



CHT 1Q2018 Results

April 27, 2018 at 3:00 P.M. (Taipei Time)

Thank you. This is Fufu Shen, the Assistant Vice President for Chunghwa Telecom. Welcome to our first quarter 2018 results conference call. Joining me on the call today are Mr. Sheih, our President, and Mr. Kuo, our Chief Financial Officer.

During today's call, management will begin by providing an overview of our business during the quarter followed by a discussion of operational and financial highlights, and then we will move on to the Q&A session.

Now, I would like to hand the call over to President Sheih, and please note our safe harbor statement on slide 2. President Sheih, please go ahead.

Chunghwa Telecom Overview

Thank you, Fufu and hello everyone. Welcome to our first quarter 2018 earnings conference call.

For the first quarter of 2018, the overall market remained competitive. In mobile business, we continued to retain our market leading position in both subscriber numbers and revenue. We're pleased to see the continuous mitigation of subscriber loss, and we maintained the lowest mobile service revenue decrease year over year among three major telecoms in Taiwan.

In our broadband business, we are encouraged to see subscriber net-adds turn positive for the first quarter, which demonstrates the success of our strategy of promoting home-centric services that bundled broadband, Wi-Fi, MOD and IoT services to further solidify our broadband subscriber base. Meanwhile, MOD subscriber numbers and revenue continued to grow in the first quarter as we have been endeavoring to facilitate the overall TV operational environment and introducing popular content as well as OTT service.

Despite the decrease of ICT revenue year over year in the first quarter owing to some delays in project revenue recognition, we observed that revenue share from enterprise customers continued to increase, and thus keep enhancing our overall capabilities to provide ICT related solutions to enterprise customers. Our IoT platform continued to support the development of smart city, smart agriculture, smart manufacturing and other IoT related applications. We also furthered our efforts to increase network capacity by joining the construction of the Southeast Asia-Japan 2 consortium submarine cable (SJC2) in March. In February, our highest rated IDC in Banqiao completed the second phase of its construction and opened to customers. We are pleased to report that so far, 70% of the newly constructed space has been sold or reserved. Going forward, we will continue to leverage our advantages in IDC and CDN to cater to the growing demand of comprehensive internet services in the digital economy.

Number One Mobile Services Provider

Now I will walk you through each of our business lines. On slide 5, I would like to update you on our mobile business.

As of March 2018, our total number of 4G subscribers has exceeded 8.2 million. Mobile internet adopters continued to grow, reaching 84.4% of total post-paid subscription, which consequently drove up our mobile internet revenue by 3.4% year over year. However, the overall mobile revenue for the first quarter decreased year over year mainly due to the accounting method change from IFRS 15 adoption. Factoring out the impact of IFRS 15, we still see a decrease in mobile service revenue due to the increasingly competitive market landscape.

Despite intense competition, we are delighted to see that mobile subscriber loss has been mitigated quarter over quarter due to improvements in our customer retention. Going forward, we will continue to roll out incentives for existing customers and further respond to market dynamics in a flexible way to consolidate our subscription base.

Fixed Broadband and Internet Services

Slide 6 shows the performance of our broadband business.

For the first quarter, we are encouraged to see our broadband subscriber net-adds turn positive with a 0.3% increase year over year. In addition, we continued to see a migration of our broadband subscribers to higher-speed fiber services. We are pleased with the number of users signing up for connection speeds of 100Mbps or higher, which grew by 10.7% year over year to 1.32 million in the first quarter. We expect to improve this number by upselling higher speed offerings and differentiating our products by bundling digital convergence services.

To incentivize customers to migrate to higher speed services, we rolled out a short-term promotion plan for 300Mbps and above services in the first quarter. Going forward, we will continue this strategy and stay ahead of our competitors by enhancing user stickiness on our network through smart home services that leverage our Wi-Fi advantage as well as MOD and OTT offerings.

MOD/IPTV Service

Moving onto slide 7.

We are glad to report another robust quarter for the IPTV business. Our IPTV/MOD platform became the largest video platform in Taiwan with more than 1.7 million subscribers as end of March 2018, representing a 27.4% increase year over year. Our IPTV revenue continued its growth trajectory as well with a 25.2% increase year over year, primarily driven by the healthy growth of IPTV and SVOD subscribers. We are pleased to see that the number of SVOD subscribers exceeded 1 million in the first quarter, and customers continued to sign up for additional SVOD programs. In addition to our on-demand service, we plan to leverage popular sport events, such as the upcoming 2018 FIFA World Cup and eSports, to further expand our channel subscription base and enhance the popularity of 4K quality viewing.

Going forward, the quality and diversification of our IPTV content offerings will continue to be our priority in order to further strengthen user acquisition and user stickiness. We will also carry more OTT offerings to increase customers' total contribution to our revenue.

ICT and Cloud Computing Initiatives

Please turn to slide 8 for an update on our ICT initiatives.

In the first quarter of 2018, our ICT revenue decreased year over year owing to some delays in project revenue recognition. The IoT platform continued to demonstrate the latest solutions, including applications in smart agriculture, smart manufacturing and smart transportation, and the number of our overall IoT-connected devices has exceeded 500 thousand as well. Our highest-rated Banqiao IDC finished its second phase rack installation in February and currently enjoys a satisfactory occupancy rate of 70% so far.

Going forward, we remain committed to leveraging our competitive advantages in network infrastructure, IDC and CDN to offer reliable, customized and comprehensive ICT solutions to enterprise customers. We also aim to develop new opportunities in our innovative business lines with advanced technologies, such as AI, blockchain, and information security, and seek partnerships to establish a comprehensive ecosystem in this sector.

Now, I would like to hand over the call to Mr. Kuo for our financial results.

Financial Overview

Thank you President Sheih. Now I will go through our financial results in details, beginning on slide 10.

Income Statement Highlights

Slide 10 provides you with highlights from our income statement.

For the first quarter of 2018, total revenues decreased by 1.7% and operating costs and expenses decreased by 0.9% year over year. Our income from operations decreased by 5.1%, and our net income decreased by 9% year over year partially due to the increase of enterprise income tax rate starting from 2018. In addition, our EBITDA margin decreased to 35.26% in the first quarter from 35.96% in the same period of 2017.

Business Segment Revenues

Please refer to slide 11 for revenue breakdown by business segments.

The decrease in total revenue for the first quarter 2018 was mainly due to the decrease in voice revenue and ICT project revenue, which offset the increase of handset sales revenue. However, the decrease of voice revenue and increase of handset sales revenue are both mainly affected by the adoption of IFRS 15.

Costs and Expenses

Moving on to slide 12, our operating costs and expenses decreased by NT\$0.37 billion, or 0.9%, year over year in the first quarter due to lower ICT project costs. The decrease in project costs was partially offset by an increase in cost of goods sold.

Cash Flow & EBITDA Margin

Slide 13 shows that cash flow from operating activities for the first quarter of 2018 decreased by NT\$3.26 billion, or 30.6%, compared to the same period of 2017. This was mainly the results of cash contributions to the pension fund as required by labor law.

As of March 31, 2018, we had NT\$31.59 billion of cash and cash equivalents.

Operating Results vs. Forecast

Slide 14 shows our operating results as compared to our guidance.

In the first quarter of 2018, our revenue, operating income, net income and EPS were slightly lower than our expectation. Despite the increasing market competition, we will strive to increase revenue from innovative business and try to execute cost control in order to meet the guidance.

Effective and Efficient Capital Expenditure

Lastly, slide 15.

We are budgeting capex of NT\$33.1 billion for 2018, and our actual spending for first quarter of 2018 is lower than that of last year. Going forward, we will continue to focus on investment in our core businesses, including FTTx, 4G, IDC, and our service platform among others under our precision construction principle.

Thank you for your time. We would now like to open the line for questions.

- Q&A Session -