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Start of Transcript

Amelia Lee: Good evening, ladies and gentlemen. Thank you for joining us for StarHub's FY2019 results call and webcast. My name is Amelia and I'll be the host for this evening. We'd like to thank you also for accommodating the change in date and time of our call and webcast, due to alternative arrangements being made in view of the ongoing COVID-19 situation.

With me this evening, we have our Chief Executive, Peter K; our CFO, Dennis Chia; Head of Consumer, Johan Buse and our newly appointed Head of Enterprise, Charlie Chan, who joined us in January 2020. Peter will be bringing us through a quick presentation, before we open the floor to questions. For participants joining us on the call please press star-one if you have a question and you'll be added to the queue. If you would like to withdraw your question, please press star-two. For webcast participants, please enter your question in the dashboard and we'll get to it. Peter, would you like to start the ball rolling?

Peter Kaliaropoulos: Thank you, Amelia, and a very good afternoon, ladies and gentlemen, and thank you for the interest you've shown in our company results and apologies for the few minutes' delay in starting today's session. I will go through a number of headline messages from the 21 pages presentation pack we just sent to you. Then I'll invite the CFO to make a few comments and we'll open up the session for Q&A as quickly as possible, which is really the objective, the key value for this afternoon's session.

Let me start by first of all saying that we have executed the strategy this year which was based on four pillars and we've got that on slide 3, predominantly driving improvements in customer experience and we did this through the Hello Change program, through digital innovation and through migrating customers from cable to fibre. The way we're measuring improvements in customer experience is through the Net Promoter Scores and we've seen right across the business an improvement across every product line and every channel.

The second part of our strategy was all about trying to get more value from the existing core business and again, we drove a number of operational efficiencies. We optimised the workforce and we launched some new services, like the Go Max TV product, OTT and we also renegotiated a lot of our contracts to realise procurement savings. The outcome of that strategy is that we had a cost improvement program of S$210 million and at the end of December 2019 we delivered at least 64% of the savings. Some will be reinvested and others will go to the bottom line. Also for some of our new products, like the Go Max OTT TV service, we're reporting a healthy grow in that part of the OTT part of the Pay TV business.

The third part of our strategy was all about trying to realise growth from new investments we're making. We continue to invest in our cybersecurity business and realising significant growth. We also announced in quarter four and most recently that we're putting in a joint bid to build a 5G network, together with one of our competing companies in the marketplace and we continue to explore M&A opportunities. The outcome of that execution of the strategy is evident in terms of growth year-on-year of cybersecurity revenues, about 79% year-on-year and you're seeing in the marketplace a number of 5G trials that we're conducting with various other commercial customers and academic institutions. And of course, one of the things we're proud of was the very first 5G COW, as we call it, cellular-on-wheels.

Finally, it is about digitising as quickly as we can and again, we invested in the last 12 months in digital capability via the *MyStarHub* application, digital sales channels, giga!, which is a totally digital brand launched in the second quarter, continues to have traction in the marketplace, a number of enterprise products and services. So this is the fundamental four strategies based on the four pillars.

And if I now refer you to the guidance we gave in the marketplace, we did say to you at the end of quarter 3 that we will try and deliver revenues between 2% to 3%, service revenues that is. We actually delivered a greater decline than that, 3.7%, but overall our total revenues declined by 1.3% for the full-year. The second guidance we had given you was the EBITDA margin on services, that after the SFRS 16 adoption we would be delivering 30% to 32% margin, EBITDA margin, we actually delivered 31.7%. The third guidance we had offered you was the CapEx to revenue ratio of between 8% to 9% for the year and we delivered a 7.5% CapEx to revenue ratio.

Some other key indicators, and the CFO later on will elaborate a little bit more, the prudent management of the business resulted in increased cash flow by over 50% year-on-year at the end of December, whilst at the same time we kept the net debt to EBITDA, the leverage of the Company, at the same level of 1.5x.

If you look at slide 4 of the pack, let me give you a little bit of a breakdown product by product of what is going on in our business. The mobility side of the business is stable quarter-on-quarter, although for the full-year – this is quarter three to quarter four 2019 – we have seen stability and a very small growth in terms of total revenues, but for the entire year the mobile revenues post- and pre-paid declined by 7.2% and ARPUs declined by 4% to S$40. On the right-hand side, the drop in pre-paid customers was 1.3% year-on-year, but we grew the postpaid customer base and the overall mobile customer base by 3.5%.

If you look at the TV side of the business, it continues to be challenged and we migrated the entire customer base in quarter three and progressively quarter four. So revenues, unfortunately, year-on-year declined by just over 20% to S$248 million revenue for the entire year. ARPUs also declined to S$44, which is about a 12% decline and the number of subscribers at the end of December were 329,000, which also shows a 20% decline. Again, what's important in this line of business is we're analysing the customers migrating, a lot of customers are going to alternative - not linear TV alternative sources and piracy continues to impact the business. The good news from Pay TV is after the migration quarter four 2019 revenues compared to quarter three 2019 revenues are stable and actually a very small increase in ARPU as well.

If I now refer very quickly to broadband, broadband revenues year-on-year showed a slight decline of just over 5% and ARPU of S$29, although year-on-year the total number of customers grew by 3.94% to 501,000 customers. The drop in revenue and ARPU is part of the TV migration. We had a lot of aggressive promotional offers to maintain our bundle customers for broadband and TV and the ARPU, as a result of the aggressive promotions, deteriorated.

If we look at the enterprise side of the business, our enterprise revenues grew. Our core revenues grew in terms of overall - sorry, overall it was about - flat growth, I'm sorry, year-on-year but quarter-on-quarter, which is a bit seasonal, because in quarter four we do finish a lot of enterprise projects. So quarter three to quarter four in 2019, we had a 3.9% growth in revenue, but overall the growth in the enterprise networking business was flat at S$429 million. Cybersecurity continues to grow, both year-on-year as well as quarter-on-quarter and we see that growth continuing.

If I now refer you in terms of overall activity in the marketplace, we still see continued competitive activity in mobile, in broadband, as well as in the enterprise level. We don't believe in the short term that activity will be reduced. But we also see some opportunities in those markets as well. We see the forthcoming opportunities potentially with the introduction of 5G services early next year and the preparation leading up to it. We also see opportunities in the enterprise market through a number of ICT solutions, including cloud services, data analytics, AI and we also see the opportunity to grow our SME customers.

In terms of, if I jump to a slide which talks about guidance, again our strategy still is very focused and continuing to transform the business to create sustainable growth and better margin from the core business. We continue trying to diversify our revenue streams, both across different products and also geographical reach. Obviously looking forward, we are trying to leverage forthcoming opportunities with potentially, should we be successful, to have a 5G network and also very prudent capital management. These are the pillars that underpin our growth strategy going forward.

And in terms of guidance to the market on slide 20, what we're suggesting to you and we take into account the current potential impact of the Coronavirus, because we are seeing some impact in terms of retail activity in terms of IDD revenue, outbound roaming, inbound roaming traffic and the likes. So we believe that whilst we will continue to grow the business, the service revenues will grow year-on-year by 1% to 3%.

We believe our service EBITDA margins will be reduced in 2020 in the range of 27% to 29% and whilst we're growing in revenue, of course, the result in EBITDA is lower than the previous year, because the mix of revenue we've grown the revenue with lower margins, especially in the enterprise solution business versus mobility. So that is bringing the EBITDA margins lower year-on-year.

Also in terms of Capex commitments going forward, we will continue to be prudent about how we're allocating capital, especially in 4G and other parts of the business, vis-à-vis the potential investment in new technologies, wireless technologies and we believe we will keep our Capex commitment to about 6% to 7% of revenue going forward. And as a result of that and consistent with the policy that we announced last year, and certainly our CFO will elaborate, we're keeping our dividends to 9 cents at this point in time. And of course the news, are payable twice a year rather than every quarter and that is 9 cents for the full-year, not every quarter.

Having said that, I will hand over to our CFO to provide a little bit more granularity and again, we're not covering every slide, we want to open the session to Q&A. Dennis, over to you please.

Dennis Chia: Thanks, Peter. I just want to thank everyone for joining the call. I just want to do a few callouts in terms of our key highlights. Peter has actually elaborated on our revenues and I just want to do a few callouts in terms of the costs side. In terms of costs, we have actually seen savings across the board on content costs as well as traffic costs. We've seen savings and realised savings in staff costs, in repair and maintenance, in operating leases, as well as marketing and promotions, through a lot of prudent cost management activities, focusing on prudent cost incurrence. But taking into account the long-term strategy of the Company as well.

A few key highlights of our financial results are that we've actually reported EBITDA margins of 31.7%, for our service EBITDA margin for the full-year of 31.7%. And net profit after tax attributable to shareholders of S$186 million, translating to 10.7 cents on an EPS basis, as well as free cash flow of S$218 million or 12.6 cents on the full-year basis. Those are the key highlights of our financial results. I will pause here and hand the floor back to Amelia for Q&As.

Amelia Lee: Thank you, Dennis, we now open the floor to questions. Let's take the first question from the conference call. I see that we have a question from Sachin. Sachin, would you like to go ahead?

Sachin: Sure, thanks for the opportunity and congratulations on a good set of numbers. A couple of questions, after a long time in this quarter we saw stabilisation and in fact some partial uplift of ARPU in the mobile side. And in fact they were even quite stable quarter-on-quarter too. So what is underlying - I mean do you think this has bottomed out, or mobile revenues are still something on a downward trajectory? That's question number 1.

Question number 2, your cybersecurity is now S$150 million kind of revenue and still loss making. Does it need to be a S$500 million business to be profitable? Or it is a question of [unclear] projects and was that about to benefit from a recent announcement by government on the cybersecurity budget of almost S$12 billion for next year? That's question number 2.

And thirdly, on the 5G side, could you share your comments of the market structure? What do you think about the market structure in the 5G world, when there are two 5G licences and therefore, there are four players? Could you just comment what kind of market structure is possible over that 5G timeframe? Thank you.

Peter Kaliaropoulos: Sachin, thank you for your three questions. Let me take the first one first, about stability in consumer revenues for mobility. To be honest with you, we are very focused on ensuring the ARPUs and the high value customers are retained. We still expect competitive activity, we do know there are a number of MVNOs that are potentially ready to launch, but because of what is going on right now with the Coronavirus mostly likely that launch has been delayed. But having said that, we're seeing more responsible pricing in the marketplace, we're still seeing lots of different choices, but I'd say it's far too early to say that the market has bottomed out.

We believe that there's no use playing what we call the SIM volume game. We believe it's about having the right value and the right customers that generate that value. So we're very careful about managing ARPUs and managing the high value customers, rather than flooding the market with free SIMs or very low value SIMs. So we have taken a different approach, but I do believe there will be a little bit more competitive intensity in the mobile market before we say that we see stability for the next few quarters. I'm not sure if Johan wants to add anything more to that.

Johan Buse: No, that's very complete, Peter.

Peter Kaliaropoulos: The second question about cybersecurity, a very fair question. Cybersecurity in Singapore originally globally continues to grow double digit year after year. When we announced the acquisition we were very clear that we see investment to grow, at least for three years. The business itself is about providing consultancy, then providing build and operate and then providing maintenance to customers. And to be able to provide this capability upfront before you realise all the ongoing managed services fees, you have to build up capability, you have to build up intellectual property, you have to spend money in research and development. And if the business as well, which it is, has a regional presence, you have to involve to invest in regional capability as well. It is a fast-growing part of our strategy, so we expect that the guidance we've given you for 2020 incorporates the contribution to the top and bottom line for our business.

The other point I want to make about Ensign, two points actually, Ensign itself is pure play, really deep cybersecurity capability, not a monthly subscription model and there's a very strong appetite from government lines, from very large multinational companies locally and regionally for that type of service. And yes, we're delighted that more investment will be provided into cybersecurity by government and in other regional markets. So again, in the guidance we have incorporated the high growth in revenue and a minimal contribution in terms of bottom line.

In our portfolio of cybersecurity though, we do have two companies which are part of the Ensign group. One is D'Crypt that has a number of local contracts that they're delivering to and again, their contribution is built into our numbers. So the portfolio of companies we have is one of pure cyber play and the other one cryptography, with more predictable revenues and margins, which is a good portfolio.

Your third question about the structure of potential 5G market, it will definitely be unfolding but let's be very, very clear. There will be spectrum given to all four MNOs, millimetre wave, which will allow 5G play by four operators. The two networks are all about the 3.5 gigahertz spectrum which will be given to two and of course, there'll be wholesaling arrangements between the MNOs as well as the MVNOs. So how the final structure will play out remains to be seen. We are very confident about the bid we've submitted, we put a lot of emphasis in terms of network resilience, network redundancy, network security, as well as a number of commercial use cases, that should we be fortunate enough to win the network will be in a position to launch.

Too early to say how the markets will evolve, but potentially every MNO and every MVNO will have access to 5G services, wholesale or from their own factory. We believe the sharing model is a smart, efficient model for Singapore, where the investment is - minimum investment is put on the infrastructure side and that will create more service-based competition. That's where the investment should be made to provide innovative services, not to keep replicating infrastructure across four operations. So we believe in the next few months a decision will be made. We hope to be one of those companies and we're going to get on with building the capability and bringing services to market through 5G next year when the spectrum becomes available. I hope, Sachin, I gave you something…

Sachin: One follow-up question.

Peter Kaliaropoulos: Yes.

Sachin: Just a follow-up, on the 5G wholesale pricing, is there some kind of maximum thing which is mandated by the regulator? Or is that to the operators to come out with their wholesale pricing model?

Peter Kaliaropoulos: At this stage the wholesale arrangements again, it's too early to say how they will evolve and it's really up to the regulator. But we do have on the 4G side commercial arrangements and typically, should the operators not come to an agreement, there's an appeal process back to the regulator. So our preference is to have the same approach, the same regime of commercially negotiated wholesale rates and hopefully we'll reach agreement with the MNOs and MVNOs as the market evolves. So at this point in time, there's no definitive regime announced by the regulator, but we are in favour of commercial agreements rather than a minimum or a maximum.

Sachin: Thank you very much.

Amelia Lee: Thank you, Sachin. Let's take the next question from Rama.

Ramakrishna Maruvada: (Daiwa Capital Markets, Analyst) Hi, good evening, I have basically one question and that has to do with your Capex outlook. Could you talk a little bit about the 6% to 7% guidance on Capex? What's baked into this in terms of the guidance, in terms of whether it is spend primarily on the 4G networks, or does it also take into account the 5G network spend? And how could 5G network Capex could come in, is it going to be on top of this and what timeframe would it be coming in? Thanks.

Peter Kaliaropoulos: Before I ask Dennis to provide some more colour, let me say upfront that the 6% to 7% Capex is about the existing business, our existing capabilities in the marketplace, it does exclude 5G. We do believe that as we have a very robust and very fast 4.5G network, interestingly enough last quarter we were one of the fastest networks, not by a third party survey but that was by users in Singapore voting themselves through an application. So we have a very robust, a very fast network providing decent coverage, great coverage and we met all the quality of standards from the regulator.

So the ongoing investment required in 3G and 4G is minimal from our perspective and that's why we believe 6% to 7% is sufficient and of course, that involves funding some other lines of business. 5G Capex is not included. Should we be in a position to win one of the two networks, we will come to the market and we will explain the level of investment we're proposing to outlay over the five years in a joint venture and potentially the impact on that on our numbers. Dennis, if you would like to add some more details on the 6% and 7% per cent please.

Dennis Chia: Sure, so included in the 6% to 7% would be the Capex investments which are on an ongoing basis required to meet the quality of service standards that are imposed on us as an operator by the regulator, so that's included in that. Also included in the 6% to 7% is certain IS or information system transmission Capex that we've included in there as part of our transmission strategy. Included in that capital expenditure guidance is also the capital expenditure to be incurred by Ensign and D'Crypt, because they are consolidated into our numbers. So those are your elements of what's been included into the 6% to 7%.

Peter Kaliaropoulos: Thank you, Dennis.

Ramakrishna Maruvada: (Daiwa Capital Markets, Analyst) Okay, if I could just follow up, Peter, since you mentioned the 5G is a joint venture, is it a technical joint venture? Has it already been decided on that format? And does it mean - how would it be accounted in as far as the revenues as well as expenses from the joint venture are concerned going forward?

Peter Kaliaropoulos: Look, I appreciate your question, but to be honest with you, it's too early to talk specifically about the impact of 5G on a business and the joint ventures arrangements. We have made a confidential submission to the regulator. We have to respect the time required by IMDA to evaluate all the different proposals from the three different parties and should we be successful, we will come out and spell that. I think it's very speculative at this point in time to talk about arrangements that require full approval from the regulator, so I apologise for not being able to be more specific, but we need first of all to get the green light from the regulator. And of course, we have an obligation because the investments potentially over five years are material to the business, no question about that, but we don't want to jump. We really need to allow the time for consideration by the regulator. There may be conditions imposed on the joint venture or conditions imposed for [unclear]. There are still a lot of variable components, all of that needs to be settled and should we be successful, we'll know the conditions and we will come out and explain to you how the JV will work, what sort of investments, the order of magnitude, what type of specific technologies. So we will be very, very specific once IMDA has made an announcement who the two network operators will be.

Ramakrishna Maruvada: (Daiwa Capital Markets, Analyst) Okay, got it. Thank you very much.

Amelia Lee: Thank you, Rama. Let's take the next question from Aradhana.

Peter Kaliaropoulos: Hi Aradhana.

Amelia Lee: Aradhana, are you there? Let's go to the next question from…

Aradhana (Reuters): Hello, hi, can you hear me?

Amelia Lee: Hi Aradhana, hi.

Aradhana: Yes, hi, sorry about that. Thanks so much for taking my question, it relates to your 5G there. Just what were the sort of considerations that you took into account to decide for 5G with anyone as opposed to going it alone? And my second question is Huawei, is it one of the windows you will still keep under consideration as a potential vendor for 5G?

Peter Kaliaropoulos: Okay, Aradhana, thank you for your two questions. First of all, I think about a year and a half ago we were very explicit when we were interviewed about how we see the market involving and investments in infrastructure in Singapore. And StarHub said from day one we believe a smart business model is one that will serve the infrastructure. And basically we then - by sharing infrastructure you're enabling more services based competition, rather than inefficiencies in building overlays of multiple infrastructure for a limited set of customers. So that business model has worked in other countries between competitors, especially in the 4G and 3G environment and we were able to at least agree in principle they can work in Singapore with another company. So we're very delighted because there will be significant savings in CapEx if someone does it alone versus sharing the infrastructure.

And again, it's too early to share this with you, simply because we don't know if we're going to be one of the two networks awarded that. But if you do the calculations and talk to technology partners and vendors, there are significant savings sharing versus building alternative networks. And also let's be very clear, we've seen the industry over the last few years in revenues declining, so again we're very conscious, at least StarHub is, in terms of the return on capital. So we think it's an optimum - sharing a network is the optimum model to drive a return on capital as high as possible versus building alternative standalone networks and then continue to compete on prices and you may not get the right return.

Your second question dealt with Huawei, our approach is we're not excluding anybody from expressing an interest in the final RFP that we will issue. We respect companies from different backgrounds and different - the origin of the company is not something we take into account as the final decision. What we will take into account is the ability of the company to have the right technology, the ability of the company to deliver the right technology, the ability of the company to support us, the cost envelope, the investment we have to make and over the lifetime of the technology is the roadmap there for new features, new functionality.

That is the most critical aspect of our evaluation and of course, all these companies have to meet very stringent criteria that have been imposed on the two 5G network operators for redundancy, resilience and security. So at this stage we're not excluding any particular company, it'll be a very competitive process. It does involve significant investments, so we look forward to receiving bids from any operator who wants to bid for our network when we go to market.

Aradhana: Sure, thank you.

Amelia Lee: Thank you, Aradhana, before we get to the next question, we have a question coming in from the webcast. Foong from CIMB has three questions. The first would be if management could break down the service revenue growth guidance of 1% to 3% into the respective business segments. The second question is on the dividend guidance, he is asking if that is a firm commitment, or is that still dependent on the earnings performance in FY20. And the third question is on the joint venture with M1 on the 5G licence. He is asking what is the StarHub-M1 edge over other players in securing one of the two licences and do we see this partnership with M1 also capitalising deeper collaboration across the whole network?

Peter Kaliaropoulos: Thank you very much for the questions, I'll take the third one first and then I'll ask Dennis to address the first two. In terms of the competitive edge between the bid we submitted to the IMDA, again, please excuse me for not elaborating on that. I did allude to in the previous answer that it's a more efficient use of capital, because it will provide coverage and capacity across the Singapore landscape by one investment instead of two investments. So apart from the efficiency of the capital that we will deploy, I think it's too early to talk about the uniqueness of our proposal vis-à-vis the other competitors. And again, we don't even know what the other competing bids are, so please allow us the opportunity for the process to be concluded and then we'll be quite happy to share with you how we will roll out a network and where we believe is the competitive advantage. It's a little bit too early.

Now two questions, one on dividends sustainability, I think, Dennis, and the other one breaking down the revenue guidance.

Dennis Chia: Okay, so on the two questions, I'll take the first one on the service revenue guidance of 1% to 3% growth over the FY19 service revenue. It really is a - we don't break it down in terms of the guidance. However, I will guide that it does take into consideration a number of projects or new initiatives that will come on stream in terms of the cybersecurity market that we've actually invested in, in Ensign as well as in D'Crypt.

We have also taken into account the structural changes and the competitive landscapes in each of our base businesses in mobile, in broadband and TV and the exit ARPUs and subscriber base that we have in each of these lines of business, as well as the enterprise business in both the managed services that has continued to register some growth. As well as the enterprising landscape on the connectivity side of the enterprise business. So that has all been built into the service revenue guidance in totality. We have also taken into account some of the impact that we do foresee in the current assessment of the impacts of the COVID-19 virus into this guidance as well.

On the dividends, barring any unforeseen circumstances, we do intend to pay the 9 cents, given that we are going towards the semi-annual reporting regime, as guided by the SGX, which took effect on 7 February. We will be paying this on a semi-annual basis starting from this year. So unless circumstances change dramatically, we intend to keep to this 9 cents.

Peter Kaliaropoulos: And just further to that, we always have the same communication language about our intentions. I think in the past we have been fairly honourable in implementing our intentions. And the last point I was going to make, just to clarify, Dennis, the bi-annual payment, of course, does not mean we will report to the market only twice a year. We do intend and in fact we will continue to report quarterly, but an abridged version.

Dennis Chia: Yes, absolutely.

Amelia Lee: Thank you, gentlemen. Let's take the next question on the call from Piyush.

Piyush: (HSBC, Analyst) Hi, good morning, or good evening, thanks a lot for the call and the opportunity. A few questions, firstly on the Pay TV, ARPU has sequentially increased in the fourth quarter, so can you help us understand what's driving that and what would be the outlook?

Secondly, on the post-paid ARPU, also that has inched up in the fourth quarter, so is that the exit ARPU trend also? And the outlook on the post-paid ARPU side, if you can elaborate. And lastly, how big is the roaming revenue component as a percentage of mobile revenue?

Peter Kaliaropoulos: Okay, Piyush, I thank you for your questions. Great opportunity to hear from Johan, who heads up our consumer business. So Johan?

Johan Buse: Hi Piyush, thanks for the question. On the Pay TV ARPU, it's stabilising after the cable to fibre migration. It's I would say a constant business, we see good uptake on the new introduced plans, so Q3 to Q4, as you said, looks stable, so our expectation is that we manage it to keep that way.

On the post-paid ARPU, similar, I think that was a question earlier actually in the queue on that. We're encouraged to see some stabilisation, obviously this will be depending on the market going forward and the price competition. We have seen some interesting developments in the market where we see some more, I would say, reasonable pricing being deployed. So we're hopeful that as that trend continues we can stick to that as well.

In terms of the roaming revenue percentage, that's something unfortunately I can't disclose. It's I would say a level which we would like to sort of - it's actually collapsed in both pre and post-paid revenues in total, so that's where you will find it.

Peter Kaliaropoulos: Piyush, again, just a couple of additional comments on the Pay TV. Right now the base has entirely migrated from cable to fibre. If you look at both companies and some of our quarter four numbers were delayed, cancellations because due to processing, but those customers had really left us in quarter three, they have indicated they didn't want to migrate. So we know that the market is definitely not growing and I think even the alternative company that provides Pay TV did not show any growth in customers in quarter 4. So we expect - this is an expectation of some rational pricing in linear markets for Pay TV, so if the market behaves rationally we expect stronger probability for ARPUs to stay stable.

The challenge I think we all have in Pay TV is not the two alternative options. There is piracy, significant piracy and we don't in the short term feel confident that's going to disappear. And of course, it slides to OTT service providers. But now that a lot of our customers, of course, through the migration are on long-term contracts, so the number of new customers in the Pay TV potential market to switch are very few every month and we just hope that that's irrational pricing and only a few customers coming to the market, we should be expecting that stabilisation. But again, the market behaves the way it wants to.

Piyush: Sure, thanks a lot. Just a follow-up on the mobile side, could you elaborate a bit on what have been the latest positive developments on the market side?

Johan Buse: Okay, there's a bit of a mixed bag, if I may put it that way, but I think the positive is that in case you haven't noticed it, we actually priced up to some of our tariff plans a couple of weeks ago. And that's something we have actually been seeing, not only with us but across the market, so I would say that's hopeful. The other thing which we find encouraging is that after a quite eventful 2019 in terms of subsidies and enterprising, that seems to be stabilising as well. So that is an encouraging sign when it comes to managing handset subsidies going forward.

Piyush: Thanks a lot, that's really helpful.

Amelia Lee: Thanks, Piyush. Let's take the next question from Varun on the call. Varun, your line is open.

Varun Ahuja: (Credit Suisse, Analyst) Hi, good evening everyone, I've got three questions. I want to just understand a little bit on the EBITDA margin guidance. So if you look at your operating costs this quarter, there is also one-offs included in one of your line items, around I think S$11 million. And you had in this quarter some again one-off costs related to migration of subs to fibre. Plus this year you should have some savings coming from shutdown of HFC network, the lease that you're paying to Singtel, right? So based on that, I just - and obviously there are cost saving initiatives that you're doing. Doesn't it look like your margin guidance is pretty conservative? Or is there any significant cost increase that you are expecting in the core business, excluding the cybersecurity? Or are you making a lot more investment in cybersecurity, where the margins are deteriorating further? That is one.

Number two on 5G, when do you expect to launch commercial services, hoping that you guys are one of the winners? Is it realistic in your internal estimates when you think there'll be commercial launch of services and what is the use case that you're looking at? Is it again that you're seeing across the region more mobile-centric use cases? That will be helpful. And again, will you try to push these services at a premium to 4G services? Some clarity on that will be helpful.

And lastly, if you can share in your joint arrangement with M1, is it both excess and core, or just one of them, or just excess network? Thank you.

Peter Kaliaropoulos: I will refer the questions on EBITDA guidance and the one-offs to Dennis and I'll address your other two questions, Varun, in the next few minutes.

Dennis Chia: Okay, hi Varun, on the EBITDA margin guidance, we've actually factored in obviously what we're seeing in terms of the ARPUs going forward on our base business. Bearing in mind, as Peter has guided when he walked through the initial results announcement, the mix of revenues going forward is changing. There are structural changes in our business and the competitive landscapes around our connectivity business and an increase in managed services as well, cybersecurity revenues as well that come into play, which have a relatively lower margin compared to our mobile line of business. So that's been factored as well.

To your question on the one-offs in Q4, we've taken a charge for a cable system that we no longer use, as well as certain restructuring costs as well in that. We've also taken into consideration certain IT investment costs for transformation into our EBITDA margin guidance as well. So those have all been factored in, where we guided to this margin level.

Peter Kaliaropoulos: In relation to the 5G rollout of services and use cases, again at this stage our guidance is what is happening in various other markets overseas. We see the consumer market to surprise in a way, but rationally it is the right trend. The consumers are jumping first to 5G, simply because the availability of handsets is becoming increasingly a wider range. The price points of the handsets are the same price points as 4G, so again it'll be more consumer led and also if we take into account that a significant number of customers in the Singaporean market are post-paid with a bundle, with a handset. So it's customers coming out of contract every month, they'll have the opportunity to enter into a 5G, because if the price for 4G handset is very close to 5G, they will take the opportunity. You have a much faster way of leveraging the network, plus you will always fall back to 4G if initially the coverage is not as widely acceptable as it can be and every new network will not provide 100% coverage from day 1. So you'll be able to fall back, so that process means that consumers will leave.

In terms of timing, again, should we win the 3.5 gigahertz frequency becomes available first quarter 2021 and the rollout of 3.5 gigahertz services is scheduled at that point in time, subject to getting approvals and passing those various certifications and network resilience tests and so on. Whether it will be fixed wireless access, whether it will be mobile-centric, I think these are the trends now FWA in Singapore it is less likely but still possible, especially in new areas and we're conducting some trials about that. But it'll be predominantly mobile-centric and at some point in time, the enterprise use cases will increase. And keeping in mind that we can serve enterprise with millimetre wave as well as 3.4 gigahertz.

So I think the launch of the two new licences will be towards the beginning of quarter 1 of 2021. We have to build a network, change antennas, reconfigure radio, as well as build the new course and SA course, so that takes a little bit of time. So quarter one, if everything falls into place, is really the due date.

In terms of millimetre wave for specific customer use cases, that can happen sometime this year, but it's not going to move the dial at all. I think the enterprise customers are doing more planning, they have to retool, they have to change and they'll take a little bit more time. And we're worried that the scale of potential use cases for the enterprise will not be grand scale. However, our millimetre wave is a tremendous alternative to Wi-Fi, secure, fast, so again we expect over time a number of Wi-Fi based enterprise networks to move to millimetre wave and 3.5 gigahertz.

Your fourth question was about what exactly we're doing together with the other company in terms of the joint bid. Again, it's far too early to tell you if it's access and core and backhaul. All of these things will be revealed if and when and we like to believe if, or sorry, when, the regulator decides. So please be patient on that, but we think it's a good network sharing arrangement for both companies. The only thing we can say to you, of course, the marketing will happen from both companies. The factory, the network infrastructure is predominantly the shared type of investment, not the retailing and the branding and the commercial office, the consumers, the wholesale, all of that will happen within its entity, not in the joint venture.

Varun Ahuja: (Credit Suisse, Analyst) Thank you, this is helpful. Dennis, just to follow up, if you can share some numbers about the cost saving with shutting down of HFC network, or the lease that you're going to pay, that you're paying to Singtel, thank you.

Dennis Chia: We've never disclosed that number separately and we respect the confidentiality of the contractual arrangement that we had with Singtel. So even though that obligation no longer exists, we do respect the confidentiality of that and the commercial sensitivities around that. It is a substantial number, we have said that before, but that's all I can say.

Peter Kaliaropoulos: In the guidance we've given you, we've allowed for the impact of that.

Varun Ahuja: (Credit Suisse, Analyst) Sure, is it in the fourth quarter number? Or you're yet to show in the numbers?

Dennis Chia: Well, everything that has been recorded in respect of that arrangement on the cable would have been recorded in 2019. There's nothing left for FY2020.

Varun Ahuja: (Credit Suisse, Analyst) Okay, thank you.

Amelia Lee: Thank you, Varun. For participants on the call, please press star-one if you have a question. In the meantime, we'll move on to a question from the webcast. Paul Chew from Phillip Securities is asking can management elaborate more on some of the projects that are driving the growth for cybersecurity?

Peter Kaliaropoulos: Again, I did mention that the cybersecurity business is built on four specific drivers for growth. One is consultancy, one is building the capability for a company, one is operating it and then maintaining it. That's what drives the revenue. The other part, the other dimension is multiple dimensions, multiple vectors. Of course, new clients to provide the full range of services, or new clients for either systems integration or consultancy or maintenance. And the third dimension for growth from cybersecurity is diversification in regional markets, not just Singapore, because despite how much growth there is in Singapore - and of course that's the origins of the Company - there's still bigger opportunities in regional adjacent market. So these are the engines for growth for cybersecurity.

Amelia Lee: Thank you, Peter. There are currently no questions in the queue. Please press star-one if you have a question. We'll take one last question from Paul.

Paul Chew: (Phillip Securities, Analyst): Sorry, can I just - I understand for the cybersecurity question, I understand the types of - or the general description of the types of what you are doing. I'm just wondering, could you just if possible elaborate on a typical project, a typical plain vanilla project that you do for cybersecurity?

And my second question would be I just wondered, there was a slight decline in your Pay TV subscribers quarter-on-quarter. I thought most of them were on two-year contracts, so I'm just wondering what are the reasons for the quarter-on-quarter decline, thank you.

Johan Buse: Maybe we can start with the question on Pay TV first. The reason why there is a small decline in Q4 is what Peter also referred to earlier on. A spill over at the request of some customers to be disconnected in Q4 rather than in Q3, so that's the reason on Pay TV.

Peter Kaliaropoulos: Thank you for your questions, Paul, but I wish I could say there's vanilla flavour opportunities in cybersecurity, because the vanilla flavour predominantly comes from the licensing of firewalls and those sort of products to protect clients. Our cybersecurity company is what we call a pure play deep, they're doing really threat analysis, they're doing potential offensive scenarios, as well as defensive, building defensive capability. They're doing vulnerability tests, so there's no such thing as a typical assignment because some of the clients may have some capability and they want to test that capability and build more resilience. Other clients don't really know where to start from, so there is a complete threat analysis from day one, hypothetical and then building and testing.

So there is no such thing as a vanilla flavour and what we're seeing, we're actually seeing all of these components which basically really break down to consultancy, build and operate systems integration and then management. All of them are growing and what also underpins that growth from Ensign, they have a unique research lab. So they're doing their own research, their own innovation and they're building unique intellectual property to be able to develop an advanced cybersecurity service to some of the government and multinational clients. I think I will not do justice to try and explain, simply because their level of expertise is unique and they're doing some of the complex work that other cybersecurities are really not yet able to live to the expectation.

So no vanilla flavour, it's more customised based on consultancy more than anything else. Of course they're running a SOC, Security Operation Centre, for maintenance and reporting and so on, but that's a sort of typical operation, but again within the SOC they have built in some further intelligent capability using data analytics, using AI. So it's really not something we talk about publicly, they really talk about to specific lines, about specific capabilities. It's not vanilla flavour; it's pure and deep cybersecurity play from the company.

Paul Chew: (Phillip Securities, Analyst): Thanks for that. Just wanted some elaboration. Just one quick follow-up. In the fourth quarter, just to clarify, I didn't really go through the numbers in fine detail, but you mentioned there was a fourth quarter charge for the cable system. Is it the S$10.9 million that's in the results? I just wanted to clarify that.

Peter Kaliaropoulos: That's correct, yes. We issued the pack late, so we understand we didn't give you enough time to go through all the numbers. We apologise, but yes, Dennis just confirmed that.

Paul Chew: (Phillip Securities, Analyst): That's fine, thanks for explaining. So that's inside the depreciation and amortisation, because I couldn't see a separate line item apart from the commentary.

Dennis Chia: No, that is actually included in the operating - in the repair and maintenance line. There's a separate line in the depreciation and amortisation for accelerated depreciation on certain IT systems that we intend to decommission, as a result of the IT transformation work that we're undertaking in 2020, two separate amounts.

Paul Chew: (Phillip Securities, Analyst) Sure, okay, thanks. So the S$10.9 million, just to confirm, is on the repair and maintenance, okay.

Dennis Chia: That's correct, yes.

Paul Chew: (Phillip Securities, Analyst) Okay and just one final, sorry to drag this on, but just one last question. Could you touch a bit more on any new developments on the content costs that you mentioned in the past to keep it more variable? That's just my last question, thank you.

Peter Kaliaropoulos: We're committed to continue to drive all the negotiations we have with the content providers at the end of the contract. We're committed to drive both the absolute costs down, but change the structure of that cost into a variable cost as well, totally variable. Again, at this stage we're not privy to share with you all the contracts that are coming up, but Johan and his team continually drive that. And as we're driving the cost of the existing content down, we're also looking at alternative content that has a variable cost and introducing that to repress some of our libraries.

I think that the only thing we can give you assurances that we will not accept any contract upon renewal on a fixed cost as per the past. If the content providers are not willing to show flexibility and introduce a revenue base model, a revenue sharing model and variable as well as a minimum guarantee, then unfortunately we'll probably be making some hard decisions and seeking alternative supply. But that's our approach to the business model, to make sure the Pay TV improves always its cash flow and its margins. I don't think we can be more specific with this provider.

Paul Chew: (Phillip Securities, Analyst) Okay, I just wanted to confirm that there's still run rate to lower the cost, I mean there may be still contracts yet to be negotiated.

Peter Kaliaropoulos: There are always contracts, at any month, contracts that are either two-year contracts, one-year contracts, three-year contracts. Look, if any material contract is up for renegotiation, subject to the outcome of that, we will inform the market. But it's business as usual in terms of contract renewals and renegotiation.

Paul Chew: (Phillip Securities, Analyst) Okay, thanks so much.

Amelia Lee: Thank you, Paul. In the interest of time, we will take our very last question for the evening from Piyush. Piyush, you have the floor.

Piyush: (HSBC, analyst) Yes, hi, just one question on the dividends. Would it be fair to assume that annually we will get a dollar guidance ahead of the - based on your assessments of the profits? Or would you at some point of time change to variable 80% of net profit in terms of dividend payout policy?

Dennis Chia: We have adopted a dividend policy in 2019 which effectively says that the Board will pay at least 80% of the net profit after tax attributable to shareholders, excluding any one-off and non-recurring items. The intention is to go to that policy. We decided to guide the market to an absolute dollar number in terms of a per share basis this year, but the intention is to actually move towards that. As to whether in 2021 we will still give an absolute dollar number or stick to that policy, it will be at the discretion of the Board, but we decided to do this for 2020.

Piyush: Okay, thanks a lot, Dennis. Have a good evening.

Peter Kaliaropoulos: Cheers, thank you for your question. Amelia, unless there are any more, I think we've kept everybody at least on for an hour.

Amelia Lee: Yes, thank you, everybody for joining us this evening. This marks the end of our call. As always, please feel free to reach out to us if you have got a question. Until our next results call, have a lovely evening.

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