

9 February 2024

Communications | Telecommunications

## StarHub (STH SP)

## Neutral (Maintained)

### Pulling Ahead

Target Price (Return): SGD1.18 (10.3%)  
 Price (Market Cap): SGD1.07 (USD1,363m)  
 ESG score: 3.2 (out of 4)  
 Avg Daily Turnover (SGD/USD) 1.04m/0.77m

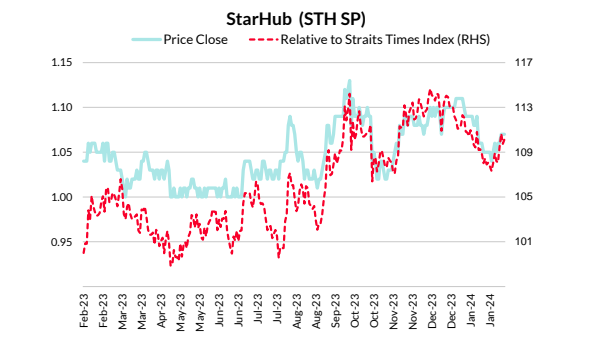
- **NEUTRAL, new SGD1.18 TP (DCF) from SGD1.15, 10% upside, c.7% yield.** StarHub's results trumped estimates on lower-than-expected depreciation. While the bulk of its transformation investments will be booked by end-2024, uncertainties remain as to the realisation of benefits and cost savings. Our TP includes a 2% ESG premium to align with the latest country median.
- **Ahead of expectations.** 4Q23's SGD35.6m PATAMI (-5% QoQ, +38% YoY) brought FY23 core earnings to SGD149.6m (+140% YoY), at 109% of our full-year forecast (consensus: 114%). With EBITDA trending in line, the key deviation was from stronger DARE+ capex-to-opex effects (lower depreciation) and financing cost. A 6.7 cent full-year DPS is at the higher end of the official DPR of 5 cents or 80% of PATAMI, whichever is higher.
- **Review of key segment metrics:**
  - Mobile revenue flattish QoQ; up 8% YoY in FY23.** Postpaid ARPU improved QoQ/YoY with further recovery in roaming traffic while prepaid ARPU was stable. Competition remains keen at the lower end of the market (SIMBA, mobile virtual network operators) with quality and network experience a key differentiator.
  - Broadband – leading revenue share.** Broadband ARPU was stable although 2HFY23 revenue fell 2% YoY post withdrawal of premiums.
  - Entertainment.** 4Q23 revenue rose QoQ but fell YoY on the higher base of World Cup 2022. ARPU inched up from Premier League subscriptions.
  - Enterprise.** Cybersecurity revenues grew a strong 16% in FY23 with lower operating profit of SGD1.5m from continuing talent investments.
- **Net debt-EBITDA of 1.2x.** Armed with a SGD502m war chest, StarHub is not ruling out opportunistic M&As in the enterprise space.
- **DARE+ update.** c.SGD170m was incurred up to end-2023 for its multi-year transformation programme. As a result, FY24F will see the bulk of spending before tapering off in FY25F. While the lower overall investment of SGD270m (guided at its 2023 Investor Day) is viewed positively, delays have pushed the investment period by another year to 2025. Consequently, the realisation of full benefits is now anticipated by 2027 (as opposed to 2026). Management has guided for FY24F service revenue growth of 1-3% with service EBITDA margin at 22% (FY23: 22%). We lift FY24-25F core earnings by 1-2% to account for the D-Crypt divestment (completion in 1Q24). FY26F has been introduced.
- **Downside risks:** Higher-than-expected investments for its transformation programme, execution delays, competition, and weaker-than-expected earnings. Upside risks are stronger-than-expected DARE+ benefits and industry consolidation.

### Analyst

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### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(3.6)	(1.8)	1.9	(0.9)	2.9
Relative	(0.6)	(0.4)	1.5	4.3	10.2
52-wk Price low/high (SGD)				1.00	–1.13



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)	29.74	12.37	11.61	9.54	9.31
P/B (x)	3.5	3.3	3.0	2.9	2.7
P/CF (x)	3.95	5.99	4.33	3.49	3.15
Dividend Yield (%)	4.7	6.3	6.6	8.4	8.7
EV/EBITDA (x)	6.69	5.99	5.19	4.47	4.08
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

## Financial Exhibits

<b>Asia</b>	<b>Financial summary (SGD)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
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
<b>StarHub</b>	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						
	<b>Valuation metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Valuation basis</b>	Recurring P/E (x)	29.74	12.37	11.61	9.54	9.31
DCF (WACC: 7.8%, TG: 1%)	P/B (x)	3.5	3.3	3.0	2.9	2.7
	FCF Yield (%)	34.0	26.0	40.3	42.7	46.5
<b>Key drivers</b>	Dividend Yield (%)	4.7	6.3	6.6	8.4	8.7
i. Enterprise growth and M&As;	EV/EBITDA (x)	6.69	5.99	5.19	4.47	4.08
ii. 5G ARPU uplift;	EV/EBIT (x)	21.23	13.43	10.18	8.32	7.77
iii. Higher-than-expected cost savings.						
	<b>Income statement (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
<b>Key risks</b>	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
Upside risks:	Net interest	(37)	(24)	(36)	(35)	(33)
i. Stronger-than-expected earnings;	Pre-tax profit	88	174	222	269	274
ii. Cost savings from DARE+ program	Taxation	(23)	(51)	(58)	(70)	(71)
	Reported net profit	57	127	159	194	199
	Recurring net profit	62	150	159	194	199
<b>Company Profile</b>						
Starhub is Singapore's second largest integrated telecommunications company offering quadruple play services						
	<b>Cash flow (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	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
	<b>Balance sheet (SGDm)</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	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
	<b>Key metrics</b>	<b>Dec-22</b>	<b>Dec-23</b>	<b>Dec-24F</b>	<b>Dec-25F</b>	<b>Dec-26F</b>
	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)	4Q22	3Q23	4Q23	QoQ (%)	YoY (%)	FY22	FY23	YoY (%)	Comments
<b>Revenue</b>	<b>677.9</b>	<b>622.1</b>	<b>644.9</b>	3.7	(4.9)	<b>2,327.3</b>	<b>2,373.1</b>	2.0	
Service revenue	535.1	526.0	527.5	0.3	(1.4)	1,888.6	1,991.6	5.5	Growth across all segments of mobile, entertainment, broadband and enterprise
Mobile	153.1	153.3	153.0	(0.2)	(0.1)	564.4	609.0	7.9	Stronger postpaid growth offset weaker prepaid revenue
Broadband	62.9	62.4	61.7	(1.1)	(1.9)	242.4	248.7	2.6	Up-selling of higher tier plans
Entertainment	64.5	56.7	57.4	1.2	(11.0)	216.3	228.0	5.4	Higher commercial and advertising revenue from Premier League
Enterprise	254.6	253.6	255.4	0.7	0.3	865.5	905.9	4.7	Lumpy recognition of cyber-security revenue
<b>Service EBITDA</b>	<b>65.7</b>	<b>106.4</b>	<b>112.9</b>	6.1	71.8	<b>379.3</b>	<b>431.8</b>	13.8	
<b>Core Profit</b>	<b>25.8</b>	<b>37.3</b>	<b>35.6</b>	(4.6)	38.0	<b>114.1</b>	<b>149.6</b>	31.1	Ahead of expectations

Source: RHB

Figure 2: Segmental breakdown

FYE Dec (SGDm)	2Q22	3Q23	4Q23	QoQ chg (%)	YoY chg (%)	Comments
<b>Revenue breakdown</b>						
Mobile	134.2	153.3	153.0	(0.2)	14.0	Competition at the lower-end of the market from SIMBA and mobile virtual network operators (MVNOs)
Entertainment	49.2	56.7	57.4	1.2	16.7	Higher subscription, commercial TV and advertising revenue from Premier League YoY
Broadband	64.4	62.4	61.7	(1.1)	(4.2)	Stronger take-up of higher speed plans. Contribution from (MyRepublic) broadband from 2Q22
Enterprise	206.7	253.6	255.4	0.7	23.6	Cyber-security (Ensign) revenue grew 16.3% YoY in FY23
<b>Service revenue</b>	454.5	526.0	527.5	0.3	16.1	
Sale of equipment	91.4	96.1	117.5	22.3	28.6	
<b>Total revenue</b>	545.9	622.1	644.9	3.7	18.1	
<b>% of overall revenue</b>						
Mobile revenue	24.6%	24.6%	23.7%	-1%	-1%	
Entertainment	9.0%	9.1%	8.9%	0%	0%	
Broadband	11.8%	10.0%	9.6%	0%	-2%	
Enterprise Business	37.9%	40.8%	39.6%	-1%	2%	
Sale of equipment	16.7%	15.4%	18.2%	3%	1%	
<b>Key Mobile Metrics</b>						
Prepaid subs (000s)	534.0	574.0	585.0	1.9	9.6	Higher tourist footfalls and foreign workers
Prepaid-net adds (000s)	17.0	(20.0)	11.0	(155.0)	(35.3)	
Postpaid subs (000s)	1,520.0	1,582.0	1,577.0	(0.3)	3.8	Continued expansion of giga! subs base YoY
Postpaid-net adds (000s)	19.0	2.0	(5.0)	(350.0)	(126.3)	
Postpaid ARPU (SGD)	29.0	32.0	33.0	3.1	13.8	
Prepaid ARPU (SGD)	8.0	7.0	7.0	0.0	(12.5)	
<b>Entertainment</b>						
Subscribers (000s)	371.0	347.0	337.0	(2.9)	(9.2)	Reductions in certain promotions
Net-adds (000s)	7.0	(8.0)	(10.0)	n.m.	n.m.	
ARPU (SGD)	0.0	45.0	46.0	2.2	(95.2)	Lifted by Premier League broadcast rights
<b>Broadband</b>						
Total subs (000s)	572.0	579.0	580.0	0.2	1.4	Including MyRepublic broadband from 2Q22
Net-adds (000s)	88.0	2.0	1.0	nm	>100	
ARPU (SGD)	34.0	34.0	34.0	0.0	0.0	
<b>Enterprise Business</b>						
Network solutions	89.2	93.0	97.3	4.6	9.1	Including MyRepublic broadband voice services from 2Q22
Cyber-security businesses	69.2	115.1	106.0	(7.9)	53.2	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)

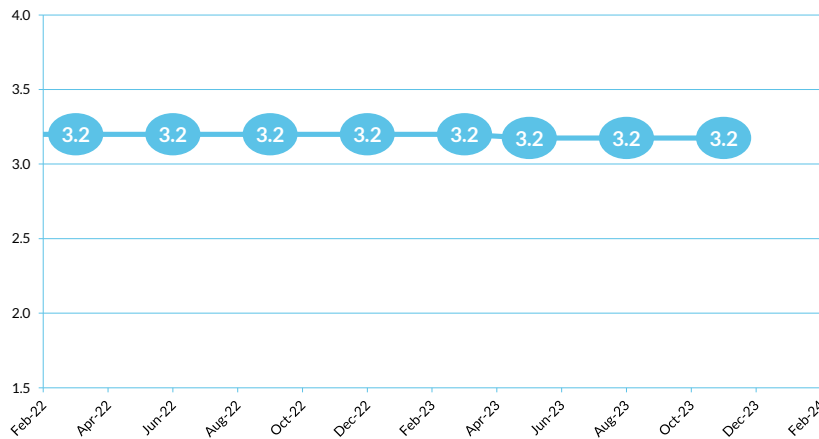
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	1,356	1,187	na
Scope 2	54,619	50,079	na
Scope 3	13,100	17,615	na
Total emissions	69,075	68,881	na

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
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
2020-02-21	Neutral	1.44	1.52

Source: RHB, Bloomberg

## RHB Guide to Investment Ratings

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

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