



China Unicom (Hong Kong) Limited

2019 Interim Results Announcement Presentation Transcript

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.
- In today's presentation, I will report the Company's overall results in the first half of 2019, and Mr. Li Guohua and Mr. Zhu Kebing will further discuss our operating and financial performance, followed by the Q&A session.

Slide 5: Highlights

- Highlights of the Company's results and development in the first half of this year are as follows:

First, we deepened execution of the Strategy of Focus, Innovation and Cooperation to actively transform and overcome new challenges facing the industry.

Second, we implemented mixed-ownership reform in depth, bringing notable enhancement in growth quality and return.

Third, our innovative businesses registered robust growth and became the key revenue driver.

Fourth, we will capture new opportunities and create new value by nurturing and consolidating China Unicom's 5Gⁿ unique edges.

Lastly, we will accelerate "Five New" establishment, striving for a new paradigm of high-quality development.

Slide 6: Profit Continued to Grow Remarkably

- In the first half this year, the domestic telecom industry saw the short-term pain of revenue decline. Amid the complex external environment and new challenges facing the industry, the Company adhered to the Strategy of Focus, Innovation and Cooperation, drove reform and transformation, controlled cost and raised return. Our overall development remained healthy and steady.
- Service revenue was down by 1% year-on-year.
- Profit continued to grow remarkably. Net profit increased by 16% year-on-year to RMB 6.9 billion.

Slide 7: Sustained Enhancement in Growth Quality and Return

- As the Company deepened execution of the Strategy of Focus, Innovation and Cooperation and mixed-ownership reform in past years, its transformation further accelerated.
- Industry Internet revenue registered robust growth. Its contribution to the overall service revenue gradually increased to 12.6% in the first half of this year, driving further optimisation of our service revenue mix.
- Net profit grew remarkably every year. Free cash flow reached record high in the past two years and remained strong at RMB 15.8 billion in the first half of this year, as we sustainably enhanced our growth quality and return.

Slide 8: Actively Addressed New Challenges in Mobile Business

- In the first half, facing speed upgrade and tariff reduction, market saturation, keen market competition and diminishing 4G data bonus, the Company persisted in differentiated and Internet-oriented operation, avoiding simple price competition to safeguard corporate value.
- In the second half, the Company will continue to pursue differentiated and Internet-oriented operation, rigorously control customer acquisition cost and ultra-low tariff plans. We will gradually leverage the edges of the new LTE 900MHz network, strengthen integrated offerings and strive to develop new customers and enhance customer value. As the carryover effect of the cancellation of mobile data roaming fee subsides, the Company will strive to drive mobile service revenue steady-to-rising. We are glad to see that mobile service revenue in July was up by 1.6% vs June.

Slide 9: Strong Growth Momentum of Innovative Businesses

- In the first half, the Company focused on capability development and scale expansion of innovative business. We promoted a new integrated sales model combining “Cloud + Smart networks + Smart applications”, focusing on key industry application products. We deepened business and capital cooperation with strategic investors and industry leaders. We also continued to optimise system, mechanism and talent development for innovative businesses.
- In the first half, Industry Internet revenue was up by 43% to RMB 16.7 billion. When its growth continued to accelerate, Industry Internet became the Company’s key revenue driver. In the future, the Company will leverage scale benefits to progressively expand margin.

Slide 10: Mixed-ownership Reform Continued to Deliver

- As we implemented mixed-ownership reform in depth, the Company continued to deliver notable results in strategic cooperation and system and mechanism reform. Our innovative development continued to strengthen while our fundamental business was effectively lifted. Corporate vibrancy and efficiency continued to enhance, driving returns for both shareholders and employees.

Slide 11: Ongoing Effort on System and Mechanism Reform

- Aiming to lift vibrancy, promote growth and control cost, we advance system and mechanism reform on an ongoing basis.
- We executed streamlining and re-organisation 2.0 and drove sub-division reform in all production units. We encouraged employees to move to innovative businesses and sub-divided units, further optimising organisation and staff structure.
- We continued to enhance market-oriented incentives to activate the innovation and vitality of micro-entities. Following the successful launch of our A-share Company restricted share incentive scheme, we also established employee stock ownership schemes at subordinate companies.

Slide 12: Expanded Mixed-ownership Reform to Subordinate Companies

- Meanwhile, mixed-ownership reform at subordinate companies is speeding up. Our Yunnan branch has contracted out all operations in the whole province to private companies. Two other subordinate companies, namely our Big Data company, Smart Steps and our IoV company, Smart Connection, both raised capital from strategic investors.
- Going forward, the Company will actively explore mixed-ownership reform at subordinate companies, and leverage market forces to strengthen new energy for innovative development.

Slide 13: China Unicom 5Gⁿ – New Opportunity, New Value

- For 5G, MIIT granted in June to China Unicom the license to operate 5G services nationwide.
- The Company will carry out focused, precise, effective and paced investment, and strive for network “co-build co-share” to enhance investment return.
- In consumer market, our network deployment will focus on major city clusters and other provincial capital cities with scale and quality, elevating our 5G brand influence and competitiveness. Nationwide commercialisation will begin from 2020 onwards with network architecture migrating toward SA. Meanwhile, for vertical markets, we have established 5G Application Innovation Alliance and 5G Joint Innovation Lab to unite various supply chain partners and develop new applications and revenues through open cooperation.

Slide 14: Strive for 5G Network “Co-build Co-share”

- To enhance industry value and investment return, the Company strives for 5G network “co-build co-share”. Through “co-build co-share” and better synergy, we could:
- Speed up 5G network deployment,
- Save on CAPEX and network operating costs,
- Ensure that customers can experience seamless service upgrade in the regions of “co-build co-share” without replacing SIM and mobile number for 5G service, and
- Share resources to let customers enjoy compelling experience and raise subscriber quality.
- We will timely disclose once a cooperation agreement is reached.

Slide 15: China Unicom 5Gⁿ Unique Edges

- 5G will bring new business opportunities. We are well positioned and possess of notable 5G unique edges, including:
- Rich experience in open cooperation, well-established Internet-oriented mindset and operation experience, and 5G spectrum value chain advantages.
- We can leverage the resources and edges of our 14 strategic investors and benefits from market-oriented system and mechanism reform.
- Fast growth of our innovative businesses will also underpin future 5G application development and roll-out.
- Furthermore, we have a track record of highly-efficient and precise investment.
- Going forward, we are confident in capturing 5G opportunities with our partners to enhance our corporate value.

Slide 16: Drive High-quality Sustainable Growth

- In the second half, there will be both opportunities and challenges. The Company will overcome the challenges, seize opportunities and actively practise new development philosophies. We will be persistent in the execution of the Strategy of Focus, Innovation and Cooperation, advance Internet-oriented transformation, deeply advance the mixed-ownership reform, and shape critical capabilities, striving to establish China Unicom's "Five New" and a new paradigm of high-quality development!
- Next, we will have Mr. Li Guohua to present the Company's operating performance.

Speaker: Mr. Li Guohua, Executive Director and President

Slide 18: Revenue Breakdown

- Thank you, Chairman Wang. Now let me share the Company's operating performance in the first half.
- This table shows our revenue breakdown and changes. I will explain in further details in the following.

Slide 19: Strive to Drive Mobile Service Revenue Steady-to-Rising

- In mobile business, the Company insisted on differentiated operation to address the challenges facing the industry, striving to drive mobile service revenue steady-to-rising. In the first half, our mobile service revenue declined year-on-year, but has stabilised sequentially since the fourth quarter of last year.
- In the second half, the Company will step up promotion of new products, shifting toward high quality growth. We will highlight our differentiated advantages like membership privileges and provide customers with customised products through targeted marketing. We will also enhance customer value and retention. Furthermore, we will build a premium "5G+4G" network to better support business development, striving to drive mobile service revenue steady-to-rising.

Slide 20: Prepare Ahead for Mobile Number Portability

- Meanwhile, the Company is preparing ahead for mobile number portability. We will deepen fixed-line and mobile integration, widen the scope of bundling, step up LTE 900MHz network deployment and optimisation, and carry out targeted retention measures by using Big Data analytics, in order to offer differentiated services and user experience for better customer acquisition and retention.

Slide 21: Actively Counter Exceptionally Intense Broadband Competition

- For broadband, the Company is still facing exceptionally intense market competition. Broadband access revenue decreased by 4.1% year-on-year. Broadband subscribers increased by 2.53 million, better than the first half of last year.
- The Company highlights quality, high-speed and smart home products advantages to actively counter competition.
- In key markets, we will promote Gbps-level high-quality broadband products to enhance competitiveness. We will further raise network utilisation and deeply push forward cooperation with private capital in Southern China to enhance network capability. We will adopt new 2I2H and 2B2H broadband marketing models. We will also advance the promotion of smart home products, and strengthen integrated offerings to drive mutual development.

Slide 22: Government and Enterprise Business Achieved Scale Breakthrough

- For the government and enterprise market, the Company fully leveraged Cloud-Network integration advantages, and promoted the mutual development of innovative business and fundamental business with an integrated business model of “cloud + smart networks + smart applications”.
- In the first half, our government and enterprise business achieved scale breakthrough. Government and enterprise customer revenue increased by 14% year-on-year. Within that, cloud revenue increased by 167% and leased line service revenue increased by 17% year-on-year.

Slide 23: Kick Off the Comprehensive Internet-oriented Transformation 2.0

- The Company continued to push ahead Internet-oriented transformation.
- For frontline operation, we promoted Internet-oriented transformation in products, marketing and channels to create new experience and value for customers.
- For backend support, we promoted Internet-oriented transformation in network, IT and management to empower the frontline and improve operational efficiency.
- As Internet-oriented transformation in various areas is deepened in a coordinated manner and the Internet-oriented platform and ecology are quickly established, the Company's differentiated advantages and core competitiveness will be further strengthened.

Slide 24: Deepened Cooperation with Strategic Investors (1)

- In the first half, the Company deepened cooperation with strategic investors.
- For touchpoints, we further expanded Internet touchpoints and privilege cooperation with Internet companies, and made use of e-vouchers to launch cross-sector cooperation. 2I2C subscribers reached nearly 100 million.
- In payment and finance, we partnered with strategic investors to promote WO Wallet, credit instalment services, financial anti-fraud products and financial products based on credit risk control models.
- In terms of content, we introduced quality content from iQiyi and Tencent Video to enhance product competitiveness.
- For smart home, we deeply integrated our fundamental telecommunication capabilities with the smart hardware and content applications of Internet companies to create new and competitive products.

Slide 25: Deepened Cooperation with Strategic Investors (2)

- For cloud computing, Big Data, IoT, Industry Internet, AI and telecommunications, we deepened business and capital cooperation with strategic investors, consolidated our edges and resources to create a powerful alliance, so as to expedite innovative business growth and build up energy for our innovative development.

Slide 26: 5G Commercial Service Poised to Roll Out

- With the 5G license granted, 5G commercial service is poised to roll out. With regard to the supply of terminals, we expect 5G service will officially roll out in key cities in September.
- At the initial stage, eMBB will be the key service. We will showcase the high-speed edge, while simultaneously enhancing other service scenario.
- Eyeing on user demand and revenue growth, we will also actively create 5G capability aggregation and open platform, and introduce featured services including VR/AR, HD video and cloud gaming, etc.
- Meanwhile, we will also actively expand 5G industry applications.

Slide 27: Accelerate Development of 5G New Applications and New Revenues

- For 5G innovative applications, we will create test beds of new blue ocean and incubate unicorns. We focus on key industries such as new media, industrial Internet, transportation, education, medical care and cultural tourism, etc., creating typical 5G showcase applications. Through 5G Application Innovation Alliance, we will accelerate industry products incubation, and incorporate 5G+ABC elements into existing industry solutions to create differentiated competitive advantages.

Slide 28: Precise Investment with Focus and Cooperation

- For network deployment, the Company insists on “precise investment with focus and cooperation”. Full year CAPEX budget including 5G is about RMB 58.0 billion. We will prioritise investment to satisfy “5G+4G” premium network and innovative business, etc., facilitating effective business growth.
- In the first half, CAPEX was RMB 22.0 billion. While capital investment were effectively controlled, our network quality and customers’ perception in focused regions continued to rise.
- The Company’s 5G investment will be precise, efficient and demand-driven. We strive for network “co-build co-share” to reduce costs. This year, we plan to build at least 40,000 5G base stations. Meanwhile, investment will be demand-driven for 2B market with sound business models. Future 5G deployment will be on focused, precise and dynamic basis with regard to technology advancement, market and business demand, etc., keeping in pace with the industry deployment.

Slide 29: 2H2019 Priorities

- In the second half, the Company’s priorities are as follows:
- To uphold cooperation and actively deploy 5G
- To effectively penetrate in sub-divided markets assuring steady development of fundamental business
- To create innovative capabilities and strengthen innovative business
- To regulate business practices and maintain healthy ecology
- To persist in building a comprehensive and customer-first servicing system
- To strengthen network and IT support capabilities
- And to fully unleash the system and mechanism advantages of reforms
- The Company will devote itself to achieving breakthroughs in “Five New” establishment and high-quality development.
- Next, I will pass the stage to our CFO, Mr. Zhu Kebing, to talk about our financial performance.

Speaker: Mr. Zhu Kebing, Executive Director and CFO

Slide 31: Key Financial Information

- Thank you, President Li. Now let me report our financial performance in the first half.
- This table shows the Company's key financial information in the first half. Operating revenue was down by 2.8% year-on-year. Operating profit rose by 9.8%. Net profit increased by 16.3%. The Company's growth remained steady and healthy.
- Let's take a look at the detailed analysis next.

Slide 32: Effective Cost Control

- In the first half, the Company exercised effective cost control. On a reported basis,
- Interconnection charges and the costs of telecommunications products sold were down by 13.6% and 15.7% respectively.
- The cost items increased including:
- Selling and marketing expense up by 5.9%,.

Slide 33: 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 5.3%, which mainly benefited from good control of CAPEX in recent years.
- Network costs decreased by 4.8%, which mainly benefited from the effective control of maintenance costs and lower utility charges.
- Benefiting from the lower average interest-bearing debts during the period backed by healthy FCF, finance costs decreased by 56.1%.

Slide 34: Network Edges Further Strengthened

- Our CAPEX in the first half was RMB 22.0 billion, of which 58% was spent on mobile network and 15% was spent on fixed-line broadband and data.
- As of the end of June, the total number of 4G base stations, counting both outdoor macro sites and indoor DASs, reached 1.35 million, of which 180,000 were LTE 900MHz base stations. Our 4G network significantly improved in terms of the depth of coverage and wide coverage in rural area. 200,000 NB-IoT base stations are in operation, laying a foundation for IoT network upgrade. Our network is also VoLTE ready nationwide. We have deployed 17,000 5G base stations and kicked off friendly users trial.
- Full-year CAPEX budget is maintained at around RMB 58.0 billion.

Slide 35: Strengthened Financial Position to Support New Value Creation in Future

- With the deepened execution of our corporate strategy and advantages of mixed-ownership reform being gradually unleashed, the Company's financial position continued to strengthen. In the first half, our free cash flow remained robust at RMB 15.8 billion. On a comparable basis, our liabilities-to-assets ratio fell sharply from 61.4% in at the end of June 2017 to 40.3% at the end of June this year, which was also 3.5pp lower than the end of June last year.
- The Company's financial strength materially improved, laying a solid foundation for capturing 5G new opportunity and creating new value in future.

Slide 36: To Elevate Shareholder Value through Quality and Efficiency Enhancement

- In the second half, the Company will insist on high-quality development:
- We will continue to enhance budgeting, appraisal and compensation systems with emphasis on value creation.
- We will deepen sub-division reform in all production units and optimise mechanism for sharing of incremental returns.
- We will enhance asset return benchmarking and asset management of total life cycle.
- We will reform total cost management and strengthen process analysis and control.
- We will also continue to strengthen internal control and audit to ensure secure and regulated operations, in order to drive quality and efficiency enhancement and create greater value for our shareholders. Thank you.

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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.

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