

# Singapore Company Update

## StarHub

Bloomberg: STH SP | Reuters: STAR.SI

Refer to important disclosures at the end of this report

DBS Group Research. Equity

9 Nov 2023

### BUY (Upgrade from HOLD)

Last Traded Price (8 Nov 2023): S\$1.05 (STI: 3,129.72)

Price Target 12-mth: S\$1.25 (19% upside) (Prev S\$1.05)

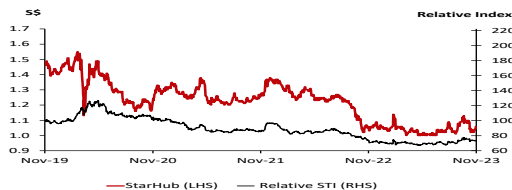
#### Analyst

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#### What's New

- 3Q23 net profit of S\$37.3m (+37% y-o-y) 10% ahead of consensus due to lower-than-expected transformation and depreciation costs
- Our revised FY23F/24F earnings are 13%/6% ahead of consensus each; we expect consensus to be raised soon
- Upgrade to BUY with revised TP of S\$1.25 based on over 6% yield and FY23-25F earnings CAGR of 8%

#### Price Relative



#### Forecasts and Valuation

FY Dec (\$m)	2022A	2023F	2024F	2025F
Revenue	2,327	2,447	2,514	2,573
EBITDA	389	477	491	509
Pre-tax Profit	93.1	188	202	220
Net Profit	62.2	142	154	169
Net Pft (Pre Ex.)	58.7	142	154	169
Net Pft Gth (Pre-ex) (%)	(60.3)	142.7	8.1	9.4
EPS (S cts)	3.59	8.23	8.90	9.74
EPS Pre Ex. (S cts)	3.39	8.23	8.90	9.74
EPS Gth Pre Ex (%)	(60)	143	8	9
Diluted EPS (S cts)	3.58	8.19	8.86	9.69
Net DPS (S cts)	5.00	6.59	7.13	7.80
BV Per Share (S cts)	19.1	20.8	22.6	24.5
PE (X)	29.2	12.8	11.8	10.8
PE Pre Ex. (X)	31.0	12.8	11.8	10.8
P/Cash Flow (X)	4.8	4.1	4.8	4.6
EV/EBITDA (X)	7.1	5.8	5.9	5.9
Net Div Yield (%)	4.8	6.3	6.8	7.4
P/Book Value (X)	5.5	5.1	4.7	4.3
Net Debt/Equity (X)	0.9	0.8	0.9	1.0
ROAE (%)	17.3	41.3	41.1	41.4
Earnings Rev (%)		38	26	25
Consensus EPS (S cts):		7.50	8.60	9.50
Other Broker Recs:		B: 6	S: 0	H: 9

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

### Pleasant surprise from lower transformation costs

#### Investment Thesis

Singapore's No. 2 telecom player with a regional presence for ICT services. StarHub (STH) is building in a digital platform with multi-cloud capability through its DARE+ transformation program whose benefits start accruing from FY23F onwards STH is also improving its regional ICT services, evident through its recent acquisitions.

StarHub has managed to negotiate lower transformation costs and reduce business-as-usual capex, benefiting earnings. We lower total DARE+ investment (60% capex:40% opex) over FY21-24 to S\$270m from S\$310m. We estimate DARE+ investment of ~S\$80m each in FY23F/24F from S\$120m/S\$84m earlier. This transformation has also led to a much lower maintenance capex over the last three years, leading to a drop in depreciation and finance costs further supporting earnings growth. We project 8% earnings CAGR over FY23-25F coupled with over 6% yield.

Mobile revenue growth, ability to grow dividends are key share price drivers. Mobile is benefitting from roaming recovery, still riding the tourism recovery high. StarHub has committed to pay its shareholders 5Scts DPS or 80% payout ratio whichever is higher. Further catalyst would be more clarity about the magnitude of drop in the transformation cost during its investor day on 28 Nov 2023. Additionally, StarHub has approved share buybacks up to S\$50m.

Upgrade to BUY with revised TP of S\$1.25 due to 26%/25% revision in our FY24F/25F earnings. We use a DCF methodology with WACC of 8.5% (prev 8.3%) and terminal growth rate of 0%. We expect StarHub to re-rate from an 12x FY24F Price to Earnings ratio (PER) to 15x, still lower than its last four-year historical average of 18x. At our TP of S\$1.25, StarHub would be trading at a 5.7% FY24F dividend yield.

#### Key Risks

Irrational competition in mobile space and potential rise in losses in cybersecurity and regional ICT services are key risks. If SIMBA or M1 adopt an overly aggressive pricing, it could hurt StarHub. Cybersecurity and ICT businesses present healthy growing prospects, but rising staff costs could lead to higher losses in these two businesses, hurting our projections.

#### At A Glance

Issued Capital (m shrs)	1,730
Mkt. Cap (S\$m/US\$m)	1,817 / 1,339
Major Shareholders (%)	
Temasek Holdings Pte Ltd	56.2
Nippon Telegraph & Telephone Corp	10.0
Free Float (%)	33.8
3m Avg. Daily Val (US\$m)	0.87
GIC Industry : Communication Services / Telecommunication	

## WHAT'S NEW

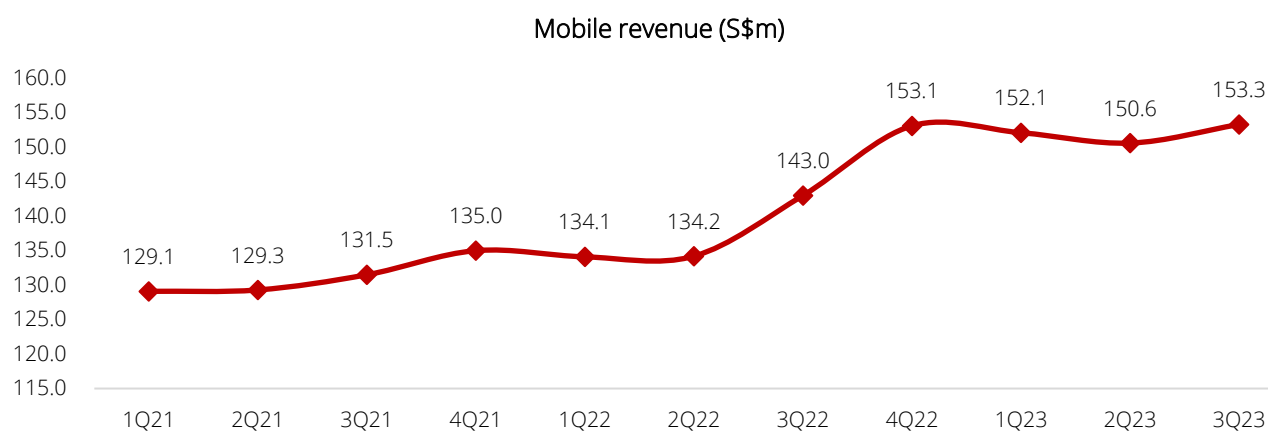
### 3Q23 results beat street expectations

3Q23's net profit of S\$37.3m (-4.8% q-o-q, +37% y-o-y) was 10% higher than the consensus due to lower-than-expected transformation and depreciation costs. STH recorded a Service EBITDA of S\$106.4m (-2.5% q-o-q, +6.7% y-o-y) in 3Q23, which 2% higher than our expectations. Management indicated that transformation costs were lower than expected but did not indicate the magnitude of transformation cost for 3Q23 or FY23F. More importantly, net profit rose much faster than service EBITDA due to a drop in depreciation and finance costs.

**Mobile revenue rose sequentially.** Service revenue was S\$526.0m (+10% q-o-q, +8.9% y-o-y) in 3Q23. Segment-wise, mobile revenue was S\$153.3m (+1.8% q-o-q, +7.2% y-o-y) benefiting from higher roaming, VAS, and subscription revenue.

Broadband service revenue was S\$62.4m (-0.3% q-o-q, -1.9% y-o-y), based on intensifying market competition. Entertainment revenue came in at S\$56.7m (-0.2% q-o-q, +2.3% y-o-y), as y-o-y growth was driven by higher subscription revenue, commercial TV, and ad revenue – mostly from the Premier League. Enterprise business reported revenue of S\$253.6m (+23% q-o-q, +15% y-o-y) lifted mainly by Cybersecurity services, which had a revenue of S\$115.1m (+52% q-o-q, +45% y-o-y) due to higher project recognitions. **STH maintained its service revenue guidance of +3-+5% y-o-y growth for FY23F and service EBITDA margin of 22%.** Furthermore, CAPEX commitment guidance for FY23F was also maintained as 11-13% of total revenue.

### Mobile revenue sequentially improves in 3Q23 by 1.8% (up 7.2% y-o-y) after two consecutive quarters of decline.



Source: Company, DBS Bank

**Automatic termination date extended for Ensign.** Cybersecurity remains pivotal on driving STH's service revenue growth; hence, STH has retained the assigned rights of Ensign for an additional two years, with the automatic termination date being fixed for 4 Oct 2025. This also supports STH's transformation programme and enterprise strategy.

**STH expects transformation investments to be lower than S\$310m.** STH was anticipating incurring an estimated S\$310m in DARE+ investments over FY22-FY24F; however, it has managed to negotiate lower transformation costs. Previously, we projected S\$120m/S\$84m to be incurred in FY23F/24F, which we lower to S\$80m each now. The composition of capex and opex still remains the same at 60% and 40% respectively. STH has also committed to a minimum DPS of 5Scts or 80% of its net profit, whichever is higher in FY23F.

**Our revised FY23F/FY24F earnings are 13% /6% above consensus.** Earlier, we were 18% below consensus due to higher depreciation and finance costs (we estimated a much higher transformation cost). Dare+ transformation has also led to a big drop in maintenance capex over the last three years, leading to a drop in depreciation and finance costs. This has led to a higher earnings growth compared to EBITDA growth. We have now

factored in Service EBITDA margin of 22%, in line with management expectations for FY23F. We project an earnings CAGR of 8% over FY23-25F coupled with an over-6% yield. Thus, we raise our FY23F/FY24F earnings by 38%/26% to reflect the above developments and expectations. We also expect consensus to follow suit and raise their earnings.

**Upgrade to BUY with revised TP of S\$1.25 due to 26%/25% revision in our FY24F/25F earnings.** We use a DCF methodology with WACC of 8.5% (prev 8.3%) and terminal growth rate of 0%. We expect StarHub to re-rate from an 12x FY24F Price to Earnings ratio (PER) to 15x, still lower than its last four-year historical average of 18x. At our TP of S\$1.25, StarHub would be trading at a 5.7% FY24F dividend yield

**Our FY23F/24F earnings are 13% above consensus expectations.**

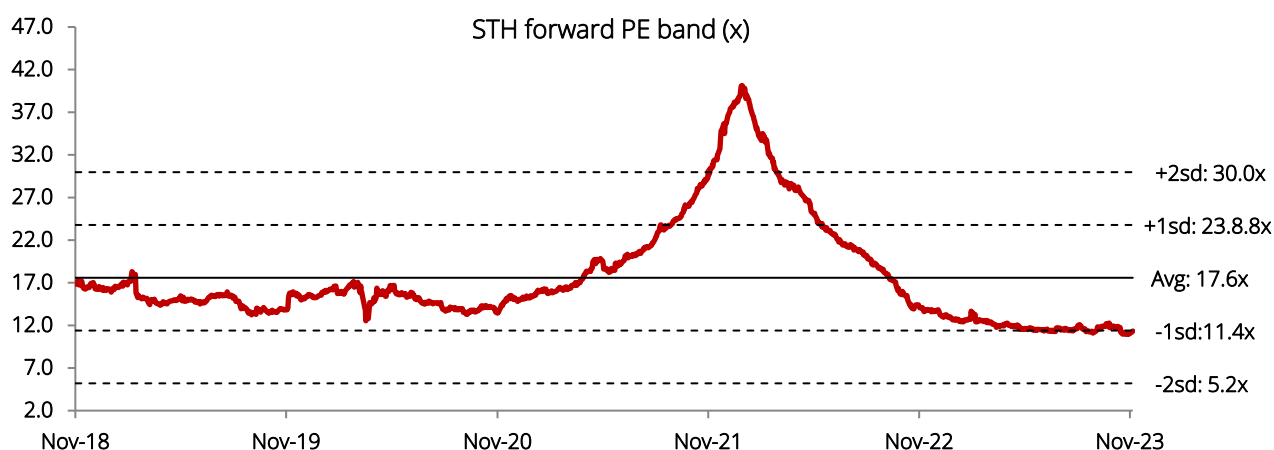
Revenue	2022	2023	2024	2025
DBS - old	2,327	2,509	2,611	2,707
DBS - new	2,327	2,447	2,514	2,573
%		-2%	-4%	-5%
Consensus	2,327	2,421	2,514	2,599
%		1%	0%	-1%
Net Profit	2022	2023	2024	2025
DBS - old	62	103	122	135
DBS - new	62	142	154	169
%		38%	26%	25%
Consensus	62	126	146	160
%		13%	6%	5%

Source: Reuters, Company, DBS Bank

**Company Background**

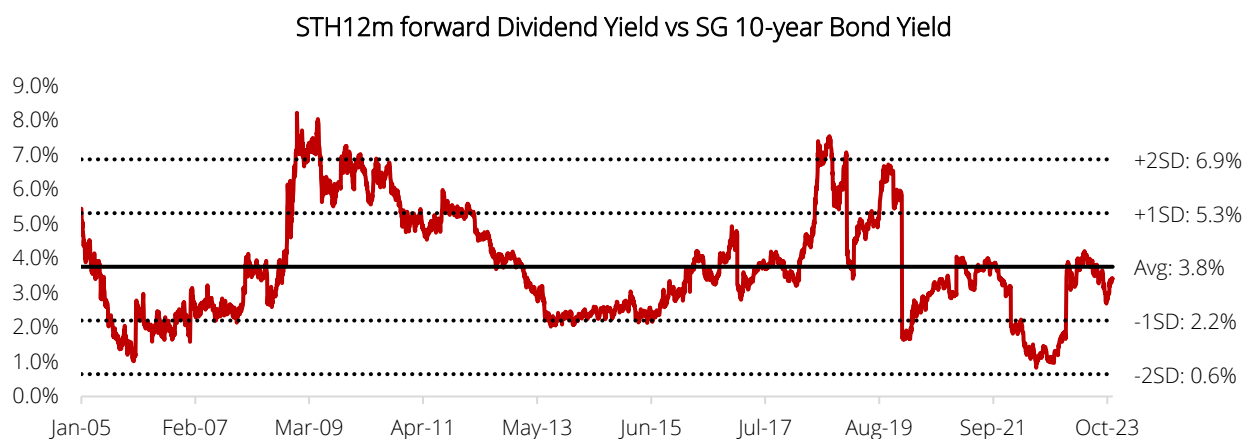
StarHub is the second largest of the three telecom operators in Singapore. The company provides mobile services, pay-TV, fixed broadband, and fixed voice services, popularly known as quadruple play services.

**STH is trading at 11.8x forward PER, at its -1SD of 11.4x (last 5-year average is at 18x)**



Source: Reuters, DBS Bank

**STH dividend yield spread over Singapore 10-year bond yield is 3.4% near its average spread of 3.8%**



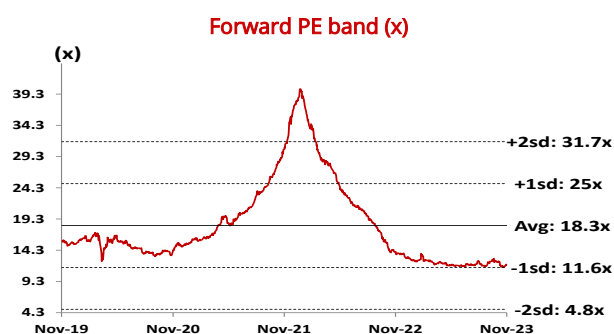
Source: Company, Monetary Authority of Singapore, Reuters, DBS Bank

## Interim Income Statement (\$m)

FY Dec	1H2022	2H2022	1H2023	% chg yoy	% chg hoh
Revenue	1,059	1,269	1,106	4.5	(12.8)
Cost of Goods Sold	(833)	(1,214)	(878)	5.4	(27.7)
<b>Gross Profit</b>	<b>226</b>	<b>55</b>	<b>228</b>	<b>1.1</b>	<b>317.9</b>
Other Oper. (Exp)/Inc	(130)	(124)	(121)	(6.8)	(2.1)
<b>Operating Profit</b>	<b>96</b>	<b>59</b>	<b>107</b>	<b>11.8</b>	<b>81.2</b>
Other Non Opg (Exp)/Inc	0	(29)	0	nm	nm
Associates & JV Inc	2	1	2	6.3	240.0
Net Interest (Exp)/Inc	(21)	(16)	(13)	39.4	22.5
Exceptional Gain/(Loss)	1	2	0	nm	nm
<b>Pre-tax Profit</b>	<b>77</b>	<b>16</b>	<b>96</b>	<b>24.8</b>	<b>497.6</b>
Tax	(16)	(8)	(21)	34.8	167.9
Minority Interest	(1)	(7)	2	nm	nm
<b>Net Profit</b>	<b>61</b>	<b>1</b>	<b>77</b>	<b>25.9</b>	<b>5,892.2</b>
Net profit bef Except.	60	(1)	77	27.0	(10,752.8)
EBITDA	231	159	232	0.0	46.0
<b>Margins (%)</b>					
Gross Margins	21.3	4.3	20.6		
Opg Profit Margins	9.0	4.7	9.7		
Net Profit Margins	5.8	0.1	6.9		

Source of all data: Company, DBS Bank

## Historical PE and PB band



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



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

## StarHub

## Key Assumptions

FY Dec	2021A	2022A	2023F	2024F	2025F
Mobile EBITDA Margins	43.1	13.8	24.4	25.8	27.9
CATV & Broadband EBITDA Margins	15.5	15.5	15.5	16.0	16.0
Fixed Network EBITDA Margins	30.0	30.0	27.0	25.5	24.5

## Segmental Breakdown

FY Dec	2021A	2022A	2023F	2024F	2025F
<b>Revenues (\$m)</b>					
Mobile	525	564	621	640	658
Cable TV & Broadband	380	459	521	536	544
Fixed Network	706	866	895	928	961
Equipment sale	431	439	410	410	410
<b>Total</b>	<b>2,043</b>	<b>2,327</b>	<b>2,447</b>	<b>2,514</b>	<b>2,573</b>
<b>EBITDA (\$m)</b>					
Mobile	226	77.8	151	165	184
Cable TV & Broadband	58.9	71.1	80.8	85.8	87.1
Fixed Network	212	260	242	237	235
Equipment sale	14.2	8.50	3.00	3.00	3.00
<b>Total</b>	<b>511</b>	<b>417</b>	<b>477</b>	<b>491</b>	<b>509</b>
<b>EBITDA Margins (%)</b>					
Mobile	43.1	13.8	24.4	25.8	27.9
Cable TV & Broadband	15.5	15.5	15.5	16.0	16.0
Fixed Network	30.0	30.0	27.0	25.5	24.5
Equipment sale	3.3	1.9	0.7	0.7	0.7
<b>Total</b>	<b>25.0</b>	<b>17.9</b>	<b>19.5</b>	<b>19.5</b>	<b>19.8</b>

Roaming recovery to support mobile revenue growth

## Income Statement (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Revenue	2,043	2,327	2,447	2,514	2,573
Cost of Goods Sold	(1,825)	(2,181)	(2,222)	(2,272)	(2,313)
<b>Gross Profit</b>	<b>218</b>	<b>146</b>	<b>225</b>	<b>242</b>	<b>261</b>
Other Opng (Exp)/Inc	14.2	8.50	3.00	3.00	3.00
<b>Operating Profit</b>	<b>232</b>	<b>155</b>	<b>228</b>	<b>245</b>	<b>264</b>
Other Non Opng (Exp)/Inc	(1.7)	(28.7)	0.0	0.0	0.0
Associates & JV Inc	3.40	0.60	0.60	0.60	0.60
Net Interest (Exp)/Inc	(45.0)	(37.0)	(41.3)	(43.3)	(44.0)
Exceptional Gain/(Loss)	1.70	3.50	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>190</b>	<b>93.1</b>	<b>188</b>	<b>202</b>	<b>220</b>
Tax	(40.1)	(23.3)	(37.5)	(40.4)	(44.0)
Minority Interest	(0.8)	(7.6)	(7.6)	(7.6)	(7.6)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>149</b>	<b>62.2</b>	<b>142</b>	<b>154</b>	<b>169</b>
Net Profit before Except.	148	58.7	142	154	169
EBITDA	513	389	477	491	509
<b>Growth</b>					
Revenue Gth (%)	0.7	13.9	5.2	2.7	2.4
EBITDA Gth (%)	(4.8)	(24.1)	22.6	2.9	3.8
Opg Profit Gth (%)	0.3	(33.3)	47.6	7.2	7.7
Net Profit Gth (Pre-ex) (%)	(6.5)	(60.3)	142.7	8.1	9.4
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	10.7	6.3	9.2	9.6	10.1
Opg Profit Margin (%)	11.4	6.6	9.3	9.7	10.2
Net Profit Margin (%)	7.3	2.7	5.8	6.1	6.6
ROAE (%)	41.0	17.3	41.3	41.1	41.4
ROA (%)	4.8	2.0	4.5	4.6	4.9
ROCE (%)	8.0	5.1	8.4	8.6	8.8
Div Payout Ratio (%)	58.0	139.1	80.0	80.0	80.0
Net Interest Cover (x)	5.2	4.2	5.5	5.7	6.0

Source: Company, DBS Bank

**Interim Income Statement (\$m)**

FY Dec	1H2021	2H2021	1H2022	2H2022	1H2023
Revenue	974	1,069	1,059	1,269	1,106
Cost of Goods Sold	(734)	(812)	(833)	(1,214)	(878)
<b>Gross Profit</b>	<b>239</b>	<b>257</b>	<b>226</b>	<b>54.6</b>	<b>228</b>
Other Oper. (Exp)/Inc	(135)	(130)	(130)	(124)	(121)
<b>Operating Profit</b>	<b>105</b>	<b>127</b>	<b>95.7</b>	<b>59.0</b>	<b>107</b>
Other Non Opg (Exp)/Inc	0.0	(3.0)	0.0	(29.2)	0.0
Associates & JV Inc	1.80	2.30	1.60	0.50	1.70
Net Interest (Exp)/Inc	(22.3)	(22.7)	(20.8)	(16.3)	(12.6)
Exceptional Gain/(Loss)	1.30	1.00	0.50	2.00	0.0
<b>Pre-tax Profit</b>	<b>85.5</b>	<b>105</b>	<b>77.0</b>	<b>16.1</b>	<b>96.1</b>
Tax	(17.4)	(22.7)	(15.5)	(7.8)	(20.9)
Minority Interest	(0.2)	(0.6)	(0.6)	(7.0)	1.50
<b>Net Profit</b>	<b>67.9</b>	<b>81.4</b>	<b>60.9</b>	<b>1.28</b>	<b>76.7</b>
Net profit bef Except.	66.6	80.4	60.4	(0.7)	76.7
EBITDA	248	264	231	159	232

**Growth**

Revenue Gth (%)	nm	9.8	(1.0)	19.8	(12.8)
EBITDA Gth (%)	nm	6.7	(12.4)	(31.5)	46.0
Opg Profit Gth (%)	nm	21.4	(24.7)	(38.3)	81.2
Net Profit Gth (%)	nm	19.9	(25.2)	(97.9)	5,892.2

**Margins**

Gross Margins (%)	24.6	24.1	21.3	4.3	20.6
Opg Profit Margins (%)	10.8	11.9	9.0	4.7	9.7
Net Profit Margins (%)	7.0	7.6	5.8	0.1	6.9

**Balance Sheet (\$m)**

FY Dec	2021A	2022A	2023F	2024F	2025F
Net Fixed Assets	695	631	742	949	1,128
Invts in Associates & JVs	26.2	28.8	29.4	30.0	30.6
Other LT Assets	919	1,054	990	930	879
Cash & ST Invts	833	574	658	620	556
Inventory	50.0	66.5	61.2	71.8	73.5
Debtors	192	243	245	279	286
Other Current Assets	528	536	536	536	536
<b>Total Assets</b>	<b>3,243</b>	<b>3,134</b>	<b>3,261</b>	<b>3,416</b>	<b>3,489</b>
ST Debt	255	168	168	168	168
Creditor	694	824	874	898	887
Other Current Liab	144	168	171	174	177
LT Debt	1,139	1,014	1,052	1,142	1,180
Other LT Liabilities	314	276	276	276	276
Shareholder's Equity	590	531	559	590	624
Minority Interests	107	153	161	169	176
<b>Total Cap. &amp; Liab.</b>	<b>3,243</b>	<b>3,134</b>	<b>3,261</b>	<b>3,416</b>	<b>3,489</b>
Non-Cash Wkg. Capital	(68.4)	(146)	(203)	(184)	(169)
Net Cash/(Debt)	(561)	(608)	(562)	(690)	(792)
Debtors Turn (avg days)	34.4	34.1	36.4	38.0	40.1
Creditors Turn (avg days)	147.5	144.4	156.9	159.5	157.6
Inventory Turn (avg days)	15.3	11.1	11.8	12.0	12.8
Asset Turnover (x)	0.7	0.7	0.8	0.8	0.7
Current Ratio (x)	1.5	1.2	1.2	1.2	1.2
Quick Ratio (x)	0.9	0.7	0.7	0.7	0.7
Net Debt/Equity (X)	0.8	0.9	0.8	0.9	1.0
Net Debt/Equity ex MI (X)	1.0	1.1	1.0	1.2	1.3
Capex to Debt (%)	12.4	13.7	24.1	30.0	27.6

Source: Company, DBS Bank

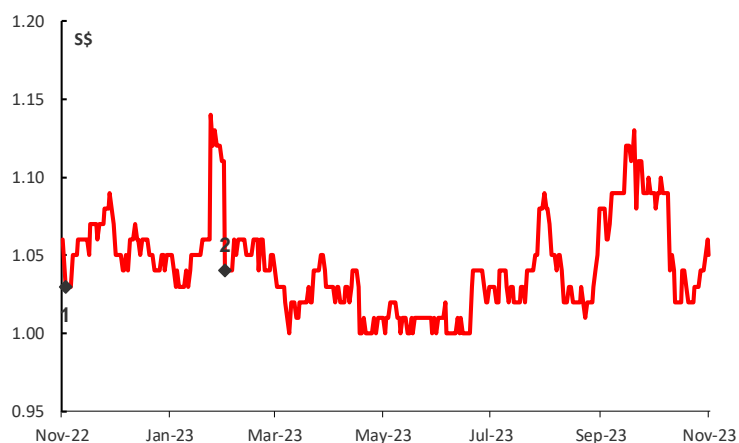
## Cash Flow Statement (\$m)

FY Dec	2021A	2022A	2023F	2024F	2025F
Pre-Tax Profit	190	93.1	188	202	220
Dep. & Amort.	279	262	248	245	245
Tax Paid	(82.9)	(60.3)	(34.7)	(37.5)	(40.4)
Assoc. & JV Inc/(loss)	(3.4)	(0.6)	(0.6)	(0.6)	(0.6)
Chg in Wkg.Cap.	101	100	53.7	(21.5)	(18.8)
Other Operating CF	172	(12.6)	(10.0)	(10.0)	(10.0)
<b>Net Operating CF</b>	<b>657</b>	<b>382</b>	<b>444</b>	<b>378</b>	<b>395</b>
Capital Exp.(net)	(173)	(161)	(294)	(392)	(373)
Other Invs.(net)	0.0	0.0	0.0	0.0	0.0
Invs in Assoc. & JV	(105)	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	(9.6)	(75.1)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(287)</b>	<b>(237)</b>	<b>(294)</b>	<b>(392)</b>	<b>(373)</b>
Div Paid	(86.6)	(111)	(114)	(123)	(135)
Chg in Gross Debt	198	(20.1)	38.0	90.0	38.0
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(64.2)	(274)	10.0	10.0	10.0
<b>Net Financing CF</b>	<b>47.6</b>	<b>(405)</b>	<b>(66.0)</b>	<b>(23.2)</b>	<b>(86.8)</b>
Currency Adjustments	0.0	0.0	0.0	0.0	0.0
Chg in Cash	417	(259)	84.1	(37.9)	(63.9)
Opg CFPS (S cts)	32.1	16.3	22.5	23.1	23.9
Free CFPS (S cts)	28.0	12.8	8.67	(0.8)	1.32

We have included S\$141m each for 700Mhz spectrum payment in 2024/2025 each although there is no clear time-table

Source: Company, DBS Bank

## Target Price &amp; Ratings 12-mth 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:	10 Nov 22	1.03	1.02	HOLD
2:	08 Feb 23	1.04	1.05	HOLD

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: 9 Nov 2023 07:45:48 (SGT)

Dissemination Date: 9 Nov 2023 08:01:51 (SGT)

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