

Singapore Company Update

StarHub

Bloomberg: STH SP | Reuters: STAR.SI

Refer to important disclosures at the end of this report

BS Group Research . Equity

13 Feb 2022

HOLD (Downgrade from BUY)

Last Traded Price (11 Feb 2022): S\$1.33 (STI : 3,428.95)
Price Target 12-mth: S\$1.31 (2% downside) (Prev S\$1.60)

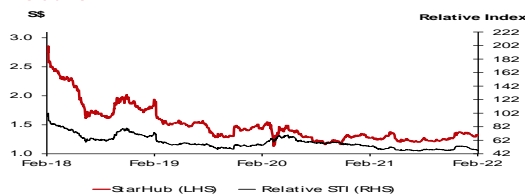
Analyst

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What's New

- FY21 net underlying profit of S\$148.3m (+17% y-o-y) was 11% ahead while 6.4Scts DPS was 4% above our expectations on margin beat
- StarHub has guided for 20%+ service EBITDA margins in FY22F compared to 29% in FY21 - high opex component of investments is a big surprise
- Downgrade to HOLD with a lower TP of S\$1.31 as we cut FY22F/23F earnings by 29%/13%

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2021A	2022F	2023F	2024F
Revenue	2,043	2,239	2,363	2,456
EBITDA	513	450	517	530
Pre-tax Profit	190	128	178	195
Net Profit	149	104	141	155
Net Pft (Pre Ex.)	148	104	141	155
Net Pft Gth (Pre-ex) (%)	(6.6)	(29.4)	35.7	9.9
EPS (S cts)	8.62	6.02	8.16	8.97
EPS Pre Ex. (S cts)	8.53	6.02	8.16	8.97
EPS Gth Pre Ex (%)	(7)	(29)	36	10
Diluted EPS (S cts)	8.58	5.99	8.13	8.93
Net DPS (S cts)	6.40	5.00	6.04	7.18
BV Per Share (S cts)	22.5	23.5	25.7	27.5
PE (X)	15.4	22.1	16.3	14.8
PE Pre Ex. (X)	15.6	22.1	16.3	14.8
P/Cash Flow (X)	3.5	7.4	5.6	5.5
EV/EBITDA (X)	6.2	7.5	6.8	6.5
Net Div Yield (%)	4.8	3.8	4.5	5.4
P/Book Value (X)	5.9	5.7	5.2	4.8
Net Debt/Equity (X)	0.8	1.1	1.2	1.1
ROAE (%)	41.0	26.1	33.2	33.8
Earnings Rev (%)		(29)	(13)	N/A
Consensus EPS (S cts)		9.20	10.3	10.3
Other Broker Recs:		B: 8	S: 0	H: 9

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

HOLD for 4% yield till growth resumes in 2023

Investment Thesis:

StarHub to front-load big investments in FY22F, which will start paying off from FY23F onwards. StarHub will invest S\$270m on digital platform & 5G network over the next 3-years. The bulk will be front-loaded in FY22F, and benefits will accrue from FY23F onwards. A big portion of these investments will be treated as an operating expense, which might lead to 29% earnings decline in FY22F, followed by 36%/10% growth in FY23F/24F on our estimates.

We project dividend per share (DPS) of 5 Scts in FY22F (vs 6.4 Scts in FY21) before a strong recovery in FY23F. StarHub is committed to pay a min of 5 Scts DPS or 80% of its recurring net profit in FY22F and FY23F each, whichever is higher.

Potential catalyst: Consolidation in the mobile sector. Any mobile sector consolidation in the next 6-12 months would be a key catalyst, leading to our bull-case TP of S\$1.55

Valuation:

Downgrade to HOLD with a lower TP of S\$1.31. Our DCF valuation is reduced to S\$1.31 (prev S\$1.60), based on WACC of 7.5% (previously 7.3%) & terminal growth rate of 0%. This is mainly due to 29%/13% cut in our FY22F/23F earnings and higher WACC from potentially higher beta.

Where we differ:

Street's FY22F/23F earnings could be cut 35%/20%. Management has guided service EBITDA margins to exceed 20%/23% in FY22F/23F (vs 29% in FY21); we project 23%/25% margins.

Key Risks to Our View:

Bull-case valuation of S\$1.55 and bear-case valuation of S\$1.00. Our bull-case scenario may materialise if there is industry consolidation over the next six months, leading to FY21-23F earnings CAGR of 12%. Our bear-case scenario may materialise if FY23F earnings growth is just 10%.

At A Glance

Issued Capital (m shrs)	1,730
Mkt. Cap (S\$m/US\$m)	2,301 / 1,708
Major Shareholders (%)	
Temasek Holdings Pte Ltd	55.8
Nippon Telegraph & Telephone Corp	9.9
Free Float (%)	
3m Avg. Daily Val (US\$m)	1.4
GIC Industry : Communication Services / Telecommunication	



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WHAT'S NEW

FY21 earnings ahead on margin beat

Excluding Jobs Support Scheme (JSS) grants of S\$1.9m, FY21 net profit of S\$148.3m (+17% y-o-y) was 11% above our expectations. StarHub (STH) recorded net profit excluding JSS grants of S\$148.3m (+17% y-o-y) which was above our expectations. 2H21 net profit excluding JSS grants stood at S\$81.0m (+28% y-o-y). The surprise in FY21 was largely due to higher service EBITDA margin of 29.7% vs StarHub's own guidance of at least 26% and compared to our estimate of 27.8%. This was due to less than expected operating expenses which remained flat at S\$1,825m thanks to decline in content costs, network solution costs, staff costs and marketing costs. Content costs and network solution costs are aligned to declining pay TV and network solutions revenue while staff costs and marketing costs have declined to reflect cost optimisation programs at StarHub.

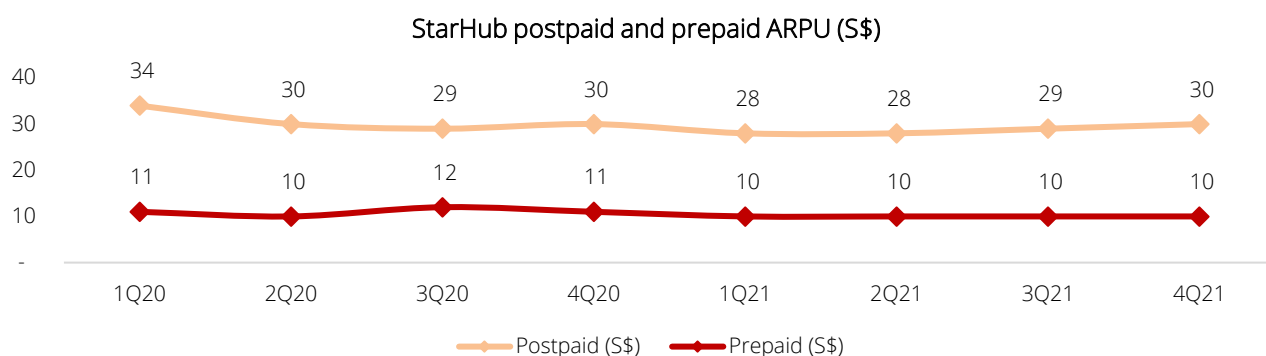
FY21 DPS of 6.4Scts was ahead of our 6.2Scts estimate.

StarHub declared a final dividend of 3.9 Scts per share for 2H21 which combined with the interim dividend of 2.5 Scts amounts to 6.4 Scts per ordinary share for FFY21, representing a payout ratio of 80% of FY2021 net profit attributable to shareholders.

FY21 revenue of S\$2,042.6m (+0.7% y-o-y) was in line with our expectations; postpaid mobile ARPU on recovery.

STH recorded service revenue of S\$1,611.2m (+1.4% y-o-y) in line with our expectations. During FY21, STH's mobile service revenue recorded an 8.5% y-o-y decline to S\$531m largely due to lower postpaid and pre-paid mobile revenue. Postpaid revenue remains impacted due to lower IDD usage and lower roaming revenue. Postpaid segment registered 4.9% y-o-y growth in subscriber base to 1.48m. FY21 postpaid ARPU was S\$28, down 8% y-o-y, although postpaid ARPU rose to S\$30 in 2H21.

Postpaid ARPU in 4Q21 rose q-o-q to S\$30 due to increased take up of the entertainment value added services, higher roaming, partially offset by migration to cheaper SIM-only plans



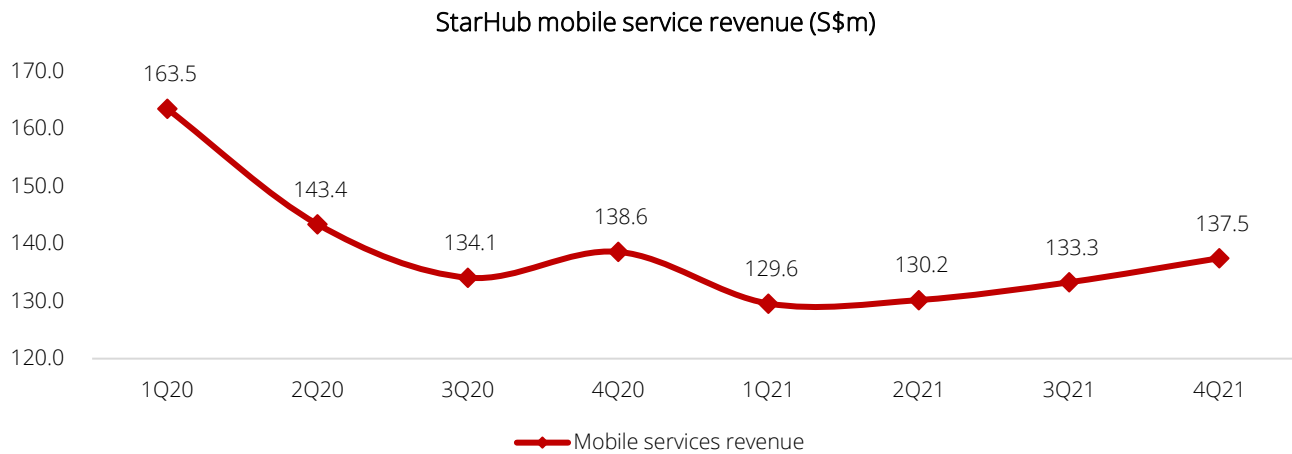
Source: Company, DBS Bank

Broadband service revenue during FY21 rose by 10.4% y-o-y to S\$194.4m. This was led by higher ARPU of S\$32 (S\$29 in FY20). Reductions in subscription discounts and the absence of a one-off 20% rebate on Home Broadband monthly fee supported the revenue growth. STH's entertainment revenue fell 4.2% y-o-y to S\$180.0m stemming from a lower subscriber base, lower

commercial TV revenue and lower Enterprise customer led advertisement spending. However, ARPU in this segment rose to S\$42 in FY21 compared to S\$39 in FY20, led by higher priced HomeHub bundled plans. PayTV subscriber base declined to 279k in 4Q21 from 287k in the preceding quarter. However over-the-top (OTT) added 44k subscribers to take the total count to 165k.

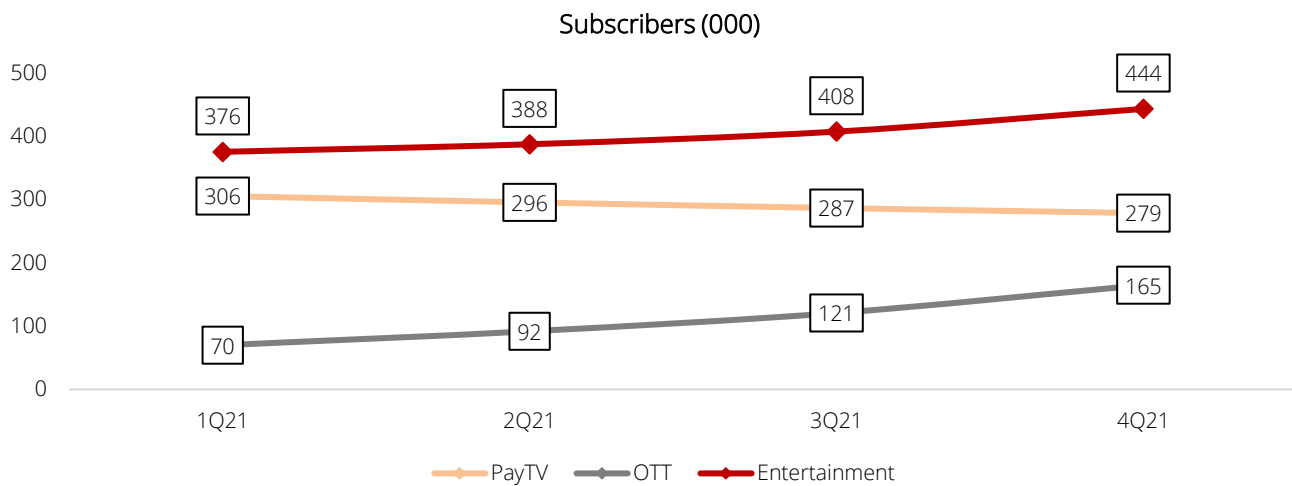
StarHub

Mobile services revenue has started improving since 2Q21



Source: Company, DBS Bank

resulting in an operating profit of S\$3.5m, largely led by

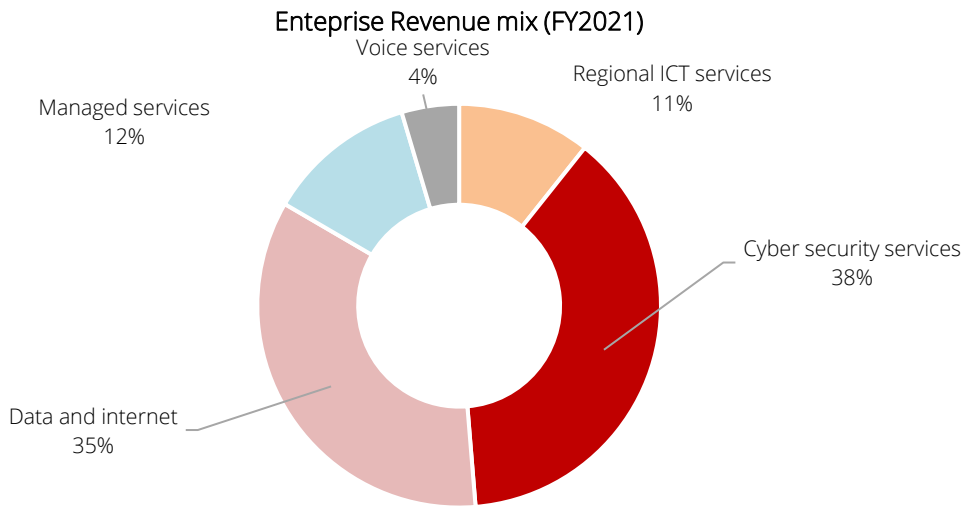


Source: Company, DBS Bank

Enterprise segment recorded 9.4% y-o-y growth to S\$706.1m, predominantly led by growth in cyber security and regional ICT services. Regional ICT services and cyber security segments accounted for nearly half of the enterprise segments business. During FY21, cyber security services revenue grew by 21.7% y-o-y to S\$268.5m

stronger business demand as businesses prepare for post COVID-19 recovery. While regional ICT services benefitted from the full year consolidation of Strateq and the segment recorded a revenue of S\$75.8m (+128% y-o-y). Amidst high growth in regional ICT services and cyber security services, a 7.6% decline in network solutions led to 9.4% y-o-y revenue growth in enterprise segment to S\$706.1m.

Regional ICT services and Cyber security services account for ~49% of total Enterprise revenue



Source: Company, DBS Bank

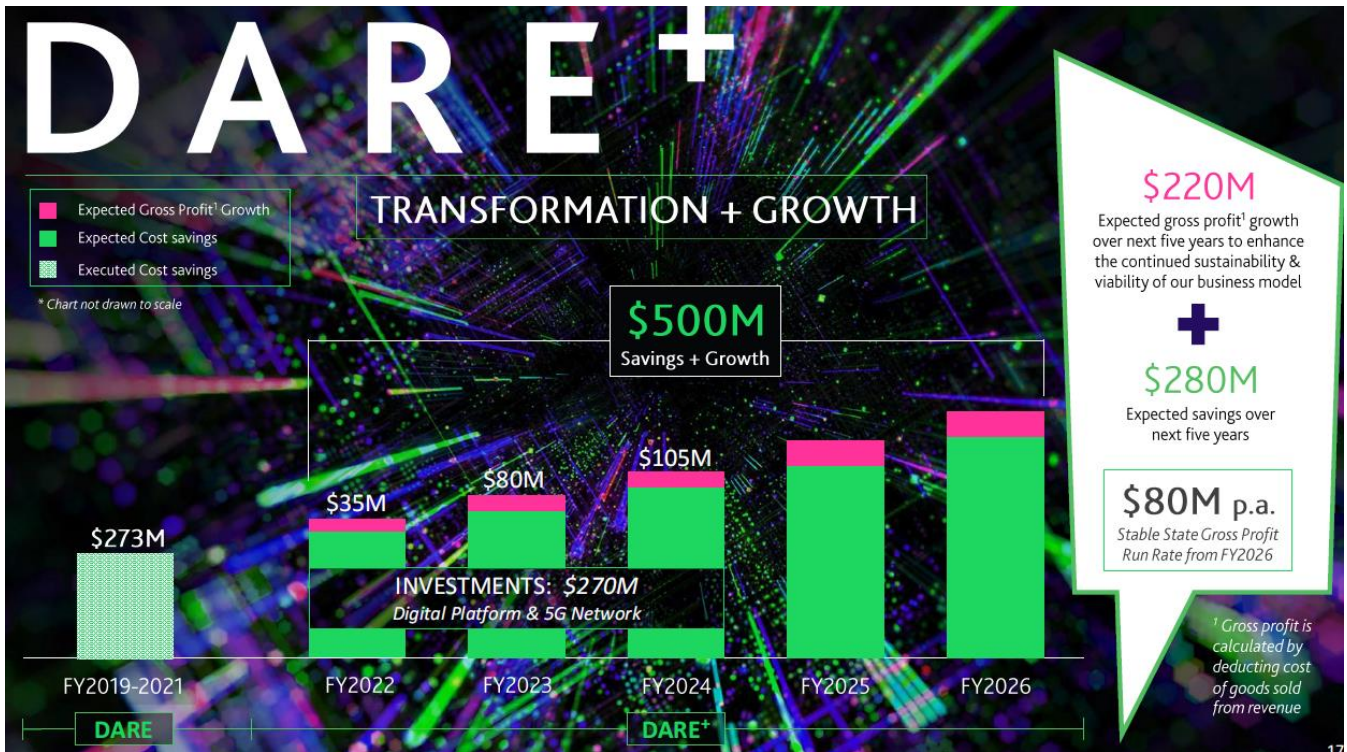
Management guidance on service EBITDA margins in FY22F is disappointing. Management has guided for service EBITDA margins to exceed 20%/23% in FY22F/23F (vs 29% in FY21). Management has attributed 300 basis points decrease in margins due to rising utility costs. We understand that most of the 300-400 basis points decrease in margins can be attributed to opex for digital platform and 5G network. StarHub-M1 are building a joint 5G network, and these investments are expensed off and not capitalized due to the nature of the collaboration. Similarly, StarHub will be leasing cloud software for its digital platform where it will be paying on monthly basis which will be expensed off. This translates into an extra opex of S\$60-70m each year in FY22F/23F or S\$130m cumulatively for digital platform and 5G network. The rest of the 200-basis point margin decline is structural in nature due to rising contribution of lower margin ICT revenue. We project 23%/25% service EBITDA margins in FY22F/23F as StarHub had also exceeded its FY21F margin guidance by over 300 basis points.

Management guidance for revenue is better than our estimates. Management has guided for service revenue growth of at least 10% in FY22F & 5-10% growth in FY23F vs our previous expectations of 8%/5% in FY22F/23F. Starhub

expects higher contributions from Mobile, Broadband, Cybersecurity services and Regional ICT services coupled with consolidation of its newly acquired subsidiaries in 2022. This would be partially offset by continued decline in its pay TV revenue. We now project 12%/7% service revenue growth in FY22F/23F.

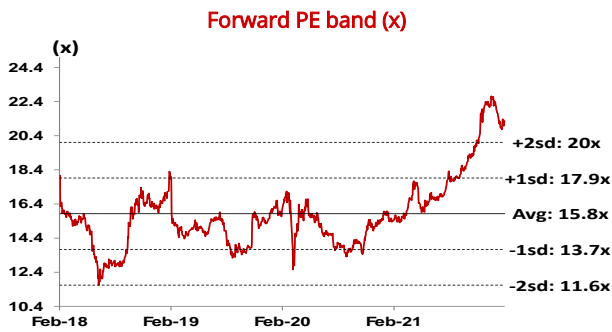
Management guidance for capex is comparable to our expectations. Management has guided for business-as-usual (BAU) capex commitment to be 7% to 9% of total revenue; and overall capex commitment, including front-loaded investments to be 12% to 15% of total revenue for both FY22 and FY23. This translates to extra capex of S\$120-130m for frontloaded investments in FY22F/23F each. FY22F also carries an estimated S\$80m of delayed capex from FY21 as StarHub's committed capex was way below expectations. So digital & 5G related extra capex could be S\$170m in total over FY22F and FY23F in our estimates. Overall, cumulative capex and opex for digital & 5G over FY22F and FY23F could be S\$300m, which is more than the guidance of S\$270m for digital & 5G investments over next three years. We think that StarHub's opex guidance is too conservative and we project 23%/25% service EBITDA margins in FY22F/24F.

StarHub's digital & 5G investment plan – DARE+ with its expected gross profit and cost savings

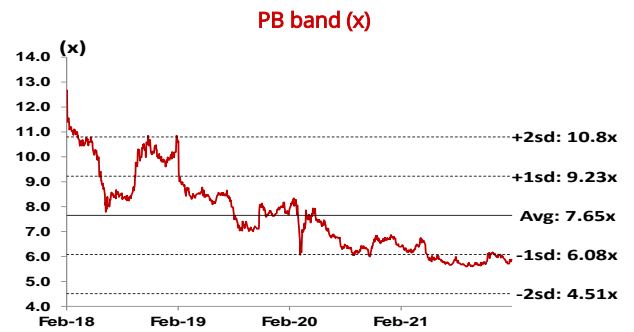


Source: Company

Historical PE and PB band [Pls always check if PE/ PB band is correctly represented]



Source: Bloomberg Finance L.P., DBS Bank estimates



Source: Bloomberg Finance L.P., DBS Bank estimates

Key Assumptions

Source: Company, DBS Bank

FY Dec	2020A	2021A	2022F	2023F	2024F
Mobile EBITDA Margins	37.7	42.7	25.4	32.3	32.3
CATV & Broadband	16.0	15.5	15.5	15.5	16.0
Fixed Network EBITDA	34.0	30.0	28.0	27.0	25.5

Segmental Breakdown

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenues (\$m)					
Mobile	580	531	581	621	628
Cable TV & Broadband	364	374	444	451	458
Fixed Network	646	706	783	860	938
Equipment sale	440	431	431	431	431
Others					
Total	2,029	2,043	2,239	2,363	2,456
EBITDA (\$m)					
Mobile	219	227	147	201	203
Cable TV & Broadband	58.2	58.0	68.9	69.9	73.3
Fixed Network	219	212	219	232	239
Equipment sale	41.4	14.2	14.2	14.2	14.2
Others					
Total	538	511	450	517	530
EBITDA Margins (%)					
Mobile	37.7	42.7	25.4	32.3	32.3
Cable TV & Broadband	16.0	15.5	15.5	15.5	16.0
Fixed Network	34.0	30.0	28.0	27.0	25.5
Equipment sale	9.4	3.3	3.3	3.3	3.3
Others	N/A	N/A	N/A	N/A	N/A
Total	26.5	25.0	20.1	21.9	21.6

2022F to benefit from MyRepublic consolidation

OTT and variable cost model to support ARPU in broadband

Income Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Revenue	2,029	2,043	2,239	2,363	2,456
Cost of Goods Sold	(1,839)	(1,825)	(2,089)	(2,167)	(2,241)
Gross Profit	190	218	151	196	214
Other Opng (Exp)/Inc	41.4	14.2	14.2	14.2	14.2
Operating Profit	231	232	165	210	228
Other Non Opng (Exp)/Inc	0.0	(1.7)	0.0	0.0	0.0
Associates & JV Inc	0.60	3.40	3.40	3.40	3.40
Net Interest (Exp)/Inc	(38.9)	(45.0)	(40.4)	(35.6)	(36.6)
Exceptional Gain/(Loss)	(0.1)	1.70	0.0	0.0	0.0
Pre-tax Profit	193	190	128	178	195
Tax	(32.7)	(40.1)	(23.0)	(35.5)	(39.0)
Minority Interest	(2.1)	(0.8)	(0.8)	(0.8)	(0.8)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	158	149	104	141	155
Net Profit before Except.	158	148	104	141	155
EBITDA	538	513	450	517	530
Growth					
Revenue Gth (%)	(12.9)	0.7	9.6	5.5	3.9
EBITDA Gth (%)	(12.7)	(4.8)	(12.3)	15.0	2.4
Opg Profit Gth (%)	(9.6)	0.2	(28.9)	27.3	8.8
Net Profit Gth (Pre-ex) (%)	(15.3)	(6.6)	(29.4)	35.7	9.9
Margins & Ratio					
Gross Margins (%)	9.4	10.7	6.7	8.3	8.7
Opg Profit Margin (%)	11.4	11.3	7.4	8.9	9.3
Net Profit Margin (%)	7.8	7.3	4.7	6.0	6.3
ROAE (%)	48.1	41.0	26.1	33.2	33.8
ROA (%)	5.6	4.8	3.5	5.0	5.4
ROCE (%)	9.2	8.0	6.2	8.6	9.2
Div Payout Ratio (%)	54.9	74.2	83.0	74.0	80.0
Net Interest Cover (x)	5.9	5.2	4.1	5.9	6.2

Interim Income Statement (\$m)

FY Dec	2H2019	1H2020
Revenue		
Cost of Goods Sold		
Gross Profit		
Other Oper. (Exp)/Inc		
Operating Profit		
Other Non Opq (Exp)/Inc		
Associates & JV Inc		
Net Interest (Exp)/Inc		
Exceptional Gain/(Loss)		
Pre-tax Profit		
Tax		
Minority Interest		
Net Profit		
Net profit bef Except.		
EBITDA		
Growth		
Revenue Gth (%)	nm	nm
EBITDA Gth (%)		
Opq Profit Gth (%)		
Net Profit Gth (%)		
Margins		
Gross Margins (%)		
Opq Profit Margins (%)		
Net Profit Margins (%)		

Balance Sheet (\$m)

FY Dec	2020A	2021A
Net Fixed Assets	755	695
Invt in Associates & JVs	22.8	26.2
Other LT Assets	994	919
Cash & ST Invt	415	833
Inventory	79.9	50.0
Debtors	193	192
Other Current Assets	472	528
Total Assets	2,931	3,243
ST Debt	36.4	255
Creditor	555	694
Other Current Liab	181	144
LT Debt	1,164	1,139
Other LT Liabilities	368	314
Shareholder's Equity	538	590
Minority Interests	88.2	107
Total Cap. & Liab.	2,931	3,243
Non-Cash Wkg. Capital	7.80	(68.4)
Net Cash/(Debt)	(785)	(561)
Debtors Turn (avg days)	39.7	34.4
Creditors Turn (avg days)	130.4	147.5
Inventory Turn (avg days)	21.2	15.3
Asset Turnover (x)	0.7	0.7
Current Ratio (x)	1.5	1.5
Quick Ratio (x)	0.8	0.9
Net Debt/Equity (X)	1.3	0.8
Net Debt/Equity ex MI (X)	1.5	1.0
Capex to Debt (%)	15.9	12.4
Z-Score (X)	1.6	1.5

Source: Company, DBS Bank



Cash Flow Statement (\$m)

FY Dec	2020A	2021A	2022F	2023F	2024F
Pre-Tax Profit	193	190	128	178	195
Dep. & Amort.	307	279	281	304	298
Tax Paid	(59.1)	(82.9)	(57.4)	(23.0)	(35.5)
Assoc. & JV Inc/(loss)	(0.6)	(3.4)	(3.4)	(3.4)	(3.4)
Chg in Wkg.Cap.	57.2	101	4.61	1.43	6.15
Other Operating CF	82.2	173	(42.1)	(43.9)	(41.5)
Net Operating CF	579	657	311	413	419
Capital Exp.(net)	(191)	(173)	(432)	(448)	(270)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	0.0	(105)	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(65.5)	(9.6)	0.0	0.0	0.0
Net Investing CF	(257)	(287)	(432)	(448)	(270)
Div Paid	(82.2)	(86.6)	(86.5)	(105)	(124)
Chg in Gross Debt	107	198	(432)	4.11	58.5
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(48.9)	(64.2)	10.0	10.0	10.0
Net Financing CF	(24.4)	47.6	(509)	(90.5)	(55.7)
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	298	417	(630)	(126)	92.9
Opg CFPS (S cts)	30.1	32.1	17.7	23.7	23.8
Free CFPS (S cts)	22.4	28.0	(7.0)	(2.1)	8.58

Capex commitment for IT transformation, new DARE+ business initiatives

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	22 Feb 21	1.26	1.12	FULLY VALUED
2:	09 Jun 21	1.23	1.38	BUY
3:	23 Sep 21	1.25	1.44	BUY
4:	27 Oct 21	1.25	1.60	BUY

Source: DBS Bank

Analyst: Sachin MITTAL

DBS Bank recommendations are based on an Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

Completed Date: 13 Feb 2022 15:34:37 (SGT)

Dissemination Date: 14 Feb 2022 07:55:00 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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