Event Transcript

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Eric Loh: Hi. Good evening, ladies and gentlemen. Welcome to StarHub's third quarter 2018 results announcement. My name is Eric and with me this evening we have the CEO, Peter K; the CFO, Dennis Chia; along with the Chief of EBG, Dr Chong Yoke Sin; as well as the Chief of CBG, Johan Buse. Before we go into the presentation, just a little reminder here. If you want to ask a question later on, press star-1. If you want to withdraw your question, press star-2. Now with that, let's welcome Peter with this quarter's highlights.

Peter Kaliaropoulos: Thank you, Eric. A very good afternoon, ladies and gentlemen, and thank you for the interest in our company. Allow me to summarise some key highlights and then I'll hand over to Dennis to walk us through various financial matters. In line with guidance we've given to the market, quarter 3 year-to-date versus the same period in 2017, we've shown modest growth in gross revenues of 1.1% growth to $1.74 billion. Service revenues modestly declined by 0.9% to $1.375 billion. Our service EBITDA margins are at 30%, below the 33% this time last year, and a CapEx revenue ratio of 10.9% has been maintained. The net profit after tax of $185 million is a decline of 16% versus the same period, but a slight improvement versus year-to-date at the end of quarter 2. In line with the higher total revenues, our operating expenses also grew by 4.4% for the nine months and the cost of sales also increased, but the overall operating expenses remained stable. Our CFO will go through the details later on.

In terms of the best performing lines of business, it would be Enterprise Fixed and Broadband, while Mobility and Pay TV continued to decline due to a lower number of customers and slightly lower ARPUs. If I go into the details, the Enterprise Fixed services grew by 17% to $346 million and the growth came through managed services, various projects, cloud and also consolidation of Accel and the D'Crypt. No revenues from Ensign have been accounted for in quarter 3 because Ensign was formally completed on 4 October. We also had lower revenues and excess data usage revenues slightly dropping and also higher SIM-Only customers resulted in lower mobile revenues for the first nine months and an overall 6.3% decline. In Pay TV, the revenues declined by 9.6% year-to-date, which reflects a smaller customer base, although a steady ARPU.

Mobile penetration continues to be high, and despite that, we grew the post-paid customer base to 1.39 million, which is about 1.7% year-on-year. Year-to-date increase of data per customers has gone to 5.4 gigabytes per month, which is a 32% increase over the same period. Also interesting to note that post-paid revenues and customer base, quarter 3 versus quarter 2 this year, has grown. Pay TV revenue was $240 million, as I mentioned earlier, which is a 9.6% decline. We are currently experiencing an average of about 3,600 customers leaving the service to explore other options. The overall market is declining at a similar rate, specifically at 8.5%.

If you look at our Broadband revenues, they remained stable at $140 million and we added 7,000 customers year-on-year, bringing the total customer base to 473,000 Broadband customers. Overall, quarter 3 has also been a very active period for the Company. We made the announcement to form Ensign to specialise more in the cybersecurity business and market segment. We also announced the launch of a transformation program, which involved various cost reductions across the company over the next three years. We also launched the StarHub Go Streaming Box, which is the first in the world to run on the Operator Tier version of Android TV Oreo. We also were ranked first in Asia-Pac and fifth globally in Equileap's Gender Equality Global Report and Ranking. For the first time, we made in the top 10 rankings as one of the most valuable brands in Singapore.

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Before I hand over to Dennis for financial insights, let me also address the outlook. At the end of the quarter 3, we're maintaining similar guidance we have given to the market in previous quarters. This is that service revenues will end up being 1% to 3% lower year-on-year by the end of quarter 4. The group Service EBITDA margin will be maintained between 27% to 29%, in terms of guidance that is, and also, the dividend will be retained at $0.04 per ordinary share. The CapEx revenue ratio will stay around the 11%; so we're maintaining guidance. With these comments, I'll hand over to our CFO, Dennis.

Dennis Chia: Thanks, Peter. Good evening to everyone, and thank you for joining us on this call. In the investor deck, we are on slide 11, which is the EBITDA. We ended the quarter with $147 million of EBITDA versus $163 million a year ago. For the 9 months, it was at $456 million versus $500 million a year ago. The drop in EBITDA for the quarter versus last year, about $16 million, included a one-time adjustment of $5 million in traffic costs. Without that, our declined EBITDA would have been $11 million. Our service revenues, primarily in the Mobile line of business, as well as our TV, had accounted for some decline in the EBITDA as well as the higher cost of sales due to the mix of services that we provide to our customers. Our cost of equipment in terms of its margin has remained fairly stable during the quarter as well.

Moving on to Slide 12, where we look at Service EBITDA of $132 million for the quarter, translating into 28.8%. Without the adjustment of $5 million in traffic costs, the service EBITDA would have been $137 million, also 3% of Service EBITDA margin. This compares to $150 million a year ago or 32.2%. For the nine months ending 30 September, the Service EBITDA would have been $415 million versus $464 million or 30.2% versus 33.4%.

Moving on to slide 13 on cost of sales. Our cost of sales of $260 million a quarter versus $225 million a year ago. The movements in the cost equipment line are in tandem with the higher CPE revenues that we recorded in the quarter. I had mentioned the traffic costs adjustment that we made, but generally the traffic costs increase during the quarter versus the year ago was in tandem with the higher roaming revenues that we have recorded during the quarter. Our cost of services has remained fairly stable, slightly higher because of the mix of enterprise services and the consolidation of our acquisitions of Accel and D'Crypt which have been now included in our numbers. Operating expenses are $247 million for the quarter versus $255 million a year ago. Depreciation is lower compared to a year ago, $71 million versus $75 million, and the decline in depreciation is due to a bunch of assets that have now been fully depreciated, and are no longer recording depreciation. Our marketing expenses remain fairly well managed, with the use of data to help us look at focused marketing.

Our general and administrative expenses has also remained fairly stable. We are focused on driving efficiencies throughout the organisation, with declines recorded in professional fees as well as outsourcing costs primarily and as well as the improvements in the allowance for that focus. Net profit for the quarter was $58 million versus $66 million. $58 million translates to $0.032 on the EPS basis. For the nine months, it was $185 million versus $221 million. $185 million generated a EPS of $0.102 for the nine months. The slightly lower decline in net profit versus the current EBITDA is due to the lower depreciation, as well as the lower share of losses from our associated company. Our CapEx payments for the quarter was at $73 million versus $52 million and for the nine months is sitting at $189 million or 10.9%. Free cash flow for the quarter was $79 million or $0.046 on a per share basis versus $120 million a year ago. For the nine months, we have generated $188 million of free cash flow or $0.109. Our net debt-to-EBITDA ratio sits at 1.22 times at the end of quarter 3. With that, I hand the floor back to Eric.

Eric Loh: Thank you. We are going to open the floor for Q&A now. Once again, if you want to ask a question, press star-1. If you want to withdraw your question, press star-2. Now, with that, let's welcome Sachin from DBS.

Sachin Mittal: (DBS Bank Ltd, Analyst) Thank you for the opportunity. A couple of questions. Firstly, could you tell us how many of your customers are on coaxial broadband and how many of them are on the cable TV now at the end of this quarter? Also, beyond paying the leasing fee for fibre, do you expect to incur substantial cost on migrating these people? Because some of them may not have installations and you may need to have a lot of marketing to drive these people to fibre. That's question number 1. Number 2, could you also talk about your cable TV? What could the end state be for cable TV? Do you think it has to be completely OTT or will you see a hybrid of your fibre TV coupled with the OTT TV? And, if at all, any end state and how much longer for this transition? Do you think there's a matching between the cost and the revenue of cable TV? Particularly when revenues are declining, do you think you can also lower the costs of content and everything along with this?

These are the two questions I have. Thirdly, on cyber security, should we expect a positive contribution from cyber security business which you acquired recently in the last quarter? Do you need to expand this business? In order to expand this business, do you think that it may not remain profitable, just because there is a lot of investment required? Could the business turn from being profitable to loss-making? Is there a fair chance about that? Thank you.

Peter Kaliaropoulos: Sachin, thank you. It's Peter. Three big questions. Let me try and answer them and if you need additional details we will follow-up. First of all, the fibre costs, by moving customers from cable to fibre, we do have a variable cost structure. Today, for the arrangements with our wholesale supplier, Singtel, we have a huge fixed cost. So that is very important to understand. Also any impact on the P&L will be in 2020 because there are arrangements in place till then. So we don't expect dramatic changes to the cost structure, but we expect variable costs to come into play. Also, let's not forget, once you have fibre, the quality to the customer is much better and also, you can sell additional services on fibre.

Your second question, in terms of cable TV and matching costs and so on, let me be upfront. The business model for cable TV is broken. By the way, we don't offer the details in terms of how many customers we have on cable. But if you look at the whole cable TV business model, it has been broken for many years. We've said it publicly. Cable TV has never given us a positive profit contribution to the bottom line, so it has to be fixed. Customers have other choices these days, especially with OTT players as well as piracy affecting our ability to keep that customer base. Also, the cost structure to date has been a fixed cost for content irrespective how many viewers you have. We don't believe that is a sustainable mode, not just in Singapore, but right across the world. We're seeing massive migration of customers to alternatives. So we are fixing the business model in terms of managing the cost of content to become dramatically more variable versus the fixed.

Also, the technology underwriting TV should be on fibre, not on cable. So that's what we are doing. Certainly, if you move to a variable costs, those content contracts are coming up for renewal every few years. From subsidising content providers, immediately you become profitable, because if you got a customer and it's a variable cost, you pay a share of that customer revenue to the content provider and you keep a positive gross contribution, which is not the case right now. So we believe this will take approximately a couple of years for the transformation of the Cable TV business. In the meantime, we have to manage to reduce the cost predominantly as customers are going elsewhere. Also, let's not forget, our industry traditionally has been subsidising content providers so we can pull through broadband connectivity. So once you get to 100% penetration of broadband, which is the situation in Singapore, you no longer need to be subsidising the content providers and you need to move to a variable model.

The other dynamic which is taking place in cable TV is that the content providers, for many good reasons, themselves are now going directly to customers, bypassing the traditional distributors, which the telcos used to be. So you have a number of dynamics in the pay TV industry. We have to stay at the forefront and rediscover the business model and bring the costs not just down, but make the cost variable rather than a lower fixed cost on minimum guarantees.

Your third question about cyber security and positive contribution, when we announced Ensign, we did say that we expect this business to contribute over $100 million or more in turnover on an annualised basis and to make a small contribution in terms of margins, from day 1. When we announced the results of quarter 4 in early next year, we will identify contributions coming from Ensign, but we expect it to be positive but not materially positive.

Sachin Mittal: (DBS Bank Ltd, Analyst) Right. Just to follow up on the first - on the cable TV, so you don't think that OTT is the final state of cable TV, and that fibre TV is something which you want to go on before jumping onto OTT completely. Secondly, on this variable cost, I think telcos have been pursuing that model, but for some reason that has not been popular, right, for a reason? Is that reason still valid or why should content providers agree now?

Peter Kaliaropoulos: Well, first of all, let me take the second question first. They are going direct to market, so they cannot insist that they will force us to pay fixed amount on minimum guarantees and then they have the option to go to the market directly. So going to the market directly comes at a cost and we believe that cost is freeing us up to also be able to distribute content at a lower cost point. So I can assure you, it's fascinating negotiations going on with all the content providers. We've taken a view, if you recall earlier in quarter 2, that if the content providers insist on the old-fashioned model of minimum guarantee and minimum price, irrespective how many views you have, well, we've decided to move on; and there was one content provider that we don't have a relationship with anymore. This proves that we are very serious about having a variable cost model. We will work with most of the content providers and we believe commercial sanity at the end of the day will prevail because we have an existing customer base, we have an existing infrastructure and the content providers do not want to switch off completely.

So we're going to move into this hybrid world where they go to market directly, we go to market, both of us have sort of lower cost structure, and hopefully the consumer will benefit. I think there's a higher degree of certainty that most content providers will go direct and that will result in new cost models. The OTT model is not necessarily the end state, but it's part of the mix. We'll always have customers who are happy to receive content in the lounge room on a big screen. We're always going to have customers that want in a smaller screen, they want it on mobile. So we'll always cater for different types of customers. The infrastructure cost, it is not the key issue that prevents us from having profitability in Pay TV. It is the cost of content. So we believe the end game would be potentially either aggregating for some customers through the OTT platform and they can pick and choose their content. Also, providing content by the traditional set-top box and also providing content on a small screen.

You will see all these models coming into play in the years to come and maybe months to come, but a lot of them depend on rights to distribute content from the small screen to the big screen. Hopefully, if commercial sanity prevails, we could also play content available to small screens, and keeping in mind how many millions of customers exist in small screens - so there's an upside both to us and to the content providers to find the right business model.

Sachin Mittal: (DBS Bank Ltd, Analyst) Good. Thank you, Peter.

Eric Loh: Thank you. Next on the line is Luis from Maybank.

Luis Hilado: (Maybank, Analyst). Hi, good evening. Thanks for hosting the call. I have three questions. The first is regarding some clarifications on the cable decommissioning. Is July 2019 a hard target or could it slide or even be earlier? Also on that point, are there any one-time costs associated with this migration, which is similar to what Sachin asked? How many HFC broadband subs are left for you to migrate? Second question is regarding the variable content cost model. It sounds very logical, but I was wondering, is the whole industry united in forcing the content providers to the table for this? Last question is more of housekeeping. The sub numbers for post-paid on mobile, does it already include MyRepublic MVNO subs? Can you also tell us what the percentage of SIM-only subs are right now in the network?

Peter Kaliaropoulos: Okay. Luis, thank you. Lots of questions, so I hope we can cover them. Go back to your first question about hard target July '19, it is the only target we have, and that's why we included it in our press release and we're working towards that and we're geared up for that, so that answers the first question. The one-time cost, there's no one-time cost. We're having ongoing marketing costs which are part of our budgets and part of our guidance to convince customers to migrate at no cost to the customer, so there's not extraordinary one-off costs for that. At the same time, again, there are no write-offs because of the migration. HFC, how many customers we have to migrate? As I mentioned earlier, we don't break down our number of customers on HFC versus fibre. I think your fourth question was whether the industry is united for changing the business model for content provision. That's really a question for the content providers.

But the signals are there, very loud and clear, that, as I mentioned earlier, they want to go direct to consumers. So as that choice emerges, then the traditional costs - the acquisition model of content has to change as well. I believe, certainly from our dealings, there's a lot of common sense involved by all parties. Nobody really wants to walk away from anybody, but we all understand we need to evolve the business model and to put the customer in the centre of everything. Let me say this, the customer's not happy because they believe they're paying too much for cable TV content. We, distributing content, are not happy because we have high costs. The content providers are seeing customers leaving them, going to alternative options including piracy. So this is what I call the sort of broken model that we have today, that everybody has to address and fix it if we're going to have a healthy customer base. Customers want more choices for content.

They don't want to necessarily be locked into very long-term contracts. So we're going through transformation of the Pay TV business. So all stakeholders are trying to find the right solution, so we keep customers enjoying the content that they choose at more reasonable price points than what we have today. So the broken model, nobody is really happy. Hopefully, when we come out of it, more choice for the customer, different price points for the customer, better technology underlying the delivery of content. Hopefully, we will end up in a sort of win-win model. We have to respect, as I said earlier, the choice of viewers, where they want to enjoy content across multiple screens, not necessarily on the one screen. Your last question was about post-paid. Does that includes MyRepublic numbers? Yes, it does. We don't break the SIM-Only or the MyRepublic or the MVNO numbers from the numbers we report.

Luis Hilado: (Maybank, Analyst) Yes. One follow-up, Peter. Is Singtel on board with the stance that it should be a variable cost model, so therefore you've got a united front to all the content providers?

Peter Kaliaropoulos: We don't talk on behalf of other companies. We're not sure what their business model is, but we're certain about StarHub's business model; that it should evolve to a more variable business model. We're pushing for that. To be honest with you, we don't know what Singtel is doing or wants to do. But the anecdotal evidence is, from what's being reported generally, that nobody is making any decent return or any positive return from pay TV. So certainly we're not speaking on behalf of anybody else in the market. We know how broken the business model is for us in terms of pay TV and we want to fix it for the benefit of our customers and the benefit of our P&L as well.

Luis Hilado: (Maybank, Analyst) Thanks for that, Peter. That's very insightful.

Peter Kaliaropoulos: Thank you.

Eric Loh: Thank you. Next on the line is Wei-Shi from BNP.

Wei-Shi Wu: (BNP, Analyst) Hi. Thanks very much. My first question is kind of related to the previous questions about the costs related to the migration. Maybe I can be more specific. Would you need to swap out the set-top boxes for your HFC customers for free, for instance, and incur the costs of doing that? Then related to that, would there be any accelerated depreciation of the cable set-top boxes that are existing in the end user premises? Can I also confirm that your HFC network is fully depreciated?

Peter Kaliaropoulous: Okay. As we have made a public announcement, we are not going to inconvenience the customer with any costs related switching from one technology to another. That's part of our marketing cost and cost of sales which were built into our budgets. In terms of accelerating depreciation, we have been depreciating the HFC over the period of time, so there's not going to be any one-off depreciation costs. I think they were the two key points.

Dennis Chia: Wei-Shi, this is Dennis. I'd just like to add to that if you look at our depreciation expense profile, that's actually been on the increase and that's because we have accelerated the depreciation of HFC in line with our plans to migrate all our customers out of HFC into fibre. So at the point when we cease offering cable services, the asset would have been fully depreciated by then.

Wei-Shi Wu: (BNP, Analyst) Great. Thanks. That's very clear. If I may ask two other questions. Can you sort of provide some colour on what was driving the increase in roaming revenues during the quarter? Was this due to a deliberate move by the Company in terms of offerings of pricing? Then, my final question is the free cashflow situation looks a little bit stretched to me, the different commitment for the year, and your gearing has gone up as well. So just curious as to what options the company is looking at in order to get to a more sustainable/comfortable position as far as meeting the dividend commitment is concerned. Thank you.

Dennis Chia: In terms of roaming revenues, if you look at the DataTravel plans that we've offered to the market and the value that it brings to our customers, that's actually been driving the roaming revenue traction, which has kind of offset some of the declining usage, which is structural. So it is really the result of the attractiveness of DataTravel plans that are out there. Okay. Wei-Shi, you had a question on the free cashflow. Typically, obviously, we've generated $0.046 for the quarter and $0.109 for the nine months. The board consistently reviews, along with Management, our free cashflow generation profile. We do not guide dividend beyond the current year and we do intend to keep our dividend commitment as guidance in the market for the year of $0.04 per quarter. We will guide the market to what the board has decided for the full year of 2019 when we announce our full year results next year.

Peter Kaliaropoulos: The net debt to EBITDA has grown to 1.2, but, again, it's a very respectable ratio and at this point in time, the board is comfortable with this gearing.

Wei-Shi Wu: (BNP, Analyst) Thank you for your comments.

Peter Kaliaropolulos: Thank you, Wei-Shi.

Eric Loh: Thank you. Next on the line, let's welcome Gopa from Nomura.

Gopakumar Pullaikodi: (Nomura Securities, Analyst) Hi, just three questions. Firstly, can you give some colour on the content costs? When is the key content coming up for renewal? I'm just trying to understand when will you see these cost benefits on your P&L, if you're able to renegotiate the cost model. Secondly, you've said in the MD&A that the Pay TV revenue ARPU is impacted by rebates, so can you give some colour on how this would have been without the rebates? That's on the Pay TV business. A second question is on the transformation plans. I'm not sure how much you can share, but you have given a target of around $200 million in cost savings. Is it a combination of CapEx and OpEx? Would you be able to give a split of how much of this is CapEx versus OpEx? Thank you.

Peter Kaliaropoulos: Okay. Gopa, thank you for your questions. First of all, different contracts with different content providers come up a few times in the year. Typically contracts are for two or three years duration and we have some contracts that are expiring before the end of this year and we have some contracts expiring middle and end of next year. We're not being specific and I think it's only professional courtesy that we don't make public announcements when we negotiate different contracts, but it's an ongoing process. We have many content providers for different type of content from Hollywood studios, Korean movies and drama, Chinese, Indian and so on. So these are all ongoing negotiations. The only thing I can say is that there has been a reasonable approach by all parties involved to date that I'm aware of and I think over the last 12 months, where there is both a reduction of overall costs, but potential upside if we grow the customer base. So we're sharing the upside as well as both parties have to live with a lower cost to make sure we all retain the customers.

So that's the situation of contract renewals, and we're not going to be specific which content provider is next. But as I said, we're in negotiations at all points in time and the business model we prefer, we are finding pragmatic ways to try and negotiate for the benefit of all parties involved. Rebates for content, as we made announcements in the marketplace, we're giving customers $4. If they're out of contract, I think we do this for 4 months and if they're in contract, I believe its 5 months. So, again, we're not disclosing specifically how many customers are out of contract, in contract. But I have to say that that has depressed the ARPU in quarter 3 and quarter 3 sales, without disclosing the exact number, was the highest quarter we had with customers coming out of contract. In quarter 4, we have fewer customers coming out of contract. That contributed to the churn for Pay TV in quarter 3; the high churner of 15,000 net, whilst the previous quarters were averaging at about 11,000.

Transformation, the programme we announced is $210 million over three years, predominantly OpEx, and it's coming across savings in salaries from labour related, also rationalisation of procurement, leasing costs, network maintenance, repairs and maintenance and lower content costs. So it is the typical bucket of all the operating expenses that a company has, which could be controlled by us. It doesn't involve, of course, utility costs and other type of similar costs. So transformation is right across the company. Our approach has been to renegotiate all the supply contracts as they're coming up for renewal, to rethink different type of business models, again, changing from fixed to variable and really, consistently question every cost we have in the business. Does it add value? Is there a better way of running the business without that cost? So we're tackling everything across the company and trying to reduce the operating cost by a minimum of $70 million per annum for the next three years.

Dennis Chia: I would just like to add that the savings and content costs in 2018 have already been recorded. If you look at our cost of sales profile, we have three broad components across equipment and we've got as well the cost of services. In that bucket, we have three main costs, and we've always guided the market that constitutes three main components, one of which is the payment for the NBN in terms of the fibre, one of which relates to Enterprise services in terms of the breadth of Enterprise services, and the third being the content cost. If you look at that bucket, it's actually remained fairly stable, that's because despite the fact that we've actually increased our Enterprise services breadth and revenues related to that and the migration to fibre, we've actually managed to reduce the content costs as well, which has offset some of these increases. So that's already been realised and recorded, and we continue to see momentum in that.

Peter Kaliaropoulos: Thank you, Gopa.

Gopakumar Pullaikodi: (Nomura Securities, Analyst) Thank you.

Eric Loh: Next, let's welcome Piyush from HSBC.

Piyush Choudhary: (HSBC, Analyst) Yes. Hi. Good evening. Thanks for the opportunity. A few questions. Firstly, on the costs - on the transformation plan, on the $210 million savings, could you clarify if these are gross savings and how much are the net savings the company is expecting? On the same, is it possible to help us understand how much of the savings are front-loaded or is it evenly spread across three years? In the disclosure, you have also mentioned one-off restructuring costs of $25 million. When will that be provisioned? One more question, Peter, you mentioned that there will be a fixed lease cost savings when the cable services will be shut down. Could you help to quantify how much would be the annual savings? Is it already part of the transformation plan in terms of savings of $210 million?

Peter Kaliaropoulos: Piyush, thank you for your questions. When we briefed the market about the cost transformation project, we did say that the total amount is not a net saving because we're reinvesting, because transformation does involve lower costs, but it does involve investing new businesses to grow and funding growth opportunities. So we have not disclosed the net-net benefit of the transformation program, but we are disclosing the overall gross impact of the transformation program. For example, in our cyber security business, there's hardly any CapEx. It's a people business it's not a technology infrastructure type of business. So as we're going to grow our cyber security business, and of course, that was the intent behind investing in it, we expect that some of the savings will go towards growing cyber security and other lines of business. In terms of front-loading costs, the only real front-loading benefit is the employee reduction. Again, we did announce in the marketplace that we're downsizing by at least 300 roles. This exercise has now been completed last week, and that benefit will appear in the books starting first of quarter next year.

So that's the only front-loading bit, if I can use that expression, but all the other costs savings are spread. The $25 million provision or the cost of the downsizing exercise, that already has been provided in previous years and I believe in quarter 4, predominantly last year. So there's zero impact on the P&L of this year. The third question was in terms of lease costs, lease cost savings.

Piyush Choudhary: (HSBC, Analyst) For P&L. Yes.

Peter Kaliaropoulos: Yes, again, the NLA costs will eventually come off our books in 2020, Dennis?

Dennis Chia: That's correct.

Peter Kaliaropoulos: So between now and then there's no benefit of any NLA costs. At that point in time, there will be a benefit and, again, we don't disclose the actual breakdown of various costs, but it's no impact in 2019 and some impact in 2020.

Piyush Choudhary (HSBC, Analyst): Can I just clarify the lease cost saving that you will accrue from 2020, is that also part of the strategic transformation plan saving of $210 million or if that is over and above that?

Peter Kaliaropoulos: It's included in the overall bucket of the $210 million because there's a payment we make to Singtel for that. There's also our own costs in supporting an HFC network, so all of those costs potentially would be retired in 2020. You heard earlier the CFO mentioned that we've taken an accelerated position. So, again, that is all part of the $210 million savings over the next three years. That's why it's not as simple as $70 million a year; it is different. When we give guidance at the beginning of every year, we will take into account all these movements in terms of costs and potential revenues, and we will provide you guidance for the entire year.

Piyush Choudhary: (HSBC, Analyst) Excellent. Very clear. Thanks a lot, Peter.

Peter Kaliaropoulos: Thank you, Piyush.

Eric Loh: Next, let's welcome, Goldman Sachs, Siward.

Siward Ludin: (Goldman Sachs, Analyst) Hi. Thanks for taking my questions. So two simple questions. Could you explain more about the $25 million restructuring costs you incurred and is there anything beyond that in the 4Q? For the second question, are there any updates on the fourth entrant’s go-to-market strategy that you're aware of?

Peter Kaliaropoulos: Okay. Thank you, Siward, for the questions. $25 million was provisioned last year, so zero impact in 2018 accounts. In terms of quarter 4, no, there's no further provision or no extra cost relating to the right-sizing of the personnel. So very clear on that question. In terms of the fourth operator's entry into the marketplace, the anticipation was in quarter 4. We understand they are continuing to roll out their capability in terms of infrastructure. We are ready to welcome them, if I can use that expression, at any point in time. Again, as I mentioned last time, the way we're operating the business is we are ready to compete with a number of other companies right now, both MNOs, and virtual operators, infrastructure-based, service-based operators. So to us, of course, there will be more choices for the customer, but I think the competitive intensity is high as it is. So we are prepared to face any additional competitive pressure in the marketplace and when exactly they will enter the market, it is entirely up to them.

We can't second guess them. We're just preparing ourselves and making sure all our operations are in place. So for us, it's business as usual rather than doing anything dramatic.

Siward: (Goldman Sachs, Analyst) Got it.

Peter Kaliaropoulos: Does that answer your question?

Siward: (Goldman Sachs) Thank you for your answers.

Peter Kaliaropoulos: Thank you, Siward.

Eric Loh: Next is Srini from Deutsche Bank.

Srinivas Rao: (Deutsche Bank, Analyst) Hi. Thank you very much. Two questions. First, on the overall trends in the Pay TV market, Singtel doesn't seem to be losing subscribers in that segment. Is it fair to say that what we are seeing for you is primarily on account of either reluctance of people when you are encouraging people to move from HFC to fibre? So that would - is my first question. Given that you've probably had a fair information and data analytics on your Pay TV subscriber viewership trends and so on and so forth, overall, do you expect to come out better with the whole content cost versus the ARPU which you have been generating? So that's the first question on Pay TV. Second, on the Enterprise side, if you can throw some light on how your recent corporate transactions are progressing and the business trends in the Enterprise services? That will be helpful. Thanks.

Peter Kaliaropoulos: Okay. Thank you, Srini. Let me take the first questions and then I'll ask Dr. Chong to contribute as well. On the TV side, let's look at the facts. The markets over the last 12 months has shrunk by just over 8.5% in terms of subs. We also have shrunk at 9.5%. So the overall - we're shrinking at the same rate as the overall market is shrinking. In terms of data analytics and what is happening to customers in the ARPUs, what we're seeing is customers increasingly want the empowerment to choose different content providers, different duration of contracts and different price points. Why the market is shrinking, I don't believe, is that over the last 12 months, something close to 70-odd-thousand customers have left watching content. So one item, watching content, and the next item, watching an empty screen.

That is not the case. They are experiencing different types of content, and that's what we are seeing, so we need to be catering to them. The relationship between ARPU and cost is very important because we are charging potentially what we are charging at the retail level because we have a higher cost structure. If our cost structure for content was much lower, that would give us the opportunity to also offer lower pricing points, because we are seeing the majority of customers opting out to the sort of package a month for US$10 or whatever, US$11. That's attractive to someone who may be paying $50 and now can get another option. So we believe the ARPUs will drop, but if the cost drops quicker, and it's a variable cost, you're getting straight away into a net positive contribution business when, for the last 23 years, you're running into a negative contribution business. So yes, the ARPUs may shrink. Yes, the market may shrink. But if the cost of content varies quite a bit, it becomes a profitable contribution. Again, just another reminder, just to repeat myself, we were subsidising content because we wanted to pull through broadband connectivity.

When broadband connectivity in an advanced economy like Singapore is at 100%, you have to question whether any operator really wants to subsidise a content provider. Really, as long as customers have a broadband connection, fixed or wireless, how do we make it easy for customers to choose the package and the content and the price point they want? I think that's how the business model will evolve. In terms what drives EBG, we've been clear on that. We aggregated the cyber security assets we had. We had a centre of excellence inside StarHub. We had invested in the company called Accel, which does a lot of systems integration for cyber security solutions. That together with another investment - Quann - have formed a big company, a regional company with the capability to do deep dive, to do complex cyber security, not simple subscription model per month for a firewall. The business we have put together has a capability to do some very complex cyber security work and we look forward to gearing that up.

And, also, let's put that in perspective. From research we've done, currently, around about $750 million per annum is the cyber security market in Singapore alone, growing at about 15% per annum. So, hopefully, having a company with complex capability, some of the best brains in Singapore - and that's only the local operation. Temasek has announced some other international acquisitions. So by bringing all that capability under one roof, we hope to get a big slice of that business going forward. But as I said, again, nothing is going to be incorporated. It has been incorporated in terms of revenues in the first three quarters. That started from quarter 4 going onwards. In terms of other business growth, I will hand over to Dr Chong to comment.

Yoke Sin Chong: Well, I think the question was in the ICT space, right, what are the solutions and where is the traction that we have been having? So these are largely in managed networks, integration services for infrastructure, cloud and data centre services, as well as analytics and cybersecurity. Within StarHub, we have embedded the solutions that we provide with a fair amount of analytics. That has actually constituted the bulk of our growth in our managed network and the ICT service.

Peter Kaliaropoulos: Thank you, Srini. Anything else from your side?

Srinivas Rao: (Deutsche Bank, Analyst) If I may ask, if I look at the slide there - the Enterprise revenues are episodic. But they remain at the level of $129 million, $125 million for the last four quarters. So I'm just trying to understand what could be the revenue table for this. I know there'll be the issue of the JV, but what can be the pro forma revenue table, say, two years out for this business?

Peter Kaliaropoulos: Okay. We have not issued this, and we will give you guidance in the first quarter of next year about the impact on revenue, EBITDA cash flow. So - but if you look at the Enterprise business today, it is a mixed portfolio of products through the acquisitions, but it's also the traditional business of data and Internet and that provides steady revenues and small growth. The managed solutions and cloud services facilities management, that is growing. We're seeing the Enterprise portfolio, the voice revenue declining, predominantly due to international lower rates or international revenues and lower rates for domestic. So there's a core business and there is an acquisition business. If you can indulge us, first quarter next year, we will give you guidance about what the combined P&L is going to be for the Company, which will incorporate the companies we just merged between us and Temasek. Thank you, Srini.

Srinivas Rao: (Deutsche Bank, Analyst) Understood. Thank you. Thank you, Peter. Thank you, Dr Chong.

Peter Kaliaropoulos: Appreciate it.

Eric Loh: Right. We have time for two more callers. Next, we're going to take up another question from Sachin and then followed by Prem from Macquarie. Sachin from DBS?

Sachin Mittal (DBS, Analyst) Thank you. We have heard about TPG's CapEx of $66 million so far, which is probably much less than even one year CapEx that any telco incurs in Singapore. So I'm wondering, if TPG's launch were to have a negligible impact on the market, could the competition cool down? Are the MVNO contracts multiyear contracts or annual in nature? If let's say the fourth player is not even effective, how much control the telcos have on the competitive landscape or do you think the arrow has been shot? You can't call it back. That's question number 1. Secondly, the market is very worried about the 5G CapEx. You did talk about network sharing, so I'm wondering how are these linked in terms of how should we look at 5G and network sharing? If you could throw some light on the potential scenarios going forward, because Singapore government may well ask for a good 5G network, while the business case may not be there because that's something important for the Smart Nation. So any commentary on that?

Peter Kaliaropoulos: Sachin, thank you. Look, if I understood your first question properly, we don't have any control of MVNOs or a competitive impact in the marketplace. We have confidential contractual arrangements between us and various other partners, so it's not proper to comment if it's a one year contract or a three year contract or a 10 year contract. But we do have relationships that are beyond month-to-month, so it is a longer term arrangement. I want to be very clear, we welcome MVNOs, we welcome other competitors. We do have a network capacity to provide services on a wholesale basis to MVNOs and we do believe they bring competitive intensity. More importantly, if you do have the right focus in terms of serving customers best, it is great to give customers more choice with different brands, different types of packaging. So in many respects, we do welcome the MVNOs. There are a few already announced in the marketplace. Others, we understand potentially may be entering. The risk assessment and the return on their investment is something that they take into account.

From our point of view, we do have the capacity to accommodate MVNOs. Of course, we have a commercial model that it has to be accretive to us and hopefully make sense to them. But I can't comment specifically about contractual terms between us and themselves.

In terms of your question about 5G CapEx and sharing and so on, let me sort of give you the big picture and then I'll be very specific. There are multiple infrastructure players in Singapore at a time that mobile penetration is 150% and fixed penetration of fibre is 100%. So the question is what value do alternative infrastructure-based networks provide to the shareholders of those companies or to the customers themselves? The customers don't really mind how the signal and the content and the bits and bytes are delivered, whether the network is complex or the network is simple. Obviously, some very corporate customers, I'm not devaluing this, they pay a lot of attention to diversity, latency and resilience. So absolutely, for the corporate customer sector, you need to have alternative networking capability. But if you have many overlaid networks, as you do now, that - does that really provide any material incremental benefit even to a corporate customer? We don't think so.

So we do believe that as industries mature, they need to be sharing assets for everybody to get the right return on the capital invested, and also provide customers differentiation on the service layer; how you bundle your different brands, your different pricing points. So we see mature markets moving more into pure infrastructure-based networks and multiple service layers on top of this with alternative brands and packaging for end customers. We do believe that that makes more sense long term, provides the right return for the investors, provides the right choice for customers to choose different brands and packages. 5G, we do understand the potential impacts on a national level, but the facts of the matter are such that the investment in 5G is massive, both in terms of infrastructure - we've said this before that the rule of thumb is about three to four base stations more for every one you have and then also, you need extra investments in spectrum.

The reality is, if you take a technology point of view, the advanced LTE networks, the 4.5, the 4.9, right now, the single RAN aggregation that we are delivering, there is almost no application today use case in Singapore that cannot be fulfilled with the advanced LTE network with carrier aggregation. The material order of magnitude investment in 5G cannot justify the returns for many use cases, if at all. So from a commercial point of view, we want to be relative to our customers. We want to compete. We want to deliver advanced speeds and we were the first ones to deliver 1 gigabit on a single RAN network. So we want to be very, very competitive and we want to make sure we don't ask our shareholders to invest massive amounts of CapEx in a 5G network that hardly would generate any new incremental revenues. So we're taking a very pragmatic view. At some point in time, we will have a 5G network. We believe there's no business case for a national deployment for us or for 5G, but we do see the opportunities eventually, maybe not even the next 12 months, for clusters of 5G network are in some use cases and maybe at the enterprise level.

So, again, we have a very advanced network today based on LTE, the latest LTE technology, delivering some very, very high speeds with the right latency. So for us, we keep a watching brief. We don't want to make an investment ahead of time. Sometimes, we're quite happy to be second in terms of making some new technology investments because, typically, customers require a certain period to understand the benefits of the new technology. The ecosystem for handsets, if you're talking about the mass market, is not there. So we're taking a cautiously pragmatic commercial approach to 5G. We do believe we serve the customers and the nation well with the existing investments we've made in the 4.5, 4.9 LTE technology.

Sachin Mittal: (DBS Bank, Analyst) Then how do you see the networks in that case? I'm just wondering if there's no new technology, no new big CapEx, then how does the network sharing help?

Peter Kaliaropoulos: Well, let's not forget, all the existing customers today are served by 4G, predominantly 4G and 3G networks and it's fairly easy to rationalise. Again, I want to be very clear, in any sharing models, they're all subject to regulatory approvals, and we're talking predominantly about passive sharing, not necessarily active. We all have spectrum. We all have different frequencies. So that bit is not necessarily in the sharing. But if we are going to roll fibre, for example, to a new building and there's two or three fibres already going to that building, what is that unique proposition that we will bring to the table? I think very little. So with access to new locations, sharing existing infrastructure, as we're growing our radio network and we need more base stations, if some of our existing operators have access to that, well, we can share the passive components to be able to provide radio access to our customers. So there are lot of traditional savings you can enjoy. 5G, you can build a 5G overlay network. 5G, as I said, will take some time, so 5G is not driving the sharing. It's the existing customer base, the existing technology.

By the way, that's where the benefits are. 5G is an incremental investment. If we're all are going to move into 5G , again sharing 5G will be beneficial. We believe the key benefits will be on the existing infrastructure, rationalising the infrastructure as much as possible and sharing a lot of the common costs instead of duplication and triplication. So that's where we see the benefit.

Sachin Mittal: (DBS Bank, Analyst) Great. Thank you.

Peter Kaliaropoulos: Thank you, Sachin.

Eric Loh: The last caller for this evening is going to come from Prem from Macquarie.

Peter Kaliaropoulos: Hi, Prem.

Prem Jearajasingam: (Macquarie Research, Analyst) Hi. Good evening. Thank you for the opportunity. Two questions from me. Firstly, with regards to the Enterprise Fixed business, one of your competitors mentioned that there was a pause in the Smart Nation project in the third quarter, which did impact the overall enterprise revenues. Did you see a similar impact and could we now see a jump in your Enterprise revenues over coming quarters as a result of these projects now moving again? That's one. Secondly, have you seen any change in the whole device market? Your device sales have been holding fairly healthy for the last few quarters. So the point here is, do you think with these recent launches, whether the delayed impact that we saw last year has actually been neutralised this year, so we may not see that big jump in device sales going into the fourth quarter or do you think it's still status quo?

Peter Kaliaropoulos: Okay. I'll refer the first question to Dr Chong and then the second one to Johan, who is the head of our Consumer Business. Unfortunately, I didn't take the opportunity to introduce him because he joined us almost three months ago. But Dr Chong, the first question about delays in Smart Nation.

Yoke Sin Chong: Right. I think our portfolio of go-to-market strategy spans across government as well as banks and hotels. So far, we've been focusing on those areas, and while, yes, while the Smart Nation may has been suspended in terms of the RFPs, in some areas, I think in other areas they remain quite healthy. But really, we are focused on a broader base of verticals in addition to government.

Peter Kaliaropoulos: Thank you, Dr. Chong. Johan?

Johan Buse: Yes. So, Prem, on the question related to handsets, thanks for noticing that. I think the handset market primarily is driven by two factors. Number one is the excitement of new models coming to the market, and number two, obviously, is the customer base eligible for recontracting or in the market for a newer device. We have been seeing this as a very stable market so far and fortunately for the industry, there is a stream of new devices coming into the market continuously, so we don't expect any major changes in that respect.

Peter Kaliaropoulos: Yes. Just to answer that, and I think we said this before, that potentially, SIM-Only customers, we don't see that as a major threat, simply because we're subsidising all post-paid customers with devices. So, again, customers can enjoy different packages going forward. If there is no device attached with it, so if the device revenues do come down, which we don't believe they will; the upside to that would be less subsidy. So it always a balancing act, but as Johan mentioned, there's still a lot of excitement, new models coming our from Samsung, from Apple, from Huawei, so it's still predominantly device-driven. I think customers, although they sign a longer-term contract to benefit from the handset, they're very clear about termination costs, and they have the option to opt out or to buy handsets on instalments, now that has been introduced. So the market is very healthy. Yes, quite a few customers may delay purchasing a new set and go through a SIM-Only, but, again, Singapore is a fully advanced economy.

We don't believe people will be in the market for a three or four of five year old handsets. That's not the practice, so there may be some delay updating your handset. But within a year, that will wash out, so we do expect decent sales of devices going forward.

Prem Jearajasingam: (Macquarie Research, Analyst) All right. Thank you very much and good luck on driving this business. Thank you.

Peter Kaliaropoulos: Thank you, Prem. We'll need it. Thank you for your interest.

Prem Jearajasingam: (Macquarie Research, Analyst) Thank you.

Eric Loh: Right. Thank you, ladies and gentlemen, for joining us this evening. It's been a pleasure for the Management team to share with you the third quarter highlights, and we look forward to speaking with you again, in the next coming quarter, which will be in February of 2019. Good evening.

Peter Kaliaropoulos: Good evening.

Denis Chia: Good evening, everyone. Thank you.

Yoke Sin Chong: Good evening.

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