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TWM Consolidated

NT\$bn	<u>4Q18</u>	<u>QoQ</u>	<u>YoY</u>	<u>2018</u>	<u>YoY</u>
Revenues	31.57	11%	-1%	118.73	1%
EBITDA	7.62	0%	-2%	31.72	-3%
Operating Income	4.27	1%	-1%	18.16	-5%
Non-op. Income (Expenses)	(0.10)	33%	-91%	(0.47)	-68%
Pre-tax Income	4.16	1%	31%	17.69	0%
(Income Tax)	(0.84)	23%	59%	(3.20)	19%
(Minority Interest)	(0.24)	32%	9%	(0.84)	11%
Net Income	3.09	-6%	27%	13.64	-4%
EPS (NT\$)	1.13	-7%	27%	5.01	-4%

2018 Highlights of Operating Results

In 2018, consolidated revenue grew by 1% YoY. In addition to momo's strong growth, mobile value-added services, cloud, IoT and ICT services also grew steadily. Despite customers' shift to lower-tier rate plans, pre-IFRS 15 EBITDA grew by 3% YoY, thanks to lower handset subsidies and channel commissions. Through business diversification and rigorous cost and expense rationalization, Taiwan Mobile was the only one amongst the big 3 that achieved EPS guidance for 2018. With lower capex, FY18 free cash flow reached NT\$21.3bn, translating to FCF yield of 7.3%.

2019 Guidance

- NB-IoT, OTT related services, cloud, and IDC businesses will continue their growth trajectory. While mobile monthly fees are expected to be stable, we expect 10% YoY decline in telecom EBIT due to three one-offs – 1) lower ARPU due to the \$499 frenzy, 2) no \$499-related penalty income in 2019, and 3) no domestic roaming revenue in 2019.
- The combined EBIT of cable TV business and momo will represent 22% of total EBIT in 2019, with EBIT growing at 10% and 5% respectively.
- EPS guidance of NT\$4.5 implies 10% YoY decline. However stable free cash flow generation is expected as savings in cash capex compensates for the decline in operating cash flow.

Capex Guidance

NT\$6.4bn capex for 2019 includes NT\$4.1bn for mobile, NT\$1.2bn for fixed-line, NT\$0.8bn for cable TV and NT\$0.4bn for momo and other affiliates. Compared to a year ago, telecom capex in 2019 will trend down by 25% YoY.

Key Message

With strong footholds in e-commerce and OTT services plus leveraging expanding residential broadband user base on content bundling, Taiwan Mobile is better positioned than other telcos in Taiwan. The growing cloud, AIoT, and ICT businesses, coupled with capex downtrend, will support TWM's stable free cash flow generation capabilities and future growth.

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I. Revenue Analysis

Table 1. Key Operational Data

Residual Value (NT\$bn)	4Q18	QoQ	YoY	2018	YoY
Mobile Service Revenue	13.54	-2%	-12%	57.30	-8%
Postpaid ARPU (NT\$)	767	-2%	-9%	804	-5%
Blended ARPU (NT\$)	624	-3%	-12%	663	-7%
Telecom Service Revenue	14.58	-2%	-11%	61.39	-8%

Revenue (NT\$bn)	4Q18	QoQ	YoY	2018	YoY
Telecom	17.50	4%	-13%	70.03	-9%
Service	12.73	-1%	-11%	53.46	-8%
Device Sales	4.77	21%	-20%	16.57	-14%
CATV	1.57	-1%	1%	6.34	-1%
- Pay-TV Related	0.91	-2%	-4%	3.73	-3%
- Broadband	0.35	0%	2%	1.40	4%
- Content & Others	0.31	1%	17%	1.22	3%
momo	12.39	26%	25%	42.02	26%
- Online Shopping	10.73	29%	31%	35.39	33%
- TV Shopping & Others	1.67	13%	-4%	6.63	-1%
Others¹	0.16	7%	3%	0.59	2%

Note 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.

	4Q18	3Q18	4Q17	QoQ	YoY
Mobile Subscribers (K)	7,266	7,194	7,227	1%	1%
- Postpaid	5,617	5,626	5,781	0%	-3%
Monthly Churn	2.3%	2.6%	3.3%		
- Postpaid	1.4%	1.3%	1.7%		
MOU (bn)	1.23	1.30	1.59	-5%	-23%
Pay-TV Subs (K)	566	570	581	-1%	-3%
Cable Broadband Subs (K)	228	225	215	1%	6%
DTV Subs (K)	242	240	224	1%	8%

CATV ARPU (NT\$)	4Q18	QoQ	YoY	2018	YoY
Basic TV	536	-1%	-1%	541	-2%
Broadband	517	-1%	-4%	526	-2%
Blended ¹	742	0%	1%	745	0%

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

Telecom

TWM saw YoY decrease in mobile service revenue, ARPU and device sales in 4Q18, mainly due to 1) higher take-up rate of SIM-only plans as customers prolonged their handset replacement cycle, 2) sluggish demand for high-end phones and 3) decrease in domestic roaming as well as voice revenue.

In 4Q18, postpaid churn rate was lower vs. previous year, due to early NT\$499 contract renewals in May and our focus on customer retention to reduce acquisition cost. Postpaid churn rate was slightly higher vs. previous quarter primarily owing to momentum from the launch of high-end phones and the Double 11 Singles' Day promotions.

Cable TV

In 4Q18, CATV revenue increased by 1% YoY, attributed to higher broadband & DTV subscriber base and a one-off adjustment in channel leasing revenues, offsetting the drop in pay-TV revenue.

We delivered stable blended ARPU via bundling broadband & DTV services and up-selling high-speed broadband plans. The percentage of download speed over 100Mbps rose to 33%, compared to 26% a year ago.

momo

In 4Q18, e-commerce revenue increased by 31% YoY to a record high thanks to stronger selling momentum from Double 11 Singles' Day and Christmas promotions. In particular, B2C average ticket size grew by 10% to \$2,205 and the number of transactions rose by 20%.

II. EBITDA Analysis

Table 2. EBITDA Breakdown

NT\$bn	4Q18	QoQ	YoY	2018	YoY
Reported EBITDA	7.62	0%	-2%	31.72	-3%
- Telecom	6.14	-3%	-5%	26.19	-5%
- CATV	0.78	-2%	5%	3.19	-3%
- momo	0.54	61%	15%	1.74	15%
- others	0.11	12%	3%	0.40	2%
Pre-IFRS EBITDA	8.19	-2%	3%	34.99	3%
- Telecom	6.76	-5%	2%	29.62	3%

D&A	3.35	-1%	-4%	13.56	-1%
- Telecom	2.87	-1%	-6%	11.61	-4%
- CATV	0.30	-4%	-1%	1.26	22%
- momo	0.09	5%	94%	0.32	154%
- others	0.05	-1%	0%	0.21	0%
EBIT	4.27	1%	-1%	18.16	-5%
- Telecom	3.27	-4%	-4%	14.59	-5%
- CATV	0.48	-1%	9%	1.93	-14%
- momo	0.45	80%	6%	1.42	2%
- others	0.05	27%	8%	0.18	4%

Note: The combined total of telecom, CATV, momo and others does not equal the consolidated total of each account due to minor adjustments and eliminations.

Table 3. Non-operating Item

NT\$bn	4Q18	QoQ	YoY	2018	YoY
Non-Operating Income (Expenses)	(0.10)	33%	-91%	(0.47)	-68%
- Net Interest Expenses	(0.13)	-4%	0%	(0.54)	15%
- Write-off Loss	(0.03)	-7%	-89%	(0.11)	-70%
- Other Income (Expenses)	0.06	-38%	nm	0.18	nm

EBITDA Analysis

In 4Q18, pre-IFRS telecom EBITDA increased by 2% YoY due to downward adjustments to both handset subsidies and channel commissions in the wake of higher adoption of SIM-only rate plans and early NT\$499 contract renewals in May.

For full-year 2018, pre-IFRS telecom EBITDA further increased by 3% YoY due to penalty income increase in addition to expense cuts. However, downward bundle sales adjustment to reported financials, which had no cash flow impact, increased by NT\$2bn YoY in 2018.

CATV EBITDA increased by 5% YoY in 4Q18 due to a one-off adjustment to channel leasing revenue. For the full year, however, growing revenue in DTV and fixed broadband was not enough to offset the revenue decline in pay-TV business.

In 4Q18, momo posted strong QoQ and YoY growth in EBITDA, driven by strong sales from the Double 11 Singles' Day promotions, expanding logistics capabilities, and the recovery in TV home shopping profitability via channel cost rationalization.

D&A Analysis

Reduction in 3G equipment depreciation was large enough to offset the depreciation increase from digital set-up-box roll-out in 2016-2017 and momo's automated warehouse coming online since 4Q17.

Non-Operating Item Analysis

Non-operating expenses decreased YoY thanks to higher base in 4Q17 with litigation liability provision and obsolete 3G equipment write-offs.

Interest income declined from a year ago as momo and CATV divisions reduced their excess cash in 2018.

III. Income Statement Analysis

Table 4. 4Q18 Consolidated Results vs. Forecast

NT\$bnn	4Q18	QoQ	YoY	% of 4Q18 Forecast
Revenues	31.57	11%	-1%	98%
Operating Costs	(23.16)	15%	0%	99%
Operating Expenses	(4.14)	5%	-5%	93%
Operating Income	4.27	1%	-1%	94%
Non-operating Income (Expenses)	(0.10)	33%	-91%	50%
Pre-tax Income	4.16	1%	31%	96%
Net Income	3.09	-6%	27%	93%
EPS (NT\$)	1.13	-7%	27%	92%
EBITDA	7.62	0%	-2%	94%
EBITDA (Pre-IFRS)	8.19	-2%	3%	

Table 5. 2018 Consolidated Results vs. Forecast

NT\$bnn	2018	YoY	% of 2018 Forecast
Revenues	118.73	1%	96%
Operating Costs	(84.32)	4%	96%
Operating Expenses	(16.25)	-2%	93%
Operating Income	18.16	-5%	101%
Non-operating Income (Expenses)	(0.47)	-68%	82%
Pre-tax Income	17.69	0%	101%
Net Income	13.64	-4%	100%
EPS (NT\$)	5.01	-4%	100%
EBITDA	31.72	-3%	99%
EBITDA (Pre-IFRS)	34.99	3%	

Income Statement Analysis

4Q18

We missed 4Q guidance due to lower-than-expected take-up of high-tier rate plans and high-end phone bundle sales, despite that pre-IFRS profit came in better than expectations.

Non-operating expenses in 4Q18 only reached half of our forecast, as a result of 1) a lower-than-forecast interest rate, 2) a one-off government subsidy received by an affiliate, and 3) gains in exchange rate.

2018 Full-Year

Reported net income under accounting treatments of handset bundle sales and commission capitalization resulted in a 4% YoY decline. This doesn't reflect the 3% YoY rise in pre-IFRS telecom EBITDA and 4% YoY growth in free cash flow.

In 2018, consolidated revenue was 4% lower than the Company's expectations, due to the shifting consumer appetite towards lower-tiered rate plans. That said, through business diversifications and relentless efforts in cost and expense rationalization, TWM was the only one among the Big 3 telecoms to meet EPS guidance in 2018.

IV. Cash Flow Analysis

Table 6. Cash Flow

NT\$bn	2018	2017	4Q18	3Q18
Operating	29.78	30.32	7.31	7.00
Pre-tax Income	17.69	17.63	4.16	4.13
Non-cash Add-backs	17.37	14.01	4.22	4.30
--Depreciation	9.90	10.29	2.43	2.46
--Amortization	3.66	3.40	0.92	0.92
--Others	3.81	0.32	0.87	0.93
Changes in Working Capital & Income Taxes	(5.83)	(2.05)	(1.20)	(1.53)
Others	0.55	0.73	0.13	0.09
Investing	(5.53)	(17.67)	(2.01)	(1.08)
Capex ¹	(8.49)	(9.80)	(1.87)	(2.18)
Divestment (Acquisition)	0.08	(0.66)	0.01	0.03
4G License Fees	0.00	(8.60)	0.00	0.00
Other Financial Assets (Increase)	2.22	1.22	(0.16)	0.96
Refundable Deposits (Increase)	(0.03)	(0.01)	(0.01)	(0.00)
Others	0.69	0.18	0.03	0.11
Financing	(23.38)	(13.72)	(3.74)	(7.60)
Short-term Borrowings	(3.50)	7.90	3.98	7.72
Repayments of Bonds Payable	(7.40)	(2.90)	(4.50)	0.00
Proceeds from Issuance of Bonds	14.98	0.00	0.00	0.00
Long-term Bank Loan	(11.21)	(2.41)	(3.05)	(0.05)
Dividends Payments	(15.86)	(15.86)	0.00	(15.24)
Interest (Payment) & Others	(0.40)	(0.45)	(0.17)	(0.02)
Net Cash Position Chg.	0.87	(1.07)	1.56	(1.69)

Note 1: Inclusive of prepayments for equipment and the acquisition of computer software & other intangible assets

Cash Flow Analysis

4Q18

In 4Q18, operating cash flow increased QoQ mainly due to higher accounts payable, offsetting higher inventory level for Double 11 promotion and the launch of the new iPhone.

Investing cash outflow grew QoQ owing to more cash freed up from guarantee deposits in 3Q18.

On the financing front, the main outflow in 4Q18 was the repayment of the NT\$4.5bn 7-year corporate bond @1.34%.

2018 Full-Year

In 2018, the YoY decrease in operating cash inflow was mainly caused by changes in accounts payable, as a result of falling handset sales.

Investing cash outflow decreased YoY mainly due to: (1) lower capex, (2) NT\$8.6bn payment for 4G license fees in 2018, and (3) more cash released from guarantee deposits with the regulator.

The company issued unsecured corporate straight bonds of NT\$15bn in 2018, which allowed us to pay down short-term & long-term debts for a total of \$22.1bn.

Table 7. Capex & FCF

NT\$bn	2018	2017	4Q18	3Q18
Cash Capex¹	8.49	9.80	1.87	2.18
- Mobile	5.70	5.41	1.37	1.70
- Fixed-line	1.28	1.23	0.30	0.25
- Cable	0.72	1.66	0.12	0.16
- momo & others	0.80	1.50	0.07	0.07
% of Revenue	7%	8%	6%	8%
Free Cash Flow¹	21.28	20.52	5.44	4.82

Note 1: Excluding 4G License Fees

Capex and Free Cash Flow Analysis

In 2018, the decrease in capex for cable TV and momo more than offset the telecom capex increase from deployment of another 10MHz spectrum on the 2100MHz band for 4G service. Net net, total capex trended down by 13% YoY. Full-year FCF reached NT\$21.28bn, up 4% YoY, translating into a FCF yield of 7.3%.

V. Balance Sheet Analysis

Table 8. Balance Sheet

NT\$bn	4Q18	3Q18	4Q17
Total Assets	147.67	147.45	154.52
Current Assets	29.07	26.97	32.35
- Cash & Cash Equivalents	7.50	5.94	6.63
- Receivable & Contract Assets	15.21	15.24	16.47
- Inventories	3.95	3.27	4.33
- Short-term Investment	0.34	0.34	1.57
- Other Current Assets	2.08	2.19	3.35
Non-current Assets	118.60	120.47	122.17
- Long-term Investment	6.20	6.22	6.05
- Property and Equipment	41.86	42.47	44.57
- Concession	40.53	41.29	43.67
- Other Non-current & Contract Assets	30.01	30.50	27.88
Liabilities	79.67	82.97	89.01
Current Liabilities	41.88	40.48	56.48
- ST Borrowings	18.57	17.59	30.86
- Other Current Liabilities	23.31	22.89	25.62
Non-current Liabilities	37.79	42.49	32.53
- Long-term Borrowings	33.31	38.14	28.35
- Other Non-current Liabilities	4.48	4.35	4.18
Shareholders' Equity	67.99	64.48	65.51
-Paid-in Capital	34.24	34.21	34.21
-Capital Surplus	12.58	12.30	13.94
-Legal Reserve	27.56	27.56	26.14
-Treasury Shares	(29.72)	(29.72)	(29.72)
-Un-appropriated Earnings	3.39	3.39	0.63
-Non-controlling Interest	6.11	5.87	5.88
-Retained Earnings & Others ¹	13.83	10.87	14.44

Note 1: Including YTD profits and other equity items

Table 9. Ratios

	4Q18	3Q18	4Q17
Current Ratio	69%	67%	57%
Interest Coverage (x)	29.0	28.1	19.2
Net Debt (Cash) to Equity	65%	77%	80%
Net Debt (Cash) to EBITDA (x)	1.40	1.55	1.60
ROE (annualized)¹	21%	22%	22%
ROA (annualized)²	9%	10%	10%

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

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

Assets

In 4Q18, cash & cash equivalents grew YoY, resulting from stable cash inflow as explained in the cash flow section. Separately, with the higher take-up rate of SIM-only plans and lower demand for high-end phones, receivable & contract assets declined YoY accordingly.

Short-term investment decreased due to the liquidation of investments & money market instruments in 2018. The YoY decrease in other current assets was attributable to lower guarantee deposits in 2018.

Along with 3G services terminating at the end of 2018, 3G spectrum concession has been fully amortized. In addition, 3G equipment book value also came off significantly.

The YoY increase in other non-current assets was associated with dealer commission capitalization accounting adopted in 2018.

Liabilities & Shareholders' Equity

Gross debt decreased YoY to NT\$51.88bn, as our healthy FCF allowed us to pay down debts.

Un-appropriated earnings increased YoY, owing to the accumulative impacts on historical P&L from the adoption of IFRS accounting treatment of commission capitalization at the beginning of 2018.

Ratio Analysis

Benefiting from lower net debt, our net debt to EBITDA went down to 1.4x and current ratio improved to 69%.

VI. Guidance

Table 10. 2019 Guidance

NT\$bn	2019	2018	YoY
Revenues	124.53	118.73	5%
Cash Cost¹	(74.34)	(70.75)	5%
Expenses	(16.78)	(16.25)	3%
EBITDA	33.41	31.72	5%
D&A	(16.39)	(13.56)	21%
Operating Income	17.02	18.16	-6%
Non-operating Income (Expenses)	(0.71)	(0.47)	50%
Pre-tax Income	16.31	17.69	-8%
Net Income	12.33	13.64	-10%
EPS (NT\$) ²	4.50	5.01	-10%

Note 1: Including handset sales costs, but not including D&A.

Note 2: EPS is based on the share counts of 2.740bn in 2019 and 2.723bn in 2018.

NT\$bn	2019	2018	YoY
Pre-IFRS16 EBITDA	29.41	31.72	-7%
Pre-IFRS16 D&A	(12.44)	(13.56)	-8%

Telecom business

- In 2019, NB-IoT, cloud service, IDC business and OTT related services will be on their upward trajectory.
- Mobile monthly fees in 2019 are expected to remain similar to the current level, while the drop in both voice minutes of use and mobile interconnecting rate will weigh on mobile ARPU.
- Further mobile offering differentiation and customer acquisition cost rationalization would not be sufficient to compensate for YoY profit decline due to three major factors - 1) lower ARPU due to \$499 frenzy 2) no \$499-related penalty income in 2019 and 3) no domestic roaming revenue expected in 2019.
- In a nutshell, we forecast telecom EBIT to decline 10% YoY in 2019.

Other businesses

The combined EBIT of the cable TV business and momo will represent 21% of our total EBIT in 2019.

Their respective EBIT growth rates are estimated to be 10% for cable TV and 5% for momo in 2019.

EPS

Recurring EPS in 2019 is forecast to remain stable, compared to a year ago. Nonetheless, we are guiding for a 10% YoY decrease in FY19 EPS due to the aforementioned one-offs.

Free cash flow

A steady free cash flow generation is expected in 2019, with cash capex saving compensating for the fall in operating cash flow.

Capex Guidance

The board today (January 31) approved a NT\$6.4bn capex for 2019, including NT\$4.1bn for mobile, NT\$1.2bn for fixed-line, NT\$0.8bn for cable TV and NT\$0.4bn for momo and other affiliates. We expect telecom capex to decline 25% YoY, cable TV capex to increase by single-digit percentage point, and momo capex to halve despite continued business expansion due to high base from 2018 for its mega automated warehouse.

VII. Management Remarks

Key Message

With strong footholds in e-commerce and OTT services plus leveraging expanding residential broadband user base on content bundling, Taiwan Mobile is better positioned than other telcos in Taiwan. The growing cloud, AIoT, and ICT businesses, coupled with capex downtrend, will support TWM's stable free cash flow generation capabilities and future growth.

Awards and Recognition

- The first company rated Prime by ISS-oekom in the telecommunication industry in Taiwan.
- Received the internationally renowned Swiss SGS QualiCert certification for its direct stores channel, myfone and customer service for the seventh consecutive year.
- Won the top and special awards for "2018 Buying Power –The new product and service of social



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innovation Purchase Reward Program” by SME Administration, Ministry of Economic Affairs.

- Obtained the BS 10012 and ISO/IEC 29100 privacy protection certifications.
- Won eight awards at the 2018 Taiwan Corporate Sustainability Awards, and was the only telecom firm to receive the “The Most Prestigious Sustainability Awards-Top Ten Domestic Corporates”.