

COMPANY RESULTS

StarHub (STH SP)

2021: In Line; Short-term Pain In 2022 For Sustainable Growth

4Q21 core net profit rose 14% yoy and 3% qoq to S\$41m, driven by good cost discipline and lower depreciation. 2021 net profit of S\$148m (+17% yoy) is in line with expectations. Starhub paid 2021 DPS of 6.4 cents (80% PAT payout) which was above expectations. For 2022, Starhub expects 10% service revenue growth, with EBITDA margin falling to 20% (from 30%) on frontloaded transformation investments. We cut FY22/23 earnings by 12/6%. Maintain HOLD. Target price: S\$1.30.

4Q21 RESULTS

Year to 31 Dec (\$m)	4Q21	qoq % chg	yoy % chg	2021	yoy % chg
Operating Revenue:					
Mobile	137.6	3.2	(0.7)	530.7	(8.4)
Entertainment	44.5	(1.1)	(5.5)	180.0	(4.2)
Residential Broadband	49.1	(1.4)	7.4	194.4	10.4
Fixed Enterprise	182.6	(3.9)	(2.9)	706.2	9.4
Sales of Equipment/ others	138.0	39.3	(13.8)	431.4	(1.8)
Total Revenue	551.8	6.7	(4.8)	2,042.7	0.7
EBITDA	132.1	(0.6)	2.2	510.9	(5.0)
EBITDA Margin (%)	23.9	(1.8)	1.6	25.0	(1.5)
Core service EBITDA	123.1	(2.1)	3.2	479.6	(3.0)
Core service EBITDA margin (%)	29.7	(0.3)	1.3	29.8	(1.4)
PATAMI	41.2	2.5	6.5	149.3	(5.4)
Core PATAMI	41.0	2.5	13.6	148.3	17.0
Subscribers ('000)	1,953	1.9	(1.3)		
Post-paid ARPU	30	3.4	-		
Pre-paid ARPU	10	-	(9.1)		
Entertainment ARPU (S\$/mth)	44	2.3	10.0		
Broadband ARPU (S\$/mth)	33	(2.9)	10.0		

Source: StarHub, UOB Kay Hian

RESULTS

- 2021 results within expectations.** StarHub grew 4Q21 core net profit by 14% yoy and 3% qoq to S\$41m on the back of good cost discipline and lower depreciation (some planned investments have been deferred to the future). 2021 core net profit of S\$148.3m (+17% yoy) is within expectations. The group declared a final DPS of 3.9 cents/share. This brings full-year DPS to 6.4 cents/share, or 80% dividend payout which is higher than our expectation of a 5 cents/share DPS. This translates to a 5% dividend yield for FY22.

KEY FINANCIALS

Year to 31 Dec (\$m)	2020	2021	2022F	2023F	2024F
Net turnover	2,029	2,043	2,226	2,359	2,458
EBITDA	512	476	462	511	511
Operating profit	231	232	214	254	257
Net profit (rep./act.)	157	149	136	165	166
Net profit (adj.)	157	149	136	165	166
EPS (S\$ cent)	9.1	8.6	7.9	9.6	9.6
PE (x)	14.6	15.4	16.9	13.9	13.8
P/B (x)	4.3	3.9	3.6	3.3	3.0
EV/EBITDA (x)	5.1	5.5	5.7	5.1	5.1
Dividend yield (%)	3.8	4.8	3.8	4.3	0.0
Net margin (%)	7.8	7.3	6.1	7.0	6.8
Net debt/(cash) to equity (%)	144.2	56.8	32.7	21.4	5.3
Interest cover (x)	13.2	10.6	11.2	11.4	11.2
ROE (%)	29.8	26.5	22.2	24.7	22.6
Consensus net profit	-	-	159	178	164
UOBKH/Consensus (x)	-	-	0.86	0.93	1.01

Source: StarHub, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	S\$1.33
Target Price	S\$1.30
Upside	-2.3%

COMPANY DESCRIPTION

StarHub Ltd 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):	2,303.0
Market cap (US\$m):	1,712.5
3-mth avg daily t'over (US\$m):	1.5

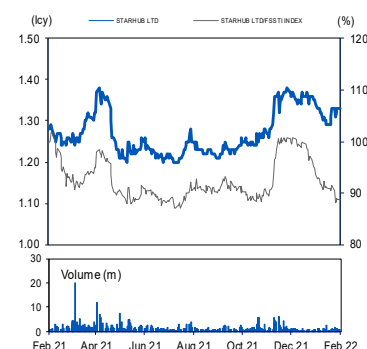
Price Performance (%)

52-week high/low	S\$1.38/S\$1.20			
1mth	3mth	6mth	1yr	YTD
(2.2)	3.9	3.9	4.7	(2.2)

Major Shareholders

	%
Temasek Holdings Pte Ltd	56.4
NTT Communications	9.9
FY22 NAV/Share (S\$)	0.37
FY22 Net Debt/Share (S\$)	0.12

PRICE CHART



Source: Bloomberg

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- 2022 guidance: Short-term margin compression because of upfront transformation investments...** Stepping into 2022, Starhub expects at least 10% service revenue growth. This will be driven by: a) the consolidation of MyRepublic and JOS revenue, b) improved mobile postpaid revenue with higher 5G take up, and c) growth in Ensign and Strateq. That said, higher CAPEX intensity of 12-15% over FY22-23 suggests that EBITDA margin will drop to 20% (2021: 30%) on: a) inflation-induced higher utilities cost, b) 5G wholesale fees, c) upfront investment for IT transformation, and d) higher low-margin enterprise revenue mix. This is to support the DARE+ transformation.
- ...but 2023 margin to gradually recover to at least 23%.** The DARE+ transformation will yield positive cost savings from 2023 onwards, suggesting savings from utilities coupled with new growth strategy including 5G products and services.

KEY PERFORMANCE GUIDANCE FOR 2022

	2021 Performance	2022 Guidance
Service Revenue	1.4%	At least 10%
Service EBITDA margin	29.8%	At least 20%
Capex commitment (of total revenue)	3.7%	(BAU: 7%-9%) 12%-15%*
Dividend/share	6.4 cents	Higher of 5 cents or 80% PATAMI payout

* Including DARE+ Initiatives and IT transformation.
Source: Starhub, UOB Kay Hian

STOCK IMPACT

- Mobile: 4Q21 service revenue rose 3% yoy (flat qoq) to S\$138m.** Postpaid ARPU grew 3% qoq to S\$30/month on higher roaming and higher take up of entertainment Value Added Services (VAS). Prepaid ARPU remained flat at S\$10/month. Starhub added 26,000 postpaid subscribers this quarter with increased take-up in the higher margin SIM Only plans. Prepaid subscribers also increased by 10,000 this quarter after declines in three consecutive quarters. Blended ARPUs grew 1% yoy and qoq to about S\$23.5/month, reflecting better 5G plans take-up and benign competitive landscape in Singapore.
- Enterprise: 4Q21 revenue eased 3% yoy and 4% qoq** with lower contribution from the cyber security and regional ICT amid the absence of major project delivery in the quarter.
- Entertainment: Revenue declined although ARPU increased.** Entertainment revenue fell 6% yoy and 1% qoq amid the lower traditional Pay-TV subscribers, offset by stronger OTT subscription. Positively, ARPU improved by S\$1/month to S\$43/month due to the increased price for HomeHub bundled plans.
- Broadband: To be boosted by consolidation of MyRepublic.** Broadband revenue rose 7% yoy but dropped 3% qoq, while ARPU remain flat qoq on a normalised basis. Starhub expects growth moving forward with the wide take-up of mobile-broadband bundle plans and the contribution from MyRepublic. The acquisition of MyRepublic is slated to be completed by end-1Q22.
- 2021 service-to-EBITDA margin (excluding JSS) rose 1ppt yoy to 30%**, reflecting: a) ongoing cost optimisation initiatives (leading to better business margin for Pay-TV and broadband), b) lower content cost, and c) lower marketing and promotion expenses.

EARNINGS REVISION/RISK

- We cut FY22/23 earnings by 12/6% to reflect lower EBITDA margin as per guidance.

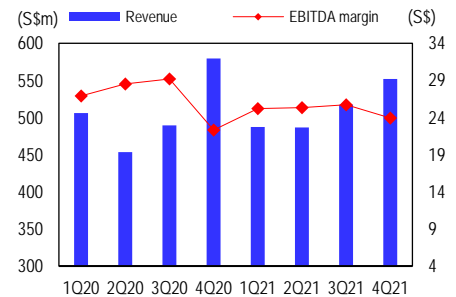
VALUATION/RECOMMENDATION

- Maintain HOLD with an unchanged DCF-based target price of S\$1.30** (COE: 8.5%; terminal growth: 0%). Despite the earnings downgrade, our target price remains unchanged as we rolled over our valuation window to FY22. At our fair value, the stock will trade at 5x 2022F EV/EBITDA, 1SD below its 5-year mean EV/EBITDA of 6.5x. The stock offers a sustainable dividend yield of 4% for 2022.

SHARE PRICE CATALYST

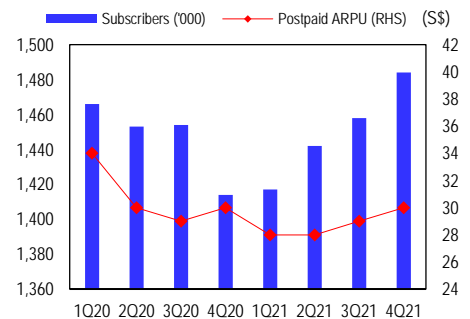
- A key re-rating for the stock includes the return of tourists to Singapore.
- Market consolidation – exit of MNVOs.
- Potential network carved out/shifted to an asset-light business model (sale and leaseback of network). Management is of the opinion that the cost of capital from the capital market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

REVENUE AND EBITDA MARGIN



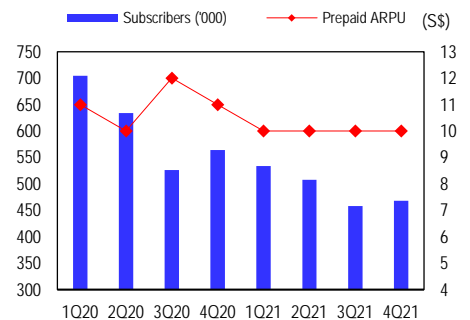
Source: StarHub, UOB Kay Hian

QUARTERLY POST-PAID ARPU AND SUBSCRIBERS



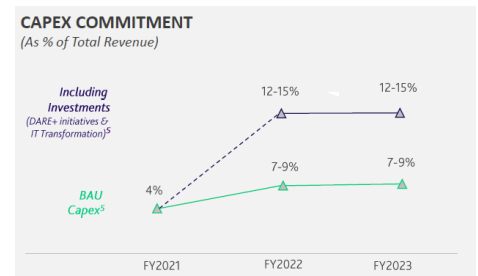
Source: StarHub, UOB Kay Hian

QUARTERLY PRE-PAID ARPU AND SUBSCRIBERS



Source: StarHub, UOB Kay Hian

CAPEX COMMITMENT (AS % OF TOTAL REVENUE)



Source: StarHub, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	2,043	2,226	2,359	2,458
EBITDA	476	462	511	511
Deprec. & amort.	244	248	257	254
EBIT	232	214	254	257
Associate contributions	3	0	0	0
Net interest income/(expense)	(45)	(41)	(45)	(46)
Pre-tax profit	190	172	210	211
Tax	(40)	(36)	(44)	(44)
Minorities	(1)	0	0	0
Net profit	149	136	165	166
Net profit (adj.)	149	136	165	166

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	695	736	763	754
Other LT assets	945	945	945	945
Cash/ST investment	833	1,017	1,132	1,266
Other current assets	770	798	813	826
Total assets	3,243	3,497	3,652	3,791
ST debt	29	29	29	29
Other current liabilities	1,065	1,213	1,246	1,293
LT debt	1,139	1,196	1,253	1,278
Other LT liabilities	314	314	314	314
Shareholders' equity	590	637	703	770
Minority interest	107	107	107	107
Total liabilities & equity	3,243	3,497	3,652	3,791

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	657	546	485	501
Pre-tax profit	190	172	210	211
Tax	(40)	(36)	(44)	(44)
Deprec. & amort.	244	248	257	254
Associates	(3)	0	0	0
Working capital changes	170	120	18	35
Other operating cashflows	96	41	45	46
Investing	(287)	(283)	(278)	(240)
Capex (maintenance)	(173)	(289)	(283)	(246)
Proceeds from sale of assets	0	0	0	0
Others	(114)	6	5	6
Financing	48	(78)	(93)	(127)
Dividend payments	(87)	(88)	(99)	(100)
Issue of shares	0	0	0	0
Proceeds from borrowings	(24)	58	57	25
Others/interest paid	158	(48)	(50)	(52)
Net cash inflow (outflow)	418	185	114	134
Beginning cash & cash equivalent	415	833	1,017	1,132
Changes due to forex impact	(1)	0	0	0
Ending cash & cash equivalent	833	1,017	1,132	1,266

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	23.3	20.7	21.7	20.8
Pre-tax margin	9.3	7.7	8.9	8.6
Net margin	7.3	6.1	7.0	6.8
ROA	4.8	4.0	4.6	4.5
ROE	26.5	22.2	24.7	22.6
Growth				
Turnover	0.7	9.0	5.9	4.2
EBITDA	(7.1)	(3.0)	10.7	(0.1)
Pre-tax profit	(1.0)	(9.5)	21.7	0.6
Net profit	(5.2)	(9.0)	21.7	0.6
Net profit (adj.)	(5.2)	(9.0)	21.7	0.6
EPS	(5.2)	(9.0)	21.7	0.6
Leverage				
Debt to total capital	62.6	62.2	61.3	59.9
Debt to equity	198.1	192.4	182.3	169.8
Net debt/(cash) to equity	56.8	32.7	21.4	5.3
Interest cover (x)	10.6	11.2	11.4	11.2

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