



CHT 3Q2018 Results

October 31, 2018 at 3:00 P.M. (Taipei Time)

Thank you. This is Fufu Shen, the Assistant Vice President for Chunghwa Telecom. Welcome to our third quarter 2018 results conference call. Joining me on the call today are Mr. Sheih, our President, and Mr. Kuo, our Chief Financial 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 2018 earnings call. During the third quarter of 2018, the overall market remained competitive, but we are delighted to see a successful solidification of our customer base in major segments. In the mobile business, we saw the trend of positive subscriber net-adds persist from the second quarter. We also noticed that the back-to-school promotion plan that was launched in August brought in new subscribers and upselling for existing customers, which helped further solidify our mobile market share and optimize the customer profile.

In our broadband business, we are glad to see an increase in subscribers in the third quarter, which demonstrates the success of our strategy of promoting home-centric services that bundle broadband, Wi-Fi, MOD and IoT services. We're even more delighted to report that MOD subscribers exceeded 1.9 million in the third quarter. We believe that MOD subscribers will continue to increase and exceed 2 million by the end of this year, and that this will facilitate increasing advertisement opportunities on our IPTV platform. Going forward, we'll continue the strategy of increasing customer scale with exclusive content to further drive up MOD revenue.

For ICT projects, we continue to see increasing demand of new applications and businesses from enterprise customers. Despite the decrease of ICT revenue year over year in the third quarter, which was primarily due to increasing selectiveness for the projects that were acquired, we continue to strengthen our core capabilities in select areas to provide more focused ICT related solutions and to enhance margins in ICT business. For our IDC business, we are encouraged by the increase of both revenue and customer traffic volume in the third quarter, and thus proceeded with the third phase of construction of our highest-rated IDC in Banqiao. Moreover, following the successes of the largest smart city projects that we won in Taiwan, which showcased our IoT application capabilities, we continued to win smart school projects nationwide in 2018. Going forward, we will further enhance collaboration between our sales force, research capacity, and product development to enlarge

internal synergies, as well as continue to leverage our strengths in communication technologies, IoT, IDC, CDN and other capabilities to cater to the growing demand for comprehensive ICT solutions.

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 2018, our total number of 4G subscribers has exceeded 9.0 million, accounting for 86.1% of total mobile users. However, we continue to guide a decline of mobile ARPU for full year 2018 over 2017 due to expected competition in the foreseeable future.

Despite intense competition, we are delighted to see that mobile subscriber net-adds continued to stay positive in the third quarter due to improvements in customer retention and acquisition. In mid-August, we rolled out a back-to-school promotion plan to attract young users, which resulted in an increase in average monthly student subscription in 3Q as well as a higher percentage of new student customers acquired QoQ.

Going forward, in addition to expanding our existing product portfolio, including our offerings of bundled plans, value added services, handset insurance and other incentives, we also aim to expand new services to enhance overall mobile revenue. The NB-IoT and Cat M1 network we are developing now for IoT applications would be one area of focus.

Fixed Broadband and Internet Services

Slide 6 shows the performance of our broadband business.

For the third quarter, we are encouraged to see our broadband subscriber net-adds continue to slightly grow with a 0.5% increase year over year. In addition, we continued to see a migration of our broadband subscribers to higher-speed fiber services. We are pleased with the number of users signing up for connection speeds of 100Mbps or higher, which grew by 10.6% year over year to 1.4 million in the third quarter. We expect to improve this number by upselling higher speed offerings, especially the fiber services, and differentiating our products by bundling value added and digital convergence services.

Going forward, we will endeavor to stay ahead of our competitors by continuously encouraging higher speed adoption and enhancing user stickiness on our network through smart home services that leverage our Wi-Fi advantage as well as MOD and OTT offerings.

MOD/IPTV Service

Moving onto slide 7.

We are glad to report another robust quarter for the IPTV business. In the third quarter, our IPTV/MOD platform continued to be the largest video platform in Taiwan with more than 1.9 million subscribers as end of September 2018, representing a 32.3% increase year over year.

Our IPTV revenue continued its growth trajectory as well with a 37.0% increase year over year, primarily driven by the healthy growth of IPTV and SVOD subscribers. Moreover, to leverage our subscription base and the excellent viewership, we will strive to expand revenue via advertisement. As of the third quarter of 2018, the accumulated advertisement revenue increased 76% year over year.

Going forward, we will endeavor to continue the growth dynamics in video business by acquiring popular content, including exclusive rights to sport and e-Sport games, in order to increase subscriber base and further grow our revenue in this segment.

ICT and Cloud Computing Initiatives

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

In the third quarter of 2018, our ICT revenue decreased year over year due to our being more selective for the projects that we acquire. We continued to see our IDC revenue increase, and year-over-year growth during the third quarter was 23.4%. traffic volume generated by customers, especially by some major international content providers, increased 1.5 times year over year, which is encouraging.

Going forward, we remain committed to leveraging our competitive advantages in network infrastructure, IDC and CDN to offer reliable, customized and comprehensive ICT solutions. We will continue to develop our leading-edge businesses, including information security, big data analysis and smart cities, in order to maintain our leading positions in those areas. We will also actively step into innovative emerging businesses in order to expand our market and revenues. Now, I would like to hand over the call to Mr. Kuo for our financial results.

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 2018, total revenues decreased by 6.6% and operating costs and expenses decreased by 3.9% year over year. Our income from operations decreased by 16.1%, and our net income decreased by 16.2% year over year. In addition, our EBITDA margin decreased to 34.87% in the third quarter from 35.84% in the same period of 2017.

Business Segment Revenues

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

The decrease in total revenue for the third quarter 2018 was mainly due to the decrease in voice revenue and ICT project revenue, which offset the increase of handset sales revenue. The decrease of voice revenue was primarily because of VoIP substitution and market competition, while the increase of handset sales revenue was mainly due to the adoption of IFRS 15.

Costs and Expenses

Moving on to slide 12, our operating costs and expenses decreased by NT\$1.71 billion, or 3.9%, year over year in the third quarter mainly due to lower cost of good sold and ICT project costs.

Cash Flow & EBITDA Margin

Slide 13 shows that cash flow from operating activities for the third quarter of 2018 increased by NT\$2.4 billion, or 12.4%, compared to the same period of 2017. This was mainly because the deadline of provisional payment of income taxes was postponed to October 1, 2018.

As of September 30, 2018, we had NT\$20.33 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 2018, our revenue, operating income, net income and EPS were lower than guidance for the third quarter, mainly due to the decrease in mobile revenue, which resulted from the VoIP substitution and market competition. We continued to enhance operational efficiency to offset the revenue loss; however, for the fourth quarter, we expect the decreases in cost to be unable to offset the decrease in total revenue, mainly due to the lower-than-expected mobile revenue and ICT project revenue. Thus, our Q4 performance is expected to be below guidance.

Effective and Efficient Capital Expenditure

Lastly, slide 15.

We are budgeting capex of NT\$33.1 billion for 2018, and expect the actual spending would be lower than the budget by more than 10% due to our execution of precision construction and ongoing improvements in our operation.

Going forward, we will continue to focus on investment in our core businesses, including FTTx, 4G, IDC, and our service platform among others under our precision construction principle.

Thank you for your time. We would now like to open the line for questions.

- Q&A Session -