



中華電信
Chunghwa Telecom

CHT 1Q2024 Results May 2, 2024, at 3:00 P.M. (Taipei Time)

Thank you. I am Angela Tsai, Assistant Vice President of the Financial Department for Chunghwa Telecom. Welcome to our first quarter 2024 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 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 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 first quarter 2024 results conference call.

In the first quarter, we proudly announced our success in expanding our lead in Taiwan's telecom market, amidst the robust three-player landscape. Our revenue share in Taiwan's mobile market continued to steadily grow, climbing from 40.3% to 40.4%, quarter over quarter, while subscriber share enjoyed an increase from 37.6% to 37.7%, maintaining the growth trajectory after the market consolidation completed last quarter.

Our financial performance also speaks for our business success. Total revenue in the first quarter hit a new high for the same period since 2017. Income before tax also reached a record high for the same period since 2016, on the basis of excluding the one-time item of the government compensation for ST-2 satellite recognized in the first quarter last year.

To invest in our leadership and long-term growth, we have been establishing AI infrastructure to enhance our operations and seize opportunities in the AI mega trend. Our AI-powered network solutions have been successfully used to predict network degradation and optimize energy

consumption to enhance our network efficiency and contribute to cost reduction. In addition, Generative AI is another technology that we leverage on problem shooting to enhance service quality, response time, and cost efficiency in operations, particularly in relation to network maintenance and customer service. To capture AI exponential opportunities, we actively deployed computility across cloud, edge and terminals to bring computing resources closer to our customers with an intent to access AI applications. We also plan to establish AI data centers and develop GPU as a service, empowering industries to complete their AI transformations. To achieve this goal, we will team up with local and global ICT partners to establish ecosystems for the AI-powered future.

Another value-added deployment lies in the expansion of content investments. In addition to network and platform strengths, we have been continuously investing in quality contents to win subscribers over and thus are able to form the largest video platform in Taiwan. We are glad to announce that recently, we have acquired exclusive broadcasting right of 2024 Paris Summer Olympics Games and believe that this will significantly enrich our content portfolio in the incoming quarter. Moreover, following the announcement made last December, we officially set up Chunghwa Digital Cultural and Creative Capital, CDCCC, in the first quarter to scale up our investment in video content and intellectual property management. In February, our Board of Directors further approved the investment in Fund of Cultural Content Industry managed by CDCCC. This Fund will work as an important vehicle to upgrade cultural content industry and further integrate our network, platform and content IP to deliver quality content to users.

Last, I'd like to share that we were saddened by the serious earthquake that happened in Taiwan in April, and in response, we offered complementary communications to help disaster relief in Hualien by successfully leveraging a low-earth-orbit satellite, LEO. Going forward, in addition to GEO, the geostationary orbit, and LEO, we also plan to add MEO, the medium earth orbit, to our satellite portfolio this year to continuously strengthen our network resilience, and further provide services to enterprise and government customers.

Now, let me hand the call over to Ivan for the business updates of the first quarter of 2024.

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 mentioned by Chairman Kuo, we maintained our leading position in Taiwan's mobile market in the first quarter of 2024 with the largest subscriber share of 37.7%. Meanwhile, our revenue share continued to stay above 40%, hitting 40.4% by the end of March, further widening our

lead against our peers. Our excess revenue share over subscriber share was 2.7% due to the exciting progress of subscriber share gains.

In addition, 5G migration and international roaming continued to drive up our mobile service revenue and post-paid ARPU, recording a 5.1% and 3.4% YoY increase, respectively. Mobile service revenue and ARPU also continued to maintain their growth for 36 consecutive months and 12 consecutive quarters respectively.

As 5G continued to penetrate steadily, we saw the average monthly fee uplift from customers who migrated from 4G to 5G grew to 45% in the first quarter, exhibiting an inspiring upward trajectory.

Business Overview – Fixed Broadband Service

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

In the first quarter, we're glad to see the accelerated growth in the fixed broadband sector due to our successful strategy of encouraging speed upgrade. Fixed broadband revenue and ARPU increased by 3.8% and 2%, respectively, on a year-over-year basis, and both expanded their YoY growth margin compared with that of the previous quarter.

Our sign-ups for services of 300Mbps or higher continued to be popular among all speed mixes, with a 29% YoY increase in the first quarter, maintaining its double-digit growth.

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

Consumer Business Group (CBG) – 1Q24 Financial Summary

Slide 8 presents the performance of our CBG group.

In the first quarter, income before tax of CBG increased by 3.7% year-over-year mainly due to the sustained growth of telecom services. On a year-over-year basis, total CBG revenue increased by 1.7%, mainly driven by the healthy 4.2% increase of our mobile service revenue owing to continued 5G migration, postpaid subscriber increase, and roaming revenue.

Fixed broadband performed well as its revenue growth increased to 4.6%, offset by the revenue decrease of fixed voice. Sales revenue decreased 1.5% mainly due to the higher base in the first quarter last year owing to deferred demand resulting from the supply chain issue.

Consumer Business Group (CBG) – 1Q24 Highlights

Slide 9 further illustrates our consumer business group highlights.

In the first quarter, our multiple-play package continued to support CBG's growth momentum. The subscriber numbers of mobile, fixed-broadband and Wi-Fi services altogether demonstrated 23.3% quarter-over-quarter growth, which achieved eight consecutive quarters of double-digit quarter-over-quarter growth. This is attributable to the well-received promotion packages and value-added service bundles.

In terms of individual and home centric applications, we remained the largest video platform in Taiwan as the subscriber number of our video service stayed flat. Notably, we successfully acquired the exclusive broadcasting rights for the 2024 Olympic Games in April, which we believe will bring in subscription and revenue increase of MOD and Hami Video.

In addition, we were also excited to see a 17% year-over-year increase in our CBG's cybersecurity service sign-ups in the first quarter, mainly due to the increasing demands for services to avoid phishing websites and block malicious connections. In addition, our services for filtering out adult content on the internet and setting time limits on internet surfing have also been popular among families, driving up the popularity of our cybersecurity services. We expect the growth trend will continue and further contribute to our CBG performance.

Enterprise Business Group (EBG) – 1Q24 Financial Summary

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

In the first quarter, EBG revenue slightly decreased by 0.9% primarily due to the recognition of government compensation in the same period last year. Excluding the one-time item, EBG revenue increased by 1.9% on year.

Additionally, our ICT business revenue increased by 3.3% mainly driven by the business expansion of big data services, cybersecurity, AIoT, and cloud services, all of which reported mid-to-high single digit year-over-year growth or higher. Going forward, we will continue our B2B2X model to build up ecosystems with key partners and further boost ICT performance.

Furthermore, EBG mobile service revenue also demonstrated strong growth at 3.7% on year mainly propelled by the continued 5G upselling as well as the growth of international roaming revenue. We observed text message revenue also turned positive on year due to growing enterprise marketing demands. Although fixed-line revenue slightly decreased, data communication revenue and broadband access revenue continued to grow which offset the fixed voice decline.

Owing to fixed voice decline and the higher base of the aforementioned one-time item recognized last year, EBG reported a 13.4% year-over-year decrease of its income before tax. However, excluding the one-time effect, EBG's income before tax decrease narrowed to 1.5% year on year.

Enterprise Business Group (EBG) – 1Q24 Highlights

Slide 11 illustrates our enterprise business highlights.

In the first quarter, we were glad to see our total enterprise emerging application revenue increased by 5.2% on a year-over-year basis. Notably, big data analysis delivered a significant 71.6% year-over-year growth due to smart energy project injection, and cybersecurity revenue grew YoY for the 9th consecutive quarter. Additionally, AIoT business experienced a 6.5% growth on year, driven by revenue injection from the green energy project, and our cloud service revenue increased by 5.8% with sustained growth of international public cloud recurring revenue at 36.8% on year.

Although our IDC revenue decreased on a yearly basis due to the recognition of one-time projects in the same period last year, we are glad to report our recurring revenue of IDC service delivered stable growth at 7.6% this quarter and we successfully expanded our national expertise into global market with the acquisition of our first overseas data center construction project.

Furthermore, we are proud to announce that we are the first company in Taiwan to successfully introduce an Automatic Vehicle Identification (AVI) and Vehicle Detection (VD) system to monitor overtime parking in the freeway service area, which we believe is a replicable success that could be extended to other venues.

International Business Group (IBG) – 1Q24 Financial Summary

Slide 12 illustrates our international business performance.

In the first quarter, both income before tax and total revenue for IBG reported positive double-digit growth on a yearly basis at 23.5% and 13.3%, respectively. The impressive growth was mainly fueled by the growing demands for overseas ICT projects as our clients expanded their global footprints, which offset the year-over-year decrease of fixed-line revenue resulting from the service portfolio change.

During this quarter, we partnered with EXATEL, a Poland telecom operator, to launch the “5G Zone” in Warsaw, where our innovative 5G smart applications are showcased to attract business

opportunities. It also serves as the foundation for local touch and business expansion in Europe.

In addition, we not only won the “2024 Smart City Innovation Application Award” for our smart transportation solution domestically, but also won “2024 System Integration Award” in Kaohsiung Smart City Expo for our successful overseas smart healthcare solution, proving our success in the Internet of Medical Things globally.

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 first quarter results in 2024.

Income Statement Highlights

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

During the first quarter in 2024, revenue was about 55 billion dollars, which hit an 8-year high for the same period. Compared to the same quarter last year, revenue increased by 1.4%, primarily driven by higher mobile service revenue, growing ICT business revenue and broadband service revenue. Income from operations and net income decreased by 2.2% and 2.6% on year, respectively, mainly due to the high base from last year as a result of government compensation related to ST-2 satellite. Excluding this one-time item, year-over-year changes in income from operations and net income remained in positive territory, which demonstrates the healthy growth momentum of our core and ICT businesses. EPS for Q1 is 1.21. EBITDA and EBITDA margin remained steady.

Balance Sheet Highlights

Now move on to page 15 for balance sheet highlights.

As of March 31, 2024, total assets increased by 0.9% compared to the year-end of 2023. This increase was mainly caused by the increase in current assets and long-term investments, which offset the decrease in property, plant and equipment.

Total liabilities decreased by 4.1%, primarily attributable to the decrease in accounts payable.

Additionally, debt ratio decreased by one percentage point and net debt over EBITDA remained zero.

Consolidated Cash Flow Summary

Page 16 provides the summary of our cash flows.

For the first quarter in 2024, we generated solid cash flows as cash flows from operating activities grew by 26.1% compared to same quarter last year. The increase was mainly attributable to a decrease in settlement of accounts payable and payments for inventory.

Regarding capital investment, the amount of capex declined by 6.9% on year. Of which, mobile-related capex decreased by 50.0% while non-mobile capex increased by 9.1%. The latter was primarily due to FTTH deployment and asset vitalization. On top of that, free cash flows increased by 56.9% on year.

Taken together, we maintain solid balance sheet and keep generating strong operating cash flows, both of which are underpinnings to support our business expansion and to seize digital opportunities.

Operating Results vs. Forecast

On slide 17, let's turn to the table that presents operating performance against our forecast.

In the first quarter of 2024, revenue was about in line with our estimate. For performance measures, income from operations, net income, EPS and EBITDA all beat our forecasts by a modest margin. The better-than-expected performance was primarily driven by the steady growth of core businesses and improved profitability of ICT businesses.

That concludes the first quarter financial results. Let me turn the call over to Chairman Harrison.

Awards and ESG Recognitions

Thank you, Vincent. On slide 18, you can see our awards and ESG achievement highlights from the first quarter of this year.

First, I'd like to report that relative to 2020, our revenue of the parent company increased about 5.7% while the carbon emissions experienced a downward trend by decreasing 14% in 2023. The inverse relationship between revenue growth and carbon emission trend highlights the effectiveness of our dual-track approach to operations and sustainable development. Moving forward, we will intensify our carbon reduction efforts by enhancing energy efficiency with innovative technology and usage of renewable energy. Additionally, we are the first telecom company in Taiwan to receive approval from EV100 and committed to transitioning 100% of our corporate fleet to electric vehicles by the year 2030.

Besides, we once again ranked in the top 5% of companies in S&P Global's Sustainability Yearbook 2024, and was honored with the highest leadership level, the A ranking recognition, in both the CDP Climate Change assessment and Supplier Engagement Rating. In addition, we were the leading telco in Taiwan receiving top awards for Most Committed To ESG and Best Investor Relations from FinanceAsia. These accolades attest to our position as an international industry leader with outstanding performance in all aspects of sustainable development.

Furthermore, we clinched the first prize for overall ESG performance for three consecutive years from Global Views Monthly, one of the most prestigious ESG awards in Taiwan, which exempted us from competing in the same category for the next three editions. This outstanding outcome demonstrates a track record of long-term and stable performance in ESG evaluations and is featured on the annual honor roll.

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 -