



## **CHT 4Q2021 Results**

### **January 26, 2022 at 3:00 P.M. (Taipei Time)**

Thank you. This is Angela Tsai, Director of Investor Relations for Chunghwa Telecom. Welcome to our fourth quarter 2021 results conference call. Joining me on the call today are Harrison Kuo, our President, and Vincent Chen, our Chief Financial Officer.

During today's call, management will begin by providing an overview of our business from this quarter, followed by a discussion of operational and financial highlights. After, we will move on to the question and answer portion of the call.

On slide 2, please note our safe harbor statement.

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

#### "Rise on Together, 2021" strategic transformation

Thank you, Angela, and hello, everyone. Welcome to our fourth quarter 2021 earnings call.

Before providing an update on fourth quarter performance, I would like to begin by highlighting the ongoing success of our strategic transformation that began in 2019.

Three years ago, we launched a customer-centric strategic transformation plan focused on value creation to enhance our market position. Under this plan, we sought to improve our competitive advantage by strengthening our core businesses, deploying emerging services, optimizing our cost structure and further enhancing fundamentals, such as next generation networks, IT infrastructure and human resource planning.

We concluded our three-year plan at the end of 2021 with several key achievements, including three years of consecutive growth in EBITDA margin, net income and EPS. Mobile service revenue turned around since the second quarter of 2021, and the churn rate significantly decreased from 2019 to 2021. In addition, the compound annual growth rate of broadband revenue increased by 2%, increasing the enhancement of our core business. In regards of emerging business, we are glad to see compound annual growth rate for both IDC revenue and cloud revenue increased by 5%, while ICT business gross profit increased to 17%. By 2021, our backbone network was 100% SDN ready and FTTH coverage reached approximately 88%, demonstrating our enhanced core competence. The Net Promoter Score of our services also increased, which reflects the increase in customers satisfaction. Revenue and profit per head increased 6% and 15% respectively, attributable to increased operational efficiency as a result of cost structure optimization.

### Organizational transformation

Along with the strategic transformation, on slide 4, you can see we have an organizational transformation, effective on January 1, 2022.

We transformed our business groups under customer-centric structure. We expect our consumer business group to develop individual- and home-centric business, such as mobile, fixed broadband, Wi-Fi, MOD and OTT services. We aim to create value and better experiences for our customers. Former enterprise business related units have been transformed into a single business group to streamline service delivery and create synergy. In addition, the international business group has continued its outreach as we expand our business into overseas territories.

Similarly, our technologically-focused units have been transformed into three groups, forming a strong foundation to support innovation and provide solutions. Meanwhile, our headquarters will continue to maximize its functions of devising planning and resource allocation.

In sum, we expect the new organizational structure to be more customer-centric and responsive as we aim to provide better value creation opportunities for both customers and stakeholders

### Business Overview

Now, please turn to slide 6 for an overview of business from the fourth quarter of 2021.

In the fourth quarter, the mobile market in Taiwan remained steady as operators focused on 5G migration and development. By the end of 2021, our 5G penetration rate reached approximately 20%, and we expect this rate to reach 30% by the end of 2022. As we continued to lead in network quality by accelerating 5G deployment at better spectrum locations, we remain confident on 5G customer migration and reaching our target, maintaining our leading position in 2022.

In the fourth quarter, 5G migration continued to drive ARPU uplift. We observed an average of 39% uplift in monthly fees attributable to customers who renewed contracts to adopt 5G services, particularly from the contribution of iPhone 13 bundle subscribers.

Our excellent home-based infrastructure was well-received in the fourth quarter as well. The number of Home Wi-Fi devices continued to soar by 167% year over year. Broadband subscriber number turned positive during the quarter, while revenue hit a record-high in December. As subscriber migration to our broadband services of 300 Mbps or higher increased by 45% year-over-year, our broadband ARPU also continued to increase year-over-year, in line with expectations. MOD ARPU also grew on a year-over-year basis as a result of successful upsell during the quarter. Looking ahead, we will strive to develop video services by providing more popular content and leveraging 5G to create immersive viewing experiences.

We are pleased to announce our ICT business achieved its full-year revenue and margin by the end of 2021. In particular, the ICT project margin for 2021 continued to grow, which is reflective of our overall performance, and demonstrating that our enterprise business is on track and expected to do well in the future.

### #1 Mobile Services Provider

Now, allow me to walk you through each of our business lines. Turning to Slide 7, you may find updates on our mobile business.

In the fourth quarter, we maintained our leading position in the mobile market, as both revenue and subscriber market share, excluding IoT SIMs, increased to 38.9% and 36.1%, respectively.

During the quarter, our mobile customer net-adds and post-paid net-adds both ranked highest among the big three majors. As post-paid subscriber numbers increased year-over-year and 5G migration enhanced adoption of high price plans, our mobile service revenue maintained its upward trend, resulting in a year-over-year increase of our post-paid ARPU.

Looking ahead, we will guide our services with a key focus on our customers, rolling out popular bundled services for innovative 5G applications to further drive up 5G migration and mobile ARPU.

### Fixed Broadband Services

Please turn to slide 8 for an update on our broadband business in the fourth quarter.

During the quarter, our HiNet subscriber net-adds continued to increase year-over-year, and broadband subscribers net adds turned positive year over year, which reflects the market's growing demand for fixed broadband.

We were also pleased to see that our broadband ARPU increased by 3% year-over-year, attributable to our success in migrating subscribers to adopt higher-speed services. In addition, the number of subscribers that signed up for connection speeds of 300 megabits per second or higher increased by 45% year-over-year.

Looking ahead, we are confident that we will maintain the overall upward trend in our broadband business as we believe digital transformation trend is less likely turning back. As our consumer business group prepares to develop smart life solutions, we expect to introduce more popular home-centric services in the future to enhance customer user experience.

### MOD/IPTV Service

Slide 9 illustrates our MOD business performance.

In the fourth quarter of 2021, MOD subscriber numbers decreased slightly, while Hami Video subscriber number increased by 20% year-over-year. Despite this, MOD revenue maintained its growth trend and increased 2% year-over-year as a result of our pricing strategy. The SVOD all-pass package that rolled out in the first quarter of 2021 quickly accumulated a great subscription number and successfully strengthened SVOD revenue growth for four consecutive quarters. Channel revenues continued to increase year-over-year, as 90% of subscribers opted for the highest price package among the tiered pricing schemes. As a result, MOD ARPU achieved a year-over-year increase in the fourth quarter.

Moving forward, we will make investments in content development to further enhance our video service performance on different viewing platforms to maintain our leading position as the largest video platform in Taiwan.

### ICT Business

Please turn to slide 10 for an update on our ICT business.

In the fourth quarter, both ICT project margin and gross profit increased year-over-year as a result of our efforts to take on projects with higher returns, which is positive to our overall bottom line.

Excluding the large project impact from that of 2020, IDC revenue in the fourth quarter increased by 22% year-over-year, mainly due to revenue recognition from financial projects, and cloud revenue increased 3% year over year. Revenues from cybersecurity decreased year-over-year due to delays in project revenue recognition. However, we remain positive that the aforementioned business will grow at a double-digit rate in 2022.

In 2021, we were glad to see the 5G private network reach a billion-dollar value as a result of our recent efforts, such as introducing the first 5G smart steel factory in Taiwan. In addition, we were proud to report some indicative ICT projects, such as building the first bus emergency signal control system in Taiwan, big data analysis platforms for large public service companies, as well as the network test field for 5G O-RAN vendors.

Looking ahead in 2022, we are pleased to see that the number of orders taken has exceeded our annual guidance, mainly attributable to opportunities from the government, enterprises, retail stores and the tourism industry.

Now, I would like to turn the call over to our CFO, Vincent Chen, who will review our financial results. Vincent, please go ahead.

### Financial Overview

Thank you, President Kuo, and hello, everyone. I will now walk through our fourth quarter financial results.

### Income Statement Highlights

To begin with, please turn to Slide 12 for highlights from our income statement.

For the fourth quarter of 2021, on a year-over-year basis, total revenues increased by 0.7%, while operating costs and expenses decreased by 3.7%. Income from operations increased by 5.8%, and our net income increased by 5.1%. In addition, our EBITDA margin increased to 34.82% from 33.45% in the fourth quarter of 2020.

### Business Segment Revenues

Slide 13 provides a breakdown of revenue by business segment.

In the fourth quarter of 2021, total revenue increased by 0.7% year-over-year, mainly due to the increase in revenues from handset sales and mobile service revenue driven by the 5G migration and the iPhone 13 launch, as well as the increase of data communications revenue and broadband access revenue as a result of the demand of broadband speed upgrade amid the work-from-home trend and stay-at-home economy, which offset the decrease of ICT project revenue.

### Costs and Expenses

Moving on to slide 14, our operating costs and expenses for the fourth quarter decreased by NT\$1.88 billion, or 3.7% year-over-year, mainly due to lower ICT project costs, partially offset by the higher cost of goods sold.

### Cash Flow

As you can see in Slide 15, cash flows from operating activities for the fourth quarter of 2021 decreased by NT\$0.66 billion, or 2.4%, compared to the prior year period. This was mainly due to an increase in accounts receivable resulting from ICT projects.

As of December 31, 2021, the balance of cash and cash equivalents was NT\$39.82 billion, an increase of NT\$9.40 billion, or 30.9%, compared to December 31, 2020. The increase was primarily attributable to the issuance of corporate bonds.

### Operating Results vs. Forecast

On page 16, you may find a table that compares our financial results with forecasts.

As you can see, in the fourth quarter of 2021, all of our performance measures beat our proposed guidance. Revenue results can be attributed to higher revenues from mobile services, broadband access and data communications.

### 2022 Forecast

Moving on to slide 17, please see our consolidated guidance for 2022.

Looking ahead, total revenue for 2022 is expected to increase by between 1.1% and 1.7%, compared to 2021, driven by the upsell owing to 5G adoption, the ARPU uplift from broadband upgrades, MOD revenue as well as ICT revenue coming from the expansion of emerging business in the digital economy. Operating costs and expenses for 2022 are expected to increase by between 2.0% and 2.2% as a result of an increase in maintenance and repair costs, as well as ICT business cost. Given these projections, we expect our EPS to increase up to 0.8% on a year-over-year basis.

### Effective and Efficient Capital Expenditure

Please turn to slide 18.

Our capex spending in 2021 was NT\$35.3 billion, which was lower than the budgeted amount of NT\$43.1 billion, mainly due to some IDC and submarine cable projects that have been deferred to 2022. 5G cash outlay was higher than our budget in accordance with the accelerated deployment of 5G base stations in 2021, also marking the peak in 5G investment in recent years. Going forward, we expect the 5G capex to trend down.

For 2022, we budget NT\$36.8 billion in capex, which includes spending on our business focuses as well as future opportunities, such as constructions of 5G network, IDC and submarine cable.

Now, I would like to turn the call over to President Kuo for our awards and recognitions.

### Awards and Recognition

Thank you, Vincent.

Slide 19 illustrates our awards and recognitions from the fourth quarter, highlighting our distinction in mobile service, 5G speed and private 5G network service, as well as domestic and international recognition of our ESG practices and sustainable operations.

We are delighted to see our 5G services receive awards and accolades. The Speedtest recognized Chunghwa as the Fastest 5G and Fastest Mobile Network in Taiwan during the third and fourth quarters of 2021. Similarly, we achieved the fastest 5G download speed and upload speed and regarded as the best in user experience across gaming, video and voice app services in Taiwan.

As we aim to expand our 5G private network solutions to the Southeast Asian market, we appreciate the well-known international institute Frost & Sullivan for awarding us the best private 5G network for customer value leadership in Taiwan.

International institutes as well as those in Taiwan have acknowledged our ESG performance with top awards in the fourth quarter, which further encourages us on our endeavors. Going forward, we aim to leverage our telecom capabilities and carry out digital empowerment to help companies accomplish digital transformation, further achieving carbon footprint reduction.

Thank you for your attention. Now, I would like to open the floor for questions..

**- Q&A Session -**