

# **SmarTone Telecommunications Holdings Limited**

## **FY17 Interim Results Presentation**

*For the six months ended 31 December 2016*

16 February 2017

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# Agenda

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- Overview
- Financials
- Outlook
- Appendix – financial information

# Overview

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***Anna Yip***

*Chief Executive Officer*

# Stable performance and a focus on growth

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- Stability in 1H FY2017 financial performance
- Proactive and concrete actions in place to counter industry challenges
  - Strengthening segment service offerings
  - Growing data roaming and enterprise solutions businesses
  - Digitalising customer experience
- Transitioning to grow at a challenging time
  - Deepening market penetration in key growth areas
  - Driving operational efficiency and cost control
  - Reinforcing brand proposition
  - Leading in customer service and mobile technology

# Financial highlights

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- Group service revenue at \$2,674m, and service revenue net of handset subsidy amortisation was stable at \$2,408m
- Postpaid service revenue remained resilient: net of handset subsidy amortisation increased by 2% YoY
- Mobile postpaid ARPU stable at \$299
- Declined Depreciation and Amortisation despite higher spectrum cost
- Stable OPEX and CAPEX
- Group EBIT at \$527m, down 10% YoY, up 2% HoH
- Net profit at \$393m, down 2% YoY, stable HoH

# Commitment to shareholders

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- Interim dividend of 27 cents per share
- Expected full-year dividend of 60 cents per share, unchanged from FY16
- Scrip dividend option available
- Strong operating cash flow and healthy balance sheet

# Financial review

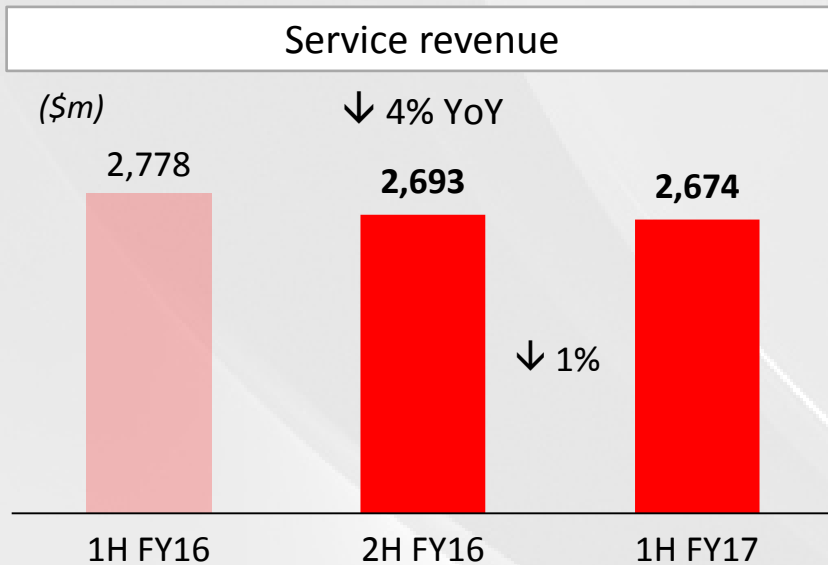
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***Patrick Chan***

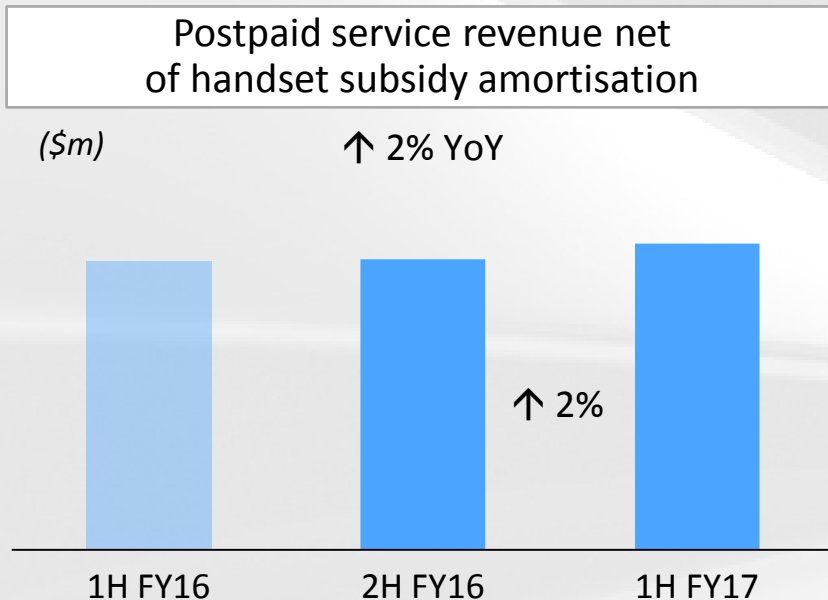
*Chief Financial Officer*



# Stable core postpaid service business



- Service revenue down slightly due to migration to SIM Only plans



- Despite intense competition, postpaid service revenue net of handset subsidy amortisation grew 2%

# Encouraging growth in selected services

## Target Segment



Family Plan



U Plan

## Data Roaming



Virtual WiFi egg

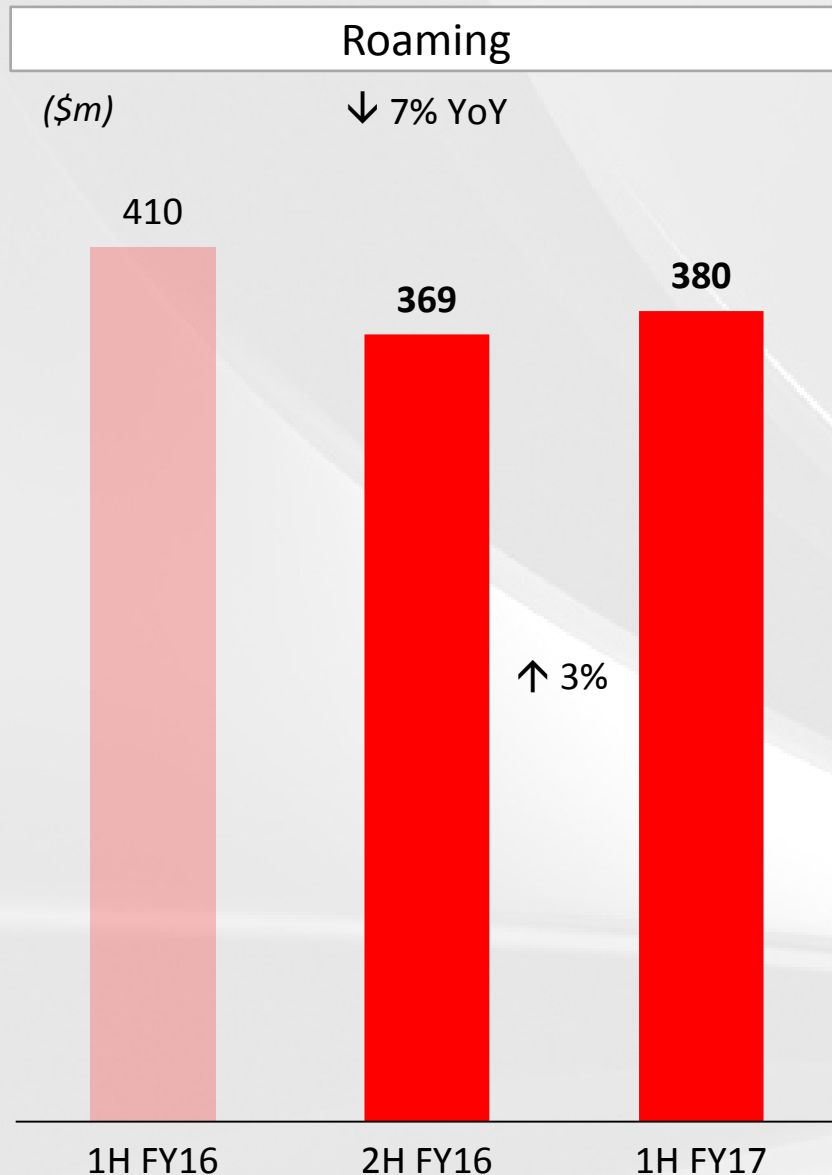


Roaming Data  
Day Plan

## Enterprise Solution



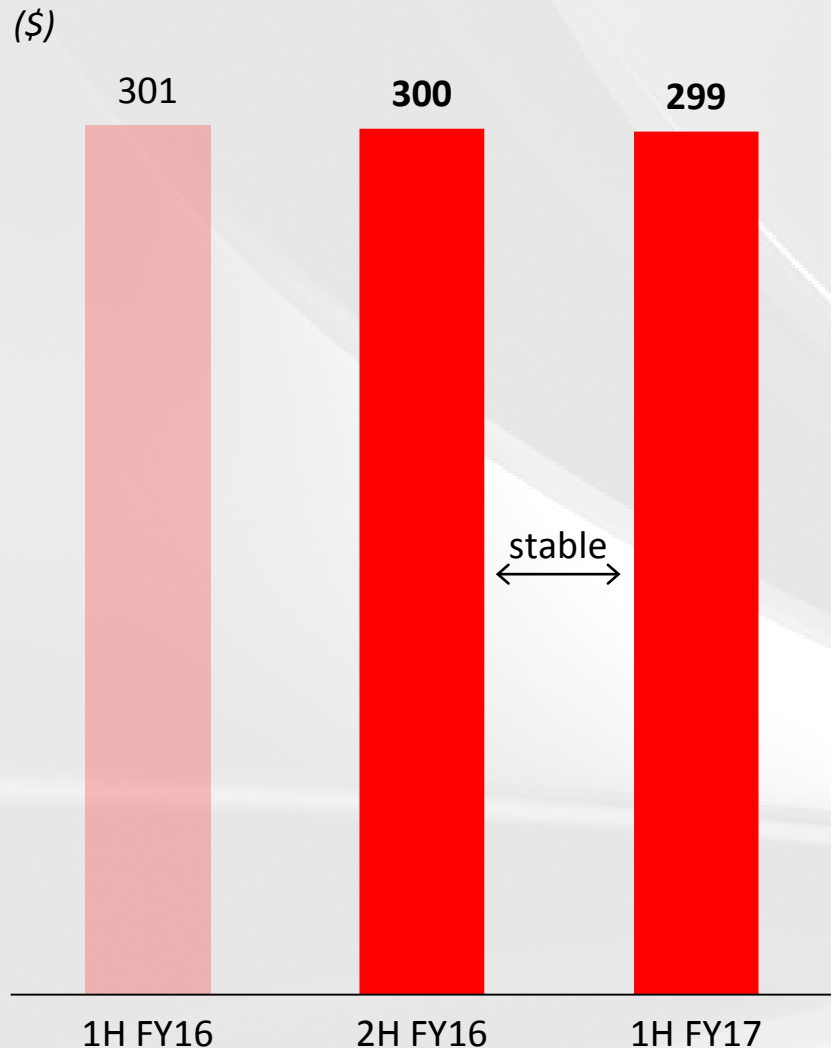
# Industry shift in roaming continues



- Roaming revenue dropped 7% YoY, up 3% HoH
  - Data roaming ↑, voice roaming ↓
  - Increasing use of OTT affecting voice roaming
  - Decline partially offset by data roaming initiatives

# Growth in customer number with stable ARPU

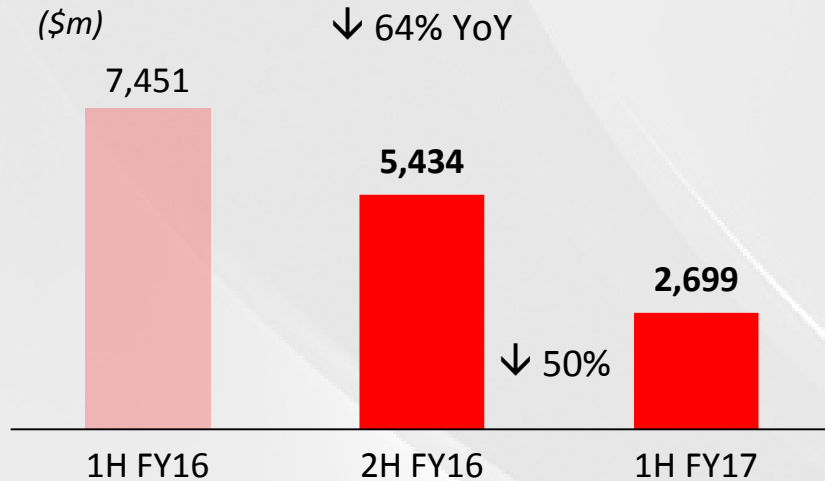
Mobile postpaid ARPU



- Total customer no. grew to 2m, +1% YoY
- Stable mobile postpaid ARPU despite decline in roaming
- Average mobile postpaid churn rate at 1.2%

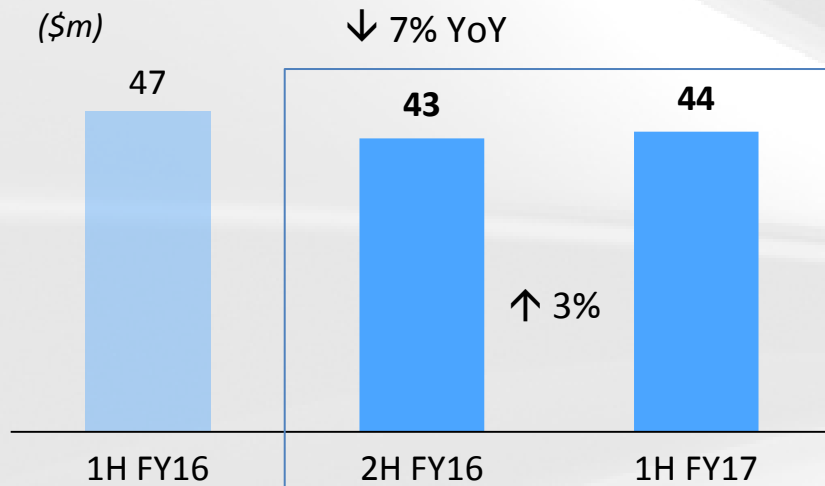
# Slowing handset business

## Handset and accessory sales

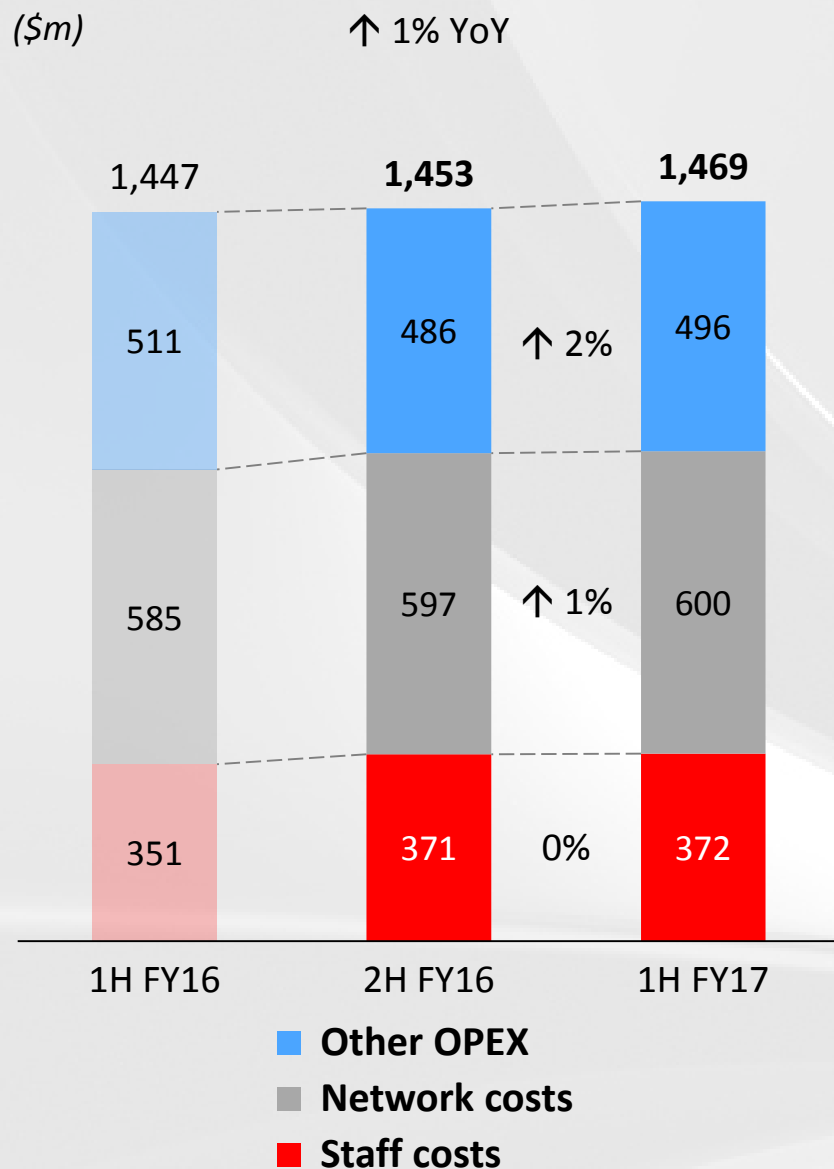


- Higher margin for both handset and accessory sales offset lower handset business revenue

## Handset and accessory sales EBIT

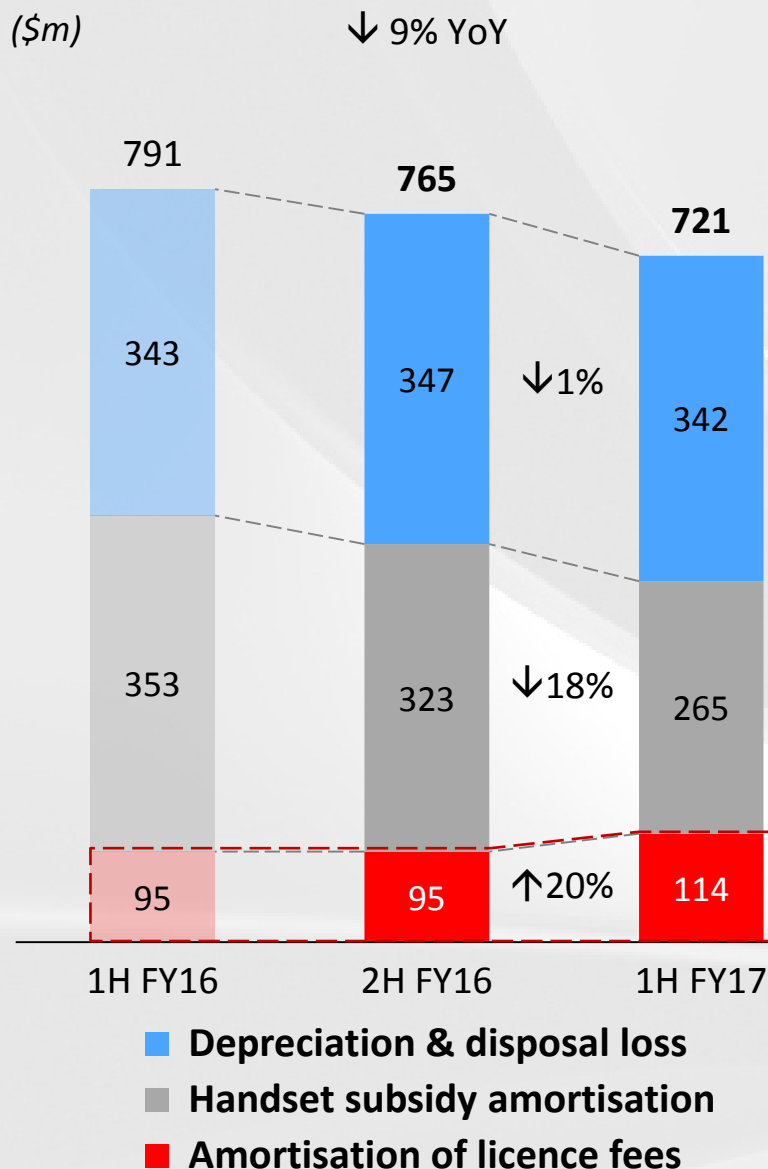


# Stringent cost control



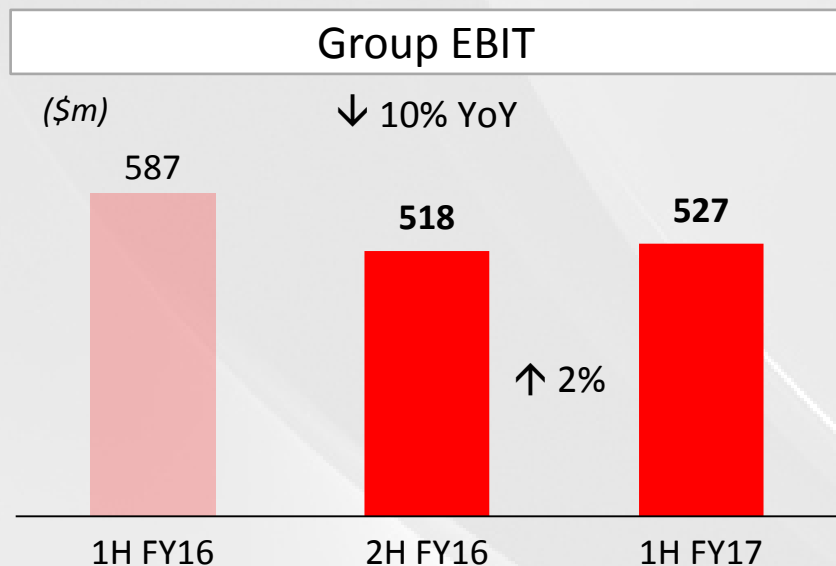
- Vigilant cost control reinforced by continuing efficiency drive
- Total OPEX up 1% YoY despite substantial increase in data usage

# Licence fee goes against trend in D&A

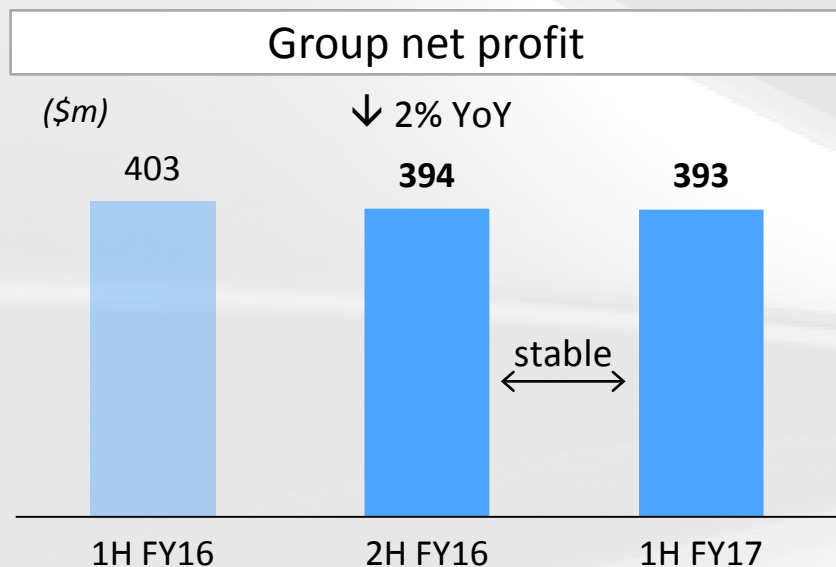


- Material savings in depreciation and handset subsidy amortisation
- However, licence fee increased by \$19m to 16% share of total D&A
- The share of amortisation of licence fee has increased significantly from 12% in 2H FY16
- It is estimated to go up to 22% in 2H FY17

# Group EBIT and net profit



- Proactive, concrete actions in place in core mobile and roaming businesses to counter industry challenges
- Resilience in Group EBIT and net profit performance HoH



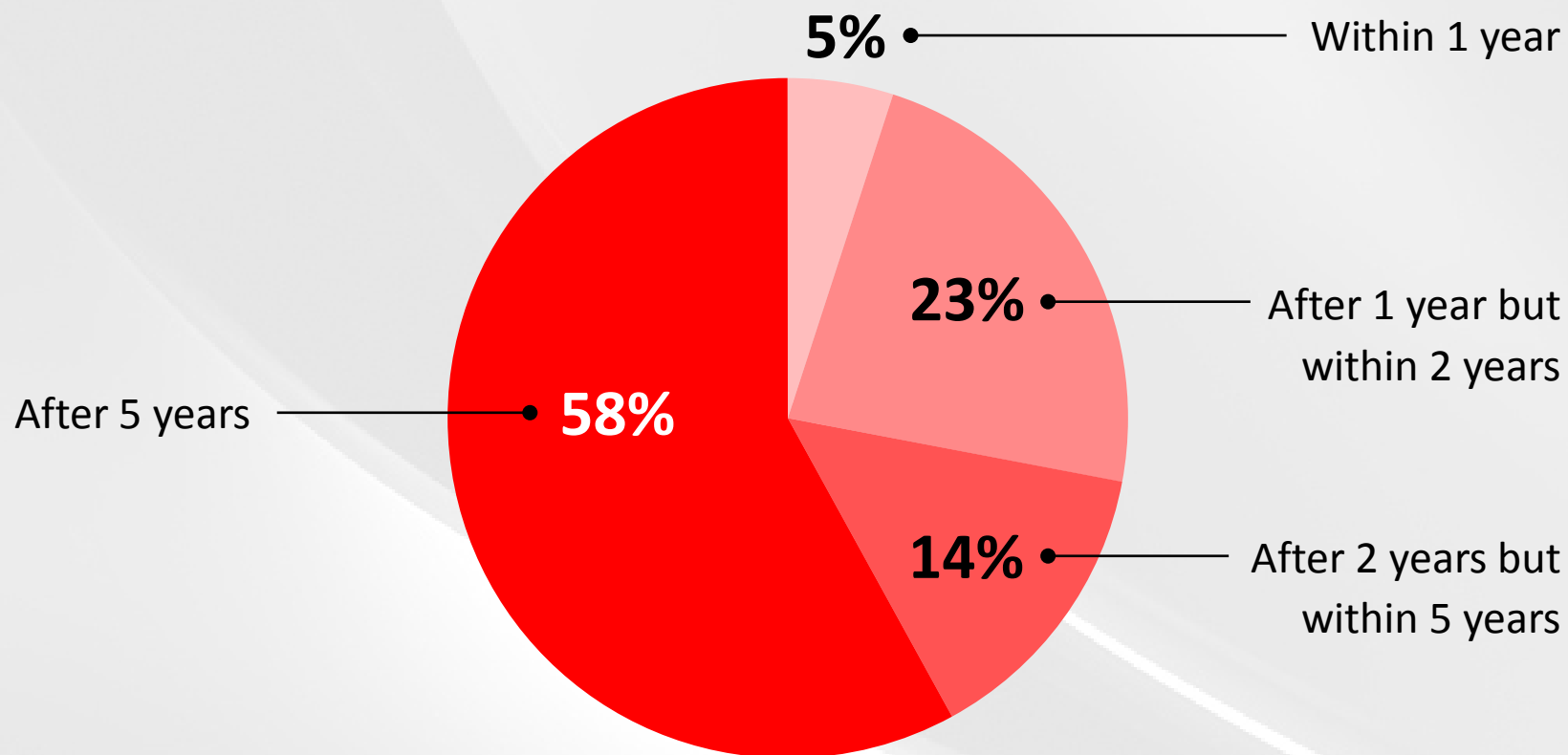


# Strong balance sheet

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- Cash resources and bond holdings over \$1.6b
- Net debt to EBITDA: 0.4X, even after paying \$2.3b in Aug 2016 to renew and acquire additional 2100MHz spectrum
- Favourable interest rate profile
  - Fixed – 80%; floating – 20%
  - Rising interest rate has little impact on funding costs

# Healthy debt maturity profile



- Long-term funding in place
- Over 50% of debt repayable after 5 years

# Outlook

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***Anna Yip***

*Chief Executive Officer*

# Challenges ahead

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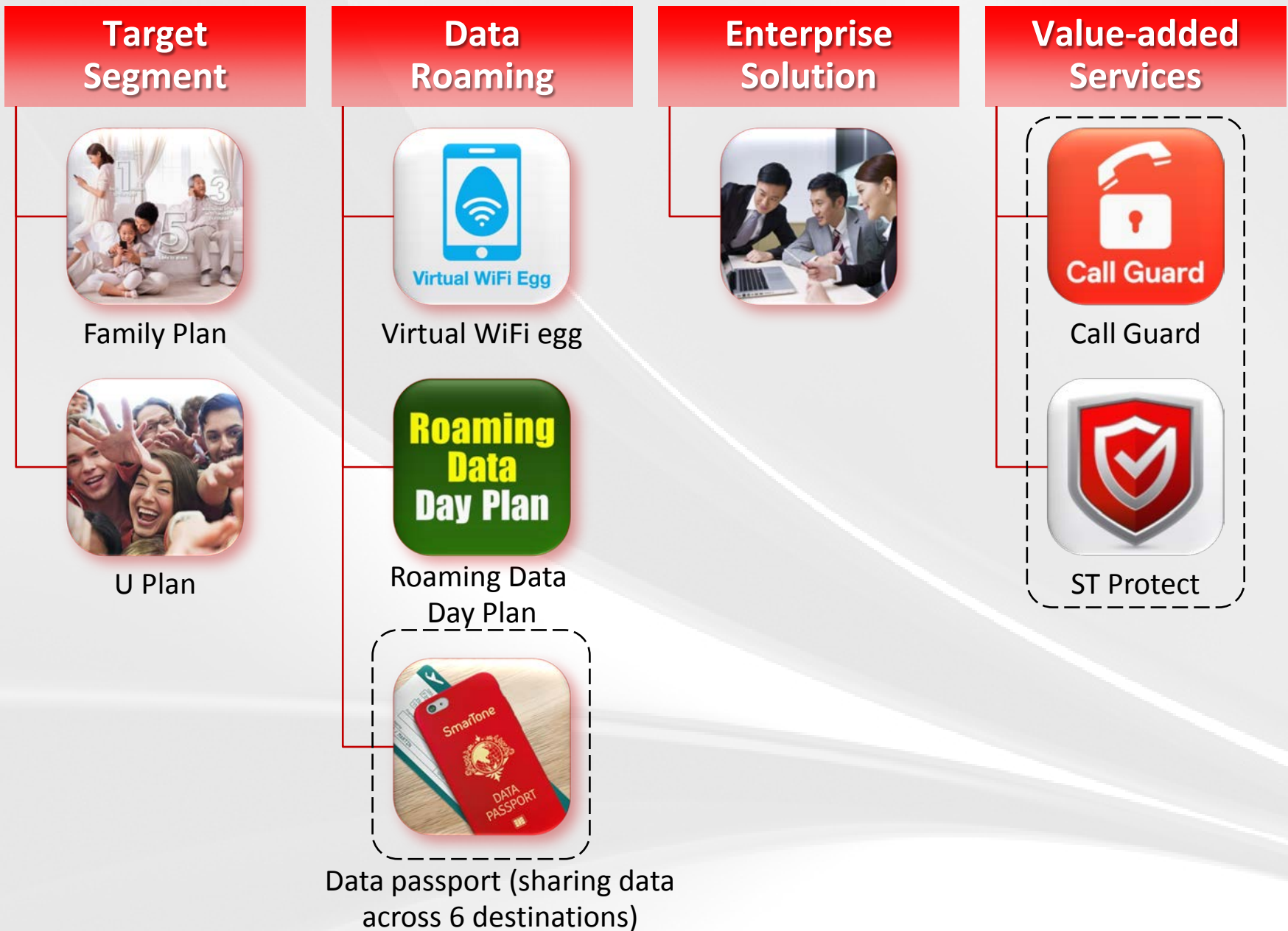
- Increasing uncertainty in the macroeconomic environment
- Mobile industry in Hong Kong remains intensely competitive
- Tough operating environment
  - Monetising the increasing demand for data services
  - Shrinking scale of wholesale handset business
  - Migration to OTT services impacting voice roaming revenues
  - Rising spectrum costs
- This is expected to put pressure on 2H FY17 profitability

# Actions to drive growth

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- Focus on core mobile service business
  - increase share of target segments
  - increase usage of services (e.g. roaming and value-added services)
- Expand and explore income streams
  - e.g. enterprise solutions and new services
- Accelerate the digitalisation of customer journey
  - enhance online customer experience
  - drive more sales through online channels
- Maintain vigilant control over OPEX and CAPEX
- Reinforce brand proposition through
  - excellent customer service and loyalty programs
  - technology leadership

# Targeted products to meet customer needs



# Our flagship loyalty programs get better and better



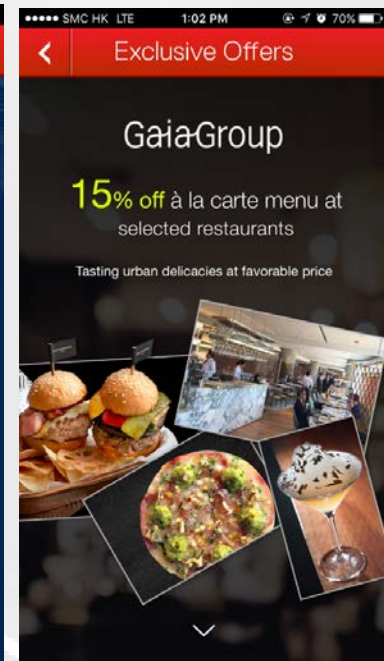
## Birthday Gift



## Workshops / Events



## Exclusive Offers

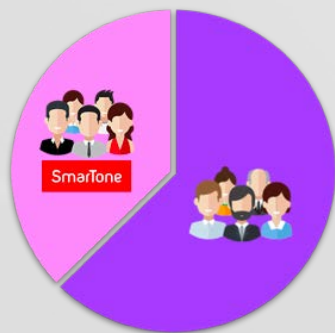




# Digitalisation - Enhance customer experience & drive sales

## Online Store

  
[shop.smartone.com](http://shop.smartone.com)



Non-SmarTone customers

## Social Media

 **372K fans**  
No.1 among HK operators



## Self-serve App



Available on the  
 **App Store**

ANDROID APP ON  
 **Google play**



# New network campaign launch to enhance brand strength

- 4.5G powerful network enables a faster, smoother and more stable mobile experience



4.5G 是什麼？



4.5G 其實是 4G 的進化版，是基於 4G 網絡演進而成，主要是 5G 網絡前的一個技術名稱，而 4.5G 技術中，只有 3CC 載波聚合及 4x4 MIMO 或以上，256QAM 三大技術組成，就可以稱之為 4.5G。4G 與 4.5G 兩者分別，已不再是在網絡速度的分別，而是在穩定性及頻寬上的分別，而且現時無論在手機及網絡上都有電能消耗問題，就算下載速度高達 300 至 400 Mbps 又如何？用戶平時最多都只能用 10 幾 Mbps 的網速，所以如果在 4.5G 講什麼理論速度，都真係「Out」！

# Investing to strengthen technology leadership

- First 5G technology demo in Hong Kong
- SmarTone Ericsson Innovation Hub
  - fosters cross industry collaboration to usher in a new era of mobile possibilities
  - facilitates 5G use cases and application development in IoT and cloud



## TECHNOLOGY

### SmarTone, Ericsson team up for 5G innovation hub

Zen Soo  
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Telecommunications operator SmarTone and Ericsson will partner to develop a mobile technology innovation hub to drive innovation for 5G applications in various industries, the companies said yesterday while showcasing Hong Kong's first demo of the high-speed network.

5G, defined as the fifth generation of wireless mobile technology, is widely expected to be between 5 to 20 times faster than current 4G mobile networks, allowing users to download a high-definition movie over a mobile network within seconds.

The technology is also touted to support up to 1 million connections per square kilometre, with extremely low latency rate of 1 millisecond or less.

SmarTone and Ericsson demonstrated the technology using a 5G base station, a next-generation antenna and a test mobile phone.

phen Chau, the chief technology officer of SmarTone.

"5G will bring much faster, better and homogenous mobile connectivity and mobile broadband. Today we watch videos with our mobile phones, but with 5G, we could enjoy rich media like augmented and virtual reality applications [through mobile networks]."

The advent of 5G will allow for a range of different applications, according to SmarTone.

Possible uses include allowing humans to control machines remotely in real-time thanks to the low latency.

Such applications could allow surgeons to conduct operations remotely using robots, or allow miners to conduct mining operations by remotely controlling machines underground.

SmarTone and Ericsson's innovation hub for mobile technology in Hong Kong will be ready by the middle of this year, Chau said. Companies interested in exploring how 5G technology can be

# Urgent need to accelerate spectrum supply

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- SmarTone urges the Government to
  - Accelerate the supply of more spectrum to the market
  - Provide a clear spectrum supply roadmap
- Lack of supply and roadmap will hamper industry planning efforts
- Risk that HK falls behind other regional telecommunications markets on the path to 5G
- We look forward to working closely with the Government on the issue

# Summary

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- Challenges to continue – increasing pressure on 2H FY17 profitability
- Proactively addressing market shifts
  - Strengthen business fundamentals and take concrete actions to expand and explore new income streams for long-term growth
- Continue to build on brand, underpinned by excellent customer service and technology leadership
- Work with the Government to accelerate spectrum supply
- Well placed to meet challenges and capture growth opportunities

# Q&A

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# Appendix –

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## *Financial Information*



# Group Profit & Loss

(\$m)	1H FY16	2H FY16	1H FY17
<b>Revenues</b>	<b>10,228</b>	<b>8,127</b>	<b>5,372</b>
Cost of inventories sold	(7,404)	(5,391)	(2,655)
Staff costs	(351)	(371)	(372)
Other operating expenses	(1,096)	(1,083)	(1,096)
<b>EBITDA</b>	<b>1,377</b>	<b>1,283</b>	<b>1,249</b>
Depreciation, amortisation & disposal	(791)	(765)	(721)
<b>EBIT</b>	<b>587</b>	<b>518</b>	<b>527</b>
Net finance costs	(100)	(42)	(41)
Profit before income tax	486	476	486
Income tax expense	(87)	(88)	(97)
Profit after income tax	399	388	389
Non-controlling interests	4	6	4
<b>Net profit</b>	<b>403</b>	<b>394</b>	<b>393</b>
ROCE <sup>(1)</sup>	16%	14%	14%
ROE <sup>(2)</sup>	21%	19%	18%

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

(2) Net profit / Average shareholders' equity

# Group Balance Sheet

(\$m)	Jun 16	Dec 16
Fixed assets	3,236	3,055
Held-to-maturity debt securities <sup>(1)</sup>	870	829
Intangible assets	1,757	3,860
Other non-current assets	136	126
Cash & bank balances <sup>(1)</sup>	3,242	849
Other current assets	1,162	1,085
Bank borrowings <sup>(1)</sup>	(1,320)	(1,258)
Notes payable <sup>(1)</sup>	(1,530)	(1,531)
Customer prepayments and deposits	(400)	(327)
Other current liabilities	(2,411)	(1,831)
Other non-current liabilities	(378)	(356)
<b>Net assets</b>	<b>4,364</b>	<b>4,500</b>
Share capital	108	109
Reserves	4,209	4,348
Total equity attributable to equity holders	4,317	4,457
Non-controlling interests	47	43
<b>Total equity</b>	<b>4,364</b>	<b>4,500</b>
<sup>(1)</sup> <i>Cash &amp; bank balances</i>	3,242	849
<i>Held-to-maturity debt securities</i>	870	829
<i>Bank Borrowings</i>	(1,320)	(1,258)
<i>Notes payable</i>	(1,530)	(1,531)
<i>Net cash / (debt) balance</i>	1,262	(1,110)
<sup>(2)</sup> <i>Shares in issue at balance sheet date (million)</i>	1,081	1,091
<sup>(3)</sup> <i>Net book value per share</i>	\$4.0	\$4.1



**SmarTone**

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