



中華電信
Chunghwa Telecom

CHT 3Q2015 Results October 29, 2015 at 4:00 P.M. (Taipei Time)

Thank you. This is Fufu Shen, the Director of Investor Relations for Chunghwa Telecom. Welcome to our third quarter 2015 earnings results conference call. Joining me on the call today are Mr. Shih, President and Mr. Chen, 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.

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

Chunghwa Telecom Overview

Thank you, Fufu. Hello everyone, this is Mu-Piao Shih. Thank you for joining our third quarter 2015 conference call.

We reported robust operational results for the third quarter, with total revenues, operating income, pretax income, net income and EPS all increasing year over year and outperforming our guidance.

Along with our continuous successful promotions, we have accumulated 3.56 million 4G subscribers by the end of September and expect to have more than 4.2mn 4G subscribers by the end of 2015.

As you know, the iPhone 6s came out on October 9th in Taiwan. Though the launch of the iPhone 6s may help boost 4G service subscriptions, related expenses will also increase and bring down our margin in the fourth quarter. Taking into account our strong first three quarters performance, we expect our full-year results will exceed the guidance despite the seasonally soft 4Q expectations.

The 2.6G spectrum auction is expected to begin in November. We are studying and evaluating strictly the technology and investment efficiency for both FDD and TDD spectrum bands, hoping to

acquire the band which most benefits our operation. We plan to utilize the 2.6G spectrum band to help offload the heavy traffic in metropolitan areas in the second quarter of 2016 at the earliest.

Number One Mobile Services Provider

Slide 5 provides an update on our mobile business.

During the third quarter, mobile VAS revenue grew by 12.1% year over year, mainly driven by the 17.4% increase in mobile Internet revenue.

For mobile operations, we are focusing on 4G service promotions and mobile internet subscriber expansion by further targeting mid-to-low end customers.

We continue leveraging our high-speed 4G network to increase the adoption of our value-added services and new applications by bundling Hami services such as mobile TV, audio and video streaming in many of our promotional plans.

We began offering promotional plans that bundle value-added services in April and the take-up as a percentage of total subscriptions continues to increase. In October, we saw the percentage exceed 25%. We are pleased with this development and expect that figure to further climb in the future.

Fixed Broadband and Internet Services

Slide 6 shows the results for our broadband business.

During the third quarter, we continued to see a steady migration of subscribers to higher-speed fiber services. We witnessed 36% year-over-year growth in subscribers opting for connection speeds of 100Mbps or higher, reaching over 1 million by the third quarter of 2015.

We continued facing competition from cable players in the third quarter. We are leveraging our big data analysis capabilities for precision marketing and precision construction. We also are closely following the broadband network construction and service availability in selected communities via an in-house platform. With these initiatives, we expect to more efficiently promote our services and deploy the network.

MOD/IPTV Service

Moving on to slide 7.

Our IPTV customers continued to sign up for additional packages and SVOD programs while household TV usage rates continue to steadily climb. We are glad to see this healthy business development.

With this solid customer base which is expected to steadily expand, we began adjusting our cooperation schemes with channel providers. The new schemes bring down our operating expenses; however, they also impact our revenues at the same time. We expect this structural shift to enhance our IPTV margins in the mid-to-long term.

ICT and Cloud Computing Initiatives

Please see slide 8 for an update on our ICT and cloud initiatives.

We will continue leveraging our competitive advantages with regards to network infrastructure, IDC, CDN etc. to offer customized and comprehensive ICT solutions to enterprise customers.

Now, I would like to hand it over to Mr. Chen to go through our financial results.

Financial Overview

Thank you President Shih. Now I will review our financial results in detail, beginning on slide 10.

Income Statement Highlights

Slide 10 contains our income statement highlights.

For the third quarter of 2015, total revenues increased by 0.1% and operating costs and expenses decreased by 6.4% year over year. Our income from operations increased by 25.7% and our net income increased by 21.3%. In addition, our EBITDA margin increased to 39.7% in the third quarter, from 35.2% the same period in 2014.

Business Segment Revenues

Please refer to slide 11 for an update on our business segment revenue.

The increase in total revenues was driven by the growth in mobile value-added service revenue and ICT project revenue, which offset the decrease in fixed and mobile voice revenue

Costs and Expenses

Moving on to slide 12, our third quarter 2015 operating costs and expenses decreased by 6.4% year over year, mainly due to the lower costs of goods sold and the decrease in interconnection and depreciation expenses.

Cash Flow & EBITDA Margin

On slide 13, in the third quarter of 2015, cash inflow from operating activities decreased by NT\$1.07 billion, or 5.8 % compared to the same period of 2014.

As of September 30, 2015, we had NT\$20.59 billion of cash and cash equivalents.

The increase in EBITDA margin was primarily due to the total revenue growth and the decrease of interconnection expenses in the third quarter of 2015.

Operating Results vs. Forecast

Slide 14 shows our 2015 third quarter operating results as compared to our guidance.

We reported robust operating results in the third quarter of 2015, resulting from the decrease in total operating costs and expenses, and the year-over-year increases in operating income, pretax income, net income and EPS, which all outperformed our guidance. The lower operating costs and expenses were mainly due to the lower-than-expected costs of goods sold, interconnection expenses and depreciation expenses.

We expect our full-year results will exceed our guidance by taking into account our strong first three quarters of performance and seasonally soft 4Q expectations.

Effective and Efficient Capital Expenditure

Lastly, on slide 15.

Though we will continue to construct our 4G and fiber network, we expect the full year capex for 2015 to be less than the budgeted amount of NT\$30.7 billion. We will continue monetizing our existing installed equipment and building infrastructure for new services such as 300Mbps broadband, based on the potential demand and effectiveness of the service. Furthermore, the mobile network will be constructed according to the existing equipment utilization status and business growth potential to enhance capital efficiency.

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

- Q&A Session -