

# **SmarTone Telecommunications Holdings Limited**

## **FY15 Interim Results Presentation**

*For the six months ended 31 December 2014*

Douglas Li  
CEO

17 February 2015

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# Agenda

- Business & operation review
- Outlook
- Appendix – financial information

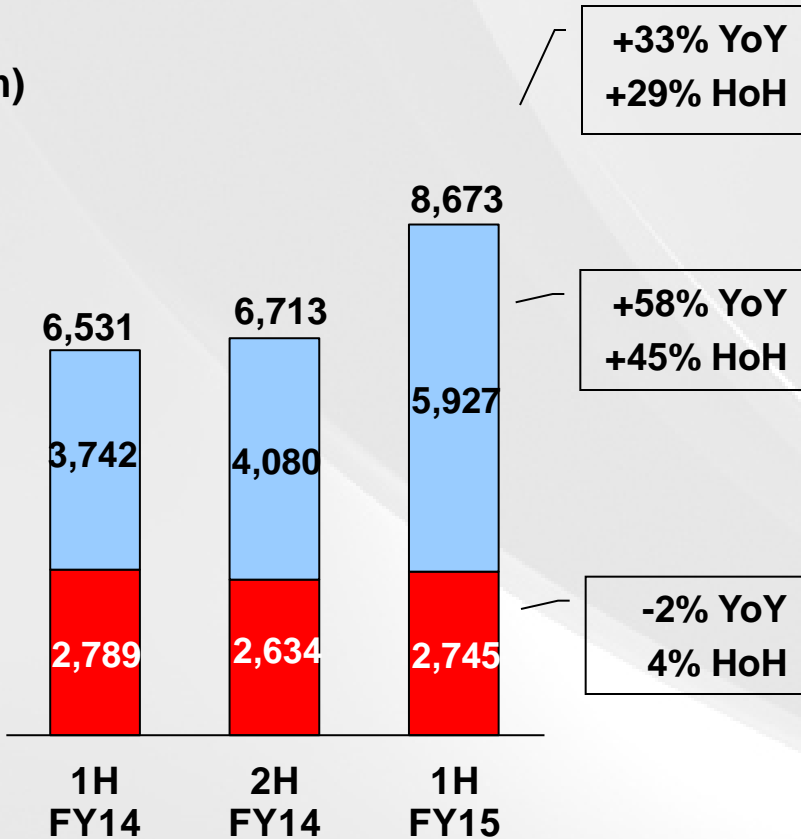
# Business & operation review

# Key highlights

- Total revenue of \$8,673 million
  - *+33% over same period last year*
- EBITDA of \$1,469 million
  - *+11% over same period last year and 19% over previous half*
- EBIT of \$623 million
  - *+51% over same period last year and 58% over previous half*
- Net profit of \$466 million
  - *+50% over same period last year and 106% over previous half*
- Interim dividend of \$0.27 per share
  - *+50% on same period last year, and 108% on previous half*

# Group revenue

(\$m)

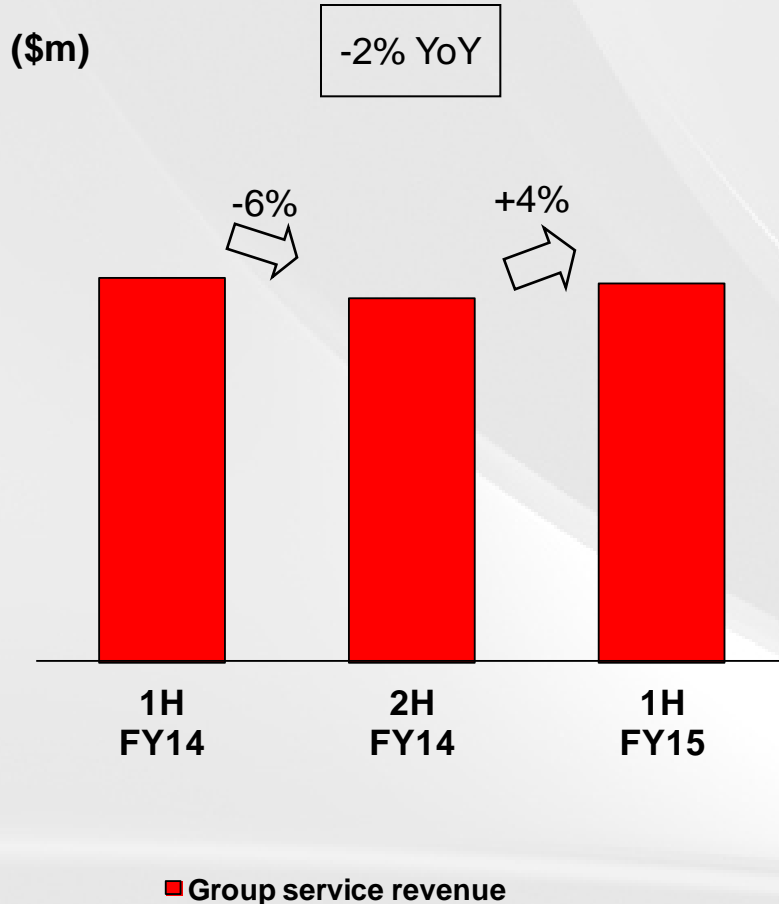


- Group revenue up 33% YoY and 29% HoH
- Largely due to increase in handset & accessory sales

■ Service revenue

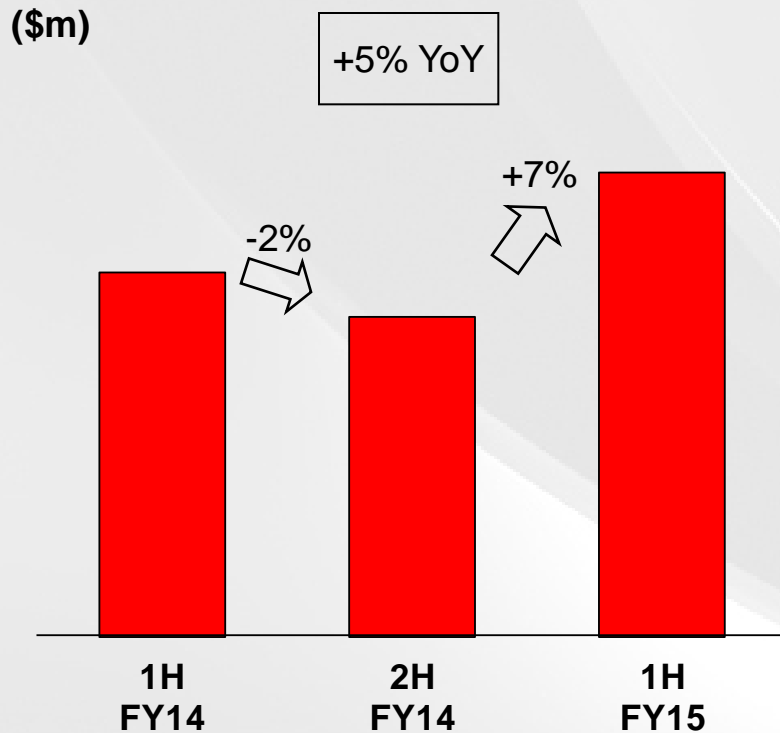
■ Handset & accessory sales

# Recovery in group service revenue



- Decreased 2% YoY, +4% HoH
  - Gradual migration to new tariffs by mid-to-high tier customers
  - Increase in customer number largely from 3G speed-capped plan
- YoY decline due to migration to SIM-only plans
  - Migration to SIM-only plans resulted in lower headline ARPU but has little impact on profitability

# Growth in group local service revenue net of handset-subsidy amortisation



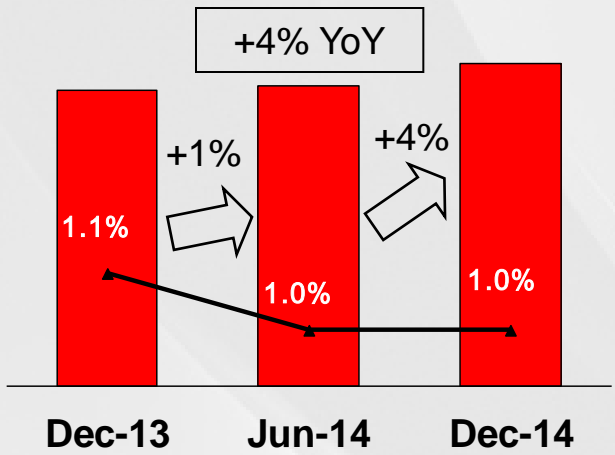
- Increased 5% YoY, +7% HoH
  - Lower handset subsidy amortisation more than offset the decline in service revenue

■ Group local service revenue net of handset subsidy amortisation



# Customer number and postpaid ARPU

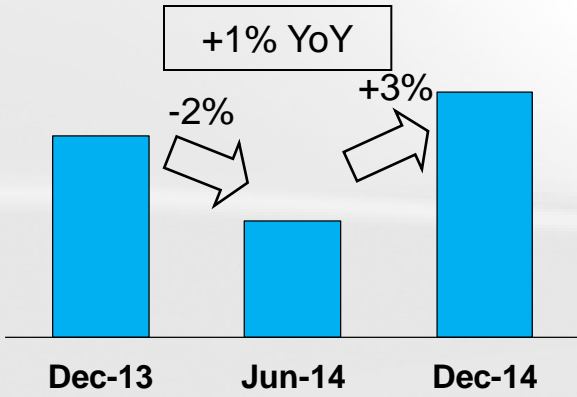
HK customer no.



■ Customer number (000') - period end  
 → Postpaid mobile churn rate - period average

- Customers up 4% largely from 3G speed-capped plan
- Average mobile postpaid churn rate stable at 1.0%

Postpaid ARPU ex. 3G speed-capped plan



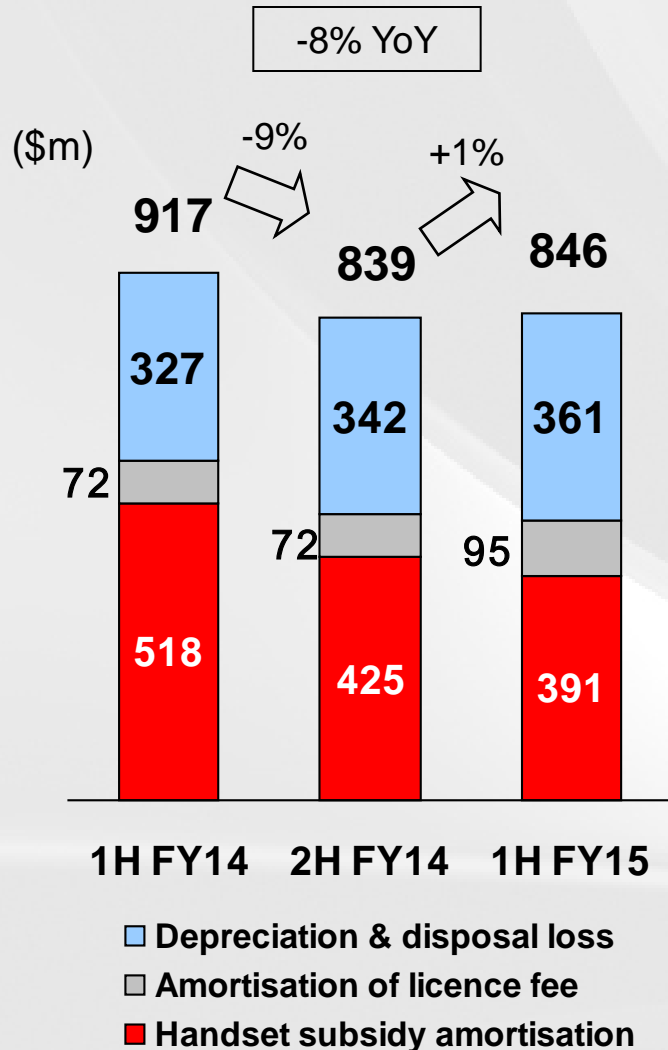
■ Postpaid ARPU ex. 3G speed-capped plan

- Postpaid ARPU at \$293
- Postpaid ARPU ex. 3G speed-capped plan increased 3% HoH

# Cost control

- Group operating expenses up 2% YoY
  - Staff costs up 4% YoY
  - Other operating expenses increased 1% YoY
    - Lower cost of services provided, offsetting increases in network operating costs, rental, and general administrative expenses

# Decline in depreciation & amortisation



- Decreased 8% YoY, increased 1% HoH
- Handset subsidy amortisation down 25% YoY due to continuing customer migration to SIM-only plans upon expiry of contract
- Fixed asset depreciation up 10% YoY
- Amortisation of licence fee up 32%
  - 2,600MHz spectrum commenced amortisation in 1H FY15

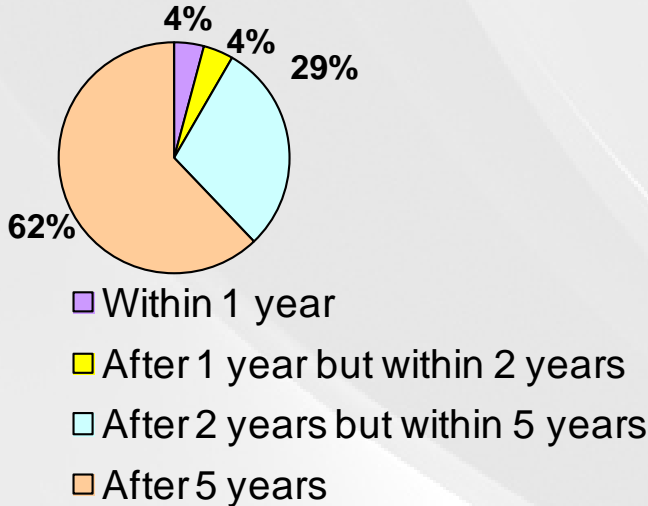
# Net finance costs

(\$m)	1H FY14	2H FY14	1H FY15
Finance income	28	29	32
Finance costs	(47)	(49)	(50)
Handset installment charge	(5)	(2)	(11)
Deemed finance charges			
Spectrum utilisation fee	(42)	(38)	(36)
Asset retirement obligations	(1)	(1)	(1)
<b>Sub total</b>	<b>(66)</b>	<b>(61)</b>	<b>(65)</b>
Net exchange gain / loss	18	(36)	5
<b>Total</b>	<b>(48)</b>	<b>(97)</b>	<b>(59)</b>

- Net finance cost (ex. foreign exchange impact) stable
- Small exchange gain from RMB deposit

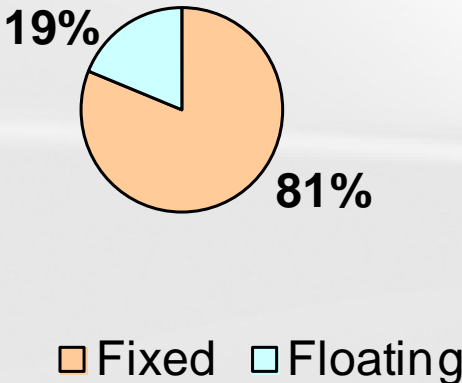
# Conservative debt profile

## Debt maturity profile



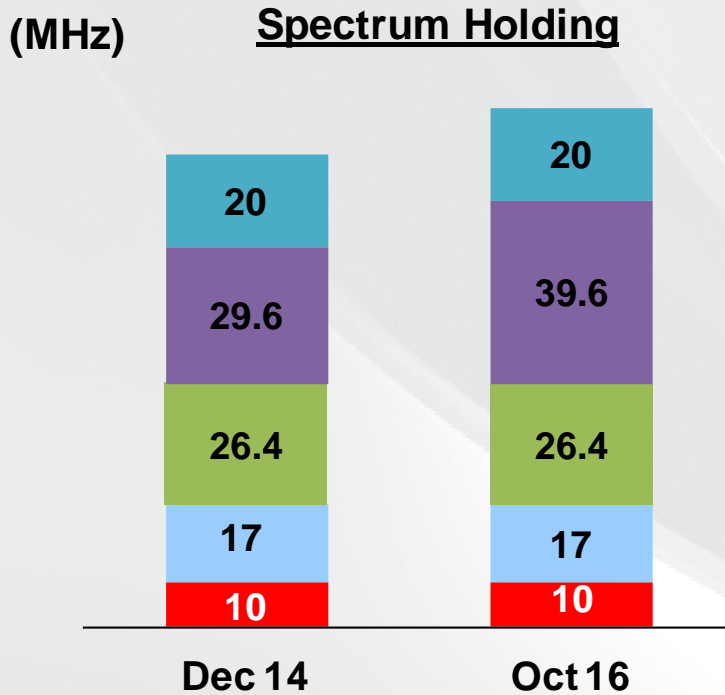
- Long term funding in place for upcoming spectrum fee payment in 2016

## Interest rate profile

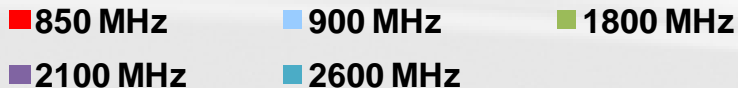


- Well-protected from future rise in interest rate
- Average 10-year fixed rate funding cost at 3.56%

# Acquisition of additional 2,100MHz spectrum



- Acquired additional spectrum and renewed 1/3 of existing spectrum at close to reserve price
- Renewed remaining 2/3 spectrum at Government-mandated minimum price
- Greater flexibility in refarming and capacity expansion in the future



# New services and updates



✓ Marketing service for retailers based on proximity triggering



✓ Use Wifi-hotspots to make calls



✓ Over 10,000 karaoke songs accessible on Android smartphone and TV screen at home



✓ HealthReach now extend to iOS devices

# Outlook



# Outlook

- Continuing efforts to increase revenue
  - Upgrade customers to higher tier plans
  - Increase customer adoption of services
- Cost control to mitigate rising costs
  - Spectrum-related costs – utilization fee, tax, funding costs
  - Increasing customer data usage
  - Rental and general inflation
- CAPEX guidance for FY15 reduced from \$850 million to \$800 million

# Appendix – financial Information

# Group Profit & Loss

(\$m)	1H FY14	2H FY14	1H FY15
<b>Revenues</b>	<b>6,531</b>	<b>6,713</b>	<b>8,673</b>
Cost of inventories sold	(3,702)	(4,041)	(5,675)
Staff costs	(342)	(337)	(356)
Other operating expenses	(1,158)	(1,102)	(1,172)
<b>EBITDA</b>	<b>1,329</b>	<b>1,234</b>	<b>1,469</b>
Depreciation, amortisation & disposal	(917)	(839)	(846)
<b>EBIT</b>	<b>412</b>	<b>395</b>	<b>623</b>
Net finance costs	(48)	(97)	(59)
Profit before income tax	364	298	564
Income tax expense	(56)	(75)	(96)
Profit after income tax	308	224	467
Non-controlling interests	3	2	(1)
<b>Net profit</b>	<b>311</b>	<b>226</b>	<b>466</b>
ROCE <sup>(1),(2)</sup>	12%	11%	17%
ROE <sup>(1),(3)</sup>	20%	14%	27%

(1) Based on annualised EBIT and net profit

(2) ROCE = EBIT / Average capital employed (total assets less current liabilities)

(3) Net profit / Average shareholders' equity

# Group Balance Sheet

(\$m)	Jun 14	Dec 14
Fixed assets	3,396	3,238
Intangible assets	2,378	2,597
Other non-current assets	100	111
Cash, bank balance <sup>(1)</sup>	3,165	3,304
Other current assets	753	1,171
Bank borrowings <sup>(1)</sup>	(1,318)	(1,478)
Notes payable <sup>(1)</sup>	(1,522)	(1,525)
Customer prepayments and deposits	(636)	(1,062)
Other current liabilities	(2,358)	(2,189)
Other non-current liabilities	(706)	(569)
<b>Net assets</b>	<b>3,250</b>	<b>3,597</b>
Share capital	105	105
Reserves	3,088	3,434
Total equity attributable to equity holders	3,193	3,539
Non-controlling interests	57	58
<b>Total equity</b>	<b>3,250</b>	<b>3,597</b>
<sup>(1)</sup> <i>Cash &amp; bank balance</i>	3,165	3,304
<i>Bank Borrowings</i>	(1,318)	(1,478)
<i>Notes payable</i>	(1,522)	(1,525)
<i>Net cash balance</i>	324	301
<sup>(2)</sup> <i>Shares in issue at balance sheet date (million)</i>	1,046	1,046
<sup>(3)</sup> <i>Net book value per share</i>	\$3.1	\$3.4

**Smartone**