

COMPANY UPDATE

StarHub (STH SP)

On Stable Footing, Frontloading Capex To Drive Future Earnings

Starhub continues to experience improvement amid rational competition and increased 5G network rollout. The launch of HubBundle (mobile, home broadband, entertainment) has been encouraging and the company aims to drive stickiness via innovative products. As such, we expect Starhub to frontload capex to drive cost and product efficiency to achieve an additional cumulative S\$220m in gross profit over 2022-26 (4% incremental profit annually). Maintain HOLD. Target price: S\$1.30.

WHAT'S NEW

- Improving operational parameters.** Our recent update with management suggests continued improvements across all segments. On the mobile front, prepaid competition remains rational while postpaid likely benefitted from the onset of 5G network rollout. This, we believe, will help to partly address ARPU dilution from SIM-only plans as postpaid ARPUs have been stable since 1Q21. We also expect higher take-up of 5G mobile plans (5G ARPUs are estimated to be 1.2x higher than 4G ARPUs). In addition, Starhub's cross-products bundling strategy is expected to help create customers' stickiness as anecdotal, the HubBundle plan (integrated mobile, broadband, Netflix and Disney+) saw encouraging adoption since it was launched in Sep 21.
- Driving sustainability through enterprise convergence.** To ensure sustainability, Starhub acquired Ensign (cybersecurity), Strateq (regional ICT), JOS (ICT), and MyRepublic (enterprise broadband) over the years to help strengthen its converged business solution (5G, cloud, security). Ytd, the gradually improving business sentiment paved the way for Ensign to register a 14% yoy revenue growth while operating profit grew to S\$6.8m in 9M21 vs S\$0.7m in 9M20. At this juncture, Ensign's orderbooks remained strong (positive public sector contribution) and it is estimated that it has an 18% market share in Singapore. Ensign is poised to benefit from a five-year 36% CAGR growth for cloud security by 2024, according to Gartner. With that, Starhub will continue to look for strategic partnerships to move up its value chain for sustainable growth.
- Frontloaded capex, dividend policy unchanged.** StarHub has a budget of S\$270m (capex and opex) over 2022-24 for digital platforms and 5G network rollout. Including the S\$26.3m (shared with M1) 2.1 GHz 5G spectrum fee, a total of about S\$300m frontloaded investments are expected to materialise in the near term. Despite frontloading capex, Starhub remains committed to its 5 cent or 80% dividend payout policy, and is looking to grow in dividends with its profit growth.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2019	2020	2021F	2022F	2023F
Net turnover	2,330	2,029	2,027	2,092	2,154
EBITDA	598	512	514	532	556
Operating profit	255	231	232	252	289
Net profit (rep./act.)	187	157	143	155	176
Net profit (adj.)	178	157	143	155	176
EPS (S\$ cent)	10.3	9.1	8.3	9.0	10.2
PE (x)	12.6	14.3	15.7	14.5	12.8
P/B (x)	4.3	4.2	3.7	3.3	3.0
EV/EBITDA (x)	5.0	5.8	5.8	5.6	5.4
Dividend yield (%)	6.9	3.8	3.5	3.8	4.3
Net margin (%)	8.0	7.8	7.0	7.4	8.2
Net debt/(cash) to equity (%)	179.7	140.6	121.0	95.3	70.3
Interest cover (x)	16.3	13.2	11.3	11.3	10.9
ROE (%)	34.9	29.8	25.0	24.3	24.7
Consensus net profit	-	-	148	159	178
UOBKH/Consensus (x)	-	-	0.97	0.97	0.99

Source: StarHub Ltd, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$1.30
Target Price	S\$1.30
Upside	+0.0%

COMPANY DESCRIPTION

StarHub is a telecommunications company offering a range of services such as mobile, pay-TV, broadband for consumer market, as well as ICT solutions for enterprise markets in Singapore.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	STH SP
Shares issued (m):	1,731.6
Market cap (S\$m):	2,251.0
Market cap (US\$m):	1,674.0
3-mth avg daily t'over (US\$m):	1.5

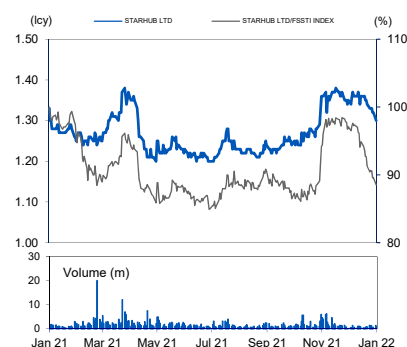
Price Performance (%)

52-week high/low	S\$1.38/S\$1.20			
1mth	3mth	6mth	1yr	YTD
(3.7)	4.8	8.3	(2.3)	(4.4)

Major Shareholders

	%
Temasek Holdings Pte Ltd	56.4
NTT Communications	9.9
FY22 NAV/Share (S\$)	0.39
FY22 Net Debt/Share (S\$)	0.37

PRICE CHART



Source: Bloomberg

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STOCK IMPACT

- DARE+ transformation (2022-26) includes top-line growth...** In essence, StarHub targets S\$280m in cost savings plus S\$220m in gross profit growth cumulatively from 2022-26. The gross profit growth is expected to be driven by revenue uplift from the mobile and enterprise segments (specifically from 5G enterprise, cloud gaming, and digital solutions). This would exclude any M&A opportunities in the pipeline.
- ...and continuous cost discipline.** After achieving S\$273m cost savings in 2019-21, the group is targeting another S\$280m cost savings from 2022-26. The key savings identified include: a) workforce efficiency via streamlining processes and right sourcing, b) reduced physical stores and office space, c) lower commission cost with increased migration to online touchpoints, and d) continuously shifting its content cost structure from a fixed basis to a variable basis.
- M&A strategy...** After the recent proposed acquisitions of MyRepublic Broadband and JOS (Singapore and Malaysia business), Starhub continues to look out for M&A opportunities to accelerate growth and create new revenue stream in the enterprise segment. Starhub continues to seek deals within the region, targeting companies that: a) have a strong growth track record, b) are financially accretive, and c) are at reasonable valuations. The mode of acquisition will be Starhub as the controlling stake or through an entire buyout.
- ...to strengthen enterprise business beyond 2022/23.** We expect earnings and cost synergies from the consolidation of MyRepublic Broadband and JOS to materialise in 2023 and beyond. Specifically, we expect cost savings from rental savings with the consolidation of office/warehouse spaces and joint procurement savings.

EARNINGS REVISION/RISK

- None.

KEY PERFORMANCE GUIDANCE FOR 2021

	2021 Guidance	Update
Service Revenue	Stable	No changes
Service EBITDA margin	24% - 26%	At least 26% (as of Nov 21)
Capex commitment (of total revenue)*	9-11%	7-9% (as of Aug 21)
Dividend/share	Higher of 5 cents or 80% PATAMI payout	No changes

*Excluding 5G capex, Spectrum, and IT transformation Capex.

Source: Starhub, UOB Kay Hian

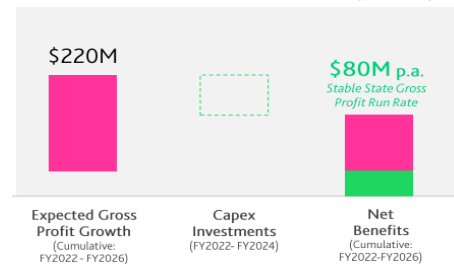
VALUATION/RECOMMENDATION

- Maintain HOLD with a DCF-based target price of S\$1.30** (COE: 8.6%; terminal growth: 0%). At our fair value, the stock will trade at 6x 2022F EV/EBITDA, 1SD below its five-year mean EV/EBITDA of 8.5x. The stock offers a sustainable dividend yield of 4%.

SHARE PRICE CATALYST

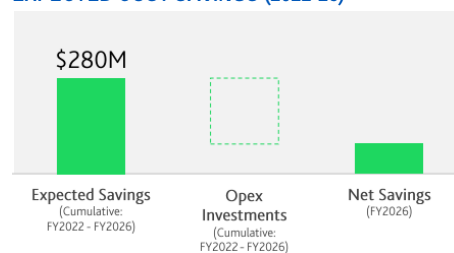
- A key re-rating for the stock includes the return of tourists to Singapore – propping up prepaid SIM card sales.
- Market consolidation – exit of mobile network virtual operators.
- Potential network carved out/shifted to an asset-light business model (sale and leaseback of network). Management is of the opinion that the cost of capital from the capital market is much more attractive vs the leasing model at this juncture.
- Faster-than-expected 5G adoption and new business cases in Singapore.

EXPECTED GROSS PROFIT GROWTH (2022-26)



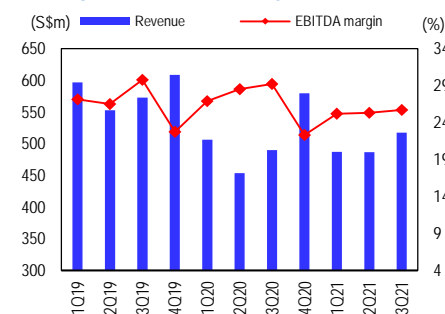
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EXPECTED COST SAVINGS (2022-26)



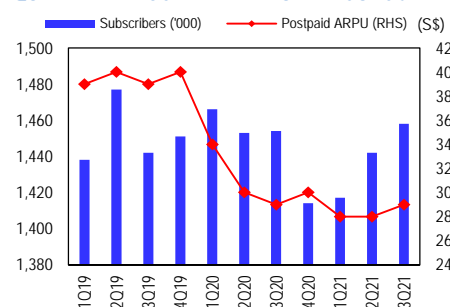
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REVENUE AND EBITDA MARGIN



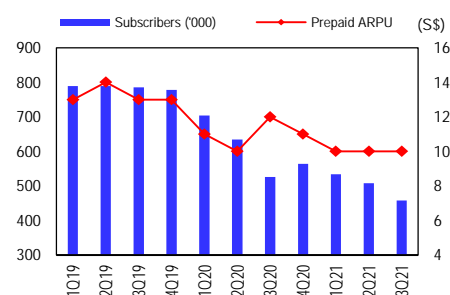
Source: StarHub, UOB Kay Hian

QUARTERLY POST-PAID ARPU AND SUBSCRIBERS



Source: StarHub, UOB Kay Hian

QUARTERLY PRE-PAID ARPU AND SUBSCRIBERS



Source: StarHub, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Net turnover	2,029	2,027	2,092	2,154
EBITDA	512	514	532	556
Deprec. & amort.	281	282	279	268
EBIT	231	232	252	289
Net interest income/(expense)	(39)	(46)	(47)	(51)
Pre-tax profit	192	186	205	238
Tax	(33)	(41)	(45)	(57)
Minorities	(2)	(2)	(5)	(5)
Net profit	157	143	155	176
Net profit (adj.)	157	143	155	176

CASH FLOW

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Operating	488	405	493	497
Pre-tax profit	192	186	205	238
Tax	(33)	(41)	(45)	(57)
Deprec. & amort.	281	282	279	268
Associates	0	0	0	0
Working capital changes	90	(68)	6	(2)
Other operating cashflows	(43)	46	47	51
Investing	(191)	(251)	(269)	(233)
Capex (maintenance)	(191)	(253)	(272)	(237)
Proceeds from sale of assets	0	0	0	0
Others	0	2	3	4
Financing	1	(76)	(81)	(104)
Dividend payments	(82)	(79)	(85)	(97)
Issue of shares	0	0	0	0
Proceeds from borrowings	124	50	54	47
Others/interest paid	(41)	(48)	(50)	(55)
Net cash inflow (outflow)	298	78	143	160
Beginning cash & cash equivalent	118	415	493	636
Changes due to forex impact	0	0	0	0
Ending cash & cash equivalent	415	493	636	796

BALANCE SHEET

Year to 31 Dec (\$m)	2020	2021F	2022F	2023F
Fixed assets	755	726	719	688
Other LT assets	1,017	1,017	1,017	1,017
Cash/ST investment	415	493	636	796
Other current assets	744	744	753	759
Total assets	2,931	2,980	3,124	3,260
ST debt	9	59	59	59
Other current liabilities	764	696	711	716
LT debt	1,164	1,164	1,218	1,265
Other LT liabilities	368	368	368	368
Shareholders' equity	538	603	672	751
Minority interest	88	90	95	100
Total liabilities & equity	2,931	2,980	3,124	3,260

KEY METRICS

Year to 31 Dec (%)	2020	2021F	2022F	2023F
Profitability				
EBITDA margin	25.3	25.3	25.4	25.8
Pre-tax margin	9.5	9.2	9.8	11.0
Net margin	7.8	7.0	7.4	8.2
ROA	5.6	4.8	5.1	5.5
ROE	29.8	25.0	24.3	24.7
Growth				
Turnover	(12.9)	(0.1)	3.2	2.9
EBITDA	(14.3)	0.3	3.5	4.6
Pre-tax profit	(12.1)	(3.3)	10.4	15.9
Net profit	(15.6)	(9.2)	8.5	13.4
Net profit (adj.)	(11.3)	(9.2)	8.5	13.4
EPS	(11.3)	(9.2)	8.5	13.4
Leverage				
Debt to total capital	65.2	63.8	62.5	60.9
Debt to equity	217.8	202.9	189.9	176.2
Net debt/(cash) to equity	140.6	121.0	95.3	70.3
Interest cover (x)	13.2	11.3	11.3	10.9

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