

15 May 2024

Communications | Telecommunications

StarHub (STH SP)

Neutral (Maintained)

Transformation Cost Peaking

Target Price (Return): SGD1.18 (-6.3%)
 Price (Market Cap): SGD1.26 (USD1,597m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.40m/1.04m

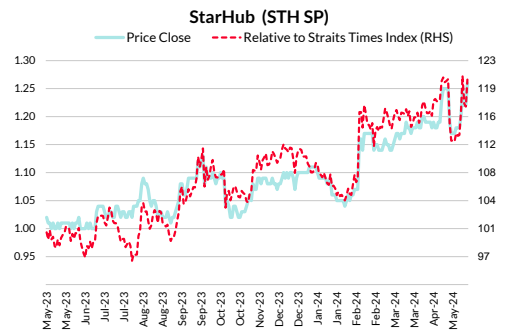
- **Keep NEUTRAL and DCF-based SGD1.18 TP (6% downside), c.6% yield.** StarHub's results were broadly in line, with the enterprise segment being the key outperformer, masking the subdued mobile performance. While the multi-year transformation spend is set to ease post FY24F, the timing of benefits and positive earnings realisation remain uncertain, in our view. Our TP includes a 2% ESG premium.
- **In line.** 1Q24 results were broadly in line with core PAT (+9.3% QoQ, +3.7% YoY) forming 24% of our and consensus' forecasts. Overall service revenue fell 11.4% QoQ (+1.3% YoY) owing to seasonality and the divestment of D'Crypt - a hardware developer for the defence industry - which was completed in Feb 2024. Excluding D' Crypt, which is slightly earnings dilutive, service revenue would have risen 2% YoY.
- **Mobile weak; broadband flat; enterprise aces.** Mobile service revenue fell 5% YoY as higher take-up of SIM-only plans and lower excess data usage (higher data bundles) cramped ARPUs. Broadband revenue was flat but ARPU was marginally lower with the cessation of premiums, partially offset by the upselling of higher speed plans (5Gbps/10Gbps) on the industry-leading XGS-PON network. Enterprise continues to be the bright spot, up 8.3% YoY (ex-D'Crypt: +10.4% YoY) with cybersecurity revenue up 37% YoY owing to higher project recognition.
- **DARE+ transformation spending to peak this year.** Management is now guiding for north of SGG100m in transformation spending for FY24F (FY22-23: c.SGD170m). This implies a cumulative spending of >SGD260m (since the investments started) by the year-end, or c.99% of the SGD270m targeted (spread over four years). The upside to this is the earlier realisation of benefits and positive outcomes, which we believe will materialise from 2H24.
- **Other updates.** Management is of the view that the successful execution of the transformation programme would position the group in a formidable footing, ahead of a potential industry consolidation. StarHub continues to see opportunities and is not ruling out enterprise-related M&As and/or partnerships. Management was quick to point out that it is not in the business of wholesaling data centre (DC) capacity to hyperscalers with its DC proposition aligned to the broader connectivity strategy (upselling and cross-selling of Infinity Cloud services). In addition to Singapore (mostly leased), the group also has a DC footprint in Malaysia (via Strateq).
- **Key risks** are higher-than-expected investments related to its transformation programme, execution delays, and competition.

Analyst

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Share Performance (%)

| | YTD | 1m | 3m | 6m | 12m |
|----------------------------|-------------|-----|-----|------|------|
| Absolute | 13.5 | 6.8 | 7.7 | 15.6 | 23.5 |
| Relative | 11.2 | 3.8 | 2.1 | 8.9 | 20.2 |
| 52-wk Price low/high (SGD) | 1.00 - 1.26 | | | | |



Source: Bloomberg

Overall ESG Score: 3.2 (out of 4)

E: GOOD

StarHub is committed to the progressive reduction in overall carbon footprint via proactive measures to increase the efficiency of its networks. The company publishes annual emission metrics.

S: GOOD

StarHub is committed to helping vulnerable groups in the community through the various StarHub Cares programmes, which in 2020 raised over a million dollars for a COVID-19 Fund for the community. The company is also proactive in the development of its staff and has established partnerships with multiple government agencies such as Skills Future Singapore and Infocomm Media Development Authority to maximise its employees' learning opportunities

G: EXCELLENT

The Board is made up of 11 non-executive directors, six of which are independent, and three are women. A director's independence is carefully reviewed and monitored once their tenure exceeds nine years. The remuneration disclosures are on a named basis. The company regularly engages with the investment community through multiple channels, embodying good transparency and disclosure practices

| Forecasts and Valuation | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|---------------------------------|--------|--------|---------|---------|---------|
| Total turnover (SGDm) | 2,327 | 2,373 | 2,446 | 2,587 | 2,735 |
| Recurring net profit (SGDm) | 62 | 150 | 159 | 194 | 199 |
| Recurring net profit growth (%) | (58.4) | 140.5 | 6.5 | 21.7 | 2.4 |
| Recurring P/E (x) | 35.02 | 14.56 | 13.67 | 11.23 | 10.97 |
| P/B (x) | 4.1 | 3.8 | 3.6 | 3.4 | 3.2 |
| P/CF (x) | 4.65 | 7.05 | 5.09 | 4.10 | 3.71 |
| Dividend Yield (%) | 4.0 | 5.3 | 5.6 | 7.2 | 7.4 |
| EV/EBITDA (x) | 7.55 | 6.74 | 5.85 | 5.06 | 4.65 |
| Return on average equity (%) | 10.2 | 23.1 | 27.1 | 31.0 | 29.9 |
| Net debt to equity (%) | 81.7 | 87.6 | 81.2 | 65.0 | 44.6 |

Source: Company data, RHB

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Financial Exhibits

| Asia | Financial summary (SGD) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
|--|-------------------------------------|---------------|---------------|----------------|----------------|----------------|
| Singapore | Recurring EPS | 0.04 | 0.09 | 0.09 | 0.11 | 0.11 |
| Communications | DPS | 0.05 | 0.07 | 0.07 | 0.09 | 0.09 |
| StarHub | BVPS | 0.31 | 0.33 | 0.35 | 0.37 | 0.39 |
| STH SP | Return on average equity (%) | 10.2 | 23.1 | 27.1 | 31.0 | 29.9 |
| Neutral | | | | | | |
| | Valuation metrics | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| Valuation basis | Recurring P/E (x) | 35.02 | 14.56 | 13.67 | 11.23 | 10.97 |
| DCF (WACC: 7.8%, TG: 1%) | P/B (x) | 4.1 | 3.8 | 3.6 | 3.4 | 3.2 |
| | FCF Yield (%) | 28.9 | 22.1 | 34.2 | 36.2 | 39.5 |
| Key drivers | Dividend Yield (%) | 4.0 | 5.3 | 5.6 | 7.2 | 7.4 |
| i. Enterprise growth and M&As; | EV/EBITDA (x) | 7.55 | 6.74 | 5.85 | 5.06 | 4.65 |
| ii. 5G ARPU uplift; | EV/EBIT (x) | 23.95 | 15.13 | 11.47 | 9.42 | 8.86 |
| iii. Higher-than-expected cost savings | | | | | | |
| | Income statement (SGDm) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| Key risks | Total turnover | 2,327 | 2,373 | 2,446 | 2,587 | 2,735 |
| Downside risks: | Gross profit | 1,219 | 1,291 | 1,372 | 1,467 | 1,523 |
| i. Competition; | EBITDA | 383 | 435 | 499 | 558 | 576 |
| ii. Weaker-than-expected earnings; | Depreciation and amortisation | (262) | (241) | (245) | (259) | (273) |
| iii. Lower-than-expected synergies from DARE+ | Operating profit | 121 | 194 | 255 | 300 | 303 |
| | Net interest | (37) | (24) | (36) | (35) | (33) |
| Upside risks: | Pre-tax profit | 88 | 174 | 222 | 269 | 274 |
| i. Stronger-than-expected earnings; | Taxation | (23) | (51) | (58) | (70) | (71) |
| ii. Cost savings from DARE+ programme | Reported net profit | 57 | 127 | 159 | 194 | 199 |
| | Recurring net profit | 62 | 150 | 159 | 194 | 199 |
| Company Profile | | | | | | |
| Starhub is Singapore's second largest integrated telecommunications company offering quadruple play services | | | | | | |
| | Cash flow (SGDm) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Change in working capital | 131 | (85) | (32) | 10 | 47 |
| | Cash flow from operations | 468 | 309 | 428 | 531 | 587 |
| | Capex | 161 | 173 | 318 | 259 | 273 |
| | Cash flow from investing activities | 161 | 173 | 320 | 263 | 279 |
| | Dividends paid | (87) | (116) | (121) | (156) | (161) |
| | Cash flow from financing activities | (391) | (252) | (119) | (148) | (147) |
| | Cash at beginning of period | 833 | 574 | 502 | 516 | 612 |
| | Net change in cash | 239 | 229 | 628 | 646 | 720 |
| | Ending balance cash | 1,072 | 803 | 1,131 | 1,162 | 1,332 |
| | Balance sheet (SGDm) | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Total cash and equivalents | 591 | 521 | 536 | 632 | 774 |
| | Tangible fixed assets | 631 | 608 | 681 | 681 | 681 |
| | Total assets | 3,134 | 3,035 | 3,009 | 3,074 | 3,176 |
| | Short-term debt | 137 | 11 | 11 | 11 | 11 |
| | Total long-term debt | 1,014 | 1,128 | 1,128 | 1,128 | 1,128 |
| | Total liabilities | 2,450 | 2,330 | 2,265 | 2,293 | 2,357 |
| | Total equity | 684 | 705 | 743 | 781 | 819 |
| | Total liabilities & equity | 3,134 | 3,035 | 3,009 | 3,074 | 3,176 |
| | Key metrics | Dec-22 | Dec-23 | Dec-24F | Dec-25F | Dec-26F |
| | Revenue growth (%) | 13.9 | 2.0 | 3.1 | 5.8 | 5.7 |
| | Recurrent EPS growth (%) | (58.4) | 140.5 | 6.5 | 21.7 | 2.4 |
| | Gross margin (%) | 52.4 | 54.4 | 56.1 | 56.7 | 55.7 |
| | Operating EBITDA margin (%) | 16.5 | 18.3 | 20.4 | 21.6 | 21.1 |
| | Net profit margin (%) | 2.4 | 5.3 | 6.5 | 7.5 | 7.3 |
| | Dividend payout ratio (%) | 152.2 | 91.6 | 76.1 | 80.4 | 81.1 |
| | Capex/sales (%) | (6.9) | (7.3) | (13.0) | (10.0) | (10.0) |
| | Interest cover (x) | 2.67 | 4.74 | 6.29 | 7.52 | 7.81 |

Source: Company data, RHB

Figure 1: Abridged results table

| FYE Dec (SGDm) | 1Q23 | 4Q23 | 1Q24 | QoQ (%) | YoY (%) | Comments |
|-----------------------|--------------|--------------|--------------|---------|---------|---|
| Revenue | 557.4 | 644.9 | 553.9 | (14.1) | (0.6) | Lower device sales QoQ |
| Service revenue | 461.6 | 527.5 | 467.4 | (11.4) | 1.3 | Seasonally lower across all revenue segments |
| Mobile | 152.1 | 153.0 | 145.2 | (5.1) | (4.5) | Higher take-up of SIM-only plans and competitive pressure |
| Broadband | 62.0 | 61.7 | 61.4 | (0.5) | (1.0) | Higher take-up of higher speed plans |
| Entertainment | 57.1 | 57.4 | 54.7 | (4.7) | (4.2) | Lower subs base |
| Enterprise | 190.4 | 255.4 | 206.2 | (19.3) | 8.3 | Driven by managed services growth |
| Service EBITDA | 103.4 | 112.9 | 98.5 | (12.8) | (4.7) | |
| Core Profit | 37.5 | 35.6 | 38.9 | 9.3 | 3.7 | Broadly in line with estimates |

Source: RHB

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Figure 2: Segmental breakdown

| FYE Dec (SGDm) | 1Q23 | 4Q23 | 1Q24 | QoQ chg (%) | YoY chg (%) | Comments |
|-----------------------------|---------|---------|---------|-------------|-------------|---|
| Revenue breakdown | | | | | | |
| Mobile | 152.1 | 153.0 | 145.2 | (5.1) | (4.5) | Seasonally weaker quarter and higher adoption of SIM only plans |
| Entertainment | 57.1 | 57.4 | 54.7 | (4.7) | (4.2) | Decline in subs base |
| Broadband | 62.0 | 61.7 | 61.4 | (0.5) | (1.0) | Removal of premiums partially offset by upselling of higher speed plans |
| Enterprise | 190.4 | 255.4 | 206.2 | (19.3) | 8.3 | Higher DC revenue and cyber-security revenues YoY. D'Crypt was divested in Feb 2024 |
| Service revenue | 461.6 | 527.5 | 467.4 | (11.4) | 1.3 | |
| Sale of equipment | 95.8 | 117.5 | 86.5 | (26.4) | (9.7) | High base in 4Q23 |
| Total revenue | 557.4 | 644.9 | 553.9 | (14.1) | (0.6) | |
| % of overall revenue | | | | | | |
| Mobile revenue | 27.3% | 23.7% | 26.2% | 2% | -1% | |
| Entertainment | 10.2% | 8.9% | 9.9% | 1% | 0% | |
| Broadband | 11.1% | 9.6% | 11.1% | 2% | 0% | |
| Enterprise Business | 34.2% | 39.6% | 37.2% | -2% | 3% | |
| Sale of equipment | 17.2% | 18.2% | 15.6% | -3% | -2% | |
| Key Mobile Metrics | | | | | | |
| Prepaid subs (000s) | 592.0 | 585.0 | 586.0 | 0.2 | (1.0) | Higher tourist footfalls and foreign workers |
| Prepaid-net adds (000s) | 1.0 | 11.0 | 1.0 | (90.9) | 0.0 | |
| Postpaid subs (000s) | 1,580.0 | 1,577.0 | 1,568.0 | (0.6) | (0.8) | |
| Postpaid-net adds (000s) | 15.0 | (5.0) | (9.0) | 80.0 | (160.0) | Competitive pressures |
| Postpaid ARPU (SGD) | 32.0 | 33.0 | 31.0 | (6.1) | (3.1) | Seasonally weaker and higher take-up of SIM-only plans |
| Prepaid ARPU (SGD) | 7.0 | 7.0 | 7.0 | 0.0 | 0.0 | |
| Entertainment | | | | | | |
| Subscribers (000s) | 368.0 | 337.0 | 329.0 | (2.4) | (10.6) | Cessation of certain promotions related to the expiry of OTT passes |
| Net-adds (000s) | (6.0) | (10.0) | (8.0) | n.m. | n.m. | |
| ARPU (SGD) | #N/A | 46.0 | 45.0 | (2.2) | (104.8) | |
| Broadband | | | | | | |
| Total subs (000s) | 578.0 | 580.0 | 580.0 | 0.0 | 0.3 | |
| Net-adds (000s) | 0.0 | 1.0 | 0.0 | nm | >100 | |
| ARPU (SGD) | 32.0 | 32.0 | 32.0 | 0.0 | 0.0 | Supported by upgrades to higher speed plans |
| Enterprise Business | | | | | | |
| Network solutions | 178.9 | 255.7 | 206.2 | (19.4) | 15.3 | |
| Network solutions | 92.7 | 97.3 | 97.6 | 0.3 | 5.3 | Managed services revenue up 30% YoY |
| Cyber-security businesses | 41.9 | 106.0 | 73.1 | (31.0) | 74.5 | Lumpy project revenue recognition |

Source: RHB

Emissions And ESG

Trend analysis

Scope 1 & 2 emissions fell 8.4% in FY22 vs the 2021 baseline. This was driven by a 3.9% reduction in electricity consumption and a 3.8% reduction in fuel usage, and the purchase of Renewable Energy Certificates (REC)

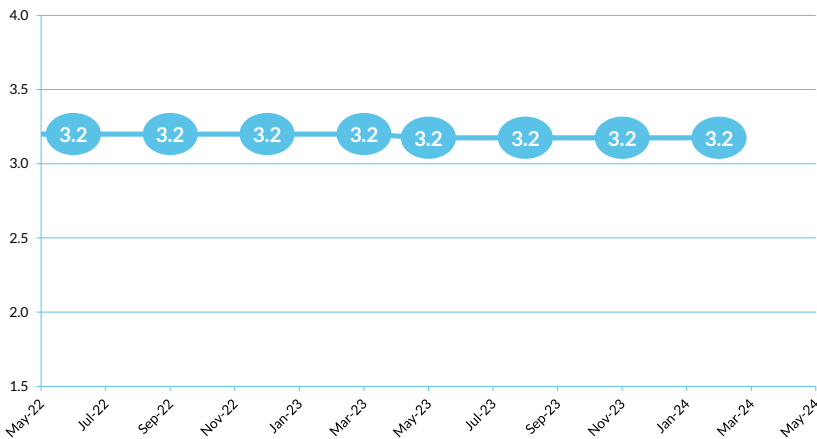
| Emissions (tCO2e) | Dec-21 | Dec-22 | Dec-23 |
|-------------------|--------|--------|--------|
| Scope 1 | 1,356 | 1,187 | na |
| Scope 2 | 54,619 | 50,079 | na |
| Scope 3 | 13,100 | 17,615 | na |
| Total emissions | 69,075 | 68,881 | na |

Source: Company data, RHB

Latest ESG-Related Developments

- StarHub managed to achieve the interim target of 10% energy used from renewable sources in 2022 (on track to meet the 2023 target of 12% and 2030 target of 30%) from the purchase of 13,758MWh of REC

ESG Rating History



Source: RHB

Recommendation Chart



Source: RHB, Bloomberg

| Date | Recommendation | Target Price | Price |
|------------|----------------|--------------|-------|
| 2024-02-09 | Neutral | 1.18 | 1.16 |
| 2023-11-09 | Neutral | 1.15 | 1.08 |
| 2023-08-04 | Neutral | 1.15 | 1.08 |
| 2023-05-12 | Neutral | 1.11 | 1.02 |
| 2023-02-08 | Neutral | 1.11 | 1.04 |
| 2022-11-10 | Neutral | 1.07 | 1.03 |
| 2022-08-05 | Neutral | 1.20 | 1.24 |
| 2022-02-13 | Neutral | 1.29 | 1.33 |
| 2021-11-11 | Neutral | 1.39 | 1.28 |
| 2021-09-23 | Neutral | 1.35 | 1.25 |
| 2021-08-06 | Neutral | 1.35 | 1.25 |
| 2021-04-05 | Neutral | 1.38 | 1.32 |
| 2021-02-22 | Neutral | 1.38 | 1.26 |
| 2020-11-09 | Neutral | 1.30 | 1.24 |
| 2020-08-09 | Neutral | 1.30 | 1.21 |

Source: RHB, Bloomberg

RHB Guide to Investment Ratings

| | |
|---------------------|--|
| Buy: | Share price may exceed 10% over the next 12 months |
| Trading Buy: | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| Neutral: | Share price may fall within the range of +/- 10% over the next 12 months |
| Take Profit: | Target price has been attained. Look to accumulate at lower levels |
| Sell: | Share price may fall by more than 10% over the next 12 months |
| Not Rated: | Stock is not within regular research coverage |

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