

SmarTone Telecommunications Holdings Limited

FY17 Annual Results Presentation

For the year ended 30 June 2017

29 August 2017

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Agenda

- Overview
- Financial review
- Business review
- Appendix – financial information

Overview

Anna Yip

Chief Executive Officer

Challenging market but mitigating measures in place

- Adverse market conditions affecting the sector as a whole
 - Severe competitive pressures
 - Structural decline in voice roaming
 - Increase in spectrum utilisation fees
 - Lack of hero handsets and changing business model
- Proactive and concrete actions in place to counter industry challenges and reposition part of the business
- Focus on uplifting performance across core mobile segments
 - Continue with customer-centric strategy
 - Deliver best network experience
 - Accelerate development of new revenue streams
 - Drive productivity improvements

Key performance highlights

- Customer base increased 4% to 2.06m; churn rate at 1.0%
- Mobile postpaid ARPU declined 5% to \$285
- Group service revenue was \$5,160m, down 6%, but underlying postpaid service revenue (net of handset subsidy amortisation) is steady
 - Local mobile postpaid service revenue increased 2%
- Depreciation & amortisation was \$1,368m, down 12%, despite a 35% increase in amortisation of spectrum utilisation fees
- Group EBIT and Group net profit at \$929m and \$672m respectively, a drop of 16% year-on-year
- CAPEX decreased by 14% to \$514m

Commitment to shareholders

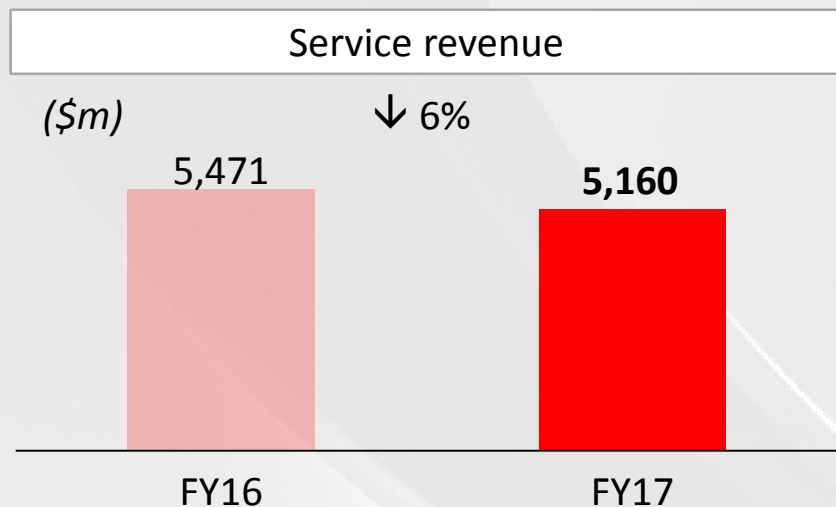
- Final dividend of 33 cents per share, making a full-year dividend of 60 cents per share
- Scrip dividend option available
- Official payout ratio remains at 75%

Financial review

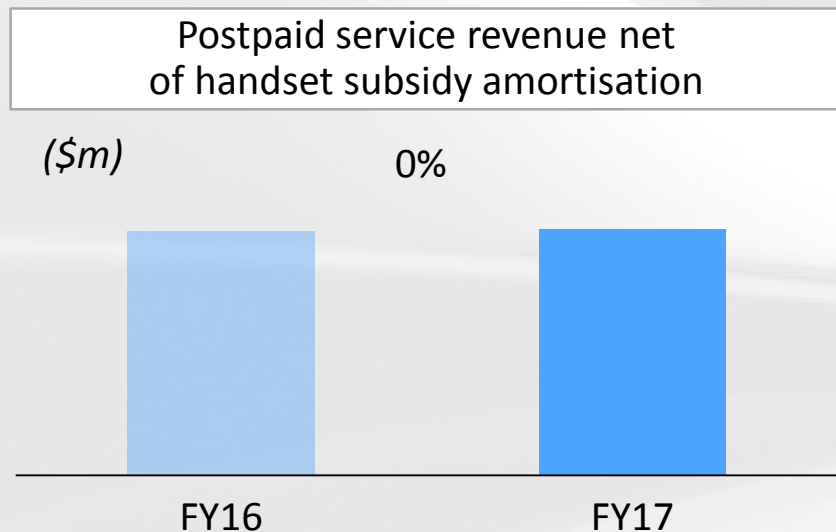
Patrick Chan

Chief Financial Officer

Stable core postpaid service business



- Service revenue declined due to
 - Migration to SIM Only plans
 - Ongoing declining in voice roaming
 - Weakness in prepaid segment
- Migration to SIM Only plans masks a better underlying trend in revenue



- Postpaid service revenue net of handset subsidy amortisation stable

Growth in underlying local mobile postpaid service business

Local mobile postpaid service revenue net of handset subsidy amortisation

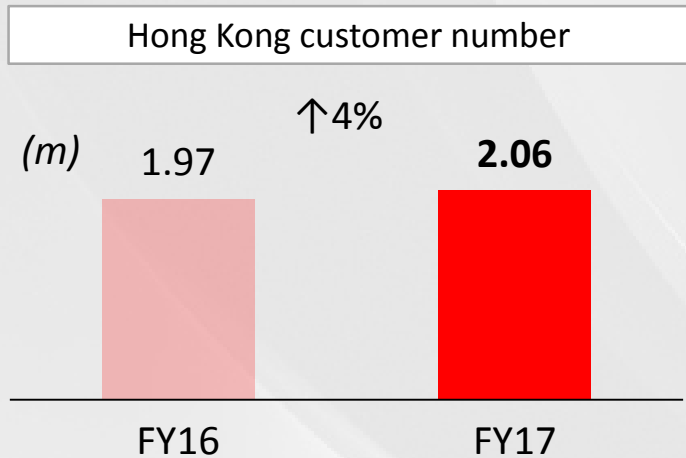
(\$m)

↑2%

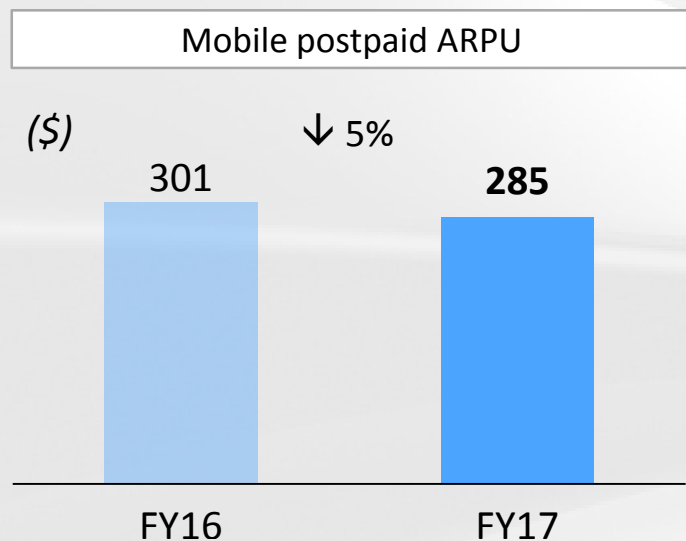
- Revenue from local plan subscriptions net of handset subsidy amortisation increased 2%



Increase in customer number



- Total customer no. increased 4% to 2.06m
- Mobile postpaid ARPU at \$285
- Average mobile postpaid churn rate at historical average of 1.0%
 - High contract expiry in Q4 2016 related to flagship handset lifecycle resulted in higher churn rate in 1H17
 - Proactive measures have been taken and 2H17 churn rate has improved to recent lows



Slowing handset business

Handset and accessory sales

(\$m)

↓ 72%

12,885



FY16

3,555



FY17

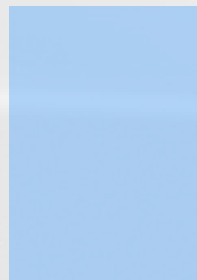
- Lack of hero handsets
- Reflecting a repositioning of business model

Handset and accessory sales EBIT

(\$m)

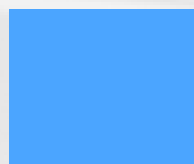
↓ 43%

90



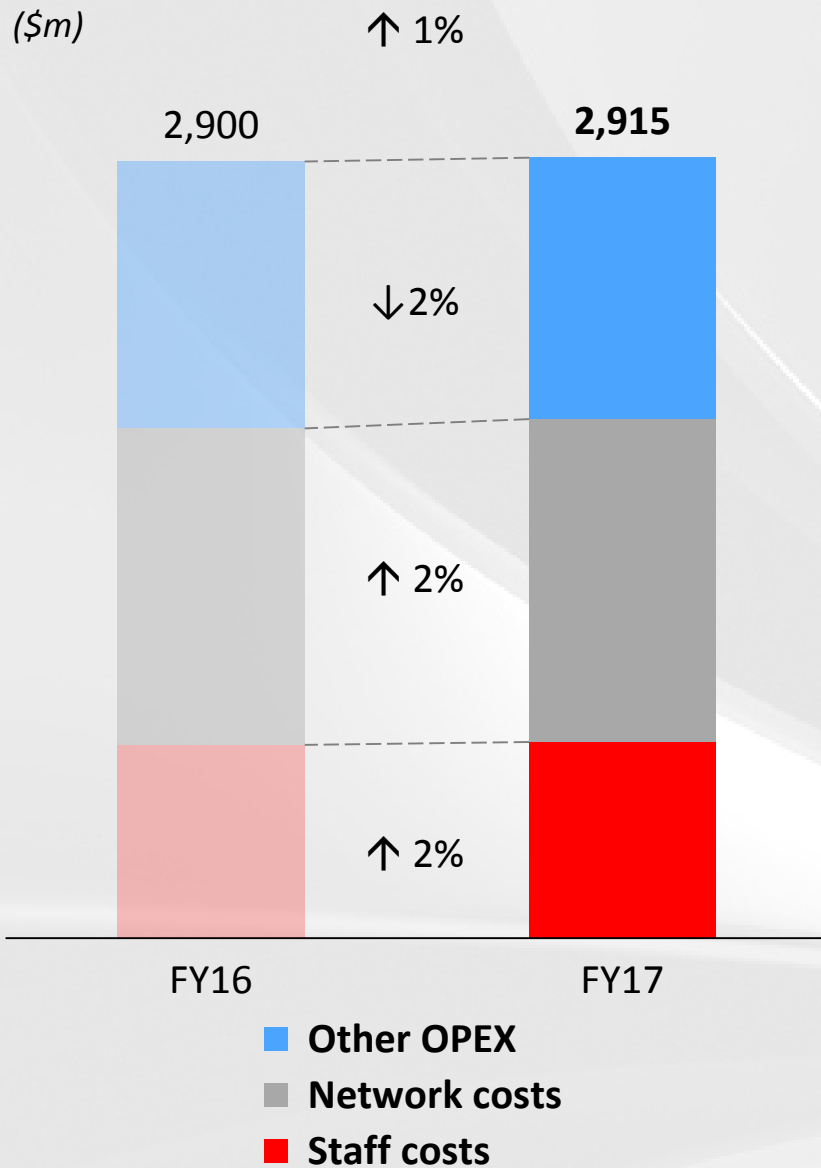
FY16

51



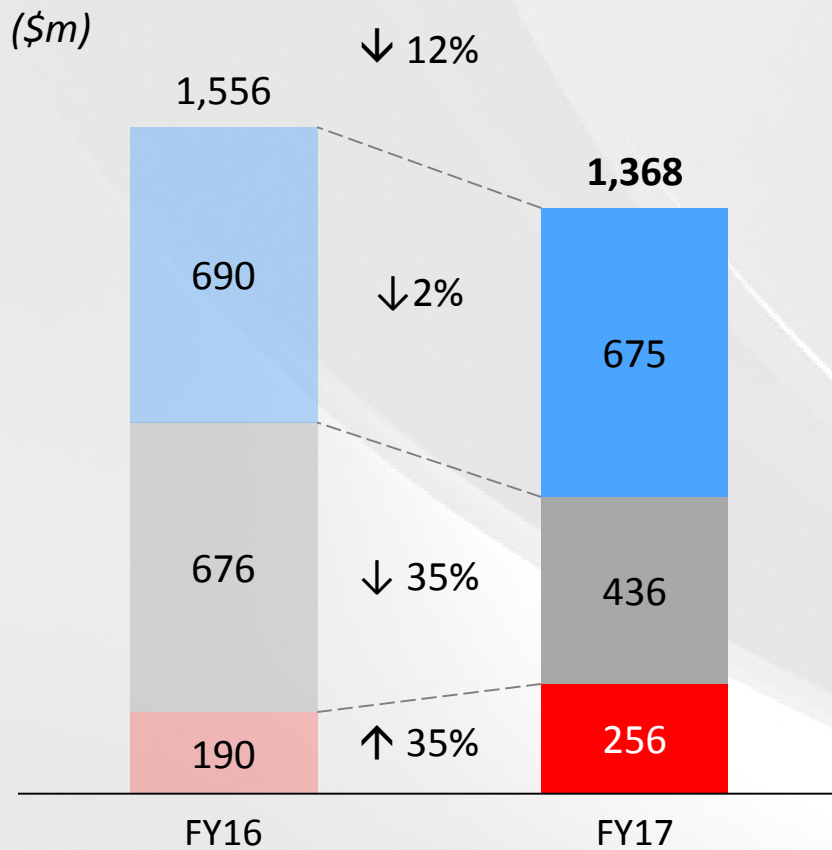
FY17

Strong cost control



- Total OPEX up 1% only YoY despite substantial increase in data usage

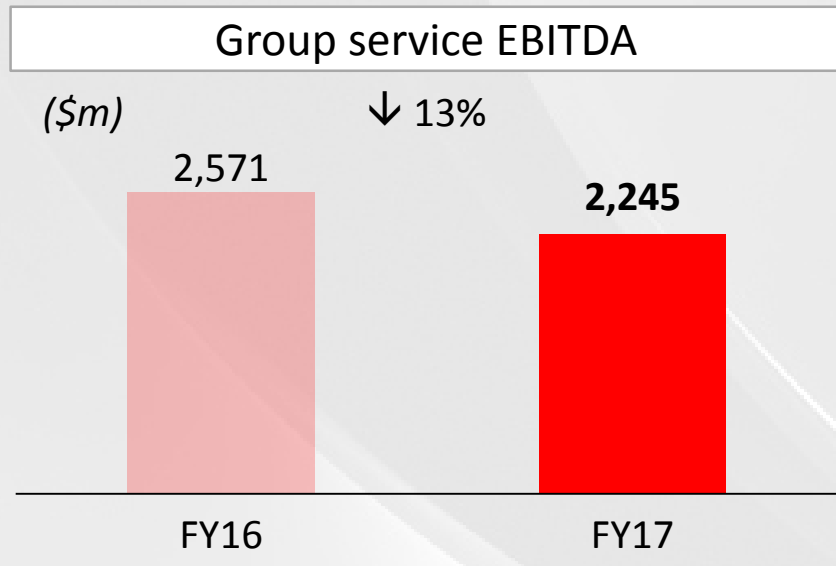
Depreciation & amortisation declined despite increase in spectrum fee amortisation



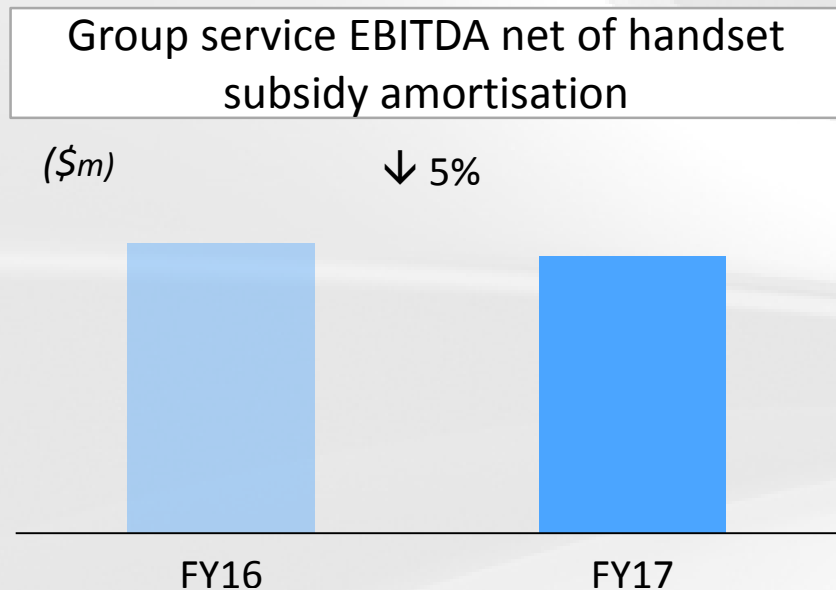
- Depreciation & disposal loss
- Handset subsidy amortisation
- Amortisation of spectrum utilisation fees

- Handset subsidy amortisation fell 35% reflecting migration from handset-bundled plans to SIM Only
- \$66m increase in spectrum fee amortisation due to renewal of existing and additional 2100MHz spectrum

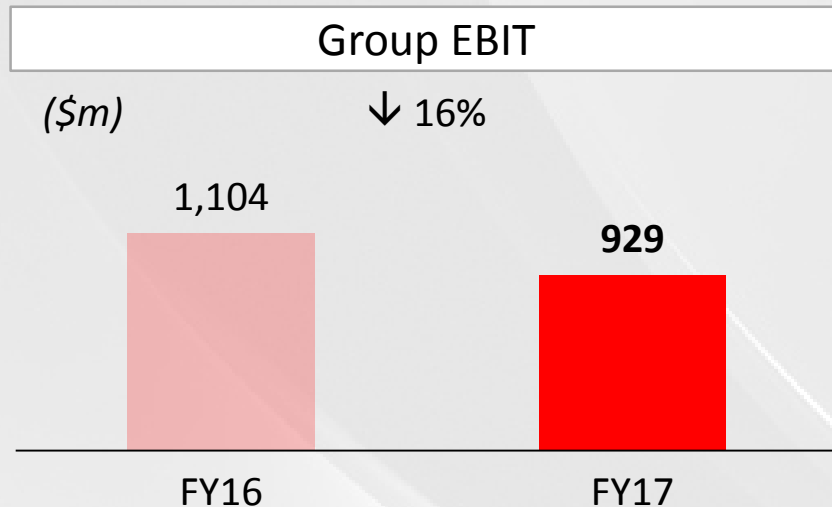
Group service EBITDA



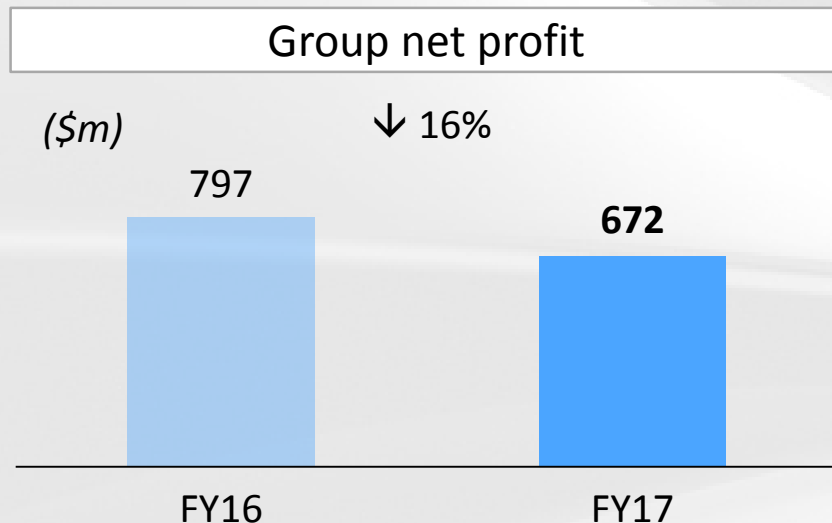
- Customer migration to SIM Only plans
- Net of handset subsidy amortisation, underlying Group service EBITDA decreased 5%



Group EBIT and net profit



- FY17 performance impacted by weakness in 2H17:
 - Increase in amortisation of spectrum utilisation fees
 - Ongoing declining in voice roaming
 - Lower handset profit
 - High contract expiry in Q4 2016 related to flagship handset lifecycle

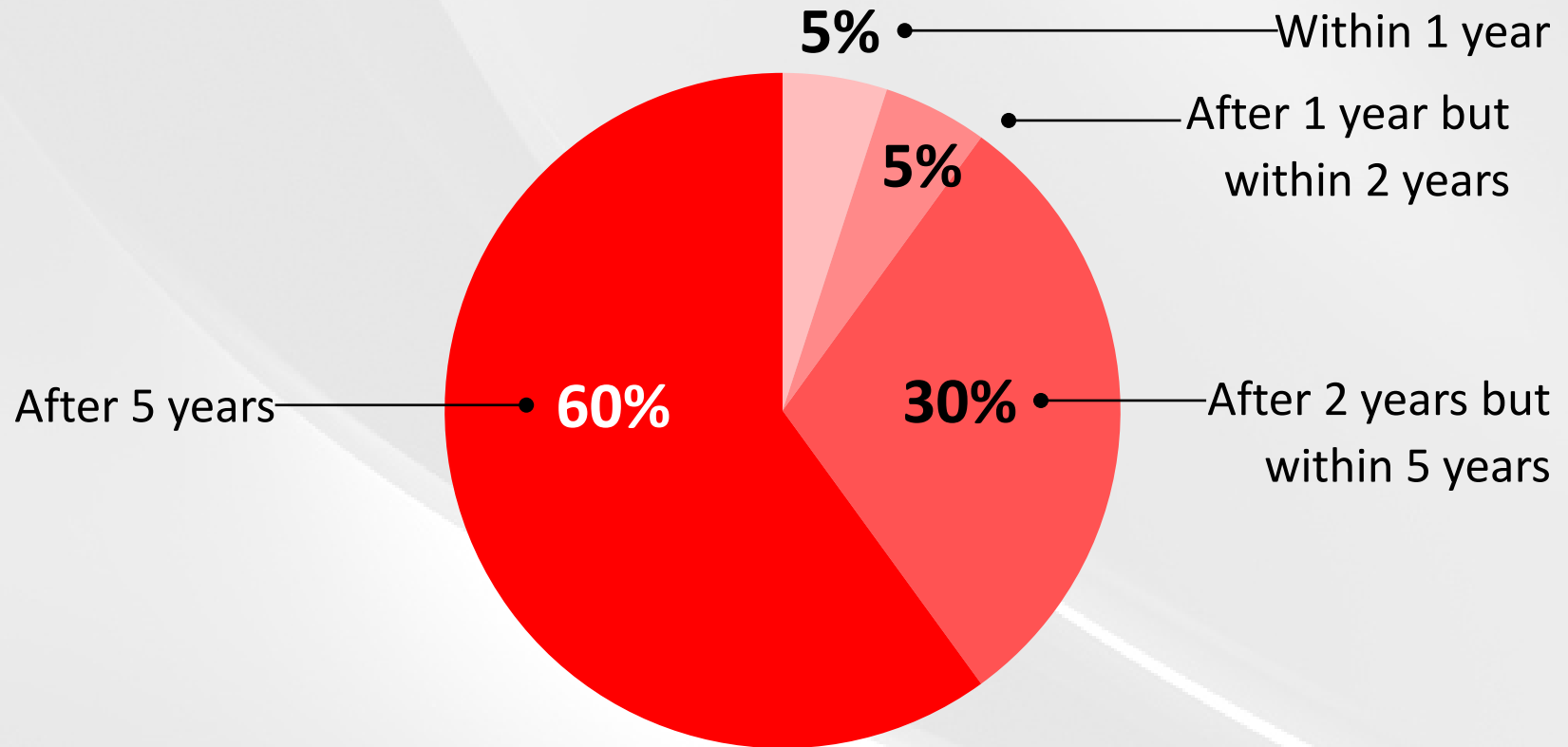


- Proactive measures have been taken to reduce the impact from the high contract expiry

Strong balance sheet

- Cash resources and bond holdings ~\$2b
- Net debt to EBITDA: 0.3X, after paying \$2.3b in Aug 2016 to renew and acquire additional 2100MHz spectrum
- Favourable interest rate profile
 - Fixed – 81%; floating – 19%
 - Rising interest rate has little impact on funding costs

Healthy debt maturity profile



- Long-term funding in place
- Over 60% of debt repayable after 5 years

Business Review

Anna Yip

Chief Executive Officer

Key areas of focus to sustain performance in challenging market

***Invest in
fundamentals
and future
growth***

Lead with customer-centric strategy

- *Deepen segmented approach to service offerings*
- *“Digital First” in serving customers*

Deliver best network experience

- *Extend leadership in technology innovation*
- *Pave way to 5G*

Accelerate development of new revenue streams

Drive productivity improvements

Segmented approach to service offerings

Family



Introducing SuperCare Family Plans
Make the most of your data with added flexibility

Traveller

1 Data Sharing Plan
6 Destinations
\$0 Data Roaming Charges
DataRoam x6 P



10 FREE UBER RIDES
(Total valued at \$1,000)
Register now to enjoy seamless travel experiences!

SmarTone

Youth

4.5G U Plan Lite

\$128/6GB
Unlimited voice mins

Contract FREE

SmarTone

Industry-first Smartphone Trial Plan

Love at first Trial

First of its kind
Supreme Smartphone Trial Plan

Subject to relevant terms and conditions

Gadget-lovers

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上台送手機

火速行動，立即到 SmarTone 門市上指定 SIM Only 計劃，多款手機送畀你！

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4.5G 送夠網絡

Exclusive benefits and privileges from SmarTone Plus

- Dedicated service hotline
- Special express service queue at SmarTone stores
- Year-round discount on various SmarTone products and services
- Exclusive merchant offers

SmarTone Plus

Birthday Delights



Exclusive merchant offers



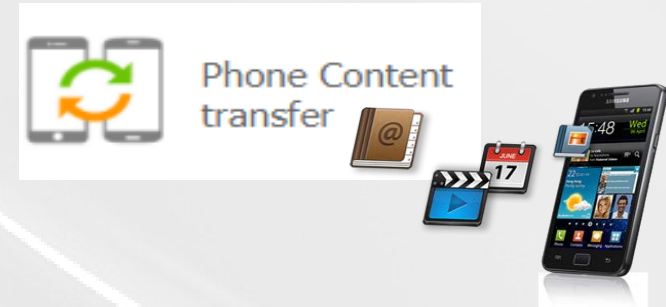
Signature customer care

Flexi-Switch

Free Powerbank Rental Service



Content Transfer



Service Awards

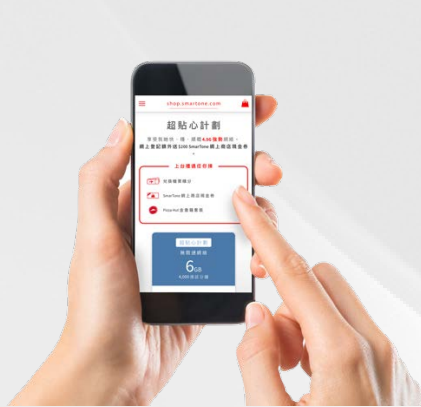


Workshops & Events



Digital First

- We aim to provide an industry-leading digital experience
- Better customer experience through digital engagement at all customer touchpoints (store, online, mobile)



Online Plan Subscription & Renewal



Best telecommunications e-Commerce Merchant
Best Omni-Channel Process



SmartTone CARE



Wide Range of Gadgets Selection

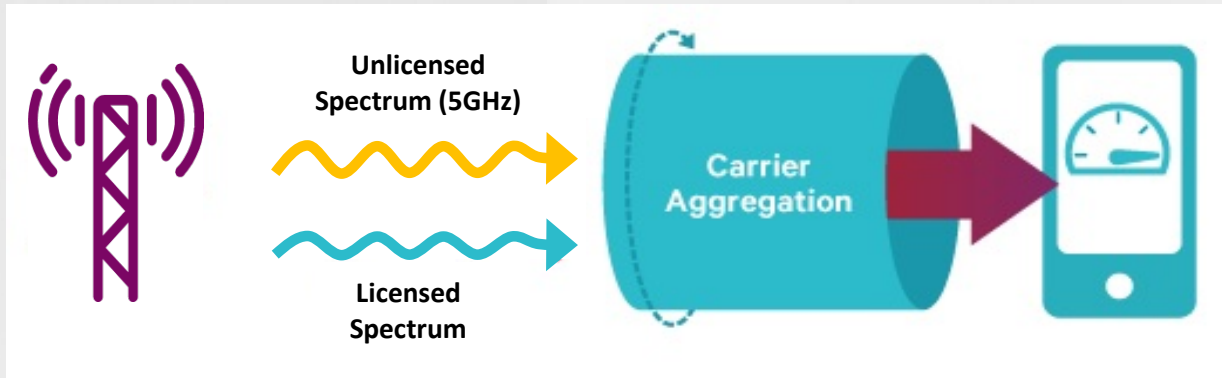


Enjoy Next Day Delivery or Same Day Instore Pick-up



Live Chat Support

Leader in technology innovation



Licensed Assisted Access

- Technological breakthrough by combining licensed and unlicensed spectrum
- Enhances overall network performance & capacity



HK 1st territory-wide
LTE1800 network
&

The only network to
support iPhone 5 on
LTE at launch in Aug
2012

HK 1st
territory-wide
2CC network

HK 1st
territory-wide
3CC network

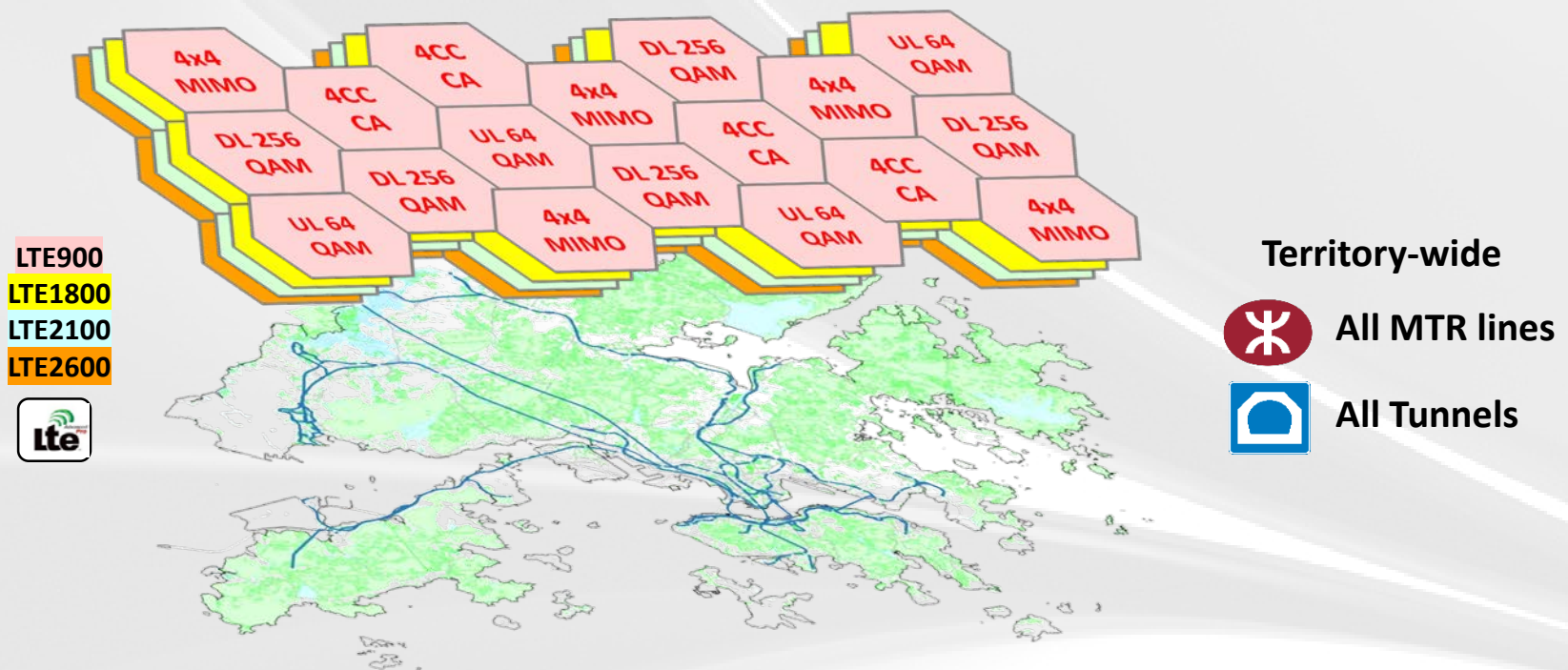
HK 1st
territory-wide
4CC network

HK 1st 5G trial

HK 1st LAA trial

Building powerful 4.5G network

- Fast, stable and smooth mobile broadband experience
 - Territory-wide LTE2100 network
 - 1st to deploy quad-band carrier aggregation in HK
 - 4.5G capabilities fully deployed



Pave the way to 5G



2019
*Fibre
fronthaul
and
backhaul*

2018
*Cloud-
based
Core
network*

4Q 2017
*Massive
MIMO*

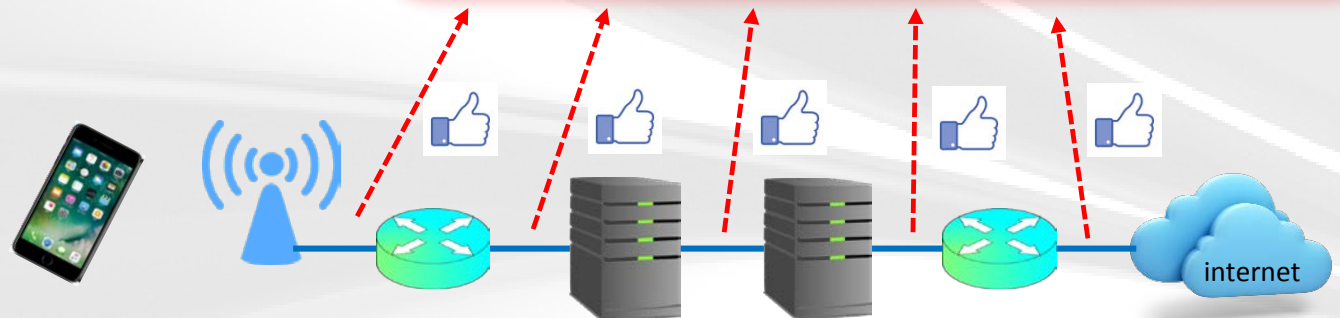
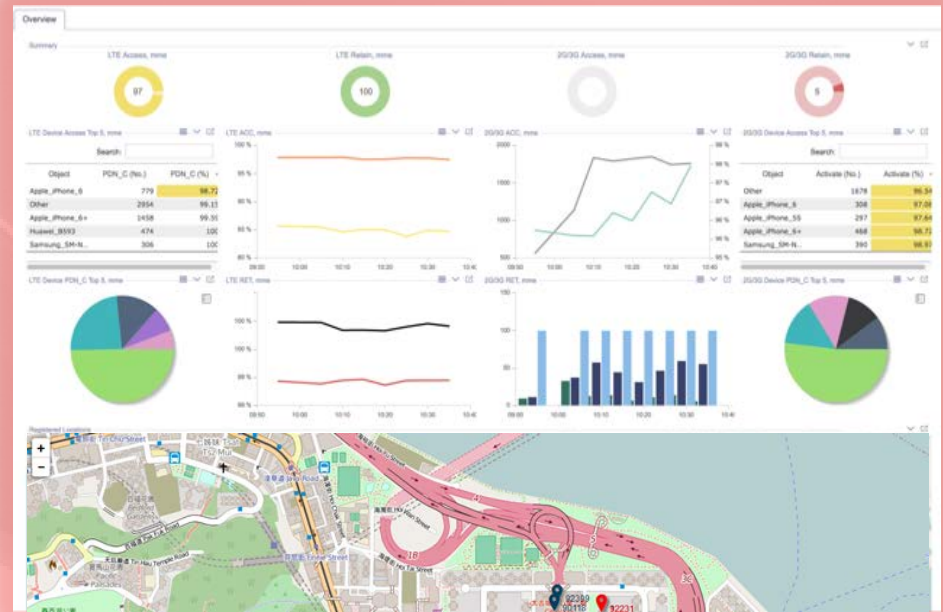
3Q 2017
NB-IoT

Jul 2017
LAA

Jan 2017
5G Trial

Committed to delivering a superior user experience

- A tightly integrated end-to-end customer-centric network monitoring platform to ensure 24/7 superior user experience down to each individual user
 - Quality of Experience (QoE) based on
 - ✓ Consistency
 - ✓ Smoothness
 - ✓ Speed
 - Real-time network optimization through in-depth analysis on individual customer experience
 - For most common use cases across the whole network



Need for clear spectrum supply roadmap

- SmarTone welcomes the Government's move to clarify the spectrum supply roadmap
- Critical for the industry to have sufficient supply of spectrum at a reasonable price to spur innovation and the adoption of services enabled by new technologies & 5G
- Essential to Hong Kong's position as a competitive and global economy

Summary

- Challenging market conditions expected to continue in FY 2018
 - Severe competitive pressures
 - Structural decline in voice roaming
 - Increase in spectrum utilisation fees
 - Changing handset business model
- Proactive and concrete actions in place to counter industry challenges and reposition part of the business
- Key focus in the coming year
 - Continue with customer-centric strategy
 - Deliver best network experience
 - Accelerate development of new revenue streams
 - Drive productivity improvements

Q&A

Appendix –

Financial Information

Group Profit & Loss

(\$m)	FY16	FY17
Revenues	18,356	8,715
Cost of inventories sold	(12,795)	(3,504)
Staff costs	(722)	(733)
Other operating expenses	(2,179)	(2,182)
EBITDA	2,661	2,296
Depreciation, amortisation & disposal	(1,556)	(1,368)
EBIT	1,104	929
Net finance costs	(142)	(85)
Profit before income tax	962	843
Income tax expense	(175)	(177)
Profit after income tax	787	666
Non-controlling interests	10	6
Net profit	797	672
ROCE ⁽¹⁾	15%	12%
ROE ⁽²⁾	20%	15%

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

(2) Net profit / Average shareholders' equity

Group Balance Sheet

(\$m)	Jun 16	Jun 17
Fixed assets	3,236	3,072
Held-to-maturity debt securities ⁽¹⁾	870	712
Intangible assets	1,757	3,631
Other non-current assets	136	109
Cash & bank balances ⁽¹⁾	3,242	1,274
Other current assets	1,162	978
Bank borrowings ⁽¹⁾	(1,320)	(1,148)
Notes payable ⁽¹⁾	(1,530)	(1,543)
Customer prepayments and deposits	(400)	(271)
Other current liabilities	(2,411)	(1,827)
Other non-current liabilities	(378)	(352)
Net assets	4,364	4,634
Share capital	108	111
Reserves	4,209	4,483
Total equity attributable to equity holders	4,317	4,594
Non-controlling interests	47	41
Total equity	4,364	4,634
⁽¹⁾ <i>Cash & bank balances</i>	3,242	1,274
<i>Held-to-maturity debt securities</i>	870	712
<i>Bank Borrowings</i>	(1,320)	(1,148)
<i>Notes payable</i>	(1,530)	(1,543)
<i>Net cash / (debt) balance</i>	1,262	(705)
⁽²⁾ <i>Shares in issue at balance sheet date (million)</i>	1,081	1,106
⁽³⁾ <i>Net book value per share</i>	\$4.0	\$4.2

Smartone

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