



## **CHT 3Q2019 Results**

### **October 30, 2019 at 3:00 P.M. (Taipei Time)**

Thank you. This is Angela Tsai, the Director of Investor Relations for Chunghwa Telecom. Welcome to our third quarter 2019 results conference call. Joining me on the call today are Harrison Kuo, our President & Chief Financial Officer, and FuFu Shen, the Assistant Vice President of Public Affairs Department.

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 Kuo, and please note our safe harbor statement on slide 2. President, please go ahead.

#### Chunghwa Telecom Overview

Thank you Angela and hello everyone, welcome to our third quarter 2019 earnings result call. During the quarter, the overall mobile market was relatively stable with fewer price promotions to stir the market. We are pleased with our continued leading market position by both mobile revenue and subscriber numbers during the quarter with market shares of 36.2% and 37.8% respectively. Going forward, we will continue to strengthen the overall customer base by providing incentives and popular handset models to retain and attract subscribers in different segments, and by further migrating users to higher price plans to enhance performance in our mobile business.

In our broadband business, we continued to experience a small subscriber loss during the third quarter mainly due to continuous mobile internet substitution and cable competition. However, we are glad to that see our broadband and MOD bundled package continued to increase and further enhance overall broadband subscriber stickiness. For the third quarter, our MOD subscribers continued to increase and reached 2.09 million. MOD revenue grew year over year as well, which was attributable to our successful strategy of satisfying customers with ever-better quality content and freedom to package channels based on their preferences. We are pleased to report that among the new sign-ups of free-to-choose-channel plans, which was launched in September, 75% chose the highest-priced package, which we believe will help strengthen our overall MOD business performance going forward.

For the third quarter, both enterprise customer revenue and ICT revenue continued to increase year over year due to our efforts of business exploration. Going forward, we will continue to leverage our network advantage and technology capabilities, such as MEC, AR and IoT, to enhance solution development and project acquisitions in different verticals, laying a solid base for the upcoming 5G competition.

### 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.

We are delighted to report that we continued to have a mobile subscriber net-adds in the third quarter of 2019. In addition, handset sales revenue increased year over year, mainly due to the launch of the iPhone 11 series. We are encouraged to see that the number of users signed up for the NT\$999 or above bundled plan increased significantly this quarter, which we believe is positive for long-term mobile revenue going forward. It is also worth mentioning that the back-to-school plans rolled out during summer vacation brought in quite a few new bundled subscriptions at a higher ARPU than our blended ARPU.

Going forward, we will continue to provide popular handset models to satisfy customers and encourage higher bundled plan adoption in the hope of further enhancing the overall mobile performance.

### Fixed Broadband and Internet Services

Slide 6 shows the performance of our broadband business.

In the third quarter of 2019, the number of total broadband subscribers decreased slightly year over year. However, we are delighted to see a continued migration of our broadband subscribers to higher-speed fiber services. The number of users signing up for plans with connection speeds of 100Mbps or higher grew by 10.6% year over year to 1.54 million. The number of subscribers signing up for connection speeds of 300Mbps or higher increased by 109% year over year.

Going forward, we will maintain our strategy of migrating customers to higher speed services to capture incremental ARPU and to mitigate the impact of mobile internet substitution and cable competition. At the same time, we will also focus on developing smart home related services, leverage marketing tools such as Hami Points, and package more popular plans to enhance overall broadband revenue.

### MOD/IPTV Service

Moving on to slide 7.

We are glad to report another robust quarter for the IPTV business. In the third quarter, our IPTV/MOD platform maintained its position as the largest video platform in Taiwan. The number of total subscribers reached 2.09 million, representing a 9.4% increase year over year. In addition, our SVOD subscribers continued to increase, maintaining its growth trajectory as well.

During the quarter, overall IPTV revenue continued to grow by 5.9% year over year. To enhance channel subscription revenue, we rolled out free-to-choose channel packages in September, and were delighted to see upsell from the overall sign-ups. We expect that its revenue contribution will be reflected in the fourth quarter and enhance overall ARPU.

Going forward, we will continue to differentiate MOD as one of the strongest video service brands in Taiwan by constantly enriching content. We will continue to introduce OTT services and popular sport events, such as the upcoming Tokyo Olympic Games, to boost subscriber growth, and expect that the subscriber base will bring in advertisement revenue to further enhance overall IPTV performance.

### Enterprise ICT Initiatives

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

In the third quarter of 2019, overall ICT revenue increased year over year. As of the end of third quarter, we are delighted that our accumulated IDC revenue continued to grow, gaining 9.9% year over year. Cloud revenue increased 28.8% year over year, and information security revenue increased 9.6% year over year.

It is also encouraging that as one of the major bidders in the metering market, we once again obtain the AMI project from the Taiwan Power Company, thanks to our differentiated NB-IoT technology. With the accumulation of more than 300 thousand metering devices nationwide, we believed that the project would contribute to our IoT revenue growth going forward.

To further strengthen our ICT performance, we will continue to leverage our leading technology capabilities to develop in-house products and services in order to enhance ICT project margins in different verticals. At the same time, for markets like IDC and information security, we will also endeavor to expand our market share to further strengthen overall segment performance. Now I would like to hand over the call to Fu Fu for our financial results.

### Financial Overview

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 third quarter of 2019, total revenue and operating costs and expenses decreased by 3.5%. Our income from operations decreased by 3.9%, and our net income decreased by 4.9%. Our EBITDA margin increased to 37% in the third quarter from 34.87% 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 third quarter 2019 was mainly due to the decrease in fixed voice revenue, mobile service revenue and ICT project revenue. This offset the increase of handset sales revenue and internet application revenue. The decrease in 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\$1.47 billion, or 3.5%. The decrease was mainly due to lower interconnection costs and ICT project costs.

### Cash Flow

Slide 13 shows that cash flow from operating activities for the third quarter of 2019 decreased by NT\$2.08 billion, or 9.6%. This was mainly due to an increase in accounts receivable.

As of September 30, 2019, we had NT\$23.97 billion of cash and cash equivalents.

### Operating Results vs. Forecast

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

For the third quarter of 2019, our revenue, operating income, net income and EPS were lower than guidance, mainly due to lower fixed voice revenue and mobile revenue, and the delay of ICT project revenue recognition. We continued to enhance operational efficiencies to offset the revenue loss.

However, for the fourth quarter, we expect that the decreases in costs and expenses are unable to offset the decrease in total revenue, mainly due to lower-than-expected ICT project revenue. Thus, our Q4 performance is expected to be below guidance.

### Effective and Efficient Capital Expenditure

Moving onto slide 15.

We budgeted capex of NT\$29.0 billion for 2019. The estimated spending by the year end will be around NT\$26 billion. We will focus on investment in our core businesses, including FTTx, 4G, IDC and our service platform under our precision construction principle.

**- Q&A Session -**