Taiwan Mobile

1Q22 Results Conference Call

May 6, 2022

Jamie Lin, President: Good afternoon, everyone. Welcome to Taiwan Mobile's 1st quarter 2022 earnings conference call. Before I start our presentation, let's first go over our disclaimer as always:

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Now that's out of the way, let's start with business overview. Please turn to page 4 for highlights of the quarter.

<u>Business Overview</u>

In the 1st quarter, we continued to see solid top line expansions across all three of our main growth engines. Our mobile service revenue grew YoY for the 4th consecutive quarter on the back of steady ARPU build-up mainly contributed by 5G adoption. On the other hand, e-commerce revenue rose by a solid 28% YoY, while broadband revenue YoY growth reached 12% thanks to sustained demand for faster home broadband. As a result, consolidated revenues increased by 13% YoY during the quarter.

Looking at the bottom-line, consolidated EBITDA also grew YoY for the 4th consecutive quarter, with telecom, momo and CATV all recording YoY growths. The 8% YoY growth is notably better than our EBITDA guidance of flat to slightly down for the full year.

Next let's turn to page 5 for a closer look at our mobile business.

Mobile – Growth Engine #1

For our mobile business, continued ARPU expansion can be mainly attributed to 5G upselling, as well as a benign 4G pricing environment. Our 5G postpaid penetration rate also continued to rise, with a 27% monthly fee uplift from the 5G renewals in the quarter.

Our 3 unique bundles – momobile (or "mo 幣多" in Mandarin), Double Play (or "好速成雙" in Mandarin) and Disney+, continued to play a key role in winning customers and driving ARPU growth. momobile remained a go-to product for momo shoppers while at the same time served as a catalyst for consumers to increase their purchases on our e-commerce platform. As a result, momobile users' contribution to momo's e-commerce revenue continued to increase and stood at 3.5% in March, almost doubling from 3 months ago. Double Play on the other hand was popular among users who demand high-speed internet both on the road and at home. Consequently, close to 60% of Double Play subscribers signed up for $999 or higher rate plans. Disney+ bundles also helped increase customer stickiness.

Speaking of stickiness, thanks to our 48-month bundles and unique product offerings, our postpaid monthly churn reached another historical low, further declining to 0.85% in the quarter. As we continue to execute our strategies, we expect to keep up our growth momentum while maintaining low churn rates in the foreseeable future.

Now let's turn to page 6 for updates on our e-commerce business.

momo – Growth Engine #2

As the leading e-commerce platform in Taiwan, momo continued to outperform its peers and grew its e-commerce revenue by 28% YoY in the 1st quarter. Although the YoY increase in EBITDA decelerated compared to last year due to a relatively contained COVID situation in Taiwan during the quarter, momo's e-commerce EBITDA margin still increased slightly on a YoY basis.

Besides momobile, logistics is also front and center in momo's growth strategy. In the 1st quarter, we increased our satellite warehouses to 31 and aim to reach 50 by the end of this year. Our total warehouse floorspace also grew by 21% compared to the same time last year while the ratio of delivery completed by our in-house fleet reached 21%. Moreover, momo's southern and central distribution centers are slated to go live in 2023 and 2025, respectively. Through these investments, momo will be able to expand the scope of its rapid delivery services to more areas and be better poised for further growth.

Now, let's take a look at our broadband business on the next page.

Broadband – Growth Engine #3

In the 1st quarter, we continued to outperform our MSO peers in the YoY trends of basic TV subscriptions and broadband service penetration.

Sustained demand for faster home broadband as well as the success of our Double Play products have led to sequential increases in broadband subs and ARPU. As a result, broadband revenue rose by 12% YoY in the 1st quarter. Broadband strength also helped the entire CATV business' EBITDA grow YoY.

Now let me turn the presentation over to Rosie for Financial Overview.

Performance by Business

Rosie Yu, CFO & Spokesperson: Good afternoon. Let's start with Performance by Business.

In the 1st quarter of this year, consolidated revenue grew by 13% YoY, driven by solid performance in momo's e-commerce business. Overall telecom revenue was flattish YoY, as mobile service revenue growth was offset by the decline in handset sales due to a high base. Having said that, telecom EBITDA grew YoY for the 4th consecutive quarter, and the increase widened to 6% YoY from 1% in the previous quarter. The notable improvement was attributable to SG&A savings and a high base in handset subsidies.

While momo's EBITDA continued to grow healthily YoY, the growth rates decelerated as COVID was relatively contained in Taiwan in the 1st quarter. Underpinned by solid broadband revenue momentum, CATV EBITDA grew by 1% YoY in the 1st quarter.

Let's turn to Results Summary.

Results Summary

Thanks to solid e-commerce momentum and improving telecom performance, consolidated revenue and EBITDA rose by 13% and 8% respectively in the 1st quarter. Coupled with diminishing impact from 5G D&A, EBIT growth reached 13% YoY.

In addition to healthy top line increases, our 3 main businesses once again posted YoY EBITDA growths in the 1st quarter. In terms of absolute dollars, telecom was the largest contributor to the YoY increases in EBITDA and EBIT, followed by momo.

Due to effective telecom opex control, overall EBITDA and margins in the 1st quarter were notably ahead of our 2022 guidance.

The YoY drop in net income was primarily due to a high base in non-operating income and tax benefits. Excluding the one-off factors, net income would have increased by about 15% YoY in the 1st quarter.

Let's look at the Balance Sheet Analysis.

Balance Sheet Analysis

On the asset side, momo's business expansion led to YoY increases in receivables and inventories in the 1st quarter. In addition, receivables rose in tandem with improving mobile & ICT revenues.

Long-term investment climbed YoY, owing to value accretions in our investments, as well as ventures into e-commerce, marketplace, media, AI, and cloud services.

PP&E saw sequential declines for three quarters in a row and turned to a YoY decrease in the quarter, as 5G capex cycle had already peaked.

As for liabilities, the YoY rise in payables was driven mainly by momo's e-commerce growth.

Thanks to decent free cash flow generation, both current ratio and gearing improved in the quarter.

Lastly, let's look at Cash Flow Analysis on the next slide.

Cash Flow Analysis

Thanks to improving EBITDA in all 3 of our businesses, operating cash inflow increased by 10% YoY in the 1st quarter. That said, operating cash inflow dropped QoQ following a seasonally strong 4th quarter for momo.

Investing cash outflow rose YoY despite lower cash capex. This was due to a high base from momo's sale of its Taiwan Pelican Express shares a year ago, and investments in new areas such as cloud services and used car marketplace in the 1st quarter.

On the financing front, we managed to reduce our reliance on short-term borrowings.

Benefiting from improving operating cash inflow and decreasing telecom cash capex, 1st quarter free cash flow calculated on a pre-IFRS 16 basis increased by 61% YoY to NT$3.25bn, translating into an annualized free cash flow yield of 4.4%.

Let me turn the presentation back to Jamie for event updates and Key Message.

2021 Earnings Distribution

Jamie: Thank you, Rosie. Let's turn to page 14 for our 2021 Earnings Distribution Event Update.

On May 6th, 2022, TWM's Board approved the proposal to distribute NT$12.1bn in cash dividends, translating to c.4% yield to shareholders.

Dividend per share is NT$4.30 on 2.82bn shares, excluding treasury shares held by 100%-owned subsidiaries. Post earnings distribution, there will be NT$38.6bn excess reserves available for future dividend distribution.

Awards and Recognition

This page summarizes the awards and recognitions we received during the quarter, for your reference.

Key Message

Finally, to wrap up our presentation, here is the key message we would like for you to take away with.

Entering 2022, as demand for faster connectivity, e-commerce and digital entertainment continues to swell, TWM with our 3 growth engines is well-positioned to thrive in this new normal and has been taking advantage by playing a leading role in creating innovative product offerings that meet market needs. Our efforts in winning the hearts of our customers have in turn allowed us to deliver healthier returns and cash flows. Looking beyond, TWM aims to achieve sustained shareholder value creation by 1) sealing the T-Star deal, and 2) executing our strategies in metaverse, web3, cloud, and green transformation.

With that, I would now open the floor up for Q&A session.

Q&A

Neale Anderson, HSBC: ***I want to come back to the broadband business on page 7. I didn't quite catch the driver for the 12% growth in broadband revenue. I see your subscribers are coming down. Is the main driver for the increase in revenue from the migration to higher speed plans?***

Jamie: Our subscriber number for broadband is growing but our subscriber number for Pay-TV has been coming down slightly over the years.

Neale: My second question was on the Pay-TV side. You've got a growth in the DTV penetration. How do you think about this business in the medium-term? Is there much investment required to maintain it and how do you think the margin trends are in that business?

Jamie: It is relatively stable and is basically a cash cow business. We are using the cash generated by that business to fund our broadband growth needs. We are looking at broadband as the star of our CATV business.

Neale: The last one was regarding what you mentioned in the end: the investments in metaverse, cloud, and green transformation. I think we discussed this before but how should we think about that in terms of size of possible investments and timing? Is there anything more you can share on that side?

Jamie: Sure. We're looking at these opportunities as grooming the next momo. It might take 2-5 years for anything material to show on our income statement.

Sara Wang, UBS: ***Can management give us an update on the merger with Taiwan Star? When do we expect the deal to be completed? Any update on regulatory approval?***

Jamie: The regulatory approval has been moving along. We're still expecting it to close anywhere during the bottom half of this year or the first half of next year. We are striving to close it as soon as possible.

Sara: On the dividends, given we see improvements in our earnings and free cash flow, along with abundant equity reserve, do we see any possibility to increase dividend payment in 1-2 years?

Rosie: As I mention every time, it's up to the Board to decide. If our earnings and cash flows allow it, I believe the Board would accommodate a higher DPS but at this stage, I cannot comment on this.

Peter Milliken, Deutsche Bank: ***My question is on the competitive landscape. Now that T-Star and APT are being subsumed into the Big 3, has there been reduced promotional activity from T-Star and APT? Have they taken away the most extreme promotions or do they still exist at the moment?***

Jamie: If you look at the market right now, it's still fairly competitive. It's hard to predict what will happen after all the consolidations are done but we think what's happening in other markets where there's consolidation can be worth referring to.