

Bulletin:

Chunghwa Telecom Co. Ltd.'s 5G Tariff Plan Should Help Turn Around Declining Mobile Revenue

July 9, 2020

Taiwan Ratings Corp. said today that the launch of 5G should help improve the declining mobile revenue of **Chunghwa Telecom Co. Ltd.** (CHT, twAAA/Stable/twA-1+).

Taiwan-based CHT began offering 5G services on July 1 2020, with the cheapest unlimited monthly data plan starting at New Taiwan dollar (NT\$) 1,399, which is much higher than the company's current average revenue per user (ARPU) of less than NT\$500 per month. We expect the other significant domestic telecom operators--Taiwan Mobile Co. Ltd. and Far EasTone Telecommunications Co. Ltd.--to adopt a similar tariff strategy, which should help maintain pricing discipline in the domestic market.

Nonetheless, we believe it will take several quarters to reverse CHT's the downward-trending ARPU, given the company's declining voice revenue as well as the time needed for 5G adoption to grow. Higher tariffs, limited handset choices, and still-limited 5G coverage prevent a faster penetration rate for 5G services, in our view. CHT's goal is to reach 50% penetration in three years with a related infrastructure investment of NT\$27 billion, which is in line with our base case.

We do not expect Taiwanese telecom operators to adopt aggressive promotions for 5G services over the next one to two years, given that operators all face similarly high 5G spectrum costs and a current lack of monetization opportunities for related services. CHT has maintained a very conservative debt appetite to grow its business in recent years. After several years of maintaining a net cash position, CHT's debt to EBITDA ratio rose to just 0.2x for the 12 months ending March 2020, due to the cost of the 5G spectrum fee.

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