



中華電信
Chunghwa Telecom

CHT 4Q2013 Results January 29, 2014 at 4:00 P.M. (Taipei Time)

Fufu: Thank you. This is Fufu Shen, the Director of Investor Relations for Chunghwa Telecom. Welcome to our fourth quarter 2013 earnings results conference call. Joining me on the call today are Dr. Tsai, Chunghwa's newly appointed Chairman, Mr. Shih, President and Dr. Yeh, CFO.

During today's call, management will first discuss business, operational and financial highlights then we will move on to the Q&A session.

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 January 29, 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 Tsai.

On slide 2, please note our safe harbor statement. Now I would like to turn the call over to Chairman Lee.

Dr. Tsai, Chairman and CEO:

Thank you, Fufu. Hello, everyone. This is Rick Tsai. Thank you all for joining our fourth quarter 2013 earnings results conference call. Before Mr. Shih leads you through the business overview, I would like to thank the company, its board of directors and investors for their confidence and support in selecting me to serve Chunghwa Telecom as its Chairman. It is truly an honor to have the opportunity to work at Taiwan's leading telecommunications company during this exciting time in the telecom industry. I look forward to serving as Chairman for Chunghwa Telecom as the company helps to usher in a new era of telecommunications capabilities in Taiwan and globally.

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

Business Overview

Thank you, Chairman Tsai.

We are glad to report to you that we ended 2013 on a high note, with strong operational results. We outperformed our competitors in growing our mobile business and successfully upgraded customers to higher speed fiber broadband services across our network.

Heading into 2014, our focus is on the seamless rollout of 4G services in the second half of the year, for which, we have already procured the first batch of 4G equipment in December. Not only do we aim to be the first 4G operator, but we are also determined to provide the highest quality service available.

In terms of our broadband service, since our broadband household penetration rate is already very high, we continued to focus on customer retention and migration to higher speed services. In addition, we recently announced a convergence plan combining broadband with MOD family packages. We believe this initiative will further stimulate fiber migration and MOD subscription growth. In addition, we will be launching even higher speed services such as 300Mbps in order to maintain our technological lead and market leading position.

Chunghwa Telecom Overview

Moving onto slide 4, regarding our fourth quarter operating results, we are proud to say that we continued to outperform our competitors in attracting mobile internet subscribers. At the end of 2013, our mobile internet subscriber market share reached 34.8%, which, once again, was the highest among our peers. We will continue to support this growth momentum and market leadership by further strengthening our cutting-edge and robust infrastructure to support the ever-increasing growth in mobile data usage.

Number One Mobile Services Provider

Slide 5 provides an update on our mobile business.

During the fourth quarter, mobile internet subscribers grew by over 58.8% year-over-year to 3.94 million. Our mobile data revenue grew significantly by 39.4% year over year, the highest growth rate amongst the Taiwanese telecom operators.

We believe that this success is mainly due to our aggressive promotion plans, which not only attracted many new mid-to-low tier smartphone users but also helped encourage existing 2G subscribers to upgrade to our 3G network through attractive data plans. In 2013, we successfully upgraded almost 740 thousand subscribers to the 3G network, 40% of who subscribed to additional data plans upon the migration. We will continue to encourage migration and expect 1.2 million 2G subscribers to upgrade to 3G in 2014.

Smartphone-Value Driver for Mobile

Moving on to slide 6.

Our successful promotional initiatives targeting mid-to-low tier smartphone users helped boost our smartphone penetration rate to 53% at the end of 2013. In addition, we were able to increase total mobile internet subscribers to 3.94 million. In 2014, we expect to add 1.1 million more mobile internet subscribers further boosting revenues and increasing data usage.

Another exciting development we initiated in late November 2013 was a cooperation agreement with LINE, the developer of an increasingly popular communication app for smartphones. Under this cooperation, by late 2014, all mPro subscribers will be able to enjoy free mobile internet service for

LINE usage. We expect this cooperation will strengthen customer stickiness and attract voice-only subscribers to subscribe to mPro packages.

ARPU for the fourth quarter decreased QoQ mainly due to the seasonality of our business. Typically, we launch our promotional plans in the third quarter and we continue to offer those plans through the fourth quarter. During the last quarter, the Big Saving plan was very successful with regards to attracting new subscribers, but also caused some temporary downward pressure on ARPU

Fixed Broadband Internet Services

Slide 7 shows the results for our broadband business.

During the last quarter, we continued to see a steady migration of subscribers to higher speed fiber services. We witnessed over 25.5% year-over-year growth in subscribers opting for connection speeds of 60Mbps and higher, reaching about 1.14 million by the end of 2013.

We will continue to encourage our subscribers to migrate to higher speed fiber offerings. As mentioned previously, we announced a fiber convergence plan combining broadband with MOD family packages. We believe this initiative will stimulate both fiber migration and MOD subscription. We are also targeting SMEs and machine-to-machine applications to stimulate further broadband usage.

MOD/IPTV Service

Moving on to slide 8.

Our IPTV revenue in 2013 increased by 15.0% year over year. During the same period, our advertising revenue grew by 37.0%, a trend we expect to continue in the future. In addition, the household TV usage rate continued to increase over the past quarters, demonstrating our success in boosting customer stickiness on our platform.

Once again, our fiber convergence plan mentioned previously is expected to also boost IPTV subscriptions, as it will allow broadband users to subscribe to IPTV services under the converge plans.

ICT and Cloud Computing Initiatives

Please see slide 9 for an update on our ICT and cloud initiatives.

In 2013, our cloud business revenues tripled year over year. In the fourth quarter of 2013, we continued winning ICT projects, including but not limited to: a monitoring and recording system project for the Taipei police department, a core system project for an insurance company, and thin client and storage service project for a construction company. We will continue to leverage our core telecom infrastructure and services to expand our ICT and cloud business.

Regulatory Update

Slide 11 provides an update on the regulatory front.

Regarding the telecom Act amendment, the Executive Yuan asked the NCC to submit the Digital Convergence Regulation draft in February 2014. On January 14, 2014, the NCC held a meeting

collecting opinions on critical issues of the draft. However, it is widely believed that the timing for the NCC to submit the draft could be delayed. We will keep monitoring the progress closely.

Now, before I hand it over to Dr. Yeh to go through our financial results, I would like to personally thank Dr. Yeh for his years of service to Chunghwa, helping our company to navigate this increasingly competitive and complicated telecommunications environment. We all wish you great success in your future endeavors. Thank you.

Financial Overview

Thank you for the kind words President Shih and good day everyone. I appreciate the opportunity to help serve Chunghwa through this amazing time and am very thankful and fortunate to have worked with so many talented executives and investors over the years. Thank you for all your contributions.

Moving on to the financials, I will review our financial results in detail, beginning on slide 13.

Income Statement Highlights

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Business Segment Revenues

Please refer to slide 14 for an update on our business segment revenue.

The total revenue increase in the fourth quarter of 2013 was driven by a 39.4% year over year growth in mobile VAS revenue, a 21.9% growth in handset sales including Senao's open channel sales, and an increase in ICT revenue. The strong growth of mobile VAS revenue was mainly driven by an increase in mobile internet subscribers.

Local voice and DLD revenue decreased by 6.1% and 4.8% respectively, mainly due to mobile and VoIP substitution. Broadband revenue was flat year over year.

Mobile voice revenue decreased by 8.4% due to tariff reduction, VoIP substitution and promotional packages.

Costs and Expenses

Moving on to Slide 15, you can see that our operating costs and expenses increased by 6.1% year over year.

The increase in operating costs was mainly due to the rising cost of handsets sold resulting from higher handset sales, an increase in personnel expenses for Senao's channel expansion and higher ICT project costs.

Cash Flow & EBITDA Margin

As shown on slide 16, cash flow from operating activities increased to 30 billion NT dollars during the fourth quarter. This was mainly due to the procurement of land by our property development subsidiary in 2012 for construction and decreased mobile handset procurement costs compared to the same period of 2012.

Cash and cash equivalents at end of the period decreased mainly due to the one-time 39.1 billion NT dollar cost of acquiring the Mobile Broadband Business License. As of December 31, 2013, we had 14.6 billion NT dollars of cash and cash equivalents.

The decrease in EBITDA margin was primarily due to tariff cuts and higher handset sales, which have a lower EBITDA margin than traditional telecom services.

Forecast & Operating Results

Slide 17 shows our 2014 consolidated guidance.

Looking ahead at 2014, we will continue our strategic focus on the build-out and expansion of fiber and mobile broadband networks in order to provide quality services to customers, and remain ahead of the competition as Taiwan's leading telecom operator.

Total revenue for 2014 is expected to be flat at 228.2 billion NT dollars. Expected increases in revenue due to on-going promotions for mobile internet and growth in handset sales as well as ICT projects will likely be offset by expected the voice revenue decline and tariff reductions. We expect Broadband revenue to be flat year-over-year due to market saturation and cable competition.

Operating costs and expenses for 2014 are expected to increase by NT\$4.21 billion to NT\$184.70 billion. Costs of handset sold are expected to increase along with the promotion of mobile internet packages and customers' migration to 3G. Increase in CAPEX for the Company's fixed and mobile broadband businesses is expected to result in higher depreciation and maintenance expenses. The 4G license acquisition will also increase amortization expenses.

Overall, income from operations, EBITDA, net income and EPS are expected to decrease as compared to 2013.

Effective and Efficient Capital Expenditure

Lastly, on slide 18.

As stated in our guidance, we increased our capital expenditure for 2014 with a focus on 4G network deployment, fixed and mobile broadband construction, and cloud deployment which includes data center construction. We will review our capex budget and execution plan on a regular basis, and focus 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 -