



CHT 3Q2020 Results

October 30, 2020 at 3:00 P.M. (Taipei Time)

Thank you. This is Angela Tsai, the Director of Investor Relations for Chunghwa Telecom. Welcome to our third quarter 2020 results conference call. Joining me on the call today are Harrison Kuo, our President, and Vincent Chen, our new 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.

On slide 2, please note our safe harbor statement.

Before I turn the call over to President Kuo, I would like to make a brief introduction of our new CFO, Dr. Vincent Chen. Dr. Chen owned his Ph.D. degree in Accounting from the State University of New York at Buffalo. He was serving as Professor of Accounting at the National Chengchi University as well as the IMBA Program Director. Previously, he was on the faculty of the National University of Singapore, and was the Head of Accountancy Sector Research Centre at the Singapore Accountancy Commission, a statutory board under the Ministry of Finance of the Government of Singapore.

And now, I will turn the call over to President Kuo. President Kuo, please go ahead.

Chunghwa Telecom Overview

Thank you, Angela, and hello, everyone. Welcome to our third quarter 2020 earnings call.

Let's begin on slide 4. In the third quarter of 2020, the number of 5G sign-ups grew as we expected, and the iPhone 12 models that launched in mid-October are expected to drive 5G service adoption. We are optimistic that we will exceed our annual target for 5G service adoption by the end of this year. In addition, construction of our 5G base station is ahead of schedule, as we have established over 3000 base stations nationwide by the end of the third quarter. Combined with the largest 5G spectrum resources on hand and efforts in 5G innovation development, we expect to obtain a significant portion of government subsidies for 5G network construction and Forward-Looking Infrastructure Development, which will help to further accelerate our 5G deployment.

In addition, we have teamed up with various partners from different industry verticals as we develop 5G services via B2B2X models. Our focuses include smart manufacturing, smart transportation, smart agriculture, autonomous driving, smart healthcare and etc. We expect to see some promising results within the semi-conductor industry in the near future and look forward to sharing our updates with you.

For our broadband business, we are pleased to see continued ARPU uplift as a result of the ongoing increase in higher price plan adoption. Subscriber migration to our broadband of 300 Mbps or higher continued to increase by 79.5% year-over-year, contributing to year-over-year broadband

revenue growth for the eighth month in a row. The number of Home Wi-Fi devices also increased 140.0% year over year. MOD business experienced slight ARPU uplift year over year in the third quarter thanks to the growing stay-at-home life-style trend.

During the quarter, we continued to see the impact of the COVID-19 pandemic on business. Digital channel access and transactions increased by 83.8% to enhance our service efficiency, while international mobile roaming revenue and pre-paid card revenue continued to decline due to the ongoing border lockdown. We anticipate this trend will continue in the next several quarters.

Number One Mobile Services Provider

Now, allow me to walk you through each of our business lines. Turning to Slide 5, you can see an update of our mobile services business.

In the third quarter of 2020, we were pleased to maintain our leading market position as we saw a growth in mobile revenue and number of subscribers with increases to 38.4% and 37.2%, respectively. In addition, we are optimistic about the number of our post-paid subscribers, which has increased for 9 months in a row. This demonstrates our success in both existing subscriber retention and new subscriber acquisition, especially as a result of our back-to-school initiatives.

Regarding overall mobile performance, we are pleased to experience the smallest amount of decrease in mobile service revenue in comparison to our peers quarter-over-quarter. This was mainly due to our efforts in guiding subscribers to adopt higher price plans. Excluding ARPU dilution resulting from IoT subscription, we saw our post-paid ARPU increase slightly quarter-over-quarter. As the iPhone 12 rolls out in October, we expect that the bundled subscription at a higher price point will continue to enhance the overall ARPU.

Fixed Broadband and Internet Services

Please turn to slide 6 for an update on our broadband business in the third quarter.

During the quarter, we were pleased by the ongoing ARPU uplift in our broadband business, which reflects our success in migrating subscribers to adopt higher-speed services by providing attractive packages which bundle multiple home-centric applications.

The number of subscribers that signed up for connection speeds of 300 megabits per second or higher increased by 79.5% year-over-year, while VPN circuit revenue contributions from enterprise customers grew as well. Thus, we are confident that we will maintain the overall upward trend in our broadband business, despite the ongoing decline in the number of lower-speed subscribers quarter-over-quarter.

MOD/IPTV Service

Slide 7 demonstrates our MOD business performance.

In the third quarter of 2020, our MOD/IPTV platform continued to be the largest video platform in Taiwan, and our business remained relatively resilient amid a growing market share. Subscription momentum decelerated due to a lack in popular sports events; however, we continued to drive ARPU growth by offering popular OTT services, such as Netflix and Hami Video. In addition, we continued to see upsell in our tiered-pricing channel packages and digital convergence packages. Overall MOD revenue in the third quarter increased slightly by 0.4% year over year.

Moving forward, we will continue to differentiate our products by enriching 4K content. We also expect the upcoming Tokyo Olympic Games to further drive MOD subscription and revenue by attracting subscribers with exclusive AR and VR viewing experiences.

Enterprise ICT Initiatives

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

In the third quarter of 2020, overall ICT project revenue increased by 84.9% year-over-year due to revenue recognition of large projects in regards to solar farm building, smart schools, and COVID-19 pandemic. In addition, we continued to see an increase in overall ICT streaming revenue for several quarters, which we believe will further enhance our ICT revenue growth and stability.

We are also glad to see positive results from our emerging ICT services. In the third quarter of 2020, IDC revenue increased by 8.8% year-over-year, and we saw increasing occupancy in our highest-rated Banqiao IDC with strong potential demand, which has driven us to work on our next business expansion. Cloud revenue increased in terms of both project revenue and streaming revenue, which resulted in a 7.7% growth year-over-year. Information security revenue increased 19.2% year over year.

To further enhance our ICT business, we will continue to leverage our cutting-edged technologies to acquire 5G related opportunities, and continue to collaborate with our partners as we expand market share and profitability to strengthen overall performance in every sector.

At this time, I would like to turn the call over to Vincent, who will review our financial results.

Financial Overview

Thank you President Kuo. Good afternoon everyone. Thanks for joining us. This is Vincent and it is my pleasure to meet you all. Now let me go through Q3 financial results with you.

Income Statement Highlights

Let's look at page 10 where we present the summary of our financial performance in 2020 Q3. As you can see, compared with Q3 2019, we had a good quarter in Q3 2020. Revenue increased by 2.6%, income from operations and net income were up by 7.1% and 3.2%, respectively. Earnings per share increased to 1.08 from 1.04, which is about a 3.2% increase. EBITDA and EBITDA margin also increased, relative to same quarter from last year.

Business Segment Revenues

On page 11, we provide a breakdown of revenue by business segments. In spite of weak revenues from handset sales, voice, mobile services as a result of tense competition and the impact of COVID-19 pandemic, our revenue increased by 2.6% on a YoY basis. The growth was mainly attributable to the increase of our ICT project revenue.

Costs and Expenses

Moving on to slide 12, our operating costs and expenses in the third quarter increased by NT\$0.91 billion, or 2.2%, year-over-year, mainly due to higher ICT project costs, which offset lower cost of goods sold, and interconnection costs.

Cash Flow

Slide 13 shows that cash flows from operating activities for the third quarter of 2020 increased by NT\$0.77 billion, or 3.9%, compared to same quarter in prior year. This was mainly driven by an increase in the collection of accounts receivable.

As of September 30, 2020, the balance of cash and cash equivalents was NT\$17.71 billion, a decrease of NT\$6.36 billion, or 26.4%, relative to Q3 2019. The decline was primarily attributable to concession fee payments from the 5G frequency spectrum auction.

Operating Results vs. Forecast

On page 14 we report a table that compares our financial results with forecasts.

As you can see, for Q3 2020, our performance measures including income from operations, net income EPS, EBITDA and EBITDA Margin, all met and beat our forecasts. Revenue was lower than expected, which was attributed to weaker handset sales and mobile service revenue.

Effective and Efficient Capital Expenditure

Now let's look at capex on page 15.

Our budget for capex in 2020 is NT\$30.7 billion. Since we launched our 5G services in late June, we have been making capital investments in connections to 5G networks. We expect the actual capex will remain the same by the year end as a result of our efforts on precision construction and procurement enhancement.

Thank you for your time. Now, we would now like to open the line for questions.

- Q&A Session -