



## **CHT 1Q2020 Results**

### **April 30, 2020 at 3:00 P.M. (Taipei Time)**

Thank you, operator. Hello, everyone, and welcome to our first quarter 2020 results conference call. This is Angela Tsai, the Director of Investor Relations for Chunghwa Telecom.

During today's call, Mr. Harrison Kuo, our President and Chief Financial Officer, will provide an overview of our business achievements during the quarter and discuss operating highlights. He will be followed by Ms. FuFu Shen, our Assistant Vice President of Public Affairs, who will provide financial highlights. We will also have a 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 Kuo, please go ahead.

#### Chunghwa Telecom Overview

Thank you Angela and hello everyone, welcome to our first quarter 2020 earnings result call. During the first quarter of 2020, the COVID-19 pandemic continued to slow down overall economic activities. Our enterprise business and international roaming revenue were affected by social distancing and work from home policies as well as many international borders have been closed and many people are in lockdown. However, we were fortunate to experience some anti-epidemic business opportunities in the areas of cloud SaaS, enterprise conferencing and IPTV/MOD services. In general, as 5G service launch is coming and COVID-19 pandemic accelerates the development of digital application and digital economy, we believe that with our leading spectrum resources, cutting-edge ICT technology, and leading market shares in both enterprise and consumer segments, we will be in a better position to respond to future competition and business development.

In the first quarter of 2020, our mobile revenue and subscriber market share continued to grow, reaching to 38.3% and 37.2% respectively, which provides a solid foundation for the upcoming 5G service launch in the third quarter.

In the broadband business, we experienced ARPU growth and were encouraged to see that existing broadband subscribers continue to migrate to higher speed services. As mentioned earlier, the increasing demand of enterprise conferencing services and online learning may bring in growth opportunities in this sector.

In addition, MOD business was also relatively resilient during the pandemic. In the first quarter, both MOD revenue and subscribers increased year over year. Although the 2020 Tokyo Olympic Games will be postponed to 2021, we will continue to introduce attractive content including on-demand and OTT services to enhance revenue and subscriber numbers.

During the quarter, our ICT revenue decreased year over year mainly due to a higher baseline in the first quarter of 2019. We expect most ICT revenue to be injected in the second half of the year.

However, we were glad to see a continued increase in streaming revenue contribution from our ICT business due to the success of our in-house developed services.

### Number One Mobile Services Provider

Now allow me to walk you through each of our business lines. On slide 5 is some updates on our mobile business.

In the first quarter, our IoT subscriber number continued to increase and our back-to-school initiatives continued to add new bundled subscriptions at higher ARPU than blended ARPU. We continued to experience the smallest decrease in mobile service revenue among our peers quarter over quarter mainly due to our efforts of guiding subscribers to adopt higher price plans.

### Fixed Broadband and Internet Services

Slide 6 demonstrates the performance of our broadband business.

We were glad to see continued ARPU growth in the first quarter of 2020, which reflected our success of migrating subscribers to adopt higher-speed fiber services. As of March 2020, the number of users signing up for plans with connection speeds of 100Mbps or higher increased by 11.4% to 1.62 million from the prior year. And the number of subscribers signing up for connection speeds of 300Mbps or higher increased by 82.6% year over year.

Furthermore, as demand for work from home and home-centric applications increase, we see potential opportunities for broadband service adoption and higher-speed migration to mitigate the subscriber loss due to mobile internet substitution, and is expected to further contribute to overall ARPU enhancement.

### MOD/IPTV Service

Moving on to slide 7.

We are pleased to report that in the first quarter, our IPTV/MOD platform remained the largest video platform in Taiwan with more than 2.08 million subscribers. Revenue increased by 2.9% year over year.

Even though the expected benefits from the 2020 Tokyo Olympic Games will be postponed to 2021, we remained to enhance overall MOD performance by accelerating 4K content offerings in OTT services such as Netflix, fully 4K channels and VOD Hollywood films to strengthen subscriber numbers and revenue. In addition, as growth opportunities from home centric services, we were confident our IPTV business will maintain growth trajectory going forward.

### Enterprise ICT Initiatives

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

As we mentioned earlier, a large percentage of our ICT-related project revenue will be recognized in the second half of 2020. Major in-house ICT products, such as information security, iEN and ITS, are also expected to perform well in that period. In addition, due to COVID-19-driven lockdown, we saw increases in demand for IDC and cloud services from the gaming industry and video conferencing applications. We will closely monitor and acquire related opportunities going forward.

At this point, I would like to turn the call over to Fu Fu to review our financial results.

### Financial Overview

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

### Income Statement Highlights

Slide 10 provides highlights of our income statement.

For the first quarter of 2020, total revenues decreased by 6.2%, and operating costs and expenses decreased by 8.1% year over year. Our income from operations increased by 1.2%, and net income decreased by 0.4% year over year. In addition, EBITDA margin increased to 40.19% from 37.33% in the same period of 2019.

### Business Segment Revenues

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

The decrease in total revenue for the first quarter 2020 was mainly due to decreases in handset sales revenue, fixed voice revenue, ICT project revenue and mobile service revenue. These decreases were partially offset by increases in data communication revenue and MOD revenue. The decrease in mobile service revenue was a result of market competition and VoIP substitution.

### Costs and Expenses

Moving on to slide 12, our operating costs and expenses decreased by NT\$3.31 billion, or 8.1%, year over year in the first quarter mainly due to lower cost of goods sold, interconnection costs, and ICT project costs.

### Cash Flow

Slide 13 shows that cash flow from operating activities for the first quarter of 2020 increased by NT\$0.11 billion, or 0.8%, compared to the same period of 2019. This was mainly due to a decrease in income tax payment.

As of March 31, 2020, we had NT\$16.59 billion of cash and cash equivalents, decreasing by NT\$20.64 billion, or 55.4%, compared to the same period of 2019. The decrease was mainly attributable to the payment of concession fees for the 5G frequency spectrum auction, which was partially offset by the increase in short-term bills payable.

### Operating Results vs. Forecast

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

In the first quarter of 2020, revenue was lower than our first quarter guidance. However, our operating income, net income and EPS results exceeded our first quarter guidance.

Effective and Efficient Capital Expenditure

Lastly, slide 15.

We are budgeting capex of NT\$30.7 billion for 2020. We will continue focusing our capex spending on our growing and emerging businesses, and solidifying our market position. Major mobile 5G capex will be spent in second quarter and third quarter in 2020.

**- Q&A Session -**