



中華電信
Chunghwa Telecom

CHT 1Q2023 Results **May 9, 2023 at 4:00 P.M. (Taipei Time)**

Thank you. This is Angela Tsai, Director of Investor Relations for Chunghwa Telecom. Welcome to our first quarter 2023 results conference call. Joining me on the call today are Harrison Kuo, our Chairman and CEO, and Vincent Chen, our Chief Financial Officer.

During today's call, management will begin by providing the highlights and our business overview in the first quarter, followed by a discussion of our segment performance and the financial results. 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 our Chairman. Chairman Kuo, please go ahead.

1Q23 Highlights

Thank you, Angela, and hello, everyone. Welcome to our first quarter results conference call. As this is the first time I am speaking to investors as the Chairman and CEO of Chunghwa, I would like to thank all our investors for your long-term support over the past years, and look forward to continuing our relationship going forward. Chunghwa Telecom is truly a trustworthy company with growth opportunities and strong corporate governance.

Now, please flip to slide 4 for the highlights of the first-quarter. To begin with, we'd like to bring to your attentions that NCC, our regulator, gave its conditional approval of the mergers among our peers in the first quarter, which we believe is a positive move for shaping healthy market competition in Taiwan. Based on the steady 5G penetration and the future industry landscape, we expect stable mobile market development that will further support our revenue growth momentum going forward.

For the results of the first quarter 2023, we were pleased that we beat all financial targets despite the uncertainties in the macro-economic context, thanks to the vibrant growth of our three business groups, which all delivered positive YoY increases in each segment's revenue and profits.

In addition, with our consistent business strategies that drive our mobile and broadband services, our telecom services continued to deliver robust performance in the first quarter, including our 6.6% YoY mobile service revenue growth that outperformed to lead the industry, as well as the encouraging fixed broadband high-speed 300Mbps and above service subscriptions exceeded the threshold of 1 million.

Our technology capabilities also continued to fuel the performance of innovative applications. As a result, EBG's emerging enterprise application revenue demonstrated strong growth and was up by more than 30% year over year. For CBG, subscription and advertisement revenue from MOD and Hami Video accelerated due to our 5G plus 4D multi-angle broadcasting capabilities utilized in the broadcasting of the World Baseball Classic during the quarter.

Business Overview – Mobile Service

Now, let's move onto a closer look at our mobile business on slide 5.

In the first quarter, we were delighted to report that we expanded our leadership in subscriber share and revenue share in Taiwan's mobile market, climbing to 36.8% and 39.7%, respectively, with growth on a YoY and QoQ basis, affirming our sustainable leading position in Taiwan. We are even more pleased to see our revenue share exceeded our subscriber share by 2.9%, reflecting a healthier subscriber structure compared to our peers.

Our mobile service revenue also took the lead in the industry with a 6.6% increase, maintaining its growth for 21 consecutive months on a year-over-year basis, owing to the upsells resulting from 5G migration and the increase of post-paid subscriber numbers. For those who migrate from our 4G to 5G, we observed an average 43% uplift in their mobile monthly fees. Additionally, owing to the revitalized cross-border activities, we see our roaming revenue and pre-paid revenue continued to ramp up in the first quarter. Total mobile subscriber numbers, excluding IoT SIMs, was up by 4.2% year-over-year backed by the increasing pre-paid and postpaid subscriber numbers, maintaining its upward trajectory for the 8th consecutive quarter.

In April, we teamed up with Line Mobile Taiwan to leverage digital capabilities on both sides that jointly increase better quality of customer service. We will continue our value creation strategy to expand our ecosystems going forward.

Business Overview – Fixed Broadband Service

Moving on to slide 6, you may find an update of our fixed broadband business.

We rolled out speed upgrade promotion package in the second half of 2022, which was very well-received and beyond our expectation. Following the speed upgrading momentum, we are delighted to announce that our accumulated subscribers adopting 300Mbps and above passed the threshold of 1 million in the first quarter. This success affirmed our strategy of focused resource allocation on attracting high speed service adoption. Going forward, we will follow the success and tilt our resources to grow 300Mbps, 500Mbps and Giga-level subscriptions.

In the first quarter, total fixed broadband revenue increased by 2.5% year over year driven by the digital trend and its opportunities. Fixed broadband ARPU also continued its growth trend for the 14th consecutive quarter, increasing by 0.8% year over year.

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

Consumer Business Group (CBG) – 1Q23 Financial Summary

Slide 8 presents the performance of our CBG group.

In the first quarter, income before tax of CBG increased by 3.3% year-over-year mainly due to the enduring growth of telecom services. Total revenue of CBG increased by 4.1% year-over-year while mobile service revenue grew by 7.2% year-over-year propelled by stable 5G migration and the increase of postpaid subscriber numbers. Fixed-line service revenue was flat while fixed broadband revenue maintained its upward trend owing to the successful upsell along with the speed upgrade and strong growth of home Wi-Fi services. Sales revenue increased by 4.4% year-over-year mainly due to the stabilized iPhone supply during the quarter.

Consumer Business Group (CBG) – 1Q23 Highlights

Slide 9 further illustrates our consumer business group highlights.

In the first quarter, our multiple-play package continued to support the growth momentum of our CBG business. The subscriber numbers of mobile, fixed-broadband and Wi-Fi services altogether demonstrated 17.6% quarter-over-quarter growth. In particular, our Home Wi-Fi subscription numbers increased by 1.5 times on year-over-year basis, boosting our subscription-based revenue and sustaining the popularity of home-centric applications.

The number of our video subscription increased during the quarter thanks to our attractive content and effective marketing strategies. MOD's revenue and subscriber number increased mainly due to our successful bundled plans promoting MOD and fixed broadband altogether. Hami Video sign-ups soared thanks to our well-received broadcasting of the World Baseball Classic held in Taiwan. We demonstrated our 5G + 4D panorama broadcasting technology and delivered excellent viewing experiences. The success was also reflected in the growth of our advertisement revenue. We will continue to invest in sports events and exclusive content to maintain our video platform leading positions in Taiwan.

Enterprise Business Group (EBG) – 1Q23 Financial Summary

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

In the first quarter, EBG reported a 3.7% year-over-year increase of its income before tax, demonstrating its robust growth momentum. On a year-over-year basis, total revenue of EBG increased by 8.2% mainly driven by the strong growth of our ICT business. Revenues of 5G private network, IDC, cloud, cyber security and big data services all reported double-digit year-over-year growth. In addition, other revenue of EBG increased by 32.6% year-over-year mainly due to the recognition of ST-2 satellite compensation from the government.

Mobile service revenue was flat in the first quarter mainly attributable to the continued 5G upselling as well as the growth of international roaming revenue driven by the recovery of international business activities and tourism.

Furthermore, we were glad to see the digital transformation trend and its opportunities continued to enhance our data communication and broadband access revenue, although fixed-line revenue decreased year-over-year in the first quarter impacted by decreased voice revenue.

Enterprise Business Group (EBG) – 1Q23 Highlights

Slide 11 illustrates our enterprise business highlights.

In the first quarter, on a year-over-year basis, our total enterprise emerging application revenue increased by 31.5% as most of our major applications demonstrated a double-digit growth rate. In particular, 5G private network and big data analysis applications showed their strong market potential by doubling the revenues on a year-over-year basis.

In fact, we constantly leverage 5G technology to advance smart medical applications. In the first quarter, we successfully facilitated 5G private network in the hospital to create the immersive AR environment for daVinci surgical training via 3D technology assistance, which is also a milestone for our hospital partners.

Furthermore, our AI platform solutions combining cutting-edged AI and big data analysis capabilities are being well-received by customers. We continued to acquire chatbots and image analysis projects in the areas of judiciary, power-saving practices and security industry.

We were also excited to see our cloud, IDC, and cybersecurity services all achieve significant year-over-year revenue growth in the first quarter with 39%, 39% and 32% growth, respectively, owing to the increasing demands of digital transformation trend and its opportunities.

International Business Group (IBG) – 1Q23 Financial Summary

Slide 12 illustrates our international business performance.

In the first quarter, our international business group revenue increased by 24.3% year-over-year, mainly driven by emerging business revenue and fixed broadband revenue due to strong demand of International Private Leased Circuit, IDC and cloud services from global clients.

In the first quarter, our subsidiary in Japan made great strides as they successfully received the green light to acquire large-scale ICT construction projects in Japan by obtaining Japan's Specific Construction License for the telecommunication construction business. With the license, we anticipate foreseen business expansion in Japan, particularly the areas of large ICT projects and 5G private network constructions.

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

Financial Overview

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

Income Statement Highlights

Let's start with Slide 14, income statement highlights.

For the first quarter of 2023, total revenues increased by 5.7% to 54.21 billion from 51.30 billion compared to same quarter last year. The increase was primarily driven by robust mobile service and ICT revenues.

Income from operations grew by 4.4% to 12.17 billion, mainly attributable to higher profits from ICT business and government compensation related to ST-2. EPS increased by 6.4% to 1.24 from 1.17 on year and EBITDA also grew by 3.3%. EBITDA margin continued to stay at above 40%.

Balance Sheet Highlights

Now move on to page 15 for balance sheet highlights.

Compared to the end of 2022, total assets on March 31 of 2023 grew by 1.38 billion mainly due to an increase in current assets. Total liabilities declined by 6.4%, primarily attributable to the decrease of accounts payable. This brings down our debt ratio from 24% to 23%. On top of that, net debt over EBITDA remains zero. Altogether, these ratios showcase how robust our balance sheet is.

Consolidated Cash Flow Summary

Page 16 presents the summary of our cash flows.

Cash flows from operating activities decreased by 5.2% on year, mainly due to the settlement of salaries payable, and payments to suppliers and maintenance contractors.

As for capital expenditure, the total amount of cash outlays increased by 3.6%. Specifically, mobile-related capex was lowered by 35% on year whereas non-mobile related capex increased by 33% on year mainly attributable to IDC investments. In addition, free cash flows decreased by 12.2% on a year-over-year basis.

Overall, our strong balance sheet together with robust cash flows from operations lay out solid foundation for us to steer through economic uncertainty and to remain committed to driving operational growth and creating long-term value for our shareholders.

Operating Results vs. Forecast

On slide 17, the table reports financial results against our financial guidance.

In the first quarter of 2023, all performance measures, including revenue, income from operations, net income, EBITDA, and EBITDA margin exceeded our financial forecasts. Notably, profit-related performance measures, such as income from operations, net income and EBITDA beat our guidance by a modest margin, attributable to continuously strong performance in core and ICT businesses.

That concludes the overview of our Q1 financial results. Let me turn the call over to Harrison.

ESG Achievements

Thank you, Vincent. On slide 18 is our awards and ESG recognitions received in the first quarter.

In the Sustainability Yearbook 2023, we were awarded the prestigious Top 5% S&P Global ESG Score, competing against over 7,800 companies worldwide. Our impressive performance also placed us the top 5% and the 3rd ranking in the Telecommunications group.

At the FinanceAsia Awards, we proudly received 3 Gold Awards for Best Overall Company, Best Telecommunications Company, and Best Corporate ESG Strategy. Additionally, we were honored with the Silver Award for Best Large-cap, and the Bronze Awards for Best Investor Relations and Best Diversity, Equation and Inclusion Awards. I'd like to thank investors again for your encouraging support.

Moreover, our commitment to corporate governance excellence was acknowledged by Taiwan Stock Exchange, recognizing us as one of the TOP 5% companies. This marks our 8th time receiving awards for best corporate governance Taiwanese companies in 2022. Our subsidiaries, Chief Telecom and Chunghwa Precision Test, also received the TOP 5% recognition for their corporate governance, showcasing the consolidated strengths of the CHT Group.

These achievements solidify our position as a leader in the telecommunications industry and exemplify our unwavering commitment to sustainability, ethical practices, and corporate excellence. Guided by responsible business principles, we remain dedicated to delivering long-term value for our stakeholders.

This concludes our prepared remarks, thank you for your attention. At this time, I would like to open up our conference call for questions.

- Q&A Session -