Taiwan Mobile

1Q24 Results Conference Call

May 14, 2024

Jamie Lin, President: Good afternoon, everyone. Welcome to Taiwan Mobile's first quarter 2024 results conference call. Before I start our presentation, let's first go over our disclaimer as per usual:

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

1Q24 Highlights

As you all know, Taiwan Mobile merged with T Star on the 1st of December last year, so 1Q24 marked the inaugural complete reporting quarter after the combination. Coupled with organic growth from our existing customer base, mobile service revenue delivered a 27% YoY jump during the quarter.

Meanwhile, momo's e-commerce revenue posted a 7% YoY growth, accelerating from a quarter ago.

Our home broadband subscriber base also expanded, at 4% YoY, driven mainly by effective cross-selling toward mobile and pay-TV customers.

Underpinned by the merger and solid performances across our three core businesses, that is 5G, e-commerce and home broadband, consolidated EBITDA rose by 22% YoY, surpassing the NT$10bn mark for the first time in company history. Despite the incremental D&A associated with the merger, telecom operating income still grew YoY thanks to our network consolidation efforts, which are exceeding expectations. This shows that our team's excellent execution has already started to pay off. As a result, consolidated operating income reached a new high since 2Q18, with a 9% YoY increase.

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

Mobile – Growth Engine #1

The T Star merger has brought 2mn additional postpaid subs to our smartphone user base, representing a significant 35% increase. As expected, this led to a dilution of our smartphone postpaid ARPU. That said, our mobile service revenue still demonstrated strong growth, jumping 13% QoQ and 27% YoY to reach almost NT$16bn in 1Q24. This growth was driven not only by the T Star contribution but also a 7.1% YoY ARPU increase in TWM's existing smartphone postpaid users and a strong recovery in roaming revenue.

Further 5G conversion and benign 4G pricing environment continued to positively impact our smartphone ARPU. Contract renewals in 1Q24 saw a 9% overall uplift in monthly tariffs, with over 40% boost specifically for 4G to 5G renewals. With 5G penetration in our smartphone postpaid user base currently at 37%, we anticipate substantial runway ahead for continued ARPU upside.

Our unique bundles such as momobile and Double Play, have proven to be effective in driving upsell and enhancing customer loyalty. The low postpaid churn rate in 1Q24 reflects both a rational competitive environment and the successful promotion of these bundles.

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

momo – Growth Engine #2

In 1Q24, our e-commerce revenue increase outpaced Taiwan's total retail sales growth. Its market share gain was driven by a 7% YoY rise in active users in the quarter. Other than our existing B2C 1P business, we will also scale up our 3P, advertising and live commerce businesses in 2024.

Our e-commerce EBITDA margin remained resilient during the quarter, as a result of ongoing cost-efficient measures.

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

Broadband – Growth Engine #3

The QoQ and YoY decline in overall CATV revenue was primarily related to content reduction after Disney shut down its cable TV channels in Taiwan early this year.

Broadband business growth continued, with subs rising by 4% on the back of steady demand for faster connectivity and our cross-selling bundles which include cable TV, broadband and

OTT services. Broadband subs including Double Play bundle users who are on speeds of 300Mbps or higher surged by 51% YoY during the quarter.

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 the first quarter of 2024, consolidated revenue reached NT$48.3bn. With the help of T Star merger, telecom business contributed majority of the YoY revenue growth and accounted for 43% of consolidated revenue. Decent growth was seen even if we strip out the T Star impact.

As for profitability, consolidated EBITDA reached a record high. The YoY increase was mainly driven by telecom, while momo and CATV also delivered YoY growth.

Let's go to Results Summary.

Results Summary

In addition to robust expansions in revenue and EBITDA, consolidated operating income rose by 9% YoY, a new high since 2Q18. Despite the incremental D&A associated with the merger, telecom operating income grew YoY, as the network consolidation is tracking ahead of our schedule.

The YoY surge in non-operating expenses was driven by 1) higher financing costs as we took on T Star's debt and refinanced it, 2) equipment write-offs from network consolidation, and 3) foreign exchange translation gains amid USD appreciation.

Even with dilution from new share issuance, EPS still recorded a 2% increase YoY, stronger than peers.

On a QoQ basis, the drop in revenue was within momo's seasonal pattern, while the fall in net income stemmed from one-off divestment gains in 4Q23.

Let's move on to Balance Sheet.

Balance Sheet Analysis

Receivables and contract assets rose YoY, driven by the growth in postpaid subscribers (including T Star users) and monthly fee contributions from our mobile bundle plans. The YoY decrease in inventory level was due to faster turnover of mobile devices.

Long-term investment climbed YoY, mainly on the back of additional NT$1.3bn investments in new economy businesses, including KKCompany in the past year.

The YoY increase in PP&E primarily resulted from T Star's mobile equipment. Concessions also rose as we added NT$20bn worth of spectrum holdings, specifically the 3.5GHz band for 5G service, from T Star.

Right-of-use assets grew YoY because of momo's warehouse additions and the merger with T Star but fell QoQ thanks to the consolidation of our base stations and direct stores.

Gross debt went up YoY to NT$88.4bn owing to borrowings inherited from T Star but decreased QoQ as we paid down some bank borrowings since the merger.

Benefiting from improving free cash flow and the incremental EBITDA, Net Debt to EBITDA declined sequentially to 1.8x in 1Q24.

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

Cash Flow Analysis

In 1Q24, cash earnings surged by 22% YoY on the back of solid EBITDA growth across telecom, e-commerce and broadband businesses, along with contribution from T Star.

Operating cash flow also benefited from a favorable working capital change in contrast to a year ago when the payable balance was low.

Despite a decrease in our 2024 capex budget, an increase in 1Q24 investing cash outflow reflected capex associated with network consolidation post T Star acquisition and momo's logistics capacity expansions.

Our strong free cash flow generations enabled us to pay down more bank borrowings, leading to a higher financing cash outflow in the quarter.

1Q24 free cash flow calculated on a recurring pre-IFRS 16 basis reached a new high since 5G service launch in 2020, translating into an annualized free cash flow yield of 7.7%.

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

Awards and ESG Recognitions

Here let me walk you through some of our ESG-related achievements this quarter. Taiwan Mobile made it to CDP's Climate Change A list for the 4th time, the best among Taiwanese telcos. Only 17% of the participating companies globally received this top score.

We've also been honored with the highest grade of "A" for 3 consecutive years in CDP's Supplier Engagement Rating, standing among the top 12% of evaluated companies.

Moreover, our adoption of ISO 20400 Sustainable Procurement Guidance was validated, and we've started to work with our 15 high carbon-emitting suppliers in establishing science based targets for carbon reduction, continuously driving positive change beyond our organization.

Key Message

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

In the first quarter of 2024, we delivered commendable financial results, marked by healthy EPS growth and robust free cash flow. Our core mobile business continued its strong growth trajectory, while we out-execute merger integration against already aggressive plans.

Looking ahead, we will relentlessly pursue the full potential of these flywheels by 1) further accelerating the realization of merger synergies, and 2) leveraging our expanded scale to seize more growth opportunities.

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 a question on the merger synergy timing. A lot of it will be quite steady and stable, such as the migration of T Star customers to 5G. Are there any synergy costs or benefits that are seasonal or are more "one-time" rather than "gradually over the rest of the year"?

Jamie: Most of the synergies are not "one-time," most of them are quite recurring. In terms of customer synergy, we are moving their two million postpaid subscribers to our network and continuing to upsell them to our unique bundles. So, once we have upsold them, the monthly tariff increase would be recurring. In terms of network, will continue to consolidate the network and reduce rental costs, so that is also pretty recurring. We shut down hundreds of their stores and those savings are also pretty repetitive. If anything, whenever we consolidate their base stations, we basically do incur some one-time write-offs, so that is one negative synergy.

However, the savings we are going to produce from network consolidation will more than pay for these one-time write-offs.

CHATBOX QUESTION

The EBITDA growth rate for Q1 is very impressive. How can we expect the momentum to continue throughout the year? How about the EBITDA growth rate guidance for 2025, as the network consolidation moves on between Taiwan Mobile and T Star? How would the ceasing of 3G services at the end of June affect you? Positively? Can you give us the figures?

Jamie: As we continue to consolidate the network, you can expect that to trickle down to our EBITDA. If you look at T Star before the merger, they spent around NT$2bn per year on base station rentals and associated costs. So, if we took a year to consolidate the network evenly, then you can think of it as about NT$1bn savings over 2024, and it is counted on the year end. Right now, we are ahead of schedule; we have made about 30% progress and are looking to accelerate the pace, so we do expect to continue to deliver healthy EBITDA growth throughout the rest of 2024. As for 2025, we are not giving guidance yet, but you can expect the positive momentum to continue. In terms of 3G shutdown, it will save Taiwan Mobile around 70mn kWh of electricity a year. That would be the positive, recurring EBITDA from the shutdown. However, it really depends on how Taipower is going to price electricity going forward.