



Transcript

Very Substantial Disposal relating to the sale of the HGC Group Analyst / Investor Session

1 August 2017 (Tuesday)

Cliff Woo: Good afternoon to everybody. This is the call for Hutchison Telecommunications Hong Kong Holdings Limited to explain to everybody about the disposal deal of HGC.

I'm Cliff Woo; the CEO of Hutchison Telecom Hong Kong Holdings Limited and I will take a few minutes to do an opening about the background of this transaction and then I will open up the floor for questions.

The company had actually received a number of expressions of interest and therefore in the last few months we decided to explore the potential options in the best interest of the shareholders. The transaction that we have announced will enable the company to focus its resources more effectively on its core business of providing mobile services to its customers.

Furthermore the company believes the transaction will create value for shareholder value by unlocking the value of HGC, which has not been fully reflected in the company's share price in the recent years.

Through the transaction, our company will receive substantial proceeds which will enable us to continue to invest and strengthen our leading positions in the mobile business market while maintaining a very strong financial profile.

We do believe the transaction is to the best interest of the shareholders which is already evident by the positive reaction in the market after announcement.

So we believe that this is a very good deal for our shareholders and the company is here opening up this web call about to receive questions for anybody who has interest in it. So also on the call I have my CFO Ms. Suzanne Cheng. She is also on the call and she will be able to answer all the financial questions.

Operator: Ladies and gentlemen -- yes we will now begin the question and answer session. If you wish to ask a question please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the pound or hash key.

Your first question comes from the line of Gopa Kumar. Please.

(Gopa Kumar): Hey, this is Gopa from Nomura Singapore. Thanks for the opportunity and congratulations on the deal. Can you talk a little bit in terms of your strategy to use the substantial proceeds that you have on the mobile business, what's the area focus, you explained that you will invest more into I.T.?

So if you can talk a little bit on that. What are the areas where you can invest to improve the positioning of mobile? Is there a particular gap as you have identified that's the first question. And a later question is that should we now expect a ramp up in the Capex for your mobile or because of your master service agreement which you have for the next five years, you don't really expect to see an increase in the Capex? Those are my two questions, thank you.

Cliff Woo: All right. Let me take the first question. I think we are looking into various options of using the process but generally we intend to use it for the general working capital purpose and at the same time we will look into various investment opportunities in mobile businesses, but at the moment nothing is confirmed for us to anything now.

For the Capex, in our information we showed before, for the Capex for mobile businesses, it does not include 5G in it so far but we will in the future put also 5G Capex into the forecast. That may be the reason that you are seeing that no substantial investment in Capex.

Hong Kong is in fact a city market and the number of cell sites has been gone to a very saturated number of quantities so therefore we do not expect a lot of Capex to expand the coverage. Don't know whether that answers your question?

(Gopa Kumar): Yes, partly. So can I assume that you have an option to renew you master service agreement and continue to lease the Fixed-line assets post the expired five year term?

Cliff Woo: Oh yes. Well, you mean the master service agreement with I Squared? Are you referring to that?

(Gopa Kumar): Yes.

Cliff Woo: OK. Well nothing is certain beyond the five years, but I think the corporation will go a long way beyond the contract period of time.

(Gopa Kumar): OK.

Cliff Woo: we need somebody on the fixed line to support us and I'm quite sure that HGC in five year terms, they will also require a very good long term mobile partner with them. And so in this way I do not see fundamentally there will be a change up to five years in contract.

(Gopa Kumar): OK, thank you.

Operator: Thank you. Your next question comes from the line of Bin Liu of Citigroup. Please ask your question.

(Bin Liu): Thanks for the opportunity to ask my question. Just a question focused on the mobile operations. Just try to clarify, is the new contract with I Squared will increase the Opex on mobile business or basically there's no meaningful impact on the mobile EDITDA margin going forward. And also, is in the previous P&L, is that a leased line cost mobile business already showing in the mobile EBITDA or not?

Another question is on the potential for the bigger increase in dividend, just wondering based on the special event, again possibility for you to make them additional pay-outs after the deal. Thank you.

Suzanne Cheng: I think for the Opex that you mentioned going forward especially on leased line, because currently mobile and fixed under HTHKH is on arms-length basis anyway. So all the leased line cost has been included in the mobile operations already.

So, we don't foresee any big change afterwards. So, as what Cliff has mentioned earlier, we would require to have a long term partnership on the fixed line especially on lease-lined services.

(Bin Liu): OK, thank you.

Cliff Woo: For your second part of the question about a special dividend to possibility of that, I think we cannot rule out any possibility at the moment including distributing dividends -- special dividends. So, that could be one of the options.

(Bin Liu): Thank you.

Operator: Thank you. Your next question comes from the line of Neale Anderson of HSBC. Please ask your question.

(Neale Anderson): Hi there, good afternoon. Congratulations on the deal. Couple questions from me. The first is on mobile -- along residential broadband, the residential broadband business at HGC is fairly small. There's some trend in the market towards mobile and fixed residential bundling. How do you feel that's going to work with the new owner of HGC?

And the second question is having disposed of the fixed line unit, Hutchison is in some ways going against the global trend in telecoms which is towards more integration. Can you sort of explain what you feel the differentiation you have in Hong Kong mobile or what your differentiation is relative to peers? It seems a very competitive market, competition seems to be increasing. How is Hutchtel going to compete? Thank you.

Cliff Woo: OK, your referring to the synergy of having mobile -- I think there's some echo, is there? Can you mute your call gentlemen, please?

(Neale Anderson): Yes, I'll mute it.

Cliff Woo: OK, thank you. The company and also the buyer also fully realise the potential synergy of mobile and fixed and we are committed to maintain a cooperative commercial relationship post transaction.

As always, in our company, even before the transaction, the mobile and fixed operation operating in actually arms length so we do not see after this transaction fundamentally the relationship will be changed.

If you are looking for a change, I would say that it's changing to a better one because now we have a contract in between the two and make sure that we will have to cooperate with each other under certain specific terms and conditions. And so, from this aspect I do not foresee any impact or taking away our advantage of being able to do a fixed line mobile integration operator. For the differentiation on mobile, we always feel that in Hutchison Hong Kong mobile, we do have the differentiation because we are quite different from other mobile operators in the way that we have Hutchison Group operating mobile in different countries across Europe and Asia.

While our competitor apart from one come from China with Chinese operator backing them up, the others are all local Hong Kong mobile operators. So, I think in this particular area, we do feel that we have a very good power to leverage from the group.

Cliff Woo: Thank you.

Operator: Thank you. Your next question comes from the line of Varun Ahuja of Credit Suisse. Please ask your question.

(Varun Ahuja): Yes. Thanks for the opportunity. First on the mobile strategy, given that your substantial cash now, how do you look at this business? Will you be willing to do more acquisition or will CK group, Hutchison Group others mobile assets will you look at those to being consolidated into this one entity? How should we think as an investor about these acquisition strategies even if you pursue some of those?

Secondly, I wanted to comment on dividends. Will you relook your payout ratios given that the earnings will fall substantially in 2018? So, how should the shareholders look at dividends from a long term perspective?

Thirdly, sorry, go ahead.

Cliff Woo: No, no, no. You finish first. You have two questions already and you want to ask a third one. Please, go ahead.

(Varun Ahuja): Sure. On the debt position can you clarify how much of the total consolidated debt is split between the fixed line business and the mobile business? And, what should be the net debt position for the closing? And, lastly just want to check on the mobile backhaul charges.

If I remember you mentioned that the current EBITDA margins include the mobile backhaul costs, so, we should not expect any change in mobile EBITDA or the separate business. Or after five years that there will be some renegotiation and hence the charges may change. I just want to get more clarity on that. Thank you.

Cliff Woo: All right. Let me take the first question. The other three are more related to financial number. I will let Suzanne help me out. The first question, I think I have mentioned at the beginning of the call that we are - we will immediately start to look at various options of investment.

I will not rule out any possibility of looking at investment options locally and also in the region. You asked whether we will consolidate any of the Hutchison's operations or other operations around the world into this Hong Kong operation. This is actually quite a good idea. We haven't discussed about it but again I will not rule this out as one of the options.

Suzanne, the other questions are on the financials, the debt positions and also the backhaul charges. How does this impact EBITDA in the future? Would you be able to take that?

Suzanne Cheng: Yes, please. I think you can refer to our interim report. Actually our overall net debt is about HKD4.5 billion.

(Varun Ahuja): I got that. Just wanted to split between the fixed and mobile or what is fixed on that.

Joe Tong: Around HKD\$1 billion is on fixed while the remaining is on mobile. Approximately \$1 billion.

Suzanne Cheng: Yes. Thank you.

(Varun Ahuja): Thank you.

Suzanne Cheng: In terms of the lease lines that you just mentioned, everything is on arm's length basis. So, they are all reflected in our financials. So, I don't think the EBITDA would be likely to change a lot if you're looking at just the mobile business itself.

(Varun Ahuja): Lastly, on dividends on sustainable basis should the 75 percent ratio increase given the earnings will fall and obviously the - you will have until you substantial return from the cash that you generated are the dividends expected to decline? So, how should we look at the payout ratio?

Cliff Woo: We have meetings to consider the decision and at the moment we have no answer for this question.

(Varun Ahuja): OK. Thank you.

Operator: Thank you. Once again, if you have a question please press star one on your telephone and wait for your name to be announced. Your next question comes from the line of Gary Yu of Morgan Stanley. Please ask your question.

(Gary Yu): Hi. Thank you for the opportunity to ask questions. I think I have one more question also related to dividends. Given our payout ratio guidance is around 75 percent for this year, should we also consider the one-off disposable gain of around HKD5.7 billion to be included in the distributable income when we distribute at 75 percent at dividends?

So, that's my first question. Secondly on your net debt breakdown, the HKD1 billion net debt associated with fixed line, is it going to be absorbed by the buyers as part of the deal or will it remain at the Hutchison level even after the disposal? Thank you.

Suzanne Cheng: So, for the second - yes. For the dividend part, currently our dividend policy is 75 percent on the NPAT but of course it is based on ordinary business.

As Cliff mentioned, the board hasn't decided what's the next step for the proceeds that we have. So, we do not have a very definite decision or the answer to you on whether it is based on the normal dividend policy or not. So, it will be later on. We will decide later.

On the bank loan that just mentioned for around HKD1 billion by fixed line. So, that one is actually under the HTHKH level so it is not included in the transaction.

(Gary Yu): OK. And, a follow up question on dividends. Should we expect some decision on ordinary special dividends when we announced full year results in early next year?

Cliff Woo: I cannot say for sure but definitely we are looking at various options and we are trying to give information out as soon as possible.

(Gary Yu): OK. Thank you.

Cliff Woo: Thank you, Gary.

Operator: Thank you. Once again, if you have a question it is star one on your telephone and wait for your name to be announced. To ask a question once again, it is star one on your telephone. Your next question comes from the line of Emerson Chan of Bank of America Merrill Lynch. Please ask your question.

(Emerson Chan): Hi I'm Emerson, I have two questions. My first question is, I believe there will be some special costs in the future like 900 and 1,800 MHz or even 5G. How much do we expect this spending?

And, my second question is on 5G, is there any update on the release of 5G standards in Hong Kong and what are the potential Capex on 5G? Thank you.

Suzanne Cheng: Yes, for the spectrum cost for 900 and 1,800 it is too early to tell because the reason for that is we still do not have the definite decision from OFCA yet, so, it is too early for us to estimate overall cost. And, in terms of 5G, again a similar situation as the spectrum band are not yet finalised.

It won't be known until like 2020 or 2021. So, we have no idea of that overall how much Capex will be spent afterwards. So, maybe Cliff you can give some more information on this.

Cliff Woo: At least 26 gigahertz -- the band for supporting 5G. However the band is not the most favourite band because it's frequency at a very high level. That means the frequency will not be the most useful one for providing strong coverage in the indoor and also far reach. So, then the government recently is also issuing another consultation paper in the last one week or two.

They are now consulting the market whether it is possible to recover some of this frequency at 3.5 gigahertz which is quite a common frequency being used worldwide for 5G like the U.K. Our government is now consulting the market whether they would be able to recover some of the satellite operation to this band for 5G operations. And of course then this band is from operation point of view, from a cost investment point of view, it's much better spectrum compared with the 26K.

Hutchison Telecom will provide our comments to the government in due course. Again I want to echo what Suzanne said, frequency matters a lot, how many sites you want, how many sites you need and also dictated by also -- the Capex will be dictated also by the technology to be fully specified. So at the moment, it's too early for us to have any estimate for 5G Capex. Thank you.

(Emerson Chan): Thank you.

Operator: Thank you if you have questions, once again it is star one on your telephone and wait for your name announced. Your next question comes from the line of Bin Liu of Citigroup, please ask you question.

(Bin Liu): Follow up question on the spectrum process. What is the payment for it? Previously what is the lease cost for 900, 1,800 MHz spectrum use annual payment before the auction?

Suzanne Cheng: It is quite difficult to give you a ballpark number because the charging basis is completely different as what is proposed by the government now. The government now proposing is one off payment for those 900, 1,800 spectrum, but currently the one that we are paying is actually on annual basis. So it is very difficult to compare like with like or apple to apple.

(Bin Liu): The recent annual cost of 900 and 1800 do you have that number? Or in 2016, the rough annual payment.

Suzanne Cheng: We don't have that amount in front of us, we can provide that later on.

(Bin Liu): OK thank you. Another question regarding the debt level, do you have an intention to reduce the ratio after the transaction? Or are you comfortable on your current debt level? Thank you.

Suzanne Cheng: This is one of the alternatives that we are thinking of in terms of the user proceeds. So as said, we haven't decided anything yet.

(Bin Liu): All right then, thank you, Suzanne.

Operator: Thank you. Our next question comes from the line of Leo Chang of Sentel. Please ask your question.

(Leo Chang): Hi congratulations on the deal. As I noticed actually like the P.E., like of this transaction is around 36, which is relatively high. So we would like to know why I Squared Capital actually spent so much money on fixed line in which the business actually is facing a flat development. So what do you think that - what's the purpose of spending such high offer in order to buy the business from your group?

Suzanne Cheng: I think, Leo, it is not appropriate for us to answer on behalf of I Squared, so I think they must have evaluated clearly before they doing such a decision. So it's better for us not to answer on behalf of them.

(Leo Chang): But do you know - when you said that like even though it's HGC going to sell to the I Squared Capital. But you said that you guys would still have a strong relationship in term of coordinating your business. So I suppose that like how this sort of relationships can also benefit you guys from continuing your business?

Cliff Woo: I think per the marketing service agreement, we have decided - I mean both our parties have decided to maintain a long-term, cooperative commercial relationship. It is quite clear that we need somebody who is very close to us to provide services and they also need somebody who knows the mobile market in order to also cooperate with them to offer to the market.

That's what we have been doing within ourselves before the transaction. So the two company have already agreed, allied and decide to work together on this perspective. So from this angle, I do not see that there any disadvantage of having this transaction going forward.

(Leo Chang): So can you explain more about after the takeover, what are the plans they were going to have with you guys besides - they would still provide you fixed network? What are the major developments or plans they have in mind currently that you guys can work with?

Cliff Woo: ...yes thank you for your question and interest, but I don't think I can answer for them. But I can only speculate if you want, I think I Squared has operation all over the world and controlling many, many assets and investments around the world. And HGC we do have a unit, which is international unit, and this unit has been generating significant revenue.

And you could go back to financials and you can see that. And this team has been very aggressively exploring overseas markets. Maybe, I Squared would think that this is a good team for them to rely on, to support their operation all over the world and this is a synergy which they would be able to develop. I can only speculate in this way, it's not for me to answer for them.

Operator: Thank you. Your next question comes from the line of Peter Milliken of Deutsche Bank, please ask your question.

(Peter Milliken): Yes, good afternoon. You got a very good price in my view for selling the fixed line business. Was the reason you sold that you thought it was a good price or do you see some challenges coming forward in the enterprise side of the market, or even the consumer side, that you thought it might just be easier to get out at this point? Thank you.

Cliff Woo: Well anyway the overall decision is based on the fact that we want to create value for our shareholder. If you look into our recent announcement of interim results, we have actually - showing some growth in the fixed line business and so it's an overall decision, it's not as what you said that we want to get out of anything.

(Peter Milliken): Yes, yes, yes, sure I can understand that and one other question. You did mention there was a few things you might consider from shareholder returns to buying mobile either overseas or local market. If you were to go for the local market route, OFCA came out with an M&A document some years ago which kind of suggested it would be very difficult to even get down to four players, which we did, but do you think that they are still committed to that prior M&A sort of white paper or do you think they have a more flexible attitude these days?

Cliff Woo: Well we have - well this is in fact theoretical and we have not actually started anything on it and we have not talked - we have never start any talking to the regulator about this possibility. So I have no answer for your question, but what you're asking actually very good questions. We have to go through it ourselves if there is such a plan.

(Peter Milliken): Sure thing got it, OK thank you very much.

Operator: Thank you. For those who have questions, please press star one on your telephone and wait for your name to be announced. Once again it is star one on your telephone to ask a question. There are no further questions at this time, please continue.

Joe Tong: So can we assume there's no more question?

Operator: At this time, yes, there's no question in queue, go ahead.

Joe Tong: In this case, our conference call end now and in case you have further questions, feel free to talk to us and send me e-mail afterwards.

Cliff Woo: Well then with this, I want to thank everybody for joining the call today and for your very sensible questions you asked. I hope that we have been able to provide you further information for your digestion. And yes as Joe said, if you have further questions, please write to us and we'll handle it separately. So thank you very much for everybody's joining this call, thank you.

Joe Tong: Thank you.

Suzanne Cheng: Thank you.

Cliff Woo: Have a nice day.

Operator: Thank you, ladies and gentlemen, that does conclude the conference for today. Thank you for participating.

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