



中華電信
Chunghwa Telecom

CHT 3Q2022 Results
November 1, 2022 at 3:00 P.M. (Taipei Time)

Thank you. This is Angela Tsai, Director of Investor Relations for Chunghwa Telecom. Welcome to our third 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 third quarter, followed by a discussion of our segment performance and the 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 third quarter results conference call. I will now provide an update on our robust performance in the third quarter.

Let's begin on slide 4 for an overview of our mobile business. In the third quarter, we see the positive development of Taiwan's mobile market as operators drove 5G migration in a steady manner, focusing on creating value for customers, which we believe is good for healthy market competition. Looking into Q4, the mobile market in Taiwan is expected to remain steady amid potential economic uncertainty.

In terms of market position, we are pleased not only to maintain our leadership in Taiwan's mobile market but also successfully to achieve year-over-year growth in terms of both revenue and subscriber share for 4 consecutive quarters. In the third quarter, we increased our revenue share to 39.4% and subscriber share to 36.5% on a year-over-year basis, respectively. Our well-positioned revenue share is larger than the subscriber share, suggesting that our customer-centric business strategy is proven successful. We are confident that we can maintain our leadership position going forward.

Business Overview – Mobile Service

Please turn to slide 5 for a closer look at our mobile business.

In the third quarter, our total mobile service revenue increased by 4.2% year-over-year, attributable to the outperforming subscriber number increase and the upsell resulting from 5G migration. Mobile subscriber numbers, excluding IoT SIMs, increased by 2.6% year-over-year, partly due to the increases of both post-paid and pre-paid SIMs. In particular, our pre-paid numbers grew significantly, reflecting our success in enhancing sales in the segment of foreign workers. In addition, our churn rate continued to remain the lowest among our peers.

Our postpaid ARPU reached 1.8% year-over-year growth in the third quarter, maintaining its upward trajectory for 6 consecutive quarters. Meanwhile, we observed an average 32% uplift in mobile monthly fees, attributable to consumer migration from 4G to 5G.

With our most extensive network deployment and solid fundamentals, we are confident in our ability to maintain leadership in Taiwan's mobile market in the face of more tense competition resulting from industry consolidation.

Business Overview – Fixed Broadband Service

Moving on to slide 6, you may find an update of our fixed broadband business.

In the third quarter, our fixed broadband business continued its upward trend for 12 consecutive quarters in terms of ARPU growth. As total subscriber numbers increased by 0.5% year-over-year, we are excited to see the speed upgrade adoption increase at a faster pace, thanks to our effective promotion package, 速在必行. In the third quarter, 75% of 速在必行 adopters upgraded their service speeds. In addition, more than 60% of the adopters signed up for service speeds of 500Mbps or higher, paired with upstream speeds above 250Mbps, which distinguishes us from our peers. Meanwhile, the accumulated sign-ups for service speeds of 300Mbps or higher increased by 43.7% year over year in the quarter, mainly attributable to those who migrated their services from service speeds of 100Mbps or below.

In terms of financial performance, our fixed broadband revenue and ARPU year-over-year growth in the third quarter indicating increases of 3.3% and 2.4%, respectively.

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

Consumer Business Group (CBG) – 3Q22 Financial Summary

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

As each business line of CBG delivered positive results in the third quarter, total revenue of CBG increased by 3.8% year-over-year.

Mobile service revenue of CBG grew by 5.4% year-over-year, mainly due to the increases of postpaid subscriber number and 5G migration. Fixed-line service revenue remained flat year-over-year, while we are delighted to see successful upsell propelled by the 速在必行 promotion package. However, fixed voice revenue continued to decrease even though the decline has decelerated.

In addition, sales revenue of CBG increased by 5.4% year-over-year in the third quarter, mainly due to earlier launch of iPhone series in September with better sales of iPhone 14 high-end models.

Consumer Business Group (CBG) – 3Q22 Highlights

Slide 9 further illustrates our consumer business group highlights.

As we continued our efforts in promoting a multiple-play package to enhance CBG's overall performance, in the third quarter, the number of subscribers signing up for our mobile, fixed-broadband and Wi-Fi services altogether demonstrated a 33.8% quarter-over-quarter growth. In particular, our Home Wi-Fi device subscription increased by 75.3% year-over-year, contributing to subscription-based revenue and paving the way for our home-centric applications.

In the third quarter, our investment in original streaming content helped us successfully maintain our status as the largest video platform in Taiwan. Attracted by the exclusive dramas we invested, our subscriber numbers for video services, including MOD and Hami Video, charging monthly-fees instead of one-time sign-ups, achieved 7.4% year-over-year growth, exceeding 2.7 million.

As the FIFA World Cup is coming up in the fourth quarter, we are ready to bring our customers the most exciting experiences. We obtain the exclusive rights to broadcast 64 World Cup games, and will combine 5G and AR technology to deliver super attraction, which we believe will significantly boost our video service sign-ups in the fourth quarter.

Enterprise Business Group (EBG) – 3Q22 Financial Summary

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

In the third quarter, EBG maintained its growth trajectory by demonstrating 5.1% revenue increase on a year-over-year basis, mainly attributable to the robust growth of our ICT business. Enterprise ICT business revenue increased by 10.4% year over year mainly due to our emerging growth engines, particularly IDC, cyber security, and cloud services. Other revenue of EBG also increased due to the grants of 5G government subsidies and the launch of iPhone 14.

Additionally, although digital transformation demand continued to drive up data communication and broadband access revenues, especially demand for speed upgrades from schools, our fixed-line revenue in the third quarter decreased slightly year over year.

Enterprise Business Group (EBG) – 3Q22 Highlights

Slide 11 illustrates our enterprise business highlights.

In the third quarter, our total enterprise emerging application revenue increased by 16.1% year-over-year as most of our major applications demonstrated strong performance by exceeding 20% year-over-year growth.

5G private networks revenue delivered multiple-fold growth mainly due to the increased accumulated projects that bring in recurring revenues.

For big data analysis, cloud and IDC services, we are delighted to see year-over-year revenue growth of 73.3%, 26.4% and 26%, respectively, owing to the completion of some government related projects, while cyber security revenue reached 28.4% growth.

International Business Group (IBG) – 3Q22 Financial Summary

Slide 12 illustrates our international business performance.

In the third quarter, our international business group revenue continued to increase by 22.6% year-over-year, maintaining its growth momentum, attributable to the rising demand for IDC and cloud services from global clients. In addition, other revenue increased as well mainly due to the contribution from subsidiaries in Vietnam and Thailand.

In September, our 5G private network project in Thailand announced its launch of operations, proving our success in introducing smart manufacturing services abroad. We plan to replicate this successful model and continue to cultivate the ASEAN market.

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 our third quarter financial results.

Income Statement Highlights

Let's start with Slide 14, income statement highlights.

For the third quarter of 2022, total revenues grew by 5.2% on a year-over-year basis, mainly due to increased ICT project completion and higher revenues from core businesses, such as mobile services and broadband access. Meanwhile, operating costs and expenses increased by 4.7%, owing to higher manpower expenses and depreciation expenses from 5G network deployment. Income from operations increased by 6.7%. Net income and EPS remained stable compared to the prior year period. Additionally, our EBITDA recorded a 5% YOY increase and EBITDA margin remained stable in the third quarter.

Balance Sheet Highlights

Now move on to page 15 for balance sheet highlights.

Compared to December 31, 2021, total assets decreased by 1.9% mainly owing to decreased cash and cash equivalents for dividends payment and the acquisition of property, plant and equipment.

Total liabilities is lowered by 1.9%, primarily attributed to payment of accounts payable for equipment and suppliers, which offset the increase of bonds payable.

We continue to maintain a healthy balance sheet as our debt ratio stays at about 24% level and net debt over EBITDA is zero.

Consolidated Cash Flow Summary

Page 16 presents the summary of our cash flows.

Cash flows from operating activities decreased by 1.6% on year, mainly due to the settlement of accounts payable.

As for capital expenditure, mobile-related capex including 5G decreased year-over-year as 5G capital spending reached peak in 2021. Additionally, free cash flows increased by 8.3%, compared to same period last year. Taken together, our healthy balance sheet and strong cash flows enable us to manage economic uncertainty and support business developments through challenging times.

Operating Results vs. Forecast

On slide 17, we provide a table that compares our financial results with our financial guidance.

In the third quarter of 2022, all performance measures with respect to revenue and profitability exceeded our financial forecasts. Revenue beat guidance mainly attributable to better-than-expected performance of core businesses as a result of growing subscriber numbers, 5G migration, and broadband business. Operating costs and expenses were higher than our third-quarter guidance due to higher costs of goods sold from smart devices and depreciation expenses. EBITDA and net income top our forecasts due to the steady growth of core businesses and improved profitability of emerging businesses.

That concludes the overview of our Q3 financial results. Let me turn the call over to our President, Harrison.

ESG Achievements

Thank you, Vincent.

The next page demonstrates our ESG efforts. In the third quarter, we announced to participate in the global RE100 initiative to demonstrate our resolution to transition to 100% renewable power by 2040. In addition, we secured the single largest corporate power purchase agreement in Taiwan this year, which allows us to realize the use of 100% renewable electricity for our IDCs in 2030. Additionally, we worked with world famous Taiwanese badminton player, Tai Tzu-Ying, to initiate tree planting project, aiming to plant 15,000 trees in next 3 years.

Chunghwa's ongoing ESG efforts have been recognized globally, receiving multiple awards from international institutions and organizations.

Going forward, we will continue to develop our ESG practices to satisfy the UN Sustainable Development Goals and to promote the greater good for our local and global communities. Thank you for your attention and support. At this time, I would like to open up our conference call for questions.

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

- Q&A Session -