



August 4, 2020

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IR contact:

Jennifer Yuan
Principal Administrator
Investor Relations
jenniferyuan@taiwanmobile.com

Rosie Yu
CFO
rosieyu@taiwanmobile.com

13F, No. 88, Yan Chang Rd.,
Taipei City 110, Taiwan, ROC
Tel: 8862 6636 3159

ir@taiwanmobile.com
<http://www.taiwanmobile.com>

TWM Consolidated

NT\$bn	<u>2Q20</u>	<u>YoY</u>	<u>1H20</u>	<u>YoY</u>	<u>FY20</u> <u>Achievement</u> <u>Ratio</u>
Revenues	31.34	6%	63.19	6%	47%
Operating Income	4.13	-4%	8.61	1%	55%
Non-op. Income (Expenses)	(0.00)	-95%	(0.16)	-35%	16%
Pre-tax Income	4.13	-2%	8.46	2%	57%
(Income Tax)	(0.81)	-3%	(1.58)	-3%	56%
(Minority Interest)	(0.27)	47%	(0.52)	26%	63%
Net Income	3.05	-5%	6.36	1%	57%
EPS (NT\$)	1.08	-7%	2.26	-1%	57%

Highlights of Operating Results

2Q20

With momo's robust growth momentum, consolidated revenue continued to scale YoY. The 16% YoY increase in the combined operating income of CATV and momo helped mitigate the slide in telecom operating income. Stripping out the IFRS bundle sales adjustment swing factor, 2Q20 net income remained stable YoY.

Free cash flow calculated with pre-IFRS 16 operating cash flow reached NT\$4.60bn in 2Q20, translating into an annualized FCF yield of 5.9%. Net debt to EBITDA declined sequentially to 1.68x in 2Q20.

1H20

Total revenue tracked slightly behind, but the muted telecom performance was offset by lower selling expenses and momo's operating leverage at the operating income level. Overall, 1H20 operating income for all major businesses achieved management expectations. 1H20 EPS reached 57% of Company's FY20 guidance, aided by lower-than-expected non-operating expenses.

Key Message

Taiwan's big 3 mobile operators have entered the new era with restrained pricing and a consensus on 5G unlimited data plans starting from NT\$1,399 a month.

As 5G iPhone and the likes arrive alongside continuous network build-out, we expect 5G service adoptions to accelerate, and hence, increase bundle sales of high-end phones for our telecom business.

At the same time, we expect momo to continue to thrive in this new normal and its investments into logistics should give it increasing advantage over its peers.

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I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT\$bn)	2Q20	1Q20	2Q19	QoQ	YoY
Mobile Service Revenue	11.70	11.98	12.92	-2%	-9%
Postpaid ARPU (NT\$)	654	670	731	-2%	-11%
Blended ARPU (NT\$)	545	558	592	-2%	-8%
Telecom Service Revenue	12.70	12.94	13.92	-2%	-9%

Revenue (NT\$bn)	2Q20	1Q20	2Q19	QoQ	YoY
Telecom	14.36	15.62	16.38	-8%	-12%
Service	11.18	11.37	12.20	-2%	-8%
Device Sales	3.17	4.25	4.17	-25%	-24%
CATV revenue	1.54	1.54	1.54	0%	0%
Pay-TV	0.86	0.87	0.89	0%	-2%
Broadband	0.38	0.37	0.36	1%	6%
Content & channel leasing	0.30	0.30	0.29	0%	3%
momo	15.83	15.11	11.82	5%	34%
E-commerce	14.46	13.62	10.26	6%	41%
TV shopping & others	1.37	1.48	1.55	-7%	-12%
Others¹	0.13	0.14	0.15	-2%	-9%

1. Other revenue primarily consists of operating revenue from our 49.9%-held Taipei New Horizon Co., Ltd., which became a consolidated entity on Feb 21, 2014.

	2Q20	1Q20	2Q19	QoQ	YoY
Mobile Subscribers (K)	7,171	7,159	7,254	0%	-1%
- Postpaid	5,741	5,718	5,653	0%	2%
Monthly Churn	1.3%	2.2%	2.7%		
-Postpaid	1.0%	1.0%	1.1%		
MOU (bn)	0.95	0.95	1.10	0%	-14%
Pay-TV Subs (K)	551	553	559	0%	-1%
Cable Broadband Subs (K)	260	256	246	2%	6%
DTV Subs (K)	270	264	250	2%	8%

CATV ARPU (NT\$)	2Q20	1Q20	2Q19	QoQ	YoY
Pay-TV	522	523	527	0%	-1%
Broadband	485	486	485	0%	0%
Blended ¹	749	747	739	0%	1%

1. Cable TV & broadband related revenue (excluding content agency) divided by CATV subscriber number

Telecom

In 2Q20, the lack of new high-end smartphones in the market and customers' anticipation of 5G phones caused steeper YoY declines than previous quarter for both handset bundle sales and device sales.

That said, our efforts in neutralizing the impact from ever-rising SIM-only adoption by promoting our Double Play (unlimited mobile data + high speed home broadband) bundles yielded healthy value improvement in mobile plans signed up in 2Q20.

In 2Q20, our enterprise fixed service revenue rose 6% YoY and accounted for close to 10% of telecom service revenue. Steady demand for IoT connectivity also led to a 40% YoY climb in M2M (machine to machine) connections for the quarter.

Cable TV

Underpinned by growing demand for faster home broadband download speeds, the QoQ and YoY growth in cable broadband subs expanded steadily. Moreover, the percentage of customers subscribing to plans with speeds of 100Mbps and higher rose by 6ppts from a year ago.

momo

As online shopping thrives in the new normal, momo's e-commerce business continued to deliver solid results in 2Q20. Not only did the total number of transactions soar by 39.5% YoY, average order value also edged higher, with its private label credit card serving as a tailwind.

On the logistics side, momo added two more satellite warehouses in 2Q20, taking the total number of satellite warehouses to 17 (up by 9 YoY).

II. EBIT Analysis

Table 2. EBITDA Breakdown

NT\$bn	2Q20	1Q20	2Q19	QoQ	YoY
EBITDA	7.71	8.10	8.43	-5%	-8%
- Telecom	6.19	6.49	7.04	-5%	-12%
- CATV	0.74	0.74	0.79	0%	-7%
- momo	0.66	0.75	0.51	-13%	30%

NT\$bn	2Q20	1Q20	2Q19	QoQ	YoY
D&A	3.58	3.62	4.10	-1%	-13%
- Telecom	3.16	3.20	3.64	-2%	-13%
- CATV	0.18	0.18	0.26	-2%	-33%
- momo	0.20	0.19	0.16	3%	26%

NT\$bn	2Q20	1Q20	2Q19	QoQ	YoY
EBIT	4.13	4.48	4.33	-8%	-4%
- Telecom	3.04	3.29	3.40	-8%	-11%
- CATV	0.56	0.56	0.53	1%	7%
- momo	0.46	0.56	0.35	-18%	31%

Table 3. Non-operating Item

NT\$bn	2Q20	1Q20	2Q19	QoQ	YoY
Non-Operating Revenue (Expense)	(0.00)	(0.15)	(0.10)	-97%	-95%
- Net Interest Expense	(0.14)	(0.13)	(0.12)	11%	17%
- Write-off Loss	(0.02)	(0.02)	(0.02)	6%	-29%
- Other Revenue (Expense)	0.15	(0.01)	0.04	nm	281%

EBIT Analysis

On the telecom side, selling expense and handset subsidy rationalization has been underway to cope with rising SIM-only plans, evidenced by the YoY stabilization of operating cash flow in 2Q20. Nonetheless, telecom EBIT decreased YoY, owing to the significant drop in handset bundle sales.

While CATV EBITDA declined YoY in 2Q20, mainly attributable to competition in basic TV business, its EBIT rose by 7% YoY, aided by the falling depreciation of set-top boxes.

Thanks to increasing scale and operating leverage, momo's e-commerce EBIT surged by 57% YoY in 2Q20. The sequential EBIT contraction was due to higher marketing expenses for mid-year sales campaigns and supply chain issues of its legacy businesses.

D&A Analysis

The continuous fall in 3&4G depreciation led to an overall D&A drop in the quarter. Only momo saw a YoY uptick in D&A as a result of satellite warehouse additions.

Non-Operating Item Analysis

The QoQ and YoY plunge in non-operating expense in 2Q20 was primarily associated with momo's disposal gains from its equity investments.

III. Income Statement Analysis

Table 4. 2Q20 Consolidated Results vs. Forecast

NT\$bn	2Q20	YoY	% of 2Q20 Forecast
Revenue	31.34	6%	99%
Cash Cost & Expense	(23.63)	12%	99%
Operating Income	4.13	-4%	100%
Non-op. Income (Expense)	(0.00)	-95%	2%
Pre-tax Income	4.13	-2%	107%
Net Income	3.05	-5%	104%
EPS (NT\$)	1.08	-7%	104%
EBITDA	7.71	-8%	99%

Table 5. 1H20 Consolidated Results vs. Forecast

NT\$bn	1H20	YoY	% of Full Year guidance
Revenue	63.19	6%	47%
Cash Cost & Expense	(47.38)	11%	46%
Operating Income	8.61	1%	55%
Non-op. Income (Expense)	(0.16)	-35%	16%
Pre-tax Income	8.46	2%	57%
Net Income	6.36	1%	57%
EPS (NT\$)	2.26	-1%	57%
EBITDA	15.81	-6%	50%

Income Statement Analysis

2Q20

With momo's robust growth momentum, consolidated revenue continued to scale YoY.

The 16% YoY increase in the combined operating income of CATV and momo helped mitigate the slide in telecom operating income.

2Q20 non-operating expenses tracked well below expectations, on account of 1) higher-than-expected equity income, 2) disposal gains realized by momo and 3) lower-than-expected financing costs.

Stripping out the IFRS bundle sales adjustment swing factor, 2Q20 net income remained stable YoY.

1H20

Total revenue tracked slightly behind, however, the muted telecom performance was offset by lower selling expenses and momo's operating leverage at the operating income level.

Overall, operating income for all major businesses achieved management expectations in 1H20.

1H20 net income also came in ahead on the back of lower-than-expected non-operating expenses brought about by the aforementioned reasons. EPS for the period reached 57% of Company's FY20 guidance.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT\$bn	2Q20	1Q20	2Q19
Operating	7.47	9.24	7.07
Pre-tax Income	4.13	4.33	4.22
Non-cash Add-backs	4.07	4.14	4.83
--Depreciation ¹	1.73	1.78	2.27
--Amortization	0.87	0.85	0.86
--Others ¹	1.47	1.50	1.70
Changes in Working Capital & Income Taxes	(0.73)	0.60	(2.10)
Others	0.00	0.16	0.12
Investing	(1.54)	(31.79)	(1.37)
Capex ²	(1.90)	(1.65)	(1.38)
Divestment (Acquisition)	0.39	(0.37)	0.01
5G License Fees	0.00	(29.66)	0.00
Other Financial Assets (Increase)	0.01	(0.10)	(0.02)
Refundable Deposits (Increase)	(0.01)	(0.03)	0.00
Others	(0.03)	0.00	0.02
Financing	(6.79)	22.99	(6.76)
Short-term Borrowings	(4.94)	8.16	(4.90)
Proceeds from Issuance of Bonds	0.00	19.98	0.00
Long-term Bank Loan	(0.05)	(4.05)	(0.05)
Repayment of The Principal Portion of Lease Liabilities ³	(0.94)	(1.00)	(0.92)
Dividends Payments	(0.66)	0.00	(0.69)
Interest (Payment) & Others	(0.20)	(0.09)	(0.19)
Net Cash Position Chg.	(0.86)	0.44	(1.06)

1. Depreciation of right-of-use assets shown separately under "Others" instead of "Depreciation" in this table.

2. Inclusive of prepayments for equipment and the acquisition of computer software & other intangible assets

3. An operating cash outflow item prior to 2019

Table 7. Capex & FCF

NT\$bn	2Q20	1Q20	2Q19
Cash Capex¹	1.90	1.65	1.38
- Mobile	0.88	1.03	0.88
- Fixed-line	0.35	0.22	0.34
- Cable	0.18	0.15	0.13
- momo & others	0.49	0.25	0.03
% of Revenue	6%	5%	5%
Free Cash Flow¹	4.60	6.56	4.73

1. Excluding 5G License Fees. Free cash flow was on pre-IFRS 16 basis.

Cash Flow Analysis

In 2Q20, operating cash inflow increased YoY, benefiting from momo's rising payables from its growing B2C business. Compared to the previous quarter, operating cash flow came off as we paid our 2019 corporate taxes in 2Q20.

Apart from capex, the main investing activity in 2Q20 was the sale of Taiwan High Speed Rail shares.

Net cash outflows from financing activities mainly came from debt repayment and cash dividend payments to momo's minority shareholders in 2Q20.

Capex and Free Cash Flow Analysis

In 2Q20, the hike in cash capex was due to the expansion of momo's logistic capabilities.

2Q20 free cash flow calculated with pre-IFRS 16 operating cash flow reached NT\$4.60bn, translating into an annualized FCF yield of 5.9%.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT\$bn	2Q20	1Q20	2Q19
Total Assets	177.39	178.73	153.60
Current Assets	30.27	30.69	27.10
- Cash & Cash Equivalents	8.24	9.10	6.77
- Receivable & Contract Assets	13.77	13.49	14.60
- Inventories	3.72	3.77	4.08
- Short-term Investment	2.99	2.83	0.34
- Other Current Assets	1.55	1.49	1.30
Non-current Assets	147.12	148.05	126.51
- Long-term Investment	3.57	3.00	7.36
- Property and Equipment	38.55	38.35	40.74
- Right-of-use Assets	9.21	9.54	9.67
- Concession	66.96	67.66	39.12
- Other Non-current & Contract Assets	28.84	29.50	29.63
Liabilities	110.89	102.56	89.18
Current Liabilities	60.18	51.60	49.76
- ST Borrowings	21.69	26.63	8.70
- Accounts & Notes Payable	8.35	7.70	7.14
- Current Lease Liabilities	3.53	3.58	3.42
- Other Current Liabilities	26.61	13.69	30.50
Non-current Liabilities	50.71	50.96	39.42
- Long-term Borrowings	40.37	40.42	28.73
- Non-current Lease Liabilities	5.68	5.93	6.19
- Other Non-current Liabilities	4.66	4.61	4.50
Shareholders' Equity	66.50	76.18	64.42
-Paid-in Capital	35.09	35.09	34.68
-Capital Surplus	18.68	20.28	16.65
-Legal Reserve	30.17	28.92	28.92
-Treasury Shares	(29.72)	(29.72)	(29.72)
-Un-appropriated Earnings	0.00	0.49	0.49
-Non-controlling Interest	6.02	6.40	5.86
-Retained Earnings & Others ¹	6.24	14.71	7.53

¹: Including YTD profits and other equity items

Table 9. Ratios

	2Q20	1Q20	2Q19
Current Ratio	50%	59%	54%
Interest Coverage (x)	31.4	36.6	37.9
Net Debt (Cash) to Equity	81%	76%	48%
Net Debt (Cash) to EBITDA (x)	1.68	1.81	0.91
ROE (annualized)¹	18%	18%	19%
ROA (annualized)²	8%	8%	9%

¹: ROE = Accumulated Net Income (Annualized) / Average Shareholders' Equity

²: ROA = Accumulated Net Income + Interest Expenses * (1 - Tax Rate) (Annualized) / Average Total Assets

Assets

The THSR shares we own were reclassified from long-term investment to short-term investment, following the Board's resolution to dispose of the entire holding, creating significant positive YoY variance in short-term investment. In 2Q20, sales proceeds of NT\$582mn were realized, with 75mn shares left to be disposed of.

The YoY increase in concession resulted from the acquisition of 5G spectrum in 1Q20 and has begun amortization since the commercial launch on July 1, 2020.

Liabilities & Shareholders' Equity

Gross debt gradually dropped to NT\$62bn as of end of 2Q, following NT\$5bn repayment of short-term borrowings.

The YoY rise in accounts payable was mainly driven by momo's business expansion.

In 2Q20, AGM's approval of dividend payments led to a NT\$13bn dividend payable in other current liabilities and a subsequent QoQ reduction in shareholders' equity.

Ratio Analysis

Despite taking on more debt after the 5G spectrum auction, net debt to EBITDA declined from 1.81x in 1Q20 to 1.68x in 2Q20.

VI. Management Remarks

Key Message

Taiwan's big 3 mobile operators have entered the new era with restrained pricing and a consensus on 5G unlimited data plans starting from NT\$1,399 a month.

As 5G iPhone and the likes arrive alongside continuous network build-out, we expect 5G service adoptions to accelerate, and hence, increase bundle sales of high-end phones for our telecom business.

At the same time, we expect momo to continue to thrive in this new normal and its investments into logistics should give it increasing advantage over its peers.

Event Updates

- TWM launched commercial 5G services on July 1st, 2020.

Awards and Recognition

- Honored with the 2020 “Annual CSR Survey – Telecom Service Industry” award and “Eco-friendly” award from Global Views Monthly.
- Ranked among the top 5% of listed companies in the “Corporate Governance Evaluation” conducted by the Taiwan Stock Exchange and Taipei Exchange, for the sixth year in a row.