

## ANALYSIS: Users subscribe to 4G, but at a cost

By Lisa Wang / Staff reporter

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Taiwan's 4G uptake has grown at a blistering pace rarely seen in other markets, with the number of 4G users expanding to 4.02 million just seven months after its rollout in May last year.

The proliferation indicates the nation's mobile users appreciate being able to download data at least 10 times faster than on a 3G network, but for telecoms operators, 4G services do not guarantee quick profits.

The rapid growth might instead come at a price — longer cost recovery.

The flat-rate gambit for unlimited data usage on 4G networks is regarded as the key factor fueling this explosive growth, as the tariffs help to attract heavy data users to shift to 4G services in the initial phases.

“To vie for market share in highly competitive markets like Taiwan, local telecom companies use the old trick of offering flat rates as they did when 3G [services] came out,” IDC analyst Andy Ye (葉振南) said.

That pricing strategy helped boost subscriptions, but telecom companies “are making less profit than by offering tiered-price services as they originally hoped to do. That also means it will take more time for the companies to recover 4G infrastructure costs,” Ye said.

The nation's six 4G service providers spent a total of NT\$118.65 billion (US\$3.81 billion) for 135 megahertz of bandwidth and licenses in an auction held in the fourth quarter of 2013. The price, about 2.4 times higher than the floor price set by the National Communications Commission, drove up local 4G investments along with base station infrastructure costs.

Chunghwa Telecom Co (中華電信), the nation's biggest telecom, last week geared up 4G promotion efforts, lowering the threshold of its 4G flat-rate prices to NT\$988 per month, down 13 percent from the company's previous lowest flat rate of NT\$1,136 per month.

The price cuts were a bombshell, as most analysts hoped that local telecom operators would end flat rates in the foreseeable future.

“As long as they can still make a profit, I do not see any signs of them ending the services any time soon,” Ye said.

With the new tariffs, he expects the number of 4G subscribers in the nation this year to surpass his earlier forecast of 10 million.

Rivals Taiwan Mobile Co (台灣大哥大) and Far EasTone Telecommunications Co Ltd (遠傳電信) followed suit by unveiling new 4G service plans costing NT\$998 per month for unlimited Internet connection.

New entrant to the market Taiwan Star Cellular Corp (台灣之星), which canceled its lowest-price 4G monthly flat-rate package of NT\$599 last month, revived the rate plan and made it available during the five-day Spring Computer Show in Taipei, which closed on Sunday.

“If promotional pricing does not end soon, we fear for Taiwan’s telecoms, with their stocks above our price targets,” Deutsche Bank AG analyst Peter Milliken said in a report.

“The first-quarter headline numbers show that recovery from the [4G] LTE launch is proving difficult due to promotional 4G pricing holding mobile service revenue in check... The weakness has led to some competitive niggles, with porting discounts being introduced,” he said.

Last quarter, Taiwan Mobile and Far EasTone saw their earnings before interest, taxes, depreciation and amortization (EBITDA) shrink 2.31 percent and 2.5 percent annually to NT\$7.59 billion and NT\$6.53 billion respectively, while Chunghwa Telecom stood out with 0.4 percent growth to NT\$20.34 billion.

Taiwan Mobile shares were unchanged at NT\$103.5 yesterday, while Far EasTone and Chunghwa Telecom rose 1.25 percent and 0.2 percent to NT\$72.9 and NT\$97.8 respectively. The stock prices are approaching the target prices set by Milliken for the nation’s big three telecoms operators at NT\$99 for Chunghwa Telecom, NT\$109 for Taiwan Mobile and NT\$75.2 for Far EasTone. The three companies are all rated “hold” by Milliken.

However, some analysts are unconcerned by Chunghwa Telecom’s latest price reduction.

JPMorgan Securities Ltd analyst Michelle Wei (魏子清) wrote in a report that the 4G price cuts came as “a negative surprise, but don’t hit the panic button yet.”

To mitigate the negative impact on its EBITDA, Chunghwa Telecom is keeping the handset subsidy to its new NT\$988 rate plan the same as with those for its NT\$936 rate plan, instead of matching the NT\$1,136 plan, Wei said.

The price cuts present downside risk to her financial forecasts and pose uncertainty to her long-term positive thesis on the sector, Wei said.

However, she believes “downside to share prices is likely limited as the sector dividend yield of more than 5 percent provides support, and the likelihood of fierce competition becoming the norm among the three is low.”

Yuanta Investment Consulting Co (元大投顧) analyst Livia Wu (吳靚芙) also expected limited downside risk to the telecom companies’ average revenue per user, as the new and lower rate plans are mostly bundled with low-to-mid-range smartphones, such as HTC Corp’s (宏達電) Desire series or Xiaomi Corp’s (小米) Redmi. Wu retained her “neutral” rating on the telecoms sector.

Despite the pros and cons of the new price reductions to 4G services, these analysts advise investors not to increase their holding of local telecom stocks, due to the heavy outlays by companies in the 4G business.

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