

Taiwan Mobile
4Q17 Results Conference Call
February 1, 2018

James Jeng, President: Good afternoon. Welcome to Taiwan Mobile's fourth 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 mobile operating performance.

Telecom Business – Out from the Pack

Overall, our telecom business in 2017 stood out from the pack. Mobile service revenue generated by Taiwan Mobile's own subscribers (namely without domestic roaming revenue from other telcos) showed the smallest decline among the big three in 2017. Our effective spectrum investment strategy allowed us achieve a higher spectrum yield than our peers. Core telecom EBIT improved by 3.7% YoY, attributable to a 16% YoY increase in mobile value-added services and customer acquisition related cost rationalization. Plus, we also benefited from the telecom D&A reductions in 2017. Our EPS for 2017 came in at NT\$5.21.

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CATV Growth Catalysts

On the cable TV business, our basic TV subscriber base at the end of 4Q17 stayed stable from last year, suggesting improving industry dynamics. The fast ramp-up of digital set-top-box penetration led to a strong 13% YoY rise in DTV subscriber number. With effective campaigns and leading download speed, our cable broadband subscriber rose 6% YoY. To sustain cable broadband ARPU, the higher-speed mix of the broadband business further rose to 26%, up from 17% a year ago.

These pave the way for expanding our OTT video streaming service. If you look at the chart at the bottom right, you can see Taiwan Mobile's OTT subscribers from pay-TV users expanded very fast thanks to the successful integration of the mobile OTT and cable TV

platforms. Since this service is not limited to our own cable subscribers, Taiwan Mobile targets to more than triple the subscriber number in 2018.

The aforementioned fast roll-out of digital set-top-box caused our cable capex hikes in 2017, and therefore will increase cable D&A in 2018. However, the cable D&A is expected to drop significantly in the next two years due to the short depreciation period for set top box.

momo E-commerce - Stellar Growth

For momo, the company continued gaining ground in the B2C e-commerce business. In 4Q17, momo's e-commerce business recorded a 41% YoY increase in revenue. And driven by its strong business momentum, e-commerce EBITDA showed a strong 32% YoY growth.

Of note, e-commerce already made up 83% of momo's Q4 revenue, and continued to serve as the company's growth engine. Also, momo's mobile commerce contribution further rose to 55% this quarter. There is a growing trend of consumers increasingly shopping on mobile devices or through mobile APPs. Hence, the increasing contribution from mobile commerce will help boost momo's growth momentum.

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

Performance by Business

Rosie Yu, CFO & Spokesperson:

We believe that the recurring numbers excluding the domestic roaming business better reflect our performance in 2017.

In 2017, our consolidated EBITDA remained resilient YoY, of which telecom EBITDA went up 1% YoY while momo's EBITDA surged 11% YoY, on a recurring basis.

Results Summary

In 4Q17, total revenue beat our forecast on the back of higher-than-expected device sales and e-commerce revenue. Our operating costs and expenses also went up QoQ due to the rise in revenue mentioned before, but the expense increase was partially offset by the decrease in handset subsidy and dealer commission.

Non-operating expenses rose YoY and QoQ in 4Q17 because of our conservative approach of setting aside the litigation provision related to a pending lawsuit.

All in all, in 4Q17, we missed our EPS guidance mainly because of the one-off litigation

provision.

For full-year 2017, total revenue was 1% lower than our guidance mainly due to revenue shortfall from mobile device sales caused by weaker demand for high-end smartphone bundled plans. However, both e-commerce and mobile value-added service revenue came in ahead of our expectations. Aided by handset subsidies and dealer commission cuts as well as other expense rationalizations, both EBITDA and operating income for the full year came in better than our guidance.

Balance Sheet Analysis

On the balance sheet. On the asset front, major QoQ changes seen in 4Q were the increases in inventory and concession, due to our acquisition of the 20MHz spectrum on the 2.1GHz frequency band, respectively.

On the liability front, we increased S-T borrowings to finance the new spectrum we bought in 4Q17. Meanwhile, two issuances of corporate bonds will mature in tranches in the next two years, and current ratio fell to 57% at the end of 4Q17,

For the two key financial ratios in 2017, net debt to EBITDA in 4Q17 was still at a healthy level of 1.6x while ROE stood at above 20%.

Cash Flow Analysis

2017 operating cash inflow remained stable compared to a year ago. Investing cash outflow increased YoY mainly due to the NT\$8.6bn payment in 4G license fees, but was partially offset by a lower cash capex compared to a year ago.

On the financing front, the company repaid NT\$2.9bn in corporate bonds and NT\$2.4bn of long-term bank loan. Meanwhile, NT\$7.9bn of short-term borrowing was raised to finance 4G license fees. 2017 full-year FCF maintained at a high level of NT\$20.52bn, translating into a FCF yield of 7.0%.

Let me turn this back over to James for our 2018 guidance.

2018 Guidance

James: For the 2018 outlook, in view of a stable ARPU and subscriber number, telecom top-line will be flat, should the domestic roaming and mobile termination businesses be excluded. We forecast telecom EBITDA to edge down 3% YoY all factors considered, including the IFRS 15 implementation (namely the capitalization of dealer commission). That said, the core

telecom EBITDA, which is adjusted for the same accounting treatment as a year ago and not including the domestic roaming business, is estimated to be flat in 2018. The stable core telecom EBITDA target will be achieved through a stable top-line performance and stringent expense disciplines.

Regarding other businesses, in 2018, the combined EBITDA of the cable TV business and momo will represent 15% of our total EBITDA. Their respective EBITDA growth rates are estimated to be 1% for cable TV and 9% for momo. D&A increases in momo and the cable TV business are expected.

Regarding EPS, we expect a mere 1% drop in pre-tax earnings in 2018. EPS guidance of NT\$5 is largely a negative function of the corporate tax rate hike from 17% to 20%.

In summary, with an expected stable core recurring EPS for 2018 and over 10% YoY reduction in capex, we forecast an 8% increase in the 2018 free cash flow from a year ago.

Event Updates

This morning, we had a Board meeting. The next page shows our event updates.

For Board Resolutions:

First, TWM's board approved a capex budget of NT\$7.4bn for 2018 with the breakdown details shown in the slide. Telecom related capex expects to remain stable while both momo's and cable TV's are forecast to trend down.

Second, To keep a healthy capital structure, the board today approved the issuance of unsecured corporate straight bonds with a maximum value of NT\$15bn.

In addition, there are some new changes that will apply to us. First, starting in 2018, the IFRS 15 has been implemented. The implication of TWM's financial reporting this year will be the capitalization of dealer commissions over the contract period, which will increase our beginning balance of retained earnings by NT\$3.4bn. Second, statutory corporate tax rate has been raised to 20% from 17% starting in 2018, which also applies to TWM.

Awards and Recognition

This page lists the awards and recognition we've received in the recent quarter for your reference.

Key Message

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

Taiwan Mobile is confident in maintaining stable free cash flows despite less-than-satisfactory industry dynamics. Plus, we are better positioned with stronger footholds in e-commerce and OTT services, not to mention advantages in 4G spectrum and infrastructure investments. Sustaining the long-term health of our business to deliver satisfactory returns to our shareholders remains our main goal.

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

Q&A

Neale Anderson, HSBC HK: *This question relates to the less than satisfactory industry dynamics you mentioned on the final slide there. I assume that's mostly referring to mobile. Your competitor yesterday mentioned the possibility of moving to tiered data pricing. Is that something you see as feasible given that flat rate has been standard for so long in Taiwan?*

Rosie: It's really up to CHT. If they are willing to move to tiered rate plans, of course we will be benefited.

Neale: *So, is there nothing you feel that Taiwan Mobile can do to bring about that change?*

Rosie: This is a three-player market. So, we are pretty much facing this kind of head-on competition from our peers and CHT is the largest operator. So, of course, we need to benchmark our rate plans against theirs.

Neale: *Do you feel the outlook in the cable TV market is improving now?*

James: I think the cable TV market will remain stable this year. I think, right now, the competition from the new entrants will slow down a bit. Last year, TWM cable TV business, in terms of cable TV, broadband and digital TV subscribers, was ahead of its competitors. So, we expect, in 2018, our cable TV business to remain strong, especially as we focus more on fixed-line broadband and digital TV since the whole network became fully digitalized last year.

Jack Hsu, Sinopac TW: *First question, for 4Q17, there was a one-time loss. Can you give more details on that?*

Second, could you give us the 1Q18 guidance?

Third, what's your target for your 4G subscribers in 2018?

James: Regarding the litigation, we will appeal to the higher court. According to our accountant from Deloitte, we have recognized the litigation provision in 2017.

Rosie: Regarding the 1Q18 guidance, we will announce publicly after the conference call, but I will give it to you shortly.

James: In terms of mobile subscribers in 2018, there will be about 0.7% increase. Thus, total mobile subscribers will remain around 7.3 million by the end of 2018.

Rosie: All the 3G subscribers will be migrated to 4G. And, regarding your question about quarterly EPS, in the 1Q18, it's estimated to be NT\$1.18, 2Q, NT\$1.31, 3Q, NT\$1.28, 4Q, NT\$1.23.

Patrick Chan, Nomura Taiwan: *I assume your guidance includes the impact from the roaming. Can you shed light on what would be the EPS trend if excluding the roaming impact in 2018?*

James: The roaming impact will be insignificant this year because, based on NCC regulation, this year will be the last year because this year all of the traffic will be returned back to APT. So, the roaming impact to our revenue or our EBITDA will be insignificant this year.

Rosie: To elaborate a bit more on this issue, we think the pre-tax profits will remain flattish should we exclude the roaming impact.

Patrick: *You mentioned that you expect the ARPU trend to remain stable in 2018, but from a trajectory point of view, do you expect the sequential movement to be trending upwards towards the back half of the year given that you are seeing more of an uptake rate on the high-end rate plans due to the high-end smartphone launches?*

James: Based on our estimation, our postpaid ARPU will remain the same as last year. If it slightly drops, it will be due to the mobile termination rate cut. The percentage of subscribers with rate plan higher than NT\$1000 will remain at about 35-37%, which is about the same as last year.

Ronnie Zhu, UBS Taiwan: *First question is regarding the guidance. You said you*

expect the mobile business revenue and profit to remain flat. Does that mean you are expecting our subscribers to not decline this year? On cable business side, we noticed that the EBITDA margin declined sharply in December last year. Can you elaborate more on what happened and how are we going to view the EBITDA margin trend on the cable business in 2018? And on the mobile business, it seems like the EBITDA margin is also declining, should the trend also continue this year?

James: I think in terms of subscriber number and the tariff distribution, mobile service revenue in 2018 will decline slightly at less than 1%. And this is due to data revenue remaining flat while voice revenue will decline 10-15% by our estimations. However, the value-added service, mainly innovation services, will be up about 16-20%. So, that will offset the drop in voice revenue and keep our mobile service revenue flat.

Ronnie: *I noticed on the monthly sheet, the EBITDA margin in December was 42% vs the full-year average of 51%. Thus, I was wondering what happened there and how should we view the trend in 2018?*

James: Right now, in Taiwan, the TV shopping industry is declining due to competition from ecommerce internet shopping. Therefore, we dropped channel leasing price and adjusted in the 4Q. In 2018, channel leasing price will remain the same as it was in 4Q17.

Ronnie: *If the rate is going to be the same it was 4Q17, does that mean on a full-year basis we are expecting there will be a slight decline in 2018?*

James: Not necessary. In terms of channel leasing revenue, yes, it will drop. However, the fixed broadband business is coming up and since the whole network is fully digitalized, so we will push the 500 Mbps high speed broadband in 2018 and that will boost up our fixed broadband income and also the bottom line and that will compensate some of the leasing channel revenue drop.

Ronnie: *How about momo?*

James: For momo, the figure I have is very conservative. If you look at the 2018 guidance, we would rather be conservative in the beginning, but we are definitely not pessimistic about 2018.

Ronnie: *Do you have any comment on the government's requirement that you migrate all 3G subscribers to 4G? Could that lead to subscriber loss?*

James: Yes, in accordance with NCC regulation, we have to terminate all 3G service by the end of the year, however 3G has to remain in the network because the voice service will fallback to the 3G network. So, even though 3G service is terminated, the 3G network will still remain. But we can use less spectrum for the 3G service. We used to have 15MHz for the 3G service including voice plus data, but since all 3G data service will be moved to 4G with the 3G network being used merely as a voice fallback, we will probably only use 5MHz for 3G. And the rest of the 15MHz spectrum will be used for 4G data services.

Ronnie: *Any updates on 5G?*

James: 5G will start commercial run in 2020. Right now, we are still trying to persuade the government for the 5G spectrum not to use an auction because it's being used too frequently. We just finished one for 2.1MHz and two years from now we'll have another 5G auction. Hopefully, the government will take our advice and instead provide the 5G spectrum for most of the operators.

Ronnie: *So, the spectrum allocation, regardless if it goes to auction or not, will be decided in 2020.*

James: I think the location of the 200 MHz 5G spectrum has already been determined. The first 5G spectrum will be between 3.4G and 3.6G.

Jack Hsu, Sinopac Taiwan: *You mentioned the cable TV business faced some competition, but you estimated that the OTT subscribers will have big growth in 2018. How do you see the cable business in 2018? I'm not sure the revenue potential be greater than our estimates even though subscribers will grow.*

For the telecom business, will the price competition be more fierce or will it ease up in 2018?

James: I think the mobile tariff competition in 2018 will be more mild because the big 3 all face bottom line pressure. That's why the commission and subsidy will be lower than last year. And that will turn the whole competition into a very stable and mild situation. Thus, I don't expect there will be a keen competition in 2018.

In terms of cable, I think streaming video will become mainstream for video services because of the full digitalization and the speed of the fixed broadband will rise significantly in 2018 to

100Mbps and even up to 500Mbps. So, the streaming video will play an even more important role in the video services. Thus, because our fixed broadband will significantly improve this year, I expect the subscriber number for the OTT services to greatly increase. And that will be additional revenue to the traditional cable business.

Jack: *Is the OTT revenue in the 2018 forecast?*

James: Right now, we didn't count it in our cable business because even though we expect the business to pick up, its revenue as a percentage of the whole operation is still fairly insignificant.