StarHub Ltd – FY2022 Results Call Transcript
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StarHub Management Representatives:

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Chief Financial Officer	Dennis Chia
Head, Enterprise	Tan Kit Yong
Chief, Consumer	Johan Buse
Head, Investor Relations	Amelia Lee

Start of Transcript

Amelia Lee: Good evening, everybody. Thank you for joining StarHub's 1Q2023 business performance update call. My name is Amelia and I take care of Investor Relations for StarHub. This evening, as usual, we have our Chief Executive, Nikhil Eapen; Dennis Chan, our CFO; Johan Buse, Chief of Consumer, who is joining us virtually; and Tan Kit Yong, our Head of Enterprise Business Group. We will start off with opening remarks and an overview of our performance from Nikhil, followed by Dennis on financials. And then as usual, Johan and Kit on business highlights. We will open the floor to Q&A thereafter. So before we start, just a gentle reminder to please mute yourself when you are not speaking. And without further ado, Nikhil over to you please.

Presentation

Nikhil Eapen: Thank you, Amelia. And thank you all for joining us this evening to hear about our first quarter 2023 results. So without further ado, I will start on the financial highlights, which you now have in front of you. So first of all on service revenue growth, we grew service revenue growth overall, up 11% from the first quarter of last year. Now this growth was generally peaking across the board [no audio] includes the first time consolidation of my Republic. If you take out my Republic, from this quarter, growth was around 7%. And it also includes, you know, clearly we were able to capture some boosts for roaming. But again, if you take a roaming, we grew roughly about mid single-digits.

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Now on Service EBITDA, we saw an uplift and Service EBITDA tracked our Revenue. Albeit, we do have costs for transformation expense, and like revenue running on a margin basis ahead of our guidance at 22.4% relative to 20%. Now net profit was up significantly YoY by about 26%. Now the other thing that I'd like to just talk about on this page, which I'm sure many of you have questions on, is our overall trajectory against our DARE+ targets.

So as you know, in February 2022, we set targets for 2022 and subsequently 2023. And we had guided to revenue growth of at least 10% and brought down our EBITDA margin from 30% and 20% to reflect the transformation expense that we were taking on. Now as you know, in 2022, we grew revenue by 17%. And we were also able to keep within our EBITDA margin guidance even whilst absorbing unanticipated macro costs, rising utilities, other inflationary expenses, etc, and stay within that 20% margin. So we saw more EBITDA than we anticipated. Now, we were clear in February of this year, that 2023 would be a trough year, with revenue continuing to grow. But profitability would recover in 2023. And as we talked to you about for the last year, including accruals, we incurred 35% of our transformation expense.

Now coming to this year, we expect to incur as we said in February, another 50% of our transformation expense taking us to about 85-ish percent overall. And as we also said in February, we expect profitability to recover in 2023, despite this rising expense with revenue growth. Now for 1Q2023, we're glad to say that we have already started to generate this recovery in profitability in 1Q2023. And we hope to continue this trend as we progress through the year. And then looking forward in 2024. The difference between 100 minus 15 minus 50 is obviously 15%-ish of our expense left. And we expect to continue growth but also start harvesting efficiencies, and continue with the uptick in profitability. So I just wanted to kind of end off this page, to give you a general sense of our DARE+ trajectory.

Now flipping over on the next page, to a quick review of business segments. Now on Mobile, we saw strong growth YoY, 13.5% in fact. We were able to capture roaming recovery - partial recovery, while holding our base ARPU roughly constant. But like in every other quarter, we continue to add subscribers but in a very measured and cautious way. Our approach being not to dilute our base ARPU. And we have also been steadily, over many quarters, increasing our lead to the number three operator, which in 1Q2023 was about 300 basis points. And now we have increased over that number, despite the fact that the disclosure has been curtailed a little bit. Now on Broadband, we had a 20.4% increase. This reflected the consolidation of MyRepublic Broadband ("MRBB"). But we also roughly doubled the penetration of high speed plans, 2 Gbps and 10 Gbps, and we were the first to launch 10G-XGS-PON into the Singapore market, which we did a couple of months ago.

Now on Entertainment, we grew strongly fueled by Premier League largely, we saw rising subs, but we also saw rising ARPU as our subs took on broader entertainment packages. And then last but not least, on Enterprise, we grew 3% YoY. The start of this quarter was Network Solutions, which was an eroding business for us a couple of years back. But that business saw growth. Cyber and ICT were roughly flat. But frankly, we expect those to grow and to ramp quite steeply over coming quarters, on the back of strong orders. Those are lumpy businesses, as you know. So with that, to cover our performance and guidance, I'll hand off to our esteemed CFO, Dennis Chia.

Dennis Chia: Thanks Nikhil and good evening, everyone. Thanks for joining us this evening. To take a point check on our performance for 1Q2023. Our Service Revenue that we reported is $461.6 million translating to 11% growth YoY. And Nikhil has pointed out this is as a result of growth, in almost all our lines of business.

Our EBITDA for 1Q2023 is at $112.8 million and Service EBITDA at $103.4 million. And that translates into a serviceable margin of 22.4%, which exceeded our guidance of 20% that we started the year with. Our Capex commitments which are typically relatively lower in the first quarter of every year, had come in at 3.1%. We had guided to BAU Capex for businesses as usual of 5% to 7%. We're still well on track and with all the investments that we're contemplating for DARE+ for the rest of the year, we are keeping our Capex guidance for the year despite the fact that our Capex incurrence in 1Q2023 is relatively low.

The specifics I wanted to call out on the next slide would be our net profit, which came in at $37.5 million. That translates to 2.2 cents on EPS basis. And that is also 26% higher than the number that we reported last year. This is despite and on top of the fact that we've incurred relatively higher investment in relation to DARE+ this year compared to last year, which implies that we started to harvest and realize some of the benefits and outcomes from our DARE+ investments.

The last statistic on this page is our net debt to EBITDA ratio, which came in at 1.26 times last year, we ended this year at 1.45. Our Free Cash Flow for the quarter is negative. And that's typical for 1Q because we would have discharged some of our working capital payables that we took out last year. But for the full year we do expect Free Cash Flow to be significantly positive in relation to the rest of the year. On that note, I'll pass the floor to Johan who is joining us virtually today.

Johan Buse: Thank you, Dennis. And good evening everyone. I'll take you through the three business lines: Mobile, Broadband and Entertainment, and then well zoom a little bit more in on the progress around DARE+ consumer. So we had a good quarter in Mobile as you can see, up we're stable, we are benefiting from roaming ARPU. Subscriber base grew also great, and churn remained relatively low at 0.8%. Prepaid is a bit of a challenging business. We're $1 down on the APRU. But base is growing; tourism is not fully back yet. Segment revenue for Mobile grew close to 14% which is very good in a competitive market like this. And the data usage continue to improve or rise 15.5Gb as we speak.

Moving on to the next page. Broadband, we obviously incorporate the MRBB numbers in. ARPU is $34. And the subscriber base stands at 578K, which makes us the market leader in Broadband. Churn rate remains very low at 0.5%. Segment revenue, Broadband including MRBB grew more than 20%. And we've clocked $52 million. That's Broadband. Moving on.

Entertainment. As you will remember in 4Q2022, we had the World Cup, so that was a one-off. And that obviously bumped up the ARPU in 4Q2022 a little bit as well. We clocked a really good ARPU in this quarter, $43 and the base, there is a change in reporting. And I need to explain that a little bit. We are moving from entitled subscriber base to active subscriber base, which is more reflective and more accurate in terms of actual relevant performance. If you look below the line, which you don't see here, you will see that the active customer base has been steadily increasing. We have changed that logic to be more reflective of that. So churn is low, 0.8%, which is also commendable in this space. And with all that the segment revenue increased 21%. That was driven mainly by Premier League, as well as by both on the business side as well as on the consumer side.

Moving on to Infinity Play. We embarked on a journey a while ago. And I have to say, it's a very audacious and daring strategy, even if I may say so myself, but we're really making good progress. So last quarter, 4Q2022, we launched the new app. And we did the first releases on the new IT stack. Linked to that we believe that differentiation is a very important play for us. It's really rewarding to see that we are continuously being accoladed by Opensignal for the best mobile network as well as we have been by IMDA, by the way. And we embarked on a new direction to make sure that our brands can stand out in the market. Which we do by speed and safety. Those are the two elements.

And we are very proud to be the first in Singapore to offer a totally new 10Gbps for network, which will deliver a much better experience to our customers. Linked to that, safety. Anti scam is a very important element in society. And we also have been putting extra effort there to make sure that we can offer our customers things which are relevant and protect them. So Safety Suite is one of our what we call T2 vertical products, which encompasses everything which customers may need to be secured at home and on the go.

And then the last one here is Entertainment, we have revamped entertainment and an OTT solution, as you know. So you don't need to be a StarHub customer on a fixed line per se, to enjoy this service. So digital platform is on its way. We have four main building blocks this year to further enhance it. We're working very hard on more personalization, and enhanced targeting, we're doing a lot of work on improved analytics, and we have deployed already a new marketing automation system. So with that, having said all that we are on track with a good Infinity Play all in one app to make sure that we can maximize the efforts of our existing customer base. With that I hand over to Kit Yong and I'll take a deep breath. Thank you.

Tan Kit Yong: Right, thanks Johan. So for enterprise businesses itself, we grew by 3% YoY. It is due to higher revenues from Data & Internet with MRBB and also Managed Services. Right, we have more projects and we have a pipeline in our backlog that we are doing now. But it's offset by lower Voice Services revenue due to lower domestic and international traffic.

Lastly it is due to the client shifting to more data using voice services. When it comes to Cybersecurity Services, it is higher revenue due to increase in project delivery. But we do note that there is a record in operating loss of $9 million in 1Q2023. It is due to lower other income and investment in R&D and talent.

When it comes to Regional ICT Services, the low revenue is due to absence of major project delivered for last year. We are looking at 1Q2023 loss of $0.1 million compared to the same for the last year, right. And there is backlog in the business where you will catch up in the other quarter.

Next slide. Just to share with everyone that we managed to win a very important deal for Enterprise business, which is Punggol Digital District. We are delivering the most advanced network solution to Punggol Digital District that includes using software-defined network. And we use network automation, even AI Ops to run the network. And we'll differentiate with network telemetry for digital twin. Right. And we're going to be looking at also including security-by-design for the whole district network.

This will be the important milestone for the Enterprise business, because this is the future of digital infrastructure for smart cities. So we are looking forward that there will be more synergy and subsequent integration with our Cloud Infinity and 5G and building new use cases for a Punggol Digital District. And with that I end my presentation.

Q&A

Amelia Lee: Thank you Kit. With that, we will now open the floor to Q&A. To join the question queue, please click on the raise hand button. I'll call upon your name when it's your turn to speak. And then you can unmute yourself and converse directly with management. First we will have Sachin.

Sachin Mittal: Thanks, Amelia. Good evening management. A few questions. For this year, expectations of transformation Opex of $60 million to $70 million. And transformation Capex was $140 million to $150 million for the full year. Could you guide us? How much of that Opex and Capex component has been incurred? You know, some kind of range will be very helpful. That's question number one. On question number two - 5G was a premium product. Pricing was a premium till last year. But now we are seeing like below $20 for a 100GB kind of plan. Why do you think there's so much of intense competition? And what you know, what, what are the drivers here? Especially when the leasing is done by wholesale leasing, in many cases is done by telcos for the 5G network? And what could change to make it better? That's question number two, on the Mobile side. And lastly, if you could guide us what is this new Smart City contract mean, in terms of impact on your earnings, whether in the near term or in the medium term? Thank you.

Amelia Lee: Nikhil, do you have any opening remarks before we answer?

Nikhil Eapen: No. Why don't we have Dennis take the first and Johan take the second? And I can add to it? And then Kit Yong take the third and I'll add to it.

Dennis Chia: Sachin, the total investments for DARE+, as we've updated the Market is S$310 million. We're saying that this year, we're expecting to incur 50% or translating to a $155 million number. As of 1Q2023, we've incurred 8% of that number, which is about $25 million and that is in the form of Capex and Opex. Bulk of it is actually in Opex.

Sachin Mittal: Ok, $25 million has been spent in Capex and Opex in 1Q2023. So it hasn't started in a big way. That's the implication here.

Dennis Chia: Yeah, it's because it's tied to the delivery of initiatives. All of the initiatives underway. And a lot of them are going to be realized actually, in 2Q2023 and 3Q2023.

Sachin Mittal: But isn't this coming as a backlog from FY2022? So why do you what do you think is causing all these delays?

Dennis Chia: It's not a delay Sachin. It is just the timing. Right. So for example, insofar as Cloud Infinity, which is the initiative we added on to that $270 million, which brought it up to S$310 million, we are in the early stages of implementing those. Insofar as the IT Transformation project is concerned, we went through, you know, a scope rationalisation as well and that is something thing that we took a pause in 1Q2023, and we are well underway in terms of delivery in 2Q2023. So it's not the sequential it is, you know, because of the complexity of all these initiatives we're taking, we do take stock checks, and pause it at times to rationalise what we're doing. And then, you know, to look at how we tweak those scopes to get the best outcomes.

Sachin Mittal: Got it.

Johan Buse: Okay. And then I come into the picture for the 5G question. Thanks for that question. Actually, I wanted to say that question is probably a good question to ask some of my competitors. Look, our strategy is clear on 5G. We would like to differentiate as much as we can on 5G. Obviously, we do quite a fair bit of investments in that. And so far, we have been successfully differentiating and also commanding a price premium compared to 4G. And we intend to strive to keep it that way. That's, I think, bottom line, the story here. And we believe that it's unnecessary to destroy 5G pricing at this point in time in the market. It's a new product that comes with superior speed and latency. And we bundle it with differentiating factors to give the value for customers. And we'll continue to do that. Hopefully, that's answering your question.

Sachin Mittal: My question is, if this is a wholesale network, which you are leasing to some of the MVNOs. Okay, so, question is, there is no guideline, right? I mean, it's a one-to-one negotiation between you and the MVNO. So why is the wholesale pricing so cheap that ultimately some of the MVNOs, end up giving so cheap? That's the question.

Johan Buse: Well, that's a result of, I will say, market forces. And the outcome of that is what you see. And that's not something we like. But it's reality. So it's market working, in a way; it's the way the market operates. And it puts pressure on the whole ecosystem, unfortunately.

Nikhil Eapen: Yeah, the only thing that I'd add Sachin is that we're not leasing 5G to MVNOs. You know, as Johan says, we can't control how others react to market forces. Similar things had happened in 4G, right? One of our competitors added 300,000 subscribers in the last year, but their consumer business declined 5%. So our strategy is very clear whether it's on 4G, whether it's on 5G, whether it's on Broadband, which is we differentiate on quality on things like safety and on product. And that's the way we will keep on going.

Sachin Mittal: So because it seems we have a lot of roaming revenue in this quarter, because of tourist arrival, but that didn't really benefit your revenue on a sequential basis, because of the local non-roaming portion going down, is that the right way of looking at it?

Johan Buse: No, that's not the right way.

Nikhil Eapen: Yeah, sorry. Go ahead Johan.

Johan Buse: Feel free to jump in. But no, there's unfortunately not the right way. If you look below the hood, you will see that subscription revenues, and roaming revenues are the key drivers. And obviously, that's not a 5G effect, what is coming down is out of bundle revenue. And so that's working off how tariff plans are constructed in the market for 4G and 5G. And, of course, there has been for the longest time and organic decline in minutes. So it's a bit more complex than that. So hopefully that gives you a bit more color, Sachin.

Nikhil Eapen: Sachin as I said, in my opening remarks, I think, you know, what we've been able to do is hold our base ARPU constant. And we've added subs in a measured manner, while we hold our base, ARPU constant, which is why you've seen our revenues go up with roaming. In comparison to others who've seen flat or declining revenue because roaming increases are being offset by cannibalisation on their base.

Johan Buse: And maybe to add to that one more point, which is also an element in the mix here, is device versus SIM-only. So they have different topline behavior, but bottomline not necessarily too much difference. So these are all factors which are playing a role here.

Sachin Mittal: My simple thinking is, Nikhil and Johan, that roaming revenue has gone up sequentially, and it is going up in a measured manner because of tourists arrival. But it doesn't reflect in the Mobile revenue. That means it's stable, right? That means the other portion has gone down.

Nikhil Eapen: Do you mean QoQ?

Sachin Mittal: Yeah, I'm looking sequentially, QoQ.

Nikhil Eapen: Johan, you can clear that up.

Johan Buse: QoQ, 4Q2022 to 1Q2023, is also seasonality. Typically 4Q is higher than 1Q. It's a pure logic of seasonality where in 4Q, you have the impact of iPhone launch, for example, which is ARPU accretive. And you have quite a lot of travel in December. So and this year is actually slightly different in a way that we don't drop that much 4Q2022 to 1Q2023. And if you look at YoY, which is probably the better comparison, you can see there's a significant uplift.

Sachin Mittal: Got it.

Nikhil Eapen: Yeah, keep in mind, there's also a one month delay in recording roaming revenue.

Sachin Mittal: Okay. That's good to know.

Johan Buse: And then there was a question around smart city, I think.

Nikhil Eapen: I think the purposes of showing you this was how it was really illustrated how we're kind of evolving our network solutions business, to move away from kind of plain vanilla legacy connectivity. And really, you know, driving towards more cloud enabled digital solutions have a green flavor to them. But go ahead.

Tan Kit Yong: Addressing the financial impact – this is a multi-year contract, we need to deliver the first implementation within this year. So there will be in-year revenue for this year. And then there will be subsequent revenue, right, for maintainance over the multi-years. Right, so that's the kind of large-scale multi-million dollar project that we're embarking into. Would that answer your question?

Sachin Mittal: Got it. I mean, typically, my understanding is, government projects tend to carry thinner margins than actually some of the other projects. But this is a very, I would say, this is a more sophisticated project than many of the products. But does it change the margin story?

Nikhil Eapen: I don't think we should comment on margins received from one type of customers vis-a-vie another, Sachin. It's tricky for us as you might have, you would, of course, appreciate. But thanks for the takeaway, that this is exactly what we were trying to portray, that this is far more sophisticated type of projects against a large scale development. And there are a lot of these large-scale developments coming in Singapore. But we don't think that traditional telco approach where you get are simply RFP, you know, kind of on just plain vanilla connectivity is the best way to monetize. So this is the approach we're taking.

Sachin Mittal: Got it. Thank you Nikhil. Thanks Sachin. Next up, we have Neel Sinha.

Neel Sinha: Hi, thanks Amelia. Thank you StarHub team. I have three questions. The first is actually a continuation of what you just discussed with Sachin. Johan, you mentioned that we should be looking at it on a YoY basis. I actually disagree on that. Because last year, almost at this time in the 1Q2022, almost all the markets were in lockdown within Southeast Asia, and China was definitely in lockdown. So when I look at that whole roaming revenue versus tourist arrivals, etc, it looks quite soft, actually. So if you have any colour on that, that would be good. My second question is, I mean, Entertainment is fairly straightforward in terms of performance, in terms of Broadband, MRBB consolidation – on a sequential basis, that's not much of an uplift. When you all bought MRBB, if I seem to recall the ARPU for MRBB, because of the premium gamer base, etc, was way higher. So why is that the case? Is there pricing pressure in the broadband environment as well? And my third question is just sort of a broader strategy question. For years, Starhub has been largely Singapore centric. In the last 18-24 months, there's been quite a few acquisitions, but I actually don't see the impact of that acquisitions in the Enterprise business. So what's holding it back? Is it the macro environment that's preventing corporates from pending on Capex or any other reasons, any colour on that would be great. Thank you.

Johan Buse: Let me try to answer point number one related to roaming. Thanks for that question. Roaming actually consists, broadly speaking out of two components: inbound and outbound. Outbound roaming, we've seen quite a good recovery post-COVID. And we can debate whether you want to look YoY or QoQ. And that's something we see steadily growing, but it's not yet fully on pre-COVID level.

Neel Sinha: Johan, I'll agree with you QoQ is normally not the right comparison, when you compare 4Q, but I'm looking at it in terms of tourist arrivals, though, the various metrics like retail sales, etc. So because they're coming off a COVID year, so YoY, it should be a lot higher. And if I remember correctly, it used to be about 10%-11% thereabouts pre-pandemic, the roaming revenue or the portion of blended revenue. Not revenue, sorry, ARPU.

Johan Buse: Yeah, for Postpaid, yes sure. But as I mentioned, I think there's two components here, you have the Postpaid part, which is fine, I think the one you're alluding to is basically, typically inbound roaming/Prepaid tourist card sales. That hasn't really recovered yet, because China is still missing in that respect for the last quarter. And I'm with you on the YoY and QoQ. That's perfectly fine. But if you compare, for example, this performance here to one of our competitors, which didn't list some numbers, you will see it as a stark difference in terms of revenue monetisation on the back of roaming. So we believe we have been doing a decent job. And obviously, we are hoping in the next few quarters that the travel opportunities will further enhanced. There's still a little bit of limitation here and there. So and that's especially what we see in the Prepaid card sales at this point in time.

Nikhil Eapen: I recall that this time last year, both 4Q and 1Q2021, and 1Q2022, outbound roaming revenue was actually quite strong. There was a lot of revenge travel right from opening up.

Johan Buse: Yeah, you're totally right. It's mainly the inbound phase, especially to prepare part of it as well, which is also subject to different competitive, I would say dynamics. I mean, one of the things we haven't discussed is that obviously, the borderline between pre and post is sort of eroding because there's more and more SIM-only cards which are sold on a one month basis, that sort of thing. They all play a role. But if you look pure on the outbound roaming and Postpaid subscription revenue is up YoY, outbound roaming revenues up and those are good indicators. And that makes a difference in our performance today, I would say.

Neel Sinha: Thank you.

Johan Buse: Broadband on the ARPU? Well, the market is definitely getting a bit more competitive and broadband, no doubt about it. You're all keeping a close eye on the industry. And you have seen that Simba has announced their plans to launch broadband. The market is still growing on broadband. That's the good news. Not as fast as we have seen it in the past, there is a steady growth. What has helped us on StarHub's side, and Nikhil alluded to that earlier, is a strong growth on higher tariff plans. So we almost doubled. Actually, we did more than double on the 2Gbps customer base. Your specific question related to MRBB - their ARPU is still very strong, it didn't change that much. But they also get into a cycle where they obviously have to re contract more customers. And like any business, if you go back to ARPU 6-7 years ago, they're always on a much higher level than they are today. So those are the effects which are coming to play there. But MRBB has done a phenomenal job over the last couple of quarters and continue to grow the base at a very healthy ARPU level.

Neel Sinha: Just quick follow up on that bit. I thought a couple of the Internet stocks as well. So I kind of get the level of engagement from gamers, which MRBB is focused on, has dropped. And that's not just here in Singapore, it's across the region. And you know, China is the most more telling sign of that, in terms of once people are not locked in at home with mobility restrictions delivered engagement drops, so there'll be some aspect of that. But when I look at the ARPU - flat, despite MRBB consolidation should I think that ex-MRBB, your mainstream offering under StarHub broadband, the ARPU has actually declined?

Johan Buse: No, incorrect. Our ARPU is stable, give or take a few cents, there's no specific decline. There's a few components which work there. I mean, there's a higher tariff plan and there are some accounting treatments, but it's not declining as such.

Neel Sinha: Okay. Alright. Thanks. Thanks Johan.

Johan Buse: You're welcome.

Nikhil Eapen: Yeah, and then on the border question on the acquisition. So really, we're talking about putting aside MRBB. On the Singapore consumer side, you're really talking about Ensign, Strateq and JOS. Now, if you look, Neel at FY2022 versus FY2021, what you would have seen, if memory serves me right is Ensign would have grown at about 23%. And then I think if you put together Strateq and JOS, they would have grown in kind of the low double digits. 1Q versus 1Q. You know, comparing quarters YoY is always a little bit tricky for these businesses, just because they have large contracts, particularly Ensign, and there's a degree of lumpiness to them. You know, what we would say, is a few things. Typically, for both of these types of businesses, Cybersecurity, as well as regional ICT, we typically see, you know, a fairly good ramp through the year, QoQ. And I would say also that, you know, this year versus last year, the order book is strong, and stronger than it was.

Neel Sinha: Actually Nikhil, my third question was not, it was very broad-based question. There's been acquisitions, and there was a lot of promise, I don't actually see that coming through on the Enterprise numbers. So I was wondering whether it's a macro environment thing where the customers are holding back on Capex, etc, it's more of that aspect to try and figure out on a two/three year basis, it's not because the enterprise bought; new acquisitions take a bit of time to integrate, there are some costs. So and yeah, that was the context of my question.

Nikhil Eapen: No, no, I understood. So I guess what I'm saying is when you look at last year, and hopefully, when you look at this year, what you will see is that the growth in those acquisitions has been quite strong. That impact is muted for 1Q2023. Now broadly and more long range. You know, do we do we see a weak corporate spend environment and are these acquisitions, you know, kind of flat in terms of order winds and bookings? No, because they're actually growing order book. And that should sustain growth, you know, through the year, longer term, the way the corporate spend environment in Singapore, Malaysia, etc, goes, that's tough to predict. But as we said this year, and looking forward, the order books have accumulated stronger than where they were last year. And we expect continued growth. You know, this year, no different to what we did last year, which was kind of you know, like mid double-digits, 20%+ YoY revenue.

Dennis Chia: If I may add to Nikhil's point, a lot of these acquisitions in the first couple of years of the acquisition. The whole business case and thesis behind it was to generate the synergies and the integration with our base business as well that we run here in Singapore, as well as cost synergies. So all of those are being executed. And granted that you know, did not come in in a big way to into our P&L. But many of those plans are being implemented and very similar to DARE+. The harvesting of those are coming through.

Nikhil Eapen: Yeah, below the revenue line. Yeah.

Neel Sinha: Thanks, Dennis.

Amelia Lee: Thank you. Next up, we have Hong Wei.

Wong Hong Wei: Oh, hi, this is Hong Wei from OCBC Credit Research. Just three questions from me. So the first is on the guidance checklist. Because I mean, obviously, Service Revenue, Service EBITDA Margin and Capex are quite different from the guidance. So just wonder if you have, you know, some chance to review the guidance, or is this just a simple comparison against the old guidance? Basically, is the guidance still valid? That's my first question. Then my second is that if you, I mean, you, you have some mentioned about, you know, the 10Gbps plan, you also talked about the Safety Suite, Home of Sports, I mean, all those like the digital platform, when you have some numbers as to how big are these like cross sells and new products are generating? That's my second question. My third question is on free cash flow. So it is negative $19 million. So just wondering if the negative cash flow is expected to persist? I mean, granted that has lower Capex spend. So if like, when Capex is going to go up a little part of the year, is the free cash flow gonna be worse? Or is this due to some one-off inventory, you know, or like some capital working capital changes?

Amelia Lee: Dennis, you'd like to take the first question on guidance and question on free cash flow?

Dennis Chia: Sure. Hi Hong Wei. So in terms of guidance, you know, we had a guided to 8% to 10%, on the growth in revenue. The actual recorded growth is 11%. So that's marginally higher than the upper range. And we have a view on the numbers going to the rest of the year. We still think the guidance that we started the year with is good in terms of Service Revenue. From a margin perspective, in response to an earlier question, by Sachin on the on the staging of the investments of DARE+, the 1Q2023 investment is relatively lower, compared to what we anticipate for the rest of the year. And the result of that is that, obviously, our Service EBITDA Margin is two points higher than our guidance. But if you mathematically add back some of the relatively higher investments that we anticipate for the rest of the year, we still believe that our 20% guidance we started the year with is good. A point, as we went through the result that I made, was that our Capex in the first quarter of every year tends to be the lowest quarter. Because you know, we start the year with not committing to too many things. But we do anticipate as part of the ongoing investment in our transformation, that capital investments that we're anticipating, will continue to accumulate. Also, we are continuing to roll out our 5G network on the new 2100 spectrum, and that's going to add up and add to the Capex as well. So on that note, we are still maintaining our Capex guidance for the year. And so to your question on free cash flow, if you look at the free cash flow for 1Q2023, as well as 1Q2022, both are negative. I had made a comment when commenting on that number is that we do anticipate the free cash flow for the full year to be very positive. And the reason for the negative cash flow for the first quarter is a repayment of certain trade payables that we took up at the end of last year. So there's really a timing working capital timing, as you've alluded to, I hope those responses answers your question.

Nikhil Eapen: Yeah. And then I think just as a general comment on free cash flow, I think it's important to keep in mind that, you know, our business model is shifting right. You know, versus a traditional telco we have components of our business model that are not heavy capex. The asset light, right, are quite significant components, particularly across our enterprises. The second component point I'd make is that across our business, you know, we're shifting from Capex to Opex model. And as you know, 5G is one, moving our IT to the Cloud is another, moving our network to the Cloud is a third. So as a result, you know, what you'll see is that shift from Capex to Opex. And all of that, when you put it together, will result and is resulting over time in an amount of free cash flow that should be substantially in excess of our net income. So, you know, that's something that we're kind of thinking through.

Johan Buse: And then you had a question around 10GB plan pickup rates. Look, appreciate very much the question. I hope you understand that we typically don't give that level of detailed information. What I can share with you is that the 10GB plan actually surprised us a little bit in terms of take-up in a positive way. And it is, for us in an important objectives this year to bring that to completion commercially, I would like to say, as we have in mind. Safety Suite has a number of products underneath it. And definitely one of those, which is the Protect Plus is doing very well. Obviously, it is and it's a quite sensitive topic in the market for consumers. And we have for the rest of the year, a few other products in that space lined up to further enhance the security of protection for our customers. So hopefully, that's information of use to you. But that's all I can share at this point in time. Thanks.

Amelia Lee: Hope that answers your question, Hong Wei.

Wong Hong Wei: Somewhat. I mean, thanks for the sharing.

Amelia Lee: Okay, thank you. Next up, we have Varun who texted me separately to join the queue.

Varun Ahuja: Thanks, Amelia. Can you hear me?

Nikhil Eapen: Yes, go ahead Varun.

Varun Ahuja: Yeah. Hi, thanks. Thanks for the opportunity. I've got three questions. First is a more a broader context. If you remember 2021, when you launched the DARE+ initiatives, there were talks about as the network gets a lot more efficient and in your OSS, and BSS solutions as well. There will be lot more revenue opportunities that may come across. So given your almost two years into it, how do you see current landscape versus when you initially perceived about revenue opportunities, do you see a lot more places? And if you can elaborate more on that front? How should we think about the synergies or the benefits of the transformation that you're going through from the revenue perspective? Number two, on the EPL side, obviously, there has been a jump in revenue on the Entertainment side. But the PL is supposed to bring about benefits across the whole spectrum. Can you share with us some cost benefit analysis on that front? How do you see cost versus the revenue opportunities that you have captured with PL? On being there on the network? Lastly, Dennis, if you can clarify how much of these DARE+ initiatives on the Opex side that you're going to incur? is likely to remain permanent? And how much of it is likely to be fade away with time. Thank you.

Amelia Lee: Nikhil, would you like to start?

Nikhil Eapen: Yeah, let me take the first question on the revenue opportunities. And then, you know, I'll invite my partners, Johan, and Kit Yong to add their comments. So the short answer to your question, Varun is yes. We do expect revenue opportunities to come from the cloudification of our business and the digitalisation of our business.

So on the consumer side, as you know, we have been engaged on a few things. Number one is a Super App; number two that sits obviously on a Cloud-SaaS Stack. Number three, we're putting in place, you know, personalised marketing, automation. And number four, you know, we're building a data lake on the cloud. Now, all of that is underway. We launched our Super App in November last year, we have a significant number of monthly active users on Super App. And the Cloud Stack was also launched in parallel. And we're doing more drops of products through that through the year on that. Marketing automation and data lake ready later this year. So I think, you know, to your point, we firmly believe in those revenue opportunities on the consumer side.

We've been rolling out more as you've seen in terms of products, Johan talked about the Safety Suite. You know, we've launched Consumer Health. You know, we launched Premier League and Entertainment offerings. But you know, what we're really focused on for this year, and for the rest of the year, as putting in place these platforms. And once these platforms are in place that will allow us to really look at where we want to go next, and do it with much more agility, speed, and dare I say at a lower cost. But we're focused on platform building on the Consumer side for now while we introduce new products.

Now on the Enterprise side, again, you know, the reliance is on, you know, a new Cloud-based stack. But also the other thing that we're doing rather than just Cloudifying our IT, is Cloud Infinity. Where we're moving our network to the Cloud. Now, that's not something that we started two years ago actually wasn't even in DARE+ when we announced it in November. It's something that we budgeted, planned and launched, you know, back half of last year. It's still in early stages, it's moving fast. But that will bring revenue opportunity, and that will be leverageable on the Consumer side, but probably more leverageable on the Enterprise side.

Some of that work that we're doing in terms of new revenue opportunities, is very much already in play. So when we talk about things like green tech, multi-cloud networking, the case studies around Jurong, and Punggol, JTC, PDD. You know, those kinds of use cases are very much live in play, winning multi-million dollar contract. And both of the combination of IT on the Cloud Stack, as well as our network being run off the Cloud - Cloud Infinity, will widen that opportunity, widen that aperture for revenue opportunities. So yes, we fervently believe in new revenue opportunities. They're already underway. But for this year, and particularly on the Consumer side, what we're really focused on is platform building.

Johan Buse: And then your next question was around PL. So here I am, Premier League. Look, you will hopefully respect that we don't disclose detailed performance on specific content providers. Having said that, I think what I can share with you today is that it has interesting effects across Entertainment. So one of the effects we've seen is that these customers have a significantly higher ARPU than we anticipated, by the fact that they're not taking only Premier League, but they also take other passes. And obviously, we had last year a bit of a windfall from that as well, in terms of customers coming on the back form broadband to us. And this is, as you know, a six season contract. As we go forward, we will continue to innovate in this space, interesting product rollout for the rest of the year as well. And we're preparing for season two. So that's what I can share with you. It has good side effects for us, it has helped the brand. And we continue to further enhance in that space. Thank you.

Dennis Chia: Varun, on your third question, if you look at our DARE+ investment, just to recap on the nature of these investments, as it pertains Opex. One, it relates to software licenses in relation to new technology that we're putting in place. And because it's new technology and it will remain in place, those software license costs will continue. Two, in building capabilities within the organization and bench strength, putting these individuals and teams within the organization to strengthen the capabilities. Again, these investments will continue post the transformation. Third, we're building new platforms to house our microservices, and so forth, and new API's attached and those costs will also continue. So if you kind of look at the investments, most of the costs, and I'll give you a ballpark, about 85% of those costs will continue, 15% of those costs will fall off.

The more important thing to note, however, is that we will be harvesting the outcomes of those investments. So those outcomes of those investments, the returns to the investment that we're expecting to be able to sunset legacy IT system, for example, in OSS, BSS, those costs that we are currently incurring will follow. We will be able to rationalise in terms of how we run our online versus offline transactions for example. And when you have more online transaction, the actual physical costs of processing transactions will also reduce. So those are outcomes of DARE+ that will come through in terms of harvesting those investments. So although most of the costs that we're incurring, will continue as recurring costs. The ones that we will realise in terms of benefits will be the additions the P&L as a result of the change in our operating model. I hope that answers your question, Varun.

Varun Ahuja: Yes, it does. Thank you, everyone. And good luck for the year.

Nikhil Eapen: Thank you.

Amelia Lee: Next up we have Paul. Paul please unmute yourself.

Paul Chew: Thanks. Thanks for the presentation. Hope you get well soon, Johan. By the way that is not my question. Three questions from me in terms of the DARE+ related revenue or opportunities, I mean, I can understand it, you know, intuitively know you have a platform. But could you maybe give a bit more description with this platform? How much additional revenue you secured, because part of the DARE+, you're supposed to get, I guess, $220 million gross profit growth, a bit more description will be helpful. That's my first question. The second question is just on Cyber, you know, you're always on these investments in R&D and talent for maybe, you know, DARE+ mini me situation, but I guess, is there some timeline where maybe the pace of this investments may slow and then you get the operating leverage and earnings can can creep up even faster? But that's my second question. My third question, are you able to give some roaming revenue as a percentage of total revenue? If it's possible, thanks, again.

Amelia Lee: Thanks Paul. Nikhil would you like to take the first two questions?

Nikhil Eapen: Yeah. And then then maybe I'll also ask Johan and Kit Yong to jump in, in their respective areas. So on DARE+ revenue opportunities, you know, on the Consumer side, it essentially comes from more product, right, and being able to launch more products in a more agile way, on a faster cycle, you know, get early results and at lower cost. And being able to service customers and give them like a customer journey, that's very fluid, that they can kind of self-serve themselves. So they can try out this new product, right? It's not a clumsy, you know, bulky, cumbersome thing.

On the Enterprise side, we've talked in the past about when you combine the transformation, and then you combine what we're doing on the Network side, to move our network on the Cloud, you know, we're really focused on things like the PDD study, right? PDD, right. So Green Tech, installing green infrastructure and managing sensors off network, but then taking the next step, because what we allow, therefore, is bringing up Cloud instances, not just on the court, but on the edge, but data query, data analytics, securing end-to-end, taking our platforms and being able to regionalise them, bringing our, you know, our fixed network together with our mobile network and being able to segment splicing, you know, across so we can really sort of pinpoint levels of secure ultra-low latency down to the very edge for things like hologram and use cases – AR, VR, metaverse. So there's a lot we can do. But you know, I would say stay tuned. But, you know, maybe Johan first and then Kit Yong to lend their perspective.

Johan Buse: Thanks, Nikhil. Thanks, Paul for the best wishes, I managed to dodge the COVID for 3 years. And this week was my turn after 3 years and I'm actually short of breath from time to time in the evenings, I noticed, but we'll get through it. Look, our DARE+ is instrumental. Building on what Nikhil just mentioned, DARE+ for Consumer will deliver and actually started to deliver is a few things. Number one, we tap into new product categories, which we didn't have before, which enable us to cross and upsell in a different way. That's in a way a rejuvenation, a more modern way of offering bundling, like we did in the past. And what we track very closely at the moment is the number of product holdings customers have with us. And we track them on a monthly basis. And based on the new tools we have at our disposal, check carefully where which customers, which segments can be offered additional products or services. So we cast the net much wider than the traditional StarHub net was casted in a way. That's one.

The other benefits of that will be that since we have one app, which is sort of the main gateway for every product or service we offer, we can monetise data eventually. That's our plan. And ultimately what we want to deliver is a much better customer experience. And then we get into what Dennis was alluding to earlier on, acquired long list of costs which we will incur today, which in the future we will not be incurring. Today I give you a simple example. A lot of customers still go to store to replace a SIM card with a call customer service for something. We already see now with the new app which is being run with a new chatbot in the back that the vast majority of transactions or service transactions, I should say – customers are end-to-end handled by bots.

So it's early days there still, but as I mentioned, Torpedo, which is internal project name for this, is planned to be rolled out in phases. This is an important month for us, May, by the way, where we plan a big release. And by the end of the year, we hope to have complete altogether. And that will change entirely the operating model. And it will enable us much better than we used to, to cross and upsell certain products and services, we have better customer insights we can make offers more dynamic and personal than we can today. We already see that happening today on a small scale. So that's the revenue opportunity. It's a modern way of bundling. And it's increasing the share of all of the customer. Kit Yong?

Tan Kit Yong: From an enterprise perspective, for DARE+, you know us for providing connectivity, mobile services. Now for DARE+, we had the thing called Strategic Services, where we add Data, AI, we added application development capabilities to help ourselves digitize and put through the whole network connectivity. Without these ingredients, without managed services, we are not able to put through our whole product with our connectivity. And to do that there are few themes that our client expect us to even address before they entertain us.

One is digitalisation, second is sustainability. Hence, you can look at the previous quarter and NUS is an example of sustainability, where we are able to incorporate engineering capabilities, solar panels, 5G, telecommunication also with fixed line, Enterprise network, which is WiFi, with digital and collecting data, to do the proof-of-concept, so that we can improve performance and subsequently measure the sustainability data from the solutions that we deliver for them. So this cannot be done if we're doing the business as usual. Right. And we come to the digitisation with our application modernisation capabilities in digital workflow, converting paper to paperless workflow, helping clients to move their transactional data, which is on paper into Cloud. That enables them to have transactional operation data, which they never have. And now they can have the opportunity to integrate their operational data with their ERP or CRM, and create better insights for their business. So these are important topics of the client that expects a partner to work with them. And also, to deliver these solutions and services. It requires a multi hybrid cloud architecture. And all global enterprises are moving into this hybrid, multi cloud architecture. And the point here is that Cloud Infinity is actually a hybrid, multi-cloud architecture. Our clients are able to build this architecture on their own, and they are looking for a partner like us, to enable them, to support them for the journey into a multi-cloud and hybrid-cloud architecture for their business. So that's important of this piece of the process that the client expects from a partner, and these rights incorporate into DARE+ strategy. And with that I send it back.

Amelia Lee: Nikhil anything else to add?

Nikhil Eapen: Nope, that's great. Perfect way to end. Yeah.

Amelia Lee: Would you to comment on the timeline for Ensign's profitability?

Nikhil Eapen: Oh, yeah, you know, as I said, in prior call, you know, we intend, together with a joint venture partner, Temasek, to continue to grow Ensign quite aggressively. And part and parcel of that is investment in, in people in security, good, high-quality resources, as well as in building platform. Platforms that leverage, you know, artificial intelligence, advanced threat detection technologies, and certain types of footprint.

Because Ensign really is, front of grade and to some degree, you know, I guess, the Singapore cyber platform, with the customer profile that it has. So we sort of go through this active decision making process together with management and our joint venture partner on when's the right time to kind of shift that continuum between investing for growth and then starting to harvest. And as long as we see the growth profile strong and the tail winds strong, we're probably going to continue to make that bet on investing for growth.

Now, having said that, as Dennis has always said, you know, sort of almost automatically, as a result of the way the numbers work and the fixed cost structure, what you should see is you should see profitability start to mount. Once it passes, call it the $400 million level in terms of revenue. So it's a combination of those two things I would say.

Amelia Lee: And, Paul, on your third question, roaming as a percentage of revenue, we don't specifically disclose this breakdown. But Johan, do we have anything else to add?

Johan Buse: This exactly that we don't disclose it typically. So I'm really sorry. No matter how much I wish I could give you more. But no, I can only say that it has been encouraging, but it's not entirely yet up to pre COVID level, which we discussed earlier on. Okay.

Paul Chew: Okay. Thanks so much for taking my call. Thanks.

Amelia Lee: I'm cognisant of time, so if we can take last quick questions, first from Neel and then from Michael. Neel, can you unmute yourself?

Neel Sinha: I had a quick follow up. It's very broad brush, possibly for you, Nikhil and for you Dennis. Industry consolidation. When I look at the structure of the industry, you know who I'm referring to. Would you be interested in the assets or the subscribers or whatever, if the opportunity came around? I don't see them surviving. It's a very different setup from what they're doing in Australia, where they had [inaudible] business, and they merged with the Hutch and Vodafone joint ventures. Singapore is a slightly different. And, you know, except for Enterprise, be honest, and a lot of the Enterprise growth as you refer to, and your competitor refers to, both mobile we don't know that much about anymore. The opportunities are actually cross regional, which the fourth operator cannot participate in. So the other parts of the business, you know, the pretty saturated markets. So just broad thoughts on that, if you would be interested in some aspect of that businesses that opportunity came along, whether it's the network infrastructure, whether it's a spectrum, whether it's the subscribers? And why. So it's a bit of a curveball question.

Nikhil Eapen: No it's fine. It's, you know, we think about all things right. So it's not a curveball in that sense. So let me make some broad ranging comments. So you know, number one, of course, no one can predict the timing and the outcome of consolidation and takes two to tango. Number two, having said that, we're very well positioned to be an acquirer, right? We have low leverage, lots of free cash flow, as I said, you know, with a Capex-light asset, more asset-light model, substantially higher than net income is kind of our platform today. And, you know, our market share, whilst in mobile in particular, is not [inaudible], right. So it doesn't preclude our acquisition. So we have a combination of capability leverage and an ability to acquire. Now we are actually open to consolidation across the board, not just the fourth operator, vis-a-vie, the fourth operator, you know, the premise for us would, I suppose, to be market repair. And given the segments that they occupy, relative to us, we're not necessarily the natural acquirer relative to others, perhaps like a number three operator which kind of overlaps in the same segment. So that's the only thought I will leave with you. You know, I just didn't want to touch on your point on Enterprise, it's kind of correct in the sense we used to be the fourth operator or even the third operator in terms of, you know, the Enterprise market and the sort of the presence or lack thereof in the Enterprise market. But what I would say is the one thing I would like to perhaps, where we have a different perspective from you is, in traditional telco on Enterprise, you're absolutely correct. But if you look at the sort of things that Kit Yong was talking about, whether it's green tech, whether it's about making a hybrid multi-cloud environment available to Singapore enterprises, there is actually room to run. Again, not necessarily for traditional telco and the telco way of doing things. But when you look at the way Enterprises are broadly transforming in Singapore, when you look at the development dollars going into smart city developments in the real estate sector broadly, we think there's still room to run. But your point on making you know, all of this accessible to an acquiree is correct.

Neel Sinha: Thank you. That's interesting context. Nikhil thank you very much.

Nikhil Eapen: Very welcome.

Amelia Lee: Now we take the last question from Michael.

Michael Fock: Thanks, everyone. Just keep it short, anything, I'll just follow up with Amelia. But I'm just curious. Now we're approaching one year of consolidation with MRBB and as I remember, the deal also included some incentive based payments. So wondering if you could just share some colour on the probability of such payments, and if so when is the rough timeline such payments will be made?

Amelia Lee: Nikhil or Dennis, would you like to take that question?

Dennis Chia: Michael, the construct of the deal was a deferred consideration based on the incremental EBITDA that they'll deliver within this one year, which ends in June of this year. And that there will be a multiple of that incremental EBITDA that they would get that deferred concentration.

The short answer to your question, if you recall the construct of the deal we announced, that the maximum consideration will be $92 million. We expect some level of deferred consideration which will be substantially less than that $92 million. I'll leave it at that. The timing of that payment is going to be in August of this year.

Michael Fock: Okay, thank you.

Amelia Lee: Thank you, Michael. And with that, we've come to the end of the call. Thank you so much for your patience and for spending your evening with us. As always, please feel free to reach out to us if you have more questions or if you want to catch up. We'll catch you again next quarter, thank you and goodbye.

Nikhil Eapen: Thanks all, thanks for making the time for us. Thank you.

- End -

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