



CHT 3Q2017 Results

October 27, 2017 at 3:00 P.M. (Taipei Time)

Thank you. This is Fufu Shen, the Director of Investor Relations for Chunghwa Telecom. Welcome to our third quarter 2017 results conference call. Joining me on the call today are Mr. Sheih, our President, and Mr. Kuo, our Chief Financial Officer, previously our Chief Investment Officer.

During today's call, management will begin by providing an overview of our business during the quarter followed by a discussion of operational and financial highlights, and then we will move on to the Q&A session.

Now, I would like to hand the call over to President Sheih, and please note our safe harbor statement on slide 2. President Sheih, please go ahead.

Chunghwa Telecom Overview

Thank you, Fufu and hello everyone. Welcome to our third quarter 2017 earnings conference call.

For the third quarter of 2017, we continued to retain our market leading position in mobile subscribers and mobile revenue, and we're pleased to achieve a slightly higher mobile revenue share. We also managed to have the lowest churn rate despite certain challenges during this quarter.

To enhance our mobile margin and customer profile, we continued to re-allocate resources to guide mobile subscriptions toward high-end plans in the third quarter, which proved to be successful. Looking ahead, we plan to further strengthen our subsidy efficiency by allocating more resources to high-end bundled plans, which will reinforce our user stickiness and drive user acquisition for high-end plans.

In addition, we have further solidified our broadband customer base, and we have achieved positive broadband customer growth in the past two consecutive quarters. Meanwhile, the number of MOD subscribers also grew significantly during this quarter. As part of our ongoing efforts to develop and expand our business, we continued to rationalize our revenue sharing arrangements with the channel providers and introduced OTT services and 4K content to further improve the user experience. Going forward, we will also utilize our IDC and CDN advantages to offer upgraded broadband service to attract more high-end users, drive higher speed service adoption and strengthen our broadband revenue.

Number One Mobile Services Provider

Now I will walk you through each of our business lines. On slide 5, I would like to update you on our mobile business.

As of September 2017, our total number of 4G subscribers has exceeded 7.8 million. Mobile internet adopters continued to grow, reaching 81.7% of total post-paid subscription, which consequently drove up our mobile internet revenue by 6.0% year over year.

Moreover, since we strengthened subsidies and incentives to certain high-end handset models rolled out in the third quarter, our users signed up for plan NT\$1399 and above increased significantly. It proved that our subsidy efficiency has improved when considering the cost of handset subsidies versus the revenues brought in during a customer's entire contract period. We will continue this effective strategy to enhance our mobile segment margin in the future.

Fixed Broadband and Internet Services

Slide 6 shows the performance of our broadband business.

For the third quarter of 2017, broadband subscriber loss was mitigated, and we now see steady growth in the number of subscribers. Although the number of our broadband subscribers slightly declined year over year, we are encouraged to see a quarter-over-quarter increase. In addition, we were pleased to see continued migration of our broadband subscribers to higher-speed fiber services. The number of users signing up for connection speeds of 100Mbps or higher grew by 10.3% year over year to 1.26 million in the third quarter. We are pleased with the results we are seeing so far.

Going forward, we will continue to strengthen our products by rolling out broadband, WiFi, MOD/OTT and even information security bundled services to increase revenue. We believe we are taking the right steps to continue to upsell our broadband services and encourage customers to migrate to higher speed services. Meanwhile, we will further improve both user experience and user stickiness on our network.

MOD/IPTV Service

Moving onto slide 7.

We are glad to report that our IPTV subscriber net-add in 3Q increased significantly QoQ, reaching 1.45 million as of the end of September, and the trend continues. Our IPTV revenue has maintained its growth trajectory since the third quarter last year with a 4.5% year-over-year increase in the third quarter of 2017, primarily driven by the healthy growth of IPTV and SVOD subscribers. We are pleased to see that our IPTV customers continued to sign up for additional SVOD programs during the quarter.

To further boost our IPTV business and enhance user experience, we started to carry OTT services, including Fox + and KKTV, on the platform this quarter. We also broadcasted the popular Taipei 2017 Summer Universiade in 4K this August.

With the increase of household subscriptions, we continue to enrich content and upsell our services. Going forward, the quality and diversification of our IPTV content offerings will continue to be a priority in order to further strengthen user acquisition and user stickiness. We will also offer upsell packages and channels to increase customers' contribution to our total revenues.

ICT and Cloud Computing Initiatives

Please turn to slide 8 for an update on our ICT initiatives.

By utilizing our cloud, big data, information security and AI capabilities, we rolled out an IoT platform last year, which develops green energy, smart building, video surveillance, and intelligent transportation solutions for our enterprise customers to facilitate their business developments. We are proud to see the role that our IoT platform is playing in transforming major cities in Taiwan into smart cities. We believe the platform has showcased great potential in attracting enterprise customers and facilitating the further adoption of our IoT applications.

We also leveraged our own data and resources to develop various “smart” applications, which will enable us to monetize our telecom data and accelerate the development of IoT-related applications.

Going forward, as we continue to sharpen our competitive edges in network infrastructure, IDC, and CDN, we remain committed to offering reliable, customized and complete ICT solutions, developing new opportunities in our innovative business lines, and establishing a comprehensive ecosystem in this sector.

Now, I would like to hand the call over to Mr. Kuo, our CFO.

Financial Overview

Thank you President Sheih. Now I will go through our financial results in details, beginning on slide 10.

Income Statement Highlights

Slide 10 provides you with highlights from our income statement.

For the third quarter of 2017, total revenues decreased by 3.6% and operating costs and expenses decreased by 6.4% year over year. Our income from operations increased by 8.0% and our net income increased by 6.0% year over year. In addition, our EBITDA margin increased to 35.84% in the third quarter from 33.47% in the same period of 2016.

Business Segment Revenues

Please refer to slide 11 for revenue breakdown by business segments.

The decline in total revenue for the third quarter of 2017 was driven by decreases in voice revenue and ICT project revenue, which was partially offset by increases in mobile VAS revenue and Internet revenue.

Costs and Expenses

Moving on to slide 12, our operating costs and expenses decreased by NT\$3.03 billion, or 6.4%, year over year in the third quarter due to the lower cost of goods sold, interconnection expenses, and ICT project costs.

Cash Flow & EBITDA Margin

On slide 13, cash flow from operating activities for the third quarter of 2017 increased by NT\$5.94 billion, or 44.44%, compared to the same period of 2016, mainly due to the lower receivables.

As of September 30, 2017, we had NT\$25.48 billion of cash and cash equivalents.

Operating Results vs. Forecast

Slide 14 shows our operating results as compared to our guidance.

In the third quarter of 2017, our revenues were slightly lower than our expectation. However, our operating income, net income and EPS all outperformed our third quarter guidance. With the injection of ICT project revenue in 4Q, we still expect the 2017 consolidated revenue might be slightly lower than the guidance.

Effective and Efficient Capital Expenditure

Lastly, slide 15.

We are budgeting capex of NT\$30.3 billion for 2017, and the actual spending is expected to be close to the budget. We will focus on investment in our core businesses, including FTTx, 4G, IDC and service platform among others under our precision construction principle.

Thank you for your time. Now, we would like to open the line for questions.

- Q&A Session -