

Report type: Quarterly Results

Company Overview

StarHub (STH) is the 2nd largest Telecommunications company in Singapore. The company also has a very strong PayTV franchise with subscriber base of more than 500k.

- Revenue declined -0.7% y-y on lower revenue from Pay TV
- Net Income increased 15.9% y-y to \$100.6m (\$191.8m for half-year), mainly due to higher adoption grant and lower operating expenses.
- Dividend yield of 4.7% continues to be attractive.
- Maintain "Accumulate" with revised TP of S\$4.37

What is the news?

StarHub reported a 15.9% y-y increase in Net Income at \$100.6m, attributed to higher adoption grant income for NGNBN services and lower operating expense. Revenue decline was due to lower Pay TV service revenue, as 2Q-2012 revenue was boosted by revenue from the UEFA EURO event. StarHub maintained guidance of low single digit revenue growth and EBITDA margin on service revenue at 31%.

Fig 1. Results Summary

Income Statement					
(Extract)	2QFY12	2QFY13	q-q (%)	y-y (%)	Comments
(S\$m)					
Revenue	590.7	586.8	1.2%	-0.7%	Lower Pay TV revenue
EBITDA	179.1	191.5	5.2%	6.9%	
EBIT	110.5	124.9	9.6%	13.0%	
Net Income	86.8	100.6	10.2%	15.9%	Lower ops expense

Source: Company, PSR

How do we view this?

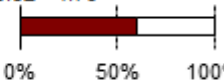
Despite lower Pay TV revenue, 2Q13's service revenue was higher by 0.3% y-y, contributed by higher mobile revenue. We continue to be optimistic on higher pick up in revenue from data monetisation while current dividend yield of 4.7% remains attractive under current market conditions.

With SingTel's appeal against Media Development Authority (MDA)'s direction rejected, StarHub will now be able to cross-carry the BPL live matches for the 2013/2014 season. However, we do not foresee an immediate effect of subscribers migrating to StarHub's cable platform, despite the \$300 rebate offered by StarHub. This is due to the steep pricing for stand-alone subscriptions at \$59.90/mth. Many existing BPL subscribers on SingTel mioTV may still be under contract.

Investment Actions?

We adjust our forecast to reflect 2Q13 results and maintain "Accumulate" rating with revised TP of \$4.37, based on our DCF model. We continue to see growth in StarHub's service revenue, on higher pick up in revenue from mobile and fixed network service.

StarHub Ltd

Rating	2	Accumulate
- Previous Rating	2	Accumulate
Target Price (SGD)	4.37	
- Previous Target Price (SGD)	4.40	
Closing Price (SGD)	4.27	
Expected Capital Gains (%)	2.3%	
Expected Dividend Yield (%)	4.7%	
Expected Total Return (%)	7.0%	
Raw Beta (Past 2yrs weekly data)	0.18	
Market Cap. (USD mn / SGD mn)	5793 / 7342	
Enterprise Value (USD mn / SGD mn)	6095 / 7725	
3M Average Daily T/O (mn)	2.5	
52 week range (SGD)	3.52 - 4.76	
Closing Price in 52 week range		



Major Shareholders

1. Asia Mobile Holdings Pte Ltd	56.5
2. Nippon Telegraph & Telephone Co.	10.0

Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (SGD mn)	2,312	2,422	2,409	2,517
Net Profit, adj. (SGD mn)	315	359	340	327
EPS, adj. (SGD)	0.18	0.21	0.20	0.19
P/E (X), adj.	23.2	20.4	21.6	22.5
BVPS (SGD)	0.01	0.03	0.05	0.03
P/B (X)	n.m.	n.m.	n.m.	n.m.
DPS (SGD)	0.20	0.20	0.20	0.20
Div. Yield (%)	4.7%	4.7%	4.7%	4.7%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

DCF (WACC: 6.9%; terminal g: 2.8%)

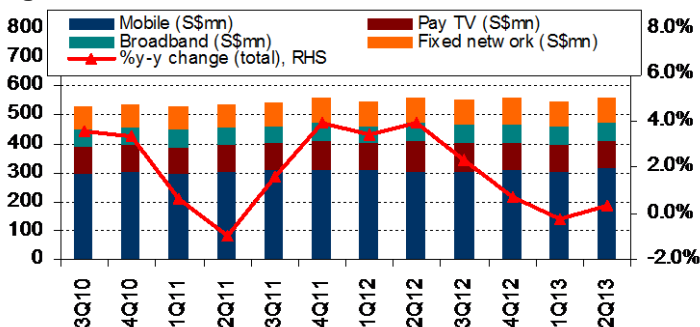
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Service Revenue higher 0.3% y-y, 2.7% q-q

Service revenue was higher at \$562.0 million for this quarter, attributed to higher mobile revenue and fixed network service revenue.

Fig 2. Service Revenue

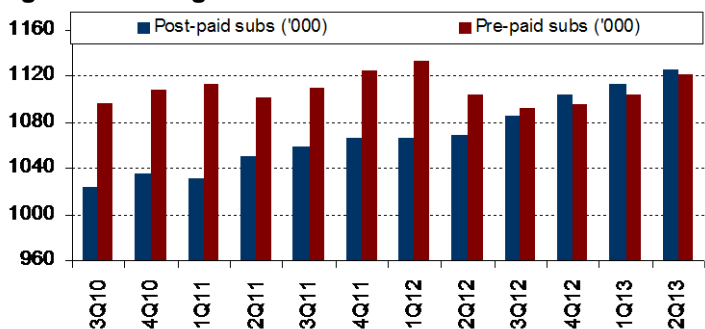


Source: Company, PSR

Higher mobile revenue from higher customer base and increased adoption of tiered plans

Mobile revenue increased 2.8% y-y, due to higher customer base (both post-paid and pre-paid) at 2,249K (2Q12: 2,173) and higher post-paid ARPU at \$72 (2Q12:\$71). We also note the increase in customer base, currently at 362K, who is now on tiered-data plans. **We continue to see higher take-up in data plans from mobile customers.**

Fig 3. Increasing mobile customer base



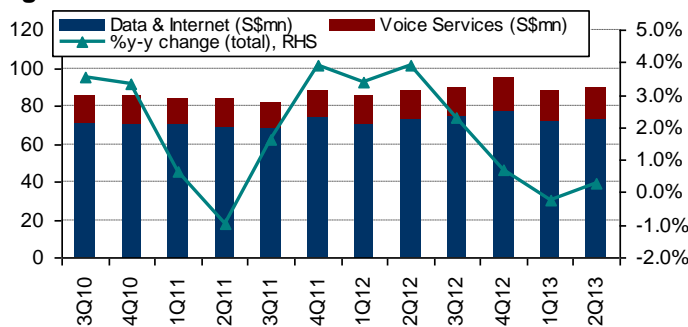
Source: Company, PSR

Fixed Network Service up 2.3% y-y

Fixed Network services increased by 2.3% y-y and 1.9% q-q at \$90m, attributable to both Data & Internet and Voice services. Data & Internet revenue increase was due to

higher take up of Internet and Next NBN services. Growth in voice services revenue was mainly due to digital voice home services becoming chargeable since 4Q12.

Fig 4. Fixed Network Service Revenue

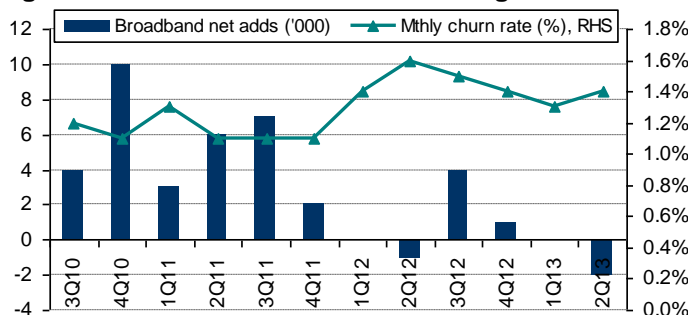


Source: Company, PSR

Competition in Broadband segment

Broadband revenue declined 1.1% both y-y and q-q at \$61.7m, with churn rate at 1.4%. ARPU remains stable at \$45. The lower broadband revenue was attributed to price competition in this segment as service providers offering discounts on their fibre plans. **We expect the price competition to remain intense.**

Fig 5. Broadband churn rate remains high



Source: Company, PSR

Recent 4G spectrum auction

StarHub secured 2x25MHz of 1800MHz and 2x20MHz of 2.5GHz spectrum rights at total reserve price of \$120m. Payments of these spectrum rights will be deferred and these spectrum rights will commence in July 2015 (for 2.5GHz) and April 2017 (for 1800MHz).

FYE Dec	FY10	FY11	FY12	FY13E	FY14E
Valuation Ratios					
P/E (X), adj.	27.8	23.2	20.4	21.6	22.5
P/B (X)	n.m.	n.m.	n.m.	n.m.	n.m.
EV/EBITDA (X), adj.	12.8	11.4	10.7	11.0	10.9
Dividend Yield (%)	4.7%	4.7%	4.7%	4.7%	4.7%
Per share data (SGD)					
EPS, reported	0.175	0.184	0.209	0.198	0.190
EPS, adj.	0.153	0.184	0.209	0.198	0.190
DPS	0.200	0.200	0.200	0.200	0.200
BVPS	0.031	0.013	0.025	0.051	0.027
Growth & Margins (%)					
Growth					
Revenue	4.1%	3.3%	4.7%	-0.5%	4.5%
EBITDA	-7.9%	12.3%	6.5%	-2.1%	0.7%
EBIT	-16.2%	16.3%	12.3%	-4.8%	-3.3%
Net Income, adj.	-17.7%	19.8%	13.9%	-5.5%	-3.7%
Margins					
EBITDA margin on Service Rev	28.1%	31.1%	32.3%	31.2%	30.1%
EBIT margin	15.3%	17.2%	18.5%	17.7%	16.4%
Net Profit Margin	11.8%	13.6%	14.8%	14.1%	13.0%
Key Ratios					
ROE (%)	n.m.	n.m.	n.m.	n.m.	n.m.
ROA (%)	14.9%	17.9%	20.3%	19.2%	19.3%
Net Debt/(Cash)	568	483	376	394	334
Net Gearing (X)	n.m.	n.m.	n.m.	n.m.	n.m.
Income Statement (SGD mn)					
Service revenue	2,144	2,172	2,227	2,254	2,352
Handset sales	93	140	194	155	165
Revenue	2,238	2,312	2,422	2,409	2,517
EBITDA	602	676	720	704	709
Depreciation & Amortisation	(260)	(278)	(273)	(278)	(297)
EBIT	342	398	447	426	412
Net Finance (Expense)/Income	(25)	(19)	(16)	(17)	(18)
Other items	0	0	0	0	0
Associates & JVs	0	0	0	0	0
Profit Before Tax	318	380	431	409	394
Taxation	(54)	(64)	(72)	(70)	(67)
Profit After Tax	263	315	359	340	327
Non-controlling Interest	0	0	0	0	0
Net Income, reported	263	315	359	340	327
Net Income, adj.	263	315	359	340	327

Source: PSR

FYE Dec	FY10	FY11	FY12	FY13E	FY14E
Balance Sheet (SGD mn)					
PPE	776	762	791	830	814
Intangibles	452	424	397	372	342
Associates & JVs	0	0	0	0	0
Investments	0	0	0	0	0
Others	5	3	3	3	3
Total non-current assets	1,232	1,188	1,191	1,204	1,159
Inventories	32	37	28	34	39
Accounts Receivables	276	301	266	269	275
Investments	0	0	0	0	0
Cash	238	179	312	207	180
Others	17	17	12	12	12
Total current assets	561	535	618	521	506
Total Assets	1,794	1,723	1,809	1,726	1,665
Short term loans	330	75	0	0	0
Accounts Payables	675	703	728	693	761
Others	68	125	151	151	151
Total current liabilities	1,073	903	879	844	912
Long term loans	475	588	688	601	514
Others	191	210	198	193	193
Total non-current liabilities	666	797	886	793	707
Non-controlling interest	0	0	0	0	0
Shareholder Equity	54	23	44	88	46
Cashflow Statements (SGD mn)					
CFO					
PBT	318	380	431	409	394
Adjustments	289	278	270	261	290
Cash from ops before WC changes	606	658	701	670	684
WC changes	64	39	42	(44)	57
Cash generated from ops	670	696	743	626	741
Taxes paid, net	0	0	(54)	(70)	(67)
Cashflow from ops	670	696	689	557	674
CFI					
CAPEX, net	(272)	(247)	(273)	(301)	(252)
Dividends from associates & JVs	0	0	0	0	0
Dividends/Interest from Investments	0	0	0	0	0
Purchase/sale of investments	0	0	0	0	0
Investments in subs & associates	0	0	0	0	0
Others	4	2	5	4	3
Cashflow from investments	(268)	(244)	(268)	(298)	(249)
CFF					
Share issuance	2	2	1	0	0
Purchase of treasury shares	0	(9)	(2)	0	0
Loans, net of repayments	(90)	(143)	25	0	(87)
Dividends to minority interests	0	0	0	0	0
Dividends to shareholders & capital reduction	(343)	(343)	(344)	(344)	(344)
Interest paid	(27)	(22)	(20)	(21)	(21)
Others	60	5	50	0	0
Cashflow from financing	(398)	(511)	(289)	(364)	(452)
Net change in cash	4	(59)	133	(105)	(27)
Effects of exchange rates	0	0	0	0	0
CCE, end	238	179	312	207	180

Source: PSR



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