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Start of Transcript

Eric Loh: Good evening, ladies and gentlemen. Welcome to StarHub's third quarter 2017 results announcement. I'm Eric, and with me this evening we have the CEO, Tan Tong Hai; the CFO, Dennis Chia; the CMO, Howie Lau; and the Chief of EBG, Dr Chong Yoke Sin. Now before we go into the presentation, here's a bit of housekeeping for you. If you want to ask a question later on, press star one. If you want to withdraw your question, press star two.

Now, with that, let's welcome Tong Hai to give us an overview of the quarter's results.

Tan Tong Hai: Thanks, Eric. Now, turn with me to slide number 5. You see the overview of the third-quarter results versus a year ago. If you take a look at the financials, total revenue decreased 1%. Service revenue, stable. EBITDA margin at 32.3%. Net profit after tax decreased 11%. We see revenue growth in Enterprise Fixed, and a low churn rate maintained for Pay TV and broadband.

Now, page 6 shows you the key financial highlights. You can see that the total revenue is slightly lower, one percentage lower compared to a year ago. Service revenue is stable compared to a year ago. But if you take a look at the subsequent charts, you will see that there's a drop in mobile, Pay TV and broadband. But because of the growth in the Enterprise Fixed, that resulted in a stable service revenue.

Net profit after tax is lower, by 11%, mainly due to an increase in depreciation. CapEx - percentage of CapEx to revenue is 9%. Year to date is 11.5%. Free cash flow per fully diluted share to $0.069. And net debt to trailing 12 months EBITDA ratio is 0.8 times.

Take a look at chart number 7. You will note that mobile services, there's a drop of $2.3 million compared to a year ago, mainly due to a drop in pre-paid business. Later, Howie will give more insights into the mobile services. Pay TV services is lower. In fact the drop is about $7.9 million, mainly due to a lower subscriber base. Broadband services is also lower, by $1.5 million, because we have also a lower subscriber base this quarter. Enterprise Fixed services grew by double digit this quarter, registering $11.1 million growth, versus a year ago, and it stands at $109.4 million. Total service revenue, as a result, is stable at $545.4 million. There's less sales of equipment this quarter, $35 million versus $39.2 million. And total service revenue is about 0.8% lower.

Chart number 8 shows you the revenue mix. Mobile services remains the highest revenue contributor, at 51.2%. The next highest is actually Enterprise Fixed services, at 18.8%, up two percentage points higher than a year ago. Pay TV services is the third revenue contributor, at 14.8%, compared to 16% a year ago. Broadband services is 9.2%. So you can see that actually the growth in the Enterprise services, fixed services, has allowed it to become the second-largest revenue contributor to our overall revenue.

With this, I pass over to Dennis, who will give you the financial highlights. Dennis, over to you.

Dennis Chia: Thanks, Tong Hai, and good evening, everyone. Thank you for joining the call. And I'm on slide number 10, on EBITDA. We generated EBITDA of $176 million for the quarter or 32.3%, versus $139 million year on year or 32.8%. The decline in EBITDA was due to an accounting adjustment that was made for reversals of accruals no longer required in the third quarter of 2016. Without that reversal, we would have generated a higher EBITDA for this quarter versus a year ago.

We also incurred lower subsidies for the quarter due to the lower handset sales, as well as lower operating expenses. For the nine months, we generated an EBITDA of $517 million or 31.8%, versus $554 million a year ago or 33.8%. The decline in EBITDA, year-on-year basis for the nine months was due to lower service revenue, the lower income grant, a higher cost of sales, primarily due to migration of our customers to fibre and the leasing costs associated with that. As well as the cost of services associated with our increase in the fixed Enterprise revenue, offset by lower operating expenses.

Moving on to slide number 11, on cost of sales for the quarter, was $225 million, versus $232 million a year ago. Movement in the cost-of-sales buckets were lower traffic expenses in line with the lower traffic roaming revenues which was recorded and the lower equipment costs associated with the lower revenues that were recorded for handset sales. This was offset by an increase in the cost of sales due to the Enterprise Fixed revenues, as well as the leasing payments as a result of migration to fibre.

For the nine months' period, we have $712 million of costs of sales, versus $679 million a year ago. The only change in the trend between the nine-month period and the quarter was the higher equipment cost due to the higher volume of handset sales that were recorded for the nine months.

Moving onto slide number 12, on operating expenses, for the quarter, we were at $257 million, versus a year ago at $247 million. $247 million is also the net result of the accounting adjustment that I referred to in explaining the EBITDA variance. Without that, we would have primarily recorded even operating expenses year on year.

The main category of offsets were a higher depreciation, offset by lower marketing and promotion cost, lower operating lease cost, as well as lower staff costs. For the nine-month period, we recorded total operating expenses of $736 million, versus $754 million. And the trends in the buckets of operating expenses are consistent with the quarter results.

Moving onto the net profit after tax, we generated an NPAT of $77 million for the quarter or $0.044 on EPS basis, versus $86 million a year ago. For the nine-month period, we recorded a net profit after tax of $235 million, versus $287 million.

For the quarter, the reduction in the net profit after tax was due to the lower EBITDA, as well as the higher depreciation. For the nine-month period, we've got a lower EBITDA, as well as high depreciation as well, offset by lower taxes. Our effective tax rate remains at 17%.

Moving onto slide number 14, on CapEx, cash CapEx payments. For the quarter we had cash CapEx payments of $52 million or 9% on total revenue. On the nine-month period, we had $201 million, which included the spectrum payment of about $70 million. Net of that, we would have had cash CapEx payments of $131 million or 7.5% of total revenue.

On slide number 15, on the free cash flow, recorded free cash flow for the quarter at $120 million or $0.069 per share, versus - if you look at the nine-month period, we generated total cash of $253 million or $0.146 per share. And the higher free cash flow that we have generated year on year for the nine-month period is primarily due to the relatively lower cash CapEx payment that we've recorded year to date.

With that, I hand the floor over to our Chief Marketing Officer, Howie Lau.

Howie Lau: Okay. Thanks, Dennis, thanks very much for joining us. I will take you through the mobile, TV, as well as the broadband update. So if you go to page 17, on mobile, the total customer base decreased by 19k. The post-paid ARPU remained stable, at $69.

To give you a bit more colour, if you go to page number 18, we closed quarter three with 2.256 million customer base, compared to 2.275 million a year ago. This comprised of 1.362 million of post-paid and 895,000 of pre-paid. This Includes a one-time termination of 23,000 of inactive legacy data-only plan - only lines in the post-paid numbers.

So if you look at page 19, in quarter three, excluding the one-time termination of the inactive legacy data-only plan, the churn remains at 1.0%, compared to 0.8% a year ago. And compared to last quarter, it remains at 1.0%. However, with the one-time termination, the churn is 1.6%.

On page number 20, quarter three, we recorded $297 million, compared to $299.4 million a year ago in the same quarter. We continue to see lower usage from voice, from IDD and roaming, but at the same time, we see continued increase in mobile VASes, as well as data usage. The data usage is now at 4.5 gig, compared to 4 gig a quarter ago.

The percentage of tiered plans is now 69.8%, compared to a year ago, at 66.7%. And the percentage of data bundle exceeding is about 36%, compared to a year ago, about 28%.

On page number 21, you will find the ARPU for pre-paid for quarter three is at $14, compared to $16 a year ago, whereas the post-paid ARPU remains stable, at $69, compared to a year ago. So that's for mobile.

Let us jump to the Pay TV, on page number 23. On a year-on-year basis, the revenue decreased 9%. However, ARPU remained stable, at $51. Compared to a year ago, the customer base is lower by 40,000.

Page 24, we do continue to see headwinds and challenges from piracy, as well as alternative viewing means. We closed quarter three at 467,000 subs, compared to 507,000 a year ago. The churn rate remains at 0.9% quarter to quarter, and compared to a year ago, at 1.0%. For the year to date, churn rate remains at 1.0%.

Next, on the TV revenue. TV revenue for quarter three was $85.7 million as a result of the lower subs. ARPU remains at $51 compared to a year ago, as well as on a year-to-date basis, as we continue to focus on retention of the higher-value customers.

Next, broadband, page number 27. Revenue decreased 3%, ARPU at $37, and the customer base lowered by 9,000.

To give a little bit more colour, if you go to page number 28, we closed quarter three at 466,000 subs, compared to 475,000 subs a year ago and compared to the previous quarter of 467,000 subs. We do recognise that the landscape continues to be competitive. We see quarter-three churn at 1.1%, compared to a year ago at 1.0%. On a year-to-date basis, it remains relatively stable at 1.0%, compared to a year ago.

On the revenue basis, on page number 29, quarter three, we ended with $53.2 million, compared to a year ago of $54.7 million and compared to last quarter of $52.8 million. ARPU wise, remains stable, at $37, compared to a year ago, as well as on a year-to-date basis, as we continue to see a higher mix of customers on the fibre plan.

So with that, let me handover the floor to Dr Chong, who will take us through the Enterprise Fixed.

Dr Chong Yoke Sin: Thank you, Howie. For Enterprise Fixed, data and internet revenue increased 13% on a year-to-year comparison, while voice revenue is stable.

When you flip over to the next chart, on page 32, the 3Q 2017 revenue is $109.4 million, as opposed to the same period for last year, at $98.4 million. When you look at the entire year-to-date revenue for Enterprise Fixed in 2017, this is $307.3 million, versus $292.8 million in 2016.

And if you flip over to page 33, you will get the breakdown in terms of the Enterprise Fixed revenue for voice and for data internet. The contribution of data and internet comes from, largely, managed services, data centre and cloud, as well as cybersecurity and analytics projects which were completed in the year.

Over to the CEO.

Tan Tong Hai: Yes. Thanks, Yoke Sin. I'll provide you with the outlook for 2017.

For revenue, we maintain service revenue to be about 2016 level. EBITDA, we are maintaining EBITDA margin on service revenue to be between 26% to 28%.

CapEx, we expect CapEx payment to decrease to 10% of total revenue, excludes spectrum payment. Previously, we guided 13%, so we have reduced the percentage of CapEx to total revenue to 10% now. We intend to declare an interim quarterly dividend of $0.04 per ordinary share for third quarter 2017. And also, we intend to pay a quarterly cash dividend of $0.04 per ordinary share for financial year 2017.

Eric Loh: Now, with that, we're going to open the floor for Q&A. First on the line is Luis from Maybank. Luis?

Luis Hilado: (Maybank, Analyst) Good evening, and thanks for hosting the call. I had three questions. The first was regarding the Enterprise Fixed network revenue trends. Now, congratulations on those. I'm just wondering if we should expect that the momentum of growth will actually accelerate or sustain going forward.

Second question is I just wanted an update in terms of the percentage of the subscriber base that's currently under contract in the third quarter, let's say versus the same period last year or end of last year. And just wondering, if you include the current iPhone X pre-orders, what that number could go up to?

And the last question is regarding the fibre TV push. We seem to be seeing a fair bit of it. What would be the implications going forward for that in terms of, let's say, cost savings as you do this on the cable assets as well as any accelerated depreciation on the cable asset?

Dr Chong Yoke Sin: Well, thank you for the question. This is Yoke Sin here. I'll answer the Enterprise question. As to whether the growth will be sustained, the growth has been the result of the investment in capabilities, as well as solutions in Enterprise. And we are optimistic and we will actually do our level best to keep going. But definitely, I think you will find that the array of systems and solutions coming from Enterprise will widen in the years ahead.

Howie Lau: Hey, Luis. This is Howie. Thanks for the question. On the customers on contract, the majority of customers are still on contract. In fact, for iPhone, the iPhone, as you know, iPhone X literally just is out the oven. In terms of the pre-booking, based on the supply that we've been allocated, the response has been good. But because it's still early days, we will continue to monitor the situation on the iPhone X take-up.

As for the fibre TV, you probably have seen that over the course of a period, we've been moving our cable customers to fibre because they're offering the better technology and speeds on fibre. And as a result, we really have a good number of customers, I think 370,000-plus customers on fibre broadband. So naturally, it make sense for us to also do an additional promotion around the fibre TV as well.

Luis Hilado: (Maybank, Analyst) Thanks, Howie. Just one follow-up in terms of you mentioned that the majority of subs are still under contract. How would it be compared, let's say, versus parts of the year versus today? Is it an increased number, fairly the same?

Howie Lau: Fairly the same.

Eric Loh: Right. Next on the line is Piyush from HSBC. Piyush.

Piyush Choudhary: (HSBC, Analyst) Yes, hi. Thanks for the call and congrats for a great set of numbers. Firstly, could you help us understand the change in CapEx guidance? How much is it due to spill-over to next year and how much is it due to the renegotiation with vendors? And what's going to be the sustainable CapEx range going into next few years?

Secondly, given the iPhone X launch, are you expecting handset subsidy to rise materially against the full year of 2016 or it could remain at a similar level?

And thirdly, if you can give some colour on the impact of data unlimited plans? Are you seeing any impact or it's still very early days?

Dennis Chia: Piyush, this is Dennis. I'll take your first two questions. On the CapEx, we've guided down to 10% primarily because of the timing of certain projects that we have not committed to and therefore would not be liable to make payments for in quarter four. We have also previously alluded to the fact that our relatively higher CapEx investments that we've made in the preceding years to enable us to compete aggressively in the Enterprise space. We also had guided investors, to say that that CapEx or the relatively higher CapEx levels that we've recorded in prior years was at the tail end. So there's not a lot of CapEx, therefore, that would spill into 2018 as a result of this guidance down to 10%.

On the subsidy level, you will note that we've recorded an EBITDA margin for the nine months at 31.8%. Our guidance for the full year of EBITDA margin is between 26% to 28%. Historically, in quarter four, due to the timing of the launches of the smartphones, we do incur much higher proportionate level of subsidies. And this year would not be any different as a result of the iconic phone launches, so we do expect a relatively higher subsidy level to be recorded in quarter four this year.

Howie Lau: Hey, Piyush. This is Howie. Regards the question regarding the new plans, as you probably know, we've launched the unlimited weekend data plan. Although it's been launched for a short period of time, the initial response has been positive. Obviously we'll continue to monitor. I think what we do recognise is the customers see the data as a very key part of their plan. And that's the reason why they see unlimited data as something highly valued over the weekend. So that's the reason why we've built our unlimited data plan as part of the base plan as opposed to a value-added service. It's early days. The initial response has been positive.

Piyush Choudhary: (HSBC, Analyst) Can I follow up on the subsidy? Looking at your nine months' performance, it looks like the fourth-quarter implied numbers is phenomenally lower than last year. So does that mean the handset subsidy this year in fourth quarter would be significantly larger because of this iPhone X launch? That's what the assumptions are looking to?

Dennis Chia: Okay. So as I said, if you look at the EBITDA margins that we recorded in quarter four of '16, that's your reference EBITDA margin level for - historically, in the fourth quarter, which is relatively lower than the prior quarters. Due to the iconic launches that we've seen this year and obviously the smartphone OEMs looking to capture the market, we have catered for a higher subsidy level as per what our customers would be looking to purchase. So yes, we've factored those in.

Eric Loh: Thank you. Let's hear from Sachin, DBS.

Sachin Mittal: (DBS, Analyst) Hi. Thank you. A couple of questions. In the mobile segment, we are seeing two players, including you, offering unlimited data and varying pricing. And we have seen M1 launching mySIM plans. But in a way the direction seems to be quite different for you, when you're trying to monetise and other players are trying to lower the pricing. So do you think that is a sustainable trend or at some point you will have to react? Because the direction seems to be quite different compared what we're seeing at M1. That's question number one.

And the second question is on the Enterprise segment. There's good progress made this year, in this quarter actually. So the question is, this is a volatile segment, right? I can see even, say, things like voice going up. So the question is, is it something which is sustainable in terms of - because this is a project-based revenue, or no, we can expect volatility, one quarter you'll get a project or these are the projects which are multiyear projects? So in a way, we can see a sustained rise, even in things like voice revenue. That's question number two.

And the last question, in terms of a digital initiative, how much is the contribution you're getting, for example, from things like cyber security, as a percentage? How much of your sales is happening digitally now between customers are not going to a shop? So can share how the progress is made on the initial transformation of StarHub? Thank you.

Howie Lau: Hey, Sachin. Let me take the first question. I think your observation is spot on, in that the market - the different providers are coming out with different types of plans for the customers in response with their increased need for data. So for us, right now, we do see a positive response. But again, part of what we do is always monitoring the customers’ response and feedback, and if there's a need to adjust a plan or to create new plans that better meet the customers' need, we will. But right now, I think there's different types of offers available to different segments in the market by the different telcos. And we'll continue to adjust and monitor the response, but so far, it's been positive.

Dr Chong Yoke Sin: I'll answer the question on the Enterprise. I think, obviously, for large system integration projects, it tends to be quite lumpy. But the StarHub strategy for Enterprise is to actually focus a lot on the run-rate or the maintenance type of solution. And for that, what we mean is to actually manage operations. That would include digital platforms. It would also include solutions like managed security, managed networks and managed applications. So that is how we want to take it and to basically have a larger proportion of the run-rate business so as to maintain the continuity of the growth.

Tan Tong Hai: So with regards to the digital transformation, certainly we are looking at quite a lot of online services and also looking at self-service. We have My StarHub, the usage from My StarHub actually has been pretty good. And that has actually reduced the call volumes to our call centres. So the drive is certainly not just looking at it like - you want to offer an omni-channel, service channel for customers so that they can choose a range of channels to be served. So we certainly look towards this, not just from a cost-savings perspective, but also to enhance and improve our service.

Sachin Mittal: (DBS, Analyst) Do you have any data on this, how much - how many of customers are coming through My StarHub? Is there something you can share with us, some progress?

Tan Tong Hai: I want to share with you that there has been an increase year on year, definitely, for this take-up of the My StarHub, but due to the sensitive nature, I will not be able share with you the exact amount. But we are very happy to see that we are able to keep our costs low in terms of our strategy to manage our cost. It has to be a cost transformation more than just cost cutting per se.

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

Wu Wei-Shi: (BNP Paribas, Analyst) Thanks very much, Tong Hai. Yes, so I have two questions, firstly, relating to - I thought I would follow up on the CapEx and the trends going forward. Can we expect a bit more CapEx in 2018 as you start to utilise more of the spectrum that you recently acquired? Number one.

And then secondly, Tong Hai, I noted your comments earlier around the cost transformation. So my question to you is, over the medium term, what are some of the cost management or structural cost synergies that we can expect over the next few years? Thanks.

Dennis Chia: Wei-Shi, on the CapEx, we obviously would be looking at incurring CapEx to utilise the spectrum that we've acquired. However, because of the low-frequency spectrum required, as well as the TDD spectrum that - on the 2500, we do expect efficiencies that we're able to realise from the mix of spectrum that we've actually acquired and therefore keep CapEx at a normal level, meaning that there wouldn't be an abnormal hike due to the utilisation of the CapEx.

Tan Tong Hai: With regards to your question about how do I see this cost transformation, you notice that, basically, if you look at our growth, we are very much encouraged with the double-digit growth in the Enterprise Fixed this quarter. So you know that the growth, actually, a lot is coming from the Enterprise space. So naturally, from our way of looking at our cost allocation, we'll be investing more and more in the Enterprise space. But again, the Enterprise side, we are also looking at e-ways of servicing them. So we have our Enterprise portal for customers, also, to do their booking. In fact in Marina Bay Sands, you can see a self-collection counter, kiosk, that the customer can go and collect their phones and orders. So those are initiatives that we want to also encourage, self-service at the Enterprise side.

So what we learn in the consumer side actually can be applied to the Enterprise side, so that's where we see the cost synergy. So when we create a My StarHub for consumer, we also look at creating a self-service portal for Enterprise customers to help themselves. So that would be the parallel initiative that we're looking across to be able to transform the cost model.

Eric Loh: Thank you. Next, let's welcome Srini from Deutsche Bank.

Srini Rao: (Deutsche Bank, Analyst) Thank you very much, and appreciate the opportunity. I have two or three questions. First, I wouldn't hold you to this, but is it feasible that StarHub's Enterprise revenues are 50% higher in four years' time? Is that feasible? That would be my first question. I ask it given the innate nature of the business, being lumpy, so that's my first question.

The second one is on prepaid. This is the first time we've seen the prepaid revenues actually not fall quarter on quarter. It's a small proportion, but is there something where you are seeing the bottoming of the fall in the domestic usage revenues? Is that something which you can see that? That will be my second question.

And third, I think people have asked on CapEx, is it fair to look at that the CapEx will remain lower than normal up until you see visibility on 5G coming in? Is that a fair way to think about it?

Dr Chong Yoke Sin: I'll answer the question about Enterprise and whether it will grow, as you say, to 50% growth in the years ahead. I think while I cannot put a finger to the - I can't predict right now, but I think definitely the Enterprise business is actually on a trajectory where we actually are investing in capabilities and solutions with the expectation that we will actually produce the yields in the quarters and the years ahead. So we are actually intent on growing this business, because of the fact that we will be able to serve our Enterprise customers better with a more fuller slew of solutions.

Howie Lau: Hey, Srini. This is Howie. On the prepaid, we do see the IDD and usage coming down. The other thing is that the competitive landscape has also intensified, and we've seen the IDD rates also changing, so this is an area that we will continue to adjust and monitor, because the prepaid market, as you probably know, has three distinct segments. The traveller segment, the worker segment and locals. It is a space besides the usual decline of IDD in usage, the level of competition also has been higher.

Tan Tong Hai: So, Srini, if you look at the Enterprise growth strategy, it's not just the organic growth strategy. This quarter, if you notice, we have also included cyber security revenue, and that is also because of inorganic investment in Accel that contributed to the growth also in the value-added services that we offer to our Enterprise customers. So the strategy really is to accelerate it, and it will go with two ways. One is organic, plus the inorganic ways, and we look in both. We certainly look towards expanding into the non-telco, the ICT arena.

Dennis Chia: Okay, on your last question, on CapEx, on sustainable trend, we had taken lots of initiatives within StarHub to look at rationalising this and obviously bringing it down to the normalised level. The last few years, we've been recording CapEx at 13%, and we have guided investors that that's relatively higher than the normalised level that we would usually have to incur, and we do expect to be able to see the rationalisation initiatives, view the results in order for us to generate additional cash.

Srini Rao: (Deutsche Bank, Analyst) If I again ask one final question on the mobile plans, as Sachin pointed, you have taken a different tack on the pricing and data bundling. Can you comment as to are you seeing any pushback from customers on the higher price having to be paid? Also in the context that there is - you have Circles.Life, which the MVNO which seems to be gaining some momentum in signing up post-paid subscribers. It's probably small at this stage, but if you could give any colour on the mechanics of the post-paid market in the last couple of months, that would be helpful.

Howie Lau: So while it's early days, as mentioned earlier, the response and the take-up from the customer has been positive. And our focus is not just purely on the plans itself, but also making sure that the associated services, like for example monthly instalment plans for phones is also available, as well as SIM-only plans, because we do recognise that different segments of the customer would value different plans. So for us, it's making sure that we have the right variety of plans to meet the customer's need. And as with every - every competitive situation, we continue to monitor, and then if the dynamics and if the customers are telling us that it is not as interesting, then we will naturally adjust.

Eric Loh: All right, next, let's welcome June from Goldman Sachs.

June Supapannachart: (Goldman Sachs, Analyst) Hi. Thank you for the time. Just one more question for me. It's also on the Enterprise Fixed segment, but I was just wondering if you could maybe give us some more colour on how the competitive landscape looks like now. And how much of it's been coming from you gaining market share or just general - and then how much is coming from just general growth of the industry as there is more services or more things you can do to offer services for enterprises. Thank you.

Dr Chong Yoke Sin: Well, thank you for the question. There's a strategy for Enterprise basically to sustain its growth path is to build relevant solutions, or what we call digital solutions, and really involve ourselves with the digital transformation of enterprises. So I think this is a growing space that we find that we can actually add value to our customers.

So while it is quite competitive, I think the ability for us to actually build our capability, which is attuned to the customer environment, is very key. And that has been actually instrumental to our gaining some of the wins that we had been fortunate to have, because we had actually have a strategy to actually grow our cyber security, analytics, IOT and now the managed operations, which include security, network and application.

So while I mentioned that we are widening our ICT solutions, that is actually with reference to where we are today, right? But what we are doing is that we are using something called a B2B2C strategy, where we actually partner with our clients, okay, who become partners, and for which we will actually build solutions together to address our common consumers. So that strategy we feel is something that we can actually add value and garner the support of our clients for more solutions.

Eric Loh: Right. Next on the line is Gopa from Nomura.

Gopa Kumar: (Nomura Analyst) Yeah, hi. Thanks for the call. Sorry if some of the questions have been answered already, as I missed the early part of the call. Just to go back on the Enterprise, so increase in revenue by around $8 million to $9 million, can I assume that the bulk of this or all of this is from the ASTL cyber security acquisition and also, what's the profitability of this business?

Number two is you - I remember you mentioning some accounting changes, so just for that, what's the EBITDA for this quarter?

And lastly, on CapEx, I heard you mention that a 10% of sales level is a sustainable level to look at, or would it change given your focus to spend more on the fixed-line segment? Thank you.

Dr Chong Yoke Sin: Well, I'll take the question about the ASTL. If you turn to page 33, you would have seen that our data and Internet actually increased by about $19.7 million on a year-to-date basis, when you compare 2016 and the year to date for 2017. So we actually acquired ASTL or Accel about a few months ago, about four or five months ago, and that has contributed to about $7 million of this $19.7 million of the growth in data and Internet.

Dennis Chia: Okay. I mentioned an adjustment that was made in 3Q of '16, and without that adjustment, Q3 '16 EBITDA level would have been $171 million. We generated an EBITDA of $176 million this quarter, so on a year-on-year basis, therefore I was referring to the fact that the effective EBITDA that we generated this quarter would have been higher without the adjustment that we made in 3Q of '16. On your question on the sustainable CapEx level, we've always said that the CapEx level or the normalised CapEx level would be between the 10% to 11%, and that has been relatively higher at 13% over the last six, seven-year period because of our conscious efforts to increase coverage to compete in this Enterprise space. I've mentioned and alluded to earlier, we have been at the tail end of those investments, and we do expect to be able to get it back down below the 13% that was incurred the previous years.

Eric Loh: Thank you. Next, let's welcome Arthur from Citigroup.

Arthur Pineda: (Citigroup, Analyst) Hi. Thanks for the opportunity. Two questions for me, please. Can we get some colour on the Enterprise gains? Where is this growth coming from? Is it from SME, large corporates, or is it the government contracts which are driving it?

Second question I had, it's again with the guidance, sorry to belabour the point here. I understand that 4Q is typically lower, and you're preparing against possible marque handset demand, so is the guidance based on your assumptions that you budgeted earlier, or is this decision anchored on the pre-order volumes that you're actually seeing for the likes of iPhone X? Because when I look at the absolute subsidy of iPhone X, it doesn't seem to be any different from the previous iPhone iterations. Thank you.

Dr Chong Yoke Sin: Thanks for the question. While the composition of the revenues actually come I think largely from the managed accounts or what we call government and large enterprises, and SME actually makes up a smaller proportion of the wins. But really, just from the nature of the value of the contracts, what you would expect the government and the large enterprises will contribute more, and indeed, we are looking at that kind of proportion.

Tan Tong Hai: Arthur, on your question on the updated subsidy levels, we have a practice at StarHub of doing a rolling forecast. So we do this on a month-to-month basis, taking into account the trends that we see that are changing from month to month, so we therefore have factored in what we believe to be the trends in the fourth quarter based on the most recent and updated information we have on the demand for the smartphones.

Eric Loh: All right. Next, let's welcome CY from Schroders.

Lu Chuanyao: (Schroders, Analyst) Guys, sorry, just one question is how many data SIMs do you have in the system left? Any possibility on the numbers, just to get a sense of how many more people could drop off due to inactivity? Thanks.

Howie Lau: The data SIMs for last quarter, we did a one time of 23,000. This is something that we do on and off, but it's not something that we are able to give a forward view in terms of what the future quantity but it's something we do, we look at on an on and off basis.

Tan Tong Hai: But these are dormant, so they are not contributing to our revenue.

Eric Loh: Thank you. We've got time for one more question, and that's going to come from Varun from Credit Suisse.

Varun Ahuja: (Credit Suisse, Analyst) Yes, hi. Sorry, apologies if this has been asked. On handset subsidy, if you look at handset revenue minus the cost of equipment, that seems to have trended down this quarter, despite I think the indication that you will increase - the subsidy will increase or retain customers. Just wanted to hear what's going on there. I understand iPhone 8 hasn't been that successful, but on the quarter, on year-on-year basis, the decline seems a little bit large. Lastly, any update on the accounting change, the adoption of new accounting rule? We'll get much on the guidance on that? How should we look at numbers coming into 2018? Thank you.

Dennis Chia: Okay, on the subsidy level and what we incur on subsidies, there is a difference obviously for a higher-end smartphone versus a lower-end smartphone. So the subsidy, the absolute subsidy we record every quarter, is due to the mix of phones that we sell and the handset demands that are recorded during the quarter. Bearing in mind the timing of the launch, of the most recent launches of latest smartphones, the impact of that is largely in the fourth quarter and not in the third quarter.

So as the retail price of these newer phones are being launched, are higher, accordingly, the subsidy level for these phones would also be relatively higher. It may not be significantly higher, but on a volume basis, you will see that obviously the absolute number translates into a relatively higher absolute subsidy level.

For the adoption of the new IFRS 15 standard on revenue accounting and recognition, the high-level impact of that would be as follows. Today, we actually record the sale of the equipment at the price at which the customer is paying for it, and we take up the subsidy upfront for the sale. So therefore, for example, if we sell the phone which is retailed at $1000 for $300, we record the revenue at $300 and we actually record the cost of what we paid for that phone as the cost of sales. In tomorrow's context, when we adopt IFRS 15 as of 1 January 2018, we would attribute a $1000 revenue to this handset that's being sold and record the cost accordingly, so therefore, we would not be recording the loss upfront, as we are currently doing.

We are then therefore backing off this number from the monthly subscription price that the customer is paying. Therefore, accordingly, your service levels are going to come down as a result of that. That's the high-level impact. There are also going to be adjustments between the various lines of business because of the fact that we do bundle our products, and we've had a successful hubbing strategy up to now, which is changing, but we will continue to adopt this strategy. The high-level EBITDA margin therefore going forward would be higher, because we record EBITDA margin as a percentage of service revenue, and that EBITDA margin would be higher. However, important to note is on a cash flow basis, there will be no impact, absolutely.

Dennis Chia: We intend when we release our full-year results next year to conduct an analyst briefing to explain how the changes in our numbers and how we record our revenues and margins accordingly, because we would be giving a guidance in accordance to IFRS 15 when we release our full-year results next year.

Eric Loh: Thank you, Varun. We are going to take one more question, this time from Trinity from The Edge.

Trinity Chua: (The Edge, Media) Okay, we have heard a rumour that TPG may not be able to roll out in time. Is this something that you have heard on your end? Because we did check with another telco, and they have heard the same thing, but I can't reveal further than that, so I just want to know if this is something that you have heard.

Tan Tong Hai: Unfortunately, we do not comment on rumours, so can't give you more info.

Trinity Chua: (The Edge, Media) Okay, that's all right. Thank you.

Eric Loh: Once again, thank you very much for joining us in our third quarter 2017 results conference call. We will speak to you again in the next quarter. In the meantime, have a good evening.

End of Transcript