

Company: StarHub Ltd

Title: 3Q2021 Business Performance Update & Acquisition of HKBN JOS (Singapore & Malaysia)

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Start of Transcript

Amelia Lee: Hi, good evening everybody. My name is Amelia and I take care of StarHub's Investor Relations. Thank you for joining us this evening for StarHub's 3Q/9M 2021 Business Update Performance call. We've also announced this evening our acquisition of HKBN's ICT arm, JOS Singapore and JOS Malaysia, which we will also discuss on this call.

This evening we have with us our Chief Executive, Nikhil Eapen; our CFO; Dennis Chia; Charlie Chan, Chief of Enterprise; and Johan Buse, Chief of Consumer.

We'll start off with opening remarks and an overview of our performance by Nikhil, followed by Dennis on financials and then Johan and Charlie on business highlights. We will then discuss the key highlights of the JOS acquisition before we open the floor to questions. Nikhil, over to you please.

Nikhil Eapen: Yes, thank you, everyone, for joining us this evening to hear about our Q3 numbers and also about our acquisition of JOS Malaysia and Singapore. We look forward to spending time with you.

So first of all I'd like to go through our financial highlights. So I'm going through and ticking through revenue, service revenue, EBITDA and net profit and beyond starting with total revenue. Our total revenue for Q3 was at \$517 million which grew 5.6% year on year in broad terms and about 6% quarter on quarter. Almost all lines of business were growing sequentially for the quarter.

Now revenue for Equipment Sales increased 19.5% quarter on quarter due to customers upgrading to 5G handset models, the iPhone 13 launch and other events. But most important, service revenue increased 7.6% year on year and steadily quarter on quarter for the last two quarters, with Ensign, Strateq, Broadband and Mobile growing. Entertainment and Network Solutions are flattish at the last quarters.

Now looking at service EBITDA and margins. Our Q3 service EBITDA was \$126 million, up 1% year on year with growth in service revenue and contraction in EBITDA margins by 1.9 percentage points. But sequentially service EBITDA increased again the last two quarters and it was up 8% from quarter two to quarter three with increased margin of 1.2 percentage points.

Now looking at net profit, third quarter net profit was at \$40 million, up 5% YoY and up 7% higher QoQ with the service revenue growth that I've mentioned, higher margins and offset by higher interest expense. Now free cash flow for Q3 was \$166 million which was 97% higher QoQ and double YoY, primarily due to an increase in operating cash flow offset by higher tax and Capex payments.

So therefore, as you will see on later pages, we ended the quarter with net debt to EBITDA at 1.27 times, a strong balance sheet compared to last December when we ended at 1.4 times.

Next page please. Just going through our segmental revenue. On Mobile we were at \$133 million for Q3 which was flattish year on year, while growing sequentially quarter on quarter for the last two quarters. This was driven by decent growth in postpaid, offset to a small degree by continued prepaid attrition. On postpaid we grew subs by about 15,000 across both giga! and StarHub. We increased our ARPU and maintained very low churn.

Now looking at Broadband. Broadband revenue at \$50 million for Q3 was higher by 9.5% year on year. Again growing very well sequentially for the last two quarters. This was driven entirely by continued increase in ARPU from QoQ with consistent upgrade to our high value 2GB plans, fuelled by our OTT upgrades, which continue to increase. Disney+, Hotstar, Netflix and now as you may have seen in the last week, Amazon Prime. Churn was again at extremely low levels and hence, like with Mobile, we enjoy very strong customer lifetime value.

Now looking at Entertainment, last quarter we reclassified our Pay TV segment into Entertainment to better reflect the changing nature of our business and the expanded per view of this segment for us which now includes not just traditional Pay TV but as well as hybrid TV+, OTT and now cloud gaming which we launched in Q3. So revenue shows a 1.4% drop quarter on quarter, ending up at \$45 million and drop of \$2 million in dollar terms. Traditional Pay TV subscribers continue to attrition but TV+, our hybrid platform, more than doubled in the last year while OTT subs on Mobile and Broadband grew quite explosively. The objective is to monetise this subscriber base better, to better drive overall growth in this segment. Now here, again we also saw good ARPU growth which Johan will go through.

On Enterprise, our overall Enterprise business has been going well. We ended up a quarter \$190 million of revenue, representing 17% growth year on year and 6% growth quarter on quarter. The broad trend was that Ensign, in particular grew strongly, Strateq has been growing well despite difficult MCO conditions in Malaysia while Network Solutions registered a small growth QoQ.

So with that I'd like to hand off to Dennis to go through the financials in a little bit more detail.

Dennis Chia: Thanks, Nikhil, and good evening and hi, everyone. Thanks for joining this call. In addition to the numbers that Nikhil has called up, just want to call up a couple more specifics. Our net profit for the quarter was \$14 million or translating to earnings per share of 2.2 cents. Up to the nine-month period our earnings per share is 5.8 cents. Our free cash flow for the quarter was \$166 million, translating to 9.6 cents on FCF per share basis and we generated 20.1 cents on FCF for the nine-month period.

Moving on our guidance on the next slide. With this set of numbers and up to the nine-month mark and with three months left of the year to go, we're maintaining our guidance for the full year in terms of the revenue being stable YoY, versus 2020. Our EBITDA margins, which we previously had guided to 24% to 26%, we're now guiding to an EBITDA margin of no less, or at least 26% for the full year. And we're leaving our Capex guidance, which we had brought down previously to 7% to 9%. We started the year guiding Capex to 9% to 11% and we're now guiding 7% to 9%.

In terms of our dividend, we had started the year with guiding to at least paying 5 cents for the full year and we are maintaining that guidance for now. And we will guide to the final dividend when we announce our full year results come February of next year. With that, I hand the floor to our Chief of Consumer, Johan, to take us through the consumer results.

Johan Buse: Thank you, Dennis, and a very good evening to everyone and thanks for making time available and spend time with us today. I'll take you through the three business lines before I hand over to Charlie. So first and foremost, Mobile – we had a very solid quarter on Mobile, especially on Postpaid. As you can see, we increased ARPU and we added 15,000 customers during the quarter to the base, bringing us to 1.46 million.

That growth came from a few areas. ARPU mainly comes from an uptake in terms of the 5G plans and to a smaller degree from roaming and the customer base basically grew both on the giga! side as well on the StarHub side.

Monthly churn really remained very low, actually decreased QoQ and we're at 0.8%. Prepaid is a very competitive market where ARPU is at \$10. So a few things happening there due to COVID-19, people moving to SIM-Only Postpaid. Segment revenue increased 2.4%. So that's Mobile.

Moving to Broadband, next page. Broadband, as Nikhil already mentioned, great improvements in terms of ARPU. Slightly decreasing base but total revenue year on year increasing 10%.

Entertainment also that was highlighted already. Sorry, you can stay on Entertainment for a second. \$43 ARPU increasing, solid performance there. Pay TV classic base decreased to 287,000 but total entertainment subscribers, which is the one we trace for went up to 408,000. And churn is stable at 1.2%. Total segment revenue declined, reminder that previous quarter we had World Cup.

That's it from my side and on that note, I hand over to Charlie.

Charlie Chan: Thank you, Johan. Hi, I'm Charlie. Let me take you through the Enterprise view. As Nikhil said, the Enterprise business grew sequentially at 5.9% quarter on quarter and also has seen a double-digit growth year on year by 17.3%. The Enterprise business has contributed from the effort of Network Solutions, Cybersecurity services and Regional ICT services.

[Interruption]

Amelia Lee: Sorry, there is some interference. Okay, I found it.

Charlie Chan: All right, thank you. Glad that we have an interest there. As you can see, the revenue mix nine months to date remains well balanced across the three main areas of business. Specifically in Network Solutions we saw an improvement from quarter to quarter. We were affected by the ongoing challenges in the Data and Internet, Voice Services but this was offset by higher revenue from Managed Services as a result of recovering interest.

In Cybersecurity, year-on-year revenue growth was mainly due to stronger business demand, specifically from the government sector as well as from our regional business Ensign. Now from a regional perspective, for the ICT business, this marks our first full year of consolidation from Strateq and we recorded an operating profit as well which is \$0.5 million higher year on year. Overall a healthy state of affairs for the Enterprise business and we continue to monitor and observe the market as we progress to the gradual but uneven recovery of COVID-19.

That's the view for the Enterprise business. Over to you, Nikhil.

Nikhil Eapen: Yes, thank you, Charlie. And then you know just in conclusion, now with the culmination of Q3 2021, we now close off DARE 1.0 and that chapter successfully. We achieved over \$270 million of savings, exceeding our \$210 million target set three years ago.

So with that we now set forth on our DARE+ journey and DARE+ if you recall, the D stood for digital across everything we do, front to back. So we're doubling down on digital. The A stood for accelerating value creation for customers as well as for our own business. R was for realising growth without frontiers, expanding the definition of what we do organically but also continuing our M&A.

Then the E was really paramount – experiences that enrich our customers' lives from connectivity but beyond connectivity to the digital experiences that delight our customers. So with that we'd obviously like to invite you all to our Investor Day on 22 November where we will share more detail on DARE+, both in terms of our business objectives and our strategic objectives and our business plans but also in terms of the cost savings and value creation targets, which will be no less ambitious than the DARE 1.0.

So with that, I believe, Amelia, we can end this segment of the presentation and back to you.

Amelia Lee: Thanks, Nikhil. Would you like to continue on to share your opening remarks for JOS please?

Nikhil Eapen: Yes please. So just a few opening remarks and then I'll hand off to Dennis to go through JOS and the acquisition and rationale in a little bit more detail. The first point I'd like to make is strategic. That this is a material step forward strategically for our Regional ICT segment on top of the acquisition of Strateq that we made a couple of years ago. The acquisition of JOS Singapore and Malaysia adds significant revenue. It adds material Malaysia presence and it adds a material customer base.

The second point I'd like to make is that the transaction is financially accretive. It brings material revenue as I've mentioned but it is also accretive to EBITDA and net income. Then the third point I'd like to make is that the acquisition creates a platform, very important for a strong partnership with our friends at HKBN to enhance our capabilities jointly towards end-to-end solutions between Singapore, Malaysia, Hong Kong and the Greater Bay Area both in terms of ICT as well as connectivity solutions and how actually the both of those come together.

But with those three key points I'd like to hand off to Dennis.

Dennis Chia: Thanks, Nikhil. Giving an overview of HKBN JOS and we're now, at the close of this transaction, StarHub will be the majority shareholder of JOS. The JOS Singapore and Malaysia operations have – span across four offices, three in different cities in Malaysia and obviously one in Singapore. Over 30 years of experience, over 1500 customers, so it's a very, very diversified customer base across very many customer segments, verticals and over 400 IT professionals.

At the close of this transaction, StarHub will be a 60% shareholder and HKBN will retain a significant minority in the form of 40%. Together we will be strong partners in the foray, in terms of taking JOS forward in both Singapore and Malaysia. The consideration is estimated to be \$14.9 million for both the Singapore and Malaysian operations.

Just a quick overview of the business that JOS is in, very much entrenched in the ICT space. Very similar to the Enterprise business that we have within the StarHub family as well as the Strateq acquisition which we completed in July of last year and this certainly adds to the footprint in terms of our broadening of our Regional ICT capabilities as well as customer footprint.

In terms of the verticals and the product verticals that HKBN JOS is in: Next- generation infrastructure, managed cloud as a service, managed security services, end-user computing and digital solutions. Again, very much in line with the lines of business that we have been exploring and expanding our capabilities within the StarHub Group.

The rationale for the transaction, and as Nikhil has highlighted, it is financially accretive from Day 1. The numbers, which are represented in the blue bar in the middle, represent the estimated contributions based on the nine months actual financial performance of JOS Singapore and Malaysia for the nine months. The financial year ended in August of 2021, so this is just an estimation of the last financial year.

Naturally, going forward, the financial year of JOS will be synchronised with the financial year of StarHub, which will be on a calendar year basis. So for nine-month period based on the last financial year, it's estimated to contribute \$86 million to our revenue. Those numbers are now estimated on a pro forma basis in terms of the revenues, our total revenues including the JOS operations.

So the pie chart on the right now represents the proportion of the contributions of the various lines of business in our Enterprise business. Going forward, we estimate that the JOS operations will contribute about 14% of the total Enterprise revenues going forward. As a result of that if you look at that, including the Regional ICT business that Strateq contributes, as well as the Cybersecurity operations through Ensign, it is a significant increase and diversification and enhancement of our capabilities within the Enterprise business segment.

So with that we bolt on JOS to the StarHub family and the Ensign contributions as well as Strateq, it will be a significant acquisition of skill sets through the 400 professionals that will be joining the StarHub group. The 1500 customer base that JOS contributes to the diversification, as well as the expansion of our capabilities and customer segments both in Singapore and Malaysia. And it will provide a footprint for us in terms of developing and joint developments of ICT solutions and digital solution capabilities as well.

And the next slide we look at the footprints. You see the customers being scattered across the region and to the point that this enhances significantly our customer base, our reach and our ability to provide cross selling opportunities as well as end-to-end solutions, leveraging on the networks of both HKBN and StarHub.

In terms of value proposition. We have agreed with the HKBN team on a reciprocal purchase commitment at the onset and we will be leveraging on the ICT capabilities on both sides, to enhance our propositions in both Singapore and Malaysia as well as to the HKBN JOS operations that they are retaining in Hong Kong. Together, we will also be exploring other opportunities that leverages on StarHub's and HKBN's digital platform capabilities and very similar skillsets that we have been building and expanding on. We expect this partnership to be very accretive and we welcome JOS and HKBN as a strategic partner to us going forward.

Back to you Amelia.

Amelia Lee: Thanks, Dennis. We now open the floor to questions. To join the question queue, either click on the raise hand button or indicate your name and organisation the chat box. I'll call upon your name when it's your turn to speak and then you can unmute yourself and converse directly with our senior management.

So first on the queue I can see Neel – you have your hand up.

Neel Sinha: (CLSA, Analyst) Yes, thanks, Amelia. Thanks, Nikhil, Dennis. I've got three questions. The first is on the Mobile side. Could you give us a sense of what is the trajectory of 5G adoption within our customer base? Where does it stand now?

The second question is, I suppose it's a bit more philosophical. On the Entertainment side, as you see the OTT take-up go higher, where do you see things like two or here years down the road? Is it largely nobody has a set-top box anymore and everyone's on OTT? How does the ARPU differ?

The third is more to do with your acquisition strategy. It would be good to get a sense of what the parameters are whether it's ROIC related or ROE related or margin related. Yes, those are my three questions, thank you.

Amelia Lee: Thank you, Neel. Johan, could you take the first two questions and then, Dennis, for the third question?

Johan Buse: Okay. Thanks, Neel, for the question. On the first one, the Mobile 5G, we actually closed last quarter north of 250,000 customers on 5G, well north of 250,000. So that gives you an occasion to calculate a little bit the percentage. We do see appetite for customers taking up 5G on the back of devices but increasingly also on 5G SIM Only. That, as you probably concluded already and saw in the presentation, has led to the ARPU increase.

So that's a very promising trajectory and obviously in line with our strategy, we have been deploying things like cloud gaming NVIDIA GeForce NOW in September. And that's also why we are very active on offering various OTT solutions in combination with our Mobile plans, like Disney+, which is a nice segue into your more philosophical question around where is the TV business standing in two or three years from now?

We obviously want to deliver a world class experience when it comes to TV entertainment. And obviously TV entertainment is no longer restricted to a large screen at home. We therefore offer a unique proposition to customers which combines live channels with the best of the best in terms of OTT. We have Netflix, we've got Disney+, we've got the Amazon Prime, we've got Hotstar and in most cases we're the only ones having those in the country. And we see that customer satisfaction for this value proposition is significantly higher than it has been on the traditional, linear channels.

Does the set-top box play a role in that? For the foreseeable future, yes, because it does deliver an integrated experience and it does offer possibilities and solutions which we can offer to customers, which we probably could not do with an app, although we are working on that for sure. No doubt about it.

So we keep our options open and we want to cast the net as wide as possible when it comes to these entertainment propositions to be delivered on the back of home broadband, Mobile, as well as in combination with the classical TV. You may have also seen that we've launched, as you can see probably from my virtual background, not too long ago our new HubBundle, which is an integrated bundle with Mobile 5G, Home Broadband, Netflix and Disney+.

So stay tuned and hopefully that's answering your question before I hand over (the) acquisition (question) to Dennis.

Neel Sinha: (CLSA, Analyst) Thanks, Johan, that's clear.

Johan Buse: Thank you.

Dennis Chia: All right. Hi Neel. Just like the acquisitions that we've made over the last few years when we started off with Accel which we eventually folded into Ensign in 2018. Since then we've done Strateq and now JOS. We always have identified the Enterprise segment as a growth segment and the opportunities around that. We look to diversify our customer base and that's always one of our objectives of the acquisition strategy.

The other one is acquiring skillsets and capabilities, and this is also something that JOS brings with it. The other one, the other vertical that we look at is technology. So with this we focus very sharply on these three objectives in terms of delivering value to the overall business of the StarHub Group and to capitalise on growth opportunities., eventually obviously then leading to ROIC and ROE targets that we've set internally.

That's part of our acquisition strategy and this most recent acquisition of JOS is very much in line with what we have guided the market.

Nikhil Eapen: Yes, maybe I could add to that a little bit. I think the key thing to emphasise from our perspective is we're doing our acquisitions for strategic benefit. To further our strategic objectives, right. So when you look at MyRepublic and the acquisition of the SG Broadband business, we augmented our position in Broadband, a key segment for us where we - and it took us to sort to close to parity leadership position in broadband. Which is really important because we've talked about infinity play, we've talked - Johan talked about driving multiple products to the base. The household is the anchor of that. So that was really strategic, achieving a leadership in the household was really strategic for us.

Now when you look at JOS, we've also talked about in the past bringing together cloud, security and 5G. And we're really well positioned to do that because we have a dominant cybersecurity player in Ensign, we have a leadership ICT business in terms of Strategq but now we've increased the scale of that with respect to JOS, and we have a leadership managed services, ICT and Network Solutions business within StarHub. We can use that to bring together these converged cloud security and 5G use cases for customers. So we've furthered that strategic objective.

Now the great, I think the fortuitous thing that we've managed to do is further our strategic benefits with these acquisitions in a way that's near term financially accretive. In fact Day 1 financially accretive. So we enjoy the benefit of achieving these strategic benefits over time, achieving strategic synergies over time, but being able to de-risk that substantially by achieving Day 1 financial accretion. So that's the way I put it from my perspective.

Neel Sinha: (CLSA, Analyst) Thanks, Nikhil, thanks, Dennis. A quick follow up. I just want to get a perspective like, yes, I mean if a company is profitmaking it will be financially accretive but in terms of return on capital, how do you all think about it and are the acquisitions - I can understand you're acquiring franchises and customers. But in terms of an ROIC perspective, are they somewhat similar to what your own company is doing? Or is it something that you're thinking might be slightly lesser? Because we don't have a lot of details on these acquisitions.

Nikhil Eapen: Yes.

Neel Sinha: (CLSA, Analyst) Right? Or is it something slightly lesser but their scalability that it gets to the same sort of return on capital? And what's the sort of timeline? A little bit of colour on that would be great.

Nikhil Eapen: Yes, the intent is certainly not to dilute our ROIC targets, right? The intent through M&A is to enhance our ROIC targets.

Neel Sinha: (CLSA, Analyst) Okay.

Nikhil Eapen: We think of strategic benefits as benefits realisable not over a five-to-seven-year timeframe but over a two to four, three-to-five-year timeframe. And as I have mentioned, when we're able to do that by the de-risking that we can enable by the near term financially accretive, we think that's a good thing to do. Dennis, anything to add?

Dennis Chia: Yes, I just want to add certainly when we identify potential opportunities and targets we also look at our partners that we will start building a strategic relationship with. With the MyRepublic team, we saw them as bringing on capabilities to enhance our StarHub capabilities on a vice versa basis. With Ensign we saw the strategic partnership with Temasek and what they could bring to a table.

And now with HKBN this is something that we see significant opportunities to leverage on their infrastructure in Hong Kong and for HKBN to leverage on our infrastructure here in Singapore and what we've now built in Malaysia. So we look at that from the angle and over time through the synergies that we generate, we really expect to bring it to our ROIC targets as well as enhance our ROIC targets.

Nikhil Eapen: Well said.

Neel Sinha: (CLSA, Analyst) Super, thank you, gentlemen.

Nikhil Eapen: Thank you.

Neel Sinha: (CLSA, Analyst) Thanks very much.

Amelia Lee: Thank you Neel. Next up we have Annabeth. Annabeth, would you please unmute yourself?

Annabeth Leow: (Business Times, Journalist) Hi, good evening, can you hear me?

Amelia Lee: Yes.

Nikhil Eapen: Yes. Hi Annabeth.

Annabeth Leow: (Business Times, Journalist) The classic greeting of our times. Okay, thank you so much for the presentation today. I have a couple of questions on the overall business update as well as the acquisition and DARE+. So maybe we can start off with the JOS acquisition. Just to follow up on what Neel's asked. I notice that the transaction size is relatively small at \$14.9 million.

So you've talked a bit about how you expect it to translate into gains with StarHub but what's the bigger picture here for how it will shape the future M&A that StarHub might pursue. For example, you mentioned the Greater Bay Area. I think last time Nikhil said that ASEAN will be the focus for the regional expansion. So could you give us a little bit of colour on that? That's my first question.

Secondly, just to understand the outlook. I notice that the service EBITDA margin, it was revised in part due to postponement of IT transformation Opex. So why was the spend postponed, and how do you expect that to affect next year's margins outlook? In a way, is it just kicking the can down the road, or can we expect thinner margins next year?

Then I have a question about the entertainment segment. I saw that the ARPU is up and the overall subs are up but the segment revenue is down. Could we have a little bit of colour on that as well as the downtrend in broadband subs? Is this because of unbundling? Johan mentioned there's a slightly decreasing base. Are you okay with that? When can we expect stabilisation in the subs and the ARPU and headline revenue?

My final question is on DARE+. I understand that more details will be forthcoming on the 22nd, Investor Day, but because we are talking about a five-year transformation plan, before MVNO's launch in 2016, so in 2015, the Q3 PATMI - and I understand that there was the accounting standards change - but the Q3 PATMI at that point in time was about three times as much as what you've announced today for net profit. When can we expect a near-term recovery to pre-COVID levels for the top and bottom line as well as a longer-term recovery to what we might think of as pre-2016 levels, especially because there have been exits in the MVNO market, so one might reasonably expect that the competition is receding? That's all my questions, if I can get them all in one go. Thanks.

Amelia Lee: Thanks, Annabeth. That's a lot of questions. Maybe, Nikhil, could you start by giving your thoughts on her first question on JOS and the larger M&A strategies. Dennis, you could add on to that if you'd like, and then same for you, Nikhil and Dennis, to also go through her last question on DARE+ and bottom-line recovery. Then we'll go to Johan next.

Nikhil Eapen: Annabeth, the bigger picture in terms of JOS is, I think what you've seen in the numbers is that we have transformed our Enterprise business quite significantly, and that really goes in three parts. We've created and acquired - and we've worked together with Temasek on creating a large and prosperous cybersecurity business and leading player in Singapore. We acquired Strateq, and Strateq has grown well over the last year. We've continued to work on our network solutions business, taking it forward for the new year and working together with Ensign and Strateq.

The bigger picture is this is very much part of that picture. We've added material scale to our Regional ICT business, material customer footprint to our Regional ICT business, and we've geographically diversified that Regional ICT business even more with a deeper presence in Malaysia.

The other thing that we hope to do is drive the Regional ICT business forward in terms of capabilities, as we've talked about, with the capabilities that JOS brings to the table, which are similar to Strateq and the ICT business and network solutions but also a little bit different. So, there's an ability to weave together a composite package of capabilities against a much broader pool of customers, so selling more to an expanded pool of customers.

The third thing, as Dennis talked about, is the potential about partnership with HKBN. The potential of this partnership comes in lots of forms and flavours, but one key element of that is we believe - just to pick one example. There was a significant desire and demand for MNCs and corporates that sit across Hong Kong and Singapore, Malaysia to be served with end-to-end solutions across not just ICT but also connectivity and combine solutions that incorporate both ICT and connectivity. So, through this partnership between us and HKBN, with JOS as the platform that fuses it together, we have the ability to deliver those end-to-end solutions.

When I say Greater Bay area, I don't mean StarHub going and acquiring something in the Greater Bay area. I mean StarHub working with great partners, HKBN, who do have that presence in the Hong Kong and the Greater Bay area, through JOS to provide those kinds of end-to-end solutions across the region, not just southeast Asia but into Hong Kong and the Greater Bay area. But that was just one example of the partnership with HKBN. There are others. Dennis, anything to add?

Dennis Chia: No, I think that sums it up.

Nikhil Eapen: On DARE+, do you want to take a crack at that? I didn't quite understand the question.

Dennis Chia: Hi, Annabeth. Good evening. I think you had a couple of questions, one on spend postponement into 2022 and how that potentially impacts on margins for next year and the second question around the eventual recovery of profitability to perhaps the levels that we saw about five or six years ago.

I'll take the first question regarding postponement. This is not deliberate. We are embarking on a major IT and digital transformation initiative across StarHub. This is effectively to transform our business model and take it more on an online digital model, in recognition of what our customers are looking for and in recognition of how we should operate as a company going forward in terms of the efficiency as well as the customer experience that we aim to deliver. These are major transmission initiatives, and management is closely managing this and defining the scope of work with the vendors as well as very carefully selecting the right vendors and partners for us in this journey.

As part of this, we envisage incurring some of these expenditures in 2021. However, given the complexity of the initiatives we're undertaking, some of this has now been deferred into 2022. Naturally, this mathematically would definitely have impacts into our margins for 2022. However, I do call out that these are essential investments and these are investments for future savings and future growth. So, this is not - our DARE+ is focused on both growth and savings, bearing in mind that DARE 1.0 was primarily focused on savings. This is going to generate our future growth in our business model in top lines as well as generate savings and efficiencies across StarHub.

For 2021, it's not just a pure postponement of these expenditures that has led to an improvement in our margin guidance; it's also the very rational and very disciplined cost management optimisation that we have undertaken from the start of this year in recognition of the challenging business environment that we're operating in. The business environment continues to be extremely challenging. Although we have a small number of MVNOs existing in the market, we still have plenty of MVNOs that are still around and still entering the market. It's not the case where a number of players have exited and we're now down to a handful. It's a case where we still have more than 15 or 16 brands that are currently operating and competing in the market.

This is the reality of what we're dealing with. For as long as there's a fragmentation of brands that exist in the market, we expect the landscape to be challenging. We are looking to monetise on 5G. We are looking to leverage on differentiation through customer experience as well as the various products and services that we've recently launched in the form of cloud gaming and others through content as well. We intend to leverage on all these recent launches as well as the experience through the digital platforms that we will provide to our customers to enhance our competitive position through that. Unfortunately, it's not going to be a magic pill. It's not going to be a short-term exercise. It will be a medium-term exercise, but we are confident that we'll deliver the outcomes as a result of that.

Amelia Lee: Thanks, Dennis. Annabeth, before we go to Johan, does that answer your three questions to Nikhil and Dennis?

Annabeth Leow: (Business Times, Journalist) Thanks, Dennis and Nikhil. I just wanted to clarify the point that Dennis made about the mathematical sense. Does that mean - I want to be clear about this - that the service EBITDA margin next year will be lower than what we're seeing in 2021? Or do you expect it to be stable because of offset from some other factors that we're not aware of at this stage?

Dennis Chia: Annabeth, in line with our practice, we do not guide beyond our current financial year, so I will abstain from providing an actual guidance to our FY22 numbers. We will provide guidance when we announce our full-year results in February 2022. That's the point that we will announce our results.

There are various moving parts. Our lines of business have now extended dramatically. It's been diversified significantly. The mix of revenues as well as the margins that each of these lines of business delivers are quite different. Of course, we're making the investments for 5G as well as IT transmission, so all of that will be taken into consideration when we guide the market next year.

Johan Buse: Good evening, Annabeth. To answer your two questions, the first one around entertainment subs. The bulk of the revenue is still coming in from what we call classical Pay TV subscribers. As you have seen, that base is still declining. Beyond that, there are two other elements of revenue in that particular category. It's the Enterprise TV revenue as well as advertising.

As you may have seen in the notes, advertising has been a bit of a subdued quarter. That's one of the reasons why the revenue QoQ is down a little bit. Also on the Enterprise, as you can imagine with the current COVID-19 situation, there is a bit of pressure on that one as well.

The good thing is that the ARPU is going up and that total entertainment customers are growing as well. So, let's see in the next few quarters how that's going to pan out. The base is healthy, which is good, and the new technology in terms of OTT is increasing.

Moving to Home Broadband, that's, I would say, a temporary effect. You mentioned the word unbundle, I think, in your question. To a certain degree, there is a bit of unbundling due to legacy products and services. We expect that to stabilise this quarter. That's also the main reason why the ARPU has been increasing quarter-over-quarter and that year-on-year we have recorded almost a 10% revenue increase.

The other parameter driving value and ARPU are a shift to the 2Gbps plans. We see a healthy uptake on customers upgrading themselves to 2Gbps plans on the back of fast speeds and better wi-fi connectivity, also on the back of differentiation in terms of combining Home Broadband with OTT plans like Disney+, which we started doing earlier this year, which we did, and in combination with a small price-up is helping to drive revenue and ARPU. Hopefully, that's answering your question.

Annabeth Leow: Yes, thanks Johan.

Amelia Lee: Thanks, Annabeth. Next up we have Sachin, please.

Sachin Mittal: (DBS Vickers, Analyst) Congrats, management, on a good set of numbers.

Nikhil Eapen: Thank you.

Sachin Mittal: A few questions. Firstly, I'm sorry to ask this question again on the Broadband. Is there a decrease in the number of total households in Singapore, or have you lost market share in the fixed broadband? It should be - is it a service quality issue? Because we have lost some lower-end, low-ARPU customers in that sense in the fixed broadband space. How soon can this be addressed? That's question number one.

Number two, your guidance for the service EBITDA margin seems very conservative given that it's almost 30% in the nine months and you're still guiding for 26%. Are we talking about heavy promotion with Q4 so as to reverse some of these subscriber losses, that kind of stuff? Or is it a very conservative guidance? That's question two.

The third question is on JOS. If I heard correctly, you said 400 people work at JOS. I think you tell us it's 15% of your Enterprise revenue. The revenue per employee looks very low. Does it imply that there's a - it's not doing well in terms of - it's a bit surprising to me that 400 people, employees are producing such a low revenue at JOS. If you can disclose a number and how to look at that number in the sense - can the same number of employees really produce a lot more revenue? That's my question. Thank you.

Amelia Lee: Thank you, Sachin. Johan, we'll start off with you for the question on Broadband.

Johan Buse: Absolutely. Sachin, first of all, good evening, and thanks for your compliment and thanks for spending time with us. There's no reason to panic on our broadband, let me clarify that upfront. If you look at Amelia's backdrop, you see we have been the most awarded network over the last two years. One of the prime awards we have is on the home broadband side. Also if we look at Net Promoter Score and brand health tracker on home broadband, it has been increasing quarter over quarter.

So, what is happening in Home Broadband? I understand your question. Let me try to clarify this a little bit more. In the good old days, there was cable broadband and cable TV, which we have sunset. As customers moved to what we call IPTV, people needed a fibre connection to watch TV. There are a number of customers which have this provisioning where they get a fibre connection to watch TV, and as we go forward into new technology, OTT, there is no need for these customers to have any longer these fibre lines. That's the reason why fibre home broadband seen on the surface over the last few quarters a declining number of customers, but there is, as you probably concluded already for yourself, little to no value to that.

The total market, interestingly enough year on year, is rather flat-ish. The number of households is not very much growing. Last quarter, Q2 to Q3, we only saw an increase of, at least according to our stats, 1000 households. On the subscriber market share, we have been conceding a little bit, but you understand now the background of the profile of these customers. However, on the revenue market share we have been growing significantly over the last four quarters, which is probably a more correct parameter, and also ARPU has been increasing.

As I mentioned earlier following the question from Annabeth, which was in a similar direction, we expect that to stabilise this quarter. Hopefully, that's given you the context and the colour to your question to put it in context. We are the most awarded network in Singapore. I just want to highlight that once more. Thanks, Sachin.

Amelia Lee: Thank you. Dennis, would you like to take the other two questions on service EBITDA margin guidance as well as JOS?

Dennis Chia: I'll take the second question and Nikhil probably can take the last question on JOS and revenue from employee. Sachin, on the guidance, typically you've looked at our numbers for the last few years in terms of the trending in Q4. Historically, Q4 margins are relatively and proportionately lower than the previous quarters. There are a number of reasons for this. One is we typically incur significantly higher advertising promotion expenses within the quarter as we exit the year on a note - obviously, the run rates in subscriber base as well as promotional activities around each of our lines of business, whether in consumer or enterprise, is something that we want to exit the year on a strong basis. This is something that we pay a lot of attention to in Q4.

Traditionally, in Q4 we also have a bunch of other costs around repair and maintenance of our networks. Deferment of some of this that has been only when considered essential, so this is also forecast and planned for Q4 typical each year. For 2021 in particular, we are expecting to incur some part of the initial cost of the IT transmission initiatives that we're undertaking and alluded to as part of the DARE+ program. These are upfront investment costs that we expect to incur. As a result of that, it does lead to a relatively proportionately lower margin in Q4 and therefore our guidance of no less than 26%. So, we are expecting to exceed 26% service EBITDA margin for the full year. Nikhil?

Nikhil Eapen: Sachin, thanks for the astute observation on the revenue per employee. We see this as an opportunity. We see it as an opportunity because it's an opportunity to drive more revenue into the JOS space. When you look at the JOS revenue base and when you look at the customer footprint, what that shows is revenue, it shows volume and it shows engagement, and it shows engagement with a large customer base.

What we want to do is drive more product into that base. That product will come out of StarHub Network Solutions. It will come out of Ensign. It will come out of Strateq. It will be focused on 5G and connectivity. It will be focused on cloud. It will be focused on security. There is an element of vice versa as well.

The other thing we want to do is, as we talked about, drive end-to-end working together with HKBN into that base. The objective here is to use JOS, to use its employees, to use its customer footprint and volume of engagement and do a lot more with it. That's very much in line with our Regional ICT strategy and our converged strategy across our Enterprise business around cloud security and 5G connectivity. Please stay tuned. I should say, we're very happy that we were able to do this in a way that's financially accretive day one.

Amelia Lee: Thanks, Sachin. We'll take the next question from Arthur, please.

Arthur Pineda: (Citigroup, Analyst) Thanks for the opportunity. Three questions, please. Firstly, going back to this JOS acquisition. I'm wondering how you see this impacting the profitability, because if you just look at the EBITDA it seems to be pretty thin at just \$2 million. Are there any target cost savings that can be driven, or is the position just to cross-sell on the other services? Also, any colour on the growth momentum of JOS over the prior years? I'm wondering, maybe this \$2 million is just a function of the COVID-19 environment and maybe it's been more profitable in the past. Any colour there would be great.

A second question I had is with regard to Disney and broadband. How does this Disney deal actually help you? When I look at your broadband sub space, we're not really seeing any expansion impact. It's been declining. How should we see the benefits as trickling down into StarHub's P&L?

Lastly, with regard to Mobile, if you could remind me, how big a segment was roaming prior to all of these COVID-19 issues in the past? Are you able to provide any guidance on how the initial trends have been coming around with the VTLs now in place? Thank you.

Amelia Lee: Thanks, Arthur. Dennis, would you like to take the first question on JOS?

Dennis Chia: HKBN completed the acquisition of the JOS Group back in 2019. This group is broader than the Singapore and Malaysia operations, includes the Hong Kong, China and Macau operations which Hong Kong broadband is retaining.

The profitability of the entire Group is something that the HKBN team has worked on in the last couple of years. Right now, they do see, through the discussions that we've had, a significant opportunity for us to capitalise and leverage on our existing Singapore and Malaysian footprints to generate the synergies. The cost synergies are very natural and something that we can easily identify as low hanging fruits. But the cross-selling opportunities and the synergies that can be generated through the joint operations of our Enterprise business that Charlie is leading in Singapore along with the JOS operations in Singapore, and our Strateq team in Malaysia along with the JOS Malaysian team, and the diversification of the classical footprints as well as the enhancements of the solutions that are being provided by both groups is something that will generate the synergies going forward.

We see good opportunities for us to execute on these plans and strategy to execute on the cross-selling opportunities as well as the building of capabilities in terms of the solutioning capabilities and solutions that we actually offer to our customers. That's something that we believe is going to be significantly accretive to what we have seen in terms of standalone JOS operations that are coming to the StarHub family.

Amelia Lee: Thanks, Dennis. Johan, could you please take the next two questions?

Johan Buse: Absolutely. Thanks, Arthur, for the questions. First of all, the value of Disney+ in terms of our business activities. Disney+ is I would say very value-accretive, because you bundle it. It's not so much specifically linked to a specific tariff plan or anything else. So, where is the value from Disney+ coming back to StarHub? You may have seen that we have been actively bundling this with 1Gbps plans and 2Gbps plans on the home broadband side and beyond that on 5G plans. What we did see following that are two things. Number one is a shift in customers taking a specific tariff plan and hence opting for a plan which delivers as a higher ARPU, de-facto 2G plans. Also, we use it to bundle in Disney+ with a 1Gbps plan and re-price our 1Gbps offer, which again drives ARPU. On the Mobile side, we de facto factored it in on the 5G plans. Earlier on we basically gave some more flavour about our 5G customer base, which partially has been driven by that specific offering. So, in total maybe you may question that, but it's more a bundle strategy in terms of tariff plan mix, to be very specific.

On the roaming, roaming is a fraction of what it used to be before COVID-19. Typically, we don't release that level of detail in terms of information about specific subproduct lines. Suffice to say that we are looking forward to some restoration of travel and this business line picking up, but that will be subject to government regulations, travel policies and so forth. The bulk of roaming, as you know, will come from the region rather than from the rest of the world. That's something we keep a close eye on and monitor as we go forward. Hopefully, that's answering your question.

Arthur Pineda: Just to clarify on the Disney issue, I know that you mentioned that it's a bundle strategy and that you've seen ARPU's increasing for many reasons - it could be because of the expiry of the discounts or the upgrading in plans. But if you look at the expansion in ARPU's for the broadband, it's around about \$2 maybe. As compared to what you have to pay for Disney, when you bundle it on a 12-month basis, would profitability have been better if we weren't seeing StarHub do this?

Johan Buse: Disney+ is a long-term game, if I may call it that way. We obviously use it for tactical reasons, but it's part of our strategy to bundle and basically convert customers to pay more subs over time. It's not within the specific one-year or six-month period that we evaluate that.

The ARPU uplift is basically coming in Broadband from two main drivers. One is the reduction of promotional benefits which we have been giving to customers. Second is the upgrade of plans of customers taking higher plans on the back of Disney+. The business case, to be honest, we look over a longer period of time, not within the one year.

Nikhil Eapen: I think another way to answer your question, Arthur, is to look at the revenue growth and the ARPU growth with the Disney+ and OTT strategy and the composite broadband strategy that we have versus the rest of the market and in particular the other MNOs where revenue has really been flat to declining. ARPU's have been flat, and customer growth is customer growth but really monetisation is what everyone is focused on.

The growth that we've achieved in broadband and the ARPU uplift is a factor of a number of things including flushing out a little bit of the legacy discounting as well as - but Disney+ and OTT and what we're doing on Infinity-Play is clearly a big cornerstone for us. The next is cloud gaming. We think it has a reason to do with why we're frankly quite unique in growing revenue as fast as we are in this segment and raising ARPU in the way that we are in the segment.

Amelia Lee: Thanks, Arthur. We'll now take the last question from Paul.

Paul Chew: (Phillip Securities, Analyst) Thanks for the presentation. I have five questions. No, just kidding, just one, please. It's already 7 pm. Just one question regarding...

Nikhil Eapen: You know where to reach us, Paul, no problem.

Paul Chew: (Phillip Securities, Analyst) It's okay. For the Cybersecurity, I understand it's volatile quarter by quarter, but looking at the recent numbers, it seems to be trending at least 70 million plus on a quarterly basis from 40 million plus. Could you share whatever colour possible on what's giving you this uplift and how sustainable it is?

Also, sorry if I misquote you, Nikhil, but I think you mentioned Cybersecurity is dominant. I wondered if you can maybe elaborate a bit more on this so-called dominance, where it is, if it's possible.

Nikhil Eapen: I'll try to share what I can, and Dennis again can elaborate. Let me clarify on Ensign's position. I think the phrase that I've used over a period of time is it's the leading Singapore cybersecurity player serving government and large enterprises. In serving government and large enterprises in Singapore, Ensign leads.

It is probably not appropriate for us to talk about the nature of the contracts and what they do with who in Singapore. Suffice it to say that they are large contracts. They're highly critical, and they're with government and large corporates that do important things.

The growth is sustainable. We saw strong growth over 2020. We saw strong growth in 2021. The budget for 2022 is similarly strong. That's underpinned by an order book that continues to be strong and continues to grow as we move into the new year. The other thing that we're focused on with Ensign is to continue to move the capabilities forward, so we can perpetuate this kind of growth profile for the foreseeable future. The growth areas that we've focused on are obviously to continue what we're doing here in Singapore with the customers that we're talking about, to regionalise more the Ensign business into Malaysia and other markets, to move more aggressively into new growth areas like cloud security, 5G security, OT security.

You can see there's a flavour coming through, because all of these new growth areas are very convergent with Strategq, they're convergent with the network solutions business at StarHub and they're convergent with JOS. So, the current growth trend is strong on the basis of the existing business and in terms of what they do and who they do it with, and there's a growth plan to do the same thing with more customers and regionally as well as to push into new areas and capabilities to perpetuate that growth profile. Did that answer your question sufficiently, Paul?

Paul Chew: Yes, sure. Thanks. Sorry to trouble you again. Is there any particular - I understand cybersecurity is a necessity, but is there any particular trend that you can share that is coming from the customers in whatever feedback? Any general trends that are helping you get up into this new level of revenue? If it's possible, but I understand the confidentiality of it.

Nikhil Eapen: Cybersecurity is an imperative. It's a board-level issue. The level of threat intrusions is up globally, particularly through the COVID-19 period. The necessity for government and enterprises to bolster the cyber posture, both for state actors as well as for private bad actors, is a clear imperative. What you call the attack surface as we look forward because of IOT is much more, so the problem is much more acute for government and large enterprises. The need for a government or an enterprise to either build their own cybersecurity assets or to outsource the management of your cybersecurity posture continues to grow and escalate.

For all of those reasons, there are strong tailwinds behind the cybersecurity business. Ensign, as the leading Singapore player servicing government and large enterprises, is very well positioned.

Amelia Lee: Thanks, Paul. I think we've answered everybody's questions. We've come to the end of today's call. Thank you, everybody, for spending your Wednesday evening with us. As always, please feel free to reach out to us if you have further questions. Until next quarter, please stay safe and have a lovely evening.

End of Transcript