Company: StarHub Ltd

Title: StarHub 1Q-2019 Results

Date: 3 May 2019

Time:

Start of Transcript

Veronica Lai: Hi, good evening, ladies and gentlemen. Welcome to StarHub's first quarter 2019 results announcement. Iôm Veronica, and with me this evening is our CEO, Peter K; CFO, Dennis Chia; our Chief of Enterprise Business Group, Dr Chong Yoke Sin; and our Chief of Consumer Business Group, Johan Buse. Before we begin our presentation, I would like to remind all participants that we will conduct a question and answer session at the end of the presentation. If you wish to ask a question, please key star one. If you wish to withdraw your question, please key star two. Now with that, let's welcome Peter to share this quarter's highlights from this set of results. Peter, please.

Peter Kaliaropoulos: Thank you, Veronica and a very good evening, ladies and gentlemen, and thank you for your interest in our results for this quarter. Allow me to make a few comments before I hand over to our CFO to go through some of the details and the numbers in the presentation pack.

Allow me to say that in quarter 4 2018 we commenced a transformation programme aimed at improving our customers' experience. We started revitalising our brand's image through the #HelloChange campaign, simplifying mobile and TV offers. We provided clarity with all fee structures, no hidden charges, and enhanced our customers' ability to transact and interact with us, based on My StarHub applications and online improvements in service. We also started to migrate tens of thousands of cable customers every month to fibre TV.

Furthermore, we also invested and contributed to the creation of Ensign, the cyber security services company, for growth and diversification, to complement the quad play strategy we've been pursuing for years. We also commenced in Q4 our cost optimisation programme to eliminate $210 million in costs over the next three years.

Today, we are announcing what we believe is a solid set of results for quarter 1 with total revenue growth of 6% to $597 million, year-on-year, and profit attributable to the start-up shareholders of $54 million, a 14% reduction, year-on-year. These outcomes were driven by growth in our enterprise networks solutions business, 9% year-on-year, and our cyber security business, 41.4% year-on-year.

Also, our customer growth was led by post-paid customers, growing by 74,000 to 1.44 million and the residential broadband customers grew by 27,000, to 495,000 customers. These are the highest customer acquisition numbers for the last five quarters for StarHub.

Our pay TV business continues to face several structural changes, from OTT, from direct to consumer providers, and piracy, and revenues continue to decline by 12% year-on-year, to just under $71 million at the end of quarter one. Despite migration of cable customers to fibre, the net churn for the quarter remained at the same level as for the last two quarters, that is 15,000 customers, and the total customer base is now 394,000 customers at the end of March.

Whilst we are pursuing our fair share of market share initiatives, we're also addressing our operating cost structure for our core mobile and data connectivity business. Overall, our service EBITDA margins increased to 33.7% post-IFRS, year-on-year. However, as the cyber security operations require considerable resources to deliver growth, the higher operational expenditure from Ensign, coupled with declines in revenues from mobile and pay TV services and higher depreciation rates resulted in an NPAT of $49 million for the quarter. If we exclude the impact of cyber security services our NPAT would have been S$61 million for the first quarter.

Before I hand over to Dennis, allow me to also restate the quarter 1 outlook remains the same as when we briefed you last in February. We're maintaining guidance on service revenues to be stable to a 2% decline year-on-year. We're also maintaining our EBITDA margin guidance between 30% to 32% post-SFRS(I) 16 adoption, and we're committed to a CapEx of 11% to 12%.

In terms of dividends, we also announced a dividend payment of $0.09 for the full year, and also we introduced a new dividend policy with a payout of at least 80% of net profit, with the exception of any one-offs.

Having said this, I'll hand over to our CFO, Dennis, to go through some of the numbers in detail. Thank you.

Dennis Chia: Thanks, Peter. I'm now on slide 11, on EBITDA. As a note, we've adopted the new accounting standard, the Singapore Financial Reporting Standard, SFRS(I) 16, starting from 1 January 2019. Accordingly, we're reporting EBITDA of $162 million for the quarter, versus $154 million last year in the same period. As a note, the EBITDA reported for the prior years are not restated for the accounting standard change.

Our service EBITDA on slide 12 is $150 million, or 33.7%, versus last year's $142 million, or 31.7%. Without the restatement of the SFRS(I) 16, our Service EBITDA margins would have been 30.5% for the quarter, bearing in mind that we guided the market 26% to 28% for the full year.

I'm now on slide 13 and in terms of the cost of sales components, we reported the cost of sales of $283 million for the quarter, versus $247 million a year ago. We've recorded higher cost of equipment, in line with the higher revenues we've recorded for handset sales, primarily in the quarter. In terms of cost of services, there are higher cost of services in respect of the enterprise business as well as the fibre migration. However, we have seen savings in our content cost. Traffic costs are in line with the volumes of traffic that go through our network and we have got a cost of sales that we've broken up separately in respect of our cyber security business on slide 13.

In terms of operating expenses, the savings in the general administrative bucket are largely in staff costs and some operating leases, as well as favourable foreign exchange that we have recorded in the quarter. The higher depreciation of $84 million versus $70 million in the corresponding period represents the reclassification of depreciation amortisation expenses in line with the new accounting standards.

M&P, marketing and promotion expenses are lower for the quarter, compared to a year ago of $21 million, and we recorded $24 million of operating expenses in respect of our cyber security business which we started consolidating from October last year.

Net profit after tax for the quarter is $49 million, or $0.028 on an EPS basis. Our profit after tax in minority interests of $54 million for the quarter represents an EPS of $0.031 on this, comparing to $64 million a year ago. Finally, on the free cash flow, it generated $21 million of cash for the quarter or $0.012 on a per fully diluted share basis, compared to $10 million a year ago.

With that, I hand the floor back to Veronica.

Veronica Lai: Thank you, Dennis. We shall now open for Q&A. Once again, if you want to ask a question, please press star one. If you want to withdraw your question press star two. And now let's welcome Luis Hilado from Maybank Kim Eng. Luis.

Luis Hilado: (Maybank Kim Eng, Analyst) Hi. Good evening and thanks for hosting the call and congrats on the results. I have three questions. The first is for Peter. In terms of all the big picture things you wanted to do, are you mostly done with that, and therefore it's just a matter of execution?

Second question, is in terms of subscribers today, what percent are on tiered plans versus the no-contract SIMs? Or if you can give us a trend of both?

And last question is, what percentage of the subscribers are still on cable broadband out of the first quarter? And are you on track for switching over to fibre in June?

Peter Kaliaropoulos: Okay, Luis, thank you. Three questions. Big picture - certainly not. I summarised the overall transformation strategy earlier, but I don't believe it's only a case of execution. We need to find additional growth through potential initiatives in the marketplace, either new products or new acquisitions. We still need to tackle the corporate overheads of the Company, with a little bit more passion than we did before. But yes, I think probably 70% is implementation and execution but there is room for 30% for enhancing our strategy.

In terms of subs versus SIM Only, and contracted plans, we don't split the numbers, as we've said before on this, but we're seeing an increasing trend of SIM only plans, which is consistent with our expectations in the marketplace, and that is being offset by lower subsidies compared to contracted plans.

As we said before, also, we think customers, when it comes to acquiring a new handset, they do understand the benefits of buying a contract over two years, because of the subsidy, instead of paying for the handset directly. So we will see customers coming in and out of contracts over the next few years, but overall, we're seeing a small increase of the SIM Only. It is double-digit, but right now, as I said, we're not splitting the numbers between SIM Only and contracted.

Percentage of customers migrating - we're migrating tens of thousands of customers every month. We are increasing the migration over the next two months - May and June. We believe that the great majority of our cable customers will have migrated. There are some customers that we have to work very closely with NLT to provide new ducts through on landed properties, and that might delay the migration of very few thousand customers, but predominantly, we're still aiming for 30 June.

We do not disclose the specific numbers, except to say that today the great majority of TV customers are already on fibre. We've crossed over that point, and only a few months ago, we had more cable customers than fibre, so we are well beyond the crossover point and the teams are working very, very diligently and we have backup teams and a lot of activity to install many, many customers. They're expressing an interest in the new packages, they're expressing an interest in the combined offers of TV and broadband, so the take-up rate is good. It's just a matter of how quickly we can connect, and also, with those more difficult properties, if we can get new ducts to some of the landed properties.

So we do expect a small residual group of customers, for good reasons not to be able to migrate, and certainly, we will work with them, rather than of course switching them off, 30 June. Thank you.

Luis Hilado: (Maybank Kim Eng, Analyst) Thanks, Peter. Just one follow-up on the second question. In terms of the SIM Only growth, the double-digit growth, is it coming from external sources or from internal migration, primarily?

Peter Kaliaropoulos: Both. We're seeing a very healthy increase outside the Company. Again, we don't reveal the sort of port-ins between us and the different operators, but what we're seeing is some of our customers that are coming out of contract, some are going to SIM Only waiting for the next release of iPhone and the next release of Samsung or Huawei handsets, so that we're seeing that. But we're also seeing customers new to StarHub. If you see the growth in our post-paid numbers this quarter, there are certainly new customers that are joining us for the first time.

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

Peter Kaliaropoulos: Thank you. Thank you, Luis.

Veronica Lai: Thank you, Luis. Next on the line for the question and answer would be Pang Vitt from Goldman.

Pang Vittayaamnuaykoon: (Goldman, Analyst) Hi, thank you for the opportunity. Just a few questions from me. Maybe firstly on the mobile, can I have more colour on what happened in the quarter, especially on the competitive landscape, see that your post-paid sub addition look higher than the previous quarters, and at the same time, prepaid subs look flat, quarter-on-quarter and in the past it's continued to come down. Just want to see what happened in the quarter.

Secondly, on broadband customer, you mentioned that you see the higher acquisition in the last five quarters. Any colour on what you've done would be helpful. And lastly, on sales of equipment, why did it grow significantly year-on-year? Thank you.

Peter Kaliaropoulos: Okay, thank you, Pang, for your questions. First of all, definitely, the mobile market is characterised by more intense competition, quarter-after-quarter, and that also is fuelling the growth of total customers in the market, but we're seeing two trends - one, new customers for post-paid only plans, and we're seeing customers migrating from prepaid to potentially SIM Only.

Why the market grew for us? We have some great offers in the marketplace. We have a branding campaign reminding customers of the value of the simplification - and you've probably seen some of the ads associated with #HelloChange, so we restructured our offering for mobility, and we believe as a result of that, plus the overall awareness in the marketplace of all the other offers, certainly customers have responded positively, and we welcome that.

In terms of pre-paid, if you follow the pre-paid for the last five quarters, we've been losing customers quarter after quarter after quarter, so this is the first time our net customers grew by 1000. So again, we're revamping a proposition for pre-paid. We're revamping our distribution structure, we're revamping our offers and we're making them more relevant to the customers. That is really contributing to more competition and more choices for customers.

Broadband, again, interesting enough, although pay TV customers are coming down quarter after quarter, the broadband customers are increasing for us, quarter after quarter. There is some correlation there, because we don't believe that people go home without pay TV and they watch nothing. They're using broadband connectivity to get access to content, apart from the content we're offering. That is also fuelling the demand for broadband services and again, I like to think we're doing the basics right, rather than doing something extraordinary.

We're reminding customers of the brand, reminding customers of the offer, we're doing roadshows and so on, so we're doing a range of things to be more relevant to customers. We're investing a little bit more in marketing and promotions - no question about that. We're also - you saw the higher number of equipment sales - and again, we're fuelling the growth - there's some subsidies, of course involved for post-paid customers, so we've grown the customer base and the equipment sales are contributing to that.

I'm not sure, Johan if you want to add anything else to that?

Johan Buse: No, that is very complete.

Peter Kaliaropoulos: Thank you, Pang.

Pang Vittayaamnuaykoon: (Goldman, Analyst) Yes, that's very helpful. Thank you.

Veronica Lai: Thank you Pang. Next on the line we have Piyush from HSBC. Piyush, the floor is yours.

Piyush Choudhary: (HSBC, Analyst) Yes, hi. Good evening everyone. A few questions. Firstly, in mobile, could you help us understand what percentage of your revenue comes from IDD, voice, and excess data charges, which are coming down? And what would be your big picture outlook on the post-paid and pre-paid ARPU?

Secondly, one of your peers have launched a digital brand with SIM Only proposition recently, so have you seen any incremental impact from this in recent months?

And thirdly, could you share progress on changes in the content cost to variable hybrid during 2019? Thank you.

Peter Kaliaropoulos: Thank you, Piyush. Good questions. First of all, the IDD split - we don't break down our post-paid and pre-paid revenues with or without IDD, but it's fair to say the IDD revenues are embedded in the ARPU.

Dennis Chia: It's quite minimal.

Peter Kaliaropoulos: Yes. Quite minimal, the CFO says. It's included and quite minimal, because we know what is happening again. Customers are using OTT apps, VoLTE and so on. So the trends for IDD revenues and voice, generally, in the residential market are declining, and it's predominantly a data ARPU, and I think you've seen from the numbers we've published, currently the average customer is using about 6.3 gigabytes of mobile data every month, and I think probably six months ago that was just over three gigabytes. So again, customers are using mobile data rather than voice, and IDD.

Second question, about trends on pre- and post-paid ARPUs. As the market gets competitive - more competitive, as we're acquiring more customers, it is always natural that customers you're acquiring, their ARPUs typically are lower than the customers who have been with you for a very long time, so we expect the trends to slightly decline, as a result of competitive activity, but hopefully, through more bundles and more offers in the marketplace, we expect some stability of ARPUs towards the end of quarter four.

Also, by restructuring our packages - if you see a post-paid, for example, we used to charge customers variable excess data charges. Customers were describing that to us as being toxic, and they don't value that, and highly frustrated and contributing to churn. We changed that. Now for $20 a month, a customer can buy another 50 gigabytes of data and not worry about excess data charges. So ARPUs, we expect a small decline in the next few quarters, and probably stability towards the end of the year.

The digital operator - no. We haven't seen any impact, and in fact, you've seen the growth in our numbers, so, so far we have not seen any impact at all, but it's interesting to note that more and more digital operators are coming into the market, as opposed to that market segment being dominated by one or two companies, and again, that trend will probably continue to the future.

Your last question was about content costs. We don't reveal negotiations party-by-party, but we are committed to change all our fixed content costs to a variable content cost, like a licensing fee per consumer. We're still negotiating with some partners as their contracts are coming up for renewal, but we believe, in the long term, this is the right model for the pay TV to bring variability, and of course to bring lower cost. It is not just a variable cost. We also want to introduce lower costs.

We think the timing is right, because a lot of the content providers are also entering the market directly, and for them to be able to do that, we also need to be freed from some of the minimum guarantees we've given. So it's work in progress, but I can assure you, we feel very strongly about variable costs and lower costs for content.

Piyush Choudhary: (HSBC, Analyst) Thanks. Thanks a lot, Peter. If I can follow up, is it possible to just know within your mobile revenue, ARPU, what percentage of revenue comes from excess data charges, still, in first quarter, which could probably keep declining?

Peter Kaliaropoulos: Piyush, again, we don't reveal these details.

Piyush Choudhary: (HSBC, Analyst) Okay.

Peter Kaliaropoulos: But I think your previous models - if I remember some of the stuff I've read, you're not too far off. I can't be more specific. Thank you.

Piyush Choudhary: (HSBC, Analyst) Okay. Thanks.

Veronica Lai: Thank you, Piyush. Next on the line is Arthur Pineda from Citi. Arthur.

Arthur Pineda: (Citigroup, Analyst) Hi. Thanks for the opportunity. Several questions, please. Firstly, on the mobile side, can we get some colour on the post-paid subs growth? Are these mainly on the MVNO side or are they on the StarHub side? I'm just wondering what's dropping the ARPUs. Is it because people are migrating to SIM Only plans or is it because they are taking up more of these MVNO plans?

Second question is in regard to the cost base. There seems to be a significant decline in the G&A expenses. Is this mainly accounting driven? If so, what would the number be on a like-for-like basis?

Third question I had is with regard to the cable migration into fibre. If you can't move these subs by the end-June deadline, would you need to disconnect these subs or is there any room for extension? And related to this, for the cable subs who have not migrated, what is holding them back from actually migrating? Is it - are they waiting for more generous offers, or is there any other reason for the inertia? Thank you.

Peter Kaliaropoulos: Arthur, thank you. Good questions. First of all, our mobile post-paid growth has come from both, our own branded post-paid customers, as well as the MVNOs. Again, we don't split the numbers. I think that's the common practice in the industry, in terms of MVNO contribution, as well as our own contribution. Certainly the lower ARPUs are a result of two factors. One is generally lower excess data charges, because now customers are seeking the protection of paying a fixed fee for extra data charges. The lower ARPUs are also coming from providing our customers more gigabytes per package, so again, they're paying a little bit less maybe than what they were paying before for usage. And of course, yes, you do have the SIM Only that overall are lower. So, the ARPUs are blended from our own customers, MVNO customers, lower excess data charges and, of course, lower IDD charges and voice charges generally. So, those trends will continue, but we donõt split the numbers again in terms of how many post-paid customers came from us versus the MVNOs.

In terms of G&A, all I can say to you is that part of our G&A, we also have a labour cost, and if you recall back in quarter four, we introduced our right-sizing exercise. So, a lot of that labour cost we are taking out of the equation going forward, so there is a drop there. But I think, like-for-like, Iõm not sure - Dennis, if youõre able to...

Dennis Chia: Yes, I just want to add, Peter, that like-for-like we reported G&A costs of $114 million for the quarter. On a like-for-like basis it would have been $130 million. Itõs still a decline versus the $135 million from a year ago. So, the main declines are coming from staff costs, repairs and maintenance, as well as the favourable foreign exchange differences.

Peter Kaliaropoulos: Okay. Next question related to migrating customers from cable to fibre by 30 June, and whether we’re going to disconnect them. We’re definitely not in the business of throwing customers away. We need to work with our customers to migrate them as quickly as possible. Of course, it’s not a decision we can unilaterally take, to switch off customers. We have to also work with the regulator to make sure that is possible. We’re trying to make that group of customers to be as low a number as possible.

To your last question about why some of them may not be migrating, they are migrating as quickly as we can process. Unfortunately, if you go into some of our retail stores right now, we’re experiencing longer queues and longer waiting times, and that is a result of, again, some of the great mobile offers we have, but also because of the migration of customers.

So, they’re migrating as quickly as logistically possible, keeping in mind that when we started this exercise, we had hundreds of thousands of customers that needed to be migrated.

Some very minor issues. First of all, there’s always a general apathy. We’re certainly not offering more incentive to customers, because we know that this is a very dangerous approach to take, because then customers will all wait until the very last minute to take a bigger offer. So, we’re going down the path of educating, we’re going down the path of reminding customers and working with them to migrate.

But we have to take into account that our customer base on pay TV has been very loyal for 23 years, and we’re coming across a lot of customers who are very comfortable with cable TV, they’re very familiar with their remote control device, they don’t necessarily want more or different wiring in their rooms. So, we’re coming across those issues, and we’re working together with those customers to make them understand why they would be better off migrating to a digital environment and being part of the digital revolution that’s impacting our lives.

As I said, at the end of the day, our aim is to have very few, a few thousands of customers, potentially, maybe still waiting, and the wait there will be because the installation process, if we have to dig up someone’s front yard and put new ducts because ducting exists from 23 years ago, that bit might take a little bit longer. Of course, for those customers, we’re never going to switch them off. We’ll wait and work with them, and with NLT, to provide access to their houses.

So, I hope, Arthur, I’ve given you some feedback.

Arthur Pineda: (Citigroup, Analyst) Got it, thank you very much.

Veronica Lai: Thank you, Arthur. Next on the line, we have Rama Maruvada from Daiwa. Rama?

Rama Maruvada: (Daiwa, Analyst) Hi, good evening. A couple of questions from me, please. Firstly, with regards to the cyber security division, could you comment about what was the impact on the net profit line, as well as what is the EBITDA contributed by this division this year?

The second one is, could you also comment on the working capital, as well as the bad debt in terms of what division or segment has contributed to the swing for this particular quarter?

Finally, with regards to the personal expenses, so $54 million versus last year of $63 million. I would like to know if these numbers are directly comparable, from the perspective of prior year base including personal costs from D'Crypt and other cyber security assets? Are they directly comparable, or do we have to make some adjustments? Thank you.

Peter Kaliaropoulos: Okay, I'd try and answer a couple of the questions, and I'd ask Dennis for a bit of help. In terms of the cyber security impact on our NPAT, as we've included in the information pack, it was $11 million impact. We would have had NPAT of $61 million instead of the $49 million, and it's a bit of rounding off.

In terms of comparing profit attributable to StarHub shareholders year-on-year, it was $54 million versus $63 million, and at the NPAT level, there the SFRS(I) adoption for '15 and '16 which is all washed through.

The working capital question, Dennis, I'd leave that one to you.

Dennis Chia: Okay. Rama, in terms of the actual negative working capital contribution for the quarter, it's quantified at about $27 million, contributed by higher trade receivables as well as higher contract assets, and contract assets actually represent the assets in respect of the mobile spend, which are also reflective of the additional mobile spends and the subscriber growth that we had in the quarter, and reported in the quarter.

The allowance for doubtful debt has also gone up slightly in the quarter year-on-year, and this is in respect of, and recognition of, the fact that our mix of ARs are now sitting with the growth in enterprise business. So, with the mix of the accounts receivables coming from corporate customers, these collection days and DSOs in respect of ARs typically are greater compared to our consumer base, which is averaging 14 days.

Your other question surrounded staff costs. We've broken up, in terms of the other operating expenses, the cyber security staff costs, separately in one bucket, so all of it is captured in that bucket. On the base business side, we had certain accruals in Q4 or Q1 last year in respect of staff costs, and in this year, we've got reductions in staff costs as part of our programme in terms of right-sizing the organisation.

Rama Maruvada: (Daiwa, Analyst) Okay, if I could just follow up on the cyber security division, could you comment on what EBITDA for the first quarter is?

Dennis Chia: Okay. Cyber security division, which is a combination of Ensign and D'Crypt, which are two entities we classify as cyber security, the negative EBIDTA for the quarter is negative $5 million.

Rama Maruvada: (Daiwa, Analyst) Okay, got it. Thank you very much.

Dennis Chia: Thanks, Rama.

Veronica Lai: Thanks, Rama. Okay, next on the line is Alvin Chia from Phillip Securities. Alvin?

Alvin Chia: (Philip Securities, Analyst) Hi, thanks for the call. I have two questions. Firstly, are you able to quantify the cost savings for the pay TV content so far?

Second, could you shed some light on the cyber security business, and the milestones achieved so far? Thank you.

Peter Kaliaropoulos: Okay. We don't comment on the reduction of content by different content providers. Every contract that has come up for renewal in the last 12 months, as I mentioned earlier, we are sitting down with the providers, we're sharing with them the viewership details, how many people are actually watching the content in the different packages we have, and we're working with them to realise that a better model for all parties involved, keeping in mind that we have a customer that wants to keep paying for pay TV rather than just go off and just enjoy only OTT.

So, with the customer in mind, we've been able to negotiate with a great majority of content providers a lower cost, and a variable cost. We've had one occasion, as we mentioned before, that a particular content provider decided that business model was not in their favour and we took, unfortunately, the tough decision of not continuing. That reflects our resolve to make sure we have the right cost model, so we can have a sustainable pay TV business, and we can deliver services to customers that they can enjoy but at a variable cost.

Long answer, but we don't disclose the specific negotiations. But you will see that our cost structure, although our customer base is being reduced on pay TV, we're committed to drive the cost for the content, which is a huge part of our operating cost for TV, we've committed to drive that down and make it variable as quickly as we can.

In terms of cyber security, again you've seen the growth rates we've reported for cyber security. Certainly, the operating environment globally, regionally, and locally is very much pro-cyber security opportunities. A lot of companies have to comply with a number of regulations in Singapore, but put that aside, it is smart business to have your business protected to prevent hacking of customers' data and making your operations potentially vulnerable to hackers.

So, we see significant growth. The cyber security team, which has been formed six months ago under Ensign through a combination of an investment we had in Accel, an investment that existed by Temasek in Quann, as well as our own in-house centre of excellence, the combination of those, plus we're recruiting more people, because it is a people-based business. We're recruiting more people because we do believe the opportunities in the market are great, and they're delivering double-digit growth, at least from a year ago when we got involved, and we see that trend continue into the near future.

The challenge always with cyber security compared to connectivity business, or a lot of systems integration-type and solutions business, the margins are lower compared to the connectivity, where you have healthy double-digit EBITDA margins. Typically, you have lower margins, hopefully double-digit lower margins, but you have no CapEx. It's really an OpEx driven business. So, I hope, Alvin, I answered your questions.

Alvin Chia: (Philip Securities, Analyst) Yes, thanks.

Peter Kaliaropoulos: Thank you.

Veronica Lai: Thank you, Alvin. We are circling back to Luis from Maybank Kim Eng. Luis, additional questions from you? Please go ahead.

Luis Hilado: (Maybank Kim Eng, Analyst) Thanks. Three questions from me. Sorry to belabour the issue again on content cost but let's say are you halfway through the process by now?

The two other questions are just housekeeping. I note the effective tax rate for the quarter is 22%. Any particular factor behind that, and for the full year, should we look at 18%?

Last question is, the $282 million frequency payment that you mentioned in the outlook, has there been any indication from IMDA whether that will indeed come due this year, or if there's any indication whether other countries have already done the migration for the frequency?

Peter Kaliaropoulos: Okay, thank you Luis. Let me take your last question first. There's no indication yet to pay that amount, and the process is that IMDA, the regulator, needs to give us six months' notice in advance. We're in May, and hopefully if it comes to the end of June and we haven't received that, then it's not due this year. We think at this point in time that the payment will not be due this year, because for the frequency to become available, there are some other complications in neighbouring countries to release the frequency.

But a short answer is that at this point in time - and we will be 100% certain by 30 June - we don't believe we have to make the $282 million payment this year.

Going back to your first question, before Dennis takes the question on tax rates - content costs, are we halfway through? To me, there's only one major contract left that we're renegotiating, so a lot of the other content providers we have renegotiated. But again, we started that process 12 months ago as contracts are coming up for renewal. So, answering your question, yes, we're in the second half of the 50%. Dennis will now provide you some answers on the effective tax rate.

Dennis Chia: Okay. The effective tax for the quarter, as you point out, Luis, is now 22%. This is a result of certain general provisions that we took in the quarter in respect of the question that was posed on the higher allowance for doubtful debt that we had in the quarter. These allowances are not tax deductible, and therefore are added back for purposes of computing the effective tax rate. For the year, you should be still using an effective tax rate of 17%.

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

Veronica Lai: Okay, thank you Luis.

Dennis Chia: Thank you.

Veronica Lai: Next on the line is Annabeth Leow from SPH. Annabeth?

Annabeth Leow: (SPH, Journalist) Hi, good evening, Peter and everyone. It was good to see you at the AGM and to hear from you today. Yes, so I have a few questions. Not to belabour the point, but the impact of the cyber security businesses, I wanted to make sure that I understood you correctly when you said that it would have been $63 million otherwise in terms of PATMI. Does that imply that there would have been a flat performance year-on-year rather than the 14.2% drop?

Peter Kaliaropoulos: Okay, on that question the answer is, it would have been $61 million if we didn't include the losses from the cyber security. NPAT would have been $61 million, versus $49 million that was reported.

Annabeth Leow: (SPH, Journalist) Sure, and excluding the minority interest?

Dennis Chia: Yes, so Annabeth, this is Dennis. So, the PATMI, which - because the only minority interest is in respect of the cyber security business, so our NPAT or PATMI, which is the same, will have been $61 million, and this is against $59 million on the equivalent basis, without cyber security business, same period last year.

Annabeth Leow: (SPH, Journalist) So, it would have been a mild decrease year-on-year?

Dennis Chia: So, it would have been - on our base business without cyber security, it would have been an improvement of NPAT year-on-year.

Peter Kaliaropoulos: From $59 million to $61 million.

Dennis Chia: That's right.

Annabeth Leow: (SPH, Journalist) Okay.

Peter Kaliaropoulos: If you strip off the cyber security business from both quarters in first quarter 2018 and first quarter 2019, $59 million to $61 million are the right numbers.

Annabeth Leow: (SPH, Journalist) Okay. So, I saw that the operating expenses for cyber security had more than doubled, and I was wondering if you could give us a time frame on when we would expect to see the positive EBITDA, or whether you anticipate the expenses to continue growing and, if so, what that is going to look like.

Peter Kaliaropoulos: Annabeth, if you recall from the AGM presentation, I did mention that weøre investing for growth. First of all, this quarterøs results consolidate the Quann numbers for quarter 1, which - last year, we didnøt have Quann, so the cost of sales and the OpEx would have gone higher, because weøre comparing a quarter last year without Quann, and a quarter with Quann.

The objective, of course, is to not only grow the business, but to grow it in an accretive way to make a positive EBITDA contribution. As I mentioned, and I will reiterate, it is a people business, and you have to recruit the right talent up front to help you develop the right intellectual property, because really, cyber security, at the end of the day, weøre offering more advanced intellectual property than some of our competitors. So, that early recruitment and development of talent and training is impacting.

We are bidding on a positive contribution. We are not discounting for the sake of winning business, so itøs a very responsible business model, and our intention - weøve given guidance for the rest of this year, and the results of Ensign are incorporated the guidance. So, that will try and answer the question in terms of what we think the impact is going to be.

But itøs a more mid- to long-term investment for us. You invest for growth, so you go through the normal J curve of potentially realising longer-term stakeholder value. In the short term, youøre still investing in the capability of the company, and being people-only, weøre seeing it in OpEx. If it was infrastructure, youød be seeing it in CapEx, and then youød be enjoying higher margins. I hope I can answer your question in this way.

Annabeth Leow: (SPH, Journalist) I see. The other question I had is related to your earlier comment on how you think broadband can benefit from pay TV alternatives. I was wondering whether you could elaborate on what you are doing about that, and what the effect will be.

Peter Kaliaropoulos: Look, Iøll ask in a minute Johan, who runs the Consumer business, to comment specifically on residential broadband, but the comment I made earlier is that we donøt believe the people in Singapore are going away from content, otherwise we would have seen both a reduction of pay TV business and a reduction of broadband connectivity. We believe customers are choosing alternatives for pay TV, but they still need a broadband connection. So, thatøs why I believe weøre declining numbers of pay TV, but the numbers for broadband are now up to 495,000 residential connections.

Again, weøre being responsible in terms of various promotions and packaging, but Iøm going to let Johan go through some of the details on the promotion of residential broadband.

Johan Buse: Hi Annabeth, so Johan here. Just to clarify a little bit on the home broadband. If you look at the last few quarters, actually, you have probably noticed that we have seen an increased number of home broadband sign-ups over the last few quarters in a row. The reasons for that, to be fully transparent, as Peter said earlier on, itøs not something we are doing out of the ordinary. We basically have changed the offer in the middle of last year, and weøre executing accordingly, and weøve put much more focus on the online sales of home broadband, and that has delivered, I would say, quite interesting results, and thatøs what you see being reflected in the number.

So, the offer has been made more simple, the execution has been shifted to online, mainly, and thatøs appreciated by customers.

Peter Kaliaropoulos: I think it probably makes a small difference, but again, we're offering exclusively the Google Wifi product for home, and if I'm correct it's receiving a lot of customer accolades.

Johan Buse: Yes, correct, and the other thing, which you may have seen, is that we recently expanded our offer with the one-plus-one gig speeds, so all these things add to the take-up rate.

Peter Kaliaropoulos: It's more execution, Annabeth, in this case.

Annabeth Leow: (SPH, Journalist): I see, thank you.

Dennis Chia: Thank you.

Veronica Lai: Thank you, Annabeth. Next on the line is Ranjan Sharma from JP Morgan. Ranjan?

Ranjan Sharma: (JP Morgan, Analyst) Hi, good evening, and thank you for the call. Two questions from my side, and I apologise if I missed something, but I had to step away from my phone. On the pay TV side, I know you have a lot of initiatives in terms of refreshing the way the content costs you, but if pay TV customers continue to decline with the wide variety of OTT and platforms available, can this business realistically become profitable again, or would you need to get a strategic partner to do pay TV differently compared to what you have done before?

Secondly, we all know the challenges in the mobile space. You have a new operator coming in. You have three to five MVNOs in the market. Will the regulator be okay with consolidation? Is that something that you have evaluated? Thank you.

Peter Kaliaropoulos: Thank you, Ranjan. Quite rightly, first of all, you question the sustainability of the pay TV business model in light of declining customers. First of all, we're also revamping the business model, but let me say this upfront. If you believe all the research out there in the marketplace, whether it's about Singapore or other regional and global markets, pay TV is alive and well, but people are changing their habits of how they're consuming content. They want content not just in their living room in a big screen. They want content on their laptop, on their tablet, but more importantly, they want content on the small screen, the mobile. So our strategy long term has to be one that complements the content we provide through a set-top box in a living room - complementing that with content across multiple devices, any device, any time, any content. So you will see currently we have all technology platforms to deliver content, but we're also working - I don't know if we need a strategic investor. I think it's definitely something we can do on our own, but we're working, evolving our technological platforms to deliver that content to multiple screens and multiple customers, and you will see that evolution.

We still think the majority of high-value customers will remain inside a household, wanting the convenience of the set-top box, but what we're also recognising is that customers are moving away from the established business model, everything packaged for them. They're trying the alternatives, but a lot of research is now showing that all of a sudden, customers are also waking up and saying, well hold on, I'm paying $14 for this content. I'm paying $60 for that content, and I'm paying $3 to $6 for the other content, and before you know it, they're spending more. They're exercising their empowerment to choose different packages, but very quickly, they're also rationalising that they will end up spending more not buying a package.

So the package right now is available through the set-top box, so long answer, but we are rediscovering the business model as we speak, and we don't believe the traditional set-top-only pay TV model is the one for the future. You will see aggregator models. You will see multiple models, and that gives us the ability to even have more flexibility of cost variability for a lower cost. I don't think you're going to find too many investors coming in. Interestingly enough today, there was an article in Korea, where number two and number three pay TV operators did consolidate, which brings us to the second question.

There are I think last count, there are nine or 10 mobile brands in the marketplace, so competition and choice for customers is probably at the highest point it's ever been. Certainly, there are quite a few MVNOs and four facilities-based operators. If what is happening in other markets will prevail here, and we think eventually it will, there will be some consolidation. We're certainly keeping an eye open. We're interested in consolidation. We think customers can be served through strong competition, but not necessarily 20 different brands. You can have three or four brands are very, very strong and can deliver the customer benefits. So again, we're seeing entrepreneurial people entering the MVNO market segment. We're seeing other people entering the markets and even maybe some big companies.

Sustainability, if you don't grow a customer base, if you don't get the right margins, and you've seen in the last six months packages from the established operators, we're all working up to ourselves and we're not offering really basic offers. We're now going to make sure we're getting a fair share of market and customers in the market. I think as the overall competitive activity intensifies, potentially the niche operators, operators that don't have a quad play or a triple play, unless they have such a great affinity brand, we think long term, consolidation will happen. We don't know exactly when and how, but are we interested? Yes. Are we keeping an eye on it? Yes. And if it creates accretive value for our shareholders, of course we will participate, but of course, again, it is subject to IMDA approval. That's the ecosystem that we have to work through. Thank you, Ranjan.

Ranjan Sharma: (JP Morgan, Analyst) All right, thank you.

Veronica Lai: Thank you, Ranjan. Next on the line is Varun Ahuja from Credit Suisse. Varun? Varun, are you on the line?

Peter Kaliaropoulos: Maybe we go to the next one.

Veronica Lai: Okay, so we'll move on to Prem Jearajasingam from Macquarie. Prem?

Prem Jearajasingam: (Macquarie, Analyst) Hi. Thank you for the opportunity. Two questions from me. Peter, with all these price adjustments that we're seeing in the market and the SIM Only plans and the larger and larger buckets, do you think we as an industry have successfully shut the door in terms of opportunities for TPG to make significant noise when it eventually does go full steam on? Do you think that's happened yet? Because I also note your comments earlier that you expect ARPUs to decline over the coming quarters and then firm up later in the year. So does this answer that question with your comment?

Secondly, with regards to - you mentioned acquisitions as part of your strategy to get that 30% growth. What components do you think StarHub needs at this point in time that you need to go out there and acquire, and how significant are these likely to be from a cash flow perspective?

Peter Kaliaropoulos: Great. Thank you, Prem. First question first. Is the door open for TPG and growth in the industry and so on? Look, all I can say, going through what people like us went through when we invested in other markets and other licence and other companies, you have a business plan and you make a decision to invest in a new market or to buy a company, and then if it is a new company to establish, it takes a few years, and I guess - I'm not quite sure, but I think even in TPG cases, it would have been a couple of years from the business case to where they are today.

Interesting enough, all I can comment is the last nine months that I've been back in the market, the market has shifted dramatically within nine months, and I think compared to two years, it has shifted even more. I think there are a lot more choices than ever before. The MVNOs has come and offered customers tremendous flexibility in pricing products, in brands, in niche markets. You've seen the established operators again being a lot more competitive, maybe more competitive in the last two years. You've seen some other competitors also coming up with digital brands to complement their existing brands.

So there's tremendous activity and competitive intensity. What window that leaves open for a newcomer remains to be seen, because one of the deliberations they will have to go through, what unique proposition they will bring to the market that's not available now and if they're so unique, with nine to 10 brands in the market, why they will not be copied overnight. So I think these are real questions not for us to answer but for a new entrant into any market, unless they come up with something really unique and unless they think they can sustain that. Maybe that's how they'll fuel their business.

So we are putting our business into a better shape. We're giving customers more and more choice. We're dropping our cost structure, we're diversifying through investments, to try and handle the competitive intensity. So that's my short-term answer for a new entrant. I think in terms of industry growth, no, we haven't given up. There's a thing called Internet of things. There's a thing called 5G, and yes, it's expensive to invest in, but a whole new world will be created where there will be a lot more connectivity, there will be a lot more information that needs to be analysed, turned into customer insights, potentially monetised. There will be a lot more enterprise applications that will depend on IoT and so on.

So I don't think that growth is out of the industry. Monetising some of the growth has always remained a challenge, but I also like to believe more established brands, like StarHub, brands that have quad play, brands that are relevant to the enterprise and to the consumer market will be able to participate more actively in the growth segments of the market going forward. New entrants, they'll have to prove their capability, prove their credentials, have a quality of service that people understand, have enough capacity. So what I'm trying to say, I think it's tough, and I don't underestimate - and let me say, we totally take it as a major threat, TPG entering at the end of this year or at any other time, and having a big impact in the market. We do not underestimate them, and we are preparing to face them head on, if we have to, so certainly no underestimation. But how they're going to find growth, what unique proposition they'll put on the table, how sustainable it is, these are all great questions that the best people to answer are themselves.

We will react to that, and we're trying to make sure customers see the value of our brand and the value of our offerings as early as possible, rather than just wait for someone else to come in and remind them that they've offered something. Second issue, about acquisitions, again, currently if you look at net debt to EBITDA, it's 1.5 times net debt to EBITDA. We believe it's fairly respectable, and if and when we find the right accretive acquisition, of course, we're not going to be irresponsible and load the company up with debt for no accretive contribution, but we do believe our balance sheet does provide limited opportunity for some other acquisitions.

And sometimes, it's not a direct cash; it could be share swaps. It could be a lot of different ways to acquire other companies. I think the challenge is not how do you fund an acquisition. I think the challenge is, what is the right acquisition initially within Singapore and across the region? Keeping in mind that I think our investment in Ensign, and Ensign we should forget is not just a local Singapore company. It already operates in Hong Kong and Malaysia and has joint venture relations with other companies.

So it is a bit of a regional play and has a bit of growth that we don't think we're going to stress the balance sheet too much if and when we come up with a mixture of funding for an acquisition. Thank you.

Prem Jearajasingam: (Macquarie, Analyst) Sorry, just as a follow up on that, I was trying to get at what components do you think you need to bolt onto StarHub?

Peter Kaliaropoulos: If you look at the consumer market, I think we're covered in terms of capabilities in the consumer market. The only thing we don't really have in the consumer space is maybe a pure digital operation, but I think we're well covered with our retail stores, we're well covered with our distribution, we're well covered with our quad play, so I think we've got the arsenal to compete effectively. In the enterprise space, we have done a great job, but we have been more of a consumer company for the last 20 years. The last few years, we are growing more and more in the enterprise space, so there may be opportunities to acquire operators with clusters of capability in the enterprise space, because in the enterprise space, we have somewhere between 12% and 15% of the overall revenue, so that's the opportunity, and even the investments we've made in Ensign and before Ensign, Accel and so on, were all aimed at the enterprise space.

That's the area that we believe we need to grow faster, with different propositions. Two years ago, we didn't have a cyber security proposition. Two years ago, we didn't have a data analytics and artificial intelligence capability. We're developing those in-house. So it's more in the enterprise space initially, and of course to defend the consumer market as well as we can, because that provides enough cash flows and decent margins today. Thank you.

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

Veronica Lai: Thank you, Prem. I think we have time for one last set of questions from Piyush from HSBC. Piyush?

Piyush Choudhary: (HSBC, Analyst) Yes, hi. Thanks a lot. Just a follow up on the cyber security business, if you can help us understand when do we expect to reach EBITDA positive?

Peter Kaliaropoulos: Piyush, at this stage, we don't break down the P&Ls of any of our business, and we have different business units. Again, the CFO has included guidance for the company for the rest of this year, and certainly the results of Ensign will be consolidated. So we can't give you guidance right now, but we believe that Ensign will grow responsibly. Ensign will grow its customer base and invest for the future, and the overall impact of Ensign to our P&L for 2019 will be consistent with the guidance we've offered. We can't be more precise than that.

Piyush Choudhary: (HSBC, Analyst) Sure. Okay.

Peter Kaliaropoulos: Thank you. Thank you for your interest.

Veronica Lai: Okay, ladies and gentlemen, we have to bring this results briefing session to a close. A transcript of this call will be posted onto our website soon, and if you have any more questions, please feel free to contact Eric or myself. On behalf of the StarHub management team, I'd like to thank all of you for joining us. Have a good weekend ahead, everybody.

Peter Kaliaropoulos: Good evening and a good weekend. Thank you.

Dennis Chia: Thank you.

End of Transcript