Taiwan Mobile

4Q23 Results Conference Call

February 21, 2024

Jamie Lin, President: Good afternoon, everyone. Welcome to Taiwan Mobile's 4th quarter 2023 results conference call. Before I start our presentation, let's first go over our disclaimer as per usual:

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Alright. Now let's take a look at our business overview. Please turn to page 4 for highlights of 2023.

4Q23 Highlights

In 2023, our consolidated revenue rose by 6% YoY, underpinned by solid performances across our three core engines, namely 5G, e-commerce and home broadband.

Mobile service revenue growth reached 8% YoY, attributable to steady 5G conversion, improving 4G pricing environment, and robust momentum in roaming and gaming-related revenues.

Meanwhile, momo continued to outperform its peers and posted a 7% YoY growth in e-commerce revenue during the year.

Our home broadband subscribers went up by 4% YoY, driven by effective cross-selling toward mobile and pay-TV customers.

Consolidated EBITDA rose by 4% for the year, while net income saw an 11% YoY increase thanks to strategic divestment and valuation gains, along with merger-related tax benefits. Excluding these one-off factors, net income would still see a healthy 5% YoY growth.

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

Mobile – Growth Engine #1

Throughout the year, we delivered solid results in our mobile business as we successfully implemented our "Sustainable Growth Foundation" strategy. As you can see from the slide, smartphone postpaid ARPU increased to over NT$700 in 2023. Please note that this includes a one month drag from the T Star merger, which was effective on December 1st last year.

In 4Q23, mobile service revenue increased by 15% YoY, reaching NT$14.12bn. This was propelled by a 6% YoY growth in TWM's existing smartphone postpaid ARPU, along with revenue contribution from T Star. These positive outcomes were driven by our unique bundles, effective upselling in contract renewals, as well as strong roaming and gaming revenues.

Upselling and low churn are the two pillars of our SGF strategy. We are pleased to see that the monthly fee uplift for 4G to 5G renewals increased to 48% in 4Q23, aided by iPhone 15. With no more downtrading in 4G to 4G renewals, overall monthly fee uplift for all renewals remained steady at 10%.

On the bottom right chart, you'll see that 5G penetration in our smartphone postpaid user base was only at 36% in 4Q23, which means there's still a long runway ahead for ARPU upside, especially for T Star subscribers.

Adoption of our unique bundles, namely momobile, Double Play, Disney+ and OP Life, have continued to grow, which bodes well for customer loyalty. Excluding the one-off churn from cleaning up dormant SIMs in December, our postpaid monthly churn rate remained low at 0.71% in 4Q23.

For OTT services, we have recently kicked off a new exclusive partnership with HBO GO, offering Taiwan Mobile users a special deal with 40% savings compared with the service's standard pricing. We believe HBO GO's strong IPs will provide a tailwind to acquiring and retaining customers, which is in line with our SGF strategy.

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

momo – Growth Engine #2

In 4Q23, we saw moderate growth in our e-commerce revenue albeit still outperforming peers. In addition to a high base, Taiwanese consumers continued to shift spending toward offline activities. That said, our e-commerce EBITDA margin remained resilient.

On the logistics side, 3 warehouses were added during the quarter, taking the total number of distribution facilities to 59, 5 more than a year ago. Total warehouse space increased by 22% YoY. The southern distribution center will be up and running in a couple of months, with the central distribution center to follow in 2027. This will expand the coverage area of our rapid delivery services and further widen our moat.

As for momo coin and its ecosystem, we continue to focus on broadening its usability. By the end of 4Q23, our momobile user base has continued to grow and now contributes about 13% of momo's e-commerce revenue.

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

Broadband – Growth Engine #3

In 4Q23, the business unit's revenue and EBITDA were both resilient, as we continued to focus on growing our cable broadband footprint. Steady demand for faster home connectivity as well as our cross-selling efforts led to a 4% YoY increase in broadband subs. We focused on upgrading existing broadband users to higher speeds and as a result, subscribers who opted for speeds of 300Mbps or higher rose by 55% YoY during the quarter.

While we currently rank as the 4th largest MSO with an 11% footprint for cable TV services, we have expanded our cable broadband coverage to 85% by teaming up with most of the leading MSOs in the country via our Double Play bundles.

Now, let me pass the virtual mic over to our CFO, George Chang, for Financial Overview.

Performance by Business

George Chang, CFO & Spokesperson:

Good afternoon. Let's start with Performance by Business.

In 2023, consolidated revenue rose by 6% to NT$183.3bn, another record high. Telecom and momo each contributed about half of that revenue growth.

As for profitability, consolidated EBITDA increased by 4% to NT$35.8bn in 2023. On the back of further upselling, roaming recovery, gaming momentum and T Star's contribution, telecom business stood out and accounted for the majority of the EBITDA increase.

Let's go to Results Summary.

Results Summary

With healthy performances in our three core engines – 5G, e-commerce and home broadband, along with T Star's contribution in December, consolidated revenue rose by 6% YoY in 4Q23.

With a 14% YoY growth in telecom service revenue, telecom EBITDA and consolidated EBITDA went up by 11% and 9% YoY respectively in 4Q23. D&A increased QoQ and YoY during the quarter, given ongoing network consolidation amid the merger with T Star, as well as momo's warehouse additions.

Despite the YoY increase in financing costs, disposal gains from the sale of our music streaming business and valuation gains from our investments led to a significant improvement in non-operating income for both 4Q23 and FY23. Coupled with merger-related tax benefits, our 2023 EPS grew by 11% YoY to NT$4.33, a 4-year high.

Let's move on to the Balance Sheet.

Balance Sheet Analysis

Starting from assets, both long and short-term contract assets increased with higher monthly fee contributions from our mobile bundle plans and the inclusion of T Star users. Similarly, PP&E increased due to the acquisition of mobile equipment from T Star.

Concessions surged as we took on T Star's spectrum holdings, particularly in the 3.5GHz band for 5G services.

Right-of-use assets grew on the back of momo's warehouse additions and the merger with T Star.

As for liabilities, long-term borrowings increased as we completed a syndicated loan by the end of 2023 to reduce the reliance on short-term borrowings.

The hikes in paid-in capital and capital surplus resulted from the issuance of 204mn common shares to T Star shareholders.

Net Debt to EBITDA rose to 2.23x as we took on T Star's debt. Considering the incremental EBITDA expected from the merger, gearing ratio should stabilize before tapering off at a healthy pace.

Lastly, let's look at Cash Flow.

Cash Flow Analysis

Cash earnings rose 21% YoY in 4Q23 on the back of solid EBITDA growths in our telecom and e-commerce businesses, as well as positive contribution from T Star.

Investing cash flow turned to inflow in 4Q23 mainly due to a NT$1.7bn cash influx resulting from the merger with T Star, which was booked under other investing cash flow.

2023 cash earnings showed steady YoY growth, while operating cash flow declined, mainly owing to e-commerce-related working capital change.

The drop in 2023 investing cash outflow reflected the NT$2bn YoY decrease in momo's capex payments, as well as a reduction in investments.

Financing cash outflow increased YoY as we paid off more short-term borrowings.

With stable telecom capex and much lower momo capex, 2023 cash capex fell by 16% YoY. Full-year free cash flow rose to NT$16.43bn, translating into an annualized FCF yield of 5.5%.

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

2023 Earnings Distribution

Jamie: First, let's talk about 2023 earnings distribution. On February 21st, Taiwan Mobile's Board approved the proposal to distribute NT$13bn in cash dividends, translating to c.4.4% yield to shareholders. Dividend per share is NT$4.3 on 3.025bn shares, excluding treasury shares held by 100%-owned subsidiaries.

2024 Guidance

Next let's take a look at our 2024 guidance. For the full year, we are guiding consolidated revenue growth at 12-14% YoY, with telecom-related revenue growing at 18-20%, aided by the T Star merger. Consolidated EBITDA is expected to grow at 11-13%. As it will take 12-14 months to complete network consolidation, the incremental EBITDA might not completely offset the additional D&A costs from the T Star merger this year. That said, the D&A has little impact to our cash flow and our ability to maintain consistent dividend payout. We're also confident that our greater scale and additional cost savings from healthier industry dynamics will pave the road for more growth in the years ahead.

For 2024 capex budget, a total of NT$8.55bn was approved by the Board. This is a 45% YoY reduction in board-approved capex plans. Both telecom and momo’s capex budget went down YoY as 2023 was a high base, given the capex for T Star merger network integration and momo’s central distribution center. Cable TV’s investment for broadband growth will continue at a steady pace.

Awards and ESG Recognitions

I'm pleased to share our ESG achievements this quarter. We are honored to be selected for the Dow Jones Sustainability World Index for the 7th consecutive year, ranking in the top 3 among global telcos, and included in the DJSI Emerging Markets Index for 12 consecutive years.

Furthermore, we also received the SGS Carbon Management Award and the National Sustainable Development Award, showcasing our dedication to environmental stewardship. Alongside these achievements, we continue to receive acknowledgment for our long-term commitment to sports sponsorship.

Key Message

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

Taiwan Mobile delivered strong top-line and EBITDA growth in our core telecom business throughout 2023, underscored by the successful completion of the T Star merger. Now, as the clear #2 player with a robust 10 million user base, we are poised to maximize shareholder value. Our strategic focus centers on:

Synergy Capture: Vigorously realizing the full potential of our merger.

Accelerated Growth: Propelling our SGF flywheel by fully leveraging our expanded scale.

Business Expansion: Capitalizing on our Telco+Tech capabilities to serve our larger customer base and seizing new business opportunities in AI and ESG.

We are confident this strategy will power the next wave of TWM's growth and value creation.

With that, let's open the floor for questions. If you are participating online, you are welcome to send your questions via the chat box. We will begin by addressing the telephone line questions before moving on to the web. Operator, please go ahead.

Q&A

Neale Anderson, HSBC: ***I have 2 questions please. The first one is on EBITDA, related to the T Star merger. You said it might not offset the high D&A this year. Are you still aiming for NT$18bn incremental EBITDA over 3 years? The second one relates to the decline in capex. You mentioned last year that there would be additional capital costs related to the dismantling of T Star base stations. I think the Board approved a higher capex. What has changed there?***

George: Yes, we did give that guidance a couple of years ago and a lot of things have changed over the past 2 years. However, over the past 2 years, we have also continuously said that even though there was a regulatory delay, we are confident that we would be able to realize the EBITDA synergy. That is still the case today, but please do bear in mind that the number is spread over 3 years. At this moment, I cannot tell you how much will be recognized this year, next year or the year after. All I can say is that we are confident that, on a 3-year basis or even a 2-year basis, the numbers are largely on par with our figures from 2 years ago.

Jamie: In terms of the capex for integration, majority of the capex needed was approved last year so this year's capex is mostly for ongoing network maintenance and improvement needs.

Neale: Another 2 questions, please. One is on non-operating income and expenses. As you said, it was positive in the 4th quarter. Do you have a view on that for 2024? The other one relates to the T Star merger. Are you able to give us an update on when you might be able to refinance the T Star borrowing and what impact that might have? Do you also have any outlook on tax, given the tax was carried forward?

George: One of the biggest non-operating items in 2023 was the disposal gain from the sale of our music business to KKCompany. That's a high base and we're not going to see that this year. Another big thing in 2023 was rising interest rate, which led to higher interest payments. We've probably seen the worst of the interest rate hike. Even if there was an increase, on an apple-to-apple basis, the magnitude probably won't be as bad as last year. However, since we're adding new debt from T Star, interest expense will still see an increase in absolute value terms this year; that's a given. That ties to the next question: are we doing any refinancing on T Star?

Yes, of course. We did make it clear 2 years ago when we talked about synergies, that some of the synergies will be coming from refinancing. That's exactly what we have been doing and we have been working hard on that. We have seen some good results so far. If you remember in the 2nd quarter last year, we issued a governance bond for NT$6.5bn and our rate was around 1.537% which is really, really low in today's environment. That's what we're doing right now to achieve a manageable interest payment.

Neale: And the tax outlook?

George: Yes, we recognized some of the tax benefit in 2023. So, P&L impact will be much less this year. We will not see much carryforward tax benefit in 2024. That's one of the reasons why, when we talk about net income on a YoY basis, there's a little bit of a distortion given the high base.

CHATBOX QUESTIONS

I'm quite interested in learning more about TWM's cooperation with Disney+ and HBO GO. They are both streaming service giants, wouldn't that undermine your cooperation with the other? How is TWM playing out from here? What should we expect in terms of revenue changes, post-HBO GO? Will this be reflected in your ARPU?

Jamie: Yes, both are international giants and we're really honored and pleased to be working with both of them on a pretty exclusive basis. Truth be told, we did a study on our user base and yes, there are some overlaps between customers using these services. However, most have different preferences. Some people would like to watch more Mickey Mouse and Marvel, while others would prefer to watch more Game of Thrones and DC. Post-T Star merger, we are now serving 10mn subscribers and we want to give our users options. If they prefer Disney+, we'd like for them to get it at a reasonable price through our programs. Some prefer HBO GO, and we want them to shop with us to get it. So yes, these 2 services will be positive to our revenues and ARPU. Based on our study, these will also help lower our churn rate and increase customer loyalty. Above all, however, we just really want our 10mn customers to be as happy as they can be with us.

How should we look at dividend payout ratio in the coming years as we unlock synergies?

George: I cannot speak for the Board, but I can say that – as we've made clear over the years – EBITDA accretion is still pretty much on par with estimates from 2 years ago, which does translate to cash flow or cash payment ability. Jamie said earlier that the increased D&A cost doesn’t really affect our cash payment or dividend payment abilities. Ideally, we can increase dividend payout ratio as synergies materialize, but at this moment I cannot speak for the Board. Again, for this year, we maintain the NT$4.3. Since more shares have been issued, the total amount is actually already 7% higher than last year’s.