



CHT 4Q2019 Results

January 22, 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 fourth 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 fourth quarter 2019 earnings result call. During the fourth quarter of 2019, we were pleased to maintain our leading market position as we experienced mobile revenue and subscriber growth increases to 36.5% and 37.9% respectively, which we believe provides a solid foundation for the upcoming 5G service development. As the first phase of 5G spectrum auction has concluded though the final price was beyond our expectation, we intend to focus our efforts on the launch of 5G service in the third quarter of 2020.

In our broadband business, we continued to experience a modest subscriber loss during the quarter mainly due to ongoing mobile internet substitution and cable competition. However, we are still encouraged that existing broadband subscribers continue to migrate to higher speed services resulting in an incremental increase to our ARPU.

For the fourth quarter, our number of MOD subscribers were 2.08 million and revenue also increased year-over-year, attributable to our successful strategy of providing viewers better quality content. In addition, since we rolled out tiered-pricing channel packages for subscribers to freely choose channels this past September, we are pleased to report that our highest-priced package remained the most popular. We believe this will help strengthen our overall MOD business performance in 2020.

In our ICT business, both enterprise customer revenue and ICT revenue continued to increase year-over-year due to our new business development efforts. Additionally, our focus on enhancing ICT project margin by increasing self-developed services and strengthening large project management capabilities also paid off in 2019. As our proportion of enterprise customer revenue continued to increase, we will also continue this strategy in 2020 to further drive overall ICT performance.

Number One Mobile Services Provider

Now allow me to walk you through each of our business lines. On slide 5 is some updates on our mobile business.

In the fourth quarter, our IoT subscribers continued to increase and our back-to-school initiatives rolled out over the summer holidays continued to add new bundled subscriptions at higher ARPU levels than blended rate. However, we experienced some post-paid customer loss as a result of some double 11 promotion activities undertaken by our peers.

As many people anticipate the 5G service roll-out in 2020, we also expect to reveal brand-new user experience and innovative services for subscribers to appreciate the benefits and value of 5G service offering going forward.

Fixed Broadband and Internet Services

Slide 6 demonstrates the performance of our broadband business.

In the fourth quarter of 2019, the number of total broadband subscribers decreased slightly year-over-year. However, we were delighted to experience a continued migration of our broadband subscribers to higher-speed fiber services, which augmented ARPU growth by 8% compared to the prior year period. Our number of users signing up for plans with connection speeds of 100Mbps or higher increased by 11.3% to 1.58 million from the prior year. And the number of subscribers signing up for connection speeds of 300Mbps or higher increased by 103% from the prior year.

Going forward, we intend to 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. We will also focus on developing smart home related services, leverage marketing tools such as Hami Points, and package more popular plans to secure customers and enhance overall broadband revenue.

MOD/IPTV Service

Moving on to slide 7.

We are pleased to report robust performance in our IPTV business. In the fourth quarter, our IPTV/MOD platform remained the largest video platform in Taiwan. Our total number of subscribers reached to 2.08 million, representing a 3.6% increase year over year.

We remain confident in the trajectory of our IPTV business as measured by subscribers and revenue growth. During the quarter, overall IPTV revenue grew by 10.6% year over year, and VOD revenue continued to increase in spite of the small decrease in SVOD subscriptions. Channel subscription revenue continued to increase thanks to free-to-choose channel packages that continued to result in customer up-sells as well as enhanced overall ARPU.

Going forward, we plan to well leverage popular sporting events, such as the upcoming Tokyo Olympic Games this summer, to further boost subscription and revenue, and expect advertising revenue to grow based on the enlarging subscription base.

ICT and Cloud Computing Initiatives

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

In the fourth quarter of 2019, overall ICT revenue increased year over year due to the recognition of revenue from some large projects regarding smart surveillance, data center and big data analysis. The accumulated revenue for year 2019 also got back to the growth trajectory on a year-over-year comparison basis, which we expect to grow further in 2020.

We continued our focus on expanding our in-house developed services and solutions including IDC, information security, cloud service and big data analysis to enhance our project margin and individual segment market share. We were also delighted that the streaming revenue coming from these services continued to grow and were a meaningful contributor to our consolidated revenue in 2019. We expect similar growth trends of ICT business to continue in 2020.

Going forward, we intend to further specialize technologies and Fintech capabilities in the areas of AI and block-chain among others to maximize our potential in project acquisitions in select industry verticals, notably the financial industry.

At this point, I would like to turn the call over to Fu Fu to review our financial results.

Financial Overview

Thank you for joining our call today. I would like to review our financial results in detail, beginning on slide 10. Please note that all financial 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 fourth quarter of 2019, total revenues decreased by 0.5% and operating costs and expenses decreased by 0.6% year over year. Our income from operations decreased by 2.4%, and net income decreased by 7.3% year over year. In addition, EBITDA margin increased 120 basis points to 34.0% in the fourth quarter from 32.8% in the same period of 2018.

Business Segment Revenues

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

The decrease in total revenue for the fourth quarter 2019 was mainly due to a decrease in fixed voice revenue, mobile service revenue and handset sales revenue that was offset by an increase in ICT revenue. The decrease in mobile service revenue was primarily a result of market competition and VoIP substitution.

Costs and Expenses

Moving on to slide 12, our operating costs and expenses decreased by NT\$0.26 billion, or 0.6%, year over year in the fourth quarter mainly due to lower interconnection costs.

Cash Flow & EBITDA Margin

Slide 13 shows that cash flow from operating activities for the fourth quarter of 2019 increased by NT\$3.39 billion, or 16.8%, compared to the same period of 2018. This was mainly due to decrease of accounts receivable.

As of December 31, 2019, we had NT\$34.07 billion of cash and cash equivalents.

Operating Results vs. Forecast

Slide 14 demonstrates our operating results compared to our financial guidance forecast.

In the fourth quarter of 2019, our revenue, operating income, net income and EPS were lower than our fourth quarter guidance.

2019 Forecast

Moving on to slide 15, which shows our 2020 consolidated guidance.

Looking ahead, total revenue for 2020 is expected to increase by 3.2%~3.7% to NT\$214.10~NT\$215.29 billion. The increase in revenue is expected to come from the expansion of enterprise ICT business, internet value-added service, handset sales and MOD service, which is an offset to the decrease in voice revenue and mobile service revenue. Operating costs and expenses for 2020 are expected to increase by 5.3%~5.5% to NT\$175.51~NT\$175.83 billion due to the increase in ICT project costs, cost of goods sold and depreciation expense in 5G equipment and the amortization expense for 5G concession. Given these projections, we expected a 5.8%~1.1% year-over-year decrease in EPS.

Effective and Efficient Capital Expenditure

Lastly, slide 16.

We are budgeting capex of NT\$30.7 billion for 2020. The anticipated capex increase in 2020 year over year is mainly due to our focusing on 5G network deployment and accelerating of retiring traditional PSTN to IP-based network.

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

- Q&A Session -