

**Taiwan Mobile**  
**4Q15 Results Conference Call**  
**January 29, 2015**

**James Jeng, President:** Good afternoon. 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 would like to start with the mobile operating performance.

**Continuous 4G Business Expansion**

The 4G service take-up rate reached 43% of the postpaid installed base as of the end of 2015. As 4G postpaid ARPU was 1.5x the company's postpaid ARPU, a rising 4G postpaid subscriber number helped mobile postpaid ARPU grow by 4% YoY in the quarter, hitting a record high of NT\$874.

Due to a steadily increasing mobile service revenue coupled with fewer handset subsidies from lesser handsets sold as well as lower subscriber acquisition cost, YoY growth rate in 4Q15 telecom EBITDA accelerated to 10%.

Please turn to the next page for our CATV operations.

**Steady Growth in the CATV Business**

On the cable TV business, the YoY growth in pay-TV related revenue was resilient at 1% in 4Q15, underpinned by continual increases in digital TV service adoptions. Cable broadband also benefited from expanding subscriber numbers and a rising mix of the higher-speed services, i.e. above 50Mbps, up to 37% in 4Q15 from 28% a year ago.

Overall, rising total revenue and effective cost controls supported a 4% YoY increase in the cable TV business's EBITDA in 4Q15.

**Retail Business**

momo derived 69% of its revenue from the online shopping business which registered an healthy 16% YoY growth in 4Q15. However, its TV home shopping business remained lackluster.

Negatively affected by higher TV channel costs paid and lower revenue mix from its higher-margin TV home shopping business, momo still had a YoY margin contraction in 4Q15. Nevertheless, its 4Q15 EBITDA stabilized sequentially.

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

### **Results Summary**

#### **Rosie Yu, CFO & Spokesperson:**

##### 4Q15

A steady increase in the 4G subscriber base has resulted in a YoY rise in telecom service revenue. The lowered handset subsidy level and our stringent expense controls led to a brisk 8% YoY growth in consolidated EBITDA in 4Q15.

Operating income also registered a healthy YoY growth of 5% as the strong rise in EBITDA was far more than sufficient enough to mitigate the increase in 4G related D&A. In addition, 4Q15 net income was 24% higher than a year ago credited to one-off gains related to income tax and the receipt of preferred stock dividends from Taiwan High Speed Rail.

##### 2015

For full-year 2015, the respective 3% and 5% YoY increases in EBITDA and net profit reflects the solid execution of our 4G strategy and some one-off gains. As a result, EPS increased 4% YoY to NT\$5.76 and exceeded our guidance by 14% in 2015.

### **Performance by Business**

This slide provides revenue and EBITDA breakdown by products for your reference.

### **Balance Sheet Analysis**

On the assets front, as of the end of 4Q15, cash balance remained at a healthy level of NT\$8.58bn.

The QoQ increase in inventory was mainly due to the launch of the iPhone 6S in 4Q15. 4Q14's lower inventory level was partially attributed to Apple's supply shortage. Long-term investment increased sequentially to reflect the mark-to-market value appraised on our equity investments in Ambit and THSR. The YoY decline was mainly due to the redemption of NT\$0.5bn of THSR's preferred shares made in 3Q15. PP&E decreased QoQ as new addition

in 4G equipment was smaller than the overall depreciation incurred for the quarter.

On the liabilities & shareholders' equity, the gross debt balance fell to NT\$61.76bn, following a NT\$4.01bn debt repayment made in the quarter. The QoQ decreases in capital surplus and non-controlling interest were both due to momo's buyback of its shares from the market in 4Q15.

On ratio analysis, with more debt repayment made in 4Q15, the ratios of net debt to equity and net debt to EBITDA both came off from a quarter ago.

### **Cash Flow Analysis**

In 4Q15, operating cash inflow showed a mild sequential increase due to more corporate income tax paid in 3Q15. Investing cash outflow came off QoQ. The major investing activities in 4Q15 were a NT\$2.8bn capex and NCC's refund of TWM's NT\$1bn deposit for the 2.6GHz spectrum auction.

On the financing front, a total of NT\$4.01bn in borrowings was repaid in the quarter supported by the improving free cash flows. In addition, momo spent NT\$397m buying back 2m of its shares from the market in 4Q15.

2015

Despite a lower operating cash inflow resulting from more handset payments made for the year, TWM's free cash flow remained stable compared to a year ago, aided by a lower cash capex resulting from contained mobile capex and the pushback of momo's capex with regards to its new logistic center.

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

### **2016 Guidance**

**James:** This slide shows our 2016 guidance for your reference. I would like to highlight some of the growth drivers.

In the telecom business, we expect the mobile industry to continue benefiting from rising 4G adoptions. Taiwan Mobile estimates to have 4.7mn 4G subscribers by the end of 2016, up from 3mn a year earlier. Therefore, the mobile postpaid ARPU is expected to rise by 3% in 2016. The telecom segment is expected to deliver 1% YoY increase in EBITDA credited to an increase in service revenue and a contained handset subsidy level.

In other businesses, the combined EBITDA of CATV, retail and other businesses will increase by 5% YoY in 2016 and represent 16% of our total EBITDA.

To sum up, EPS for 2016 is forecasted to come in at NT\$5.15, resulting from a projected 2% EBITDA growth and a 6% rise in D&A.

### **Event Update**

TWM's board approved a capex budget of NT\$11.1bn for 2016 with the breakdown details shown in the slide.

For 2016, both telecom capex and capex as a percentage of service revenue are forecasted to come off significantly from 2015. Mobile capex in particular will drop 39% YoY. Regarding cable TV, investments in digital set-up-boxes will continue in 2016. momo's expected YoY rise in capex is due to the pushback of its capex with regards to the new logistic center.

As you already know, TWM announced its exit from the 2.6GHz spectrum auction in 4Q15 as its current spectrum holdings are sufficient enough for future growth in demand. Cash savings from payments for concession, capex and related opex will be used to enhance our marketing flexibility and accelerate the monetization of our 4G investment better than our peers.

### **Key Message**

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

An increase in the forecast for telecom EBITDA coupled with over NT\$3bn reduction in telecom capex are expected to enhance Taiwan Mobile's free cash flow generation capability in 2016. With sufficient LTE spectrum holdings and no exposure to 2.6GHz investments, we will have less burden from depreciation and amortization, compared to our peers. As such, we will continue to endeavor to enhance shareholder returns.

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

### **Q & A**

**Danny Chu, Macquarie HK: *Can you explain a bit little in terms of what you mentioned regarding some of the capex in 2016 for momo is basically deferred from 2015? Can you quantify what is the exact amount of momo's capex that got deferred from 2015 into 2016?***

*I noticed that for momo, 2015 revenue increased by 7% YoY, but at the same time, the EBITDA dropped by 24% YoY. Should we expect any business strategy changes to be made in 2016 in order to further turn around the business of momo?*

*In terms of the 2016 guidance that you just gave for the whole company, you mentioned that the assumptions that you made were a little conservative. So, under normal circumstances, instead of the net profit decline, should we expect any profit growth in 2016?*

*Any particular update with regards to management's view toward the potential removal of unlimited data pricing plans this year?*

**Rosie:** It's roughly NT\$1.5bn for momo's capex pushing into 2016. Regarding momo's business strategy change, James will give you more color.

**James:** Basically, last year wasn't very good for the whole retail industry, including ecommerce, especially in the TV shopping sector. Both EBITDA and the profit declined significantly. This year, we will focus on two directions. First, we have reorganized the TV operations to make sure we put the right person in the right position. We will also pick up the right products for 2016 to resume the growth momentum of TV shopping business. Secondly, for the online business, the CEO of momo told me this year they will implement a very aggressive plan to catch up with PChome in terms of the online shopping revenue. In addition, they are doing very well in the overseas markets such as Thailand, for example. They are seeking possible cooperation opportunities of TV shopping and online shopping in the Southeast Asian countries. So, hopefully this year, momo's revenue will grow 8% YoY and its EBITDA is projected to increase 20% YoY. The management team is working very hard to reach this target.

**Rosie:** Let me elaborate a bit on momo's other business strategy, which is their China business. They will reshuffle their China business to narrow down its losses. For this year, they expect that operation to turn around and shall contribute the most to their profit improvement.

**James:** In response to your third question regarding the 2016 budget being conservative, we have some concerns about economic downturn this year. In addition, the new entrants of cable TV operators emerging in some of our franchise areas are expected to impact our revenue and profit in the short term. That's why we budgeted more capex to digitalize the whole HFC (Hybrid fiber-coaxial) network to boost digital TV revenue and explore business

opportunities of OTT (Over-The-Top) and video streaming services in cable broadband segment. Currently, the highest speed we provide to household customers is 300Mbps, and we expect to offer even higher speeds of 500Mbps/1Gbps in the near future. This will also differentiate cable broadband from 4G service as the latter put pressure on lower-speed fixed broadband services in 2015.

On the mobile side, iPhone comes in the fourth quarter of each year and puts pressure on earnings due to handset subsidies, but iPhone 6S did not sell as well in 2015. We may promote iPhone 7 in a more conservative way in 2016 so as to increase the bottom line, hopefully.

Finally, regarding the removal of the unlimited tariff, as I mentioned before, CHT is the price leader of Taiwan mobile industry. I think it is very unlikely that TWM will remove the unlimited plan without CHT removing it first.

**Danny:** CHT mentioned they will keep some unlimited data pricing plans and then they will introduce some plans that are tiered-priced. So, should we interpret that TWM may also remove some of your unlimited data pricing plans and keep some of the other plans available as well?

**James:** Yes, if CHT does it this way, TWM will follow it. For 4G, it's becoming a very saturated market. Most of the new 4G subscribers this year will be mainly from the low tier customers.

**Gopa Kumar, Nomura:** *Can you please quantify the operating cost savings that you target this year from subsidy savings and otherwise?*

*Assuming the economic trends remain okay and not as bad as you expect it to be, what sort of earnings growth can we expect on a recurring basis this year?*

*Have you factored in any data pricing increase or tiered pricing in your 4% revenue growth guidance?*

**James:** We forecast handset subsidy to decline on a YoY basis this year. I can't disclose the exact number right now, but I expect it will decrease.

**Rosie:** In our budget, we did not factor in any tiered pricing rate plans to boost our revenue growth.

**James:** Basically, the whole budget is based on the existing pricing tariff.

**Gopa:** *If that's the assumption, what sort of mobile service revenue growth are you expecting this year?*

**Rosie:** We only disclose telecom service revenue growth, so it's roughly 1-2%. Recurring earnings is expected to be down 3% roughly.

**Jack Hsu, Sinopac:** *What's your strategy for 4G in 2016? When will you return your 2G spectrum on C4 block in 2016?*

**James:** In terms of our 4G strategy for this year, we expect to have another 1.7mn 4G subscriber numbers this year. It's not very aggressive. But, our strategy this year is not to pursue the quantity growth, it's to pursue the quality growth. TWM's strategy is to move existing users one tier up from 2G or 3G to 4G during migration. As a result, we have enjoyed quite an ARPU uplift of 13% in 2015.

In response to your 2<sup>nd</sup> question regarding spectrum on C4, right now I cannot comment on that.

**Jack:** *You mentioned quality is more important than quantity in 2016. Does that mean VoLTE will be an important product in 2016?*

**James:** Actually, we just launched VoLTE yesterday and that's for iPhone subscribers for now, because only iPhone 6 and above support VoLTE services. It provides good voice quality. When I said the 4G subscriber quality, I meant the ARPU is more important than the number of 4G subscribers.

**Neale Anderson, HSBC HK:** *I had a question about your network strategy, which I find quite interesting because it's very different from your peers. Going back to the November 2015 spectrum auction, TWM decided to drop out on the basis that you have plenty of capacity. At that time, it's more likely that flat rate plans would be withdrawn in 2016, but now it looks less likely. But, nevertheless, you were actually cutting mobile capex as well this year whereas some of your peers are increasing capex and saying they might see a spectrum shortfall. Are you able to say what your current level of average usage is for a 4G customer and then how many can you support by the end of this year? What's your network plan for that cut in capex? Without new spectrum,*

***how many millions of 4G customers can you support at any given level of usage?***

**James:** In terms of 4G capacity of our network, with the existing spectrum and over 9,000 base stations, we can sufficiently support subscribers for the next 2-3 years. The network is still sufficient enough even if all 7.5mn subscribers were on 4G network. The rising average 4G data usage per sub slowed down at about 13GB per month. Unlike an increasing trend we used to see, it is stabilizing.

**Neale:** *Do you expect it to stay flat or would you expect that to increase after all?*

**James:** I think it will stay flat and maybe decrease slightly even further because the high usage subscribers are already on 4G and the remaining non-4G subscribers are not heavy data users.

**Neale:** *Just a follow up question, you mentioned the focus on quality, but I believe TWM has a tariff offering in the market at NT\$499, which includes one year of unlimited usage. So, would that still represent customers trading up from 3G and spending more? My related concern is that it's unlimited, and I don't believe there is any fair usage restriction. Customers might increase usage as much as they like because there is no additional cost for them to do so.*

**James:** The NT\$499 plan with unlimited data for the first year is a cut-throat competition. One of our competitors started it and TWM followed suit, but I don't expect it will last long.

**Varun Ahuja, Credit Suisse HK:** *My first question is on a gain in 4G. CHT has been saying that they are eyeing 40% market share. If they continue to have the aggressive 40% market share, do you think you will lose market share to them? What's your thinking on that? Would the competition between the three of you still be aggressive with more and more people transitioning from 2G, 3G to 4G? If their aspiration is 40% market share, someone will have to lose. How do you see the competitive intensity to remain over the next 2-3 years?*

*Secondly, on this NT\$499 plan, you mentioned that you don't expect it to last long, but if you look at one of the existing NT\$998 plan, it was supposed to be only for a promotional period. But the period has continued for quite a while. It's still available.*

*Third is on the fixed network side. You mentioned you're looking to upgrade your cable TV network to deliver 500Mbps speed and you're testing to do 1Gbps. I'm just*

*wondering what technologies you are testing on because my understanding is with DOCSIS 3, you can offer up to 200, 300Mbps. Is there any upgrade in technology which can enable you to offer 1Gbps, which equivalent to a fiber network?*

*Lastly on the spectrum auction, my understanding is that the regulator is also looking at 3G spectrum auction beyond 2100MHz and some 1800MHz spectrum auction. Can you just update on that? Is more 1800MHz available?*

**James:** Regarding the 1<sup>st</sup> question on 4G market share, I think you view it from the angle of subscriber number market share, but we view it from the perspective of penetration rate. Taiwan's mobile market is saturated and total subscriber market share between the big three remains quite stable if you look at the past three years. When it comes to 4G penetration rate among the three competitors, CHT is the lowest and TWM is one of the highest.

For cable TV, we're on DOCSIS 3.0 version now. I believe Cisco already has a new system that can provide over 1Gbps speed services if the whole network is digitalized. In fact, we are conducting a trial of the 1Gbps service in smaller areas right now. The technology seems to be quite mature. It's just a matter of whether the customer is willing to pay more for the higher speed services. That's my concern, not the technical side.

Regarding the spectrum, there will be a spectrum auction in the 2.1GHz frequency band next year. That's where existing 3G customers are located. So that's a spectrum TWM will definitely pursue.

**Rosie:** And also in the 1800 frequency band, there is another block that could also be up for auction. That's the so-called C6 block, right next to CHT's C5.

**James:** But the auction rules are not finalized by the NCC yet. They are currently asking for opinions from the operators regarding how the NCC should set the rules for the auction.

**Varun:** *I know it's still too early to know if this spectrum auction will be aggressive or not in Taiwan. With the 2.6GHz auction, everyone expected it to finish at a level close to reserve price, but the final price exceeded everyone's expectation. Do you think for 2.1GHz, it will be aggressive?*

**James:** Definitely. I expect the competition to be quite keen as the existing operators will all pursue it.

**Varun:** *And, lastly, on the NT\$499 plan, you mentioned it's probably for a promotional period. But with the NT\$998, it still continues. Thus, do you think the promotional period for the NT\$499 plan will be indefinite?*

**James:** I think this has to end in the near term. All five operators offer the NT\$998 plan. But right now only TWM and another competitor offer the NT\$499 tariff and I think this price is a cut-throat competition, so I don't expect it to last long. Unless CHT also jumps into this tariff competition, then it's a different story.

**Varun:** *Yesterday, they mentioned that they are always evaluating the situation, so that can't be ruled out.*

**Richard Chan, AIA Taiwan:** *Can I assume the target of 4.7mn 4G subscribers for the end of 2016 is a little conservative or what of kind of 4G market share are you targeting for 2016 and the following years. Are you focusing on your own customer migration from 2G and 3G to 4G?*

**James:** Most of the heavy data users are already on 4G and the remaining customers are mostly low ARPU or voice-centric customers. Given the 2G spectrum is due in the middle of 2017, we will try our best to migrate our 2G customers to 3G/4G maybe with some free data plans for them to try mobile apps. So, 4.7mn target is a bit conservative, but again, I won't be excited about a high number of 4G subscribers. If ARPU doesn't have any uplift, then there is no point to migrate all customers from 3G to 4G. So, in my view, there must be some ARPU uplift to justify the migration.

**Richard:** *We saw great ARPU growth in 2015. You guided 3% YoY growth in ARPU. Is it postpaid or blended? Could you share more details behind the 3% growth?*

**James:** Generally speaking, we require the customer to move one tier up in tariff plans when migrating them from 3G to 4G. We give handset subsidies to encourage them to use more data and in return they would generate more revenue for TWM.

**Rosie:** Just to remind you that, in the guidance section of our management report, we do include the postpaid ARPU growth in there. It's 3% growth for postpaid ARPU.

**Richard:** *How do you see competition from the smaller operators given that they have gained sufficient spectrum and they will probably use a very aggressive pricing strategy? Do you think they will disrupt the market in the longer term?*

**James:** I don't comment on our peers, especially the smaller operators. But, gaining spectrum doesn't guarantee that you will gain subscribers unless you really invest in your network. It will cost a lot of money for those smaller operators and that's something they have to figure out.

**Richard:** *Can you give an update on the dividend yield and payout ratio? Will you maintain at a high level?*

**Rosie:** As usual, the dividend policy will be decided at the April Board meeting and our controlling shareholders' interests are aligned with yours, so I believe they will still be very committal to a stable dividend policy.

**Janice Hsu, BNP Taiwan:** *On the guidance, you expect D&A to raise 6% YoY, but since you don't have 2.6GHz spectrum, what would be the driver behind that 6% rise?*

*On cable TV, although the overall revenue is rising, basic TV ARPU is decreasing YoY. So, I'm wondering what is the reason for that? And regarding content in 4Q, revenue increased quite significantly, about 18% YoY. What are the drivers for the growth in content?*

**James:** In terms of D&A, the 6% YoY increase is mainly related to 4G equipment even though we have no 2.6GHz deployment.

Regarding the cable TV operations, NCC has opened up the franchise areas and allowed new competition. Therefore, we are able to collect more content agency revenue from the new entrants who need contents to launch their cable TV services.

**Janice:** *Do you expect new entrants into this market will cause more pressure on cable TV ARPU in the near future?*

**James:** There will be short term pressure on us. But, from my observation, those new entrants are rather small. I'm not sure how deep their pockets are. We will see.

**Shaphan Ng, Goldman Sachs Singapore:** *I understand that momo's EBITDA was negatively affected because of the higher TV cost. Can you share with us more details on this cost?*

**Rosie:** momo's rising TV cost paid to MSOs was because momo increased the number of TV channels from two in 2014 to three starting March 2015 to broadcast their TV home shopping programs.

**Danny Chu, Macquarie HK:** *Earlier you mentioned this year you expect some of the new 4G subscribers will be low ARPU customers. At what level do you define as low ARPU? Is it NT\$499, NT\$599 or NT\$399 as low ARPU?*

**James:** ARPU below NT\$500 is considered low for us.