



CHT 4Q2018 Results

January 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 fourth 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 fourth quarter 2018 earnings call. In this quarter, the overall market remained competitive, but we continued to maintain our leading position in both mobile revenue and subscriber shares. The trend of positive subscriber net-adds persisted from the second quarter to the fourth quarter. Starting from 2019, we would continue making effort to migrating customers to higher price plans for incremental ARPU despite of the market competition 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 throughout 2018. We're even more delighted to report that in the fourth quarter, MOD subscribers exceeded 2 million, and we started to carry one of the most prestigious international OTTs, Netflix, on MOD platform in January to satisfy subscribers' demand on popular content with 4K quality on TV. Going forward, we'll continue to seek partnerships with popular content providers all over the world to offer our MOD and OTT subscribers quality content, and increase our IDC and CDN revenue through the partnerships as well.

Our ICT revenue decreased year over year in the 4th quarter primarily due to the increasing selectiveness for the projects that we acquired. However, despite his decrease, we continue to strengthen our core capabilities in selected areas to provide more focused ICT related solutions as well as streamline ICT product platform for better positioning and competitive pricing. Thus we expect our ICT business will rebound in 2019. For our IDC business, both revenue and customer traffic volume continued to increase year over year in the fourth quarter, and we proceeded with the third phase of construction of our highest-rated IDC in Banqiao. Going forward, we will 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.

In the fourth quarter 2018, despite intense competition in the second quarter, resulting in down-selling across the overall market, our mobile service revenue was less affected than the other major providers. We are also delighted to see that the number of mobile subscribers continued to increase due to our effective customer retention and acquisition strategies. However, we expect the mobile ARPU to continue its decline as the handset replacement cycle becomes longer and the market remains competitive.

Going forward, in addition to expanding our existing product portfolio, including our handset and CPE bundle plans, value added services, handset insurance and other incentives, we will also explore new opportunities to complement our product offerings and boost our mobile service revenue. In 2019, we plan to leverage our industry leading technologies, including our leading mobile network quality as recognized by the NCC and foreign institutes, our nationwide NB-IoT network, and Cat M1 network to develop IoT related applications and increase mobile revenue.

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 fourth quarter, the number of users signing up for plans with connection speeds of 100Mbps or higher grew by 10.9% year over year to more than 1.4 million, and the number of subscribers signing up for connection speeds of 300Mbps or higher increased 120% year over year as well.

Going forward, we will continue to encourage higher speed services adoption, especially fiber services, to mitigate the mandatory tariff reduction from the regulator. We will also leverage our other advantages to enhance user stickiness on our network, such as Wi-Fi, MOD and OTT offerings, to allow subscribers to enjoy smart home environment and AI related applications.

MOD/IPTV Service

Moving on to slide 7.

We are glad to report another robust quarter for the IPTV business. In the fourth quarter, our IPTV/MOD platform continued to be the largest video platform in Taiwan with more than 2 million subscribers, representing a 25.5% increase year over year. In addition, our SVOD subscribers reached 1.27 million in the fourth quarter of 2018, maintaining its growth trajectory as well.

Our IPTV revenue also continued to grow in the fourth quarter with a 27.7% increase year over year despite a one-time adjustment booked in the fourth quarter. Moreover, we partnered with the popular global OTT service provider, Netflix, to provide our subscribers with access to Netflix on our IPTV platform. As the largest video platform in Taiwan, we are currently the only platform able to offer Netflix 4K streaming. We believed it positive to our overall subscriber acquisition and able to keep us ahead of our competitors in the realm of video services.

To build on the success of our video business, we will continue the growth dynamics in video business by acquiring popular content, including exclusive rights to sports and e-Sports 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 fourth quarter of 2018, although our ICT revenue decreased year over year, we continued to see IDC revenue grow 16.7% year over year for the fourth quarter, and 22.4% year over year in 2018. In addition, our information security business also grew steadily year over year in terms of revenue and market share.

To maximize synergies, we are optimizing our research, sales and distribution efforts on selected products and services. In particular, we are focusing on products and services where we have clear advantage in the market to enhance ICT project acquisition and profitability. We continued acquiring fintech projects with FIDO, information security, cloud computing, big data analysis services as well as fintech patents. Going forward, we will continue to leverage advantages to maintain our leading position in ICT business. 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 fourth quarter of 2018, total revenues decreased by 8.9% and operating costs and expenses decreased by 9.8% year over year. Our income from operations decreased by 2.1%, and our net income decreased by 3.0% year over year. In addition, our EBITDA margin increased to 32.79% in the fourth quarter from 30.26% 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 fourth quarter 2018 was mainly due to the decrease in voice revenue and ICT project revenue, which offset the increase of internet revenue. The decrease of voice revenue was primarily because of VoIP substitution and market competition.

Costs and Expenses

Moving on to slide 12, our operating costs and expenses decreased by NT\$4.93 billion, or 9.8%, year over year in the fourth quarter mainly due to lower cost of goods sold.

Cash Flow & EBITDA Margin

Slide 13 shows that cash flow from operating activities for the fourth quarter of 2018 decreased by NT\$4.89 billion, or 19.6%, compared to the same period of 2017. This was mainly because the deadline for the provisional payment of income tax was postponed to October 1, 2018.

As of December 31, 2018, we had NT\$27.66 billion of cash and cash equivalents.

Operating Results vs. Forecast

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

In the fourth quarter of 2018, revenue was lower than our fourth quarter guidance mainly due to unexpectedly intense competition in mobile market, slowdown of high-end handset sales and lower-than-expected recognition of ICT revenue. Thus, our operating income, net income and EPS were lower than our fourth quarter guidance. For 2019, we are in the process of implementing a series of initiatives, as discussed earlier by President Sheih, to rejuvenate growth and profitability while sharpening our competitive advantages to cement our leading position.

2019 Forecast

Moving on to slide 15, which shows our 2019 consolidated guidance.

Looking ahead, total revenue for 2019 is expected to increase by 2.4%~3.5% to NT\$221~NT\$223 billion. The increase in revenue is expected to come from the enterprise ICT business, application VAS, Internet services like IDC and information security, and MOD service. Operating costs and expenses for 2019 are expected to increase by 3.4%~3.7% to NT\$177.8~NT\$178.3 billion. The increase in costs and expenses is expected to be attributable to the increase of ICT project costs. Given these projections, we expect a 2.1% year-over-year decrease to 2.3% year-over-year increase in operating income and a 4.0% year-over-year decrease to 0.5% year-over-year increase in net income.

Effective and Efficient Capital Expenditure

Lastly, slide 16.

We are budgeting capex of NT\$29.0 billion for 2019, in which we anticipate a similar level of mobile capex spending before 5G realization, and we will also continue our precision construction policy to optimize overall capex spending. Moreover, we allocate budget for asset revitalization including new building for subsidiary as well.

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

- Q&A Session -