



StarHub Ltd – 3Q22 Business Performance Update Call Transcript

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StarHub Management Representatives:

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Head, Enterprise	Tan Kit Yong
Chief, Consumer	Johan Buse
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Start of Transcript

Amelia Lee: Hi, good evening, everybody. Thank you for joining StarHub's 3Q2022 Business Performance Update call. My name is Amelia and I take care of StarHub's investor relations. This evening, we have with us our Chief Executive, Nikhil Eapen; Dennis Chia, our CFO; Johan Buse, Chief of Consumer; as well as Tan Kit Yong, our Head of the Enterprise Business Group. So we'll start off with some opening remarks and an overview of our performance by Nikhil; followed by Dennis on financials; and then Johan and Kit on business highlights. We'll then open the floor to Q&A thereafter. Nikhil, over to you.

Presentation

Nikhil Eapen: Okay, well, thank you, everyone, for joining us on Wednesday evening to hear about our Q2, Q3 and our 9M, here today. I'll start by going through some financial highlights. Now, as you can see, we this quarter grew across every segment, year-on-year, and almost across all segments, quarter-on-quarter. This was despite sustained hyper competition that has escalated, in particular in mobile, but also to a little degree in broadband. So overall, as you can see, our service revenue grew about 6.2% QoQ, and about 50% YoY.

Now, we as you know, acquired both MyRepublic and JOS in Singapore, Malaysia, in Q1. And if you extract the contributions of these businesses, our service revenue grew about 7.9% QoQ and 5% YoY. Now, with this revenue growth, our EBITDA margin, compressed a bit and our EBITDA, also compressed. And this was due to a number of things. As you recall, when we posted our full year guidance in February,



we had taken our EBITDA margin guidance down. And as you know, we closed 2021 with 30% EBITDA margin. So [inaudible], and we posted EBITDA margin guidance of 20%. So, therefore, a little of those themes continue. The EBITDA margin and dollar EBITDA is reflective of the transformation costs for DARE+ that we had outlined at the time, albeit with some delays into next year.

The macro, of course, with the rising cost structure that that applies across utilities, staff costs and other things. And then market competition coupled with certain products, like [inaudible]. Now excluding some of these one-offs, net profit would have actually increased QoQ by 3.4%. Now, not on this page, but free cash flow remains positive at about \$115 million for the 9M2022. And our net debt to EBITDA remains very healthy levels of about 1.39 times versus what we consider to be the regional telco average of about 2.8 times.

So with all of this, we will be moving up our fiscal 2022 service revenue guidance and improving our Capex guidance that I will elaborate on. So as mentioned, in terms of our segmental revenue, we recorded growth across all segments YoY and across almost all segments QoQ except for a slight dip in Broadband QoQ. Mobile continue to grow quite well, YoY and QoQ, lifted by roaming recovery, as well as value added services and access usage. Broadband dipped due to increased promotions in the market, which is increasingly competitive. And those promotions are amortized over the contract and Broadband 24 months.

As you know, we now have Broadband leadership with the acquisition of MyRepublic; and both the StarHub Broadband business as well as MyRepublic continue to grow; and grow together working together to leverage our joint position of leadership to drive – you know, product revenue and cost advancements. Entertainment, we are the market leader. And we continue to register again solid growth, solid and accelerating growth YoY, as well as QoQ, lifted by Premier League, of course, which started the season, as well as continued growth in our other content offerings.

On the Enterprise side, we sustained double digit growth YoY and QoQ. Now notably, Network Solutions in Enterprise grew 6.6% YoY, 7.6% QoQ, driven by good growth in ICT and Managed Services. Cybersecurity grew about 15% QoQ. It was flat YoY due to the inherent nature of our business which is lumpy, but this continues to be a strong business with high growth applications. And then Regional ICT



has increased in scale due to JOS consolidation. And it's up about 120%. And it's now operating profit breakeven.

So looking at our guidance and comparing where we are, to distill the guidance we provided in the beginning of the year, we had guided on Service Revenue to achieve revenue growth for the full year of at least 10%. We are currently running for 9M2022 at 13%, and we are revising our guidance for the full year up to 12% to 15%. Now on Service EBITDA margin, we had guided to 20% we are running at 23%. But we are not revising our Service EBITDA margin guidance. But of course, as you would reflect and imply with higher revenue guidance, we expect to achieve higher levels of absolute Service EBITDA than we expected at the beginning of the year.

And with our Capex commitments, we had guided to 7% to 9% at the beginning of the year, BAU including investments, 12% to 15%. Again, we are running ahead of guidance due to some delays and CAPEX as well as optimisation, and are running at about 6.3%. Therefore, we are revising full year guidance and improving it for BAU to 5% to 7%, and including investments, to 9% to 12%.

So with that, and with that revision of guidance, we would also like to establish that in line with DARE+ where we are focused on new growth initiatives, new platforms, we are also writing off some of our legacy assets, which we intend to do in 4Q2022, as well as writing off Strateq's US healthcare business. And, as mentioned, those are things that we will execute on in 4Q2022, ahead of next year. So with that, I will pass on to Dennis for slide 7.

Dennis Chia: Thanks Nikhil. And good evening to everyone. So as a recap, our 3Q2022 Service Revenue was \$482 million and for 9M2022 it was \$1.353 billion. Our EBITDA for 3Q2022 was \$110 million, and for 9M2022 it was \$339 million. This translates into 23.2% Service EBITDA Margin as Nikhil has highlighted. Our Net Profit Attributable to Shareholders, for 9M2022 is at \$88 million, translating to 5.1 cents on the EPS basis. Our Free Cash Flow for 9M2022 is \$116 million, translating to 6.7 cents on FCF per share basis. We ended 3Q2022 with \$496 million of cash on the balance sheet, bearing in mind that we have used about \$220 million of cash to redeem our bonds, which matured in September 2022. And our net debt to EBITDA leverage ratio remains very healthy at 1.39 times. And with those highlights, I pass the ball to Johan for consumer highlights.



Johan Buse: Thanks and a very good evening, everyone. I'll zoom in on some things which were not mentioned before. I think if you look at the ARPU for Postpaid, healthy trending upwards mainly driven by roaming as mentioned earlier in Value-Added Services. Solid growth in terms of customer base over the quarter, +26,000, both driven by the StarHub brand as well as the giga! brand and we have been managing churn very tightly with 0.8% on mobile, which in this competitive market is a good achievement.

Prepaid ARPU is flattish. However the Prepaid revenue QoQ has been increasing on the back of more tourists since it is being sold to incoming tourists in the market; which is promising and we expect the trend to continue. So that resulted in a 6.5% revenue growth on both Prepaid and Postpaid from [inaudible]. If you look on an annual basis Prepaid is a negative, of course, Postpaid is positive. And data usage continues to increase. We've got 14.3Gb in 3Q2022, and you can see in the slide the corresponding numbers to the previous quarters. So if we then move forward to Broadband. Broadband steady quarter there - \$34 ARPU, flat, base increased both on the StarHub side as well as on the MyRepublic side, which is a very good achievement and churn is very promising, very low at 0.6%.

The marginal decrease in Broadband revenue in 2Q2022 to 3Q2022 is mainly driven by competitive developments, and promotions, which were amortized. But if you look at YoY, we have very solid 28.2% growth in terms of revenue. And again, revenue growth is being recorded on both sides being MyRepublic and StarHub. And we did see a very strong uptick in last quarter of customers moving, trading up to the 2Gbps plan. So that leaves us with Entertainment.

And if we move to Entertainment, you will see that Entertainment had a very strong quarter. First and foremost, the ARPU increased to \$35. That is not only driven by the Premier League subscription, which we introduced, but it's also the effect of more customers taking more content passes from StarHub. And on the back of that, we did see an increase as well, in terms of the number of Entertainment subs. We welcomed close to 500,000 Entertainment subs, and we managed the churn rate which continues to be low at 1.1%. Now, if you look at the segment revenue, almost 18% YoY and just on the quarter, over 12%. And that is, as mentioned earlier, driven by a larger customer base, but also more customers buying more content from us. So on that note, I'm going to hand over to get Kit Yong who will take you through the Enterprise performance for the quarter. Thank you.



Tan Kit Yong: Right, thank you Johan. Now coming to the Enterprise business, it grew 16.7% YoY. To break it down, Network Solutions grew 6.6%, and is contributed by higher Managed Services and IT Services that we provide, and also partly from MyRepublic Broadband. When it comes to Cybersecurity Services, revenue is flat. For Regional ICT, because of the consolidation, that's why we see a higher revenue growth. Our next priority is to consolidate and drive synergies in the consolidated entities of Cybersecurity and Regional ICT Services. Right, with that, I hand it back to Nikhil.

Nikhil Eapen: Yes, and just in closing, I would like to flag for all of you, and invite you to our Investor Day to be held on 7 December, where we intend to run through our progress on DARE+, in terms of product, in terms of milestones, on backgrounds, as well as in terms of where we are tracking DARE+ financial outcomes. And also give you some demos, and outline some of the cool new products that we have launched and will be launched. So with that, I guess I will hand it back to Amelia.

Q&A

Amelia Lee: Thanks Nikhil. We'll now open the floor to questions. So to join the question queue, either click on the raise hand button or indicate your name and organization in 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 management. Okay, first up, we have Foong.

Choong Chen Foong: Okay, good. Good evening, everyone. Thank you so much for this conference call. A couple of questions from me. I want to start off with the Mobile business. The ARPU for Postpaid rose pretty nicely on a QoQ basis. Can you tell us how much of that was due to roaming recovery? And how much of that was due to VAS, if you could break that down? And where are we now in terms of the roaming ARPU versus pre-COVID levels? That's question number one. Secondly, for the Entertainment business, how many Entertainment subs that we managed to grow during the quarter it was through the signup via the EPL content, and how effective was the bundling strategy in pulling through more Mobile and Fibre Broadband subscribers?

And also on the Premier League contribution, can I just clarify whether the revenue has been fully included on a full quarter basis for the 3Q2022? Or are we only expecting a full quarter contribution in



4Q2022? And then my third question is on your debt – what percent of your debt is floating rate? And lastly, on your Capex, you've guided for lower Capex even for BAU. What is the reason for that? And do you think that 5% to 7% is a sustainable level for the long run? Yep, those are my four questions. Thank you.

Johan Buse: All right. Thank you very much Foong for the questions. I will take questions in my category, and then I'll hand over to Dennis for the questions related to Capex. So in terms of PL contribution for the quarter, it's not a full quarter. It's basically August, for this quarter plus last September, so it's part of the quarter. So that's, that was an easy question. So hopefully clarify that for you.

Then in terms of the subscriber acquisition structure, obviously, you will understand that quite a lot of that is related to confidentiality commercially, but I will try to give you nevertheless, a bit of a flavor in terms of how things are moving. As you know, this is the first time that we're offering Premier League in Singapore on an OTT basis. So consumers have a choice to either bundle or take standalone, we sold the both tracks very encouraging with very promising uptake. And then also, we saw a very strong uptake, actually, on the Enterprise side, something we rarely talk about. So we see that as a very encouraging upside. Now, the interesting side effect of that is that we saw more customers than we expected, taking additional content passes. And that has been very accretive to the ARPU – to the earlier question you had – as well as the, of course total revenue because of the subscriber increase.

To move to the Mobile, roaming levels for Consumer and Business are a little bit different. But if we look at Consumer, it has been trending very well. In terms of the exact percentage compared to pre-COVID, I could say we are crossing nicely in the right direction. Obviously, some key countries, as you realize are still closed, so that is missing, and I think that's corresponding to that. The ARPU uplift, a majority of it came from Roaming. And some of the offsets are [inaudible] on the data access usage, as you will understand in this market, that's very generous data bundles that continues to come down. So the ARPU uplift was majority coming from Roaming. So hopefully that gives you a bit of a context and to the question on Capex, I'll hand over to Dennis. Thank you.

Nikhil Eapen: But actually before we do, perhaps Kit can elaborate on the Enterprise roaming.



Tan Kit Yong: Sure, for Enterprise Roaming itself, we are seeing growth however it is not high growth yet. Business travel is not pervasive yet. We are still seeing the change of patterns of usage of roaming as well, going from Voice to Data. So, these are the new ways of using Roaming for the Enterprise user, which we are closely tracking/monitoring usage changes over time. Right with that, I hand it back to Dennis.

Dennis Chia: Hi Foong. So, on your question on the debt, as you may know, we have a couple of tranches of 10-year bonds and a perpetual, those are all fixed coupon rates and all of them are below, south of 4%, in terms of the coupon. So, all those are already hedged and fixed. So, if you look at that proportion and consider all of that debt, as a total of our gross debt, slightly above 50% of our debt is actually on fixed rates, if you use that definition. Rest of them on revolvers and the spreads have been fixed with obviously and negotiated with the various lending institutions. So we are fairly well placed in in light of the current interest rate environment.

Amelia Lee: Dennis, one more question on the Capex BAU guidance.

Dennis Chia: Okay. So if you look at the Capex or the BAU run rate Capex on a steady state basis, we continue to explore ways of how to optimize that spending level, particularly on our legacy systems both on 4G networks, as well as our IT system so that on a steady state basis with our now achieved 9M at 6.3%. And we believe that at 6% to 7% level will be where we will be managing the business on a steady state basis. Of course, we have ongoing transformation investments, including 5G investments, and IT transformation investments, as well as network transformation investments which we expect will yield us the outcomes in a couple of years. And those investments will obviously be on top of the BAU Capex. But when we reach steady state, it should be well within 7%.

Amelia Lee: Okay, I hope that answers your questions Foong.

Choong Chen Foong: Yes it does. If I can just have A quick follow up, right. So, for the DARE+ investment, as you mentioned, there are some delays in Capex into next year. So, generally would it be right to say that this year is 9% to 12%, including investment, and next year, based on that delay, it should be around 12% to 15%? Is that the right way to look at it?



Dennis Chia: So Foong, as part of our normal practice, and usual practice, we will be providing guidance for FY2023 when we release our full year results for FY2022, in February of next year. So we will provide that exact guidance at that point in time because we will, as an ongoing initiative, continue to rationalize the level of investments that we would need to make both on a steady state basis as well as our DARE+ investment so that at that point in time, we will be in a much better position.

Choong Chen Foong: Yup, okay, understood.

Dennis Chia: We'll provide guidance, but you know, in exact response to your question Foong, you are right to say that some of the investments will slow into FY2023, which represents a slight delay from FY2022. But in terms of magnitude, we'll provide that guidance next year.

Choong Chen Foong: Okay, and thank you so much, Dennis. And everyone else.

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

Sachin Mittal: So my question is, how much out of the \$270 million investment have we done? It seems very little based on 3Q2022 results, very little has been done. What is the cause of this delay? That's question number one. And question number two, is that earlier, we are expecting majority of \$270 million investments to be front loaded in FY2022. So the question is, is there a change to the \$270 million number? Or is there a change to your investments, does it mean the bulk of the investment will fall into FY2023 now? And lastly, does the PL cost change the equation? Or my guess is it was not part of the \$270 million investment? Or could you clarify if that has changed the equation for you in terms of front loading or not front loading? Thank you.

Amelia Lee: Dennis?

Dennis Chia: Okay. Hi, Sachin. So I'll answer your question in regards to the \$270 million. You're right in saying that, a bunch of the contemplated investments for the \$270 million, which were approximately about 50% of that number, which was intended for FY2022, a portion of it has been delayed into FY2023.



This represents two prongs of that investment. One is in relation to IT investments. As part of our transmission projects, the capitalised portion of the initiative. There are various deliveries attached to milestones of that transmission program and they've experienced a slight delay in terms of one quarter of delays. So that flows into FY2023, so that portion of that investment will be delayed into FY2023, but it's not a massive delay. So the second one is in relation to the timing of certain rollouts of our 5G network. So that's also something that we have actually achieved full compliance, but we are also looking to increase coverage going into FY2023 and in early part of FY2023.

So those will catch up with us in terms of investments in early FY2023. So, the exact direct answer to your question is a bulk of that \$270 million will therefore be incurred in FY2023. And some part of it and residual amount in FY2024, in terms of the early part of FY2024. In terms of your second question on Premier League. You know, we had contemplated a whole bunch of outcomes as part of our \$500 million outcomes for DARE+. As a recap, we guided the market in November of last year, that we will be achieving outcomes in terms of margin accretion from adjacent and new businesses of \$220 million and cost savings of \$280 million. That was the guidance we gave at that point in time. The Premier League, content costs and the margin contribution from that is adjusted against the cost savings target that we had provided to the market. And we are maintaining that guidance at this point in time in terms of the overall \$500 million of outcomes that we will be achieving as part of DARE+. So that is part of what we will be providing, an update on our Investor Day on December 7. But the short answer is that we are holding true to the DARE+ outcomes in the total sum of \$500 million.

Amelia Lee: I hope that answers your question, Sachin?

Sachin Mittal: Yes, that's very well, thank you.

Amelia Lee: So, as a reminder, you know, to join the question queue, you can click on the raise hand button.

Nikhil Eapen: I think Arthur had a question.



Amelia Lee: Yeah, but he put it down. Arthur, we are happy to answer any questions that you might have.

Arthur Pineda: Oh, my question has been asked that's why.

Amelia Lee: Sachin, you have more questions?

Sachin Mittal: Yeah, just in case, since I got the chance. I'd like to ask this question. Because you haven't changed your EBITDA margin guidance. You know, 20% has been kept intact, despite 23% achieved in 9M2022. If you just do the maths, that will that forecasts are very very low Service EBITDA Margin in 4Q2022. Is that right to thinking about it, or you are being extra conservative, you know, and want to surprise the market on the upside?

Amelia Lee: Dennis, this question is for you.

Dennis Chia: Thank you Amelia and thank you Sachin. So yeah, if you look at 4Q and historically, if you look at our performance for 4Q, we typically incur relatively higher costs in 4Q compared to the rest of the quarters. And that is historically our operating trends. Case in point, we would typically incur a whole bunch of marketing and promotion costs as we exit the year and prepare for product and service launches into FY2023.

This is the same that we're contemplating for this year. There is World Cup that we're launching in 4Q of this year, the impacts of which have been taken into 4Q2022. The full quarter of the Premier League impacts are also contemplated in 4Q. And there's a whole ambit of transmission costs in relation to the IT OPEX, in relation to IT licenses that we expect to incur in 4Q and which are significantly relatively higher than the rest of the quarters.

So all of those considerations have been taken into 4Q as part of this guidance. We are of course, you know, as always looking at all our cost line items and seeing how we can manage that. There's no intention to surprise on the upside, intentionally. But, you know, management's efforts to manage what we can incur discretionarily is something that we'll continue to do as part of our normal operation.



Nikhil Eapen: Yeah, perhaps I can add, and this was one of your prior questions, which is why are we delayed on some of these transformation milestones, right? On the transformation spend, it's not our intent. We're not delayed that much. We're delayed kind of three plus months on some of these transformation milestone sets. That's not a big delay in the context of transformation. But they do crossover into next year as a result. So one of the things where we're kind of manically focused on away from just, you know, percentages and numbers is actually executing on these milestones as fast as we can. So to the extent that we can bring things forward, we absolutely will. So, yeah, that's another dimension.

Sachin Mittal: Got it very clear. Very, very clear.

Amelia Lee: Thanks Sachin. Anybody else has a question for us. Hussaini?

Hussaini Saiffee: Yeah. Hi, good evening everyone. Basically, my questions are mostly housekeeping in nature, which is just basically wanted to understand why the Premier League expenses booked into 3Q2022 is mentioned or you know, is called one-off? And the second is on the Network Solutions revenues, which has increased at a very good pace in on a QoQ basis. Just wanted to understand what drove that? And how should we see it going forward? Thank you.

Amelia Lee: Okay, so maybe Dennis, you take the first question on the Premier League one-off expenses, and then maybe Kit, you can take the second one on Network Solutions.

Dennis Chia: So staying on your question on the one-off Premier League, obviously, there are recurring costs on the Premier League, namely with relating to the content, however, there are relatively higher expenses incurred in respect of the launch of Premier League, which is at the inception of the season, in 3Q. So those are therefore considered one-off. So that's why we reflect that as one-off, and because they are relatively higher, we don't expect to incur them on a recurring basis.

Amelia Lee: Kit?



Tan Kit Yong: So for Network Solution itself. See the YoY growth is on the back of strong demand from our clients in Managed Services and IT. Right, and we are seeing a better order book as well, and we can see that it's sustainable, on the back of a chip shortage so they are actually ordering in advance, but it takes a longer time till delivery. So we are able to see a better sustainable in terms of revenues coming ahead for us.

Amelia Lee: We hope we answered your questions.

Hussaini Saifee: Yeah thank you very much.

Amelia Lee: Thank you. Arthur, you finally have a question for us.

Arthur Pineda: Yeah, just to clarify on Hussaini's question on the EPL one-off costs. So basically, these have been booked into the 3Q. So we should see a reduction of that into the 4Q. Whereas you're recognising the revenue bookings from the EPL subscriptions, so should that then be a positive margin impact, becoming more visible into the 4Q? Is that how we should look at this?

Dennis Chia: So Arthur, if we look at the one-off costs, relation to the launch of the Premier League, yes, those will not recur in 4Q. We have two months of impacts from the Premier League, starting from August. So there's a two-month recording of the revenues as well as the content costs in relation to Premier League in 3Q, and a full quarter of the revenues and the costs in relation are recorded in 4Q. Obviously, for confidentiality reasons, we do not provide a breakdown of revenues, and costs in relation to specific content. We look at it as an overall bundle in our entertainment proposition. And as Johan has highlighted earlier, the entire entertainment proposition and what we deliver value to our customers is delivered on a profitable basis. So that's something that we would like to emphasize.

Arthur Pineda: Understood. Okay. Thank you.

Amelia Lee: Foong?



Choong Chen Foong: Yeah, if I can just ask one further question, right, with regards to the DARE+ business review that you mentioned during the presentation? Can you give us an idea as to, you know, maybe is there a range of, in terms of monetary value, the write offs for these legacy assets that you will be booking in 4Q? And in terms of the implications of that, right? Would it have any implications for dividends this year or next year? Is it so big, that it might affect your retained earnings, and therefore, you know, may also affect your ability to pay out dividends?

Amelia Lee: Dennis?

Dennis Chia: So in terms of the magnitude of the write-offs, you know, it will not erode our net profit for the entire year in totality, so I'll leave it as that for now. In terms of these write offs with [inaudible], so those are as one offs. So very clearly, in our dividend policy, we have committed to pay at least 80% of the net profit after tax, excluding one-offs and non-recurring items. So all of these write offs that we're contemplating for, to pass through in 4Q and the start of our full year results, will not impact the dividend that we are looking to pay for the full year of FY2022. And in terms of our retained earnings, there's more than enough capacity to pay dividends, in terms of the retained earnings that sit on our balance sheet and the contemplated write-offs will not impact this adversely and our dividend-paying capacity.

Nikhil Eapen: So to add, the exact dividend policy is 80% of net income excluding write-offs or five cents, whichever is higher. And we remain committed to that dividend policy and these write-offs will not have any impact on that.

Choong Chen Foong: Okay, understood. Thanks. Thanks, Nikhil and Dennis.

Amelia Lee: Thank you. Okay, I'll give it a few more minutes for our next question. Last call for questions.

Nikhil Eapen: Okay, thanks all for being very efficient. Actually, there were a lot of questions of very high quality questions. So thank you for that.



Amelia Lee: So thank you, everybody, for spending your evening with us. And as usual, you know, feel free to reach out to me if you have further questions. And until next quarter, please take care. Bye bye.

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