



中華電信
Chunghwa Telecom

CHT 4Q2023 Results **January 30, 2024, at 3:00 P.M. (Taipei Time)**

Thank you. I am Angela Tsai, Assistant Vice President of Financial Department for Chunghwa Telecom. Welcome to our fourth quarter 2023 results conference call. Joining me on the call today are our Chairman Harrison Kuo, President Ivan Lin, and Vincent Chen, our Chief Financial Officer.

During today's call, management will begin by providing the Chairman's message, our business overview, a discussion of our segment performance and the financial results followed by management guidance for 2024. After, we will move on to the question and answer portion of the call.

On slide 2, please read our disclaimers and note concerning forward-looking statements.

Now, without further delay, I will turn the call over to our Chairman. Chairman Kuo, please go ahead.

Chairman's Message

Thank you, Angela, and hello, everyone. Welcome to our fourth quarter results conference call, and I'd like to begin with our strong financial performance for 2023.

We concluded 2023 with an EPS of 4.76 NT dollars; while both revenue and EPS exceeded the high-end of our full-year guidance and hit 6-year highs. We are proud to beat the full-year guidance, and also commit to investors to give all-out efforts for this year.

During the fourth quarter of last year, Taiwan's telecom industry entered a new 3-player landscape where Chunghwa Telecom continues to be the largest telco, followed by the other two players. Our market cap represents 60% of the industry market value. Our revenue share in Taiwan's mobile market also exceeded 40%. In addition, we have the most 5G subscribers in Taiwan, with more than 3 million, not to mention the overall mobile subscriber number. All the stats highlight that our leading position far outweighs our peers. At the same time, we are happy to see the domestic industry evolution, and believe that under the current structure, value creation for customers will continue to remain the industry focus, and digital transformation will continue to develop and serve as one of the key growth drivers.

Keeping our No. 1 position, we reiterate our confidence in widening our lead against peers due to our solid strengths and growth momentum. In 2023, our mobile post-paid subscriber numbers continued its year-over-year growth throughout the whole year, despite the total number of mobile SIMs in Taiwan decreased in 2023. We also achieved the highest mobile service revenue in the industry. Our success in attracting subscribers speaks for our network strengths, including the most extensive mobile coverage, largest capacity and fastest speeds supported by our most numerous mobile base stations all ready in use. We believe our mobile subscriber gains and revenue growth in 2023 will continue and roll over to 2024.

Our competitive advantages also come from our cross-sector business wins, including our growing fixed broadband business, accelerating technology monetization, and ongoing investment in contents and digital ecosystems.

With our continuous efforts and business development, we maintain optimistic about positive outlook for the new year ahead.

Last, I'm pleased to share that we are establishing a subsidiary in Germany in the first half of 2024, which will serve as the forerunner for international business expansion in Europe. This marks a meaningful milestone of our international expansion.

Now, let me hand the call over to Ivan for the business updates of the fourth quarter of 2023.

Business Overview – Mobile Service

Thank you, Chairman Kuo, and hello everyone. Now, please flip to page 5 for an update on our outperforming mobile business.

As of November 2023, we maintained our leading position in Taiwan's mobile market with the largest subscriber share of 37.1%; meanwhile, we were excited to see our revenue share reach a remarkable milestone, exceeding 40% in the third quarter and hitting 40.2% by the end of last November, further widening our lead against our peers. Our excess revenue share over subscriber share increased to 3.1%, which is encouraging.

In addition, our mobile service revenue in the fourth quarter recorded a 5.8% YoY increase, maintaining its growth for 33 consecutive months, while our post-paid ARPU reported a 4.3% YoY increase, continuing its consecutive growth for the 11th quarter. These increases were mainly owing to the 5G migration upsells, international roaming recovery and the increase of post-

paid subscriber numbers.

Thanks to 5G adoption, we see the average monthly fee uplift from customers who migrated from 4G to 5G increased to 49% in the fourth quarter further from 44% in the third quarter, maintaining an inspiring upward trajectory.

Going forward, we expect the overall 5G penetration in Taiwan will continue to steadily develop in 2024, and we believe that Chunghwa will benefit the most given our #1 position for best 5G quality ranked by well-known international institutes.

Business Overview – Fixed Broadband Service

Let's move on to slide 6 for an update of our fixed broadband business.

In the fourth quarter, we're glad to see positive performance in the fixed broadband sector. Its revenue and ARPU increased by 2.6% and 1.1%, respectively, on a year-over-year basis, mainly attributed to the increase of higher speed migration. Our sign-ups for services of 300Mbps or higher continued to be popular among all speed mixes since the second quarter of 2023. Its YoY growth in the fourth quarter achieved 32%, maintaining a double-digit growth. It's worth noting that our speed profile optimization promoted by marketing incentives also worked in upgrading speeds from below 100Mbps to transition to higher speeds above 100Mbps. We see a 12% year-over-year increase in sign-ups for services at 100Mbps or higher.

As the optimization strategy will go on in 2024, we are confident in seeing the upward trend of fixed broadband ARPU continue going forward.

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

Consumer Business Group (CBG) – 4Q23 Financial Summary

Slide 8 presents the performance of our CBG group.

In the fourth quarter, total CBG revenue rose by 4.4% year-over-year. The increase was mainly driven by the notable increase of our outperforming mobile service revenue, at a 5.3% increase on year owing to the continued 5G migration and postpaid subscriber increase, better sales of

iPhone 15 series, and the stable growth of fixed broadband revenue with 3.3% uplift on year, while fixed line revenue decreased.

In addition, I'd like to highlight our notable international roaming revenue in 2023, which increased by 270% year over year, and has already surged to exceed pre-COVID-19 levels. In addition to busy international activities in 2023, our popular global roaming package also contributed to the success, which covered 125 countries to offer customers with the convenience of using one package to enjoy transnational data roaming during one trip. We expect the strong demand from customers will continue to drive the growth of our roaming business in 2024.

CBG's income before tax decreased by 0.2% year over year owing to the asset impairment loss accompanied with the phase-out of 3G network. Excluding the one-time factor, CBG's income before tax increased by 3.6% on year.

Consumer Business Group (CBG) – 4Q23 Highlights

Slide 9 further illustrates our consumer business group highlights.

In the fourth quarter, our multiple-play package continued to grow on a yearly basis. The subscriber numbers of mobile, fixed-broadband and Wi-Fi services altogether demonstrated 14% quarter-over-quarter growth, entering the seventh consecutive quarter of double digit QoQ growth.

In terms of individual and home centric applications, we were happy to report subscriber gains as well. Our video subscription continued to grow steadily by 3.7% year-over-year, mainly due to the rich content provided on both MOD and Hami Video, in particular the exclusive and award-winning dramas. In addition, we observed an increasing demand for CBG's cybersecurity services as consumers have become accustomed to accessing the internet across mobile and fixed broadband in the post-pandemic era. In the fourth quarter, our consumer cybersecurity service sign-ups increased by 19% year-over-year and demonstrated potential for further growth.

Going forward, we will continue to develop consumer applications to grow both application and telecom revenues in the sector.

Enterprise Business Group (EBG) – 4Q23 Financial Summary

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

In the fourth quarter, EBG revenue increased by 2.5% primarily attributed to a substantial 30% increase in other revenue driven by the equipment sales from a subsidiary and the launch of high-end mobile phones, contributing to a boost in sales revenue. Additionally, ICT business revenue increased by 2.3%, propelled by a rise in project revenue, sustained growth in cybersecurity service revenue and robust expansion in AIoT service revenue. Furthermore, EBG mobile services revenue increased by 3%, fueled by 5G upselling and the recovery of international roaming revenue. Although fixed-line revenue slightly decreased year-over-year mainly due to voice decline, data communication revenue and broadband access revenue continued to grow.

In spite of revenue growth, EBG reported a 6.2% year-over-year decrease of its income before tax mainly because of fixed voice decline and the asset impairment loss relating to 3G phase-out. Excluding the one-time impairment, EBG's income before tax decreased by 4.8% on year. Most importantly, ICT business revenue continues to increase and profit margin keeps improving.

Enterprise Business Group (EBG) – 4Q23 Highlights

Slide 11 illustrates our enterprise business highlights.

In the fourth quarter, our AIoT and cybersecurity business demonstrated robust growth, while the total emerging enterprise business revenues of our major applications decreased by 2.7% year-over-year due to the higher base of revenue recognition in the prior year relating to e-learning and fintech projects.

Specifically, cybersecurity business, achieved 7.3% growth in the fourth quarter driven by increasing service demands from our enterprise clients, climbing upwards for the eighth consecutive quarter on a year-over-year basis. Furthermore, our AIoT business also experienced a year-over-year increase owing to the revenue injection from large projects relating to smart energy and intelligent buildings.

Furthermore, although our cloud service revenue and IDC revenue decreased on a yearly basis due to one-time projects recognized last year that created a high revenue base, we are glad to see our recurring revenue of these two services delivered stable growth. On year over year basis, recurring revenue from international public cloud services vibrantly grew by 20%, while recurring revenue of IDC grew 15% in the fourth quarter.

In terms of applications, in the fourth quarter, we achieve a milestone by establishing Taiwan's most extensive 5G network slicing verification field in Kaohsiung to support innovation

development, and successfully delivered multiple innovative cybersecurity and encrypted divided-storage cloud solutions, catering to the diverse needs of our clients.

International Business Group (IBG) – 4Q23 Financial Summary

Slide 12 illustrates our international business performance.

In the fourth quarter, total revenue and income before tax of IBG increased about 33% and 39% year over year respectively. The impressive growth was mainly fueled by the growing demands for emerging business, including IDC and cloud services, from our global clients. During the quarter, we see ICT project completion, and continued to find growing opportunities.

For global expansion, we are glad to announce that we signed an MOU with NTT Corporation in the fourth quarter, aiming to accelerate the realization of Innovative Optical and Wireless Network service.

Looking forward, we are optimistic to see the growth momentum roll over into 2024. In addition, as the SJC2 international undersea cable is expected to launch service this year, we look forward to capitalizing our undersea cable assets amid growing opportunities from international OTT service providers.

Now, I would like to turn the call to Vincent.

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

Financial Overview

Thank you, President Ivan. Good afternoon, everyone. Now, I will present a financial summary of our fourth quarter results in 2023 and financial guidance for 2024.

Income Statement Highlights

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

During the fourth quarter in 2023, total revenue increased by 4% compared to same quarter last year, primarily attributed by growing ICT business revenue, sales revenue, mobile service revenue, and broadband service revenue. Income from operations and net income decreased by 4.6% and 1.7% on year, respectively, mainly due to the impairment loss of telecom

equipment caused by the phase-out of 3G network and the impairment loss of investment property. Excluding the impact of aforementioned one-time impairment losses, income from operations and net income increased by 2.2% and 7.2% on year, respectively.

For the full year results, total revenue increased by 3% year over year as a result of solid growth of our mobile, ICT and broadband services. Income from operations decreased by 1.0% due to the one-time impairment losses mentioned above. Excluding the one-time effect, income from operations grew by 0.6%. Net income increased by 1.2% on a year. EPS rose from 4.7 to 4.76. It is noteworthy that both of our revenue and EPS reached a six-year high and have maintained growth momentum for four consecutive years.

Balance Sheet Highlights

Now move on to page 15 for balance sheet highlights.

As of December 31st of 2023, total assets increased by 0.2% on year, mainly due to the increase in current assets, long-term Investments, and other assets, which offset the decrease in intangible assets.

Total liabilities decreased mildly on year, primarily attributable to the decrease in accounts payable.

Additionally, debt ratio decreased slightly and net debt over EBITDA remained zero. Altogether, we continue to maintain a strong balance sheet with great financial flexibility to fully support our operations and business expansion and swiftly adapt to fast-changing macroeconomic climate.

Consolidated Cash Flow Summary

Page 16 provides the summary of our cash flows.

For 2023, we continue to generate stable and solid cash flows from operations. While our operating cash flows were down by 1.8% relative to the prior year, the decrease was mainly due to income taxes payments and settlement of accounts payable.

Capital expenditures decreased by 2.5% on year. Of which, mobile-related capex was reduced by 19.3% whereas non-mobile capex increased by 10.6%. The latter was largely

attributable to greater IDC investments. On top of that, free cash flows decreased by 1.4% on year.

Collectively, our robust balance sheet together with solid operating cash flows enable us to seize business opportunities amid trends of digital and sustainability transformations, and further create sustainable and long-term value for our shareholders.

Operating Results vs. Forecast

On slide 17, the table presents financial results against management guidance.

In the fourth quarter of 2023, total revenue was about on par with our revenue projection. Profit-related metrics fell short of our expectations, largely attributed to the higher maintenance and material expenses, impairment losses on the phase-out of 3G network and investment property.

For the full year results, our revenue and profit-related measures mostly exceeded the high-end target of our full-year guidance, driven by our steady growing core business and improved margin of ICT business.

That concludes the overview of our 2023 financial results.

Financial Forecast for 2024

Moving on to slide 18, please see our guidance for 2024.

Looking ahead, total revenue for 2024, compared to 2023, is expected to increase by between 2.4% and 3.1%, primarily driven by growth momentum in our core business. Well-received 5G services and the speed upgrade promotion packages of fixed broadband are expected to continuously lift subscriber numbers and ARPU. ICT business also contributes as we expect growing emerging services to cater to customers' demands for digital transformation. Operating costs and expenses are expected to rise between 4.0% and 4.6% as a result of the investments in talents and infrastructure that support future business development in core and emerging businesses. Given these projections, we expect our EPS to be in the range between 4.60 and 4.80.

As for capital spending, we budget about 34 billion for 2024. As our 5G network is close to its full deployment and its No.1 quality has been consistently endorsed by Opensignal and

Speedtest for consecutive years, our mobile-related capex is expected to decrease by 14% on year, which continues its downtrend since 2021 for three consecutive years. Non-mobile related capex, which consists of investments in fixed line network, IDC and submarine cables, is expected to increase by 24.7% on year to support business expansion in emerging business.

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

Awards and ESG Recognitions

Thank you, Vincent. On slide 19 is our awards and ESG achievement highlights in the fourth quarter.

In 2023, Chunghwa Telecom was recognized by the Dow Jones Sustainability World Index as No.1 of the world-class telecommunication sustainability leaders, as well as the Emerging Market Index, reflecting recognition from investors for our ESG practices. We also receive a double-A ESG rating from MSCI. In addition, we were reaffirmed the highest double-A credit rating by S&P Global Ratings, continuing our exclusive leading position among global telcos. Besides, to enhance interest alignment between top management team and shareholders, we are the only telecom operator in Taiwan to follow the international best practice of implementing the Incentive Compensation Clawback Policy.

In addition, as we implemented an internal carbon pricing mechanism of 1600 NT dollars per ton in 2023, we are delighted to report that the internal carbon fee collected for 2023 was 0.98 billion NT dollars, all used to encourage carbon reduction initiatives and technologies. In the fourth quarter, we also completed carbon credit procurement to further utilize product carbon neutralization. Meanwhile, we initiated the first environmental footprint standards of network equipment in Taiwan to facilitate a low-carbon supply chain.

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

- Q&A Session -