



中華電信
Chunghwa Telecom

CHT 3Q2021 Results

November 1, 2021 at 3:00 P.M. (Taipei Time)

Thank you. This is Angela Tsai, Director of Investor Relations for Chunghwa Telecom. Welcome to our third quarter 2021 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 from this quarter, followed by a discussion of operational and financial highlights. After, we will move on to the question and answer session.

On slide 2, please note our safe harbor statement.

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 third quarter 2021 earnings call.

In the third quarter of 2021, we are pleased to report robust performance. In the mobile business, 5G subscriber numbers continued to grow during the quarter, and the launch of iPhone 13 series later in the third quarter further drove up both 5G sign-ups and high price plan adoption. About 90% of iPhone 13 users chose plans of NT\$999 or above, and approximately three-fourths of the overall 5G users adopted plans of NT\$999 or above. In addition, customers who renewed contracts to adopt 5G services contributed an average of 29% uplift in monthly fees to sustain the upwardly trending APRU. Going forward, we will continue to orderly steer 5G migration by offering diversified price plans to accommodate different demands and accelerate 5G deployment to provide quality 5G network. At this time, we have more than 10 thousand 5G base stations, and we remain confident in our ability to achieve our guidance of building 12 thousand 5G base stations by the end of this year.

In the third quarter, both broadband and MOD businesses demonstrated promising performance. HiNet subscriber net-adds continued to increase on a year-over-year basis due to work from home benefits. Broadband revenue increase and ARPU uplift continued as subscriber migration to our broadband services of 300 Mbps or higher increased by 48% year-over-year. The Tokyo Olympic Games broadcasted on MOD platform and Hami Video during the third quarter, successfully reaching a record-high viewing rate and bringing in a surge of advertisement revenue despite the relatively small revenue base. Going forward, we will continue our strategy to acquire popular content to retain customers and respond to market competition, as we strive to maintain our leading status of the largest video platform in Taiwan.

For ICT business, we are delighted to see the average ICT project margin grew year-over-year. As we continue our efforts to enhance ICT margin, we expect the overall business performance will continue to develop on track.

Number One Mobile Services Provider

Now, allow me to walk you through each of our business lines. Turning to Slide 5, you may find updates on our mobile business.

In the third quarter, we continued to maintain our leading position in the mobile market, as revenue market share remained at 38.8% and subscriber market share increased to 36.1%, excluding IoT SIMs.

During the quarter, our mobile customer net-adds and post-paid net-adds both ranked highest among the big three majors. As post-paid subscriber number increased year over year and 5G migration enhanced high price plan adoption, our mobile service revenue continued to increase year over year, which also led to the year-over-year increase of our post-paid ARPU.

Fixed Broadband Services

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

Our HiNet subscriber net-adds continued to increase year-over-year in the third quarter, reflecting the growing fixed broadband demand in the market.

We were also pleased to see that our broadband ARPU increased by 3% year-over-year, which reflects our success in migrating subscribers to adopt higher-speed services. The number of subscribers that signed up for connection speeds of 300 megabits per second or higher increased by 48% year-over-year, while VPN circuit revenue contributions from enterprise customers increased as well.

In addition, benefits stemming from stay-at-home opportunities in “the new normal” continued to grow in the third quarter. Our responding packages that bundled broadband with Netflix, gaming and online learning continued to be well-received and brought in revenues. Going forward, we will continue our efforts to maintain the upward trend of broadband revenue and ARPU.

MOD/IPTV Service

Slide 7 illustrates our MOD business performance.

In the third quarter of 2021, MOD revenue increased by 5% year-over-year due to our proper pricing strategy and the success of broadcasting the Tokyo Olympic Games. The SVOD all-pass package that rolled out in the first quarter rapidly accumulated its subscription number and successfully strengthened VOD revenue growth for two quarters in a row. Channel revenues continued to increase year-over-year as 90% of subscribers chose the highest price package among the tiered pricing schemes. In addition, advertisement revenue increased as MOD and Hami Video successfully leverage the highest-ever viewing traffic for the Olympic Games into advertisement orders. As a result, the MOD ARPU achieved 5% increase year-over-year in the third quarter.

Moving forward, we will continue to enhance content offerings by acquiring popular sport events and carrying well-known OTTs, as we aim to maintain our leading position as the largest video platform in Taiwan.

ICT Business

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

As mentioned earlier, on a year-over-year basis, ICT project margin in the third quarter continued to increase as the ICT gross profit increased as well, which is positive to our overall bottom line.

In addition, IDC revenue increased 11% year-over-year, mainly due to revenue recognition from the projects in financial industry. Cloud revenues remained flat year-over-year, while cyber security revenue decreased by 16% year-over-year due to project revenue delays. However, we are delighted to see recurring revenue of cyber security increased year over year, reflecting the subscription-based cyber security service continued to be well-received.

Going forward, we will continue to enhance our overall ICT technology capabilities to cater to more emerging digital opportunities and be more selective as we aim to further increase project profit margin.

Now, I would like to turn the call over to our CFO, Vincent Chen, who will review our financial results. Mr. Chen, please go ahead.

Financial Overview

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

Income Statement Highlights

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

For the third quarter of 2021, on a year-over-year basis, total revenues decreased by 2.5%, and operating costs and expenses decreased by 5.5%. Income from operations increased by 6.7%, and our net income increased by 12.8%. In addition, our EBITDA margin increased to 41.4% from 38.5% in the same period of 2020.

Business Segment Revenues

Slide 11 provides a breakdown of revenue by business segment.

In the third quarter of 2021, total revenue decreased by 2.5% year over year, mainly due to the decrease in ICT project revenue and the voice revenue as a result of VoIP substitution, which offset the increase of handset sales revenue, mobile service revenue and broadband revenue.

Costs and Expenses

Moving on to slide 12, our operating costs and expenses in the third quarter decreased by NT\$2.28 billion, 5.5% year-over-year, mainly due to lower ICT project cost and lower concession fees.

Cash Flow

Slide 13 shows that cash flows from operating activities for the third quarter of 2021 increased by NT\$0.85 billion, or 4.2%, compared to the prior year period. This was mainly due to an increase in pre-tax income.

Free cash flows decrease by 15.6% on a year over year basis due to higher capital outlay that will enhance our future revenue streams.

As of September 30, 2021, the balance of cash and cash equivalents was NT\$23.59 billion, an increase of NT\$5.89 billion, or 33.2%, compared to September 30, 2020. The increase was primarily attributable to the issuance of corporate bonds.

Operating Results vs. Forecast

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

As you can see, in the third quarter of 2021, all performance measures beat our guidance. Revenue met guidance attributed to higher mobile services, broadband access, and data communications revenue.

Effective and Efficient Capital Expenditure

Please turn to slide 15.

For 2021, we budget NT\$43.1 billion in capex, including spending on business focuses in 2021, such as accelerating the construction of 5G network, IDC and submarine cables.

As of September 30, 2021, cash outlays of IDC and submarine cable went below our expectations due to the delay of construction, while our 5G capex spending was on track and in line with our schedule of 5G base station deployment. We maintain our forecast that 2021 is our 5G investment peak.

Now, I would like to turn the call over to President Kuo for our awards and recognitions.

Awards and Recognition

Thank you, Vincent.

Finally, Slide 16 illustrates our awards and recognitions from the third quarter, highlighting our distinction in telecom operation, mobile data service and data center service as well as the recognition of corporate branding and ESG practices.

As a trust-worthy leading brand in Taiwan, we especially attach importance to sustainability, and will make full efforts to carry out sustainable development of the overall business.

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

- Q&A Session -