Taiwan Mobile

1Q18 Results Conference Call

April 30, 2018

James Jeng, President: Good afternoon. Welcome to Taiwan Mobile's 1st quarter investor conference call. Before I start our presentation, I'd 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.

<u>Telecom Business – Out from the Pack</u>

Despite the adoption of IFRS15 starting this year, **we believe the pre-IFRS numbers better reflect customers' contribution and our operating results in the telecom space.**

Based on pre-IFRS and ex-roaming numbers, our analysis shows that we continued outperforming our peers in the first quarter. First of all, we had a smaller mobile service revenue decline. In addition, through cost control, we still managed to grow our telecom EBITDA by 4.1%. Not to mention our higher revenue per unit of spectrum.

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<u>Growth Catalysts</u>

Video streaming and cable broadband are both seeing very good growth momentum.

Digital media and entertainment has been our focus, of which we are seeing positive developments in the video streaming business. Through the combination of SVOD (Subscription Video on Demand), TVOD (Transactional Video on Demand), and the future AVOD (Advertising Video on Demand) revenue models, we levelled up our video monthly active user number **by 73%** in the past quarter. Separately, we continued expanding our target customers from mobile users further to cable broadband users through our partnerships with leading cable MSOs.

For the **cable broadband** business, with competitive pricing and effective bundles, the broadband subscriber number increased YoY **by a healthy 6% on stable ARPU in 1Q**. At the end of 1Q, **38% of cable TV customers also subscribed the broadband service**, suggesting growth potential going forward. By selling more bundling services to the same household to increase ARPU, our total cable revenue was able to stay resilient. The expanding cable broadband subscriber base provides new potential subscribers to our video streaming service.

<u>momo E-commerce – Crown Jewel</u>

For momo, the company had a great quarter in 1Q. momo recorded **a 34% YoY increase in total revenue**, benefiting from the strong growth in e-commerce, in particular the **mobile platform revenue increased 71% YoY.** This together with the profitability recovery in the TV home shopping business resulted in **a 37% YoY growth in EBITDA** in the quarter.

momo has several new initiatives including：

1) **Strengthening logistics** by setting up satellite warehouses closer to city centers in order to test deliveries of less than 4 hours; momo also added the post office as a new logistics partner who delivers later into the evenings than most private third party logistics companies;

2) **Adding new brand merchants** such as MUJI and;

3) Further expanding the **on-line to off-line convergence service** through alliances with certified used-car dealerships.

Let me turn the presentation over to Rosie for the financial overview section.

<u>Performance by Business</u>

Rosie Yu, CFO & Spokesperson:

Firstly, the recurring numbers excluding the domestic roaming business better reflect our performance in 1Q. In 1Q, our consolidated EBITDA grew 1% YoY, of which core telecom EBITDA stayed resilient YoY while momo's EBITDA surged 37% YoY. **Under the basis of pre-IFRS 15**, our core telecom EBITDA continued its growth by rising 4.1% YoY.

<u>Results Summary</u>

In 1Q, **total revenue beat our forecast on the back of momo's higher-than-expected e-commerce revenue**. As such, its related cost & expense also exceeded guidance. That said, lower-than-expected handset subsidies and dealer commissions partially offset the aforementioned opex. As a result, operating income came in 11% higher than our guidance.

In a nutshell, in 1Q, **we surpassed our EPS guidance by 8%**.

<u>Balance Sheet Analysis</u>

Now let's move on to balance sheet analysis. On the **asset front**, the major YoY change seen in 1Q was the increase in concession, resulting from the NT$8.6bn addition of spectrum on the 2.1GHz frequency band.

On the **liability front**, we increased our S-T borrowings to finance the new spectrum we bought in 4Q17. In addition, NT$7.4bn worth of corporate bonds have to be repaid within one year. As such, we had higher short-term portion of long-term debt at the end of 1Q, compared to a year ago.

For the two key financial ratios: **Net debt to EBITDA** in 1Q18 was still at a healthy level of 1.4x while **ROE** stood at above 20%.

Cash Flow Analysis

1Q operating cash inflow rose 6%, compared to a year ago. **Investing cash outflow increased YoY** mainly due to an increase in capex, while part of the 4G and momo logistic center capex payments were deferred from last year to 1Q18. That said, we still stick to our guidance and expect consolidated capex for full year 2018 to trend down by 11%.

On the financing front, we had a cash outflow resulting from debt repayments and interest expenses. **For 1Q, FCF reached NT$5.2bn, translating into an annualized FCF yield of 6.9%.**

Let me turn the presentation over to James for event updates.

Event Updates

James: This page shows our event updates.

Last Friday, TWM's board approved a proposal to distribute a cash dividend of **NT$5.6 per share** out of the 2017 earnings, pending AGM's approval. This demonstrates our commitment to maintaining a stable dividend policy.

In addition, on April 20, 2018, TWM successfully completed the issuance of **its 5th unsecured corporate straight bonds** with **a total amount of NT$15bn**, which consist of NT$6bn for the 5-year bond (with a fixed annual rate of 0.848%) and NT$9bn for the 7-year bond (with a fixed annual rate of 1.00%).

Awards and Recognition

Next page lists the recognitions we've received in the first quarter of 2018 for your reference.

Key Message

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

In order to deliver satisfactory returns to our shareholders, sustaining the stability of free cash flow generations and adding differentiation to strengthen our market foothold remain our main focuses.

Now I would like to open the floor for the Q&A section.

Q&A

Peter Milliken, Deutsche Bank: ***On the profit trajectory, you mentioned that you were 8% ahead of your EPS forecast, yet your net profit was down 12%. Yet, the full-year guidance was for it to be down 4%, so the 1Q was expected to be extremely bad. So, why was it expected to be so bad compared to the next three quarters?***

Rosie: If you compare our numbers to last year, on a year-on-year basis, this year we have several factors that actually affected our 1Q performance. The first one was APT roaming. The second was mobile termination rate cut and the third was the tax rate. In addition, the capitalization of commission ate into our profits. All these factors combined have a total impact of more than NT$1 billion.

Peter: *The first three, the roaming, termination rate and tax rate, I would think that's a full year impact and not disproportionately in the 1Q or am I missing something?*

Rosie: Well, it's affecting our performance every day because the APT roaming has been declining. And the amortization of commissions occurs every day as well as the mobile termination rate. And the tax rate is also one of the major issues.

Peter: *I noticed the blended CATV ARPU seems to be lower than previously. Has that been restated? And If so, what's the change going on there?*

Shirley Chiu, Senior Director of Investor Relations: Yes, the CATV ARPU has been restated to more accurately reflect the contribution from users. Previously it included revenue from channel licensing, which was not generated by customers.

Neale Anderson, HSBC: ***How would you characterize the pricing dynamics in mobile, is it roughly the same or is it deteriorating at all? And related to that, I believe there are comments from the regulators in Taiwan that the current pricing is not sustainable in the medium- to long-term. Does management agree with that?***

Rosie: The current competitive dynamics has not changed much for the last two years because CHT is leading the competition, which is hurting everyone in the marketplace.

On the NCC's pricing comments, we, of course, agree with them. If every operator can be more sensible on the pricing, the overall environment would be more healthy.

Varun Aruja, Credit Suisse: ***CHT during last Friday's conference call commented that it's the competition from you and FET that has led to them launching the NT$499 plan. So, it's blame game that keeps happening between all three of you. Ultimately, revenue hasn't grown for the last two years. Interestingly, the regulator also came out and said that the pricing is not sustainable. In your view, where is the problem in terms of raising prices? Do you see in the next two years or so revenue in the sector moving up because there is only so much you can do with the cost side to grow EBITDA?***

The free cash flow yield on a YoY basis is improving, but this hasn't been drafted to go into dividends in the last two years despite the capex coming off. Just wanted to hear what line management is comfortable with to pay dividends.

James: The mobile competition in Taiwan can be divided into two areas, the consumer part and enterprise or government sector part. In the enterprise sector, every operator has the so-called tailor-made tariff for specific customers. Mainly, it's case-by-case because every enterprise customer will ask for a special rate. In return, they will give you a leased line business or some other benefit. The tariff for the enterprise sector varies from company to company. So, everything operates below the line. The new NT$499 this time, started with CHT, operates above the line, which since it's in the consumer sector affects all sectors, every single subscriber.

I would like to emphasize again in the enterprise sector, the tariff is really a bundled offer. It's not just mobile business; it also includes fixed-line business.

Once again, Taiwan Mobile will stop the NT$499 tariff today, the end of April. And in May, we will not offer this tariff to the consumer market.

In terms of the telecom revenue, we have two parts, one is mobile, the other is fixed-line and other revenues. The mobile revenue in the next two years probably will remain flat in terms of the top line. The good thing is while the pricing of tariff plans is going down, as we can see, most of the low tariff plans is not coming from the open channel, it's coming from either the internet channel or social media channel. With subscriptions from the internet channels, we do not have any handset subsidy or channel commission. Thus, even though the tariff there is low, it's not that bad in terms of the EBITDA because we pass most of the channel cost savings to the customer side. So, you're right, this will reduce our ARPU as well as the top line. But, in terms of the bottom line, the impact will not be that significant.

Additionally, the other part is the enterprise sector, for the fixed line business, which will be our next focus. We will start to penetrate into this market. Recently, we received some good news. It was just announced that TWM along with our two strategic partners, we won a national AI platform tender for NT$1.1 billion. This news illustrates our intent to penetrate into the enterprise sector as well as the government sector, which will hopefully boost our telecom revenue and will compensate a little bit of our mobile revenue.

Rosie: On the free cash flow yield, you mentioned that we have an improving free cash flow yield, but it hasn't been reflected in our DPS. Firstly, you know that the dividend policy is decided by the Board every year. Along with other factors, they also look to the long-term for any change in policy or to make a decision during board meetings. They of course have seen the improving trend, but I think it's still up to them to decide when they will adjust this policy. But I think we are very committal to maintaining a stable dividend policy. So, I think the current environment hasn't been very satisfactory to everyone, so they have some justifications for their conservative decisions. If the competitive landscape could be improved, they would maybe make a different decision on this. Regardless, it's up to the Board to decide.