



Telecom sector

FET delivered highest earnings growth in 3Q23

Neutral - Maintained

Key message

Chunghwa Telecom (CHT; 2412 TT, NT\$116.5, N), Taiwan Mobile (TWM; 3045 TT, NT\$96.2, N), and Far EasTone (FET; 4904 TT, NT\$74.7, N) reported respective 3Q23 preliminary EPS of NT\$1.18, NT\$1.04, and NT\$0.87, down 2.6%, up 3.5%, and 16.7% YoY.

Mobile service sales of the three companies have risen in 2023, and customer migration to 5G has helped expand mobile subscribership of the three telecoms, which arrived up 4.1%, 3.6%, and 1.5% YoY, respectively. ARPU also grew slightly, by a respective 2%, 3.6%, and 1.9% YoY in 3Q23, as the three firms did not undercut 5G tariffs.

The three telecoms are upbeat about sales of the new iPhone 15 series, which they expect to shore up 5G subscribership and ARPU. We estimate 5G penetration for the three telecoms will climb to a respective 30%, 33%, and 42% by end-2023, which will cause ARPU to grow over 1% QoQ in 2H23.

Event

Chunghwa Telecom (CHT; 2412 TT, NT\$116.5, N), Taiwan Mobile (TWM; 3045 TT, NT\$96.2, N), and Far EasTone (FET; 4904 TT, NT\$74.7, N) reported respective 3Q23 preliminary EPS of NT\$1.18, NT\$1.04, and NT\$0.87, down 2.6%, up 3.5%, and 16.7% YoY.

Impact

FET delivered strongest earnings growth in 3Q23. Pro forma 3Q23 consolidated sales of CHT, TWM, and FET rose a respective 0.3%, 6.7%, and 4.8% YoY. CHT's sales growth was driven mainly by its mobile communication business, with personal mobile services maintaining 6.8% YoY sales growth, while sales of personal, business fixed-line, and ICT services fell YoY, resulting in the weakest sales growth of the three. TWM's sales growth accelerated to 6.7% YoY, primarily as telecom service sales grew 6.7% YoY, while e-commerce sales via Momo.com (8454 TT, NT\$535, N) also increased 6.43% YoY in 3Q23, accounting for 58% of consolidated revenue. FET's sales growth was attributable to steady expansion of its mobile service and new economy businesses. As for earnings, CHT missed our forecast by a slim margin on flattish sales and increased expenses. TWM's and FET's earnings both slightly beat our forecasts thanks to continued growth in 5G business and adequate expense control.

5G penetration edged up 1% per month in 3Q23. CHT, TWM, and FET saw mobile service sales grow 6.9%, 6.9%, and 3.5% YoY in 3Q23. Customer migration to 5G helped expand mobile subscribership, which rose 4.1%, 3.6%, and 1.5%, respectively, in 3Q23, consequently boosting 5G penetration (based on monthly plan user base) to 26.1%, 29.4%, and 38.4% as of end-August. ARPU also inched up slightly, by a respective 2%, 3.6%, and 1.9% YoY in 3Q23, as the three firms did not undercut 5G tariffs. For reference, monthly plan ARPU rose a respective 5.1%, 2.7%, and 3.3% YoY.

Launch of iPhone 15 series to boost 5G penetration. The new iPhone 15 models are now available in Taiwan, and the three telecoms are upbeat about new model sales, which they believe will boost 5G subscribership and ARPU. As of end-August, 5G subscribership of CHT, TWM, and FET arrived at 2.91mn, 1.82mn, and 2.10mn users, respectively. We estimate 5G penetration for the three telecoms will climb to a respective 30%, 33%, and 42% by end-2023, which will cause APRU to grow over 1% QoQ in 2H23.

Stocks for Action

CHT saw earnings decline moderately in 3Q23, while FET maintained double-digit earnings growth. We maintain Neutral on the telecom sector as valuations of the big-three firms seem fair at their current levels.

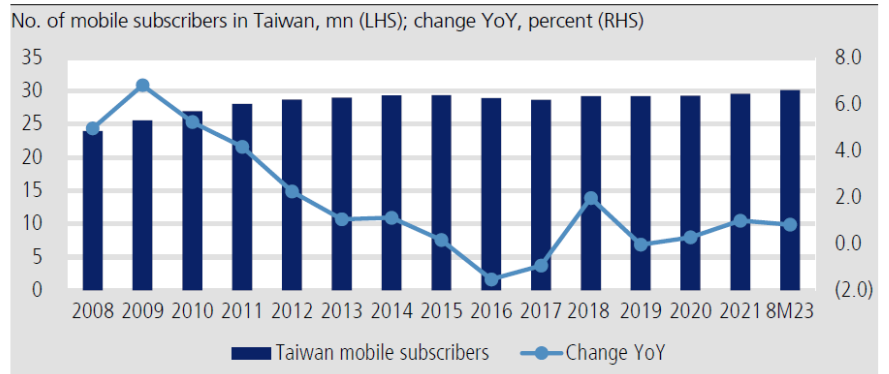
Risks

Slow mobile service revenue growth; higher depreciation and amortization expenses.

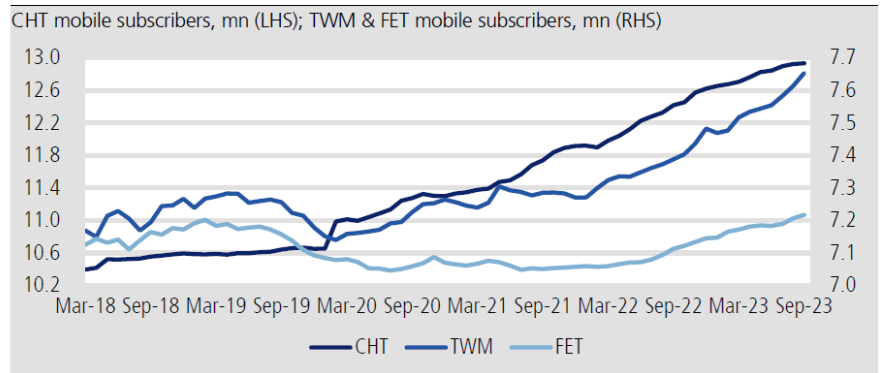
Figure 1: Breakdown of 3Q23 preliminary results

NT\$mn	3Q22	2Q23	3Q23	QoQ (%)	YoY (%)	Achievement of 3Q23 guidance (%)	Achievement of 3Q23 KGI forecast (%)
CHT (2412 TT)							
Sales revenue	53,509	53,464	53,658	0.4	0.3	Below guidance	98.5
EBIT	12,210	12,261	11,464	(6.5)	(6.1)	Below guidance	93.5
EBITDA	22,126	22,194	21,377	(3.7)	(3.4)		
Net income	9,332	9,934	9,088	(8.5)	(2.6)	Beat guidance	95.1
EBITDA margin (%)	41.35	41.51	39.84				
EPS (NT\$)	1.21	1.28	1.18				95.8
TWM (3045 TT)							
Sales revenue	40,468	43,546	43,187	(0.8)	6.7		101.8
EBIT	4,077	4,480	4,298	(4.1)	5.4		103.8
EBITDA	8,445	8,907	8,750	(1.8)	3.6		
Net income	2,839	3,035	2,938	(3.2)	3.5		105.9
EBITDA margin (%)	20.87	20.45	20.26				
EPS (NT\$)	1.01	1.08	1.04				
FET (4904 TT)							
Sales revenue	22,155	21,699	23,220	7.0	4.8	101.8	100.7
EBIT	3,177	3,433	3,598	4.8	13.3	103.1	104.1
EBITDA	7,697	7,910	8,079	2.1	5.0		
Net income	2,423	2,766	2,828	2.2	16.7	105.8	107.2
EBITDA margin (%)	34.74	36.45	34.79				
EPS (NT\$)	0.74	0.85	0.87				

Source: CHT, TWM, FET; KGI Research compiled

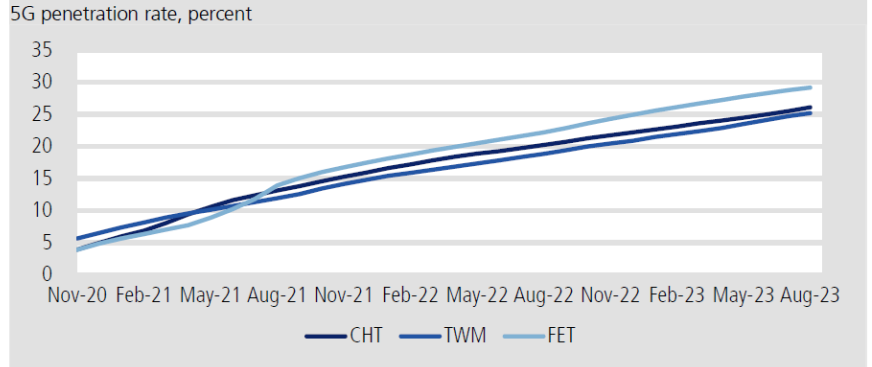
Figure 2: Growth in overall mobile subscriber base decelerated as of August

Source: National Communications Commission; KGI Research compiled

Figure 3: CHT registered strongest mobile subscriber growth in 3Q23

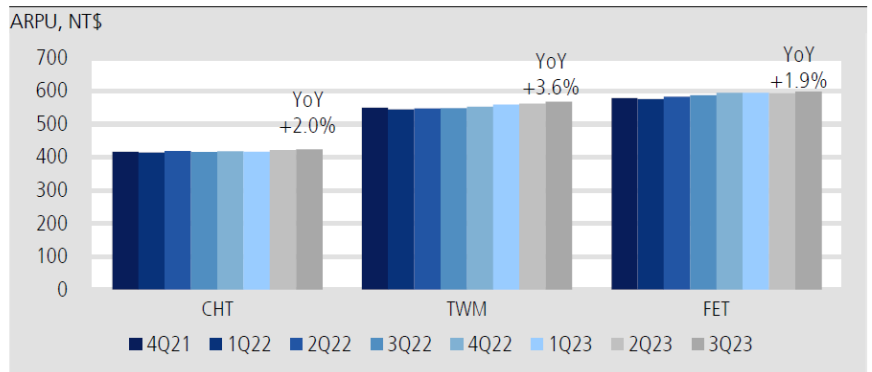
Source: National Communications Commission; KGI Research compiled

Figure 4: FET topped big-three telecoms' 5G penetration in 3Q23



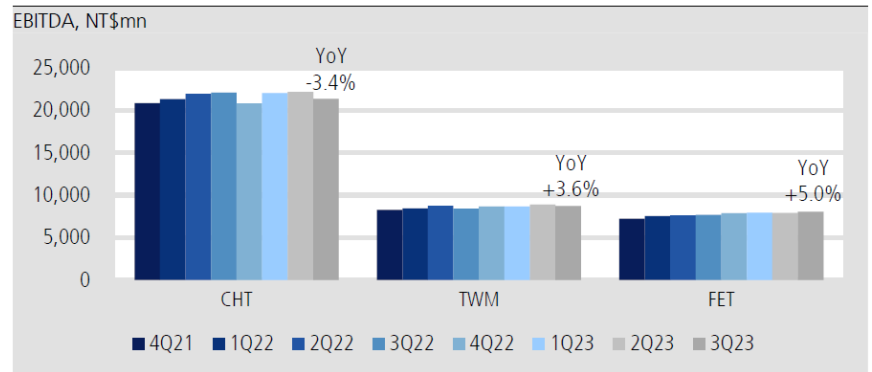
Source: NCC

Figure 5: TWM's 3Q23 ARPU grew 3.6% YoY, the most among big-three telecoms



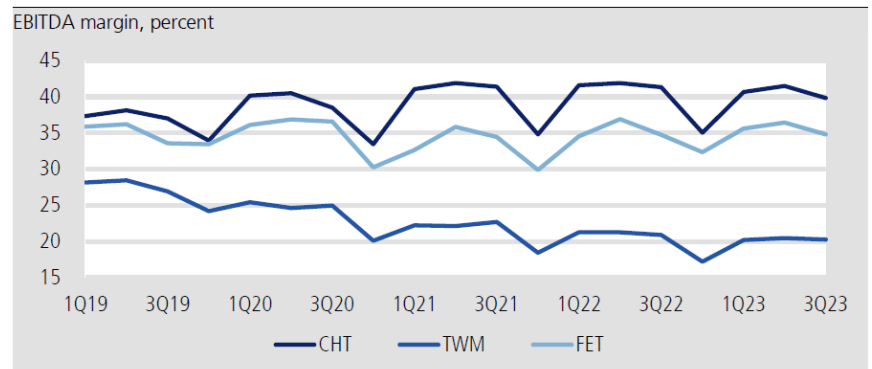
Source: CHT, TWM, FET; KGI Research

Figure 6: CHT was only telecom to post decline in 3Q23 EBITDA



Source: Company data; KGI Research compiled

Figure 7: EBITDA margins of big-three telecoms dipped slightly in 3Q23



Source: Company data; KGI Research compiled

Figure 8: Peer comparison – Valuations

	CHT	TWM	FET
Sales of iPhone 15	Sales volume clearly above previous models	Sales volume to grow 10% from 2022	The most highly sought-after 5G iPhone in history
5G subscribership ('000 users)	2,911	1,822	2,102
5G subscription target by year-end	3.2-3.3mn	5G penetration rate to rise 1% every month	Penetration of 5G monthly plans to rise above 40%

Note: Data of 5G subscriber base were as of August 2023

Source: Bloomberg; KGI Research compiled

Figure 9: Comparison with major global telecom peers

Company	Ticker	Market cap (US\$m)	Price (lcy)	EPS (LCY)			PE (x)			EV/EBITDA			ROE (%)		
				2021	2022	2023F	2021	2022	2023F	2021	2022	2023F	2021	2022	2023F
CHT	2412 TT	29,699	116.50	4.61	4.71	4.95	25.3	24.7	23.6	12.4	11.2	10.8	9.4	9.6	10.1
TWM	3045 TT	11,126	96.20	3.90	3.91	3.96	24.6	24.6	24.3	10.5	10.1	9.2	16.8	17.0	17.5
FET	4904 TT	7,999	74.70	2.80	2.95	3.29	26.7	25.3	22.7	11.2	10.0	9.1	13.8	15.0	16.9
KDDI CORP	9433 JP	79,271	4605.00	284.16	310.25	310.49	16.2	14.8	14.8	6.4	6.4	6.3	14.2	13.0	13.4
CHINA MOBILE	941 HK	181,626	64.75	5.67	5.88	6.38	11.4	11.0	10.1	3.0	3.0	3.2	10.0	10.0	10.3
CHINA TELECOM-H	728 HK	69,629	3.87	0.28	0.30	0.34	13.8	12.9	11.4	2.2	2.2	3.6	6.6	6.7	7.0
KT CORP	030200 KS	6,891	33500.00	5759.00	5209.00	4752.37	5.8	6.4	7.0	3.2	3.2	3.2	9.3	7.7	7.0
SK TELECOM	017670 KS	8,623	48900.00	7190.00	4118.00	4931.83	6.8	11.9	9.9	3.7	3.7	3.6	13.5	9.2	9.2
AT&T INC	T US	105,591	14.77	2.77	(1.13)	2.42	5.3	N.M.	6.1	13.5	13.5	5.6	12.1	(8.2)	16.4

Source: Bloomberg; KGI Research

All the above named KGI analyst(s) is SFC licensed person accredited to KGI Asia Ltd to carry on the relevant regulated activities. Each of them and/or his/her associate(s) does not have any financial interest in the respectively covered stock, issuer and/or new listing applicant.

Disclaimer

All the information contained in this report is not intended for use by persons or entities located in or residing in jurisdictions which restrict the distribution of this information by KGI Asia Limited ("KGI") or an affiliate of KGI. Such information shall not constitute investment advice, or an offer to sell, or an invitation, solicitation or recommendation to subscribe for or invest in any securities or investment products or services nor a distribution of information for any such purpose in any jurisdiction. In particular, the information herein is not for distribution and does not constitute an offer to sell or the solicitation of any offer to buy any securities in the United States of America, or to or for the benefit of United States persons (being residents of the United States of America or partnerships or corporations organised under the laws of the United States of America or any state, territory or possession thereof). All the information contained in this report is for general information and reference purpose only without taking into account of any particular investor's objectives, financial situation or needs. Such information is not intended to provide professional advice and should not be relied upon in that regard.

Some of KGI equity research and earnings estimates are available electronically on www.kgi.com.hk. Please contact your KGI representative for information. The information and opinions in this report are those of KGI internal research activity. KGI does not make any representation or warranty, express or implied, as to the fairness, accuracy, completeness or correctness of the information and opinions contained in this report. The information and opinions contained in this report are subject to change without any notice. No person accepts any liability whatsoever for any loss however arising from any use of this report or its contents. This report is not to be construed as an invitation or offer to buy or sell securities and/or to participate in any investment activity. This report is being supplied solely for informational purposes and may not be redistributed, reproduced or published (in whole or in part) by any means for any purpose without the prior written consent of KGI. Members of the KGI group and their affiliates may provide services to any companies and affiliates of such companies mentioned herein. Members of the KGI group, their affiliates and their directors, officers and employees may from time to time have a position in any securities mentioned herein.