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STARHUB LTD

Announcement of Business Performance Update for the First Quarter ended 31 March 2020

StarHub is pleased to announce the business performance update for the first quarter ended 31 March 2020.

Results for the First Quarter ended 31 March 2020

1. GROUP INCOME AND COMPREHENSIVE INCOME STATEMENTS**1.1 GROUP INCOME STATEMENT**

	Quarter ended 31 Mar			
	2020 S\$m	2019 S\$m	Incr / (Decr) S\$m	%
Total revenue	506.2	596.8	(90.6)	(15.2)
Operating expenses	(448.4)	(524.7)	(76.3)	(14.5)
Other income	1.5	0.1	1.4	nm
Profit from operations	59.3	72.1	(12.8)	(17.8)
Finance income	0.4	0.4	0.0	7.3
Finance expense ⁽¹⁾	(9.1)	(9.8)	(0.7)	(6.8)
	50.6	62.7	(12.1)	(19.3)
Share of (loss)/ gain of associate, net of tax	(0.0)	0.4	(0.5)	nm
Profit before taxation	50.5	63.1	(12.6)	(20.0)
Taxation	(8.4)	(13.8)	(5.4)	(39.1)
Profit for the period	42.1	49.3	(7.2)	(14.6)
Attributable to:				
Owners of the Company	40.2	54.0	(13.9)	(25.7)
Non-controlling interests	1.9	(4.7)	6.7	nm
	42.1	49.3	(7.2)	(14.6)
EBITDA	136.2	161.9	(25.7)	(15.9)
Service EBITDA ⁽²⁾	125.7	149.7	(23.9)	(16.0)
Service EBITDA as % of service revenue	31.1%	33.7%	-2.6% pts	
Free Cash Flow ⁽³⁾	118.9	21.4	97.5	nm
<i>Profit from operations is arrived after charging the following:</i>				
<i>Loss allowances of trade receivables</i>	<i>3.8</i>	<i>5.3</i>	<i>(1.5)</i>	<i>(29.0)</i>
<i>Depreciation and amortisation</i>	<i>76.9</i>	<i>89.8</i>	<i>(12.9)</i>	<i>(14.3)</i>
<i>Foreign exchange (gain) / loss</i>	<i>5.4</i>	<i>(1.1)</i>	<i>6.5</i>	<i>nm</i>
<i>Allowance for stock obsolescence</i>	<i>1.0</i>	<i>0.2</i>	<i>0.8</i>	<i>nm</i>

nm – Not meaningful

Notes:

- (1) Finance expense includes interest on borrowings and lease liabilities and other financing charges
(2) Service EBITDA refers to EBITDA less equipment margin (sales of equipment less cost of equipment)
(3) Free Cash Flow refers to net cash from operating activities less purchase of property, plant and equipment and intangible assets in the cash flow statement
(4) Numbers in all tables may not exactly add up due to rounding

1.2 MANAGEMENT DISCUSSION

Revenue	Quarter ended 31 Mar			
	2020 S\$m	2019 S\$m	Incr / (Decr) S\$m	%
Mobile	163.5	192.3	(28.8)	(15.0)
Pay TV	46.8	70.7	(23.9)	(33.8)
Broadband	41.7	47.1	(5.4)	(11.4)
Enterprise Business	152.8	134.1	18.7	13.9
- Network solutions ⁽¹⁾	90.4	107.8	(17.4)	(16.1)
- Cyber security services ⁽²⁾	62.4	26.4	36.1	136.8
Service revenue	404.9	444.3	(39.4)	(8.9)
Sales of equipment	101.3	152.5	(51.2)	(33.6)
Total revenue	506.2	596.8	(90.6)	(15.2)

*Notes:**(1) Includes Data & Internet, Managed services and Voice services**(2) Includes service revenue from Ensign and D'Crypt*

The Group's 1Q2020 total revenue of S\$506.2 million was S\$90.6 million or 15.2% lower YoY (year-on-year). The lower revenues were mainly due to lower revenues from Mobile, Pay TV, Broadband and Sales of equipment, partially offset by higher revenues from Enterprise Business.

Against the corresponding period last year, Mobile service revenues in 1Q2020 was lower YoY by 15.0% due to lower post-paid and pre-paid Mobile revenues. The decrease in post-paid Mobile revenues was mainly due to lower IDD, excess data usage, lower roaming due to a significant drop in global travel caused by the COVID-19 outbreak, lower plan subscriptions and VAS (value-added services) revenues, partially offset by the increase in voice usage. The decrease in pre-paid Mobile revenues was mainly due to lower inbound and outbound tourists due to the impact from COVID-19 measures, lower data subscriptions, prepaid expired credit and IDD.

Pay TV service revenue in 1Q2020 was 33.8% lower YoY, mainly due to a lower subscriber base and lower ARPU's due to promotional activities in respect of the cable to fibre migration from the previous year.

Broadband service revenue decreased YoY by 11.4% in 1Q2020, mainly due to lower ARPU's as a result of promotional activities in respect of cable of fibre migration from the previous year.

Enterprise Business revenue increased YoY by 13.9% in 1Q2020, mainly due to higher revenues from cyber security services, partially offset by lower revenues from voice services, internet services and domestic leased circuits as well as managed services.

Revenue from sales of equipment decreased YoY by 33.6% in 1Q2020, mainly due to lower volume of premium handsets sold as a result of COVID-19 and disruption to handset supply chains, resulting in a stock-out situation for certain handset models.

The Group's total operating expenses for 1Q2020 was lower by S\$76.3 million or 14.5% YoY, mainly due to lower cost of sales and other operating expenses, partially offset by the increase in operating expenses for cyber security services.

As a percentage of revenue, total operating expenses for 1Q2020 was at 88.6%, when compared to 87.9% in the corresponding period last year.

Other income increased mainly due to income grant received and recovery of tunnel fees from TPG in 1Q2020.

Profit from operations of S\$59.3 million in 1Q2020 was S\$12.8 million lower YoY. Profit from operations for Cyber security services was S\$5.0 million in 1Q2020 compared to losses of S\$11.4 million in the same period last year. Excluding Cyber security services, profit from operations would have been S\$54.3 million, which is S\$29.2 million lower YoY due to lower revenues from Mobile, Pay TV, Broadband and Network Solutions and lower margin from Sales of equipment, partially offset by higher other income and lower operating expenses.

Service EBITDA margin for 1Q2020 at 31.1% was 2.6% points lower YoY, mainly due to the lower service revenues.

Finance income was stable YoY in 1Q2020 whilst finance expenses was lower in 1Q2020.

Share of results of associate was a loss in 1Q2020 compared to a gain in the corresponding period last year.

Profit before taxation of S\$50.5 million in 1Q2020 was lower by S\$12.6 million YoY as a result of lower profit from operations. Taxation expense for 1Q2020 was lower at S\$8.4 million due to lower profits. As Ensign started turning in a profit this quarter, the previously un-recognised deferred tax asset relating to prior period tax losses was recognised to reduce taxation expense on profit in this quarter. This resulted in an overall lower taxation expense and a lower effective tax rate, as compared to the corresponding period last year.

Net profit for 1Q2020 was S\$42.1 million.

The Group's 1Q2020 net cash from operating activities of S\$153.9 million was S\$87.1 million higher YoY due to lower working capital needs, partially offset by lower cash flow from operations and higher income tax paid. The positive working capital changes of S\$27.2 million was primarily attributed to lower inventories, lower trade receivables and lower other receivables, deposits and prepayments, partially offset by lower trade and other payables and lower net balances due to related parties. Free cash flow of S\$118.9 million in 1Q2020 was higher YoY by S\$97.5 million, primarily due to higher cash from operating activities coupled with lower CAPEX payments.

Shareholders' Equity

The Group's shareholders' equity increased by S\$21.3 million to S\$539.4 million as of 31 March 2020 (excluding non-controlling interests of S\$63.9 million) compared to S\$518.1 million as of 31 December 2019. The increase was mainly due to higher retained profits.

Net Debt

On account of a higher cash and cash equivalent balance, net debt was S\$101.5 million lower at S\$829.3 million as of 31 March 2020 compared to S\$930.8 million as of 31 December 2019. As a ratio of the past 12 months' EBITDA, the Group's net debt was lower at 1.40 times as of 31 March 2020 compared to 1.51 times as of 31 December 2019.

Refinancing of current borrowings due for repayment

The Group is in the process of securing S\$407.5 million of new committed term loan facilities, subject to completion of term loan documentation, to refinance its current borrowings due for repayment in the second half of 2020, at comparable rates to the existing term loan facilities. In addition, the Group has secured new committed credit facilities for working capital purposes. Upon completion of the financing documentation, the Group expects to have S\$300.0 million of committed credit facilities available for drawdown as and when needed.

Capital Expenditure

The Group's CAPEX payments amounted to S\$35.0 million in 1Q2020, representing 6.9% of total revenue. CAPEX payments were lower YoY by S\$10.4 million in 1Q2020 mainly due to a decrease in purchase of property, plant and equipment (PPE).

As of 31 March 2020, the Group's total outstanding capital expenditure commitments amounted to S\$432.3 million, including the outstanding commitments for 4G spectrum rights of S\$282.0 million.

Outlook

The COVID-19 crisis, resulting in travel restrictions globally and circuit breaker measures in Singapore, is expected to have a material impact on the Group's revenue and profitability for the year.

In these very challenging times, the Group's priority is to maintain adequate financial liquidity, the health and welfare of its employees, customers, and business partners. The Group has rolled out initiatives to enable customers to tide over this unprecedented crisis in the best possible way.

The Group expects revenue declines in most lines of business, to varying degrees, as a result of this crisis and will continue to manage operating expenses, capital expenditure and cash flow to mitigate the impacts of the revenue decline. To this end, the various budgetary measures provided by the Singapore Government have supported the maintenance of jobs, cash flow and the ability to mitigate some of the revenue impacts.

The Group has successfully negotiated the refinancing of bank loans due for repayment this year and upon conclusion of these arrangements, there will be no further refinancing required until 2022. We also have adequate additional credit facilities to manage our working capital and other funding requirements. The Group still expects to generate positive operating cash flow this year.

The Group remains fully committed to and has the resources to continue with its strategic initiatives such as: the closing of the Strateq acquisition, the commencement of the 5G project, the IT transformation program, greater commitment to the enterprise business division and other long-term transformation initiatives.

The Group will provide more information on the net impact of all these measures in the second half of this year when there is greater clarity around both the relevant Government measures as well as the economic situation. Accordingly, the Group will withdraw all guidance for 2020 for the time being and will update shareholders once there is greater visibility as to the aggregate nature of the impacts.

2. BUSINESS REVIEW

Mobile Services

	Quarter ended 31 Mar			
	2020	2019	Incr / (Decr)	
	S\$m	S\$m	S\$m	%
Mobile revenue	163.5	192.3	(28.8)	(15.0)

	Quarter ended / As of		
	31 Mar 2020	31 Dec 2019	31 Mar 2019
Mobile operating statistics			
Number of registered subscribers (in thousands)			
Post-paid	1,466	1,451	1,438
Pre-paid	704	778	789
Total	2,170	2,229	2,228
ARPU with IDD included (S\$ per month)			
Post-paid	34	40	39
Pre-paid	11	13	13
Average smartphone data usage (GB)	10.6	9.9	6.3
Average monthly churn rate (post-paid)	1.0%	1.1%	1.1%
Singapore mobile penetration ⁽¹⁾	158.7%	159.1%	152.0%
Market Share ⁽¹⁾	24.0%	24.6%	26.0%

Note:

(1) Based on latest published statistics

Overall Mobile service revenues in 1Q2020 was lower YoY by 15.0% due to lower post-paid and pre-paid Mobile revenues. The decrease in post-paid Mobile revenues was mainly due to lower IDD, excess data usage, lower roaming due to a significant drop in global travel caused by the COVID-19 outbreak, lower plan subscriptions and VAS (value-added services) revenues, partially offset by the increase in voice usage. The decrease in pre-paid Mobile revenues was mainly due to lower inbound and outbound tourists due to the impact from COVID-19 measures, lower data subscriptions, prepaid expired credit and IDD.

Post-paid mobile services

As of 31 March 2020, post-paid mobile subscriber base stood at 1,466,000 after the quarter's net addition of 15,000 subscribers. Compared to a year ago, post-paid subscriber base increased by 28,000 subscribers or 1.9%.

Post-paid mobile ARPU in 1Q2020 stands at S\$34. The post-paid mobile ARPU declined YoY due to the impact from COVID-19, lower plan subscription revenues, VAS, outbound roaming and data usage revenues. The overall average smartphone data usage increased YoY to 10.6 GB in 1Q2020.

Post-paid mobile average monthly churn rate was at 1.0% in 1Q2020.

Pre-paid mobile services

As of 31 March 2020, pre-paid mobile subscriber base was 704,000. Compared to a year ago, pre-paid subscriber base decreased by 85,000 subscribers. The decline was mainly due to the impact from COVID-19 measures, which caused an overall drop in tourist numbers. Pre-paid mobile ARPU was at S\$11 for 1Q2020.

Pay TV Services

	Quarter ended 31 Mar			
	2020	2019	Incr / (Decr)	
	S\$m	S\$m	S\$m	%
Pay TV revenue	46.8	70.7	(23.9)	(33.8)

Pay TV operating statistics	Quarter ended / As of		
	31 Mar 2020	31 Dec 2019	31 Mar 2019
Number of residential Pay TV subscribers ⁽¹⁾ (in thousands)	327	329	394
ARPU (S\$ per month)	38	42	48
Average monthly churn rate	0.6%	0.7%	1.5%

Pay TV service revenue of S\$46.8 million in 1Q2020 was 33.8% lower YoY, mainly due to a lower subscriber base and lower ARPUs, both due to promotional activities in respect of the cable to fibre migration from the previous year.

As of 31 March 2020, Pay TV subscriber base stood at 327,000 after the quarter's net churn of 2,000 subscribers. Compared to a year ago, Pay TV subscriber base was lower by 67,000.

Average monthly churn rate was lower at 0.6% for 1Q2020 after the completion of the cable to fibre migration in 3Q2019.

Pay TV ARPU of S\$38 in 1Q2020 was lower when compared to the corresponding period last year.

Broadband Services

	Quarter ended 31 Mar			
	2020 S\$m	2019 S\$m	Incr / (Decr) S\$m %	
Broadband revenue	41.7	47.1	(5.4)	(11.4)

Broadband operating statistics	Quarter ended / As of		
	31 Mar 2020	31 Dec 2019	31 Mar 2019
Number of residential broadband subscribers - subscription-based (in thousands)	502	501	495
ARPU (S\$ per month)	27	27	31
Average monthly churn rate	0.4%	0.5%	0.8%

Broadband service revenue of S\$41.7 million in 1Q2020 was 11.4% lower YoY, mainly due to lower ARPUs.

Broadband ARPU of S\$27 in 1Q2020 was lower when compared to the corresponding period last year, mainly due to promotional activities in respect of the cable to fibre migration from the previous year.

Broadband average monthly churn rate was lower at 0.4% in 1Q2020 after the completion of the cable to fibre migration in 3Q2019.

Enterprise Business

Enterprise Business revenue	Quarter ended 31 Mar			
	2020 S\$m	2019 S\$m	Incr / (Decr) S\$m	%
Data & Internet ⁽¹⁾	61.9	68.4	(6.5)	(9.4)
Managed services ⁽²⁾	17.8	26.1	(8.3)	(31.8)
Voice services ⁽¹⁾	10.7	13.3	(2.6)	(19.8)
Network solutions	90.4	107.8	(17.4)	(16.1)
Cyber security services ⁽³⁾	62.4	26.4	36.1	136.8
Total	152.8	134.1	18.7	13.9

(1) SmartUC and SIP Trunking have been reclassified from Data & Internet to Voice

(2) Managed services include Analytics, Cloud, ICT solutions and Facility Management

(3) Includes service revenue from Ensign and D'Crypt

Enterprise Business revenue increased YoY by 13.9% in 1Q2020, mainly due to higher revenues from cyber security services, partially offset by lower revenues from voice services, internet services and domestic leased circuits as well as managed services.

Data & Internet service revenue in 1Q2020 was lower YoY due to the renewals of domestic leased circuits and IP transit at lower rates.

Managed services revenue for 1Q2020 was lower YoY due to lesser projects completed during the quarter as well as delayed customer spending for cloud, cryptographic and digital security projects due to the impact arising from COVID-19.

Voice services revenue in 1Q2020 was lower YoY, mainly due to lower domestic voice and international voice traffic and lower smart messaging revenues.

The growth in cyber security services in 1Q2020 was largely contributed by the consolidation of Ensign from 4Q2018 onwards and higher demand for these services.

3. GROUP CASH FLOW STATEMENT

	Quarter ended 31 Mar	
	2020 S\$m	2019 S\$m
Operating Activities		
Profit before taxation	50.5	63.1
Adjustments for :		
Depreciation and amortisation	76.9	89.8
Income related grants	(0.9)	(0.1)
Share-based payments	0.7	1.1
Net finance costs	8.7	9.4
Share of loss of associate, net of tax	0.0	(0.4)
Others	0.1	0.2
Operating cash flow before working capital changes	136.2	163.1
Changes in operating assets and liabilities	27.2	(95.3)
Income taxes paid	(9.6)	(1.0)
Net cash from operating activities	153.9	66.7
Investing Activities		
Interest received	0.3	0.2
Proceeds from disposal of property, plant and equipment and intangible assets	0.1	0.1
Purchase of property, plant and equipment and intangible assets	(35.0)	(45.4)
Net cash used in investing activities	(34.6)	(45.1)
Financing Activities		
Repayment of lease liabilities	(8.7)	(7.5)
Grants received	0.2	0.2
Interest paid	(6.5)	(7.3)
Purchase of Treasury Shares	(2.9)	(1.5)
Net cash used in financing activities	(18.0)	(16.1)
Net change in cash and cash equivalents	101.3	5.6
Cash and cash equivalents at beginning of the period	116.9	165.3
Cash and cash equivalents at end of the period	218.3	170.9
Cash and cash equivalents comprise:		
Cash and bank balances	219.0	171.5
Restricted cash	(0.7)	(0.6)
	218.3	170.9

4. STATEMENT OF FINANCIAL POSITION

	Group		Company	
	31 Mar 20	31 Dec 19	31 Mar 20	31 Dec 19
	S\$m	S\$m	S\$m	S\$m
Non-current assets				
Property, plant and equipment	799.2	820.2	416.2	421.0
Intangible assets	656.9	672.3	101.0	108.8
Right-of-use assets	139.5	150.0	110.5	116.7
Subsidiaries	-	-	3,256.0	3,256.0
Associate	22.0	22.1	27.8	27.8
Investment in fair value through other comprehensive income	13.7	34.3	13.7	34.3
Amount due from related parties	8.6	8.5	8.6	8.5
Contract assets	81.6	77.6	0.2	0.6
Contract costs	5.7	7.0	0.4	0.4
	1,727.2	1,792.1	3,934.4	3,974.1
Current assets				
Inventories	70.9	98.3	5.8	5.5
Contract assets	310.7	334.1	24.2	27.5
Contract costs	32.3	32.5	1.5	1.5
Trade receivables	222.4	248.7	177.4	198.0
Other receivables, deposits and prepayments	89.6	88.7	36.1	33.1
Amount due from related parties	23.0	21.9	27.4	15.4
Cash and bank balances	219.0	117.6	175.3	74.5
	967.9	941.8	447.6	355.5
Less:				
Current Liabilities				
Contract liabilities	63.2	69.4	16.9	18.1
Trade and other payables	506.1	539.5	257.4	308.7
Amount due to related parties	33.0	41.1	233.9	150.9
Borrowings	407.6	407.6	407.5	407.5
Lease liabilities	27.1	26.6	15.4	15.8
Provision for taxation	91.8	92.1	30.4	26.0
	1,128.7	1,176.3	961.5	927.0
Net current (liabilities)/ assets	(160.8)	(234.5)	(513.9)	(571.5)
Non-current liabilities				
Contract liabilities	34.8	36.2	34.8	36.2
Trade and other payables	43.6	43.6	10.9	10.9
Borrowings	640.8	640.8	640.0	640.0
Lease liabilities	118.9	128.9	95.7	100.4
Deferred income	3.7	6.6	0.0	0.0
Deferred tax liabilities	121.3	121.4	70.6	70.6
	963.2	977.5	852.0	858.1
Net assets	603.2	580.1	2,568.5	2,544.4
Shareholders' equity				
Share capital	299.7	299.7	299.7	299.7
Perpetual Capital Securities	201.9	199.9	201.9	199.9
Reserves	37.8	18.6	2,067.0	2,044.9
Equity attributable to owners of the Company	539.4	518.1	2,568.5	2,544.4
Non-controlling interests	63.9	62.0	-	-
Total equity	603.2	580.1	2,568.5	2,544.4