



CHT 2Q2022 Results

July 29, 2022 at 3:00 P.M. (Taipei Time)

Thank you. This is Angela Tsai, Director of Investor Relations for Chunghwa Telecom. Welcome to our second quarter 2022 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 in the second quarter, followed by discussion of segment performance 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.

Business Overview – Mobile Service

Thank you, Angela, and hello, everyone. Welcome to our second quarter results conference call. I will now provide an update on our robust performance in the second quarter.

Let's begin on slide 4 for an overview of our mobile business. In the second quarter, Taiwan's mobile market continued its momentum as the three major operators focused on 5G migration, which benefits mobile service revenue growth. Market consolidation will be fulfilled in the near future and we remained positive to the result as it will help the market maintained steady and profitable.

Under this landscape, we were pleased to report our market shares in both revenue and subscriber number continued to increase year-over-year, reaching 39% and 36.2%, respectively. We are confident that we will continue our market leadership going forward.

Our market leading position is backed by our 5G network deployment that has advanced and stayed ahead of our peers. The well-known international institute, Speedtest, awarded us as the Fastest 5G Operator in Taiwan for the 1st and 2nd quarter of 2022, recognizing our leadership of 5G coverage and quality, as well as the Speedtest Awards for Fastest 5 Years in a Row to

affirm our comprehensive mobile network as No. 1 in Taiwan.

Business Overview – Mobile Service

Slide 5 presents the leading achievements of our mobile business.

In the second quarter, total mobile service revenue increased by 6.1% year-over-year, attributable to growing subscriber number and 5G contribution, as well as an increase in text message usages due to COVID-19 related projects. In addition, as many countries relax their border restrictions for global business travelers and tourists, we were glad to see the international roaming revenue begin to pick up in the second quarter.

As for our mobile subscriber numbers, excluding IoT SIMs, there is a 0.7% year-over-year increase. In addition, our postpaid ARPU growth rate reached 4% year-over-year, maintaining its upward trend for 5 consecutive quarters. Meanwhile, we observed an average 37% uplift in monthly fees, attributable to consumers who migrate from 4G to 5G. Taken together, we outperform our peers in terms of YoY change in the number of postpaid subscribers, mobile service revenue, and ARPU, suggesting that we remain the customers' first choice of telecom service provider in Taiwan in spite of industry consolidation.

Business Overview – Fixed Broadband Service

Moving on the slide 6, you may find an overview of our fixed broadband business.

In the second quarter, our fixed broadband business continued its upward trend for 11 consecutive quarters. While subscriber numbers kept stable, fixed broadband revenue and ARPU both achieved year-over-year increases of 4% and 3%, respectively, benefiting from digital opportunities in the “new normal.”

Notably, our subscriber number for services of 300Mbps or higher maintained its high growth rate of 37% year-over-year. To respond to customers' demand in a more aggressive manner for higher speed demand in the wake of digital lifestyle, including increasing video conferences, online learning, as well as internet celebrity economy, we rolled out a promotion package, 速在必行, to incentivize high speed service adoption of 300Mbps and 500Mbps and above. We are excited to see over 70% of package adopters chose 500Mbps services and above, reflecting the success of our strategy of enhancing upsell through speed upgrade. In view of the popularity of the promotion package, we anticipate further growth of our ARPU and market share.

Now, let's move on to the performance of our customer-centric business groups.

Consumer Business Group (CBG) – 2Q22 Financial Summary

Slide 8 presents revenue of our consumer business group, or CBG.

Consumer business group revenue in the second quarter increased by 3.3% year-over-year, reflecting our success in satisfying customer needs during the quarter.

Mobile service revenue for the consumer group grew by 5.3% year-over-year, mainly due to increases in postpaid subscriber numbers and 5G migration.

In addition, fixed-line service revenue increased by 1.9% year-over-year, attributable to digital opportunities under the new normal, including work-from-home, gaming, and video services among others. In the second quarter, we saw that Taiwan's Professional Baseball League games and the Internet Celebrity shows were especially well-received on MOD and Hami Video. Sales revenue increased by 2.1% year-over-year despite the handset supply chain disruption issues under COVID-19 and typical seasonality ahead of the new iPhone launch.

Consumer Business Group (CBG) – 2Q22 Highlights

Slide 9 further illustrates our consumer business group highlights.

In the second quarter, we continued encouraging subscribers to adopt our mobile, fixed-broadband and Wi-Fi services altogether. The well-received promotion program reported a 13.2% quarter-over-quarter growth. In particular, our Home Wi-Fi device subscription number doubled on a year-over-year basis, boosting our subscription-based revenue and popularity of home-centric applications.

In regards to our video business, we are delighted to report subscriber numbers of MOD plus Hami Video, which are paid in monthly fee on yearly basis rather than one-time sign-ups, increased by 6.6% year-over-year, mainly due to the Hami Video sign-up growth driven by drama offerings and international badminton games. In the second quarter, we also announced our investment in new local dramas and movies to expand the video business, as we plan to continue our content investment strategy to further enhance subscriber stickiness.

Heading into second half, we remain confident about video service performance, as many

popular sports events are expected to take place, particularly the FIFA World Cup coming up in the fourth quarter, for which we obtained exclusive broadcasting rights.

Enterprise Business Group (EBG) – 2Q22 Financial Summary

Please turn to slide 10 for an overview of our enterprise business group performance.

In the second quarter, enterprise business group revenue increased by 9.4% year over year mainly due to the increase in number of projects completed, particularly the large smart energy projects of solar farms and electrical enhancement. Our enterprise ICT business revenue increased by 31.7% year over year. Meanwhile, enterprise mobile service revenue continued to increase, attributable to 5G migration and increased demand for text messages as a result of COVID-19.

Digital transformation demand from enterprises and schools continued to drive up revenues from data communication and broadband access, which offset the decrease in enterprise voice revenue during the second quarter.

Enterprise Business Group (EBG) – 2Q22 Highlights

Slide 11 illustrates our enterprise business highlights.

We are pleased to report strong growth momentum of our emerging enterprise applications. In the second quarter, our total enterprise emerging application revenue increased by 43.5% year-over-year as all of our major applications demonstrated strong year-over-year growth rates above 20%.

AIoT revenue increased by 70% year-over-year in the second quarter, serving as an important growth driver, thanks to our success in smart energy, building and surveillance fields. In fact, in the consumer sector, AIoT applications are also well-received to carry out digital life and bring in revenues, particularly from smart speaker and smart health care services. We remained confident of its future development.

For IDC, cloud computing and information security businesses, we continued to see strong demand from both domestic and global clients, and we are glad to report year-over-year revenue growth of 24%, 25% and 29%, respectively.

Additionally, 5G private network revenue doubled its growth year-over-year, driven by an

increase in acquired project numbers that bring in project revenue as well as recurring revenue. We are pleased about the long-run contribution. For big data analysis revenue, we saw 125% year-over-year growth and contributed to project revenue.

During the quarter, we were pleased to announce the roll-out of our advanced, industry-leading portable 5G private network solution, which supports satellite and mobile communications, and serves as the exclusive portable solution in Taiwan, working under both non-standalone and standalone architecture.

We also integrated our 5G AIoT sensing devices, AR technology, domestic 5G O-RAN equipment and 5G private network to offer 5G AIoT smart healthcare services at the hospital in Kaohsiung, applying augmented reality technology to elderly care.

International Business Group (IBG) – 2Q22 Financial Summary

Slide 12 illustrates our international business performance.

In the second quarter, it is exciting to see our international business group revenue increased by 17.9% year-over-year, attributable to the growing demand for IDC and cloud services from global clients, particularly well-known global OTT service providers. In addition, as the COVID-19 pandemic restrictions were relaxed and cross-border activities continued to resurge, we were glad to see international roaming inbound revenue and international IoT revenue increase year-over-year.

As we look to Southeast Asian markets, we are glad to share that we signed an MOU with Thonburi Hospital in Thailand during the second quarter to develop smart hospital solutions. We introduced our technologies of cloud, AI, medical IoT and others, and expect to extend our successful 5G private network solution in the ASEAN region.

Now, I would like to turn the call to Vincent for our financial highlights.

Financial Overview

Thank you, President Kuo. Good afternoon, everyone. I will now walk you through an overview of our second quarter financial results.

Income Statement Highlights

Let's start with Slide 14, which provides highlights from our income statement.

For the second quarter of 2022, total revenues increased by 5.7% on a year-over-year basis, mainly due to more ICT project completion and higher core business revenues from mobile and broadband services. Meanwhile, operating costs and expenses increased by 5.4%, owing to an increase in manpower expenses and depreciation expenses from 5G network deployment. Income from operations increased by 6.6%, while net income increased by 8.1%. EPS increased by 0.1 to 1.25, compared to the prior year period. In addition, our EBITDA recorded a 5.5% increase year over year, while EBITDA margin remained stable in the second quarter.

Balance Sheet Highlights

Please turn to slide 15 for balance sheet highlights.

Compared to December 31, 2021, total assets increased by 13.59 billion, or 2.7% mainly owing to increased cash and cash equivalents as well as the increase in negotiable certificates of deposit to prepare for the dividend payments and the issuance of sustainable bonds.

Total liabilities increased by 30.78 billion, or 25.3%, mainly attributable to increase in dividends payable.

Debt ratio was approximately 29% and net debt over EBITDA was -0.26, suggesting our balance sheet is strong and enables us to maximize shareholder interests amid economic uncertainty.

Consolidated Cash Flow Summary

Slide 16 illustrates our cash flow summary.

Cash flows from operating activities for the first half of 2022 decreased by 0.9% year-over-year to \$27.43 billion, mainly due to income tax payments owing to an increase of net income.

In terms of capital spending, as 5G capex peaked in 2021 with accelerated 5G construction, 5G and total mobile capex for the first half of 2022 decreased year over year as expected. Moreover, free cash flows increased by 23.2% in the first half compared with the prior year period. Altogether, our strong balance sheet and operating cash flows allow us to steer through economic turbulence and support business expansion.

Operating Results vs. Forecast

On page 17, you may find a table that compares our financial results with forecasts.

As you can see, in the second quarter of 2022, all performance measures exceeded our proposed guidance. Revenue met guidance mainly attributable to higher revenues from ICT business related to smart energy and AIoT applications, as well as better performance of core businesses resulted from growing subscriber numbers and 5G migration. Operating costs and expenses were higher than our second quarter guidance due to higher project business costs. EBITDA and net income beat forecasts due to better-than-expected ICT gross margin and performance.

That concludes our financial highlights. Let me turn over back to our President, Harrison.

ESG Achievements

Thank you, Vincent.

In the second quarter, we became the first and only company among Taiwanese operators to adopt Internal Carbon Fee to help reduce carbon emissions and achieve our GHG reduction targets.

We have also invested in an ESG venture capital fund targeting clean energy, innovative projects, including cloud/AI, 5G/satellite, edge computing, application services, digital transformation and healthcare.

We also received multiple recognitions from TWSE for our corporate governance. We believe these new developments are key to our success and long-term growth, and we will continue to focus on ESG development going forward.

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

- Q&A Session -