



中華電信
Chunghwa Telecom

CHT 2Q2023 Results August 8, 2023 at 3:00 P.M. (Taipei Time)

Thank you. I am Angela Tsai, Director of Investor Relations for Chunghwa Telecom. Welcome to our second quarter 2023 results conference call. Joining me on the call today are Harrison Kuo, our Chairman and CEO; Ivan Lin, our recently appointed President; and Vincent Chen, our Chief Financial Officer.

On slide 2, please read our disclaimers and note concerning forward-looking statements.

Before I turn the call over to Chairman Kuo, I would like to briefly introduce our new President, Dr. Ivan Lin. President Lin holds a Ph.D. degree in Electronic Engineering from National Taiwan University of Science and Technology, and has served in various leadership positions in the areas of information technology, enterprise business and telecom laboratory oversight at Chunghwa. President Lin also has specialized interest and experience in IT advancement and AI related development.

Now, without further delay, I will turn the call over to our Chairman. Chairman Kuo, please go ahead.

Mission, Value Statements, and Vision

Thank you, Angela, and hello, everyone. Welcome to our second quarter results conference call. To begin, I would like to extend a warm welcome to our new President, Ivan Lin. We are happy to have his participation on today's call. Before Ivan walks us through our business overview and segment performance, I would first like to share our views and aspirations for Chunghwa Telecom on slide 4.

As I took the office, I declared our mission publicly, that is to leverage our four assets, which include customers and partners, tech platforms, infrastructures, and talents, to forge digital enabler ecosystems, empowering individuals, families, governments, enterprise customers, global clients and strategic partners to innovate and create value for customers, strategic partners, shareholders and employees.

The shared value systems that underpin our corporate culture include integrity, customers' trust, innovation and value creation, as well as commitment and accountability. I believe those are the fundamentals that unite the whole company to move forward together.

I also envisioned the Company becoming an international benchmark enterprise recognized for sustainable development, as well as a leading brand for digital ecosystem enablers based on the four assets aforementioned. To guide our success, I revealed a financial benchmark, which is to become a top technology conglomerate far exceeding the market value of one trillion Taiwan dollars. As our new management recently on board has AI related experience in particular, I am confident in our ability to shape ourselves into a leading brand among digital ecosystem enablers. Our goal is to push forward the development of an ecosystem-based industry environment as a leading telecom operator. Furthermore, we expect to continue outperforming our peers under such landscape and even extend our lead given our exclusive technology and solid service capabilities.

We believe the digital transformation trend will continue to propel the industry to further grow and remain sustainable, and the success would rely more on ecosystem-building instead of typical industry competition. We aim to create accretive value for customers and then enhance the overall value for the industry, of course including ourselves.

In July, we were invited to the New York Stock Exchange to celebrate the 20th anniversary of our NYSE listing. We greatly appreciate the achievement, and look forward to our investors' long-term and continuing support.

Now, I would hand the call over to Ivan for the business overview.

Business Overview – Mobile Service

Thank you, Chairman Kuo, and hello everyone. I'm honored to be here today, and happy to share the details of our second quarter business results. On slide 5 please find our mobile business overview.

In the second quarter, mobile market in Taiwan further consolidated toward a healthier structure, and we are excited to see our revenue share in Taiwan's mobile market had a noteworthy increase on a year-over-year base, from 39.2% to 39.9%, as well as a quarter-over-quarter growth from 39.7%. Our subscriber share also climbed to 37.0% from 36.3% compared with the second quarter of last year. As a result, our incremental excess revenue share above our

subscriber share increased to 2.9%, reflecting our healthier subscriber structure and better revenue generation compared to our peers. In addition, our post-paid ARPU reported a 4% YoY increase and continued growth for 9 consecutive quarters.

Our mobile service revenue also took the lead in the industry with a 6.4% increase, outperforming our peers and maintaining its growth for 22 consecutive months on a year-over-year base, owing to the upsells resulting from 5G migration and the increase of post-paid subscriber numbers. For those who migrate from our 4G to 5G, we observed an average 44% uplift in their mobile monthly fees, maintaining an upward trajectory quarter over quarter. In addition, our international roaming recovery and pre-paid revenue increase continued to ramp up in the second quarter. Ideally, overall roaming revenue this year is expected to recover to its pre-pandemic level.

In terms of mobile network quality, we're glad to be recognized by Opensignal for Taiwan's Best Overall and 5G Coverage and the Fastest Overall and 5G Experience in June, showcasing our outperformance in network coverage and quality.

Business Overview – Fixed Broadband Service

Moving on to slide 6, you can find an update of our fixed broadband business.

We were delighted to see higher service adoption continue to increase quarter over quarter driven by our fixed broadband speed upgrade promotion package and MOD bundle promotion plans. Notably, our sign-ups of services of 300Mbps or higher maintained its high growth rate of 54% year-over-year, which contributed to 3% and 1% YoY increases of the overall fixed broadband revenue and ARPU, respectively. Fixed broadband ARPU increased 15 quarters consecutively.

Going forward, we will continue our strategy of incentivizing subscribers' speed upgrades to enhance overall ARPU.

Now, let's move on to the performance of our customer-centric business groups.

Consumer Business Group (CBG) – 2Q23 Financial Summary

Slide 8 presents the performance of our CBG group.

In the second quarter, income before tax of CBG increased by 10.4% year-over-year thanks to the persistent growth of telecom services, as well as the decrease of manpower expenses and depreciation expenses. Total revenue of CBG increased by 3.9% year-over-year while mobile service revenue grew by 6.4% on year propelled by stable 5G migration and the increase of postpaid subscriber numbers. In particular, international roaming revenue continued to recover and brought in contribution owing to vibrant cross-border activities. Fixed-line service revenue was flat while fixed broadband revenue maintained its upward trend by increasing 2.9% year-over-year owing to the successful upsell along with speed upgrades. Sales revenue increased by 4.8% year-over-year, mainly due to the stabilized iPhone supply and increased terminal sales during the quarter.

Consumer Business Group (CBG) – 2Q23 Highlights

Slide 9 further illustrates our consumer business group highlights.

In the second quarter, our multiple-play package continued to be well-received. The subscriber numbers of mobile, fixed-broadband and Wi-Fi services altogether demonstrated 10.2% quarter-over-quarter growth. Home Wi-Fi subscription numbers increased by 12.5% year over year along with the fixed broadband and MOD promotion packages.

In addition, our video subscription continued its uptrend, increasing 6.7% on year, mainly driven by our popular OTT brand, Hami Video, for its rich content, including its extensive drama collection and professional baseball games. Despite no broadcasting of major sporting programs during the quarter, our IPTV brand, MOD, still experienced slight increases in both subscriptions and revenue in the second quarter due to its successful upsell on SVOD and channel services.

Going forward, we will continue our content strategy to maintain our leading position as the largest video platform in Taiwan.

Enterprise Business Group (EBG) – 2Q23 Financial Summary

Please turn to slide 10 for an overview of our enterprise business group performance.

In the second quarter, EBG reported a 11.9% year-over-year decrease of its income before

tax mainly due to the decline in text business, which has relatively higher margin, a higher base of a one-time recognition of large smart energy projects, and internal carbon fee. Those factors also resulted in a 1.2% year-over-year decrease of the total revenue of EBG. In spite of ICT revenue decrease in the second quarter, mobile service revenue increased attributable to 5G upselling and the recovery of international roaming revenue. Sales revenue increased from our subsidiaries as well. Fixed-line revenue slightly decreased year-over-year mainly due to voice decline, although data communication revenue and broadband access revenue continued to grow as expected.

Enterprise Business Group (EBG) – 2Q23 Highlights

Slide 11 illustrates our enterprise business highlights.

In the second quarter, most of our major applications demonstrated robust growth on a year over year base. 5G private networks, in particular, ramped up its revenue by fourfold owing to increased project numbers and the long-tailed recurring revenue injection. Revenues from big data analysis, cyber security, IDC and cloud also achieved year-over-year growth of 67%, 17%, 14% and 6%, respectively.

However, total enterprise emerging application revenue decreased by 2.2% on a year-over-year base mainly due to one-time AIoT revenue recognized last year, relating to smart energy projects. Excluding the one-time factor, we continued to see our AIoT revenue develop on track, and the emerging enterprise application revenue was up by 16.7% year over year.

As we continued to invest in developing 5G private networks, unmanned vehicles, and the AR platform, we acquired smart port projects in Southern Taiwan in the second quarter, leveraging technology to enhance unmanned undersea inspection and to further extend AR technology to tourism in the harbor park, reflecting our leading ICT capabilities and the foreseeable revenue contribution.

International Business Group (IBG) – 2Q23 Financial Summary

Slide 12 illustrates our international business performance.

In the second quarter, income before tax of IBG decreased by 6.6% year-over-year owing to non-operating expenses, such as the foreign currency valuation loss and internal carbon fee. Excluding the impact, IBG continued to experience strong growth in profit generation at a double digit YoY growth.

Total revenue of IBG increased by 23.2% on year, mainly driven by the increasing demand for our international private leased circuit, and growing emerging business, including IDC and cloud services from global clients.

For international business expansion, we are glad to share that we signed an MOU with the Provincial Electricity Authority of Thailand (in short PEA) in May for the cooperation of smart city solutions, such as smart pole and smart meters.

Now, I would like to turn the call to Vincent for our financial highlights.

Financial Overview

Thank you, President Lin. Good afternoon, everyone. I will now walk you through our second quarter financial results.

Income Statement Highlights

Let's begin with Slide 14, income statement highlights.

For the second quarter of 2023, we were glad to see that our performance continued to exhibit a growth momentum. Total revenues increased by 2.0% compared to same quarter last year as a result of growing mobile and broadband service revenues. Income from operations and net income grew by 2.0% and 2.9% on year, respectively, and such growths were mainly attributable to our strong core business performance. EBITDA maintained quarterly and yearly growth.

Overall, in the first half of the year, we delivered impressive operating performance as total revenue increased by 3.8% year over year, fueled by strong growth of our mobile, ICT and broadband services. Income from operations and net income grew by 3.2% and 4.6% on year, respectively, mainly due to our robust core businesses and growing ICT business. Notably, EPS increased by 4.6% on year to 2.52, which hit a 6-year high. EBITDA continued to grow and EBITDA margin continued to stay at above 40%.

Balance Sheet Highlights

Now move on to page 15 for balance sheet highlights.

Total assets on June 30 of 2023, compared to the end of 2022, grew by 1.3% mainly due to the increase in other current monetary assets, such as negotiable certificate of deposits. Total liabilities rose by 21.0%, primarily attributable to the increase in dividends payable, leading debt ratio to increase from 25% to 29%.

Furthermore, net debt over EBITDA remains zero. Altogether, these debt-related figures demonstrate the robustness of our balance sheet.

Consolidated Cash Flow Summary

Page 16 provides the summary of our cash flows.

Cash flows from operating activities increased by 3.9% on year, mainly due to the decrease in payments to suppliers and maintenance contractors, which offset the impact of rising interest and tax payments.

Regarding our capital spending, the amount of cash outflows was about the same compared to the same period last year. If we break capex into mobile and non-mobile components, mobile-related capex was lowered by 39.5% whereas non-mobile related capex increased by 28.9%. The latter was primarily attributable to IDC investments. On top of that, free cash flows grew by 6.9% on year.

Taken together, we maintained a robust balance sheet along with strong operating cash flows, which provide a solid foundation for us to be future-ready and allow us to remain committed to driving growth and creating long-term value for our shareholders.

Operating Results vs. Forecast

On slide 17, the table presents financial results against our financial guidance.

In the second quarter of 2023, revenue and all profitability performance measures beat our financial forecasts with income from operations and net income exceeding financial projections by modest margin. The better-than-expected performance was mainly driven by the performance of mobile and broadband services and ICT business.

In the first half of 2023, all performance measures topped our financial forecasts. Notably, all profit-related performance measures beat our guidance by more than 10%, as a result of outperforming core and emerging businesses.

That concludes the overview of our Q2 financial results. Let me turn the call over to Chairman Kuo.

Awards and ESG Recognitions

Thank you, Vincent. On slide 18 is our awards and ESG recognitions received in the second quarter.

To exemplify our unwavering commitment to sustainability, we officially joined the RE100 in May and committed to achieving 100% renewable energy usage by 2040. We have also passed the greenhouse gas reduction NEAR TERM Targets review by SBTi. Our goal is to achieve the reduction of Scope 1 and Scope 2 greenhouse gas emissions by 50% compared to the baseline year of 2020. Furthermore, we are among the front-runners in Taiwan to commit to achieving “Net Positive Impact” on biodiversity and “No Net Deforestation” by 2030. In addition, our ESG practices and achievements had been widely recognized globally. We received an upgraded “AA” rating for MSCI’s ESG Rating, ranked in the top quartile among Telecommunications industry peers. These achievements solidify our position as one of the global leading companies in sustainable development.

Thank you for your attention. At this time, I would like to open up our conference call for questions.

- Q&A Session -