Event Transcript

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Eric Loh: Right, good evening ladies and gentlemen and welcome to StarHub's First Quarter 2015 Results announcement. With me this evening we have the CEO, Mr Tan Tong Hai, along with the VP of Corporate Finance, Ms Chen Chiat Chiat and last but not least we also have our CCO, Kevin Lim, who will be walking us through the highlights of the first quarter's results.

Now before that just a little reminder here, if you want to ask a question later on press star one. If you want to withdraw your question press star two. Now with that let's welcome Tong Hai to give us some highlights of the first quarter's results. Tong Hai.

Tan Tong Hai: Thanks Eric. Turning to slide 4, an overview of the performance of first quarter. Now total revenue increased 8% due to more handset sales. This first quarter is very different from previous year's first quarter; because in previous years you have a strong fourth quarter handset sales it will slow down in the first quarter. So unlike previous years this year the momentum of the new smartphone sales were very strong. That resulted in more handset sales.

Also we have made a decision to pull ahead our acquisition and customer retention activities and as a result our EBITDA and EBITDA margin and NPAT were affected and you can see that EBITDA decreased 9%, EBITDA margin at 30% and NPAT decreased 12%. But a good thing is that operationally our stats are still strong. You look at our revenue growth in post-paid mobile, Pay TV and Fixed Network with subscriber growth in post-paid mobile, Pay TV and residential broadband and we registered the lowest Pay TV churn rate ever at 0.7%.

If you turn to slide 5 you will see the key financial highlights. I have shared about the total revenue, the increase, but the service revenue drop of 1% is basically due to the drop in the broadband. You can see that later in my next chart when I go through by the line of business. We pay less tax this quarter and in terms of the CapEx is that we pay S$96 million so percentage of CapEx to revenue is 16%, higher than our guidance. But because we did more payout for our 4G network roll out as far as our network infrastructure in subsequent quarters it will be less. So we should be able to meet our 13% guidance.

In terms of free cash flow it's negative and net debt to EBITDA is 0.62x. Later on Chiat will also give you more visibility about the free cash flow.

Now if you turn to slide 6 it shows you the revenue contribution and mix details. Here you can see that the mobile service in total revenue terms is still about S$305 million but the mix has changed. Previously it contributed 53.6% of total revenue in last year, now it's only 49.4%. That's because if you look at the last - second row, the sale of equipment, the mix has increased from 4.8% a year ago to 12.5%. So the sale equipment is S$77.5 million versus S$27.6 million a year ago. That, I have explained earlier, is due to the higher handset sales, especially the demand for the new smartphone.

So in terms of mobile services you will notice that this is relatively flat. I believe that we still have very strong growth in our post-paid but, of course, they were mitigated by the challenges in our pre-paid. That - later on Kevin will explain a bit more when he goes through with you in terms of the mobile services. But the good news, if you look at Pay TV we've added subscribers, in fact about 11,000. Year-on-year we registered a S$2.2 million increase; it's about 2.4% growth. Still very healthy. Churn rate actually has been kept low.

Broadband services year-on-year there's a drop of S$5.8 million. But if you notice what we have shared in previous years, the drop is not like what you've seen in the last year. In fact I'm very happy to note that quarter-on-quarter we've seen a growth in our broadband services.

Now Fixed Network services are mainly driven by our growth in enterprise and happy to note that there is still growth, in fact it is about 0.8% growth. So all in all we are growing in the right segments, which are really post-paid mobile, Pay TV and our enterprise business. The broadband we're happy to see quarter-on-sequential-quarter growth.

Now if you take a look at the next chart which shows you the hubbing scorecard you will note that we're still growing steadily in terms of our triple service households. Now 245,000 of the households that we serve buy triple services from us. 6% growth year-on-year.

With this I'd like to hand over to Chiat to cover some of the financial highlights. Chiat, over to you.

Chen Chiat Chiat: Thank you Tong Hai. We are now on slide 9. EBITDA for the quarter was S$162 million, S$15 million lower than a year ago. As explained by Tong Hai earlier on, on the EBITDA margin, the margin is lower at 30% compared to 32.6% a year ago. The lower EBITDA primarily was contributed by the higher handset sales, higher operating expenses, which also increased about S$62 million, or 13% year-on-year.

Over to slide 10. Cost of services for the quarter was S$287 million, or S$65 million higher than Q1 last year. The continued strong demand for smart phones this quarter drove the year-on-year increase in cost of goods sold to S$157 million an increase of S$70 million or 80% year-on-year.

Cost of services for the quarter, at S$95 million, was comparable to Q1 last year. The increase in the fibre broadband services on the NGNBN network was offset by our lower TV programming cost and our Fixed Network services cost.

Traffic expenses for the quarter was S$4 million lower, at S$35 million, and this was primarily due to the lower traffic volume in this quarter.

Slide 11 on other operating expenses. Other operating expenses for the quarter at S$248 million was S$3 million lower, compared to Q1 last year. Depreciation at S$68 million for the quarter was S$1 million higher, due to our expanded network infrastructure and systems. Marketing and promotion expenses was S$1 million higher, at S$40 million for the quarter, due to the higher acquisition and recontract activities this quarter. Other general and admin expenses at S$140 million were S$5 million lower than compared to Q1 last year. This was contributed by lower operating lease expenses which offset the higher exchange losses from the stronger US dollars and the higher professional and outsourcing expenses.

Slide 12. As a result of the higher operating expenses and the acceleration of our recontract and acquisition activities net profit after tax decreased about S$10 million this quarter due to that higher sign up to the new smartphones. Earnings per share for the quarter was S$0.043 compared to S$0.049 a year ago.

Slide 13, on CapEx payment. Our cash CapEx payment this quarter was higher at S$96 million, or 16% of our total revenue. The higher CapEx was due to the completion of some major CapEx projects towards the end of last year, primarily our 4G network and some other Fixed Network infrastructure programs.

Excluding the progressive payments relating to our MediaHub construction project, CapEx payment as a ratio of total revenue was 15.6%.

Free cash flow in slide 14. Free cash flow for the quarter was lower at a negative of S$46 million. As explained, the higher CapEx payment in the quarter is a major contributing factor. On top of that we had higher working capital needs in the quarter from the higher demand of the smartphone payments, as well as the S$21 million tax that was paid in the quarter.

I'll now hand over to Kevin to run through the business highlights.

Kevin Lim: Thank you Chiat. Let me take you through the mobile business first. Very quickly, mobile revenue year-on-year was flat. Our post-paid basis forms the bulk of our mobile business, grew by 73,000 subscribers versus the same quarter a year ago. ARPU for mobile post-paid was at S$68.

Slide 17, the overall customer base ended at S$2.147 million at the end of the first quarter, this was flat quarter-on-quarter. The pre-paid base was lower compared with a strong growth in the post-paid base.

Moving on to slide 18. Overall mobile revenue was flat year-on-year. The quarter-on-quarter variances as you can see is due to seasonal usage revenue, namely roaming that tends to be higher towards the end of the year. The healthy growth in post-paid revenue, which was offset by lower contribution from the pre-paid segment contributed to the results in the first quarter.

Moving onto slide 19. ARPU for both prepaid and post-paid was higher. Pre-paid ended the quarter at S$18 while post-paid ARPU was at S$68. The year-on-year growth of S$2 in the post-paid ARPU was the result of more subscribers moving into our tiered plans.

Moving on to slide 20. If we look at the post-paid ARPU and the composition of the post-paid ARPU coming from non-voice services it continues to grow and ended the quarter at 56.6%. Churn was healthy at 0.9% for the quarter.

I'd like to add that the number of post-paid subscribers on our tiered plan at the end of the first quarter was at 62%. The number of subscribers who exceeded their bundle data was 22%.

Next, I'd like to bring you to our TV business. I'm on slide 22. The Pay TV business registered a higher year-on-year revenue growth by 2%. ARPU was stable at S$51 and we continued to grow our customer base, this was higher by 11,000 customers versus a year ago.

Slide 23. For the first quarter with the growth year-on-year we ended the quarter with a total of 545,000 subscribers. An extremely effective retention strategy as well as our hubbing proposition brought the churn to an all-time low of 0.7% for the quarter.

I'm on slide 24. Looking at the revenues, so TV revenue for the quarter was S$96 million, this was higher than the first quarter of 2014 by S$2.2 million. ARPU, despite competition, is at a healthy S$51.

Moving on to our broadband business - I'm on slide 26. Revenue was lower by 11%. ARPU is at S$33. The customer base versus a year ago was 22,000 subscribers higher.

Slide 27. With the increase of the customers we ended the quarter at 473,000 customers and the churn rate, similar to the TV business, was capped at a lower rate of 0.8%.

I'm on slide 28. While we reported lower revenues in Q1 versus Q1 of 2014, I think of special notice that this revenue was higher quarter-on-quarter and we see this as a positive sign. ARPU again versus a year ago was lower, however, on quarter-on-quarter is stable for the second consecutive quarter at S$33.

Moving on to the Fixed Network services. I'm on slide 30. Looking at our data and internet revenue this increased 2% versus a year ago. However, the voice revenue decreased 6%. Total Fixed Network revenue for the quarter was S$19.9 million. Again, this was mainly contributed by the data and internet business.

I'm on slide 32. Looking specifically at the different lines, voice revenue was lower at S$12.8 million. This was largely due to lower consumption including lower international interconnect.

Data and internet was higher versus the first quarter of 2014, ending the quarter at S$78.1 million. The quarter-on-quarter fluctuation as you can see is mainly due to projects that typically are higher towards the end of the year as the projects close out.

I'd like to hand you now back to Tong Hai for the outlook.

Tan Tong Hai: Thanks Kevin. For the financial year 2015 outlook, in terms of revenue we are maintaining service revenue growth in the low single digit range. EBITDA margin to be maintained on service revenue to be about 32%, while we maintain cash CapEx to be about 13% of total revenues. This excludes the MediaHub project.

We will declare first quarter 2015 dividend of S$0.05 per share. We intend to maintain annual cash dividend of S$0.20 per share for this year.

Eric Loh: Thank you Tong Hai. Now with that we're going to open the floor for Q&A. First on the line is Luis from HSBC. Hi Luis.

Luis Hilado: (HSBC, Analyst) Hi, good evening. Thanks for the call. I had three questions. The first one is regarding the handset sales for this second quarter is still looking strong. Are you still continuing your acquisition and retention aggressiveness for this quarter?

Second question is related to that. Why are you being more aggressive earlier into the year versus previous years? Is it expectations of the fourth mobile licence being issued?

The last question is if I'm working out the numbers correctly mobile voice for the quarter seems to be down double-digits Q-on-Q and year-on-year. Is that the impact on switching to wireless data or any promotions or is this due to direct/tariff competition?

Tan Tong Hai: You're asking about what is our projection for the handset sales in the second quarter. Now, as I mentioned this is an unusual first quarter. Typically the first quarter you will have a tone down of the handset sales after a very strong December. It has moved on to the first quarter because of the demand of the new smartphones.

We're seeing some signs of course it will not continue, so our expectation is that this full year the subsidies should be around the same amount as previous years. So that's how we see - in a way you have rightly pointed out that we have pulled ahead, but we have pulled ahead not because of a fourth operator. We pulled ahead because we believe that always a bird in the hand is worth two in the bush. So we like to take the customer in earlier so that we can enjoy their contribution for the subsequent quarters.

Now Kevin, do you want to answer with regards to the mobile voice ?

Kevin Lim: Yes. So if we look at the trending for mobile consumption, voice versus data, we have been reporting that data is on the uptrend and voice is on the downtrend as more and more people are using data services. So it's correct to say that we should see data consumption growing aggressively against a decline in traditional voice consumption.

I think there was a question about…

Tan Tong Hai: I think we've answered the question.

Eric Loh: Is that all Luis?

Luis Hilado: (HSBC, Analyst) Yes, just one follow up Tong Hai on the - you mentioned that the subsidy this year should be similar to last year. That's the absolute level of subsidy or the percentage subsidy versus new revenues?

Tan Tong Hai: Absolute level.

Luis Hilado: (HSBC, Analyst) Okay that's very clear. Thank you.

Eric Loh: Thank you Luis. Next let's welcome Sachin from Nomura.

Sachin Gupta: (Nomura Securities, Analyst) Thank you, just a few questions. So if I understood correctly Tong Hai you're saying 1Q was an unusual quarter and things will normalise going into it - into the rest of the year. I'm just trying to understand why it would be unusual just for one quarter? I mean why have a strategy just for one quarter and change it half way through the process? That's one.

Secondly, see the thing is Tong Hai, if you look at two things, one is your fixed trend - you have talked about fixed business improving, the last few quarters, the last few years, we're still running at S$90 million, S$95 million, it doesn't seem to be improving. Even if you look at the business as a whole, since 2012 every quarter you have not been able to grow the business more than 1%. Isn't that a concern?

Tan Tong Hai: Let me just answer the first quarter. This is because you know that in the fourth quarter there was the launch of the iPhone. There's still a lot of customers who want to trade in or upgrade their smaller iPhones to the bigger iPhone 6 or 6 Plus. We thought that usually by fourth quarter it will tone down but first quarter also the demand was good. So you had two choices, either you take them in and recontract them or acquire new customers or you wait for subsequent quarters. So I think for us it's that we look at the whole business as a whole. We don't manage it in fact quarter-by-quarter. So I look at it and say if I can bring the customer in early, I'll bring the customer in earlier. So that's how it happened in this first quarter.

I think overall in the [unclear] you notice that after the first quarter most of the smartphone sales actually have toned down. So I was glad that we actually made the decision to bring the customer in actually earlier. Okay, so that is riding on the momentum of the strong new iPhones that have been launched in the fourth quarter. It's just that we have to look at a situation in previous years when they launched the smartphone; we don't see that being trickled down to the first quarter. So even the handset may be very popular but we don't see - only this year we saw it.

Now with regards to fixed trends I'm going to ask Kevin to address that.

Kevin Lim: Sachin, I think first of all let us understand the fixed business in terms of what's inside the fixed business. So we do have solutions as well as connectivity services, voice services and so forth. So as you can see, as we grow the connectivity services or rather the data internet services we are running against also a decline in traditional voice services. So earlier I was mentioning about data growing and voice declining. So this is the same case with the enterprise side of the business as well where you do see a decline in traditional voice and a move towards more data base type services. So in a way you're kind of running - swimming upstream

Also in their services which are more project-based, so they are one-off. So as you do the project the next year you do have to get new businesses as well. They're not - a percentage of it is not recurring. Plus this is an area that sees quite a bit of price erosion as well, due to competition. So all in all the business just to grow at that pace I think you have to grow doubly fast just to keep up at that level.

Does that answer your question?

Sachin Gupta: (Nomura Securities, Analyst) Yes, thanks fine, thank you. Tong Hai, sorry my last question, I was just asking, if you look at every quarter for the last - since 2012, we have never had more than 1% - we haven't had growth more than 1% in service revenues in totality. Is that a concern for you guys?

Tan Tong Hai: I think the key thing is really the mix. If you look at last year I think we have a drop of S$40 million broadband revenue. In spite of the drop, S$40 million in the broadband revenue, we still can register the single-digit growth. That is because the switch between the cable to fibre. But the good thing is that you note the subscriber base actually has been growing steadily, the churn rate has been kept low. We are keeping our customers, it's just that the amount that you can charge them is actually less.

So if you look at the service mix itself there were some challenges in the broadband but we have made up by the growth in our other lines, like interestingly Pay TV actually has been growing steadily and then also our mobile, mainly by our post-paid. So yes, overall it may seem like it's growing very slowly but the key segment that I want to note that if you look at the post-paid it's growing very well. Pay TV, although people talk about OTT threat and all the things it's still trending well. In fact this quarter it grew about 2%. Then our Fixed Network, which is the enterprise, is also growing steadily. So I look at this as a key yardstick.

If you look at our broadband, yes, last year was a huge drop but this year we're not seeing that kind of range. In fact the first quarter you see it's only a S$5.8 million drop and then sequentially quarter you'll find that actually it started to turn around and grow slightly. So I think this bodes well for the broadband business as we sign up more and more broadband customers.

So I think if I look at it we're growing in the right areas and most important, the customers are with us and the churn rate is kept low. These, to me, are the main indicators. If the service revenue is not growing and yet you are losing customers then I think we all have to be very worried. But the indicators are showing otherwise that our churn rates are kept low, customers are growing, base is growing. It's just that it reflects the intensity of some of the competition in the market.

Sachin Gupta: (Nomura Securities, Analyst) Okay, thank you very much.

Eric Loh: Thank you Sachin. Next let's welcome Wei-Shi from BNP. Wei-Shi.

Wu Wei-Shi: (BNP Paribas, Analyst) Thanks. So your competitors are also reporting fairly muted mobile revenue trends and this is despite the tariff increased last year. What do you think is the reason? Given the surge in recontracting and acquisition net adds in the past couple of quarters when do you expect the tariff increase to start to impact more positively.

Secondly, I note the guidance for the low single-digit revenue growth has been maintained, which parts of the business are you most optimistic about or most confident about in terms of driving growth in the subsequent quarters?

Tan Tong Hai: Your question about - you know, we have actually increased the price of our mobile plan and then why you're not seeing it in our mobile revenue growth. Kevin has explained to you that our total mobile revenue includes pre-paid. So while we have good growth in our post-paid it was mitigated by the decrease in the pre-paid. That's why you don't see that from an overall mobile revenue perspective. But when we can see internally with the breakdown in post-paid it actually translates to higher contribution to our ARPU.

Also you can note that the excess data charges when they exceed the data bundles, plus the fact that as we now migrated about 62% from our previous plans to this tiered plan, going forward you will see more and more monetisation of the data. So that's how we see. What was the second question?

Now I still see mobile as a growth driver. Maybe not pre-paid but more post-paid and enterprise mobility. So you can see the mobility as the whole. So we are growing - we will look at the overall growth. Yes, there were some challenges in the pre-paid but as a whole we'd like to grow this mobile. So mobile will continue to be a driver. Because we have yet to move onto the other aspects of mobility like the Internet of Things and all this. So today is still very much people - human SIM cards and all those. But as we move more and more into the Internet of Things then there will be more demand for the mobility services.

The other aspect of our business that will be a driver will be still the enterprise. Though in the short term right now you see sometimes where we are growing, it's mitigated by voice and all those but as we grow it to a certain level then the fluctuation in the voice will not affect this growth in the fixed. So I still see two drivers, the enterprise and the mobility. Now Pay TV wise will be moderate growth . I believe that in spite of all the OTT threat and piracy to register such a slight growth or moderate growth is considered very good. Our churn rate is now capped at an all-time low of 0.7%. Now the only part of our business that today - because of the intense competition is the broadband. But yes, we can see that the broadband in a way in the sequential quarter has started to grow and year-on-year - the first quarter though is a drop but I hope that in subsequent quarters we drive more and more of the fibre broadband sales, you will see them contributing to our revenue. But the main driver remains mobility and the enterprise.

Wu Wei-Shi: (BNP Paribas, Analyst) Thanks very much.

Eric Loh: Thank you Wei-Shi. Next is Arthur from Citigroup. Arthur.

Arthur Pineda: (Citigroup Investment Research, Analyst) Hi, thanks for the opportunity. Three questions for me. Firstly following on Sachin's question earlier. How do you actually expect to grow revenues from the current contracting trends? Are you assuming broadband contraction and mobile contraction to turn? If so, what's driving this? I see that you're keeping your guidance but I'm not sure where things will actually be changed going forward.

The second question I had was with regard to subsidies. Now this has obviously expanded significantly year-on-year and yet mobile revenues haven't really been accelerating. So when we look at your revenue trends versus peers they seem to be enjoying some growth. Can you provide colour on what is the difference with StarHub versus peers at this point, which is driving this diversion?

The third question I had is with regard to your fibre migration. I'm just wondering where you are now with regard to migrating subs from cable to fibre. Are most of your subs in fibre now and how do you stand with regard to decommissioning of the older assets? Thank you.

Tan Tong Hai: Your first question on the contraction of revenue. I guess you are referring to the mobile of a slight contraction but the overall mobile business the post-paid is growing steadily. So while you see the slight contraction of 0.2% it is mainly due to the pre-paid. So I don't consider there is a contraction of the mobile. In fact it is growth of post-paid but offset by the drop in pre-paid.

TV, you have seen that it is actually growing steadily. Now the other part that you worry about, the broadband that you say that look, last year it contracted S$40 million. This year it's not going to be that kind of figure. In fact you see the first quarter is already only S$5.8 million. In previous years it's about S$10 million drop every quarter. First quarter - quarter-on-quarter, sequential quarter shown growth. So I don't think that the broadband business is going to contract. In fact we are looking that it will contribute positively in the subsequent quarters.

The enterprise business is growing steadily. It has not dropped at all. So that's why we are maintaining our revenue guidance of the low single digits.

Now in terms of subsidies, yes, you can say that the subsidies affected us in this first quarter, then you're not seeing the mobile revenue growth. It actually helps in the post-paid growth but you don't see that because there is a blended figure of post-paid and pre-paid.

Now, with regards to the fibre migration plan I think this quarter in our results announcement we showed the figure of how many broadband subs we have. So we've actually shared that the overall broadband subs we have is 473,000. Out of this, 193,000 are fibre broadband. So this is - I would say it represents a pretty good share of the market. In fact we're only second to - since the incumbent in this broadband share.

So you can take that as there's still quite - about 280,000 of cable subs to migrate across.

Arthur Pineda: (Citigroup Investment Research, Analyst)I If I could just clarify on the mobile side. You seem to be losing market share with regard to the pre-paid side of the business. Why is that ongoing? Is there any initiative to reverse that?

Tan Tong Hai: Kevin will answer the pre-paid.

Kevin Lim: Well, if we look at the composition of the pre-paid business they are mainly from - you have a segment which is the locals then you have what we call the work permit segments and then you have the passport holders, which are your visitors that come in and go. So the way that we report it is that we include things like IDD and so forth. So as with the other trends there is substitution in a sense that there's been declines in SMS, with increase in data usage. There's been also a general decline in IDD revenue. So that's contributed quite a bit to the declines in this business.

Yes, we will continue to look at this business in terms of how to regain market share. But as Tong Hai has said, we look at the mobile business on a total basis because we believe there are changes in the market place. We will look at the customer in terms of how to provide the customer with the best packages and not squarely, whether it's a pre-paid or a post-paid. Also on an overall basis there's a lot of convergence across different platforms as well so therefore it's very difficult to just classify them into one pocket or another.

Tan Tong Hai: Arthur, I'd also like to add that we have grown post-paid market share. I think that's very, very important, Post-paid market share we have grown. Pre-paid yes, it has dropped but we have mentioned in previous years cards - the limitation of the number of cards a person can buy for pre-paid. There's also the substitution effect of Wi-Fi and all those that is available, widely available.

So, overall as what Kevin has shared we would like to manage the mobile business as a whole, showing growth in the overall mobility. Pre-paid is just one segment. You look at it, we have plans actually to also migrate pre-paid customers to post-paid. We have made it so easy for them to move up. Also our objective is to grow more and more post-paid because you can build a long-term relationship with post-paid customers.

Arthur Pineda: (Citigroup Investment Research, Analyst) Got it. Thank you very much.

Eric Loh: Thank you Arthur. Next on the line is Suresh from UBS.

Suresh Mahadevan: (UBS, Analyst) Yes, I have a couple of quick questions. One is clearly this broadband seems to be an area where you seem to be successfully defending that, because churn is low. I mean clearly the revenue on a quarter-on-quarter basis seems to be having a small amount of pickup.

Now I just wanted to dig a little bit deeper in terms of obviously as time progresses people may want higher and higher speeds. So do you have plans to charge them more for speed? So now that it has bottomed out how should we view this business from a mix, in terms of I'm assuming the vast majority are in the 100mbps probably category. But how should we visualise this business growing? That is question number one.

The second question is related to your enterprise - or you call it Fixed Network services business. I mean clearly there is some growth year-on-year. I think what I'm trying to understand there's - obviously if I compare your CapEx to M1's CapEx I mean there is a lot of CapEx that has gone into this business. Clearly this is a business with a longer cycle time and clearly - I mean you have a lot of experience in terms of trying to get to this. How should we think about some milestones for this business, given we've invested a lot of money in terms of CapEx into this. So I just wanted to understand because clearly broadband has gone through a lot of competition, stabilising. Pay TV has gone through a lot of competition, stabilising. Potentially there is some huge competition in mobile perhaps, I don't know. I mean ideally what's the key I suppose. So therefore this corporate business, our fixed enterprise business, becomes very critical. So I just wanted to understand how we should look at this business in the medium term? Thank you.

Tan Tong Hai: So in terms of the broadband, you notice that I've just the broadband figure, 193,000, right. You note that our - the other players out in the market the numbers they will share clearly we have broadband fibre subs. This is the first time we are releasing the subs numbers and this is far more - almost double that of what our next competitor is talking about. You know that our price is actually not cheaper than them. So then what is the magic? It's actually our bundling strategy that we don't just sell broadband, we sell broadband with TV. The bundle strategy actually has served us very well. You can see that from how we've been winning market share with a bundling strategy.

Going forward, you're right that yes on the speed alone you can move up to one gig, but so far what the players have been doing is that they have actually priced one gig at a higher price than my ARPU. My ARPU is S$33; they are pricing it higher than the ARPU. So I think we will, of course, move towards higher speed plans and then at a higher price and that will also help us to bring up our ARPU.

So the strategy is really not to compete just on the single plan but bundle. We can bring them to the highest speed plan, the higher price, that's good for us. That's the reason why we look at it and say hey, this broadband is very important for us to grow that market share. Because on the standalone basis it does provide Wi-Fi for home but subsequently it does open opportunity for smart life application services and the Internet of Things at home. So these are things that you can write on top. Of course, we have launched our IPTV for home, so currently the broadband also is used to serve for homes who want to watch TV over broadband, it's available.

Now the other question you asked about the enterprise, Kevin, you want to answer is it?

Kevin Lim: So I think Suresh you asked about the CapEx. We have been spending CapEx on the Fixed Network services and you're absolutely right, these are the core investments into the enterprise business. So this CapEx that goes into our Fixed Network, it's not your NGN network, it's our own fibre network that connects - is the fibre backbone to access points. This is critical to us being able to service the enterprise customer to be able to provide at the very least redundant services to corporates who require that level of connectivity and that level of service. So these are what we call the critical investments from a long-term basis to be able to service these customers and to provide services over this core network. So the Fixed Network we believe is fundamental to being able to service the enterprise customers. I don't think we can just say that we want to service the enterprise customers without making the necessary investment. So we view this on a long-term basis.

Mobile is competitive but as Tong Hai has said, we have made a lot of headway and much of the gains actually have come from the enterprise business as well, as we acquire more and more corporate mobile. But when we look at the whole business we look at the enterprise business across all lines of businesses, from fixed to mobile, to TV, voice, et cetera. We look at converged solutions as well.

Tan Tong Hai: Yes, Kevin you're right. Actually, Suresh, our focus a lot now is on fixed mobile convergence. You don't see fixed on standalone basis. You see with the mobile - the fixed mobile convergence. I think that's very important. You notice we just launched our Unified Comms solution with Avaya and we just announced that. So that will also bring about the synergy with our mobile services. This is something that while we invest in the fixed to grow enterprise one must also bear in mind that the Fixed Network is using back-haul. So instead of incurring costs from leasing from your competitor you now run on your own fibre and you've got your fastest speed. Then the other thing is that you must note that we also in the past leased ducts from some other providers to run our service our enterprise customers. So by investing in this, our own fibre, we can of course reduce our need gradually to lease these ductsfrom other providers and it will help us to have cost savings.

So this investment is not just for growing enterprise, it's also to lower our cost, operating cost, in terms of the back-haul and also our leasing cost that we lease from some of the other operators.

Suresh Mahadevan: (UBS, Analyst) Thank you.

Eric Loh: Right. Next let's here from Roshan from Bank of America. Roshan.

B. Roshan Raj: (Bank of America Merrill Lynch, Analyst) Hi, thanks for the opportunity, three questions. First one, there's a comment on lower Pay TV program costs, I'm just trying to understand what is leading to this and any thoughts on the profitability of Pay TV segment standalone?

The second, it looks like there was S$6 million higher other expenses, what was the reason for this?

Third, any colour on MediaHub investment will be very helpful. Thank you.

Tan Tong Hai: You have rightly pointed out if you look at the cost of services it has remained relatively stable, though you incur higher costs in the leasing of the fibre broadband, the Pay TV programming costs actually has been kept low. This is because we have very good audience measurement system to measure the viewership. Because this cannot lie - if there's no viewership then we will not pay so much for the content. So with this we're able to negotiate very well with the content providers and we drop non-performing channels. That's how we managed to bring down the programming cost.

Now we don't share the profitability of the Pay TV business on a standalone basis, but if you - programming cost is a big part of our Pay TV business so if we can reduce that, that means we are improving the overall margin of the Pay TV.

Now with regards to the S$6 million other expenses, Chiat, would you want to address that? Are you ready?

Chen Chiat Chiat: Okay, the S$6 million increase in other expenses is primarily due to the stronger US dollar, where we had exchange losses, both realised as well as unrealised. A large part of our OpEx, be it the carriers' expenses or the TV content and programming costs are denominated in US dollars. So as US dollars appreciate against the Sing dollars our payments out to the vendors will result in this exchange difference.

The other component is really the professional fees and the outsourcing expenses. As we increasingly look into our own cost structure, to the extent where we could flex that cost structure from a more fixed and permanent nature like, for example, in a staff cost arena where we have got our perm staff and all that, where we could outsource the non-core activities to a third party to deliver that service on a more efficient and better manner we would increase our outsourcing expenses. So that resulted in that higher expense in professional fees and outsourcing.

Tan Tong Hai: Okay. Thanks Chiat. Now with regards to your question on MediaHub. Now for information for the rest of the listeners MediaHub is basically a plot of land that we bought about two years back to house our head end, okay. As a result we thought that we also would want to put data centre capabilities and also form part of our telco central offices et cetera. So that is actually - the good news is that the land that we've bought actually has appreciated in value. Also that is the good thing but we are not going to sell the land. We are in the midst of exploring options to structure the project and when it's ready we will announce them in due course.

B. Roshan Raj: (Bank of America Merrill Lynch, Analyst) Thanks Tong Hai. Just coming back to your response on Pay TV, could you share the traditional trend at least in terms of how the profitability has evolved over time on Pay TV? On the MediaHub investment, when are we likely to get some more colour and is it a 2015 event or is it something you plan to work on maybe slightly longer term?

Tan Tong Hai: If you look at the Pay TV, I would say that last year and this year we have actually managed the cost pretty well. I have been in the company for six years. In early years the competitive bidding was very strong. What we have seen now is the more mellow competitor after a few years of operations now they also realise that they cannot keep bidding for content. To get the content they overpay and then they will suffer. So I do see, I would say, more rationality in this comparative landscape in the Pay TV landscape. That's the reason why you'll find that actually the cost can be managed. I hope that it continues this way. So that's how I see the Pay TV.

Now, of course we have introduced a lot of innovation like TV Anywhere and IPTV and all this. So all these are initiatives that we have done to further improve of course the most important, the customer experience in watching TV. So it's not just the cost but it's also the experience.

Now, with regard to the MediaHub project itself we hope to be able to share with you as soon as possible - it's definitely within this year that I will share with you. But this is outside of our CapEx. Our CapEx guidance remains the 13%, excluding the MediaHub. So we are in the midst of structuring the project, exploring options, and it shouldn't be too long. Once we are ready we would announce it as soon as possible.

B. Roshan Raj: (Bank of America Merrill Lynch, Analyst) Just if I could follow up on that. In a very likely scenario the investments would not have any impact on your dividend payouts?

Tan Tong Hai: No. It would not have any impact on our dividend payout.

B. Roshan Raj: (Bank of America Merrill Lynch, Analyst) All right. Thank you so much Tong Hai.

Eric Loh: Next let's welcome Srinivas from Deutsche Bank.

Srinivas Rao: (Deutsche Bank, Analyst) Yes hi, thank you very much for the opportunity. I have two questions. First just going on your broadband business, you did mention that the ARPU on the highest fee plans are higher than what your current ARPU is. Generally speaking is the cost of providing higher speed on broadband is that commensurate with the pricing difference which currently exists in the market. I.e. is the higher speed plan more margin enhancing than what it is right now? That would be my first question.

Second is a bit of housekeeping. There is a cost which is operating leases, that seems to have a downtrend for the last practically two years. It's actually fallen quite dramatically, particularly this quarter. Is there a particular reason for that?

Finally a slightly longer-term question. We continue to hear about this IoT and the fact that it can generate demand. If you can throw some light since you're doing some trials these days, can it actually generate the kind of data demand which people are hoping for? Because the largest volume of data demand comes from video and will IoT devices or machine to machine actually generate any such stream of data usage at least? If you can help us that will be great. Thank you.

Tan Tong Hai: So your question about this high-speed plan of course, at higher point, you can bring up our ARPU. Then the question is whether the cost of provisioning is it also higher. Now the line that you buy from, the lease from, NetLink Trust, previously known as OpenNet, is the same amount. It's about S$15. The rest are really your international bandwidth. The local bandwidth is as much as you can provide but it's the international bandwidth.

For us from StarHub perspective we have invested in all these international submarine cables. So our cost of this bandwidth is actually very low. Comparatively if you are a smaller provider you have to lease then your cost of international bandwidth will be higher. So the question is whether - do you honestly provision that kind of capacity. I would say that honestly StarHub provides the best international capacity. I can't say that when you are leasing it from someone. But from a cost perspective we are able to keep it low because of the fact that we own the submarine cables.

So that will be the variable factor. The others will be - in terms of our customer service cost and all this, but I will say it's about really if you talk about higher speed the customer wants the kind of good international capacity. I believe that StarHub can offer it to them.

Now in regard to the question about the operation, the operating leases, why is it going down I will ask Chiat to address that.

Chen Chiat Chiat: Okay. On the operating leases, as explained in the MD&A write up this quarter, the S$12 million lower operating expenses was really due to the excess accruals for international capacity leases which we managed to conclude at significantly lower pricing.

I think reflective of what Kevin said earlier on the enterprise side where circuit pricing is dropping but similarly we procure international capacity. Those prices have also dropped.

Now in looking at these operating leases in the longer term I think earlier Tong Hai has also shared that we have also invested in CapEx to convert some of our lease capacity network in Singapore with our own CapEx. So you will also see that the operating leases going forward, there will be some reduction as we take off some of this lease onto our own network.

Tan Tong Hai: Yes, correct. That's our game plan that basically if we can invest in it and then save the operating leases then we will do that.

The last question you asked about IoT, a lot of talk, where is it coming and when is it coming, I will ask Kevin to address that.

Kevin Lim: Okay, Srinivas. So initially when this IoT started actually they called it M2M, machine to machine. So they talk about connecting one machine to another machine. So it wasn't very exciting because the ARPU will be very low and there's only X number of machines. But it's now evolved into an Internet of Things and some people are even calling it an Internet of Everything. Because all of a sudden you realise that you can literally connect every single thing. But the excitement is not in the connectivity revenue that you collect from having billions or billions of these SIMs being connected to everything but it really comes from a lot more than that.

Firstly, if you look at what the government is doing on Smart Nation, it's talking about sensors network. It's about connecting not just people but streetlights, connecting vending machines, putting sensors in trains to be able to measure water levels. Every policeman has a sensor that is connected to a camera, for example, that can provide live feed on what's happening. So once you look at the possibility of this, plus not to forget the other smart life services in the homes, where the fridge, the air-conditioning and the lights are all connected then you start to see a very large opportunity in terms of what are the possibilities of being able to do when you connect - what you can do when you start to collect all this information.

So this is where the data analytics really comes in. Whereby with all this information collected you start to learn a lot of things. Just as Tong Hai mentioned earlier about the fact that we have ability to monitor what programs our customers are watching so that we are able to cater the programming to what our customers actually want and not try to guess what they want.

So likewise with the data that's collected via all these things a lot of insights can be derived. With this insight companies will be better able to target their customers. So it's a B2C and well as a B2B2C proposition that we see.

So I can go on and on but I think you get the picture in terms of the opportunity.

Tan Tong Hai: Srinivas, I think if you look at this, around the world I would say that Singapore would be one of the best markets, because you've got the government that is driving all these Smart Nation initiatives. If there's any place that has this opportunity to execute or implement - we talk about electronic road pricing scheme, currently you need gantries. What is on trial right now is gantry-less. It's all on the SIM card and all that's done is as you plug in your card, you drive around, you will automatically deduct and it will price the route accordingly.

So these are some examples of the trials that are ongoing, real trials. This would in my view open up another set of opportunities. That's the reason why for StarHub we are very excited about all these developments in Smart Nation and then of course not just Smart Nation, smart home. That's the reason why we wanted to have this broadband to the home, to the smart home, the smart life services that combine the mobility side. So hopefully this will bring about more excitement and more business opportunity for operators.

Kevin Lim: Also why we formed SmartHub.

Tan Tong Hai: We have actually a SmartHub initiative that does all this analytics. This was formed over two years ago and we've been able to analyse all this consumption behaviour, ranging from TV consumption behaviour to online consumption behaviour and mobile consumption behaviour. So all these include location-based information and it does provide our enterprise customers with a lot of analytics so that they can understand when they buy all these services how are they using it effectively to serve their end customers.

Srinivas Rao: (Deutsche Bank, Analyst) That was fantastic. Thank you so much, this is really helpful. Thank you.

Eric Loh: Right, we have time for two more questions. We're going to take one from SPH and the last one will come from Prem from Macquarie. With that let's welcome Jin He from SPH.

Tan Jin He: (SPH, Media) Yes, okay. I want to ask about your mobile data business. So recently MyRepublic they have said that if they succeed in bidding for the fourth telco they want to roll out these unlimited data plans. So my question is how does StarHub plan to compete? For example, would it roll out unlimited data plans or does it have other things in the pipeline?

Tan Tong Hai: I think there will be operators that have shared what they want to do with their plans but the first thing of course is that to be able to offer a good data plan you must have sufficient bandwidth and spectrum. You can't run a mobile business without spectrum. So what - the truth is that today if you look at our mobile 4G speed is already 300megs. That's because in our previous years we have invested in spectrum. So that is a very important part if you want to run a good data business, other than you need to have a very good internet backbone, which you already have because of our strong broadband business that we have. But the most important part is really the mobile data piece.

So I can't comment because if you're going to invest a lot in data and you want to offer unlimited at a low rate then it is going to be very challenging.

Tan Jin He: (SPH, Media) Actually I wasn't asking you to comment on their strategy, I was wondering if StarHub is going to have other plans to attract more mobile customers.

Tan Tong Hai: We have actually moved out unlimited plans to have what we call tier-based plans. We believe that a tiered-base plan is the right plan in view of the fact that you have invested a lot in the infrastructure, the 4G infrastructure. So currently that's the way to monetise the data usage. You know that a lot of the OTT players have been riding on top of our data network and we don't really charge them. We only have a data plan that if you exceed the basic bundle then you pay for it and we also make the exceeding bundle plan very affordable too. So that is currently our plan and we have actually no plans to introduce unlimited data at this moment.

Eric Loh: Thank you Jin He. Last but not least let's welcome Prem from Macquarie. Prem.

Prem Jearajasingam: (Macquarie Securities, Analyst) Good evening. Yes, thank you for the opportunity. Tong Hai, it's commendable that you've been able to convert some of your operating costs into CapEx et cetera and you see the benefits of that showing up in your enterprise business et cetera. But my question to you is do you see a need in the medium term to bump up that CapEx even more to stimulate this business. Because I think - I do appreciate that you have a bit more granularity with regards to the numbers than we have and, therefore, your optimism around the businesses. But do we need to spend more? If given a chance do you think we should bump up that CapEx by another 20%, 30%, 40% even for the next couple of years to invest in this business instead of just focusing on small bites and hoping for something to happen in light of the way the competition is reacting to stuff?

Tan Tong Hai: I'd say today our major investment is still in our network in a small country called Singapore. Where we believe that once we have a stronger Fixed Network, as I mentioned earlier it can support the growth in the enterprise. It was also support really our mobile network to make it the best with the best back-haul and at the same time reduce our OpEx. Reduce the leasing expenses that we lease the ducts et cetera. So that remains the most important investment. So, so far we have been able to factor in under our 13% of our CapEx of revenue and that would be the max that we are looking at. Of course, in certain years there will be spectrum and all of this outside of this normal span. That is how we see the CapEx. I don't think today - if you ask me is there any other thing that we are investing in, we have already invested in the SmartHub, but SmartHub is more on the analytics and that is more in the software space. That will again help us to present ourselves beyond just offering lines and pipes but be able to help customers to analyse consumption and usage behaviour.

Prem Jearajasingam: (Macquarie Securities, Analyst) So we should be fine at the current CapEx spending patterns?

Tan Tong Hai: Yes, correct.

Prem Jearajasingam: (Macquarie Securities, Analyst) Okay cool. Thank you very much.

Eric Loh: Thank you ladies and gentlemen for joining us this evening for our results conference call. We look forward to speaking with you during our investor meetings in the next few weeks.

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