



StarHub Limited

Upfront investments to drag FY22e earnings



SINGAPORE | TELECOMMUNICATIONS | 4Q21 RESULTS

14 February 2022

- 4Q21 revenue met our expectations. EBITDA beat estimates at 109% of our FY21 forecast.
- Operating expenses declined 8% YoY in 4Q21 led by lower content cost, dealer commissions, marketing and staff cost. FY21 FCF was a record \$485mn.
- StarHub guided a steep decline in service margins from 30% in FY21 to at least 20% in FY22e. StarHub will be investing in technology OPEX, staff cost and maintenance for its transformation road map of growth (DARE+). Another trigger for higher cost is electricity expenses. CAPEX to sales will rise from 4% to 12-15% of sales.
- We cut FY22e EBITDA by 22%. The NEUTRAL recommendation is maintained with a higher target price of S\$1.35 (previous S\$1.24). Our valuation is raised from 6x to 8x FY22e EV/EBITDA due to appreciation in peer valuation. We raised mobile ARPU expectations by 14% for FY22e as roaming revenue begins to normalise.

NEUTRAL (Maintained)

CLOSING PRICE	SGD 1.33
FORECAST DIV	SGD 0.055
TARGET PRICE	SGD 1.35
TOTAL RETURN	5.6%

COMPANY DATA

BLOOMBERG CODE:	STH SP
O/S SHARES (MN):	1,732
MARKET CAP (USD mn / SGD mn):	1714 / 2303
52 - WK HI/LO (SGD):	1.4 / 1.18
3M Average Daily T/O (mn):	1.48

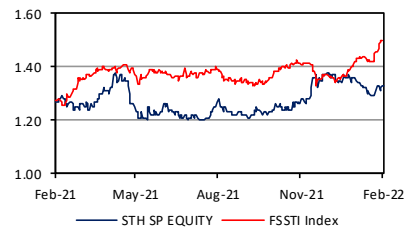
MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	55.8%
Nippon Telegraph & Telephone Corp	9.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(2.2)	3.9	(2.2)
STI RETURN	5.7	6.5	9.9

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGDmn	FY20	FY21	FY22e	FY23e
Revenue	2,029	2,043	2,262	2,532
EBITDA	538	511	410	487
Net Profit	158	149	62	106
DPS (SS cents)	5.0	6.4	5.5	6.0
Dividend Yield	3.8%	4.8%	4.1%	4.5%
ROE	29.7%	25.5%	11.4%	19.6%
ROA	5.5%	4.6%	2.0%	3.2%

Source: Company, PSR

VALUATION METHOD

8x EV/EBITDA Multiple

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Results at a glance

SGD 'mn	4Q21	4Q20	YoY	3Q21	QoQ	Comments 4Q21 vs 4Q20
Revenue	551.6	579.5	-4.8%	517.2	6.7%	Service revenue down 1.4%.
- Mobile	137.5	138.6	-0.8%	133.3	3.2%	Postpaid ARPU flat, subs. +5%.
- Entertainment	44.5	47.1	-5.5%	45.0	-1.1%	ARPU +10%, Subs. -11%.
- Broadband	49.0	45.7	7.2%	49.8	-1.6%	ARPU +10%, Subs. -3%.
- Cyber security	73.4	72.6	1.1%	79.3	-7.4%	
Operating expenses	-493.3	-537.0	-8.1%	-456.2	8.1%	
EBITDA	132.9	129.4	2.7%	132.9	0.0%	
Service EBITDA	125.7	119.4	5.3%	125.7	0.0%	
EBITDA margin	24.1%	22.3%	1.8%	25.7%	-1.6%	
Service EBITDA margin	30.4%	28.5%	1.9%	30.1%	0.3%	FY22e guidance is at least 20%.
PATMI	40.2	36.0	11.7%	40.2	0.0%	
DPS - Final (cents)	3.9	2.5	56.0%	0.0	n.m.	Full-year dividend 6.4 cents.

Source: Company, PSR

The Positives

+ Transformation-led cost controls. Service EBITDA margin of 30% for FY21 beat our expectations of 26% and guidance of at least 26%. 4Q21 experienced a significant 8% YoY decline in operating expenses to S\$493mn. We believe StarHub's transformation efforts to realign pay TV programming and digitalise processes resulted in lower content cost, dealer commissions and staff cost.

+ Record FCF supported dividends. FCF generated in FY21 was a record \$485mn, a \$97mn YoY improvement. A combination of higher operating cash-flow and lower CAPEX drove the improvement in FCF. Final dividend declared was 3.9 cents, up 56% YoY. Full-year dividend of 6.4 cents exceeds our forecast of 5 cents. Guidance was at least 5 cents or 80% payout ratio.

The Negatives

- Lack of revenue growth. Service revenue declined 1.4% YoY in 4Q21. Dragging down revenues were network solutions (-9%), mobile (-1%) and entertainment and modest growth in cybersecurity. ARPU for mobile was flat YoY despite 300,000 5G subscribers (or 20% of postpaid). The absence of roaming remains a major headwind.

- **Cybersecurity still in investment mode.** FY21 revenue for cybersecurity (Ensign and D'Crypt) jumped 22% YoY to S\$268mn. However, EBITDA declined by 7% YoY to S\$25.5mn. Net profit almost halved to S\$1.7mn. Profitability was impacted by an inventory write-off of S\$4.2mn in 2H21.

Outlook

StarHub has made tremendous headway in removing fixed cost. Over the past three years, service revenue from legacy businesses (excluding cyber-security and regional ICT) has declined by almost S\$500mn, whilst EBITDA only dropped S\$54mn. Aggressive cost initiatives have supported earnings. The major decline in fixed costs over the past three years are staff cost (-S\$86mn), operating leases (-S\$80mn) and cost of services (-S\$126mn). Cost of services includes content cost and dealer commissions.

With most of the cost restructuring almost completed, StarHub needs to invest for growth (DARE+ FY22-26 growth roadmap). The current upfront investments in technology and staff are to further digitalise its internal platforms and 5G network. After the completion of these investments, profit opportunities are S\$220mn and cost savings S\$280mn, as guided by management. Some revenue opportunities after the transformation include cloud gaming and 5G solutions for the enterprise market.

Figure 1: Steep drop in EBITDA guidance

Category	Metric	StarHub		PSR
		2021	2022e	2022e
Service revenue	% YoY	1.4%	>=10%	12.5%
Service EBITDA	% margin	29.8%	>=20%	20.9%
Capex	% of revenue	8.4%	12% to 15%	14.0%
Dividends	Per share	6.4 cents	>=5 cents	5.5

Source: Company, PSR

1. **Service revenue:** Growth from the consolidation of JOS Singapore and Malaysia and MyRepublic Broadband. Weakness from network solutions, pay TV subscriptions and TV advertising.
2. **Service EBITDA margins:** Margin is lower due to higher electricity tariffs, increased OPEX in technology, manpower, content and repairs and maintenance. Margins to recover to at least 23% in FY23.
3. **CAPEX:** Front-loaded CAPEX investments to support IT infrastructure and growth initiatives. CAPEX is expected at 12-15% of total revenue in FY22 and FY23.
4. **Dividends:** To distribute minimum 5 cents per share or at least 80% of PATMI (adjusted for one-off, non-recurring items).

Maintain NEUTRAL with a higher TP of S\$1.35 (prev. S\$1.24)

Our valuation is on regional peers' 8x FY22e EV/EBITDA.

Financials

Income Statement

Y/E Dec, SGDmn	FY19	FY20	FY21	FY22e	FY23e
Revenue	2,331	2,029	2,043	2,262	2,532
Operating Profit	256	231	232	116	169
EBITDA	617	538	511	410	487
Depreciation & Amortisation	(361)	(307)	(279)	(294)	(319)
EBIT	256	231	232	116	169
Net Finance Inc/(Exp)	(38)	(41)	(49)	(42)	(42)
Profit before tax	219	193	190	76	130
Taxation	(40)	(33)	(40)	(14)	(23)
Net profit before NCI	179	160	150	63	106
Non-controlling interest	(8)	2	1	0	0
Net profit, reported	186	158	149	62	106

Per share data (SGD Cents)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	10.3	8.7	8.2	3.2	5.7
DPS	9.0	5.0	6.4	5.5	6.0
BVPS	29.9	31.1	34.0	31.7	31.4

Cash Flow

Y/E Dec, SGDmn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	219	193	190	76	130
Adjustments	403	349	326	333	357
WC changes	(101)	96	224	(249)	24
Cash generated from ops	520	638	740	161	512
Tax paid	(72)	(59)	(83)	(14)	(23)
Cashflow from ops	448	579	657	147	488
CFI					
CAPEX	(230)	(191)	(173)	(317)	(329)
Others	7	(66)	(114)	3	3
Cashflow from investments	(223)	(257)	(287)	(314)	(326)
CFE					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	20	107	198	140	140
Dividends	(186)	(82)	(87)	(95)	(104)
Others	(88)	47	134	90	90
Cashflow from financing	(274)	(35)	48	(5)	(13)
Net change in cash	(48)	287	418	(172)	148
CCE, end	118	404	822	650	798

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGDmn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Accounts receivables	249	193	192	226	253
Cash	118	415	833	661	809
Inventories	98	80	50	90	101
Amt due from related parties	22	19	15	15	15
Others	89	99	196	196	196
Total current assets	942	1,160	1,603	1,505	1,692
PPE & IA	1,493	1,475	1,407	1,429	1,440
Others	181	173	148	148	148
Total non-current assets	1,792	1,772	1,640	1,663	1,673
Total Assets	2,734	2,931	3,243	3,168	3,365

LIABILITIES

Accounts payables	540	555	694	520	582
Short term loans	408	9	226	226	226
Amt Due to related parties	41	34	24	24	24
Tax payable	92	83	57	57	57
Total current liabilities	1,176	773	1,094	920	982
Long term loans	641	1,164	1,139	1,279	1,419
Deferred tax liabilities	121	111	92	92	92
Others	37	93	76	76	76
Total non-current liabilities	978	1,532	1,453	1,593	1,733
Total Liabilities	2,154	2,305	2,547	2,512	2,715

EQUITY

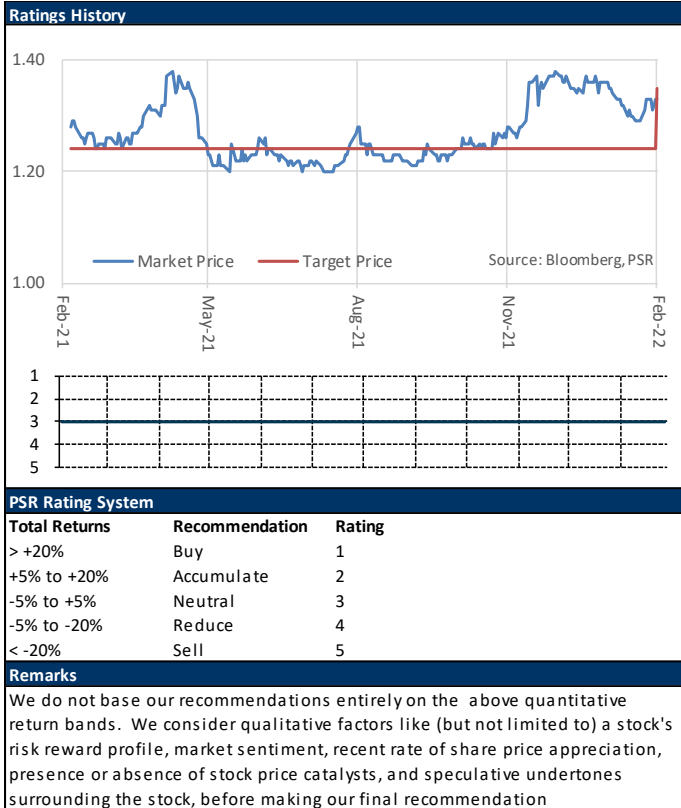
Non-controlling interests	62	88	107	107	107
Shareholder Equity	518	538	590	549	544

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	12.9	15.3	16.3	42.2	23.4
P/B (X)	4.4	4.3	3.9	4.2	4.2
EV/EBITDA (X)	5.3	5.9	5.8	7.9	6.7

Growth & Margins

Growth					
Revenue	-1.3%	-12.9%	0.7%	10.7%	11.9%
EBITDA	9.3%	-12.8%	-5.0%	-19.8%	18.9%
EBIT	-6.5%	-9.6%	0.3%	-50.1%	45.6%
Net profit, adj.	-10.9%	-10.4%	-6.2%	-58.3%	70.1%
Margins					
Gross margin	11.0%	11.4%	11.4%	5.1%	6.7%
EBITDA margin	26.5%	26.5%	25.0%	18.1%	19.2%
EBIT margin	11.0%	11.4%	11.4%	5.1%	6.7%
Net profit margin	7.7%	7.9%	7.3%	2.8%	4.2%
Key Ratios					
ROE (%)	34.5	29.7	25.5	11.4	19.6
ROA (%)	6.5	5.5	4.6	2.0	3.2
Dividend Yield (%)	6.8	3.8	4.8	4.1	4.5
Dividend Payout (%)	87	58	78	174	106



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