



CHT 2Q2019 Results

July 31, 2019 at 3:00 P.M. (Taipei Time)

Thank you. This is Angela Tsai, the Director of Investor Relations for Chunghwa Telecom. Welcome to our second quarter 2019 results conference call. Joining me on the call today are Harrison Kuo, our new President, and FuFu Shen, the Assistant Vice President of Public Affairs Department. President Kuo assumed the position on May 8th, and now remained our Chief Financial Officer as well.

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 Kuo, and please note our safe harbor statement on slide 2. President, please go ahead.

Chunghwa Telecom Overview

Thank you Angela and hello everyone, welcome to our second quarter 2019 earnings result call. During the quarter, the overall mobile market remained competitive. However, we continued to hold the leading market position by both mobile revenue and subscriber numbers in this quarter with market shares of 36.2% and 37.8% respectively. Going forward, we will continue enhancing customer retention incentives to solidify existing subscribers, and further migrating users to bundled or higher price plans for incremental ARPU to mitigate the down-sell that happened in 2018.

MOD subscribers continued to increase and reached 2.08 million. Revenue grew year over year as well. We attribute this growth to our successful strategy of satisfying customer demand with quality content, including popular OTTs. Moreover, the introduction of the free to choose channel plan which allows customers to package their own plan entirely based on preferences is expected to bring new experience for our existing and new customers and further differentiate MOD from other video services in the market.

In our broadband business, we experienced a small subscriber loss for the first half mainly due to continuous mobile internet substitution and cable competition. To mitigate the impact, we are providing home-centric digital convergence plans that bundled services including broadband, WiFi, and MOD/OTT services to satisfy our customers' need.

For the ICT business, we aimed to leverage our network advantage and technology capabilities to strengthen project acquisitions and business exploration. Currently, digital finance is one of our areas of focus, and we continued to win major FinTech projects from the financial industry and governments.

I'm also glad to report that our strategic investment, the Next Bank, just won the internet bank operation license from its competition. We believed it would be one field where we can show our IT strengths and FinTech capabilities.

Going forward, we will further develop capabilities in cutting-edge technologies, such as MEC, AR and IoT, to enlarge our ICT capacity in different verticals in the upcoming 5G era.

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.

In the second quarter 2019, we were impacted most by the relatively higher revenue base in the prior year due contract cancellation fees for 499 promotions among the Big 3. Competition and down-selling remained in the market, causing overall mobile performance to be relatively weak.

To further enhance mobile performance, we maintained our strategy of guiding subscribers to adopt higher price plans during the quarter. Higher price bundled plan subscription increased specifically for iPhone models quarter over quarter. However, given that SIM-only adoption continues to increase and that the handset replacement cycle is becoming longer, we still expect mobile ARPU to decline slightly for the whole year.

Fixed Broadband and Internet Services

Slide 6 shows the performance of our broadband business.

We are delighted to see a continued migration of our broadband subscribers to higher-speed fiber services. In the second quarter, the number of users signing up for plans with connection speeds of 100Mbps or higher grew by 10.6% year over year to 1.5 million. The number of subscribers signing up for connection speeds of 300Mbps or higher increased by 120% year over year.

In addition, our VPN subscribers in medical field continued to migrate to higher price plan, which contribute significant incremental ARPU to enhance the overall broadband revenue.

Going forward, we will maintain our strategy of migrating customers to higher speed services to capture incremental ARPU and to mitigate the impact of the mandatory tariff reduction from the regulator. At the same time, we will also focus on developing smart home related services, leverage marketing tools such as Hami Points, and package more popular plans to enhance overall broadband revenue.

MOD/IPTV Service

Moving on to slide 7.

We are glad to report another robust quarter for the IPTV business. In the second quarter, our IPTV/MOD platform maintained its position as the largest video platform in Taiwan. We reached 2.08 million subscribers, representing a 15.3% increase year over year. In addition, our SVOD subscribers reached 1.3 million, maintaining its growth trajectory as well.

During the quarter, we continued to stay ahead of competitors in the video business. Overall IPTV revenue continued to grow with a 9.3% increase year over year. To attract subscribers, we continued to enrich our content by introducing OTT services and exploring opportunities for original content investment.

Going forward, we will further focus on enhancing our platform capability to facilitate MOD to be more favorable to precise advertisements for commercial buyers, to pave a new revenue stream for

enterprise customers, and to be able to provide better multi-screen user experience for retail customers.

Enterprise ICT Initiatives

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

In the second quarter of 2019, overall ICT revenue increased year over year. We are delighted that our IDC revenue for the first half continued to grow, gaining 18.8% year over year. Cloud revenue increased 20.9% year over year, and information security revenue increased 9.4% year over year.

In addition, to maximize revenue and opportunities, we will be more selective of our verticals. Digital finance is one of our focuses since we have advantages in IDC, information security, big data analysis, blockchain, FinTech patents and capabilities to link with international PaaS resources. In fact, we have acquired many FinTech projects in the financial industry. Going forward, with our AI and IoT related capabilities, we will continue to reach out to other verticals, such as smart industry, smart city and smart agriculture, to enhance the overall ICT performance. Now I would like to hand over the call to Fu Fu for our financial results.

Financial Overview

Now I will go through our financial results in details, beginning on slide 10. Please note that all the comparisons are made on a year over year basis, unless otherwise stated.

Income Statement Highlights

Slide 10 provides you with highlights from our income statement.

For the second quarter of 2019, total revenues decreased by 6.6% and operating costs and expenses decreased by 4.3%. Our income from operations decreased by 14.5%, and our net income decreased by 13.1%. Our EBITDA margin increased to 38.1% in the second quarter from 37.3% in the same period of 2018 primarily due to the adoption of IFRS16 in 2019.

Business Segment Revenues

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

The decrease in total revenue for the second quarter 2019 was mainly due to the decrease in mobile service revenue, which offset the increase of handset sales revenue and internet revenue. The decrease in mobile service revenue was primarily because of market competition and VoIP substitution.

Costs and Expenses

Moving on to slide 12, our operating costs and expenses decreased by NT\$1.8 billion, or 4.3% mainly due to lower personnel and interconnection costs and the reversal of bad debt provision.

Cash Flow

Slide 13 shows that cash flow from operating activities for the second quarter of 2019 decreased by NT\$1.16 billion, or 6.8%. This was mainly due to a decrease in accounts payable.

As of June 30, 2019, we had NT\$36.58 billion of cash and cash equivalents.

Operating Results vs. Forecast

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

In the second quarter of 2019, revenue was lower than our second quarter guidance mainly due to lower handset sales, mobile service revenue and ICT revenue. Furthermore, our operating income, net income and EPS were lower than our second quarter guidance.

Effective and Efficient Capital Expenditure

Moving onto slide 15.

We are budgeting capex of NT\$29.0 billion for 2019. We will focus on investment in our core businesses, including FTTx, 4G, IDC and service platform under our precision construction principle.

- Q&A Session -