



CHT 1Q2022 Results

May 3, 2022 at 3:00 P.M. (Taipei Time)

Thank you. This is Angela Tsai, Director of Investor Relations for Chunghwa Telecom. Welcome to our first quarter 2022 results conference call. Joining me on the call today are Harrison Kuo, our President, and Vincent Chen, our Chief Financial Officer.

During today's call, management will begin by providing an overview of our business in the first quarter, followed by discussion of segment performance and financial highlights. After, we will move on to the question and answer portion of the call.

On slide 2, please note our safe harbor statement.

Now, I will turn the call over to President Kuo. President Kuo, please go ahead.

Business Overview - Mobile Service

Thank you, Angela, and hello, everyone. Welcome to our first quarter 2022 earnings call.

As an integrated telecom service provider, we achieved strong performance in the first quarter in terms of mobile, fixed-broadband and ICT businesses under our new corporate structure.

Let's begin on slide 4 for an overview of our business. In the first quarter, the mobile market in Taiwan remained steady, although the competitive landscape may change as our peers announce their merger plans. We were pleased to see the market consolidation and believe the new market structure could lead to healthier competition in Taiwan. For Chunghwa, with our most extensive networks for services, we are fully confident in maintaining our leading position in the mobile market going forward.

Our revenue and subscriber market share, excluding IoT SIMs, continued to outperformed peers in the first quarter by reaching 39.1% and 36%, respectively, currently in the leading status.

Business Overview - Mobile Service

Slide 5 presents our overall mobile business performance.

As our mobile subscriber number excluding IoT SIMs increased by 0.7% year-over-year with the successful upsell from existing subscribers, our mobile service revenue increased by 4.9% year over year and maintained its upward trend. In addition, 5G penetration developed steadily during the quarter, which helped to enhance the post-paid ARPU to achieve a 3.2% year-over-year increase. Meanwhile, we observed an average 35% uplift in monthly fees, attributable to customers who renewed contracts to adopt 5G services.

Business Overview – Fixed Broadband Service

Moving on the slide 6 for an overview of our overall fixed broadband business.

In the first quarter, we are pleased to see both our fixed broadband subscriber number and HiNet subscriber number continued to grow year-over-year, reflecting our leading market share in Taiwan's fixed broadband market.

Fixed broadband revenue in the first quarter continued to increase by 4.4% year-over-year due to the ongoing growth of higher speed service adoption, driven by digital opportunities. The number of sign-ups for connection speeds of 300 megabits per second or higher increased by 41% year-over-year, owing to work-from-home lifestyle. Fixed broadband ARPU also continued the growth trend for the 10th consecutive quarters, increasing by 3.5% year-over-year, further enhancing our overall performance.

Now, let's move onto the performance of our customer-centric business groups.

Consumer Business Group (CBG) - 1Q22 Financial Summary

Slide 8 illustrates the revenue picture of our consumer business group, or CBG.

Consumer business group revenue in the first quarter increased by 2.2% year over year, reflecting our success in satisfying customers' needs during the quarter. Mobile service revenue for the consumer group grew 4.9% year-over-year, mainly due to the increases in postpaid subscriber numbers and 5G migration. Fixed-line service revenue maintained its upward trend during the quarter, attributable to additional stay-at-home digital opportunities that encourage higher-speed service adoption. Sales revenue decreased year-over-year, mainly due to the handset supply issue

under COVID-19. Entertainment demand at home and from consumers continued to drive up the group's other revenues, say MOD and Hami Video, to achieve a 5.2% year-over-year increase during the quarter.

Looking ahead, to further expand opportunities in the consumer market, we will package and deliver more customer-centric services to increase market demand, focusing on media, sports, gaming and AR or VR applications.

Consumer Business Group (CBG) - 1Q22 Highlights

Slide 9 further demonstrates our highlights of consumer business group, including MOD, Hami Video and Triple-Play program that promotes Fixed-Broadband, Mobile and Wi-Fi services.

In January, catering to work-from-home demand and stay-at-home opportunities, we rolled out a Triple-Play program to encourage consumers to enjoy seamless broadband connections by adopting our mobile, fixed-broadband and Wi-Fi services together. At the same time, sign-ups of our Home Wi-Fi device continued to grow by 29% year over year to sustain the popularity of our home-centric applications.

In terms of our IPTV and OTT businesses, we are glad to report that the total subscriber number of MOD and Hami Video, who paid monthly fee on yearly basis instead of one-time sign-ups, increased to approximately 2.6 million during the quarter, remaining the largest video platform in Taiwan. MOD revenue maintained its upward trajectory as SVOD revenue grew for the fifth consecutive quarters, driven by upsell, and channel revenue continued to increase year-over-year, which was due to 90% sign-ups of highest package among the tiered pricing schemes. In addition, Hami Video subscriber number boosted in the first quarter thanks to popular drama packages and international badminton games held during the quarter. We expect the growth trend to continue for this year as popular international sport events will be held one after another to attract subscribers, such as the Asian Games and FIFA World Cup held in the second half.

Enterprise Business Group (EBG) - 1Q22 Financial Summary

Please turn to slide 10 for our enterprise business group performance.

In the first quarter, enterprise business group revenue increased 2.1% due to the year-over-year growth of mobile and fixed-broadband revenues as enterprise customers increased communication usage in the new normal. In addition, Overseas Taiwanese SMEs that shifted their operations and investments back home also brought in fixed-broadband demand and related revenues.

For enterprise ICT business, we are glad to see the total gross margin and profits increased year over year in the first quarter though revenue decreased year over year owing to certain defers of

project revenue recognition. However, we remained positive about the full-year performance of our enterprise ICT business.

Enterprise Business Group (EBG) - 1Q22 Highlights

Slide 11 demonstrates our enterprise business highlights.

We are glad to report growth momentum of our emerging enterprise applications. In the first quarter, 5G enterprise private network revenue tripled its growth year-over-year, affirming our strong progress ahead of our peers.

On a year-over-year basis, mobile ICT revenue and IDC revenue increased in the first quarter due to completion of large projects, while cybersecurity revenue reached double-digit growth attributable to an increase in both project and recurring revenue. Our efforts to develop capabilities of Big Data analysis worked out and achieved 9% revenue growth.

For ICT project performance, we worked with subsidiaries, the Chunghwa System Integration and CHT Security, to successfully acquire the first smart harbor project in Taiwan to realize 5G unmanned vehicle inspection. We also acquired a large integrated smart healthcare project, which translates our strong network and ICT capabilities into long-term recurring revenue. Going forward, we'll continue to leverage company resources and technologies to further develop our enterprise business opportunities.

International Business Group (IBG) - 1Q22 Financial Summary

Slide 12 demonstrates our international business performance.

To duplicate our successful solutions and services to the overseas market, for decades, our international business group has continued to develop a localized approach in many overseas markets, and serve global clients to deliver services in Taiwan, which is a unique advantage for Chunghwa among peers in Taiwan.

In the first quarter, our international business group revenue increased 13.8%, mainly from growing demand of our IDC, cloud and ICT services offering for global clients, including famous global OTT service providers. Our strategy is to cater to the growing business opportunities and provide quadruple service including fixed-line, undersea cable, IDC and HiNet peering to sustain revenue growth. I would like to highlight our investment in international undersea cables in particular, primarily in the SJC2 and Apricot consortiums, that enables us to capitalize on growing opportunities from international OTT service providers.

Now I would like to turn the call to Vincent for our financial highlights.

Financial Overview

Thank you, President Kuo. Good afternoon, everyone. I will now walk you through our first quarter financial results.

Income Statement Highlights

Let's start with Slide 14 that provides highlights from our income statement.

For the first quarter of 2022, total revenues increased by 2.4% on a year-over-year basis, while operating costs and expenses increased by 1.7% mainly due to the increase of personnel expenses of subsidiaries amid business growth, and depreciation expenses from the deployment of 5G network. Income from operations increased by 4.6%, and our net income increased by 2.5%. EPS increased by 0.02 to 1.16 in Q1, compared with same quarter last year. In addition, our EBITDA margin increased to 41.51% from 41.08% in the prior year period.

Balance Sheet Highlights

Please turn to slide 15 for our balance sheet highlights.

Comparing to December 31, 2021, total assets increased by 5.38 billion or 1.1%, total liabilities decreased by 3.78 billion or 3.1%.

The increase of total assets was mainly due to cash proceeds from issuance of sustainable bonds. The decrease of total liabilities was mainly due to the payment of accounts payable for equipment and suppliers, which offset the increase of bonds payable.

Debt ratio is 22.77% and net debt over EBITDA is -0.17 times, which demonstrate our financial strength.

Consolidated Cash Flow Summary

Slide 16 shows our cash flow summary.

Cash flows from operating activities for the first quarter of 2022 increased by 19.8% year over year to NT\$11.84 billion, mainly due to the increase of net income before tax and the increase of collections of accounts receivables.

As for our capital expenditure, in the first quarter, 5G capex spending increased year over year due to cash outflows for 5G network deployment constructed in last quarter. We see a 22% increase of free cash flows in Q1 compared with same quarter last year. Altogether, these numbers demonstrate strong cash flows generated from our operating activities, which provides strong support to fund our operations and future expansions.

Operating Results vs. Forecasts

On page 17, we present a table that compares our financial results with forecasts.

As you can see, in the first quarter of 2022, our revenue almost met our first quarter guidance, and the performance measures including income from operations, net income, EPS, EBITDA, and EBITDA margin, all beat our guidance.

Revenue attributed to project business fell short of our expectation, while we had better than expected revenues of core business from mobile services and broadband access. Operating costs and expenses were lower than our first quarter guidance because of lower project business costs, maintenance and repair costs.

That is the end of the financial review section. Now I turn the call back to President Kuo. Please President Kuo.

Awards and Recognition

Slide 18 illustrates our awards and recognitions in the first quarter, highlighting the domestic and international recognitions for ESG and ICT achievements.

We received Bronze Award of S&P Global Sustainability Award, ranking as one of the Top 10 in the global telecom sector and affirming our leading status of ESG practices and sustainable operations. We were also the award winner in the Smart City Summer Expo in Taiwan for our excellent innovative digital applications delivered in Thailand. In addition, we possessed the accreditation from AWS, Microsoft and Google in the first quarter to further sustain our international public cloud services.

Thank you for your attention. Now, I would like to open the floor for questions.

- Q&A Session -