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PRESENTATION

Eric Loh - *StarHub Ltd. - AVP, IR*

Right, good evening, ladies and gentlemen. Welcome to StarHub's second quarter 2012 results announcement. My name's Eric Loh.

With me tonight, we'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.

Right now, they'll walk you through the second quarter results announcement and then after that, we'll do the Q&A. Neil?

Neil Montefiore - *StarHub Ltd. - CEO*

Thank you, Eric. Thank you. Well, good evening, everybody. This is the eve of a National Day in Singapore, so I'll try and go quite quickly.

Just if you turn to page 5, just give a quick overview of the financials there. In the second quarter '12 against second quarter '11, just summarize it quite quickly. Operating revenue was up around 4%, service revenue about the same.

EBITDA grew 10% which is very good we felt. EBITDA margin improved slightly to 32% and the net profit after tax expanded 11%.

Operationally, we saw growth in all the areas, although in the mobile area, the post-paid revenue growth was brought down a little bit by some -- a bit of a setback on the prepaid side, which we'll cover a bit later on. But overall, the mobile side did show growth in revenue.

Pay TV revenue increased 12%. That was actually driven by the Euro event, so we'll cover that a bit later too.

Broadband revenue's up about 2% and fixed network services, that's the corporate side of our business, that rose around 6%.

So if you just -- quick summary for the half year, if we turn to page 6. I'll just run quickly down there. So we saw operating revenue up 5%, service revenue up 4%. EBITDA around the 10% level, EBITDA margin, up, as we said, 1.9 percentage points.



Profit after tax, up 19% for the half year and cash CapEx slightly higher, but still below the guidance we've been giving. We see cash CapEx coming in a bit stronger in the next two quarters.

Free cash flow was okay. Net debt to EBITDA is now down to about 0.55.

Okay, look at the page 7, you can see the -- just quick run through the business lines. So, as I said, mobile did grow about 1%. Customer base grew as well, around 1%.

Pay TV up, mainly because of the euro, 12% of revenue, but we did see some actual growth in the basic TV side as well.

Residential broadband, 2% and fixed network, up about 6%.

The Hubbing scorecard fairly flat. We saw slight increase in the households that have three or more services.

And quickly now, so we'll start to go through the financial highlights. I'll hand you over to Kwek Buck Chye. So, Buck Chye, would you like to carry on?

Kwek Buck Chye - StarHub Ltd. - CFO

Good evening. I'll take you through the financial highlights, to slide number 10 and I'll cover EBITDA and EBITDA margin.

EBITDA profitability for the second quarter at SGD179 million was SGD15.5 million or 9.5% better than last year. This is due to higher revenue, as well as lower operating costs.

For the half year, EBITDA rose to SGD356 million, a 10% increase or SGD32.4 million higher than the first half last year. Consequently, the EBITDA margin for the quarter and the half year are trending about 32% range and this is above last year same period's by a near 2 percentage points.

This high profitability will certainly help us weather through a more expected competitive second half. Consequently, we are still guiding the full-year EBITDA margin of about 30%.

On slide 11. Now total operating expense for the quarter was 1.7% higher and for the half year was 2.8% higher compared to the last year. And this is identified to the higher cost of sales.

Let me cover firstly this cost of sales in this slide. For the quarter, cost of sales increased by SGD13 million, or 5.8%, over the previous year to SGD234 million. Within this cost grouping, the component cost of services, the middle bar, at SGD92 million for the quarter, was SGD20 million or 26.6% higher and this is partly due to the Euro event costs occurring in June, higher content costs for Pay TV upon renewals, as well as new content and also the cost for new enterprise fix and NGNBN businesses which are picking up this year.

The cost of equipment, the bottom bar, however, was lower by 6.2% this quarter at SGD82 million -- at SGD83 million, sorry, compared with SGD88 million the previous year. Cost is lower due to the lower quantities of handset and tablets sold this quarter.

Traffic costs were maintained at SGD61 million level per quarter.

For the half year, the cost of sales was SGD42 million or 9.5% higher at SGD480 million on the right-hand side. The higher cost is contributed by the two components, the increased costs for service, which increased by SGD28 million for the half year or 19.5% higher. This is due to higher content costs and as it occurred in the second quarter the euro cost, as well as the new Enterprise services cost.

The increased cost of equipment rose by SGD17 million or 10% at SGD189 million for the first half. This is due to the mix of the costlier smartphones this year. These two increases actually led to the overall cost of sales trending for the half year, climbing up to 41% for this half year.



Now to offset that in the next slide, slide 12, other operating expenses in the quarter was SGD5 million or 1.9% lower at SGD251 million for the quarter.

For the half year, other operating expense, at SGD495 million was SGD15 million or 3% lower and these helped to offset the increase in costs of sales in the previous chart. The major reduction here is from marketing and promotion expenses, the top light bar, which dropped by SGD9 million or 21% year on year for the quarter. For the half year, marketing and promotional expenses was SGD15 million or 16.7% lower as well.

The reduction is coming from lower acquisition and recontract promotion costs and lower dealer commissions.

Other G&A at SGD147 million for the quarter was only 2% higher. Here we have taken provision for property tax on network infrastructure assets as well as a higher provision for stock obsolescence of CPE devices. These were made in the second quarter.

To offset these higher provisions, we saw a reduction in temporary staff costs, reduction in operating leases, ARPU debt provision, as well as lower repair maintenance cost. For the half year, other G&A was maintained at SGD287 million level. There is no significant increase year on year in depreciation expense run rate.

Overall other operating expense, as a percentage of revenue, improved from 45% last year to trend down at 42% of total revenue line. Consequent to that improvement in cost and higher revenue, our profit from operations for the quarter on slide 13 was SGD15 million better than the same period last year and for the half year was SGD34 million higher ending at SGD220 million before tax.

After providing for tax and interest, net profit for the quarter was SGD87 million, SGD9 million or 11% higher than the same quarter last year. For the half year, net profit after tax rose to SGD175 million, this is an increase of SGD28 million or 19% over the first half last year.

On a per share basis, EPS was at SGD0.102 per share. We have begun to pay cash taxes in this quarter.

The next chart on page -- on slide 15 is on capital expenditure spending. Cash outlay for CapEx this quarter at SGD57 million is translating to 10% on the quarter revenue. For the half year to date, total CapEx spending amounts to SGD98 million and that tracks at 8% of operating revenue.

We expect to see the CapEx payments to be more in the second half of this year, consequently we are still guiding, that for the full year CapEx ratio to revenue will be about 11% of operating revenue.

Slide 16 on free cash flow. Free cash flow for the quarter is at a high, SGD143 million as CapEx is end-loaded to the second half. And for the half year, free cash flow reached SGD247 million. The half-year free cash flow is slightly lower than the previous year; this is because of cash tax commenced in the second quarter of this year. We paid SGD28.5 million of cash tax in the quarter, nonetheless the SGD247 million free cash flow translates to SGD0.144 per share against the dividend of SGD0.10 per share.

With the higher CapEx payments expected for the second half we expect to see the quarterly free cash flow to be at lower levels than what is seen in the first half but this does not affect our dividend flow.

And with that I'll pass the mic over to Tong Hai to cover the business.

Tan Tong Hai - *StarHub Ltd. - COO*

Thank you Buck Chye. Now let me cover the first part, which is the mobile business. Revenue increased 1%, our post-paid ARPU was up SGD2 to SGD75 and customer base grew 20,000.

Slide 20, prepaid revenue was lower at SGD59.8 million as a result of lower SMS and voice usage. Correspondingly, prepaid ARPU was SGD2 lower than a year ago.



Post-paid revenue was higher as there were more SmartSurf subscriber with voice and data bundle and higher monthly subscription fees. ARPU have also increased -- post-paid ARPU increased by SGD2 to SGD75.

Slide 21; this quarter we saw a reduction in prepaid subscribers due to the high number of [HSPA] cuts previously acquired during promotional offers.

Now for postpaid we have added another 2,000 subscribers, bringing the total subscriber base for mobile to be 2.17 million, split almost equally between prepaid and postpaid.

Now if you look at the post-paid subscriber base, it has grown steadily, in fact from 1.051 million to 1.069 million in the second quarter. We are concerned about the drop in the prepaid subscriber base. We have since reorganized our distribution channel, and also recognized the need to spur usage and put in the necessary e-marketing, as well as other marketing activities, to drive usage. We will continue to put focus in this area and it may take a few quarters, but we are determined to make sure that this part of the business is back to shape.

Next chart 22. Non-voice services as a percentage of ARPU was higher at 40.5%, primarily contributed by higher data usage. Money churn remained at 1.3% due to a higher churn of subscriber with data only plans, which are primarily our dongle users.

Next Pay TV. Revenue increased 12%, ARPU was up SGD5 to SGD54, and customer base remained stable.

Chart 25. Revenue was higher year on year due to the one-off UEFA Euro 2012 event, higher pick up of add-on channels, higher HD set top box rental, and SGD2 price increase which was effective since August last year. Excluding the one-off UEFA Euro event, revenue would still be 6.3% higher.

Correspondingly, ARPU without Euro event was \$3 higher than a year ago. This quarter we saw a 1,700 subscriber churn which resulted in a lower subscriber base at 543,000. The churn was primarily due to the expiration of short-term promotional offers.

Chart 27. Churn rate was maintained at 1.1%.

Next, broadband, chart 29. Revenue increased 2%, ARPU up SGD1 to SGD46. Customer base grew 8,000. Broadband revenue was higher due to a higher mix of high-speed broadband. We continue to see growth in both our high-speed cable broadband and fiber broadband service. As a result, ARPU was SGD1 higher than a year ago.

Next chart 31. Year on year we added 8,000 subscribers, bringing total subscriber base to 439,000. Quarter on quarter we lost 1,000 subscribers which are mostly in the low-speed plans.

Residential broadband churn. The higher churn of 1.6% was due to a higher base of our contract subscribers who did not renew their contract when their promotional offers end. They were also attracted by lower pricing offers from new players entering the market. We do not want to compete with them on broadband prices alone. We continue to differentiate ourselves with quality broadband and Hubbing offers.

Next, fixed network services, chart 34. Data and Internet revenue increased 6%, Voice revenue grew 4%. Fixed revenue was higher at SGD88 million this quarter. The growth in data and Internet services was due to the increased pickup of our Internet and Next Gen services, which could have been more if not for delay in provisioning by OpenNet.

Voice services was higher due to higher subscription of lower voice services and increased Internet connect revenue, despite being offset by lower IDD revenue.

With this I hand over to Neil to provide the outlook for the year.



Neil Montefiore - *StarHub Ltd. - CEO*

Thank you Tong Hai. So I'll just finish up with the guidance of what we think for the rest of this year. Starting with the revenue, we are maintaining our previous guidance of revenue growth in the low single-digit range. In terms of EBITDA, we're saying maintaining the previous guidance of EBITDA margin on service revenue to be around 30%.

And we expect cash CapEx to be about 11% of operating revenue. I think we said before it wouldn't exceed 11%, but as we are looking at possibly accelerating some of our LTE rollout, given the fact that good handsets may come into the market quite soon, we'll just change it to be about 11%.

So we do see CapEx going up in the next two quarters from the first two quarters. And dividend, we will recommend the second quarter dividend of SGD0.05 per share, that will go through. And we will maintain our annual cash dividend of SGD0.20 per share for 2012.

QUESTIONS AND ANSWERS

Eric Loh - *StarHub Ltd. - AVP, IR*

So okay, with that we'll open for Q&A. (Operator Instructions). Sachin Mittal; DBS.

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

I've got a couple of questions. The first one is on the cash tax. Obviously we are seeing some cash tax now, but you're still below the tax which we've seen in the P&L statements. So how do you think it should be going forward? That's number one.

Number two is, surprisingly we saw some drop in the other income which probably is a recognition of the cash from the NBN [quotas]; so why did it drop, is it a temporary drop, and should it have increased further?

Last question probably -- rather second last question is, besides iPhone launch what are other things which make compressed margins in the second half, given that your guidance still looks like very conservative?

And the last is, what is our traction in the commercial space given that the capacity has been raised already to [100 buildings] every week? So what are the trends we are seeing over there?

Neil Montefiore - *StarHub Ltd. - CEO*

Okay, thank you. And I'll let Buck Chye answer the first question, it was on the cash tax.

Kwek Buck Chye - *StarHub Ltd. - CFO*

Yes, the cash tax, Sachin, please note that cash, the tax payment is actually on (technical difficulty). And what we are doing is, we've applied to pay by installments so that you have better cash flow management.

So, the second quarter, this year we begin to pay the installments. But moving forward, I think it would follow the accrual rate, so I think if you take 17% of the pre-tax number for the previous year, you can probably will determine the cash tax portion of it.

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

Okay.



Kwek Buck Chye - *StarHub Ltd. - CFO*

And other income, it looks like it is lower, it's only SGD5 million compared with first quarter of SGD8 million. As I mentioned, there are two parts here, one part is the amortized income from the rollout grant and that number is stable. In this quarter, although there were adoption connections, they have not been certified yet. So the SGD5 million is all the amortized grant. The adoption grant is probably going to come in a little later in the third quarter.

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

So it may rise again, okay?

Kwek Buck Chye - *StarHub Ltd. - CFO*

Sorry?

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

It may rise again in the -- ?

Kwek Buck Chye - *StarHub Ltd. - CFO*

You were right, yes, it may rise again depending on the activity of adoption connections. And the pace in which it can rise will depend on how fast OpenNet improves the connectivity into the buildings. And then these are taking 100 Meg and above. Adoption grants are not given if the supply taken is less than 100 Meg.

Neil Montefiore - *StarHub Ltd. - CEO*

And on your third question, the guidance we're giving on the margin is really to take into account the launch of the iPhone 5. If you remember back 2009, December, we actually took the iPhone 3 and that bashed our margin, just in the 15 days of December that we had it, by about 2%. So that's really what we're thinking, that the possibility is there, so that's why we're keeping the guidance lower.

And I think the last one, Tong Hai, maybe you could answer that on the decrease in NGN slots.

Tan Tong Hai - *StarHub Ltd. - COO*

(inaudible), slots.

(multiple speakers)

Neil Montefiore - *StarHub Ltd. - CEO*

Enterprise quotas. We're happy that the regulator is starting to intervene with the problems we've had with OpenNet, and we appreciate the additional slots, but maybe you'd just explain.



Tan Tong Hai - *StarHub Ltd. - COO*

I think the key thing is, not just increasing the slots, but quality of service, QoS, the service delivery, currently I think there is, for residential, within three days, these are the new guidelines for IDA. I hope that OpenNet can adhere to these new guidelines because this is the minimum standard that is required to meet our customer requirements, so we hope to see that improvement. If that happens we do hope that the pickup will grow further.

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

Tong Hai, I thought the action lies in the commercial space, so what are your thoughts on that space?

Tan Tong Hai - *StarHub Ltd. - COO*

I think in the commercial space, yes we're still facing issues in the delay in provisioning. I think those are areas that we are putting forward as part of the requirement, so this is currently the focus. It's due on the residential, but we are putting forward our request that the QoS standards should also be applied to the non-residential space.

Neil Montefiore - *StarHub Ltd. - CEO*

But we still are having issues, although commercial buildings passed is quite successful, the actual getting from the equipment room to where the businesses are operating is still very slow and we have long, long delays. So in selected buildings, where we can see there's an opportunity, we are actually doing some work ourselves even though it does cost a little bit of money to do that.

But we're hoping the regulator will actually get OpenNet to start to deliver what we thought they were going to deliver a couple of years ago.

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

Okay, great. Thank you.

Eric Loh - *StarHub Ltd. - AVP, IR*

Luis Hilado, HSBC.

Luis Hilado - *HSBC Global Research - Analyst*

Congrats on the results side. I had three questions. The first one is regarding the section about cost of services. There was a disclosure that part of the increase was because of renewed Pay TV programming. I'm just wondering if there was any major content that you renewed, and whether it was only exclusive or non-exclusive basis?

Second question is regarding the number of Hubbing households, fell 4,000 this quarter versus previous quarter. I'm just wondering if you have color on what's driving that. Is it economic conditions or anything to do with that, or just competitors getting a better share?

And last question is, in terms of the EPL auction, if you can remind us when that takes place, and what your plans are in terms of whether exclusive or non-exclusive.

Neil Montefiore - *StarHub Ltd. - CEO*

Okay. We can help you on some of those questions, others are a bit confidential, I'm afraid.

So the Pay TV, the content costs in Singapore are continuing to rise, and we do have content that's up for renewal. As you know, the only content we've renewed exclusively was the Euro 2012. We took that exclusively, and that was just for a limited period.

So we can't give you the details of what we have renewed, but obviously if it had been exclusive, you will notice that we've gone into cross carriage. So, whatever has been renewed was on a non-exclusive basis.

We are in a lot of negotiations with the content owners because we do feel that they can't expect to have continual content price increases.

In terms of EPL, we are in discussion with them, but we do not yet know what the process will be. Last time, it took place, I think, in the September timeframe. It looks as though it might be a bit later this time before we actually find out what will happen. But yes, we're certainly interested and we want to participate.

Luis Hilado - *HSBC Global Research - Analyst*

About the Hubbing households, in the --

Neil Montefiore - *StarHub Ltd. - CEO*

Hubbing households, yes, that's the one we -- yeah. That's really because some of the households were dongle users, post-paid dongle users. And the dongle use is dropping off quite quickly.

But if you look at our churn, a big chunk of the churn in the mobile sector is actually because of people stopping using dongles and starting using the smart devices, the iPads and so forth.

Luis Hilado - *HSBC Global Research - Analyst*

Great. Thanks a lot, Neil.

Neil Montefiore - *StarHub Ltd. - CEO*

Thanks.

Eric Loh - *StarHub Ltd. - AVP, IR*

Okay. Sachin from Nomura.

Sachin Gupta - *Nomura - Analyst*

Two quick questions. Firstly, I know it's not significant at the moment, but you've lost customers both in Pay TV and in broadband. And I understand broadband is a pricing pressure. Just your thoughts on how that could actually play out for the next six to 12 months?

And also on the Pay TV segment, you obviously had the Euro Cup, and it's still surprising that there has been some customer churn. So does that mean that, given the Olympics is with SingTel, then -- and we could potentially see higher churn in the coming quarters? That's one question.

And second one is, obviously previously you have indicated that there's unlikely to be any further capital management. Just wondering, are those views still intact? Thanks.

Tan Tong Hai - *StarHub Ltd. - COO*

Let me first address the Pay TV part. Now the Euro is actually a one-off event. And, of course, in this case, we got the subscribers based on the cross carriage. But we were actually expecting football subscribers from our competitors' platform. But interestingly, I think there may be a lot of customers having two boxes. And as a result, you don't see the switch, the net adds.

So that is partly why Euro -- we didn't add on new subscribers. In fact, it is more for existing subscribers, and we didn't actually have many switch from the other camp, because they were having two boxes. Which is good news for us.

But I've explained that the churn was primarily due to customers on the short-term promotional plans. And I think this is -- every quarter, we do have some of these customers that have expired and they don't want to take out promotional offers.

But as a whole, you noticed Pay TV business, we have managed to grow the revenue, and also the ARPU. And I think that's very important that we continue to launch new channels, to enhance our value. So, I think that's our game plan, to make sure we deliver the best value to our customers.

Now, in terms of broadband, yes, there are pricing pressures because of new players coming in with lower price plans. But we still maintain our leadership in the above 50 Meg plan, in fact we have leadership position in that.

And I mentioned that we will not compete on price. In fact, we compete on quality bandwidth. I think that's very important, as they use the bandwidth, they know what's the difference of StarHub, because of our investment in submarine cables. We believe we have very good bandwidth, and also we have very good peering with the other ISPs around the world.

And we will continue to leverage on our Hubbing offer. So if you buy other than broadband, and then you have our TV and mobile, you'll get the best offer. I think those are the things we add on. And now, with our TV Everywhere, you get to watch our TV on the Internet platform.

And also, these are the other services that we get on, and we hope our customers appreciate these value-added services that we have added on top of simply plain vanilla broadband.

Neil Montefiore - *StarHub Ltd. - CEO*

Okay. Thanks, Hai. In terms of capital management, as I've often said, we do review it with the Board every quarter. We do recognize that the gearing is quite low, but we are -- there are a number of uncertainties ahead of us, particularly on the CapEx side with the roll out of LTE. And exactly what we need to do to expand our business in the enterprise segment, which we are determined to do. So we're not giving any change guidance in actual special dividends or capital reductions.

I think, just to add on to what Tong Hai said about the Euro. It was a very successful first example of cross carriage. It went very smoothly, and we had no hiccups. But I have to say though, as Tong Hai mentioned, the vast majority of the customers were through us; very few did it through our competitor.

Sachin Gupta - *Nomura - Analyst*

Okay. Thank you very much.



Eric Loh - *StarHub Ltd. - AVP, IR*

Arthur from Citigroup.

Arthur Pineda - *Citigroup - Analyst*

Three questions for me. Firstly, can you share your thoughts on OTT content providers in Singapore? How do you see this as developing and impacting your Pay TV business?

Also, could you talk about your LTE network build-out, what's your timetable for this now? How important do you think this will be if Apple does launch an LTE handset, and your competitors are up and running?

Third question I had is with regard to your content costs. I was wondering if there's any opportunity for you to actually reduce these, given that they're actually non-exclusive. Do you have any step-down clauses if SingTel, for example, takes up similar content? Thank you.

Neil Montefiore - *StarHub Ltd. - CEO*

Okay. Thanks. In terms of OTT, there's two types of OTT content accessed in Singapore. One is a semi-legal sort of OTT content. There's some completely legal but there's quite a lot of semi-legal ones elsewhere. So big global players, but as long as you can either hide your entity through a VPN, or you can use a foreign credit in some cases, you can buy access to that content. That, we are trying to sort out with the content owners.

The illegal content access we're trying to sort out with the regulators. But it's taking some time I think globally for the content owners and the regulators globally to get their acts together to sort out the illegal content. Whether it involves site blocking or how it's done, we're not quite sure, and every country's taking a slightly different route on that.

But to be honest, although it's here, there's a lot of it in Singapore, we still see our Pay TV business fairly stable, and not too much affected.

In terms of LTE, we are rolling out our LTE network now. We'll be launching services on it in the last quarter of this year. It'll be interesting to see how the handsets work with it. We've had different reports from different parts of the world; problems with battery life when they've accessed LTE networks, and so on.

So it's very early days. It's a bit like 3G, when you think about it. It's there, but will it really take off in a big way in the first 12 months? It may do, but it'll -- we'll certainly see it. I think towards the end of this year, we'll see all the operators with some LTE services out there.

Arthur Pineda - *Citigroup - Analyst*

Right. When can you expect the full nationwide coverage in LTE?

Neil Montefiore - *StarHub Ltd. - CEO*

Well, we're rolling out now. I guess we'll be looking at -- I would think, during 2013, we'll be moving towards full outdoor coverage. And indoor coverage, we are -- the regulator's insisting we do a certain amount there too. So it will all be -- most of it will be next year, but we will launch services in the last quarter this year.

Arthur Pineda - *Citigroup - Analyst*

Very good.



Neil Montefiore - *StarHub Ltd. - CEO*

Okay. In terms of content, yes, it's surprising now we can't have exclusive content that the content owners still want more money. But we are negotiating as hard as we can to try and see, where we don't have exclusive content, can we get reduced prices.

Do you want to add anything?

Tan Tong Hai - *StarHub Ltd. - COO*

Yes, I just want to add on the OTT part. Because our view is that OTT content providers are addictive to our service, rather than substitutive, so because primarily, if you look at recently when iTunes came to the scene in Singapore, they had pretty comprehensive music content, but the VoD content is still quite limited. And, in fact, they are still subjected the same rating, because they put in some content that was not rated, and immediately I think it was -- been taken up.

So, we believe that content providers -- OTT content providers, they are targeting at the Singapore market, I believe they may have to be subjected to the same regulation. And I think this is still being developed but we -- our view is that it will be addictive and that currently we are already offering our TV Everywhere and also our VoD services, so certainly the customers, if they prefer to have add on, they can buy those additional services.

Content cost-wise, unfortunately even with the cross carriage regime we're not seeing that the content providers are willing to accept for something less, so they are still asking for more. So, there's still a challenge in terms of how we can reduce this content cost. But as a whole we have to look at the whole street of content we have and we now can assess the value of the content to the usage and we will, of course, decide and, of course, if we think it doesn't -- that it's not up to the value, we will drop it if necessary and I think that's the only way for us to lower the costs.

Arthur Pineda - *Citigroup - Analyst*

So there's no embedded step-down process?

Tan Tong Hai - *StarHub Ltd. - COO*

Embedded step down costs.

Arthur Pineda - *Citigroup - Analyst*

Let's say, if SingTel offers similar programming to you is there any benefit to you?

Neil Montefiore - *StarHub Ltd. - CEO*

It's possible that could be an agreement but unfortunately most of our content agreements we can't reveal what's in there and I don't think SingTel can either. But you would know if there was an exclusive agreement signed after 2010 -- March 2010, because that would be subject to cross carriage.

Arthur Pineda - *Citigroup - Analyst*

Understand, okay, thank you.



Eric Loh - *StarHub Ltd. - AVP, IR*

Olly from CLSA.

Oliver Campbell - *CLSA Ltd. - Analyst*

Four fairly straightforward questions. Firstly on the broadband churn, I think in My Republic's first quarter I think they added 3,000 subs, which I reckon is probably quite impressive given the skepticism around them. And it wasn't so much that they're just talking about lower prices, they're also talking about things like lower contention ratios and I wondered how StarHub views that and what that might mean for a potential change in operations to keep your actual broadband service competitive?

The second question. I still haven't been quite clear on the difference between the IDA's cable numbers and StarHub's cable subs, because if you look year on year at the IDA what it would suggest is that you've got a net decline in ADSL, which is unsurprising, but also a net decline in IDA cable subs. Whereas when you look at Japan and Korea you saw that cable could continue to grow alongside fiber and I'm not quite sure where there's a difference between IDA's number and your number but it's pretty sizeable?

The third one, you sound arguably less disappointed on the fixed services side, I wonder what sort of trigger or what sort of growth rate we'd see year on year for you to really believe that NGNBN, or at least connected buildings, is the same as [past] buildings, what kind of growth we might expect to see because I guess it would come all of a sudden?

And finally something anecdotal, which I've noticed in the last three weeks or four weeks in the CBD where I work and live. On my mobile phone, my StarHub mobile phone I've been getting download rates for around 150 kilobits per second for things like torrents, and I wondered if there's been any kind of a capacity expansion in terms of mobile to base station in this area or anywhere else because I've been getting some pretty pleasing speeds actually as a subscriber I'm pleased to say.

So I wondered if there's been any network expansion there on the 3G side?

Neil Montefiore - *StarHub Ltd. - CEO*

Right. (laughter)

Oliver Campbell - *CLSA Ltd. - Analyst*

Sorry it's a lot of questions, I'll be happy to go through any of them again.

Neil Montefiore - *StarHub Ltd. - CEO*

No, no problem. Where do you want to start.

Tan Tong Hai - *StarHub Ltd. - COO*

Let me address the first one because I mentioned that if you look at the broadband churn, because this quarter we have a higher base of out of contract subscriber, so because we have a larger base of subscriber and unfortunately this quarter they are many out of contract and they did not renew when their promotional offers end, that's why it contributed to the high churn.



Yes, My Republic is a new entrant and they are as a start up -- of course, when they start up they are content rich, they can run with a lower contention ratio. But it will depend on how far they can scale because who do they buy their broadband services from at the back end. For StarHub we are right at the core, we have our submarine cables and we are pretty sure, very sure in fact, of our quality of our bandwidth.

The contention ratio and all the ratios that we have been running this because we know what it takes to deliver good quality service and in particular because we are focusing in the gaming segment, so we have to deliver quality bandwidth. So I'm quite sure about that. But then I think it's a matter of scaling and we have been able to run it to the scale that we can afford submarine cable investment. I think that's very important as a differentiator.

Now the other point you mentioned about the ADSL as far as the cable subs reported for IDA, yes we do see that. Because we have our cable broadband can go up to 100 Meg, so it is actually good enough for those customers who just want high-speed broadband. But the IDA figures includes the cable subs, includes those that we have wholesale to our other service provider. And I want to mention it's one of the main service provider, they have wholesale, they are also into the fiber broadband, of course it is something that they would like to switch from, their existing -- their wholesale cable subs into fiber.

But from our side we do see a growth in our cable broadband, so that is something that we are seeing at our side. We don't have a specific plan to migrate them. We basically let the customer make their choice and so far, interestingly, we are able to grow both cable broadband as well as fiber broadband.

Neil Montefiore - *StarHub Ltd. - CEO*

And just one thing to add there, we do also -- we do not include in our figures the free broadband access, with very low speed broadband access and we give to our PayTV subscribers over cable. IDA does declare that as part of the cable numbers.

Oliver Campbell - *CLSA Ltd. - Analyst*

I see, that makes sense because even looking at some of the reselling numbers, the IDA number seems far higher, so yes that makes sense.

Tan Tong Hai - *StarHub Ltd. - COO*

Of course, if you look at the fixed services, yes, the fixed services certainly, of course, is beyond this fiber broadband but if the fiber broadband or the NGNBN can reach more buildings, it will just give us more chance to assess through the tenants in those buildings. So at this moment, as what Neil had mentioned, for some of those cases when it makes sense we can make our own in cabling investment.

We would -- it's definitely a focus area for us, and by the way when we talk about the enterprise segment we also look at the mobile services and we have announced our alliance with Vodafone and that will also help us to enter the enterprise market because Vodafone have global roaming and it appeals to customers with global presence. So we are able to go after global M&Cs and as a result of that we are able also to look at offering fixed services. So it's not just fixed services but we also look at how to grow our mobile services.

So as a whole, this enterprise segment will be an area that we are looking forward to leverage on all our competence in the consumer space to be able to deliver innovative services to then to grow that segment.

Neil Montefiore - *StarHub Ltd. - CEO*

I think that's right. And I think also we really want the regulator in OpenNet to sort the differences out, I know they're having some court cases as we speak. And we really need to get the provision in for the non-residential sector much, much better, it's far too long at the moment and most enterprise businesses just can't accept it. But it will get sorted I think.

Tan Tong Hai - *StarHub Ltd. - COO*

Yes, and your last point about your access speed in the CBD area, we have actually guided the second quarter, we are, of course, we still have CapEx spend and that's because we continued to enhance our existing 3G network coverage and backhaul, I think backhaul is very key, even if you have base station without high-speed backhaul you will not get the performance.

So, I think that's the reason why we have guided our CapEx to be around 11%. Don't know if you noticed, the first half we have not spent that much and somewhat the CapEx will be in this area enhancing our core business, which is the providing quality mobile network services.

Oliver Campbell - *CLSA Ltd. - Analyst*

So that spend in the second half will -- I thought your backhaul was pretty decent already, I thought the congestion was always at the handset to base station level, that was my broad assumption?

Tan Tong Hai - *StarHub Ltd. - COO*

No, we still have to continue, because as we add new base stations we have to add in the --

Oliver Campbell - *CLSA Ltd. - Analyst*

Yes sure. Okay well I'm very happy as a subscriber, so thanks a lot.

Neil Montefiore - *StarHub Ltd. - CEO*

Thank you very much.

Eric Loh - *StarHub Ltd. - AVP, IR*

Chate from Credit Suisse.

Chate Benchavitvilai - *Credit Suisse - Analyst*

Congratulations on the result. I have in total four questions. Just one follow-up question regarding the second-half implied guidance. You seem to be very concerned about cost increase. I just want to understand, assuming that iPhone 5 is really popular, is that the sole cause of your guidance for seemingly softer second half? Or is there any pending costs that you need to spend on that's not directly related to iPhone 5 that you see at the moment as well.

The second question, I'm not sure whether you can answer that, but Euro 2012 on the overall picture, is it profitable to you or is it just neutral?

The third question is regarding the CapEx. I understand that the guidance implies a slight increase in CapEx actually from the previous stance. You said an acceleration in LTE CapEx. I just want to understand, does it mean that the CapEx to sales in the next year would be lower as part of the acceleration?

And the fourth question's regarding the dividend. I understand that you do not provide guidance beyond 2012. But just on the bigger picture, if your EPS actually exceeds SGD0.20, does that have an implication on your thought on dividend at all in terms of the payout? Or it's not related and it's just cash flow driven? Thank you.

Neil Montefiore - *StarHub Ltd. - CEO*

Thanks for that, yes. The main conservatism we've shown in the guidance for the second half is because of the iPhone 5.

I haven't seen one yet. I don't think anyone here has either. So we're not quite sure how attractive it's going to be. You see odd pictures in the paper showing different sockets that it's got but you don't really see what it's going to be -- how it's going to differentiate itself.

But, just going back to when we launched the iPhone 3, we did see a hit on the margin. So we're just being a little bit cautious there. And we think that we'll actually get to see the phone sometime in early September, around the 11th and the launch later, late September/early October I suspect.

Euro 2012, I'm afraid because of the confidentiality arrangements, we're not allowed to disclose whether it was profitable or not. But it did go very smoothly and we're quite happy with the result.

I can't really give you guidance on the CapEx 2013. But we will do with the final results for this year.

And dividends, the actual dividend --

Kwek Buck Chye - *StarHub Ltd. - CFO*

I think the dividend trend, as we mentioned, is usually with the directors mapping out the cash flow for not only the current year but also two or three consecutive years ahead.

So based on that, our dividend policy has always been a certain percentage of free cash flow. It doesn't depend -- we don't have an EPS payout ratio guideline. So in the past, we have been paying something like 60% to 70% of free cash flow generation.

Like I say, looking at multi-year -- any sudden increase in strategic spending doesn't affect the short-term dividends.

Chate Benchavitvilai - *Credit Suisse - Analyst*

Okay, just one follow up question regarding the iPhone 5.

What concerns you is just the potential popularity of iPhone 5? Or that you look at the number and things that a lot of iPhone 4 would come out of their contracts and they need to subscribe to iPhone 5, again, no matter whether it's popular or not? Is it just a recontracting issue?

Neil Montefiore - *StarHub Ltd. - CEO*

It's not just recontracting. It's the fact that there's going to be demand across all the operators if the iPhone 5 is popular.

Tan Tong Hai - *StarHub Ltd. - COO*

Because if you look at it from iPhone 3 to iPhone 4, there's not much of a change. A lot of people look at it and some of them, actually, have held on to their iPhone 3.

But now we have read reports about iPhone 5 as the kind of changes that they want to make in it. So we believe that if it is a radically changed phone, which is not like an iPhone 3 and iPhone 4 type, certainly the demand will be there.

And I think based on that, that's why we believe that a lot of the users who have not switched on to iPhone 4 will take the opportunity to move on to iPhone 5. And the pick up will be there from that.

Neil Montefiore - *StarHub Ltd. - CEO*

The market has changed with the iPhones in Singapore. So we now, at the moment, about 60% of what we sell are actually android phones. But it could easily swing back the other way. But particularly the Samsung phones, they're still very popular. We're just expecting a bigger demand from customers to upgrade their phones and move on, yes.

Chate Benchavitvilai - *Credit Suisse - Analyst*

All right, noted and thank you very much.

Neil Montefiore - *StarHub Ltd. - CEO*

Thank you.

Eric Loh - *StarHub Ltd. - AVP, IR*

We've got time just for one more caller. Kelvin from CIMB.

Kelvin Goh - *CIMB Research - Analyst*

I've got three questions. The first one is on your thoughts on OpenNet's higher quarter. And, obviously, that's a double-edged sword for you. But I'd just like to think about what you think the net impact overall is. Because on the residential side, there seems to be the low-end competitors nibbling at your heels. But at the same time, you are quite optimistic on the enterprises.

Second question is on competition. And I think, I hate to labor this, but on the iPhones again, I'm just trying to understand here. I have the impression that with the rise of the androids, I'm just wondering how big of an impact the iPhones are and, therefore, your conservativeness of your guidance?

And related to that is, I'm wondering how many customers will be out of contract that would, therefore, allow them to recontract on the iPhones? Because if most of them are locked up in android contracts, then how many customers will be able to get on to the iPhone 5?

And the last question is on Pay TV. You said that you have renewed some content in the second quarter, but on a non-exclusive basis. I'd like to understand what your thought process is behind this decision, i.e., to renew it on a non-exclusive basis. Thank you.

Neil Montefiore - *StarHub Ltd. - CEO*

Okay, thanks. I think we did cover the OpenNet quota. We think it will be positive for us. But we've got to make sure that the regulator does make it enforced, particularly, obviously, in the non-residential segment.

In the residential segment, it will just improve the level of service we give to our customers. We're still, by far, the market leader in terms of high speed broadband access. I think we're close to 60% market share on that for anything over 50 Megabits per second.

So it is important to us that we do deliver to the customers in a good way. And we just hope - we think it will be a net positive for us.



Kelvin Goh - *CIMB Research - Analyst*

Sorry, Neil, you said -- sorry, just before that, you said 60% market share for speeds of above 50 Megabits?

Neil Montefiore - *StarHub Ltd. - CEO*

Yes.

Kelvin Goh - *CIMB Research - Analyst*

Is that for --?

Neil Montefiore - *StarHub Ltd. - CEO*

Yes, just below 60% market share for broadband speeds above 50 Megabits per second.

Kelvin Goh - *CIMB Research - Analyst*

Is that for fiber or does it include your cable services as well?

Neil Montefiore - *StarHub Ltd. - CEO*

That includes the cable.

Kelvin Goh - *CIMB Research - Analyst*

Okay.

Neil Montefiore - *StarHub Ltd. - CEO*

iPhone, we don't really know but we're just being conservative. We saw it happen before, so that's why we're keeping the guidance down to around 30% in terms of the margin.

Kelvin Goh - *CIMB Research - Analyst*

Okay.

Neil Montefiore - *StarHub Ltd. - CEO*

And I can't really give you the numbers of customers out of contract. But if the demand is there, the customers from all the operators will be looking to see where they get their iPhone from.

(laughter)



Kelvin Goh - *CIMB Research - Analyst*

Okay.

Neil Montefiore - *StarHub Ltd. - CEO*

What was your last one.

Tan Tong Hai - *StarHub Ltd. - COO*

The Pay TV --

Kelvin Goh - *CIMB Research - Analyst*

Pay TV content.

Tan Tong Hai - *StarHub Ltd. - COO*

I think your question is that when we talk about in the second quarter, the costs due to higher renewal, that is for renewal that is done in previous quarters. They have kicked in, so that's why you see an increase in the costs.

And I think precisely we want to manage the cost. That's why we have gone ahead to renew some of this on a non-exclusive basis. Because we compete on a pack, so there may be certain programs that are exclusive bundles, with some non-exclusive. And (inaudible), for example, has an education pack.

And in a way, that whole package is still pretty exclusive if we pack in the other exclusives. So it may not be necessary for us to sign up every program within that genre that is exclusive. And that's how we intend to keep our costs low.

Kelvin Goh - *CIMB Research - Analyst*

Sorry I lost you there. You said some are exclusives and some are not. But when you bundle it --

Tan Tong Hai - *StarHub Ltd. - COO*

Yes, I give you an example.

Kelvin Goh - *CIMB Research - Analyst*

Okay.

Tan Tong Hai - *StarHub Ltd. - COO*

I'll give you an example, like in the education pack, right, you can have Discovery; you have HBO in all of this.

So all these are what we call a pack. But it's not necessary that you have to renew every one of them in an exclusive manner. You can still choose to renew one or two of them, right? And then you can keep the rest, as non-exclusives.



So I think we can make certain choices. But all in all, most important is that I think we want to keep the costs low. And going forward, because if you sign exclusive content, you have to do cross carriage.

And having gone through the Euro experience, we find that, actually, even if on what we call an exclusive basis, a lot of customers still, with the cross carriage, a lot of customers still choose our platform.

And I think that is a very encouraging piece of info because that means the [preference is] on our platform. So maybe we can also renew it on a non-exclusive basis because they will still come to our platform.

Kelvin Goh - *CIMB Research - Analyst*

Got it, okay. Right, thank you.

Eric Loh - *StarHub Ltd. - AVP, IR*

Thank you. That's all the time we have for you. Thank you so much for joining us this evening. We look forward to speaking with you again in the next quarter.

In the meantime, to all Singapore, Happy National Day. Bye.

Neil Montefiore - *StarHub Ltd. - CEO*

Thank you very much, thanks.

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