

SmarTone Telecommunications Holdings Limited

FY19 Interim Results Presentation

For the six months ended 31 December 2018

30 January 2019

Disclaimer

It is not the intention to provide, and no reliance should be placed on these materials as providing, a complete or comprehensive analysis of the financial or trading positions or prospects of SmarTone Telecommunications Holdings Limited. Neither SmarTone Telecommunications Holdings Limited or any of its directors, officers, employees, agents, affiliates, advisers or representatives accepts any liability whatsoever in negligence or otherwise for any loss howsoever arising from any information or opinions presented or contained in these materials or otherwise arising in connection with these materials. The information presented or contained in these materials is subject to change without notice. No representations or warranties are made on the accuracy, completeness or correctness of the information or materials.

The information presented or contained in these the material is for reference only and does not constitute a distribution, an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction.

Statements contained in these materials which are not historical facts, including statements about the beliefs and expectations of SmarTone Telecommunications Holdings Limited, are forward-looking statements. These statements are based on current plans, beliefs, expectations, estimates and projections of the company and undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and SmarTone Telecommunications Holdings Limited has no obligation to update any of them publicly in light of new information or future events. Forward-looking statements involve inherent risks, uncertainties, assumptions and other factors beyond the control of SmarTone Telecommunications Holdings Limited. If these risks or uncertainties ever materialise or the assumptions prove incorrect, or if a number of important factors occur or do not occur, actual results of SmarTone Telecommunications Holdings Limited may differ materially from those expressed or implied or forecasted in any of these forward-looking statements.

Agenda

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

Overview

Anna Yip

Chief Executive Officer

Group performance steady amid highly competitive market SmaTone

- Mobile market remained highly competitive during the review period
- Notwithstanding the volatile situation, stable performance was achieved through continual focus on priority segments. Ethnic prepaid also recovered HoH
- Customer number increased 12% to 2.47 million, churn rate at industry low of 1.0%
- Productivity drive kept costs under control despite increase in customer number and higher data usage
- Adoption of the new accounting standard HKFRS 15 has minimal impact on net profit compared to previous standard HKAS 18
- Under HKFRS 15, net profit up 1% YoY to \$332 million
- Interim dividend at 18 cents, same as last year

Key focus for driving continuous growth

- Deepen segmentation strategy with differentiated products and services
- Continue to drive business opportunities in Smart City-related applications and development
- Accelerate digitalisation to further improve customer experience and productivity
- Keep up industry-leading standard in network performance while adopting a disciplined approach towards 5G investment

Financial review

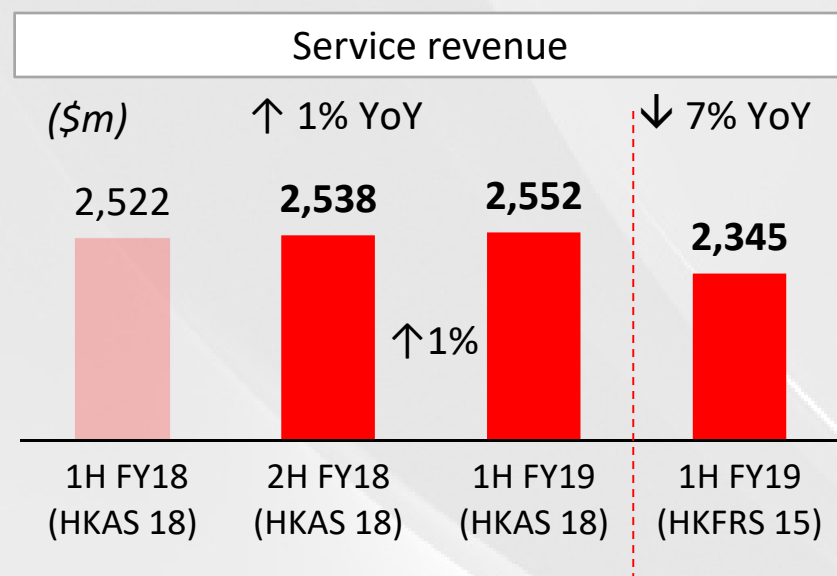
Patrick Chan

Chief Financial Officer

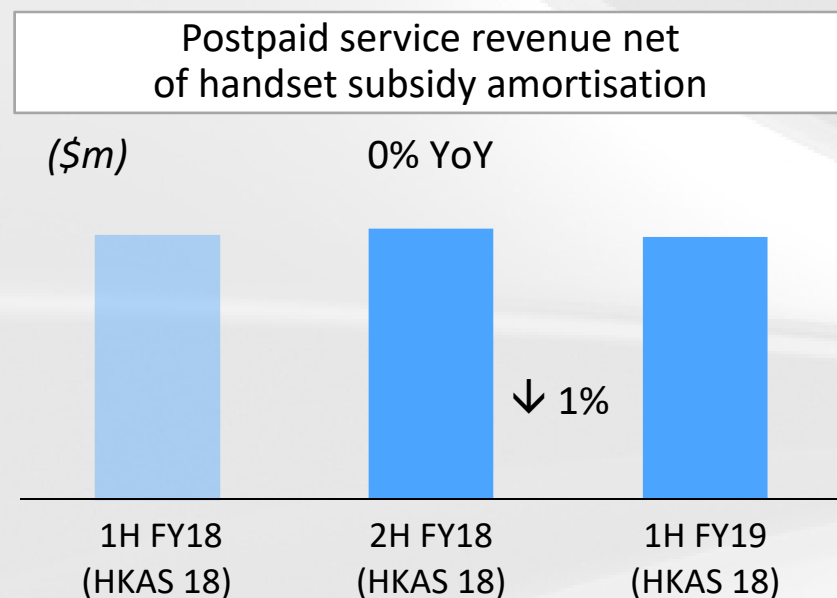
Overview of HKFRS 15

Financial item	Change	Notes
Group service revenue	↓	Portion of contract revenue reallocated to Handset and accessory sales
Handset and accessory sales	↑	Handset sales for bundled plans allocated to handset revenue (instead of service revenue) and recognised upfront
Cost of inventories sold	↑	Cost of handsets sold for bundled plans recognised upfront rather than as handset subsidy amortization
Operating expenses	↓	Sales commission capitalised and amortised over contract life
EBITDA	↓	EBITDA lower as cost of handsets sold recognised upfront above EBITDA
Handset subsidy amortisation	↓	Eliminated as already reflected in cost of inventories sold
Amortisation of customer acquisition costs	↑	Commission amortised instead of expensed as incurred
Profit	↔	No change over contract period, with small impact on reported period due to timing differences only
Cashflow	↔	Cashflows unaffected

Core service business stable amid intense competition

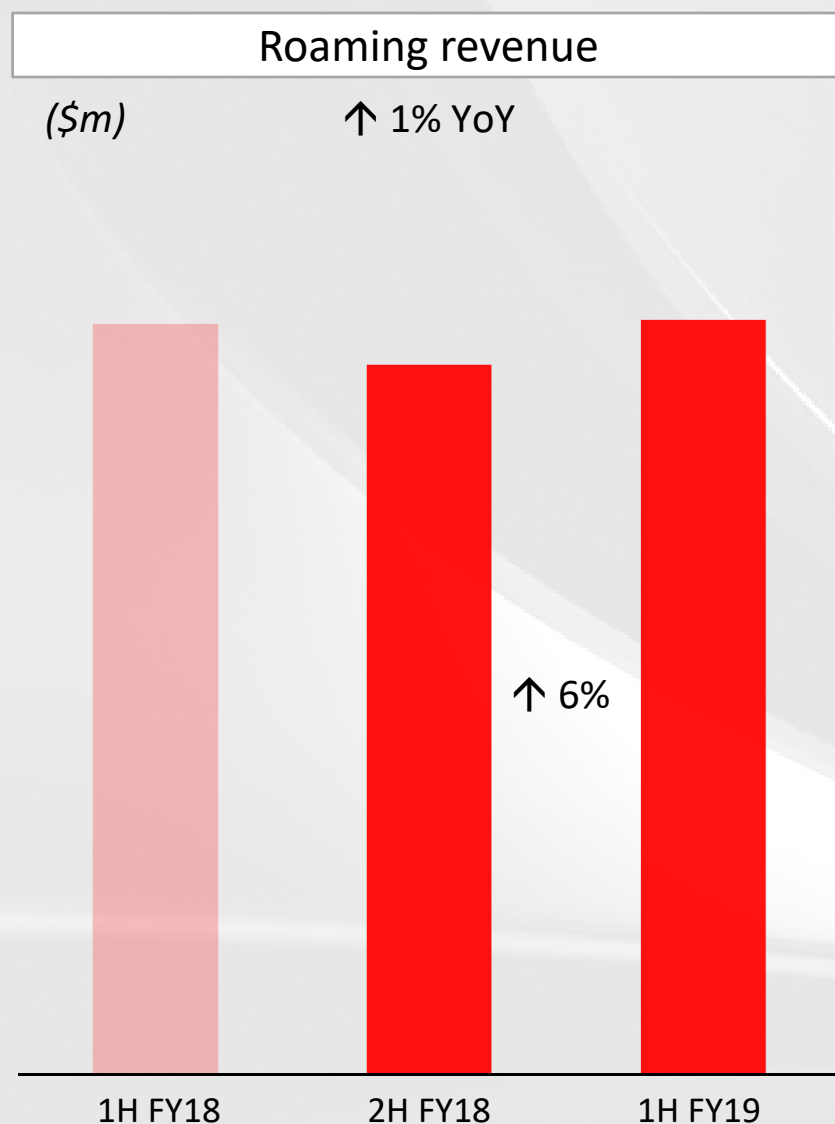


- Service revenue increased 1% YoY
- Prepaid business recovered HoH
- Based on HKFRS 15, service revenue was lower due to reallocation of handset-bundled plan revenue



- Net postpaid service revenue was resilient despite intense competition

Roaming business stable despite increased competition



- Stable roaming business despite competitive offers in market
- Growth in data has offset decline in voice
- Data revenue now represents more than half of roaming revenue

Strong customer growth in a mature and competitive market ^{SmaTone}

Hong Kong customer number

(m)

↑ 12% YoY

2.20

2.39

2.47

↑ 3%

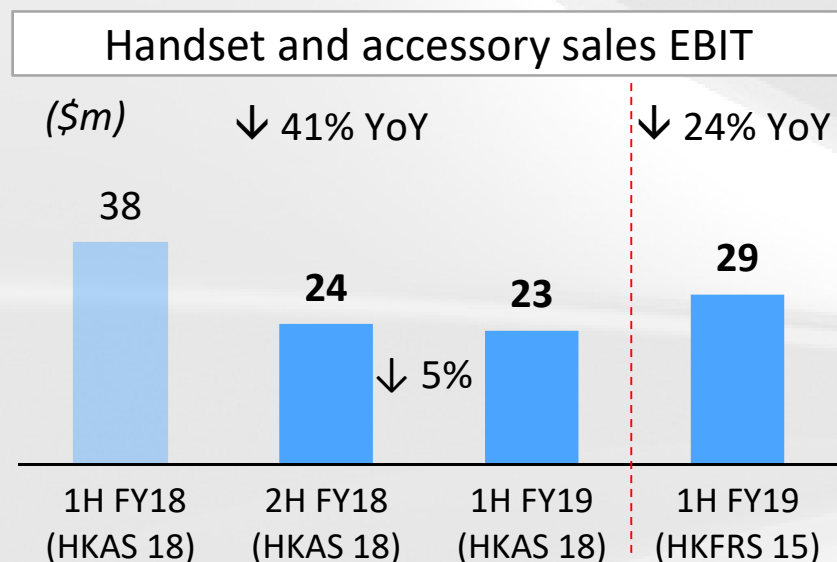
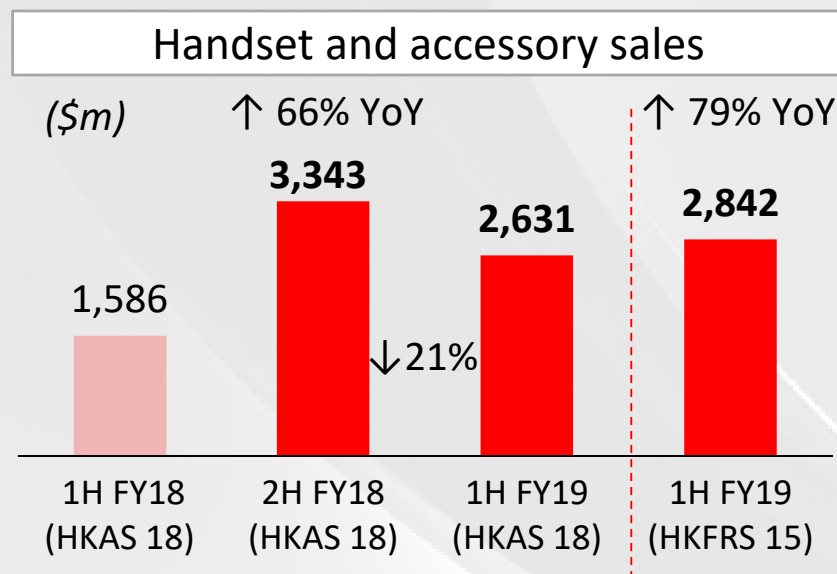
1H FY18

2H FY18

1H FY19

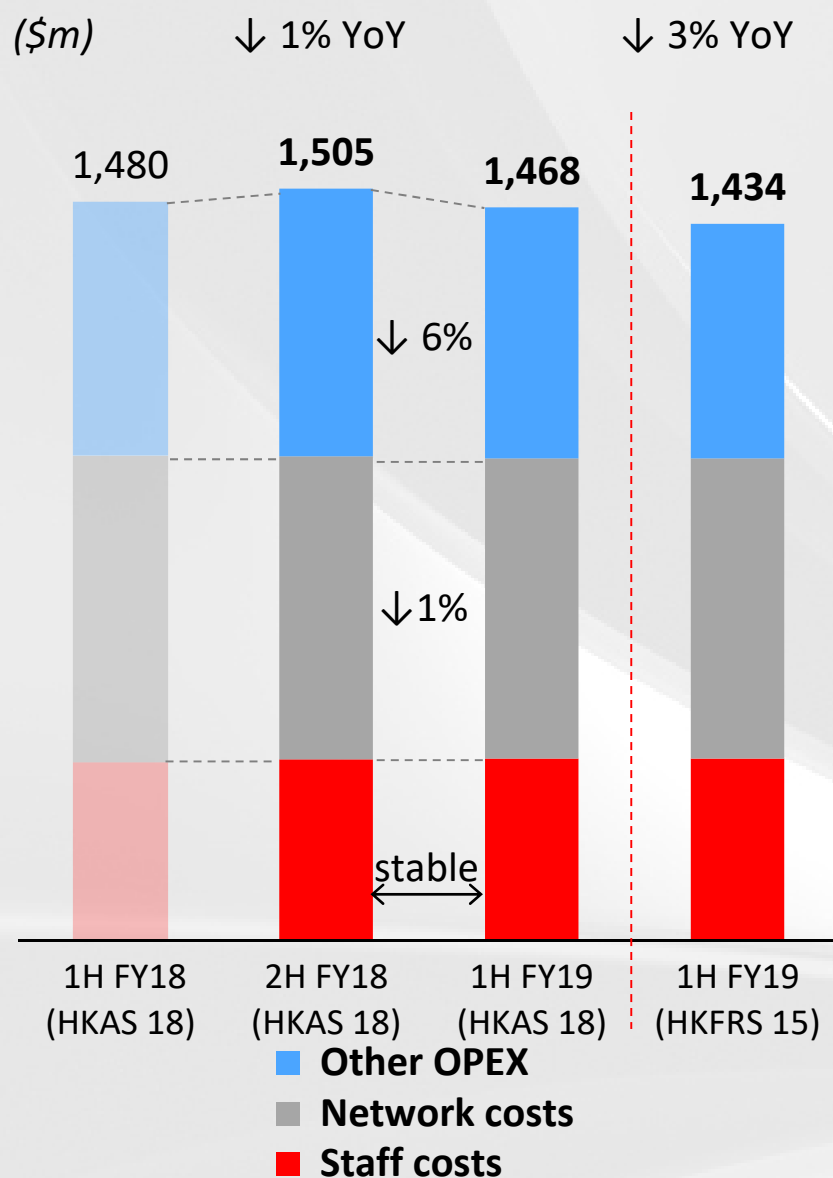
- Average mobile postpaid churn rate maintained at industry low of 1.0%
- Mobile postpaid ARPU declined slightly due to customer growth
 - HKAS 18: \$250
 - HKFRS 15: \$227

Lower margin in handset business



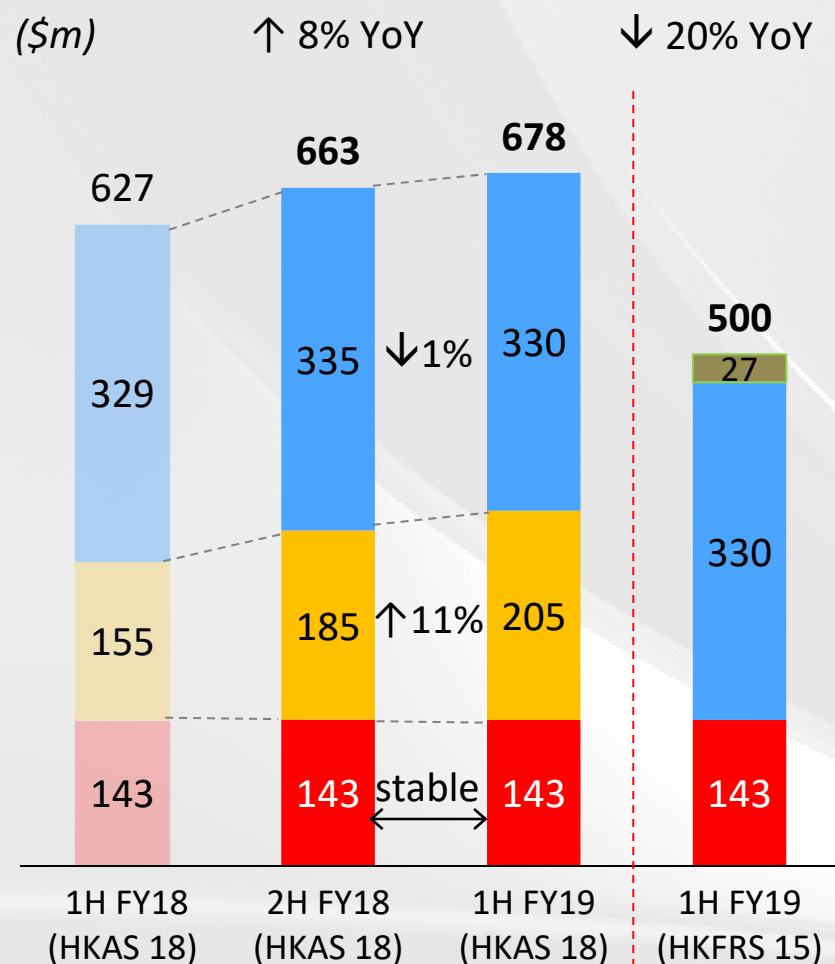
- Volatility in handset and accessory sales due to timing and popularity of new hero handsets
- Decline in margins reflects subdued demand for latest hero handsets

Increased productivity keeping costs under control



- Ongoing efficiency drive kept costs under control despite
 - Expansion in customer base
 - Increased data usage
- Based on HKFRS 15, OPEX down 3%
 - Capitalisation of customer acquisition costs instead of expensed as incurred

Lower depreciation and amortisation due to HKFRS 15

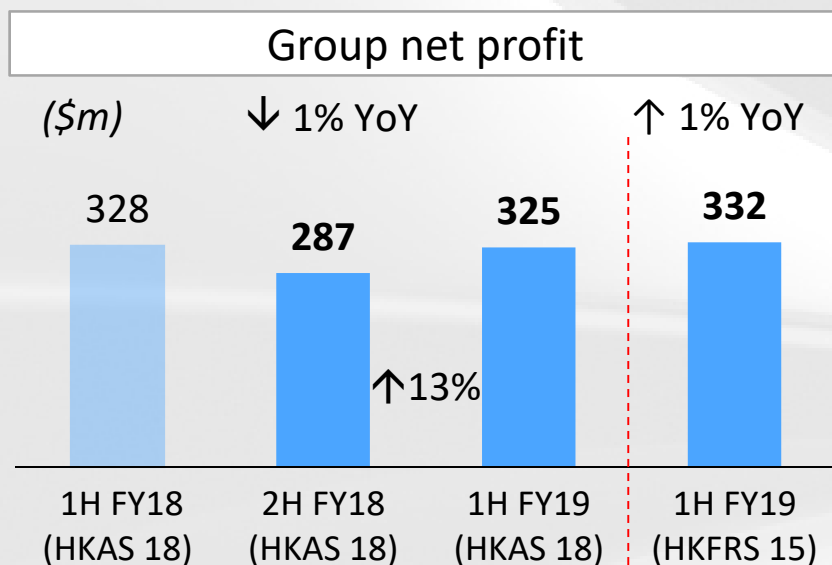
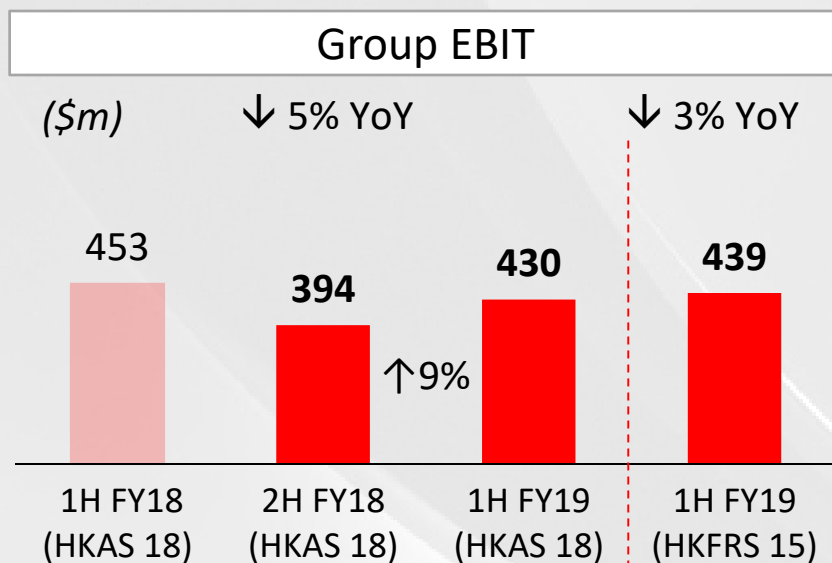


- Based on HKFRS 15
 - No more handset subsidy amortisation which is recognised upfront as handset cost above EBITDA
 - Inclusion of amortisation of sales commission

- Customer acquisition cost amortisation (CAC)
- Depreciation & disposal loss
- Handset subsidy amortisation

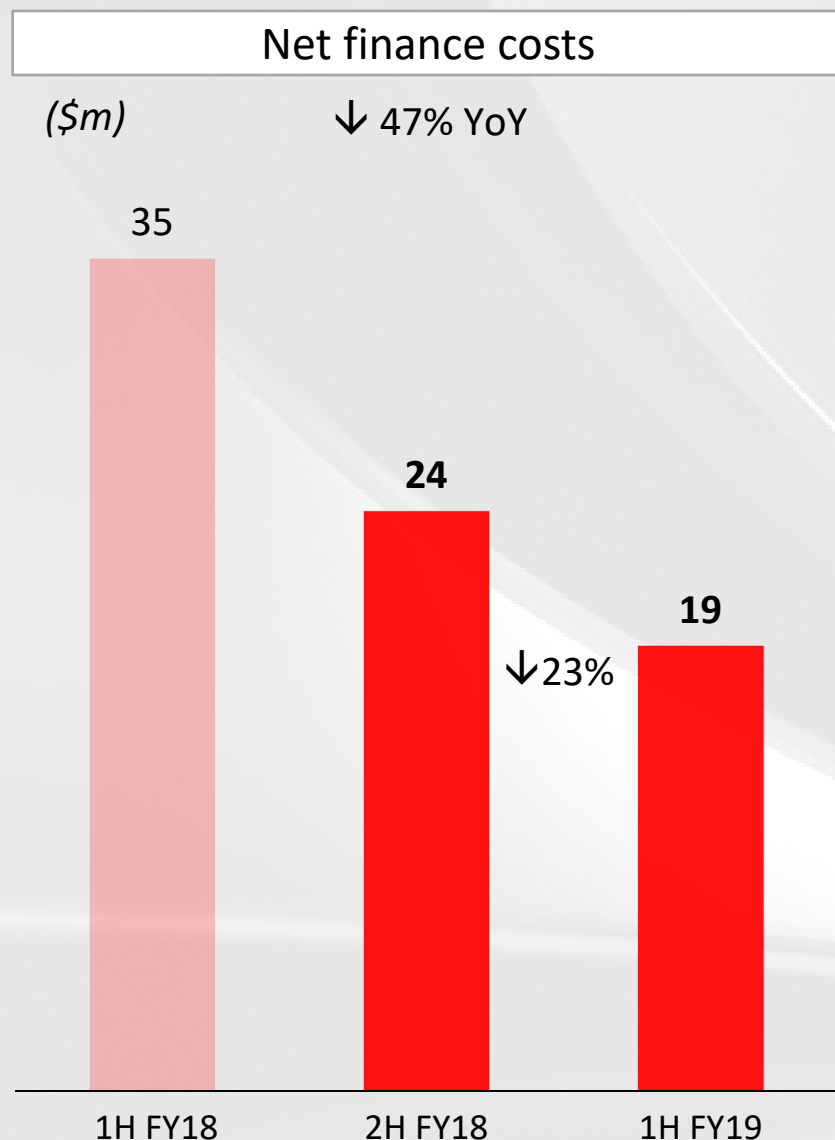
Group net profit stable

SmaTone



- Group EBIT down 5% and net profit down 1%
 - Lower handset profit
 - Prepaid decline mitigated and stabilised HoH
 - Lower OPEX and net finance cost
- Under HKFRS 15, group EBIT down 3% and net profit up 1%, reflecting timing differences

Lower net finance cost despite rising interest rates



- Higher interest income, benefitting from rising deposit rates
- High proportion of fixed rate debt (78% : 22%) protecting against increasing interest rates
- Lower spectrum utilisation fee-related accretion expense

Business review

Anna Yip

Chief Executive Officer

Key pillars underpinning resilient performance

Segmentation strategy

- *Driving growth in priority segments through differentiated products and services*

Digitalisation strategy

- *Continually improving customer experience and productivity through new technologies and process transformation*

Technology leadership

- *Building on Powerful Network and new applications to meet growing demand from Smart City initiatives*

Inspiring talent

- *Creating a stimulating, engaging workplace through a series of new initiatives*
- *Enhancing long-term incentives and retention through new share award scheme*

Tailor-made initiatives to meet SuperCare customer needs



5 SIMs, Family-to-Enjoy!

DATA x2
Double
Shared
Local Data


Flexible Data
Allocation

DATA Bay Greater Area
Greater Bay
Area Data



2 SIMs, 2-to-Enjoy!

Winning in HKRMA Service & Courtesy Awards 2018



Cultivating millennial customers

U Plan Lite

Unlimited entertainment, infinite discovery



eSport Event



Entertainment



Flash Offers

SmarTone
care



Birdie continues to thrive

- A vibrant community of fans growing among the millennials
- Google HK's top 5 trending tech lifestyle keywords for 2018
- Birdie Friday becoming the signature event
 - Delights for fans every Friday
 - Great way to build the Birdie Community
- Strategic O2O partnerships including



GRITUS
Smart Wedding Planner | 智能婚禮策劃



More lifestyle initiatives

Coming
Soon



Strong growth of Enterprise Solutions

Smart Home

For better living



Smart Hotel

For better customer experience in hospitality



Smart Building

For better environment and living



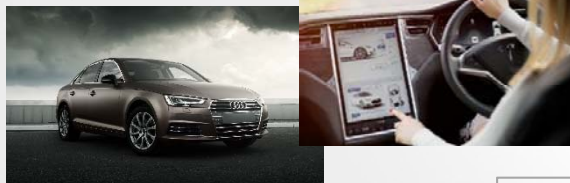
SmartWorks

For better construction site management



Smart Transportation

For a better driving experience



SmartHealth

For better elderly living



Smart City development



2nd SmarTone Hackathon - Igniting creativity

SmarTone

- “Smart Properties” themed SmarTone Hackathon successfully concluded in October 2018
- Terrific forum in attracting creative talent from Hong Kong, Greater Bay and overseas



Continuing digitalisation drive

- Launch of AI S-Bot in contact centre
 - After rigorous testing and evaluation, SmarTone became the first operator to successfully launch a bilingual AI chatbot
 - Provides convenience to customers and improves contact centre efficiency
 - Over 20% of general enquiries now handled by S-Bot



- Robotic process automation
 - Streamline operational processes, enhance efficiency and reduce human errors
 - Serving more customers efficiently



Powerful Network – A key differentiator

- First in Hong Kong to launch Licensed Assisted Access (LAA) (in July 2018)
 - Enhancing performance at traffic hotspots
 - Only operator in HK supporting LAA on iPhone
- Ready for 5G
 - Transition to cloud-based Network Function Virtualisation (NFV) architecture
 - First-in-HK successful 5G live demonstration with a smartphone form factor
 - Plans for 5G field trial on 3.5GHz and 26/28GHz in Q1 2019 in live environment



Superb performance at hotspots



SmarTone CTO with Qualcomm & Ericsson executives at the 5G live demonstration

Creating a stimulating and engaging team culture

- Fun workplace - Happy Friday drinks, surprise treats
- Work-life balance – Birthday & family leave, flexible work hours
- Cross-team communication - “Listening Sessions”, “Apprentice Days”
- Giving back to the community



Outlook

Anna Yip

Chief Executive Officer

Priorities for coming year

- Mobile market continues to be challenging due to intense competition and macroeconomic uncertainty. However, we will focus on key priorities to keep up momentum
- Grow quality customer base through differentiated segmentation approach
- Drive business solutions opportunities in Smart City-related applications and development
- Deepen digitalisation to improve customer experience and productivity
- Elevate industry-leading network performance while adopting a disciplined approach towards 5G investment

Spectrum costs - A critical factor for 5G development

- Spectrum costs for recently renewed spectrum have significantly increased fixed costs for all operators
- Hong Kong's spectrum costs are very high compared to advanced regional economies
- SmarTone is committed to driving new technology to benefit customers, but the economic viability of the 5G business model is still uncertain
- The Government is urged to critically review its spectrum policy to enable operators to invest more in 5G and the Smart City initiative
- Crucial for boosting Hong Kong's competitiveness in upgrading towards a digital economy and bringing significant benefits to businesses and consumers

Q&A

Appendix –

Financial Information

Group Profit & Loss based on HKAS 18

SmarTone

(\$m)	1H FY18	2H FY18	1H FY19
Revenues	4,108	5,881	5,184
Cost of inventories sold	(1,547)	(3,320)	(2,609)
Staff costs	(358)	(362)	(364)
Other operating expenses	(1,122)	(1,143)	(1,104)
EBITDA	1,080	1,056	1,107
Depreciation, amortisation & disposal	(627)	(663)	(678)
EBIT	453	394	430
Net finance costs	(35)	(24)	(19)
Profit before income tax	418	369	411
Income tax expense	(93)	(86)	(92)
Profit after income tax	324	283	319
Non-controlling interests	4	4	6
Net profit	328	287	325
ROCE ⁽¹⁾	12%	10%	11%
ROE ⁽²⁾	14%	12%	13%

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

(2) Net profit / Average shareholders' equity

Group Profit & Loss

SmarTone

(\$m)	HKAS 18 1H FY18	HKAS 18 2H FY18	HKFRS 15 1H FY19
Revenues	4,108	5,881	5,187
Cost of inventories sold	(1,547)	(3,320)	(2,813)
Staff costs	(358)	(362)	(364)
Other operating expenses	(1,122)	(1,143)	(1,071)
EBITDA	1,080	1,056	939
Depreciation, amortisation & disposal	(627)	(663)	(500)
EBIT	453	394	439
Net finance costs	(35)	(24)	(19)
Profit before income tax	418	369	420
Income tax expense	(93)	(86)	(94)
Profit after income tax	324	283	326
Non-controlling interests	4	4	6
Net profit	328	287	332
ROCE ⁽¹⁾	12%	10%	12%
ROE ⁽²⁾	14%	12%	14%

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

(2) Net profit / Average shareholders' equity

Group Balance Sheet

SmarTone

(\$m)	HKAS 18 Jun 18	HKFRS 15 Dec 18
Fixed assets	2,971	2,826
Financial assets at amortised cost ⁽¹⁾	-	549
Held-to-maturity debt securities ⁽¹⁾	567	-
Intangible assets	3,517	2,908
Other non-current assets	134	196
Cash & bank balances ⁽¹⁾	1,828	1,379
Contract assets	-	475
Other current assets	1,002	1,250
Bank borrowings ⁽¹⁾	(1,018)	(958)
Notes payable ⁽¹⁾	(1,413)	(1,412)
Customer prepayments and deposits	(345)	(263)
Contract liabilities	-	(253)
Other current liabilities	(2,114)	(1,482)
Other non-current liabilities	(297)	(264)
Net assets	4,832	4,951
Share capital	112	112
Reserves	4,687	4,812
Total equity attributable to equity holders	4,799	4,924
Non-controlling interests	33	27
Total equity	4,832	4,951
⁽¹⁾ <i>Cash & bank balances</i>	1,828	1,379
<i>Financial assets at amortised cost</i>	-	549
<i>Held-to-maturity debt securities</i>	567	-
<i>Bank borrowings</i>	(1,018)	(958)
<i>Notes payable</i>	(1,413)	(1,412)
<i>Net cash debt balance</i>	(36)	(442)
⁽²⁾ <i>Shares in issue at balance sheet date (million)</i>	1,124	1,121
⁽³⁾ <i>Net book value per share</i>	\$4.3	\$4.4

Effect of HKFRS 15 on 1H FY19 Group Results

(\$M)	HKAS 18 1H FY19	Effect of HKFRS 15	HKFRS 15 1H FY19
Service revenue	2,552	(208)	2,345
Handset & accessory sales	2,631	211	2,842
Revenues	5,184	3	5,187
Cost of inventories sold	(2,609)	(204)	(2,813)
Staff costs	(364)	-	(364)
Other operating expenses	(1,104)	33	(1,071)
EBITDA	1,107	(168)	939
Depreciation & disposal	(330)	-	(330)
Handset subsidy amortisation	(205)	205	-
Amortisation of mobile licence fees	(143)	-	(143)
Amortisation of customer acquisition costs	-	(27)	(27)
Operating profit (EBIT)	430	9	439
Net finance costs (incl. exchange loss)	(19)	-	(19)
Profit before income tax	411	9	420
Income tax expense	(92)	(2)	(94)
Profit after income tax	319	8	326
Attributable to:			
Equity holders of the Company	325	8	332
Non-controlling interests	(6)	(0)	(6)
	319	8	326



SmarTone