Taiwan Mobile
1Q19 Results Conference Call
April 30, 2019

Jamie Lin, President: Good afternoon. Welcome to Taiwan Mobile's 1st quarter 2019 investor conference call. My name is Jamie Lin. I was appointed as the President of Taiwan Mobile in late January and joined the company on the 1st of April, after the retirement of James. It is my utmost pleasure to be hosting this earnings call for the first time. Before I start our presentation, I would like to direct your attention to our disclaimer page, which states:

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For the business overview, I will start with the operating performance of our telecom business.

Increase in Cash Flows

Despite the clear challenges we face in today's telecom market, Taiwan mobile has delivered solid results via rigorous cost control, quick-to-market unique offerings, and successful diversification. I will go through them in more detail in the next few slides but let us start with some key numbers for our telecom business.

Even with the adoption of IFRS 15 last year and IFRS 16 this year, we believe the pre-IFRS telecom service revenue and EBITDA better reflect our operating results and cash generation capabilities.

In 1Q19, our **pre-IFRS telecom service revenue declined by 11% YoY, mainly due to the high base in 1Q18** prior to the 499 frenzy that started in May last year. Pre-IFRS EBITDA also showed similar trend.

In spite of a YoY decline in pre-IFRS 16 operating cash flow, with prudent capex management, we further increased our free cash flow to NT$5.5bn for the quarter.

Versatility

Next, I want to cover versatility. To cope with a more challenging operating environment, we have taken various measures to reduce costs while finding new growth avenues.

In the first quarter, we reduced reliance on third-parties by **increasing mobile sign-ups via our own channels** – by 7ppts YoY; our own channels include physical stores, telemarketing and online stores. We also continued to offer more **non-handset bundle options** to differentiate from our peers. Our efforts resulted in **2ppts decrease in subscriber acquisition cost as a percentage of ARPU** vs. a year ago. The **postpaid churn rate also fell to a record low of 1.2%.**

As for new growth avenues, demand for **IoT connectivity** remains strong with a 26% YoY growth seen in 1Q. Other enterprise segments such as **ICT, cloud, and internet/data access** also saw combined revenue rising by 5% YoY.

Diversification

Now let us turn to diversification page. This slide summarizes the progress we have made with our diversification strategy.

While our telecom business suffers a YoY decline in operating income, the **combined operating income of cable TV and momo** already accounted for **23%** of total operating income in 1Q19, up from 19% a year ago.

In spite of the revenue pressure on basic TV subscriptions, we are seeing **resilience in our Pay TV business** thanks to positive factors, such as cross-selling with fixed broadband & digital TV, as well as falling depreciation.

As for **momo**, being the largest B2C player in the market, we expect the upward trend to continue for years given the low e-commerce penetration rate in Taiwan's retail market.

While the fast-growing lower-margin 3C electronics sales underpins the top-line momentum for its B2C business, **margins have improved YoY** thanks to better pricing strategy, economies of scale, and operating leverage.

momo – Crown Jewel

Now let us dig a little bit deeper into momo, our crown jewel's performance.

In 1Q19, momo's **total revenue** grew by **15% YoY** on the back of strong momentum from B2C e-commerce division, where average ticket size grew by 5% YoY, and number of transactions grew by 14% YoY. The **total EBITDA** also grew by **17% YoY** on a pre-IFRS 16 basis thanks to scale benefits and operating leverage.

Now let me turn the presentation over to our CFO, Rosie, for the financial overview section.

Performance by Business

Rosie Yu, CFO & Spokesperson: In the first quarter, **consolidated revenue declined by only 1% YoY** as momo's strong revenue growth largely offset the decline in telecom business.

With the increasing SIM-only portion in our subscriber base, the opex savings and momo's strength did not compensate for the accumulated impact on revenue, resulting in a **9% YoY decline in pre-IFRS 16 EBITDA**.

On a reported basis, EBITDA grew by 3% due to the adoption of IFRS 16, which requires the capitalization of operating leases, resulting in lower operating costs but higher D&A and interest expenses.

Let us move to the results summary page.

Results Summary

The combined operating income of cable TV and momo grew by 9% YoY, helping mitigate the YoY decline in telecom operating income in 1Q19.

Overall, operating income for all major businesses exceeded their guidance, thanks to effective cost control and economies of scale in the e-commerce business.

Please refer to our IR website's conference section for more detailed analysis.

Balance Sheet Analysis

Now let us turn to the balance sheet analysis.

On the **asset front**, the YoY decrease in current asset was driven by lower receivables and contract assets, as a result of rising appetite for SIM-only plans.

For non-current assets, property & equipment and concession fell significantly YoY as a result of the termination of 3G service, while the inclusion of right-of-use assets in accordance with IFRS 16 resulted in the slight increase in overall non-current assets.

On the **liability front**, our gross debts decreased nicely YoY as we paid down debts with healthy free cash flow. However, our total liabilities remained flat YoY due to the inclusion of lease liabilities, in accordance with IFRS 16. This balances out the impact from the inclusion of the right-of-use asset we mentioned earlier in non-current assets.

In terms of **financial ratios,** our **net debt to pre-IFRS 16 EBITDA improved to 1.3x** and our current ratio also rose to 73% vs. 60% a year ago.

Cash Flow Analysis

Now let us turn to cash flow analysis. Our **operating cash inflow increased** QoQ and YoY in 1Q19. This is because of the adoption of IFRS 16. "Leasing expenses" previously had been under operating activities and was reclassified into "repayment of principal and interests of lease liabilities" under financing activities.

On a pre-IFRS 16 basis, operating cash inflow declined YoY mainly due to momo's money-market fund redemption in 1Q18.

As for **investing cash flow,** the outflow in 1Q19 was lower than a year ago due to lower capex.

In terms of **financing activities**, the net cash outflow was mainly caused by debt repayment on the back of healthy free cash flow.

With capex falling by 27% YoY, **free cash flow** calculated based on a pre-IFRS 16 basis reached NT$5.45bn, up 5% YoY, translating to **free cash flow yield of 7.2%.**

Let me turn the presentation back over to Jamie for event updates and key message.

Event Updates

The Board has proposed a dividend per share of NT$5.6 today. Pending AGM approval, this will mark the 6th consecutive year of paying this dollar amount and implies a 113% payout ratio.

Also listed here are the recognitions we received in the first quarter of 2019 for your reference.

Key Message

Finally, to wrap up our presentation, this slide summarizes the key message that we would like to deliver.

The group will strive to leverage our thriving ecosystem and accelerate our transformation into a regional enterprise by following the **5"G"+** guidelines:

1. **Gift** – digital transformation based on in-house big data, user base, and online-offline channel operations
2. **Group** – more synergy with momo, AppWorks, and other strategic partners
3. **Grit** – long-term vision of an ecosystem beyond 5G
4. **Green** – environmental awareness and corporate sustainability
5. **GSEA** (Greater South East Asia) – expanding footholds in South East Asia to become a regional enterprise

With that, we would like to open the floor for Q&A section.

Q&A

Neale Anderson, HSBC: *Could you elaborate more regarding Point 5 of your key message "Greater South East Asia expansion"? What particular areas, types of products, and markets are you looking to expand in?*

Jamie: Let us take our subsidiary momo as an example. momo is the number one B2C e-commerce player in Taiwan and has embarked on expanding their business model across South East Asia. Their first stop is Thailand, where they are seeing good initial success for both their TV shopping and online B2C shopping businesses, and their next step would be to apply this model and go-to market strategy in other South East Asian countries. I think momo's expansion strategy is a good example of how our group intends to expand across the region.

Going forward, we will be bringing our online services and non-telecom products to other South East Asian countries.

Neale: So is it primarily momo? On the enterprise side, I think Chunghwa has talked about going overseas. Is that also a focus for Taiwan Mobile or is it more consumer focused?

Jamie: I am only using momo as a case study of our online services and OTT services models expanding outside of Taiwan. We are expecting many more of our online services and business models to become competitive across the region. Once they are, we will work on bringing them to the rest of greater South East Asia and help them become regional champions there.

Neale: Is the cost of that overseas expansion reflected in the current capex guidance?

Rosie: No, it is not yet included, as we still have to evaluate the opportunities and strategies first.

Gary Yu, Morgan Stanley: *I have one question regarding 5G. What kind of timetable do you expect in terms of spectrum auction and service launch in Taiwan?*

In addition, is there a potential revenue opportunity we are particularly interested in when 5G comes?

Jamie: From what we know, the administration is working towards having the bidding start towards the end of the year and we are hoping the auction will conclude early 2020. After that, if we are successful in winning the auction bid, we will start building the 5G network and business model.

The businesses we are mostly interested in are vertical types of business models, such as manufacturing, medical, transportation or retail businesses, in order to bring a vertically integrated 5G-type of solution to end customers and users.

Amber Lee, Yuanta Securities: *In the first quarter, cable TV and momo contributed 23% of your EBIT; however, last quarter you had guided a 21% of full year EBIT contribution from those two segments. It appears that telecom business has been weaker than expected while cable TV and momo has been stronger. Is there upside to the 21% contribution?*

Rosie: In the first quarter, momo performed better than expected, improving all their margins from gross margin, EBITDA margin, EBIT, down to after-tax earnings. Based on the first quarter results, I do not see a need to revise our whole year forecast but I do believe momo will continue to outperform its target.

Jamie: I would like to add that we beat our EBIT estimate by 8%, so our telecom business is actually stronger than expected, not weaker than expected. momo is just doing much better than we expected.