



中華電信
Chunghwa Telecom

CHT 1Q2016 Results April 28, 2016 at 3:00 P.M. (Taipei Time)

Thank you. This is Fufu Shen, the Director of Investor Relations for Chunghwa Telecom. Welcome to our first quarter 2016 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 first quarter 2016 earnings conference call.

We are pleased to report robust operational results for the first quarter of 2016, owing to the successful execution of our strategies to grow the 4G, ICT and enterprise businesses as well as strictly control operational costs and expenses. EPS for the first quarter grew by 11.9% year over year and outperformed our peers in the market.

On the mobile business, we deployed our 2.6G frequency band on March 24, and were the first to do so among all spectrum winners. Through utilizing the Carrier Aggregation technology, we are able to integrate our three bands into 3CA and boost data speeds by over 300 Mbps. In addition, we launched the Big 4G promotional plans on April 1 to cater to demands of a wide spectrum of customers from high- to low-end. We raised the threshold slightly for unlimited data usage plans for the whole contract period, and believe it is the right step to lead the market toward adopting tiered pricing and fair usage policies. Our strong 4G subscriber growth continues to be strong; by the end

of the first quarter of 2016, we accumulated 5.2 million 4G subscribers, propelling our market share to reach 38.6%.

We also vigorously defended our broadband business. Despite heavy market competition and 4G substitution which hindered subscriber growth, we managed to maintain a flat sequential ARPU. We will continue to leverage our analytical capabilities for precision marketing, and offer convergence services by bundling MOD, Wi-Fi and OTT services to enhance our product strength and defend our market share.

Number One Mobile Services Provider

Slide 5 provides an update on our mobile business. The launch of the 2.6G band will help us boost data speeds, and improve the foundation for further development of value-added services. We believe that driving increased adoption of value added service outside of the standard mobile internet service is critical to accelerating mobile revenue growth. Therefore, we will continue to focus on promoting our Hami value-added services such as music, games, TV and e-Books, as add-ons to the Big 4G promotional plans.

Supported by the continued increase in 4G and mobile internet subscribers, mobile internet revenue grew by 8.7% year over year in the first quarter of 2016, and served as the major driver of mobile value-added service revenue growth. Regarding mobile operations, we are focusing on 4G service promotions and mobile internet subscriber expansion by further targeting mid-to-low end customers, including 2G subscribers.

Fixed Broadband and Internet Services

Slide 6 shows the results for our broadband business.

During the first quarter, we continued to see a migration of subscribers to higher-speed fiber services. The number of subscribers signing up for connection speeds of 100Mbps or higher grew 15.7% year over year to 1.08 million. We will continue to upsell our broadband services and encourage customer migration to higher speeds.

MOD/IPTV Service

Moving on to slide 7.

Our IPTV customers continued to sign up for additional packages and SVOD programs, as household TV usage rates also continued to steadily climb. Concurrently, our customer base further expanded, and we believe these positive developments demonstrate the potential of this segment.

To strengthen the competitiveness of MOD services, we will continue to enrich our content offering, by diversifying and expanding our selection of movies, dramas, and TV series for SVOD. At the same time, we will also enhance the user interface, and leverage our large broadband and 4G subscriber base to promote MOD and OTT services and propel the overall business' growth. By leveraging our existing media content position in VOD, we will acquire OTT contents with all rights for distribution across all three of our platforms. We aim to utilize our robust network infrastructure, to become the leading multi-screen service provider in Taiwan.

ICT and Cloud Computing Initiatives

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

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

Additionally, we are cooperating with our partners to build a comprehensive IoT ecosystem to provide related services to enterprises across various industries.

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 first quarter of 2016, total revenues increased by 0.8% and operating costs and expenses decreased by 3.4% year over year. Our income from operations increased by 17.0% and our net income increased by 11.9%. In addition, our EBITDA margin increased to 38.5% in the first quarter, from 36.0% the same period of 2015.

Business Segment Revenues

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

The increase in total revenue was driven by the growth in mobile value-added service revenue and ICT project revenue, but was partially offset by a decrease in fixed and mobile voice revenue and sales of smart devices.

Costs and Expenses

Moving on to slide 12, our first quarter 2016 operating costs and expenses decreased by 3.4% year over year, mainly due to the lower interconnection expenses, cost of goods sold and depreciation expenses.

Cash Flow & EBITDA Margin

On slide 13, in the first quarter of 2016, cash flow from operating activities decreased by NT\$5.3 billion or 44.9% compared to the same period of 2015. The decrease mainly resulted from the cash contributions to the pension fund as required under the Labor Law in Taiwan.

As of March 31, 2016, we had NT\$34.54 billion of cash and cash equivalents.

The increase in EBITDA margin was primarily due to the growth of total revenue and the decrease in cost of goods sold in the first quarter of 2016.

Operating Results vs. Forecast

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

We reported robust operating results in 2015, with revenues, operating income and net income all exceeding our guidance. The lower operating costs and expenses were mainly due to the lower-than-expected interconnection expenses and depreciation expenses.

2016 Guidance

Slide 14 shows our first quarter of 2016 operating results as compared to our guidance.

We reported robust operating results in the first quarter of 2016, with total revenues, operating income, net income and EPS all increasing year over year and outperforming our guidance. The lower operating costs and expenses were mainly due to the lower-than-expected depreciation expenses and cost of goods sold.

Looking at our performance thus far in 2016, we believe our business operations and developments are on track, and we are confident that we will reach our full year guidance.

Effective and Efficient Capital Expenditure

Lastly, on slide 15.

We are budgeting capex of NT\$30.6 billion for 2016, which includes the deferred projects from 2015 such as cloud data center and marine cable construction. Going forward, we will focus on investment for core businesses, including 4G, FTTx and IDC among others under the precision construction principle.

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

- Q&A Session -