



# Harvesting Begins

FY17 Interim Results Presentation  
for the six months ended 28 February 2017

**Presentation by Co-Owners:**  
**William Yeung, Chief Executive Officer**  
**NiQ Lai, Chief Operating Officer**

20 April 2017

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# Agenda

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- **Business Review**
  - William Yeung, CEO & Co-Owner
- **Financial Review**
  - NiQ Lai, COO & Co-Owner
- **Q&A**



# **Business Review**

William Yeung  
CEO & Co-Owner

# Executive Summary

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- **Harvesting Residential Business:**
  - Pivot from subscriber to revenue market share focus
  - Acquisition and renewal contract ARPU of HK\$192 for the month of Feb 2017 vs. historical full base residential ARPU of HK\$166 for the six months to 28 Feb 2017
- **OTT and Mobile Overlay:**
  - 627k OTT boxes ordered since Oct 2015
  - 54k mobile services activated since Sep 2016
- **Growing Enterprise Solutions Business:**
  - 111% revenue growth including full six-month of NWT result post acquisition on Mar 2016
- **10% increase in interim dividend declared**
  - 1H FY17: 22 HK cents per share (1H FY16: 20 HK cents per share)

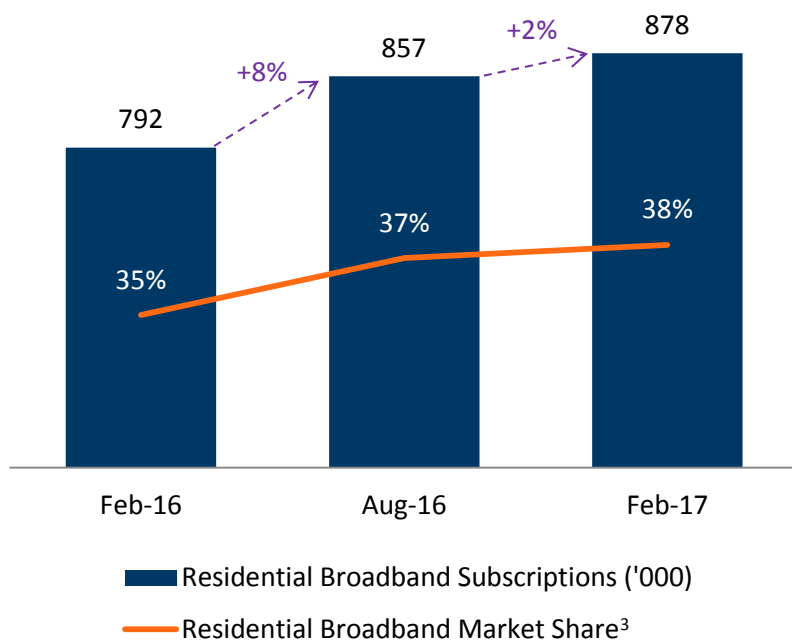
# “Harvest and Invest” Roadmap

	FY16	FY17	FY18	FY19	FY20
Broadband + Fixed Voice	Invest	Harvest	Harvest	Harvest	Harvest
• Content Overlay	Invest	Invest	Harvest	Harvest	Harvest
• Mobile Overlay	N/A	Invest	Invest	Harvest	Harvest
Enterprise Solutions	Integrate NWT	Integrate NWT	Harvest	Harvest	Harvest

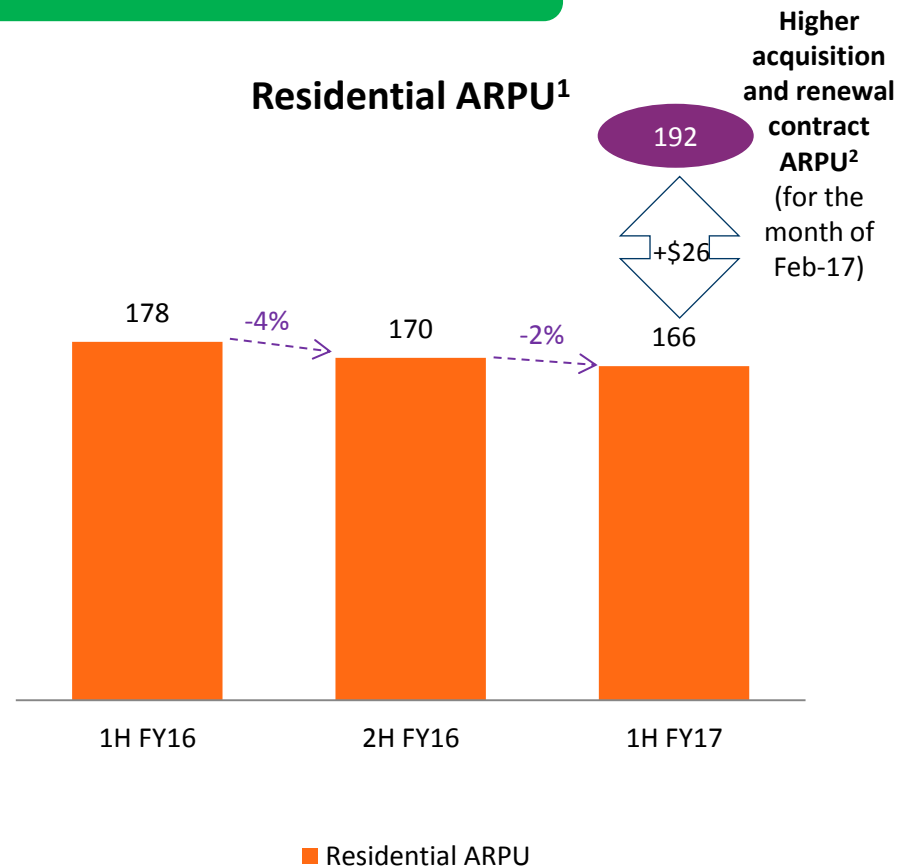
# Harvesting Residential Business: Positive acquisition and renewal contract ARPU trend

**Service Revenue grew by 5% to HK\$941mn**

### Residential Broadband Subscriptions



### Residential ARPU<sup>1</sup>



Note:

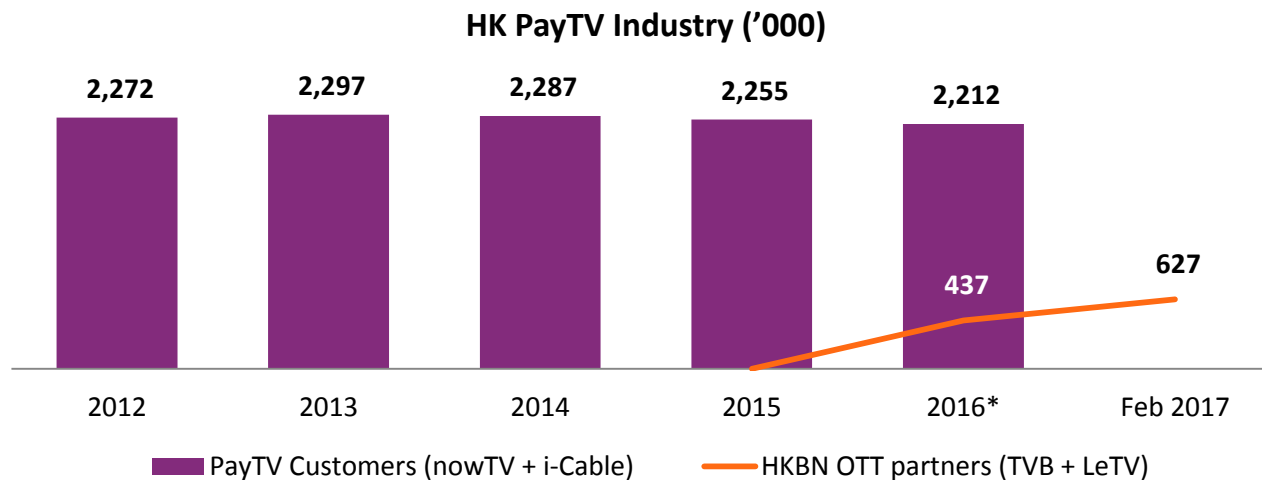
- 1) Residential ARPU refers to historical full base residential ARPU for the period.
- 2) Acquisition and renewal contract ARPU refers to ARPU of the new acquisition and renewal subscribers for the specific month.
- 3) Market share is calculated by dividing the number of residential broadband subscriptions by the total number of residential broadband subscriptions recorded by the Office of the Communications Authority (OFCA) at the same point in time. Based on the latest disclosure from OFCA for December 2016 market data, total market figures from January 2016 to November 2016 were revised to reflect the adjustments filed by ISP(s). The latest available OFCA statistics in broadband services for residential business is as of 31 December 2016.

# OTT Overlay

- >50% of HKBN broadband subscriptions have at least 1 OTT box

	No. of Boxes Ordered	Launch Date
myTV SUPER (TVB)	358k	Apr 2016
LeTV	269k	Oct 2015
<b>Total</b>	<b>627k</b>	<b>n/a</b>

- OTT players continue to challenge the traditional PayTV market



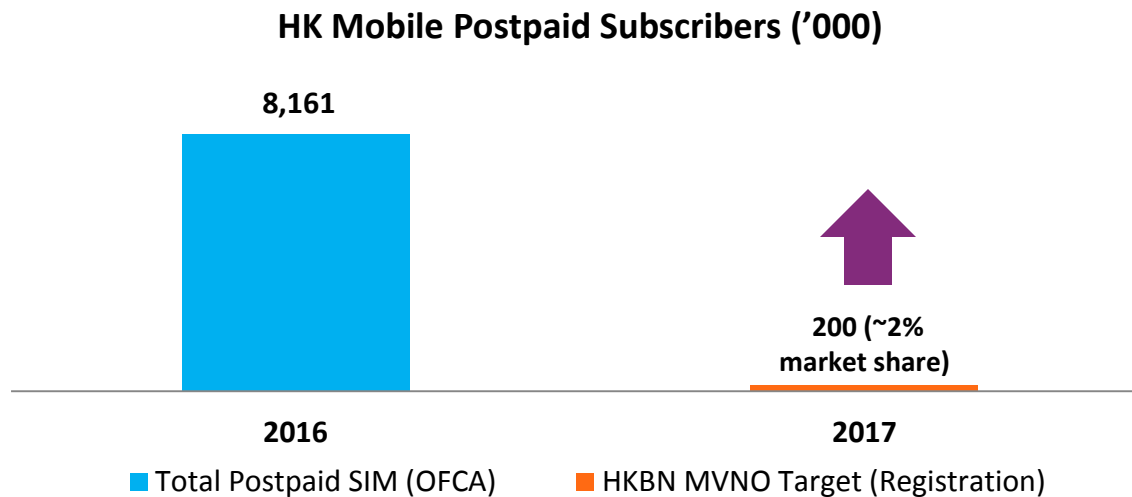
Source: Company Disclosure

PayTV subscribers refers to nowTV installed base and i-Cable subscribers as of December-YE.

\* Boxes of HKBN's OTT partners (TVB + LeTV) is as of Aug 2016 and Feb 2017.

# Mobile Overlay

- 54k mobile services were activated in 1H FY17, with over 100k registration for our mobile services up to mid-April
- Targeting 200k registration for our mobile services in FY17

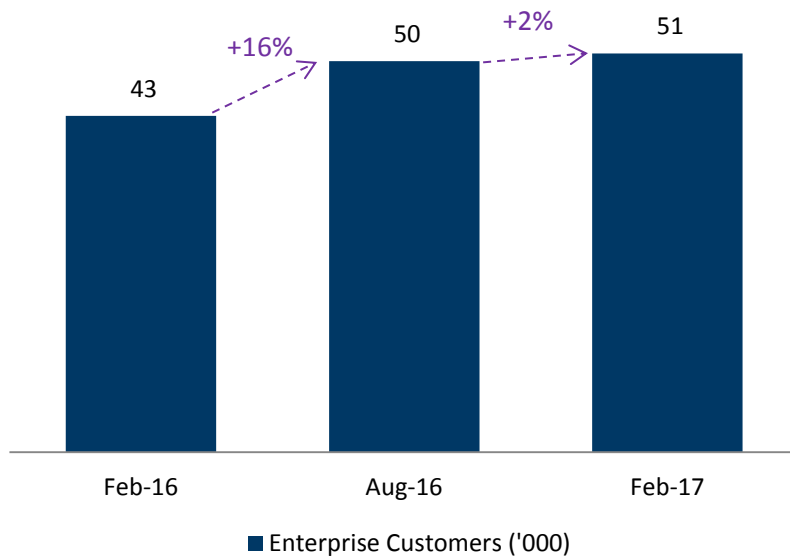


- Increase stickiness to drive higher Quad-play ARPU

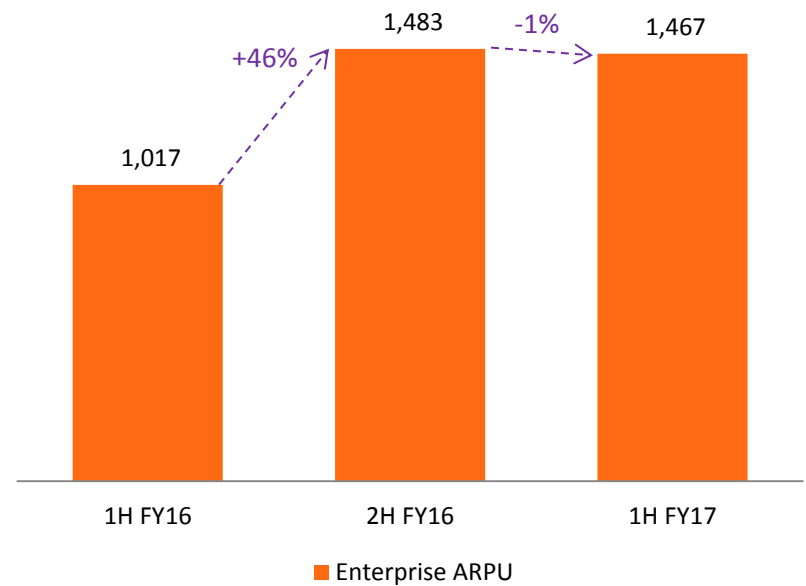
# Growing Enterprise Business: Steady growth post NWT acquisition on Mar-16

Service Revenue grew by 111% to HK\$569mn

### Enterprise Customers



### ES ARPU



# Enterprise Solutions Recent Showcase

## HK\$60 million contract sum over multiple years

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### Telstra

- Very large multi-national corporate win for our Mobile service
- Opens door to further collaborations



### Colt Technology Services Ltd

- Partner with HKBN to capture more MNC and Banking Customers
- Leverage assets acquired from New World Telecom



### Joint Universities Computer Centre Ltd.

- Winner of extensive selection process against other Tier 1 carriers
- High speed Internet connection for Hong Kong Academic and Research NETWORK (HARNET)



### KITEC - Kowloonbay International Trade & Exhibition Centre

- One of 3 largest exhibition centers in Hong Kong
- Showcases our Wi-Fi solution and professional services

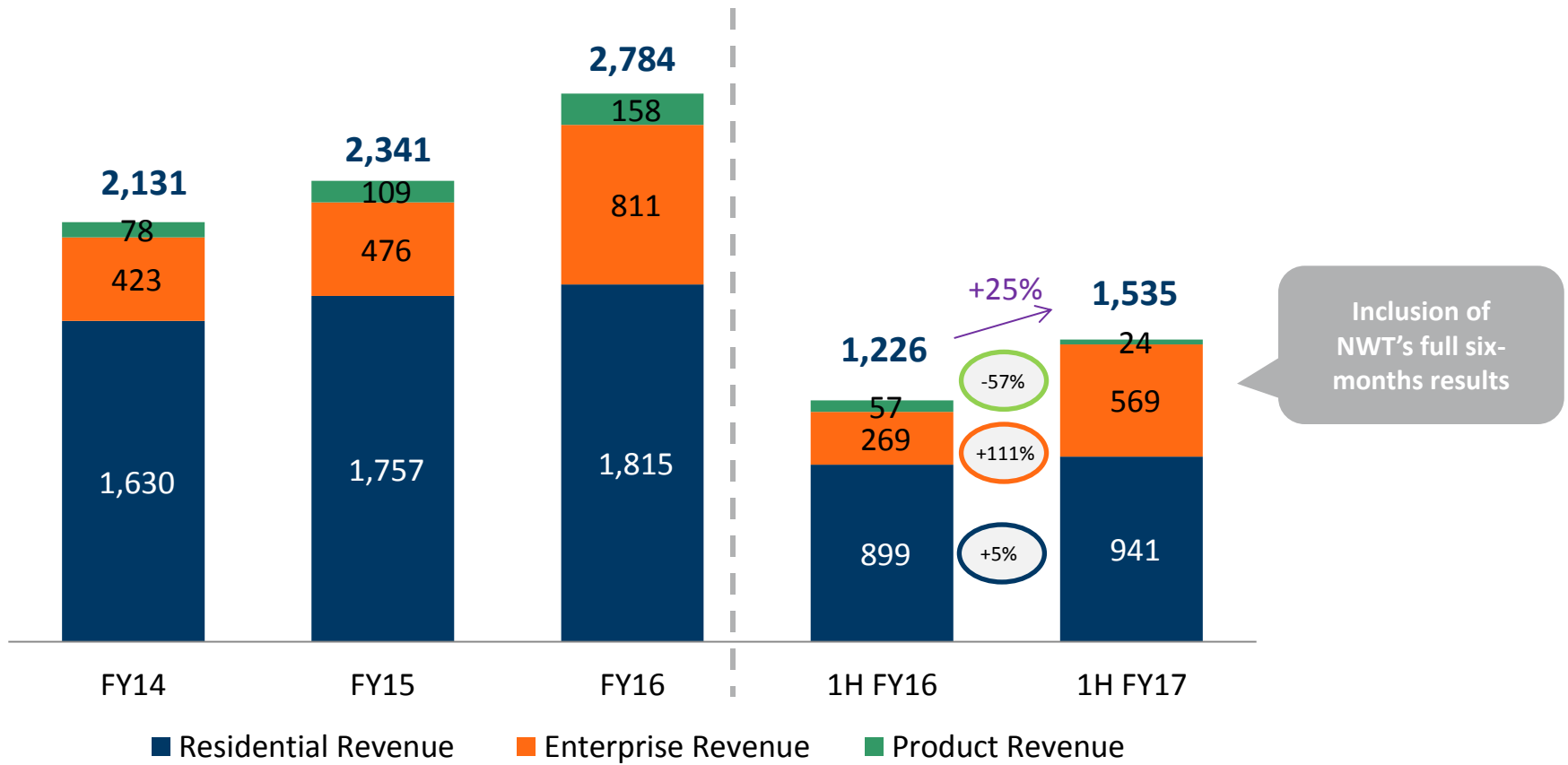


# Financial Review

NiQ Lai  
COO & Co-Owner

# Revenue growth driven by larger residential customer base & ES integration

Financials in HK\$m, unless otherwise stated.

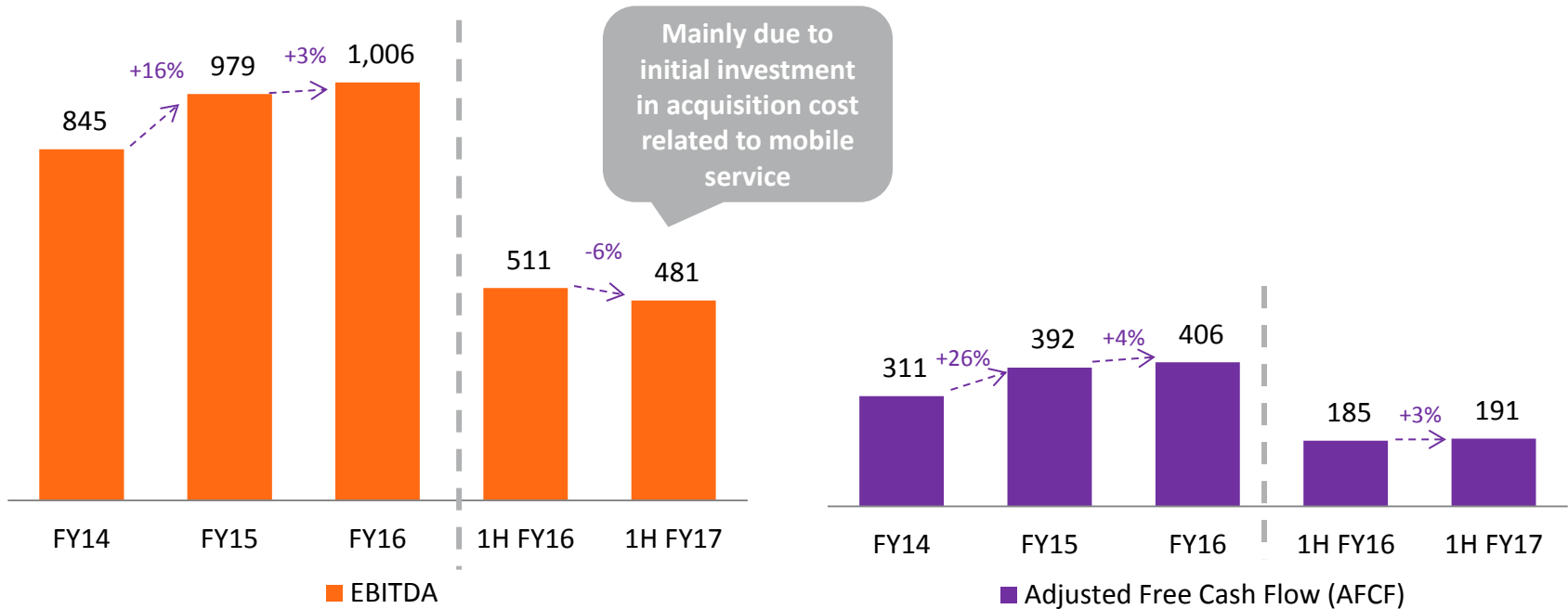


# Maintaining stable EBITDA and AFCF despite mobile service launch

Financials in HK\$mn, unless otherwise stated.

## EBITDA

## Adjusted Free Cash Flow (AFCF)



# Monetize our biggest asset via upselling

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## Upsell to Quad-play Bundle

- Broadband
- Home Tel
- OTT
- Mobile

**>870k residential  
broadband subscriptions**

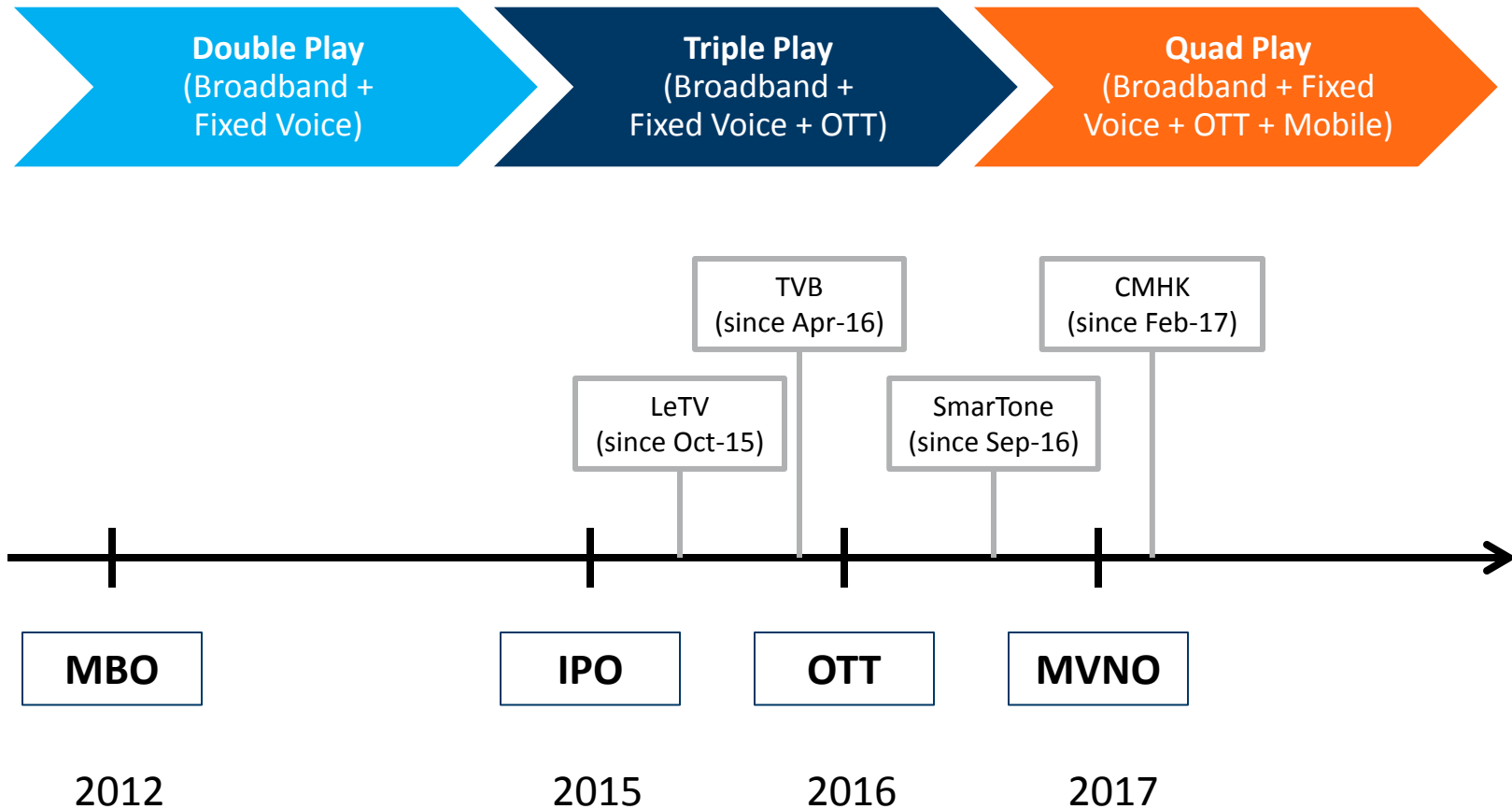
## Comprehensive one-stop solutions

- Broadband
- Infinite Voice
- Infinite Wi-Fi
- Cloud Solutions
- Data Center
- Mobile

**>50k corporate customers**

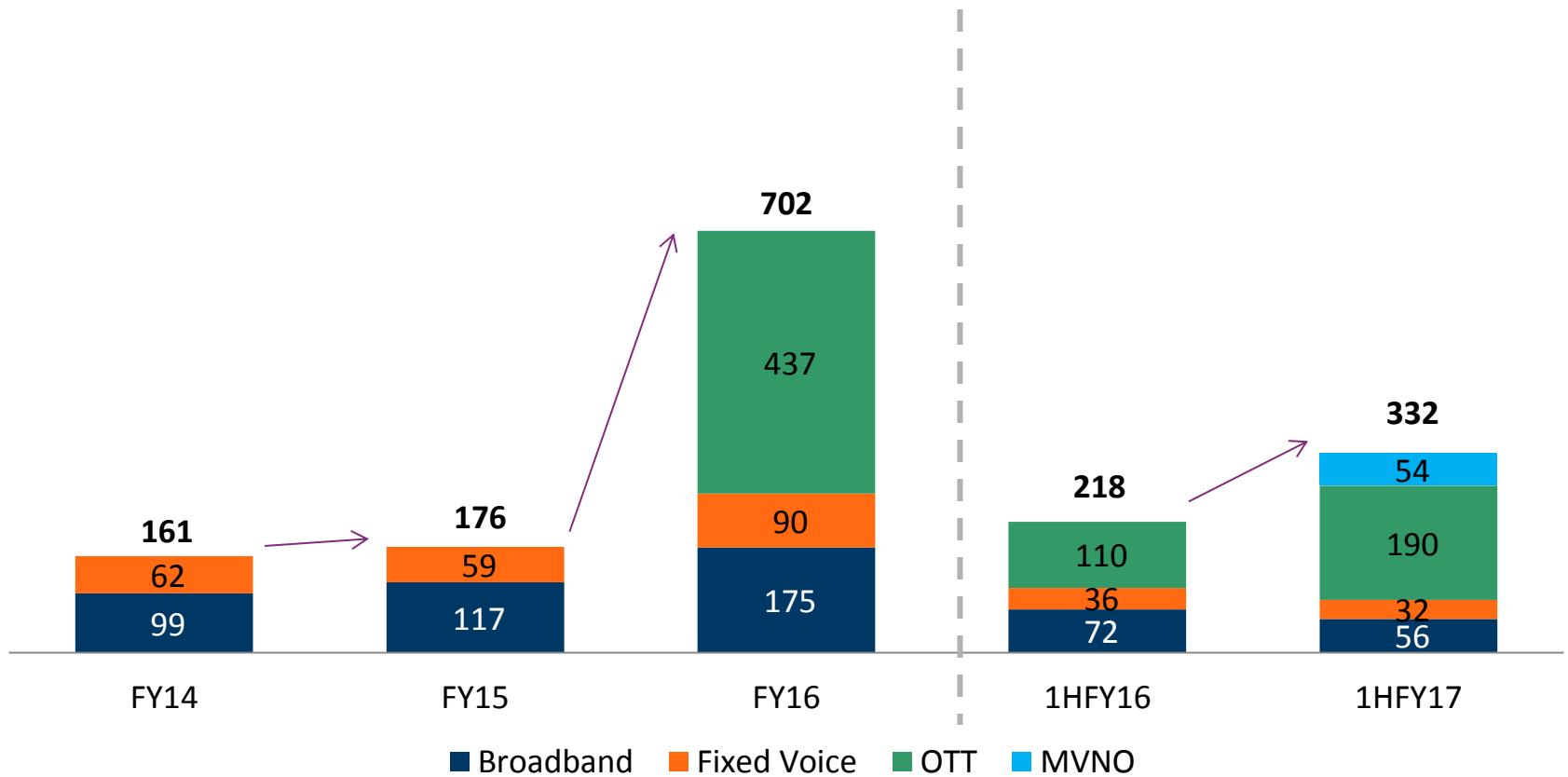
**Our biggest asset = Monthly billing relationship**

# Exceptional opportunity to upsell more services to our broadband customer base



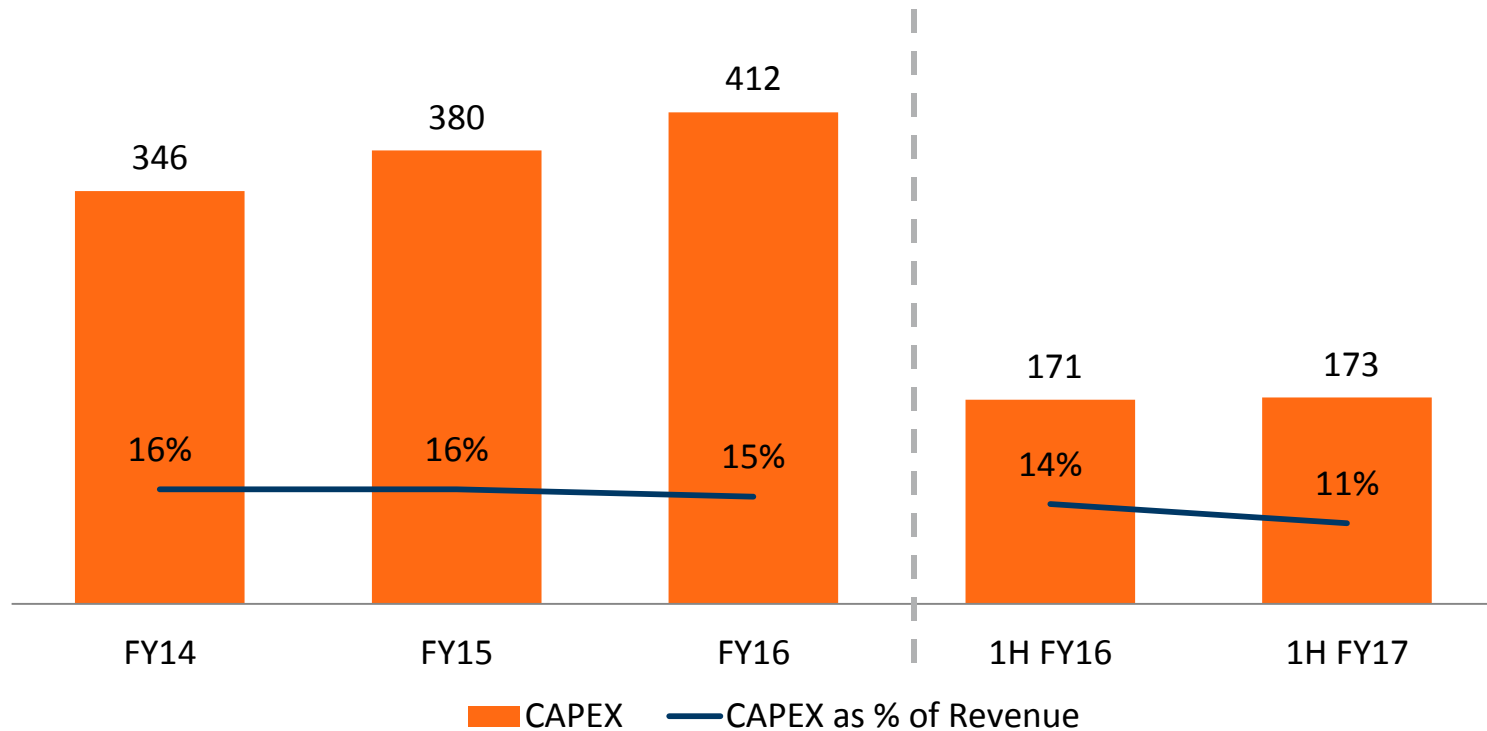
# Intensified activity level with additional investment in OTT and Mobile in the last 18 months

## HKBN Gross Addition by Services ('000)



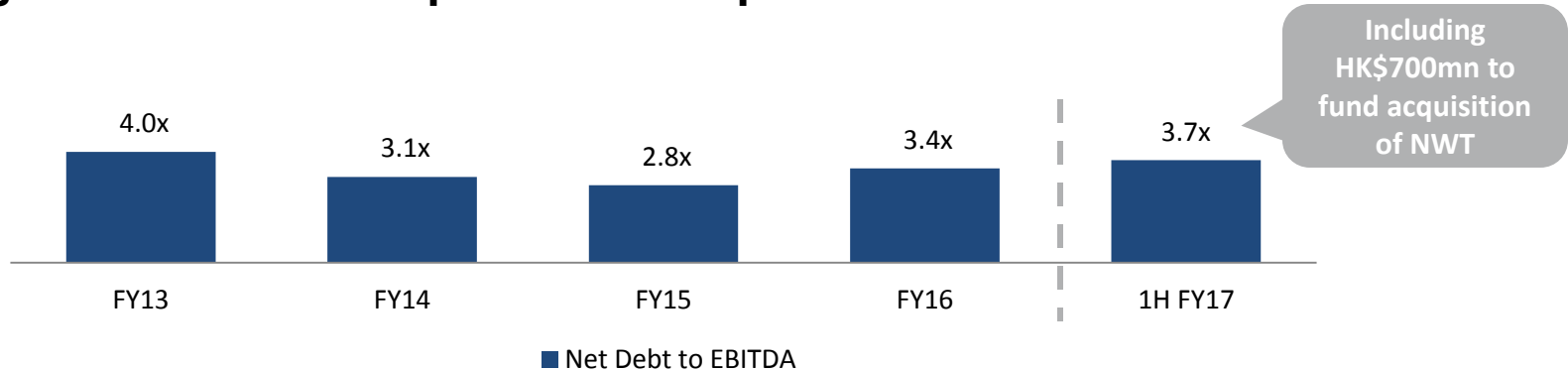
# Prudent CAPEX investment

Financials in HK\$m, unless otherwise stated.



# Manageable Debt Profile

- Manageable Debt Profile post NWT Acquisition



- Refinancing exercise during 1H FY17 extended debt expiry to 2021

	Amount (HK\$m)	% of Total Debt	Interest Rate (prior to Nov-16)	Interest Rate (Nov-16 to Aug-18) <sup>1</sup>	Interest Rate (Sep-18 to May-20) <sup>2</sup>
Debt - fixed portion	2,635	68%	3.51%	2.80%	3.61%
Debt - floating portion	1,265	32%	HIBOR + 1.85% to 2.06%	HIBOR + 1.35%	HIBOR + 1.35%
<b>Total debt</b>	<b>3,900</b>	<b>100%</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>

All financial figures are rounded to nearest HK\$ million. The interest margin will be subject to a margin grid determined by reference to the net leverage ratio.

1. The initial hedging arrangement commencing from February 2015 to August 2018, fixing the HIBOR interest rate exposure at 1.453% per annum.

2. Subsequent to the refinancing transaction, the company entered into a hedging arrangement commencing from August 2018 to May 2020, fixing the HIBOR interest rate exposure at 2.26% per annum.

# Corporate Social Investment

## Youth Upward Mobility (YUM) Programme

Since September 2016, HKBN volunteers have been mentoring 8 secondary school graduates (who achieved unsatisfactory public examination results) to become certified professional broadband engineers.



To ensure this journey is holistic and rewarding, mentees are given time-off to continue their education and participate in community volunteer services.

**8** certified professional  
broadband engineers

**2**  
years

**8** students

performed unsatisfactorily in DSE  
(public examination)



job opportunities



time-off to participate  
voluntary work



1 to 1 mentoring



part time course

# Attracting Top Talents to nurture into Future Co-Owners



0.4% acceptance rate

## “The Next CTO” Graduate Technical Trainee Programme 2017

- > 500 applications received for our Graduate Technical Trainee Programme for 2 positions
- Groom elite talents with technical background to be future leaders

## “Co-Owners of the Future” – Summer Internship 2017

1.1% acceptance rate

- > 1,350 applications received from candidates with different nationalities from all over the world for 15 positions
- Hiring young talents with global mindset/perspective and bring insight to HKBN



# Outlook

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- **Residential Business**
  - Revenue growth via integrated Quad-play ARPU increase
- **Enterprise Solutions**
  - Revenue & market share growth
  - Fixed + Mobile bundle
  - Sell idle NWT capacity

# Q&A



Hong Kong Talent Meeting 2016



# Appendix

# Operational Highlights – Residential

	1H FY16	1H FY17	YoY Changes
Residential homes passed ('000)	2,162	2,225	+3%
<u>Subscriptions ('000)</u>			
- Broadband	792	878	+11%
- Voice	485	524	+8%
<u>Market share</u>			
- Broadband	35.2%	37.6%	+2.4pp
- Voice	20.6%	22.2%	+1.6pp
Residential customers ('000)	852	928	+9%
Broadband churn rate	0.8%	0.7%	-0.1pp
Residential ARPU	\$178	\$166	-7%

Our market share in broadband or voice services in Hong Kong, for residential or enterprise business, is calculated by dividing the number of broadband or voice subscriptions we have at a given point in time by the total number of corresponding broadband or voice subscriptions recorded by the Office of the Communications Authority (OFCA) at the same point in time. Based on the latest disclosure from OFCA for December 2016 broadband market data, total market figures for broadband services from January 2016 to November 2016 were revised to reflect the adjustments filed by ISP(s). The latest available OFCA statistics in broadband or voice services for residential business is as of 31 December 2016.

# Operational Highlights – Enterprise Solutions

	1H FY16	1H FY17	YoY Changes
Commercial building coverage ('000)	2.1	2.3	+10%
<u>Subscriptions ('000)</u>			
- Broadband	40	50	+25%
- Voice	102	127	+25%
<u>Market share</u>			
- Broadband	15.4%	17.8%	+2.4pp
- Voice	5.5%	6.8%	+1.3pp
Enterprise customers ('000)	43	51	+19%
Broadband churn rate	0.9%	1.3%	+0.4pp
Enterprise ARPU	\$1,017	\$1,467	+44%

# Consolidated Income Statement

(HK\$ million, unless otherwise stated)	1H FY16	1H FY17	YoY Changes
Residential Revenue	899	941	+5%
Enterprise Revenue	269	569	+111%
Product Revenue	57	24	-58%
<b>Turnover</b>	<b>1,226</b>	<b>1,535</b>	<b>+25%</b>
Other net income	8	7	-
Network costs and costs of sales	(137)	(304)	+122%
Advertising and marketing expenses	(222)	(295)	+33%
Talent costs	(223)	(246)	+10%
Other operating expenses	(402)	(490)	+22%
Finance costs & others	(67)	(117)	+75%
<b>Profit/ (loss) before taxation</b>	<b>183</b>	<b>90</b>	<b>-51%</b>
Income tax	(48)	(44)	-8%
<b>Profit/ (loss) for the period</b>	<b>135</b>	<b>46</b>	<b>-66%</b>
Amortisation of intangible assets	57	65	+14%
Deferred tax arising from amortisation of intangible assets	(9)	(10)	+11%
Loss on extinguishment of senior notes	-	-	-
Originating fee for banking facility expired	-	73	-
Listing expenses	-	-	-
Transaction costs in connection with business combination	27	-	-
<b>Adjusted Net Profit</b>	<b>210</b>	<b>174</b>	<b>-17%</b>

# Consolidated Balance Sheet (Summary)

(HK\$ million, unless otherwise stated)	At 31 August 2016	At 28 February 2017
Non-current assets	5,779	5,888
Current assets	826	729
Current liabilities	826	724
<b>Total assets less current liabilities</b>	<b>5,779</b>	<b>5,894</b>
Non-current assets	4,416	4,681
<b>Net assets</b>	<b>1,363</b>	<b>1,213</b>
<b>Capital and Reserves</b>	<b>1,363</b>	<b>1,213</b>
<b>Additional Info:</b>		
Goodwill and intangible assets	3,322	3,464
Property, plant and equipment	2,420	2,380
Cash and cash equivalents	355	273
Bank loans	3,721	3,827

# Reconciliation of EBITDA and Adjusted Free Cash Flow

(HK\$ million, unless otherwise stated)	1H FY16	1H FY17	YoY Changes
<b>Profit/ (loss) for the period</b>	<b>135</b>	<b>46</b>	<b>-66%</b>
Finance costs	66	117	+76%
Interest income	(1)	(0)	-86%
Income tax	48	44	-9%
Depreciation	179	210	+17%
Amortisation of intangible assets	57	65	+14%
Listing expenses	-	-	-
Transaction costs in connection with business combination	27	-	-
<b>EBITDA</b>	<b>511</b>	<b>481</b>	<b>-6%</b>
EBITDA margin	41.7%	31.3%	-10.4pp
Capital expenditure	(178)	(197)	+11%
Net interest paid	(51)	(57)	+10%
Other non-cash items	0	4	>100%
Income tax paid	(104)	(121)	+16%
Changes in working capital	7	80	>100%
<b>Adjusted Free Cash Flow</b>	<b>185</b>	<b>191</b>	<b>+3%</b>
<b>Dividend</b>	<b>201</b>	<b>221</b>	<b>+10%</b>
DPS (HK cents)	20	22	+10%
Dividend Payout Ratio	109%	116%	n/a