

StarHub Ltd

Room for growth amidst TV challenges

SINGAPORE | TELECOMMUNICATIONS | UPDATE

2 February 2015

Highlights

- Pay TV subscription to hold firm in our view.
- Expect positive growth in FY15F driven mainly from mobile and fixed network services.
- Upgrade to Accumulate with revised target price to S\$4.40.

What is the news?

Though the evolution of Internet TV may have led to declines in cable subscribers across US, “cord-cutting” effects are not yet visible in Singapore. StarHub continues to report positive net adds to its Pay TV subscribers in recent quarters. While more premium TV content (e.g. HBO, ESPN) may be shifting towards Internet streaming services this year, many of these services such as Netflix, Hulu, or Sling TV, are not available in Singapore.

How do we view this?

While increasing availability of premium TV content via streaming or other Over the Top (OTT) services may curtail growth in its Pay TV customer base, we think StarHub could still maintain its existing Pay TV customer base this year. Key points supporting our view are:

- **Perceived high quality and wide variety of media content** on StarHub TV*.
- **Strengthening of US dollar against SGD** may deter Pay TV subscribers from “cutting the cord” (as subscriptions to popular streaming services are mostly priced in USD).
- **Limited bundled VPN with broadband** offerings, which are available only from MyRepublic and ViewQwest.

We expect limited upside in Pay TV ARPU as StarHub would likely continue to keep prices of its TV bundles competitive in our view. On a positive note, we continue to expect StarHub’s overall bottom line to grow in FY15F mainly from increasing contributions from mobile and fixed network services.

Key risk factors

- Availability of popular video streaming or OTT services made available in Singapore without the need for VPN service.
- Lower pricing from video streaming services.

Investment Actions

We revise our rating to Accumulate as we expect growth in earnings this year. Growth would be mainly driven by data monetisation for mobile and increasing take-up of its enterprise solutions and services from the enterprise segment while Pay TV and broadband subscriptions are expected to remain stable. Target price at S\$4.40.

*Based on MDA Media Consumer Experience Study 2013.

ACCUMULATE (Upgrade)

CLOSING PRICE	SGD 4.18
FORECAST DIV	SGD 0.20
TARGET PRICE	SGD 4.40
TOTAL RETURN	10.0%

COMPANY DATA

O/S SHARES (MN) :	1,724
MARKET CAP (USD mn / SGD mn) :	5339 / 7208
52 - WK HI/LO (SGD) :	4.32 / 4
3M Average Daily T/O (mn) :	150

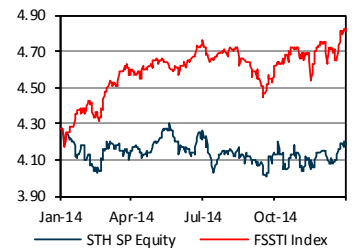
MAJOR SHAREHOLDERS (%)

ASIA MOBILE HOLDINGS	56.30%
NIPPON T&T CO	9.94%
BLACKROCK FUND ADVISORS	1.72%
SCHRODER INVESTMENT MGMT HK	0.48%
VANGUARD GROUP INC	0.48%

PRICE PERFORMANCE (%)

	1M TH	3M TH	1YR
COMPANY	14	3.2	3.0
STIRETURN	16	6.4	15.7

PRICE VS. STI



Source: Bloomberg, PSR

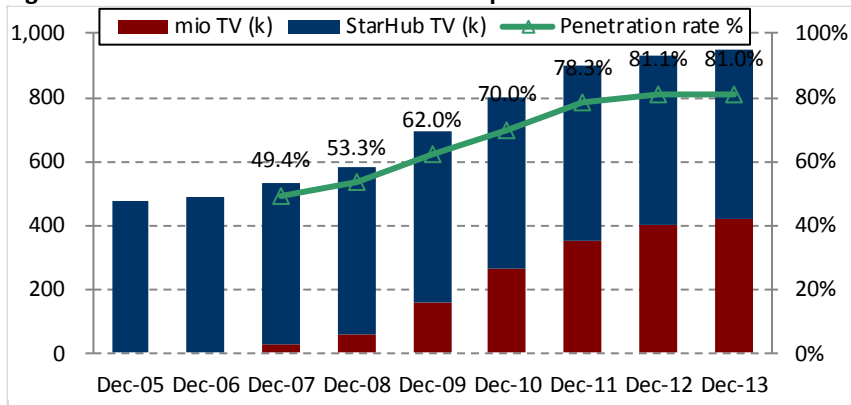
KEY FINANCIALS

SGD M N	FY 12	FY 13	FY 14 F	FY 15 F
Revenue	2,422	2,359	2,369	2,422
EBITDA	720	733	725	767
NPAT (adj.)	359	371	365	380
EPS (adj.)	0.21	0.22	0.21	0.22
PER, x (adj.)	18.8	19.7	19.8	19.0
P/BV, x	157.2	88.3	63.8	49.0
DPS (SGD)	0.20	0.20	0.20	0.20
Div Yield, %	5.1%	4.7%	4.8%	4.8%
ROE, %	1087%	587%	372%	292%

Source: Company Data, PSR est.

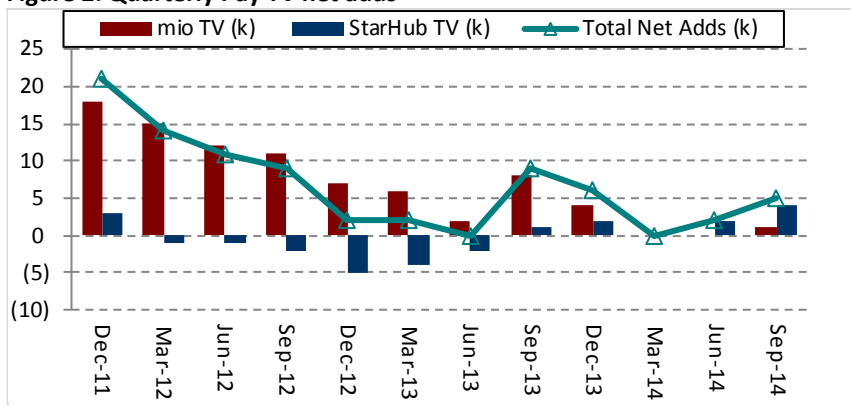
Colin Tan (+65 6531 1221)
colintanwh@phillip.com.sg

Figure 1: Combined mio TV and StarHub TV penetration rate



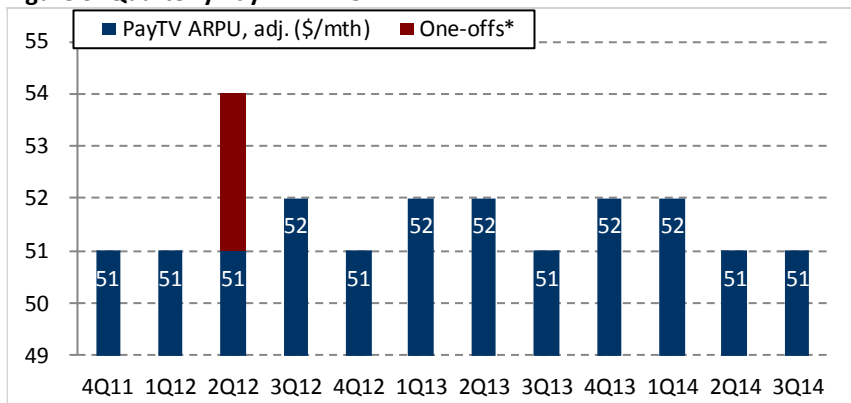
Source: SingStat, Company, Phillip Securities Research (Singapore)

Figure 2: Quarterly Pay TV net adds



Source: Company, Phillip Securities Research (Singapore)

Figure 3: Quarterly Pay TV ARPU



* higher 2Q12 ARPU due to UEFA Euro 2012 subscription.

Source: Company, Phillip Securities Research (Singapore)

Financials

Income Statement

Y/E Dec, SGD mn	FY12	FY13	FY14e	FY15e	FY16e
Service Revenue	2,228	2,229	2,214	2,275	2,357
Revenue	2,422	2,359	2,369	2,422	2,511
Other income	27	50	45	20	20
EBITDA	720	733	725	767	803
Depreciation & Amortisation	(273)	(270)	(269)	(292)	(304)
EBIT	447	463	456	475	499
Net Finance (Expense)/Inc	(16)	(16)	(17)	(17)	(17)
PBT	431	447	439	458	482
Taxation	(72)	(77)	(75)	(78)	(82)
PAT	359	371	365	380	400
Minority interest	0	0	0	0	0
Net Income, reported	359	371	365	380	400
Net Income, adj.	359	371	365	380	400

Per share data (SGD)

Y/E Dec, SGD mn	FY12	FY13	FY14e	FY15e	FY16e
EPS, reported	0.21	0.22	0.21	0.22	0.23
EPS, adj.	0.21	0.22	0.21	0.22	0.23
DPS	0.20	0.20	0.20	0.20	0.23
BVPS	0.03	0.05	0.07	0.09	0.10

Cash Flows

Y/E Dec, SGD mn	FY12	FY13	FY14e	FY15e	FY16e
CFO					
PBT	431	447	439	458	482
Adjustments	270	244	241	290	301
WC changes	42	(7)	50	(7)	18
Cash generated from ops	744	684	730	740	801
Taxes paid, others	(54)	(89)	(75)	(78)	(82)
Cashflow from ops	690	595	655	663	720
CFI					
CAPEX, net	(273)	(303)	(346)	(303)	(302)
Others	5	3	2	2	2
Cashflow from investments	(268)	(299)	(344)	(301)	(300)
CFF					
Share issuance	0	8	11	0	0
Loans, net of repayments	25	0	0	0	0
Dividends paid	(343)	(344)	(345)	(346)	(381)
Others	29	(5)	11	11	11
Cashflow from financing	(289)	(341)	(323)	(334)	(370)
Net change in cash	133	(46)	(11)	27	50
Effects of exchange rates	0	1	0	0	0
CCE, end	312	267	255	283	332

Source: Company, Phillip Securities Research (Singapore) Estimates

*Forward multiples and yields are based on current market price; historical multiples and yields are based on historical market price.

Balance Sheet

Y/E Dec, SGD mn	FY12	FY13	FY14e	FY15e	FY16e
ASSETS					
PPE	791	857	919	962	990
Intangibles	397	381	396	363	332
Associates & JVs	0	0	0	0	0
Long-term investments	0	0	0	0	0
Others	3	0	0	0	0
Total non-current assets	1,191	1,238	1,315	1,325	1,323
Inventories	28	43	38	35	36
Accounts Receivables	142	124	133	136	141
Cash balance	312	267	255	283	332
Others	136	178	178	178	178
Total current assets	618	612	605	632	688
Total Assets	1,809	1,850	1,920	1,958	2,011

LIABILITIES

Short term loans	0	0	0	0	0
Accounts Payables	728	754	786	780	805
Others	151	148	169	169	169
Total current liabilities	879	902	956	949	974
Long term loans	688	688	688	688	688
Others	198	178	163	173	183
Total non-current liabilities	886	866	851	861	871

EQUITY

Non-controlling interest	0	0	0	0	0
Shareholder Equity	44	83	113	147	166

Valuation Ratios

Y/E Dec, SGD mn	FY12	FY13	FY14e	FY15e	FY16e
P/E (X), adj.	18.8	19.7	19.8	19.0	18.1
P/B (X)	157.2	88.3	63.8	49.0	43.6
EV/EBITDA (X)	9.9	10.5	10.5	9.9	9.4
Dividend Yield (%)	5.1%	4.7%	4.8%	4.8%	5.4%

Growth & Margins (%)

Growth					
Revenue	4.7%	-2.6%	0.4%	2.3%	3.7%
EBITDA	6.5%	1.8%	-1.0%	5.8%	4.7%
EBIT	12.3%	3.6%	-1.4%	4.1%	5.0%
Net Income, adj.	13.9%	3.2%	-1.6%	4.2%	5.2%
Margins					
EBITDA margin	29.7%	31.1%	30.6%	31.7%	32.0%
EBIT margin	18.5%	19.6%	19.3%	19.6%	19.9%
Net Profit Margin	14.8%	15.7%	15.4%	15.7%	15.9%

Key Ratios

ROE (%)	1087%	587%	372%	292%	255%
ROA (%)	20.3%	20.3%	19.3%	19.6%	20.1%
Interest Coverage (X)	28.1	29.0	26.5	27.5	29.2
Net Debt/EBITDA (X)	0.5	0.6	0.6	0.5	0.4



Contact Information (Singapore Research Team)		
Management Chan Wai Chee (CEO, Research - Special Opportunities)	yebo@phillip.com.sg	Research Operations Officer Jaelyn Chin chinjn@phillip.com.sg
Macro Equities Soh Lin Sin sohls@phillip.com.sg Bakhteyar Osama osama@phillip.com.sg	Market Analyst Equities Kenneth Koh kennethkohwk@phillip.com.sg	US Equities Wong Yong Kai wongyk@phillip.com.sg
Finance Offshore Marine Benjamin Ong benjaminongcw@phillip.com.sg	Real Estate Caroline Tay carolinetayyy@phillip.com.sg	REITs Dehong Tan tandh@phillip.com.sg
Telecoms Technology Colin Tan colintanwh@phillip.com.sg	Transport & Logistics Richard Leow, CFTe richardleowwt@phillip.com.sg	

Contact Information (Regional Member Companies)		
SINGAPORE Phillip Securities Pte Ltd Raffles City Tower 250, North Bridge Road #06-00 Singapore 179101 Tel +65 6533 6001 Fax +65 6535 6631 Website: www.poems.com.sg	MALAYSIA Phillip Capital Management Sdn Bhd B-3-6 Block B Level 3 Megan Avenue II, No. 12, Jalan Yap Kwan Seng, 50450 Kuala Lumpur Tel +603 2162 8841 Fax +603 2166 5099 Website: www.poems.com.my	HONG KONG Phillip Securities (HK) Ltd 11/F United Centre 95 Queensway Hong Kong Tel +852 2277 6600 Fax +852 2868 5307 Websites: www.phillip.com.hk
JAPAN Phillip Securities Japan, Ltd. 4-2 Nihonbashi Kabuto-cho Chuo-ku, Tokyo 103-0026 Tel +81-3 3666 2101 Fax +81-3 3666 6090 Website: www.phillip.co.jp	INDONESIA PT Phillip Securities Indonesia ANZ Tower Level 23B, Jl Jend Sudirman Kav 33A Jakarta 10220 – Indonesia Tel +62-21 5790 0800 Fax +62-21 5790 0809 Website: www.phillip.co.id	CHINA Phillip Financial Advisory (Shanghai) Co Ltd No 550 Yan An East Road, Ocean Tower Unit 2318, Postal code 200001 Tel +86-21 5169 9200 Fax +86-21 6351 2940 Website: www.phillip.com.cn
THAILAND Phillip Securities (Thailand) Public Co. Ltd 15th Floor, Vorawat Building, 849 Silom Road, Silom, Bangrak, Bangkok 10500 Thailand Tel +66-2 6351700 / 22680999 Fax +66-2 22680921 Website www.phillip.co.th	FRANCE King & Shaxson Capital Limited 3rd Floor, 35 Rue de la Bienfaisance 75008 Paris France Tel +33-1 45633100 Fax +33-1 45636017 Website: www.kingandshaxson.com	UNITED KINGDOM King & Shaxson Capital Limited 6th Floor, Candlewick House, 120 Cannon Street, London, EC4N 6AS Tel +44-20 7426 5950 Fax +44-20 7626 1757 Website: www.kingandshaxson.com
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