed out that in 2005 it only had about 17 percent of the fixed-line market in the provinces, compared to more than 36 percent today. Nevertheless, the company had actually added about 6

million new users from some of China's poorest areas, compared to 5.7 million subscribers in wealthier regions.

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