

SmarTone Telecommunications Holdings Limited

FY20 Interim Results Presentation

For the six months ended 31 December 2019

18 February 2020

SmarTone

5G 智慧新發展
MAKE
US
SMART

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Agenda

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

Overview

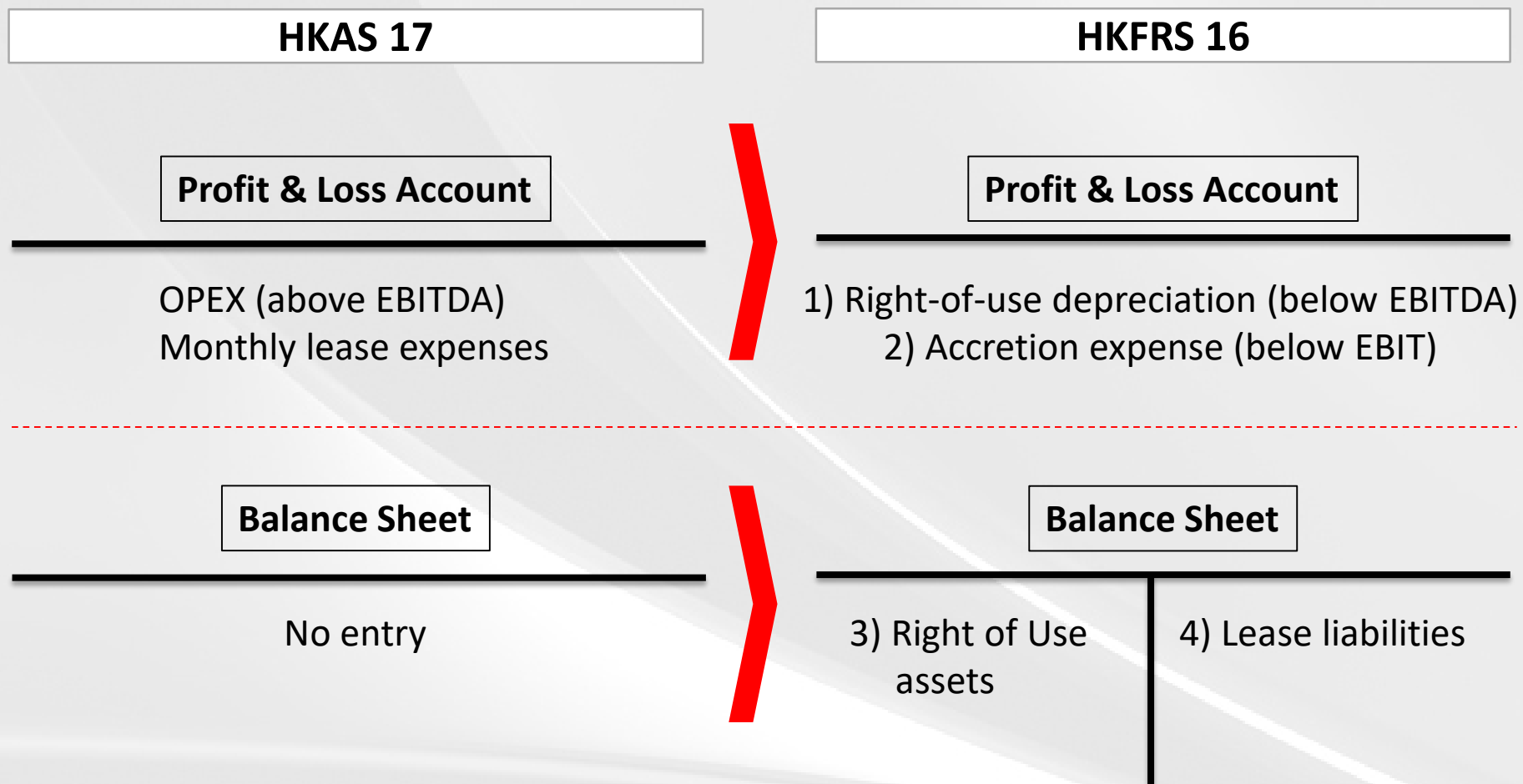
Anna Yip

Chief Executive Officer

Challenging first half while local mobile business remaining stable

- 1H FY20 was the first period where the new HKFRS 16 was adopted
- Group net profit was 20% lower at \$265 million mainly from three areas
 - Drop in handset profit due to reduced levels of wholesale trading and consumer demand
 - Decline in inbound roaming as visitors dropped sharply due to social events
 - Higher depreciation from investments in the prior period
- Service revenue grew 3%
 - Customer number up 7% to 2.64 million; major segments include professionals, families and millennials
 - Continuous growth of the Enterprise Solutions business
 - Growth of alternative channels, including online and direct sales force
 - Mobile postpaid ARPU down 1% to \$225 from \$227
- Interim dividend at 14.5 cents in line with profit decline

Changes under HKFRS 16 – Lease accounting



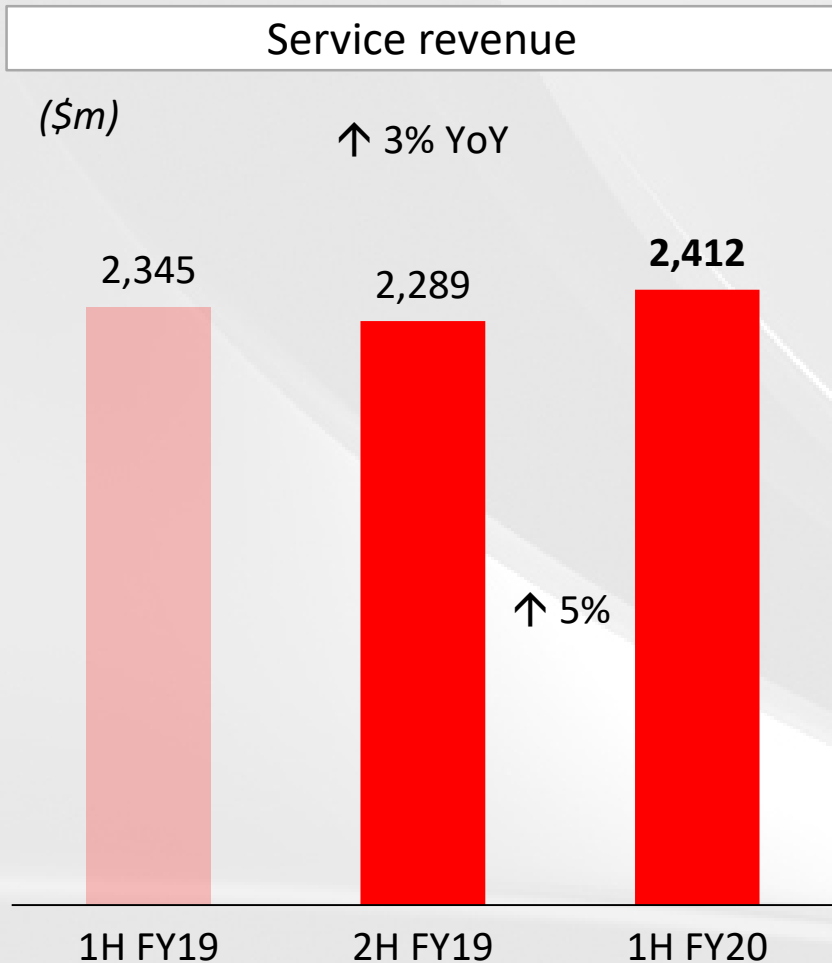
For key items affected by HKFRS 16, we will show them under the new accounting standard as well as like-for-like comparisons versus last year under HKAS 17

Financial review

Patrick Chan

Chief Financial Officer

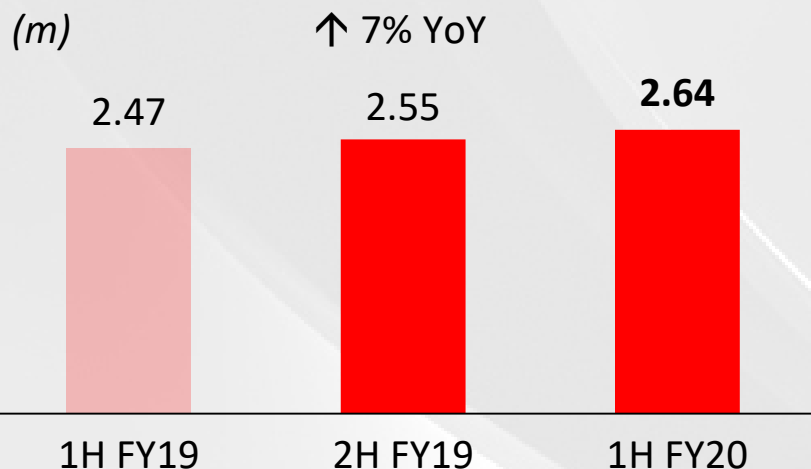
Stability in group service revenue amid challenging conditions



- Steady performance despite competition and social events
 - Growth in Enterprise Solutions
 - Modest decline in roaming

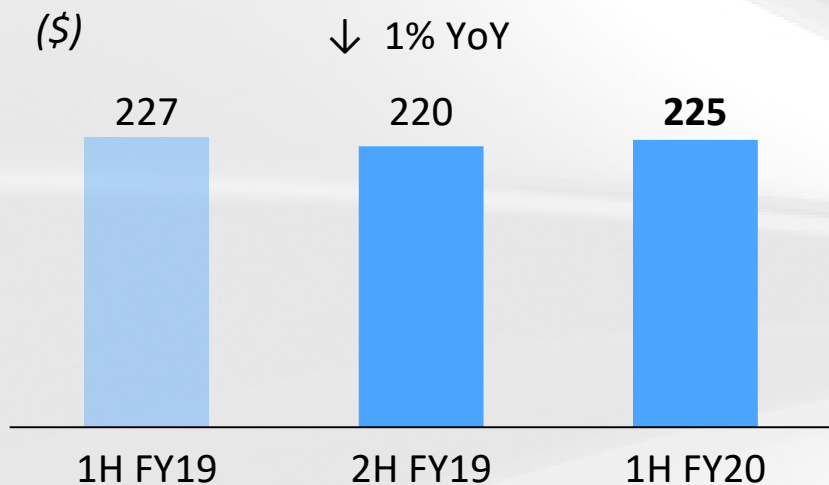
Delivering subscriber growth through superior customer experience

Hong Kong customer number

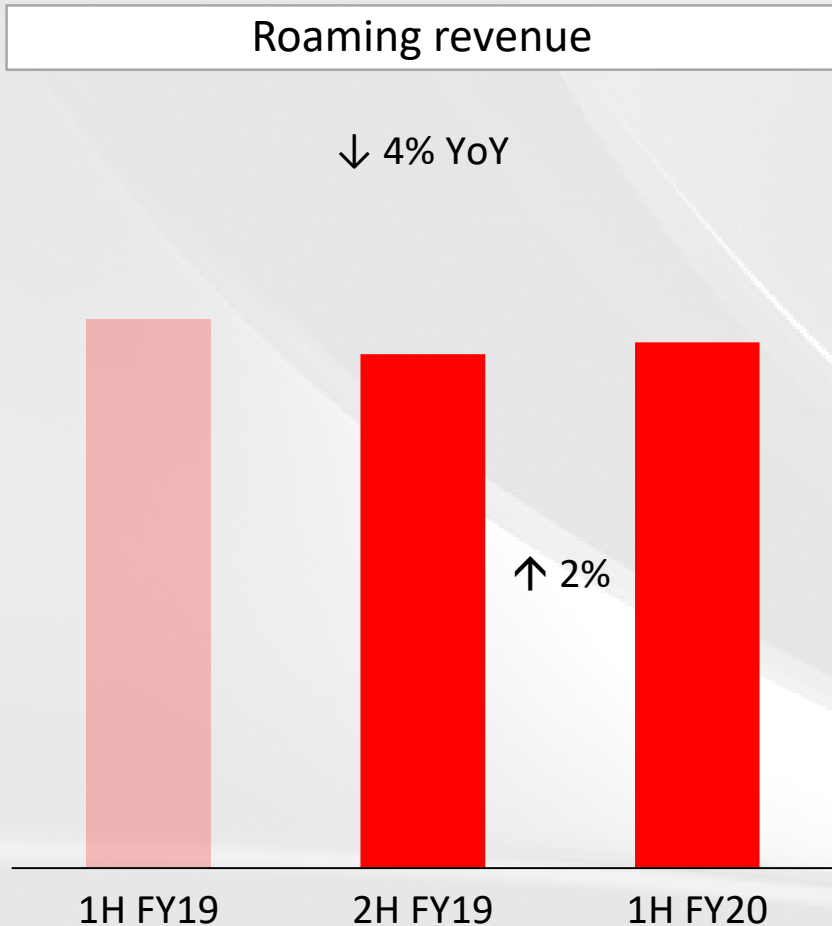


- Customer number +7% YoY
- Average mobile postpaid churn rate improved to industry-low of 0.8%
- Mobile postpaid ARPU down 1% to \$225

Mobile postpaid ARPU



Social events weighed on roaming business

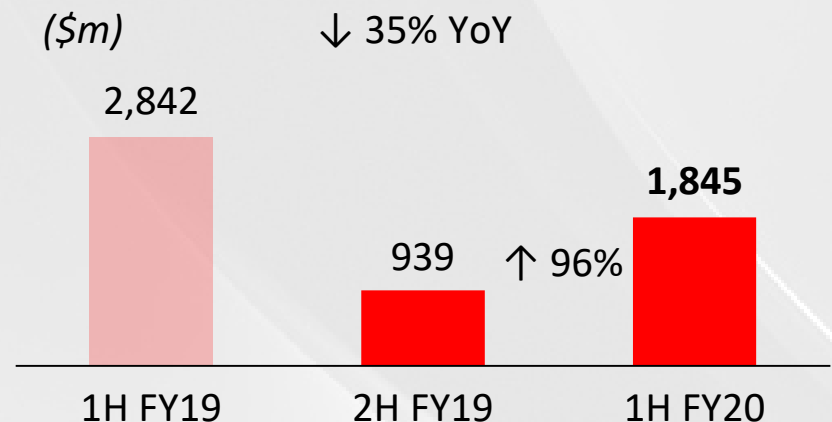


- Decline mainly due to drop in inbound roaming:
 - Oct-Dec 2019 visitors ↓50% YoY¹

¹ Hong Kong Tourism Board

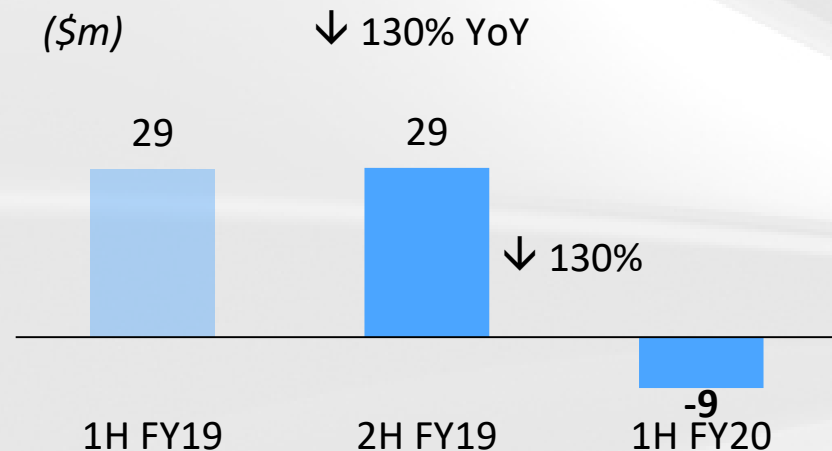
Handset and accessory business profitability under pressure

Handset and accessory sales

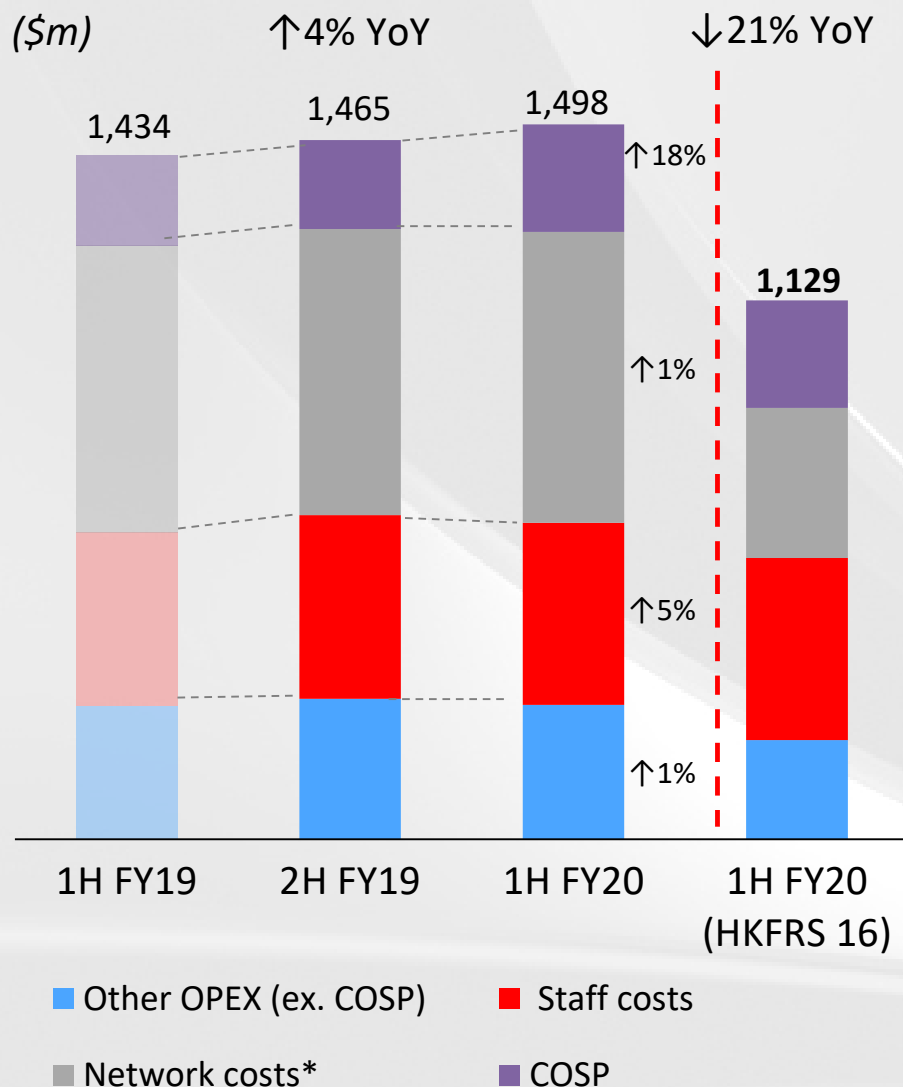


- Drop in handset profit due to
 - Reduced levels of wholesale trading
 - Weaker consumer demand reflecting longer replacement cycle
 - Higher handset subsidies for selected short-term promotions
- Under HKFRS 15, handset cost is recognised fully upfront instead of amortised over contractual period

Handset and accessory sales EBIT



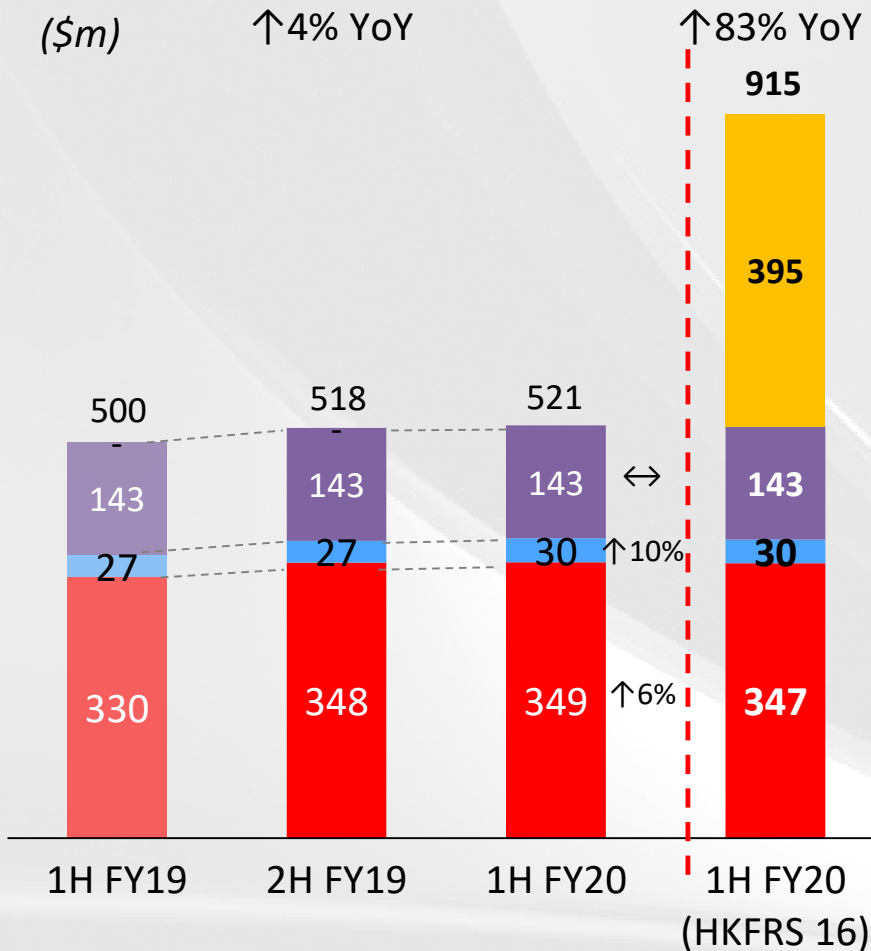
OPEX dropped 21% due to new accounting standard HKFRS 16



- Under HKFRS 16, rental costs are shown in depreciation below EBITDA instead of OPEX
 - Net impact: reported OPEX 21% lower YoY
- Under previous accounting standard, OPEX ↑4% YoY
 - Increase in COSP to support new business growth
 - Staff cost growth from salary review last year and resources for new projects; No growth expected for second half
 - Network costs and other OPEX stable

*2H FY19 network costs excludes one-off cost adjustment

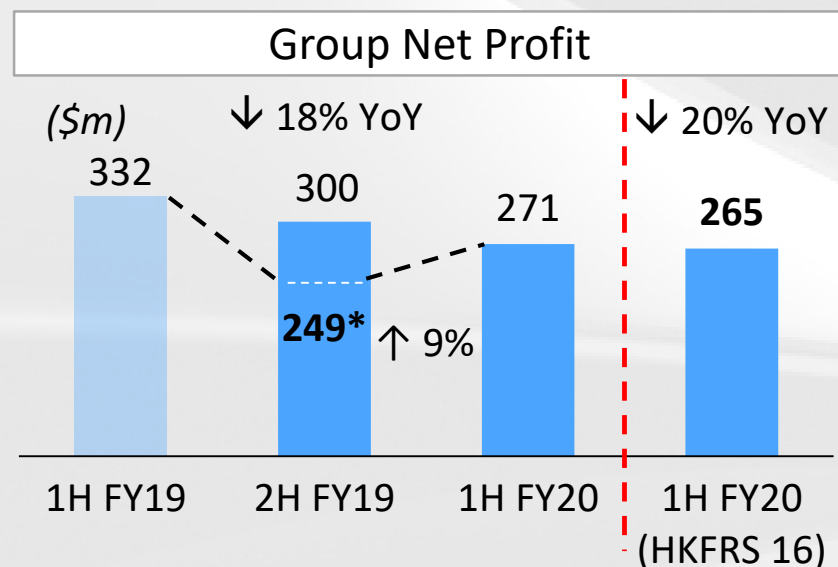
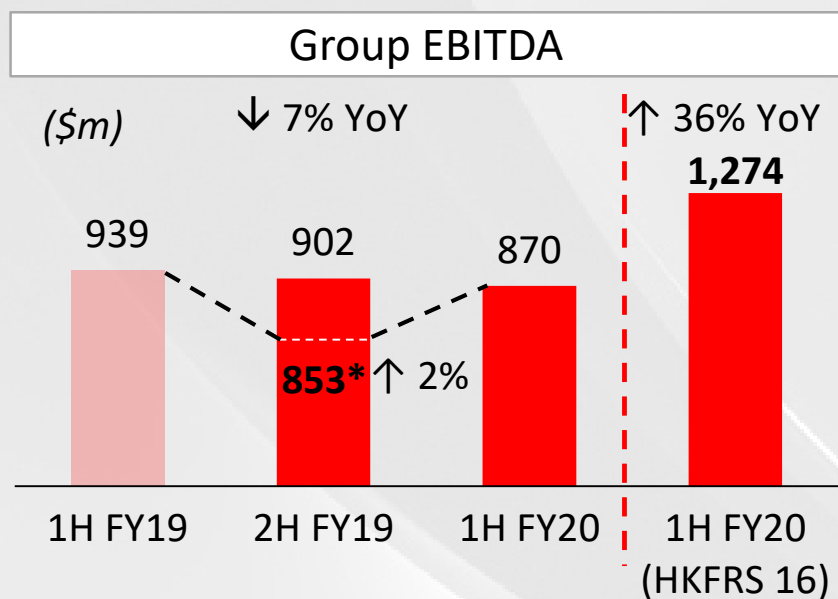
Corresponding increase in D&A under HKFRS 16



- Under HKFRS 16
 - D&A increase as rental costs are shown in depreciation below EBITDA instead of OPEX
 - Corresponding reduction in OPEX
- 6% increase in fixed assets depreciation due to CAPEX from previous year
 - Full year expect to be similar as FY19
- Other items largely stable

- ROU assets depreciation
- Amortisation of mobile licence fees
- Commission amortisation
- Fixed assets depreciation and disposal

Decline in handset and roaming affected profitability



- Group EBITDA mainly affected by
 - Decline in handset profit
 - Impact on inbound roaming from recent social events
- Increase in fixed asset depreciation contributed to decline in net profit

*2H FY19 Group EBITDA and Net profit exclude the one-off cost adjustment

Business review

Anna Yip

Chief Executive Officer

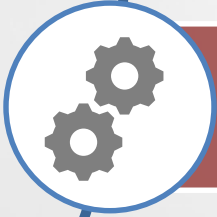
Key pillars of operational focus



Grow target segments: SuperCare and Millennials



Accelerate Enterprise Solutions



Enhance customer experience and productivity through digitalisation and process improvement



Extend network leadership into 5G

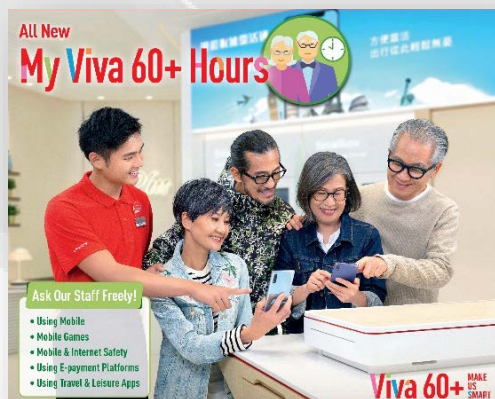
High-value customer segment continues to grow

- Customer base increased 6%

Customer Segmentation



Customer Engagement



Loyalty Initiatives



Expanding presence in the Millennial market

Targeted mobile plans



Exclusive events



Launch Party at W Hotel



Music concerts

Growth of Birdie's millennial base \uparrow 125%



Recognition for SmarTone's customer service excellence

HKRMA Service & Courtesy Awards



22 Accolades



Communications Association of Hong Kong



Gold

Best Mobile Network Operator



SmarTone
超強勢網絡 MAKE US SMART
上網快穩順



Industry-specific solutions for targeted sectors



Construction
SmartWorks



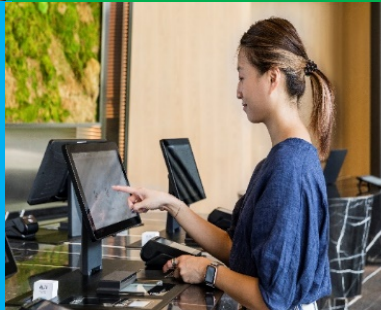
Hospitality
SmartHotel



Transportations
*Vehicle Connectivity
Management*



Property Management
SmartTeam

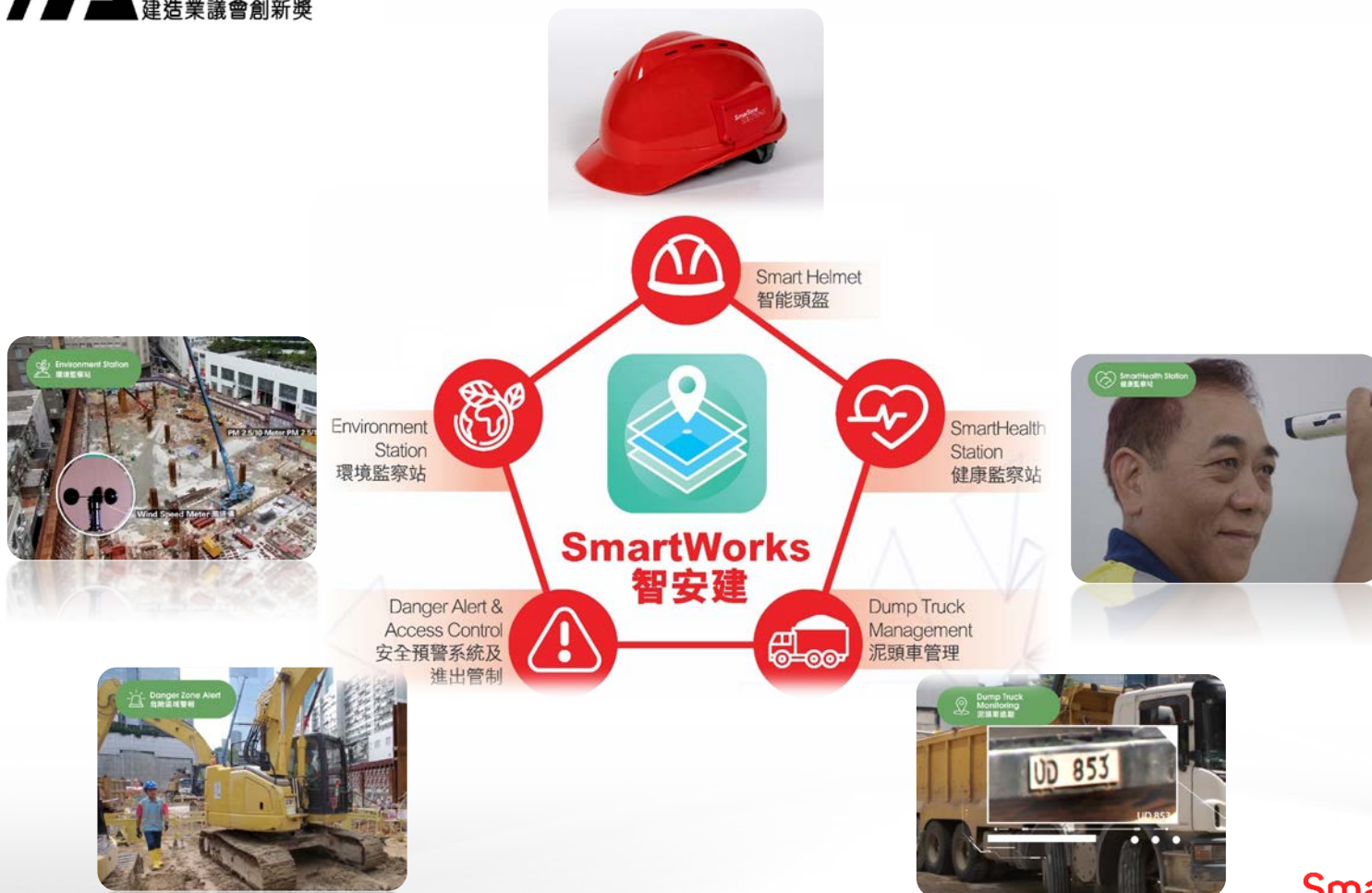


Healthcare
SmartHealth



Smart Construction won 1st prize for Construction Safety

Integrated Technology and Humanity to enhance construction workers' safety, health and operational efficiency



Leveraging Robotic Process Automation to increase operational efficiency

- Streamline operational processes, enhance efficiency and reduce human errors
- Automate rule-based, repetitive tasks and free up staff for higher value work

How RPA transforms existing workflows



Work 24x7



Auto data entry



Auto data
validation



Mimic user action



System report

Key benefits achieved



Reduced cycle time &
raised throughput



Enabled cost
savings



Improved accuracy



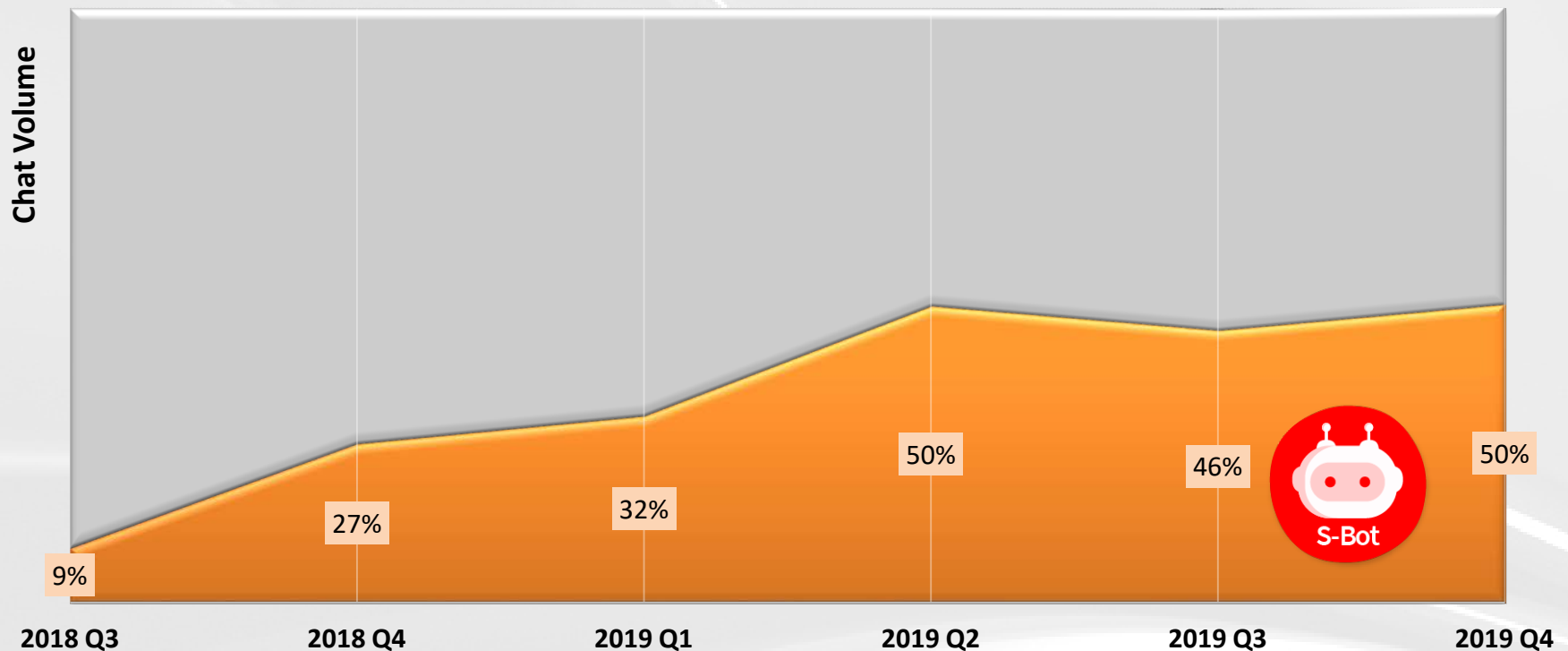
Enhanced customer
experience



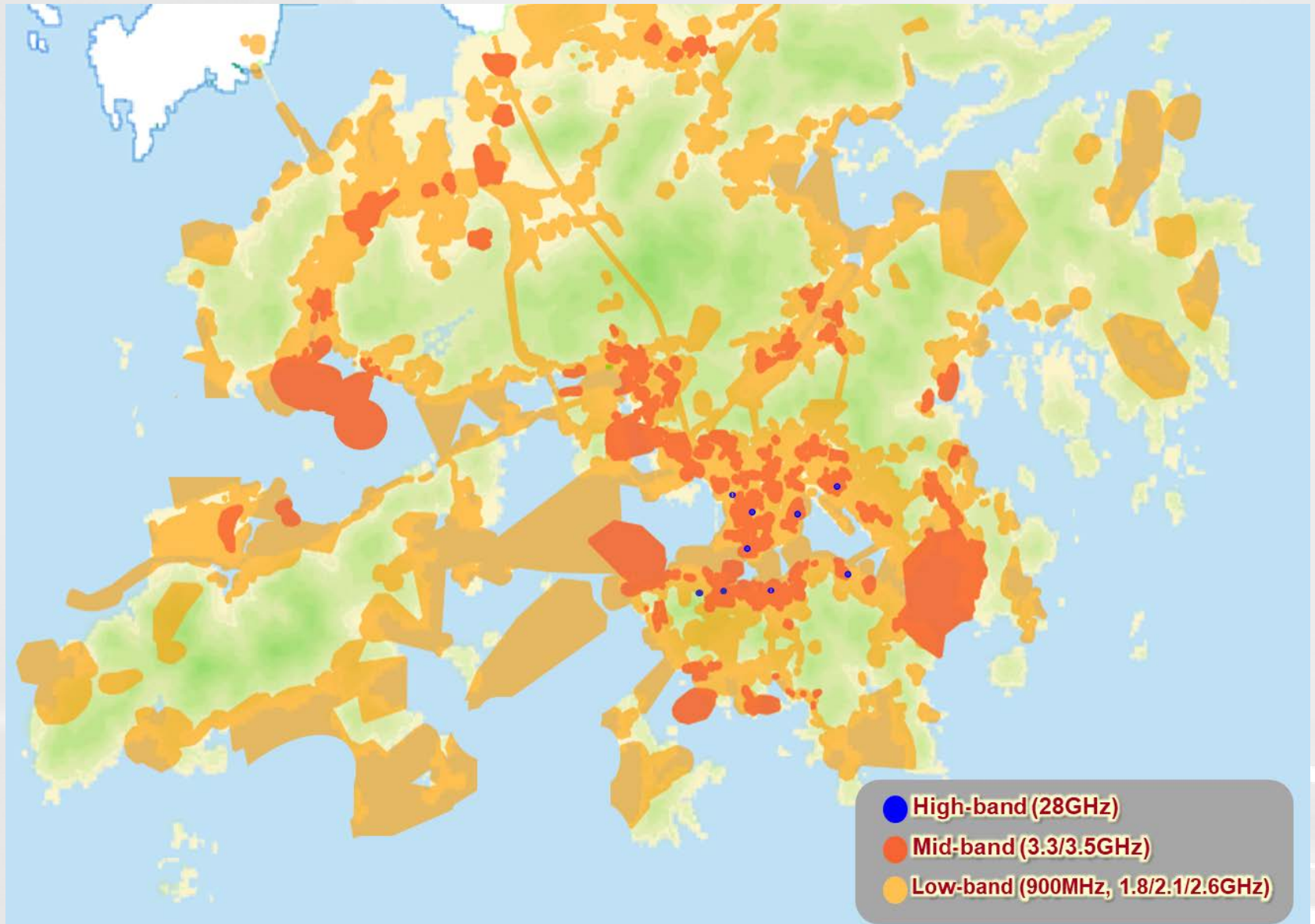
Increased employee
satisfaction

SmarTone chat-bot enhances customer experience and efficiency

- First operator to successfully launch bilingual AI chatbot in Jun 2018
- Available on SmarTone website, SmarTone CARE and WeChat
- 50% of chats now handled by chat-bot
- Expansion of chat-bot to other customer touchpoints



An industry-leading 5G network well-underway



4G/5G integrated network architecture

- 5G overlaid on our industry-leading LTE network
 - Seamless interworking between 4G and 5G for superb user experience
 - Enabling much richer customer experience in innovative 5G use cases, e.g. AR/VR, cloud gaming, and applications for different industries
 - More cost effective than 4G to meet growing data usage going forward
- Multi-layer multi-band architecture
 - Optimised and efficient use of network resources to deliver the best 5G user experience

High-band

For small cells at hotspots to enhance network performance and capacity

Mid-band

For broad outdoor coverage and quality indoor coverage (using 3.3GHz)

Low-band

For territory-wide 5G coverage with good in-building penetration

- 5G launch to take place by mid-2020

Potential enterprise use cases in the 5G era



5G redefines consumer mobile experience

AR



VR



Cloud
Gaming



Multi-view
Broadcasting



Outlook

Anna Yip

Chief Executive Officer

Priorities for coming year

- The mobile industry will remain intensely competitive in the near term
- Recent social events and the coronavirus outbreak have put additional pressure on the economy, in particular, roaming will be significantly affected due to reduced travel
- Vigilant control on investment and costs, with productivity measures to alleviate short-term negative impact and enhance long-term profitability
- Double-down on the core local business by delivering outstanding network performance and superior customer experience
- Focus on the successful launch of 5G which will bring much improved user experience and upgrade opportunity for both consumers and enterprises

Q&A

Appendix –

Financial Information

Reported Group profit & loss

(\$m)	1H FY19	2H FY19	1H FY20
Revenues	5,187	3,228	4,257
Cost of inventories sold	(2,813)	(910)	(1,854)
Staff costs	(364)	(385)	(382)
Other operating expenses	(1,071)	(1,032)	(748)
EBITDA	939	902	1,274
Depreciation, amortisation & disposal	(500)	(518)	(915)
EBIT	439	384	359
Net finance costs	(19)	(4)	(22)
Profit before income tax	420	380	337
Income tax expense	(94)	(88)	(78)
Profit after income tax	326	293	259
Non-controlling interests	6	7	7
Net profit	332	300	265
ROCE ⁽¹⁾	12%	10%	10%
ROE ⁽²⁾	14%	12%	11%

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

(2) Net profit / Average shareholders' equity

Group balance sheet

(\$m)	Jun 19	Dec 19
Fixed assets	2,840	2,631
Financial assets at amortised cost ⁽¹⁾	483	434
Intangible assets	2,765	2,755
Other non-current assets	201	198
Cash & bank balances ⁽¹⁾	2,129	1,895
Contract assets	398	416
Right-of-use assets	-	1,014
Other current assets	1,066	1,248
External borrowings ⁽¹⁾	(2,303)	(2,234)
Contract liabilities	(268)	(293)
Lease liabilities	-	(1,014)
Other current liabilities	(1,975)	(1,619)
Other non-current liabilities	(260)	(343)
Net assets	5,077	5,089
Share capital	112	112
Reserves	4,945	4,964
Total equity attributable to equity holders	5,057	5,076
Non-controlling interests	19	13
Total equity	5,077	5,089
⁽¹⁾ <i>Cash & bank balances</i>	2,129	1,895
<i>Financial assets at amortised cost</i>	483	434
<i>External borrowings</i>	(2,303)	(2,234)
<i>Net (debt) / cash balance</i>	309	94
⁽²⁾ <i>Shares in issue at balance sheet date (million)</i>	1,125	1,122
⁽³⁾ <i>Net book value per share</i>	\$4.5	\$4.5

Effect of HKFRS 16 on 1H FY20 Group Results

(\$M)	non-HKFRS 16 1H FY20	Effect of HKFRS 16	HKFRS 16 1H FY20
Service revenue	2,377	35	2,412
Handset & accessory sales	1,845	-	1,845
Revenues	4,221	35	4,257
Cost of inventories sold	(1,854)	-	(1,854)
Staff costs	(382)	-	(382)
Other operating expenses	(1,116)	369	(748)
EBITDA	870	404	1,274
Depreciation & disposal	(349)	(394)	(742)
Amortisation of mobile licence fees	(143)	-	(143)
Amortisation of customer acquisition costs	(30)	-	(30)
Operating profit (EBIT)	348	10	359
Net finance costs (incl. exchange loss/losses)	(5)	(17)	(22)
Profit before income tax	344	(7)	337
Income tax expense	(79)	1	(78)
Profit after income tax	265	(6)	259
Attributable to:			
Equity holders of the Company	271	(6)	265
Non-controlling interests	(7)	(0)	(7)
	265	(6)	259



SmarTone