



CHT 1Q2019 Results

April 29, 2019 at 2:00 P.M. (Taipei Time)

Thank you. This is Fufu Shen, the Assistant Vice President for Chunghwa Telecom. Welcome to our first quarter 2019 results conference call. Joining me on the call today are Mr. Sheih, our new Chairman and CEO who assumed the positions on April 22nd last week, and Mr. Kuo, our Chief Financial Officer. Mr. Sheih will remain President until a successor has been identified.

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 Chairman Sheih, and please note our safe harbor statement on slide 2. Chairman, please go ahead.

Chunghwa Telecom Overview

Thank you Fufu and hello everyone, welcome to our first quarter 2019 earnings result call. During the quarter, the overall market remained competitive. Our peers and smaller players took turns to roll out low-price unlimited mobile data plans to acquire more customers. However, we continued to anticipate mobile pricing stabilization with our quality mobile networks. In this quarter, we continued to hold the leading market position by both mobile revenue and subscriber shares. In fact, our revenue share increased slightly, and the subscriber share remained the same. We also continued migrating mobile customers to handset bundled or higher price plans for incremental ARPU in order to mitigate the down-sell that happened in 2018.

In our broadband business, we are pleased with the steady migration of our broadband subscribers to higher-speed services. Due to market competition and mobile substitution during the quarter, we experienced a small subscriber loss. However, our MOD subscribers continued to increase and reached to 2.05 million in the first quarter of 2019. We attribute this growth to our successful strategy of satisfying customer demands with popular contents, which includes OTT services like Netflix. In addition, in January, our regulator, NCC, allowed us to "package MOD channels" freely to fulfill our diversified user demands. We believe that this freedom gives us a more favorable market environment in which to operate and to further grow our MOD business.

We are also delighted to see that our ICT revenue increased year over year. We will continue to strengthen our core capabilities in selected areas to provide more focused ICT related solutions. We will also streamline our ICT product platform for better positioning and competitive pricing. The upcoming 5G service launch and potential regulatory changes may change competitive landscape. As a result, we rolled out a customer-centric value creation transformation plan this year to take our business to the next level and to return to a growth trajectory. Under this plan, we will strengthen core businesses, deploy emerging services, optimize our cost structure, and further enhance fundamentals including next generation network, IT infrastructure and human resource planning.

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.

In the first quarter 2019, despite intense competition and down-selling across the overall market, our mobile service revenue continued to be the least affected compared to that of the other major providers. We maintained our strategy of guiding subscribers to adopt higher price plans to enhance mobile performance.

As SIM-only adoption continues to increase and the handset replacement cycle becomes longer, we expect mobile ARPU decline to persist. However, we will continue to roll out handset or CPE bundled plans, value added offerings and other incentives to boost service revenue, enhance margins, and avoid further price drops.

Fixed Broadband and Internet Services

Slide 6 shows the performance of our broadband business

We are delighted to see a continued migration of our broadband subscribers to higher-speed fiber services. In the first quarter, the number of users signing up for plans with connection speeds of 100Mbps or higher grew by 10.5% year over year to more than 1.4 million. The number of subscribers signing up for connection speeds of 300Mbps or higher increased by 160% year over year.

Going forward, we will maintain our strategy of encouraging higher speed services adoption, especially fiber services, to offset the mandatory tariff reduction required by the regulator. We will also leverage our other advantages, such as Wi-Fi, MOD and OTT offerings, and smart hardwares to enhance user stickiness on our network. Our smart speakers which launched last week allow our customers to enjoy smart home and other AI related services.

MOD/IPTV Service

Moving on to slide 7.

We are glad to report another robust quarter for the IPTV business. In the first quarter, our IPTV/MOD platform maintained its position as the largest video platform in Taiwan. We reached more than 2 million subscribers, representing a 20.2% increase year over year. In addition, our SVOD subscribers reached 1.31 million, maintaining its growth trajectory as well.

Overall IPTV revenue continued to grow in the first quarter with a 15.7% increase year over year. We continued to enrich our content by introducing OTT services, investing in eSports company and original content production. We believe that a portfolio of quality content is beneficial to our overall subscriber acquisition, and will enable us to stay ahead of our competitors in the realm of video services.

ICT and Cloud Computing Initiatives

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

In the first quarter of 2019, our ICT revenue increased year over year, and we continued to see ICT project opportunities in our pipeline. In particular, our IDC revenue continued to grow with a 69.0%

increase year over year. Our IoT revenue increased 68.0% year over year, and information security revenue increased 23.5% year over year.

We will continue to leverage popular international ICT and PaaS solutions with our core capabilities to provide integrated ICT solutions to our customers to increase ICT revenue. We are also committed to strengthening our self-developed products and services where we have a clear advantage in the market, such as our IDC, cloud computing, and big data analysis, smart services and AI applications to increase ICT project margin. Now I would like to hand over the call to Mr. Kuo for our financial results.

Financial Overview

Thank you Chairman Sheih. Now I will go through our financial results in details, beginning on slide 10. Please note that all the comparisons are made on a year over year basis, unless otherwise stated.

Income Statement Highlights

Slide 10 provides you with highlights from our income statement.

For the first quarter of 2019, total revenues decreased by 4.3% and operating costs and expenses decreased by 4.0%. Our income from operations decreased by 5.0%, and our net income decreased by 4.3%. Our EBITDA margin increased to 37.33% in the first quarter from 35.26% in the same period of 2018 primarily due to the adoption of IFRS16 in 2019.

Business Segment Revenues

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

The decrease in total revenue for the first quarter 2019 was mainly due to the decrease in mobile service revenue and handset sales revenue, which offset the increase of internet revenue. The decrease of mobile service revenue was primarily because of market competition and VoIP substitution.

Costs and Expenses

Moving on to slide 12, our operating costs and expenses decreased by NT\$1.69 billion, or 4.0% mainly due to lower cost of goods sold.

Cash Flow & EBITDA Margin

Slide 13 shows that cash flow from operating activities for the first quarter of 2019 increased by NT\$5.91 billion, or 80.6%. This was mainly due to a legal requirement to make a cash contribution to the pension fund. There was also a decrease of inventory.

As of March 31, 2019, we had NT\$37.55 billion of cash and cash equivalents.

Operating Results vs. Forecast

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

In the first quarter of 2019, revenue was lower than our first quarter guidance mainly due to lower handset sales and mobile service revenue. However, our results of operating income, net income and EPS had met our first quarter guidance.

Effective and Efficient Capital Expenditure

Moving onto slide 15.

We are budgeting capex of NT\$29.0 billion for 2019. We will focus on investment in our core businesses, including FTTx, 4G, IDC and service platform under our precision construction principle.

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

Regulation Update

Lastly, on slide 17, I'd like to provide an update on regulations.

The Transportation Committee of the Legislative Yuan finished reviewing “the Telecommunications Management Act” and “the Digital Communications Act” on March 14, 2019. The draft covers the following key areas. First, reduce barrier of entry to the telecom markets by changing the original concession or approval system to the registration system. Second, general market players shall have only ordinary obligations to a minimum necessary extent. Dominant market players will be subject to more stringent control measures. In addition, the market would open for domestic roaming, frequency transferring, frequency leasing, frequency lending or sharing mechanisms.

We anticipate several impacts from these changes. For example, market competition would increase by reducing entry barrier. Operators are able to share resources, which might change the competition landscape. In addition, we will likely be regarded as a dominant player in specific telecom markets. We will gain a clearer picture of these impacts when the detailed regulations is available before 5G spectrum auction.

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

- Q&A Session -