

SmarTone Telecommunications Holdings Limited

FY18 Annual Results Presentation

For the year ended 30 June 2018

5 September 2018

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Agenda

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

Overview

Anna Yip

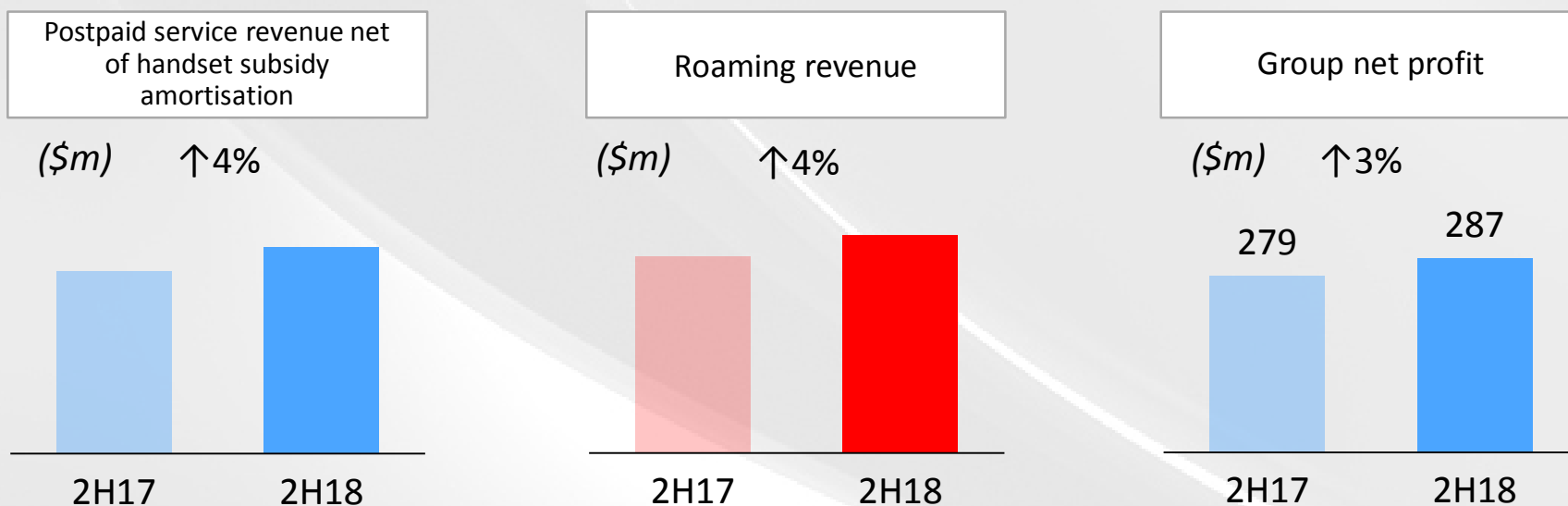
Chief Executive Officer

Core postpaid business stable despite intense competition

- Customer base up 16% to 2.39m; churn rate at industry low of 0.8%
- Postpaid service revenue net of handset subsidy amortisation grew 2%
- Roaming revenue registered growth for the first time in recent years
- Group net profit decreased 8% on full-year basis to \$615m
 - Weakness in prepaid segment
 - Increase in costs, including spectrum fee amortisation
- Final dividend at 23 cents, in line with 75% payout dividend policy

2H year-on-year comparison

Year-on-year improvement in 2H 18



Focus on driving growth amid intensifying competition

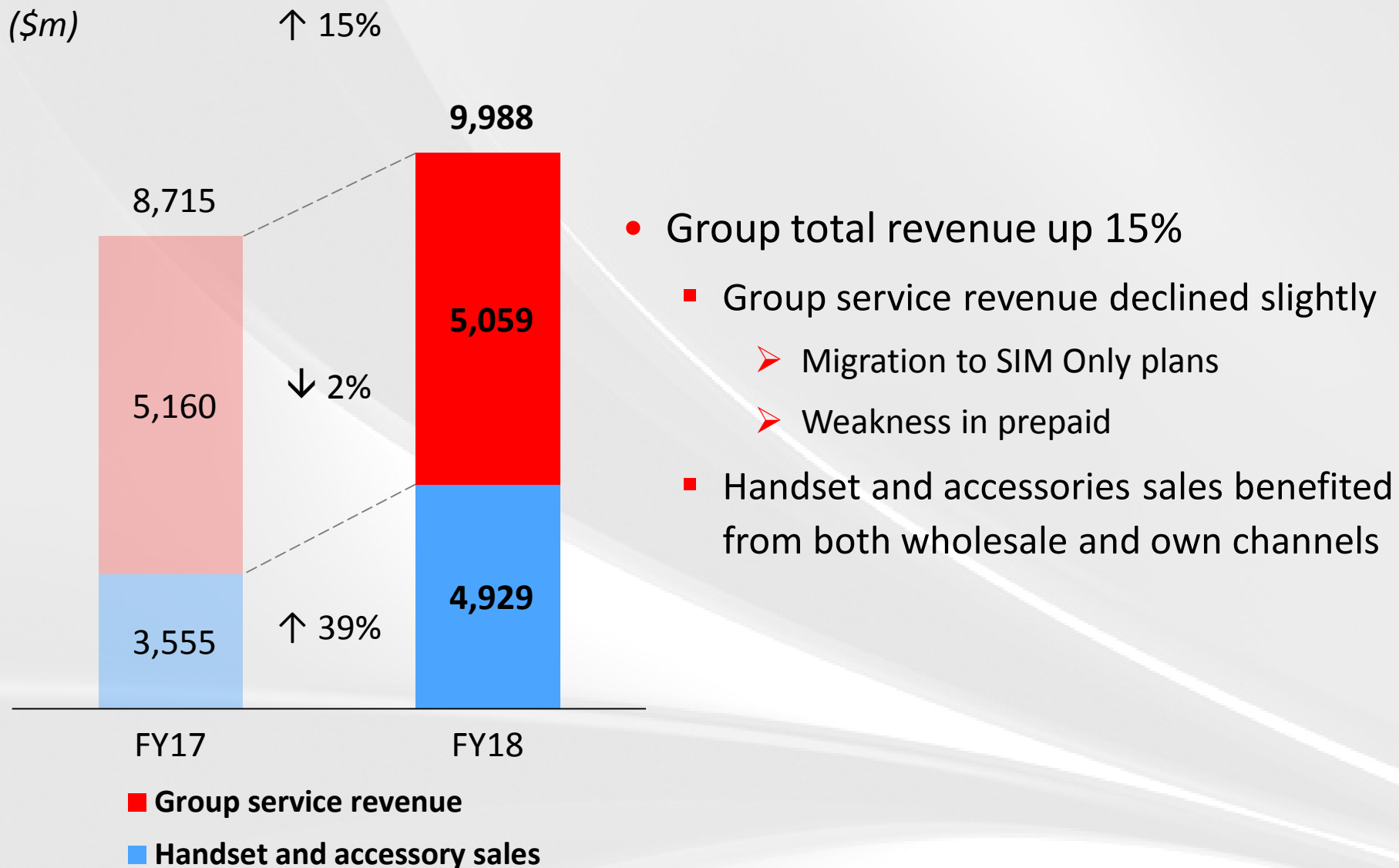
- Maintain growth momentum in core postpaid business
- Aggressively pursue growth in Enterprise Solutions
- Build up Birdie as the preferred brand of the millennials
- Deepen digitalisation to improve customer experience and productivity
- Develop business ecosystems and IoT platforms for 5G

Financial review

Patrick Chan

Chief Financial Officer

Growth in group total revenue

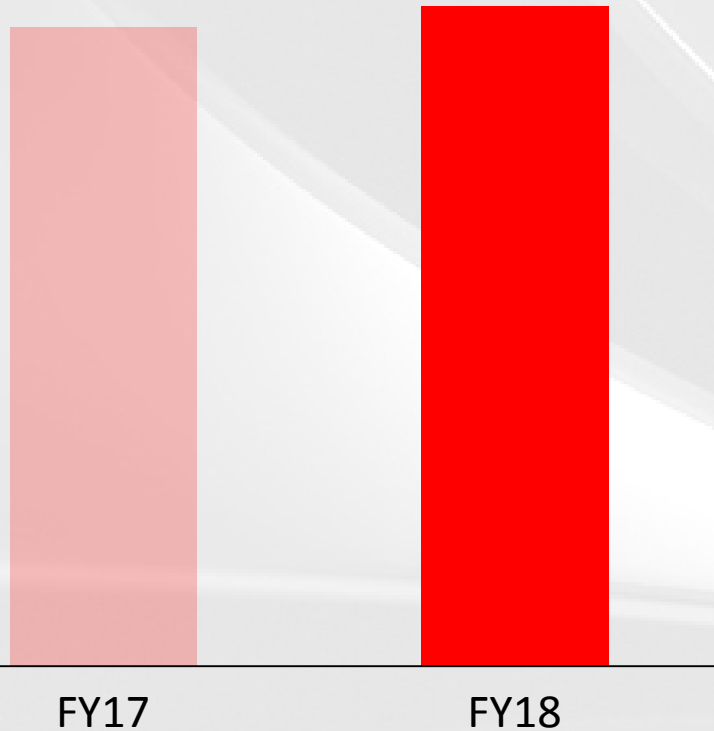


Stable core postpaid business

Postpaid service revenue net
of handset subsidy amortisation

(\$m)

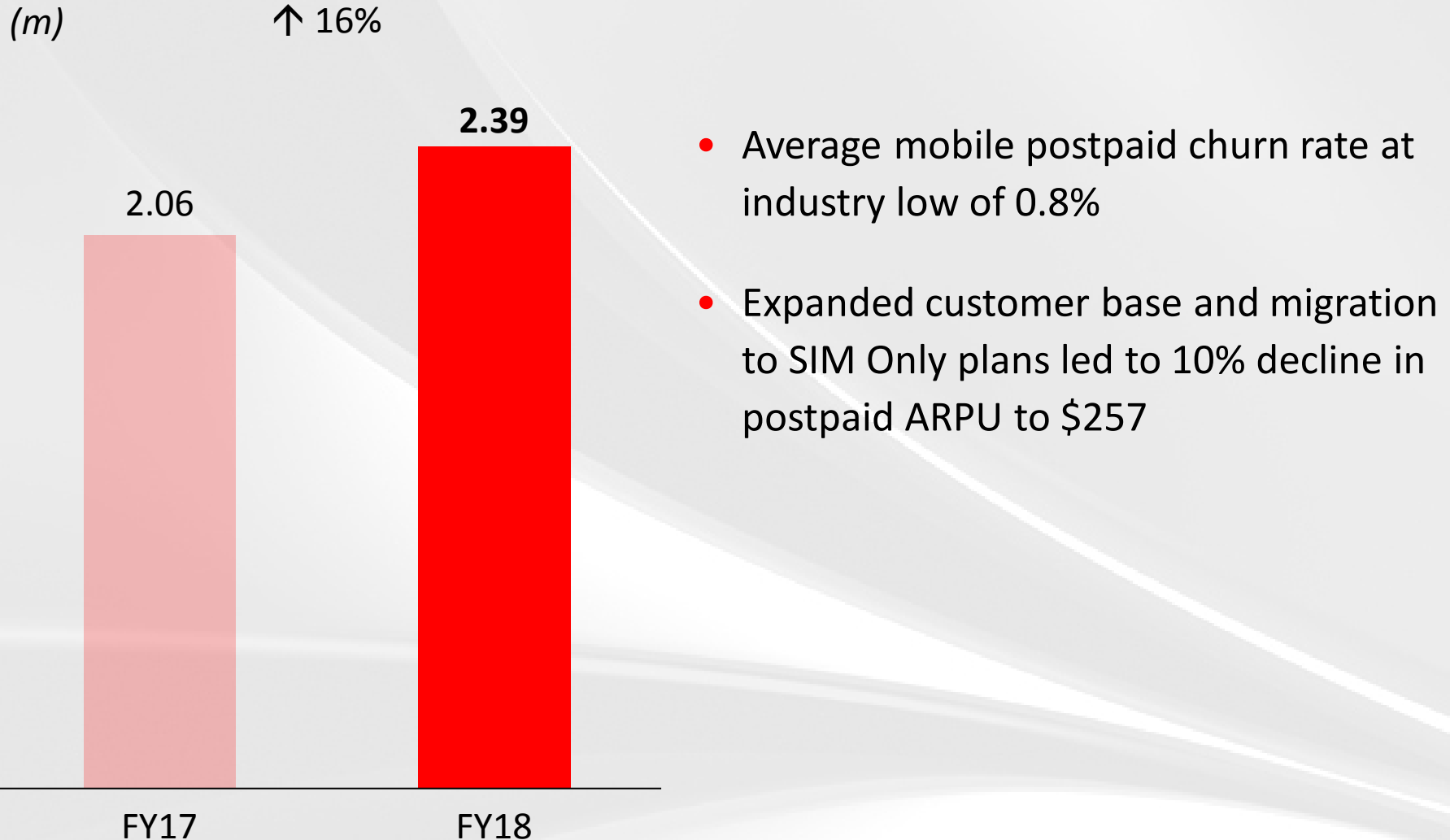
↑2%



- Core postpaid business has remained resilient
 - Retention of high-value customers
 - Customer number growth

Continued growth in customer number despite fierce competition

Hong Kong customer number



Improvement in handset business

Handset and accessory sales

(\$m)

↑ 39%

3,555

4,929

FY17

FY18

- Increased sales through own channels with better margins

Handset and accessory sales EBIT

(\$m)

↑ 22%

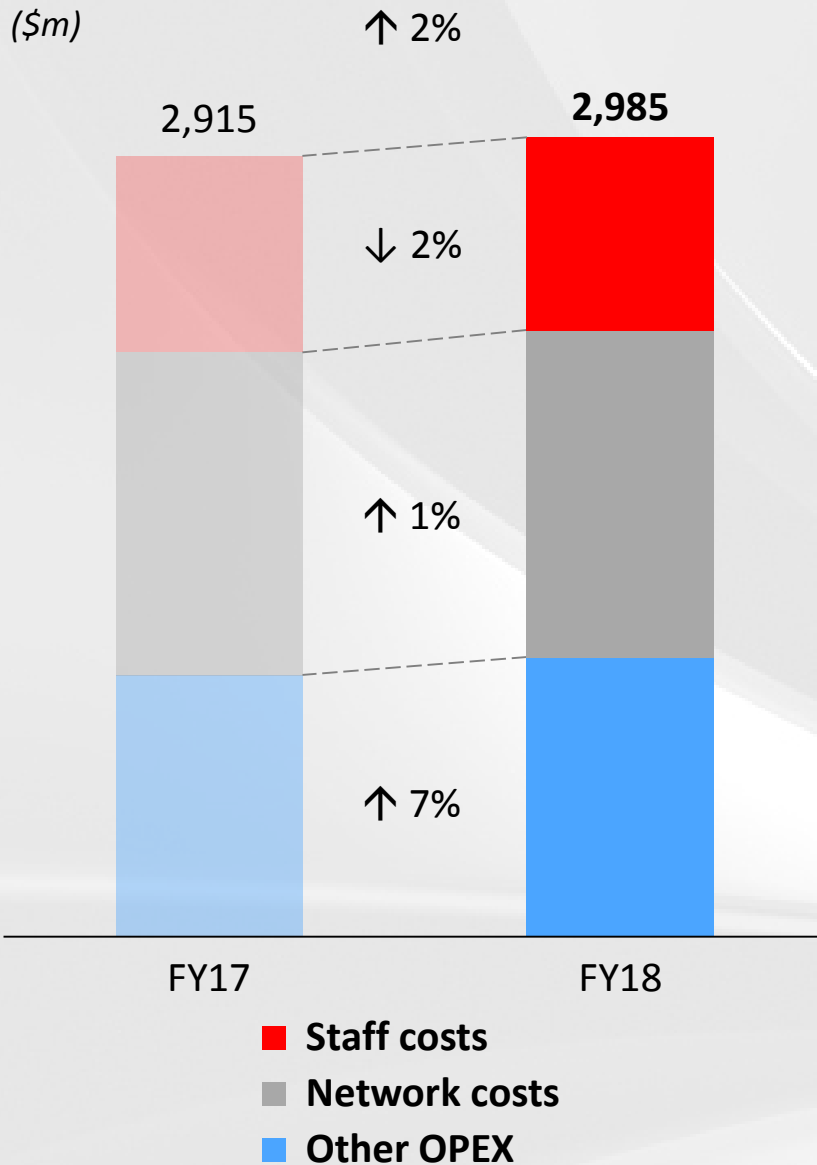
51

62

FY17

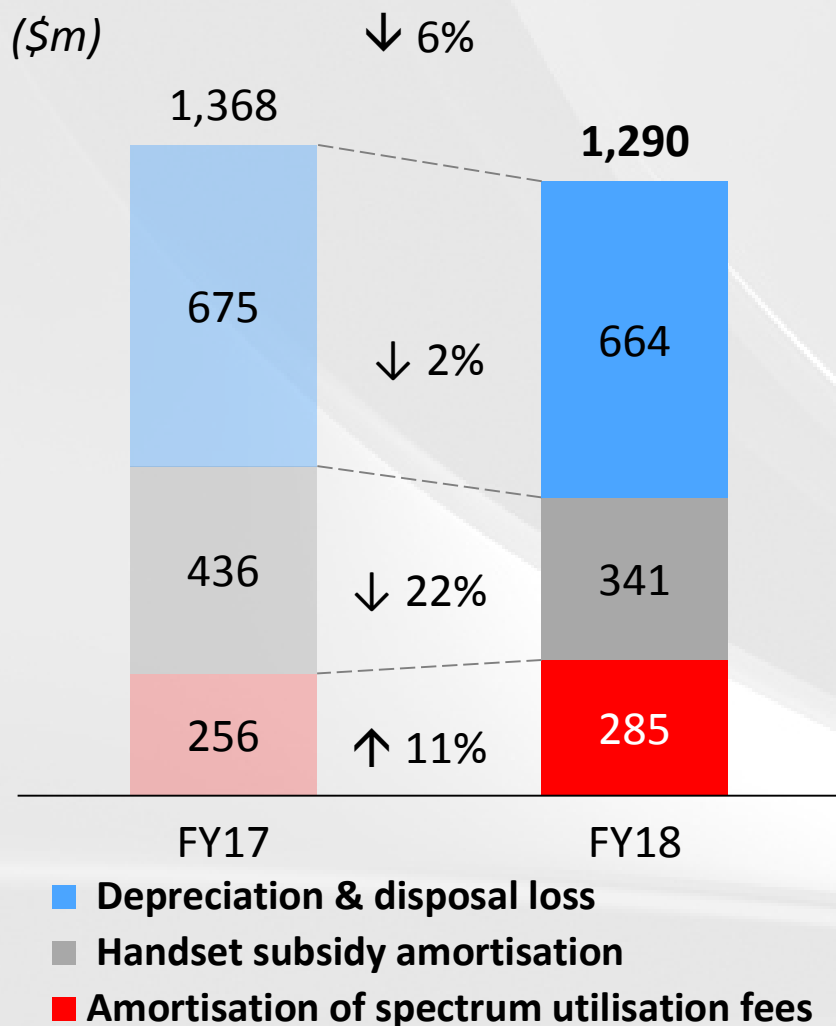
FY18

OPEX under control while expanding customer base



- Staff costs down 2%
- Network costs up 1% with 16% increase in customer number
- Other OPEX increased 7% - Cost of services & new launches

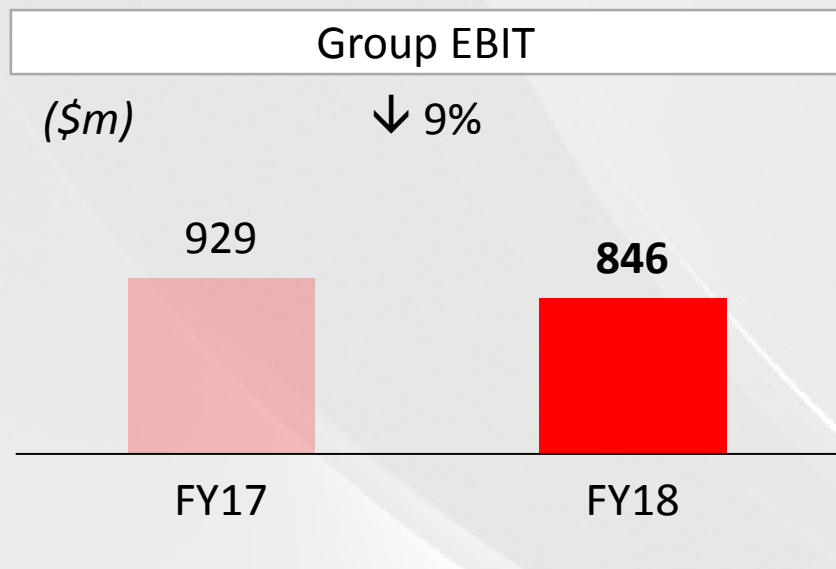
Reduction in depreciation and amortisation



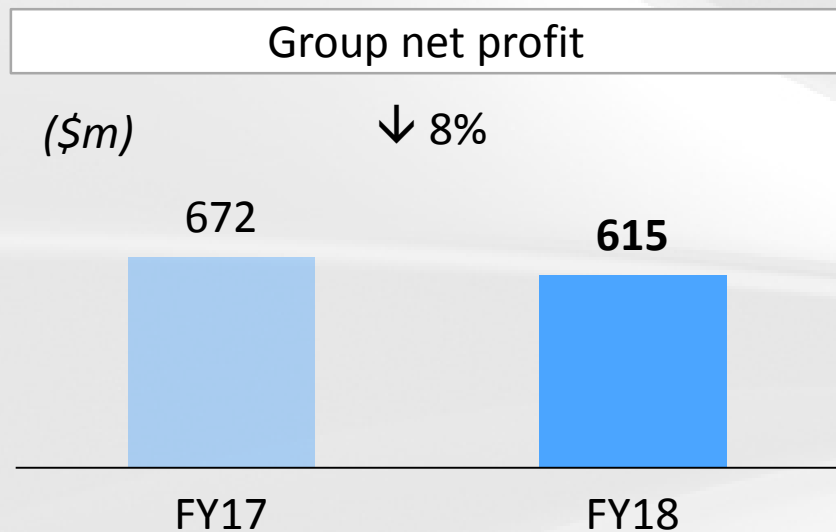
Savings in handset subsidy amortisation partly offset by higher spectrum fee

- Fixed asset depreciation declined 2%
- Handset subsidy amortisation declined 22% due to migration to SIM Only plans
- Higher spectrum fee reflects full year impact of 2100MHz spectrum renewal

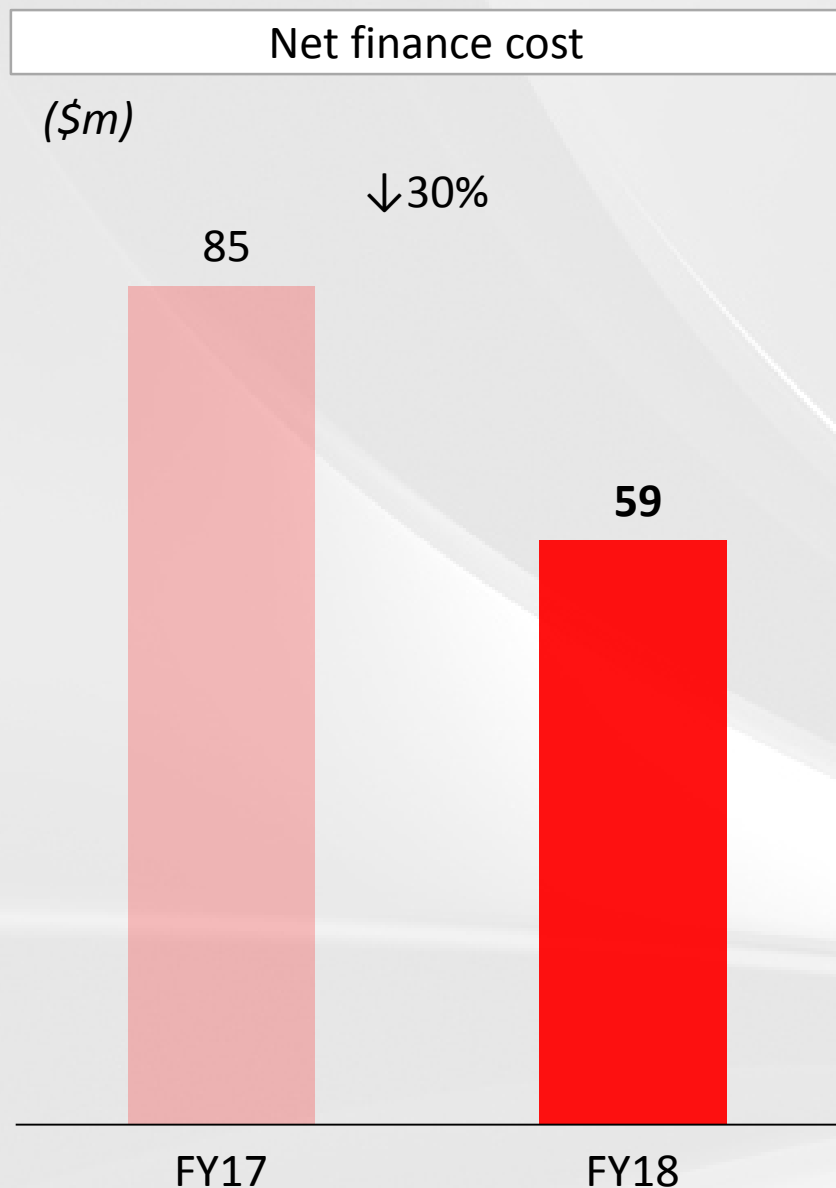
Group EBIT and net profit



- While postpaid business was stable, profitability was affected by:
 - Weakness in prepaid
 - Increase in costs, including spectrum fee amortisation



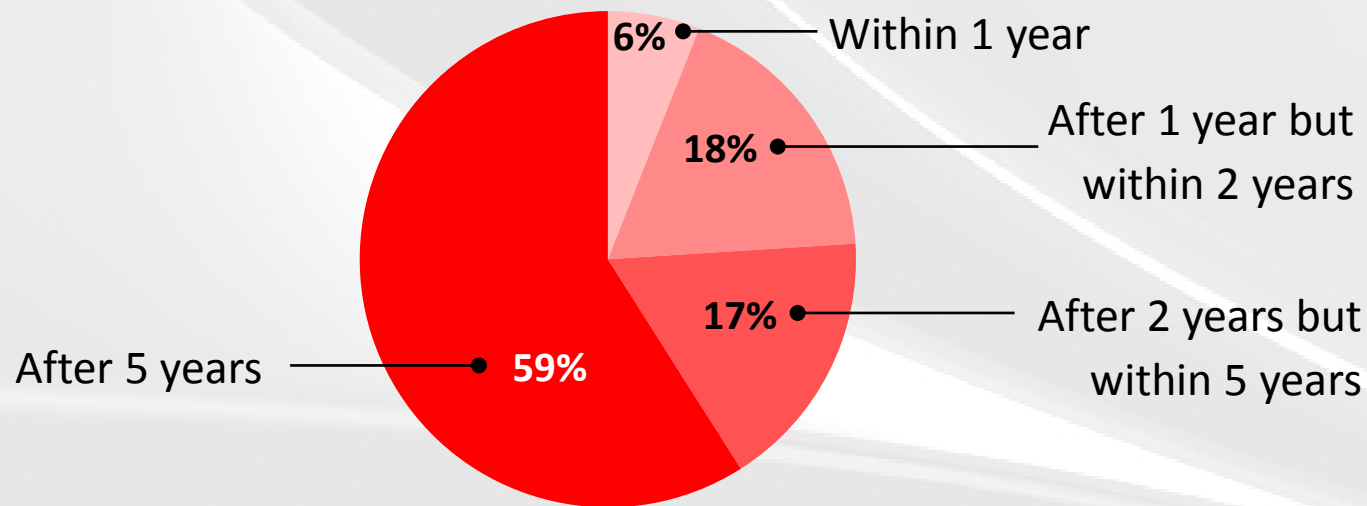
Lower net finance cost against rising interest rates



- Benefitting from high proportion of fixed rate debt (79% : 21%)
- Increased interest income from higher deposit rates
- Lower spectrum utilisation fee-related accretion expense

Strong balance sheet with healthy debt maturity profile

- Strong balance sheet
 - Zero net-debt
 - Over \$2.3b in cash resources & bonds
- Healthy debt maturity profile as ~60% of debt repayable after 5 years



Business Review

Anna Yip

Chief Executive Officer

Expanded market share amid intense competition

*Brand
5S Powerful
Network*

*Enterprise
Solutions
Accelerating
momentum*

SmarTone



*Hong Kong-first
all-digital brand*

*Digitalisation
Customer
experience and
productivity*

Enhanced customer loyalty through brand campaigns and customer engagement



Branding: 5S Campaign

- Lead on “Fast, Stable, Smooth” network quality⁽¹⁾⁽²⁾
- Most preferred brand⁽¹⁾⁽²⁾
- Best reception in MTR⁽¹⁾⁽²⁾

Revamped Loyalty Program

- Highest satisfaction loyalty program in the industry⁽²⁾
- Continue to enhance lifestyle offers



Excellent Customer Services



Customer Service Excellence

- Strive for highest level of service standard at all customer touchpoints

⁽¹⁾ Amongst high ARPU segment

⁽²⁾ Source: Brand Health Tracking Study by independent market research company Feb-Apr 2018

Enhanced customer experience from access to fully digitalised channels

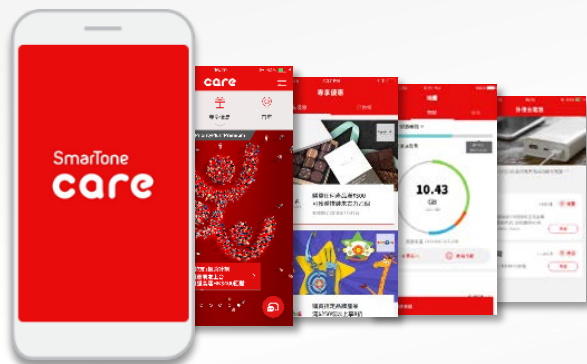


Award-winning **Online Store**

- Full sales and service channel
- Transactions doubled year-on-year

Retail **Digitalisation**

- Set new standard in O2O customer journey
- Digital upgrade of retail footprint by phase



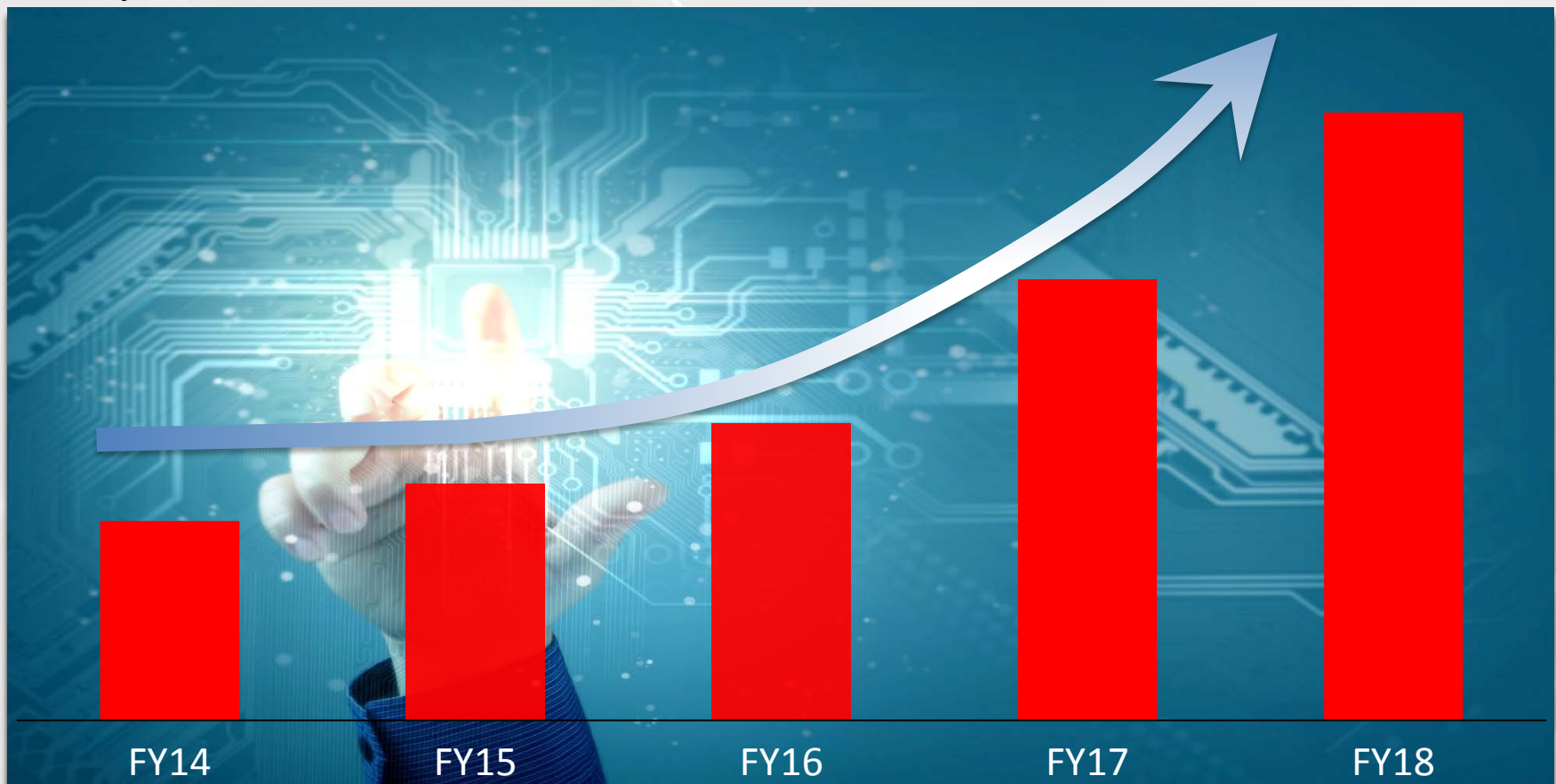
SmarTone CARE app

- Leading-edge digital platform with loyalty & customer care in one
- Industry-first features: biometric login, subscription and recontract, remote queuing

















Strong growth in Enterprise Solutions business

- Robust and accelerating growth
- Broad portfolio of industry-specific applications
- Increasing proliferation of IoT and corporate digitalisation drive

Enterprise Solutions revenue



Portfolio of applications to cater for various industries

Solution Suites		Industry	
	SmartWorks		Construction
	SmartBuilding		Facility management
	SmartEvent		Event management
	SmartHealth		Nursing homes & clinics
	SmartHome / SmartHotel		Hospitality
	SmartAnalytics		Retail, property management, transportation
	SmarTeam		Property management
	SmarTrack		Logistic & transportation

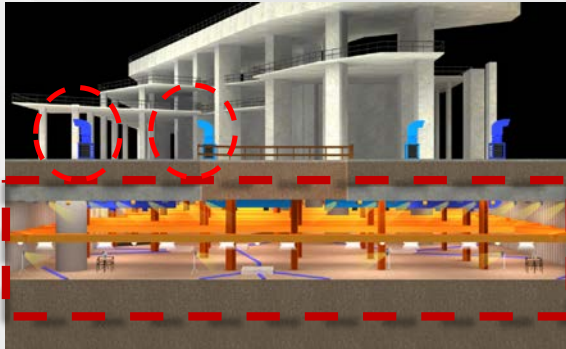
Solutions for the construction and car industries

SmartWorks for one of Hong Kong's largest construction companies

Significantly improving construction site safety

- Location of individual workers
- Monitoring of workers' vital health signs
- Alert requests for medical emergency help

Real-time location of workers



Connected car for a global electric car brand

Delivering innovative solutions to enhance efficacy of maintenance and driver experience

- Remote monitoring of vehicle performance
- Over-the-air software updates to minimise off-road maintenance time
- Latest infotainment updates



Solutions for the logistics and hospitality industries

SmartTrack for a global logistics company

Increased customer satisfaction and operational efficiency

- Instant parcel tracking down to street level
- Real-time fleet resources optimisation

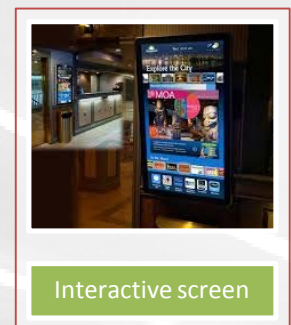
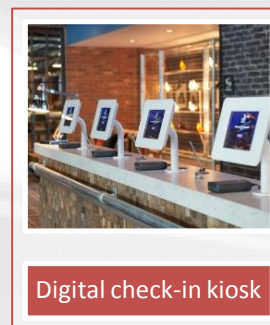
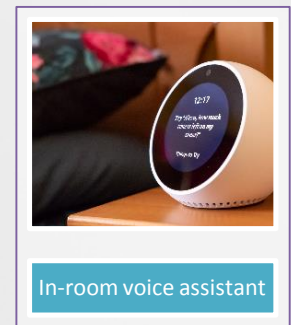
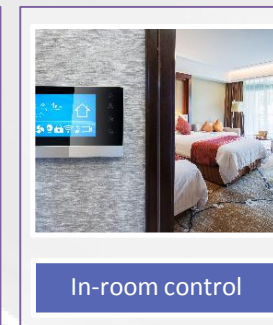
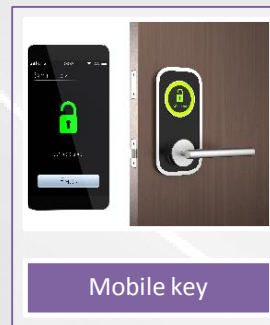


SmartHotel for a leading hotel group

Engaging guests before arrival and throughout their stay



- Communication with guests prior to arrival
- Digital check-in
- Mobile room key



Birdie – Hong Kong's first all-digital mobile brand



- Sharing community for Millennials



Data P2P



Member get
member



Member help
member forum



Birdie Friday

- Online-to-Offline partnership strategy



Birdie Travel – for the new-age roamer

- Over **1M** day passes sold since launch
- App Store rating : **4.7/5**★
- Awards and recognition



「最受歡迎漫遊卡」



Best E-Commerce App &
Best App Bronze
(Hospitality and Travel)



「創新外遊流動通訊
服務品牌」



Priorities for coming year

- Maintain momentum in customer growth in both core and digital brands
- Accelerate growth in Enterprise Solutions
- Continue digitalisation to improve customer experience and productivity
- Develop business ecosystems and IoT platforms for 5G

5G will enable a plethora of new business applications



Source: Qualcomm

- First in Hong Kong to conduct 5G technology trial in Jan 2017
- Field trials on 3.5GHz and 26/28GHz in Q4 2018

Our perspective on 5G spectrum allocation

- Government's efforts to expedite release of 5G spectrum is welcomed
- However, spectrum available in 2019 is not for territory wide coverage
- SmarTone urges the Government to
 - Release additional low frequency band spectrum (e.g. 700MHz, 3.5GHz)
 - Resolve 3.5GHz restriction zone issue (e.g. Tai Po, Shatin & Ma On Shan)

Spectrum availability

Band	3.3GHz	3.5GHz	4.9GHz	26/28GHz
Amount	100MHz	200MHz	100MHz	4100MHz
Earliest use	Q3 2019	Q2 2020	Q3 2019	Q2 2019
Application	Indoor only	Territory wide (ex. restriction zones)	Territory wide	Traffic hotspots

Q&A

Appendix –

Financial Information

Group Profit & Loss

(\$m)	FY17	FY18
Revenues	8,715	9,988
Cost of inventories sold	(3,504)	(4,867)
Staff costs	(733)	(720)
Other operating expenses	(2,182)	(2,265)
EBITDA	2,296	2,136
Depreciation, amortisation & disposal	(1,368)	(1,290)
EBIT	929	846
Net finance costs	(85)	(59)
Profit before income tax	843	787
Income tax expense	(177)	(180)
Profit after income tax	666	607
Non-controlling interests	6	8
Net profit	672	615
ROCE ⁽¹⁾	12%	11%
ROE ⁽²⁾	15%	13%

(1) $ROCE = EBIT / \text{Average capital employed (total assets less current liabilities)}$

(2) $\text{Net profit} / \text{Average shareholders' equity}$

Group Balance Sheet

(\$m)	Jun 17	Jun 18
Fixed assets	3,072	2,971
Held-to-maturity debt securities ⁽¹⁾	712	567
Intangible assets	3,631	3,517
Other non-current assets	109	134
Cash & bank balances ⁽¹⁾	1,274	1,828
Other current assets	978	1,002
Bank borrowings ⁽¹⁾	(1,148)	(1,018)
Notes payable ⁽¹⁾	(1,543)	(1,413)
Customer prepayments and deposits	(271)	(345)
Other current liabilities	(1,827)	(2,114)
Other non-current liabilities	(352)	(297)
Net assets	4,634	4,832
Share capital	111	112
Reserves	4,483	4,687
Total equity attributable to equity holders	4,594	4,799
Non-controlling interests	41	33
Total equity	4,634	4,832
⁽¹⁾ <i>Cash & bank balances</i>	1,274	1,828
<i>Held-to-maturity debt securities</i>	712	567
<i>Bank Borrowings</i>	(1,148)	(1,018)
<i>Notes payable</i>	(1,543)	(1,413)
<i>Net cash debt balance</i>	(705)	(36)
⁽²⁾ <i>Shares in issue at balance sheet date (million)</i>	1,106	1,124
⁽³⁾ <i>Net book value per share</i>	\$4.2	\$4.3

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SmarTone