



中華電信
Chunghwa Telecom

CHT 3Q2013 Results November 1, 2013 at 5:00 P.M. (Taipei Time)

Fufu: Thank you. This is Fufu Shen, the Director of Investor Relations for Chunghwa Telecom. Welcome to our third quarter 2013 earnings results conference call. Joining me on the call today are Dr. Lee, Chairman, Mr. Shih, President and Dr. Yeh, CFO.

During today's call, management will first discuss business, operational and financial highlights then we will move on to the Q&A session.

Before I turn it over to today's speakers, I would like to remind you that a number of forward-looking statements will be made during this conference call. Forward-looking statements are any statements that are not historical facts. These forward-looking statements are based on the current expectations of Chunghwa and there can be no assurance that such expectations will prove to be correct. Because forward-looking statements involve risks and uncertainties, Chunghwa's actual results could differ materially from these statements.

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Before we continue, please note our safe harbor statement on **slide 2**. Now I would like to turn the call over to Chairman Lee.

Dr. Lu, Chairman and CEO: On slide 2, please note our safe harbor statement. Now I would like to turn the call over to Chairman Lee.

Thank you, Fufu. Hello, everyone. This is Yen-Sung Lee. Thank you all for joining our third quarter 2013 earnings results conference call. Before Mr. Shih leads you through the business overview, I would like to update you regarding the mobile broadband spectrum bidding result and the progress of our business operations.

Mobile Broadband Spectrum Auction Completed

On slide 3.

As you are all aware, we are very excited to have won the bidding for the broadest amount of bandwidth in the Mobile Broadband Business license auction. After almost 400 rounds of bidding, we succeeded in winning with a final price of just over NT\$39 billion.

Two key highlights of our win that I would like to point out include: One, is that we are the only operator acquiring the maximum amount of bandwidth with 35 MHz of spectrum which includes two slots at 1800 MHz. This spectrum was the most sought after spectrum in the auction for two reasons—one, its compatibility with 4G spectrum globally, and two, this is considered “ecosystem ready” and is not in use currently, meaning it will allow for immediate network deployment and quicker service launch. Because of this, we believe that we have the potential to be the first-to-market to launch and offer high speed 4G services over LTE technology. As you can imagine, we are very excited about this because it could provide Chunghwa a substantial early lead over the competition.

The other key highlight is with winning 2 spectrum slots currently held by us for our 2G operation. This will not only allow us to maintain our 2G services for customers, but it will also allow us to offer 4G services at the same time, helping to further maximize the usage of this spectrum.

Chunghwa Telecom Overview

Moving onto slide 4, for our third quarter operating results, we are proud to say that we continued to outperform our competitors in attracting mobile internet subscribers. By the end of September, our mobile internet subscriber market share reached 34.1%, which was the highest among our peers. We will continue to support this growth momentum and market leadership in the future.

Since our broadband household penetration rate is already very high, we continue to focus on customer retention and migration to higher speed services. We will also leverage our upload speed advantage and promote convergence plans combining fiber with WiFi, Hami+ cloud and other value-added services.

Now, President Shih would like to lead you through our business overview.

Business Overview

Number One Mobile Services Provider

Thank you, Chairman Lee. Please refer to slide 6 for our mobile business.

For the third quarter, mobile internet subscribers grew by over 60% year-over-year to 3.57 million. Our mobile data revenue grew significantly by 37.4% year over year, the highest among the mobile operators.

We believe that this success is mainly due to our aggressive promotion plans, which not only attracted mid-to-low tier smartphone users but also helped encourage 2G subscribers to upgrade to our 3G network through attractive data plans. This year, we target to upgrade 700 thousand 2G subscribers to our 3G network. From January through September, we successfully upgraded 500 thousand subscribers to the 3G network and about 45% of them subscribed to additional data plans upon the migration. We will continue to encourage migration and upgrades going forward.

Smartphone-Value Driver for Mobile

On slide 7.

Our successful promotional initiatives targeting mid-to-low tier smartphone users helped boost our smartphone penetration over 50% at the end of September. Thus, we increased our year-end expected smartphone penetration rate from 49% to 53%. As mentioned earlier, total mobile

internet subscribers has already reached 3.57 million, surpassing our original year-end target, therefore we also revised the target up to 3.78 million.

Fixed Broadband Internet Services

Slide 8 shows the results for our broadband business.

During the quarter, we continued to see a steady migration of subscribers to higher speed fiber services. We experienced over 32.8% year-over-year growth in the number of subscribers opting for connection speeds of 60Mbps and higher, reaching more than 1.09 million by the end of the third quarter.

Overall, even though total broadband subscriber numbers remained flat for the past several quarters, we continued to encourage our subscribers to migrate to higher speed fiber offerings by offering attractive promotional plans that combine our fiber solution with WiFi, Hami+ cloud and other value-added services. Recently, we began offering promotional plans for 60Mbps and 100Mbps services, in order to facilitate greater migration. We are also targeting SMEs and machine-to-machine applications to stimulate further broadband usage.

MOD/IPTV Service

On slide 9.

For the first nine months of 2013, our IPTV revenue increased year over year by over 13.1% and our advertising revenue grew by 34.2%. We expect the advertising revenue to continue to grow throughout the remainder of the year. In addition, the household using TV rate continued to increase in the past quarters, which demonstrates our success in generating greater customer stickiness on our platform.

To further stimulate subscriber growth, we will continue offering convergence plans to cross-sell our MOD and other broadband services.

ICT and Cloud Computing Initiatives

Please see slide 10 for an update on our ICT and cloud initiatives.

In the third quarter of this year, our cloud business revenues doubled year over year and Personal Cloud subscribers reached 1.12 million. Also, we won several significant ICT projects with contracts totaling NT\$3.3 billion. Some of our projects include: network construction for China Trust lottery, monitoring, recording system projects for police departments under two local governments and other government IDC projects. We will continue to leverage our core telecom infrastructure and services to expand our ICT and cloud businesses.

Regulatory Update

Slide 12 provides an update on the regulatory front.

Our chairman have mentioned earlier about the broadband spectrum auction result completed on October 30th.

As for the telecom Act amendment, the Executive Yuan returned the amendment proposal to the NCC again on July 16 and decided that the NCC should submit the Digital Convergence Regulation draft in February 2014 instead.

Now, I would like to hand it over to Dr. Yeh to go through our financial results.

Financial Overview

Thank you, President Shih and good day everyone. Thanks for joining us today. I will review our financial results in detail, beginning with **slide 13**.

Income Statement Highlights

On slide 14 are our income statement highlights.

Total revenues for the third quarter grew by 2.6%, and operating costs and expenses increased by 3.5% year over year. Our income from operations and net income decreased by 0.4% and 0.5%, respectively. In addition, the EBITDA margin decreased from 37.50% to 36.40% in the third quarter as compared to the same period in 2012.

Business Segment Revenues

Please refer to slide 15 for an update on our business segment revenue.

Our total revenue increase was driven by 37.4% year over year growth in mobile VAS revenue and 24.8% growth in handset sales as well as an increase in ICT revenue. The strong growth of mobile VAS revenue was mainly driven by an increase in mobile internet subscribers.

Local voice service revenue decreased by 8.0% mainly due to mobile and VoIP substitution. The 7.3% revenue decline in the DLD business was primarily due to mobile substitution. Broadband revenue decreased by 0.8%, mainly attributable to the NCC tariff reduction for both ADSL and fiber service tariffs. The ADSL revenue decline offset the fiber revenue growth.

Mobile voice revenue decreased by 6.6% due to promotional packages and mandatory tariff reductions.

Costs and Expenses

Moving on to Slide 16, you can see that our operating costs and expenses increased by 3.5% year over year.

The increase in operating costs was mainly due to the rising cost of handsets sold, resulting from strong mobile internet and handset sales growth during the quarter.

Cash Flow & EBITDA Margin

As shown on slide 17, cash flow from operating activities increased to 17.1 billion NT dollars during the third quarter. This was mainly due to the decrease in payment to equipment contractors this year and less mobile deposits last year due to favorable offering for VIP subscribers.

We maintained a strong cash position with cash and cash equivalents amounting to 34.8 billion NT dollars as of September 30, 2013.

The EBITDA margin decrease was primarily due to tariff cuts and higher handset sales, leading to a lower EBITDA margin than our traditional telecom services.

Forecast & Operating Results

Slide 18 shows our 2013 third quarter results as compared to our guidance for the quarter.

Our revenue, operating income, net income and EBITDA all exceeded our third quarter guidance, mostly due to higher handset sales and mobile VAS revenues. However, EBITDA margin was lower than expected due to the lower margins for handsets. Currently, we expect our full year operating result to remain in line with our earlier guidance.

Effective and Efficient Capital Expenditure

Lastly, on slide 19.

Our capital expenditure will continue to focus on broadband and mobile network construction, and cloud deployment including data center construction. We will review our capex budget and execution plan on a regular basis, and focus on making the most cost-effective spending decisions possible.

Thank you for your attention and now we would like to open up for questions.

- Q&A Session -