



StarHub Limited

Roaming tailwind vs near-term cost pressures

SINGAPORE | TELECOMMUNICATIONS | 1Q22 RESULTS

- 1Q22 revenue and EBITDA met our expectations at 23/27% of our FY22e estimates. We expect EBITDA margins to contract further in the remaining three quarters of the financial year due to upfront investments in IT and staff costs. EBITDA declined 11% YoY to S\$109mn.
- Mobile revenue growth was softer than expected despite higher postpaid ARPU and subscribers. Weakness was from a deterioration in prepaid revenue of more than 20% YoY.
- We maintain our FY22e forecast. The return of high margin roaming revenue is a major earnings tailwind for the next several quarters as borders reopen. However, with upfront investments (IT and content) as part of the DARE+ transformation roadmap, EBITDA margins are expected to deteriorate over the next three quarters. We upgrade our recommendation to ACCUMULATE from NEUTRAL due to the recent share price weakness. Our target price of S\$1.35 is maintained. Valuations are 8x FY22e EV/EBITDA, in-line with other mobile peers.

Results at a glance

SGD 'mn	1Q22	1Q21	YoY	4Q21	QoQ	Comments 1Q22 vs 1Q21
Revenue	512.7	487.1	5.3%	551.7	-7.1%	Excluding JOS, revenue down 0.5%.
- Mobile	134.1	129.1	3.9%	135.1	-0.7%	Postpaid ARPU +7%, subs. +6%.
- Entertainment	47.2	45.4	4.0%	47.2	0.0%	ARPU -13%, Subs. +19%.
- Broadband	51.5	47.0	9.6%	48.8	5.5%	ARPU +6%, Subs. -2%.
- Cyber security	51.5	42.5	21.2%	73.4	-29.8%	
Operating expenses	-470.7	-439.0	7.2%	-493.3	-4.6%	Higher staff, electricity and write-off.
EBITDA	109.1	122.7	-11.1%	132.9	-17.9%	
Service EBITDA	100.7	115.4	-12.7%	122.9	-18.1%	
EBITDA margin	21.3%	25.2%	-3.9%	24.1%	-2.8%	
Service EBITDA margin	24.2%	30.7%	-6.5%	29.7%	-5.5%	FY22e guidance is at least 20%.
PATMI	29.7	30.5	-2.6%	41.1	-27.7%	

Source: Company, PSR #Note – Only selected financials are provided in the 1Q22 update.

The Positives

+ Broadband revenue at 5-year high. Broadband revenue has been progressively growing through higher prices, lower discounted contracts and upsizing to higher speed 2Gbps plans. Broadband has become an essential service amid the Covid-19 pandemic.

The Negatives

- Costs piling up. Service EBITDA margin was down almost 7% points to 24.2%. It remains above FY22e guidance by at least 20%. We expect higher costs in the coming three quarters. EBITDA margin recovery is only expected in FY23e. Higher cost was incurred on staff, electricity and IT.

Outlook

Roaming will provide an upside surprise in revenue. However, earnings will be bogged by higher cybersecurity staff costs and upfront investments in technology. The purchase of EPL exclusively for six years (pricing details not available) will be an added fixed cost burden. Nevertheless, StarHub said it has strategic initiatives for EPL together with other OTT content. EPL could be the beachhead to enhance its OTT offerings in gaming, entertainment and sports, all bundled into a "super app".

Upgrade to ACCUMULATE from NEUTRAL with an unchanged TP of S\$1.35

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

3 May 2022

ACCUMULATE (Upgraded)

CLOSING PRICE	SGD 1.26
FORECAST DIV	SGD 0.055
TARGET PRICE	SGD 1.35
TOTAL RETURN	11.5%

COMPANY DATA

BLOOMBERG CODE:	STH SP
O/S SHARES (MN):	1,731
MARKET CAP (USD mn / SGD mn):	1578 / 2181
52 - WK HI/LO (SGD):	1.4 / 1.18
3M Average Daily T/O (mn):	1.85

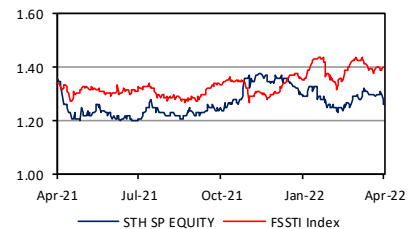
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.7	0.7	(4.5)
STI RETURN	(0.8)	4.4	8.7

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	4.0%	5.1%	4.4%	4.8%
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 FY22e

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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

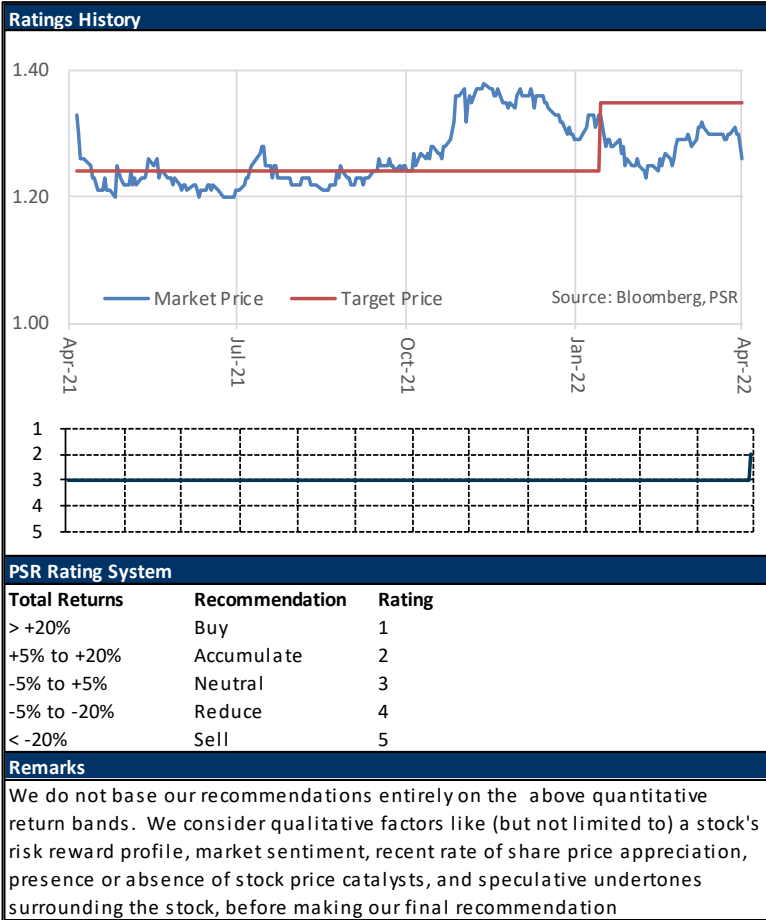
Y/E Dec, SGDmn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Accounts receivables	249	193	192	226	253
Cash	118	415	833	661	809
Inventories	98	80	50	90	101
Amt due from related parties	22	19	15	15	15
Others	89	99	196	196	196
Total current assets	942	1,160	1,603	1,505	1,692
PPE & IA	1,493	1,475	1,407	1,429	1,440
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)	12.2	14.5	15.4	40.0	22.2
P/B (X)	4.2	4.1	3.7	4.0	4.0
EV/EBITDA (X)	5.1	5.6	5.5	7.6	6.4

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 (%)	7.1	4.0	5.1	4.4	4.8
Dividend Payout (%)	87	58	78	174	106



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