Company: StarHub
Title: 3rd Quarter 2014 Financial Results
Date: 5 November 2014
Time:
Conference ID:

Start of Transcript

Eric Loh: Good evening ladies and gentlemen. Welcome to StarHub's Third Quarter 2014 Results Announcement. My name's Eric and with me this evening we have the CEO, Tan Tong Hai, along with the CFO, Nicholas Tan, as well as the CCO, Kevin Lim, to walk us through the highlights of this quarter's results.

Now before we go into this event proper just a reminder, if you want to ask a question press star one. If you want to withdraw your question press star two. Now with that let's welcome Tong Hai to walk us through some highlights for this quarter.

Tan Tong Hai: Thanks Eric. Firstly, let me bring you through chart number 5, which is the overview. Now if you look at our total revenue for the third quarter it has increased 2%. Our service revenue decreased 1%, mainly due to the drop in the broadband revenue. EBITDA increased 2%. EBITDA margin at 34.5% and net profit after tax increased 3%.

We've seen subscriber growth in post-paid mobile, pay TV and residential broadband. We have also maintained low churn rates across all businesses, revenue growth in mobile, pay TV and fixed network.

Next, if you turn to chart 6 you'll see the key financial highlights. Total revenue is now S$592 million, higher than last year third quarter by 2%. Service revenue down 1%. EBITDA is at S$191 million, 2% higher than a year ago. EBITDA margin is at 34.5%, this is higher than what we had guided at 32%. Even if you look at the column on the right, year-to-date, we are at 33.7%, right. Well above out guidance of 32%.

We paid slightly higher tax but in third quarter net profit after tax is still 3% higher, S$98 million.

Percentage of CapEx to revenue is 12% as of third quarter but on the year-to-date it's 14%. We foresee the fourth quarter we will spend less CapEx and we will be able to achieve our 13% CapEx to revenue guidance.

Free cash flow is S$0.068 and net debt to EBITDA is at about 0.53x - is still low at 0.53x.

We return to chart 7, it will show you the revenue contribution and mix details. Mobile services' contribution as of third quarter it is 52.5%. If you compare that with a year ago it's 53.3%. So the growth is actually coming a lot from our other businesses which I think is in the fixed network services. Also this quarter we have a higher sale of equipment.

So pay TV, if you notice, compared to a year ago 16.5% versus 16.5%, it's flat. But the revenue contributions have grown by S$2 million.

Broadband services have dropped. In fact, the contribution a year ago was 10.3% and now it's 8.3%. The revenue drop in the broadband services is about S$10.4 million. That was one of the main reasons behind our service revenue drop.

Fixed network services, which is fuelled by our growth in the enterprise segment, remains growing at about S$95.2 million, S$2.5 million higher than a year ago. Contribution is also about 16.1%.

So if you notice the sale of equipment, we have higher sales of equipment in the third quarter because at the end of the third quarter we launched the iPhone 6 and there was strong demand, resulting in the higher sale of equipment. So sale of equipment contribution to revenue is 6.6% versus 3.9%.

So if you turn to the next chart, 8, it will show you a hubbing scorecard. We continue to grow our triple service households from 223,000 to 238,000. So, overall, if this hubbing scorecard which will focus in the triple service households who are more loyal to us and stay longer with us is still growing steadily at 7%.

With this, I hand over to Nick who will share with us the financial highlights.

Nicholas Tan: Thank you Tong Hai. I am on page 10, on EBITDA and EBITDA margin. We recorded favourable EBITDA for the quarter-on-quarter as well as year-to-year and the contribution came mainly from an increase in our income grant that is recognised. On a year-to-date basis we recorded lower income grant by about S$2 million and then we also recorded lower operating profit, resulting in the year-to-date EBITDA being S$4 million lower than the same period last year.

EBITDA margin for the year-to-date, 2014, is similar to year-to-date 2013 at 33.7%.

On page 11 for cost of sales, on a quarter-on-quarter basis the cost of sales has increased 8%, S$17 million, part of which, S$16 million is coming from a higher quantity of handsets sold as a result of the introduction of the iPhone towards the end of the quarter.

On a year-on-year basis we also recorded higher cost of equipment sold, about S$12 million, as a result of higher quantity of the handsets being sold. We also registered higher costs of services, coming mainly from higher NGN costs as we have an increase in fibre uptake and also increase in TV programming and production costs. But this is offset by a reduction in the traffic cost coming from lower interconnect SMS traffic as well as lower outbound roaming.

Now, on the year-to-date the total cost of sales is lower by 2%, or S$11 million. The main contributor is lower traffic cost for the same reasons that were mentioned earlier and it is lower by overS$30 million, offset by higher costs of services of S$20 million and coming from higher NGN costs as a result of the uptake in fibre, as well as other fixed network costs.

Other operating expenses on page 12 is high across all periods of comparisons and is driven mainly by an increase in the G&A cost. On a quarter-on-quarter basis it is higher by S$7 million, S$6 million coming from an increase in salary as a result of the annual salary adjustments that we make. As well as also accrual for an increase in operating lease.

On a year-on-year basis the other operating expenses also increased by 2% or S$5 million and the increase is, again, coming from G&A for the similar reasons that I've just explained.

Year-to-date the cost has increased by S$8 million. We have an increase of S$1 million coming from marketing costs as a result of a slightly higher acquisition and retention activities. The other S$6 million is coming, again, from G&A and the contributing factors are higher maintenance costs for our expanded network and a higher operating lease.

As a result the net profit after tax for the quarter and year-on-year is favourable and the main contributing factor is the higherincome grant that we recorded during this period.

Year-to-date, however, the net profit after tax is S$11 million lower or a decline of 4%. It is coming from lower operating profit of S$4 million. Also we recorded on a year-to-date basis lower income grant of about S$2 million.

At the same time, there was higher tax of S$4 million. Included in this S$4 million is actually a catch up of 2012 tax that we provided for in 2014.

CapEx payment, on page 14. Quarter-on-quarter and year-on-year it is lower, S$6 million lower year-on-year and S$22 million lower on a quarter-on-quarter basis. But on a year-to-date basis the cash - CapEx payment is higher by S$21 million, or 9%.

Now we end on a year-to-date basis with CapEx spend at 14% over revenue, slightly higher than our guidance of 13% but we should be able to achieve that guidance by the end of the year.

On free cash flow, which is on page 15, on a year-on-year basis our free cash flow is slightly lower by about S$2 million. As mentioned, there was a lower CapEx spending of about S$5 million to S$6 million earlier but this is offset by lower cash flow from operations.

On a quarter-on-quarter basis however we recorded an improvement in the free cash flow by S$56 million, coming mainly from the lower CapEx spend of S$22 million and also a favourable change in our working capital contributed to the other portion.

Year-to-date free cash flow has improved by S$9 million, or 3%. There is - a higher CapEx has been spent, as mentioned earlier, of about S$21 million but this is very much offset by local - lower income tax being paid for the same period.

With that I would like to pass this on to Kevin for the business update. Kevin.

Kevin Lim: Thanks you Nicholas. I'm on page 17. Okay, let me first share with you the highlights of our mobile business. When we look at the post-paid revenue for the third quarter this was higher by 4% compared with third quarter last year. The subscriber base was also higher by 102,000 versus the same period last year.

Post-paid ARPU for the quarter was at S$69.

On the next slide, looking at the mobile customer base, the post-paid business now contributes 57% of the total subscriber base. In prepaid we did see a decline due to a higher number of expired cards in the period. This was the impact of the three SIM card limit that took effect in April of this year.

Next slide, slide 19, looking at revenue. From the revenue perspective we increased about 0.9% versus the third quarter of last year, ending the quarter at S$310.9 million. Year-to-date revenue was also higher year-on-year at S$927.1 million.

Now, the post-paid business continues to be a main driver of our mobile revenue and contribution came from higher subscription and usage revenue from the larger base as well as the increased take-up of our tiered data plans.

Moving on to ARPU on the next page. The ARPU for prepaid was up at S$18. This is largely due to the lower base and, therefore, there was an uplift in terms of ARPU. This was the same level as the same period last year.

Post-paid ARPU was at S$69, lower than a year ago but higher quarter-on-quarter. Year-to-date ARPU is at S$68.

Looking at the non-voice business on the next slide. The non-voice services continued to contribute more to the post-paid ARPU as customers consume more data on the 4G network. In the third quarter it was at 53.2%. Incidentally, the percentage of post-paid subs on tiered price plans was at 59% at the end of the third quarter. Of these, about 22% exceeded the bundled data.

Looking at churn on the same slide. We continue to maintain a healthy churn level at 0.9% in the quarter.

Next, allow me to take you through our TV business. I'm on slide 23. For the third quarter our TV business registered an increase of 2% versus the same period last year. ARPU was maintained at S$51. We did grow the customer base by 8000 customers versus the same period last year.

Next slide, slide 24. When we look at the total TV base at the end of the third quarter it was at 539,000, considering an upward trend registered last quarter. As more customers continue to stay which is the result of more attractive content packaging and hubbing plans churn rate was also kept low at 0.9%.

Moving on to revenue on the next slide. Revenue from our TV business grew by 2% or almost S$2 million against the third quarter 2013. Year-to-date revenue was also higher year-on-year by 1.3% and we have kept ARPU stable.

Next, I'd like to take you through our broadband business, I'm on slide 27. When compared with a year ago revenue saw a 17% decline for our broadband business and ARPU ended at S$35 for the quarter. But despite competitive pressures we gained market share and added 16000 new customers to our base.

Next slide, slide 28. As I had mentioned, we did add more customers to our base, so we ended the third quarter at - with a total of 461,000 subscribers. Despite, again, the stiff competition with new entrants churn was kept low at 1.1%. When we compare this against the churn rate a year ago, which was at 1.3%, you can see that we have contained this relatively well.

Moving on to revenue on the next slide, slide 29. We ended the quarter at S$49.2 million and year-to-date it was S$154.1 million. As mentioned, the lower revenue is the result of the stiff competition in the market, which lowered subscription revenue for subscribers recontracting as well as for new subscribers.

ARPU ended at S$35 for the quarter and year-to-date was at S$37.

Okay, moving on to the fixed network services, I'm on slide 31. In the fixed network services business we registered a 4% growth for data and internet. This was offset somewhat by a decline of 6% in our voice business when comparing the quarter of this year versus third quarter of last year.

Next slide. Overall, the fixed network services revenue ended the quarter at S$95.2 million compared to S$92.7 million in the third quarter of 2013. This was 2.7% higher.

Year-to-date revenue is trending well at S$277.5 million, which was 2.4% higher than the same period in 2013.

Next slide. The voice revenue was lower year-on-year at S$15 million. Pricing pressures as well as erosion, particularly in - price erosion - particularly in domestic voice services were main contributors to the lower numbers.

Data and internet, however, continued to grow with new account acquisitions and ended the quarter at S$80.3 million and year-to-date at S$234.3 million.

Allow me now to hand it back to Tong Hai for the outlook.

Tan Tong Hai: Yes. Thanks Kevin. So, for - the outlook for 2014, we will maintain our service revenue at about 2013's level. EBITDA will be about 32% is what we have guided previously. We will maintain our cash CapEx to be about 13% of total revenue.

A cash dividend of S$0.05 per share for third quarter will be paid out and we intend to maintain annual cash dividend payout of S$0.20 per share for this year.

With this I will open the session now for Q&A.

Eric Loh: Right, just a reminder here. If you want to ask a question press star one. With that, let's welcome first on the line, Arthur from Citigroup. Arthur.

Arthur Pineda: (Citigroup Investment Research, Analyst) Hi, good evening. Thanks for the opportunity. Three questions from me. Firstly on the EBITDA guidance, I was wondering about this, because you're still guiding at 32% versus nine months at 34%. Any major changes that you expect in the fourth quarter or is the guidance on the conservative side?

Second question I want to add is with regard to broadband ARPUs. This is still dropping but we've seen different trends now for M1, which seemed to have a bounce up. How do you see this as going forward? Are you already starting to see this as stabilising?

Third question I had is on the strategy. Clearly growth on both top line and bottom line are challenging and you do have some room on the balance sheet. Are there any plans to find new growth areas outside of your traditional Singapore business? Thank you.

Nicholas Tan: Arthur, Nicholas here. Allow me to take your first question with regard to the EBITDA guidance. At this point in time you would notice that as you mentioned we're still maintaining our EBITDA guidance of 32%, primarily because as we move into the fourth quarter you will have seen more introduction of new handset models that are coming through. That will significantly affect our cost in this area. So at this point in time we're still pretty comfortable maintaining the guidance at 32%.

Tan Tong Hai: Kevin, you want to take the broadband ARPU question?

Kevin Lim: Yes, Arthur, allow me to address your question on the broadband ARPU. I think the difference with the other operators who may be new to the broadband business; we do have a large broadband base. Therefore, you can imagine that as the prices decline there will be a group of customers as they come out of contract and they renew at lower contract, so obviously this has an impact on the ARPU. So with our larger base that were on old prices, and higher old prices, the impact will be seen for us versus someone who is just acquiring new customers.

Tan Tong Hai: So, of course if you ask me the question on the growth in the top line, if you look at this year just on year-to-date alone the broadband revenue has dropped year-on-year close to S$29.5 million. But we have actually made up for growth in other areas, which is growth in our mobile, our TV as well as our fixed network, though the growth is not sufficient to cover for the drop. But if we look at down the road next year with our growth in our subscriber broadband you will notice that the key thing is that we are still growing market share subscriber base in our broadband business. With this we should be able to see the revenue growth maybe in the second part of next year. Right now, of course, that will - in a way if you can see broadband coming up again then we can see the overall growth in the top line.

At this moment our priority is still Singapore market. We don't intend to go out of Singapore. We believe that right now there's still a lot of opportunity for us to grow in the enterprise segment, especially with a growth of regional MNCs coming to Singapore. We intend to capitalise on the growth in the enterprise, and there's still a lot of opportunity to grow. I'd rather be focused in the Singapore market and focus on the businesses that grow margin and with that then we can also increase our EBITDA.

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

Eric Loh: Thank you Arthur. Next on the line let's welcome Sachin from Nomura.

Sachin Gupta: (Nomura Securities, Analyst) Thank you, two questions if I may. Firstly, Nicholas, just on this other income, you've got S$17 million. I understand some of that is because you hadn't booked that in the last quarter and you're booking that now but even if you normalise for this one it looks like it's actually going backwards even on a half-on-half or sequentially. If you are signing up more broadband customers and the market fibre customer take-up rate is increasing, shouldn't the adoption grant or the amount you're booking in the other income, shouldn't that be rising? That's one.

Secondly, just on the fixed trend. I guess Tong Hai, you have talked about fixed opportunity within the past few years and recently as well, the run rate is picking up very, very slowly and obviously increasingly we are hearing more about whether the Vodafones or AT&Ts and all these guys are starting to tap into the enterprise segment more and more as well. Just your thoughts on how do you think StarHub is positioned to capitalise on the growth in this segment? Thanks.

Nicholas Tan: Sachin, Nicholas here. Indeed, our uptake in the fibre market - the market share has increased, we are getting more subscribers on it. Unfortunately, the way we book the income grant is very much dependent on our submission and dependent around time that is coming from the regulator in terms of approval. So we do follow that very, very carefully. So there's probably timing differences, so on and so forth.

Even then what we book into out P&L and then what you see in the cash flow are two different sets of numbers. One is an accrual, which we can only accrue when we have approval from the IDA and the second one of course, when we get a payment on it at this point in time. So I can only say to you that we are following - we are booking and recording what we know to be increasing our subscribers at this point in time but the timing that flows into the books may not follow in line.

Kevin Lim: Okay, Sachin this is Kevin. Allow me to answer your second question on the fixed network trend. What you see is a relatively lower increase year-on-year. But in a way the fixed network services is also somewhat similar to the consumer broadband where there are price erosions as well. So to grow the business actually you have to also compensate for the decline in prices and, therefore, you have to grow at a faster rate.

The other thing is as we invest more and more in our fixed networks I believe we strengthen our position to be able to offer enterprises alternatives to their corporate networks. There's also components of one time revenue that doesn't reoccur the next year, these come from projects that we do for companies. So as we build our capabilities and we stack services on top of our connectivity services that we provide to our customers we do see over time that we are more and more able to capitalise on this market.

Tan Tong Hai: Because if you look at our investment, we do invest a lot in our own fixed network. That allows us, of course, to be able to offer our own fibre backhaul for our mobile base station. It allows us also to be able to reduce our dependency on those fibre ducts that we lease from other parties and over time we'd like to replace them.

There will be cost savings down the road. But, more importantly, help us to capitalise on the growth in the enterprise market where we can service both local enterprises, like Kevin say, in the government sector even but with the fixed assets we can also partner with global telcos. It's good to hear that you are saying the regional telcos are focusing in the enterprise market but when they come to the Singapore market if they need the fixed services they can either lease from the incumbent or the alternative, which will be StarHub. So we see that as the opportunity for us to partner with the regional telcos so that we can capitalise on the growth in this area.

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

Eric Loh: Thank you Sachin. Next let's welcome Chate from Credit Suisse. Chate.

Chate Benchavitvilai: (Credit Suisse, Analyst) Yes, good evening everyone. Thank you for the opportunity to ask questions. I have three questions. First one is regarding the mobile tariff adjustment recently, after iPhone 6 launch you adjusted your tariff to be more in line with peers. Instead of asking about the impact I'll just flip the question and ask why should - if there are any reasons why we should not expect this impact to come through the next year quite materially for you?

The second question is regarding the broadband ARPU. You mentioned earlier that we might be able to expect growth driven by the subscriber growth that you have been acquiring into the second half next year. With that are you also implying that the broadband ARPU should start stabilising at this level because it has been trending down and already beyond S$39 level that we can expect as a floor earlier. Any colour around that would be helpful.

The third one is actually regarding your specific offer, Broadband Dual which offers both fibre and cable broadband. Just a little bit of housekeeping around that. What's the idea around this offer and also how do you actually record for example the number of subscribers or the ARPU you get out of this because it's two lines? Thank you.

Kevin Lim: Mobile tariff, I will answer. Okay Chate the mobile tariff adjustments was for the - well it's a new 4G price plan which we introduced in September. This applies to new customers and as well as customers re-contracting with us. So you can expect that with a base of about 1.2 million customers it will take a little bit of time before you can see an ARPU impact. But we do expect that this should give us some upside as we have seen also from the - prior to this adjustment the tiered data plans are giving us some of the upside in terms of revenue and contribution to ARPU.

Tan Tong Hai: With regards to your question about the broadband ARPU what we are seeing right now is that the competition is still intense but now it is - they are offering at higher speed but at S$49.90 or around this price S$59.90 which is actually higher than our ARPU. If the market is now competing at a higher speed and the ARPU is - the price is higher than our ARPU then I think that that is actually good for us because you will see a gradual growth in the ARPU.

When it comes to higher speed also we believe that our past investment in our submarine cables will allow us to offer truly high quality broadband. It is - there is a lot of assumption that even though you give the current speed the consumer may not use it. What if they truly use it then I think StarHub will be able to capitalise on this. Also you must note that when we see this broadband business we don't see it on a standalone basis. The hubbing proposition where we sell HomeHub it helps to also bring up our pay TV business together with - because we sell it as a bundle deal. We don't just see it on a standalone basis. In fact if you look at those households that we have TVs we try to send them broadband likewise.

Then your last question on this whole proposition on fibre cable, we believe it is something that StarHub can offer uniquely to our broadband customers to give them the peace of mind that you can have always on broadband at home. I think last year there was a fire in one of the telecom exchange and that resulted in the outage of fibre broadband. We see that there's an opportunity for us to offer cable broadband for resilency and also to allow households to build Wi-Fi hotspots around the whole house using a combination of fibre as well as cable. That proposition will appeal to households who want ‘always on’ broadband so that is our unique selling point. I don't think today anybody in the market can offer that. So we use a combination of hubbing plus our unique selling point of our cable to differentiate ourself and that's how we have been growing our broadbandsubs. Okay?

Chate Benchavitvilai: (Credit Suisse, Analyst) That's great. Just very housekeeping questions regarding the offer on dual broadband…

Tan Tong Hai: Oh okay.

Chate Benchavitvilai: (Credit Suisse, Analyst) …when subscribers subscribe to that you count them as just one to your broadband subscriber base although it has two.

Tan Tong Hai: We count as one, we don't double count.

Chate Benchavitvilai: (Credit Suisse, Analyst) Thank you very much. That's all for me thank you.

Eric Loh: Thank you Chate. Next on the line is Prem from Macquarie, Prem?

Prem Jearajasingam: (Macquarie Research, Analyst) Good evening thank you for opportunity. Two questions from me. Firstly with regards to your pay TV business we seem to have got some growth back into the base which is good. How are we doing this (1) and (2) do you see the opportunities to potentially raise prices down the road to where we've done historically to potentially recoup some of those extra costs you're incurring on programing. That's one.

Secondly with regards to the handset sales this quarter, yes we did see the uptick as a result of the iPhone 6 but are you implying that the uptick in Q4 is going to be much, much greater which is going to result in that margin erosion into the fourth and therefore your guidance for the full year? Typically - maybe a matter of housekeeping, to what extent do you normally see the iPhone impact greater in the third quarter or is it going to be greater in the fourth quarter?

Tan Tong Hai: Let me answer the first question on the pay TV business goal. The pay TV business a lot depends on how you package your content. I think that today based on our packaging and also as we upgrade a lot of customers into HD they are able to watch of course experience the content better. So that has resulted in of course our growth in our pay TV business. We also of course have enhanced our security so that we also don't allow illegal set top box to access and as a result customers truly have to only turn to our service to watch this content.

We have actually in last year done what we call merging of the basic and the upsize and that also has in a way increased the basic pack to about S$30. Of course we would love to increase price but then we also know the customers' sentiments if we can improve the value proposition and put in more compelling content there may be room for us to do that. We will definitely look at it and make sure it's worthwhile for customer before we do this.

As to what you have said regarding the handset sales, third quarter it is iPhone but fourth quarter that's only one month in the third quarter. The fourth quarter is going to be - in fact it's the last week, so the last two weeks in the third quarter and that you can see firstly translates into the handset sales. You can expect to have a full fourth quarter and particularly it's Christmas time, people are buying gifts and they could be buying without contract, without lines and all those buying gifts for people.

We anticipate not just iPhone there's also the Samsung Note that has come out and there also many others accessories that people can buy. We anticipated this and that's why we've guided our EBITDA margin to be 32% taking into consideration that usually at the fourth quarter seasonally there's more promotion and activities.

Nicholas Tan: It's definitely a pent-up demand we can see for the last two weeks at this point in time so who knows what the next three months is going to bring for us.

Prem Jearajasingam: (Macquarie Research, Analyst) [It's a good problem] to have. Thank you very much.

Eric Loh: Thank you Prem. Next let's welcome Roshan from BA, Bank of America. Roshan.

Roshan Raj: (Bank of America, Analyst) Hi, thanks for the opportunity. Three questions from me. On pay TV I was just wondering why is the revenue down quarter-on-quarter, ARPU is flat and there are more subscribers. Is it largely due to some losses in tied revenue?

The second question is did the nature of these pay TV subscribers, are these mostly new or first time users who are coming on board or these are mainly churningfrom your competitors? What kind of content is it attracting them to StarHub?

Finally you talked about the Enterprise opportunity for StarHub. Is there any quantitative sense of how one should look at the opportunity be that in terms of market share or absolute dollar size and some sense of timeline as in say by three or five years you'll have X per cent of market share or do you expect the segment to grow by 2% or 10%? Some sense of - quantitative sense that'll be very helpful. Thank you.

Tan Tong Hai: You noticed that quarter-on-quarter the drop in terms of the pay TV a lot of this fluctuation quarter-on-quarter is due to ad revenue and you're right to see that way. In terms of the subscriber base that's coming on board we do have as I said once we enhance the security. There will be those that in the past that left us and went to pick up some illegal set up boxes and then this customer has come back to us. We are very happy to welcome them back. Our main attraction has always been our broadsheet of Asian content and we're now in fact shorten our TVB to have zero window so you can watch the best Hong Kong dramas and all this. Asian content continues to be the main driver for the pay TV business as a whole.

With regards to the Enterprise I will let Kevin answer that.

Kevin Lim: Okay. Roshan. If we look at the Enterprise market and who’s the dominant player I think the incumbent by far the dominant provider in this particular sector so there lies the opportunity because of the relatively smaller market share that we currently hold. The Enterprise market is one whereby the nature of it is that there is a need for diversity. That presents opportunity in itself for companies like banks and even government requires diversity. That that's where we come in to be able to fill that gap.

Obviously there are many other opportunities as well in providing mobile services which we are. We have been aggressively pursuing that to offer alternative to the current provider. Working with people like Vodafone gives us that edge in the sense that you are talking to these customers on a global basis and often contracting them on a global basis. Therefore their Singapore operations will then come to us a partner of Vodafone.

Market size, there are many studies that sizes the market depending on how you would define the market because in the end price market if you merely define the, let's say, connectivity that's one piece and then there's also a lot of other components like managed services and IT and IPVPN and so forth. I suppose it really depends on how you would classify the market. There are some markets in which we will play in there. There are certain markets which we won't for example, we won't go into system integration work, that is more left to the SIs and that's not an area of business that we go into.

I guess it's difficult for me to give you an absolute market size or absolute market share except that we will continue to play in more areas and we will continue to position ourselves as a strong alternative contender in this particular market.

Roshan Raj: (Bank of America, Analyst) Okay, thank you, that's very helpful. Just one question if I may? This is for Tong Hai. As you move into the last two months of this year and 2015 what is the biggest worry you have, is it any particular segment you have or across the board you see completion on the rise in all your key segments?

Tan Tong Hai: If you look at the - of course the fourth quarter seasonally people do travel more. In terms of roaming, typically for the fourth quarter we see more roaming, that will of course in terms of contributing to the mobile business that's good. I worry about more of the downside of the - in terms of the subsidy models because of the popularity of the iOS 8. Of course if it's a balanced approach - and I also see Note 4 being introduced. So that the interest in a lot of the Android that will be able to allow us to manage the subsidy as well. That's how I see the mobile business.

If you look at the pay TV, though we have registered growth, fourth quarter seasonally there are more advertisers and also in the fourth quarter people have more time, they take leave, they stay at home and watch TV. I expect of course this is not a high growth area for TV; it will still grow moderately as what we have shared in the previous quarters.

Broadband. There'll be a new IT show coming out in the fourth quarter. I believe that broadband will continue to have pricing pressure. But the good news as I said is that I see people are competing more on the speed now and less on the price so they are actually pricing it higher but with a better quality of a higher speed and also with other accessories like Wi-Fi routers and all these. I still continue to see broadband as one of the areas that perhaps the price competition worsened there of course that there's still a downside in the broadband.

The Enterprise we continue to see growth in the Enterprise. Typically for the fourth quarter is where most of the system integration partners that we work with we try to complete the project and all this. That's how we see the fourth quarter for Enterprise. We will continue to - grow because of the fact that most of them want to close the books and those especially the company's on a calendar year. That's how we see the overall business as a whole.

Roshan Raj: (Bank of America, Analyst) Thank you very much Tong Hai.

Eric Loh: Next on the line let's welcome Steven from Standard Chartered.

Steven Liu: (Standard Chartered, Analyst) Thank you this is Steven from Standard Chartered. I have maybe three questions. The first is LTEare you using the 1800 or 2600 as a main spectrum for the 4G, both spectrums?

The second question is on the traffic expense, it's quite stable but I noted the decline on the traffic expense. Can you explain a little bit on that?

The third question is on the pay TV. Do you have any agreement with Hong Kong TV to broadcast the company's drama in the Asia and Australia, New Zealand. Do you have a plan to introduce the Hong Kong TV program in the future? Thank you.

Nicholas Tan: The first question is on the spectrum for 4G. Answer to the first question is yes indeed our 4G spectrum is on the 1800 as well as the 2600.

To answer your second question on traffic expenses and why they are coming down. There are essentially two main points actually. One there have been lower expenses because of interconnect, lower interconnect SMS traffic as SMS volume comes down then correspondingly the traffic does go down. We also have recorded lower outbound roaming traffic too, on that basis the cost has come down. At the same time at the rate impact as our international team does a good job in the negotiation of the traffic rates and the lower rates contributes to the lower costs.

Tan Tong Hai: I just want to add that because we're using both 1800 as well as the 2600 we are able to do carrier aggregation and that allows us even bring it up to 300 meg speed for the mobile - the 4G network.

In terms of pay TV today we have of course the number one content partner working with TVB and we also work with PCCW, to shows some of the PCCW content. Certainly when Hong Kong TV comes out we will evaluate that and see how they fit into - whether there's any niche area that they fill. We did really talk to all content partners and if they can a gap, a niche area, then we will put in together with the suite of our Hong Kong content so that we offer the widest. If they duplicate then of course we are not keen.

Steven Liu: (Standard Chartered, Analyst) Okay, thank you very much.

Eric Loh: Thank you. Next on the line is Luis from HSBC.

Luis Hilado: (HSBC, Analyst) Hi good evening. Thanks for the call and congrats on the results. I just have two housekeeping questions. One is one the pay TV side is if you have any major content coming up for renewal in the next 12 months?

The second was in terms of net EBITDA are you sure it's again improving, I'm just wondering if there's a certain level or it's even would you not accept a net cash level and we will decide to do something on the capital management front?

Tan Tong Hai: Unfortunately in terms of the content for renewal we don't usually share this because this is confidential data and of course we are bound by confidentiality agreement for content partners. I just wanted to tell you that we have actually managed our content costs well because we have now the return path data that we are able to assess the viewership and we are able to drop content that are not contributing to our viewership and so we will continue to manage this to ensure that our pay TV margin increase. The net debt EBITDA can I ask Nic to answer?

Nicholas Tan: Luis, the net debt EBITDA, yes you're correct it is at a very healthy level and continues to stay healthy. On a question of capital management I think in the past they have shown that they are - we have returned capital to shareholder but at this point in time we constantly look at this together with our Board of Directors but it's not on the horizon at this point in time.

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

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

Wu Wei-Shi: (BNP Paribas, Analyst) Hi good evening. Firstly I note your comment about the potential increase in handset cost in the fourth quarter but beyond the fourth quarter how sustainable do you think margins are at the 34%-ish level?

The second question is you - and you pointed out earlier that your broadband and the pay TV businesses are very much linked which I agree. In view of that I'd just like to get management's thoughts on how potentially the company can mitigate the exposure to broadband price competition going forward?

Kevin Lim: I'll take the first one. The first one was we expect the fourth quarter to go up because of handset costs and whether our margin sustainable.

Nicholas Tan: f that was the question I think we the increase in handset costs in the fourth quarter could as I say, it is contributed by the new models that have been introduced. Though it is - if you consider it is in nature. But over the - we don't give guidance beyond the next year but you can be sure that we watch our margins very, very carefully.

Tan Tong Hai: In a way if you look at 2012 where the iPhone 4 was launched you can see that actually the demand was achieved in the fourth quarter and actually tapered off in the quarter one. You can take that as one kind of a trending that you can see. Because most - like last year the consumers skip one of the upgrades and then this iPhone 6 so that in a way will give you some form of a past trending for you to understand.

Now with regards to the broadband and the TV and of course how are we going to continue to use this as an advantage for us, Kevin do you want to answer?

Kevin Lim: Yes let me take that question. Well if you - what we do is we report the business separately when we report broadband and we report pay TV but actually from an organisational standpoint that's under one unit. If you have seen our advertising you will notice that we advertise our HomeHub services which is actually broadband and TV services and we have different speeds and different packages.

Hubbing has always been in our DNA and that's a value proposition that we continue to offer to our customer. I'm happy to report that our HomeHub services have been very successful in the sense that we're seeing a lot more customers taking up the services. Customers do see it as a total package in terms of what they are able to get as a total home entertainment and connectivity services.

We will continue to enhance our HomeHub services to bring this hubbing benefit to our customer and that's how really how we see it going forward rather than to compete individually by product by product.

Tan Tong Hai: If you ask me in terms of whether this can withstand competition I think today if you look at the players out there there's only one particular party that has this I would call some kind form of a content, branded content, but more in the sports arena as of now. We think that other than ourselves and the other party the rest don't have really quality branded content. They are bundling, most of them, content that is widely available in the net and that may not be still a compelling proposition.

Our bundling is quality content, branded content and that is uniquely given - packaged by us and they see that as a very attractive point. I believe that that will continue to be a key selling point. I also mention that we have the cable plus the broadband so that will also appeal to those that are not interested in content but wants to have always on broadband for home. We also give something very unique and that is also hard to be replicated by any of the parties around because no other party have an alternative network that gives up to 100 Meg of broadband speed. So only StarHub have that.

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

Eric Loh: Thank you Wei-Shi. We've got time for one last question and it's going to come from Arthur, Citigroup. Arthur.

Arthur Pineda: (Citigroup, Analyst) Hi, yes, just one follow up question on the mobile side. I was just wondering what do you think is causing the variance in the revenue growth momentum versus your mobile peers? This has been ongoing for a quite a while, what needs to be addressed to better face your peers? Thank you.

Kevin Lim: While we report the total mobile revenue and subs, in that as we have said we do see growth in the post-paid mobile both in subscriber and revenue. This is offset by declines in our prepaid business so we have a high number of prepaid cards expiring and also revenue has declined somewhat because of lower IDD and SMS usages and any data usage by prepaid customers is insufficient to compensate for those declines. In a way the mobile business is impacted by that part of the business.

Tan Tong Hai: Also if you look at how we report our prepaid revenue, our prepaid revenue includes IDD and of course you see IDD dropping. Whereas if you - it depends on other parties who report their prepaid business whether they include IDD. If they don't include IDD, of course they won't see a drop. I think we are managing the overall mobile revenue growth. The most important point you need to take away is that growth in the post-paid is still very strong. If you look at the subscriber base we have added 102,000 if you compare versus a year ago, I think that is still one of the main drivers and will continue to help us to grow the mobile revenue.

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

Eric Loh: Thank you. Thank you very much for joining us this evening and we look forward to your company once again when we report our full year results in February of 2015. Good night.

End of Transcript