



China Unicom (Hong Kong) Limited

2019 Annual Results Announcement Presentation Transcript

Slide 3

- Good afternoon, ladies and gentlemen. I am Jacky, Company Secretary of China Unicom. Welcome to our media conference call.
- First of all, please allow me to introduce the management present today:
- Mr. Wang Xiaochu (Chairman and CEO),
- Mr. Zhu Keping (Executive Director and Chief Financial Officer)
- Mr. Fan Yunjun (Executive Director and Senior Vice President)
- Now, let's invite Chairman Wang to talk about our performance in 2019.

Speaker: Mr. Wang Xiaochu, Chairman and CEO

Slide 4: Agenda

- Good afternoon, ladies and gentlemen. It's my great pleasure to discuss with you China Unicom's results. Due to the coronavirus outbreak, unfortunately, we can't meet in person today, but to discuss via a teleconference. Stay safe and healthy, everyone.
- In today's presentation, I will summarise our overall results in 2019, and Mr. Zhu Keping will then discuss our financial performance. Lastly, the management will take any questions you have.

Slide 5: Highlights

- Highlights of the Company's 2019 results are as follows:
 1. We actively transformed and implemented in-depth mixed-ownership reform, sustainably enhancing growth quality and profitability.
 2. The Company timely adjusted its mobile development priority to drive long-term development and value maximisation.
 3. Our innovative businesses continued to grow robustly with capabilities strengthened.
 4. We rolled out 5G network "co-build co-share" to effectively enhance edges and return.
 5. We have been sharpening our 5Gⁿ unique edges to capture new opportunities and create new value.
 6. And we will further deepen "Five New" establishment to firmly promote high-quality development.

Slide 6: Continuous Profit Growth

- Challenged by the complex internal and external environment, the Company continued to face pressure in revenue growth. To answer the severe challenges, the Company actively deepened transformation and promoted high-quality development. Full-year service revenue achieved turnaround and rose by 0.3% year-on-year to RMB 264.4 billion.
- Benefiting from effective cost control, the Company's profitability continued to enhance. Net profit was RMB 11.3 billion, up by 11.1% year-on-year.

Slide 7: Growth Quality and Return Continued to Improve

- As the Company deepened mixed-ownership reform and execution of the Strategy of Focus, Innovation and Cooperation, its growth quality and return continued to improve in recent years.
- Industry Internet revenue continued to grow rapidly. Its contribution to total service revenue reached 12.4% in 2019. Transformation of our growth drivers is accelerating and our service revenue mix has further optimised.
- Benefiting from sustained good control of CAPEX and efficient operation, we have generated free cash flow of RMB 116.8 billion over the past three years.
- Our profitability continued to enhance and the net profit growth was leading in the industry for three consecutive years. The Company maintains strong fundamentals.

Slide 8: Strong Growth Momentum of Innovative Businesses

- We expedited capability development and scale expansion of our innovative businesses, strengthening its foundation. Our innovative businesses achieved new breakthroughs in 2019. Industry Internet revenue, which encompassed cloud computing, Big Data, IoT, ICT, etc., grew by 43% year-on-year, becoming an important driver of our overall revenue.
- The coronavirus outbreak this year has stimulated demand for informatisation services from the government and enterprises, as well as transformation of personal consumption. The Company will seize the opportunities, continue to enhance its core capabilities, strengthen external cooperation and fully leverage its edges to speed up innovative business development.

Slide 9: Timely Adjusted Mobile Development Priority

- Facing strong headwinds such as speed upgrade and tariff reduction, market saturation, keen market competition and diminishing 4G data bonus, the Company has adjusted its development priority since the second half of last year. We upheld self-discipline on rational and orderly competition, and shifted focus from subscriber scale to subscriber quality and value. We deepened innovative transformation, and rigorously controlled selling expenses and ineffective and low-value products and channels.
- Despite the short-term impact on mobile business development, we believe it will benefit our long-term development and value maximisation. Although our mobile service revenue fell by 5.3% in 2019, our selling and marketing expense declined by 4.6%, effectively driving the net profit to grow by 11%. Meanwhile, we are glad to see the rate of decline of mobile service revenue in the first two months of this year improved vs full year of 2019.

Slide 10: To Drive Mobile ARPU and Revenue Steady-to-Rising

- In 2020, the Company will continue to uphold self-discipline on rational and orderly competition and strive to drive gradual ARPU and mobile service revenue rebound led by 5G innovation.
- The Company will step up promotion of new products integrating “communication capability + smart hardware + content and applications”. We will focus our resources on the development of mid-to-high-end differentiated products and leverage privileges, content and financial tools to enhance product value, while strongly expanding smart home products. We will also leverage Big Data analytics to enhance targeted marketing and customer retention.
- We expect 5G network user growth to accelerate in the second half of this year, in pace with the accelerated network deployment, proliferation and declining price of 5G terminals and more prevalent innovative applications.

Slide 11: Mobile Number Portability (MNP)

- Since mobile number portability was implemented in November last year, consumers can freely choose their desired operators without changing their mobile numbers.
- Riding on MNP, the Company deepened fixed-line and mobile integration, expanded portfolio of bundling, greatly improved network quality to enhance customer perception and strengthened Big Data analytics for precise retention, so as to offer differentiated services and user experience to customers, boost product and service competitiveness and enhance customer acquisition and retention.
- In the first 3 months after the policy implementation, <0.2% of total mobile subscribers ported in or out respectively on a cumulative and voluntary basis.

Slide 12: Broadband Revenue Rebounded Sequentially

- For the broadband business, while facing keen market competition, the Company endeavoured to leverage high-speed and smart home integrated products advantages and constantly enhanced its core competitiveness.
- In the past year, the Company adhered to rational and disciplined competition and rolled out gigabit home broadband experience. We actively built new 2I2H and 2B2H broadband marketing model and focused on the integrated development of "fixed-line broadband + mobile service + smart hardware". We advanced the promotion of smart home products to drive broadband access business, while facilitating other revenue growth.
- Our broadband access revenue and ARPU both rebounded in the fourth quarter of 2019.

Slide 13: Government and Enterprise Business Achieved Scale Breakthrough

- For the government and enterprise business, the Company innovatively adopted the integrated business model of "cloud + smart networks + smart applications".
- We strengthened eco-system cooperation and actively collaborated with leading players in certain industries to create typical applications. We built cloud-based capability platform and industry Internet solutions, so as to promote the mutual development of innovative business and fundamental business and achieve scale breakthrough.
- In 2019, the Company's cloud computing revenue grew by 147%, driving leased line service revenue to grow by 11% year-on-year and government and enterprise customer revenue to grow by 14% year-on-year.

Slide 14: Mixed-ownership Reform Continued to Deliver

- The Company implemented in-depth mixed-ownership reform. In 2019, we deepened cooperation with strategic investors, leveraging our partners' strengths to boost new energy for development.
- In terms of system and mechanism reform, we further streamlined and advanced re-organisation. We made progress in all production sub-division reform with 24,000 mini-CEOs selected.
- A total of over 7,000 talents have been introduced into our innovative businesses.
- We continued to push forward market-oriented incentive mechanism reform and strengthened pay-for-performance. Unlocking of phase I of the employee restrictive shares scheme was approved.
- We also expanded mixed-ownership reform to subordinate companies to lift vibrancy and promote growth.

Slide 15: 5G Network Deployment

- For 5G network development, the Company is committed to a highly efficient, well-paced and focused approach while fully leveraging "co-build co-share" advantages. We will conduct dynamic and precise investment with due regard to technology advancement (especially R16 standard), 5G terminal supply, value chain maturity, market and business demand, etc. While significantly saving capital expenditure and operating costs, we aim to achieve 5G network quality comparable with the leading operator.
- The Company's 5G CAPEX for 2019 was RMB 7.9 billion with over 60,000 5G base stations available for use, transitioning 5G service from initial trial to commercialisation.
- In 2020, the Company will roll out 5G network in scale. 5G CAPEX budget is about RMB 35.0 billion. We will co-build and co-share with China Telecom 250,000 5G base stations covering all cities in China, targeting to complete by the third quarter this year. We will also commence 5G network upgrade to SA (standalone) with commercialisation during 2020.

Slide 16: 5G Network “Co-build Co-share” Sharpens Edges and Return

- By co-building and co-sharing a single 5G access network nationwide with China Telecom, our network deployment pace, coverage, speed, bandwidth and capacity all double, and we can achieve substantial savings in CAPEX and recurring operating costs, effectively enhancing our edges and return.
- Currently, 50,000 5G base stations are already co-shared. The two companies already achieved RMB10.0 billion in CAPEX savings together. However, this is just the beginning. As the 5G network scale build-out continues, the potential CAPEX and operating cost savings will be huge.
- In the future, the Company will expand “co-build co-share” with China Telecom to 4G DAS, equipment rooms, optical fibres, pipelines, etc., further sharpening our network competitiveness and value.

Slide 17: 5G – Consumer Market

- Facing the new opportunities brought by 5G and industry upgrade, the Company will first of all strengthen value-chain ecosystem cooperation and market cultivation, especially on 5G innovative applications, to lay a solid foundation for future fast revenue growth and value enhancement. We expect 5G revenue contribution will accelerate over time. Short-term revenue drivers mainly come from eMBB (enhanced mobile broadband) and the consumer market, such as 4K/8K videos, AR/VR, cloud gaming, etc.
- The Company will extensively promote value-chain cooperation to empower consumer Internet market development. We will strengthen the differentiated advantages in 5G+eSIM and terminal operations and leverage agile supply chains to expand product boundary and value chain cooperation. In terms of channels, we will focus on 5G touchpoints and scenario-based targeted marketing.

Slide 18: 5G – Government and Enterprise Customer Market

- We expect mid-to-long-term 5G revenue drivers will expand to encompass mMTC (massive machine type communication), URLLC (ultra-reliable and low-latency communication) applications, especially enterprise applications.
- Capitalising on 5G, the Company will focus on key industries, leverage its IT system which allows nationwide cooperation enabled by a single connection and collaborate with industry leaders to accelerate integrated and innovative development. We have successfully developed 30 showcase projects, such as the smart Qingdao port.
- Besides, we have successfully incubated a number of innovative 5G industry application products and swiftly replicated them nationwide.
- The Company attaches high regard to 5G industry eco-system development. Our 5G Application Innovation Alliance has already developed over 600 members and we have established 15 5G joint laboratories with our partners, furthering enhancing our influence in the industry.

Slide 19: China Unicom 5Gⁿ Unique Edges

- The Company possesses a number of 5G unique edges:
 1. Potential collaboration with 14 strategic investors and benefits from market-oriented system and mechanism reform, leveraging mixed-ownership reform
 2. Centralised IT capability
 3. Well-established Internet-oriented mindset and operation
 4. Fast growth of innovative businesses underpinning future 5G application development and roll-out
 5. We can efficiently enhance edges and return via network “co-build co-share”
- In the 5G era, the Company will continue to fully leverage its competitive advantages to drive revenue growth and value enhancement in the future.

Slide 20: Dividend Hike Tracked Profit Growth

- The Company has high regard on shareholder returns. With due regard to profitability, debts, cash flow and capital requirements for future development, etc., the Board recommended to pay a final dividend per share of RMB 0.148, representing a dividend payout ratio of 40%. The Company will continue to strive to enhance profitability and shareholder returns in future.

Slide 21: Strive to Turn Adversity into Opportunities in addition to Precise Epidemic Control

- Since the beginning of this year, facing the novel coronavirus outbreak, the Company has been proactively undertaking social responsibility to support precise epidemic control.
- The outbreak poised short-term challenges to the Company, especially in terms of business development, customer acquisition, 5G deployment, risk of bad debt, etc. As the epidemic is gradually under control and resumption of work and production gradually pick up, we believe the pent-up demand will be gradually unleashed and overall business activities will also progressively improve.
- The outbreak has also accelerated demand by economy and society for transformation on digitisation, cyberisation and intelligence, thereby creating new opportunities to the Company. The Company will accelerate Internet-oriented operation transformation, innovate on communications service offerings, strengthen O2O integrated operation and actively promote informatisation application products such as “5G + thermal imaging” body temperature screening, remote diagnosis, remote office, remote education, striving to turn adversity into opportunities.

Slide 22: Promote High-quality Development

- Looking forward, although we continue to face the impact of keen market competition in traditional businesses and “Speed Upgrade and Tariff Reduction”, as well as new challenges such as 5G investment and the impact of the novel coronavirus outbreak, we remain confident in actively responding to the challenges through grasping the valuable opportunities resulting from technological development and industry reform, committing to the strategy of Focus, Innovation and Cooperation and firmly promoting the comprehensive Internet-oriented operation. Mixed-ownership reform will be further advanced as we pursue the goals of “enhance value, pursue growth, solidify fundamentals and be passionate”, leading to a new page of high-quality development.
- Next, I will pass the stage to our CFO, Mr. Zhu Keping, to talk about our financial performance in 2019.

Speaker: Mr. Zhu Keping, Executive Director and Chief Financial Officer

Slide 24: Key Financial Information

- Thank you, Chairman Wang. Now let's discuss our financial performance in 2019.
- This table shows the Company's key financial information in 2019. Operating revenue was down by 0.1%. Benefiting from effective cost control, operating profit rose by 23.4%. Net profit increased by 11.1%. The Company's growth quality continued to enhance. Let's take a look at the detailed analysis next.

Slide 25: Effective Cost Control

- In 2019, the Company exercised effective cost control. Operating expenses were down by 0.9%, outpacing the operating revenue by 0.8pp.
- In particular, selling and marketing expense was down by 4.6%, mainly due to rigorous control of customer acquisition costs.
- G&A expense increased by 12.9%, mainly because the Company appropriately increased spending to support innovative business growth.

Slide 26: Key Financial Data Impacted by IFRS 16

- Comparable financial data excluding the impact of IFRS 16 are as follows:
- Depreciation and amortisation was down by 4.3%, which mainly benefited from good control of CAPEX in recent years.
- Network costs decreased by 0.9%, which mainly benefited from the effective control of maintenance costs and lower utility charges. Within that, tower usage fee grew by 10.4%, mainly due to the increased tower usage brought by newly added 4G and 5G base stations.
- EBITDA fell by 2.5% on a comparable basis, mainly due to increased initiative in industry Internet business.
- Benefiting from the lower average interest-bearing debts during the year backed by healthy free cash flow, finance costs decreased by 52.4%.

Slide 27: Efficient and Precise Investment to Create Value

- For network deployment, the Company focused on deploying a premium network with precise investment. We prioritised investment to satisfy “5G+4G” premium network, innovative business and other demands.
- For 2019, the Company’s total CAPEX was RMB 56.4 billion, of which 5G CAPEX was about RMB 7.9 billion. During the year, our network quality and customers’ perception continued to rise in the focused regions.
- In 2020, the Company will leverage co-build and co-share advantages and invest dynamically and precisely to enhance its network advantages and corporate value. CAPEX budget is about RMB 70.0 billion, of which 5G CAPEX is about RMB 35.0 billion.

Slide 28: Network Edges Further Strengthened

- Through co-build and co-share, we had over 60,000 5G base stations in service in 2019, of which the Company built over 40,000 base stations.
- The number of 4G base stations reached 1.41 million, of which 240,000 are L900 base stations. The depth of coverage and wide coverage in rural area of our 4G network significantly improved. VoLTE service commercialised nationwide.
- In 2020, the Company will co-build and co-share 250,000 5G base stations with China Telecom covering all prefectural cities nationwide, targeting to complete by the third quarter of this year. We will further improve LTE 900MHz coverage and suspend other 4G investment and projects of no business urgency.

Slide 29: Strong Cash Flow and Financial Capacity

- With the deepened execution of our corporate strategy and advantages of mixed-ownership reform being gradually unleashed, the Company’s financial position further optimised.
- In 2019, the Company’s free cash flow reached RMB 26.4 billion, with the free cash flow yield remaining strong at 12.6%. Liabilities-to-assets ratio fell for three consecutive years, from 62.9% at end of 2016 to 39.3% at end of last year. Our financial strength significantly enhanced, making us well-positioned to capture new 5G opportunities and create new value.

Slide 30: To Elevate Shareholder Value through Quality and Efficiency Enhancement

- In 2020, the Company will insist on high-quality development:
 - We will activate operating assets with innovation to improve efficiency.
 - Continue to improve the strategy execution system by better aligning with budgeting and performance assessment to achieve closed-loop management.
 - Strengthen value management with focus on free cash flow; enhance cash flow management by aligning investment with return and outgoings with revenue.
 - Timely optimise management mechanism and workflow to meet the needs in transformation.
 - Continue to strengthen audit control and risk management mechanisms in order to drive quality and efficiency enhancement and create greater value for our shareholders.

-End-

Forward-Looking Statements

Certain statements contained in this presentation may be viewed as “forward-looking statements” within the meaning of Section 27A of the U.S. Securities Act of 1933 (as amended) and Section 21E of the U.S. Securities Exchange Act of 1934 (as amended). Such forward-looking statements are subject to known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. In addition, we do not intend to update these forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company’s most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the “SEC”) and in the Company’s other filings with the SEC.

Disclaimer

Although we try to accurately reflect speeches delivered, the actual speech as it was delivered may deviate from the script made available on our website.