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Start of Transcript

Eric Loh: Good evening ladies and gentlemen and welcome to StarHub's first half 2014 results announcement. My name's Eric. With me this evening we've got the CEO Tan Tong Hai along with the CFO Nicholas Tan, as well the CCO Kevin Lim.

Now, before we go into the results proper, a bit of housekeeping for you. If you want to ask a question later on, press star one. If you want to withdraw your question, press star two.

With that let's welcome Tong Hai to give us the highlights for the first half of 2014.

Tong Hai Tan: Thanks Eric. First let's take a look at the overview of the financial as well as the operation results. If you look at the financial results total revenue decreased 2%, service revenue decreased 1%. This is mainly due to the decrease in broadband revenue as a result of intense competition.

EBITDA was lower by 2% as we did not receive any broadband adoption grants for second quarter due to timing differences. We should receive them in second half after IDA certification. EBITDA margin is at 33.3% higher than what we guided at 32%. Net profit after tax is lower by 7%.

But if you look at the operational stats you observe that we have actually subscriber growth in all lines of business. Now we have also kept our customers happy with low churn rates maintained across all businesses. We also see revenue growth in post-paid mobile, Pay TV and fixed network.

Now, let's take a look at chart number 6 and it shows you the overall key financial highlights. I want to point to you EBITDA margin at the second quarter is at 34%. But for year-to-date, first half is at 33.3%, so we are trending well for an EBITDA margin higher than what we guided for 32%.

Percentage of CapEx to revenue in second quarter is about 17%. On a year-to-date basis this is 14%, so higher than what we guided for 13%. But we believe that our CapEx spend should trend down in the second-half for us to meet our guidance of the 13% of CapEx to Revenue.

Our free cash flow is lower at S$00.036 on a quarterly basis and year-to-date it's S$00.096 higher than one year ago at S$00.091. Net debt to EBITDA is at 0.57 times.

If you look at chart number 7 it gives you the revenue contribution and mix details. Mobile services is still the highest contributor at 53.7% higher than a year ago at 52.9%. Pay TV has grown. In fact it is outlooked to grow moderately for this year. This quarter if you look at the mix contribution this is 16.7%.

Broadband has lower contribution at 9.1% versus a year ago at 10.6%. Actually we are also growing quite well in our enterprise business. If you look at the growth, our contribution is 15.9% versus 15.3%. Now if you look at sale of equipment this quarter we actually had less sale of equipment. In terms of contribution it's only about 4.6% of our total revenue.

So, all-in-all if you look at our overall business we have growth in the mobile businesses mainly through the growth in post-paid mobile. We have growth in Pay TV as well as growth in fixed network services. The only part of our business that's facing pricing pressure is actually our broadband services.

If you take a look at chart 8 it will give you a feel about how we are performing in terms of our hubbing scorecard; happy to note that we have grown the households using two or more services from us from 57% to 59%. The number of triple service households has grown from 219,000 to 234,000 registering a 7% growth.

With this I will pass over to Nicholas who will share with you our financial highlights.

Nicholas Tan: Thank you Tong Hai. I'm on page 10 EBITDA and EBITDA margin. The overall performance for the second quarter of 2014 has strengthened from our first quarter. This is well reflected in the favourable S$10 million in EBITDA. On a year-on-year basis EBITDA is lower by S$4 million. We have a positive EBITDA from operation of S$1 million but this is offset by a low adoption grant being recognised of about S$5 million.

Year-to-date basis EBITDA is lower by S$9 million primarily because of the low adoption grant for the period. As a result our EBITDA margin for the first half of 2014 is at 33.3% a shade lower than the same period last year.

On page 11, the cost of sales. We have lower cost of sales across all periods of comparison. In terms of cost of equipment we have lower costs of equipment because of lower volume of handsets sold. Traffic costs is lower because of lower interconnect SMS volume and we also have outbound roaming costs and that is lower. This is partially offset by cost of service. We have higher NGN and fixed network costs including third party projects.

On page 12 the other operating expenses, on a quarter-on-quarter basis our operating expenses remained stable. Year-on-year the operating expenses is higher by S$4 million, coming from depreciation S$2 million, due to new additions to our network. G&A is higher coming from annual salary increments as well as the repair and maintenance from our expanded network. On a year-to-date basis it is also S$4 million higher. Marketing costs is higher by S$1 million coming mainly from our acquisition and retention activities and we also see higher repair and maintenance in our G&A.

The next page, on page 13, net profit after tax. As I mentioned earlier we had a pretty good quarter and on a quarter-on-quarter basis our net profit after tax is S$10 million higher. We actually registered a positive profit from operation of S$15 million but this is offset by a low adoption grant. Year-on-year basis our profit from operation is a shade lower S$1 million, and we also recognise low adoption grant of S$5 million so the net result is on a year-on-year net profit after tax is S$6 million lower.

On a year-to-date basis net profit after tax is lower by S$13 million and this is coming mainly from the low adoption grant of about S$8 million.   We also have a catch-up in 2012 tax provision of S$3 million and another S$1 million of additional financing costs coming from a loan facility that we took up last quarter.

CapEx payment is higher across all periods on a year-on-year basis it's S$5 million higher. Quarter-on-quarter we are higher by S$28 million and then on a year-to-date basis we are higher by S$26 million coming from a payment from our payments in a previous commitment for LTE as well as other fixed network rollouts. As a result of this our CapEx spend as a percentage of revenue ended first half of 2014 at 14%, higher than our guidance of 13% but we expect that we will meet the guidance by the end of the year.

Obviously the higher CapEx will affect free cash flow on our next page. Page 15 you can see the free cash flow. On a year-on-year basis it is lower by S$2 million. We have a positive operating cash flow of S$3 million but this is offset by the higher CapEx spend of S$5 million.

On the quarter-on-quarter the free cash flow is lower by S$43 million. As mentioned the CapEx spend was higher by S$28 million and we also saw higher income tax being paid. On a year-to-date basis however the free cash flow is positive S$10 million despite the fact that cash CapEx spend is higher by S$26 million this is offset by a low income tax paid as well as by a favourable change in working capital during the period.

With this I want to hand over to Kevin for the operational update.

Kevin Lim: Thank you Nicholas. I'm on slide 17; allow me to now share the highlights for the mobile business in the first half of the year versus year ago. Overall post-paid revenue was stable and the ARPU for the post-paid business ended at S$67. We grew the post-paid customer base by 116,000 customers compared with first half 2013.

Looking at the customer base on slide 18, the mobile base was higher in the second quarter year-on-year. However it was lower quarter-on-quarter due to a lower pre-paid base. This was mainly due to new regulatory measures that restricted the number of cards that can be registered by an individual as well as expired cards. Our post-paid subscribers continued to grow and contribution of post-paid to total mobile is now at 54%.

On slide 19 revenues, revenue for the first half was relatively flat versus last year. For the quarter, it was higher quarter-on-quarter but reported a lower year-on-year revenue due to lower contribution from pre-paid. We registered higher data usage revenues in pre-paid but they were not able to compensate fully for the declines in IDD and SMS usages.

Next slide, on slide 20, the ARPU for pre-paid was stable quarter-on-quarter at S$16. Post-paid ARPU rose S$2 quarter-on-quarter to end at S$68. Compared with year ago it was lower due to the dilutive effect of our SharePlus subscribers.

Turning our attention to non-voice usage on slide 21, we continued to see an increase in data usage among our post-paid customers. Contribution to non-voice services or rather contribution of non-voice services to post-paid ARPU rose slightly during the quarter to end at 50.9%.   It is worthwhile to mention that the number of post-paid subscribers now on the tiered base plan is 57% and the number of - or rather the percentage of subscribers exceeded their bundle data was at 18%. Our churn for post-paid is kept low ending below 1%.

I'm now on slide 23 looking at the Pay TV business. We grew our Pay TV business in the first half with revenues up by 1% and ARPU was flat at S$52. Our subscriber base was higher by 5,000 for the first half.

Next slide, slide 24, we ended the quarter at 535,000 subscribers. This was higher than both last quarter and year ago. Our effective churn management program kept the rate low at 0.9% for the quarter.

Slide 25, with the stable ARPU we were able to grow revenues to S$192.2 million for the first half of the year and to S$98.4 million in the second quarter. The higher subscriber base especially from our home hub plans and advertising sales were the main contributors.

Allow me now to take you to the broadband business I'm on slide 27. In the broadband segment for the first half of the year revenues were lower by 15% year-on-year as we continue to compete for market share. The efforts saw a growth in the subscriber base by 14,000 subs for the first half versus last year. ARPU ended at S$38.

Next slide, the subscriber base at the end of the second quarter was 456,000 subscribers. Churn was maintained at 1.1% despite stiff competition for market share.

Slide 29 looking at revenues, broadband revenues for the quarter ended at S$51, sorry S$51 million and S$104.9 million for the first half. ARPU was S$37 for quarter two and S$38 for the first half.

Allow me now to take you through the fixed network services business, I'm on slide 31. For the first half of the year the data and internet business was higher by 6% compared with a year ago. The voice services reported a 15% lower contribution.

Looking at the next slide, slide 32, the overall fixed network services revenue was S$182.2 million for the first half and ended at S$92 million for the quarter. This was higher versus a year ago and quarter-on-quarter.

When we look at the split between voice and data and the internet the main contributor was from our data and internet business as we saw higher take-up for our data centre services as well as connectivity services. Revenue for data internet ended the quarter at S$77.4 million and S$154 million for the first half. The voice revenues reported a decline year-on-year but increased quarter-on-quarter. Voice revenues were impacted by wholesale voice price erosion and lower IDD usages.

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

Tong Hai Tan: Thanks Kevin. If you look for the 2014 outlook in terms of revenue we expect service revenue to be maintained at about 2013's level. This is a revision from our earlier outlook of low single-digit.

In terms of EBITDA we are actually maintaining our EBITDA guidance to be about 32%. So this is in line with what we guided in first quarter. We'll maintain our cash CapEx to be about 13% of total revenue, same as what we have guided in the first quarter. For dividend we will declare interim cash dividend of S$0.05 per share for second quarter this year. We intend to maintain annual cash dividend payout of S$0.20 per share for financial year 2014.

With this I'll hand over to Eric to conduct the Q-and-As.

Eric Loh: Thank you we'll now open to the floor for questions and I believe first on the line there's Luis from HSBC. Hi Luis.

Luis Hilado: (HSBC, Analyst) Okay, great. Yes, thanks for the call and congrats on the results. I have three questions. The first is on the broadband business. Could you give us an indication where you stand now in terms of your retention efforts? Have you mostly already put everyone on a new contract?

Second question is, there is the newspaper article of course of new mobile competition potentially on the horizon. I'm just wondering what your thoughts are about that? And whether there's any indication whether the regulator government will pressure MVNO deals with the new operator?

The last question is on the Pay TV side. Just wondering if there's any significant expiring content this year?

Kevin Lim: Yes, Luis, as we indicated the churn for the quarter of broadband was at 1.1%. I believe this is healthy. So we are still able to maintain our base. But not only maintain but also to grow our base.

Tong Hai Tan: In terms of the mobile competition we believe that there is sufficient competition as of now. Today the market is at about 150% saturation level. But it doesn't stop of course new players from aspiring or wanting to come in.

But there is of course rollout commitment. I believe that in previous years when they were tendering out the 4G spectrum there was a rollout commitment of within two years. So there's hefty investment in terms of the build-out space as well as the backhaul and all this has to be taken into consideration. We believe that it still will be very challenging for new players to come in. But I think there will be people who still aspire to come in and aspire to challenge us.

Now, in terms of our Pay TV we don't share as to when our content are expiring. But one thing you ought to know is that this quarter our Pay TV business has grown. They've grown both revenue as well as subscriber base and they still have the broadest range of content.

Luis Hilado: (HSBC, Analyst) Just one follow-up on the broadband. Is it fair to say that the majority of the broadband subscribers are on more than one year contract now?

Tong Hai Tan: Yes. But if you look at the way we are going after the broadband subscribers one thing is that we do not just compete on price. We actually compete on the home hub, in this we bundle broadband with content. That's how we position it. That will also help us to grow our multiple services household which is our sweet spot, that's where we are targeting.

Certainly we would step up our retention effort if you look the churn rate actually has been managing quite well at about 1.1%.

Luis Hilado: (HSBC, Analyst) Great. Thanks that's very clear.

Eric Loh: Thanks Luis. Next on the line is Roshan. Hi, Roshan.

Roshan Raj: (BofA Merrill Lynch, Analyst) Thanks. Three questions from me. First on the guidance, could you share some colour as to what's the reason for the revised guidance for service revenue? Is that mostly driven by broadband? Or is it post-paid pricing? What you expected and what actually happened, so some colour there would be helpful.

Secondly on EBITDA margin that's trending well ahead of guidance. Why not look at revising it up? That's kind of related to the guidance.

Second is on the Pay TV subscriber base. Anything in particular which is driving up the positive net adds in this segment that will be helpful.

A third question is if you look at all the key segments naturally the markets are with add TV with add broadband or combined it continues to saturate. How should one look at the medium-term outlook in terms of the service revenue growth? In terms of the margins and returns in these segments?

Tong Hai Tan: I think if you - the first question is on why the revision of the service revenue guidance? Of course in first quarter when we guided it was kind of like we were still not sure about how intense the competition of the broadband. I think it came in steeper than what we expected it to be, so that's where we are guiding it. The main reason is due to broadband.

If you look at our other lines of business like our post-paid it's still registering steady growth. I said that perhaps the pre-paid revenue has dropped and that in a way overall mobile revenue's growth is actually not that high because of the drop in the pre-paid. But Pay TV, interestingly this quarter, has shown growth and now we expect it to grow moderately for the rest of the year.

But in terms of the enterprise business, it actually has been trending very well. So the guidance actually is mainly in fact as a result of the intense competition of broadband.

Now, in terms of EBITDA guidance, yes second quarter we performed at 34%. Year-to-date it's about 33.3% so much higher than what we guided at 32%. But we expect that second half we still have the iPhone launch. Also we intend to maintain our market share in the broadband space. So we would definitely want to ensure that all the necessary support is given to support the growth of the broadband business and hence the guidance on the EBITDA to remain at 32%.

In terms of Pay TV, what is driving the subscriber growth? I mentioned that we're not just selling fibre broadband we're selling home hub which is the hubbing of fibre and Pay TV. So when we sell it as a hubbing package as we grow our broadband subs it also adds on to the Pay TV subs. So that is the reason why you see growth in the Pay TV subs. But the growth in the Pay TV business also we have growth in the ad sales this quarter.

Now, then the question is the market seems to be saturated, then how you should look at the service revenue growth. I think the key thing that we are seeing is that although you may see it from the consumer part, the enterprise part we still see opportunity to grow, because there's a need for alternative provider. We have been able to position ourselves as the alternate provider for the fixed network as well as the services to the enterprise clients. So that presents growth opportunity.

In the area on mobile, yes we have the tiered based pricing plan and others. But we do see that there's room to even offer business class services and also tapping onto new areas opened up by the opportunity of internet of things, where you have machine-to-machine and all these SIM cards they have not been looked into. So currently what you are seeing is only human SIM cards we're not look at the machine-to-machine or the internet of things.

In the broadband space we're not just going after the access business. I think when we say we are going after market share we look at the broadband for the home as a way to support Wi-Fi and also to support internet of things within the home. So there will be smart home services that we are looking at and that will help to grow the business. So it is beyond access that we are looking at.

Roshan Raj: (BofA Merrill Lynch, Analyst) Thanks, Tong Hai. Just to follow-up, if I could sum it up you are positive that medium-term service revenue growth is feasible? But what would be your expectation for margins, because on the segments like end-to-end and enterprise segment possibly the margins are not that high. How should one look at it?

Tong Hai Tan: In terms of margin of course mobile gives us the best margin and I think fixed network also gives us very good margin.   That is coming from our enterprise space. So when I mention that we are having good inroads in the enterprise space, growing it, it helps us to grow margin. So these are our main margin drivers, the mobile as well as the fixed.

if you look at the rest of the business in terms of Pay TV, I do see that if we are able to manage the content costs and look at how to - beyond looking at the current set of content. In fact we are looking at also OTT as a way of helping customers to be able to access content on the go. So, all-in-all if we manage the cost of the content better we will be better to manage the margin better.

For broadband, it's not just broadband alone. If we are able to sell beyond broadband services, smart home services or other services that will also improve the margin of the broadband business.

Roshan Raj: (BofA Merrill Lynch, Analyst) All right. Thank you that's very helpful.

Eric Loh: Let's welcome Suresh from UBS.

Suresh Mahadevan: (UBS, Analyst) Yes, hi, I hope you can hear me. Yes, thanks for the opportunity. Two quick questions from me. The first one is I understand that now there is a ruling that allows SingTel to send content over your cable network. I just wanted to make sure if that is indeed true.   If it is indeed true, does it have any implications on your business? That is question number one.

The second question is related to obviously broadband. Clearly I think, as Tong Hai mentioned, you clearly want to make sure that you defend your turf on broadband because it's key to the hubbing strategy. But do you see revenue stabilising here?

Or do you think there is further downside? Because clearly I think the disruption seems to have been caused by really small players and it seems to me that the bigger players are reacting to that. So I just wanted to understand where would a large player like StarHub or SingTel say, look enough is enough, we are just going to stick to our pricing?

Because of course as IDA publishes some of these statistics, clearly the service levels in terms of international speeds et cetera are very poor for some of the smaller players. So that is question number two.

The third question is related to I think this fourth operator/MVNO. I think you mentioned that maybe there is a chance that MVNOs may come in. How should we think about the impact of that, because clearly we have definitely seen a lot more competition in broadband as well as Pay TV? Clearly mobile and enterprise are the much larger pools, and definitely there is a lot more rationality that exists there. So I just wanted to understand what the thought process of management is here. Thank you.

Tong Hai Tan: With regards to the first point of IDA mandated –that we share the cable network at home. We see that as a positive development because what happens is then a part of this network was used without consultation with us. As a result it affects our service.

So we're happy that this is now done in a structured manner with proper process if they want to use it, then we have to get into a discussion on how they're going to use it, and how they use it properly without affecting our service. So there will be a commercial arrangement.

Of course if it doesn't work out then IDA will step in. So basically I think that is actually a positive development that we're seeing. Also underlying the value of our cable network for the home, for home networking, so that shows that actually our cable service for home is actually very important.

Secondly in terms of broadband are there further downsides? Now, if I look at currently the pricing I do see in fact some of the players increasing price even. But there is at this moment, our feel is that the prices have rationalised and stabilised. Now I believe that there's room to - we're seeing that happening as of now. So hopefully that remains that it is. Then there will not be any further downside.

We do see that as we grow our subscriber base though at a lower price it will help us to grow our overall revenue. I agree with you, service level is very important. So unfortunately the customer has to try it out and get stuck on with the contact before they discover that actually the service is not up to spec in terms of international capacity. So we are patient to wait for some of these customers to come out of their contracts.

Our differentiating factors have always been the best broadband. In fact if you look at this quarter we actually have the fastest, the best performance amongst the other service providers. So fastest broadband speed is usually at StarHub and we also give really good content to bundle with it. So we believe our proposition is strong.

But certainly if there is somebody who tries to disrupt the market with the price and we think that if our prices are too far off we will adjust it, because clearly this is a space that we want to maintain our share.

Kevin Lim: I want to say that we have reacted to these price wars.

Tong Hai Tan: Yes. Now, you mentioned about the MVNO how they are going to come in. I think the key thing the MVNO - there is of course a different model, one is of course mandated wholesale. But at this moment we see that as not likely. More in terms of allocating some part of the spectrum for the MVNO to use, now of course this would be for new spectrum, there'll be auction out.

Potentially as you bid for this spectrum there will be certain requirement that a certain part of the spectrum is allocated for MVNOs. We see that as the most likely scenario. But even then if you look at the new - the spectrum that's up for auction it will be next year, and I think it will still be a few years down the road.

Suresh Mahadevan: (UBS, Analyst) Okay, no that's good. One quick follow-up, this cable could actually - the sharing or giving access to mio TV to get clear cable might also result in some revenues if I'm not mistaken. Am I correct in thinking that way?

Tong Hai Tan: I think that this will be something that's due to be worked out if they really want to use. So I'm not looking at that as something material at this moment.

But what I think for us, all the while we've been offering cable as something that the subscriber can enjoy while they have their fibre. That gives them a peace of mind that we can always provide, always on broadband services for the home. I think StarHub is still the only provider than can give you both cable broadband as well as fibre broadband.

Suresh Mahadevan: (UBS, Analyst) Thanks a lot for answering these questions andfair amount of details.

Tong Hai Tan: Thanks Suresh.

Eric Loh: Right, let's hear from Sachin from Nomura. Sachin?

Sachin Gupta: (Nomura, Analyst) Hi, yes, good evening, thank you. Just a few questions… for the delay in this adoption grant. You said it's a timing issue but is there anything more to it? How much is pending on the adoption grant now?

Nicholas Tan: Sachin, the way we book adoption grant goes as follows actually. We actually submit in year the adoption grant request to place to the IDA on a quarterly basis. The IDA as we understand it will have to collate all this information among their file with the other ISPs together before they certify that the grant has been accepted.

Only on certification from the IDA do we then book this grant as an accrual into our profit and loss statement. So, last quarter we recorded two quarters' worth of adoption grant as were certified by the IDA. Unfortunately this quarter none came in. Probably because of some delay and that's the reason why none has been recorded this time around.

Sachin Gupta: (Nomura, Analyst) But how much is pending now on this adoption grant?

Nicholas Tan: On a total basis actually we have received close to S$50 million.

Tong Hai Tan: That's the first quarter where we have two quarters ofgrant. So we got about S$50 million.

Sachin Gupta: (Nomura, Analyst) What's the timing of the thing? When does this thing expire that they have to receive the adoption grant by?

Tong Hai Tan: Okay, the adoption grant is a means for the regulators or IDA to try to incentivise us to migrate our cable subs to fibre subs. So this grant will end in end 2015. So at this moment I think we still have the ability to tap onto the grant.

Sachin Gupta: (Nomura, Analyst) I guess the reason for this question is, I guess you had been saying that you are looking to defend share in the broadband space. I was just wondering how much is this because of defending versus the need to secure that you do get the balance of the S$50 million? So you should expect that to remain aggressive for the next six months, 12 months at least?

Tong Hai Tan: Well, if you look at it, I think compared to all the other service providers we are the only ones that's getting adoption grants, because of our investment in new Nucleus Connect, that is the OpCo. As part of the investment in the OpCo we got a rollout grant which is S$100 million, adoption grant which is S$150 million for us to claim once the network is rolled out. This is claimed by our wholly owned subsidy, Nucleus Connect, which is our OpCo.

So we have a claim up to S$50 million year-to-date and we still have another S$100 million outstanding up to end 2015 to collect.

Sachin Gupta: (Nomura, Analyst) Thanks, and I've just got one more question. I think, Tong Hai, if you look at the business there is no growth last year, you're not expecting any growth this year as well. I understand that mobile obviously we are talking about data re-pricing. But if you look at the other two segments, fixed segment, we're not finding much of a delta there and so we're running at S$90 million, S$92 million every quarter broadband business. It's going to be a bit choppy still. Pay TV it's hard to forecast that business in terms of growth.

I'm not sure, I think Roshan asked the question medium-term outlook, I'm just wondering more like 2015. Can you see the business returning back to growth in 2015 at least?

Tong Hai Tan: Well, because if you look at this year I've mentioned that the growth is in a way affected because of the drop in the broadband business as a result of our re-pricing to be more competitive. We have the highest broadband market share, so of course it does impact us in terms of our broadband revenue.

But you do see growth especially in the mobile and post-paid mobile in particular, though we were affected by the drop in the pre-paid. But if you ask me between the pre-paid and the post-paid, I think post-paid is where we can build long-term relationships with the customer. I still feel that that part of our business is growing healthily.

We have just started on as I have mentioned, only on human subs. Down the road you will have the opportunity to capitalise on M2M. But I agree with you the ARPU for this M2M may be smaller. But there's also room to introduce business-class services as we offer higher speed mobile internet services. So this is still the main revenue driver as well as the main profit driver because in terms of margin the mobile business gives us the best margin.

Now, while we look at the fixed network, the enterprise business may not be growing that fast but I think in terms of margin it does contribute to us. We're happy with the contribution because ultimately if you look at it we want to ensure that we generate sufficient cash flow and also grow the EBITDA margin so that we can sustain our dividend policy.

So I'm looking at margin but of course growth is important too. So in the near-term the growth is impacted by the drop in the broadband. But we do have - we do think that as we grow our base, as we grow our market share in the broadband, we will be able to grow the revenue. It's just that, if the pricing can be stabilised, you can see the growth coming back. TV interestingly have grown moderately.

So, I think the only part of this is that really at this moment, having a lot of pressure is actuallybroadband. But I do see that there is room for us to improve the margin by focusing on growth in post-paid mobile as well as in enterprise space.

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

Eric Loh: Rama, Daiwa.

Ramakrishna Maruvada: (Daiwa Institute, Analyst) Hi, good evening. Two questions for me please. Firstly with regards to the post-paid ARPU, I see there is an uptake on a quarter-on-quarter basis. So wondering if you could talk through on what has led to this and more importantly, what do you expect - whether you expect this to be sustainable over the next couple of quarters.

The second one is with regards to the equipment cost relative to equipment sales. This equipment cost seems to have fallen down. Wondering if you could talk about handset subsidies policies? Have you done any changes there? How we should think about both these two lines tracking over the next couple of years? Thank you.

Tong Hai Tan: Rama, I will ask Kevin to explain a bit more about the post-paid ARPU he will share about the SharePlus.

Kevin Lim: Yes. As we explained, the post-paid ARPU, if we look at quarter-on-quarter, it did go up, but because of the SharePlus which is secondary line plan that we introduced, there's a little bit of a dilutive effect, so if you strip out the SharePlus, you will see a much stronger growth in terms of the ARPU for the post-paid customers. But nonetheless, that's actually grown and this growth actually comes from the number of subs that we have and as far as the quality of the subs.

Like Tong Hai mentioned about the enterprise side of the business, the - enterprise business is not nearly the fixed network services but it is also the mobile business. As you know, the enterprise customers tend to give you that much better ARPUs than your regular consumer subs. So that altogether probably contributed to the better ARPU for the quarter.

Ramakrishna Maruvada: (Daiwa Institute, Analyst) Is there component of roaming involved in terms of on a quarter-on-quarter basis? I mean did you get roaming customers back or was it [unclear]?

Kevin Lim: Roaming is relatively seasonal. There are certain periods where people tend to travel a lot more than other periods. So, I don't think we got roaming customers back that contributed to this, but it's really seasonal and as both the more customers you have, the more customers will be roaming as well. To add on to that, the enterprise customers of course will tend to spend more in terms of roaming as they travel for business.

Nicholas Tan: To answer your question on the handset sales and the handset cost is - clearly your question is regards to subsidy. Firstly in terms of the handset sales, we do register lower CPE sales coming from the lower volume, but looking at the subsidy rate, I think you can do the math how the subsidy rate has improved. Indeed how we have been working very hard and diligently on rationalising the subsidy rate. I am sure you know you also hear that from the other operators. So, our record is showing that our subsidy rate is coming down especially coming from the Android handset. But, as we go into the fourth quarter, with the iPhone release, you'll just have to wait and see how it goes.

Eric Loh: Thank you. We'll now zip over to Kuala Lumpur and speak to Foong from CIMB.

Fong: (CIMB, Analyst) Hi. Thanks for the call. Two questions from me. Firstly, could you tell me how many fibre subscribers you have right now versus a year ago? How many percent of your cable subscribers you have migrated to fibres till the second quarter?

Number two, with regard to capital management, I think previously you have mentioned you wanted to keep some flexibility in the balance sheet to address the business headwinds. Could I understand if there is a level of net debt to EBITDA where you would not like to go beneath and beyond that, would you think about paying back special dividends?

Then thirdly, can you help me understand how much of the fixed network services revenue come from the opportunities provided by the NBN so far? How should we see growth in this segment going forward? Should we expect the revenue growth to accelerate going to 2015, 2016? Thank you.

Tong Hai Tan: Yes, okay. You asked about how many fibre subs. I have shared before that our fibre subs are far more than whatever M1 have reported. So in fact when we say we gain market share, means we have grown more than that. But due to sensitivity, we are not able to disclose the exact breakdown, because I do not want my competitors to target my cable subs. So I hope you understand that I cannot share those details. But I just want to tell you that we have significant growth our share in the fibre broadband in a very significant manner, okay.

Now with regards to the second question on capital management, I will let Nick address that.

Nicholas Tan: Foong, the question, capital management, you're right; we always want flexibility against any potential headwinds. You're right that our balance sheet is actually pretty healthy at this point in time. But we do not provide the information that you're requiring to the level of gearing and so on and so forth. But this much I will say. Our - we always focus on delivering shareholder value and that means key priority for us.

Tong Hai Tan: Now for the last question on fixed network. In terms of how much - in terms of contribution from NGNBN and whether there is room for revenues to accelerate. I'll let Kevin answer that.

Kevin Lim: Okay. Foong, let me first explain to you in terms of the fixed network services. There's multiple services in that. Yes NGN is one of the services parked under the fixed network services. The advantage of the NGN of course is that it gives us coverage previously not available to us, because SingTel had the only network that reach out to all the commercial buildings. So with NGN we are now able to serve mainly the SMBs and even the government that uses NGN as well for some of their services. So, obviously there is lot of room for growth here, because as more and more companies wants to move away from traditional broadband services, we now have the ability to service them.

Now inside fixed network services is also other connectivity services that uses our own network. These are what traditionally we would call lease lines. These are for dedicated connectivity for large enterprises. We have been progressively building out our own fibre network throughout the island as well. This is something that we are offering to many of the large enterprises. For the purpose of diversity, they would naturally come to us as well to provide diversity. There are many other services within fixed network, voice, data centre services, managed services and so forth, as well as cloud services providing solutions to enterprise. So I think this is an area that I believe we are building up capabilities and really targeting over the last few years and I believe there is still a lot of room to move here.

Tong Hai Tan: I think the way you should see this is not on the standalone basis that if you have the access like the NGNBN connectivity, you can sell value added services on top of it like cloud services, managed services et cetera. Once you have inroad into the account you also can sell the mobile, enterprise mobile services. Our partnership with Vodafone is one example of how we're able to service the enterprise customer not just in Singapore but on a global basis. So, we see this as a very important part in growing the enterprise mobile as well as we are able to sell new services, managed services on top of the - yes, well so this is an area that we're looking to grow our business.

Foong: (CIMB, Analyst) Okay. Just one follow-up question. Just going back to the fibre migration. Just wondering whether based on the migration rate to fibre so far, would you guys be on track to fully realise the adoption grants from the government, the S$150 million.

Tong Hai Tan: Yes, we definitely will want to claim all of this if we can. But certainly I think we're also mindful of the fact that there is also an execution part, but so far I think our execution part in executing pretty well. By the way we are not talking about a pure migration. I just want to clarify that we want the fibre subs, but we also wanted as a standby for some of the household who want the peace of mind that they are always on, because anyway the cable is a sunk-in investment for us. There is no use to take back the cable's modem back. In fact we believe is to give flexibility to the household and in this aspect, I think we are the only one who can give the customer a complete piece of mind. So that's also one way we compete with the other fibre broadband, because it can only provide fibre broadband, but StarHub can give both cable as well as fibre broadband.

Yes, so when we say we migrate, actually in a way some of the homes still have cable as far as fibre. So they don't just drop the cable altogether. For landed homes it becomes even more important because as you have different floors, if they want to use cable modem on different floors and fibre comes into the living room. So this is where earlier on Suresh asked about the networking, using our cable and you'll find that the cable network within the home is still the best network to bring connectivity for different parts of your house.

Nicholas Tan: Now of course we don't have double count.

Tong Hai Tan: Yes, we never double count.

Nicholas Tan: It's still counted as one subscriber.

Tong Hai Tan: Yes, we count as one sub.

Eric Loh: Still staying in KL, let's hear fromPrem.

Prem Jearajasingam: (MacQuarie, Analyst) Hi, good evening and thank you for the opportunity. Two questions from me. Firstly with regards to your prepaid business. Now I do appreciate that it's not a huge part of your mobile business, but the sheer fact that you seem to be reporting declining revenues. What is the fundamental issue here? I do appreciate that the government's limited the number of SIM cards you can sell to a person, but theoretically, if those people just register it in their own names, it shouldn't have this much of an impact on the revenue.

So is there a fundamental issue here? At which point do we hit the panic button and potentially we get into a price war kind situation in Singapore in the prepaid segment. If you could also clarify what percentage of those mobile revenues are actually coming from prepaid today I think you stopped reporting those numbers a couple of quarters back.

When you - I think earlier when you were talking about the Pay TV business and how that goes forward, you did mention about bringing down content cost. This will be the first time I've heard of that happening in Singapore. Could you help us understand how we see content cost coming down in an industry which typically sees cost inflation?

Kevin Lim: Prem, let me address the prepaid business first. When we - when you look at the prepaid business, there are several trends that's happening. Firstly, I think while we talk about the registration of the SIM cards, what happened before was that you had one person will just buy multiple cards and then he will rotate the cards. So, you have an inflation in terms of the number of cards that are being sold. But the usage is actually by that one person. So, now with the new regulations this has dropped down to just three cards per person.

So in the interim what happens is that you obviously - this population of cards disappears from the market. That's one. It affects the gross add to market. But when you look at the revenue, the main decline in the revenue is really from usage revenue. Now, we - I am not sure about the other operators, but we report IDD revenue within our prepaid revenue and the bulk of the decline is actually from a drop in IDD usage by - for example the foreign workers, the work permit, what we call the work permit holders and as well as some of the passport holders or the visitors. So IDD and SMS usages have actually declined and this is an industry trend where you do see IDD dropping because of substitution. Even among prepaid users, the incidence of smartphones have increased especially among foreign workers and they are actually using WiFi for example within dormitories where they stay to make calls. So there are sudden changes in the trends among the usage that's happening.

Now the local segment is something that we have introduced prepaid to post-paid migration. We tried to move these customers over to our post-paid plan. Earlier I spoke about the SharePlus plan which are the secondary lines are also an effort to try and move these local users onto the post-paid plans, rather than keep them in prepaid. So we do see some changes in the trends, but the prepaid business is a smaller piece of the business. Unfortunately I am not able to give you the breakdown because we feel that this is rather sensitive and in terms of business but hopefully that gives you a flavour in terms of what's happening there.

Prem Jearajasingam: (MacQuarie, Analyst) So nothing to panic about?

Tong Hai Tan: No. I think we report IDD - our prepaid have IDD component in it. Across the board, you can that IDD revenue reported by the other operators are also going down. It's just that we have included in our prepaid ARPU in the revenue. So, drop in the in IDD actually resulted of course a drop in the prepaid revenue.

Now, we talk about PayTV. If the content is popular, the cost, the cost will continue to go up. I don't see that dropping. But, we can make choices on whether there are certain content that is also popular, and we shouldn't renew them. Well so we invested a lot in return path data. The good thing is our setup box has return path data. We know exactly what they watch, the household. Last night what the popular programs and all those, so with this detail, what we call analytics, you are able to make decision by not renewing the content that are not so popular.

So as a result, you can manage the cost of your content. You know probably like we certainly we see in the Singapore market, we didn't show the World Cup. We are happy to have it cross carried. Even if you look at the recent Commonwealth Games, we didn't actually have it on our platform. We saw that it is available on MediaCorp, then why should we go bid for it and that our assessment is that bid for content only if it creates unique selling point about helping you to grow subs, or grow your revenue, but otherwise if it is really available on the free-to-air, why do you want to bid for some of this content.

So it is a conscious effort to decide what not to bid, what to drop. then also to keep the - and you see an increase in the more compelling content while you drop something, you can manage the cost of content That's how we are managing it.

Then also we also look at piracy. By the way if the content is available on the YouTube and all those, we will get back to our content partner and say it doesn't make sense for us to pay that kind of price for content that is widely available in the internet. So that is also one area that we look into.

Prem Jearajasingam: (MacQuarie, Analyst) That's interesting. Thank you very much.

Eric Loh: Right. Coming back on shore, let's hear from Janicefrom CLSA.

Janice Chong: (CLSA, Analyst) Hi, just two questions from me. I think back to what you just mentioned about sharing the cable network with SingTel, just wanted to clarify whether this is just for PayTV and then could you potentially be something that - I know that you already mentioned about your residency solution, are you able to provide both cable and fibre. Would that actually be a threat to that sort of value proposition that you are giving?

Second thing is on - your posted ARPU has grown quarter-on-quarter and you mentioned that it has to do with enterprise and quality of subscriber and so on. But I am just wondering whether to what extend has the impact of repricing on your numbers already. That's the just two questions from me. Thank you.

Tong Hai Tan: Yes. Okay, the question on the cable network within the home is that today, a lot of homeowners are facing a lot of problem in terms of when they get the fibre broadband, then they realise that it's good only up to the living room. If they want to bring it to different parts of the house, they have to use WiFi and sometimes if you use WiFi repeater and if the WiFi repeater fails, the rest of the rooms go down.

So, for us we actually offer something very uniquely different is that you actually have the co-ax cable in the home and you can always put a cable modem there and create a WiFi hotspot in any part of the room that has the co-axial cable. So that is actually a very compelling proposition. So of course many people we're eyeing to see how to use this - the cable assess.

We have of our current service that we are offering, because the TV service, as far as the free-to-air that we carry must not be impacted. So that is the part that we need to ensure. So then we if competitor wants to use this network to carry internet signal from the fibre and combine it to use the co-ax for networking within the home, they can do that. This is the part that we are talking about sharing that. It is not to share my cable broadband service. It's for their own service that they want to use the same co-ax cable, you must make sure that our cable TV signal and the free-to-air signal that we are carrying is not affected as a result of their home networking services that they are running. I think this is the part that, that's where the regulators say they must consult StarHub in this respect. Okay, so I hope it address - answer that question.

Now, the question on post-paid?

Kevin Lim: Yes, I think you, Janice, you asked about whether the repricing has any impact on our ARPU. The short answer is no.

Tong Hai Tan: We wanted - now remember we wanted to increase the price. Of course there was some pushback to say you cannot apply to all subs. So we only apply to new subs. So the effect of the repricing will come in only for the new subs, and it's more gradual. It doesn't come in immediately and I think we didn't benefit from the immediate boost from the repricing.

Kevin Lim: We also had a promotion price on it $2.14.

Tong Hai Tan: Yes. So the ARPU growth is not actually from the repricing.

Janice Chong: (CLSA, Analyst) Okay. I believe there were two that are repricing this year. One I think was in January on excess bundle - excess data usage and the second one was on 4G, charging 4G. So you're saying these two have not must seen any repricing impact on these two yet?

Tong Hai Tan: 4G is actually a speed boost and we only - for new subscriber. Yes, from July onwards.

Kevin Lim: We offered - we are currently a promotion of $2.14 for the 4G speed boost for new customers. This is all the way up to December 31, 2015. So this is actually quite minimal.

Janice Chong: (CLSA, Analyst) Okay. All right. Thank you.

Eric Loh: The last caller for this evening is going to come from Piyush from Standard Chartered.

Piyush Behre: (Standard Chartered, Analyst) Yes, hi. Thanks for the opportunity. I have two questions. First is, after the 4G-related expenses, where do you see the big investment areas for StarHub over the next few years? The possible CapEx levels, if you could give us going forward.

Second is, if you could give us some rough guidance for the growth in enterprise segment for the 2015, 2016.

Tong Hai Tan: Yes, okay your question is that beyond the 4G investment, where are the areas that we will be investing. I think if you look at what we have been investing, I just now have alluded to it when I talked about the cable TV's analytics. But it's more on understanding consumption behaviour. It goes beyond the hardware, the CapEx investment in the network. The next level for us is looking at more on the software aspect. The understanding of the analytics and this one don't require a lot of CapEx investment. This one's actually more software analytics. In fact for this analytics project we got a grant from the National Research Foundation and we created this SmartHub project. So, that is one area that we are doing a lot of areas to understand consumption behaviour so that you can optimise the use of your network better.

Now in terms of your guidance for enterprise, unfortunately I can't give you the guidance. You have to look at our past performance. But you can also see that we have gradually grown it and also use that for your modelling, based on our past performance.

Piyush Behre: (Standard Chartered, Analyst) Okay. Very helpful. Thank you.

Eric Loh: Thank you very much for joining us this evening in our results conference call. We look forward to your company once again in the next quarter. Good night.

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