



中華電信
Chunghwa Telecom

CHT 2Q2013 Results August 14, 2013 at 5:00 P.M. (Taipei Time)

Fufu: Thank you. This is Fufu Shen, Investor Relations Director of Chunghwa Telecom. Welcome to our second quarter 2013 results conference call. Joining me on the call today are Dr. Lee, Chairman, Mr. Shih, President and Dr. Yeh, CFO.

During today's call, management will first discuss business, operational and financial highlights then followed by Q&A.

Before I turn it over to today's speakers, I would like to remind you that a number of forward-looking statements will be made during this conference call. Forward-looking statements are any statements that are not historical facts. These forward-looking statements are based on the current expectations of Chunghwa and there can be no assurance that such expectations will prove to be correct. Because forward-looking statements involve risks and uncertainties, Chunghwa's actual results could differ materially from these statements.

This presentation is being made on August 14, 2013. The content of this presentation contains time-sensitive information that is accurate only as of the time hereof. If any portion of this presentation is rebroadcast, retransmitted, or redistributed at a later date, Chunghwa will not be reviewing or updating the material that is contained therein.

Before we continue, please note our safe harbor statement on **slide 2**. Now I would like to turn the call over to Chairman Lee.

Dr. Lu, Chairman and CEO: Thank you, Fufu. Hello, everyone. This is Yen-Sung Lee. Thank you all for joining our second quarter 2013 earnings results conference call. Before Mr. Shih leads you through the business overview, I would like to update you regarding the progress of our business operation.

Chunghwa Telecom Overview

Moving onto slide 3, for our second quarter operating results, we are proud to say that we continued to outperform our competitors in attracting more mobile internet subscribers. By the end of June, our mobile internet subscriber market share reached 33.5%, which was the highest in the market. We will continue to support this growth momentum and market leadership in the future.

Since our broadband household penetration rate is already high, we continue to focus on customer retention and migration to higher speed services. We are also focusing on gaining more customers by promoting convergence plans combining fiber with WiFi, Hami+ cloud and other value-added services.

Now, President Shih would like to lead you through our business overview.

Business Overview

Number One Mobile Services Provider

Thank you, Chairman Lee. Please refer to slide 5 for our mobile business.

By the end of the second quarter, mobile internet subscribers amounted to 3.17 million, representing strong growth of 59% year over year. Our mobile data revenue growth rate was 35% year over year, the highest among the mobile operators.

We believe that this success was mainly due to our aggressive promotion plans, which not only attracted mid-to-low tier smartphone users but also helped encourage 2G subscribers to upgrade to the 3G network through our attractive data plans.

Smartphone-Value Driver for Mobile

On slide 6.

The successful promotion targeting mid-to-low tier smartphone users helped lift our smartphone penetration to 47%. Smartphone sales as a percentage of total handsets sold increased to 86% in the second quarter. Furthermore, among all the smartphone models we sold during the quarter, mid-to-low tier models accounted for 52%, comparing with only 44% in the first quarter. We will continue this effort to enlarge our mobile internet subscriber base.

Fixed Broadband Internet Services

Slide 7 shows the results for our broadband business.

During the quarter, we continued to see a steady migration of subscribers to higher speed fiber services. We experienced over 50% year-over-year growth in the number of subscribers opting for connection speeds of 60Mbps and higher, reaching more than 1.02 million by the end of the second quarter.

Overall, even though total broadband subscriber numbers remained flat for the past several quarters, we continued to encourage our subscribers to migrate to higher speed fiber offerings by offering attractive promotional plans that combine our fiber solution with WiFi, Hami+ cloud and other value-added services. Additionally, we are targeting SMEs and machine-to-machine applications to stimulate further broadband usage.

MOD/IPTV Service

On Slide 8.

Our IPTV revenue increased by over 26% year over year and our advertising revenue doubled in the second quarter of 2013. We expect the advertising revenue will continue to grow throughout the remainder of the year. In addition, household using TV rate continue to increase in the last two quarters which demonstrates our success to cultivate customer stickiness.

To further stimulate the subscriber growth, we will continue offering convergence plans to cross-sell our MOD and other broadband services.

ICT and Cloud Computing Initiatives

On slide 9.

We continue to leverage core telecom infrastructure and services to expand our ICT and cloud businesses.

In the first half of this year, our cloud business revenue tripled year on year and Personal Cloud subscribers reached to 920,000.

Regulatory Update

Slide 11 provides an update on the regulatory front.

The NCC announced seven qualified bidders yesterday. We are one of the qualifiers and are well-prepared for the bidding process, which will commence in September.

In addition, regarding the Telecom Act, the Executive Yuan returned the amendment proposal to the NCC again on July 16 and decided that the NCC to submit the Digital Convergence Regulation draft in February 2014 instead.

Now, I would like to hand it over to Dr. Yeh to go through our financial results

Financial Overview

Thank you, President Shih and good day everyone. Thanks for joining us today. I will review our financial results in detail, beginning with **slide 13**.

Income Statement Highlights

On slide 13 are our income statement highlights.

Total revenues for the second quarter grew by 2.6%, and operating costs and expenses increased by 8.7% year over year. Our income from operations and net income decreased by 5.6% and 7.0%, respectively. If factoring out the one-time bad debt reversal and non-cash impairment loss on real estate in 2012 as well as the lower construction revenue from the development subsidiary, our income from operations would be flat year over year. In addition, the EBITDA margin decreased from 39.47% to 36.99% in the second quarter as compared to the same period in 2012.

Business Segment Revenues

Please refer to slide 14 for our business segment revenue.

Our total revenue increase was driven by 35.1% year over year growth in mobile VAS revenue and 16.1% growth in handset sales. This strong growth was mainly driven by an increase in mobile internet subscribers.

Local voice service revenue decreased by 8.0% mainly due to mobile and VoIP substitution. The 4.1% revenue decline in the DLD business was primarily due to mobile substitution. Broadband revenue decreased by 1.8%, mainly attributable to the NCC tariff reduction for both ADSL and fiber service tariffs. The ADSL revenue decline offset the fiber revenue growth.

Mobile voice revenue decreased 5.7% due to promotional packages and mandatory tariff reductions.

Costs and Expenses

Moving on to Slide 15, you can see that our operating costs and expenses increased 8.7% year over year.

The increase in operating costs was mainly due to the rising cost of handsets sold, resulting from strong mobile internet and handset sales growth during the quarter. Operating expenses increased primarily because of a bad debt reversal of NT\$1.5 billion last year.

Cash Flow & EBITDA Margin

As shown on slide 16, cash flow from operating activities increased to NT\$19.4 billion during the second quarter. This was mainly due to the delay of bill collection from the first quarter to the second quarter associated with the holiday season.

We maintained a strong cash position with cash and cash equivalents amounting to NT\$59 billion as of June 30, 2013.

The EBITDA margin decrease was primarily due to tariff cuts and higher handset sales, for which the EBITDA margin is lower than our traditional telecom services.

Forecast & Operating Results

Slide 17 shows our 2013 second quarter result as compare to our guidance for the quarter. We achieved relatively higher revenue, operating income, net income and EBITDA as compared to our second quarter guidance, which was mainly attributable to higher handset sales and mobile VAS revenues. However, EBITDA margin was lower than expected due to the lower margins for handsets. Currently, we expect our full year operating result to remain in line with our earlier guidance.

Effective and Efficient Capital Expenditure

Lastly, on slide 18.

Our capital expenditure will continue to focus on broadband and mobile network construction, and cloud deployment including cloud data center construction. We will review our capex budget and execution plan on a regular basis, focusing on making the most cost-effective spending decisions possible.

Thank you for your attention and now we would like to open up for questions

- Q&A Session -