

# StarHub (STH SP)

## DARE+ starts to bite

### Results beat; Maintain HOLD on upfront uncertainty

2021 earnings beat MIBG expectations, with PATMI above our forecast but in line with consensus. The DARE+ strategy points to early signs of rising ARPUs across all segments and a strong 5G adoption rate is positive. But higher upfront capex in executing the new strategy and lingering uncertainty on regional re-opening are major offsetting factors. We raised our DCF-based (WACC: 4.9%, LTG: 0%) TP to SGD1.45 from SGD1.25. With 8.8% upside, maintain HOLD. Our preferred picks in the telco sector are Singtel (ST SP, CP: SGD2.55, BUY, TP: SGD2.81) and NetLink (NETLINK SP, CP: SGD0.98, BUY, TP: SGD1.11). We transfer coverage to Kelvin Tan.

### Broadband and Enterprise on the move

Broadband service revenue increased SGD18.3m (10.4% YoY) mainly due to higher ARPUs from continued reductions in subscription discounts and increased take up of higher-tier 2 Gbps plans. ARPU of SGD32 for the full year was SGD3 higher (12.6% YoY). Average monthly churn rate was at 0.7% in 4Q2021 and 0.8% for the full year. As businesses prepare for stronger demand post pandemic recovery, Enterprise Business revenue ticked higher (9.4% YoY) mainly due to higher contributions from Cybersecurity Services and the consolidation of Strateq under Regional ICT Services. This was partially offset by lower revenues generated from Data & Internet (-7.7% YoY), Managed Services (-3.4% YoY) and Voice Services (-16.4% YoY) due to fewer project completion on the back of global chip supply shortage.

### Mobile and PayTV lag despite higher subscribers

FY21 mobile service revenue at SGD531m (-8.5% YoY), mainly due to lower postpaid and prepaid revenues. Postpaid revenue fell on lower IDD usage from ongoing travel restrictions that tightened again in late 4QFY21. Entertainment service revenue declined 4.2% for the full year, offset by higher ARPU (+\$3) with higher-priced HomeHub bundled plans, lower commercial TV revenue and lower spending on advertising by Enterprise customers. Total Entertainment subscribers stood at 444,000 after Q4 net addition of 36,000 subscribers attributed to higher OTT take-up.

### Anticipating higher revenues

Starhub has guided higher 2022E and 2023E service revenue on new DARE+ initiatives, rolling out 5G NSA and SA, extending Infinity Play to a larger base and driving digital platforms beyond Singapore targeting regional markets. With this transformation, the group expects SGD500m in cost savings and gross profit growth cumulatively in the next 5 years. Large upfront investments to support IT transformation and the new DARE+ business initiatives led the company to guide higher overall capex commitment (12-15% of revenue) and lower service EBITDA margin (23% 2022E vs 30% 2021). We thus raised our FY2022-23 EPS forecasts by 5-15% from early DARE+ cost savings and re-opening growth. This raises our TP to SGD1.45 from SGD1.25 with 8.8% upside, maintain HOLD.

FYE Dec (SGD m)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,029	2,043	2,287	2,495	2,703
EBITDA	793	720	496	598	754
Core net profit	162	151	156	166	207
Core FDEPS (cts)	9.3	8.7	9.0	9.6	11.9
Core FDEPS growth(%)	(5.2)	(6.8)	3.6	6.3	24.5
Net DPS (cts)	5.0	6.4	5.0	5.0	6.0
Core FD P/E (x)	14.0	15.6	14.8	13.9	11.2
P/BV (x)	4.2	4.0	3.7	3.3	3.0
Net dividend yield (%)	3.8	4.7	3.8	3.8	4.5
ROAE (%)	14.3	7.2	11.5	12.1	14.2
ROAA (%)	5.7	4.9	4.8	4.9	5.7
EV/EBITDA (x)	4.1	4.3	6.5	5.2	3.9
Net gearing (%) (incl perps)	120.8	76.4	92.3	73.7	46.8
Consensus net profit	-	-	156	176	na
MKE vs. Consensus (%)	-	-	0.3	(5.5)	na

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# HOLD

Share Price	SGD 1.33
12m Price Target	SGD 1.45 (+9%)
Previous Price Target	SGD 1.25

### Company Description

Starhub is the 2nd largest wireless service and largest pay TV operator in Singapore

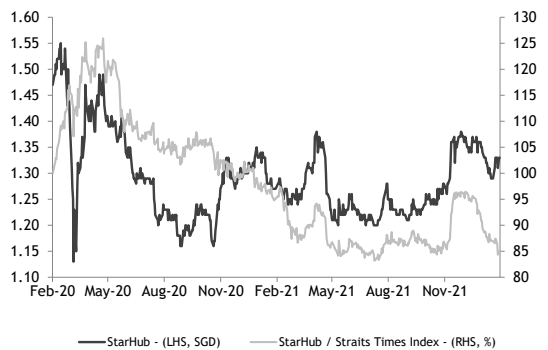
### Statistics

52w high/low (SGD)	1.38/1.20
3m avg turnover (USDm)	1.5
Free float (%)	na
Issued shares (m)	1,732
Market capitalisation	SGD2.3B USD1.7B

### Major shareholders:

Singapore Technologies Telemedia Pte Ltd	55.8%
Nippon Telegraph & Telephone Corp.	9.9%
The Vanguard Group, Inc.	0.9%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(2)	4	5
Relative to index (%)	(7)	(2)	(11)

Source: FactSet

### Abbreviations

DARE+: Starhub has initiated Digital Accelerating Realising Experience (DARE) which is the next phase of transformation for the next 5 years (FY2022-26)

ARPU: Average Revenue Per User

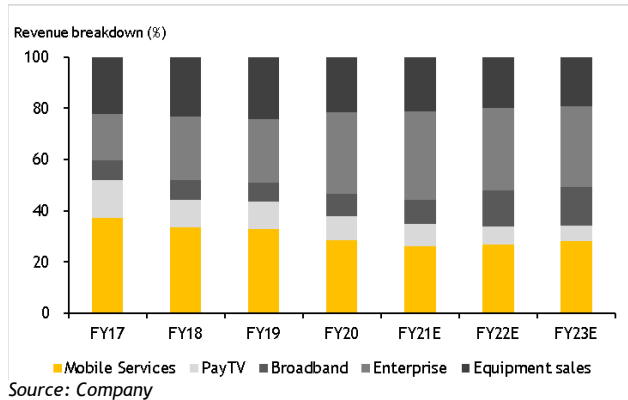
IDD: International Direct Dialing

OTT: Over the top, is a term used to describe when a provider delivers audio, video and other media over an IP network (such as the internet), bypassing the traditional operators network completely.

## Value Proposition

- Second largest operator in a mature, high-income ASEAN economy. Entrant of fourth operator threatens market share, returns and cost of capital.
- Cyclical EBITDA margin within the calendar year due to smartphone launches and a largely postpaid-revenue-driven market that values handset subsidies.
- Network management experience and breadth drives increased initiatives to tap private and public enterprise contracts.
- Dividend yield has been a key investment thesis. Despite reducing payout commitment (from SGD0.20 to SGD0.16), potential for DPS to exceed EPS remains; as in prior years.

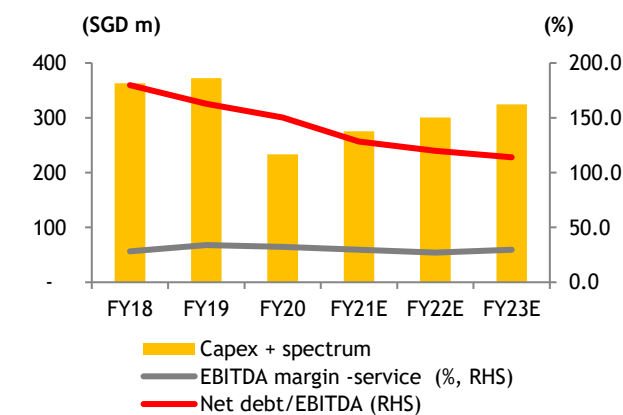
### Revenue breakdown by segments



## Financial Metrics

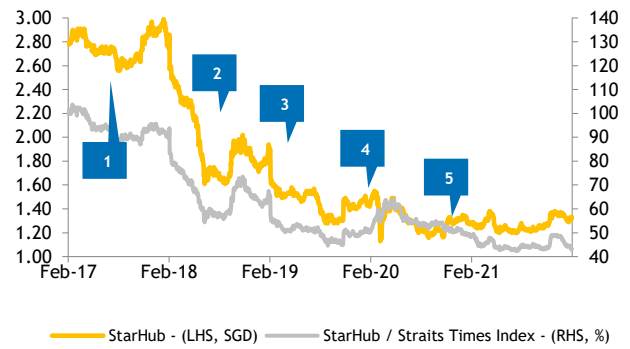
- Under our DPS assumptions, gearing will remain within loan covenants.
- ARPUs could come under pressure due to competition from MVNOs and the slow recovery of tourism.
- Key financial/operating metrics we would be monitoring in subsequent quarters are post-paid ARPU, PayTV churn rate and growth of the enterprise division.

### Service EBITDA margin, capex and net debt/EBITDA



## Price Drivers

### Historical share price trend



Source: Company, Maybank IBG Research

1. Consistent dividend payout kept share price generally stable.
2. Expectations of a new entrant, initially with a Dec 2016 spectrum action that led to TP's entry. Dividend payout commitment was cut by 20% to SGD0.16 per share.
3. Weakness in wireless revenue and viability of Pay TV sparked concerns.
4. Management outlines cost and organisational restructuring efforts.
5. Weak 1H20 results amid Covid-19, driven by declines in roaming, excess data usage and prepaid cards amid vapourisation of tourists and work-from-home arrangement.

## Swing Factors

### Upside

- Potential source of new revenues by targeting enterprise business, including government contracts linked to the Smart Nation initiatives.
- Market consolidation in the wireless segment.
- Higher-than-expected dividend payout commitment.

### Downside

- Further pressure on rates/data allocation of wireless tariff packages.
- Material investments in enterprise division that may have a lengthy gestation period before realising returns.
- Faster than expected shift in consumer preference towards Over-The-Top players such as Netflix and HBO GO

Risk Rating & Score <sup>1</sup>	24.6 (Medium)
Score Momentum <sup>2</sup>	-0.1
Last Updated	24 April 2021
Controversy Score <sup>3</sup> (Updated: 31 March 2021)	1 (Low)

## Business Model & Industry Issues

- StarHub is most exposed to cyber security and personal-data-leakage risks given the nature of its business.
- That said, StarHub complies with all applicable laws, including the Cybersecurity Act and the Personal Data Protection Act, as well as sector specific cyber security requirements imposed by the Infocomm Media Development Authority. Audits are also performed to verify its compliance on an on-going basis.
- Internally, it has implemented cyber security and internal data protection frameworks, which govern how StarHub employees should protect systems against cyber threats and treat customer data.
- As StarHub is in the business of connectivity, it is supporting youths, social and digital inclusion. The telco has donated >SGD1m to 15 voluntary welfare organisations and non-profit organisations to support disadvantaged groups in the areas of digital inclusion and employability through community investment.
- StarHub displays no exceptional risks for telco operator for ESG and it's in line with other peers in tackling ESG issues.

## Material E issues

- Carbon tax was introduced in 2019 on large direct emitters, which indirectly led to an increase in StarHub's energy costs.
- As such, StarHub has been increasing its use of renewable energy to 4.6% of its energy consumption in 2020, and is on track to increase it to 10% by 2022.
- Achieved 18% reduction in direct fuel consumption from non-renewable sources.
- About 60,000 tonnes of e-waste (cables, mobile phones, laptops and CPUs) was generated in Singapore, resulting in loss of valuable resources and greenhouse gas emission.
- StarHub has initiated flagship e-waste recycling programme, RENEW, in 2012 to provide avenues for Singaporeans to recycle their electronic waste (e-waste). More than 171 tonnes of e-waste was collected in 2020.

## Material S issues

- In 2020, no incidents of discrimination were reported directly to StarHub or through Tripartite Alliance for Fair Employment Practices.
- It has also achieved zero workplace fatality in 2020.
- 25% of the board and 43% of the workforce are female. It also has a whistleblowing programme to escalate employee concerns.
- 16,857 hours of training were provided to 77% of its employees.
- In Mar 2020, StarHub has set up StarHub Cares Covid-19 and raised over SGD1m to fund various community support programmes. The initiatives supported went to a variety of community sectors such as healthcare, lower-income groups, education, migrant workers and its customers.

## Key G metrics and issues

- In 2021, StarHub was ranked Asia's most sustainable telco by Corporate Knights Global 100. It was ranked 38th out of 578 Singapore-listed companies in the Singapore Governance and Transparency Index 2020.
- Board consists of 11 independent & non-executive directors, of which 27% are females.
- Independent directors chair the nomination, audit, investment and remuneration committees.
- There were no corruption cases and legal actions taken against StarHub for anti-competitive behaviour in 2020.
- At the most basic level, StarHub complies with all applicable laws, including the Cybersecurity Act and the Personal Data Protection Act.
- Internally, it has implemented cyber security and internal data protection frameworks, which govern how StarHub employees should protect systems against cyber threats and treat customer data.

<sup>1</sup>**Risk Rating & Score** - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. <sup>2</sup>**Score Momentum** - indicates changes to the company's score since the last update - a **negative** integer indicates a company's improving risk score; a **positive** integer indicates a deterioration. <sup>3</sup>**Controversy Score** - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

## Focus Charts

Fig 1: Forecast Changes

(End-Dec, SGD m)	FY22E	FY23E	FY24E
Revenues (revised)	2287.0	2495.5	2702.5
Revenue (previous)	2226.8	2376.6	2636.3
Change	2.63%	4.76%	2.45%
EBITDA (revised)	496.2	598.1	754.2
EBITDA (previous)	480.1	576.9	683.1
Change	3.26%	3.54%	9.43%
Net Profit (revised)	156.1	165.9	207.5
Net Profit (previous)	152.7	162.3	198.3
Change	2.16%	2.18%	4.41%
Target Price (revised)	1.45		
Target Price (previous)	1.25		
Change	16%		

Source: Maybank IBG Research

Fig 2: MIBG vs Consensus

(End-Dec, SGD m)	FY22E	FY23E
Revenues (MIBG)	2287.0	2495.5
EBITDA (MIBG)	496.2	598.1
EBITDA margin (MIBG)	21.7%	24.0%
Net profit (MIBG)	156.1	165.9
Target price (MIBG)	1.45	
Revenues (consensus)	2325.2	2616.5
EBITDA (consensus)	490.0	627.2
EBITDA margin (consensus)	21.1%	24.0%
Net profit (consensus)	156.5	176.2
Target price (consensus)	1.41	
Revenues (MIBG / consensus)	-1.7%	-4.8%
EBITDA (MIBG / consensus)	1.3%	-4.9%
Net profit (MIBG / consensus)	-0.3%	-6.2%
Target price (MIBG / consensus)	2.8%	

Source: Maybank IBG Research

Fig 3: Quarterly income

FYE Dec (SGD m)	4Q20	1Q21	2Q21	3Q21	4Q21	YoY %	QoQ %	MIBG FY21E	YTD as % of FY21E
Gross revenue (incl equipment)	579.5	487	486.7	517.2	551.8	-5%	6%	2,086	98%
Service revenue (excl equipment)	419.4	375.7	403.8	418.1	413.8	-1%	4%	1,633	99%
- Mobile	138.6	129.6	130.2	133.3	137.6	-1%	2%	593	89%
- Entertainment	47.1	44.9	45.6	45	44.5	-6%	-1%	172	105%
- Broadband	45.7	47	48.6	49.8	49.1	7%	2%	178	109%
- Enterprise	188	154.2	179.4	190	182.6	-3%	6%	690	102%
- Equipment	160.1	111.4	82.9	99.1	138	-14%	20%	453	95%
EBITDA	183.3	122.7	123.2	132.9	132.1	-28%	8%	501	102%
EBIT	55.7	50.2	54.4	64.1	63	13%	18%	218	106%
Net profit	36.1	30.5	37.4	40	41	14%	7%	143	104%

Source: Maybank IBG Research

Fig 4: Quarterly operating metrics

FYE Dec	4Q20	1Q21	2Q21	3Q21	4Q21	YoY %	QoQ %
<b>Mobile</b>							
Postpaid subscribers	1,414,000	1,417,000	1,443,000	1,458,000	1,484,000	5%	2%
Prepaid subscribers	564,000	534,000	508,000	458,000	468,000	-17%	2%
Postpaid ARPU (SGD)	31.0	28.0	28.0	29.0	30.0	-3%	3%
Prepaid ARPU (SGD)	11.0	10.0	10.0	10.0	10.0	-9%	0%
<b>Broadband</b>							
Subscriber	498,000	495,000	489,000	485,000	484,000	-3%	0%
ARPU (SGD)	30.0	31.0	32.0	34.0	33.0	10%	-3%
<b>Pay TV</b>							
Subscribers - PayTV	314,000	306,000	296,000	287,000	279,000	-11%	-3%
Subscribers - OTT	26,000	70,000	92,000	121,000	165,000	535%	36%
ARPU (SGD) - PayTV	40.0	40.0	42.0	43.0	44.0	10%	2%

Source: Company Data

Fig 5: DCF valuation

YE Dec 31 (SGDm)	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
EBITDA	476	496	598	754	792	816	840	857	874
Tax paid	(40)	(41)	(57)	(83)	(90)	(98)	(107)	(115)	(126)
Change in WC	78	(188)	8	8	4	4	4	4	5
Capex	(89)	(301)	(325)	(317)	(311)	(265)	(275)	(285)	(298)
Unlevered FCF	425	(33)	224	362	395	457	462	460	456
PV of FCF	425	(31)	199	304	313	341	326	306	286
Total PV of FCF	2,470								
Terminal value	7,689								
PV of Terminal Value	1,005								
Enterprise value	3,475								
Less: Net debt	974								
Equity value	2,501								
Equity value / share (SGD)	1.45								
Last traded price (SGD)	1.33								
Upside/downside (%)	8.8%								

Source: Maybank IBG Research

Fig 6: DCF parameters

Risk Free Rate (%)	2.5%
Market risk premium (%)	6.5%
Beta (x)	0.9
Cost of Equity (%)	8.4%
Cost of Debt (%)	3.6%
Debt to capital ratio	50%
WACC (%)	6.0%
Terminal Growth (%)	0.0%

Source: Maybank IBG Research

### Risks

Risk to our call include upside risk which is a stronger than expected rate of recovery, while downside risk are from i) significant upfront investment incurred to support DARE+ initiatives which will only realise from FY2023. ; ii) if inflation results in margin contraction of subscribers; iii) highly competitive mobile business with increasing MVNOs and lingering effects of ongoing travel restrictions. With aforementioned risks, we prefer exposure to Singtel (ST SP) for Singapore Telcos.

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Metrics</b>					
P/E (reported) (x)	14.1	14.5	14.7	13.8	11.1
Core P/E (x)	14.0	15.6	14.7	13.8	11.1
Core FD P/E (x)	14.0	15.6	14.8	13.9	11.2
P/BV (x)	4.2	4.0	3.7	3.3	3.0
P/NTA (x)	(0.1)	(0.2)	(0.3)	(1.2)	0.4
Net dividend yield (%)	3.8	4.7	3.8	3.8	4.5
FCF yield (%)	14.6	20.6	nm	7.3	12.1
EV/EBITDA (x)	4.1	4.3	6.5	5.2	3.9
EV/EBIT (x)	6.4	6.5	11.8	8.6	5.8

**INCOME STATEMENT (SGD m)**

Revenue	2,028.8	2,042.6	2,287.0	2,495.5	2,702.5
EBITDA	793.2	720.3	496.2	598.1	754.2
Depreciation	(281.1)	(244.2)	(225.6)	(236.6)	(249.6)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	512.1	476.1	270.7	361.4	504.5
Net interest income / (exp)	(38.9)	(45.0)	(47.0)	(47.8)	(47.6)
Associates & JV	0.5	3.4	3.4	3.4	3.4
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	192.6	190.3	227.1	317.1	460.3
Income tax	(32.7)	(40.1)	(40.9)	(57.1)	(82.9)
Minorities	2.1	0.8	2.1	2.1	1.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	162.0	151.0	156.5	166.3	207.1
Core net profit	162.0	151.0	156.5	166.3	207.1
Preferred Dividends	86.4	110.6	86.4	86.4	103.7

**BALANCE SHEET (SGD m)**

Cash & Short Term Investments	415.4	832.8	685.5	774.8	956.2
Accounts receivable	291.3	388.1	434.5	474.1	513.5
Inventory	79.8	50.0	74.9	81.8	88.5
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	755.0	694.7	770.7	858.6	926.2
Intangible assets	719.5	712.0	712.0	712.0	712.0
Investment in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other assets	670.3	565.2	578.9	578.9	578.9
<b>Total assets</b>	<b>2,931.3</b>	<b>3,242.8</b>	<b>3,256.6</b>	<b>3,480.2</b>	<b>3,775.3</b>
ST interest bearing debt	8.7	226.2	226.2	226.2	226.2
Accounts payable	555.1	694.4	592.7	646.7	700.4
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	1,163.7	1,138.5	1,138.5	1,138.5	1,138.5
Other liabilities	577.0	488.0	535.0	550.0	550.0
<b>Total Liabilities</b>	<b>2,304.8</b>	<b>2,546.7</b>	<b>2,492.9</b>	<b>2,561.1</b>	<b>2,614.7</b>
Shareholders Equity	538.3	589.5	629.4	693.3	765.4
Minority Interest	88.2	106.6	106.6	106.6	106.6
<b>Total shareholder equity</b>	<b>626.5</b>	<b>696.1</b>	<b>736.0</b>	<b>799.9</b>	<b>872.0</b>
<b>Total liabilities and equity</b>	<b>2,931.3</b>	<b>3,242.8</b>	<b>3,256.6</b>	<b>3,480.2</b>	<b>3,775.3</b>

**CASH FLOW (SGD m)**

Pretax profit	192.6	190.3	227.1	317.1	460.3
Depreciation & amortisation	281.1	244.2	225.6	236.6	249.6
Adj net interest (income)/exp	38.9	45.0	47.0	47.8	47.6
Change in working capital	75.5	77.8	(187.6)	7.6	7.5
Cash taxes paid	(32.7)	(40.1)	(40.9)	(57.1)	(82.9)
Other operating cash flow	111.2	91.7	107.6	116.7	113.9
Cash flow from operations	522.2	657.1	226.9	491.5	596.0
Capex	(191.2)	(171.9)	(301.6)	(324.5)	(317.3)
Free cash flow	331.0	485.2	(74.6)	167.0	278.7
Dividends paid	(82.2)	(86.6)	(86.4)	(86.4)	(103.7)
Equity raised / (purchased)	0.0	0.0	0.0	0.0	0.0
Change in Debt	174.4	(1.6)	8.2	5.1	2.8
Other invest/financing cash flow	(114.8)	114.0	(93.9)	(96.9)	(96.8)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
Net cash flow	308.4	511.0	(246.7)	(11.2)	80.9

FYE 31 Dec	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(12.9)	0.7	12.0	9.1	8.3
EBITDA growth	(15.7)	(9.2)	(31.1)	20.5	26.1
EBIT growth	(14.4)	(7.0)	(43.1)	33.5	39.6
Pretax growth	(11.9)	(1.2)	19.3	39.6	45.2
Reported net profit growth	(5.2)	(6.8)	3.6	6.3	24.5
Core net profit growth	(5.2)	(6.8)	3.6	6.3	24.5
<b>Profitability ratios (%)</b>					
EBITDA margin	39.1	35.3	21.7	24.0	27.9
EBIT margin	25.2	23.3	11.8	14.5	18.7
Pretax profit margin	9.5	9.3	9.9	12.7	17.0
Payout ratio	53.3	73.2	55.2	51.9	50.1
<b>DuPont analysis</b>					
Net profit margin (%)	8.0	7.4	6.8	6.7	7.7
Revenue/Assets (x)	0.7	0.6	0.7	0.7	0.7
Assets/Equity (x)	5.4	5.5	5.2	5.0	4.9
ROAE (%)	14.3	7.2	11.5	12.1	14.2
ROAA (%)	5.7	4.9	4.8	4.9	5.7
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	nm	nm	nm	nm	nm
Days receivable outstanding	55.8	59.9	64.7	65.5	65.8
Days inventory outstanding	nm	nm	nm	nm	nm
Days payables outstanding	nm	nm	nm	nm	nm
Dividend cover (x)	1.9	1.4	1.8	1.9	2.0
Current ratio (x)	1.5	1.5	1.6	1.6	1.7
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.3	1.3	1.3	1.4	1.4
Net gearing (%) (incl perps)	120.8	76.4	92.3	73.7	46.8
Net gearing (%) (excl. perps)	120.8	76.4	92.3	73.7	46.8
Net interest cover (x)	13.2	10.6	5.8	7.6	10.6
Debt/EBITDA (x)	1.5	1.9	2.8	2.3	1.8
Capex/revenue (%)	9.4	8.4	13.2	13.0	11.7
Net debt/ (net cash)	757.0	531.9	679.2	589.9	408.5

Source: Company; Maybank



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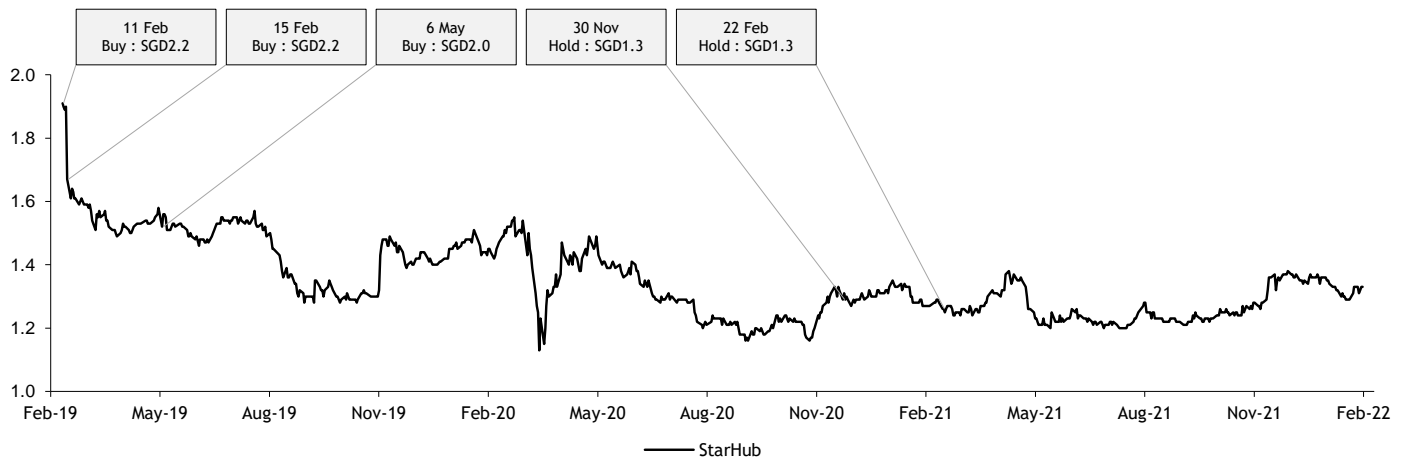
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