

Television Broadcasts Limited 電視廣播有限公司

## Television Broadcasts Limited (Stock code: 00511)

**Investor presentation** 

9 March 2017

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## **TVB overview**

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## A leading vertically integrated television broadcaster with largest market share in Hong Kong

#### **Company overview**

- Commenced business in 1967 and listed on the Stock Exchange of Hong Kong in 1984<sup>(1)</sup>
  - First wireless commercial television station in HK (licence until 2027)
  - Largest free-to-air TV broadcaster in HK
  - One of the largest commercial Chinese programme producers in the world (over 670 hours of drama and over 19,000 hours of non-drama output per annum)
- Owns 5 free-to-air channels and 14 branded thematic TV channels
- **Enjoys 83% audience share** in HK during weekday primetime<sup>(2)</sup> in 1H16 for FTA channels, engaging with over 3 million viewers
- Possesses content library of over 92,000 hours of self-produced programmes, and about 42,000 hours of news footage

#### **Revenue breakdowns**



1H2016 Revenue by geographies(%)

#### 1H2016 Revenue by operating segments (%)



Source: Company filings.

Note:

(1) Following a group reorganisation, Television Broadcasts Limited became the listed parent company of the Group in 1988.

(2) Weekday prime time for TVB's terrestrial TV channels runs from 7pm to 12am, Mondays to Fridays.

## TVB overview (cont'd)

## Unique business model encompassing production, broadcasting & distribution

#### Production

- Over 40 years of experience in Chinese language content production
- Produces Chinese-language TV drama series and non-drama programmes covering a variety of themes
- TVB City, TVB's headquarters has well-designed and sizeable outdoor filming sites and indoor studios with total building area exceeding 110,000 square metres
- Supported by a substantial production team comprising approximately 1,700 producers, screenwriters, crews, costume designers and many other supporting personnel.
- 700 artistes under contract





**Miss HK Pageant** 



A Fist within Four Walls



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Beyond the Realm of Conscience

## Broadcasting

#### Free-to-air channels



#### TVB.com

 TVB's official website and has been in operation since 1997. The website is well-supported by advertisers

#### Mobile platform

 Consists of mobile applications available for free to users of smartphones and other internet-connected devices

#### **OTT service**



 Launched myTV SUPER in April 2016, an OTT service offered through both TVB branded settop boxes and a mobile application where subscribers are able to enjoy linear channels on demand (45 channels and over 19,000 hours of VOD)

#### **Channel operations**

 Distributes and operates two satellite channels, TVB8 and Xing He channels

#### Distribution

#### **Overseas pay TV operations**



 Provides self-produced or acquired contents to subscribers through satellite TV, cable TV or OTT services in the USA, Australia and Europe

### Malaysia astro

 Grants licences to MEASAT which operates the Astro platforms and supplies programmes

## Singapore \*StarHub

 Grants licence to StarHub as the key Chinese programme supplier for mobile and broadband distribution and for broadcasting through its pay TV platform

## China 🜔 🕝 Youku Tudou

- Operated by TVBC, a JV with CMC, Shanghai Media Group, and Gravity Corporation
- Signed distribution agreements with major new media players, such as BesTV via IPTV, Tencent, MangoTV, and Youku Tudou



Operates a drama channel on the country's largest cable network, Saigontourist Cable Television



 Signed a multi-year contract with a local terrestrial television station, PNN, for a daily two-hour broadcast time-belt, effective in April 2016

## **TVB history and key milestones**

Long history with proven track records of contents creation and distribution



TVB has established an unparalleled high quality contents and IP library, through decades of dedication in producing original contents

Source: Company filings.

## **Group structure**





Movie Investment via JV

## Strong support from shareholders solidifies our leading position in Chinese language content globally

#### Source: Company filings.

Notes:

- (1) Dr. Charles CHAN has been appointed the Chairman of the Board since 1 Jan 2015.
- (2) Mr. LI Ruigang has become an upstream shareholder as part of Young Lion (holding 26%) since 22 Apr 2015. Providence Equity Partners ceased to be a member of Young Lion on 7 Jun 2016. Mr. Li is the founding chairman of China Media Capital. He became the Vice-Chairman of the Board on 17 Oct 2016.
- (3) Ms. Cher WANG Hsiueh Hong is the co-founder and chairlady of HTC Corporation (2498.TWSE) and VIA Technologies (2388.TWSE).
- (4) Ms. Mona FONG is the chairperson and managing director of the Shaw group of companies and non-executive director of TVB.
- (5) An effective 12% interest in Hong Kong-listed Shaw Brothers Holdings Limited through a joint venture held by CMC and TVB.
- (6) An effective 5.1% interest by TVB in Flagship Entertainment Group, a mega movie investment platform formed by Warner Bros., CMC and TVB.





## **Competitive strengths**





## Iconic brand with long history and a leading market position in the Hong Kong television broadcasting industry



#### TVB is the dominant Hong Kong TV broadcasting company



## TVB enjoys a high level of brand loyalty among Hong Kong viewers built up through consistent delivery of high-quality television programmes over the past four decades

Source: Company filings.

Notes:

(2) Overall average audience share of TVB's terrestrial TV channels against the total TV channels in HK, during weekday prime time. TVB's terrestrial TV channels comprise Jade, J2, iNews, Pearl and J5 (previously named HD Jade).

<sup>(1)</sup> TV rating ("TVR") represents the size of the audience expressed as a percentage of the total TV population. 1 TVR represents 64,940 viewers in 2014, 64,660 viewers in 2015, and 64,910 viewers in 1H16.

<sup>2</sup> Vertically integrated business with a substantial library of Chinese content programming and a strong international distribution platform



Jade Top 3 Non-Dramas consolidated ratings<sup>(1)</sup> in 2015

**Popular movies in recent years** 





Jade Top 3 Dramas consolidated ratings<sup>(1)</sup> in 2015



The Empress Of China 27.2 TVRs

Eye In The Sky 26.9 TVRs



TVB 48<sup>th</sup> Anniversary Gala 31.0 TVRs



**TV Awards** Presentation 2015 30.3 TVRs



**Miss Hong** Kong Pageant 2015 27.6 TVRs



Line Walker



(权生 吳鎮宇 影天華 與日華 陳言

**Triumph In The** Skies

Laughing Gor -**Turning Point** 

Spin-offs of successful TVB dramas

## One of the largest libraries of Chinese language (both Cantonese and Mandarin) content in the world

Source: Company filings.

(1) Consolidated ratings is defined as the summation of TV rating, online live and catch-up ratings.

## <sup>2</sup> Vertically integrated business with a substantial library of Chinese content programming and a strong international distribution platform (cont'd)

Global footprint with steadily growing licensing and distribution revenue through cooperation with renowned international partners



## One of the largest commercial distributors of Chinese language content in the world

Source: Company filings.

Note: (1) Mainly due to short-term problems in working with a major online operator in the PRC. The issue has already been resolved in 1H2016.

## <sup>3</sup> Premium advertising revenue due to substantial market reach and strong relationships with advertisers and 4As Well diversified client base

Maintains well-established long-term relationships with many top-tier advertisers and major advertising agents in several different industries



One of the fewer media outlets with a mass market reach



In Nov 2016, HKBN top up myTV SUPER settop boxes purchase order by 450,000 units, making aggregate order to 850,000 units, from launch until end of 2019. Effective from 16 Nov 2016, HGC bundles myTV SUPER mobile app for all its Hong Kong 4G users for a period of 12 months.

Maximizing viewers' engagement via OTT platform initiatives





## **Clear and focused business strategies**





# High quality content and co-production efforts with business partners



#### Investments in the movie business

TVB will further expand its movie business to capitalize the growth in the global film market, including a 12% interest in Shaw Brothers (953.HK) through a JV held by CMC and TVB, and a 5.1% interest in Flagship Entertainment Group, a mega movie investment platform formed by Warner Bros., CMC and TVB



- CMC, founded and chaired by Mr. LI Ruigang, is one of the most prestigious names in media and entertainment investment and operation in China and global markets. CMC has created and grown a number of champions and emerging leaders in the sectors of media and entertainment, Internet and mobile, covering film, television, music, sports, location-based entertainment, online-video, smart TV, advertising, social network, games and etc.
- TVB plans to mobilise its production and talent resources through these two platforms to further participate in the development of the Chinese movie sector



Movie releases in 2017 and 2018







Line Walker 2

**Flying Tiger** 

MEG

#### Partnership with digital new media

- TVB strategically co-operates with major digital new media companies in the PRC including Tencent and iQiyi in order to produce a number of drama series
- TVB's production capabilities and talent resources, combined with the strong distribution platforms provided by Tencent and iQiyi will enable TVB to increase global footprint with higher market recognition







Co-production dramas in 2017 and 2018





Heart of Greed 3

Line Walker 2

Unlawful Justice Squad 16

## **Global content distribution strategies**



	First Pl	atform	Second Platform		Third Platform <sup>(2)</sup>	
Mode of distribution	Linear Broadcasting		OTT and app		Social Media Platform	
Markets	Hong Kong	Global	Hong Kong	Global <sup>(1)</sup>	Global	
Business / product	Terrestrial	Conventional Licensing	myTV SUPER	TVB Anywhere	Big Big Channel	
Content offerings	Channels (Jade, J2, iNews, Pearl and J5)	TVB produced channels and programmes	<ul> <li>Linear and non-linear channels (TVB and acquired)</li> <li>VOD programmes</li> <li>Multiple languages</li> </ul>		Self-produced short format content	
Revenue model	Ad supported	Licensing Revenue	Subscription and Ad supported		Ad supported	
Positioning	Largest in HK	Global recognition	- · · ·	er with proven ninate the market	Early mover advantage	

## Further strengthening viewership by providing more choices of channels and programmes on second and third platforms with on-demand delivery capability

Notes:

(1) Except for Malaysia, Singapore, Vietnam, New Zealand, Mainland China and USA, where TVB contents are being distributed through local partners.

(2) Target to launch in Q2 2017.



## 4. 5-year financial overview

## **5-year financial overview**

## TVB enjoys superior scale and gives out steady dividend Five-year summary (2011-2015)



#### Earnings per share (HK\$) and Dividend per share (HK\$)



### Profit attributable to equity holders (HK\$ million)



## Working capital<sup>(3)</sup> (HK\$ million)



#### Notes:

(1) 2014 revenue has been restated to reflect discontinued operations in Taiwan

(2) Other activities include Taiwan operations, Hong Kong digital media business and other activities in 2011 – 2013

(3) Working capital is defined as current assets – current liabilities







## **1H16 business review**



TVB leads in free-to-air TV business in HK with audience share of 83%<sup>(1)</sup> (1H15: 82%<sup>(1)</sup>), despite of new entrant

Challenges
A weak advertising market in Hong Kong, total ad spend fell 20% yoy

- Widespread content piracy
- Fierce competition from online entertainment alternatives
- Focus on digital new media and growth in China

# Responses TVB ad revenue was less affected by the cyclical downturn Launched myTV SUPER service in Hong Kong in April 2016 Reviewed showed (are presented)

- Reviewed channel/programming strategy in Hong Kong, with a view to broaden viewership
- myTV SUPER rollout has been progressing very well, the subscription number was ahead of schedule
- Contract renewals: Astro (Malaysia); Youku Tudou (China)
- Movie investments: Flagship Entertainment and Shaw Brothers Holdings (953.HK) have become future platforms for movie business (investment and production)
- Divestment in Taiwan: Disposal of investment properties in Neihu, Taipei would generate proceeds of HK\$961m and gain of HK\$277m (to be booked in 2H16)

## **1H16 consolidated income statement**



HK\$ million	1H15	1H16	Chg	Remark Note: NM – not meaningful
Revenue	2,031	1,964	(3%)	Main cause: HK advertising income dropped 11%
Total costs (COS + SG&A)	(1,570)	(1,678)	7%	Higher programming cost and higher G&A expenses due to new business
Other revenues & other gains/(losses), net	3	40	NM	Exchange loss incurred in 1H15
Operating profit	464	326	(30%)	
Finance costs	(4)	(1)	(73%)	
Share of results of JV & associates	(26)	(7)	(72%)	
Impairment loss re: Network Vision	(654)	(15)	NM	Large provision made in 1H15
(Loss)/profit before income tax	(220)	303	NM	
Income tax	(65)	(54)	(16%)	
(Loss)/profit from continuing operations	(285)	249	NM	
Discontinued operations (Taiwan)	1,426	71	(95%)	Sale of Taiwan Operations in two tranches
Profit for the period	1,141	320	(72%)	
Profit attributable to equity holders ("Net profit")	1,148	302	(74%)	
Earnings per share (HK\$)	2.62	0.69	(74%)	

Revenue declined to HK\$1,964m (-HK\$67m, -3%)

- Lower ad revenue under HK TV Broadcasting (-HK\$151m, -11%)
- Better revenue under Programme Licensing and Distribution (+HK\$50m, +10%)
- Net profit declined to HK\$302m (-HK\$846m, -74%)
  - last period's profit was boosted by a disposal gain from sale of 53% of Liann Yee/Taiwan Operations of HK\$1,396m, but
     offset by an impairment loss of HK\$654m related to Network Vision/HK pay TV business

## **1H16 segment results analysis**

## Cyclical downturn continued in 1H16



- HK TV broadcasting: Lower revenues due to weaker advertising market. HK retail sales were down 10.5% yoy, longest stretch since SARs crisis. Enhanced competitiveness by rearranging channel offerings and telecasting dramas on weekend evenings.
- HK digital new media: myTV SUPER began to operate during the Period, contributing some start-up losses.
- Programme licensing and distribution: China revenue up, signed a 3-year contract with Youku Tudou.
- Overseas pay TV: Gradual migration from satellite to OTT by markets.

## 1H16 financial position and debut bond issuance



## 1H16 financial position

HK\$ million	30 Jun 2016	31 Dec 2015
Non-current assets	2,589	2,771
Current assets (other than bank deposits, cash and cash equivalents)	3,178	3,525
Bank deposits, cash and cash equivalents	2,578	2,817
Total assets	8,345	9,113
Total equity	7,312	7,836
Total liabilities	1,033	1,277
Total equity and liabilities	8,345	9,113

- 1H16 CAPEX amounted to HK\$137m
- Annual CAPEX requirements amount to HK\$300m, mainly for maintenance purposes

### Debut bond issuance in Oct 2016

- TVB successfully completed the US\$500mm debut unsecured non-rated 5-year bond issuance in October 2016 at interest rate of 3.625% pa.
- The proceeds will be used for movie investment and online (both myTV SUPER and TVB Anywhere) and other investments and corporate purposes
- Gearing<sup>(1)</sup> increased to around 35% and is expected to maintain at this level for the foreseeable future.





# Thank you



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