



CHT 2Q2020 Results

July 30, 2020 at 3:00 P.M. (Taipei Time)

Thank you, operator. Hello, everyone, and welcome to our second quarter 2020 results conference call. This is Angela Tsai, the Director of Investor Relations for Chunghwa Telecom.

During today's call, Mr. Harrison Kuo, our President and Chief Financial Officer, will provide an overview of our business achievements during the quarter and discuss operating highlights. He will be followed by Ms. FuFu Shen, our Assistant Vice President of Public Affairs, who will provide financial highlights. We will also have a 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 Kuo, please go ahead.

Chunghwa Telecom Overview

Thank you Angela and hello everyone. Welcome to our second quarter 2020 earnings call. Today, I would like to begin by highlighting our 5G service launch, which took place on June 30. We expect the launch of 5G service as a chance to lead the mobile market towards health growth. So far, we have seen evidence of a significant increase in adoption of our high price mobile plan amid the 5G launch.

We believe 5G is a chance to make telecom operators to provide services beyond that of standard operators by delivering services via a B2B2X model. We will actively create innovative 5G services by acquiring, building or collaborating with partners from different verticals. In addition, we aim to provide a seam less broadband connected environment to satisfy customers. We believe our advantages of the largest mobile broadband spectrum resource, the leading fixed network infrastructure and the availability of Mesh Wi-Fi are the key reasons for us to achieve the goal and stand out.

Now, I will provide key highlights of the second quarter of 2020. I am pleased to say our 300Mbps broadband migration increased more than 80% year over year in the second quarter. Our Virtual Private Network service offering provided to enterprise customers continued to grow to contribute to total revenue. In addition, our paid Home Wi-Fi subscription increased 120.0% year over year. We were glad to see the healthy growth of our core business.

During the quarter, we also continued to see the impact of the COVID-19 pandemic on our overall business. We saw the growth in fixed broadband, cloud and IDC services due to increased demand for work and study from home. MOD business was relatively resilient thanks to the growing stay-at-home life-style trend. In addition, digital channel access and transactions increased 92.1% year over year, enhancing our overall channel function and performance. However, international mobile roaming revenue continued to be affected due to the ongoing border lockdown, and we expect this trend will continue over the next several quarters.

Number One Mobile Services Provider

Now allow me to walk you through each of our business lines. On slide 5 is an update of our mobile business.

We are pleased with our continued leading market position by both mobile revenue and subscriber numbers during the quarter. In addition, we are encouraged to by our post-paid subscriber number, which has been increasing for 6 months in a row, showing our success in both existing subscriber retention and new subscriber acquisition, especially from the back-to-school initiatives.

In overall mobile performance, we are pleased to continue to experience the smallest decrease in mobile service revenue among our peers quarter over quarter. This was mainly due to our efforts of guiding subscribers to adopt higher price plans.

5G Service & Solution

Slide 6 provides an introduction of our 5G services.

As the largest 5G spectrum holder with better location in Taiwan, we anticipate offering to our customers quality 5G service offerings with cloud gaming, ultra-HD video streaming and VR or AR related applications at high speed and low latency. We aimed to acquire more than 1 million 5G subscribers over the next year.

In addition to retail consumers, we will also leverage our 5G network to support innovations for enterprises making mass connections, such as smart transportation, medical applications, smart inspection and other vertical applications. We value our large enterprise customer base, and expect the percentage of revenue contribution from enterprises in the 5G era to increase meaningfully in the medium term.

5G Deployment Plan

Slide 7 shows our 5G network construction plan over the next 2 years.

As of June 30, when we launched our 5G service, more than 2 thousand base stations covered all cities and counties in Taiwan. We provide 5G service on the 2.1GHz and 3.5GHz bands. By leveraging 5G, our 4G network, and 4 carrier aggregation enhancement, we are confident that we will be the front-runner in Taiwan in terms of 5G speed and coverage.

By the end of this year, we plan to complete more than 4 thousand base stations to ensure 5G full coverage in major metropolitan cities and important transportation hubs along high-speed rail and mass rapid transit lines.

By 2021, more than 8.5 thousand base stations are expected to further expand coverage nationwide. The peak 5G rate is expected to reach 2Gbps with support from 5G, our 4G network, and 5 carrier aggregation technology.

Fixed Broadband and Internet Services

Please turn to slide 8 for an update on our broadband business in the second quarter.

During the quarter, we are encouraged by the continued ARPU uplift in our broadband business, which reflects our success in migrating subscribers to adopt higher-speed services.

The number of subscribers signing up for connection speeds of 300Mbps or higher increased by 81.4% year over year. Amid the growing VPN circuit revenue contribution from enterprise customers, we are confident in overall broadband business even though lower-speed subscriber number continued to decrease quarter over quarter.

MOD/IPTV Service

Slide 9 demonstrates our MOD business performance.

In the second quarter of 2020, our IPTV/MOD platform continued to be the largest video platform in Taiwan with more than 2.08 million subscribers. In spite of the delay of the 2020 Tokyo Olympic Games, which decelerated subscription momentum, overall MOD revenue continued to increase 2.1% year over year, mainly from the increase in VOD revenue. Although our SVOD subscription number decreased year over year owing to program adjustments made during the quarter, we continued to see up-sell in our tiered-pricing channel packages continued to be the most popular, which actually upsold.

Going forward, we believed our IPTV/MOD platform, which carries VOD, channel and OTT services, will continue to be relatively resilient as the cable market is being eroded by OTTs and threatened by low price competition.

ICT Business

Please turn to slide 10 for our ICT business update.

In the second quarter of 2020, overall ICT project revenue increased 6.8% year over year mainly due to revenue recognition of some large projects and the increase of mobile ICT revenue. Because the COVID-19 pandemic continues to affect enterprise customers' business decisions, we will closely monitor business opportunities in the enterprise market, and aim to enhance ICT streaming revenue contribution to stabilize overall ICT business performance.

In terms of emerging ICT services, in the second quarter of 2020, IDC revenue increased 4.2% year over year and information security revenue increased 3.7% year over year. Cloud revenue decreased 15.8% year over year due to its higher base of project revenue in the second quarter of last year. However, we are glad to see that cloud streaming revenue continues to grow year over year.

To maintain our leading positions in these emerging services, we will continue to collaborate with our subsidiaries and partners to expand market share and profitability to strengthen overall performance in every sector.

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

Financial Overview

Thank you President Kuo. Now I will go through our financial results in greater detail.

Income Statement Highlights

I will begin with Slide 12, which provides highlights from our income statement.

For the second quarter of 2020, on a year over year basis, total revenues decreased by 4.6%, and operating costs and expenses decreased by 6.6%. Income from operations increased by 3%, and net income remained the same year over year. In addition, our EBITDA margin increased to 40.5% from 38.1% in the same period of 2019.

Business Segment Revenues

Please refer to slide 13 for a revenue breakdown by business segment.

The decrease in total revenue for the second quarter of 2020 was mainly due to the decreases in fixed voice revenue, handset sales revenue and mobile service revenue. These decreases were partially offset by increases in others revenue contributed by our subsidiary Chunghwa Precision Test.

Costs and Expenses

Moving on to slide 14, our operating costs and expenses decreased by NT\$2.61 billion, or 6.6%, year over year in the second quarter mainly due to lower interconnection costs, cost of goods sold, and maintenance and material expenses.

Cash Flow

Slide 15 shows that cash flow from operating activities for the second quarter of 2020 decreased by NT\$2.78 billion, or 17.5%, compared to the same period of 2019. This was mainly due to an increase in accounts receivable.

As of June 30, 2020, we had NT\$19.17 billion of cash and cash equivalents, a decrease of NT\$17.38 billion, or 47.6%, compared to the same period of 2019. The decrease was mainly attributable to the payment of concession fees for the 5G frequency spectrum auction, which was partially offset by an increase in short-term bills payable.

Operating Results vs. Forecast

Slide 16 shows our operating results as compared to our guidance.

In the second quarter of 2020, revenue was lower than guidance mainly due to lower handset sales and mobile service revenue. On the other hand, our operating income, net income and EPS exceeded guidance.

Effective and Efficient Capital Expenditure

Lastly, slide 17.

We are budgeting capex of NT\$30.7 billion for 2020. As we started 5G service on June 30, 5G related capex has been spent and will be executed according to our plan. We will also continue to focus our capex spending on our growing and emerging businesses to enhance overall performance.

- Q&A Session -