



China Unicom (Hong Kong) Limited

2020 Interim 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. Mai Yanzhou (Senior Vice President),
 - Mr. Liang Baojun (Senior Vice President),
 - Mr. Zhu Keping (Executive Director and Chief Financial Officer),
 - Mr. Fan Yunjun (Executive Director and Senior Vice President),
 - Mr. He Biao (Senior Vice President)
- Now, let's invite Chairman Wang to talk about our performance in the first half of 2020.

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 in Hong Kong today, but to discuss via a teleconference. Stay safe and healthy, everyone.
- In today's presentation, I will summarise our overall results in the first half of 2020, 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 results in the first half are as follows:
 1. We sustainably enhanced growth quality and profitability through active transformation and in-depth mixed-ownership reform
 2. The adjustments in mobile development priority delivered initial success
 3. Fixed-line business re-ignited rapid growth by empowering government and enterprise customers
 4. Innovative businesses continued to grow robustly with huge value embedded
 5. We successfully achieved 5G network "co-build co-share", effectively enhancing edges and return
 6. And we will push forward comprehensive digital transformation to firmly promote high-quality development

Slide 6: Resilient Results amid Epidemic

- In the first half, the Company proactively responded to the challenges brought by the COVID-19. By accelerating comprehensive digital transformation and innovating communications service offerings, we strived to turn adversity into opportunities. Our business continued to improve.
- Our service revenue increased by 4.0% year-on-year to RMB 138.3 billion, which was faster than the industry revenue growth of 3.2%. Our growth was leading in the industry.
- The Company's profitability further enhanced. Net profit was RMB 7.6 billion, up by 10% year-on-year.

Slide 7: Growth Quality and Return Continued to Improve

- The Company remained determined with the Strategy of Focus, Innovation and Cooperation. We continued to push forward proactive transformation. Our growth quality and return kept improving in recent years.
- Our service revenue mix was further optimised. Industry Internet revenue contributed to 16% of our total service revenue in the first half.
- Benefiting from sustained good control of CAPEX and efficient operation, we have generated free cash flow of over RMB 100 billion over the past years.
- Our net profit continued to grow robustly. The Company maintains strong fundamentals.

Slide 8: Adjustments in Mobile Development Priority Delivered Initial Success

- Facing new challenges in the industry development, the Company was determined to proactively adjusting the development priority of mobile business. We shifted focus from subscriber scale to quality and value and strengthened Internet-oriented transformation and innovative differentiated operations. We also stepped up 5G customer acquisition in a paced and targeted manner. These efforts have delivered initial success, driving value enhancement.
- Adjustments inevitably come with short-term pain. In the first half, we saw nearly 9 million mobile subscriber loss and mobile service revenue declined by RMB 2.2 billion year-on-year.
- However, our selling and marketing expense decreased by RMB 2.6 billion. Our mobile service revenue and ARPU rebounded sequentially in the second quarter by 3% and 4% respectively.

Slide 9: Mobile ARPU and Revenue Trended Steady-to-Rising

- On a year-on-year basis, our mobile business was also trending well. Our mobile service revenue growth has been improving month by month since April and rebounded to positive growth year-on-year in June and July.
- The Company continued to promote consumption upgrade through 5G innovative applications. We leveraged privileges, content and financial tools to improve product value, while strongly enhancing pan-integration penetration. We optimised performance management system, and deployed Big Data analytics to enhance targeted marketing and customer retention. Going forward, with accelerated 5G network deployment, proliferation and declining price of 5G terminals as well as more prevalent innovative applications, our 5G subscriber growth is expected to accelerate in the second half, driving sustainable growth in mobile ARPU and service revenue.

Slide 10: New Growth Engine in a New Era

- “New Infrastructure” policy and COVID-19 further boosted demand for digitisation, cyberisation and intelligent transformation of the economy and society. The Company seized the opportunities and pushed forward the integrated development of innovative and fundamental businesses for mutual promotion. We actively leveraged proprietary resources and edges in network, service and mixed-ownership reform cooperation, etc. to empower government and enterprise customers and enhance family customer experience and value.
- In the first half, the rapid growth of broadband access, smart home products, IDC and cloud computing, etc. drove our fixed-line service revenue to grow by 14% year-on-year.

Slide 11: Strong Growth Momentum of Innovative Businesses

- The Company expedited capability development and scale expansion in industry Internet business. We continued to strengthen our foundation, focus on key areas and proactively establish leading edges. In the first half, industry Internet maintained strong growth momentum with revenue reaching RMB 22.7 billion, up by 36% year-on-year. It has become our key revenue growth driver.
- Going forward, the Company will deeply push forward industry cooperation, speed up product standardisation and scale replication, and actively nurture innovative 5G + vertical applications, endeavouring to deliver faster growth in the new digital era.

Slide 12: IDC Business – Capture “New Infrastructure” Strategic Opportunities

- The Company is equipped with strong competitive advantages in IDC business.
- Through our integrated services combining IDC + cloud + networks + applications, we can offer total solutions to customers. Backed by the Group’s extensive resources, our IDC business enjoys remarkable cost efficiency.
- Our rich network of 551 IDCs nationwide yield significant scale benefit with centralised operation. We plan to invest RMB 2 billion focusing on high value and high demand areas this year. Over half of the new cabinets will be located in tier-1 cities. The number of cabinets in operation is expected to reach 280,000 by the end of this year.
- In the first half, the average utilisation of our cabinets exceeded 60%. Our IDC revenue was RMB 10.1 billion, up by 22% year-on-year.

Slide 13: Government and Enterprise Business Achieved Scale Breakthrough

- For the government and enterprise business, the Company promoted the mutual development of innovative business and fundamental business with “cloud + networks + smart applications”. We focused on key areas and key regions, built lighthouse projects and explored innovative 5G business models. We built centralised platforms for replicated use of fundamental capabilities and enhanced R&D centralisation and product standardisation, in order to push forward scale development and efficiency improvement.
- In the first half, cloud computing revenue rose by 82% and leased line service revenue rose by 3%, effectively driving government and enterprise revenue to grow by 14%.

Slide 14: Broadband Service Sustained Positive Trend

- In the first half, the epidemic prompted demand for broadband network deployment and speed upgrade. The Company showcased its high-speed and smart home products advantages. We adhered to rational and disciplined competition while promoting “3 gigabit integrated products” in incumbent regions in Northern China and provincial capitals in Southern China. We deeply pushed forward broadband cooperation in Southern China, and advanced the promotion of smart home products, facilitating the rapid growth of broadband access and other revenue. We focused on creating new edges such as integrated operation of marketing, maintenance and service, synergised operation of business and network.
- In the first half, our broadband access revenue and ARPU continued to climb.

Slide 15: 5G Network Deployment

- For 5G network development, the Company maintained a focused approach while advancing 5G network “co-build co-share” with China Telecom in a coordinated manner.
- In the first half, our 5G CAPEX was about RMB 12.6 billion. We added about 150,000 5G base stations with China Telecom, with the total number of 5G base stations reaching 210,000 and achieved contiguous 5G coverage in about 50 cities. In addition, we are actively pushing forward 5G network upgrade to SA, assuring commercialisation in the fourth quarter.
- The Company conducts dynamic investment with due regard to technology advancement, value chain maturity, market and business demand, etc. Full-year 5G CAPEX budget is RMB 35 billion. We strive to add 250,000 5G base stations with China Telecom, targeting to complete by the end of the third quarter, then we will have over 300,000 5G base stations in service covering all prefectural cities nationwide.

Slide 16: Successfully Achieved 5G Network “Co-build Co-share”

- Through 5G network “co-build co-share”, we have effectively sharpened our network edges and investment return. Our 5G network deployment pace, coverage and speed all double, boosting our customers’ experience and partners’ confidence. The two operators altogether saved over RMB 40 billion in CAPEX and substantial OPEX including tower usage fee, network maintenance costs and energy charges.
- To magnify “co-build co-share” benefits, the Company has expanded network sharing with China Telecom. We are driving 4G network sharing in scale to fast rectify network shortcoming economically. We are also promoting “co-build, co-share and co-maintenance” of transmission resources such as pole lines, pipelines, etc. to facilitate more efficient use of resources.

Slide 17: 5G – Consumer Market

- In the first half, the Company drove 5G business growth in an orderly manner.
- In the consumer market, we are dedicated to assuring customer experience and value enhancement. As such, we promoted 5G packages in a paced and targeted manner aligning with the progress of 5G network deployment and 5G handset supply.
- While consumer 5G application is still a bottleneck, we introduced featured services such as HD/4K/8K video, AR/VR, cloud gaming, etc. We promoted extensive value-chain cooperation to build a 5G pan-smart device ecosystem. We focused on 5G touchpoints and O2O integration to enrich content offerings and simplify the sign-up process.
- In the second half, our 5G subscriber growth is set to accelerate as 5G network, terminals and applications gain maturity.

Slide 18: 5G – Government and Enterprise Customer Market

- Facing the huge growth potential for 5G government and enterprise market, the Company focused on industrial Internet, smart cities, healthcare, etc., accelerated industry products incubation and incorporated 5G+ABC elements into industry solutions to create unique competitive advantages. We also promoted the industry eco-system growth with the solid development of "China Unicom 5G Application Innovation Alliance".
- In the first half, the Company developed 162 5G lighthouse customers, signed 92 commercial contracts and completed 70 showcase projects, successfully commercialising 5G industry applications.

Slide 19: China Unicom 5Gⁿ Unique Edges

- Going forward, the Company will fully exploit and leverage its 5G unique edges, including:
 1. 5G network “co-build co-share”, which can efficiently enhance our edges and return
 2. Centralised IT system, which can support open cooperation
 3. Potential collaboration with 14 strategic investors and benefits from market-oriented system and mechanism reform, leveraging mixed-ownership reform
 4. Well-established Internet-oriented mind-set and operation; and
 5. Established long-term relationship with government and enterprise customers as well as innovative business capabilities
- We believe these unique edges will effectively drive our revenue growth and value enhancement in the future.

Slide 20: Promote High-quality Development

- In the second half, seizing the epidemic window, we will strengthen our fundamentals and push forward company-wide digital transformation. We will lay a solid foundation, improve efficiency and enhance vitality, unveiling a new paradigm of high-quality development for China Unicom.
- Next, I will invite our CFO, Mr. Zhu Kebing, to talk about our financial performance in the first half of 2020.

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

Slide 22: Key Financial Information

- Thank you, Chairman Wang. Now let's discuss our financial performance in the first half of 2020.
- This table shows the Company's key financial information in the first half. Operating revenue was up by 3.8%. Operating profit rose by 5.5%. Net profit increased by 10%. The Company's growth quality continued to enhance. Let's take a look at the detailed analysis next.

Slide 23: Effective Cost Control

- In the first half, the Company's operating expenses increased by 3.7%, which is slightly slower than operating revenue growth.
- Of which, depreciation and amortisation dropped by 1.1% year-on-year.
- Selling and marketing expense fell by 14.8% year-on-year, which mainly benefitted from our business model transformation to rigorously control customer acquisition cost.
- Handset subsidy plummeted by 99.3%, mainly due to our innovative business model of not offering handset subsidies in general.
- We continued to promote incentive mechanism reform to strengthen performance-based compensation and develop innovative talents. Employee benefit went up by 9.2% year-on-year.
- G&A and other operating expenses grew by 42.1% year-on-year. A detailed analysis is on the next slide.

Slide 24: Appropriately Stepped up Initiatives to Fuel Rapid Development of Innovative Businesses

- The Company capitalised on the opportunities of digital transformation and appropriately stepped up cost initiatives to promote scale development and capability enhancement of innovative businesses.
- G&A and other operating expenses increased by RMB 5.8 billion mainly due to higher technical support expense and cost of IT services, which together increased by RMB 4.2 billion. But they fuelled an RMB 6.0 billion increase in industry Internet revenue and further enhanced our product capabilities.
- In particular, the cost of IT services went up by 37% year-on-year, driving IT services revenue to grow by 39% year-on-year. Going forward, the Company will progressively raise the profitability of innovative businesses through scale development.

Slide 25: Efficient and Precise Investment to Create Value

- For network deployment, the Company continued to conduct precise and efficient investment and strengthen the synergy between business and network in order to create value. Total CAPEX for the first half was RMB 25.8 billion. Network quality and customers' perception kept rising in the focused regions, and our network latency performance was the best in the industry.
- In the second half, the Company will continue to strengthen network support capability so as to enhance customers' perception. For mobile network, we will deepen "co-build co-share" and 4G/5G synergy, and promote 2/3G network simplification by regions to lower network operating costs and reform spectrum.
- For broadband network, we will focus on gigabit access deployment, while maintaining leading network coverage in Northern China and expanding the scale through private capital cooperation in Southern China. At the same time, we will expedite intelligent network upgrade by advancing SDN, NFV and cloudification.

Slide 26: Strong Financial Position

- With the deepened execution of our corporate strategy and advantages of mixed-ownership reform being gradually unleashed, the Company's financial position was further optimised.
- We maintained healthy free cash flow ever since the inception of mixed-ownership reform 3 years ago. The amount of our interest-bearing debts continued to decline to only RMB 20.5 billion. Our liabilities-to-assets ratio kept falling to 39.9%.
- Our financial strength significantly enhanced, making us well-positioned to capture new 5G opportunities and create new value.

Slide 27: To Elevate Shareholder Value through Quality and Efficiency Enhancement

- In the second half, the Company will insist on high-quality development:
 - We will strengthen cash flow management and promote transformation of resources allocation and use to enhance productivity of all essential factors.
 - We will deepen network and business integration with precise investment to enhance the edges of cloud-network integration.
 - We will accelerate operating model transformation to foster pan-marketing coordinated operation and high quality development.
 - We will strengthen centralised IT operation and data governance to boost overall IT efficiency.
 - And we will continue to promote value management leveraging innovative revitalisation of operating assets and enhancement of talent performance, in order to drive quality and efficiency enhancement and create greater value for our shareholders.

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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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