Event Transcript

Company: StarHub Ltd
Title: Second Quarter 2017 Results Announcement
Date: 2 August 2017
Time: 6:00 pm SGT

Start of Transcript

Eric Loh: Good evening, ladies and gentlemen. Welcome to StarHub's second quarter 2017 results announcement. My name's Eric and with me this evening we have the CEO, Tan Tong Hai; the CFO, Dennis Chia; the CMO, Howie Lau; and the Chief of EBG, Dr Chong.

Now before we go into the presentation proper, a little housekeeping rule here. If you want to ask a question later on, press star-one, if you want to withdraw your question, press star-two.

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

Tong Hai Tan: Thanks, Eric. If you turn to slide 5, we'll show you the overview of second quarter versus a year ago. The financial highlights are these. Total revenue decreased 1%, service revenue decreased 2%, EBITDA margin at 33.2%, higher than what we have guided at between 26% to 28%. Net profit after tax is down 21%.

Revenue growth in enterprise fixed, we have subscriber growth in both pre- and post-paid mobile and we have registered a low churn rate across all businesses.

Slide number 6 shows you the key financial highlights. You can see that because of the drop in the service revenue of 2% year-on-year, the EBITDA is actually down by 6% because of lack of adoption of income grants, as well as higher cost of services and higher handset subsidies. The EBITDA margin at 33.2%. Net profit after tax is down 21%, but if you net off the one-time fair value gain of $9.5 million from the investment in mm2, the net profit drop year-on-year is only 14% for the second quarter and for the first half it's 17%.

CapEx cash payment is $105 million [sic - see presentation "$115 million"], that's because this quarter we pay out $69 million for the spectrum that we have auctioned for. And percentage of CapEx to revenue ratio is higher at 19.8%, that is including the spectrum. If you net off the spectrum payment, then the CapEx to revenue ratio is about 7.8% for the second quarter and for the first half it's 6.7% if you net out the spectrum payout. So this actually way below our guidance of 13% for CapEx to revenue ratio. Free cash flow is $0.009, $0.079 for the first half. Net debt to trailing 12 months EBITDA ratio is 0.82x.

Now slide 7 will show you the revenue contribution by product line and you can see where the drop is coming from; it's mainly from pay TV services. The year-on-year drop is about $7.5 million for the second quarter. Mobile is about $2.6 million drop and broadband is $1.6 million. The enterprise fixed services revenue has grown $0.6 million, so total service revenue is actually down 2% as a result. If you look at the sale of equipment for the second quarter, it's an increase of $4.5 million. So as a result, the year-on-year total revenue is about 1.1% lower.

The slide number 8 shows you the revenue mix. You can see that mobile services remains the highest revenue contributor at 52.3%. Pay TV has achieved contribution, a drop from 16.3% a year ago, to 15.2%. Broadband services is around the same level from 9.3% to 9.1% and enterprise fixed services has grown from 16.8% to 17.1%. Sale of equipment is higher, so it is about 6.3% versus 5.5%.

So with this, I pass over to Dennis to cover the financial highlights.

Dennis Chia: Thanks so much, Tong Hai. Moving on to slide 10, for quarter 2 of 2017 we generated an EBITDA of $180 million, compared to $192 million a year ago. For the half-year we generated EBITDA of $341 million, or 31.6% versus $375 million or 34.2%. The differences in EBITDA between the - on a year-on-year basis for the quarter, as well as the first half of the year, are due to a number of factors. Firstly, the lower service revenue from a number of our lines of business. Secondly, the lower income grant. Thirdly, the higher cost of sales and this was offset by lower operating expenses.

Moving on to slide number 11 on cost of sales, cost of sales for quarter 2 was $227 million, versus $217 million a year ago and for the half-year it was $487 million, versus $447 million a year ago. The movements in the cost of sales components are as follows. Firstly, the higher cost of equipment due to higher sale of handsets. Secondly, higher cost of services due to higher cost of content from accelerated content amortisation and higher NGNBN payments. This was offset by lower traffic cost, in line with the lower usage revenues that were recorded.

Moving on to slide number 12 on other operating expenses, other operating expenses for quarter 2 was $241 million, versus $251 million a year ago. For the half-year it was $479 million, versus $507 million a year ago. The movement in operating expenses was lower staff costs, lower operating leases due to the CapEx that we've incurred in rolling our own fibre. The lower marketing and promotion costs. We recorded higher repayments in this cost because of our extended infrastructure and higher depreciation and amortisation, due to our expanded instructed and slightly higher allowance for doubtful debts.

Moving on to slide 13 on the net profit after tax, net profit after tax for the quarter was $86 million, or $0.05 per share. For the half-year it was $159 million, or $0.092 per share. The variance in net profit between year-on-year basis was due to lower EBITDA, higher depreciation costs and higher interests costs due to increased debt borrowings. Our effective tax rate remains constant at about 17%.

CapEx payments for the quarter was $115 million, excluding the spectrum payment of $69 million that we made for the 900 gigahertz and 2.5 gigahertz band for spectrum for the quarter. It would have been $46 million or 7.8% of our revenue. For the half-year our total CapEx payments was $148 million, or 12.7% of revenue. Excluding the second payment of $69 million, it would have been $79 million or 6.7% of revenue.

Free cash flow for the quarter was $16 million and for the half-year was $133 million, or $0.077 per share. The lower cash flow was due to the low EBITDA, as well as the working capital requirements and higher capital payments.

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

Howie Lau: Hey, Dennis, thanks so much. Thanks so much for joining us this evening, I will take you through the business update for mobile, pay TV, as well as broadband.

So if we go to - let's start with mobile. If we go to page 17, on a year-on-year compare, our total customer base expanded by 55,000 and the ARPU decreased $1 to $70.

If you go to page 18, let me give you a bit more colour. We closed quarter 2 at about 2.29 million customer base, which is similar to quarter 1. On a year-on-year basis we grew 55,000 and this is contributed about 33,000 from the pre-paid and about 21,000 year-on-year growth from the post-paid. The overall mobile penetration rate still remains at about 150%.

If you go to page number 19, in terms of the churn rate, quarter 2 we saw a higher churn rate of 1%, compared to 0.9% in quarter 1 and on the half-year, similarly we see a slight edging up to 1% compared to 0.9%, the half-year in 2016.

On page 20, in terms of revenue, quarter-on-quarter the quarter 1 we closed at $296 million and quarter 2 at $302.7 million. On a half-year basis we closed at $598 million and we continue to see a continued increase in terms of the tiered data plans. In quarter 2 we see the tiered data plans closing at 68.4%, which is higher than quarter 1 of 67.8% and higher than last year's same period of 66.3%. The percentage of customers exceeding their data plans has also decreased. Quarter 1 was 31.8% and quarter 2 we closed at 33.4%.

Moving to page number 21, where we look at the ARPU, the pre-paid ARPU quarter-on-quarter remains constant at $15. On the post-paid side, from quarter 1 to quarter 2, we went from $67 to $70. The average gigabyte per customer edged up again and we saw it close at 4 gigabytes, compared to a quarter ago of 3.9 gigabytes. Compared to a year ago it was at 3.3 gigabytes. So the - but on the half-year basis, compared to last year the blended ARPU is at $69 compared to $70 a year ago.

So that's for mobile. If I jump to the pay TV slide on page number 23, pay TV on a year-on-year, the revenue decreased by 8%. We continue to see ARPU flat at $51 and we saw a customer base decrease of 41,000.

Page number 24, the quarter-on-quarter we saw quarter 2 ending with 477,000 of subs. We do continue to see headwinds coming from alternative viewing means as well as piracy. We do also see that churn remains pretty stable at 0.9% across from quarter 1 to quarter 2.

Page number 25 on the revenue and the ARPU, the quarter 2 we closed the revenue at $87.9 million. We do see a lower subscription revenue, but offset by a higher advertising revenue. The ARPU remains stable at $51, as we continue to retain the higher value customers.

Now let me jump to broadband on page number 27. On the year-on-year basis revenue decreased 3% and ARPU was at $36. The customer base on a year-on-year basis was lower by 6000.

Page 28, quarter 2 we closed the total number of broadband subs at 467,000. Against that, if we peel the onion a little bit we saw an increase in our fibre broadband customers, compared to a year ago where we had 328,000 fibre sub customers. This quarter we have 373,000, which is a 45,000 year-on-year increase and the quarter-on-quarter 3400 increase in terms of sub. In terms of churn, we saw a slightly higher churn, from 0.9% to 1%, but on a half-year basis, compared to last year first half, we closed at 0.9%.

Page number 29, revenue and ARPU. Revenue for quarter 2, we closed at $52.8 million and this is largely due to the lower sub base. And from ARPU we closed at $36.1 down from $37 previously, as we have introduced a cable plan, the MOL200, as we remain the only operator to have both fibre as well as cable broadband offerings.

So with that, let me hand over to Dr Chong to take us through the enterprise fixed update.

Yoke Sin Chong: Thank you, Howie. If you turn to page 31, for enterprise fixed, data and internet revenue has increased by 4% and the voice revenue has decreased by 18%.

Let's turn over to page 32 and 33, where we'll sum up the report. Enterprise fixed service revenue increased by 0.7% year-on-year. The revenue for first half of 2017 increased year-on-year by 1.8%, mainly due to growth in data and internet services and partially offset, as we saw before, by lower voice service revenue. And the data in internet service revenue for second quarter of 2017 and first half of 2017 was higher by 3.6% and 5% respectively, primarily driven by higher demand for managed services. And the voice service revenue for second quarter of 2017 and first half of 2017 was lower by 18.3% and 18.4% respectively, mainly due to lower traffic from IDD and international interconnect services.

With that I'll pass the time over to Tong Hai for comments on outlook.

Tong Hai Tan: Thank you, Yoke Sin. For the 2017 outlook, we maintain service revenue to be about 2016's level. Maintain EBITDA margin on service revenue to be between 26% to 28%. Maintain cash CapEx to be about 13% of total revenue, this excludes spectrum payments. We will declare an interim quarterly dividend of $0.04 per ordinary share for the second quarter 2017. We intend to pay a quarterly cash dividend of $0.04 per ordinary share for the financial year 2017.

Eric Loh: Okay, we're open for Q&As now. If you have a question, press star-one. The first on the line this evening is going to be Piyush from HSBC. Piyush?

Piyush Choudhary: (HSBC, Analyst) Yes, hi, good evening. Thanks a lot for the call, two questions. Firstly, if you could throw some light on what led to the increase in the post-paid ARPU quarter-on-quarter from $67 to $70. Is it fuelled by the DataJump plan? And if you could throw some light on the outlook for the same.

Secondly, any update on the network sharing agreement with M1, if there is any progress. And if you could also highlight the timeline for the use of 2.5 gigahertz and allotment of 700 megahertz, thanks.

Howie Lau: Okay, hey Piyush, this is Howie, let me just take the first question. You are right, we do see a good take-up on some of the VASes as well as data usage, which has contributed to the quarter-on-quarter increase on the ARPU. In terms of the outlook, obviously we will continue to monitor the consumer patterns and what they want, so that we are able to keep introducing the right plans.

Tong Hai Tan: With regards to the network sharing with M1, we're still in discussion. So if there's anything substantial or material, we would share it with all of you. At this moment we are still doing our usual fact sharing or common access sharing for a few things and the discussion is still ongoing.

With regards to the TDD spectrum that you're asking about, the 2.5 gigahertz, this is what we actually this quarter paid for this spectrum and we'll start commencing usage. In fact, as we speak, we already have tried to do all the preparation for the launch of this usage of this 2.5 gigahertz, the TDD spectrum. So we have commenced usage by the third quarter.

As to the allotment of the 700-megahertz spectrum, this will be dependent on the analogue switch off of the TV, analogue switch off. As of now, it's forecasted to be first half of next year, but it may be delayed, depending on the neighbouring countries, whether they also adhere to the same analogue switch off time of June next year.

Piyush Choudhary: (HSBC, Analyst) Sure, thanks a lot. And can I just ask, from few months back to today, has there been any progress in terms of detailed discussions with M1 on the sharing of MOU? Or it's still at the similar stage? If you can throw any kind of tentative timelines also on when this could commercially be live.

Tong Hai Tan: I think we - there will be a strategic review and of course, with the strategic review off now we can actually spend a bit more time to go into the details. But I don't have any specific timeline for you.

Piyush Choudhary: (HSBC, Analyst) Okay, thanks a lot.

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

Luis Hilado: (Maybank Kim Eng, Analyst) Hi, good evening, thanks for hosting the call. I have three questions. The first was regarding post-paid mobile subs, the quarter-on-quarter decline. Was that mostly because of the 2G network shutdown? Or due to competition? And I guess related to that, is the ARPU increase as a result of the mathematics behind that?

Second question is regarding the CapEx run rate. You've mentioned that it's just around 8% if you exclude spectrum, but you've maintained a guidance. So are you expecting a second half catch-up? And is any part of that CapEx to do with any investments in the digital space, or again, cyber security?

And last question is on the broadband business. The subscribers declined quarter-on-quarter, just wondering if you could shed some colour on what's driving that.

Howie Lau: Hey, Luis, this is Howie again. Let me take questions 1 and 3. On the post-paid side, on quarter-on-quarter, we saw a drop largely due to two reasons. We saw the increase in competition, but at the same time we saw a number of enterprise projects coming to an end. And from time to time, depending on different cycles, some of these projects will come to an end. So that has contributed to the decline on the post-paid quarter-on-quarter. But at the same time, I think we will happen to see the continued increase on the pre-paid side by about six-point-something K.

And as you have also pointed to the ARPU increase, it's as a result of the increased take up in some of the VASes that we've launched, as well as data usage. Besides the Plus3 that we launched earlier part of the year, we've launched DataJump and DataShare and those continue to be well received by the customer. And as mentioned to Piyush a bit earlier, we will obviously continue to monitor, because it's important for us to understand the consumption pattern so that as it changes, we will introduce new plans as well.

On the broadband, as you probably know, the market is very competitive in the broadband space and for us, it's very important to - while we saw the increase on the fibre quarter-on-quarter and year-on-year, we've also introduced the cable plan, we've doubled the speed for cable to 200, because we see the customers will - different segments of customers will require different types of broadband. But our focus is beyond staying competitive, to make sure that the service level is something that we can be proud of. Earlier, I think about two months ago, the customer service index for Singapore CSISG released a report on customer service and we are very encouraged that we have emerged number 1 in terms of the broadband customer service in Singapore. And we will continue to focus on that because ultimately it's not just about being price competitive, but the service level associated with it.

Dennis Chia: Hi, Luis, this is Dennis and I'll take your second question on CapEx. So for the first half, we have recorded CapEx of about 6.7% excluding the spectrum payment. We do expect a catch-up in the second half of the year and this is in regards to the capital expenditure commitment that we've actually entered into in relation to the mobile and the fixed infrastructure. We have also guided in the past that we will continue to increase coverage to compete more intensely in the enterprise space. So the cash CapEx will catch up in the second half.

Luis Hilado: (Maybank Kim Eng, Analyst) Thanks for that. Just one follow-up, regarding CapEx for the longer term, is the 700-megahertz spectrum issue, is there any guidance if there's a CapEx bump up for that year?

Dennis Chia: So the capital commitment for the 700 megahertz is $282 million, that figure has been publicly released. The payment due date for that will be six months prior to the spectrum being available, so it depends on when that spectrum becomes available, whether it is sometime in 2018 or sometime in 2019. The payment will then be made six months prior to the available date.

Luis Hilado: (Maybank Kim Eng, Analyst) But will it contain any additional network CapEx, not spectrum fee, but just network CapEx?

Dennis Chia: The 700-megahertz spectrum is a low frequency spectrum, so the capital expenditure associated with that spectrum tends to be more efficient.

Luis Hilado: (Maybank Kim Eng, Analyst) Thanks for that, Dennis and Howie.

Eric Loh: Thank you, next on the line is Sachin from DBS.

Sachin Mittal: (DBS, Analyst) Thank you, I have a couple of questions. Firstly, we have heard about 5G being launched commercially in Korea in 2018. So we are kind of - and in a couple of countries trying to launch, in Japan, in China in 2020. But what is your expectation in terms of 5G launch in Singapore? Because we are hearing about the CapEx for 5G being quite high, compared to 4G and that may have some implications on the free cash flow. So what kind of spectrum are you looking at and what kind of timeline Singapore should look at in terms of 5G, that's question number 1.

And secondly, is a relevant question, how much do you think can the NarrowBand IoT take and how much - essentially not all business cases can be done by NarrowBand IoT. But what is your update on NarrowBand IoT, because ultimately this seems to be the in-thing solution to 5G, but I just want to know your view on that.

And third question is on different market reports about 100% of these people migrating to fibre broadband in the next two or three years. So essentially your cable broadband, the maintenance cost being high. So what is your view on that? Is cable broadband platform really that high in terms of maintenance cost? And secondly, you do leave some network from your competitor for the broadband access, but will that give maybe some savings because of migration to the fibre platform? Thank you.

Tong Hai Tan: Let me answer the 5G question. Actually right now we are on 4G and we're preparing ourselves for 4.5G or 4.8G or 4.9G, because we think that the 5G spec is still being finalised and there's from a regulator perspective, they have actually just said that they will be issuing some of this 5G spectrum for trial. But then I would say that at this moment 4.5G is more real right now. And there are also a lot of things that you need to prepare at the back end. Thankfully StarHub has invested in our fibre network, so you need to also fibre up the backend and all those. So in a way, we are preparing ourselves for 5G.

The fact that we have auction for the TDD spectrum, which many reckon that is an entry point to the 5G, is our starting point. So we have actually begun our journey to 5G, but then at this moment, we think that 5G will require a different set of investment and we don't see that in the near term right now. In fact we see beyond 2020. Okay? So there is your 5G question.

Secondly, with regards to the NarrowBand IoT, we have really started trial on the NarrowBand IoT in varied trials with some urban logistic and we continue to do this trial just to see how from a nation, how we can support the smart nation initiative. At this moment, I think we're still at the early stage of the NarrowBand IoT, so in terms of forecasting how much it can contribute to our business, I think it's still early stage.

Your last point, question on the migration to fibre broadband and what are we going to do with our cable broadband. I think that cable broadband, cable infrastructure supports both the pay TV as well as our cable broadband. So it's the same infrastructure for both, so we are actually leveraging on it to be able to run both TV and broadband. At this moment, I think it's still a sunk-in investment for us, so we will sweat the HFC asset and as Howie as mentioned, we recently just launched the cable broadband to double up the speed from 100 megahertz to 200 megahertz and offering them at a very attractive rate for our lower cable subs.

So we intend to sweat the cable assets for as long as we can, while at the same time embracing fibre. You'll notice our fibre broadband has actually grown to 373,000 as of this quarter. So we continue to migrate them, but I don't think that we are forcing our customers to migrate to fibre broadband, because there's still a timeframe for us to sweat our HFC asset.

Sachin Mittal: (DBS, Analyst) Tong Hai, just a clarification, if it is all sunk costs, are you saying there is not much maintenance cost? I think we saw some report say your maintenance cost is much higher, [unclear] higher than the fibre platform. So even leasing cost, when you lease some kind of network. Just want to understand that is completely 100% cost, or no? There is some agreement on cost?

Tong Hai Tan: There is regular maintenance cost, especially when we upgraded the speed from 100 megahertz to 200 megahertz there is only I would say incremental spend to bring it up to that speed. You're right that there is some network leasing cost that we incur to run the cable broadband, cable infrastructure. So that is something that is a real factor in our plans, but existing cable assets are sunk-in cable assets. So there are some leasing charges. Of course, if we do not run the cable assets we will save these costs. But at this moment, they're still running it, so the cost is still there.

Sachin Mittal: (DBS, Analyst) Okay, great. Thank you very much, very helpful.

Eric Loh: Okay, Sachin. Next, let's welcome Arthur from Citigroup.

Arthur Pineda: (Citigroup, Analyst) Hi, thanks for the opportunity. Two questions from me please, firstly on the guidance. You've mentioned service revenues turned out to be flat, but you were minus 2% in the first half. Margins, on the other hand, targeted 26% to 28% and as of the first you were running at 32%. I'm just wondering why the margin - why the revenue and margin guidance has been upheld, what cost items should accelerate in the second half and what changes should we see in the revenue lines in the second half as well, so they're turning flat.

Second question I had is with regard to the HFC assets. Can you just clarify that these assets have been fully depreciated and that a full migration to fibre shouldn't result in any additional D&A charge. Thank you.

Dennis Chia: I'll take the question, Arthur, on the margins. So for the first half, we recorded EBITDA margin of 31.6%. Typically in line with our historical trends, our EBITDA margin in the second half of the year, particularly in quarter 4, would be relatively lower. And this is the result of the timing of the smartphone launches that would happen, as we do know there are a couple of smartphone launches, or iconic launches scheduled for second half of this year. As a result, we do expect relatively higher CPE subsidies associated with those handsets being launched, so as a result, factoring that into consideration and with historical trends, we do expect to keep our EBITDA margin guidance in line with what we have previously provided.

Tong Hai Tan: On the revenue side, yes, so for as of second quarter is down 2%, but you notice that we have four key line of businesses and there's a steady growth in the enterprise fixed, so we expect enterprise fixed to continue to grow.

Mobility side there's also opportunity for us to grow as data usage increase, and we intend to launch plans to help us to grow the mobile revenue.

Yes, the pay TV revenue side is facing some downward trend, because of the alternative ways of viewing and of course the problem of piracy, and that's something that you will see that that is actually dropping, but cable broadband or fibre broadband and all this we will intend to leverage on our dual broadband strategy to ensure that we continue to at least if not maintain the momentum in terms of the cable business or broadband business.

So as a whole, we think that we should be able to still maintain our guidance of around the 2016 revenue number.

Dennis Chia: Okay, Arthur, your second question on whether migration or who migration eventually to fibre would entail a write-off of our HFC network, the answer is no, because the assets are largely fully - almost fully depreciated and as such we do not expect to take any write-offs as a result of that.

Arthur Pineda: (Citigroup, Analyst) Sorry, if I can just have a follow-up question, please, with regard to the piracy issue - are there any initiatives being put in place by the government to curb this, or there's really no movement on that side?

Howie Lau: Yes, this is Howie again. I think the piracy, we have seen different reports in the market of the increase in piracy. I was just reminded that in May I think Channel News Asia ran a report that unfortunately Singapore ranked number nine on a global level in terms of piracy. So there are different discussions initiatives undergoing, but this is a - not just a Singapore challenge but a global challenge that will need multiple initiatives. So the - I think it's an area that we're trying to work with different parties to see how we can help with the situation.

The specificity of what the government is doing I donð think it appropriate for us to comment directly.

Arthur Pineda: (Citigroup, Analyst) Understood. Thank you.

Eric Loh: Thank you. Next welcome Goldman Sachs on the line.

June Supapannachart (Goldman Sachs, Analyst): Hi, thank you for your time. Just a couple of questions from me. I firstly wanted to ask, on the 2500 megahertz band, since it hasnð really been used widely in the region, just wondering whether there's any device compatibility issues that there - in terms of the consumer side, like whether - do all mobile devices support the spectrum band?

And then secondly, I also want to ask on post-paid, how have you been seeing traction of the SIM-only plan? And do you see any pressure on your ARPU from that at all? Thank you.

Tong Hai Tan: With regards to the TDD spectrum, the 2500 megahertz, it's actually widely used in China. Okay, in fact China is the forerunner in terms of supporting the TDD spectrum. So you know that most handset manufacturers actually will not manufacture handsets that will not work in China. In fact, China is a big market. So you'll find that most of the handsets actually can support the TDD spectrum. If you take a look at our existing handsets, the top handsets, I think with - and across our base, I think more than 50% actually can support the TDD spectrum. So, we believe that if you look at the popular model of these, the Samsung or the Apple [lender], the more phones that can support TDD spectrum, right, will be even higher.

So we believe that TDD spectrum is good for us to increase the capacity, it's not about speed alone. If there are so many people surrounding a particular base station, how do you increase the capacity to support more users? And that's where the TDD spectrum comes to play. Our intention is to launch it in hot zones or hot spots. And gradually, I think as we expand it, we can also, over time, have a larger coverage, but priority is to look at hot spots, and where are these hot spots? It will be around the causeway point, the airports, or commonly accessed place, or even during public events, where a lot of people gather at one place and that's how we intend to use the TDD spectrum.

I will let Howie update on the status of the SIM-only plans.

Howie Lau: Thanks Tong Hai. The SIM-only plan we've launched it a while and we continue to see a segment of the customer who will take the SIM-only plan. But the same time we also see that most Singapore customers still prefer to have the subsidy plans, because there is still an affinity towards the premium smart phones. So it's an area that - where we have competitive offerings across both. Similarly we're just monitoring to make sure that if there's any deviation in terms of the consumer patterns, we will then adjust accordingly as well.

But we do see that there is a segment that takes SIM-only, but most Singaporean customers still prefer the subsidy premium for premium smart phone plans.

Eric Loh: Thank you June. Next on the line is Ranjan from JP Morgan.

Ranjan Sharma: (JP Morgan, Analyst) Hi, good evening. Thank you for the presentation. Two questions from my side. Firstly, on IMDA's ongoing public consultation of info communication facilities and buildings, can you tell us where the process is now? And what could be the impact on StarHub if, let's say mobile deployment space was to increase? I mean, do you see cost decreasing by the same time? Will it make it easier for TPG to come into the country? Because you're also talking about allowing rooftop access on an entry basis. So that's the first question.

Secondly, on your - I think you mentioned that you've seen an accelerated amortisation of your content costs, so is that - is D&A expense something that could decrease, going forward? Thank you.

Tong Hai Tan: If you look at currently our deployment of our base station nationwide, yes, we have used the rooftop space, and the guideline actually is going to help operators to make sure that we have access to the rooftop space at a very affordable rate. So that's not an issue for us. As to whether this will facilitate the fourth operator, certainly I think all who have free access to the building, but StarHub already have existing space, so there's an advantage for us.

But the main issue of rollout of network is not just the rooftop space. It's the in-building network, the in-building coverage. I think that remains the more challenging part, and we are still, at this stage, for every new buildings we still have to invest in the common access antenna system, on the access system. So that actually is the bigger cost factor. The rooftop space actually is not the major cost.

Dennis Chia: Ranjan, now to your question on the accelerated amortisation of content costs. This is in line with the trend of the subscriber base that we see, and when the trend is going down, then we accelerate the amortisation on these costs. Just for the record, these costs are recorded in the bundle costs of services, which is captured in the cost of sales component. It's not captured in the depreciation and amortisation bundle in other operating expenses. So it's actually captured as part of cost of sales.

Ranjan Sharma: (JP Morgan, Analyst) Okay, that's clear. Sorry, can I just get a quick follow-up question on the IMDA consultation? If you were to increase MDF in buildings, I mean that would also facilitate up for operator as well, right? So just trying to think what reports around this that of course will benefits you, but it also allows a fourth operator to come into the country.

Tong Hai Tan: As I said, the access is always available for different players. If you are fourth operator, or existing player. The overall costs of going on the network is the in-building coverage, the in-building cabling system that you need to put in place. That remains the more challenging part in terms of rolling out the network.

So because we spend 85% at least of our time in-building in Singapore, because most of the time we are within building, so the biggest challenge is really the in-building coverage. Access to the access points is only the first step, but you still need to work down the costs of the common access system across the whole building, for every floor.

Eric Loh: Thank you Ranjan. Next, let's welcome Roshan from Bank of America.

B Roshan Raj: (Bank of America Merrill Lynch, Analyst) Hi. Thanks for the opportunity. Just two questions. Just to follow up on the response you had on cable infrastructure, I mean I understand near term you are trying to maximise the utility of those assets, but what's the medium- to long-term plan? And any timelines of when you want to switch it off and then completely rely on the fibre network?

Second, in terms of your thought process in using your funds, is that a change in priority as you look at the opportunities to invest to pay dividends and possibly look out for M&A? You have done a few deals in the past, so given that context, is there any budget you have in mind for possible opportunities in the near term? Thank you.

Tong Hai Tan: Okay, in regards to the cable infrastructure, as of now, we're still sweating the assets and we have not publicly announced whether we intend to switch it off or not. And there's also regulatory obligation. If you want to have any changes in time, we need to adhere to the regulatory obligation. So, as of now, we're still using the leveraging on the depreciated asset and we intend to sweat it out.

Dennis Chia: Roshan, on your question on the use of funds, we had gone out to the market to raise a senior debt last year, and more recently a perpetual in the second quarter as well. No, these funds are earmarked to invest - obviously to pay for the spectrum that we've been awarded, but at the same time, we always remain open to exploring opportunities in the M&A space, so as a Company we constantly are on the lookout for opportunities. But primarily to see how these targets can synergise with the rest of our business.

B Roshan Raj: (Bank of America Merrill Lynch, Analyst) Right. Thank you for that. Just - is there an upper cap limit for these M&A opportunities? And, thinking aloud, I mean, is that going to be increasingly bigger focus, given that some of your existing businesses are facing revenue headwinds?

Dennis Chia: We're guided by our leverage ratio, so as of Q2 it was 0.82 net debt to our trailing 12 months' EBITDA. We have always mentioned that we take guidance from our peers in terms of what the leverage ratios are as well, to look at what the benchmark ratio would be that we would manage as a Company. So we would then continue to do that - to look at reference points. So yes, I mean, as a Company we would continue to look for opportunities and use that leverage ratio as a guidance in terms of the funds that we would be able to raise from the market to pay for these acquisitions.

Eric Loh: Thank you Roshan. Next on the line is Rama, from Daiwa. Rama.

Ramakrishna Maruvada: (Daiwa Institute of Research, Analyst) Good evening. I have two questions please. Firstly, with regards to the content amortisation, would you be able to give some kind of an indication on what is the period on - period for which you amortise the content cost? The reason I ask is obviously you're facing a double whammy of declining revenues and increasing cost, so just trying to get a sense of when this would stabilise.

The second one has to do with the traffic expenses. Again, been very volatile on a quarterly basis, so I just wanted to know your - if you could provide a bit of colour on how you expect the overall traffic expenses to trend going forward in the next few quarters. Thanks.

Dennis Chia: Okay, Rama, on the content amortisation, it is amortised in line with the period of the validity of the contract, so if the contract - the content contract is for a period of three years, then we would amortise it over a three-year period, accordingly. However, this is not done on a linear basis. We do this in accordance with the expected subscriber trend that we're seeing, based on the - our subscriber numbers that we record. And so that's how we are now accelerating the content accordingly - content costs accordingly.

So if you then assume that our content costs - or rather content contract would generally be on an average two or three years accordingly, then the costs are taken largely up front and then the costs would taper off in the second half or the second period of the contract, accordingly. Okay? So that really relates to content cost.

As far as traffic is concerned, traffic costs are really commensurate or variable to the amount of usage. So if you actually do see roaming - roaming has been on a decline. However, we have seen some level of stability, so if that roaming usage does pick up at any point in time, then traffic costs would increase according, with the usage accordingly. So it is variable to the amount of usage. So that for the moment, year-on-year we've recorded lower usage on both IDD as well as roaming charges. As a result that we've recorded lower traffic expenses.

Ramakrishna Maruvada: (Daiwa Institute of Research, Analyst) Okay, on the traffic costs - or maybe I'll follow up separately. Thank you very much.

Eric Loh: Thank you Rama. Next, let's welcome Nikkei. It's Tomomi.

Tomomi Kikuchi (Nikkei, Media): Hi. Thank you for taking my question. I have a question about the pay TV service and the competitive landscape. As you know, amazon.com just entered Singapore and they're known for its Prime services, where they combine the video streaming with their fast delivery and other players like e-commerce players like Lazada has done a similar thing, with - through a tie-up with Netflix.

So I'm just wondering, would you be - what - how do you make of the competitive landscape in Singapore for the pay TV market? And do you think there will be - do you expect to see more tie-ups, for example, with the different online industries in some online industries? Or different industries that are including pay - something similar to pay TV

And also, in terms of being - staying competitive in the market, what kind of value-added services do you plan to - do you see going forward? Expect, going forward, to be offering from your Company?

Howie Lau: Okay, Tomomi-san, thank you so much for the question. This is Howie. I think a couple of things. One is that when we look at this business we look at what are the ways that we can meet the customers' requirements, at the same time, commercially viable for StarHub. So for example, Netflix. We work with Netflix as well, so we have Netflix as part of our IPTV offering. We have also partnered with BBC player as well as Cashplay, so that we're able to offer the breadth of viewing options and content to our customers.

So with Amazon the - I think as we know, Amazon is more than just the video streaming. So we're definitely keeping the options open in terms of what are the opportunities, to perhaps even work with different parties in the market so that we can continue bringing you new services. So for us we donť see it purely as a - just as an alternative, but potentially as a way so we can collaborate and partner as well, like we did with Netflix.

Eric Loh: Okay, next on the line is Jonathan, from UOB.

Jonathan Koh: (UOB Kay Hian, Analyst) Hi. Thanks for taking my question and just one question from me, pertaining to cost of equipment. Last quarter was $122 million. This quarter it dropped to $92 million. So could you help me understand the trend? Is there - did your subsidy a bit decrease on a per handset basis, or was there any change in consumer preference? Because I thought - I would have thought that you want to increase subsidy right now, to capture more customers where you can lock them in for the next two years. Thank you.

Dennis Chia: Jonathan, the cost of equipment largely captures the cost handsets in line with the volume or the revenue recorded with the handset sales as well. So typically, in quarter two versus quarter one, we do see that there would be ahead of the launch of the smart phones coming up in quarter three and quarter four, typically then the customer demand would tend to taper off ahead of that.

So the subsidy level really depends on the mix of phones that are being sold or what customers want. So we do offer subsidies, but that varies and we do adjust that from time to time, depending on the model of phones that the customers are looking for.

Tong Hai Tan: Yes, and the fact that we are guiding the 26% to 28% in terms of our EBITDA margin and what Dennis has shared earlier about the up-and-coming handsets. They are coming up end of the quarter, as well as the fourth quarter.

We are definitely taking the opportunity, of course, if we can sign longer-term contract with our customers on the subsidised handsets plan, and that remains our best strategy to defend against new entrants into the market.

Eric Loh: Thank you Jonathan. Next, let's welcome CY from CLSA.

Lu Chuanyao: (CLSA Asia Pacific Markets, Analyst) Hey guys, Chuanyao here. Thanks for the question - thanks for letting me ask some questions. Two things for me, really. Number one, just housekeeping. What's the average data usage by post-paid sub this quarter? And secondly, any updates on your MVNO strategy? Thanks.

Howie Lau: The data is right now at four gig per user per month, compared to last quarter was 3.9 gig. Year-on-year, last year this time was 3.3 gig, so it continues to go north.

Tong Hai Tan: Yes. I think with regards to MVNO, certainly we are in touch and in talks with the MVNO player. Of course, if it makes commercial sense then we would have a wholesale arrangement with these MVNOs. This is part and parcel of our wholesale business, and we intend to continue to explore various - possibly do a partnership with these MVNOs.

Eric Loh: Thank you CY. We've got time for one more question and that's going to come from Trinity from Biz Edge.

Trinity Chua (BizEdge, Media): Hi. It's just a follow-up from previous queries. The first one is you mentioned that the pay TV decline is a mix of competition and piracy, so I just want to know how much do piracy actually affect your pay TV decline? What is basically your medium gauge on your pay TV business?

Two is about the MVNO potential partnership. Is it accurate to say that we may see a partnership by the end of this year? My last question is about the enterprise business, which you expect to grow. Would you be able to give me some colour about medium-term plans for your - for the enterprise business? Thank you.

Howie Lau: Let me just touch on the pay TV. I think we've seen enough reports globally - the piracy trend is growing, and I think if we look at in Singapore's case, one of the contributing factors, because we do have one of the highest connection speeds globally, so I think if you refer to a previous report by OpenSignal, I think StarHub is one of the world's - in fact the world's fastest in terms of LTE speeds.

So if you look at - I think the last report clocked us at about 47 mbps. And for those who are a little bit technical, you will know that a four K stream is about 19 to 20 mbps, so technically on your phone, on a good day you can get two streams of four K. So piracy is an area, unfortunately, aided - for lack of a better term - by our high connectivity speeds in Singapore.

It's hard to put a number associate what would the continued and future impact would be, but we do know that this is an area that has not just pay TV operators concerned, but also the content providers as well as members of the government. So it's an area that we'll obviously see, hopefully, improvements and developments over the next X period.

Tong Hai Tan: With regards to the timeline of the MVNOs, we do not have any timeline. I think we are looking for a good deal - or a deal that can make economic sense, so that is our priority and we are not looking at whether we should sign up by when.

Yoke Sin Chong: Well, with regard to the enterprise solutions, we'll be actually leveraging off our base of clients and move more complete ICT solutions to them. So in that regard we'll be adding to our slew of communications solutions. We'll be adding other solutions in managed operations, security -which we already have - analytics and other application solutions, to meet the demands of our customers.

Eric Loh: Right, Trinity, I hope that's answers your questions.

Thank you, ladies and gentlemen, for joining us this evening. We look forward to speaking with you again in the next quarter. Goodnight.

End of Transcript