

# **SmarTone Telecommunications Holdings Limited**

## **FY18 Interim Results Presentation**

*For the six months ended 31 December 2017*

13 February 2018

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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*

# Resilient postpaid service business amid challenging market

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- Market has witnessed intensified competition
- Resilient core service business underpinned by customer-centric strategy
  - Customer base up 10% YoY to 2.2m; churn rate at a low of 0.8%
  - Postpaid service revenue net of handset subsidy amortisation stable YoY and up 3% HoH
- Group net profit declined 17% YoY to \$328m as several factors impacted profitability
  - Increase in amortisation of spectrum utilisation fee
  - Lower handset and accessories sales
  - Structural decline in roaming business
- Group net profit increased 18% HoH
- Interim dividend at 18 cents, in line with 75% payout dividend policy

## Key focus to drive growth in the medium-term

- Industry challenges expected to continue
  - Pricing pressure from the intense competitive environment
  - Structural change in the handset business
  - Ongoing decline in voice roaming revenues
- Reinforce customer-centric strategy to drive differentiation and expand customer base
  - Technology leadership and Powerful Network
  - Investment in high growth areas (e.g. Enterprise Solutions business, all-digital self-service brand - Birdie Mobile)
  - Continuous productivity drive

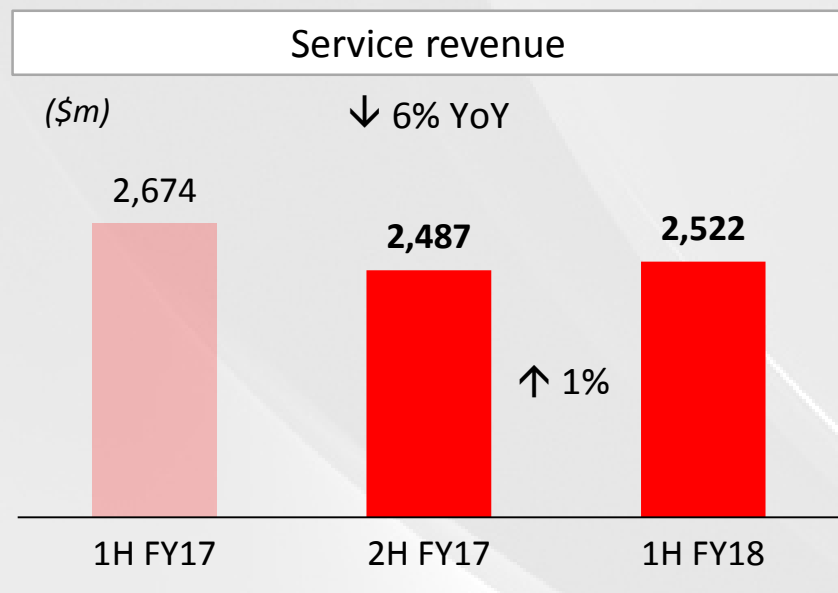
# Financial review

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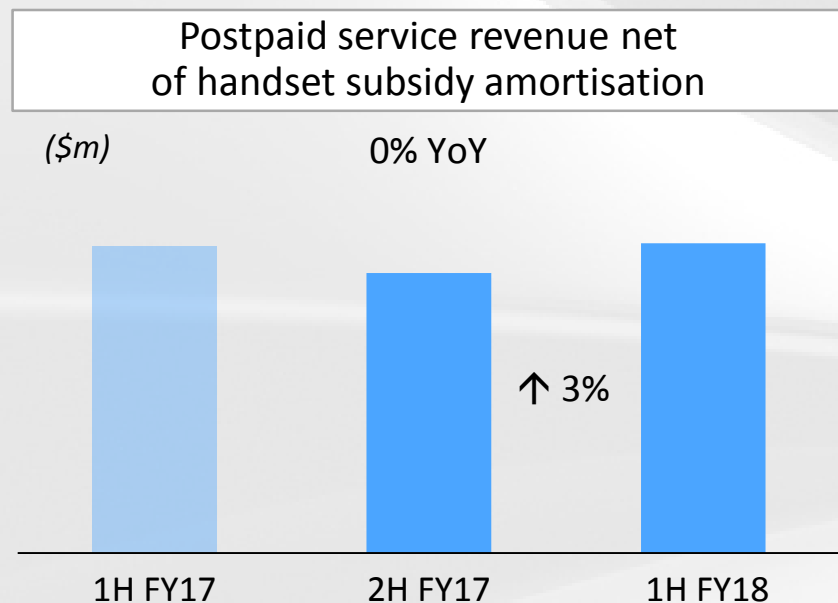
***Patrick Chan***

*Chief Financial Officer*

# Stable core postpaid service business



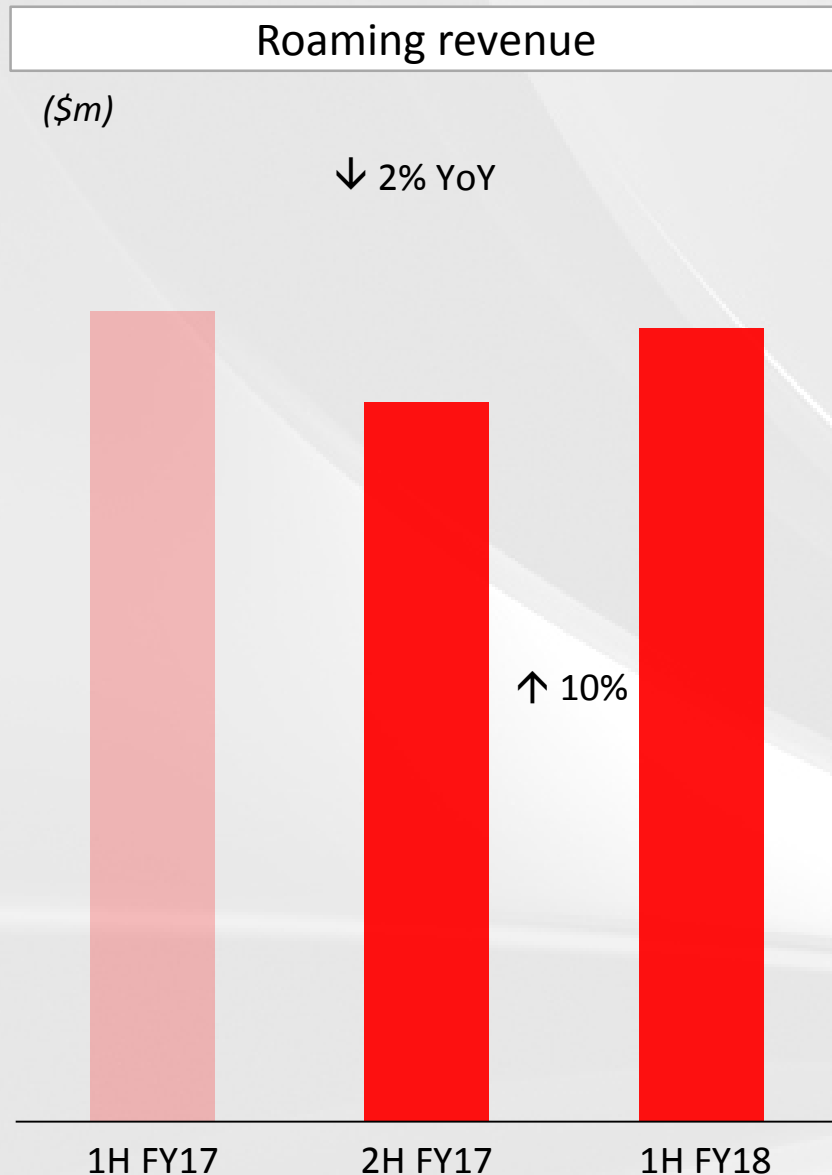
- Service revenue affected by continuous migration to SIM Only plans



- Despite worsening competition in 1H FY18, underlying postpaid service was
  - Up 3% HoH
  - Stable YoY

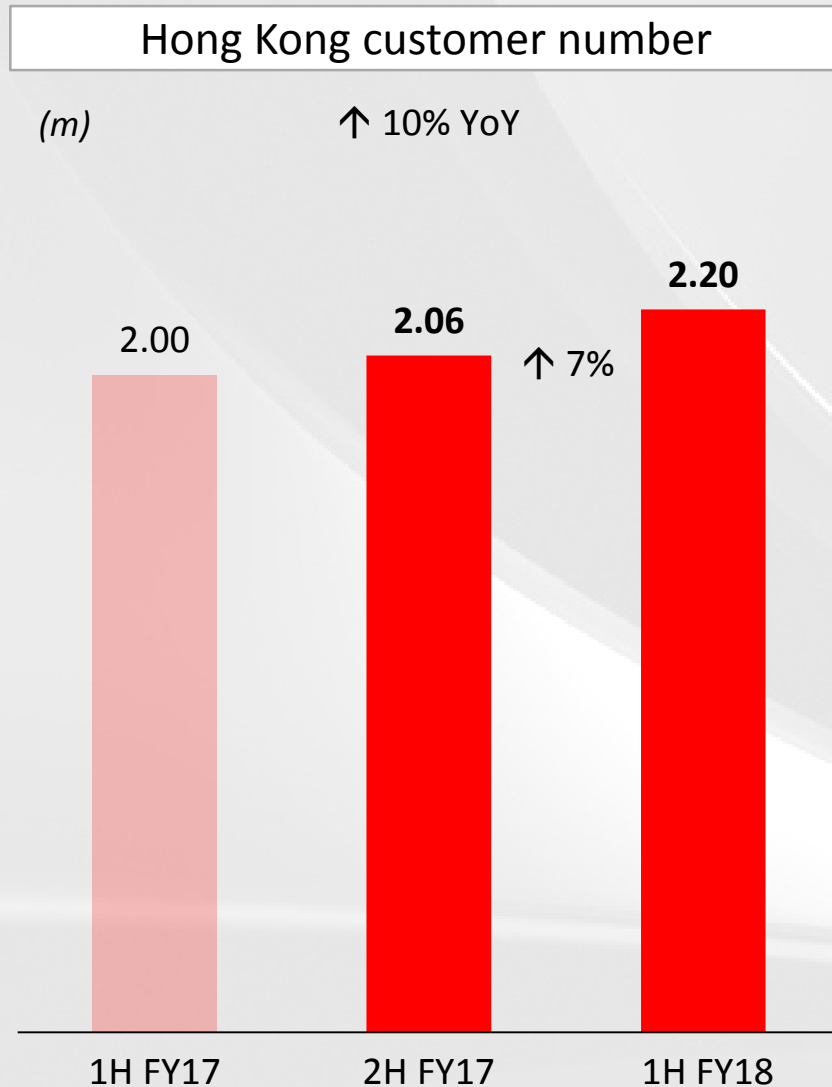


# Encouraging growth in data roaming



- Roaming revenue decreased 2% YoY
  - Healthy growth in data roaming largely offset decline in voice
- Roaming revenue increased 10% HoH
  - Significant improvement compared to HoH growth in 1H17

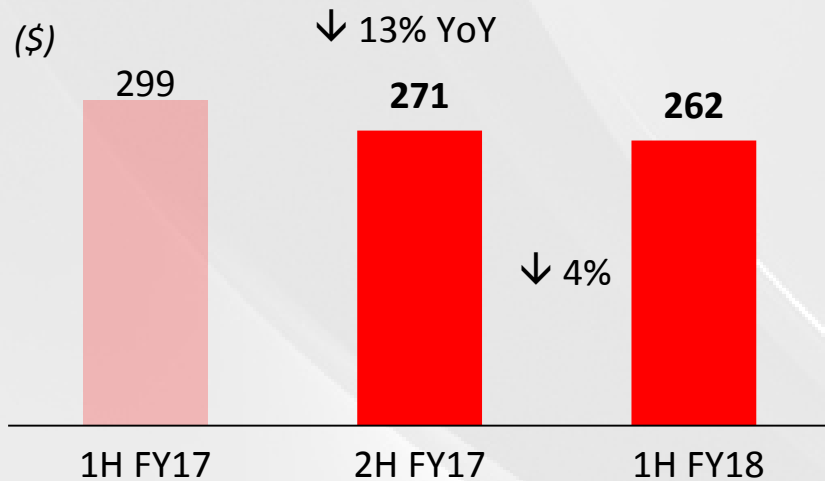
## Strong customer number growth in a mature and competitive market



- Total customer no. grew to 2.2m, +10% YoY
- Average mobile postpaid churn rate at a low of 0.8%

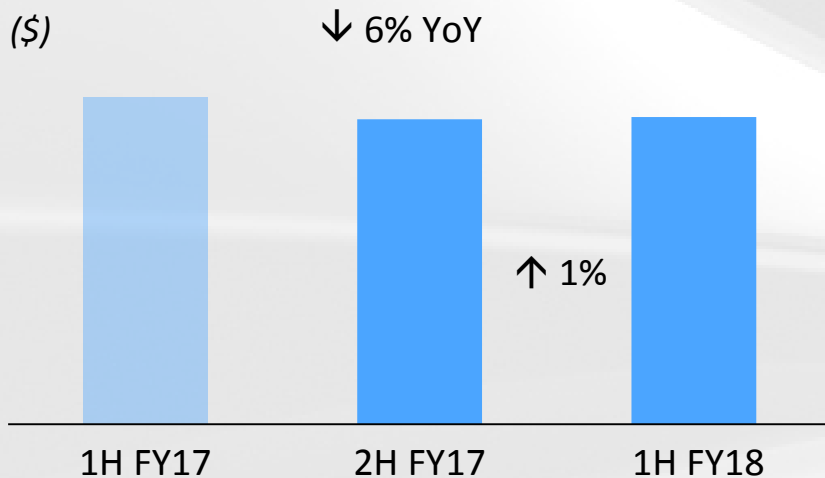
# Industry leading ARPU

## Mobile postpaid ARPU



- Mobile postpaid ARPU decreased 4% HoH
  - Migration to SIM only
  - Dilution from growth in customer base

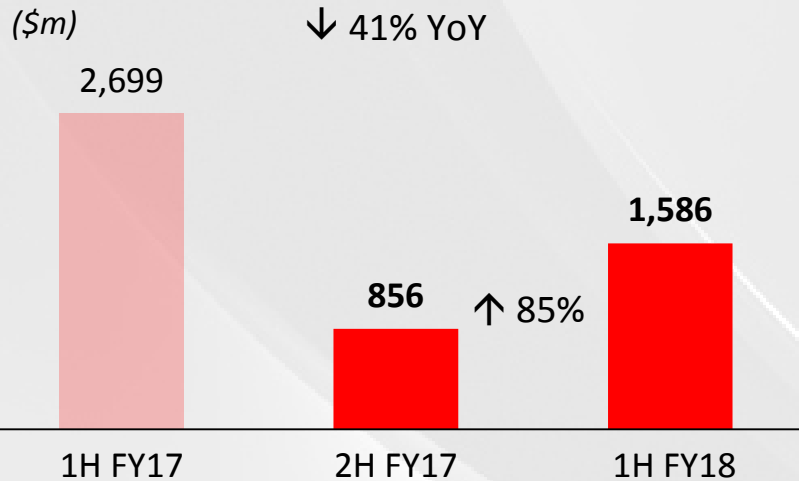
## Mobile postpaid ARPU (ex. MVNO)



- Excluding MVNO business, mobile postpaid ARPU increased 1% HoH

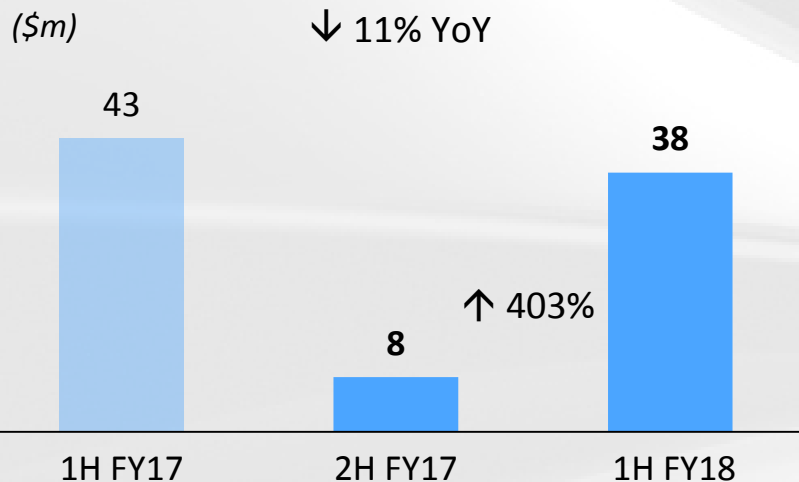
# Structural decline in handset business

## Handset and accessory sales

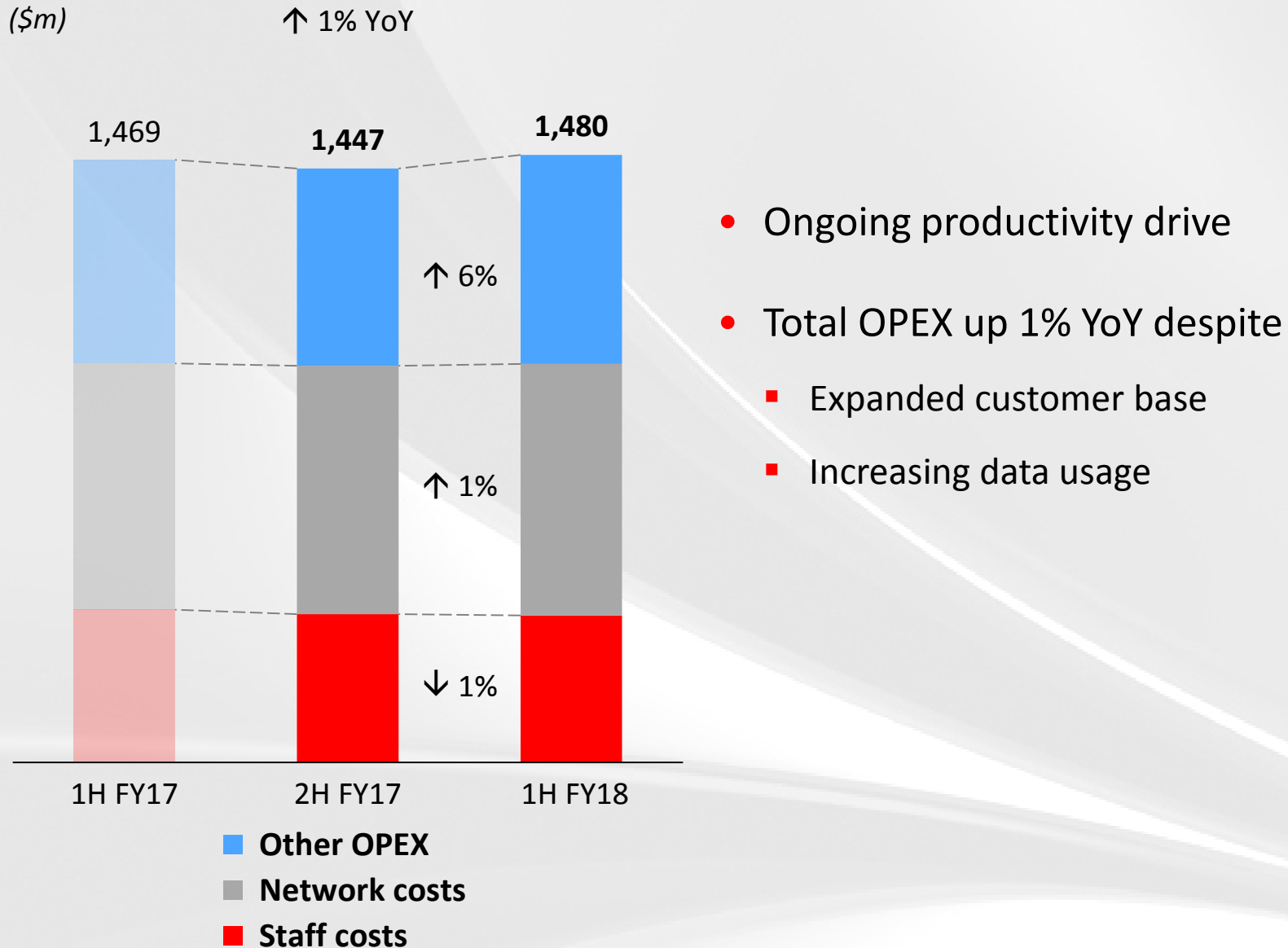


- Customers' lengthening handset replacement cycle
- Higher margin partially offset lower handset business revenue

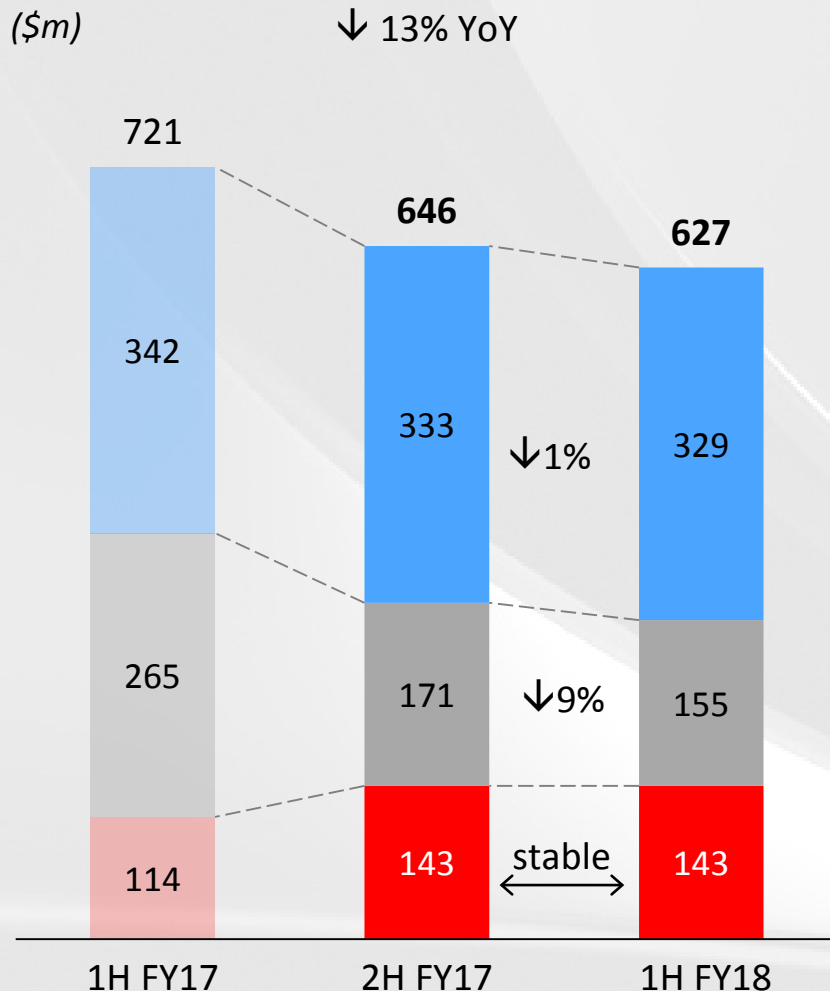
## Handset and accessory sales EBIT



# Ongoing productivity drive keeps costs in check



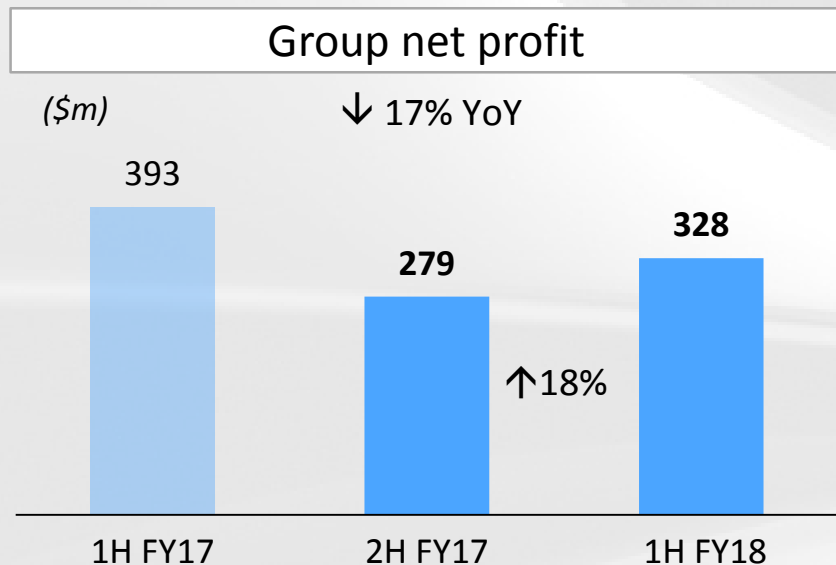
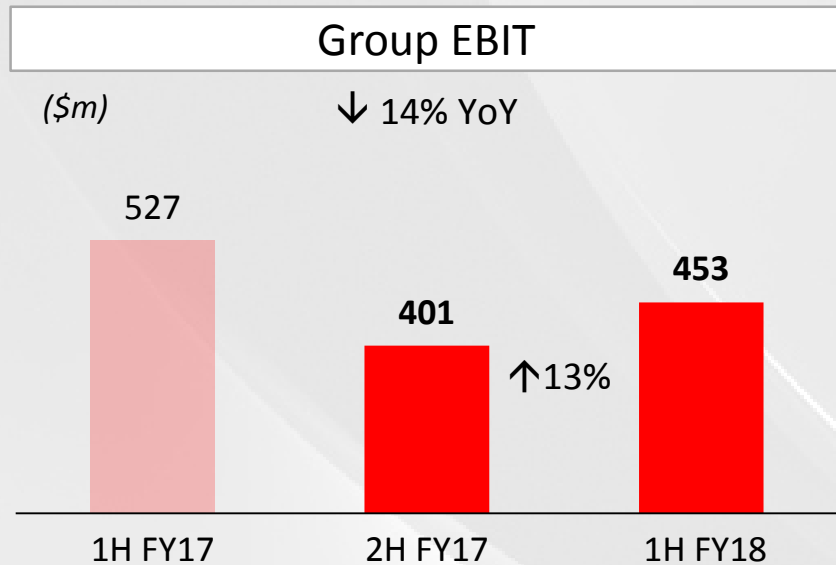
## Lower D&A reflects prudent management of customer acquisition costs



- Depreciation and amortisation decreased 13% YoY
  - \$110m decline in handset subsidy amortisation – prudent management of customer acquisition costs
  - Amortisation of spectrum utilisation fees increased 26% YoY – full year impact of 2100MHz spectrum renewal

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

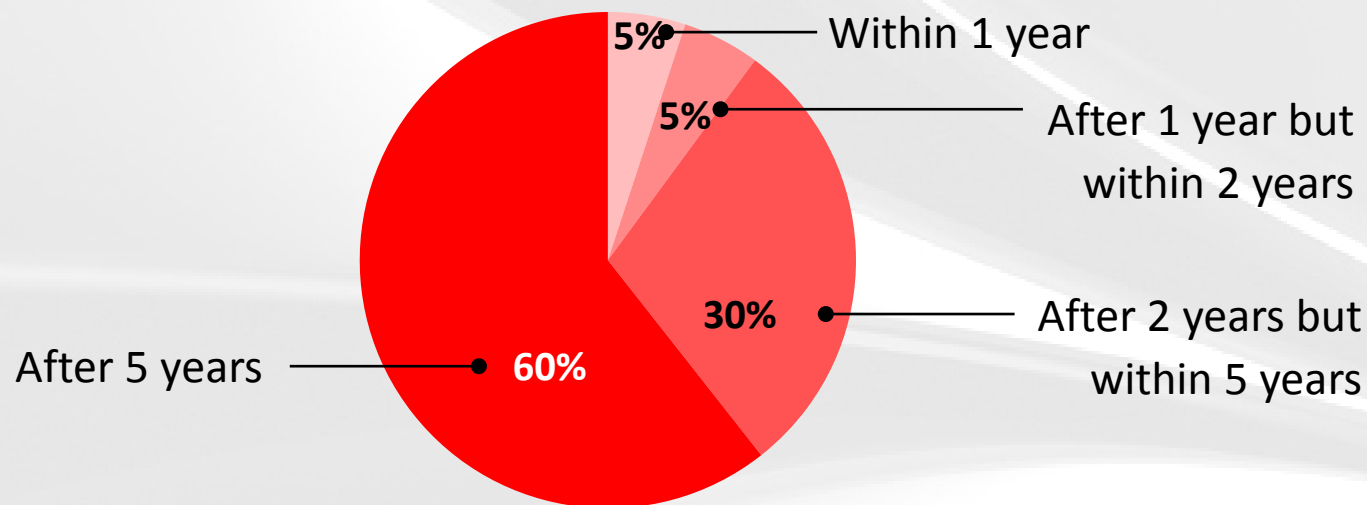
## Group EBIT and net profit declined YoY but improved HoH



- Group EBIT and net profit declined YoY
  - Increase in amortisation of spectrum utilisation fee
  - Structural decline in handset business
  - Ongoing decline in voice roaming
- Group EBIT and net profit increased HoH

# Strong balance sheet with healthy debt maturity profile

- Strong balance sheet
  - Virtually zero net-debt
  - Rising interest rates have a small impact on funding costs
    - Interest rate profile: Fixed – 81%; floating – 19%
- Healthy debt maturity profile
  - Long-term funding in place
  - 60% of debt repayable after 5 years





# Outlook

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***Anna Yip***

*Chief Executive Officer*

# Key focus to sustain growth in the medium term

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## ***Technology leadership in network performance***

- *Hong Kong's first live LAA field trial*
- *Hong Kong's first FDD Massive MIMO Trial*
- *NB-IoT enabled network*

## ***Customer-centric strategy***

- *SmarTone 5S – focus on “Total Customer Experience”*
- *SmarTone Plus loyalty program vastly expanded and enriched*
- *Omni-channel approach providing seamless customer experience both online and offline*

## ***High growth areas***

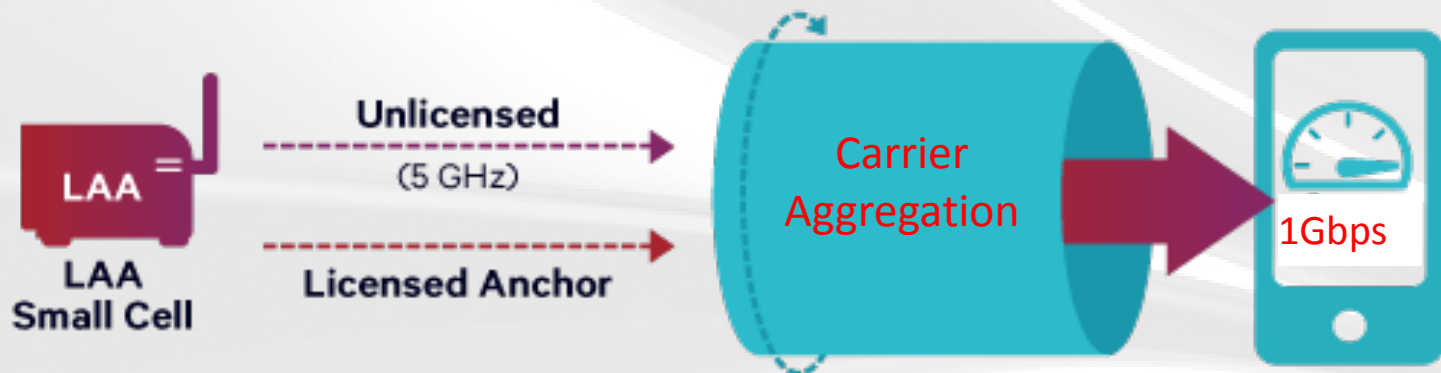
- *Birdie Mobile – Hong Kong's first all-digital self-service mobile brand for the “Millennial e-generation”*
- *Enterprise Solutions to capture Smart City opportunities*

## ***Productivity improvements***

- *Drive efficiency and effectiveness through process streamlining and digitalisation*

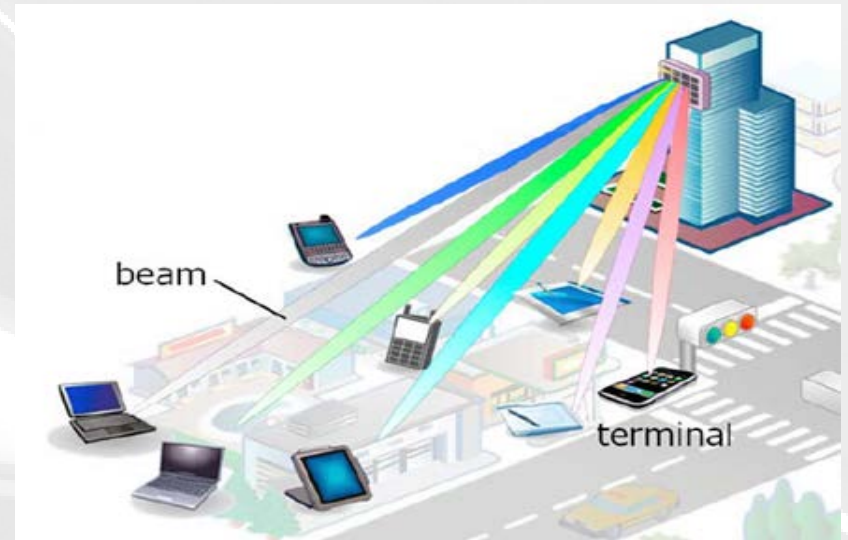
## Licensed Assisted Access to enhance network performance and capacity

- Hong Kong's first live LAA field trial in August 2017
  - Technological breakthrough by combining licensed and unlicensed spectrum
  - Enhances overall network performance & capacity
- Plans to deploy in mid-2018
  - Network speed to exceed 1Gbps
  - 5CC carrier aggregation – latest 4.5G capability



# Hong Kong's first FDD Massive MIMO trial

- Pre-5G technology to improve capacity and performance
- Live deployment in Causeway Bay since October 2017
- Enhancement planned for 2H 2018, with 5x performance gain compared to existing 4G technology



# Our NB-IoT network ready for massive IoT takeoff

- An IoT-enabled digitalisation platform supporting
  - Massive sensors connectivity
  - Real-time visualisation of workflow
  - Data-analytics tools for end-to-end process / productivity enhancement
- Our Innovation Hub to support different industry partners to showcase and test their ICT solutions
- Smart City transformation to open up significant growth opportunities in the coming years





# SmarTone 5S redefines industry standard on mobile service

- “Total Customer Experience” is based on Speed, Stability, Seamlessness, Security and Service



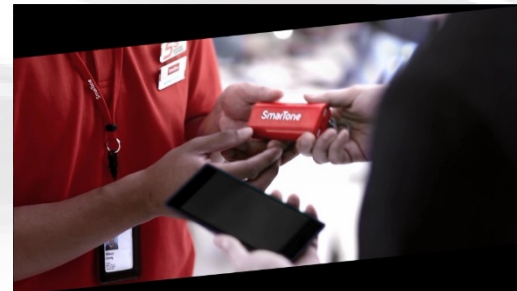
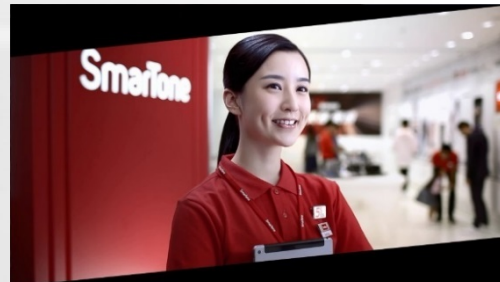
## Speed, Stability and Seamlessness



## Security



## Service

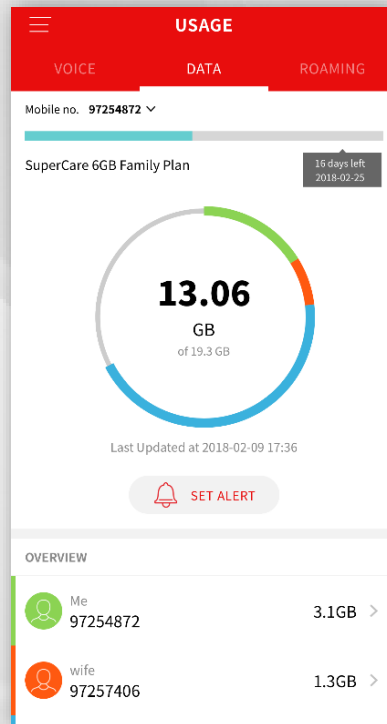
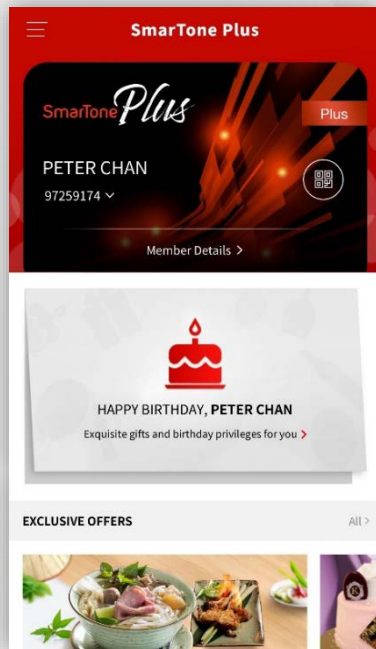


# Omni-channel to deliver seamless customer experience

## Revamped **SmarTone CARE App**

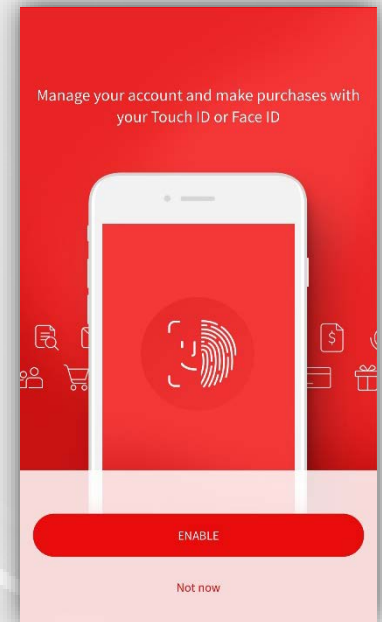
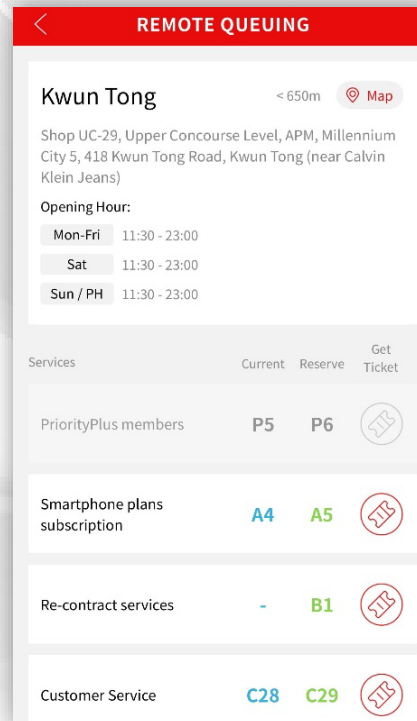
Manage your account and enjoy exclusive privileges with just one tap

### Exclusive Offers with e-redemption



### 24x7 Account Management

### Remote ticketing for service at store



### Secure Login with Touch / Face ID

## Birdie Mobile – Hong Kong's first all-digital self-service mobile brand

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- Targets the millennial segment's digital lifestyle
- All-digital and self-service brand
- Birdie app provides access to innovative features at fingertips





# Birdie Mobile – Innovative features



# Great fanfare for Birdie Mobile's beta-launch

- Overwhelming response for beta-launch
- Full launch by Q1 2018



# Outlook

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- Industry challenges expected to continue
  - Pricing pressure from the intense competitive environment
  - Structural change in the handset business
  - Ongoing decline in voice roaming revenues
- Reinforce customer-centric strategy to drive differentiation and expand customer base
  - Technology leadership and Powerful Network
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  - Continuous productivity drive

# Q&A

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# Appendix –

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## *Financial Information*



# Group Profit & Loss

(\$m)	1H FY17	2H FY17	1H FY18
<b>Revenues</b>	<b>5,372</b>	<b>3,343</b>	<b>4,108</b>
Cost of inventories sold	(2,655)	(849)	(1,547)
Staff costs	(372)	(361)	(358)
Other operating expenses	(1,096)	(1,086)	(1,122)
<b>EBITDA</b>	<b>1,249</b>	<b>1,048</b>	<b>1,080</b>
Depreciation, amortisation & disposal	(721)	(646)	(627)
<b>EBIT</b>	<b>527</b>	<b>401</b>	<b>453</b>
Net finance costs	(41)	(44)	(35)
Profit before income tax	486	357	418
Income tax expense	(97)	(81)	(93)
Profit after income tax	389	276	324
Non-controlling interests	4	2	4
<b>Net profit</b>	<b>393</b>	<b>279</b>	<b>328</b>

ROCE<sup>(1)</sup>

14%

11%

12%

ROE<sup>(2)</sup>

18%

12%

14%

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

(2) Net profit / Average shareholders' equity

# Group Balance Sheet

(\$m)	Jun 17	Dec 17
Fixed assets	3,072	2,961
Held-to-maturity debt securities <sup>(1)</sup>	712	605
Intangible assets	3,631	3,650
Other non-current assets	109	134
Cash & bank balances <sup>(1)</sup>	1,274	1,754
Other current assets	978	1,095
Bank borrowings <sup>(1)</sup>	(1,148)	(1,082)
Notes payable <sup>(1)</sup>	(1,543)	(1,546)
Customer prepayments and deposits	(271)	(365)
Other current liabilities	(1,827)	(2,142)
Other non-current liabilities	(352)	(321)
<b>Net assets</b>	<b>4,634</b>	<b>4,741</b>
Share capital	111	112
Reserves	4,483	4,592
Total equity attributable to equity holders	4,594	4,704
Non-controlling interests	41	37
<b>Total equity</b>	<b>4,634</b>	<b>4,741</b>
<sup>(1)</sup> <i>Cash &amp; bank balances</i>	1,274	1,754
<i>Held-to-maturity debt securities</i>	712	605
<i>Bank Borrowings</i>	(1,148)	(1,082)
<i>Notes payable</i>	(1,543)	(1,546)
<i>Net cash debt balance</i>	(705)	(270)
<sup>(2)</sup> <i>Shares in issue at balance sheet date (million)</i>	1,106	1,121
<sup>(3)</sup> <i>Net book value per share</i>	\$4.2	\$4.2

The image features the word "SmarTone" in a bold, red, sans-serif font, centered horizontally. The background is a light gray with soft, flowing, wavy lines that create a sense of movement and depth. The text is positioned in the middle of the frame, with the waves curving around it.

**SmarTone**