

Company: StarHub
Title: First Quarter 2016 Financial Results
Date: 5 May 2016
Time: 1800 SGT

Start of Transcript

Eric Loh: Good evening, ladies and gentlemen. Welcome to StarHub's first quarter 2016 results announcement. My name's Eric and with me this evening we have the CEO, Tan Tong Hai; the CFO, Dennis Chia; the CMO, Howie Lau, as well as the CCO, Kevin Lim, who'll be walking you through this quarter's results.

Now before we go into the presentation proper, let me just do a bit of housekeeping 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, who will give us some highlights of the first quarter's results.

Tong Hai Tan: Thank you, Eric. If you can turn to slide number 5, that's the overview of how we performed in the first quarter 2016 versus 2015. Take a look at the financials. Total revenue decreased 4% that is because we sold less handsets in the first quarter. But the most important thing is that the service revenue remained stable and EBITDA increased 13%, EBITDA margin at 33.8% and net profit after tax increased 26%. Operationally we have registered revenue growth in residential broadband and enterprise fixed and subscriber growth in both pre and post-paid mobile and we maintain low churn rates across all businesses.

Take a look at slide 6 for the key financial highlights. If you look at the service revenue, it is S\$2 million above a year ago, EBITDA at S\$183 million versus S\$162 million a year ago, mainly contributed by the less handset subsidising and also better OpEx management. That contributes to the higher EBITDA margin of 33.8%. Net profit after tax is S\$93 million, 26% increase over a year ago. Cash CapEx is about S\$42 million, the percentage of CapEx to revenue is 7.1% and net debt to EBITDA ratio is 0.58x, which is very healthy.

Take a look at slide number 7, it shows you the revenue and contribution and mix. Now if you note the mobile services, there's a drop of S\$7.3 million. That is mainly due to lower usage from IDD, voice and roaming services. Pay TV was also about S\$1.1 million lower, about 1% lower and that is mainly due to less subscriber base, but we registered strong growth in our broadband services, this our fifth consecutive quarter and we have registered 11.3% growth.

Enterprise fixed services registered steady growth with 5.4% growth year-on-year. So with the growth in both enterprise fixed and broadband services, it has actually mitigated the drop in the mobile and pay TV, resulting in a net increase of S\$1.9 million in our total service revenue. Sale of equipment was close to S\$29 million lower than the year before, because there was less smartphones sold in the first quarter this year. So as a result, you look at total revenue which is actually about S\$27 million lower than a year ago. That is mainly due to a lack of sale of equipment, as you can see in the sale of equipment line.

Next you look at our Hubbing scorecard. The total number of Hubbing households actually has dropped compared to a year ago, mainly due to less cable TV subscribers, that has resulted in the drop in the Hubbing households. But if you look at the single service household, we have actually registered an increase.

With this I'll hand over to Dennis to cover the financial highlights. Dennis, over to you please.

Dennis Chia: Thanks Tong Hai. I'll move onto slide number 10. Profits from operations within the quarter was S\$118 million, this represented a S\$24 million increase from a year ago. EBITDA increased from S\$162 million to S\$183

million, representing an increase of 26% or S\$21 million. This was due to the lower handset subsidies, due to the lower handset sales during the quarter, as well as better OpEx management across most lines of the cost structure.

Moving onto slide number 11, on the cost of sales. Cost of sales for the quarter was S\$230 million or 39% of sales, versus S\$287 million or 46% of sales. We recorded reductions in the cost in all components of our cost of sales. In the cost of equipment there was a S\$53 million decline due to the relatively lower number of handsets sold within the quarter. Cost of services was also lower at S\$93 million, this was because we continue to rationalise and improve our pay TV programming costs, offset by the increase in installation costs from the migration of the fibre broadband. Traffic costs also decreased to S\$33 million and this was the result of lower mobile traffic.

Onto slide number 12, other operating expenses for the quarter was S\$256 million versus S\$248 million a year ago. Excluding the impact of accruals no longer required that were reversed in the first quarter of 2015, other operating expenses were lower within the quarter compared to a year ago. The other G&A expenses have increased from a year ago due to the increased repair and maintenance expenses, as a result of the extended network, as well as the provision of S\$4 million that we took within the quarter for some main cable cuts. We continued to improve on our marketing and promotion costs as we leveraged our data analytics to increase the cost efficiency in our marketing and promotion campaign.

Moving onto the net profit after tax, this was at S\$93 million versus S\$74 million a year ago. This represented S\$0.054 on earnings per share. Our effective tax rate remained at 17.5%.

On CapEx payments, it was 7.1% or S\$42 million for the quarter versus S\$96 million a year ago, or 15.6% of sales. This was due to the relatively lower CapEx payments due during the quarter. Our total capital commitment as at the end of quarter 1 was S\$305.8 million.

On free cash flow we generated free cash flow of S\$90 million during the quarter or S\$0.052 per share. At the end of quarter 1 our cash and cash equivalent stood at S\$231 million. With this I hand the floor over to our Chief Marketing Officer, Howie Lau.

Howie Lau: Thanks very much, Dennis. First of all, a very good evening and thanks for your time. I will take you through the business highlights for mobile, pay TV and the broadband business. So if you go to slide 17, for mobile compared to a year ago our total customer base has expanded 51,000 and the post-paid ARPU has increased S\$1 to S\$69.

On slide 18, looking at the total mobile customer base, we note that the total base has increased both on the quarter-on-quarter as well as the year-on-year basis and if you look at both the pre-paid as well as post-paid on a year-on-year basis, we have also seen an increase in terms of the number of subscribers.

Slide 19 on mobile revenue, we closed quarter 1 at S\$298.1 million. This revenue was lower than the quarter 1 in 2015 due to usage, especially in IDD voice as well as roaming.

The next page on the mobile ARPU, on the pre-paid ARPU we see that we sold the S\$17 ARPU quarter-on-quarter and this is a year-on-year decline of S\$1, largely due to lower usage. On the post-paid ARPU side we see a year-on-year increase of S\$1 due to more paying subs, but at the same time we also recognise that compared to quarter 4 that is lower of S\$3. This is largely due to the seasonality as roaming is typically higher in quarter 4.

On slide 21 you will note that the post-paid non-voice services is now at 59.7% and a few additional data points; the average data usage by customer is at about 3.1 gigabytes, the number of - percentage of customer that has exceeded their data bundle remains stable at 22%. We also note that the number of customers who are now on our paid data plan is now at 65.4%, compared to 62% a year ago. The monthly churn rate remains low at 0.9%.

So that's all for the mobile, let's go to slide number 23 on the pay TV. On a year-on-year basis the revenue decreased 1% and the ARPU held stable at S\$51. We have seen the customer base lower by 17,000, largely due to the - we have stopped promotion of our TV Lite offering.

On page 24, we ended quarter 1 with 522,000 subs and our monthly churn rate remained stable at 0.8%.

Bringing us to slide number 25 on the pay TV revenue and ARPU, you will notice that the downturn of 1% compared to year-on-year is due to the lesser subscriber base, but we have held the TV ARPU at S\$51, which is the same as last quarter and compared to one year ago.

Now let's move to the broadband business on slide number 27. The revenue for broadband has increased 11% year-on-year and the ARPU has increased by S\$3 to S\$36, largely due to a higher take-up - the take-up of a higher plan by our customers. The customer base does remain stable and this is our fifth consecutive quarter of seeing a quarter-on-quarter revenue increase.

To the next page on broadband base and churn, we see a quarter 1 473,000 customer base being set year-on-year, in spite of the intense competition in the market. We note that the churn rate remains at 1.1%.

On slide 29 on broadband revenue and ARPU, you will notice that we see the fifth consecutive quarter of growth, reaching S\$53.5 million compared to S\$48.1 million a year ago and compared to a quarter ago at S\$52.1 million. On the residential broadband ARPU it's an increase of S\$3 here to S\$36 and this is contributed because of conversion of more customers to the higher speed plans.

So with that, let me hand over to our Chief Commercial Officer, Kevin, to take us through the enterprise fixed figures.

Kevin Lim: Thank you, Howie. Good evening, everyone. Firstly, let me draw attention to the fact that we have renamed our fixed - what we used to call our fixed network services to enterprise fixed and this is to clarify that the bulk of the revenue in this particular segment is actually B2B or enterprise services.

So with that let me cover the highlights - I'm on slide 31. Data and internet revenue continued to increase and it was 5% higher than the first quarter of 2015. Voice revenue also registered an increase of 7% versus the same period a year ago.

Moving onto the next slide. When we look at the overall revenue we registered S\$95.8 million in the first quarter versus S\$90.9 million a year ago.

In the next slide, looking specifically at the voice revenue, it was S\$13.7 million versus a year ago at S\$12.8 million and this is attributed primarily to a number of international voice users that we closed that resulted in higher traffic coming through. Looking at data and internet revenue, again we continue to grow this particular sector and in the quarter S\$82.1 million and this was much higher than a year ago at S\$78.1 million. The bulk of the revenue came from increases in managed services, as well as our broadband and other domestic data services. I think the important note is that we are growing our base revenue. The quarter-on-quarter drop is pretty traditional, as we tend to close out our projects towards the second half of the year. So you will see the revenue dropping in the first quarter and then we will grow the revenue again towards the end of the year.

So with that, let me hand it back to Tong Hai for the outlook.

Tong Hai Tan: Thanks Kevin. Here is page 35, the outlook for 2016. We maintain service revenue to grow in the low single digit. We maintain EBITDA margin on service revenue to be about 31% and maintain cash CapEx to be about

13% of total revenue. This excludes S\$50 million of spectrum payout. Declare first quarter 2016 dividend of S\$0.05 per share and maintain annual cash dividend of S\$0.20 per share for financial year 2016.

With this we open up to the floor for questions.

Eric Loh: Right, question and answer time. The first questions are going to come from Sachin from Nomura. Sachin.

Sachin Gupta: (Nomura, Analyst) Hi, thank you very much. Just a few things, firstly on the pay TV sub losses, I'm just wondering, how much of that is because of the promotions you've stopped and how much of that is actually partially structural now as well, given some of the developments in the market? That's one.

Secondly, on the fixed revenue, I take your comment that there can be seasonal weakness, but if you look at it I don't think that actually has been the case in the past. We've seen two consecutive quarters of fixed line declines now. Not only that, if you look at fixed line business we're still running at 17%, 18% of the total revenues, we haven't seen that change in the past two or three years now. I was wondering, what are your thoughts on the fixed line growth from here on? That's the second one.

Thirdly, on the other income, how much more can we expect from the NBN grants for the rest of the year and when will that appear to be booked? A very final question, just an overall business question for Tong Hai, once again we are not seeing much of a revenue growth, service revenue growth. I know business, there is a fair bit of mix between broadband and mobile, but if you look at quarter-to-quarter, year-to-year, it's been three or four years now service revenue growth has been 0%, 1%, minus 1%, there's been hardly any growth in the business. So just your thoughts on that please.

Tong Hai Tan: Okay, I would like Howie to answer the first question and then Kevin to answer on the enterprise business lines and also on the other income, before I take on the final one. Okay?

Howie Lau: Hi Sachin, thanks for the question. As you know, we stopped the promotion of the TV Lite and we do expect that the remaining TV Lite will see the impact for the next two quarters. What we do recognise as well is that the customers continue to focus on two main things. One is the quality of the content, which we are very focused on and the second is having an option in terms of the way they would like to view it. So obviously besides having the traditional pay TV offering, we have our own TV offering called StarHub Goq

You may have also read that we have also made an announcement with Netflix to enable Netflix on a high definition platform. This actually gives the - we're the only pay TV operator that provides this high definition quality viewing on Netflix and you may have also read that we've announced that we will also make BBC iPlayer available in the later part of the year. So while we stopped promoting TV Lite, we are continuing to stay focused on providing the right content as well as a variety of platforms.

Tong Hai Tan: Okay, Kevin.

Kevin Lim: Yes, hi Sachin. I think your question on the fixed line was in terms of what can you expect going forward, is that correct?

Sachin Gupta: (Nomura, Analyst) Yes.

Kevin Lim: So as explained in previous quarters, this business is also about us investing in the infrastructure as well as in the solutions to be able to service the enterprise customers. So as we roll out our infrastructure and as we build more and more capabilities, we should be able to serve more and more customers. You can see in many of the preceding quarters we have been steadily growing this business obviously. So of course you can expect that we will continue to grow this business.

Tong Hai Tan: Dennis, do you want to answer the question on the adoption grant, other income?

Dennis Chia: Sure, we announced the full year results and guided the EBITDA for the full year of 2016 to be 31%. We had also guided that the difference of the EBITDA margin between 2016 and the reported EBITDA margin of 2015 at 32.2% was due to the difference relatively lower amount of adoption grant that we would get in 2016 versus 2015. Therefore, that should - you should be able to compute the amount of adoption grant that we would expect to get for the rest of the year, taking into account the amount of adoption grant that we have already recorded in quarter 1.

Tong Hai Tan: Okay, Sachin, your question is about if you look at the last few years of revenue, it's relatively flat, but also you must note that our EBITDA in all the margins are also growing or maintaining. In the last few years there are changes. If you look at when I first joined, it was the content piece, the TV piece and in spite of the loss of the EPL content, you saw how we have cushioned and managed it. Now our pay TV is actually back to where we were before.

Then subsequently the year, two years ago was our broadband challenge, where we had to adjust our broadband prices to bring broadband to be more competitive. But now you can see that broadband is back on the growth path, this is our fifth consecutive quarter of growth. Of course, this quarter, what you are seeing is the challenges faced in terms of roaming revenue and this is not a problem faced by StarHub alone; this is faced by all operators across the world. Yet this quarter we have registered our growth in our EBITDA, as well as our net profit.

What I want to say to you is that StarHub is managing this business in terms of their four main lines of business, but by the way the fixed is not just fixed line; it's enterprise business, it includes managed services, cloud services and other enterprise divisions. So we have all these different businesses and the way I run it is that overall I want to make sure that of course we want to grow revenue, but if there are certain challenges we make sure that the other lines of business grow to make up for the drop. So that's how we've been doing it. Then we're looking at the bottom line; how do we increase the overall margin.

Over the last few years while you may not see the revenue growth and mix have changed, we have actually, if you look at this quarter, the enterprise content is actually our second largest contribution, slightly ahead of the TV. In terms of margin wise, enterprise fixed gives us a really good margin, almost the same level as mobile. So by focusing on these few areas we are able to make sure that we at least cushion some of the challenges and be able to grow our other line business. Bottom line is still very important, so that's how we've been seeing - managing this business. It is basically very focused on the EBITDA margin and generating cash flow. So I'm happy to note that we have sufficient diversity in our different line business to be able to allow us to run this business well.

Sachin Gupta: (Nomura, Analyst) Okay, thank you very much, that's good.

Eric Loh: Right, we have Wei Shi on the line from BNP. Wei Shi.

Wei Shi Wu: (BNP Paribas, Analyst) Hi, thank you. My first question is with regard to the margin. So it seems like especially in the first quarter your cost has been dropping faster than the revenue trend. To what extent is this due to - driven by a change in revenue or customer mix, i.e. structural versus just more efficient - more cost efficiencies achieved during the quarter?

Second question is with regard to depreciation and amortization. So can you please explain how you've managed to reduce the D&A and kept it stable on a Q-on-Q basis, despite the enlarged asset base?

And then last question is with regard to pre-paid. So during the quarter your registered pre-paid subscribers declined after a few quarters of increase. So can we get more visibility around what's causing the pre-paid subscriber run-off and how you intend to manage this business going forward? Thank you.

Dennis Chia: I'll take your first two questions Wei Shi. On the cost structure, if you look at the cost of equipment versus the revenue in the sale of equipment line, that is the highest cost component in terms of the percentage. So as we reduce the cost - the equipment that we sell, the proportionate decrease in the cost of equipment is significantly larger which then improves our cost structure.

So going back to the cost of sales, it's now for the quarter 39% versus a year ago which was 46%. So that relatively larger drop in the cost of sales is due primarily to that.

In addition, as we've also indicated, we continue to look at how we rationalise our pay TV programming costs as well as other lines in our operating expense structure.

On your second question on depreciation and amortisation, this is a function of assets that are fully depreciated over a period of time. So as we become fully depreciated they get zero book value and there's no longer any depreciation that's recorded. So we manage our assets very carefully in the sense of not replacing the assets until there is end of service life. So as a result of that, we actually depreciate our assets to the fullest before we actually end up replacing them. So that's how we manage to sustain a sustainable D&A quarter-on-quarter number.

Howie Lau: Hey Wei Shi, regarding the pre-paid, although we've seen a year on year increase in terms of subscribers, we do recognise that quarter-on-quarter there is a decline. This is largely due to the pre-paid cards, which we know has a six-month expiry and then we had a good number of cards coming out into expiry from six months ago.

But having said that, we continue to be very focused on two things on the pre-paid business. One is making sure the product remains competitive and second is the ease of customers being able to get the cards, so the touch points and the distribution continues to be a key focus for us.

Wei Shi Wu: (BNP Paribas, Analyst) Thank you. If I can follow up on the first question. So from your comments earlier, it seems to suggest that you guys are just managing the costs a lot more efficiently. It doesn't sound like you think that the margin improvement is really because of change in revenue mix i.e. maybe or customer mix i.e. your enterprise mix is starting to impact on - having a more positive impact on the overall margin?

Dennis Chia: No, there is a relatively larger proportion of the enterprise fixed business as a percentage of our total business component. So as you see that shift in the mix there will be obviously a proportionately higher margin contribution from that as well.

And as Tong Hai has mentioned earlier that along with our mobile segment are the two segments that deliver the highest margins.

Wei Shi Wu: (BNP Paribas, Analyst): Okay, thank you very much.

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

Arthur Pineda: (Citigroup, Analyst) Hi, thanks for the opportunity. Two questions from me. Firstly on the margins, you're obviously running at very high margins of 34% and you seem to affirm 31% for the year. Are you looking at trading costs escalating in the subsequent quarters? Are there any seasonal factors in play now, like handsets?

Second question I have is with regard to the question earlier posted by Sachin on pay TV. Are we seeing more subs actually downgrading their pay TV subscription given the OTT issue?

The last question I had is on the mobile side. Can you give an idea in terms of the BYOD plan take-ups? How big a factor

is this in cutting the revenues on mobile? Thank you.

Dennis Chia: On the first question Arthur on the seasonal costs, you are absolutely correct. So as certain models of smartphones are launched within the year that typically does impact the cost of handsets that are being sold and the subsidies associated with that during the course of the year. So typically we see that coming in, in the second half of the year.

Howie Lau: Okay. Arthur, for pay TV what we're observing - because as you know, we offer both the linear as well as the OTT offering - what we're observing is that different types of contents and different customer segment groups tend to lean towards different type of combinations. So we actually see it more as complementary. So for example, family content and ethnic content tends to lend itself well - better to a large screen viewing together with the family.

We are also starting to observe that perhaps certain content tends to lend itself better for personal viewing. So for example, we notice like the recently launched *Game of Thrones* which tends to be a bit edgier in terms of content seems to lend itself better on a personal viewing device rather than a large screen, in case your kids may walk in at the wrong moment. We do notice that sports for example have a nice mix between large screen viewing as well as small screen viewing. This is something - right now what we're seeing is very complementary but we'll continue to monitor to make sure that we can meet the customers' requests in terms of content as well as the modes of viewing.

Arthur Pineda: (Citigroup, Analyst) Okay, so you're not seeing any acceleration in terms of downgrading movie packages or like?

Howie Lau. No, right now we're seeing increased consumption on both sides which is really nice.

Kevin Lim: Arthur, this is Kevin. I'll take your question on BYOD. So yes we do - we still see an increasing trend towards BYOD. However, in terms of impact I think it's just a question of the classification of the customers. So we do have a scheme which we call CIS which is the *Corporate Individual Scheme* whereby these are actually corporate users except that they register the accounts under their own name. So we recognise them as corporate users but we treat them individually but they normally would be negotiated on a company basis.

Arthur Pineda: (Citigroup, Analyst) So the decline in revenues, is that being driven by the CIS or is it just BYOD?

Kevin Lim: Declines in mobile revenue, as we have explained, comes primarily from the usage revenue. So there is substitution in terms of roaming, voice roaming. So there has been lower voice roaming, lower IDD usages but our subscription revenues are still growing. It's just the usage revenue that has come off.

Arthur Pineda: (Citigroup, Analyst) Understood. Thank you.

Eric Loh: Thank you. Next let's hear from DBS, Sachin?

Sachin Mittal: (DBS, Analyst) A couple of questions. Is there any one-off in this first quarter result, whether it's asset grant or whether it's adoption grant somewhere in the - just some light on that?

Secondly, in March we saw 25% to 50% kind of reduction in the data pricing by actually all the telcos. So should we expect adverse impact from revenues going forward because of that from second quarter onwards?

Thirdly, we also saw launch of - I think today Circles Asia launched MVNO and then is innovation in the sense that one can actually need not call the call centre or anyone, you can just change your data or voice minutes on your own through app. I'm just wondering, that seems to bring some kind of cost saving there. How do you see the impact of MVNO on you going forward?

And lastly, how serious is this Hubbing scorecard? I mean there's a reason you look at this metrics, right, and this metrics doesn't seem to suggest that - something is wrong somewhere because especially that triple play services you're losing the subs, actually having all the triple services from you, why are they leaving? Are they going to the OTT services or are they going to your competitors? Thank you.

Dennis Chia: Sachin, I'll take your first question. The adoption grant is as we've constantly treated it, it's recorded under the other income line. So that's still something that we've recorded within the first quarter. Other than that there are no other one-off items that are material.

Sachin Mittal: (DBS, Analyst) So we won't see this going forward?

Dennis Chia: Well, as I kind of addressed in a prior question, the adoption grant - relative amount of adoption grant that we expect to record within 2016 versus the amount that we recorded in 2015 represented a differential of 100 basis points in our EBITDA margin between what we reported in '15 versus '16.

Sachin Mittal: (DBS, Analyst) Understand.

Howie Lau: Hey Sachin, this is Howie. To answer question, I think these data upsize plans that we offer to the market is actually increasing to our ARPU. Because we do see a very good take-up in terms of the plan that we've launched which is S\$6 for additional 3GB. So we believe that will actually help in terms of adding to the ARPU.

In terms of the flexibility of the services and sales service, I think as we've rolled out all the different plans that we have in the market we have given a lot of different options and flexibility for customers to choose from. So for example if you would prefer a no-contract plan we have a SIM only. If you prefer to add data, whether you're pre-paid or post-paid, there are different plans available for you to add plans.

I'm glad you've also raised and noticed that customers are looking at the ability to do self-service and within our MyStarHubqapp we have also seen a very strong take-up in terms of customers coming in to do self-service, including the recently launched ability for you to even do your appointment so that as opposed to queuing in the shop you can pre-book an appointment at a shop in order to get service.

So we do recognise that on an ongoing basis it's important to meet the customers' requirements, not just in terms of flexibility of offerings but also in terms of the ease of support and self-service.

On your last question regarding Hubbing scorecard. I think, as you know, the Hubbing scorecard is a composite of multiple services and we know that we have grown in terms of the mobile subs and we have grown in terms of the broadband fibre subs but we have lost the TV Lite subs because we stopped promoting behind it. What that should do for us is to be - obviously these Hubbing statistics continue to be something that's important for us because customers do see a lot of value in having relevant Hubbing products. But what's also important is that we keep a very active eye on making sure that the revenue continues to hold. So despite the drop of the TV Lite that has contributed to the Hubbing index, the revenue continues to hold because it's important for us to make sure that we continue to grow the revenue as well as the household ARPU as well.

Sachin Mittal: (DBS, Analyst) Perfect. Great. Thank you.

Eric Loh: Next on the line is UBS, Suresh.

Suresh Mahadevan: (UBS, Analyst) Hi. Thanks for the opportunity and I think congrats on good EBITDA and net income. I think I had a couple of quick questions. First one is on your mobile business. It seems to me that there is some pressure

on roaming clearly and I want to understand what does roaming today account for in terms of mobile revenue? That is one.

Secondly, it seems to me that you used to have quite a few - quite a decent proportion of your users exceed their data usage. So I'm just wondering what offering this additional 3GB for S\$6, what is it really trying to achieve? Because your normal rate for 1GB is much higher than that. So that is the second part of it.

The second question is clearly you have invested in the enterprise business, on the fixed, as you call it, and I think that seems to be now becoming a bigger and bigger proportion of revenue. Now I wanted to understand how you view the return on investing in this business because clearly I think you have invested - you are investing - you are out-investing M1 by like a factor of two plus, almost 2.5. So I just wanted to hear your thoughts on how you look at the ROI and just some thoughts on that would be very useful. Thank you.

Tong Hai Tan: Howie, do you want to cover the mobile roaming part?

Howie Lau: Sure. Let me just touch on the data part. I think for this, if you notice from the numbers, the number of customers exceeding the data pack continues to be stable at about 22%. Introducing the new data pack is actually good because it allows us that incremental revenue. At the same time we also do know that customers' data consumption continues to increase so I think this is a very important combination because it's about making sure that we're able to offer incremental data to our customers at an incremental fee because it's in line with what the customers are asking for. So we actually think this combination will continue to work out for us.

In terms of roamingō

Dennis Chia: The roaming revenue constitutes approximately 10% of our total mobile revenue.

Tan Tong Hai: And Suresh, your question is about the pressure on roaming. We have a RoamEasy plan that we actually have been promoting. So that is one way for us to grow it. Because our RoamEasy is operator-agnostic. This is something that customers like very much and you pay S\$10 for 100mb. You do not need to care about any operator - which operator you lock onto and that resolves a lot of unhappiness in terms of bill shock and all those things.

So that is something that we will continue to promote and currently we have the most - in terms of LTE roaming the widest number of countries you can roam to.

Then in terms of outbound roaming, certainly we see that there will be pressure because - but bear in mind the outbound roaming from a cost perspective you also pay a lot to the overseas operator. So net-net in terms of margin wise I would say that inbound roaming gives us much, much better margin than outbound roaming.

So yes, the outbound roaming may drop but we are focusing on growing inbound and I think that's how we're going to make sure that the margin is still there. Along the line I stressed that we are very focused on margin and making sure that even though there's a drop in revenue, the margin actually will come in, if not then we have to adjust our OpEx accordingly.

Kevin Lim: Your question on the investment, the return on investment for enterprise. I think I spoke about this, previous quarters whereby we are investing on fibre, a nationwide fibre network, a whole fibre network, not the NGN. Besides using it for enterprise, this network is also supporting our mobile network. So as we roll out let's say our 4G, we have to upgrade the backhaul, the transmission, and this fibre network is utilised to also support all the base stations for the transmission part of our network.

Then on top of that we use it to support the enterprises. So it's not as if we are building it solely for the enterprise business. But we can see that as we roll out last mile, we are able to tap on the what I would call low-hanging fruits like diversity. A lot of customers are asking us for diversity from multiple carriers. And as we roll out we have that ability to meet those

needs.

So we do expect that this should improve our ROI.

Suresh Mahadevan: (UBS, Analyst) Okay. Thank you so much and all the best for the rest of the year.

Eric Loh: Thank you. Next we have Prem from Macquarie.

Prem Jearajasingam: (Macquarie, Analyst) Good afternoon and thank you for the opportunity. A few questions from me. First of all, as a matter of housekeeping, when you talk about the pre-paid subs - and I appreciate that you have a six-month policy but could you - if you had to take it down to a 30-day basis let's say, how much of a decline are you actually seeing on those prepaid subs? How much of this is seasonal and how much of it is really a trend of people leaving the network in terms of the pre-paid subs?

Also we talk about OTT services and that potentially being a threat to your revenues but how does it impact your costs as well? Because have you had any success in being able to potentially reduce some of your content costs as you increase the number of OTTs on your network?

And finally maybe can we get some update on the fourth operator now. What are your thoughts? Do we feel that we've done enough to potentially mitigate the impact of this fourth operator coming in, if they do come in later this year?

Howie Lau: Okay. Let me just take the OTT services one. As mentioned earlier, we do see that OTT right now - we see signs that it's a complementary offering but in terms of costs there are different models out there. So if you look at for example the Netflix offering, Netflix is the one that carries the content cost and then we are able to offer it through our platform. But at the same time there are different cost models out there and some of the content that we purchase comes with OTT rights and so on.

So it is something that we continue to have to balance in terms of what is the right cost to acquire against what the customer is willing to pay and against the platform. So this is something that I think the industry is still evolving in terms of the cost model. So that's for OTT.

I think in terms of fourth operator, I believe you've heard us talk about our continued focus on the customer as a starting point because at the end of the day we're always prepared for competition whether it's the fourth, fifth or the current competitor. At the end of the day, I think all of us know that Singapore is a very congested market. There is - in fact sometimes we joke that there is no such thing as a new customer; you are either a current StarHub customer, a previous StarHub customer or a future StarHub customer.

So for us we're very focused on making sure that our services continue to be competitive, our coverage continues to be good. So last year you saw that we were awarded world's fastest LTE. We had a lot of really wonderful response from our customers. So it's a combination of getting the right products, the right pricing as well as the right customer service.

So in terms of the fourth operator, for us it's a continued focus on the customer. That's more important. Pre-paid side. Pre-paid, we continue to focus on it. We do see that usage is lower because there is some substitution in lieu of IDD. So for example a number of dormitories today have better access to Wi-Fi and that does have a direct impact and I think if you look at just pure observation, there's quite an increased usage of OTT voice services as well.

So on the flip side we do see that data services is going up because like the rest of our post-paid customers we do see pre-paid customers using more data as well. So this is something that obviously as the customer trend evolves we continue to monitor to make sure the product is relevant and then the touch points we have and the offerings as well.

Tong Hai Tan: So Prem, you were asking whether this drop in pre-paid subscribers, is this seasonal or not. Bear in mind that the first quarter we had the shorter month and we also had the Chinese New Year period. So in terms of time for us to acquire new customers, it's shorter days, coupled with higher, what we call aspiration of this pre-paid card. I think that's why this quarter there is a drop.

The fourth operator, Howie has answered it well. But bear in mind that StarHub will still have more than just good service coverage, we also have the Hubbing strategy. The Hubbing remains a very important part of our overall strategy because it clearly differentiates us and we will continue to drive the Hubbing household. In spite what Howie has shared about, the drop is mainly due to the TV Lite but we still have the overall strategy to grow Hubbing households and it remains a very important part of our overall arching strategy to differentiate ourselves from the new players.

Prem Jearajasingam: (Macquarie, Analyst) Thank you very much Tong Hai. Thank you.

Eric Loh: Thanks Prem. We've got time for one last question and that would be coming from Deutsche Bank.

Srinivas Rao: (Deutsche Bank, Analyst) Hi, this is Srini here. Thank you very much. My two questions, first on the customer franchise. This quarter what you have seen is except for post-paid subs generally let's call the market for customer franchise has come off, Hubbing householders, pre-paid, pay TV and broadband. So Tong Hai, I just wanted to get a sense of how do you think about the customer franchise going forward because then everything else follows from there? So that is my first question.

My second is could you throw some light on your enterprise. The revenues have grown quite well and you said there's a seasonal fall. Is it fair to expect the kind of trajectory we have seen last year that will continue for the rest of the quarter as in expected Q-on-Q growth in the revenue base for the enterprise business? That will be helpful. I'd like to get guidance on that. Thank you.

Tong Hai Tan: Srini, yes you have seen, of course if you take a look at it, the main drop actually is in the pay TV Lite in the pay TV segment. So that also is the main reason behind the Hubbing household drop. But if you look at the number of subscriber drop, this is the top line of our pay TV, the drop is only 1% of revenue drop in the pay TV. This tells you that these customers are the low ARPU or the low usage customers which account for the drop because we stopped promoting the TV Lite.

So we are keeping our key customers I think if you look at it. That's most important. That transmits to paying customers and will contribute to the top line. I still focus - I think our main focus really is running this business well, serving those paying customers well. That is our overarching focus.

As to the enterprise revenue, if you look at it, as Kevin has explained, seasonally for the fourth quarter typically in most projects they close it - most companies have what we call the year-end so they try to close all the projects by year end. So if you compare our first quarter with fourth quarter, you will notice that certainly there will be a difference. But if you compare on a year on year basis, that will be a right comparison. We have shown first quarter year on year growth and then also looking at how we performed in the previous year that is the kind of growth trending that you should be modelling on a quarter-on-quarter growth.

Srinivas Rao: (Deutsche Bank, Analyst) Understood. Thank you. This is very helpful. Thank you so much.

Eric Loh: Thank you very much for joining us this evening. We know there's still a few of you who have got questions for us. We'll be following up with you shortly. In the meantime, you have a good evening and we'll talk again in the next quarter. Thank you and goodnight.

End of Transcript