Event Transcript

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Start of Transcript

Eric Loh: Right, good evening ladies and gentlemen, welcome to StarHub's second quarter and first half 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, and the CCO, Kevin Lim who will be walking through this quarter's results. Just before we go into the presentation, just a reminder here, 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 quarter's overview.

Tan Tong Hai: Thanks Eric, and good evening. Firstly, let me bring you to the slide number five which shows you the overview of first half 2016 versus first half 2015. Look at the financial stats, total revenue decreased 3% because we have less handset sales. Service revenue is stable. EBITDA increased 5%, EBITDA margin at 34.2% and net profit after tax increased 17%. If you take a look at the operational stats, revenue growth in residential broadband and enterprise fixed - we had subscriber growth in pre-paid and post-paid mobile and a low churn rate of 0.9% for mobile and TV.

Slide number six shows you the key financial highlights. If you take a look at the first line, the total revenue is 1% down for the first quarter - or for the second quarter, on a first half basis it's also 3% down. This is mainly because of less handset sales. Our service revenue remains stable - you can see that - for second quarter, as well as for the first half. We have EBITDA margin at 34.7% on the second quarter, and if you look at for the first half it is 34.2% - higher than what we have guided at 31%. Our net profit after tax, we have a 10% improvement in the second quarter, and the first half this is 17%. In the second quarter this year we invested in mm2 and we have a one-off investment gain which is clocked in this quarter, and that's why we have a net profit after tax improvement. In terms of our capex revenue ratio, this quarter is 8.3%, and on the first half this is 7.7%. It is still lower than our guidance of 13%, but we believe that the second half we will have more capex then. We're still holding onto our guidance. Net debt to EBITDA ratio is healthy - low in fact - at 0.65 times.

Our slide number seven shows you the revenue contribution. You'll notice that the reason why our service revenue is because we have growth in broadband, growth in enterprise but offset by drop in mobile as well as pay TV. So if you take a look at the first line you'll notice that mobile on the second quarter - compared to last year - there's a decrease of S$5.5 million. On the first half basis is about S$18 million. Pay TV was up. Mobile, the drop was mainly due to a drop in usage of both roaming as well as IDD. Pay TV you can see that it's also a decrease of revenue of S$2.4 million. Our first half basis is also a decrease of S$3.5 million because in the second quarter we have a higher base of out of contract customers, and as a result a lower subscriber base we had a drop in the revenue. But we're enjoying a good growth in our broadband. You can see that we have 11% growth in the second quarter, as well as the first half, the 11% growth. Healthy growth in broadband. Enterprise fixed, very steady this quarter, 1.9% growth, and on the first half basis is 3.6% growth. So service revenue remains stable, and you can notice that both for second quarter as well as for the first half basis we have less equipment sales. Because of the less equipment sales, we have also resulted in the drop in total revenue.

In slide number eight, which gives you the revenue mix, notice that mobile is still the highest revenue contributor at 52.1%, on a first half basis of 51.3%. The next largest contributor is actually our enterprise fixed. Second quarter is 16.8%, on the first half basis 16.5%, followed by pay TV and broadband. So the revenue mix is along the line of what I have guided before, that the growth in the enterprise will surpass pay TV in terms of revenue contribution to our overall business.

Slide number nine shows you this hubbing scorecard. We have less households this quarter, mainly because we have less pay TV households as a result of the higher out of contract base resulting in the drop in the pay TV households and the hubbing households. I will let Howie cover that later on as you go into the TV part of business.

So with this I want to hand over to our CFO - Dennis - to cover the financial highlights.

Dennis Chia: Thanks Tong Hai, I am on slide number 11. We recorded EBITDA of S$192 million in the second quarter, we had S$195 million a year ago. The EBITDA margin for the second quarter was 34.7% as a percentage of service revenue. For the first half of 2016 our EBITDA was at S$375 million - or 34.2% of service revenue - compared to S$357 million a year ago.

Moving onto slide number 12 on the cost of sales. Our cost of sales for the second quarter was S$217 million, compared to S$226 million a year ago. For the first half at S$447 million versus S$512 million a year ago. In terms of the components of the cost of sales, we had a relatively lower cost of equipment sold because of the lower volume handsets sold during the period. We had lower traffic costs due to the lower volume of usage, while cost of services remains stable, and as we continue to rationalise programing costs while experiencing an increase in installation costs in terms of the migration of customers to the fibre broadband.

Moving onto slide number 13 on other operating expenses. Our other operating expenses for the quarter was at S$251 million, compared to S$249 million a year ago. For the first half at S$507 million versus S$497 million a year ago. Excluding the relatively higher reversals of accruals no longer required in the first half of 2015, our operating expenses for the first half of 2016 on an absolute level would have been effectively lower. In terms of the components of the other operating expenses, we've got a lower depreciation amortisation because of the slowly depreciated assets at the end of 2015. We have got continued rationalisation using data analytics to manage our marketing and promotion costs, while we have an increase in staff costs due to inflationary adjustments, and repair and maintenance costs due to the wider infrastructure network that we have.

In terms of the net profit after tax, we have had a net profit after tax of S$109 million for the quarter, compared to S$99 million a year ago - or a 10% increase. This included the S$9.5 million gain that we recorded in respect of the mm2 investment, which we concluded in June of this year. For the first half we recorded S$201 million of net profit after tax, compared to S$173 million a year ago. This translates into earnings per share of S$0.117.

Moving onto the next slide on capex cash payments. We recorded capex cash payments of S$48 million for the quarter - or 8.3% - compared to S$62 million a year ago, and S$90 million for the first half - or 7.7% - compared to S$159 million a year ago. As a result of the positive working capital changes during the quarter, and the lower capital expenditure payments, we recorded a higher free cash flow generation during the quarter of S$137 million, or S$0.079 per share, compared to S$103 million a year ago. For the first half we have generated S$227 million of cash, compared to S$57 million a year ago. This translates to S$0.131 per share. As at the end of 30 June 2016 we had a cash balance of approximately S$523 million, and a net debt to EBITDA of 0.65x.

With that, I pass this over to Mr Howie Lau, our chief marketing officer.

Howie Lau: Thanks Dennis. Evening everyone, thank you so much for joining us. I will take you to the business updates for across from mobile, TV and broadband, before I pass onto Kevin. So if you jump to page 18, this is the mobile key highlights from compared for first half of 2016 to first half of 2015. We've seen the total customer base expand by 73,000 and the post-paid ARPU to S$70. If you jump to page 19, you will see a bit more details and colour behind the sharp increase. You will see that quarter-on-quarter we have seen a post-paid increase of 20,000 subs and a pre-paid increase of 17,000 subs on the mobile customer base.

Page 20, we ended quarter two with S$305 million. This is higher than the quarter one of S$298 million. Compared to quarter two a year ago, this is due to the lower usage - especially in roaming and IDD. On the ARPU side - on page 21 - you would also see we ended quarter two for pre-paid ARPU at S$16. This is lower by S$1 similarly due to lower usage. On the post-paid ARPU we've seen an increase year on year to S$71, and we've also noted that there is a higher percentage of our customers on our 4G tiered plan. They are now at about 66%, and this is compared to about 62.7% a year ago.

Page 22, we ended the quarter with 60% in terms of the non-voice services. We have also noted that the average data consumption of our customers is now at 3.3 gigabytes, and that the percentage of our shared data customers is exceeding plans is now at 24%. Churn remains stable at 0.9% over the last two quarters.

So with that, if I were to jump to page number 24, this is on the pay TV update. Pay TV we saw lower revenue, our revenue decreased by 2%. ARPU at S$51, and we've seen a lower customer base of 27,000. Let me go to the next page to give a little more colour. On page 25, we ended quarter two with 518k subs for the TV. This lower TV subs is due to three reasons. (1) Is that we have a larger - out of contract customer base in quarter two. (2) We are no longer promoting our TV Lite offering. (3) We do recognise that there are more alternatives in terms of viewing options for our customers. We also do see a higher churn at 1% on quarter two.

Page 26. As a result of the lower sub base you will notice that our first half revenue in 2016 is lower than the first half of 2015. But quarter on quarter we've seen an increase from S$94.9 million in quarter, to S$95.4 million. This is due to our increase in advertising - or ad sales. On the ARPU side we've seen an S$1 increase on quarter one to quarter two, and this is stable across on a year to year compare as well.

Let me jump to now page 28 on the broadband. Broadband we've seen a revenue increase of 11%, and ARPU has increased by S$4 to S$37. We have seen the customer base lower by 2,000 to 473,000 for quarter two. So on page 29, we ended quarter two with 473,000 subs, but we also note that our fibre subs have grown to 328,000. This is a growth of about 51% on a year to year compare. We also do note that quarter two there is a churn of 1.2% as the market continues to be competitive for broadband.

Page 30 is the revenue and ARPU. We closed the quarter at S$54.4 million in terms of revenue. This is our sixth quarter of consecutive growth in terms of revenue. On the ARPU side we closed at a higher ARPU of S$37 and this is our fifth consecutive quarter of quarter to quarter increase of ARPU. So with a quick update across mobile, TV and broadband let me hand over to Kevin who will update on the enterprise fixed.

Kevin Lim: Good evening, thank you Howie. Good evening to everybody. So for the first half of 2016 we saw the both line of businesses - i.e. the data internet as well as the voice business increasing versus the same period a year ago. So data internet was higher by 4%, and voice was higher by 1%. Turning to page 33, the overall revenue for the first half ended at S$194.4 million, and this was higher versus a year ago for the same period of S$187.6 million. The quarter ended at S$98.6 million.

The next slide, let's go into a little bit more details. Firstly, on the voice revenue, the first half was marginally higher versus the same period of 2015. This was really due to a stronger first quarter. The second quarter was slightly lower than the same period a year ago. Data internet for the first half was higher at S$167.6 million versus S$161.1 million, and for the quarter it was S$85.5 million. This was really due to an increase in take-up of our connectivity services as well as our managed services.

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

Tan Tong Hai: Thanks Kevin. Here is the 2016 outlook. We have revised our service revenue to be about 2015's level. We have also revised EBITDA margin on service revenue at about 32% - higher by one percentage point from where we last guided. We have maintained cash capex to be about 13% of total revenue. This excludes spectrum payment. For dividend we intend to declare a second quarter S$0.05 per share, and maintain our annual cash dividend of S$0.20 per share for the full year 2016.

Eric Loh: Right, let's now open the floor for Q&A. First off the block is Gopa from Nomura.

Gopa Kumar: (Nomura, Analyst) Yes hi, thank you for the opportunity. Three questions from me please. First is with the spectrum auctions happening later this year, can you please give some initial thoughts on what is your medium term capex and dividends going to be? Second is, you are expecting flat service revenue this year. Given how your revenue mix is changing, how should we think of this service revenue growth for the next two years? Would flat revenue be in line with expectations, given the pressure in the mobile and pay TV versus good growth in the enterprise segment? Thirdly, the related question, again with changing revenue mix. Do you have more room to improve your EBITDA margins? Or would a higher enterprise contribution mean that the EBITDA margins in the medium term would be flat to down? Thank you.

Dennis Chia: I'll take the first question on the spectrum and on the dividend. As we had previously alluded to, we have an S$80 million spectrum payment in respect of the 2013 award that we have to make in the second half. Also the general spectrum option will be happening as scheduled in quarter four. So we don't as yet know when that will be concluded. So we would not have a schedule of when that payment would need to be made as of now. We look at dividend and we guide dividend as a sustainable number that we look in the medium term. So we have maintained that dividend for now. We do not provide forward looking statements on our capital expenditure beyond the current year. So as of now we are not able to comment on or respond to your question with regards to that capex.

Tan Tong Hai: Gopa, with regards to your question on the service revenue being flat. I mentioned that there are some moving parts - some moving up, some moving down. That's because mobile is mainly due to roaming. But you note that the roaming revenue in terms of margin contribution is not really a high margin contributor because we basically pay out to - especially for our outbound - I mean we pay to the external operators. So when you see that revenue drop because of roaming, it doesn't really affect our margin a lot. Okay. So that's something you need to understand. Then in terms of the enterprise fixed, they gave us a very good margin. So from a growth perspective, if you continue to grow more enterprise revenue then in terms of margin contribution it is good. In fact, it's only second to mobile. The third margin contributor is actually our broadband and in terms of hierarchy, pay TV would be the least. So what we - you have seen over the past few quarters - in fact last year, this year - we have been growing the enterprise business. So I will let the past track record speak for itself. I can't give you forward projection, but you can see that we have maintained some momentum in our broadband. Also in terms of the mobile business, we have growth in post-paid and pre-paid subs for this quarter. You can see that the main reason for the drop in the mobile is because of roaming.

Pay TV, that's what Howie has explained. This quarter higher out of contract customers, resulting in lower base for first half. We have not been promoting our TV Lite. But as a whole we intend to drive growth mostly in the mobile, as well as in the enterprise segment.

Gopa: (Nomura, Analyst) Thank you. So when you for some reason revenue stayed flat, you were - can I realistically assume you have more levers to improve EBITDA margins from here onwards?

Tan Tong Hai: Well yes, I would say that the focus - the way we run our business - is very much on the margin. So clearly I'm focusing on continuing to grow mobile, grow the enterprise - because in terms of margin it is better. The pay TV side, if we lose subscribers and at the same time I will look at those content that we have, and if the viewership is not there then we will have to also look at whether we should keep this content or not. So be rest assured that what we are looking at is really driving the margin of the business.

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

Wu Wei-Shi: (BNP, Analyst) Thank you. My first question is with regard to the reversal of accrual. So I note that that has impacted quite a number of cost items. So I just want to get a bit more details as to what this is stemming from, and whether it's the same factor that is impacting the reversal of accruals across traffic, operating leases and repairs and maintenance. Secondly, can we just get a sense of the take-up of SIM Only plans within your base, in terms of percentage of subscribers, as well as the data upsize percentage of subs. Then thirdly, in terms of the cost - I just want to get a bit more detail as to the rationalisation of content cost. Is that just simply dropping content that has low viewership, and does the acquisition actually allow you to further rationalise content costs. Then on a slightly separate note, Dennis mentioned earlier that data analytics is allowing you to spend more efficiently on marketing. But marketing as a percentage of revenues has actually increased this quarter compared to last year. So just some thoughts on that, thank you.

Dennis Chia: Okay Wei-Shi, I will take your first question on the reversals of accrual. This relates to a number of accruals across - as you indicated - across certain line items that we made in the books and in the balance sheet over the last couple of years. Some of these accruals are with third parties and they do take some time to actually rationalise because of the settlement period that is required with inter-operators for example, as you relate to traffic expenses. So these therefore take a couple of years. We've been able to come to a settlement on a number of these issues - or outstanding accruals - sometime this year and last year. So as a result of which we were able to adjust the books accordingly. So these accruals are made on the current basis. We assess the suitability and we look at what's required in the balance sheet in terms of adequacy, and we continue to look at that on a continuous basis.

Yes, the marketing promotion cost as a percentage of revenue did go up in the quarter. But because we actually made the provision within the quarter for certain campaigns that we intend to launch in the second half of the year.

Howie Lau: Okay, thanks Dennis, and thanks Wei-Shi for your question. The SIM Only - as you probably know we launched it November last year. Since then, well, we can't break down the percentage. We've seen the take-up to be rather stable over the last seven-eight months of offering SIM Only. We do note that the majority of customers in Singapore still prefer to sign up for a mobile contract to get a subsidised phone. So right now we do see that as a limited take-up of SIM Only, and that customers on the majority still prefer to have a subsidised plan. In terms of data upsizing, our Plus 3 data plan has seen also a very good take-up because I think generally Singaporeans all would always enjoy a bigger data plan. I think that is also seen with our increase of average data usage to 3.3 gigabytes per customer level. So hopefully that answers your questions regarding the SIM Only interest and the data upsize.

In terms of cost rationalisation, we take quite a straightforward approach because with the data and the insights we have in terms of viewing patterns and all that, we do recognise that within the - well, our overall TV and entertainment is in the bottom part of the Singapore diet. Different groups of customers in different segments have different preferences for their diet. Because family with kids have certain interests - type of topics and type of channels that they want to watch. Youth, singles all have very different. So what we do is that we use the data - the viewership - to help us decide which are the content that we need to acquire, which are the content that we need to broadcast, at what time. But by the same token, we shuffle channels and content that we need to sunset because if there is less viewership and less interest - and especially on a commercial viability - we use that as a basis to then help us decide what to add and what to reduce.

Tan Tong Hai: With regards to the investment of mm2, it's merely to improve our localisation efforts. Because if you look at right now we have a model of buying branded content. That's one model. Another one is that we also want to add on the local flavour and create our localised content with our international partners and localise a certain portion of it. So the mm2 allow us to be able to do more there. At the same time, because they also have overseas presence they may also be able to take the localised content overseas, and not just for the Singapore market alone.

Wei-Shi: (BNP, Analyst) Thank you. If I can just quickly follow up. In terms of the data usage at 3.3 gigabytes this month, can I just check what it was last month - last quarter, sorry.

Eric Loh: 3.1 gigabytes.

Eric Loh: Next on the line is MC from Goldman Sachs.

Koh Miang Chuen: (Goldman Sachs, Analyst) Hello. I've got three questions here. The first is on the traffic cost in second quarter, it fell Q-o-Q, it fell Y-o-Y, but the mobile revenues actually grew Q-o-Q and didn't decline as much as traffic costs Y-o-Y. So maybe you can explain a bit more on that.

The second question is on fixed broadband. So we continue to see some decline in subs and also continual increase in ARPU. Can you talk about the reasons behind those trends and also your expectations ahead?

Then, lastly, is, basically, the rise in churn that we see in this quarter on both the pay TV and the fixed broadband. Can you give us your take on why that is the case, and is that cause of concern ahead? Thank you.

Dennis Chia: Hi, MC. This is Dennis. I'll answer your first question on traffic cost. Traffic cost is a function of two things. We've got volume and usage as well inter-operator rate. As we've guided in prior quarters and prior years we continue to negotiate and rationalise with our inter-operator partners, the IOT rate and IOT tariffs so this is another demonstration of our ability to manage tariffs. So the relatively higher proportion of decreasing cost versus revenue is a reflection of the reduction in rates, that's all.

Miang Chuen: (Goldman Sachs, Analyst) Okay. And that was more obvious in this quarter?

Dennis Chia: Yes, that's correct.

Howie Lau: MC, this is Howie. Let me just touch on the broadband as well as the TV. On the broadband side the quarter 2 ended with 473, which is flat against the quarter 1's 473K broadband. We do note that churn is higher because of the ongoing competitiveness of the market.

On the TV side, I said earlier we have identified the root causes of the lowest subscribers, which is, essentially, we do have a larger base of customers going out of contract. We have continued to see that there is an alternative viewing platforms available and that we've stopped the TV Lite promo.

So for us right now it's very important for us to continue focusing on the customers and what they are looking for in terms of content as well as the platforms they're looking at so that we can promote the right offers for them. So right now, for both the broadband as well as the TV, it's an area that we feel comfortable the actions in place will help us contain the churn.

Tan Tong Hai: MC, the broadband increase in ARPU was because we have - every time we recontract the customer now they are on the higher tier plans. As a result of that you see a uplift in the ARPU.

MC: (Goldman Sachs, Analyst) Should we think about that this will continue, going forward, or not?

Tan Tong Hai: You can see - I will want to give you a forward projection, but you look at our ARPU increase, year-on-year a $4 increase. So you can see that it has been a steady increase. That's because we have more customers on the higher tier plans.

Eric Loh: Next on the line let's welcome Rama from Daiwa.

Ramakrishna Maruvada: (Daiwa, Analyst) A couple of questions for me please. Firstly, with regards to the NBN grant, how much more do you expect to book for the rest of the year? The second one is with regards to the SIM only plans, I'm just wondering why ARPU is up year-on-year while you have introduced SIM only plans in the past two quarters.

Finally, with regards to your – actually third is with regards to the cost one, in terms of following up. I think your traffic expenses have been very erratic. So I understand your explanation regards to the IOT rate renegotiation, but wondering if you could provide some guidance on what would be a normalised quarterly expense. That would be good.

Finally, with regards to your guidance, your EBITDA margins for 32% essentially means for the second half you are looking at a 30% service EBITDA margin. That seems rather low, so wondering what you're actually factoring in and why not a higher EBITDA margin guidance for the full year. Thank you.

Howie Lau: Hi Rama, it's Howie. The SIM Only, as mentioned earlier, since its introduction we've seen some pick-up - is relatively stable, but the ARPU is up because we've also seen a couple of things. One is that partly because of the corporate customers. But at the same time you also notice that the percentage of customers going to our tiered plans has also gone up. So that has contributed to the ARPU of the mobile plans.

Dennis Chia: To your three other points, Rama, on, firstly, the grants, the timing, as we've actually guided before, of recognising the grants as upon the time that we submit the application to the IDA and when they actually approve the application, that's when we actually recognise the grant. So we are towards the tail end of that migration to the NGNBN in terms of the limit that they have given, so that also goes down to as to why the EBITDA margin - one of the reasons as to why the EBITDA margin second half is expected to be relative lower than the first half, because that's a relatively lower amount of grant that we expect to book in the second half compared to the first half.

To your question on traffic cost, you made reference to the erratic traffic cost. I think you were referring to quarter 4 of 2015. We actually guided to the fact that we took in some provisions in quarter 4 of 2015. Excluding those provisions, the trend of traffic cost is as per what we actually have been seeing in prior quarters, including this year in the first quarter and the second quarter, which is in line with usage, volume, as well as IOT rates.

So as far as EBITDA margins in second half is concerned we've got relatively lower grants, as I've mentioned. We've got relatively higher subsidies because we expect certain smart phones to be launched at the end of quarter 3 this year, which will result in the higher subsidies in quarter 4, and we typically have higher marketing and promotion costs - relatively higher marketing and promotion costs - during the festive season in last quarter of the year. So that accounts for why we've got relatively lower margins second half versus first half.

Eric Loh: Thank you, Rama. Next is Sachin from DBS.

Sachin Mittal: (DBS, Analyst) Globally, we are seeing that telcos are kind of lowering the handset subsidies or you are actually not offering those subsidised plans for the market . This quarter it doesn't look like that you had low subsidies, so just wondering is this a national - I mean is there something you're seeing already, that in Singapore the telcos will be or are in - are planning to reduce subsidies or demands for smart phone is so high that you can't do that? That's question number 1.

Number 2: despite higher CapEx your depreciation seems to be lower, which is, say, because of some items being fully depreciated. So how should we model it? Is it like a one-off thing? Or that the position for the full year should be lower and probably should not go higher from here on?

I think - did you - when you talk about adoption grant, is this something which is going to last for next two years? Or is it something which is going to last this year? Any clarity in the timeline for adoption grant? I know it's a bit uncertain, but some clarity will be good.

And, lastly, on the Spectrum Auction, how - I guess it could be a staggered payment option for the Spectrum. I'm sure you can't comment on the price of Spectrum, but could you tell us in terms of timeline when will those payments be made and, if you don’t have timelines, will it be multi or single use? Thank you.

Howie Lau: Hey, Sachin. Why don’t I just take the telco subsidy. You're right in that we do note that across the world different telcos and different countries have also started seeing different adoption plans for subsidy plans as well as SIM only plans, contract-less plan.

Our starting position has always been what the customers are looking for, so that’s why, towards the end, we've launched the SIM only. But we do note that Singaporeans seems to still enjoy their subsidised phones . So our approach has always been starting with what the customer is looking for. Right now we have a group of customers, they like SIM only, to make that available. We see a big group of customers who will prefer subsidised phone with Samsung and Apple, and we make that available. But we'll continue to monitor to see what are the options that will continue to make sense to our customers.

Dennis Chia: Sachin now to your question on depreciation and amortisation. We've got different useful lives which we use for different categories of fixed assets. So included in that fixed asset is also an intangible asset of the Spectrum which we amortise over the period of the Spectrum validity, so that’s a longer depreciation period.

Over the last years you would have noticed our CapEx has remained at about 13%, and that’s been relatively higher than our so-called normal life level, and that’s to enable us to compete in the enterprise space. Those assets typically that depreciated over a period of five years and, as a result, when we started investing those assets in 2010 and 2011, those assets would have already been fully depreciated at the end of last year.

To your other question on adoption grants, we do expect that to tail off and taper off by the end of the year. So that would be in regards to the grants. With regards to the Spectrum payment timing, those have been disclosed by the IDA and one - the Spectrum payments that would be available - oh sorry. The Spectrum that would be available from 1 April 2017, that payment for those Spectrum will be required 15 days - 15 business days - following the close of the auction.

So depending on when the close of the auction happens we would need to pay for that Spectrum award 15 business days following the close the auction. In respect of the 700 megahertz Spectrum, that will be available, or expected to be available, from 2018. There is a different payment schedule in relation to that.

Eric Loh: Thanks, Sachin. Next on the line is Arthur from Citigroup.

Arthur Pineda: (Citigroup, Analyst) Hi. Good evening. Two questions from me. Firstly, can you help us better understand the changes in the guidance? So revenue outlook is now softer and your margin outlook is better. What has changed and what line items are driving this margin improvement? Is it just the reversal of accruals? Or are there actual cost savings being realised?

The second question I had is with regard to your mobile business. Mobile revenues appear to be shrinking for the entire industry now. Do you see this as more structural? Or do you think there's a chance for you to move back to growth, assuming there's no new entrant after September? Thank you.

Dennis Chia: Arthur, I'll take your first question on the margins. We - if you look at the amount of adoption grant that we expect, where we guided the full year results for '16, where we announced our full year results for FY15, we did say that EBITDA margin would be approximately 31%, which is 1% lower than that 32.2% EBITDA margin that we reported for the full year of 2015. We did say that 1% is due to the relatively lower adoption grants that we expect to receive this year compared to last year.

That still remains the case, except that we continue to rationalise cost, as any company would do, in terms of all the cost management initiatives, so that continues to show traction. We expect to realise that in some parts of that during the rest of the year, as we had realised in the first half of this year, and that as a result of that we believe that we should be able to bring the EBITDA margin back to last year's level.

I think Tong Hai did walk through the various segments of the revenue and the reason we had lowered the revenue guidance for this year to a flat level, is because, primarily, also roaming usage and the pay TV revenues that we've seen decrease in the first couple of quarters this year.

Arthur: (Citigroup, Analyst) Thanks.

Howie Lau: Hey, Arthur. You're right in that from an industry standpoint we do see that the decline in roaming is something that cuts across the whole industry. What we also do recognise is that the - on the start-up level we continue to increase our subs, and on the industry level that the data consumption continues to go up as well. So while we do recognise that roaming is declining, there are continued opportunities in terms of the growing data usage as well as the growing sub base that we have.

Eric Loh: Next on the line is Roshan from Bank of America.

Roshan Raj: (Bank of America, Analyst) Hi. Thanks for the opportunity. First, on that mobile revenue going down, can I just re-confirm if you were to strip out roaming revenue, is the core revenue stable or growing? I just want to get some clarity there.

Second is - going back to the previous question, hypothetically, if there is no new entrant do you see an opportunity to revise up tariffs or monetise the data usage more actively than what you’ve done so far?

The third question is on TV subs. It's been declining. In fact, the rate of loss has accelerated the last three quarters. Where do you expect this to settle? If you look at the penetration of hubbing households it's come down from 40% to almost 30% something now. So if the hubbing appeal is no longer there, how will you differentiate from the other players in the market? Thank you.

Howie Lau: Roshan, this is Howie. It looks like all your questions are for me. Let me just touch one at a time. In terms of the - if we strip off the roaming the core is up. So that’s the - we keep track of both, and the subscribers are up as well, so that’s good news.

Your second question regarding the monetisation of data, clearly this is an opportunity for us in StarHub. We are looking at different ways, whether it is the Plus 3 pack that we launch or some of the additional plans that we are looking so we are to leverage on the fact that customers like you and I are using a lot more data as we move forward.

TV subs, as mentioned earlier, we do see that the lower subs are due to the out of contract base. Our contract base, as you probably know, differs quarter-by-quarter depending on the promotions and the new customers we sign up a year ago, two years ago.

The key for us is that TV remains an integral part of our business. For us it's a combination of, number 1, making sure that we continue to have the right type of content available for the customers and being able to request the type of content. So, for example, in the first half itself we've added new content like Dreamworks, BBC First, MaxToon, CATCHPLAY and a few others.

The second is to make sure that to understand the behaviour of the viewing patterns so that we can provide the right type of viewing devices. So customers prefer certain type of content on the main TV. Some, they will watch it on the phone or the tablet using StarHub Go.

The home - hubbing households - I think the key is that customers are still telling us that hubbing continues to be a key proposition that is valuable for them because of convenience, because of ease. While the numbers have come down because of the lower TV sub base we will continue to fine tune our hubbing propositions and offer - whether it is HomeHub or HomeHub Go or variants of which. So I think two key messages: we do see that TV continues to be integral and the hubbing proposition continues to be valued by our customers.

Tan Tong Hai: You mentioned about the competition on potential entrants. We take them seriously. That’s why you notice that we've introduced very attractive plans. Certainly, of course, as a market evolves we still want to make sure our plans are most competitive, but pricing is always a factor of how intense the competition is. You notice that for StarHub we have been able to make sure that our plans are always competitive. But, of course, if there are less competitors, then we have to see what are the differentiators other than price alone.

Roshan: (Bank of America, Analyst): Thanks, Tong Hai and Howie. Just in terms of the data usage, what are the variables that you keep track of and then what levels do you think this could sort of stabilize going forward? I mean, features like - aspects, like, it could be higher - no, smart phone size or the features that are available in terms of video, HD version , so what are the various factors that you keep track of in terms of data usage?

Tong Hai Tan: Okay. So in terms of this data usage, you will notice that the main drivers is actually video. Right? This is the reason why we have articulated that the content, in fact, our TV business is very key, it can help to drive data usage. You look at right now with we're talking about augmented reality and bringing the mobile phones to try to catch Pokémon monsters. You notice that these are also new development driving data usage. We believe that we have still yet to move into more the virtual reality and the augmented reality world. As of now, just on data consumption and later on as you get into higher resolution, you have more data. Right? So when you move from, let's say, 2K to 4K video, then the data consumption will still continue to go up. So I do think that it is very important. That's why we're also looking at the network to make sure the network can support more video traffic. This is the reason why spectrum becomes very important for us to have, to make sure that we can have - to be able to support the increase in data consumption as a result of video and augmented reality or virtual reality.

Roshan: (Bank of America, Analyst): Thanks, Tong Hai. You put - brought up something interesting. So something like Pokémon GO or augmented reality games, do they actually boost data and is there a risk it could cannibalize something like video?

Howie Lau: Roshan, I think first of all, the Pokémon GO has not announced its availability date in Singapore, so I know a lot of my friends are eagerly awaiting for it. The - based on what we read and the technology, the Pokémon GO would take anywhere from 100 meg to 300 meg, depending on the user and how frequently you use it. So it does generate data usage. But I think more important right now is that the - while, Pokémon GO is one example, we do see that the hand phone has become essentially a - an essential part of almost every Singaporeans and almost everything we do, whether it is grocery shopping, watching video, catching Pokémon, everything happens on the mobile phone. That to me is an opportunity statement for folks like StarHub.

Eric Loh: Next on the line is Prem from Macquarie.

Prem Jearajasingam: (Macquarie Securities, Analyst) Hi. Thanks for the opportunity. Two questions from me. First of all, you've done pretty well in terms of subscriber acquisitions. Could you help us understand what it is that you're doing right that's driving this and just in case other - any promotional activities that may also be contributing to this. That's one. Secondly, all this talk about roaming revenues and cost, could you help us understand how much inbound roaming actually impacts StarHub, both from revenue as well as an EBITDA perspective, maybe? Thank you.

Howie Lau: Okay. Let me take the sub acquisition. Sub acquisition, as we've - it's always a combination of a few things. (1) is the competitiveness of the product, (2) the competitiveness of the price and (3) in terms of how we reach the customer for the conversion. So the sub acquisition, whether it is for post-paid or broadband, the - what we've - I think it's a function of the competitive offers that we put in the market. At the same time, some of the marketing campaigns and targeted offers that we put to some of our base. So, for example, in the broadband side, we've gone and targeted our existing customers, so that we can help them with their renewal as well.

Prem: (Macquarie Securities, Analyst) Good point. Is it bigger or smaller than outbound, I suppose.

Kevin Lim: Prem, let me answer that. This is Kevin. Singapore, because of the setup of the country and - we are primarily an outbound net - what we call a net outbound country. We have more people travelling out versus coming in. So the bulk of the traffic in terms of roaming is outbound. So that's about the traffic versus inbound. In terms of margins, we do what we call a settlement. Right? So you have a settlement between the countries in which - or rather the operators which you are sending traffic to in terms of your outbound revenue versus the inbound and then we basically net it off and we pay the net, right? So we look at roaming margins on an overall basis, rather than which revenue - of course we have individual IOT rates with each of the carriers.

Eric Loh: Thank you. Srini from Deutsche Bank.

Srinivas Rao: (Deutsche Bank, Analyst) Yeah. Hi. Thank you. I have two questions to ask. First is on your pay TV business, so which has kind of become a bit soft, my question is that historically as to how TV bundle around this particular consumer connect to kind of leverage and grow its mobile business and I'm talking obviously the last almost seven, eight years.

Now, with pay TV becoming slightly less relevant, wouldn't it have an impact on high value of mobile subscribers going forward? So that - I mean, is there a structural trend which is feasible? So that's my first question. My second question is on the Enterprise Fixed. This is a business which is it possible as you grow your revenue base it accelerates in the sense, you know, the more enterprises you get to, it becomes easier to win the next contract? Because most of the business is driven by precedents and where you are. So is it possible that this business which has - which is off to a pretty good start potentially can accelerate over the next two to three years? Those are my two questions. Thank you.

Kevin Lim: Srini, let me take the second question on the Enterprise Fixed, then I'll let Howie talk about the pay TV business. I suppose the short answer is technically yes, because as you gain traction into customers into - certain customers, that gives you a foot in the door and then from there you are able to sell other services, which is really our plan, right? Over the years that's exactly what we've done although we've shared the Enterprise Fixed business, which is primarily the fixed network services. We also provide mobile services as Howie had mentioned earlier, the contribution in terms of margins is also coming from corporate accounts as we sign up more of these corporate mobile customers. So as we progress, one of the reasons why we've been able to grow is also we have been increasing the services that we are able to offer. So as we develop more and more services, we will be reaching out to customers to offer them these new services. So that is certainly the plan to accelerate our growth.

Howie Lau: Srini, on your question regarding TV and the impact on the other offers and what if customers are looking for offers that doesn't include TV, so I think for us, we do recognize viewing behaviors and viewing patterns are changing, so it's important for us to offer the pay TV offers. But at the same time, there may be customers who say, hey, look, you know, I'm looking for a pure mobile offer. That's where our standalone mobile offers with all the plus 3 and everything else remains very competitive. But there may be customers who say, hey, look, I'm interested only in the broadband offer and we have that available as well. So I think the - what's important for us is starting with the customer. There will be customers that see great value in hopping and that's the premise of our HomeHub and our HomeHub Go. There will be customers who say I want standalone services and we make sure that our standalone services remain very competitive as well.

Tong Hai Tan: I just wanted to add on the enterprise fixed, because if you notice for the enterprise business we do not really put a lot of ads. We don't see that partly we do it on Saturday and consumer where they have a lot of ads. In the enterprise business, it's all about word of mouth. I think if you get into what we call the key accounts, so for example in the banks, then you will win the rest; same with the hospitals, same with the hotels. So you are right, is that success breeds success, so if you have inroads that you can win marquee accounts, it will give you the momentum to win others, okay? So that is the enterprise business.

The pay TV, as an integral part of our hubbing strategy, will still be there. Certainly content is key and you notice how we have shared that with different groups of people. Now I would say that if you look at the younger generation, the youth are the one that are, in terms of consumption behaviour, have changed. But parents are a bit concerned about children going into the internet and they actually - because have children to watch TV program is safer, in their view, you still have the older generation who may not know how to navigate using all the iPads and the devices.

So we have a wide variety of content to cater for children, all the way to the businessmen who watch news, the sports and also to the older generation, who enjoy watching the TV big dramas and all those. So I would say that is still ready, but the ups and downs are kind of like when you have many out of contract base then, of course we will have higher churn rate and all those, but be rest assured that the way we run the pay TV business is really by analytics and also looking at really the consumption behaviour and adjust accordingly. But it is still a very integral part in our overall hubbing strategy.

Srini: (Deutsche Bank, Analyst): Thank you so much, just one more question I have, if I may, actually two more. One is why have you discontinued the TV Lite offering? Again, on this related of which is over time do you think the broadband business will take over the mantle of what pay TV was earlier, which is essentially being a bedrock of driving customers to other businesses or to getting mobile? So that's the second question I have.

Howie Lau: Okay, Srini, TV Lite is basically because again we looked at the data and the usage and the popularity is not strong and coincidentally, it tends to be low ARPU as well, so that's why we decided to stop promoting it. The broadband, I would say the good and bad thing is that all of us now need connectivity as a base requirement. So broadband to every home has become an essential, because digress a little bit, I know I get hell from my kids every time if they cannot get any connection, so broadband connectivity has become an essential for almost every home. If you at IDA's data, I think we have 105% residential broadband penetration, so that's why it's important for us to continue growing the broadband as well as the fibre take up for our subscribers.

Eric: Okay, we have time for two more callers, one from Credit Suisse and the last one from CLSA. From Credit Suisse, let's welcome Varun.

Varun Ahuja: (Credit Suisse, Analyst) Hi, thanks for the opportunity; I've got three questions. First, I just wanted to check on 2G network; I believe in 2017 it will be shut, so just wanted to check what kind of operating cost savings do you assume there will be or there won't be any significant cost saving on that front. Secondly, just wanted to check on the partnerships that you have announced over the last few months with China Mobile and Vodafone, so what are your expectation from those overseas businesses coming to you? What kind of growth potential are you kind of envisaging from these partnerships in the enterprise side if the business?

Thirdly, I just wanted to really understand this provision write backs. Based on my understanding, I may be wrong, last in fourth quarter 2015 you had expenses or provision expenses in the fourth quarter. So in this first half, have there been any provisions which have benefited you or is there anything in the provision side in this first half that has been done? Or just the fourth quarter was impacted by the provision which had a negative impact on you?

Lastly, I just wanted to check on the accounting side changes in the handset front, when is it expected? Thank you.

Dennis Chia: I'll take the last two questions on the provisions, as well as I think Varun you're referring to IFRS 15 which is revenue counting. So on the provisions, we had some provisions that we did at the end of last year. Those adjustments or those provisions have not been done in a major form this year yet because those were required as of balance sheet date at year end last year. As I mentioned earlier, we adjust them as and when - we do not require these provisions or accruals in the books anymore. So these are current provisions in that case.

In the first half of 2015, we had a relatively higher adjustment of accruals no longer required, as compared to the first half of 2016, so this is, as I also mentioned earlier, a kind of a rationalisation of the provisions and accruals we have on the balance sheet and to keep them current, now that we've arrived at various settlements with third parties.

Regards to your IFRS 15 question, the revenue accounting standard will apply from 1 January 2018. This is already a deferral as given by the accounting board, so this was somewhat of a concession, so to speak, by them. This was supposed to take effect on 1 January 2017, but now it's to be implemented on 1 January 2018. This would mean that the way we recognise handset revenues and the subsidies that we record in our books would change. So at some point, as companies look to implement and comply with IFRS 15, the margin recognition structure would also change from 1 January 2018.

Tan Tong Hai: The question on the 2G network, when we upgraded our 2G network, when we moved to 4G, our 4G platform actually had a card that supports the 2G. So if you turn off the 2G, it's still the same box and the same electricity. So I don't see there'll be a lot of savings from the network perspective, because we run them on the same box together with 4G. But we can refine the spectrum, that we can use the spectrum. So I would say that from a savings perspective, not much, but operationally I think it's simpler, as I say, that sim card allows us to refine the spectrum.

I will let Kevin answer the question on the partnerships.

Kevin Lim: Varun, on the partnerships, the China Mobile partnership, this has begin pretty recently, so I think in terms of the outcome, this is still being planned, but immediately we have seen traffic increasing, traffic flowing into StarHub from China Mobile. I mean the whole intent is to be able to serve Singapore companies wanting to go into China and Chinese companies wanting to come to Singapore and how we can work together on that, discussions or so about collaboration in areas like IOT and I think many other opportunities. So that's the intent; Singapore is an important investor and trading partner with China, so it's only natural that we do that.

On the Vodafone partnership, actually we are coming to almost the end of the fifth year of our partnership with Vodafone and the key here is that Vodafone being quite a major global telco player, obviously bids for business on a global business. One of the businesses they bid for and the execution of the provisioning for Singapore, is done by us, being their partner. So this has benefited us in terms of our ability then to serve global companies, global MNCs, the large MNCs, with many of them in Singapore obviously.

They bring many other benefits in terms of branding, like they used to sponsor the F1 cars, I think some of the McLaren teams, so if you have seen that in I think couple of years ago, or three years ago, see our branding there, plus all the solutions that they bring to us as well.

Eric Loh: Thank you Varun. The last caller for this evening is going to be Chuanyao from CLSA.

Lu Chuanyao: (CLSA, Analyst) Hi guys, Chuanyao from CLSA. Thanks for taking the questions. I think most of the big picture questions have already gone through, so I've just got a couple of housekeeping. First off, is there any FX gains/loss during the quarter in the first half? Second question is on the mm2 fair value gain; is this going to be a recurring issue and at the quarter you have to mark to market? It's just a bit funny that the mark to market date for this quarter is 2 June, just wondering why a special day like that.

Thirdly, I'm just trying to reconcile your ARPUs and subs to the reported mobile revenue number. One you're giving out is that to calculate the revenue compared to the actuals, the actuals are still lower. I guess what I'm trying to figure out is you have your subs going up, you have post-paid ARPU going up and yet mobile revenue's down year-on-year basis. So is it because the subs numbers are not 100% active, or what's the reason there? Thanks.

Dennis Chia: I'll take the first two questions, Chuanyao on FX gains and losses. So we have, on an ongoing basis, hedging and forward contracts. So in the detailed P&L, we have recorded as of the first half a FX loss, so that is factored into the first half numbers. On the mm2 question, the placement of the shares was completed on 2 June and as such, that was the date on which the average share price was used compared to the $0.41 that we paid and agreed to with mm2. So that was truncated into the gain that we recorded in the P&L.

On a go forward basis, every quarter we would have a mark to market. The mark to market would be an adjustment to a line item called other comprehensive income, which is in the balance sheet, so there would not be any mark to market adjustments to the P&L going forward.

Howie Lau: Then Chuanyao on the last question, regarding the mobile revenue, while we see the increase in subs and we see a higher ARPU for the post-paid, as mentioned earlier, we see a lower roaming revenue, we also see a lower ARPU for the prepaid business. So it's that combination of the various factors that you will see the changes on the revenue side.

Chuanyao: (CLSA, Analyst) Just to clarify, because I noticed that prepaid subs are up, so I kind of thought it would be more than offset and prepaid as a percentage of overall mobile revenue tends to be smaller. Is it just the post-paid ARPU, that includes roaming as well, right?

Howie Lau: Yes, it does Chuanyao, includes roaming.

Chuanyao: (CLSA, Analyst) So I mean in terms of decline in the roaming should have been affecting ARPU and yet ARPU is still up, mobile subs are up, but revenue - I guess that's the way I'm trying to reconcile, just doesn't tie for me.

Howie Lau: Yes, I have good faith in Dennis' numbers all tied up, but I think the main thing is that while we see the ARPU up on the post-paid, that we do see a lower ARPU on thepre-paid side, which is also a part of the competition on the overall revenue.

Eric Loh: Thank you. That's all the time we have for the call. We know that there's a couple of you that still are on the line wanting to ask us questions. We'll come back to you shortly. In the meantime, thank you very much for joining us this evening and we look forward to speaking with you again in the next quarter.

End of Transcript