Open Briefing®

Event Transcript

Company: StarHub
Title: Second Quarter & First Half Results Announcement
Date: 7 August 2018
Time:

Start of Transcript

Eric Loh: Good evening, ladies and gentlemen. Welcome to StarHubꞌs Second Quarter and First Half Results Announcement. My name is Eric and with me this evening, appearing for the very first time is our new CEO, Mr Peter K. Before we go into the presentation proper, I would like to draw your attention to slide number 3. You will have noticed that we have changed the presentation format. It is now only two presenters, the CEO followed by the CFO. So, whatꞌs going to happen this evening is that after the CFO finishes his financial slides, we will then move on to the Q&A, which then gives you plenty of time to ask us all the questions you want. Now, to ask us a question later, you just need to press star one. To withdraw your question, you need to press star two.

With that, letꞌs welcome Peter, who will give us the quarterꞌs highlights.

Peter Kaliaropoulos: Thank you, Eric, and a very good afternoon, ladies and gentlemen. We do appreciate your interest in our company. Allow me to just mention a couple of headlines that best characterise Quarter 2 performance. First of all, stability in gross revenues. For the first half of this year, we delivered S$1.160 billion of revenue which is almost the same as the same corresponding period in 2017. The second headline is a reduction in EBITDA margins - service EBITDA margins, to 31% from 34%. Our best performing lines of business continue to be the enterprise - fixed enterprise business as well as the broadband - fixed broadband. Mobility and pay TV continue to be challenged and we have seen declines in revenue due to lower customer numbers and lower ARPUs especially from mobility.

If I now discuss briefly the enterprise revenue growth of 20% in the first half, which definitely is a result of consolidating the acquisitions we completed earlier this year, specifically Accel and DꞌCrypt. But even without those acquisitions, the core business grew by at least 4% year-on-year. So, we are seeing healthy growth in enterprise coming from new customers, growth in fixed network services, growth in data usage, including a higher demand for many services, and cybersecurity and ICT solutions.

Obviously, weꞌre having - the mix of revenue is changing because weꞌre complementing connectivity services in the fixed enterprise area together with new service revenues, and they come at a lower margin compared to connectivity and infrastructure services. So, we have seen an increase in the cost of sales and we have seen an increase in OpEx, and as a result specifically, as I mentioned, because the solutions businesses are more people-driven instead of infrastructure-driven, and we have seen the dilution in margin.

We delivered overall a combined - services combined EBITDA which is 10% than the same period in 2017 at S$283 million, and, as I mentioned earlier, the service EBITDA declined to 31% in terms of margins. Higher depreciation - our CFO will go through the details in a minute, - but higher depreciation and some other one-off ForEx expenses also impacted on NPAT, which is S$156 million for the first half of this year and a 19% decline versus the same period in the previous year.

We continue to manage CapEx wisely and at the end of the first half this year weꞌre at 10.2% of cash payments committed. CapEx continues to be a little bit higher and we will offer you guidance in a minute, but as I mentioned, we invest in CapEx as wisely as we can.

Network quality continues to be solid. As you have seen probably from the press, our network has been rated as Singapore's fastest 3 and 4G, according to OpenSignal. Also, we are having a strong collaboration with companies like Google and Linksys to deliver very fast routers, coupled and bundled with high-speed broadband services, to deliver decent customer experiences at the home and at the office. Our partnerships in the market with OCBC and SPH and other companies allow us to offer bundled services to many consumers and create a better value for mobility and broadband. Also, all these initiatives have contributed to our brand for the first time being ranked as ninth brand by Brand Finance.

So, prior to Dennis offering you more granularity behind our numbers for the first half of this year, also allow me to jump to guidance. The guidance is right at the end of the pack. Our view at this point, based on the performance of the first half year, is that we are maintaining guidance from the first quarter, identical. We still believe our revenues to be within 1% to 3% year-on-year. Our service EBITDA, we believe, will be between 27% and 29%, after the adoption of SFRS 15. CapEx, we believe, we will be at 11% CapEx - cash CapEx to revenue, which excludes, as we always - has been the practice, any spectrum and building payments. Overall dividends, the board declared the S$0.04 quarterly dividend and, again, it is the intention to pay the S$0.04 per quarter throughout the remainder of the year.

At this stage, I will hand over to Dennis, our CFO, to go through some more details in terms of the financial performance. Over to you.

Dennis Chia: Thanks, Peter. Good evening, everyone. I am moving onto slide number 10, where in total EBITDA - we registered a total EBITDA for the quarter at S$155 million versus S$173 million, the same period last year. For the first half of the year, our total EBITDA was S$309 million versus S$337 million. As we have guided the market, we do report margins on a service EBITDA basis.

So, if we move onto slide 11, on service EBITDA, for Quarter 2 it was S$141 million versus S$162 million last year, and for the first half, it was S$283 million versus S$314 million last year. Our first half EBITDA margin was at 30.9%, which is relatively lower than where we ended the first half last year, at 34%.

The reasons behind this Peter has articulated earlier. It's around - despite the fact that we've got - we've registered a slightly higher service revenue as well as a higher total revenue, it's due to the mix of revenues that we have which has a higher mix of managed services, which also includes the revenues contributed by Accel, which we completed acquisition of last year, in July, and D'Crypt, which we completed earlier, in January of this year.

Moving on to the cost of sales, for the quarter it was S$264 million versus S$227 million last year, and for the first half, it was S$511 million versus S$486 million. In terms of the cost of sales component, in line with the higher sales of equipment that we registered in our - in terms of revenues, the cost of equipment has also gone up. Traffic expenses are slightly lower because of the volume of international and domestic traffic. In terms of the components of the costs of services, the main increase is due to the level of managed services revenues that we have recorded on our books and, correspondingly, the cost that's attributable to it.

In terms of operating expenses, for the quarter it was S$249 million versus S$235 million last year, and for the first half, it was S$482 million versus S$4470 million. We've got higher depreciation in line with the relatively higher CapEx that we've registered in the past. In terms of general administrative expenses, while at the staff level we have managed to maintain our operating expenses at a fairly stable level, but this increase is largely due to the consolidation of Accel and D'Crypt and the operating expenses at their level.

In terms of net profit after tax, for the quarter it was S$63 million or S$0.034 on an EPS basis, versus S$80 million last year, and for the first half, it was S$127 million or S$0.069 on an EPS basis, versus S$156 million last year. Our effective tax rates remain fairly consistent at about 17%.

Moving on to cash CapEx payments, it was S$51 million or 8.5% during the quarter, and for the first half of the year, we had S$119 million or 10.2%. In the first quarter, we had a payment in respect of a building purchase. If you back that out, our first half effective cash CapEx payments as a ratio of total revenue was 7.5%.

Moving onto the free cash flow, for the quarter we generated free cash flow of S$97 million. That translates into S$0.056 on a fully diluted share basis. For the first half, our free cash flow was S$107 million or S$0.062 on an FCF per share basis. Our cash and cash equivalents at the end of the first half stood at S$245 million.

With that, that's the summary of our financial numbers and I will hand the floor over back to Eric.

Eric Loh: Right, just to let you know, with us this evening we also have the CMO, Howie Lau, along with the Head of EBG, Dr Chong, as well as our CTO, so you may direct your questions to any of the five gentlemen plus the lady here.

First on the call this evening we have Piyush from HSBC. Piyush. Piyush, if you can hear us…

Piyush Choudhary: (HSBC, Analyst): Hi. Thanks a lot. I want to firstly congratulate Peter on your new role. All the best. I know it's early days, but would you be able to share with us what strategic shifts you intend to embark upon? Like what are the key areas which you have probably identified by now in terms of a change in strategy?

Secondly, if you can help us understand this quarter how the performance has been of StarHub and the new partner? What is the contribution of subscriber net adds coming from their end? Where are the revenue and subscribers being recorded? Thanks.

Peter Kaliaropoulos: Great. Thank you, very much for your questions. If I take, first of all, the strategy question. I have been in the company for just over four weeks and I believe overall the strategy is sound. The strategy has four fundamental pillars. One is to pursue growth from the existing core business, which is the connectivity and the enterprise solutions, and basically deliver better results and achieve growth rates which reflect the fair share of the market for our Company in those segments. The second part of our strategy is to continue to differentiate predominantly on customer experience. As the market gets more and more crowded, how we serve customers, how simple our products and offers are, how quickly we can transact, how quickly we can get consumers in and out of retail stores or online, that whole customer experience becomes relevant. That's certainly another pillar of our strategy.

Finding opportunities to grow the business - you have heard about D'Crypt and Accel. We still need to pursue more opportunities which are complementary to the core business as the market is being saturated. So, again, we're looking for organic opportunities to grow. The fourth part of our strategy is to embrace the digital transformation of the Company and the marketplace in terms of dealing with the customers more than we have done before.

Overall, I think the strategic focus of the Company is not going to shift dramatically. What needs to shift is possibly how we execute and how we manage the business operationally. How we make sure we optimise the cost and the resources being allocated. How we deliver and simplify processes. So, it's more about an emphasis on operational excellence and managing cash and margins better than maybe a fundamental shift. We will continue to be in the content business. We will continue to be in the connectivity business. We plan to make inroads in the ICT solutions, in cyber security solutions, in managed services. These are fundamental parts of our business. But we have to do a lot of things better than before as the opportunity to grow is probably less and less in the market with - for example, in the mobile space, penetration of 150%. So, a lot of growth may not be there in terms of customers but managing the business better than before is a priority.

That's in terms of strategy. In terms of growth in the marketplace, we don't disclose specific numbers coming from our various partners. Certainly, post-paid business has grown in terms of customers this quarter or this first half, but overall ARPUs are being challenged because customers - we are seeing customers going more for SIM-only packages, so we are very pleased to have a slight growth in post-paid. But overall, we don't disclose the numbers coming from other partners that work with us.

Piyush Choudhary: (HSBC, Analyst): I had a follow-up. Peter, you have articulated in terms of challenges to the top line, in that backdrop, as you are embracing digital transformation, are there any cost items where there is a significant headroom to increase so that we can probably maintain margins going forward? Any thoughts or colour there would be really helpful.

Peter Kaliaropoulos: Definitely creating more value for the shareholders involves both the top line and the bottom line. We have to tackle both with the same vigour. The top line, as I mentioned, there are a few specific areas that we will pursue further growth, but at the same time, when you are looking at our margins, I believe there is room for improvement. So, definitely, we will pursue a cost optimisation program. I believe it's far too early to be specific on the details but, yes, the intention is to review costs that do not contribute to growing revenues and serving customers. Obviously, as we digitise more and automate more, we expect to have some more efficiencies. So, we started working on this and I would respectfully request a little bit more time to come back to the market and share with you an overall transformation program. That should be, basically - you will see all the details coming out of that, but I think after 23 working days in the company it's probably a little bit too early for me to share all the detail with you as it's work in progress until we finalise them with the CFO and the rest of the executives.

Piyush Choudhary: (HSBC, Analyst): Sure. Sure. Thanks a lot, Peter.

Eric Loh: Thank you. Next on the line is Arthur from Citigroup.

Arthur Pineda:(Citigroup, Analyst): Hi. Thanks for the opportunity. Three questions, please. Firstly, on the pay-TV business, you had the World Cup in the second quarter, yet the revenues were still down year on year. I was wondering was the World Cup broadcast actually EBITDA neutral or was it loss-making? I am just wondering how this will impact your margins going forward.

The second question I had was with regard to mobile, your ARPUs seem to be trending very differently versus your competitor. They saw their ARPUs expand versus some declines on your side. I am wondering what is driving down this differential? Is this roaming-driven? Or MVNO-driven?

The last question I had is with regard to the margins. I know you don't break up the margins across the businesses. I am just wondering, though, if you look at your enterprise business versus your consumer business, how different are the margins across this? I am just trying to figure out as you grow the business in enterprise, how this has changed the margin profile over the long run. Thank you.

Peter Kaliaropoulos: Thank you, Arthur. I will offer you some comments and then I will also ask my colleagues from the consumer and the business team to comment. First of all, let me take your last question first, margins. As we are getting more and more into the solutions business, typically the gross margins are nowhere near the infrastructure services. When you are selling connectivity, fixed and wireless, you have fairly decent gross margins to play with. Once you move into the space of services, which are very OpEx-driven, margins are double-digit but they are not into the 30% and 40%. So, certainly the margins are lower for the enterprise solutions side, but the margins are still healthy for the connectivity to corporate customers.

As we grow in the business, we tend to be growing right now faster in the services, the enterprise services area, and that potentially will dilute some of the margins. Consumer margins are still healthy. They relate more and more to connectivity, both fixed and wireless connectivity. But again, there is a revenue challenge on the consumer side as we're seeing people potentially looking at other options and SIM-only cards. So, the margins are good for the consumer but there is a revenue challenge.

Pay TV and the World Cup, we believe better than our expectations. Did we lose as much or did we gain a lot more? I'll let Howie comment, but I've got to say that overall the big events are always - we never make enough from big events, but it was slightly better than expectations in terms of customer take-up. We had more customers than we expected taking up the World Cup. The ARPUs for pay TV did jump by a couple of dollars and that's all in the last quarter and that's all due to the World Cup. Yes, we're having a lower number of customers in pay TV, but the ARPUs are fairly stable.

The ARPU decline, again from mobility, I will ask Howie to make a few comments. Howie?

Howie Lau: Thanks, Peter. Hey, Arthur. Thanks for your questions. I think the - for the pay-TV side, as Peter mentioned, it was ahead of our expectations and plan. So, beyond the subscribers, what we saw was also a couple of creative implementations where we did some work with community centres. So, overall, it did contribute to the quarter-on-quarter jump from S$51 ARPU to S$53. As you know, the content cost is confidential, so I am not really able to comment regarding the profitability of the World Cup, but it is definitely ahead of the original plan that we had.

On the mobility side, we do see the continued decline from the IDD voice, excess data, and a higher mix of the SIM-only plans. However, while on the year to year basis, on the first half to first half, there was a decline, we did see a slight increase on a quarter to quarter basis for the post-paid from S$43 to S$45. The overall ARPU trends for mobile is still an area that we will keep a close eye on because we do expect that the IDD voice and excess data will continue to be challenging. We do expect that the SIM-only plan will continue to have a little bit more take-up.

Peter Kaliaropoulos: Arthur, if I can add a little bit of colour to this, if you look at our ARPU trends, they are declining both for post- and pre-paid, and at the same time, if you look at the average data usage per customer, it's increasing. This is not a Singapore-only or Asia Pac. It's regional and global. Customers tend to use more and more data and we have not been creative enough to charge for it. Basically, the monetisation of data is a challenge for all telcos, wherever they operate. Also, I think some of the new entrants are coming into the market with very simplistic plans. So, we are going to look at all our pricing plans, but it's almost a global trend that the ARPUs are declining and data monetisation doesn't keep up with the investment made in terms of the mobile network for data, more than anything else.

Arthur Pineda: (Citigroup, Analyst): Understood. Thanks a lot.

Eric Loh: Thanks, Arthur. Right, Luis from Maybank, you have a question for us?

Luis Hilado: (Maybank, Analyst): Hi. Good evening. Thanks for hosting the call and congratulations on the results. I have three questions. The first was regarding the Q-on-Q jump in mobile revenue. Is that more driven by the MVNO deal or increased take-up of your data boosting plan?

The second question is regarding the post - if you could give us some colour on post-paid churn. Are you seeing subscribers turn more towards the MVNOs or to the other incumbents?

And the last question is regarding - if you could give us some colour in terms of subscriber data usage trends. Are they - your competitor recently reported that they are seeing subs increasingly burst through their data caps. Are you seeing the same trend as well?

Peter Kaliaropoulos: Okay, Luis. Thank you. Let me just have some high-level comments before Howie also comments. First of all, churns across the business are fairly stable. In the mobile business, it's about 1%, 0.9% to 1%, and it's been fairly stable for a long time. What we are seeing, without being specific, is we are seeing the MVNOs are growing the market additional lines. We have not seen any churn uncharacteristic from us to the MVNOs, or even to the other operators. So, it's stable churn and we feel at this point in time there is growth in the overall lines from the new entrants, which is a health sign for the whole industry.

In terms of the jump in mobile revenues, in my understanding predominantly there were some roaming - there is growth in roaming revenues but the traditional VAS or value-added services, the IDD is always challenged and that has declined.

Your third question, Luis, if you could repeat that, we'd appreciate it.

Luis Hilado: (Maybank, Analyst): Yes. M1 recently reported that they've actually seen after a few - several quarters of decline, that subscribers are breaching their data caps, starting this June quarter. I was wondering if you are seeing the same for yourselves. Are subscribers breaching their 2GB or 12GB limits?

Peter Kaliaropoulos: My comment on that is that I wouldn't use the word breaching data caps. Basically, customers are offered various packages and certainly, at all times we customers across many companies exceeding the data caps and either topping up to the next package or, basically, if that usage is not ongoing, staying with the same package and paying the one-off data charges. So, that's a constant in our business with the current pricing plans we have.

Howie, I am not sure if you want to add any colour on all these three points.

Howie Lau: Hey, Luis. Just a little bit more detail. In terms of the overall data usage growth, we see the continued increase. The latest number we are seeing for Quarter 2 is 5.5 GB compared to Quarter 1, which was 4.9, and a year ago was about 4. So, from a customer perspective, the data usage continues to grow. Towards that end, I am sure you are aware we have a whole slew of different VASes for customers to add additional data, whether it is a data jump, data share, or otherwise. That was partly contributing to the increase in the VASes revenue as well.

We don't release the data in terms of the customers who exceed the packs, but I think more importantly for us is to make sure that we continue to have the right-size data offerings for our customers and opportunities for them to add on when they need it.

Luis Hilado: (Maybank, Analyst): Thanks a lot, Howie and Peter.

Eric Loh: Thank you, Luis. Next on the line is Rama from Daiwa.

Rama Maruvada: (Daiwa, Analyst): Hi, good evening. I have a couple of questions, please. Firstly, with regards to your guidance, could you talk through your thinking behind retaining the service EBITDA margin guidance when they are tracking at around 30% so far in the first half? Specifically, do you see any cost measures in any particular lines of business for rest of the year?

The second one has to do with the ICT side. Are you seeing or expecting any delays on the award of contracts on the fixed line side enterprises, given the cyber incident that they had recently?

Finally, with regards to you Discovery Channel and the pay TV, could you qualify whether the 11,000-customer churn in the pay TV, is it the result of the Discovery Channel business or is that something that we have to expect going forward in terms of the fallout from that? Thank you.

Peter Kaliaropoulos: Rama, thank you for your three questions. I will give the opportunity to Dr Chong Yoke Sin to talk about the ICT part of your question. The other two, in terms of guidance and Discovery Channels, I will come back to those two. Yoke Sin, would you like to comment?

Yoke Sin Chong: Thanks, Peter. Well, Rama, in terms of the cyber security incident, I think StarHub has quite a capable cyber security practice and we see high demand for these services going forward. As to the Smart Nation stoppage of some solutions or some projects, I think these have been largely lifted. We remain very committed to delivering such solutions to government as well as enterprises, making sure that they are all adequately cyber secure by using our solutions. So, I think overall, we are well placed to actually address the market for cyber security solutions.

Peter Kaliaropoulos: In terms of your other two questions, let me take first of all in terms of service EBITDA and the guidance we have offered. Certainly, we are looking on the cost side, as I mentioned, to create value. Youôve got to look at both sides, revenue and costs. So, weôre certainly looking at the costs in the second half of this year to make sure that we invest in the right OpEx in some lines of business. We do expect potentially very few savings. So, yes, weôre looking at that closely, and hopefully, we can contribute to the margins by not just growing the revenue side but also looking at the costs for the next five to six months. As I mentioned earlier, one of our pillars - strategic pillars - is to sweat the assets, to leverage the existing business for better returns. So, thatôs definitely part of one of the initiatives that we will be implementing.

Discovery Channel, currently we had very few specific cancellations from customers who said to us they were really upset. We do apologise, of course, to inconvenience a few customers about not carrying the Discovery content. Having said this, there were - it was a contract anniversary, I have been told, predominantly - that a lot of contracts fell for renewal in Quarter 2 and that contributed more to the churn than anything specific to Discovery. There is a wait and see attitude from our customers, but at the same time, we have given a lot more content, a lot more choices, a lot more variety to customers to pick and choose. So, weôre not prepared, I guess, to meet the expectations of some of the content providers with, dare I say, old-fashioned linear cost models as the world is changing in the content delivery area.

So, we have inconvenienced a few customers. We understand that. But the majority of customers have more content, different content, I would like to think better content, to be able to pick and choose. So, we do not expect a massive churn coming specifically from Discovery.

Rama Maruvada: (Daiwa, Analyst): Okay. So, just to clarify on the ICT again, so youôre not seeing any pushing out of the timetables for the project pipelines that you have at the moment, right? So, thatôs what I take as the messageé

Peter Kaliaropoulos: Look, Rama, to be honest with you, Iôll let Yoke Sin - but typically in the managed services business, thatôs always what youôre competing against. There are always many projects that companies like us bid for but there is always some delay between when the project - you believe you will get the contract signed. So, it is a general phenomenon in managed services, but specifically to the existing contracts we have, Yoke Sin, are we expecting any major delays on contracts?

Yoke Sin Chong: Well, I think probably we donôt see any as yet. But we do see that there is an increased demand for cyber security projects.

Rama Maruvada: (Daiwa, Analyst): Thank you very much.

Eric Loh: Right, next on the line is Annabeth from SPH.

Annabeth Leow: (SPH, Journalist): Hi, Peter. Good to finally hear you. I wanted to check on the full-year guidance of the 1% to 3% service revenue decline. I was wondering whether you can give a breakdown, especially in the mobile segment, with the new MNO coming in. Do you have a clearer picture of whatôs going to happen in the next six months?

Peter Kaliaropoulos: Annabeth, thank you. Traditionally both our pay TV and our mobile revenues have been on the decline. We donôt expect to see any sudden V-shape recovery of mobile revenues from one quarter to the next. We expect that there will be a similar continuation in the mobile revenue trend. The impact from the MVNOs, in the short term, we donõt expect a high impact. There are a lot of reasonable offers to customers to get them to use the product. There are a lot of introductory offers. Theyõre not being monetised dramatically by - we believe, by the new entrants. But of course, it has an impact on the share of wallet. That probably explains also a little bit the lower ARPUs. So, the - we donõt expect an accelerated impact because of the MVNOs, but there will be some.

On the whole topic of MVNOs, we welcome the opportunity to have new entrants. We believe our wholesale team is waiting to accommodate as many MVNOs as possible. The long-term implications are very different. The MVNO model, if you look around the world, has not been the most sustainable business model, and certainly here in Singapore, as far as StarHub is concerned, we welcome the opportunity to interconnect with MVNOs and also offer customers more choice and different propositions. So, from that point of view, in the short term between now and year end, we donõt expect a high impact on the revenue coming specifically from MVNOs.

Annabeth Leow: (SPH, Journalist): Sorry if I misspoke, I was referring to the MNO coming in, but thanks for mentioning the MVNOs as well, because I was wondering whether you were going to see a lift from your new partner. So, on those two questions, please.

Peter Kaliaropoulos: The MNO, again, as far as we are concerned, whether there are three MNOs or four MNOs or multiple MVNOs, our priorities in terms of marketing and customer care priorities and pricing packages do not change. We always observe what someone may come and do in the market, and if they're irrational, we will, again, look at whether we meet that approach head on or we do something else. We don't expect the fourth MVNO to be fully operational by year end, so we expect the impact more in 2019 onwards, subject to what packages they will offer and how they will offer the services. So, we don't see a fundamental impact in this financial year from the fourth player.

Annabeth Leow: (SPH, Journalist): Okay, and contributions from your new MVNO partner, do you think that's going to lift the ARPU?

Peter Kaliaropoulos: Typically, the MVNOs, most MVNOs around the world, their first two or three quarters, they're fairly aggressive in marketing the services and offering a lot of options to customers. We don't expect that we will see any significant movement in the dial in terms of revenues from the MVNOs that may be on our network. We expect that we'll see more customers being connected through the MVNOs, and that's been proven the case in the last couple of quarters, but the revenue impact initially will be very minimal. The revenue impact will probably be high in quarters three, four for an MVNO rather than the first couple of quarters.

Annabeth Leow: (SPH, Journalist): Okay. Thanks, Peter.

Eric Loh: Now, let's hear from Srini from Deutsche Bank.

Srinivas Rao: (Deutsche Bank, Analyst) Hi. Thank you very much. A couple of questions. First, just I think someone else has also asked, but you're tracking at least for the first half better than your guidance for margins, and also almost better the higher end of your guidance for revenue, so it looks like as I think Peter has alluded, you expect some kind of a more pressure on the second half. Any particular reasons for that? Specifically, that'll be helpful.

Secondly, the question on your pay TV ARPU, if you can just help, you've seen a S$2 increase in your ARPU. If I do the math and your World Cup package is about $100. Correct me if I'm wrong, but you see - the number of customers who seem to have taken the package seem to have been quite low, something like less than 25,000, so please let me know if I've got my math correct, and that does sound a fairly low number. That's my second question.

Peter, congratulations on your new role. I guess it's like coming back for you, but specifically just wanted to check with you in terms of the key challenge that you face, especially growing the enterprise side, I guess faster than what we have seen in the past. Is that something which we can expect going forward? I'm not talking this quarter, but over a longer span?

Peter Kaliaropoulos: Srini, thank you for your three questions. First of all, tracking better, we appreciate that observation. With more and more entrants in the market, more MVNOs, potentially an MNO, typically, we expect higher competition in the second half. We also expect share of wallet impacting the mobile business, predominantly with new offers, because again, we're seeing customers getting second lines and so on. So, we'd rather under promise and over deliver, but at this point in time, we do believe the second half, we may see a little bit more pressure on the revenue and maybe a little bit more price erosion.

At this stage, this is our best estimate, rather than expecting to continue. Now, again, it'll be a different mix. The mobile and pay TV business will be challenged, but the enterprise will grow. But overall, we don't take any comfort from the first and second quarter. We might expect a little bit more competition in the second half.

The pay TV ARPU, I think you probably need to redo your calculations. Certainly, this is not the number of customers. I wish we could say it was in the hundreds of thousands, but more it was in the tens of thousands and a very, very healthy number, but again, we don't disclose that, but the numbers you mentioned are extremely low.

Your third question, about key challenges, fundamental growth is a challenge for almost any telco anywhere in the planet, so I have to work with the team to identify every bit of growth we can get in the business. Certainly, we are underrepresented in terms of market share in the enterprise space, and we're doing our best to get our fair share of the market in that segment, and we will continue the emphasis. But we have to be rational and offer not just value in terms of pricing but offer differentiation, and Yoke Sin and her team are doing a great job to be able to bundle solutions, ICT solutions to be able to use data analytics, to be able to offer differentiation on top of connectivity services, not just offering a cheaper price. That's not a sustainable position.

So that's certainly growth is one opportunity. Churn. If you look at the existing business, although the churn is low, as more and more competition is entering the marketplace, the best customers are the ones we have today. We know a lot about our customers, our high-value customers. We have a lot of information on them, so we know that a lot of customers will be tempted by new propositions to try.

We need to make sure we manage the churn wisely, especially with our high-valued customers, and again, we have fairly significant data analytics capability and a CVM capability to reach out to those customers, and the game is about, if you're going to have churn, you need to have less churn on your high-value customers and potentially defend the best way you can the lower ARPU customers.

That's probably a couple of the challenges, and of course always being efficient and lean and fast-moving, agile, but that's part of the DNA of StarHub, they've always been innovative and customer driven, and of course if we have any processes we need to fix and be faster and leaner, we will address that as well. Thank you, Srini.

Srinivas Rao: (Deutsche Bank, Analyst) Thanks. This is helpful. Just one question. The pricing behaviour is very different when we see in the mobile space a new entrant in the mobile space, particularly, as I said, very aggressive on pricing in the initial part. We don't see that in the enterprise space, both you and your peer. Pricing seems to be a lot more rational than what I would expect, given your low market shares. Wouldn't it be rational to be relatively more aggressive on pricing? I understand that the enterprise landscape is slightly different, but why is there more rationality in the enterprise space on pricing than what we see in mobile space?

Peter Kaliaropoulos: I wouldn't say it's rationality. I would say it's probably maturity. There's a significant investment in fixed enterprise in terms of running fibre, in terms of internal wiring, so there's a significant CapEx involved, and I believe if you're going to play in that space, the return on your investment has to be something that you keep in the back of your mind. With predominantly mobility, the network is up and running. There's enough base stations, enough capacity, enough coverage, so you have a fairly significant sunk cost and you can take some liberty, but again, it's about delivering value.

With the mobility in the consumer market, because your cost is sunk, you're a bit more aggressive on the pricing. On the enterprise, you'd need to add new investments to provide new services to customers, and you have to strike that balance, because as shareholders or generally in every telco, shareholders cannot wait seven and 10 years to get breakeven on fixed networks. They're looking for a quicker return.

We're being mature. We've been - and we're trying to deliver value, including good price and a more reliable network package with managed services and solutions, so we're trying to differentiate as much as we can on a number of areas, not just going in and offering a very big discount and basically never recovering the incremental CapEx that we may be injecting.

Srinivas Rao: (Deutsche Bank, Analyst) Understood. This is helpful. Thanks. Just one housekeeping. Your doubtful debts it seems I think spiked this quarter. It's actually at the second-highest level I can see for the last couple of quarters. Any particular reason for it?

Peter Kaliaropoulos: Great question for our CFO.

Dennis Chia: Okay, we do provide the allowance for doubtful debts in line with aging of our accounts receivable. We don't vary the percentage in respect of the general provisions that we make, so in general, there are timing differences in terms of the aging, and given the profile of the revenues that we're recording in the sense that we're getting more revenues from enterprise customers, typically the aging in respect of such accounts receivables do go out a little bit more from a timing perspective.

We, however, do not believe that there are any issues around collectability, so it's just in line with the accounting policies that we have.

Srinivas Rao: (Deutsche Bank, Analyst) Understood. Helpful. Thank you, Dennis.

Eric Loh: All right, next is Ranjan from JPMorgan.

Ranjan Sharma: (JPMorgan, Analyst) Hi. Good evening and thank you for the presentation. Peter K, congratulations. Maybe I'll address the first question to you. In your previous roles, you've worked at Batelco, which was the market leader. The new - also worked at Zain KSA, which is the smallest player in the market, and I think STC had over 90% of the market share of free cash flows in the country. Just if you can share some of your experiences that you bring to the number two player in Singapore, which is at the risk of disruption and how you think you will prepare for new entrants coming into the market.

The second and third question is for the broader management team, the first one being on the dividend. You talked about the inorganic opportunities that you might pursue while your dividends I think already exceed the free cash flow that StarHub is generating, so how should we think about the dividend policy going forward? The last question is on handset leasing. That's something that Singtel has introduced on a more broader basis in Singapore. For us, it seems like that - there could be a risk to the overall industry revenues from these handset leasing plans but could also lead to lower churn in the markets, so if you can just share your thoughts, if that's something that you would consider as well.

I know you had - for a couple of phones, you had this, but it was not on a wide-scale basis.

Peter Kaliaropoulos: Thank you, Ranjan. First question, thanks for bringing back memories there at Batelco and STC, but it doesn't matter if you're incumbents against an incumbent, or it doesn't matter if you're the fighter brand, the third operator. To be successful, you have to think different and better. If you just have a me-too strategy to follow the incumbent or follow the second player, you will always be marginalised. It is a matter of thinking differently and trying to add smart competitors, although in today's markets, the window of opportunity closes very, very dramatically because there's no such thing as sustainable competitive advantage.

In the last company I was involved with, it was a third player, but we had about 8.5 million customers, and we had severe financial issues since inception 10 years ago. Again, we contributed heavily to grow the sales and grow the customer base and the revenues. We put a lot of resources at the front end of the business, and at the same time, we took a lot of cost from the back end of the business, and within 12 months, we grew EBITDA dramatically and made the first-ever profit, and of course there was a change in depreciation schedule.

So again, investing at the front end, understanding the different customer segments and how you serve them, because a lot of telcos sometimes stay with a traditional serve model. We have a lot of digital citizens in all the markets right now. They're quite happy not going to a retail store. They're quite happy buying online and being fulfilled online, so we need to continue to segment the marketplace and be relevant to customers, whether they're enterprise or consumer. Again, even enterprise customers, buying connectivity right now is given. What else can we do to deliver a better proposition to an enterprise customer?

It is about segmentation. It is about putting resources to the front end to either acquire more customers or keep the best customers you have, and of course managing the infrastructure, all the investments, all the OpEx, smarter, tighter than ever before, to make sure that we deliver margins. There isn't really a lot of new leading-edge ways of managing a telco. It is about getting the fundamentals right and not forgetting that we don't have one type of customer, Mr or Ms Consumer or Mr or Ms Enterprise. Within these broad categories, we have multiple customers.

The lesson of course is coming to market with 150% saturation, no different to the Saudi market, no different to the leading player being a formidable, and we'll respect that, of course, and we get motivated rather than being afraid by the leading players. Very similar characteristics, and it's about doing a lot of things right and not necessarily doing something completely different.

The leasing in place, my personal view is that we should be offering that to any product, whether it's a handset, whether it's a router. Again, if you're a customer-driven organisation, customers want the flexibility to either buy or lease or pay in various terms, so I don't see why we should be restricting the opportunity for the customer to buy a product in any way possible, and certainly our intention is not to just limit leasing to one or two handsets but to potentially explore that right across the market.

It is good. It is good for churn and it is good for bundling other services, but it's better, again, for the consumer to choose to pay in totality payments or leasing. We're not against that, and we look forward to doing more on that. Dividends, you know our dividend policy for this year. It will not change for this year. Dividends going forward will be reconsidered at the end of this year, and basically how we see the next two to three years, we will be challenged in terms of having some extra payments for spectrum and so on, but we don't want to speculate in terms of what the dividend may be going forward.

The dividend, for certainty, we know what it will be for the next couple of quarters. Dennis, I'm not sure if you want to add anything more.

Dennis Chia: Sure. Yeah, I just wanted to add, clearly, delivering shareholder value remains at the top of our agenda in terms of delivering profitability and cash flows and managing the business for efficiencies going forward. Naturally, we will be and we have alluded to looking at longer-term growth opportunities as well, and the cash requirements for that purpose as well.

All of this will be folded into our considerations and management's recommendations to Board at the start of next year as we guide the market to our dividend. As we look at business conditions changing and our long-term capital requirements, as well as the outcomes of our - all our efficiency initiatives, we will consider what we would be able to deliver in terms of shareholder value.

Peter Kaliaropoulos: Thank you, Ranjan.

Ranjan Sharma: (JPMorgan, Analyst) All right, thank you so much. Good luck, Peter K.

Peter Kaliaropoulos: Thank you. I've got a good team.

Eric Loh: Wei-Shi from BNP, you've got a question for us?

Wei-Shi Wu: (BNP Paribas, Analyst) Hi. Thank you very much for the opportunity. Two questions, and they're more strategic ones. So, Peter, would you care to share what your goals are or targets are as far as the revenue mix for the business is concerned maybe three years out? Secondly, how do you view StarHub's position or approach towards the content business changing in the next few years? Thank you.

Peter Kaliaropoulos: Thank you, Wei-Shi. Thank you for your questions. The toughest one is the first one. Wow, my crystal ball is a little bit hazy beyond the first or second year, but certainly, revenues will be challenged and as I mentioned earlier, creating shareholder value, it's both working on the revenue and working on the cost to make sure the margins. It's far too early to be specific on the revenues, but the traditional business in every telco in markets with high penetration rates, the additional revenues don't necessarily come from the traditional services. They come from complementary products, and again, you're seeing in the enterprise space, that's exactly what we're doing in the consumer market, a number of value-added services on top of connectivity, and that is the clever packaging and giving customers more choices on top of just connectivity.

The revenue going forward is something that we're working through to make sure we present to the Board a longer-term plan, but the connectivity will always be challenged on the consumer side. But as I mentioned, there is a little bit of opportunity more on the enterprise side, because we're underrepresented in terms of market share. I can't give you exact numbers, but we hope we maintain healthy revenues via the core business and complementing that maybe through some inorganic opportunities, as we've done in the last two quarters.

In terms of the content side of the business, the business model for many, many years has been one that all the content providers go to all the telcos and basically we become the delivery and we manage the customer. That has been going on for far too many years, and also the content model was more of a fixed price, irrespective of the number of viewers at the year end. Well, the market has been disrupted. It has been disrupted by companies who can provide very fresh content like the Netflix of this world at a reasonable price to a customer, but the business model has also been disrupted, because through broadband connectivity, some of the content providers can go direct to the customer.

As I mentioned earlier, I do not believe in the short term StarHub will not play in the content business, but we have to play with a much lower cost. We have to play with a variable cost model, and we also have to play by providing - becoming more aggregators of content. Having said all of that, we're happy to work with all of the existing content providers, but the qualifier is more on a variable cost model, not on a fixed-cost model. We don't believe that will help them, and it doesn't help the viewers, and it doesn't help us.

Also, the content model is being disrupted around the world, because the days where customers have to be locked in for a very long period on very high-ARPU packages, that type of model seems to be breaking apart. Consumers tend to want to select the type of content in terms of packages. They want to be able to decide themselves how long they want to be committed to a certain package, and we need to understand that. We need to manage around that. We need to manage the economics of both the content supply but also the economics of potentially not locking the customers to very long-term contracts.

It is a part of the business, which is occupying a lot of our time, because potentially it has an adverse impact. We haven't kept that as a secret within the portfolio of the other lines of business, but we need to crack this, but I hope I've given you a high-level view in terms of the content business.

Wei-Shi Wu: (BNP Paribas, Analyst) Thank you very much for your thoughts.

Peter Kaliaropoulos: Thank you, Wei-Shi.

Eric Loh: Next on the line is Varun from Credit Suisse. Varun?

Varun Ahuja: (Credit Suisse, Analyst) Yeah, hi. Good evening, everyone. I think most of my questions have been answered. Just a couple of them. First, you have been saying, Peter, about hidden organic growth opportunity, so it's largely within Singapore you're talking about, or is there something outside of Singapore you want to grow and diversify the revenue stream? That's number one.

Number two, just want to go back to dividends. I know you can't answer most of the questions on dividends, because of the policy you will detail in later half of the year, but do you think absolute dividend is where - is the management comfortable with, or you want to align it again, the policy in terms of linked to earnings or cash flow or something like that? So any colour on that will be helpful. And lastly oné

Peter Kaliaropoulos: Thank you, Varun. Look, from my experience, dealing with a number of boards, irrespective of recommendations on dividends from management, the Board has the final say, and that's certainly been the case in most companies I've worked. So certainly, management year on year will provide different options, different recommendations, and at the end of the day, management often does not win in the recommendations to the board about dividends. The shareholders always decide through the board of directors what is best.

But again, we are looking at the different options, and we'll be having a very constructive discussion with the Board at the right point in time, looking forward. There's nothing really more, as you observed, Varun, we can comment on dividends right now. But yes, there are different options being explored by us, and we'll look forward to the debate.

The first question, about inorganic growth outside Singapore. Certainly, that is not on our radar right now. I always believe that you have to be on top of your game in your home market, delivery within best in class in whatever segments you play, and when that is taken care of, then you might have some aspirations. And also, if you look at the game in terms of other markets, they're faced with similar problems or challenges that we have in our market here, high penetration, multiple competitors, so when you go offshore, you need to go offshore with a very different business model and something more unique. Otherwise, it's a me-too game.

But the short answer is no, in the horizon that I'm looking at, I don't foresee any investments offshore, but I do foresee consolidating and improving our position in the Singaporean market.

Varun Ahuja: (Credit Suisse, Analyst) Just to follow up, so within Singapore, in the enterprise space that you're looking to grow your market share, it'll be a customer acquisition, or will it be technology related? Is there any product gap that you're looking to fill, because I think cyber security is one of the gaps that you probably have acquired one more company, or is there more technology in cyber security that you're looking to acquire? Thank you.

Peter Kaliaropoulos: Certainly, that's where the opportunity lies. There's some very innovative companies in Singapore in the space of value-added services, IT solutions, managed services and as has been the case with the two acquisitions the team executed in the last couple of quarters, that's certainly an area of interest. But they have to be accretive, certainly in terms of positive cash flow, positive margins, so yes, we keep an interest in that space. Whether it's technology, whether it's cyber security, I believe it's related.

Eric Loh: Apologies for the slight technical fault that we had there, Annabeth, SPH are you still on the line?

Annabeth Leow: (SPH, Journalist) I just wanted to check on the media statement. Peter says that there's work underway on a pilot 5G network, and I was wondering whether there are any updates that you can give on where that might be or who you're partnering, what you're testing? And what the timeframe is, as well.

Peter Kaliaropoulos: Thank you, Annabeth. I'll ask Siew Loong to comment on it, because we've done some speed trials before, but can you please elaborate?

Siew Loong Chong: So on the 5G trial, actually way before this year we have already done some 5G trial over the E-band, also over the millimetre wave. Previously, we have done based more on throughput, high speed, high bandwidth, so lately what we have worked on is to trial it on C-band. This is something that we have started working at on the beginning of the year, and we expect to trial it probably later part of the year, and actually for this 5G trial, it's C-band at 3.5 gigahertz. I think we are more looking at specific enterprise solutions, not so much on a consumer smartphone. Enterprise solution can actually range from some of the logistics solutions, as well as some enterprise needs. Some of these, are we working both with our vendor, as well as with some interested so-called enterprises.

At this point in time, we are not convenient to disclose which are the enterprises that we are working on, but most of them need some of the small enterprise or industrial use cases.

Annabeth Leow: (SPH, Journalist) Sure, and on the timeframe, because one of the other telcos has already announced the neighbourhood and the timeframe for when they're rolling their pilot network out?

Siew Loong Chong: So I think for us, I think that we will be testing on specific enterprise use cases, use cases that will either help to improve productivity or improve service experience for these enterprises itself. Yeah.

Peter Kaliaropoulos: Annabeth, if I can help, there's tremendous marketing hype about 5G across every market. Our approach is that right now, a number of use cases in the Singaporean market, there's nothing that the 4.5G single RAN carrier aggregation network can't do that 5G can do. Again, there's of course 5G low latency, but those type of applications, to be applicable in Singapore and to go on a mass scale, it will take a little bit of time. On the general consumer market, the ecosystem for handsets is nowhere near until about 2020.

So our approach is, we will participate in trials. We'll contribute to all the marketing hype, but the investment case for 5G has to be extremely selective, because we're not about - as we currently are going through a single RAN on our entire network, we're not about to overlay massive investments of CapEx on 5G for some very, very limited returns. We will be selective. We will participate. We're doing the trials, but my personal view, in the last few weeks, there's a lot of marketing hype versus substance.

Annabeth Leow: (SPH, Journalist) Thanks to the both of you.

Eric Loh: Well, thank you very much, ladies and gentlemen, for joining us this evening. We look forward to speaking to you again in the next quarter's results. Goodnight.

End of Transcript