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PRESENTATION

Eric Loh - *StarHub Ltd - Senior Manager, IR*

Good evening, ladies and gentlemen, and welcome to StarHub's first quarter 2012 results conference call. My name's Eric. With me this evening I've got the CEO of StarHub, Mr. Neil Montefiore; along with the COO, Mr. Tan Tong Hai; as well as the CFO, Mr. Kwek Buck Chye.

Now, before we go into the call proper, just a bit of housekeeping. (Operator Instructions).

Now, with that, I'll hand over the microphone to Neil.

Neil Montefiore - *StarHub Ltd - CEO*

Thanks very much. So if you turn on your slides to page 5, slide 5, I'll just do a quick overview of the financials and the operational results.

So, on a financial side, we saw operating revenue up around 6%; service revenue up about 3%, slightly less; EBITDA grew 11%, and the margin improved to about 32.2%; and profit after tax expanded 28%.

Operationally, we saw Mobile growth in revenue in all our areas, so Mobile growth postpaid of about 6%. Customer base grew also about 4%.

In Pay TV, revenue increased around 5%. That was -- we did have a pay -- rate increase last August, in fact, and that contributed a fair amount to that.

And Broadband revenue grew 3%, despite the increased competition in that area.



Fixed Network Services revenue rose 2%; slightly disappointing, but we're still having some issues with the next generation network in the enterprise sector.

So if you go to the next page, there's a few more details there. There's not much that I haven't really touched on, and Buck Chye will go through it in a lot more detail later on.

On slide 6, you can see the CapEx payments. Actually, the cash CapEx down slightly on the guidance we've been giving, but we think it will recover back during the year.

And the net debt-to-EBITDA's fallen a little bit to about 0.5 times.

Looking at the lines of business on slide 7, we can see service revenue on Mobile of around 4%; customer base about 3%.

Pay TV customer base was pretty flat, but the revenue grew.

Residential Broadband grew around 3% in terms of revenue. And we did add customers so, despite the additional players that have come into that market, we're doing reasonably well.

Fixed Network Services, as I said, slightly disappointing because we had hoped that we'd have access to the 20,000-odd buildings that we don't have access to through the next generation network, and the provision of that is still causing some issues.

Going to slide 8, just looking at the hubbing, year on year we saw the hubbing households increase slightly to two or more households; from 56% to 57%. And the total number of households, out of the 1.1 million in Singapore that has at least one service from us, is around 790,000 households.

So, with that, I will hand you over to Buck Chye and he will run you through a bit more detail on the financials.

Kwek Buck Chye - StarHub Ltd - CFO

Good evening. I turn you now to slide 10, and we talk about the EBITDA and EBITDA margin. On the back of the increased total revenue by SGD33 million, or 6%, compared with the same period last year, and after offsetting operating cost increase of 4%, the EBITDA profitability for the first quarter this year was SGD17 million, or 10.6%, higher at SGD177 million strong, compared with SGD160 million a year ago.

The EBITDA margin as a percentage of service revenue expanded by 2 percentage points to 32.2% in this quarter.

In the next slide I will talk about the increase in operating costs. Firstly, on slide 11, the first part is on cost of sales. The cost of sales grew by SGD30 million, or 13.5%, to SGD246 million, compared with SGD216 million a year ago same quarter.

As a percentage of revenue, this cost of sales trend is higher, from 39% of sales to 42% of sales. Let me take you through the increase components.

The bottom part, showing cost of equipment, this increased by 28%, or SGD23 million, to SGD107 million. This is for the cost of higher quantities of smartphones and tablets sold in the quarter, compared with a year ago. Note, please, that this cost of equipment is, however, lower over the sequential quarter.

The next component, cost of services, was also 12% higher at SGD79 million for the quarter, compared to SGD71 million a year ago. Half of this increase of SGD8 million was for higher Pay TV content costs for new and renewed programming, and half was for Fixed Network Service, which now includes the NGN service cost.

Traffic costs for the quarter was 3% lower at SGD60 million. We continue to see improved IDD and mobile inter-operators' rates, even though the volume has increased due to our business increase.



The next chart on page 12 shows the other major components of our other operating expenses. Total other operating expenses, at SGD244 million for this quarter, was 4%, or SGD10 million, lower than the first quarter last year. And this helped offset some of the increase in the slide that you've seen in previous page.

As a percentage of total revenue, the other operating expense trended lower at 41% of sales, compared with 46% in the first quarter the previous year.

The reduction in expenses was seen in the following areas. Marketing and promotion expenses, at SGD37 million this quarter, was SGD6 million, or 12% lower, due to lower acquisition promotion costs incurred.

Other G&A this quarter was SGD3 million lower at SGD140 million. Now within this group of expenses, staff costs did increase by SGD2.3 million, or 4%. However, this increase in staff costs was mitigated by lower maintenance and repair, lower doubtful debt provision, and recovery of network installation costs.

Depreciation for the quarter was also lower at SGD67 million, with some assets being fully depreciated in the quarter. This helped to offset the higher 3.6% asset base [annually].

The higher revenue performance and the lower OpEx increases resulted in profit from operations before tax rising by SGD18 million, compared with same first quarter last year. And this is a 20.6% improvement in operating profit year on year at SGD109 million for the first quarter this year.

As a sequential quarter comparison, you will see that this is slightly lower. But please note that in the fourth quarter there were some year-end non-recurring credits which increased the reporting profits slightly in the last quarter of that year. However, again, the first quarter over the same period the previous year is an improvement significantly.

This improvement has taken us to the next slide, in page 14. The higher operating profitability and lower net interest expense for the quarter year on year has led to net profit after tax rising by SGD19 million to a high SGD88 million for the first quarter this year, over the same period in the previous year.

CapEx. On slide 15, you can see that the CapEx this quarter is about at the same level as the previous year's same quarter SGD41 million level. This is representing 7% of the operating revenue for the quarter.

Due to the project timing, we expect the CapEx spend to be higher in the latter half of the year. We are still guiding that full-year CapEx spending will not exceed 11% of total revenue.

On slide 16, you'll see the free cash flow. We are pleased to report that free cash flow in the quarter is at SGD104 million. This translates to SGD0.06 per share. This is lower than first quarter last year due to the increase in working capital in this quarter for trade payments for the festive period promotions, which this year has been in December and January.

Now as a consequence of the sustained free cash flow generation, our net borrowings is further reduced from SGD449 million to SGD343 million at the close of the quarter.

And, with that, I hand you over to Tong Hai for the business update.

Tan Tong Hai - *StarHub Ltd - COO*

Thank you, Buck Chye. Let me cover with you the business highlights Mobile, slide 18. Mobile revenue increased 4%; postpaid ARPU up SGD2 to SGD74; and customer base grew 55,000.



Mobile net adds. We have positive net adds for both prepaid and postpaid. Postpaid voice adds was offset by higher dongle churn, resulting in only 1,000 net adds.

Total Mobile subscribers is now 2.2 million; almost split equally between postpaid and prepaid.

If you take a look at the Mobile revenue and ARPU, year on year prepaid revenue decreased by SGD3 million due to lower voice and SMS usage. Quarter on quarter, prepaid revenue was higher due to the introduction of data plans targeted at prepaid smartphone users.

Postpaid revenue increased year on year due to higher subscribers and take-up of SmartSurf plans. Correspondingly, the ARPU increased year on year from SGD72 to SGD74.

Quarter on quarter, the revenue decrease was due to lower roaming revenue, because roaming revenue is seasonally higher in fourth quarter than the first quarter. And this explains the drop in ARPU from SGD76 to SGD74 in quarter 1.

Next, Mobile non-voice and churn trend. Non-voice services as a percentage of ARPU is close to 40%, and postpaid monthly churn is higher at 1.3% due to higher dongle churn.

We now take a look at the business highlights for Pay TV, slide 23. Pay TV revenue increased 5%; ARPU up SGD2 to SGD51; and customer base grew 2,000.

Pay TV net adds was flat this quarter as there is a higher churn of free trial customers coming out of contract. We foresee that there will be higher take-up in quarter 2 due to the Euro Cup 2012.

Subscriber base is now 544,000.

Year on year, Pay TV revenue is higher due to the higher take up of HD set-top boxes and a SGD2 monthly subscription price increase, which became effective since August last year. Correspondingly, ARPU increased by SGD2 year on year to SGD51.

Quarter on quarter, revenue is lower due to seasonally higher advertising spend by customers in fourth quarter. As advertising spend is not included in the Pay TV ARPU computation, ARPU for fourth quarter and first quarter remains stable at SGD51 per month, even though revenue in fourth quarter is higher than first quarter.

Slide 26, you take a look at the Pay TV churn. It is stable at 1.1%.

Next, business highlights for Broadband, chart 28. Broadband revenue increased 3%; ARPU stable at SGD46; and customer base grew 15,000.

Net adds for this quarter is flat as we have a higher churn due to the non-renewal of lower speed plan customers on promotional offers.

Subscriber base increased year on year, from 425,000 to 440,000, due to an increase in take-up of the new fibre broadband plans.

Chart 30, year on year, revenue is higher due to higher subscriber base and a better plan mix of increase in higher tier and drop in lower tier subscriptions. ARPU remains stable at SGD46 per month.

If we take a look at the residential broadband churn, this quarter it was higher due to the non-renewal of lower speed plan customers on promotional offers.

Next, Fixed Network Services, chart 33. Data and Internet revenue contributed 83% to total revenue. Voice revenue grew 9%.

Revenue was higher this quarter, mainly due to an increase in voice services. Data and Internet services was slightly higher due to the higher take-up of our Internet and NGNBN services being offset by lower revenue from lower and international leased circuits.

We continue to face provisioning delays in non-residential NBN services, which is affecting the stronger take-up of broadband services by enterprise customers.

With this, I hand over back to Neil to provide the 2012 outlook.

Neil Montefiore - *StarHub Ltd - CEO*

Thank you, Tong Hai. I'll just very quickly run through the outlook. Revenue side, we're keeping our outlook prediction to low single-digit. We do think there may be some more competitive issues during this year.

EBITDA, we're maintaining service revenue to be about 30% of service revenue.

Cash CapEx, not exceeding 11%. We are quite a bit below that in the first quarter but, as you saw from last year, quite often, the actual cash CapEx runs a bit later on in the year.

And for the dividend, so the recommended interim dividend of SGD0.05 per share; and it's our intention to maintain the annual cash dividend of SGD0.20 per share for year 2012.

QUESTIONS AND ANSWERS

Eric Loh - *StarHub Ltd - Senior Manager, IR*

Okay, with that, we'll be taking questions and answers now. (Operator Instructions). Sachin, DBS.

Sachin Mittal - *DBS Vickers Securities Pte Ltd - Analyst*

Congratulations on achieving a great quarter. A couple of questions I have. Now that you have achieved 32% service EBITDA margin, which probably seems to be a result of lower handset subsidy, why do you think these kinds of margins cannot be sustained? Because your guidance is still unchanged, so I'm just trying to think whether it's a conservative guidance or there are some factors, cost factors, [development of] cost factors in the past, or something, which we are missing in the margin guidance.

Second is on now your gearing is quite low, net debt-to-EBITDA is about 0.6 times/0.7 times, so what are your thoughts on capital management, keeping in mind that there is a spectrum up for bidding in 2013? So keeping both factors in mind, could you provide some clarity on the capital management, which probably seems due sooner than later.

And third is on your annual bid on the common set-top box initiative with NIMS.

And the last is on the StarHub Vodafone roaming. Where can we see the impact of this agreement with Vodafone? Where is the impact, whether in terms of Mobile revenue? Or is it some kind of cost item where we can see the impact of this agreement? Thanks.

Neil Montefiore - *StarHub Ltd - CEO*

Okay, thank you very much. In terms of the margin, we're keeping our guidance as we did for the last quarter, mainly because we have -- what can drive the margins down, you saw in the past, is the handset subsidies.



We're coming to the end of the life of the iPhone 4S. And it was just launched in London yesterday, the new Galaxy from Samsung; all looking very popular. So we're just being a bit cautious because there may be a rush to everyone to be upgrading their phones and more handset subsidy charges. That's the main reason we're just keeping it low.

In terms of gearing, what we said is we won't do anything in terms of capital management in 2012. Again, we're not -- there's competitive uncertainty, but there's also economic uncertainties around the world. So we're just keeping it as it is. Yes, we do think the gearing is a bit low; we prefer somewhere between 1 times and 1.5 times.

The common set-top box project is still with the regulators so there's no progress on that at the moment. But I think it's due to come to fruition, in one way or another, around the end of the month, so we hope should be some clarity in that towards the end of this month.

And the Vodafone partnership, we'll start to see the benefits coming in the second half of the year. The roaming ones, we're seeing some now in terms of costs coming through because we've agreed lower rates with all the Vodafone countries. We've offered our customers a much better data roaming rate to all the Vodafone countries.

But in terms of actually how we get the additional traffic in terms of inbound, that will take some time because all of the Vodafone countries have to change the settings in all their switches. And that does take a few months to get across a fairly large country. So you should see that coming through towards second half of the year.

Equally, on the enterprise, the global enterprise opportunities with Vodafone, we had a couple of successes. But we will take some time for these big corporate accounts to start to move across to us.

The spectrum, you mentioned the spectrum, yes, we'll be looking at what we do with that. I don't think it will be a major impact to us financially.

Eric Loh - *StarHub Ltd - Senior Manager, IR*

Does that answer your question, Sachin?

Sachin Mittal - *DBS Vickers Securities Pte Ltd - Analyst*

Yes. Just a couple of follow-up questions. Now, what essentially you're saying, right now we are seeing more adoption of Android phones, as evident in the lower handset subsidy. So your margin guidance keeps in mind that probably iPhone 5, or some expensive phones, could be launched and so that's why you want to be conservative in your guidance, is that the right thinking?

Neil Montefiore - *StarHub Ltd - CEO*

I think it's possible. We want to remain competitive. And with new phones coming into the market there may be some irrational behavior by our competitors so we're just giving the guidance in what we think. It is a fairly conservative guidance, but we think it's possible that is where we'll be at the end of the year.

Sachin Mittal - *DBS Vickers Securities Pte Ltd - Analyst*

Economic uncertainty is definitely there, no doubts about that, but, again, the thinking is if there's no major cost impact of spectrum or anything else, why should StarHub not do the capital management? This is a bit confusing to me.



Neil Montefiore - *StarHub Ltd - CEO*

I think one should say we will always look at it. It's always our intention, and our history, of returning cash to shareholders, but we don't want to do anything in 2012 because there are a lot of global economic uncertainties, as well as there are uncertainties in the competitive environment. So we will see.

I think we'll review it -- we do review it every quarter. But the current feeling is we will not do anything this year; we'll be more conservative, and we'll look at it in 2013.

Sachin Mittal - *DBS Vickers Securities Pte Ltd - Analyst*

Okay.

Eric Loh - *StarHub Ltd - Senior Manager, IR*

Thanks, Sachin. Luis, HSBC.

Luis Hilado - *HSBC Global Research - Analyst*

Thanks for the call and congrats on the results. I have three questions. The first was on the OpEx side. It's mentioned in the MD&A that the cost of service increase was partly due to new and renewed content, is that mostly, safe to say, [Pay] TV? Or is there a component there of UEFA? And related to that is when will we see the bulk of the UEFA content costs impacting the P&L?

The second question is regarding -- just wondering, this maybe the first time that the hubbing households have actually declined versus previous quarters. What's behind that? Is it more of economic conditions? Or do you think it's more competitive conditions?

And the last question is just to get more color from Buck Chye, perhaps, on the reduction in marketing expenses. You mentioned it was because of lower costs related to acquisition, if you could give more color on what those types of costs are and whether it's sustainable going forward?

Kwek Buck Chye - *StarHub Ltd - CFO*

Okay, your first question on costs of goods sold, and talking about cost of services, I've said that the increase partly is for Pay TV content, which we have renewed; as well as new programming that we have introduced to make our value proposition stronger for our Pay TV customers. That is half of that SGD8 million increase year on year.

The other half is attributed to the new increased business of delivered corporate on the corporate side. And part of this is NGNBN. You see in our results that there is beginning to also have other income coming from NGNBN; the quarter is SGD8 million. And a significant part of that is due to the amortization of the rollout (inaudible), but a portion of it is adoption.

So, as you begin to wire up the pick up of services, you will have to pay OpenNet costs. And that cost is reported in the line -- for the corporate side is reported -- for the consumer side deposit under cost of services. For the corporate side, it is reported under the network services.

Luis Hilado - *HSBC Global Research - Analyst*

But is it fair to say the bulk of the --



Kwek Buck Chye - *StarHub Ltd - CFO*

It is fair to say that right now there is still not significant yet. Okay?

So UEFA, UEFA is an event that only starts in June. We do not pick up the cost at all; the cost is picked up at the time the revenue is picked up.

Luis Hilado - *HSBC Global Research - Analyst*

Okay. So [by] third quarter event?

Kwek Buck Chye - *StarHub Ltd - CFO*

Yes. Then the other aspects are the M&P, the marketing expenses. Yes, it has dropped to SGD37 million from a high of about SGD41 million/SGD42 million range; that's partly because it's just activity with the smartphones.

The non-Android ones, we do get marketing sponsorship that lowers the cost. When the iPhone comes up, such costs will go up and, hence, that's why we are not yet prepared to let you have any impression that the EBITDA margins can be sustained at 32% rate.

Tan Tong Hai - *StarHub Ltd - COO*

Now regarding your question on hubbing households, yes, there is a slight drop. But I believe that is primarily due to the non-renewal of our promotional offers for hubbing packs, which are lower speed plans for the household. So I believe this is the main reason, and you shouldn't be concerned.

Luis Hilado - *HSBC Global Research - Analyst*

Okay, great. Thanks a lot.

Eric Loh - *StarHub Ltd - Senior Manager, IR*

Thanks, Luis. Sachin, Nomura.

Sachin Gupta - *Nomura - Analyst*

Just a few questions. Firstly, Neil, we've been hearing for a long time now the installation issues with NBN, I'm just wondering what's OpenNet, or Nucleus Connect, or what the operators are actually trying to do about this thing. We're not simply making any progress; the network is sitting there, no one's using it. Any thoughts there?

Secondly, on this UEFA, you have been pre-marketing it. Any assessment on how the customer take-up has been, especially from -- are you seeing customers signing up from StarHub -- from SingTel, I mean? That's the second question.

And thirdly, on the fixed line, fixed revenues, they've been essentially flat. And obviously you've talked about the installation issues, but you also mentioned that there's been a termination of high ARPU [ILD] circuits; just wondering what does that relate to? Thanks.



Neil Montefiore - *StarHub Ltd - CEO*

Okay, thanks for that. I don't want to go into too many details on the OpenNet issues, but certainly we've escalated them every way we can with the regulator and the ministry. There has been a complete review of OpenNet's interconnect arrangements, and we should see some results of that coming through soon. So, hopefully, we will see some results.

Both we and M1 have actually offered to be a subcontractor if they find their own subcontractor, if SingTel can't actually deliver the enterprise buildings. They have rejected that offer at the moment.

But I think we will see some pressure from the regulator in sorting out this issue because it's a bit silly. It's two years on now, and really we have very few enterprise customers on the 20,000 buildings; of which about 85% have now been passed, but it only gets to the equipment room.

What was the next, UEFA? The Euro Cup. We can't give out the exact numbers yet, but the early take-up has been pretty aggressive and quite strong, so we're quite hopeful. But there's another month to go yet, so we'll see how we get on.

Tan Tong Hai - *StarHub Ltd - COO*

Regarding your question on the fixed revenue, the termination of the high ARPU, I believe that's referring to our wholesale customers. We do have a few large wholesale customers, and I believe they contribute to the termination.

Sachin Gupta - *Nomura - Analyst*

Sorry, can I just check, so does that mean you're losing this wholesale customer? That's (multiple speakers).

Tan Tong Hai - *StarHub Ltd - COO*

No, I think we have -- what we call our enterprise business have a combination of enterprise customers and wholesale customers. And wholesale customers, we sell our existing circuits to these telcos. So they are still our telcos, but every quarter they will have what we call fluctuation. And they terminate the arrangement with their customers; they also will terminate the arrangement with us.

Sachin Gupta - *Nomura - Analyst*

Okay. And can I just check one more thing on this UEFA content? This cross-carriage fee, has that already been determined, or that's actually a function of the customer as you sign up from SingTel?

Neil Montefiore - *StarHub Ltd - CEO*

No, it's not related to the number of the customers; it's an agreed fee between ourselves and SingTel, and approved by the regulator.

Sachin Gupta - *Nomura - Analyst*

Okay, thank you.

Eric Loh - *StarHub Ltd - Senior Manager, IR*

Thanks, Sachin. Next, let's move across the causeway to Malaysia, and let's speak to Kelvin from CIMB.



Kelvin Goh - *CIMB Research - Analyst*

Two questions. First one's on the competitive issues that Neil brought up just now. In other words, you were saying you're maintaining your top line guidance, despite the fairly strong first Q year on year so far? That's the first question.

Second question is on the one-offs. Were there any other one-offs? I've just had a cursory glance and I saw that there's a write-back of SGD2.9 million in repairs and maintenance. Are there any other items out there? Thank you.

Neil Montefiore - *StarHub Ltd - CEO*

On the competitive issues, we realize that there'll be new handsets coming into the market, and we are conservative. When we had the iPhone 3 came in we were -- it hit our EBITDA margin quite significantly.

We don't know what the iPhone 5 is. We don't know exactly when it's coming out. But we do -- we are aware that the new Galaxy looks very attractive, too. So we may see a much stronger demand for new phones and upgrades and handset subsidies increase, and that's why we've been slightly conservative in giving our guidance on the margins at around 30%.

Kwek Buck Chye, can you --?

Kwek Buck Chye - *StarHub Ltd - CFO*

Yes. I think, Kelvin, you are referring to the MD&A notes, right?

Kelvin Goh - *CIMB Research - Analyst*

Yes.

Kwek Buck Chye - *StarHub Ltd - CFO*

Now we generally accrue ahead for network maintenance. And once the maintenance work has been finalized and there is less damages or less parts to maintain, the accruals are reversed. So that's what it is. It is not due to one time, but it is actually every period there are these kinds of estimation that are being finalized.

But you can see that we have quantified with a statement that excluding these write-backs the 1Q 2012 level of repair and maintenance expense is about 2.6% of the current quarter. And it's about the same level, 2% to 3%, each quarter.

Kelvin Goh - *CIMB Research - Analyst*

Okay. Just going back to Neil regarding the new phones coming out, would you -- in your planning, do you expect the cost subsidy per unit to be flat? Or do you think that's going to be -- that's going to rise over time?

Neil Montefiore - *StarHub Ltd - CEO*

Okay. We -- my personal prediction is that over time the subsidies will reduce. However, we're just not sure what happens with Apple. We always say an Apple a day keeps the profits away. So, yes, we're just waiting to see what happens.

Kelvin Goh - *CIMB Research - Analyst*

Would you have any indications as to what the Galaxy 3S is in terms of the unit cost? It's higher, isn't it? I read about it, it's higher, so would that mean that the subsidy would be higher, too?

Neil Montefiore - *StarHub Ltd - CEO*

Generally, the Android phones, the subsidy is slightly less than the iPhone so it's slightly advantageous to us.

Kelvin Goh - *CIMB Research - Analyst*

But that seems to be trending up, though, based on what I read about the Galaxy 3S.

Neil Montefiore - *StarHub Ltd - CEO*

If we look now in the most recent months then the Androids and the iPhones are selling similar quantities in Singapore. So it's catching up with the rest of the world. The rest of the world is ahead, the Android phones are ahead of the iPhone, but in Singapore they're about equal now.

But if you go back six months, it was about -- they were -- it was about one-quarter would be Androids and 75% would be iPhones of the smartphones sold.

Kelvin Goh - *CIMB Research - Analyst*

What is it now?

Neil Montefiore - *StarHub Ltd - CEO*

It's about 50/50.

Kelvin Goh - *CIMB Research - Analyst*

All right. Okay, interesting. All right, thank you.

Eric Loh - *StarHub Ltd - Senior Manager, IR*

Thanks, Kelvin. Next we've got Arthur from Citigroup. Arthur?

Arthur Pineda - *Citigroup - Analyst*

Congratulations on your [reported] numbers. Three questions from me. Firstly, could you elaborate on the cross-carriage model that you have with SingTel on the Euro? Can you run us through the payment models, processes, and fees involved?

Second, can you elaborate on the fibre subscriptions; how many [subs] you have in fibre, what will be the average ARPU differential between that and cable broadband subscription?



And lastly, with regard to the regulations on OpenNet, what kind of a response do you think the regulator can potentially impose on OpenNet? What would you aspire for as ideal solution? Thank you.

Neil Montefiore - *StarHub Ltd - CEO*

I'm afraid, on the cross-carriage, all the information on that is restricted. We can't share it. But it's not an unreasonable amount, shall we say. So that we can't disclose, but it's within the cost structures that we've put in place when we evaluated the -- going exclusive with the Euro.

Fibre subs, we don't actually give out. I know the other two do but we are slightly different in that we have a lot more top end high speed customers. So what we are saying is about one-third of our customer base is 50-megabits per second, or higher. And that will include the fibre, but it will also include the DOCSIS 3 cable customers.

In terms of OpenNet, we hope the regulator can make sure that the key subcontractor delivers the connections not just to the equipment rooms in the enterprise buildings, but actually gets it up to where the enterprises are operating. We have offered to do that, M1 has offered to do that, and the regulator is struggling to get it happening. But they have the power, and I'm sure they will implement it. But it is a bit disappointing that it's taken two years to get this far.

Arthur Pineda - *Citigroup - Analyst*

Is there any timetable for the regulator to actually work on this?

Neil Montefiore - *StarHub Ltd - CEO*

They haven't set a timetable, but they're coming to the end of their complete reviews of the OpenNet ICO interconnect arrangements so it should be fairly imminent, I think.

Arthur Pineda - *Citigroup - Analyst*

Understood. Thank you.

Eric Loh - *StarHub Ltd - Senior Manager, IR*

Thanks, Arthur. Next on the line we've got Chate from Credit Suisse.

Chate Benchavitvilai - *Credit Suisse - Analyst*

Thank you very much for the presentation and the opportunity to ask questions. I have five questions. The first one is whether your guidance already includes the impact from the Euro 2012?

The second one is regarding the churn rate on your Broadband. I see it increased slightly into this quarter, is this just seasonal and there is no issue there, or any particular reason why? Is it because of competition?

The third one is regarding your depreciation. You mentioned that part of the asset [is already] fully depreciated so should we expect the depreciation charge to remain at this level? Or is there any timing issue into that?

The fourth one is regarding the capital management. When you mentioned that you will not consider capital management this year, would that also include the possibility that you increase the pay out from SGD0.20 to maybe SGD0.21/SGD0.22 as well?

And the last question, I'm not sure whether it's related at all, but I saw the news about the sales of the StarHub [Green]? Is that money coming to you, or coming to someone else? Thank you very much.

Neil Montefiore - *StarHub Ltd - CEO*

(laughter) I wish it was coming to us. No, it's not. It's going to the previous owners of the building we were in. So that was number five gone.

The capital management, we're keeping to our guidance that it's going to be SGD0.20 payout for the year. So that is -- in our conservative view, that's where we're going to be.

Going backwards with the questions, unfortunately, depreciation, Buck Chye, do you want to?

Kwek Buck Chye - *StarHub Ltd - CFO*

You don't have continuous quarterly fully depreciated assets. So if you take a look at it, you will find that each year you have net additions of about 200 million, so most of these are, averagely, five-year type. So you need to factor that into your calculation, yes? So you expect depreciation to be around the 70s per quarter.

Neil Montefiore - *StarHub Ltd - CEO*

Okay, thanks, Buck Chye.

Tan Tong Hai - *StarHub Ltd - COO*

Regarding your question on higher Broadband churn of 1.4%, it was primarily due to the non-renewal of the lower speed plan customers on promotional offers.

So our main focus is really the higher speed plan. As what Neil has shared, we still have the part of our high speed plans. And for the lower speed plans, there will always be going after all the promotions, or if we stop giving this promotion then they will not renew. So I don't think this is a source of concern regarding the churn.

Neil Montefiore - *StarHub Ltd - CEO*

And the final question was, was the Euro factored in, and yes, the Euro is factored in, in terms of cost and in terms of revenue. But the revenue cost is estimated; the costs we do know. Yes.

Chate Benchavitvilai - *Credit Suisse - Analyst*

All right. Perfect, thank you.

Eric Loh - *StarHub Ltd - Senior Manager, IR*

Thanks, Chate. Next we've got Rama from Daiwa.

Ramakrishna Maruvada - *Daiwa - Analyst*

Two questions from me, please. Firstly, with regards to the postpaid segment, if you could provide a little bit of color on the quarterly momentum revenues, if there is anything to read in there, as well as the uptick in the churn rate.

The second one is on the traffic cost, seems to be coming off over the past couple of years so just trying to understand how we should think about this line item, going forward? Thank you.

Neil Montefiore - *StarHub Ltd - CEO*

Tong Hai, do you want to take the first one?

Tan Tong Hai - *StarHub Ltd - COO*

Yes. I think you're asking about the postpaid revenue, is it, for the fluctuate -- the changes?

Ramakrishna Maruvada - *Daiwa - Analyst*

Yes. I'm looking at the 4Q versus first quarter of this year.

Tan Tong Hai - *StarHub Ltd - COO*

Right. I mentioned that 4Q, because seasonally you have higher roaming revenue, I think that explains the difference between the decrease in first quarter versus fourth quarter. So the changes in the ARPU decreased from [76 to 74], so primarily due to the roaming revenue delta. Okay? Does that answer your question?

Ramakrishna Maruvada - *Daiwa - Analyst*

Yes. And along with the churn rates there, please?

Tan Tong Hai - *StarHub Ltd - COO*

Okay. The churn rate, I have explained that the churn rate is higher because we do have dongle customers. And because now you can -- because all the smartphone plan users can teeter -- tether with their smartphone so they may not need the dongle. And that's why you have higher dongle churn, because we include dongle as part of our Mobile sub. So we are seeing a downward trend in the dongle pick up and the churn, and that explains why the churn is higher at 1.3%.

Eric Loh - *StarHub Ltd - Senior Manager, IR*

It's also correlated to the impact on the Mobile revenue. Did that help?

Ramakrishna Maruvada - *Daiwa - Analyst*

Yes.

Kwek Buck Chye - *StarHub Ltd - CFO*

Rama, your question on traffic, I've covered the improvements in the rate side of the services. We certainly are seeing better rates as our volumes increase, but volumes is very related to the traffic throughput.

So you see in our guidance we basically said that the previous year traffic expense is about 11.1% of revenue, and that for the current quarter we're seeing it like 10.1%. So, for modeling there, I think it's safe to assume that conservatively it stays between 10% to 11% of revenue. So if the revenue goes up, the costs will go up. The revenue comes down, we would do our best to try to get some help from our counterparties to share some of the increased volume cost.

Ramakrishna Maruvada - *Daiwa - Analyst*

Okay. But how do you explain the fact that the revenues have gone up over the years but these costs have come down? Is it because of lower usage, or --?

Kwek Buck Chye - *StarHub Ltd - CFO*

Can you repeat that, please?

Ramakrishna Maruvada - *Daiwa - Analyst*

The revenues this quarter, if I were to look at it two years ago, are obviously on a much higher base, but the traffic expenses have gone down for the past two year.

Kwek Buck Chye - *StarHub Ltd - CFO*

I think it all depends, basically, on geographies, where the traffic goes. So, in December quarter, probably, the traffic costs are very different from the usual because seasonally higher traffic. So with the revenues are higher, the costs [tend] to be higher in that quarter. But if you look at it, the same quarter generally follows the same routing, then the cost is about identical.

So, in this case, the only improvement between the two, same quarter, first quarter, is the fact that we are able now to get better rates per unit charged for the same locations; treble for some of those locations.

And last thing, the Vodafone Group actually allows us to bring down some of the rates due to the larger group of partnering in Europe, as well as in Asia, with the Conexus.

Ramakrishna Maruvada - *Daiwa - Analyst*

Okay. Thank you very much, Buck Chye.

Eric Loh - *StarHub Ltd - Senior Manager, IR*

Thanks, Rama. Next, let's hear from Phillip Securities, Derrick.



Derrick Heng - *Phillip Securities Pte Limited - Analyst*

Just a couple of clarifications. The first question, how much of the NBN-related grant will be booked into your income statement this year? And along with that, how much is left for the next few years?

And the second question, [I know the sell-off], there had been a lot of question on Euro side, could you just elaborate a little bit on the cost impact to your P&L? Yes, that's all, thanks.

Neil Montefiore - *StarHub Ltd - CEO*

Buck Chye, on the grant? Can see the grant that's --

Kwek Buck Chye - *StarHub Ltd - CFO*

Yes, I think the rollout grant I think mostly is done. And the rollout grant we have received to date, you see from our cash flow it's about SGD110 million. So that is divided equally into 60 months, if you want to [work] the trend. And the rest, it depends on how fast we get to get into the homes and the buildings.

Each time you turn on the services for a home or a building that takes above 100-meg speed, we get a [certain] adoption grant. So the improvements in the SLA for NGNBN will certainly give us upside opportunities to get a little bit more grant as we turn on these facilities.

Derrick Heng - *Phillip Securities Pte Limited - Analyst*

So just to clarify --

Kwek Buck Chye - *StarHub Ltd - CFO*

(multiple speakers) are mostly done, maybe just a few more portion of it; maybe less than 5% or so.

Derrick Heng - *Phillip Securities Pte Limited - Analyst*

So SGD110 million is booked in year to date, but how much is left from there?

Kwek Buck Chye - *StarHub Ltd - CFO*

Yes. Well, it depends on whether their incremental rollout requires, and that may be some of them.

Derrick Heng - *Phillip Securities Pte Limited - Analyst*

Okay.

Kwek Buck Chye - *StarHub Ltd - CFO*

At this point, they are supposed to have rollout to at least 95% coverage, but I think it is slightly behind.



Neil Montefiore - *StarHub Ltd - CEO*

So the total grant possibly paid is [SG250 million]?

Kwek Buck Chye - *StarHub Ltd - CFO*

That's the total available.

Neil Montefiore - *StarHub Ltd - CEO*

Total available. (multiple speakers). It does depend on the take-up to get the adoption grant.

Kwek Buck Chye - *StarHub Ltd - CFO*

Yes.

Derrick Heng - *Phillip Securities Pte Limited - Analyst*

So it doesn't mean that you will sure book in the SGD250 million into your income statement?

Kwek Buck Chye - *StarHub Ltd - CFO*

No, no.

Neil Montefiore - *StarHub Ltd - CEO*

No, it doesn't.

Derrick Heng - *Phillip Securities Pte Limited - Analyst*

Okay, thank you for that.

Derrick Heng - *Phillip Securities Pte Limited - Analyst*

And for the Euro?

Kwek Buck Chye - *StarHub Ltd - CFO*

Yes, there is no cost picking up for the Euro as yet because the program -- the event only starts from June 8. The selling activity has just begun so, yes, the selling activity costs begin to track but that's in the second quarter. Nothing in the first quarter.

Derrick Heng - *Phillip Securities Pte Limited - Analyst*

I understand. Cost of services for second quarter?



Kwek Buck Chye - *StarHub Ltd - CFO*

Yes.

Derrick Heng - *Phillip Securities Pte Limited - Analyst*

How much of an impact, roughly?

Kwek Buck Chye - *StarHub Ltd - CFO*

You have to wait for second quarter.

Derrick Heng - *Phillip Securities Pte Limited - Analyst*

Okay, thanks.

Eric Loh - *StarHub Ltd - Senior Manager, IR*

Nice try. We've got time for a few more questions. We've got Luis next, and then we're going to end with Roshan. So, Luis, fire away, again.

Luis Hilado - *HSBC Global Research - Analyst*

Sorry, just one question, and it's again on Euro. Just wondering, on the cross-carriage side, if there's significant take-up of the cross-carriage options and, therefore, enough to satisfy the MD&A and (multiple speakers).

Neil Montefiore - *StarHub Ltd - CEO*

Again, we can't give you the details on that, but we can confirm there has been some take-up on the cross-carriage.

Luis Hilado - *HSBC Global Research - Analyst*

Okay, thanks. Thanks a lot.

Eric Loh - *StarHub Ltd - Senior Manager, IR*

Last question's coming from Roshan from Merrill Lynch.

Roshan Raj Behera - *Bank of America Merrill Lynch - Analyst*

Thanks for the opportunity. Four questions from me. First, could I just confirm that your offer to subcontract from OpenNet has been rejected?

Related question is, with your expectation that regulatory intervention is likely, do you still expect that the momentum in terms of enterprise fibre take-up that's going to improve in the second half.



The second question is on residential broadband. You talked about higher churn from lower end subscribers, so should those levels decline going forward? Is that what you would expect in the coming quarters?

Third question is on Fixed Network voice revenue. What's driving the growth in voice revenue? And what's the expectation for this going forward?

And fourth question is on CapEx. On a two to three-year view, could you expect CapEx to go below 10% level? Would that be sustainable? And what are the factors that we should look out for, for any variability in CapEx? Thank you.

Neil Montefiore - *StarHub Ltd - CEO*

Okay, right, that's too many questions. What was the first one?

Kwek Buck Chye - *StarHub Ltd - CFO*

First one is has your offer to subcontract been rejected?

Neil Montefiore - *StarHub Ltd - CEO*

Yes, it has been rejected, yes. Yes.

And also, on the regulatory side, we hope there will be some intervention and we hope it will get resolved, although I think I remember saying this almost 1.5 years ago. I think it will happen because it looks as though there's been quite a lot of action recently.

Roshan Raj Behera - *Bank of America Merrill Lynch - Analyst*

So you're positive that the growth, on the enterprise side of fibre, that should pick up in the second half?

Neil Montefiore - *StarHub Ltd - CEO*

I'm not positive, but I'm hopeful that's what's going to happen.

Roshan Raj Behera - *Bank of America Merrill Lynch - Analyst*

Okay. So compared to, say, the start of the year or last quarter, you are slightly less excited about the opportunity, in the sense like things are not working as fast as you had expected? Or it's pretty much the same?

Neil Montefiore - *StarHub Ltd - CEO*

No, I think we're just disappointed because we're two years on since the launch. We were hoping we'd have access to 20,000 new buildings, easily. And we hoped there wasn't so much time for the almost monopolistic incumbent to actually lock in their customers over a longer period.

So it's a little bit disappointing but, no, we are optimistic because in the areas where we have our own fibre going, in the 1,000 buildings in the main CBD areas, our market share of those buildings is something around 30%. So we think we can move quite quickly up that new market, but we really do need to sort out how the fibre actually gets from the equipment room to where the customers want it.



Kwek Buck Chye - *StarHub Ltd - CFO*

I'll take the CapEx question. We don't give guidance beyond the current year. But it is our intent that we now invest CapEx more selectively and to be using the infrastructure that is already built. So we do have a hope that the CapEx trend, as a percent of revenue, trend downwards. As whether they will be below 10% in next two years, I can't give you that guidance right now.

Neil Montefiore - *StarHub Ltd - CEO*

I think one thing you can take into account is that, with the move of mobile operators globally to LTE, the CapEx in general will start to come down in terms of maintenance CapEx. But that won't really be -- you won't see that coming through in numbers until probably 2014/2013. But it will as a percentage of revenue start to reduce globally on the Mobile side of the operations.

Roshan Raj Behera - *Bank of America Merrill Lynch - Analyst*

Okay.

Tan Tong Hai - *StarHub Ltd - COO*

Regarding your question on the residential broadband churn at a high of 1.4%, we foresee it to fluctuate between the range of the 1.1% to 1.4% range. I don't foresee that going higher than that, because this is the lower speed plans on promotional offer. So the rate will be around the trending that you see there, and 1.4% should be the highest.

Roshan Raj Behera - *Bank of America Merrill Lynch - Analyst*

Okay. And just, if I could, follow up on that. So these subscribers who churned, were they on the cable broadband plans or the promotional plans on the fibre that you might have got the subscribers on fibre?

Tan Tong Hai - *StarHub Ltd - COO*

They are primarily our cable plans -- low end cable plans. So, yes, they can switch to the fibre plan higher end cable plans or the fibre plans.

Now, your question on the fixed revenue, Fixed Network, the voice revenue, the voice revenue increase is primarily due to the higher subscription of local voice services and increased interconnect revenue, so this like the services, our conferencing services, our ISDN 30 services. But it's also offset by lower IDD revenue. There is some offset but, all in all, there's still growth in this voice business, contributed by conferencing, ISDN.

Roshan Raj Behera - *Bank of America Merrill Lynch - Analyst*

Okay, thank you.

Eric Loh - *StarHub Ltd - Senior Manager, IR*

We want to thank you all for joining us this evening, and we look forward to speaking with you again next quarter. Just a little reminder here; a copy of the transcript will be made available online on Monday. Until then, goodnight.

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