



## **CHT 4Q2020 Results**

### **Feb 4, 2021 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 2020 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 during the quarter, followed by a discussion of operational and financial highlights, and then we will move on to the Q&A session.

On slide 2, please note our safe harbor statement.

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

#### Chunghwa Telecom Overview

Thank you, Angela, and hello, everyone. Welcome to our fourth quarter 2020 earnings call.

Let's begin on slide 4. In the fourth quarter of 2020, mobile competition was relatively stable and the operators were more focused on 5G migration. We are pleased that the number of 5G sign-ups exceeded our annual target more quickly than we had expected, and the iPhone 12 launch continued to push up the adoption of high-priced 5G plans. We observe that 88% of iPhone 12 subscribers chose plans of NT\$999 or above. In addition, construction of our 5G base station is ahead of schedule. By the end of 2020, we managed to establish over 4,500 base stations nationwide, and expect to exceed 10,000 base stations by the end of 2021. In terms of 5G vertical application, we participated in the world's first 5G mmWave enterprise private network for semi-conductor industry, which launched in Kaohsiung city during the fourth quarter, marking another milestone of our efforts to develop 5G smart manufacturing. We intend to leverage the government's 5G subsidies to substantially accelerate 5G network construction from 5 years to 3 years, which we will elaborate later on.

Now, I will provide key highlights from the fourth quarter of 2020. For our broadband business, we are pleased to see continued ARPU uplift as a result of the ongoing increase in higher price plan adoption. Subscriber migration to our broadband of 300 Mbps or higher continued to increase by approximately 69% year-over-year, contributing to year-over-year broadband revenue growth for the eleventh month in a row. The number of Home Wi-Fi devices also increased 373% year-over-year.

#### Number One Mobile Services Provider

Now, allow me to walk you through each of our business lines. Turning to Slide 5, you can see an update of our mobile services business.

In the fourth quarter of 2020, we continued to maintain our leading position in the mobile market as the subscriber market share excluding IoT SIMs reached to 36.0% and the revenue market share increased to 38.4%. We were pleased to see our post-paid mobile subscriber net-adds maintained positive for four consecutive quarters, marking a whole year, attributable to effective 4G subscriber retention and 5G migration, which we believe will continue to shepherd our mobile business in a healthy trajectory.

As we have seen upsell in 4G, our 5G continued to enhance the contribution of higher price plans, and we aim to accumulate 2 million 5G subscribers this year, we remain optimistic about our mobile performance and market development in 2021.

### Fixed Broadband Services

Please turn to slide 6 for an update on our broadband business in the fourth quarter.

During the quarter, our broadband ARPU increased by 3% year-over-year, which reflects our success in migrating subscribers to adopt higher-speed services and other benefits from stay-at-home opportunities in “the new normal”.

The number of subscribers that signed up for connection speeds of 300 megabits per second or higher increased by 69.0% year-over-year, while VPN circuit revenue contributions from enterprise customers grew as well. Thus, we are confident that we will maintain the overall upward trend in our broadband business, despite the ongoing decline in the number of lower-speed subscribers quarter-over-quarter.

Going forward, we will focus on developing data-driven subscription enhancement, home-centric applications and higher-speed migration to expand our household market share.

### MOD/IPTV Service

Slide 7 demonstrates our MOD business performance.

In the fourth quarter of 2020, our MOD/IPTV platform continued to be the largest video platform in Taiwan, and our business remained relatively resilient under the headwind of COVID-19 pandemic, which delayed major large sporting events and movie releases. Subscription momentum decelerated as a result; however, MOD ARPU slightly increased quarter-over-quarter as subscribers of OTT services, such as Netflix, continued to grow. In addition, we continued to see upsell in our tiered-pricing channel packages and digital convergence packages.

Going forward, we will continue to differentiate our products by enriching 4K content as well as AR and VR services, along with the Tokyo Olympic Games which had been delayed and is expected to take place in 2021. We also plan to enhance revenue by promoting cross sales on the platform to further enhance ARPU.

### Enterprise ICT Initiatives

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

Overall ICT project revenue increased by 49.9% year-over-year in the fourth quarter due to revenue recognition of large government ICT projects.

Our emerging ICT service revenues increased year-over-year as well. IDC revenue increased by 75.6% year-over-year due to the completion of large projects. Cloud revenue increased 28.6% year-over-year as we see the revenue increase in both projects and international public cloud services. Cyber security revenue increased 23.8% year-over-year with a significant contribution from finance- related projects.

As ICT project revenue accounted for a greater proportion of our total revenue year over year, we will continue to enhance ICT technologies and be more selective in selecting projects to further enhance project margin and profitability.

At this time, I would like to turn the call over to Vincent, who will review our financial results.

### Financial Overview

Thank you President Kuo. Good afternoon, everyone. I will now discuss our fourth quarter financial results.

### Income Statement Highlights

Please turn to Slide 10, which provides highlights from our income statement.

For the fourth quarter of 2020, on a year-over-year basis, total revenues increased by 7.7%, and operating costs and expenses increased by 11.3%. Income from operations increased by 5.7%, and our net income increased by 5.8%. In addition, our EBITDA margin decreased to 33.44% in the fourth quarter from 33.94% in the prior year period.

### Business Segment Revenues

Please turn to slide 11 for a breakdown of revenue by business segment.

In the fourth quarter of 2020, total revenue increased by 7.7% year-over-year, mainly due to the increase in ICT project revenue, Internet related revenue, and handset sales revenue, which offset the decrease in revenues from voice and mobile services as a result of market competition and VoIP substitution.

### Costs and Expenses

Moving on to slide 12, our operating costs and expenses in the fourth quarter increased by NT\$5.10 billion, or 11.3%, year-over-year, mainly due to higher ICT project costs and cost of goods sold.

### Cash Flow

Slide 13 shows that cash flows from operating activities for the fourth quarter of 2020 increased by NT\$3.82 billion, or 16.2%, compared to the prior year period. This was mainly driven by an increase of accounts payable.

As of December 31, 2020, the balance of cash and cash equivalents was NT\$30.44 billion, a decrease of NT\$3.61 billion, or 10.6%, relative to 2019. The decline was primarily attributable to concession fee payments from the 5G frequency spectrum auction.

### Operating Results vs. Forecast

On page 14, you may find a table that compares our financial results with forecasts.

As you can see, for Q4 2020, our performance measures including income from operations, net income EPS, EBITDA, and EBITDA margin, all exceeded our forecasts. Revenue met guidance attributed to higher handset sales and ICT project revenue.

### 2021 Forecast

Moving on to slide 15, please see our consolidated guidance for 2021.

Looking ahead, total revenue for 2021 is expected to increase by 0.8 to 1% compared to 2020. The increase in revenue is expected to be driven by increases in mobile communications revenue, internet revenue and handset sales. Operating costs and expenses for 2021 are expected to increase by between 0.4 to 0.5% as a result of the increase in cost of goods sold and depreciation expense in 5G equipment and the amortization expense for 5G concession. Given these projections, we expect 2.5% year-over-year decrease to 2% year-over-year increase in EPS.

### Effective and Efficient Capital Expenditure

Lastly, please turn to slide 16.

Our capex spending in 2020 was NT\$23.3 billion, which was lower than the budgeted amount of NT\$30.7 billion. In spite of the capex increase of 5G network construction, the actual spending decrease owing to price negotiations with vendors during the procurement and internal optimization review process, as well as changes in projects, which includes some spending that deferred to 2021.

For 2021, we are budgeting NT\$43.1 billion in capex, including spending on business focuses in 2021, such as accelerating the construction of 5G network, IDC and submarine cable, as well as deferred items from 2020.

Thank you for your time. Now, we would like to hand the call over to President Kuo for highlights of our strategies in 2021. President Kuo, please.

### 2021 Strategic Focuses

Please turn to slide 17. Now, I would like to highlight some key items as part of our 2021 development strategy.

As mentioned earlier, in 2021, we will accelerate 5G network deployment to ensure our network speed and quality remain ahead of our peers', thereby boosting our 5G subscriber base while increasing overall mobile service revenue.

For fixed broadband business, we will continue our success in fixed broadband migration to enhance fixed broadband revenue in the always- broadband-connected environment. To grow overall ICT business, we will focus on 5G enterprise private network opportunities and strengthen our partnerships to develop smart applications by leveraging government incentives used to encourage national, forward-looking development.

To expand new services and market share, we aim to grow ICT ecosystems by acquiring, building, or collaborating with industrial partners, particularly in the realm of cybersecurity, IDC, cloud computing, and IoT applications.

To capture business opportunities from overseas partners, we will continue to invest in submarine construction as we hope to build submarine cable double rings in the Asia-Pacific region and become the APAC region's submarine cable center.

#### Awards and Recognition

Finally, Slide 18 illustrates our awards and recognitions from the fourth quarter, highlighting our distinction in brand value, corporate governance, and sustainability, as well as our strengths in mobile, IDC, and cloud services.

Also worth noting, Chunghwa was the first operator to receive validations of Azure Expert Managed Service Provider and AWS Managed Service Provider, further demonstrating our cloud service capabilities and potential business opportunities.

Thank you for your time. Now, we would like to open up the line for questions.

**- Q&A Session -**