

15 August 2024

Communications | Telecommunications

StarHub (STH SP)

Neutral (Maintained)

Getting The Stars Aligned

Target Price (Return): SGD1.18 (-8.5%)
 Price (Market Cap): SGD1.29 (USD1,686m)
 ESG score: 3.2 (out of 4)
 Avg Daily Turnover (SGD/USD) 1.08m/0.80m

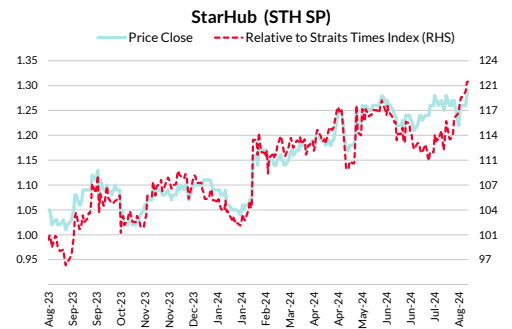
- **Still NEUTRAL, SGD1.18 DCF TP (9% downside).** StarHub's 1H24 results were broadly in line with the routine weakness in the mobile segment, offset in part by enterprise gains. While its multi-year transformation investments should start to taper off by the year-end, the timing and magnitude of benefits remain uncertain, in our view. Our TP includes a 2% ESG premium.
- **In line.** 2Q24 earnings of SGD43.2m (+10.2 YoY, +11.1% QoQ) brought 1H24 core earnings to SGD82.1m (+7% YoY), at 52% of our forecast (consensus: 51%). While 1H24 service EBITDA margin of 22.8% was ahead of guidance (22%), we see higher 2H24 opex from increased transformation investments. An expected SGD0.03 DPS (payable on 6 Sep) puts STH on track for the committed SGD0.06 FY24F DPS (or 80% of core PAT, whichever is higher).
- **Routine mobile weakness; enterprise still the bright spot.** Service revenue gained 2.4% in 1H24 (+2.7% QoQ) as stronger enterprise revenue eclipsed weaker mobile, broadband, and entertainment segments. Service EBITDA was steady YTD and would have risen 2.9% excluding D-Crypt's losses (deconsolidated in February). While STH's multi-year transformation investments (DARE+) should start to taper off by end-2024, the timing and magnitude of benefits are uncertain. Our forecasts are unchanged.
- **SIM-only plans still dominate postpaid subs adds; fibre broadband (FBB) seeing ARPU uplifts but masked by lower premiums.** Competition remains stiff at the lower-end of the mobile market. The shift to SIM-only plans dominates postpaid additions with postpaid ARPU falling for the second quarter in a row while prepaid ARPU held steady. STH's defence has been its Infinity Play value proposition and product bundles with differentiated or superior service quality. A targeted channel approach via mobile virtual network operators (MVNOs) allows it to minimise cannibalisation of its own base. 1H24 broadband revenue fell 1.4% on lower premiums, partially offset by better take-up of higher-speed FBB packages (12-fold jump in 10Gbps FBB subs since Dec 2023). We believe most FBB customers are on HomeHub bundles which offer good customer retention. 1H24 entertainment revenue was stable QoQ but down 4% YoY from the cessation of tactical promotions, partially mitigated by higher Premier League advertising revenue.
- **Good enterprise momentum; cybersecurity losses.** Cybersecurity revenue grew 29% YoY in 1H24 followed by network solutions (+7.6% YoY). The latter was supported by managed services revenue (+34% YoY). Regional ICT sales fell 5% on lower hardware sales. Cybersecurity operating losses (Ensign) widened with extended investments to shore up capabilities. We see sustained cybersecurity losses as it rides on the tailwinds of enterprise spending.

Analyst

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Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	16.2	2.4	2.4	10.3	24.0
Relative	14.8	8.5	3.2	5.6	22.8
52-wk Price low/high (SGD)				1.01	1.29



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)	35.86	14.91	13.99	11.50	11.23
P/B (x)	4.2	3.9	3.7	3.5	3.3
P/CF (x)	4.76	7.22	5.22	4.20	3.80
Dividend Yield (%)	3.9	5.2	5.4	7.0	7.2
EV/EBITDA (x)	7.68	6.86	5.95	5.15	4.74
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

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)	35.86	14.91	13.99	11.50	11.23
DCF (WACC: 7.8%, TG: 1%)	P/B (x)	4.2	3.9	3.7	3.5	3.3
	FCF Yield (%)	28.2	21.6	33.4	35.4	38.6
Key drivers	Dividend Yield (%)	3.9	5.2	5.4	7.0	7.2
i. Enterprise growth and M&As	EV/EBITDA (x)	7.68	6.86	5.95	5.15	4.74
ii. 5G ARPU uplift	EV/EBIT (x)	24.38	15.39	11.67	9.59	9.03
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
i. Competition,	Gross profit	1,219	1,291	1,372	1,467	1,523
ii. Weaker-than-expected earnings	EBITDA	383	435	499	558	576
iii. Lower-than-expected benefits from DARE+	Depreciation and amortisation	(262)	(241)	(245)	(259)	(273)
	Operating profit	121	194	255	300	303
Company Profile	Net interest	(37)	(24)	(36)	(35)	(33)
Starhub is Singapore's second largest integrated telecommunications company offering quadruple play services	Pre-tax profit	88	174	222	269	274
	Taxation	(23)	(51)	(58)	(70)	(71)
	Reported net profit	57	127	159	194	199
	Recurring net profit	62	150	159	194	199
	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

15 August 2024

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Figure 1: Results table

FYE Dec (SGDm)	2Q23	1Q24	2Q24	QoQ (%)	YoY (%)	1H23	1H24	YoY (%)	Comments
Revenue	548.7	553.9	551.0	(0.5)	0.4	1,106.1	1,104.9	(0.1)	
Service revenue	476.5	467.5	480.2	2.7	0.8	938.1	947.7	1.0	Led by enterprise growth
Mobile	150.6	145.2	144.5	(0.5)	(4.1)	302.7	289.7	(4.3)	Weaker postpaid and prepaid revenues
Broadband	62.6	61.4	61.5	0.2	(1.8)	124.6	122.9	(1.4)	Lower premiums YoY
Entertainment	56.8	54.7	54.7	0.0	(3.7)	113.9	109.4	(4.0)	Lower tactical promotions
Enterprise	206.5	206.2	219.5	6.5	6.3	396.9	425.7	7.3	Higher network solutions and cybersecurity revenues
Service EBITDA	109.1	98.5	113.2	14.9	3.8	212.5	211.7	(0.4)	
Core Profit	39.2	38.9	43.2	11.1	10.2	76.7	82.1	7.0	Broadly in line

Source: RHB

Figure 2: Segmental breakdown

FYE Dec (SGDm)	2Q23	1Q24	2Q24	QoQ chg (%)	YoY chg (%)	Comments
Revenue breakdown						
Mobile	150.6	145.2	144.5	(0.5)	(4.1)	Weaker prepaid and postpaid revenues YoY
Entertainment	56.8	54.7	54.7	0.0	(3.7)	YoY decline due to cessation of tactical promotions
Broadband	62.6	61.4	61.5	0.2	(1.8)	Removal of premiums partially offset by upselling of higher speed plans
Enterprise	206.5	206.2	219.5	6.5	6.3	Higher network and cybersecurity revenues YoY. D'Crypt was divested in Feb 2024
Service revenue	476.5	467.5	480.2	2.7	0.8	
Sale of equipment	72.2	86.4	70.8	(18.1)	(1.9)	
Total revenue	548.7	553.9	551.0	(0.5)	0.4	
% of overall revenue						
Mobile revenue	27.4%	26.2%	26.2%	0%	-1%	
Entertainment	10.4%	9.9%	9.9%	0%	0%	
Broadband	11.4%	11.1%	11.2%	0%	0%	
Enterprise Business	37.6%	37.2%	39.8%	3%	2%	
Sale of equipment	13.2%	15.6%	12.8%	-3%	0%	
Key Mobile Metrics						
Prepaid subs (000s)	594.0	586.0	594.0	1.4	0.0	Higher tourist footfalls and foreign workers
Prepaid-net adds (000s)	2.0	1.0	8.0	700.0	300.0	
Postpaid subs (000s)	1,580.0	1,568.0	1,602.0	2.2	1.4	
Postpaid-net adds (000s)	0.0	(9.0)	34.0	(477.8)	n.a.	Higher take-up of SIM- only plans
Postpaid ARPU (SGD)	32.0	31.0	30.0	(3.2)	(6.3)	Higher take-up of SIM- only plans
Prepaid ARPU (SGD)	7.0	7.0	7.0	0.0	0.0	
Entertainment						
Subscribers (000s)	355.0	329.0	322.0	(2.1)	(9.3)	Cessation of certain tactical promotions
Net-adds (000s)	(13.0)	(8.0)	(7.0)	n.m.	n.m.	
ARPU (SGD)	#N/A	45.0	46.0	2.2	(95.2)	
Broadband						
Total subs (000s)	577.0	580.0	579.0	(0.2)	0.3	
Net-adds (000s)	(1.0)	0.0	(1.0)	nm	>100	
ARPU (SGD)	34.0	34.0	34.0	0.0	0.0	Supported by upgrades to higher speed plans
Enterprise Business	218.1	206.2	219.5	6.5	0.6	
Network solutions	90.3	97.6	99.3	1.7	10.0	Managed services revenue up 34% in 1H24
Cyber-security businesses	87.1	73.1	75.3	3.0	(13.5)	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)

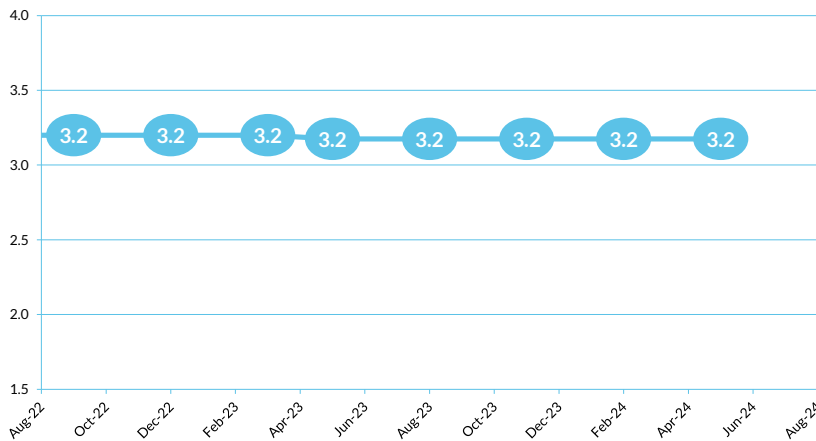
Emissions (tCO2e)	Dec-21	Dec-22	Dec-23
Scope 1	1,356	1,187	na
Scope 2	54,619	50,079	na
Scope 3	13,100	17,615	na
Total emissions	69,075	68,881	na

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

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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
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Not Rated:	Stock is not within regular research coverage

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