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Conference Call Transcript

SRHBF.PK - Q1 2009 STARHUB LTD Earnings Conference Call

Event Date/Time: May 07, 2009 / 10:00AM GMT

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QUESTION AND ANSWER

Operator

Ladies and gentlemen, the question and answer session will now begin. (Operator Instructions). Our first question comes from Sachin Mittal with DBS. Please proceed with your question.

Sachin Mittal - ***DBS Vickers - Analyst***

Hi. Congratulations for a good set of numbers. I have three questions. The first is, of course, Data Services, could you explain the driver behind the services? And is it something which is going to benefit from NBN?

The second question is more on financials. We have seen some increase in staff cost quarter-on-quarter, despite job credit scheme from Government, so could you just shed some light on that?

And, again, could you explain to us where is the impact of lower rentals for facilities and which place can explain that?

And the last one is on depreciation. Could you just guide us, with the CapEx coming down in different times, how should depreciation go up or down? Yes, these are the four questions I have.

Terry Clontz - ***StarHub Limited - CEO***

Okay. Just let me clarify the first and last question. Is the first question related to the Fixed Network?

Sachin Mittal - ***DBS Vickers - Analyst***

Yes.

Terry Clontz - ***StarHub Limited - CEO***

Okay. And could you just, please, repeat the fourth question? I'm not sure I caught it.

Sachin Mittal - ***DBS Vickers - Analyst***

On the depreciation, should it be going up or down, since CapEx has been coming down?

Terry Clontz - ***StarHub Limited - CEO***

Yes. Thank you. Okay. Let me turn the first question over to Tong Hai to talk about the impact -- likely impact, of the industry restructuring of the fixed infrastructure on our Data Services. And then I'll ask Chiat to pick up the second, third, and fourth question.

Tong Hai Tan - ***StarHub Limited - COO***

Tong Hai here. Now, in terms of the Data and Internet revenue, this is our higher margin business. We have grown year-on-year by 13%.

Now, with the upcoming business, considering the fact that we only have access to about 800 buildings in the CBD areas, with the upcoming next generation broadband we're going to have access of 26,000 buildings. So we are excited about what's going to happen next year. And certainly, we will look to how to capture this ability to access this building to grow our corporate business. And that will also result in further growth in this Data segment.

Sachin Mittal - ***DBS Vickers - Analyst***

Okay. But didn't we expect that corporate could cut down the spending in these times? So, impact would have been negative on your other segment.

Tong Hai Tan - ***StarHub Limited - COO***

Could you repeat your question again, I can't hear you clearly?

Sachin Mittal - ***DBS Vickers - Analyst***

In these times would not the corporate cut their spending on data networks, so impact could have a negative on the segment?

Tong Hai Tan - ***StarHub Limited - COO***

Okay. If you note, our Data business is a combination of both wholesale as well as the business corporate customers, so we have been able to register a growth. And so far we are able to maintain our customers -- corporate customers this -- for the first quarter.

Now, of course, there is challenges in terms of the some of the corporate customers who are asking for so-called lower access plan and all this. But, all-in-all, they still want to have Internet and business connectivity. This is essential for them to connect to the (inaudible), as well as the offices in the region. So, it's a combination of both local vis-a-vis our international capacity, and we are able to manage this mix well.

What I'm referring to is that right now, StarHub, we do not have access to the 26,000 buildings. In fact, we only have 800 buildings. So, next year, we would have more opportunities to gain access to these buildings and grow the business. In the meanwhile, we are still able to grow this segment.

Sachin Mittal - ***DBS Vickers - Analyst***

Okay. Okay. Thank you.

Terry Clontz - ***StarHub Limited - CEO***

Look, if I may just add a comment. Even in the face of the economy which, again, the services sector declining and a lot of the corporations sort of pulling up their belts, we've been able to grow this segment 13% year-on-year, and even sequentially it's growing. So -- and this is with limited reach, as Tong Hai points out, 800 buildings.

Now, admittedly, it's the 800 buildings that you'd want to have. They're in the city center. But there are about 26,000 buildings out there that we don't get to, that the incumbent has a virtual monopoly in. So we are licking our chops to get at that. Unfortunately, we can't do that this year, because we will not be able to begin targeting those buildings until the first part of 2010. But we are relatively optimistic about our ability to penetrate that market.

Sachin Mittal - ***DBS Vickers - Analyst***

Okay.

Terry Clontz - ***StarHub Limited - CEO***

Chiat?

Ms. CHEN Chiat Chiat - *StarHub – VP, Corporate Finance*

Sachin, on your question on the staff costs, you are referring to the sequential quarter increase in staff costs, right?

Sachin Mittal - ***DBS Vickers - Analyst***

That's right, yes.

Ms. CHEN Chiat Chiat - *StarHub – VP, Corporate Finance*

Okay. If I recall, I think in 4Q '08 last year we basically said that in the fourth quarter we had some reversal of a provision and senior management fees provision, which was reversed in the fourth quarter that artificially depressed the staff costs in 4Q.

So, if you were to look into the 3Q -- into the second quarter last year, the trending of the staff costs has been falling to this quarter of SGD52.2 million in Q1 '09. And we also benefitted from the job credits that the Government has given, and that helped to freeze the staff costs in the quarter.

Terry Clontz *- StarHub Limited - CEO*

Let me just add, operationally, we had frozen headcount and frozen salaries. And that freeze has been on since the first of the year, so there has not been any fundamental increases in staff cost.

Sachin Mittal *- DBS Vickers - Analyst*

Okay.

Ms. CHEN Chiat Chiat - *StarHub – VP, Corporate Finance*

Now, your next question, on the rental, I assume you are talking about the new -- our new premises in Ubi. Are you talking about that?

Sachin Mittal *- DBS Vickers - Analyst*

That one. And also, facilities expenses I assume will be lower now.

Ms. CHEN Chiat Chiat - *StarHub – VP, Corporate Finance*

Okay. I think we will not realize the rental savings in the immediate future. We will probably see it coming on stream in 2010. But when the decision to move to the -- to outside town, the main idea there was to consolidate all our premises into one office location, and that will increase our efficiency in our operations.

So I think in the longer term we will realize the rental saving, as compared to what we would have from our existing premises if we stay in all the different locations in town, as well as --

Terry Clontz *- StarHub Limited - CEO*

Yes. If I may add, the way to think about this is that from our current rate of spend there will not be a significant change, even next year, because we are -- a number of the premises we have we got under great arrangements, sweetheart deals, that have expired, so we're in the process of renegotiating these leases.

The point is the decision was made to consolidate three or four different locations into one location, which makes us more operationally efficient. But it also avoids the higher cost of rent that we otherwise would have incurred had we stayed where we were. So that's really the way to think about it. And, in fact, this year, we will have a little bit of overlap, so we should see some savings once the overlap has been eliminated.

Sachin Mittal *- DBS Vickers - Analyst*

Okay.

Ms. CHEN Chiat Chiat - *StarHub – VP, Corporate Finance*

Okay. And your next question, on depreciation, I think, if you were to look at the StarHub core business, yes, our CapEx has been coming down over the last two years.

Now, with our recent win in the OpCo, when we consolidate the OpCo CapEx requirement in 2010 we will see some increases in the overall CapEx for the Group. But our core CapEx for the existing business will remain -- will continue to trend down, meaning that depreciation will be stable at around this SGD60 million level each quarter.

Sachin Mittal - ***DBS Vickers - Analyst***

Okay.

Terry Clontz - ***StarHub Limited - CEO***

And you may also just want to keep in mind that with Nucleus Connect, the timing of that CapEx spend will also have some Government support that will be triggered at the same time.

Sachin Mittal - ***DBS Vickers - Analyst***

The majority of that CapEx is in 2010, is that right, for Nucleus Connect?

Terry Clontz - ***StarHub Limited - CEO***

The payment stream begins in 2010.

Sachin Mittal - ***DBS Vickers - Analyst***

Okay, okay, good enough. Thank you very much.

Operator

Thank you. Our next question comes from Navin Killa with Morgan Stanley. Please proceed with your question.

Navin Killa - ***Morgan Stanley - Analyst***

Yes, hi. Thanks for the conference call. I had three questions, actually. Number one is, obviously, with regards to the OpCo win, I can understand it will not have a major impact on your financials for this year, but if you could help us understand how should we look at it starting 2010 onwards in terms of CapEx, revenue opportunities, potential impacts on margins, at least directly if not magnitude-wise, so any help there would be appreciated.

Second, going back to the Data and Internet revenue and the strength that you have seen there, again, just trying to follow-up to the previous question; the strength there is slightly counterintuitive, given one would imagine that corporates would probably be cutting their spending on services and what have you. So I just want to understand your perspective.

Do you think you have gained some market share in that segment at all? Any thoughts that you have that could help us better understand the dynamics there.

And the last question I had was the cost of services increase. You mentioned that there is an element of content costs, if you could quantify or at least try to quantify some of that that would be [great] as well. Thanks a lot.

Terry Clontz - ***StarHub Limited - CEO***

Yes, okay. Let me take the second question first. I think I can dispense with that pretty quickly. There has been some pull back in corporate spending. In fact, our -- the sales people on the street are indicating to us that the funnel is still relatively strong, but decisions are being pushed out, so that, if you will, the sales cycle is a bit longer than it had been.

But the other thing that you notice when you're a challenger in the market, in other words, you don't have the majority market share, corporates are out looking for better deals whereas when times are good, they don't necessarily get so aggressive in that respect. So it gives people like us an opportunity to get in and bid for the business.

So a straight answer to your question is although I can't draw your attention to a specific line that proves the point, we do believe that we are gaining share, because the 13% growth is higher than the overall market growth in that segment. So that would indicate that we probably are gaining share. But as you know Navin as well as anybody, I don't focus on share so much. So hopefully that'll be the last time I mention it on this call.

The -- let me now go over to the question about OpCo, because that's a lot more complicated and I'm going to try to deal with it this way. The whole next generation national broadband network initiative is really a force that is restructuring the industry. And in any restructuring is always there's always discontinuity, which creates an opportunity, which obviously we have to assess.

Now what we believe is that winning OpCo was essential in positioning for those opportunities and also mitigatng the threats. Now if you take the two major markets, residential and business separately, in the residential market, apart from providing sort of generic high speed broadband access, the real opportunity is to supply a wave of new niche retail service providers, and they offer everything from multi-player games to household telemetry and security.

So while some of those companies may exist or want to do that today, the structure of the industry doesn't make it very easy to do that. So we think that in keeping with exactly what IDA is hoping to do, it's going to open up a new segment of that -- a new opportunity for that segment. And, of course, being Nucleus Connect, we should be able to capture a good part of that value.

Now the threat, obviously, is what a lot of analysts seem to overwork a bit and that is the impact on the end user price or the retail price in the residential market. There's not, frankly, enough information in the market yet about the build up of cost to really come to a final view about that. Of course, we have our view and our view is that while there might be some price pressure, we don't see the sort of -- the ghost that some of the other see. But nevertheless, I think in time enough information will be out there where everybody can kind of run the numbers.

In the business and government segments, and I separate those two because they really are separate, there are numerous opportunities to share -- to take share from -- and I guess I said it again, right -- to take share from the incumbent. And the reason for that is, frankly, the incumbent has had or has enjoyed a virtual monopoly based on the way the industry's been structured and again, due to historically accidents.

So really there's a tremendous opportunity and I wish I could give you a lot more color on it right now. It's just that we really should not do that, but in time we will.

And if you look at it from a shareholder perspective, Nucleus Connect will just capture a chunk of this value of new opportunities as the industry restructuring takes place and these discontinuities arise. And I think we probably have as good a handle on how to attack that as anybody. So, I hope that that gives you a good idea, Navin, on how we plan to make -- create more value out of the NGNBN.

Now moving on to your third question and I'll invite Tong Hai when I've finished to add anything to it, because he's certainly the guy driving a lot of our tactical efforts in building additional content and quality of content and doing it at a reasonable cost.

Look, we understand quite well what's happened to the cost of content, and that's really what we're talking about when we say cost of services. We know exactly what's happened in the past year and a half or so. We're not happy about it. We think we know how to deal with it, but it will take a little time, because you have to remember that these content deals are long-term contracts.

So this is something that none of us a continued trend of increasing cost and declining margins in cable TV. I don't think that trend will continue and we are working really, really hard this year to reverse that trend.

So is there anything else, Tong Hai, you want to add to that?

Tong Hai Tan - ***StarHub Limited - COO***

No, I fully support that because [blended] quality and local content are all important, but we -- I don't think we currently have that optimum mix and we should believe more in the yield, so certainly we want to work to improve the yield over the years.

Navin Killa - ***Morgan Stanley - Analyst***

Okay, thank you very much.

Operator

Our next question is from the line of Voon Lai with Cazenove Asia. Please proceed with your question.

Lai Voon - ***Cazenove Asia - Analyst***

Hi, thank you, just a couple of questions from me. One is on the -- maybe a follow-up from that previous question there. The cable margins have remained under pressure and yet ARPU is heading higher. I assume this means that you haven't been able to pass on as much of these higher content costs as you'd like. With content costs still high and arguably rising, where do you think levels can stabilize? So do you think that cable margins will continue to fall?

And as a follow on to that, there's reports that Telecom Malaysia may bid for EPL and there's a potential bid for Singapore I guess with M1 and SingTel already expressed its interest. Do you think that higher cost as well going forward will put additional pressure on margins? And would that affect your dividend policy, certainly not this year but then going forward and put more constraints on the balance sheet in the near term?

Terry Clontz - ***StarHub Limited - CEO***

Well, okay, I don't know if that was one question or 10, but I think I'll try to walk through it.

First of all, let me just correct something that -- maybe there's a misunderstanding. The cable margins that you refer to are platform margins which support two lines of business; one is Broadband, the other's pay TV. So, actually only the pay TV ARPU is increasing. The Broadband ARPU is decreasing, so you have kind of counter forces at work there.

But frankly speaking, the decline in platform margin has more to do with the cost of services or the cost of content than anything else. So you're absolutely right to focus on that. And it just simply ties back to what we said just a few minutes ago that we fully understand it. We're all over it. We've got -- we've hired some individuals last year that are really skilled at working this, but it's not something you can fix overnight.

And I really can't give you specific levels of margin that we would expect to achieve, but we'll certainly, as we report our results each quarter, try to give you some indication of progress reports.

Lai Voon - ***Cazenove Asia - Analyst***

So in other words, we haven't hit the bottom yet but you think it could be some time this year?

Terry Clontz - ***StarHub Limited - CEO***

Well, I know of some things that might increase or, in fact, probably will increase the costs slightly and I know of initiatives that are moving to reduce the cost. We will do our very best to net those out, but in one quarter or two it may not go the direction we want it to. But keep in mind that we had the full knowledge of all of that when we put our guidance out there.

So if I could just jump to your last question, I'm not concerned about the dividend commitment this year. And if you look at the fact that we're generating about $0.06 to $0.07 in free cash flow per share and paying $0.045, we've got a lot of headroom there. And we've also still got a lot of levers left to pull in addition to cost of services. So I'm relatively comfortable about the dividend stream.

So let me come back to the big catalyst -- the big catalytic event, which will come up in about September -- August or September, and that is the bid for the BPL rights. And just to put everybody on the same page, those rights will be for three seasons beginning in 2010 through 2012, so no matter what happens in the auction in the third quarter, it will not impact the cost this year. It will begin impacting cost next year.

Now we are confident of keeping those rights. We have our bidding strategy in place. I've indicated a number of times before that while I cannot promise you that the cost will not go up there's good reason to believe that any incremental costs can be covered. So at this juncture, I am not prepared to give in and say that we're going to see further declines in margin when we acquire the BPL rights.

Lai Voon - ***Cazenove Asia - Analyst***

Okay yes.

Terry Clontz - ***StarHub Limited - CEO***

Did I cover all the questions?

Lai Voon - ***Cazenove Asia - Analyst***

Yes you did. Thank you very much, Terry.

Terry Clontz - ***StarHub Limited - CEO***

Okay.

Operator

Our next question is from Luis Hilado with JPMorgan. Please proceed.

Luis Hilado. Hi, good evening. Thanks for the call. I have two questions. Just on the Cable TV side, just wondering if you could give us some color on why the business is relatively resilient both on a quarter-on-quarter and year-on-year basis versus Broadband business and Mobile? Is it some programs launched during the quarter or is it just people staying home more?

Second question is with regards to the Cable Broadband business. Do you feel that you should sort of shift strategy to go for more retention packages again instead of giving lower fees in the face of more ISPs coming in the future?

And the third question is a housekeeping question on other expenses. It's down quite dramatically quarter-on-quarter by about 38%. Should we assume the first quarter level, we can annualize that for the rest of the year?

Terry Clontz - ***StarHub Limited - CEO***

Okay, I'm going to take the first question. I'm going to ask Tong Hai to be prepared for the second question and Chiat the third question.

I think if you follow the industry in most developed markets, they're reporting even in the face of recession, fairly resilient Cable TV revenues, because it really is one of the least expensive forms of entertainment. You look at what you pay for your package on a daily basis it's a lot cheaper than anything else you could do outside the home. So we do believe that for the people who have the ability to maintain the packages or increase their packages they're doing so, but that's not to indicate that everyone has a view.

We are also seeing some customers who are down trading so some of the premiums, they are calling up and terminating but, for sure, most customers are not leaving. So most -- as I said, most customers are keeping some form of cable TV subscription.

It's a little bit different in Broadband, because in Broadband depending on what you do with your broadband connection, you may be just as happy with a lower speed, lower tiered service. And to be honest with you, a number of our customers took the higher speed services at a time when we were offering these incredibly rich premiums, laptops and things of that nature. They didn't necessarily need the speed. They just needed the laptop or wanted the laptop.

So what we're finding now is that's not as important to them and they're quite happy to take the lower speed, lower cost service and that may explain why Broadband is headed in the other direction.

Mobile, I think Tong Hai indicated that we're just seeing that roaming's down which is pretty much down the same percentage as air travel's down, and also people are using less IDD and less domestic minutes, which just indicates they're watching their wallet. They're not again turning off. They're simply choosing to spend less. So I think for all those reasons would explain what you're seeing.

On the Cable TV side, yes, our content cost are expensive, but I must tell you, we have by far the best content and that certainly has I think kept people coming and kept people watching. So the quality of the content certainly has helped that part of the business stay resilient.

So Tong Hai, you want to speak to the Broadband piece?

Tong Hai Tan - ***StarHub Limited - COO***

I think in terms of Broadband's subscriber, we are seeing that a lot of them are opting for a discount -- a rate discount rather than premiums. I think this is indicative of the weakened economy. So they would rather have direct discount and they are also down trading for the lower speed package.

We are now dealing with -- the broadband supermarket is pretty mature and, of course, those that are now coming on board will be those that perhaps are testing broadband for the first time, so they will definitely also choose the lower end package and not choose the high end package. So that's the reason why, as a whole, you see that the Broadband ARPU has declined.

Luis Hilado - ***JPMorgan - Analyst***

Would you prefer though to try to be more aggressive in terms of retention packages, so that when the industry opens, you lock them in?

Tong Hai Tan - ***StarHub Limited - COO***

Well, in fact, right now what we want to do is to continue to keep the subscriber. In fact, we are happy that they are not switching off completely. They still retain their broadband connection and it's just down trading. So it is important for us to maintain this relationship so that when we have the next generation broadband, we will be able to migrate them over.

Ms. CHEN Chiat Chiat - *StarHub – VP, Corporate Finance*

Okay Luis, on the question on the other expenses, I think you are right to note that in the current quarter, really the other expenses was higher due to our -- the past variances in other expenses was largely due to foreign exchange differences.

We've got that under control with our hedging policies on interests, on US dollars exposures in the Company's costs structure now. But we can't tell you that -- whether in the next few quarters, whether the US dollar against -- whether Sing dollars are further depreciated -- depreciate against the US dollar, because currently the Sing dollars is sitting at the strong end of the [MAS] policy of the [near-term].

So the chances of Sing dollars depreciating further, weakening further, is pretty high, although I think we are covered there as well through our hedging policy. So looking at that trending, I think the other expenses going forward should be around this [over SGD20] million level for the next few quarters.

Luis Hilado - ***JPMorgan - Analyst***

Thanks. That's all very clear.

Operator

Thank you. Our next question is from the line of Chris Wang with Owl Creek. Please proceed.

Chris Wang - ***Owl Creek - Analyst***

Hi there, this is Owl Creek and congratulations on a solid set of results, even in difficult times like this. I'm glad to be a shareholder. Just I wonder if you can take a deeper dive into the CapEx, SGD51 million in the first quarter this year and can we -- can you analyze a bit why such a drop off from last year's same period and what is the trend for the next few quarters?

And a bigger question is that over the long term, you typically spend SGD250 million in CapEx, but how much of that is discretionary? Or what should we be looking for three/four years down the road, probably in OpCo side?

Terry Clontz - ***StarHub Limited - CEO***

First of all, thank you Chris for the compliments. Unfortunately, I'm going to probably disappoint you in my answer, because we've not really given a lot of information about the granularity of the CapEx. Just do keep in mind that the CapEx that we report is cash CapEx and for most of the CapEx expenditure those commitments would have been made in prior quarters.

Given the very sort of lumpy nature of it all, it would take a little while for us to try to even answer that question for you to sort of understand the triggering events for each of the chunks of CapEx. But I think one way we might help you a bit is just kind of talk about some of the drivers of it without quantifying it.

First of all, we've had a three year project underway which I'm certain we've mentioned before, to completely re-engineer or revamp our billing and customer care systems. We're on the back end of that and would hope to complete that towards the end of this year. So that, of course, was a fairly substantial chunk of CapEx that was sort of spread over three years which is coming to a close.

We also, of course, have been building out, completing if you will, or infilling, the 3G coverage. That too is coming to completion this year, so that should ease a bit. And then, of course, any further CapEx on the mobile side would be more success based, because we would only be adding capacity as opposed to adding coverage.

We do have some CapEx associated with the move to Ubi. Of course, that's a one-off and that's again I think -- Chiat, correct me if I'm wrong, I think that's in Q2 of this year. So you'll see -- I can't remember all the moving parts, but there will be a bit of a pop in Q2. But don't get too excited about it, because again, we have taken all of this into consideration in giving guidance.

The nice thing about CapEx is we've got pretty good visibility to CapEx. So if you miss your CapEx guidance, generally speaking you're not completely awake, so we feel pretty good about the guidance. But you are correct, in that there are some general categories which we trend very carefully, one being maintenance CapEx which even in a slow growth or no growth environment, you still spend it to keep the lights on and to refresh the technology.

There's a set of discretionary, which typically is economically triggered. This is where you can spend CapEx and save OpEx. We do some of that as well. Best example would be where we perhaps extend a fiber optic spur to pick off a base station, so we no longer have to lease that from -- that backhaul from, say, SingTel. We do that on a cash payback basis. Typically those paybacks are inside two years, which as you would quickly calculate, it's a very attractive IRR.

And then the third category is growth initiated and that's, of course, we're pleased to spend CapEx for growth whenever we get that. So again, I know I haven't specifically addressed the question, but hopefully I've given you some comfort that we've got it under control.

Chris Wang - ***Owl Creek - Analyst***

Good enough for me. Thank you very much.

Terry Clontz - ***StarHub Limited - CEO***

Okay.

Operator

Thank you. Our next question is from Ramakrishna Maruvada with Macquarie. Please proceed.

Ramakrishna Maruvada - ***Macquarie - Analyst***

Yes, good afternoon everyone. I have two questions. Now firstly with regard to the traffic expenses if I could get a bit more color on how this would track forward your MOUs on postpaid have actually been coming off, but this line item seems to be increasing on a year-on-year basis?

Now the second one is with regards to the postpaid revenues. Terry, if you could provide a bit more color in terms of what's driving the decline? That is to what extent is this roaming? To what extent is this decrease in usage and what -- where do you see the trends here going forward?

Terry Clontz - ***StarHub Limited - CEO***

Yes, okay. I'm going to ask Chiat to answer the question on traffic expenses and we'll come back around to Tong Hai to pick up the question on postpaid revenue.

Ms. CHEN Chiat Chiat - *StarHub – VP, Corporate Finance*

Okay. Rama, if you recall, the traffic expenses primarily are the IDD traffic that we deliver for our mobile customers. And if you were to look at the Mobile prepaid business that revenue has increased and usage volume on the prepaid side has driven up the traffic volume for the Mobile business.

On the postpaid side, the Blackjack countries on -- our offering on the Blackjack countries, have also driven IDD traffic higher on the postpaid side. So really, the traffic expenses the increase was driven by the volume of traffic increases in the Mobile business from the mobile users.

Tong Hai Tan - ***StarHub Limited - COO***

Now with regards to your question on postpaid revenue, as to why it is declining, the main reason is because of the lower usage and also lower IDD calls and lower outbound roaming. And the other reason is, of course, the higher mix of customers on the discounted data plans.

Now usage -- lower usage I believe is also a proportional factor of the economy, so if the economy bottoms out in the next two quarters, we should see usage picking up too. So that's what we are hoping to see, and I think that is what we are outlooking for the mobile ARPU and revenue.

Ramakrishna Maruvada - ***Macquarie - Analyst***

If I can just follow up on that postpaid revenue question or maybe I'll just rephrase it better, which is in terms of roaming as a contribution of revenues -- roaming revenues on a year-on-year basis will you be able to provide some color on what sort of declines are you seeing or have you seen at the moment? Is it, like, 10%/20% year on year? Or is it much more than that?

Terry Clontz - ***StarHub Limited - CEO***

Yes, look, I think we reported it last time, if I'm not mistaken, that we were seeing some upwards of around 20% to 30% reduction. But just a reminder on the roaming revenue, it is the least profitable element of Mobile, because most of the profits on roaming revenue go to the host operator in the foreign country. So a drop in roaming revenue doesn't impact the bottom line nearly as much as IDD or domestic minutes.

And let me just tie back to something that Tong Hai said. As we sit around the table and try to come up with what would be the best way to guide on top line, we had to make certain assumptions about where we believe ARPU is headed in each of the lines of business, and so his view about it bottoming out some time in second or third quarter is sort of all built in to our guidance.

Ramakrishna Maruvada - ***Macquarie - Analyst***

Okay, understood. Thank you very much.

Operator

Thank you. Our next question is from the line of Tian Doe with GIC. Please proceed.

Tien Doe - ***GIC - Analyst***

Hi, good evening, thanks for the call. I've just got some questions on your MaxMobile Data products, and how it's affecting your business.

I think in your release you stated that there's been a dilutive effect on your postpaid ARPUs, because of lower ARPU MaxMobile Data subscribers. At the moment, how many of those MaxMobile Data plans have you actually sold now?

The second question is, these subscribers, are they normally taking already your cable, broadband product? Or are they using it as a primary broadband service?

The third question is, I think in the release you've also stated that you've seen about a million gigabytes of mobile data in the last quarter. At a rough guess, what would be the split between the data due to MaxMobile Data plans versus your normal mobile plans?

The fourth would be, what do you think, at the moment, of your handset subscribers, are actually using mobile data?

And the fifth question is just what ideas do you have, to extend mobile data to the prepaid market?

Terry Clontz - ***StarHub Limited - CEO***

Okay. I think I can work through this pretty quickly, because we can't give you specifics for competitive reasons.

Tien Doe - ***GIC - Analyst***

Okay, sure.

Terry Clontz - ***StarHub Limited - CEO***

We don't report the total number of MaxMobile. But I can tell you that all of us have been blown away with the response in the market far exceeding our internal estimates, and we're quite delighted with the way that that has picked up.

We have been watching, very, very carefully, if it is being substituted for, or basically cannibalizing, our wired broadband business. As you know, the way we package it, we do a lot of bundling of the MaxMobile with the MaxOnline, hence the reason that we call it Max. But it has really not had any impact at all and you can see that, obviously, in the net additions where we had a substantial increase in wired broadband net additions this quarter.

But, anecdotally, I will tell you that I do know a few people who live alone, they travel a lot and the speed at which our wireless network operates today, they find it quite adequate for their need. So, I'm sure that you could find a few customers who have substituted.

The split of traffic, I actually don't know off the top of my head the split, but I do know this; that the overwhelming majority of the growth in data traffic on the wireless network is due to the usage of laptops connected to the HSPA network. There have been times when we've actually run out of USB dongles in the stores. So it's that that's driving the growth, more so than the data plans on handsets.

Now, you also asked how many subscribers, who have handsets, take a data package. There's a growing number; it more or less correlates with the diffusion of Smartphones, or some of the new phones that are hitting the market, you know, HTC, Samsung, Omnia, and things of that nature. You're going to see more and more of that, and that's really the potential upside to the ARPU in the mobile arena.

I think it's somewhat suppressed right now due to the recession, both in part of slowing down the number of people who might go to a store and pick up one of these new handsets, because obviously they're a little more expensive, and also because of the increased subscription costs of a data package. But I really do believe that as the recession subsides, we're going to see a substantial pick up in this area, because why would you even buy one of these handsets if you didn't intend to have a data package to go with it?

And unfortunately I can't remember your fifth question.

Tien Doe - ***GIC - Analyst***

It was just on what ideas do you have for extending mobile data to the prepaid market? At the moment most of your mobile data is all postpaid, with a very little, small amount on prepaid.

Tong Hai Tan - ***StarHub Limited - COO***

Yes, let me take that if I can. We definitely have plans to provide what we call prepaid MaxMobile services, so this is in the pipeline. This new service [user] currently, we are the most ready in terms of our HSPA network. In fact, we have announced that we are the Asia Pacific first to provide HSPA Plus, which is really the fastest download speed, at 21 bps. So we are enhancing the quality and, certainly, prepaid MaxMobile is something that you should look out for.

Tien Doe - ***GIC - Analyst***

How soon do you think you would launch that?

Tong Hai Tan - ***StarHub Limited - COO***

[Q2]. I think it's -- you've asked me and it's before Q2 -- before end of Q2.

Tien Doe - ***GIC - Analyst***

Okay, right. Thank you very much for all of those answers.

Operator

Thank you. Our next question is from CHEN HSUNG KHOO with Merrill Lynch. Please proceed.

Chen Hsung KHOO - ***Merrill Lynch - Analyst***

Hi Terry and [the rest of] management, thanks for the call.

Just a couple of questions; I just want to understand -- I see here that the cable margins (inaudible) actually increased Q-on-Q. Could you help me understand why that's the reason?

And maybe you could clarify also what you mean by the cost -- the announcement of the cost of services actually increased Q-on-Q. And could you maybe give a bit more granularity on what was the key driver for that?

The other thing is I just [want to] understand about the marketing costs. It seems to have come off quite a bit Q-on-Q and year-on-year. Can you help me understand the nature of those marketing expenses in that line?

And thirdly, maybe you could help us understand what motivated the increased EBITDA margin guidance. It's not a big increase, but still it was an increase, notwithstanding the fact that you have been stressing that cost of services is going up.

Terry Clontz - ***StarHub Limited - CEO***

Yes, okay. Let me just clarify one point. I thought you said that the cable margins were increasing Q-on-Q?

Chen Hsung KHOO - ***Merrill Lynch - Analyst***

Yes, (inaudible).

Terry Clontz - ***StarHub Limited - CEO***

Right. I just want to make sure that I understood what you asked. I'm going to ask Chiat to address that question, but before she does, let me just cover off the other two.

Part of the marketing cost includes the premiums that we had been using to acquire new customers or retain customers. For example, if we were acquiring the high end broadband consumer, we might put something as attractive as a laptop in the market, and that would be journalized in that category, and expensed in the current period. And as was indicated by Tong Hai earlier, we're finding that we're doing less of that now, and the customers are preferring a discount to the plan, which is fine with us. So that explains -- that's the dominant reason for the fall in marketing cost.

Tong Hai Tan - ***StarHub Limited - COO***

There is also these hubbing offers, because we've been so-called pushing a lot on hubbing, it means that if you buy more services, you get a better discount. So we have also been able to offer to, let's say, mobile users, our cable TV basic channels and others; so, all these so-called offers that we allow our halving customers to gain more, and we are able to gain more subscribers; you can notice the hubbing index actually have gone up [by the way].

Terry Clontz - ***StarHub Limited - CEO***

Again to his point, it's a more favorable, more preferred way of retaining and acquiring customers as opposed to throwing sweeties at them.

The EBITDA guidance, we are one quarter through the year. We did better than some of our internal estimates. So given that we're already at 33%, and given that we have a pretty good handle, or view, on the various levers to control OpEx, we felt that it was time to up the guidance slightly. So that's behind the one percentage point increase in EBITDA.

Last year we finished the year at about 31.7% I think it was for the full year, and that included a deep dive in Q2, as you may remember. So if you take Q2 out, which was a bit extraordinary last year, due to mobile number portability, we would have easily topped 32% last year. So we felt that we should be able to do that well this year, so that was behind the reason for the guidance.

Chiat, do you want to pick up the first part again?

Ms. CHEN Chiat Chiat - *StarHub – VP, Corporate Finance*

Okay, on the cable platform margin that improved Q-on-Q, I think really one of the contributing factors is the savings in the operating expenses in Q1 plus the job credits that we see from the Government. That is predominantly the reason.

Now, as far as Q4 2008 is concerned or the cost of the cable platform margin in 2008, in 2008 in certain quarters, we had Euro [soccer] then, which was a depressant on the EBITDA -- on the platform margin itself, because for the Euro event, we really had to [run it off] a top line contribution. So that depresses the trend -- the EBITDA trend on that platform margin in 2008.

Chen Hsung KHOO - ***Merrill Lynch - Analyst***

All right. Sorry, just to clarify, you think that the job credit impact helped the cable margins, Q-on-Q?

Ms. CHEN Chiat Chiat - *StarHub – VP, Corporate Finance*

No, I think, largely -- it helped some, but largely the savings came from the operating expenses savings that is attributed to that cable platform.

Chen Hsung KHOO - ***Merrill Lynch - Analyst***

Sorry, what do you mean by the OpEx? Is it -- you talk about costs of services going up, because of content costs, but -- and we see that in the cost of services line, but yet for cable margin, why is it going up?

Ms. CHEN Chiat Chiat - *StarHub – VP, Corporate Finance*

Correct. But you remember that the operating expenses, things like the marketing and promotion expenses, the support cost, all those, we have basically constrained or managed those costs to a very low level increase. In fact, we had savings in the other operating cost to really mitigate that increase in the cost of services in that business.

Chen Hsung KHOO - ***Merrill Lynch - Analyst***

Okay. Just one last thing, I'm sorry.

Ms. CHEN Chiat Chiat - *StarHub – VP, Corporate Finance*

And, sorry, if you remember as well, that when we look at the platform margin, the contributions basically come from the two lines of the [services], which is the TV business as well as the broadband business. And broadband business, while the margins from the broadband business is of a higher gross margin compared to the TV business, which has a higher cost of sales [cost] for broadband there isn't.

Chen Hsung KHOO - ***Merrill Lynch - Analyst***

Okay. Terry, and just one last question, if I may; just wanted to understand from your perspective, which revenue line are you most concerned with for this year going the way the economy's going, and the trend that we see for Mobile this quarter?

Terry Clontz - ***StarHub Limited - CEO***

Well, okay. I think we've been fairly consistent in indicating that the Broadband business -- for the past year we've indicated that there is going to be more downward pressure on pricing than upward pressure on ARPU, if you will. And clearly, that came to fruition this quarter. That will continue to be something we're going to watch very carefully.

But keep in mind that the Broadband business itself, in aggregate, is, well, about 14% -- excuse me, 12% of the top line. So, the ARPU would have to move a long distance to have a substantial impact on the top line.

Having said that, if there's one item that we want to watch the closest it would be, of course, the continued decline in post-pay mobile, because that is roughly 70% some of the mobile revenue, and the mobile revenue is about 50% of the top line. So that's the one that we as a management team were focusing on very carefully.

But I think we're a bit more optimistic about the intermediate, and certainly the long-term direction of that, more so than in Broadband. So I think from that perspective, long-term is not so much an issue for us. Those would be the two areas that I think we would watch very closely.

Chen Hsung KHOO - ***Merrill Lynch - Analyst***

Thank you.

Terry Clontz - ***StarHub Limited - CEO***

Okay.

Operator

Thank you. And now we have time for one last question. The question comes from Vincent Lee with Dow Jones (inaudible). Please proceed.

Vincent Lee - ***Dow Jones - Analyst***

Hi, Terry. Thanks for the marathon conference call, here. Just two questions; one, have you seen any discernible change in terms of consumer spending behavior, given the current macroeconomic conditions? And if there are, just wondering what exactly you're seeing?

And two, your competitor SingTel has made some splashes on the Smartphone side, with the iPhone and then also HTC Dream earlier this year. Just wondering if there are any updates in terms of your discussions with some of these handset makers?

Terry Clontz - ***StarHub Limited - CEO***

Yes. Well, first of all, we have referred to a couple of observations about consumer behavior. The traffic in the shops slightly down, but nothing to be concerned about. Generally, when you don't put as many promotions out into the market, the traffic does slow down a bit. We are seeing that customers are delaying their plans to purchase a new handset, even a subsidized handset, so that actually is playing out pretty well for retention. So, it's not all bad news in terms of consumer behavior.

The one area that we do watch carefully, and will continue to be concerned about to the extent the recession becomes any worse, and that is where consumers down-trade. So we have a dashboard that we watch weekly that gives us an indication of how many customers are calling for a lower subscription plan when they come off a contract. We haven't seen a huge volume of customers doing that, but it is certainly a trend that's taken place in Q1.

In terms of the splashes, if you will, clearly the biggest splash was the de facto exclusivity on iPhone by our competitor, and it was quite a pent up demand at that particular point in time. And we saw an impact over the course of about six weeks or so, but that really subsided, because a lot of the vendors came out with some pretty attractive phones.

And frankly speaking, I think the iPhone was a bit of an anomaly, because we don't really see that any one player will have any long period of exclusivity. You might get the opportunity to introduce a model in the market first. But as a practical matter, with the breadth of the product range out there today and the rapid-fire nature of the new releases I don't think it's going to be much of a factor going forward.

Tong Hai Tan - ***StarHub Limited - COO***

Yes, Terry, I just want to add that the phone -- if you look at the iPhone market Windows is also pretty active in form of the Windows Mobile 6.1 or 6.2. HTC is coming out with what we call G2. The code name is G2, [but] HTC Magic and it will be available in one to two months now. It will be available to all service providers, and not exclusive to any certain provider.

In fact, we also have done what they call the Blackberries launch, where we had preorder, and the order take up was very good; so other than the iPhones, there are many other phones and [direct] phones all coming in the mainstream in third quarter down the road. So I believe that there are sufficient hand phones out there -- Smartphones out there for us to capitalize on.

Vincent Lee - ***Dow Jones - Analyst***

Okay. Alright, thank you very much.

Operator

Terry, there are no further questions at this time. I will now turn the call back to you. Do you have any closing remarks?

Terry Clontz - ***StarHub Limited - CEO***

No, I think we probably made all the remarks we need to, other than, let me simply say that I appreciate everyone taking the time to listen in on the conference call. I appreciate the questions. And we look forward to meeting you again in about three months. Thank you. Good night.

Operator

Ladies and gentlemen, that concludes the conference call for today. We thank you for your participation and ask that you please disconnect your line.