



CHT 2Q2018 Results

July 30, 2018 at 3:00 P.M. (Taipei Time)

Thank you. This is Fufu Shen, the Assistant Vice President for Chunghwa Telecom. Welcome to our second 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 second quarter 2018 earnings conference call.

For the second quarter of 2018, the overall market remained competitive. In mobile business, the 499 promotion plan launched in May for 8 days attracted 1.5 million sign-ups including a small amount in April for civil servants, and thus made our mobile subscriber net-adds turned positive to further solidify our mobile customer base.

In our broadband business, we are glad to see subscriber net-adds continue to increase, which demonstrates the success of our strategy of promoting home-centric services that bundled broadband, Wi-Fi, MOD and IoT services. We're even more encouraged by the successful exclusive broadcasting of 2018 FIFA World Cup via MOD and Hami video, our IPTV and OTT platforms, beginning in June, which boosted MOD subscribers to exceed 1.8 million. We believed our outstanding viewership has made MOD become one of the largest video platforms significant for advertisement in Taiwan. Going forward, we'll continue to expand customer scale with exclusive contents to further drive up MOD revenue.

We are highly focused on enterprise customer segment. Our share of revenues from enterprise customers once again increased, and thus we keep enhancing our capabilities to provide ICT related solutions. Despite the decrease of ICT revenue year over year in the second quarter, which was due to some delays in project revenue recognition, we expect the ICT revenue will continue to grow in 2018 year over year. We are also pleased to report that with the support of our IoT platform, we've won the most smart city projects in Taiwan since 2015, which have both showcased and laid a solid foundation for our IoT applications under development. In addition, during the second quarter, we rolled out NB-IoT tariff plans for enterprise customers for applications including smart metering, smart parking, smart agriculture and etc. Going forward, we will continue to leverage our strengths in IoT, IDC, CDN and other capabilities to cater to 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 June 2018, our total number of 4G subscribers has exceeded 8.7 million, and our mobile internet adopters continued to grow, reaching 87.5% of total post-paid subscription. Because of continued aggressive pricing of unlimited data plan from our peers, we also adopted a NT\$499 unlimited data plan for a short period during the second quarter in order to solidify our subscriber base. We continued to guide a decline of mobile ARPU for 2018 year over year due to the expected competition for the foreseeable future.

Despite intense competition, we are delighted to see that mobile subscriber number net-adds has turned positive in the second quarter due to improvements in our customer retention, mainly contributed from the 499 promotion in May. Moreover, our mobile network was recently recognized by Speedtest as the fastest mobile network in Taiwan and by OpenSignal as the leader in 4G download speeds. Thus we are committed to providing our customers with the best mobile experience through ongoing network investments designed to meet their mobile demands.

Going forward, we will continue to enhance product portfolio by offering bundled plans, value added services, handset insurance and other incentives for existing customers and especially for high-end plan adopters to enhance mobile business margin.

Fixed Broadband and Internet Services

Slide 6 shows the performance of our broadband business.

For the second quarter, we are encouraged to see our broadband subscriber net-adds continue to slightly grow with a 0.4% 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 10.1% year over year to 1.36 million in the second quarter. We expect to improve this number by upselling higher speed offerings 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 second quarter, our IPTV/MOD platform continued to be the largest video platform in Taiwan with more than 1.8 million subscribers as end of June 2018, representing a 32.9% increase year over year. Our IPTV revenue continued its growth trajectory as well with a 32.5% increase year over year, primarily driven by the healthy growth of IPTV and SVOD subscribers. Starting from June, we exclusively broadcasted 2018 FIFA World Cup, which significantly pushed up the overall MOD performance. Compared with the previous World Cup game held four years ago, the new acquisition increased 141%, while number of channel sign-ups and SVOD sign-ups increased 95% and 149% respectively. What's also worth

mentioning, the excellent viewership of MOD has made it the emerging video platform for advertisers with a 77% increase in accumulated advertisement revenue 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 second quarter of 2018, our ICT revenue decreased year over year owing to some delays in project revenue recognition. We rolled out NB-IoT tariff plans in the second quarter via our IoT platform on both NB-IoT and Cat M1 networks to provide quality IoT services. In addition, our highest rated IDC in Banqiao enjoyed a 70% occupancy rate for its second phase rack installation, and we are pleased to see an increase of the average contribution from each rack. During the quarter, we progressed to the third phase of establishment in order to meet the foreseeable demand.

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, such as information security, PKI (public key infrastructure) and smart cities, in order to maintain our leading position. We will also actively step into innovative emerging businesses, such as AI or block chain related services, in order to expand the market and revenue.

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 second quarter of 2018, total revenues decreased by 3.6% and operating costs and expenses decreased by 4.0% year over year. Our income from operations decreased by 2.2%, and our net income decreased by 5.6% year over year. In addition, our EBITDA margin increased to 37.31% in the second quarter from 36.54% 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 second 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 affected by market competition and the adoption of IFRS 15, 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\$1.75 billion, or 4.0%, year over year in the second quarter mainly due to lower cost of goods sold and ICT project costs.

Cash Flow & EBITDA Margin

Slide 13 shows that cash flow from operating activities for the second quarter of 2018 increased by NT\$1.32 billion, or 8.3%, compared to the same period of 2017. This was mainly due to increase of subscribers signing up for the promotional plans in May, which brought in contract cancellation fees.

As of June 30, 2018, we had NT\$43.78 billion of cash and cash equivalents.

Operating Results vs. Forecast

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

In the first half of 2018, revenue was lower than our first half guidance. Although we anticipate the ICT business will catch up in the 2nd half, there will be more revenue recognized in 4Q instead of 3Q. Voice revenue decrease continued with the accelerated OTT & VoIP substitution and fierce market competition, we expect the 3Q performance may be slightly lower than our guidance.

However, with the continuous countermeasures adoption aforementioned in our mobile page, we would like to see performance enhancement in 4Q especially when new iPhone model(s) introduced.

Effective and Efficient Capital Expenditure

Lastly, slide 15.

We are budgeting capex of NT\$33.1 billion for 2018. 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 -