Event Transcript

Company: StarHub
Title: 4Q & FY-2018 Results
Date: 14 February 2019
Time:

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Veronica Lai: This is StarHub's Fourth Quarter and Full Year 2018 Results announcement briefing. My name is Veronica and it is my pleasure to welcome the media and analysts who are with us here now at our media centre at StarHub Green, as well as those who contacted us via the conference call and webcast. Before we go into the results proper, please allow me to introduce the panellists to you.

We have our CEO, Peter K; CFO Dennis Chia; along with Chief of EBG, Dr Chong Yoke Sin; as well the Chief of CBG, Johan Buse. Before we begin our presentation, I would like to remind all participants that we will conduct a question and answer session at the end of the presentation. We will be taking questions from the floor here in StarHub Green first, followed by those on the conference call, and then finally from the webcast. For participants on the call, if you have a question, please press star one. If you wish to withdraw your question please press star two. And with that let me hand over to Peter to share our financial highlights, Peter please.

Peter Kaliaropoulos: Thank you, Veronica, and a very good afternoon, ladies and gentlemen, and thank you again for your interest. Before I ask Dennis to go through the financial statements in detail, allow me to offer some highlights across the business operations for quarter four and the full year.

Our total revenues for 2018 at $2.36 billion were 2% lower than the previous year. If we exclude the equipment sales of around $530 million, the service revenues reached $1.83 billion or 2.5% lower than 2017. These results were in line with previous market guidance we offered which was 1% to 3% lower than the previous year.

When we look across the portfolio of our products, Pay TV and Mobility contributed to lower revenues year-on-year, by 12% and 8% respectively, whilst Broadband was stable and Enterprise's revenue grew by 16% year-on-year. Without provisions and adjustments - and Dennis will refer to these topics a bit later - the mobile revenues dropped by about 6.2%, not 8% as reported.

Whilst consolidating additional cost of sales and opex from the acquisitions in 2018, we delivered a full year total EBITDA of $567 million, which is approximately 11.8% lower than the previous year. Our services EBITDA of $521 million was 11% lower than previous year. As a result, our services EBITDA ratio was 28.4%, which again is within the 27% to 29% guidance we previously offered the market.

From a trading position point of view, allow me to make the following comments. We increased our post-paid customer base for mobile by 34,000 net adds for the full year, which is a 2.5% year-on-year increase, and more than half of the net growth adds came in quarter four, driven predominately by healthy demand for new simplified mobile plans. The full year ARPU is at $43. As the entire pre-paid market shrunk in 2018, our pre-paid customer base also reduced by about 150,000 consumers year-on-year.

However, the quarterly pre-paid revenues remained flat, stable, for at least four quarters now at approximately $35 million per quarter. The shorter validity period offers and some migration to SIM-only plans have contributed to the reduction of the pre-paid customer base. When we normalise our trading position for mobile revenues, excluding the one-off adjustments and provisions, revenues declined by 2.6% between Q3 and Q4.

In our Pay TV business, our customer churn was slightly better Q3 at 14,000 customers churning versus 15,000 in Q3. Although we reported a drop in quarterly revenues of 4.5% quarter-on-quarter, the revenues were fairly stable. ARPU is lower year-on-year due to rebates given for various channels that we cancelled. Again, alternative viewing options and piracy continue to affect our customer base in Pay TV.

Our migration to fibre from HFC cable is progressing on schedule and we currently have more Pay TV customers on fibre than cable. We have also grown the total number of broadband consumers by 3.2% year-on-year to 482,000 and the number of fibre broadband accounts have also grown by 11.4% year-on-year to 425,000. ARPU for broadband services is steady at $32 per month.

Our Enterprise segment is growing predominately based on managed services, cyber security, cloud services, and digital security services. As anticipated, voice revenues and domestic data and internet services have declined due to price erosion predominately and substitution with other services such as OTT for voice. As a portfolio of services, we grew the Enterprise revenues by 16% year-on-year.

Allow me to also make some comments about the transformation programme. In the middle of Quarter 4, we initiated a program which is based on three fundamental pillars, first of all, delivering better customer experience through simplification, better value, and ease of transaction through digital journeys. Our Hello Change was the start of that journey which we introduced in the second week of December.

The second part of our transformation programme was to drive operational efficiencies and cost optimisation. We announced a $210 million cost optimisation target and we have already implemented labour cost savings and some procurement savings. We have set targets for efficiencies also in our TV transformation, IT transformation, network sharing, virtualisation, and customer service in other parts of our business. These are not net cost avoidance but these are actual reductions against existing operating costs.

Thirdly, we are identifying opportunities to accelerate and grow through partnerships, acquisitions, and innovation. Ensign is one example of initiatives in cyber security. Another relationship, for example, with Yippy to deliver enterprise search engines in the Enterprise space, and also the first in Singapore the invoicing on PEPPOL standards is another. So growth as well as cost optimisation and improvements in customer experience underpin our transformation plan.

Also whilst the transformation is underway we do expect competition will intensify with new entrants, for example, TPG, MVNOs like VivoHub, and other niche enterprise providers. We are focused more than ever to identify opportunities to grow and reduce operating costs. We do see growth opportunities in the IoT space and other segments in the market like data analytics, artificial intelligence, and digital security services. But monetisation remains a challenge and we need to understand the realities of a saturated market in Singapore.

Within this context, we are offering guidance for 2019 which Dennis will elaborate in the next few minutes. The guidance is that Group service revenues will be stable to a decline of 2% year-on-year. Group service EBITDA margins between 26% to 28% before IFRS 16 adoption, and Dennis will explain the difference after IFRS adoption. Capex commitments to total revenue will be in the range of 11% to 12%.

Also consistent with industry practice and taking into account the dynamic market conditions, as of this financial year 2019, the StarHub Group intends to adopt a new variable dividend policy and pay out at least 80% of net profit attributable to shareholders, adjusted for one-off non-recurring items as dividends. As part of the transition to the new dividend policy, StarHub intends to pay a dividend of at least $0.09 per share for 2019 at a rate of $0.0225 per quarter. Any payment above $0.09 in line with the dividend policy will occur in the last quarter of 2019. As previously we communicated, the final dividend for 2018 of $0.04 will be paid in April this year.

Having said all of this, I will hand over to Dennis to go through some more details of our results, thank you.

Dennis Chia: Thanks ,Peter. I'll move to the slide deck which is slide number 11, which is the EBITDA, and we reported an EBITDA of $111 million for the quarter versus $142 million a year ago. The underlying EBITDA which is also indicated in the deck was $137 million. This is prior to the adjustments of $26 million that we took in the quarter that resulted in the reported EBITDA of $111 million. These adjustments related to a couple of items relating to loyalty programmes, in relation to rewards that we expect our customers to be redeeming.

We also pulled forward provision for an onerous contract and this is explained in the MD&A as well, and we've adjusted the retail prices of our handsets that we sold during the year as well. So these three adjustments collectively have resulted in the net reduction of our EBITDA of $26 million. The underlying EBITDA for a year ago as compared to the $137 million that we reported in the quarter would have been $153 million on a comparative basis. On the full year, we reported EBITDA of $567 million versus a year ago of $643 million. The underlying EBITDA, taking into account the same basis for the full year of 2018, would have been $582 million versus $639 million a year ago.

Moving onto service EBITDA, and service EBITDA for the quarter was reported at $106 million versus $122 million and that would have been a margin of 23.1% on a reported basis versus 24.9% a year ago. If you back off the adjustments that I referred to that impact service EBITDA, the service EBITDA for the quarter would have been $118 million or translating into a service EBITDA margin of 25.4% versus $133 million a year ago on a comparative basis or margin of 27.7%.

The service EBITDA for the full year would have been $521 million on a reported basis versus $582 million. The net adjustment of service EBITDA for the full year are fairly minimal, which means that in fact the underlying service EBITDA margin for the full year of 28.4% on a reported basis would have also been representative of the underlying service EBITDA margins for the full year of 28.4% versus 31.2% a year ago.

Looking at the cost of sales on slide number 13, you're looking at cost of sales for the quarter at $304 million versus $329 million a year ago. The movement in the cost of sales really is a function of three buckets. The cost of equipment is actually lower year-on-year and that's in relation to the lower handset revenues and equipment sales revenue that we recorded in Q4 2018 versus a year ago. The traffic costs are actually higher as a result of the volume of traffic that we put through the mobile system.

The cost of services which are a combination of three buckets, which is the content cost has actually come down and the cost of services in relation to the Enterprise business and the services that are rendered through our acquisitions have gone up, as well as the fibre cost migration costs that are captured in this bucket. The net reduction for the quarter year-on-year is a net reduction in cost of services and that's largely from content cost reduction recorded in our TV business. For the full year, our cost of sales is $1.075 million versus $1.041 million and explanations in the movements in each of these buckets are consistent with what has been articulated for Q4.

For other operating expenses we reported other operating expenses of $286 million for the quarter versus a year ago of $287 million. For the full year it's also fairly on parity at $1.015 billion versus $1.012 billion. The movements in this bucket would be as follows. Marketing and promotion costs are slightly higher compared year-on-year and this is very consistent with the branding changes that we've rolled out during the year, as well as in relation to the migration to fibre from our cable systems for both TV and broadband. Our depreciation costs have gone up, this is also consistent with the acceleration of the depreciation in relation to our cable network which we intend to cease in the coming months, as well as the amortisation of intangibles in relation to the acquisitions that we made during the course of 2018.

In the general and administrative bucket, the movements are as follows. We've got reductions in operating leases as a result of the rollout of our own fibre in the last few years, a reduction of allowance for doubtful debts due to the improvements in the AR management and collection statistics that we recorded during 2018. We've got higher staff costs as a result of the acquisitions that we incurred, otherwise at a staff level we've got staff cost management which is very much in check. We've got slight increases in repair and maintenance costs because of the broader networks that we've got and the IT systems, as well as the depreciation we've talked about.

In terms of net profit after tax, this is on slide number 15, we have a reported net profit after tax of $15 million for the quarter. The underlying net profit for the quarter would have been $42 million versus $63 million and this is before the adjustments that were referred to earlier. For the full year we reported net profit after tax of $200 million, or this would have been translated into $0.115 per share on an EPS basis, versus $274 million. The underlying net profit would have been $215 million or $0.123 per share versus a year ago of $0.269.

In terms of cash capex payments, we have full year cash capex payments of $273 million or 11.5%. This is very much along with guidance. If you back off the payments for the building that we purchased during the course of 2018, the payout ratio would have been 10.2%.

In terms of free cash flow, we have a slightly less negative cash flow generated in Q4 2018 versus a year ago and this is due to positive working capital changes that we recorded during the quarter. For the full year, we generated free cash flow of $174 million or $0.10 per share. Out net debt to EBITDA ratio ended at 1.52 times at the end of 2018.

So we move onto slide number 19 which is the guidance statement which Peter has already articulated. The only point I would make is the guidance to the service EBITDA margin on a post-SFRS(I) 16 basis, which is 30% to 32% versus the pre-SFRS(I) 16 numbers which is 26% to 28%. As a note, we will be reporting numbers from this year onwards from Q1 on a post-SFRS(I) 16 basis in compliance with accounting standards. The reason for this is because the operating leases which were previously recorded in our books and in the profit and loss statements have now been capitalised as part of the accounting standards.

Accordingly, the depreciation expense would be increased and the reduction in operating leases translates into an increase in the EBITDA, and the corresponding increases in depreciation would be recorded during the year as well. So the net impact is a negligible impact on our net profit number at a bottom line and there are no cash flow impacts from the adoption of these new accounting standards. With this, this summaries the results of Q4 and the full year and I will hand the floor back to Veronica.

Veronica Lai: Thank you. We are going to open the questions to the floor now.

Koh Miang Chuen (Goldman Sachs, Analyst): So in terms of the cost cuts that were articulated previously, can you talk about how that is manifested in the margin guidance that is given this year? Also, how should we think about those one-offs basically recorded in fourth quarter, what's the risk of those being recurrent this year as well? Those would be two questions.

Peter Kaliaropoulos: In terms of the cost optimisation programme as I mentioned, it's impacting all aspects of the business. When we announced the programme our intention at the time was that some would translate into real savings, others would go back and fund growth and basically digitisation of the business. If you look at the business right now, our call centre activity everything is done in a more old fashioned way. We have to make investments in IT predominately to enable digital transaction with customers and fix a lot of processes.

So some will translate into real savings and some funding will go towards funding growth opportunities and transforming other processes. In the guidance we're giving you that has been captured. So again, I want to be very clear, the $210 over three years is not going to drop directly into the bottom line.

Dennis Chia: In terms of the one-off adjustments that were made in Q4 of 2018, I had explained that there were three broad buckets of adjustments. The first is in relation to the adjustment in retail prices for handsets. That will no longer recur because we actually adopted the new accounting standard which is SFRS(I) 15 at the start of 2018. As a result of that adoption and adjusting the basis of the new accounting standards that adjustment was done in Q4 to true-up the retail prices for the full year. So going forward you will see a consistent basis adopted in 2019 and therefore there is no one-off adjustment in that respect.

The second is in relation to the onerous contract that was referred to. This onerous contract is at its tail end and will be terminated in the next 15 months or so, and therefore we do not expect anything to be recorded for that onerous contract. As well as the accelerated depreciation that has now been taken and factored into our books which translated into the higher depreciation costs that we've been recording, so you won't see a one-time impairment as well.

The third being the loyalty programmes or the reward programs that we would expect our customers to actually redeem over a period of time, and this is also a truing up of the total number based on the promotions that we expect to roll out in 2019 and beyond. So in this regard, again this is a truing up of this number to the maximum number so we do not expect to incur additional amounts as well in 2019.

Koh Miang Chuen (Goldman Sachs, Analyst): So in terms of the service revenue guidance as well, is it possible to give it more clarity? You're talking about stable to decline of 2%, so how should we think about that relative to mobile and other divisions?

Peter Kaliaropoulos: We're running a portfolio business and the portfolio has both consumer and enterprise. Traditionally the consumer voice, for example, and Pay TV and mobility has always been shrinking over the years for a number of reasons. There's migration predominantly to data, fixed and mobile. So in the portfolio predominantly we still expect declines in revenue from mobility and Pay TV.

We still expect stability in terms of broadband revenues, and interestingly enough if you analyse Pay TV reduction of customers but on the other hand increasing broadband connections to the home, it proves the point that customers still enjoy content but it's alternative content versus Pay TV, and that means they need the broadband connection. So the revenue mix for 2019 will be again challenges in mobility as well as Pay TV, stability in fixed broadband, and growth in enterprise.

Koh Miang Chuen (Goldman Sachs, Analyst): Does that explain why the guidance is so flat y-o-y?

Peter Kaliaropoulos: A combination of that and also if you take into account the growth area which predominately is the enterprise, many services and the new innovative services, they come at much lower margins compared to telco connectivity services. We used to enjoy very high - you know 30%, 40%, 50% margins in connectivity, right now when you look at managed solutions, IT solutions, they're more of low double digit margins.

So it's a margin mix. There's revenue growth but the margins - so when you blend the margins of traditional products and the new IT solutions you've seen a reduction in service EBITDA margins. Costs, basically again we're trying to keep the costs as stable as possible and reduce them, and the reduction in cost is funding as I mentioned transformation in IT, transformation in customer service, and growth opportunities.

Koh Miang Chuen (Goldman Sachs, Analyst): Thank you.

Veronica Lai: Is there another question from the floor?

Peter Kaliaropoulos: The floor has priority, thank you.

Veronica Lai: In that case, we will move onto the teleconference. Once again, if you would like to ask a question please press star one, if you would like to withdraw a question then please press star two. We'll start off with Luis Hilado from Maybank Kim Eng. Luis please.

Luis Hilado: (Maybank Kim Eng, Analyst) Yes, hi, good evening and thanks for hosting the call. I have three questions. The first one is regarding the SIM only no-contract promotion, you've extended it a few times, if we could get some colour and how successful it's been and whether you've been getting ports from competitors or if it's more of internal ports.

The second question is you mentioned you're on track with the cable decommissioning. Does that mean that June 2019 we should see all of the cable subs switched over to fibre broadband? The last question is in terms of fibre Pay TV, what's the conversation rate now, what percentages are on fibre added and cable Pay TV?

Peter Kaliaropoulos: Allow me to give you an overview and then I'll invite also Johan who runs our consumer business to elaborate. First of all, SIM only is a reality in the market and it's a double digit percentage of our total sales. Slightly grew with the initiative of Hello Change, but again I want to stress that the majority of post-paid sales are still with device. So SIM only it's a fact of life and again in terms of cost, it has a lower cost structure because we don't subsidise for devices. I'm sure in a few minutes Johan will add a little bit more colour.

Also cable is on track. At the end of December was on track. We met the migration target. We certainly have a target by June 2019 to migrate every cable customer, enterprise as well as consumer. We've slowed down a little bit over the last few weeks with the celebrations for Chinese New Year but again at this point in time we expect to be on track to deliver every customer to migrate them across. We're not in a position to make any additional offers and offer more incentives. We've offered existing incentives and we're working through customer by customer to migrate so there is a high degree of confidence we will achieve that migration.

Your last question in terms of fibre versus cable for Pay TV, we've crossed that point. At this point, not at the end of December but as of today we have more customers on fibre than cable. I think with these comments Johan I'm not sure if you wish to add anything else.

Johan Buse: No thank you

Peter Kaliaropoulos: Thank you.

Luis Hilado: (Maybank Kim Eng, Analyst) Thanks a lot, Peter.

Veronica Lai: Thank you, we'll take the next question now which is from Arthur Pineda from Citigroup.

Arthur Pineda: (Citigroup, Analyst) Hi, thank you for the opportunity. I have two questions please. Again on the Pay TV issue the majority are indeed on fibre but for the un-migrated segments do these subscribers have a StarHub broadband subscription as well which runs in parallel to the HFC network? I'm just wondering what happens if you can migrate them by July.

The second question I have is in regard to the dividend. Can you share the philosophy in the dividend, are you looking at it on a target gearing ratio for instance of is it just mostly matched on free cash flow trends, and related to that what would you thoughts be on further acquisitions? Are you happy with what you have now or are you looking to build that out on the enterprise side even further, thank you?

Peter Kaliaropoulos: Johan, would you like to take the question on the fibre migration.

Johan Buse: On the fibre question, the fair share of the customers who are having cable TV obviously also has cable broadband. As we announced end of quarter three, October, all the customers who have cable are what we call price protected and they are offered accordingly. As Peter said earlier on, we see an uptake which is in line with our expectations and on plan. So hopefully that's answering your question and obviously we'll work our way through until the end of June, which is the estimated closure date for cable. As we go along we'll monitor and see if any additional action is needed.

Peter Kaliaropoulos: The second point in terms of dividends, we believe our dividend policy is what I call mature and responsible within the current market environment. Certainly paying a percentage of NPAT with the exception of any one-off non-recurring provides the cash flow to actually fund that. So I think that's as much as I'm willing to say. I'm not sure Dennis if you want to add anything more.

We believe it is a responsible policy, it's within our means to pay the dividend year after year and in terms of one-off non-recurring events the only one is the payment of the spectrum which is about $282 million, that's a one-off event. At this stage we don't believe it will be incurred in 2019. There is a six months' notice period to be given to us but again if you exclude that the cash flow is sufficient to meet the dividends within the new policy.

In terms of acquisitions, certainly we remain active to identify business with accretive impact to P&L and to our cash flow and to revenues. I have to say in the last few months there are not many opportunities and again we're being a bit selective, so we do seek new opportunities, especially in areas like data analytics, artificial intelligence, and managed services. We still see that part of the market segment and enterprise is growing especially with IoT growing dramatically over time. There's a lot of requirement for systems integration and artificial intelligence. Again, I'm not sure Yoke Sin if you want to add anything more to it.

Chong Yoke Sin: No.

Peter Kaliaropoulos: I hope, Arthur, we've answered your questions.

Arthur Pineda: (Citigroup, Analyst) Sorry, in terms of the acquisitions the reason I asked that is I was wondering if there are any acquisitions, does actually impact the sustainability of the dividend payout ratio? Are you still keeping 80% if you do find an acquisition down the road?

Peter Kaliaropoulos: Correct, yes, we're keeping the 80% because again an acquisition unless we're serially acquiring companies every month, we treat that more as the one-off non-recurring event, and hopefully the acquisitions we find they're not ones that will drop considerable cash. So, yes, even if we do acquire companies the 80% minimum payments for dividend still applies.

Arthur Pineda: (Citigroup, Analyst) Understood, thank you very much.

Peter Kaliaropoulos: Thank you.

Veronica Lai: Thank you, so we will take our next question from Ranjan Sharma from JP Morgan.

Ranjan Sharma: (JP Morgan, Analyst) Hi, good evening and thank you for the presentation and just a couple of questions. Firstly, on the service revenues guidance, you are guiding for it to be stable in the most optimistic scenario, how does this factor in the impact of new players on the mobile side if you can share more colour. The next question would be on the EBITDA margin, how do you see handset subsidies evolving in the market considering the proliferation of SIM only plans plus also longer replacement cycles for smart phones? So how does that factor into your EBITDA margin guidance? Lastly on the Pay TV, I think previously we had discussed strategic options but no further colour was given, maybe you can share something more this time, thank you.

Peter Kaliaropoulos: Okay thank you for your questions. Three questions if I can try and answer them. The first one relates to the impact of competition on service revenues and the guidance we've given you. First of all, in terms of guidance we've been giving you guidance for 2018 from the first quarter of 2018, and our results are very consistent with the guidance we've given you for the last 12 months. That implies that we've done a little bit of analysis and we feel fairly confident that the services revenue guidance for 2019 will also be highly accurate. Having said that, yes, there will be volatility in the marketplace because of new entrants. We've been living with MNVOs and new entrants for the last two years. TPG has come in and again, preliminary and they will make an impact in the marketplace. But if you also take into account that in the last few months we have reenergised the consumer business and basically we're chasing both pre- and post-paid customers with a lot more passion than we ever did. So we've taken that into account.

We do expect some reduction in ARPU going forward, but again, if you look at the portfolio of the consumer products, which are made up of both consumer mobility as well as fixed broadband and pay TV, we believe a 0% to 2% overall guidance on revenue is what we expect, despite the competitive intensity. We do believe customers will try other options. However, I think again, our strength in terms of branding, distribution, quality of network, I think these are very fundamental factors that customers do take into account, assuming there's not a huge gap between what competitors are offering and what we're offering. So we're fairly confident about the 0% to 2% service guidance on revenues.

In terms of handset subsidies and EBITDA, again, Dennis, maybe I'll refer to you, but again, let me make a comment. The market is not 100% devices plans and 0% SIM only. It's a healthy mix, although it's predominantly devices, but we have taken into account that our price of devices will partially drop. And in terms of us being very aggressive in subsidising, that aggressiveness will probably be less going forward, because there will be more competition for SIM only plans and you don't have a high subsidy from our point of view. I'm not sure, Dennis, if you want to make any more comments on that.

Dennis Chia: Yes, just a comment to add to that, Peter, is that under new accounting standards the revenue for contracts that was adopted in 2018, the subsidies are backed off the service revenues that are recognised and reported as well. So those have already been factored. We've also taken into account the mix of device contracts versus SIM only contracts. Of course, we don't disclose that, but we factor that mix and what the expected mix is going to be going into 2019 and what the impact on service EBITDA is going to be in absolute terms as well and therefore, the margins. So those have been taken into account.

Peter Kaliaropoulos: Thank you. The last question was about strategic opportunities with Pay TV and just to be very, very clear, as far as we're concerned the Pay TV and the whole contents delivery market has been redefined across different platforms and different business models. We're seeing more and more now content providers not distributing content through us, but going directly to the market and a number of very global respected brands have entered the market to go direct. At the same time, we're trying to and we have renegotiated quite a few of the content contracts that are coming up for renewal with different business models, not necessarily fixed price irrespective of viewers.

Those initiatives will continue and our approach with content is that how do we package content and make it relevant to customers, not just in the living room. Customers want to enjoy content in a small device, medium device, laptop, tablet, as well as at home. So again, some of the initiatives we're working on is to make sure customers can enjoy content across any device, any platform and also to do that by providing content relevant to them through various programmes, but also at a fee per user, not at a fixed cost to us. So we're still working on these initiatives. I'm not sure, Johan, if you want to add anything more to it. Thank you.

Veronica Lai: Okay, we'll circle back to Luis Hilado from Maybank Kim Eng again. Luis?

Luis Hilado: (Maybank Kim Eng, Analyst) Yes, hi, sorry, one follow-up question from me. Could you give us some colour in terms of - particularly for the subscribers on the handset subsidy. What's the trend in terms of them exceeding their data caps? Some colour would be great.

Peter Kaliaropoulos: Okay, Luis, thank you for the question. If I understood the question correctly, yes, what we're seeing is we had a lot of customers in the past that exceeded their data caps and we were getting extra revenues from the customer. Having said that, the biggest irritation and the biggest factor in customer complaints and churn was because of that. What we're seeing right now with the Hello Change plans we've introduced since December, no longer is the customer exposed to this uncertainty in additional revenues. So we're seeing that the revenue - the extra usage coming down, but we're also seeing more customers taking on the plans we've offered. And the net effect right now for us, at least for quarter 4, was positive.

Luis Hilado: (Maybank Kim Eng, Analyst) Thanks a lot, Peter.

Veronica Lai: The next question is from Varun Ahuja from Credit Suisse.

Varun Ahuja: (Credit Suisse, Analyst) Yes, hi, good evening, everyone. Sorry, I just want to go back to these adjustments again, because the results were released pretty late, so didn't have time to work through the MD&A in detail. If these are one-time adjustments, why are you showing a comparative number for the last year quarter 4? Why would you make a comparative figure in Y-o-Y numbers for both the quarters? So I just want to revisit those adjustments that you're talking about and why are you talking about fourth quarter 2017 adjustments also? Any details will be helpful.

Number 2, given you're going to switch off your cable TV network, if we remember there is a potential agreement with Singtel, what about the cost savings from that? Have you factored in that? Or you still cannot per minute it, is it in 2021 that you have to do so? Colour on that, that will be helpful.

Lastly, if you can, long-term vision for the company looks like that mobile is going to be a challenging business and you're more focused towards an enterprise-driven company. So next five years down the line, do you think your business mix obviously is going to change? You'll be more focused towards the enterprise organisations, less focused on mobile? But if we look at even for Singtel, their enterprise business is still having some challenges because the revenue mix is changing, the margin pressure is lower. So how should we think about StarHub in the next five years? More enterprise focus and the margins, hence the margins will be pretty low because the margin mix is pretty low in enterprise. Any colour, that will be helpful, thank you.

Peter Kaliaropoulos: Varun, Dennis, I think, will take the first two and I'll take the third question.

Dennis Chia: Okay, hi, Varun, this is Dennis. On the adjustments that we made in Q4, we had made some adjustments of a different nature in Q4 2017. So if you kind of go back to the reported numbers, reported EBITDA in Q4, $111 million and reported EBITDA of $142 million in 2017. So we've actually shown the comparative numbers without the adjustments as $137 million versus $153 million, just to provide the comparatives on the same basis without these adjustments. So I've explained earlier what the adjustments made for - in Q4 2018, the three buckets. In 2017 we made an adjustment for restructuring costs which we carried out the actions during the course of 2018. That was a big adjustment that we made in 2017.

Varun Ahuja: (Credit Suisse, Analyst) Sorry, just to be clear, so the adjustments that you're doing in 2017 are different from 2018, so there is no Y-o-Y - there are some adjustment between 2017 and some adjustment in 2018. So both of those are different, weren't they? Am I right?

Dennis Chia: That's correct, they are of a different nature. So the three adjustments, the three big adjustments that we made in Q4 2018 which were explained earlier, are of a different nature to the ones that were made in 2017, which were in relation to staff cost restructuring.

Varun Ahuja: (Credit Suisse, Analyst) Got you, right.

Dennis Chia: Okay? The costs in relation to the savings in relation to the eventual migration from cable to fibre, bear in mind that, as I mentioned earlier, the leasing arrangement that we have to pay in relation to the cable network, when we eventually cease that we no longer have those leasing payments that we are liable for. Then eventually the depreciation that we are recording for the assets, the HFC, the coaxial assets that we have, have been accelerated. So when we stop operating on cable, that depreciation will stop and you will not see that anymore. However, you do have the fibre variable cost that we will have to pay for and as part of migration and the ongoing migration costs and installation and so forth that we have to incur. So those have been factored. So you will not see a complete fall-off of the costs. On the net basis, we have factored in the savings, but we have also factored in the additional variable costs that we have incurred in relation to fibre.

Peter Kaliaropoulos: Varun, in terms of your third question, in terms of our long term vision, let me offer the following guidance and implications for enterprise market. First of all, right now 60% of the business is consumer. Definitely it's a game of two halves, if I can say that. Defence is the game in consumer, retention of high value customers, higher spending customers and then management of cost and operational efficiencies to produce the right margins. We're not turning our back to the consumer market and again, let's take into account that the home environment currently, if we think of consumers differently than just subscribers for mobile or for broadband or pay TV, if we think of them that a household generates a certain level of revenue, when we look at some of the analysis, a household generates more revenue per month than a small business for us. So the consumer market very, very important. If you look into the future, the smart home, the IoT opportunity around the home is just emerging and there's a lot of opportunity. So we're not turning our back to the consumer market at all, but we need to manage for better yield through cost optimisation and retention of high value customers.

However, currently again, if we look at where the opportunities are for StarHub, definitely we've been a consumer company, I would say, probably for the last 15, 16 years of our existence, the focus has been predominantly on consumer, mobility, broadband, pay TV, no question about that. In the last few years, our growth opportunities are in the small business and large accounts, simply because again we left that, it was harder to become more relevant to business customers unless you have a portfolio of services for the enterprise, unless you have capabilities and knowhow for the enterprise. We've been doing that in the last few years organically and inorganically through acquisitions like cyber security.

So that's where the opportunities for growth currently exist for StarHub. Winning more business customers, increasing the share of wallet with some of the bigger accounts and participating in those growth niches like data analytics, artificial intelligence, enterprise solutions that are driven by corporate customers. So defence and margin improvement in consumer and then taking a bigger share of enterprise customers as naturally we're developing more capabilities through direct capability and also through companies like Ensign, companies like D'Crypt, where we're becoming more relevant to the enterprise space, especially in the cyber security and systems integration. I'm not sure if Yoke Sin you want to add anything more about the enterprise market?

Yoke Sin Chong: No, I think that was quite well articulated, Peter. All I need to add is that I think it is a very natural extension to address the enterprise space because, I think as Peter mentioned, this is a relatively new area for us and we see the opportunities. In fact, the capabilities are quite relevant for us as we even offer the same capabilities even through the consumer space.

Peter Kaliaropoulos: I'm not avoiding the point, Varun, about margins. You're absolutely right and it's a reality globally, not just regionally or locally in Singapore, that the enterprise market has higher revenues. But because a lot of the solutions are a little bit bespoke, they're not repeatable. I mean when you talk about systems integration, you can't put it in a box and sell it maybe like a post-paid or pre-paid. So that customisation of solutions and the lack of massive scale in the size of the market of Singapore means margins from enterprise solutions naturally are lower compared to connectivity.

Of course, the whole approach we're taking is we're blending in terms of our solutions to a customer, not only do we offer systems integration and new capabilities, but of course we want to pull through connectivity. So combining both connectivity as well as systems integration, managed solutions, cloud services, the combined margins will be a blended lower revenue than just selling connectivity. If we just focus on connectivity, we'll have good margins but the business is not going to grow, so we need both. Thank you.

Veronica Lai: Before we take another question from the teleconference, can I check whether there are any questions from the floor?

Koh Miang Chuen (Goldman Sachs, Analyst): A couple of questions here. So considering what, Peter, you have mentioned just now about consumer still facing of course competition and all that, and if we assume that this intensified competition persists, however because of enterprise and all that stuff continuing to grow, do you see revenue growing at some point in the next two to three years? Or it will even take longer than that? And on the back of that as well, when should we realistically think about cost savings for this three years, right, that $210 million, I know a lot is reinvested and all that. Would that ever manifest in earnings growth? Or would that largely be sort of used to drive further revenues? So that's the first question.

I think second question I'd like to ask is the rebranding exercise I think we've seen in December, obviously a lot of commercials and all that. Can you talk about what has so far been achieved, either in terms of consumer perception, or in terms of momentum, you could give us a sense of the output of all those investments, yes?

Peter Kaliaropoulos: I'll definitely give the opportunity to Johan to talk a little bit about the rebranding experience, but I can tell you if you looked at the company stats that were reported over the last 12 months, if not longer, the Hello Change that we introduced has been a turning point, a positive turning point. And again, we want to manage expectations. It's a journey, we started from simplifying mobility plans, the intention is not to stop there, to take that approach across the business. But Johan, you're the architect and the driving force behind that, you may wish to make some comments and I'll come back to your other two questions.

Johan Buse: Okay, without giving too much information at this point in time, because it's early days since we started, let me maybe reiterate the key objective of Hello Change at the start. We truly believe that the industry is complex for many customers, with a lot of hidden fees and contractual obligations which increasingly customers challenge, if I may use that word. So on that basis, we really did a thorough research and wanted to address customer pain points. And it's, I think, fair to say that customers have responded very positively, but also based on what Peter's just said, would like to highlight it's the start of a journey. We still have a long way to go and a lot of work to do, but the first feedback and results, I would say, are very encouraging and it will help us to drive the business further going into 2019.

Peter Kaliaropoulos: And just maybe one final comment before I move to your two other questions, when you have a different brand and different distribution, potentially the Hello Change probably happened a couple of years ago. As the market's shifted, I think if we sort of be a little bit critical of our capabilities, customers do value a brand that's been delivering before and if you are relevant to the customer and simplify the transaction, don't expect the customer to go and wait in a retail store, wait for a long time, ask for a discount, react maybe too late from competition. If you rethink the competitive formula and try and stay ahead of the competition, or be relevant to the competition, that will potentially limit the growth of new entrants. Most companies today take a more aggressive approach towards new entrants, rather than sit back and be passive and see if they're going to win or not.

And certainly from our point of view, we're studying as much as we can the customer perceptions and the customer expectations and especially here in Singapore, value for money drives a lot of discussions. So our products and our packages have to be relevant at every point in time, not every six months or every 12 months. So we address that in terms of value to the customer, simplicity. I mean we have far too many plans both in mobility. You look into the pay TV, we have 39 options for a customer to choose TV programmes. I think customers today are a lot smarter - have always been smarter for us as suppliers, they want more choices but easier to understand. So Hello Change is a simplification journey that we'll take across, but again from what Johan said and what we're seeing, is that customers are responding. In fact they expect that approach to the rest of the lines of products like pay TV and so on as quickly as possible. And the challenge we have is realigning our processes to be able to deliver, but we increased demand quite a bit.

Going back to your two other questions, in terms of growth in consumer, consumer markets, we have 150% penetration. There is more competition through new entrants and customers want to have the latest technology, the latest products and services and pay the same ARPU per month, if not a lot less. Unless the population increases dramatically and unless we come up with new applications that we haven't thought through today, the growth opportunity in consumer revenues in the context of Singapore market, I'm afraid to say, although we're optimistic by nature, we don't see consumer revenues growing dramatically if at all in the consumer space.

Now, it doesn't mean we're not going to win back customers from competitors, it doesn't mean that IoT may not create massive opportunities in the home, in a smart home. But again what we've seen in the past, some of the new opportunities are hard to monetise. You can offer customers a lot more capability at home. They're not predisposed to pay for it, to pay for a lot. So yes, we will remain challenged on the revenue and how that makes sense is the guidance we give every year does take into account the fact that we may not grow as much in one part of the portfolio versus the other.

In terms of the cost savings, I also mentioned earlier that part of the new approach we've taken going forward which maybe StarHub had not passionately embraced in the past, cost optimisation is a way of life at telcos, especially when the growth opportunities are not there in double digit numbers. We cannot shy away from having to manage costs, having to be ruthless about cost management and having to fund anything that grows and anything that doesn't, well how do we change the business model and stop funding. And I think this is a phenomenon not just for StarHub but for every telco or any company that is involved in a low growth or no growth environment.

So we will drive costs down in as many operations. Part of it will go towards earnings and part of it will go towards funding. IT, for example, and again as part of our transformation over the next few years, we're funding IT at an accelerated level of funding compared to the last few years. In the last few years we've put a lot of money in the network, fibre and mobility and really didn't pay attention in funding applications from IT that enable the customer to have a better experience. We talk about bad experiences, but it is not having customers to wait online to get served. Mobile application we're developing a better mobile application, online capability, so we're funding - so part of the savings will go towards funding a number of initiatives and some of it will drop into earnings, but again not all.

If we keep doing this and finding growth through the enterprise, we're certainly confident that the guidance we give you will be delivered in the next few years and as I said, this is our intention. But the market is challenged and if I go strategically one extra dimension, if this is behind your question as well, there are far too many operators in a market which is not growing in terms of new customers. So that is a challenge and we think the business model has to be rethought, network sharing, there is no use just keep building new infrastructure. I don't believe four operators, for example, will build four new 5G networks, nobody can afford that. The use cases are not there, so we need to think differently and also in the future, how we share assets to make sure we don't spend too much on capex, where customers are not willing to pay for a quicker transmission through 5G versus 4G.

So we need to keep thinking about this sharing most likely in the next few years you will see the operators being rationalised and consolidated again. We feel this is when and how, it's not if, it will definitely happen. So these things will take - will redefine the market and what we try and do as far as StarHub is concerned, make sure we become very relevant to the customer, we build a very, very strong brand. We clearly want to make sure consumers see the market - see us as a challenger brand, not just a sort of lethargic number 2, you sit there and sort of follow someone else. So we've got some plans to reactivate activity and whatever savings we get, definitely our shareholders are very hungry for dividends, but also we want to reinvest in more capability and new business models for the future.

Veronica Lai: Okay, we'll circle back to Ranjan Sharma on the call, from JP Morgan.

Ranjan Sharma: (JP Morgan, Analyst) Thank you. Just on the network sharing, your competitor, M1, is going through a tender offer but once the dust settles, however that might play out, what other avenues of network sharing that you have looked with the competitor, I know it has been discussed in the past, but if you could just share how deep the network sharing could be, how much cost can actually be taken out of the business? Or is it just going to be a cost avoidance by ruling out let's say 5G altogether? Thank you.

Peter Kaliaropoulos: Thank you, Ranjan, very good question. If you look at existing networks to try - first of all network sharing as a business strategy going forward, we've said this before and I will reinforce it today again. We will talk to any operator, competitor or a niche operator, because we think the smart business model for the future is not building alternative infrastructure. Even if some companies believe their infrastructure may have some unique value, some extra redundancy very quickly gets commoditised. There are a number of four mobile networks, there'll be multiple fixed networks, so again I think especially for new entrants - and of course, we're not here to give them any advice, but spending tens and hundreds of millions to build new infrastructure on top of the existing infrastructure in a highly saturated market in terms of customer base and penetration, does question the return on that investment. So we believe in sharing facilities. Customers want choice through brand, through distribution, through packaging, but the quality of network can support more than one operator. So we believe in that.

In terms of savings, direct savings, if you take existing networks and you try and rationalise them, whether it's the company you've mentioned or any other company - and by the way, we are talking to everybody and we would like to talk to everybody on sharing as much as possible. If you take existing networks and try and rationalise them, the cost of rationalising existing networks is probably on the high end and you're not going to get any benefits from, for example, taking existing 3G networks and 4G networks and bolting them together. We use different spectrum, there's different technologies, there's different BBUs and ROUs and so on. So we've looked at that and that's not where the savings are on the existing networks now. If on 4G, a couple of companies are about to grow dramatically the coverage of 4G and build a new capability, new base stations, yes, it makes a lot of sense to combine that so we can save the capex and the opex and everything else that goes with it.

Regarding capex avoidance, what's the next big thing around the corner for most operators like us? Predominantly on the wireless technology it's 5G. Since from the basic principle is there's no use case and especially in an advanced economy and market like Singapore, there's fibre everywhere and the need for 5G unfortunately becomes less apparent. So 5G is a good example that we should be cooperating, we should be talking with everybody in terms of infrastructure and that does not mean freeze competition at the retail level. But to build four 5G networks, I think, is very, very challenging and certainly we look forward to working with one or two companies or anybody else to actually make that happen.

Fibre as well, there is quite a bit of fibre in Singapore, but there are some parts of Singapore that doesn't have fibre or sufficient level of fibre. We're quite happy again to talk to other operators to share as much fibre as possible, instead of all of us building three or four or five cables into one building and then commoditising that fibre access very, very quickly because price competition will become the only differentiator. So we're encouraging smart infrastructure models, if I can use that word and that will give better return on investment for the operators and the investors; and the customers will enjoy choice through different brands, through different SLAs, through different bundling of access with the service layer on top. I hope that answers your question.

Ranjan Sharma: (JP Morgan, Analyst) All right, thank you.

Veronica Lai: Thank you. Ladies and gentlemen, thank you for all your attention. We will be bringing this results briefing session to a close. A transcript of this call will be posted onto our website shortly. If you have any more questions, please feel free to contact Eric or myself anytime. On behalf of the StarHub management team here, I would like to thank all of you for joining us this evening, especially since it's Valentine's Day today. Have a good evening, everybody, thank you.

Peter Kaliaropoulos: Thank you very much for your interest, appreciate it.

End of Transcript