

5 August 2022

Communications | Telecommunications

## StarHub (STH SP)

**Neutral** (Maintained)

### DARE+ To Batter 2H22; NEUTRAL

Target Price (Return): SGD1.20 (-4.8%)  
 Price (Market Cap): SGD1.26 (USD1,582m)  
 ESG score: 3.20 (out of 4)  
 Avg Daily Turnover (SGD/USD) 0.93m/0.67m

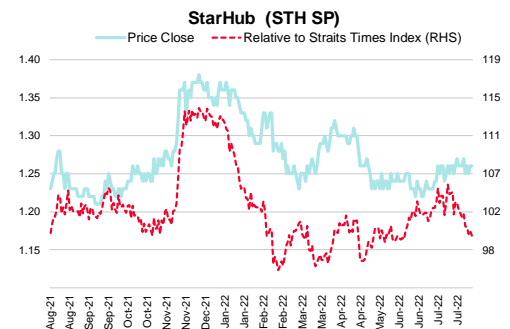
- **Stay NEUTRAL, new DCF-derived SGD1.20 TP from SGD1.29, 5% downside, 4% dividend yield.** StarHub's results fell short of our estimates. While the positive revenue trends were sustained, the expected surge in opex and capex related to its transformation initiatives (DARE+) will weigh heavily on its bottomline. Valuations are reflective of the earnings malaise with the stock's risk-reward profile looking balanced. Our TP has baked in a 4% ESG premium. Singtel (ST SP, BUY, TP: SGD3.55) is our sector pick.
- **DARE+ cost to soar in 2H.** 1H22 results broadly met consensus' (60%) but trailed our estimates (45%), with opex and capex related to DARE+ expected to surge in 2H22. Service EBITDA and core PAT fell 7.8% and 10.3% on 8.7% topline growth, mainly from higher costs associated with the regional ICT businesses. A 2.5 cents DPS puts it on track to meet the 5 cents/share or 80% payout guidance, whichever is higher.
- **Mobile distorted by one-off, entertainment and broadband moving in the right direction.** 1H22 service revenue grew 11.7%, led mainly by broadband (+21.5%), and enterprise (+16.9%). Mobile revenue was flat QoQ (1H22: +3.8%) and would have ticked-up 3% QoQ (+5.5% YoY) if not for a one-off accounting standard adjustment on handset subsidies. Management highlighted that while roaming revenue is recovering, it has yet to revert to pre-pandemic levels. 5G subs base continued to trend higher (2Q22: not disclosed, 1Q22: >400k), at >20% of overall subs base. Entertainment revenue (includes over-the-top (OTT) services) rose 5.4% YoY in 2Q22 (1H22: +4.7%) on higher subs and subscription revenue with ARPU (reclassified in 1Q22 to include OTT) steady QoQ. We see the positive momentum flowing into 2H22, supported by English Premier League (EPL) content. Elsewhere, broadband revenue jumped 25% QoQ (+33% YoY) with maiden quarter contribution from MyRepublic (MR) (ex. MR: +0.6% QoQ, +6.6% YoY).
- **Enterprise up 17% in 1H22 (+13% QoQ).** Regional ICT businesses' (Strateq, JOS (SG), JOS Malaysia) revenue (24% of enterprise revenue) more than doubled in 1H22 (QoQ: +5%) while cybersecurity (Ensign) revenue rose 4% YoY (31% of enterprise revenue), more than offsetting legacy (network solutions) revenue decline (1H22: -3.4%).
- **Forecasts and risks.** We see a significant scale up in 2H22 opex and capex with management reaffirming its guidance. We adjust FY22F-24F core earnings by -13.8%/-5.8%/-10.3% based on the latest opex run-rates (and to factor in the lumpy transformation expense and higher 5G wholesale costs. FY22F will still see acute earnings compression with outcomes from DARE+ expected from 2HFY23F. Key risks: Weaker-than-expected earnings, larger-than-expected opex and capex, and competition. Stronger-than-expected earnings present the key upside risk to our forecast.

#### Analyst

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#### Share Performance (%)

	YTD	1m	3m	6m	12m
Absolute	(7.4)	1.6	0.0	(5.3)	2.4
Relative	(12.1)	(3.2)	2.4	(3.4)	(0.3)
52-wk Price low/high (SGD)				1.21	1.38



Source: Bloomberg

#### Overall ESG Score: 3.20 (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-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Total turnover (SGDm)	2,029	2,043	2,274	2,438	2,467
Recurring net profit (SGDm)	127	149	117	139	155
Recurring net profit growth (%)	(31.9)	17.8	(22.0)	19.0	12.1
Recurring P/E (x)	17.19	14.59	18.70	15.72	14.02
P/B (x)	4.0	3.7	3.5	3.2	2.9
P/CF (x)	3.78	4.09	14.05	4.62	4.49
Dividend Yield (%)	4.0	5.1	4.0	4.0	4.0
EV/EBITDA (x)	5.59	5.50	6.33	5.84	5.45
Return on average equity (%)	29.9	26.5	19.3	21.5	22.0
Net debt to equity (%)	117.7	74.2	104.1	89.1	72.9

Source: Company data, RHB

## Financial Exhibits

Asia	Financial summary (SGD)	Dec-20	Dec-21	Dec-22F	Dec-23F	Dec-24F
Singapore	Recurring EPS	0.07	0.09	0.07	0.08	0.09
Communications	DPS	0.05	0.06	0.05	0.05	0.05
<b>StarHub</b>	BVPS	0.31	0.34	0.36	0.39	0.43
STH SP	Return on average equity (%)	29.9	26.5	19.3	21.5	22.0
Neutral						
	<b>Valuation metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Valuation basis</b>	Recurring P/E (x)	17.19	14.59	18.70	15.72	14.02
DCF (WACC: 7.8%, TG: 1%)	P/B (x)	4.0	3.7	3.5	3.2	2.9
	FCF Yield (%)	35.2	32.4	19.6	35.1	35.9
<b>Key drivers</b>	Dividend Yield (%)	4.0	5.1	4.0	4.0	4.0
i. Enterprise growth and M&As;	EV/EBITDA (x)	5.59	5.50	6.33	5.84	5.45
ii. 5G ARPU uplift;	EV/EBIT (x)	12.99	12.18	16.04	13.71	12.25
iii. Higher-than-expected cost savings						
	<b>Income statement (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
<b>Key risks</b>	Total turnover	2,029	2,043	2,274	2,438	2,467
Downside risks:	Gross profit	996	1,087	1,205	1,292	1,320
i. Competition;	EBITDA	538	509	481	510	533
ii. Weaker-than-expected earnings;	Depreciation and amortisation	(307)	(279)	(291)	(293)	(296)
iii. Negative dividend surprise.	Operating profit	231	230	190	217	237
Upside risks:	Net interest	(39)	(45)	(46)	(46)	(46)
i. Stronger-than-expected earnings;	Pre-tax profit	193	190	148	176	195
ii. Cost savings from DARE+ program.	Taxation	(33)	(40)	(30)	(35)	(39)
	Reported net profit	158	149	117	139	155
<b>Company Profile</b>	Recurring net profit	127	149	117	139	155
Starhub is Singapore's second largest integrated telecommunications company offering quadruple play services						
	<b>Cash flow (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Change in working capital	76	73	(275)	13	2
	Cash flow from operations	576	533	155	472	486
	Capex	191	173	273	293	296
	Cash flow from investing activities	120	173	273	293	298
	Dividends paid	(86)	(111)	(87)	(87)	(87)
	Cash flow from financing activities	(361)	299	(87)	(87)	(85)
	Cash at beginning of period	118	415	833	594	655
	Net change in cash	335	1,004	341	678	699
	Ending balance cash	452	1,420	1,174	1,272	1,354
	<b>Balance sheet (SGDm)</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Total cash and equivalents	435	848	609	670	746
	Tangible fixed assets	755	695	677	677	677
	Total assets	2,931	3,243	3,039	3,125	3,200
	Short-term debt	9	226	226	226	226
	Total long-term debt	1,164	1,139	1,139	1,139	1,139
	Total liabilities	2,305	2,547	2,312	2,345	2,351
	Total equity	627	696	726	779	849
	Total liabilities & equity	2,931	3,243	3,039	3,125	3,200
	<b>Key metrics</b>	<b>Dec-20</b>	<b>Dec-21</b>	<b>Dec-22F</b>	<b>Dec-23F</b>	<b>Dec-24F</b>
	Revenue growth (%)	(12.9)	0.7	11.3	7.2	1.2
	Recurrent EPS growth (%)	(31.9)	17.8	(22.0)	19.0	12.1
	Gross margin (%)	49.1	53.2	53.0	53.0	53.5
	Operating EBITDA margin (%)	26.5	24.9	21.1	20.9	21.6
	Net profit margin (%)	7.8	7.3	5.1	5.7	6.3
	Dividend payout ratio (%)	54.7	74.2	74.3	62.5	55.7
	Capex/sales (%)	(9.4)	(8.4)	(12.0)	(12.0)	(12.0)
	Interest cover (x)	5.67	4.69	3.76	4.30	4.69

Source: Company data, RHB

5 August 2022

Communications | Telecommunications

Figure 1: Results table

FYE Dec (SGDm)	2Q21	1Q22	2Q22	QoQ (%)	YoY (%)	1H21	1H22	YoY (%)	Comments
<b>Revenue</b>	<b>486.6</b>	<b>512.7</b>	<b>545.9</b>	6.5	12.2	<b>973.7</b>	<b>1,058.6</b>	8.7	
Service revenue	404.0	416.1	454.5	9.2	12.5	779.7	870.6	11.7	Across the board improvement all segments YoY/QoQ
Mobile	129.3	134.1	134.2	0.1	3.8	258.4	268.3	3.8	Impacted by one-off accounting adjustment
Broadband	48.6	51.5	64.4	25.0	32.5	92.1	96.4	4.7	Higher take-up of 2Gbps plan and maiden contribution from MyRepublic Broadband
Entertainment	46.7	47.2	49.2	4.2	5.4	95.6	115.9	21.2	
Enterprise	179.4	183.3	206.7	12.8	15.2	333.6	390.0	16.9	Higher cyber-security and regional revenues
<b>Service EBITDA</b>	<b>116.6</b>	<b>100.7</b>	<b>113.2</b>	12.4	(2.9)	<b>232.0</b>	<b>213.9</b>	(7.8)	
<b>Net profit</b>	<b>37.4</b>	<b>29.7</b>	<b>31.2</b>	5.1	(16.6)	<b>67.9</b>	<b>60.9</b>	(10.3)	Broadly in line with consensus' estimates but under our forecast

Source: RHB

Figure 2: Segmental breakdown

FYE Dec (SGDm)	2Q21	1Q22	2Q22	QoQ chg (%)	YoY chg (%)	Comments
<b>% of overall revenue</b>						
Mobile revenue	26.6%	26.2%	24.6%	-2%	-2%	
Entertainment	9.6%	9.2%	9.0%	0%	-1%	
Broadband	10.0%	10.0%	11.8%	2%	2%	
Enterprise Business	36.9%	35.8%	37.9%	2%	1%	
Sale of equipment	17.0%	18.8%	16.7%	-2%	0%	
<b>Key mobile metrics</b>						
Prepaid subs (000s)	508.0	517.0	534.0	3.3	5.1	More aggressive promotions for customer retention
Prepaid-net adds (000s)	(26.0)	49.0	17.0	n.m.	n.m.	
Postpaid subs (000s)	1,443.0	1,501.0	1,520.0	1.3	5.3	More aggressive promotions for customer retention
Postpaid-net adds (000s)	26.0	17.0	19.0	11.8	(26.9)	
Postpaid ARPU (SGD)	28.0	29.0	29.0	0.0	3.6	ARPU would be SGD30 in 2Q22 excluding one-off adjustment
Prepaid ARPU (SGD)	10.0	8.0	8.0	0.0	(20.0)	Impacted by aggressive promotions to retain subscribers
<b>Entertainment</b>						
Subscribers (000s)	388.0	450.0	469.0	4.2	20.9	Higher OTT subs offset decline in linear TV subs
Net-adds (000s)	12.0	6.0	19.0	216.7	>100	
ARPU (SGD)	35.0	31.0	31.0	0.0	(11.4)	Higher take up of OTT subs
<b>Broadband</b>						
Total subs (000s)	489.0	484.0	572.0	18.2	17.0	Including MyRepublic Broadband from 2Q22
Net-adds (000s)	(6.0)	0.0	88.0	nm	>100	
ARPU (SGD)	32.0	33.0	34.0	3.0	6.3	
<b>Enterprise Business</b>	179.4	183.3	206.7	12.8	15.2	
Network solutions	88.0	85.7	89.2	4.1	1.4	Including MyRepublic Broadband voice services from 2Q22
Cyber-security	73.4	51.5	69.2	34.4	(5.7)	Strong product sales in 1H22
Regional ICT (Strateq+ JOS SG/MY)	18.0	46.1	48.3	4.8	n.a.	Maiden contribution from JOS in 1Q22

Source: StarHub

## Recommendation Chart

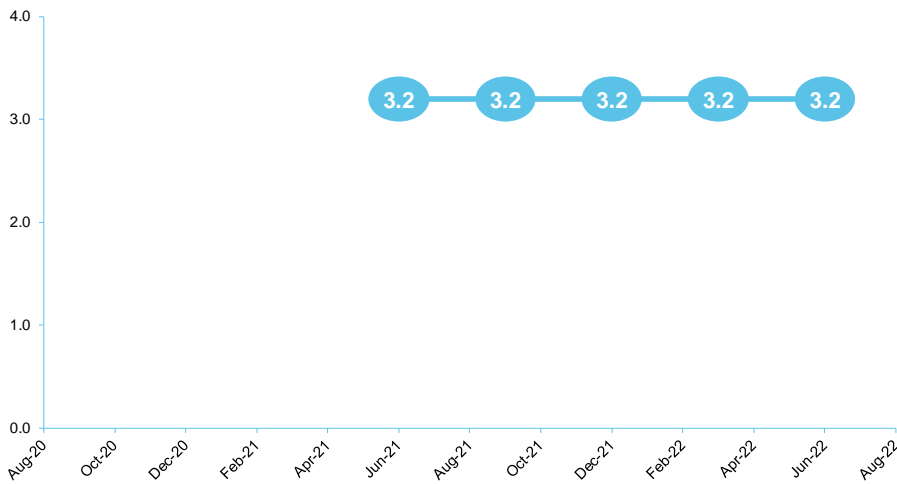


Source: RHB, Bloomberg

Date	Recommendation	Target Price	Price
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
2019-11-06	Neutral	1.44	1.43
2019-08-07	Neutral	1.52	1.45
2019-05-06	Neutral	1.72	1.52
2019-02-15	Neutral	2.02	1.67
2018-11-12	Neutral	1.90	1.98
2018-09-06	Neutral	1.78	1.64

Source: RHB, Bloomberg

## ESG Rating History



Source: RHB

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