



StarHub Ltd – 2H/FY2021 Results Transcript

11 February 2022 | 6.45pm SGT

StarHub Management Representatives:

Chief Executive	Nikhil Eapen
Chief Financial Officer	Dennis Chia
Chief, Enterprise	Charlie Chan
Chief, Consumer	Johan Buse
Head, Investor Relations	Amelia Lee

Start of Transcript

Amelia Lee: 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 second half and FY2021 results conference call. We have a larger group than usual today so we would greatly appreciate if everyone could mute yourselves when you are not speaking to minimise interruption during the call. So this evening we have with us our Chief Executive, Nikhil Eapen; Dennis Chia, our CFO; Charlie Chan, our 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 Johan and Charlie on business highlights. We'll open the floor to questions thereafter. Nikhil, over to you please.

Presentation

Nikhil Eapen: Thank you Amelia and thank you everyone for joining us this evening to talk about 2021 and the second half of 2021, which was a milestone year for us. First as I always do, I would ask you as we go through these results to keep in mind a few things. Number one, for accurate comparison, these numbers exclude the effects of JSS. Number two, this was not an easy year. We had escalating hyper-competition, lower pricing and price competition continues. And number three, when you compare 2020 and 2021, you would recall that in 2020 we had three and a half months of roaming pre-COVID, and in 2021 we did not. But we hope for a recovery.



Now first of all, both revenue and service revenue rose year-on-year in fiscal 2021 as well as in the second half. And this was due to growth, primarily in Broadband, Ensign, and also in Strateq, offset by the roaming that I talked about within Postpaid but also some erosion in Prepaid and Network Solutions. But nett-nett up moderately. Service EBITDA grew quite well year-on-year in fiscal 2021, and in 2021, it closed at \$480 million. Now for the second half and 4Q2021, the growth rates were actually even higher as we grew margin against a stable and improving revenue base. Turning our attention to Net Profit – Net profit for 2021 grew strongly over 2020. And in 2021, it hit almost \$150 million and up 17%. The second half was also up strongly, NPAT was up 27.5%. And last, whilst not on this page but Dennis will talk about, I will touch on free cashflow generation which for 2021 was extremely strong. With strong operating cashflow offset by higher Opex payments. We generated free cash flow of \$485 million for 2021, which was up 25% and that consequently reduced our leverage down to almost one time. In closing for this page, I would like to say that this positions us very well to take on the upfront transformation expense for DARE+, that we have been talking about, in 2022, as well as continue our dividend obligations and as well as continue our M&A programme. So with that can we move to the next page and we can touch on our segmental numbers which Johan will elaborate on with a little more detail.

Mobile was down year-on-year due to roaming erosion and Prepaid erosion. But as you can see, down only marginally for the second half, as we grew Postpaid revenue as you know, continuously over the past three quarters with continued subscriber addition across both the StarHub brand as well as giga! continued ARPU increase, maintaining very low churn. Now, this driving of ARPU is a good leading indicator of our infinity play strategy, our DARE+ strategy, as we were able to drive 5G adoption, consumption of OTT and other services on Mobile, to drive as we have always been talking about – not just connectivity – but connectivity experiences.

Shifting to Broadband, we grew Broadband strongly over FY2021. Up 10% year-on-year, driven by an ARPU increase was even higher at about 13%, and again very low churn. This ARPU increase was driven by strong adoption of Infinity Play OTT streaming, which in turn drove upgrade to 2 Gbps packages. One of the other points Johan will talk about is that we are done with the elimination of discounted subs, and looking forward are now positioned to grow not just ARPU but subs - but judiciously in an economic manner. The last point is that we expect to close the acquisition of MyRepublic Broadband within 1Q2021. So these numbers going forward will be reported with the inclusion of MyRepublic Broadband



and you will see that they are all materially higher. Shifting to Entertainment, revenue was down 4% year-on-year, due to erosion in linear PayTV, offset by rising ARPU, and a growing hybrid TV+ base. ARPU continued to grow year-on-year with an increasing skew towards HomeHub bundle plans, while churn continued to moderate downwards. Overall, when you look at Entertainment, subs grew despite the linear TV erosion, hybrid TV+ doubled, OTT on Mobile and Broadband grew five times. And this drove consumption and upgrade on 5G for Mobile and 2 Gbps plans on Broadband, which are not reflected in the Entertainment numbers but reflected in those segments. Total Entertainment subs as a whole increased due to the factors that I have been talking about.

Enterprise continued to grow – ending 2021 at \$706 million, up 9% year-on-year. Cybersecurity grew 22% and we consolidated for the full year Strateq which contributed \$76 million of revenue and grew modestly in tough circumstances. Network Solutions was down year-on-year by about 7% but we did see quarter-on-quarter stabilisation since the second quarter. This is a business which we talked about that we are slowly pivoting towards a convergence of Cloud, Cyber and Connectivity, bringing together the power of our platform. With that I will hand off to Dennis to talk about our Financials in a bit more detail.

Dennis Chia: Thanks Nikhil and good evening everyone. Thank you for joining us. Moving on to slide 7 – a few key highlights. On the back of the walk-through of the segmental revenues, I just want to highlight that in these numbers for 2021, we have registered improvements in margins on the broadband line of business, in terms of the transformation of the operating model for the broadband line. Notwithstanding the decline in TV revenues, our TV line of business registered improved margins as a result of the rationalisation of the content cost as well. In terms of all the other lines of business, we continue to negotiate hard in terms of the inter operator tariffs and registered savings in terms of traffic cost as well. Along with that our ongoing disciplined cost management that we have undertaken as part of DARE 1.0, which we completed the three-year journey in October 2021. We did register savings in almost all discretionary lines of operating expenditure, and these are reflected in these numbers.

The net profit for the half year therefore as \$81 million, representing 27% increase on a year-on-year basis. For the full year, it was \$148 million, representing about 17.5% increase on a year-on-year basis. These numbers are compared to the 2020 numbers without Job Support Scheme grants. \$148 million



of net profit attributable to shareholders represents 8.1 cents on the EPS basis. Our full year free cashflow was \$485 million or 27.9 cents per share of free cashflow.

Moving on to the next slide. As a result of the strong cash generation from operating activities, and the balance sheet of cash and bank balances of \$832 million, our net debt to EBITDA is 1.04 times. The cash from operating activities generated in 2021 versus 2020, was 13.5% in terms of year-on-year increase. And if you look at free cashflow which includes the capital payments, it was an increase of 25%. This is also as a result of some timing differences in terms of payment and capital expenditure commits which will be reflected in 2022. And we will take that through when we go through the guidance. With that I will pass the floor back to Nikhil.

Nikhil Eapen: Thank you Dennis. Looking at our performance and our guidance – we exceed our guidance on all fronts. And infact, also our revised guidance. So on revenue in February 2021, we had guided to “stable revenue” but we grew slightly beating that by 1.4%. On EBITDA margins if you recall in February, we guided initially to “24%-26%”. We raised this after our Q3 earnings to “at least 26%” and are now ending the year at almost 30%. So as Dennis talked about this reflects the operating efficiencies, cost discipline as well as some delay in anticipated DARE+ costs, which we will be incurring in 2022. Now on Capex, in February we initially guided to “9%-11%” of revenue. We upgraded this to “7%-9%” of revenue after Q2 and have ended the year under 4%. So with this, and the net profit and the cash flow that we generated, we are declaring a 2021 dividend of 6.4 cents in line with our stated policy to pay the higher of 5.0 cents or 80% of net profit. So we are quite pleased with this comprehensive set of results across revenue, EBITDA, free cash flow, bringing our leverage down to 1.0 times as we enter 2022 and an investment phase for DARE+. So handing off to Johan to talk about Consumer in a bit more detail.

Johan Buse: Good evening to everyone. I’ll go and take you through Mobile first, then Home Broadband and then I’m going through Entertainment. So, for Mobile, you can see that we have been travelling quite nicely north in terms of ARPU. ARPU has been benefitting a little bit from higher roaming as well as higher uptake of Entertainment VAS and we did see on the other side a minor impact from lower plan subscription. Those are mainly due to SIM Only. We still see very good traction on 5G which helps us quite a fair bit. We’ve added 26,000 customers to the base. Quite a few come through the giga! customer base but also our StarHub brand that have been doing quite well. We believe that we are in very good



shape in terms of 5G – we have clocked over 300,000 customers on our 5G plans and network end of 2021. Churn rate, year-on-year, lower 0.8%, which in light of the hyper-competitive market it is a great achievement and is lower than last year.

Prepaid is more challenging market segment. Two reasons for that I would say. Number one – quite intense competition in terms of Postpaid SIM Only. Second is the lack of tourist and workers coming into the country. ARPU nevertheless remained stable and as you can see, we added 10,000 customers to the Prepaid base in Q4. So that shows that in Q4 we had a 3.1% uplift in terms of revenue, and the data usage on the back of that continues to grow. We actually ended up at 12.7G per sub on average in Q4.

Moving on to Home Broadband. Home Broadband had a real strong performance in 2021 as Nikhil already alluded to. We increased ARPU. There is an accounting adjustment for Q3 and Q4 if you would take that into account, the ARPU would have been flat quarter-on-quarter (“QoQ”) around \$33, which is a solid performance. It is noteworthy to see that the decline rate in terms of subs has subsided and we only lost about 1,000 customers. We are coming to the end of that journey and we expect growth going forward. The churn rate remains low at about 0.7%. If you keep in mind the accounting adjustment for ARPU, then obviously revenue is the same story. That would be flat quarter-on-quarter around \$49 million and that basically represents a 7.4% growth compared to the year before which is a good performance.

Entertainment - we are also growing ARPU. The reason for that is that we are seeing more customers taking on higher bundles, 2 Gbps bundles, and more content. That is testimony to our strategy where we believe in hybrid which is linear and OTT jointly together, so that is benefitting our ARPU. The subscriber base on linear TV continues to decline although the decline is getting lesser and lesser. And that is something you can see represented in the percentage which is coming down. And on the other side, you can see that there is very strong growth in OTT subs. We ended fourth quarter on 444,000 Total Entertainment subs. So despite that, you can see we had a solid set of numbers for TV and Entertainment \$44.5 million in revenue which is 1% lower compared to the previous quarter. That is mainly due to lower commercial revenue and advertising spend. So that’s from my side in terms of consumer and I will hand you over to Charlie for Enterprise.



Charlie Chan: Thanks Johan. As Nikhil shared, Enterprise ended 2021 with year-on-year growth of 9.4% led by Ensign and Strateq with its first full year of consolidated results in StarHub. The Network Solutions segment maintained two consecutive quarters of growth driven by our voice and data services. On a year-on-year basis, it declined given a large one-off data and internet transaction in 4Q last year. And overall for FY2021, from Managed Services and Voice Services.

Cybersecurity came in lower quarter-on-quarter given a major project delivery in 3Q2021, while our year-on-year grew strongly as we saw good traction in our overseas markets. For example in Malaysia's financial services sector. Finally, our Regional ICT Services unit was lower quarter-on-quarter, given one-off data relocation work done in 3Q of 2021. In its first full-year with StarHub, Strateq clocked almost 20% of quarterly growth year-on-year, from our increasing focus in data analytics, engineering and solutions. And that wraps up the picture for the Enterprise business. I will now hand it over to Dennis for the next segment.

Dennis Chia: Thank you Charlie. This is a recap on DARE+. This is something we unveiled during our Investor Day in late November of 2021, having completed our DARE 1.0 in October of 2021. At that time we shared that we were going to be looking at upfront investments to generate \$500 million of margins and cost transformation outcomes over the five year period. This constitutes \$220 million of margin uplifts coming from increased revenues and growth initiatives as well as \$280 million of further cost transformation initiatives coming primarily from our digital transformation journey. The three-year investment which will be front-loaded primarily in 2022 and 2023 would be approximately \$270 million and this was something we guided at that point in time. And we then expect to generate \$80 million of after tax margins which will go to our bottom line on a steady-state basis starting from FY2026.

Moving to the next slide. In recognition of the significant investments that we are making for this digital transformation journey and our ongoing growth initiatives as part of DARE+, also in consideration of the higher utilities costs that is surrounding our current operating environment, and our ongoing 5G rollout, we are guiding to at least 20% service EBITDA margin for FY2022, on the back of at least 10% growth in our topline, which is the service revenue. This takes into account that we will be consolidating for the full year – JOS which we completed on 3 January 2022; and the MyRepublic transaction which we also expect to complete sometime in Q1. We also continue to expect growth in our cybersecurity business and in



some of the other lines of business with a modest recovery in roaming revenues assumed in these numbers. For FY2023 we expect the outcomes from DARE+ to start coming through. This would be the start of the outcomes that we expect to generate and achieve, and the result of that would be an uplift in margins by 3% as such we are providing an outlook of at least 23% Service EBITDA margin which represents an improvement from FY2022. What we endeavour and target to achieve would be an absolute EBITDA dollar generation in FY2023 which is approximating the level that we generated in FY2021. As a recap, the EBITDA we generated in FY2021 on a total basis was approximately \$500 million and we endeavour to achieve that \$500 million or better in FY2023. If you look at capital expenditure, we are looking on a business as usual on as base basis to maintain the levels of capital expenditure between 7% and 9% on an ongoing basis. Bearing in mind that we ended FY2021 on a relatively lower number of 4% due to timing differences in terms of capital expenditure commitments. We expect to incur approximately another 4% of IT Transformation or Digital Transformation investments and in terms of our digital platforms that we intend to roll out. This therefore brings our Capex guidance for FY2022 and FY2023 to be approximately between 12%-15%.

In terms of our dividend policy, we will maintain our higher of 5 cents or 80% of the net profit that we are generating in each of the years of FY2022 and FY2023. We therefore believe that taking into consideration the plans and achievements and the targets that we expect to get from DARE+ that this dividend will be sustainable and in fact perhaps even better in the coming years. As a result for the next two years we are providing assurance that we will pay at least 5 cents or 80% of the Net Profit. We that I pass the floor back to Nikhil to articulate the priorities that we have as management for 2022.

Nikhil Eapen: Thank you Dennis. Our agenda setting for 2022. Number one – Infinity Play is something which we talked about a lot. And this journey is already well underway with 10 OTT streaming platforms, Cloud Gaming, and last week we launched our consumer cyber-play. You should expect more OTT, more gaming, more product, more verticals and all this pretty eminently over Q1 and Q2 and much more to come over the year. Number two – we talked about Super App and full self-serve digital engagement. Now we have a world-class digital platform already, giga! which we are focused on growing even more. But we also, are as we spoke about, launching a Super App on the Cloud IT stack with an overlay to enable real self serve across the entirety of Infinity Play, and drive upsell with new product and existing product and keep adding product on a rapid cycle.



Number three – we talked about Enterprise converged capabilities. Now, we are the only play in Singapore or the region, in Telco or outside Telco to have a leadership businesses in each of Cybersecurity, Cloud and Connectivity – the 3C's as we like to call it. So we are building digital platforms that are bringing together all three, which we intend to scale both in Singapore and across the region. Now of course 5G is key to all of the above. We are focused on our network platform, a super fast network, a superior network, to give our customers access to a rich digital experiences, not just connectivity, and also transformational digital services anytime, anywhere, in the home, in the workplace, and out of the home. And then of course, everything we wanted to do, is with efficiency, is because everything that we are doing from product to engagement to IT to systems, is focused on digital and cloud. So we will realise natural efficiencies and cost savings alongside and together with the growth to get to that \$80 million of after tax profit that Dennis talked about.

And then last but not least, we have done M&A well. We will continue to do M&A as a cornerstone of our growth focus. Now this is for consolidation in these segments, to grow footprint and scale, to grow capabilities, to drive digital product and platforms across our base, and of course to harvest efficiencies and synergies and realise value for our shareholders.

So with that in closing, I'd like to finish and hand over to Amelia to open up for questions. And I see Sachin has raised his hand already, maybe half an hour ago.

Q&A

Amelia Lee: Thank you Nikhil. I will now open the floor to questions. For the benefit of everybody – to join the question queue, please click the raise hand button or indicate your name and organisation in the chat box. We will call upon your name when it is your turn to speak, and then you can unmute yourself and converse directly to senior management. So Sachin please get the ball rolling. Please unmute yourself.



Sachin Mittal: Hi thanks for the chance. My question again is an often asked question on dividend policy. When you say at least 80% of the net profit excluding non-recurring and adjusted for one-offs. Could you explain – would that exclude some of the extra Capex, depreciation, extra Opex and some of these issues which are here, how to define recurring profit used for dividend calculations. That's number one.

Number two question is when I look at your Capex and the Opex for digital transformation, there's a 29% margin you are guiding for 20%, that's about 9 percentage points impact. Talking about 4-5 percentage points rise in Capex so we talking about 14% of your revenue, which is about \$2.2 billion kind of range. That's quite a bit higher than your \$270 million, which is the digital transformation over multi-years. Are you saying that everything will be done in just one year, and nothing left? But then again I feel Capex being higher than FY2022 could you update on the change in plans, digital transformation costs. It seems pretty high at FY2022 / FY2023 based on your outlook and doesn't go with the \$270 million of additional costs.

Nikhil Eapen: So maybe I'll start, Sachin, and give you a simple answer on the dividends and Dennis can take the more complicated pieces with respect to some of the adjustments which you were talking about. And also carry on into the transformation expenses. So on the dividends the way what we see it is pretty clear and simple. We are entering into an investment phase. But we intend to maintain our dividend commitment and keep the same formula. And the formula is, as you know, the higher of 5 cents or 80% of the net profit, whichever is the higher. So the last year, for FY2021, we are declaring 6.4 cents. We made \$485 million of cash flows as Dennis had talked about – that's 27.5 cents per share. This is combined with one-time leverage, which we ended at the end of the year. So we are maintaining our dividend commitment to pay no lower than 5 cents. We will maintain that over the next two years. We are highly confident of being able to fulfil that commitment and given the strong cashflows over the year, and the difference between the 27.5 cents and what we are paying in 6.4 cents is more than enough to fund the dividend over the next two years in addition to the cash balances that we have. So that's the simple answer. The dividend remains sacrosanct with the commitment strong. And with that I will hand off to Dennis to delve into your question on accruals and non-recurring items, as well as investment costs.



Dennis Chia: So Sachin, in terms of non-recurring costs and income, I'll just give you some examples. For example in 2018 when we undertook a restructuring of our organisation, there would be restructuring provisions that would be required in tandem with that activity, and that's considered one-time. If we've got certain legal cases with settlement expenses related to that, that would be considered one-time. Similarly in terms of income, if we have grants for certain activities that we undertake, sometimes from government organisations, so for those they will be considered one-time. And of course, the Job Support Scheme that we received in FY2020 would primarily be considered one-time as well. So those will be considered examples of one-time items and not considered as recurring and therefore would be backed off depending on whether it is an income or expense item and be added / deducted from net profit to derive the net profit not including the non-recurring items. I hope that answers your question.

Sachin Mittal: Okay, sure.

Dennis Chia: Specifically to the investments for the IT Transformation, the 9% or 10% difference between the margins for FY2021 and FY2020 is not all coming from the upfront investments. There's approximately a 3% decline in margins coming through from increase in utilities cost based on current utilities rates, versus the average rates that we saw in FY2021. So that's a function of the current operating environment and the inflation that we are seeing, and that's been baked into our numbers. There is a portion that is attributable to the digital transformation journey that we are undertaking. And there is a part of the investments coming through from 5G wholesale costs, bearing in mind that the JV that we have with another operator is on a non-consolidated basis, so whatever wholesale cost that we pay for the radio rollout for 5G is considered as an operating expense. And therefore that's been baked into our numbers. So that in combination accounts for the margin re-rating. The other part of it is obviously the mix in revenues. So you do see the mix of revenues and the fact that we are consolidating JOS for the first time this year in 2022, as well as the ongoing increase in Ensign's cybersecurity performance as well as the Managed Services and ICT that we have as part of Charlie's Enterprise business, plus Strateq's ongoing growth in Malaysia as well as the region. It's the mix of revenues that we are seeing in our topline, and that's also accounting for a re-rating in our margins. So that is in relation to the margins.



And to your question regarding the \$270 million of investments, of Capex and Opex, it is front loaded primarily in the first part of FY2022 and some part of FY2023; it tapers down in 2023, a lot of it will be baked in this year.

Sachin Mittal: A follow-up on your first reply – according to what you have told me in the past, it doesn't seem like any of the extraordinary Capex or Opex for the digital transformation is eligible as one-time costs right? Because this definitely not one year. It's at least two years kind of cost.

Dennis Chia: Yup

Sachin Mittal: Yup, ok, got it.

Dennis Chia: In the dividend policy that we have for FY2022 and on an ongoing basis, we have said that we will pay the higher of 5 cents or 80% of net profit. So some of these upfront investments for transformation will be considered one-time, there will be ongoing costs in relation to software licences and so forth. Those are ongoing requirements so those will not be considered as non-recurring.

Sachin Mittal: Nothing goes to FY2024? Everything is kind of done in FY...

Dennis Chia: A little bit may trickle in 2024 but most will be in these couple of financial years.

Sachin Mittal: Got it, thank you.

Nikhil Eapen: Sachin, I think the intent is to take these expenses and spending upfront, while maintaining our commitment to our dividends at 5 cents, and then as we harvest, to hopefully exceed the 5 cents all the time.

Sachin Mittal: Got it. Thank you, Nikhil.

Amelia Lee: Thank you, Sachin. We will now take the next question from Neel. Neel could you please unmute yourself.



Neel Sinha: Hi. Good evening and thank you for the opportunity. Congratulations on the good set of numbers. I have a few questions. The first is on Service Revenues. This second half is up 9.4%. If I had to strip out Strateq and Ensign, what would those numbers be? That would be helpful. And a similar comparison for the EBITDA growth numbers if you stripped out the acquisitions.

The second question I have is 5G subscribers you said 300,000+, but I remember in the 3Q2021 this was the number as well. And yet Johan mentioned that there was about 25,000-26,000 additions, so I am confused. Is it now 325,000/326,000, which is a decent 8%-9% uptick per quarter? What is that number?

The third – Dennis you mentioned that there is an accounting adjustment which explains why ARPUs were up 10% year-on-year but subs down just 3%, and yet revenue down 1.6% – all of that related to the accounting adjustment?

My fourth question on Capex Sachin has already asked. The fifth question I had – Dennis you have about \$220 million due in the course of this year – should I think of this largely as refinancing or will you land up retiring the debt?

And the last question I have is for you Nikhil, \$80 million in Opex to be added with all of these initiatives – is this from the existing portfolio or should I think there is an embedded component of future acquisitions involved in this contribution? Thank you very much.

Nikhil Eapen: So the \$80 million of after tax profit which we talked about as a result of DARE+ is really with the existing portfolio. As Dennis said it does not include material roaming recovery, and it also does not include synergies from the existing portfolio. So it's just the existing portfolio, no synergies, minimal roaming recovery.

Amelia Lee: Dennis could you please take the question on service revenue and EBITDA stripping out Ensign and Strateq.



Dennis Chia: So Neel, if you look at the MD&A and what we reported, for Ensign the revenue for FY2021 was approximately \$270 million. Strateq annual revenue for FY2021 was about \$76 million. So if we add the two components together, it is approximately \$345 million. And that is the number you strip out from the \$1.6 billion that we reported for the full year of 2021. So it does represent – on a base business – it represents a decline in our organic and base business. This is really a function of our ongoing competitive environment that we all have seen. That’s also the reason why we also have diversified our revenue base and undertaken an M&A strategy over the past few years.

In terms of the EBITDA contributions from Ensign and Strateq, these are fairly modest. So there are very low contributions from each of these. In total, out of the approximately \$500 million of EBITDA that we reported for FY2021, the total contributions from both of these is approximately \$40 million. So no more than 10% of the EBITDA comes from Ensign and Strateq. Now you would probably ask why then would we undertake these other additions to our portfolio. We believe that with scale, primarily and predominantly in the ICT business as well as the Cybersecurity business, it would lead to a non-linear improvement in our margins. And that’s what we are building towards as part of our growth. And this is also baked into the \$80 million of ongoing after tax profits that we expect to generate on a steady state basis thereafter. I hope that that answers your question on Strateq and Ensign in terms of your first question, Neel.

Neel Sinha: Yes it does.

Nikhil Eapen: If you refer to the slides on page 14, the slide shows the three segments on Enterprise business so the answer to your question would be – you can look at Ensign Cybersecurity, Strateq Regional ICT. We’re going to be adding JOS to that. But then you will be able to take a look at Network Solutions separated from the other two.

Dennis Chia: Your second question on accounting adjustments, Neel – the answer to the question is a “yes”. It is without these accounting adjustments that ARPUs are flat. These adjustments are primarily what we affectionately call the IFRS 15 adjustments. These were the new accounting standards in terms of how we are required to split the revenues between our lines of business. These accounting adjustments happen from time to time when we get better clarity in terms of how to allocate these as we do roll out



new bundled plans; and as Johan and his team very affectionately and enthusiastically rolls out new plans, my team has the pleasure of figuring out how to allocate these. These adjustments happen from time to time because of that.

Your third question on the refinancing of the \$220 million. You might recall we did the final transaction in the DCM market in 2020, literally on 31 December 2020 – where we locked in a fairly competitive coupon of 2.48% with a debt issuance of \$200 million at that point in time. We raised that money in recognition of the tranche that would be maturing in September of this year. So as a result of that we would expect to retire this tranche with the cash we have on our balance sheet.

Amelia Lee: Neel, does this answer your question before we go to Johan?

Neel Sinha: Yes, there's that little bit about the 5G subs.

Johan Buse: In terms of dynamics, there's obviously quite a few with movements in the base. So where we see an uptake in terms of 5G customers, we mentioned that we've crossed the 300,000 mark, we also see more and more customers opting for the more affordable 4G SIM Only plans. Also in this mix is giga!. That composite drives these numbers.

Neel Sinha: On a quarter-on-quarter, have you seen an increase in 5G subs Johan?

Johan Buse: Absolutely. If you remember well, in the previous quarter we closed around 250,000. So we added around 50,000 thereabouts.

Nikhil Eapen: To clarify, Neel, I think what you mentioned was the actual number we disclosed in the DARE+ presentation which was in November.

Neel Sinha: Yes, sorry.

Nikhil Eapen: So it wasn't September 30. We did say 300,000 so now we are saying over 300,000. But as Johan said, we have grown. We are not disclosing the specific number yet.



Amelia Lee: Actually in November Investor Day, we disclosed over 250,000. So quite a considerable growth in over one month.

Johan Buse: And to clarify Neel, I would say it is a logical thing to happen in Q4 on the back of the new handset launches which were mainly 5G.

Neel Sinha: Thank you gentlemen.

Amelia Lee: We will have Hussaini next please.

Hussaini Saiffee: Hi. Good evening everyone and thanks for the call. A few questions from me. Nikhil I missed your earlier comments. Is it possible to give a bit of a split for organic growth for FY2022. Of the minimum 10% growth you are seeing, what is organic and what is the inorganic bit? That's question number one. Second question, how do you see mobile competition evolving and are we seeing a similar level of aggression from MVNOs or should we see better growth going into FY2022 just from the competition point of view? Then some housekeeping questions, first on spectrum rights. When should we expect the 700MHz payment? And finally on Dennis' comments that on 3 percentage points decline in margins because of higher utility costs, that totals around \$50 million. So are we expecting that kind of increase in just utility cost in 2022? Thank you.

Nikhil Eapen: So lets take it from the top. On the 10% increase in revenue in 2022, that comes from number one – the consolidation of MyRepublic and JOS, and it also comes from growth as anticipated and continuing in Ensign and Strateq. What we have not assumed that we have talked about, is further organic growth from some of the things that we have been doing, but we have not assumed that there is more than a modest roaming recovery, and also what we have not assumed is synergies from the acquisitions that we have made. So hopefully that clarifies your question.

On Mobile competition what we will say is this. The last couple of years have been extremely competitive. We can't really plan for whether, and we don't want to necessarily plan for whether mobile competition recedes or increases. In fact, we plan for it increasing and don't necessarily plan for it to recede. What we are focussed on doing is driving the best connectivity; driving Infinity Play with the best



connectivity to our base; driving 5G adoption and strong upgrade in Broadband through the Infinity Play strategy and therefore taking up consumption and taking our ARPU's upwards. So that's our strategy. Johan can add to it.

Johan Buse: In terms of competition to be expected – market is very competitive at this point of time, we expect it to remain rather competitive. Not to put any outlook on that. We are sticking to our strategy on differentiation and adding value. We are very keen on riding the 5G agenda which we believe is beneficial for customers, both on the Enterprise and the Consumer side. When all things are equal that will stand aside. That's what we do and that's our strategy. And we by the way did some MVNOs exit the market over the last 12 months as well.

Nikhil Eapen: On 700MHz spectrum, I guess it's hard to crystal-ball around this. I think we hope by the end of 2022, we will have visibility on getting the 700MHz spectrum. But then again, it's hard to crystal-ball. But that's the sort of time frame we are thinking about – about a year plus.

Amelia Lee: Dennis would you like to address the question...

Dennis Chia: On the final question regarding the utilities, unfortunately that's the reality that we are facing. Based on the crude oil prices, which is north of \$90 today per barrel, we are looking at approximately 2.5 times increase in unit pricing per kilowatt in terms of the utilities and the electricity tariffs that we are facing based on current rates. They are not looking like they are tapering at any time so we have assumed the current rates versus the average rates that we had recorded in FY2021 for purposes of this guidance.

Amelia Lee: Hussaini, I hope we have answered all your questions.

Hussaini Saifee: Yes thanks for that. Maybe if I can ask just one follow-up; again one housekeeping question on the working capital side. There was a big gain on working capital side. What percentage or what proportion of it going forward could be reversed and what can be a permanent kind of gain?



Dennis Chia: The working capital improvements that we recorded in 2021, I believe are largely sustainable. Improvements in DSOs and BPOs are mechanisms that we put in place to ensure that sustain. So it will be a steady state so it won't see a significant year-on-year improvement nor a reversal of that trend in FY2022.

Hussaini Saifee: Okay, this is very clear. Thank you very much.

Amelia Lee: Next up we have Foong.

Foong Choon Chen: Hi. Good evening everyone and congrats on the good set of numbers. A couple of questions from me. Firstly, on the QoQ increase in Postpaid ARPU, how much of that was due to the recovery in roaming? And I think Johan also mentioned that the increase in ARPU was also due to take up of Entertainment VAS. Can you provide more colour into what that includes? That's question number one.

Second question it was also mentioned that the Postpaid ARPU was somewhat offset by lower plan subscriptions due to SIM Only. And that's despite the higher 5G take-up. Can you tell me what percentage of the subs base is now SIM Only or what percentage of your gross adds is SIM Only. And related to this question, as you see the continued shift of subscribers from Postpaid contracts to giga! and SIM Only plans, I'm wondering what is the net impact on StarHub's revenue and earnings, all else equal. What I see, what you are showing me in the third quarter is that the service revenue impact is actually negative, and I would imagine that you would also have lesser device sales moving from Postpaid contracts to SIM Only. So does that mean that the earnings are also negatively impacted.

And my third question – as you guided previously, the DARE+ benefits only come in the second half of FY2023, so I'm wondering where do you see the service EBITDA margin once the full benefit of DARE+ is realised. Those are my three questions, thank you.

Amelia Lee: Johan would you like to start?



Johan Buse: Okay, I'll take the first two questions. First on the Postpaid ARPU – Postpaid ARPU is a composite of quite a few things. It's a blend of SIM Only, 5G plans and of course in the mix is giga!, and below that you have other bundled revenue, and roaming and VAS. To your question, the plus is somewhat on the roaming side. The plus on the Entertainment side you can guess is coming mainly from what we have bundled with our 5G plans which is Disney. And that's offset to a certain degree with what we call out-of-bundle variable charges which are decreasing. Data bundles have become bigger over time. So that's the level of information I can give you around ARPU.

In terms of the split between SIM Only and devices, typically not the level of information which we disclose. We compete in both areas. What I don't mind disclosing is that interestingly enough, the churn rates are almost identical in both, so I think that's a good indicator. And although maybe the topline revenue on SIM Only maybe a bit different compared to handset bundles, as we call them, with the 5G up take and the pricing strategy that we have pursued for 5G in the mix, that's fairly stable. So that's the flavour that I can give you when it comes to these parameters so hopefully it will give you some direction before I handover to the last question.

Amelia Lee: Foong, does that answer your question?

Foong Choong Chen: Yeah, if I can just throw in a follow-up to what Johan said. So essentially, does it mean that what we are aiming for here is – we are aiming for 5G take up to help us increase the ARPU to offset any sort of erosion in ARPUs from the SIM Only side?

Johan Buse: Yes, that's a very good summary. In a way if I may build on that. The market in a way is diverging. In the good old days, it would be mainstream there was one flavour – it was device tariff plan. In the new world, there are obviously device plans, 5G mainly. And on the other side there are SIM Onlys on the spectrum. So it's diverging.

Foong Choong Chen: So granted the market is competitive and you have to do SIM Only like what your peers are all doing, so the net benefit from 5G take up is pretty much neutral you would say?



Johan Buse: Hard to predict and hard to say at this point in time because there is the fact of roaming. And roaming is not insignificant as we discussed in earlier analyst calls, and that is something we have not baked in going forward. So that is something we need to see.

Foong Choong Chen: Okay got it.

Nikhil Eapen: The plan, Foong, is definitely to play aggressively in SIM Only, to embrace it, to drive it, to drive giga! but with the strategies which we talked about – 5G adoption, driving OTT into the Mobile base and more Infinity Play product, to grow revenue. And that's kind of what we have been doing over the last three quarters on the back of stable to rising ARPU.

Foong Choong Chen: Understood on that part.

Dennis Chia: Foong, to your question on the \$80 million. If you model out the guidance that we have given for FY2022, which is at least a 10% uplift from our 2021 service revenue of \$1.611 billion, if I remember that correctly, that leads you to at least a \$1.76 billion or \$1.77 billion number on service revenue. And you then model out another 5%-10% that we have given as an outlook for FY2023 and impute that same percentage growth over the coming years on a compounded basis. The \$80 million of after tax margins or \$100 million on a pre-tax basis should uplift service EBITDA margins by about 3.5%-4%.

Foong Choong Chen: 3.5%-4% from FY2021 level?

Dennis Chia: That's right. If you use FY2021 levels and if you use FY2021 service revenues then it would uplift by 6%. Because \$100 million on a pre-tax basis on \$1.6 billion translates to 6%. I'm now looking forward on a compounded basis and what our revenue should look like in a few years if we had a crystal-ball.

Foong Choong Chen: Okay, understood. A lot of numbers to digest. Will come back if I need to run through those numbers again with you.



Nikhil Eapen: Does that answer your question Foong?

Foong Choon Chen: Yes, thank you everyone. Very insightful, thank you.

Amelia Lee: Thank you Foong. Paul, we'll take your questions next.

Paul Chew: Thanks so much for the presentation. Just three questions from me. The (first) two questions is regarding this slide. Can you touch on what is that pink portion. The DARE+ can you elaborate what sort of services you could be introducing in FY2023? That's my first question. The second question is the upfront investments which you mentioned, IT Transformation and manpower and so forth – so I can assume that these are not one-time/one-off costs, these are going to stick to your fixed costs, for a lack of better word. Is it a good way to understand these upfront investments? My last question – could you share a bit on the uplift in ARPU from these 300,000 5G customers? A range is fine, any number you can share.

Amelia Lee: Dennis would you like to take the first two questions and Johan, the third question?

Dennis: As part of what Nikhil and Johan and also Charlie have articulated, in terms of the growth initiatives that we're undertaking as part of DARE+. In the consumer space we are talking about Infinity Play and some of the security Peace-of-Mind initiatives and product lines that have been launched and will be launched going forward. The Cloud Gaming that we've already launched and further uptakes from that. The Enterprise space we are looking at certain 5G use cases that we will be implementing, and expecting to generate in 2023. So those are the growth initiatives that we have assumed that will start in 2023. We believe that that is a reasonable assumption coming through because it will take some time to see the outcomes of what we are working on. So those have been assumed as part of the DARE+ outcomes that we expect to generate in terms of the growth initiatives. Does that answer your question?

Paul Chew: Yeah, so the incremental revenue that you are referring to is Cloud Gaming, Enterprise, 5G use cases?



Dennis Chia: There are other services we are in the process of launching or working on as part of the Infinity Play and Super App. So these are things that we will be launching obviously we have visibility of that internally but we have not shared with the public markets so we hope that will excite everybody.

In terms of the upfront investments, there will be a bunch of investments that will not be recurring. And this will surround the implementation costs of the new IT stacks. As we know these implementation costs are what we call the SI (systems integration) costs, are significant and very hefty. And these will not be recurring. Some of these costs in terms of upskilling the organisation and increasing the bench strength of our organisation in terms of preparing us for the future growth – those will be recurring investments that we will be making. However, you have to believe that we will continue rationalising and optimising the way we operate as a company. And we will continue to look for efficiencies across the company in terms of the way we are organised as well as when we are digitally transformed in terms of our business model, there will be significant improvements in terms of transaction processing times, retail footprints and all of that. So that will all translate into actual outcomes and savings in terms of our operating model. So this will go towards funding or generating the right returns on the investments we are making to transform our business model.

Johan Buse: Okay if that is clear, I will take your last question, which is related to almost like on anything you can give me on information on 5G ARPU uplift. We expect that question so I don't mind sharing a little more information. So if you look at our retail pricing, 4G to 5G, Device to Device and SIM Only to SIM Only, the ARPU or the MRC – monthly recurring subscription is ranging roughly between \$15 to \$25 more for an equivalent 5G plan. And that is also the number we see flowing through the ARPU. Having said that and this is important, because this is really the crux, the essence, the backbone of our platform Infinity strategy – most if not all our 5G plans are bundled with additional goodies, meaning entertainment like Disney+ are part of that. So just keep that in mind when you talk about the ARPU uplift. There are elements of service which are differentiated between 4G and 5G. And then circling back to the first question which you had for 2023, Infinity Play platform strategy which we have in mind, is key to grow revenue and that is well beyond the verticals which we have been discussing today. That we have been discussing peace-of-mind, there's a lot of opportunities that we believe are on cyber – cybersecurity for end consumer, cyber-protection, cyber-insurance. Gaming is also a big vertical. Entertainment on its own is a big vertical. There are other verticals which you would understand we



cannot elaborate on today which we are pursuing. So hopefully that has given you the context and flavour you are hoping for.

Paul Chew: Thanks so much Johan. Can I just follow-up. Assuming roaming returns, which ever date that may be – will a 5G subscription give you a better uplift compared to a 4G? or is there not much change as it's just roaming?

Johan Buse: You ask a commercial person – the commercial person will say I do hope so. And that's something we are planning for. Something to be tested and validated in the market. 5G roaming is a topic which most Telcos are working on so we hope to – also in our DNA – to bring a differentiated value proposition soon.

Paul Chew: Sorry one last housekeeping. The electricity or utility cost, just wanted to double check which line item in the P&L is this reported. The cost of sales?

Dennis Chia: No it's recorded under occupancy cost, under operating expenses.

Paul Chew: Okay, thanks.

Amelia Lee: Thanks Paul. I'm going back to your question on the DARE+, Charlie do you have anything to add from the Enterprise perspective?

Charlie Chan: I think it's exciting with what we can do in the Enterprise space for DARE+ being digital, it's really about leveraging our core competency and bringing value to where the market is heading. The priorities we have observed in the marketplace is about digitalisation, it's about sustainability. We believe we are in a good position plus our transformation efforts, positions StarHub to make ourselves more and more relevant and in line to this long term interest. So watch this space.

Amelia Lee: Thanks Charlie. We only have time to cover one last question in the chat that was posted by a retail investor, Jing Jie. The first question is on net profit – Dennis this is a question for you – he's asking net profit has stabilised at about \$40 million per quarter, in second half of 2021. Do you expect



this level to be sustainable going forward? I believe you have some comments about this in the guidance so perhaps you can reiterate some of those messages later. The second question is on Cybersecurity – he is wondering when it will contribute more significantly to our net profit and what is the nature of the one-time inventory write-off. And the third question – he is asking if we are expecting a significant decline in revenue and net profit after transferring the 20% economic interest in Ensign back to Keele and when do we expect that to happen. Nikhil would you like to address the third question first?

Nikhil Eapen: Sure. So our intent is to continue remaining the consolidating shareholder of Ensign. It's a core part of our business. We manage it closely together with the other parts of our Enterprise business. And as we talked about, we are building common digital platforms across cybersecurity, cloud and connectivity, that we intend to scale. So the thought process is very much to keep going rather than to sell a stake.

Dennis Chia: You had also asked if a potential deconsolidation of Ensign leads to significant reductions in profits. And the answer is "no". Because the way accounting works is that we account for the economic proportion of whatever we have as net profit whether it's 40% or 50% or 60%. It does not impact the final net profit. Today Ensign does not generate significant net profit, and as alluded to in a response to one of the earlier questions, we have undertaken the diversification of our portfolio and revenue streams because we believe these will generate meaningful returns for us as we scale these operations. Whether they are consolidated or not consolidated.

Nikhil Eapen: When you look at Ensign as a business which is growing 20%+, from tailwinds of cybersecurity, very much in the zone of technology, and technological solutions around security, we make an active decision-making process around whether we want to growing the business fast or whether we want to harvest it for profit. And as long as a business continues growing fast, we are going to delay that gratification on profit. We are going to keep moving that point forward to harvest the increased revenues and then at some point, tip into producing significant amounts of non-linear - as Dennis calls it - EBITDA and net income.

Amelia Lee: Okay Dennis would you like to address the first two questions?



Dennis Chia: If you look at the average net profit for FY2021, the average of \$40 million per quarter, based on the guidance that we have given for FY2022, and the relatively lower margins and recognition of the higher utilities cost, and the inflationary cost that we are looking at for this year, as well as the upfront investments that we are making, mathematically, it would lead to a lower quarterly NPAT than what we have registered in FY2021. However, if you take into account what we've guided in terms of the after tax \$80 million of margins that we expect to generate on a steady-state basis, to our existing margins, and whatever we generate from our base business, we do expect the quarterly net profits to be higher than the \$40 million in the coming years. That's why we are taking these upfront investments to generate the growth and to change our operating model, because we are managing the business for the long term and for the viability of the business and to stay very competitive in this market place. This is the reality of business. We wish we would be able to generate higher outcomes without investments and report nice increases in profits all the time but in reality, as a management team, we do have to take decisions around investing for the future and for the growth and long term views of the business, and this is what we intend to do for 2022.

Amelia Lee: Okay and there is one more question on Cybersecurity. When do we expect Cybersecurity to contribute more significantly to our net profit and what is the nature of the one-time inventory write-off?

Dennis Chia: If you look at the current scale of the business, a lot of it is centered around investing in capabilities to deliver the revenues. At some point when you reach a certain scale, and I do believe we are quite close to it, you will not have to add as many people on a linear basis to generate the higher revenues and the capabilities that you would need. Case in point, honestly is that when you reach a certain scale and credibility in the market place, you do have a significant amount of competitive advantage. And you certainly become a more attractive employer as well for people. We are reaching inflection point – we are not in a position to guide to a specific year that that will happen, but we will say that it's around the corner.

Nikhil Eapen: I would also add that we have been, at Ensign, we have been investing. We have been investing in people, investing in R&D and IP, and we have been investing in automation. And those are



all things at the right point when we are ready, and with the right scale, can harvest for improving profitability. But for now the focus is growth.

Charlie Chan: And just to add – in the meantime, we are working closely as an organisation – Ensign, Strateq, JOS, to offer end-to-end capabilities such as Cybersecure.

Dennis Chia: Any with regards to the inventory write-off at year-end, this was in relation to a specific initiative that the Ensign group was delivering in terms of the project. This is non-recurring so it was just a one-time write-off in recognition of that event.

Farewell

Amelia Lee: Thank you Dennis. I think that is all the time we have today. Thank you everybody for spending your Friday evening with us. And as always, feel free to reach us at ir@starhub.com if you have further questions that you were not able to address today. Till next quarter, stay safe and have a restful weekend. Thank you.

- End -