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Event Transcript

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Start of Transcript

Eric Loh: Good evening, ladies and gentlemen. Welcome to StarHub's third quarter 2019 results announcement. My name's Eric and with me this evening we have the Chief Executive, Peter K; the CFO, Dennis Chia and also the head of the consumer business, Johan Buse and not forgetting the acting head of the enterprise business, Arthur Tang.

Now before we go into the presentation proper, just a bit of housekeeping for you. If you want to ask a question later on, press star-one, if you want to withdraw your question, press star-two. Now with that, let's welcome Peter to walk us through some highlights of the third quarter results.

Peter Kaliaropoulos: Thank you, Eric and a very good evening, ladies and gentlemen and thank you for your interest in our Company. Allow me first of all to offer you an overview against some of the key initiatives that underpin our transformation program which we announced 12 months ago, before our CFO, Dennis, walks through the details of the quarter 3 performance. I refer you to pages 4, 5 and 6 of the pack we published only a few minutes ago.

We had a strategy 12 months ago which we announced as part of the transformation program, called DARE. There were four pillars, delivering market-leading experiences, accelerating optimisation and value from our existing assets, finding growth from new investments and new opportunities in the marketplace and the fourth pillar was all about enhancing and accelerating our digital transformation.

Twelve months later, if I refer you to slide 5, you will see that we executed a number of initiatives to support that strategy. Under driving customer experience, we refreshed the brand and the brand promise with new pricing plans and new propositions for both mobility, as well as TV. We completed the cable to fibre migration and we actually improved the overall customer experience through various initiatives and we started a digital innovation. Some of the proof for those initiatives comes in terms of definitely the migration of customers from cable to fibre, but also very importantly we're seeing Net Promoter Scores and customer satisfaction and customer experience improving. And some of our lines of businesses are receiving NPS scores up to 45 points, which we have never seen before, for the last few years at least.

If we look now at how we get more value from our existing business, we optimised our resource levels and our workforce. We drove some further operational efficiencies across all lines of businesses. We launched some new entertainment offers, including *Go Max* and other OTT offerings. Part of that value optimisation, part of the proof is in the fact that we also announced a $210 million optimisation program and 12 months into the program we are reporting - and I'll walk you through the details - at least 60% achievement year-to-date against that program.

In terms of value from new growth opportunities, certainly in the last 12 months we accelerated the growth of our cybersecurity business and we've consolidated the Ensign group in terms of both the cryptography side of the business. We're also preparing the 5G bid, because we see potential opportunities and of course, it underpins the mobility business and we're exploring further M&A opportunities. Again as proof of that part of the strategy, we're executing well, tremendous growth continues on double digit levels from both cybersecurity and the enterprise business. And again, we were one of the first companies to offer a number of 5G trials so far and we're working on other trials with other customers.

Finally, in terms of enhancing ourselves on a digital front, we've done quite a bit of work in terms of our applications, like *MyStarHub* app. Currently we have more than 500,000 customers with very high ratings, over 4.5 and leading in terms of the Google Play book and the Apple App Stores. And 12 months later – we're very embarrassed to share with you what that rating was, but it was very, very low – so again, we're fixing the apps.

We're promoting our online digital sale capability, we doubled the online sales in terms of transaction, as well as value, over the last 12 months. We launched a fully digital brand in terms of giga and with a lot of innovation, first in Singapore market, in terms of the proposition itself, as well as the customer registration and activation of the SIM card. In the enterprise market, again in addition to cybersecurity, we invested in new capabilities like software defined-WAN capability. And we also deployed robotics process automation across all our operations to improve efficiencies.

If I now refer you to slide 6 out of the pack, our transformation programme and the benefits we're trying to derive, we're showing you high level, there are a lot of initiatives but we've grouped them in different categories. Certainly from the workforce optimisation, about 39% to 40% of the savings came from that initiative. About 25% is coming from a number of operational efficiencies in terms of rentals, in terms of repairs and maintenance, there's quite a wide number of initiatives underpinning that specific pillar.

And of course, the third category has to do with the TV business in terms of content and operation. TV is part of a brand, it's one of the pillars of the lines of businesses. We are committed to a more sustainable business and making sure we reduce the operating cost and the content cost, while giving customers a true alternative for content.

So far, 12 months into the operation, about 60% has been delivered. We believe there are more savings than the $210 million, but at this point in time we're committing to that. We have reinvested about 17% to 20% of those savings and the rest of the savings, once we deliver the rest of the program, predominantly will go to fund further digital capabilities to fund potential acquisitions. And some of those savings will go to the bottom line, but the majority is going to transform the operation.

If I now refer to quarter 3 results, let me say quarter 3 was characterised predominantly by again double digit growth from our enterprise revenues, both network services and cybersecurity. It was also characterised by the completion of the cable migration project. It was characterised by the consolidation of all cybersecurity assets under one roof, due to the synergies and potential complementary capability. And it was also characterised by the start of preparation to submit the 5G network feed to IMDA.

Also if you look at quarter 3 results versus quarter 2, Dennis will obviously comment on quarter 3 2018 versus quarter 3 2019, but we do take some comfort that quarter 3 2019 versus quarter 2 in terms of bottom line revenue in fact we're delivering a 3.7% growth in overall revenues in quarter 3 versus quarter 2. That's fuelled predominantly through network enterprise sales and cybersecurity as well as equipment sales, because a number of new models were launched in the marketplace. But if you also look at the other lines of business, mobility was almost flat, $190 million in Q3 versus $192 million in Q2. We did have a slowdown in revenues from TV, 13.3% reduction revenues quarter-on-quarter, because predominantly of the migration we have less customers subscribing to TV and also there are a lot of promotion initiatives impacting both TV revenues and broadband. So overall, the quarter 3 results versus quarter 2 are encouraging for revenue and encouraging for bottom line.

Finally, Dennis will give you detailed guidance. We're really not changing our guidance for a lot of the parameters, with the exception of revenues, because on the service revenue side we impacted a little bit more than we expected due to the Pay TV revenues. With that in mind, I'll now as Dennis to go through some more details on quarter 3 year-on-year and some other numbers in your pack.

Dennis Chia: Thanks, Peter. So I'm moving on to slide number 8 in the deck. So we reported total revenues of $572.6 million, a year-on-year decline, a slight decline of 1.6%. We reported EBITDA under post IFRS 16 impact of $170 million, or service EBITDA margin of 35.1%. And a free cash flow generated during the quarter of $107 million, or $0.062 on a first share basis.

Moving on to slide number 9, on the mobile revenue, we ended the quarter with 1.442 million post-paid subscribers and 785,000 pre-paid subscribers. In terms of post-paid ARPU, it was stood at $39 at the end of quarter 3 and for pre-paid ARPU it stood at $13.

Moving on to slide number 10, if we look at the Pay TV numbers, post-migration to fibre at the end of Q3 we stood at 347,000 customers and Pay TV ARPU stood at $40. Moving on to broadband, the total number of subscribers at the end of Q3 is 505,000 customers and ARPU is at $27.

Enterprise revenues-wise, for the quarter it remains fairly stable at approximately $107 million. And in terms of the cybersecurity revenue, that's grown from $16 million to $39 million per quarter and translating to a 135% increase. In terms of the enterprise revenue breakdown, you look at the data and internet revenues are fairly stable. We saw some growth in terms of the managed services revenue.

I'll move on to the financial details, and if you go on to slide number 13, I'll just pull some and highlight some key statistics. We talked about service - total revenue of $573 million, service revenues were $435 million versus $460 million a year ago and that's a result of decline in mobile, as well as Pay TV revenues, as mentioned a while ago. The EBITDA stood at $170 million for the quarter, versus $147 million a year ago.

In terms of net profit, we reported net profit of $57 million for the quarter, net profit attributable to shareholders would have been $58 million or $0.033 on an EPS basis. For the full-year it would be $145 million or – for the year-to-date rather – is $145 million or $0.084 on an EPS basis. For the quarter we generated $0.062 on a free cash flow and $0.105 on an EPS basis. And net debt to EBITDA ratio stood at 1.48x.

The revenue and revenue mix, we've made mention on the mobile and the Pay TV and broadband which remain fairly stable and enterprise revenues and the slide on page 14 gives you a sense of the revenues breakdown for each of our lines of business.

Moving on to slide number 15 and EBITDA, which has gone up to $170 million, which is the result of higher CP margins recorded during the quarter and an income grant, or other income recorded during the quarter as well, as well as better operating expenses.

If you look at service EBITDA and service EBITDA margin, we're standing at 35.1%, as we mentioned earlier, that's at the end of quarter 3.

Moving on to the cost of sales, the cost of sales is broken down into three main components. The cost of equipment, which is higher year-on-year as a result of the higher revenues that we recorded in quarter 3. The cost of services is lower, despite the higher fibre cost, variable fibre cost due to migration to fibre for our TV and broadband customers. And that's a result of lower content cost and we've also recorded lower traffic cost as a result of better rates and lower traffic values.

Other operating expenses is $254 million for - it's actually fairly stable at $248 million versus $247 million. The movement in the other operating expenses categories are primarily due to the reclassification of operating leases and to the depreciation and amortisation bucket, which has shown an increase. However, we did have a reduction in the R&M cost as well as staff cost, which has been part of the transformation savings that we reflect on slide number 6.

Net profit after tax is $57 million, as mentioned, compared to a year ago, which is fairly stable. And the free cash flow is $107 million for the quarter, or as a reminder, $0.062 on a per share basis.

In terms of outlook, the changes that Peter mentioned is revision of our revenue guidance on the decline of 2% to 3%, compared to a year ago. The other revision to our guidance is the reduction of our CapEx commitment ratio, which we formerly guided to a 10% to 11% on revenue. We're now guiding to 8% to 9% in terms of CapEx commitment for the year. Otherwise we are leaving our EBITDA margin guidance stable at 30% to 32% on a post IFRS 16 basis and we are guiding and keeping our dividend commitment to $0.09 on a full-year basis and $0.0225 for the quarter.

With that, I hand the floor back to Eric.

Eric Loh: Thank you, Dennis. Just a reminder here, if you want to ask a question press star-one, if you want to withdraw your question press star-two. Now first on the line, let's welcome Luis from Maybank. Hi Luis.

Luis Hilado: (Maybank Kim Eng, Analyst) Hi, can you hear me?

Eric Loh: Yes, we can hear you.

Luis Hilado: (Maybank Kim Eng, Analyst) Sorry, thanks for hosting the call. I have three questions, first two on wireless and the third on Pay TV. Peter mentioned earlier that yes, this is another quarter where you are hovering at about $180 million in wireless service revenues and it's the fourth consecutive quarter that it's around that range. Is it fair to say that now you're seeing the competitive environment is stable and there's room for some improvement going forward?

Second wireless question is regarding SIM-only. Can we get an update whether that as a percentage of your subscriber base is still growing and if you have a rough indication of what it represents today versus last quarter or year-on-year?

And last question on Pay TV, if I recall correctly there was the intention to have a major renegotiation for the Pay TV content partner this last quarter. Is there any update on that?

Peter Kaliaropoulos: Okay, Luis, thank you for your questions. If I take the first one, we do not believe that competition in the mobile market has stabilised. In fact we're aware that there are a number of new entrants coming in as MVNOs and there is going to be potentially in quarter 1 next year more competitive intensity. I think there's also potential expansion of offers in terms of further bundling between mobility, between other services, so I think we'll all be very happy if we saw no further intensity. But we believe it is just as competitive as it has been before and I think there is movement in some of the wholesale prices for MVNOs that will make sure the MVNO competitive threat will continue to be there. So I think we have not changed our forward-looking view and the comparative intensity, it is still as high as it used to be.

In terms of SIM-only market, yes, they continue to be attractive and if you look over the last 12 months, there has been a trade-off between pre-paid packages to SIM-only packages because of the value that they generate. And we're seeing - we continue to see that trend, but again we do not reveal the specific split between those numbers. But the majority of our customer base remains on post-paid bundle, handset and pricing plans and we don't believe that that percentage will change dramatically over the next 12 months. SIM-only market still is the minor share of the market, may be showing faster growth but the overall revenue contribution is coming predominantly from more stable post-paid contracted revenues.

Pay TV, we continue to negotiate with all our content partners. Over the last 12 months we have actually reduced the price that we pay for content right across almost every contract that's coming up for renegotiation and that continues to be the case and we will pursue that. And should the partners not be flexible at all and they stick to the old business model, we're quite happy to substitute that content for similar relevant content to our customers.

So we committed to have a sustainable Pay TV business which will not happen by signing content at the same cost as in the last one, two or three years. So content negotiations continue with everyone and I can assure you, we're moving more into variable and lower cost because again I think the content partners are realising that the subscriber base is changing, as well as they're coming - the majority of the big content partners, if not everybody, is also coming direct to the consumer. So that will continue and we're committed to driving more cost out of content, as we have done already this year.

Luis Hilado: (Maybank Kim Eng, Analyst) Thanks, Peter. Just one quick follow-up on the content cost, would you say you're halfway done with going to variable? Or any percentage you can - rough percentage…

Peter Kaliaropoulos: In terms of the majority of our contracts, we can say we're almost there. But in terms of the value, there are still a couple of major contracts in terms of total commitment of what we pay every year and they're still not there. So that's where the negotiation continues to take place. But as I said, we're very determined, even if we have high value perceived by the customer content, we're not prepared to continue to pay a fixed amount for that.

We appeal to the common sense and pragmatism of our content providers to come back with a variable cost model, because this is really what consumers want today. They want to consume quality content at an affordable per unit price and they tend to switch from one content package to another. So we need to provide that flexibility, we cannot just pay a flat fee for content irrespective of how many consumers actually subscribe to it. So I think overall we're getting there to have full variability, but we're not quite there, Luis.

Luis Hilado: (Maybank Kim Eng, Analyst) Thanks a lot.

Peter Kaliaropoulos: Thank you.

Eric Loh: Right, next on the line we have Ranjan from JP Morgan.

Ranjan Sharma: (JP Morgan, Analyst) Good evening and thank you for the call. Maybe first question from my side is on the 5G. You're saying the 5G policy has been set by IMDA. If you can share how you approach the - how you see the 5G opportunity, is that something that you can pursue on your own, or this will be a cooperate like you've seen in some of the markets?

On the second - this is a second question, it's the housekeeping side. Are there any one-offs in the third quarter that have been recorded? Thank you.

Peter Kaliaropoulos: Thank you, Ranjan. 5G question, we've said publicly, I think, for the last probably 15 months, since I joined the Company, that we do not believe in standalone networks. We believe Singapore is served extremely well by advanced infrastructure for both fixed and wireless and the smarter business model is for the operators to share that infrastructure, because that allows to have lower costs, and pass onto the consumer even more attractive offers. So we are committed to sharing as a principle and certainly the way we're approaching 5G is we are in discussions with all – only the MNOs can submit a bid – so we're in discussions with all MNOs to find the right partnership to submit a bid to be one of the two networks. So on our own, the business case is extremely, extremely demanding, especially for a market that is so well served with fibre. We really have 100% fibre penetration. In a lot of other countries, 5G, the huge take-up rate of 5G is more because of fixed wireless access as a substitution to fibre. When you see most of the deployments, in South Korea, of course, it's predominantly on mobility because of the content as well as the faster transmission. So here in Singapore we do not have the opportunity to provide customers with very high speed connections on wireless, because almost every location has fibre. So a standalone business case is very, very demanding and we believe we will be submitting a joint bid, once all the discussions are over, one that hopefully the structure of this joint bid is supported by IMDA. That is the right approach, rather than overlaying multiple infrastructures on our own and having more than two mobile networks.

In terms of one-offs, yes, I think if you go through the MD&A package, we're reporting that we received some fees from TPG, their share of contribution for access to tunnels was about $9 million because of that. So yes, that contributed to our bottom line for quarter 3 as well.

Ranjan Sharma: (JP Morgan, Analyst) Thank you, just one quick follow-up. So when you talk about joint bid, I guess also for network JVs, is that a correct understanding? And do you think that if you only have two operators building a 5G network, that brings back some pricing power to the operators? Thank you.

Peter Kaliaropoulos: Certainly we're talking about two networks effectively, because this is exactly what the call for proposal from the IMDA was all about. Very specific two networks, very specific about outdoor 3.5 gigahertz coverage and indoor everyone will get millimetre wave spectrum. In terms of will that give more power to the two owners of these networks in terms of the right pricing, I think again the regulator has inserted that we have an obligation, whoever builds these two networks and markets these networks to make them available to the other MNOs who may not have one on a wholesale basis and to the MVNOs. So that's an area, of course, yet to be finalised, but in the call for proposal there is some very specific retail minus or cost plus obligations to the wholesale market based on commercial negotiations. So again, if let's say 10, 12 MVNOs and four MNOs have access to 5G, I think the probability of really high pricing is there and I think it's responsible because the investment made by the two operators is massive. And more importantly, the proposition for the customer is different to 4G, it's a totally different experience. So we see the opportunity for different pricing strategy, but again it remains to be seen if all of a sudden 14, 15 brands will have 5G available from day 1, or predominantly two operators will have 5G from day 1. So there's a little bit of work to be done and again, the go to market is really 2021, first quarter 2021. So there will be quite a bit of negotiation between now and then in terms of wholesale pricing, as well as access to the network.

Ranjan Sharma: (JP Morgan, Analyst) Thank you so much, Peter K, good luck.

Peter Kaliaropoulos: Thank you, Ranjan.

Eric Loh: Let's welcome Arthur from Citigroup. You've got a question for us?

Arthur Pineda: (Citigroup, Analyst) Yes…

Eric Loh: Go ahead.

Peter Kaliaropoulos: I think someone just dropped out.

Eric Loh: Okay, Arthur, if you're listening in, we need you to dial back in again, because I think you dropped out. Let's move on to Foong now from CIMB.

Foong Choong Chen: (CIMB, Analyst) Hi, thanks for the call. A couple of questions from me. Firstly, on the transformation program that you've provided some update on, I just wanted to get a bit more detail on that. So if I look at the savings from operational efficiencies, the execution there seems to be still rather low, only 3% has been executed. Why is that? Do you expect the savings to be more back ended for that portion?

And can I also ask whether the savings for the cable lease from Singtel is under this category, or is not included in the $210 million savings? And also on the cost savings, I wanted to ask as well on the content cost, when you have finally gone through and reduced your TV content cost, how much would it be as a percentage of your Pay TV revenue? That is my question on the cost side.

Second question, I just wanted to ask a bit more on the reduction in the CapEx guidance, it's a fairly large change. What is driving that and where do you think this will be heading going into the next few years? And if you could, perhaps provide us with a long-term CapEx level for StarHub.
And thirdly, for the 700 megahertz spectrum, when do you think is the earliest we can start to use this spectrum in Singapore? Those are my three questions, thank you.

Peter Kaliaropoulos: Okay, Mr Foong, thank you very much for your interest. Let me take your last question first, 700 megahertz is still not available to us and again, the arrangement with the regulator is that six months before it becomes available we will be notified. As we understand, this is not going to happen anytime soon. It's more sort of pushed out because a couple of our neighbouring countries, of course, are using 700 megahertz for free to air TV and there's interference if we also use the same spectrum. So we see that the availability to use that spectrum more push back, maybe 12, 18 months, certainly not in the six months because we have not been notified.

Your second question about reduction in CapEx, before I ask Dennis to comment a little bit more about some of the initiatives to optimise cost, the approach we've taken is that we have some of our core businesses that are not growing and the CapEx we need to be very disciplined and prudent about funding lines of business that are not really growing. And we really want to do that within a single mid, single digit number in terms of CapEx. Of course, long term we are about to invest in a 5G network. That investment will be sizeable over five years, so again being prudent with CapEx for the existing line of business, especially the ones that are not growing, and then funding the growth part of the business, which is really enterprise and 5G. That will take us into double digit over the next few years, but the existing business without 5G, low single digit numbers that we're giving you guidance now will probably be the norm for the long term. Once 5G, assuming we are successful, then we will present the case of the investment we're going to make in 5G over a number of years. And of course again, we're motivated by sharing that network because the overall CapEx expenditure can come down substantially.

And it also depends on what type of sharing we do – if you only share the radio access network there's one level of saving, if the sharing model is deeper than just access network, the CapEx required becomes even less. So that level of detail we'll share with you once we're in a position to say okay, we've been granted a licence to build a 5G network with a partner. But in terms of business as usual, we really are committed to having mid digit numbers in terms of CapEx to revenue.

Your first question was all about whether we're executing quickly enough some operational efficiencies, whether the underlaying savings are in that and the percentage of cost for content. Let me take the content one. Again we're trying to drive that percentage as low as possible, but again we don't reveal that number, we don't split that number out. Dennis, do you want to comment a little bit more about operational efficiencies?

Dennis Chia: Sure, so I'll kind of add on, Peter, to some of the points that you made. And to specifically talk to your point about the NLA savings, those have been identified which is why that's been quantified as such. They've been classified as not executed yet, because the liability for the NLA still exists in the current year and they will take effect from next year, 2020. So you'll see that showing up as executed starting from 2020.

The other reason why you've got operational efficiencies acting at a lower level, relatively lower level than others is because we've started on our digital transformation journey and that obviously takes a little bit of time. So with that, you'll see that number going up over the years.

In terms of content costs, I'll just supplement what Peter has said in terms of if we successfully get all our content cost into a variable model, then of course the content cost as a percentage of revenue, will be lower. But that's also a function of ARPUs as they go forward as well and what customers will be willing to pay. So to give you a guidance of what that percentage is going to be is going to be difficult, because the market is very dynamic.

Finally, on just a supplement point on CapEx, on the guidance we've managed the CapEx down to 8% and we've looked at how to trim down the CapEx investments to what is essential to meet regulatory obligations, as well as to grow the business. And we've done that to this level and we intend to sustain this at this level going forward without the 5G obligations, but if we take the 5G obligations going forward we would also be looking for opportunities to reduce our business as usual CapEx to fund the 5G as well.

Foong Choong Chen: (CIMB, Analyst) Thank you, that's very clear.

Eric Loh: Next on the line we have Rama from Daiwa.

Ramakrishna Maruvada: (Daiwa, Analyst) Hi, good afternoon, I have only one question please. Could you please comment a little bit about the customers on the post-paid side? I read the commentary saying that it's low ARPU enterprise customers. Could you provide a little bit of colour here and also whether or not you expect resumption in customer growth going forward? Thank you.

Peter Kaliaropoulos: Okay, that particular case was one of our enterprise customers who had a very innovative solution for the hospitality sector. It involved a few tens of thousands of SIM cards, low ARPU and unfortunately, the Company got into some trading difficulties and they stopped trading. I'm not sure, Johan, if you want to add anything more?

Johan Buse: No, that's quite comprehensive.

Peter Kaliaropoulos: Look, in terms of ongoing customer growth, again we have to accept that the SIM-only market is really the new pre-paid market and from quarter to quarter you're going to see movements in SIM-only markets. There are a number of MVNOs out there, more than 12 that we've counted so far, individual brands of course and probably growing and they have lots of promotional activity every month, every quarter. So that market will be volatile, as the pre-paid market was over many, many years. So yes, we can expect some of the operators one quarter that may have a few more post-paid SIM-only registered.

Next quarter it'll be a little bit of a washout, because some of the MVNOs, the pricing model they get from the wholesale market, it does not make it attractive for them to retain customers with no revenues. So you will see some movement, but again let's keep in mind that we have 155% penetration for mobility in Singapore. So you're not going to see massive growth in people-to-people SIM cards. I think with 5G, with IoT stop being presented on slides and becoming reality in the next maybe couple of years, it'll be more machine-to-machine and IoT and 5G applications that will drive SIM cards growth, rather than people-to-people.

Ramakrishna Maruvada: (Daiwa, Analyst) Got it, thank you very much.

Peter Kaliaropoulos: Thank you, Rama.

Eric Loh: Right, Luis you've more questions for us?

Luis Hilado: (Maybank Kim Eng, Analyst) Yes, that's right, two follow-up questions. One is on the nature of the tunnel fees from TPG, is that a recurring rental income? And is the $9 million an accumulative amount, or something we should look at every quarter?

And the second question is regarding Peter mentioned an increasing number of MVNOs will be coming in. Are they having to be listed or unlisted operators, MVNOs rather?

Peter Kaliaropoulos: I'll let Dennis take the first question about the TPG fees and I'll give you some feedback on MVNOs. Dennis?

Dennis Chia: Okay, on the TPG fees, it's not a recurring quarterly revenue. So that's why we classified that as a one-off other income for this year. This will be a negotiated amount on an ongoing basis going forward, so if there's going to be portions of the tunnel that they would be looking to share going forward, then there will be fees negotiated on a commercial basis on a case by case basis in the future.

Peter Kaliaropoulos: Correct and it'll come in phases, as they get access. The question about MVNOs, whether they're listed companies or not, I don't believe it's appropriate to reveal some of the companies we negotiate. All I can say, some of them are very established operators in other markets and some of them are very entrepreneurial. So we're seeing the full spectrum of operators coming into the market for a number of reasons.

Luis Hilado: (Maybank Kim Eng, Analyst) Thank you.

Peter Kaliaropoulos: Thank you, Luis.

Eric Loh: Keeping our fingers crossed now for you, Arthur. Welcome back.

Arthur Pineda: (Citigroup, Analyst) Can you hear me now?

Eric Loh: Sorry, say that again.

Arthur Pineda: (Citigroup, Analyst) Hi, can you hear me now?

Peter Kaliaropoulos: Yes, we can.

Arthur Pineda: (Citigroup, Analyst) Okay, great. Just two questions from me please. Firstly on the Pay TV, can I just clarify, should we now be looking at the third quarter number as the base number going forward? Or are there still some lumpy disconnections towards end of September which will only be reflected in fourth quarter revenues?

Second question I had is just in regard to the preference and philosophy for 5G partnerships. Do you think it'll be better to pair up with bigger players such as a market leader, or is it better to pair up with a challenger in this regard? Thank you.

Peter Kaliaropoulos: Okay, thank you, Arthur. In terms of your first question about Pay TV, yes, we expect stability in our Pay TV revenues from quarter 1 next year, because in quarter 4 there was a residual number of customers that basically migrated or not in quarter 3. And we also have a small number of customers who in quarter 4 we had to extend only for a few days the service to them until we migrated. So we will have a little bit of churn from the first week in October. So quarter 4 revenues will still show some adverse impact from the migration, but quarter 1 onwards all the revenues will be stable. And what gives us confidence to say that is the great majority of customers today that we've migrated, if not all of them, so let me be very clear. All the customers we migrated are under two-year contracts, so those revenues for once the migration impact gets washed out, they will be stable going forward from quarter 1.

Your second question is very interesting and certainly in terms of being philosophical about partners, I think to be honest with you, it's more commercial pragmatism and quality of service that drives the relationship. We are agnostic in terms of the partner. We do believe what is best is to be able to build a robust network with the right quality of service, it meets the security, the cyber security criteria and all the other criteria that IMDA has set for us, and a partner who we agree about the JV arrangements and the shareholder agreement – we're more motivated to get that right rather than if it's the market leader or the challenger.

By the way, we feel we are the challengers, so we're open to a partnership with any of the MNOs as long as they're committed to the same objectives and goals we are committed, a decent quality network, robust and reliable network, and a fair and equitable shareholder agreement between the parties.

Arthur Pineda: (Citigroup, Analyst) Thank you very much.

Peter Kaliaropoulos: Thanks Arthur.

Eric Loh: [Stuart] or MC, who is on the line for Goldman Sachs?

Unidentified Participant: Yes, hi it's me, so Stuart here.

Eric Loh: You are Stuart right.

Unidentified Participant: Yes hi, I just want to clarify quickly here did you mention that CapEx will go to mid-double digits for 5G, am I hearing this correctly? Also how will the 5G CapEx requirement defer for 4G and lastly, when you start spending on 5G does this mean that you will not spend more CapEx on 4G or will the maintenance CapEx still be sizeable, thank you?

Peter Kaliaropoulos: Okay, Stuart, I did mention double digit but not mid double digit. So certainly when you do the maths the part of investment required will definitely push us more than 7% to 8% that we're currently spending for our core businesses. So automatically it will be double digits but again we will give you the guidance once the business is not only supported by our Board of course but once we are in the position to say, okay, we're one of the two licensed consortiums, one of the two licenses offered. We will be very explicit with the CapEx but the variability in the CapEx depends on which model the partners will come to agreement about sharing. Sharing the radio access network gives you one type of saving between the two partners, sharing more than radio access gives you a lot more savings and provides you with equal capability in the marketplace in terms of configuring products and pricing products and so on. So that remains to be negotiated and of course it remains to be approved by the regulator because whatever agreement we come to grips with we need to get approval from IMDA.

So if you do the maths definitely it will be double digit. It's the simple answer we can give you but I would then say mid-teens numbers. We'll come back and give you guidance, in terms of ongoing CapEx for 4G, again keeping in mind that eventually traffic will start migrating from 3G and 4G to 5G, so we will be very, very selective for where we are actually upgrading the 4G network. Singapore is a market where the majority of customers today either are on post-paid plans and within an 18-month cycle the great majority will come back to the market and when 5G is available most likely they will take a 5G handset and 5G subscription but of course coverage for 5G will not be instantaneous from day one.

So we need to have a very good 4G network. We're motivated to spend as little CapEx as possible to grow that network because a lot of the growth capital will go to 5G so we're trying to minimise investments in 5G and we're even thinking long term what we'll do with the 3G network. So again, we're committed, as Dennis said earlier, the CapEx required for the current businesses will be made, the single digit numbers, and really all the additional CapEx will go towards platforms and capabilities that will give us the opportunity to raise new revenues and higher revenues. So 4G minimum CapEx short answer and 5G double-digit, but we'll give you an indication of the average double digit impact for the first few years once the business case and the network license are secured.

Unidentified Participant: Understood, thank you for the clarification.

Peter Kaliaropoulos: Thank you.

Eric Loh: We've got time for two more callers. The second to last caller will be Prem from Macquarie.

Prem Jearajasingam: (Macquarie Securities, Analyst) Hi, thank you for the opportunity. Three questions from me please. First and foremost, I notice your comment about enterprise access pricing coming down, do you think we've come to the end of that cycle or do you foresee that this is going to continue into 2020 as well? That's one. Number two, could you just remind me what is the nature of this TPG tunnel revenue? Is it something that - are you building a network and when they come in tunnels and when they come and share these tunnels therefore they pay you a large fee or are you building together and this is your recognition of their part of the cost?

Finally, with equipment sales do you see any change this year in terms of the timing of those revenues that you are getting from the equipment sales because it does look like you've booked a fair amount of profit or gross profit from the equipment sales this quarter. I'm just wondering whether we continue into the fourth quarter or whether this is largely it? Thanks.

Peter Kaliaropoulos: Thank you very much Prem for your questions. First of all, in terms of enterprise pricing for connectivity what we see we've been seeing this for years now, it's certainly not just last quarter or I don't think it's going to be only next quarter. Corporates buy significant amounts of wireless and fixed access, a significant amount of SIM cards so that market is very competitive and typically there's an expectation if the same contract is going to roll over there's an expectation or more value for that enterprise customer.

Of course what we as operators always try and do is actually do that, offer more value, more bandwidth, more utilisation in terms of gigabytes and overall bandwidth so we don't depress the price. But there are some enterprises that prefer to book the saving and prefer a lower price than more value. So that part of the market will continue to remain competitive and the opportunity for us of course is that we have the smallest market share in the enterprise market compared to everybody else and especially the market leader. So we see the opportunity to win new customers and have new revenues as well as defend the existing customers with the right pricing strategy and the right value transfer to them in terms of getting more value for the same price. So that's some feedback on your first question.

In terms of the tunnels, the background to it is very simple. All the MNOs here in Singapore have obligations to meet quality of service standards – indoors and outdoors. So the tunnels of course is an area where signal drops dramatically and the IMDA and the operators over the years, before TPG entered the market, worked closely together to basically introduce facilities and share the cost in the past three ways to have coverage for tunnels. With TPG coming to the market that cost of course if TPG agrees for the existing tunnels they will pay their 25% so whatever that cost was instead of being split between three it's being split between four now for the existing installations.

Any new tunnel and any new infrastructure that the MNOs agree to share that cost instead of all of us replicating the infrastructure in that new tunnel or new highway. Again TPG will pay its 25% because what the operators are doing, we've discovered this for the last few years, not only it's meaningless to keep replicating infrastructure but some of the structures are very unique. In a tunnel you don't have the space and the freedom to run four sets of wires, four sets of equipment, it's a confined space. So we hope TPG in the future works with the other three operators because it's common sense for all of us to share that cost and where the three operators have existing infrastructure as long as TPG pays their fair share to get access to that that will continue to happen as well.

Equipment sales, I think Johan is better suited than me, but they're seasonally driven. When you get new launches of handsets you tend to get more of them in the marketplace and the appeal of customers is high and typically quarter four seasonally is an attractive period for bargains but I think Johan you can add a bit more colour to that.

Johan Buse: Yes, Prem, so thanks for the question. So building on what Peter said so, yes, we saw some good traction over the last quarter in terms of device sales both from existing customers recontracting as well as new. On top of that it's probably worthwhile to add one point which is related to the accounting treatment of device revenues. So with the IFRS standard basically the equipment sales goes at the expense of some of the service revenue and basically goes to the equipment revenue so you need to see both in combination.

Peter Kaliaropoulos: Thank you Prem.

Prem Jearajasingam: (Macquarie Securities, Analyst) Thank you very much.

Eric Loh: Welcome. Varun from Credit Suisse you've got questions for us.

Varun Ahuja: (Credit Suisse, Analyst) Yes sure, thank you I've got four questions. First on 5G you mentioned that you will be more willing to go on a JV route than partnership but in future if more spectrum gets available and the government wants to introduce an operator because that's what they've said maybe it's a little bit medium to long term, how do you see it, do you still want to have a shared network strategy in Singapore or is it more then you will venture out to have your own network? How do you see from a long term perspective whether in Singapore 5G will be more on a shared basis or it will be - eventually it will be more operators into the market having standalone networks, that's number one?

Number two, on MVNO it looks like your competitors they were much better competitive MVNO compared to StarHub so what's your strategy on that front, is there any in terms of negotiations that you are not able to get a strong MVNO partner or how do you see that market per se? Thirdly on the TPG one-time fee can you just give some more colour, what percentage of tunnels have now been taken up by TPG so that we can get some sense how much more is potentially possible, that would be number three?

Lastly on CapEx, your CapEx guidance obviously now in the business as usual you're mentioning should be around 7% or 8%, earlier it used to be 10% to 11%. So what kind of business as usual CapEx you have reduced was it earlier, what were the thought processes where you were spending and now with the new management you've reduced that CapEx, some commentary or qualitative commentary would be helpful. Thank you.

Peter Kaliaropoulos: Okay thank you Varun for the four questions. The first one, in terms of long term sharing of 5G networks, the way spectrum is offered to the operators from day one it is outdoor spectrum 3.5 for two networks but the millimetre wave 800 megahertz of spectrum will be given to four operators. So what we see the future being all about, if you think more enterprise use cases, enterprise customers versus consumer, for the nationwide coverage the consumer customer base predominately will be a shared network of 3.5 and as the operators have more millimetre wave they may decide to deploy that for the consumer market in some buildings more than others.

So it will be a combination but I do not believe you're going to see more than two 3.5 G networks, the economics don't really make sense. However in fast forward again to the future you will see potentially many operators delivering solutions for enterprise customers, specific use cases. In the short term the use cases in the enterprise segment there is a lot of marketing hype about those. We see maybe the enterprise market taking off in a couple of years, two to three years, simply because a lot of enterprise customers they have applications and processes that need to be retooled and transformed to new platforms and that will take some time to redesign, it will take some time to offset the fixed cost and migrate. So again, for enterprise maybe lots of micro networks, enterprise mobile networks on millimetre wave predominately in some 3.5 G but outdoor consumer networks definitely more shared.

Competitive offers to MVNOs, well again we've competed with everybody else. We have three MVNOs on our network so far. We're talking to lots of other potential entrants coming in but I think that's a fair share of what others have as well and of course we have a digital brand on our network as well. So we claim to have at least four different brands on our network, whether that makes us good or bad I do not know. But our approach again is that we're being very sensible in terms of pricing appropriately to recover the investment, the CapEx investment we've made into the network, and make sure we get a good return on that investment, plus allow the opportunities for the MVNO to make the right margin.

So our strategy behind MVNOs is that our network has capacity to accommodate many MVNOs but we're not going to sell below cost, especially incremental cost, just because an MVNO knocks on the door. We've got to get the right return and with four different operators and brands on our network I think we have a fair share of what's available in the marketplace.

Our third question was about TPG – to give you more granularity. Look, we don't share the level of details of how many tunnels we are actually sharing so far with TPG and how many more. This is really driven by TPG. They review their roll out strategy and their quality of cover obligations to the regulator and we're more driven by them, 100% of where our tunnels are - sorry, the tunnels in Singapore are and when the installations are with the other MNOs. We're quite happy to share 100% of that but at this point in time we're not at liberty to disclose the percentage of the tunnels so far that they don't meet - we haven't shared. As I said, we're driven more by them and where they believe the network has got any sort of black spots and lower coverage versus other parts. So definitely not a lot of the tunnels so far but we think over time if they're going to meet all the quality of service standards for IMDA they need to have 100% coverage. When that happens, we will share with you any one-off revenues going forward.

In terms of CapEx intensity for the core business, again I think we said earlier that we're not putting a lot more CapEx into our 4G network and certainly not the 3G network because within 12 to 15 months there will be another network that will take on capacity and coverage from our existing networks, so that's one area where we are spending less. Another area where we are spending less is that some of the buildings, which are non-enterprise buildings, some of the consumer locations, again we're quite happy not to roll out our own fixed network to those, we're quite happy to buy capacity on a needs basis variable cost and variable quantity from NLT.

So again, in the past we were spending a little bit of CapEx wiring up some residential buildings, again going forward, NLT offers a good product at a good price point so we'd rather use that CapEx for a fixed network where we believe enterprise customers are and the better returns. On the consumer market, the residential, we're going to rely more on NLT. Again, that brings down the level of CapEx intensity. Some of the other CapEx we're actually investing in is more on digital platforms and digital enablement of our processes but again compared to the infrastructure CapEx these are smaller amounts.

Varun Ahuja: (Credit Suisse, Analyst) Thank you.

Peter Kaliaropoulos: Thank you Varun.

Eric Loh: We're going to squeeze in one last caller and it's going to be Piyush from HSBC.

Piyush Choudhary: (HSBC, Analyst) Hi, good evening and thanks for the call. Two questions please, firstly on this TPG piece, is there an estimate which you can share on other income which could potentially come or longer term talking two to three years if TPG has to share all the tunnels? That's question number one, secondly on Pay TV and broadband ARPU are there any one-offs which are impacting the reported ARPU or this is going to be the new baseline numbers, thank you?

Peter Kaliaropoulos: Hi Piyush, good to hear from you again. TPG tunnels again to be honest with you we really cannot give you anymore granularity on this. As an operator TPG I'll assume every MNO if they can meet the quality of service standards to IMDA they may decide that I don't need to go into every tunnel. It's really - we can only speculate and we don't even have the right to speculate. I think it's important that you hear from TPG whether they intend to be in every tunnel or not.

Certainly, we would welcome them to come into every tunnel and once they decide to do that we will work out whatever the cost is that has already been prepaid by the other three operators – ourselves included. So we can't share with you whether it's 50% of the tunnels today or more, that's up to them because they may be able to meet the quality of service obligation without access to the tunnels. Personally I can't see how but as I said I can't speculate on that. In terms of one-off for TV…

Johan Buse: Yes, maybe I can give you a bit of clarity on that Piyush. So the one-off I would say is basically the ARPU revenue impact on both home broadband TV is on the back of the cable-to-fibre migration. As part of that we have been offering customers certain benefits and that's something you will see flowing through in the quarters to come.

Peter Kaliaropoulos: There is another one-off on the positive side. The migration cost us a little of OpEx, marketing, promotions, customer experience, so we had to put more people, more installers, so that was a one-off expense booked and most of that expense is booked by the end of quarter three. So hopefully going forward some of that OpEx for the migration is not required.

Piyush Choudhary: (HSBC, Analyst) Thanks a lot but just on this broadband ARPU one-off is it possible to share what's the quantum of that which is impacting the ARPU?

Johan Buse: No, I wish we could do that but I think that would be going in too much detail at this point of time. Rest assured this is a temporary effect and going forward it will be [unclear].

Peter Kaliaropoulos: Piyush to be honest with you again part of the migration we had to meet a number of regulatory requirements that we could not impose a higher price for some of the customers who were paying a certain amount per month for the old TV service. But when these contracts are coming up for renewal potentially there will be some uplifting revenue so it's not going to be an adverse impact, if anything going forward there will be a small incremental positive impact.

Johan Buse: Yes, exactly.

Piyush Choudhary: (HSBC, Analyst) Sure, thanks a lot that's very helpful.

Peter Kaliaropoulos: Thank you Piyush.

Eric Loh: Thank you, ladies and gentlemen that ends our results call for this evening. We look forward to engaging with you as we go on the road from tomorrow onwards either at one-to-ones or at the conferences. Until the next conference call, which is February of 2020, have a good evening.

Peter Kaliaropoulos: Thank you for your interest, good night.

Johan Buse: Good night.

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