

Financial Analysis

Consolidated financial analysis (2012-2013) – Based on IFRS

		2012	2013
Financial structure	Liability to asset ratio (%)	42.58	57.70
	Long-term fund to PP&E ratio (%)	170.33	182.99
Solvency	Current ratio (%)	79.43	50.33
	Quick ratio (%)	68.95	42.98
	Interest coverage ratio (%)	6,104.36	4,911.23
Operations	Accounts receivable turnover (x)	6.72	6.14
	Average collection days	54.31	59.44
	Inventory turnover (x)	13.05	12.00
	Accounts payable turnover (x)	9.01	9.53
	Average days sales	27.96	30.41
	Property, plant and equipment turnover (x)	2.45	2.54
	Total asset turnover (x)	0.99	0.79
Profitability	Return on assets (%)	16.99	13.53
	Return on equity (%)	29.48	27.34
	Pre-tax income as a % of paid-in capital	58.29	55.89
	Net income margin (%)	16.59	14.49
	EPS (NT\$)	6.07	5.79
Cash flow	Cash flow ratio (%)	86.82	42.37
	Cash flow adequacy ratio (%)	129.18	111.11
	Cash reinvestment rate (%)	11.86	9.08
Leverage	Operating leverage	2.07	2.13
	Financial leverage	1.02	1.02
Others	EBITDA (NT\$'000)	30,529,287	30,796,504
	EBITDA margin (%)	30.61	28.22

Explanation of significant changes in 2013 compared with the previous year:

- (1) Bank borrowings and corporate bonds payable increased to finance the acquisition of a 4G license. The increase in total assets led to decreases in total assets turnover and return on assets. The increases in the ratios of liabilities to assets and long-term fund to property, plant and equipment and the declines in the current ratio, quick ratio and cash flow ratio were all due to the increases in liabilities mentioned above.
- (2) The resultant rise in interest expense led to a lower interest coverage ratio.
- (3) The cash flow adequacy ratio and cash reinvestment rate dropped due to higher cash dividend distribution and capital expenditure in 2013.

Stand-alone financial analysis (2012-2013) – Based on IFRS

		2012	2013
Financial structure	Liability to asset ratio (%)	42.61	57.20
	Long-term fund to PP&E ratio (%)	228.82	265.54
Solvency	Current ratio (%)	54.21	34.63
	Quick ratio (%)	46.49	29.92
	Interest coverage ratio (%)	4,841.74	3,835.17
Operations	Accounts receivable turnover (x)	5.39	5.10
	Average collection days	67.71	71.56
	Inventory turnover (x)	10.10	11.13
	Accounts payable turnover (x)	10.28	11.46
	Average days sales	36.13	32.79
	Property, plant and equipment turnover (x)	2.27	2.69
	Total asset turnover (x)	0.71	0.59
Profitability	Return on assets (%)	17.73	13.71
	Return on equity (%)	29.48	27.34
	Pre-tax income as a % of paid-in capital	53.52	48.49
	Net profit margin (%)	23.37	19.74
	EPS (NT\$)	6.07	5.79
Cash flow	Cash flow ratio (%)	58.81	21.31
	Cash flow adequacy ratio (%)	128.55	103.57
	Cash reinvestment rate (%)	3.49	-
Leverage	Operating leverage	2.02	2.64
	Financial leverage	1.03	1.06
Others	EBITDA (NT\$'000)	21,046,995	16,260,324
	EBITDA margin (%)	30.12	20.60
	ARPU (NT\$)	735	746
	MOU (in thousand minutes)	16,496,235	14,864,026

Explanation of significant changes in 2013 compared with the previous year:

- (1) Bank borrowings and corporate bonds payable increased to finance the acquisition of a 4G license. The increase in total assets led to decreases in total assets turnover and return on assets. The increases in the ratios of liabilities to assets and long-term fund to property, plant and equipment and the declines in the current ratio, quick ratio and cash flow ratio were all due to the increases in liabilities mentioned above.
- (2) The resultant rise in interest expense led to a lower interest coverage ratio.
- (3) The cash reinvestment rate dropped due to higher cash dividend distribution and investments in subsidiaries in 2013.

Note: The 2012-2013 financial data have been duly audited by independent auditors.

Formulas for the above tables:

Financial structure

- (1) Debt to asset ratio = Total liabilities / Total assets
- (2) Long-term fund to PP&E ratio = (Shareholders' equity + Long-term liabilities) / Net PP&E

Solvency

- (1) Current ratio = Current assets / Current liabilities
- (2) Quick ratio = (Current assets – Inventory – Prepaid expenses) / Current liabilities
- (3) Interest coverage ratio = Income before interest and taxes / Interest expense

Operations

- (1) Accounts receivable turnover = Net revenue / Average accounts receivable
- (2) Average collection days = 365 / AR turnover
- (3) Inventory turnover = COGS / Average inventory
- (4) Accounts payable turnover = COGS / Average accounts payable
- (5) Average days sales = 365 / Inventory turnover
- (6) PP&E turnover = Net revenue / Net PP&E
- (7) Total asset turnover = Net revenue / Total assets

Profitability

- (1) Return on assets = [Net income + Interest expense x (1 – Tax rate)] / Average assets
- (2) Return on equity = Net income / Average equity
- (3) Net income margin = Net income / Net sales
- (4) EPS = (Net income – Preferred stock dividend) / Weighted average outstanding shares

Cash flow

- (1) Cash flow ratio = Cash flow from operating activities / Current liabilities
- (2) Cash flow adequacy ratio = Net cash flow from operating activities for the past 5 years / (Capital expenditures + Increases in inventory + Cash dividend) for the past 5 years (2009-2011 numbers were calculated based on ROC GAAP)
- (3) Cash reinvestment rate = (Cash flow from operating activities – Cash dividends) / (Gross fixed assets + Long-term investments + Other assets + Working capital) (Note: Use zero if working capital value is negative)

Leverage

- (1) Operating leverage = (Net revenue – Variable operating costs and expenses) / Operating income
- (2) Financial leverage = Operating income / (Operating income – Interest expense)

Others

- (1) EBITDA = Operating income + Depreciation + Amortization
- (2) EBITDA margin = EBITDA / Net revenue
- (3) ARPU = Net telecom service revenue / Average number of subscribers
- (4) MOU = Outgoing & incoming minutes

Consolidated financial analysis (2009-2012) – Based on ROC GAAP

		2009	2010	2011	2012	
Financial structure	Liability to asset ratio (%)	39.36	40.46	45.46	44.99	
	Long-term fund to fixed asset ratio (%)	129.07	140.25	131.98	146.88	
Solvency	Current ratio (%)	46.73	65.61	50.20	64.72	
	Quick ratio (%)	42.06	57.83	42.04	53.21	
	Interest coverage ratio (%)	3,421.61	5,452.51	6,796.94	5,511.22	
Operations	Accounts receivable turnover (x)	8.81	9.25	10.35	11.81	
	Average collection days	41.43	39.46	35.27	30.91	
	Inventory turnover (x)	7.48	10.31	11.39	13.24	
	Accounts payable turnover (x)	11.33	11.68	9.73	8.96	
	Average days sales	48.80	35.40	32.05	27.57	
	Fixed asset turnover (x)	1.47	1.61	1.99	2.46	
	Total asset turnover (x)	0.80	0.82	0.89	1.06	
Profitability	Return on assets (%)	16.10	16.44	15.60	16.50	
	Return on equity (%)	26.97	26.85	26.99	29.78	
	% of paid-in capital	Operating income	53.80	48.17	51.42	54.77
		Pre-tax income	49.06	44.99	47.15	52.54
	Net profit margin (%)	20.29	19.70	16.75	15.18	
Cash flow	EPS (NT\$)	4.66	4.62	4.70	5.46	
	Cash flow ratio (%)	96.78	111.89	69.93	84.16	
	Cash flow adequacy ratio (%)	157.94	140.61	154.74	130.24	
Leverage	Cash reinvestment rate (%)	11.64	12.87	14.50	12.40	
	Operating leverage	1.83	1.91	1.97	2.14	
	Financial leverage	1.03	1.02	1.01	1.02	
Others	EBITDA (NT\$'000)	29,291,707	27,464,723	27,086,632	26,985,307	
	EBITDA margin (%)	42.78	39.15	33.29	27.47	

Stand-alone financial analysis (2009-2012) – Based on ROC GAAP

		2009	2010	2011	2012	
Financial structure	Liability to asset ratio (%)	35.52	41.63	42.23	45.93	
	Long-term fund to fixed asset ratio (%)	153.90	170.41	169.34	201.57	
Solvency	Current ratio (%)	71.84	92.97	34.59	40.77	
	Quick ratio (%)	67.00	87.00	28.47	32.04	
	Interest coverage ratio (%)	3,316.61	5,099.46	6,314.20	4,343.60	
Operations	Accounts receivable turnover (x)	8.56	9.17	9.76	10.22	
	Average collection days	42.64	39.80	37.39	35.71	
	Inventory turnover (x)	7.85	10.76	10.37	10.09	
	Accounts payable turnover (x)	12.71	13.68	12.26	10.28	
	Average days sales	46.50	33.92	35.19	36.17	
	Fixed asset turnover (x)	1.46	1.67	1.98	2.34	
	Total asset turnover (x)	0.71	0.67	0.73	0.74	
Profitability	Return on assets (%)	16.80	16.79	15.90	16.99	
	Return on equity (%)	26.97	26.85	26.99	29.78	
	% of paid-in capital	Operating income	43.76	36.05	32.65	33.06
		Pre-tax income	47.71	43.14	43.39	47.90
	Net profit margin (%)	24.36	23.61	21.75	21.60	
	EPS (NT\$)	4.66	4.62	4.70	5.46	
Cash flow	Cash flow ratio (%)	139.10	91.01	74.40	67.31	
	Cash flow adequacy ratio (%)	143.32	131.99	148.99	133.23	
	Cash reinvestment rate (%)	14.54	9.89	9.70	6.38	
Leverage	Operating leverage	1.77	1.94	2.16	2.18	
	Financial leverage	1.04	1.02	1.02	1.04	
Others	EBITDA (NT\$'000)	24,519,524	21,763,237	19,239,530	19,294,158	
	EBITDA margin (%)	43.01	37.17	31.07	28.36	
	ARPU (NT\$)	721	718	719	735	
	MOU (in thousand minutes)	15,797,024	14,399,713	15,305,902	16,496,235	

Note: The 2009-2012 financial data have been duly audited by independent auditors.

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- (3) $\text{ARPU} = \text{Net telecom service revenue} / \text{Average number of subscribers}$
- (4) $\text{MOU} = \text{Outgoing \& incoming minutes}$