

Report type: Full Year 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 that is 60% larger than its closest competitor.

- Positive earnings surprise for the year
- Strong postpaid ARPU for 4Q
- One off gains lifted margins for the quarter
- Revised estimates higher by 6-8% for next 2 years
- Maintain Neutral with revised TP of S\$2.90

What is the news?

Starhub's FY11 results were significantly above our estimates of S\$301mn. Sales were higher on very strong postpaid ARPU of S\$76 for the 4th quarter, which was 4% higher as compared to the same period last year. However, margins were flattered by several one off items that were booked in the quarter. Excluding these one off items, EBITDA margin on service revenue would have been lower than the headline 33.1%, but still above recent trend levels at 31.3%. Management guided for their intention to maintain the dividend levels of 20cents for FY12E.

Fig.1. Results Summary

Income Statement				
(Extract)	FY10	FY11	y-y (%)	Comments
(S\$'mn)				
Revenue	2,237.7	2,312.0	3.3%	Above. ARPU uplift
EBITDA	595.8	654.6	9.9%	
EBIT	336.3	376.8	12.0%	Gained from one off items
Net Income	263.2	315.5	19.9%	Above expectations

Source: Company, PSR

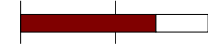
How do we view this?

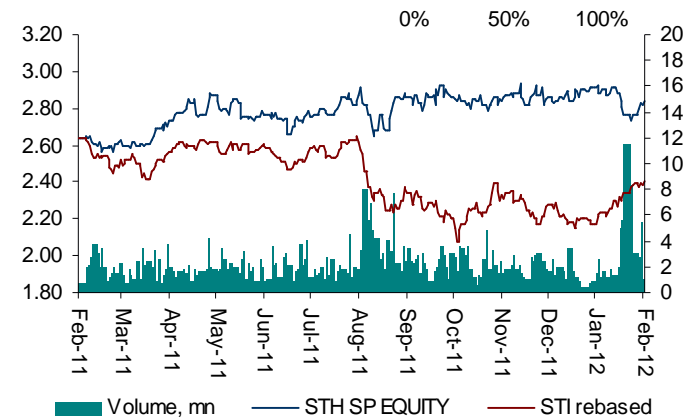
The results were positive mainly due to the strong postpaid ARPU figures. We estimate that the one off items would have resulted in a one off gain of c.S\$10mn from the EBITDA margin differential disclosed by the company. Even after stripping out the one off gains, net income would still be above our original estimates.

Investment Actions?

We revised our estimates up by 6-8% for the next two years and lifted our target price to S\$2.90. Starhub's current market price would translate to a strong yield of 7%. Maintain Neutral.

Starhub Ltd

Rating	3	Neutral
- Previous Rating	3	Neutral
Target Price (SGD)	2.90	
- Previous Target Price (SGD)	2.88	
Closing Price (SGD)	2.83	
Expected Capital Gains (%)	2.5%	
Expected Dividend Yield (%)	7.1%	
Expected Total Return (%)	9.5%	
Raw Beta (Past 2yrs weekly data)	0.37	
Market Cap. (USD mn)	3,905	
Enterprise Value (USD mn)	4,231	
3M Average Daily T/O (mn)	2.2	
52 w week range (SGD)	2.54 - 2.94	
Closing Price in 52 w week range		



Major Shareholders

	(%)
1. Asia Mobile Holdings Pte Ltd	56.7
2. Nippon Telegraph & Telephone Co.	10.0

Key Financial Summary

FYE	12/10	12/11	12/12F	12/13F
Revenue (SGD mn)	2,238	2,312	2,403	2,452
Net Profit, adj. (SGD mn)	263	316	322	336
EPS, adj. (SGD)	0.15	0.18	0.19	0.19
P/E (X),adj.	18.5	15.5	15.2	14.5
BVPS (SGD)	0.03	0.01	0.00	(0.00)
P/B (X)	n.m.	n.m.	n.m.	n.m.
DPS (SGD)	0.20	0.20	0.20	0.21
Div. Yield (%)	7.1%	7.1%	7.1%	7.6%

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

DCF (WACC: 6.6%; terminal g: 0%)

Analyst

Derrick Heng

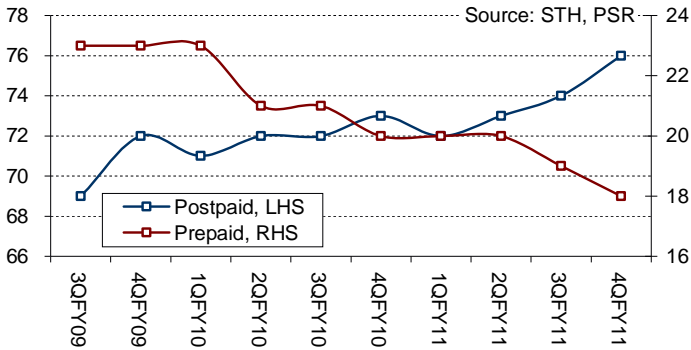
derrickhengch@phillip.com.sg

+65 6531 1221

4Q Postpaid ARPU a surprise

Starhub's Postpaid ARPU improved sequentially over the year to a high of S\$76/mth. However, it is important to note that there is an element of seasonality in this figure due to higher roaming revenue from travelers towards the end of the year. Nonetheless, we expect postpaid ARPU to remain stable in the near term and could see upside from industry efforts to review product pricing to better monetize data usage by customers. Prepaid ARPU declined sequentially to S\$18/mth.

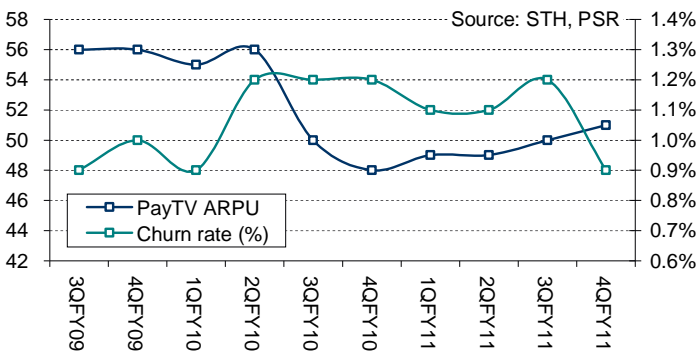
Fig.2. Mobile ARPU trends



PayTV ARPU improved

PayTV ARPU benefitted from the higher subscription fees implemented in August. Churn rate also dipped for the quarter to a low of 0.9%, reflecting stability in its customer base. Starhub also expressed its desire to promote higher quality HD content to subscribers that could increase subscription rates in the future.

Fig.3. PayTV ARPU



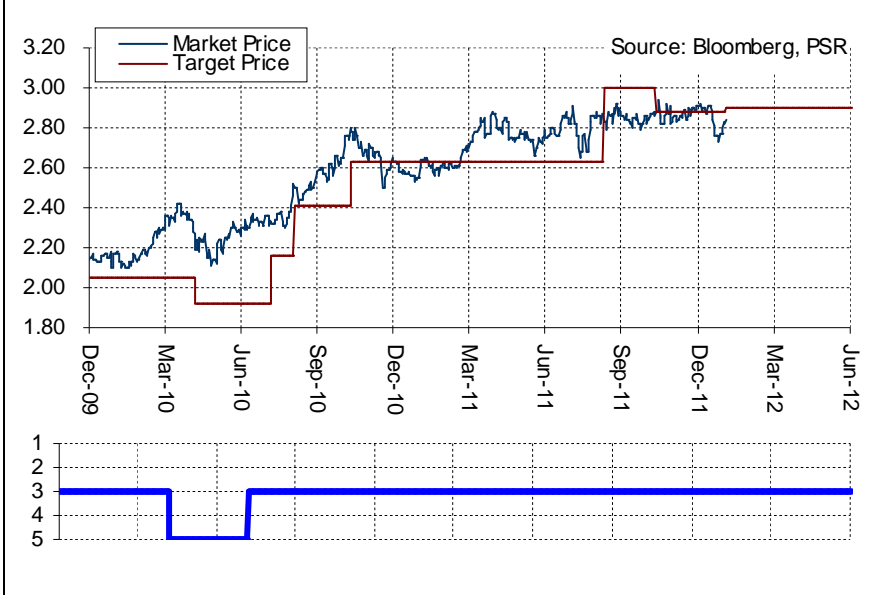
FYE Dec	FY09	FY10	FY11	FY12F	FY13F
Valuation Ratios					
P/E (X), adj.	15.2	18.5	15.5	15.2	14.5
P/B (X)	n.m.	n.m.	n.m.	n.m.	n.m.
EV/EBITDA (X), adj.	8.1	8.9	8.1	8.0	7.8
Dividend Yield (%)	6.7%	7.1%	7.1%	7.1%	7.6%
Per share data (SGD)					
EPS, reported	0.19	0.15	0.18	0.19	0.20
EPS, adj.	0.19	0.15	0.18	0.19	0.19
DPS	0.19	0.20	0.20	0.20	0.21
BVPS	0.07	0.03	0.01	0.00	(0.00)
Growth & Margins (%)					
Growth					
Revenue	1.1%	4.1%	3.3%	3.9%	2.0%
EBITDA	1.4%	-8.8%	9.9%	0.5%	3.3%
EBIT	-0.2%	-17.7%	12.0%	2.0%	4.8%
Net Income, adj.	2.7%	-17.7%	19.9%	2.0%	4.4%
Margins					
EBITDA margin	30.4%	26.6%	28.3%	27.4%	27.7%
EBIT margin	19.0%	15.0%	16.3%	16.0%	16.4%
Net Profit Margin	14.9%	11.8%	13.6%	13.4%	13.7%
Key Ratios					
ROE (%)	n.m.	n.m.	n.m.	n.m.	n.m.
ROA (%)	18.8%	14.9%	17.9%	18.5%	19.0%
Net Debt/(Cash)	662	568	483	478	496
Net Gearing (X)	n.m.	n.m.	n.m.	n.m.	n.m.
Income Statement (SGD mn)					
Revenue	2,150	2,238	2,312	2,403	2,452
EBITDA	654	596	655	658	680
Depreciation & Amortisation	(245)	(260)	(278)	(273)	(277)
EBIT	408	336	377	384	403
Net Finance (Expense)/Income	(23)	(25)	(18)	(17)	(18)
Other items	0	6	21	20	20
Associates & JVs	0	0	0	0	0
Profit Before Tax	385	318	380	388	405
Taxation	(66)	(54)	(64)	(66)	(69)
Profit After Tax	320	263	316	322	336
Non-controlling Interest	0	0	0	0	0
Net Income, reported	320	263	316	322	336
Net Income, adj.	320	263	316	322	336

Source: PSR

FYE Dec	FY09	FY10	FY11	FY12F	FY13F
Balance Sheet (SGD mn)					
PPE	785	776	762	769	778
Intangibles	416	452	424	444	463
Associates & JVs	0	0	0	0	0
Investments	0	0	0	0	0
Others	5	5	3	3	3
Total non-current assets	1,206	1,232	1,188	1,215	1,244
Inventories	28	32	37	37	41
Accounts Receivables	241	276	301	307	310
Investments	0	0	0	0	0
Cash	234	238	179	185	167
Others	23	17	17	17	17
Total current assets	526	561	535	547	535
Total Assets	1,733	1,794	1,723	1,762	1,779
Short term loans	290	330	75	75	75
Accounts Payables	574	675	703	714	721
Others	62	68	125	125	125
Total current liabilities	926	1,073	903	914	921
Long term loans	605	475	588	588	588
Others	76	191	210	259	276
Total non-current liabilities	681	666	797	847	864
Non-controlling interest	0	0	0	0	0
Shareholder Equity	126	54	23	1	(6)
Cashflow Statements (SGD mn)					
CFO					
PBT	385	318	380	388	405
Adjustments	275	289	278	290	295
Cash from ops before WC changes	660	606	658	678	700
WC changes	33	64	0	5	0
Cash generated from ops	692	670	658	683	700
Taxes paid, net	0	0	0	(16)	(52)
Interest paid	(24)	(27)	(22)	(19)	(20)
Cashflow from ops	668	643	636	648	629
CFI					
CAPEX, net	(231)	(270)	(246)	(301)	(306)
Dividends from associates & JVs	0	0	0	0	0
Dividends/Interest from Investments	1	2	2	2	2
Purchase/sale of investments	0	0	0	0	0
Investments in subs & associates	0	0	0	0	0
Others	0	0	0	0	0
Cashflow from investments	(230)	(268)	(244)	(299)	(304)
CFF					
Share issuance	2	2	2	0	0
Purchase of treasury shares	0	0	(9)	0	0
Loans, net of repayments	(18)	(90)	(143)	0	0
Dividends to minority interests	0	0	0	0	0
Dividends to shareholders & capital reduction	(317)	(343)	(343)	(343)	(343)
Others	0	60	5	0	0
Cashflow from financing	(332)	(371)	(489)	(343)	(343)
Net change in cash	106	3	(97)	6	(18)
Effects of exchange rates	0	0	0	0	0
CCE, end	234	238	141	185	167

Source: PSR

Ratings History



PSR Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce	4
> -20%	Sell	5

Remarks

We do not base our recommendations entirely on the above quantitative return bands. We consider qualitative factors like (but not limited to) a stock's risk reward profile, market sentiment, recent rate of share price appreciation, presence or absence of stock price catalysts, and speculative undertones surrounding the stock, before making our final recommendation

Important Information

This publication is prepared by Phillip Securities Research Pte Ltd., 250 North Bridge Road, #06-00, Raffles City Tower, Singapore 179101 (Registration Number: 198803136N), which is regulated by the Monetary Authority of Singapore ("Phillip Securities Research"). By receiving or reading this publication, you agree to be bound by the terms and limitations set out below.

This publication has been provided to you for personal use only and shall not be reproduced, distributed or published by you in whole or in part, for any purpose. If you have received this document by mistake, please delete or destroy it, and notify the sender immediately. Phillip Securities Research shall not be liable for any direct or consequential loss arising from any use of material contained in this publication.

The information contained in this publication has been obtained from public sources, which Phillip Securities Research has no reason to believe are unreliable and any analysis, forecasts, projections, expectations and opinions (collectively, the "Research") contained in this publication are based on such information and are expressions of belief of the individual author or the indicated source (as applicable) only. Phillip Securities Research has not verified this information and no representation or warranty, express or implied, is made that such information or Research is accurate, complete, appropriate or verified or should be relied upon as such. Any such information or Research contained in this publication is subject to change, and Phillip Securities Research shall not have any responsibility to maintain or update the information or Research made available or to supply any corrections, updates or releases in connection therewith. In no event will Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, (i) be liable in any manner whatsoever for any consequences (including but not limited to any special, direct, indirect, incidental or consequential losses, loss of profits and damages) of any reliance or usage of this publication or (ii) accept any legal responsibility from any person who receives this publication, even if it has been advised of the possibility of such damages. You must make the final investment decision and accept all responsibility for your investment decision, including, but not limited to your reliance on the information, data and/or other materials presented in this publication.

Any opinions, forecasts, assumptions, estimates, valuations and prices contained in this material are as of the date indicated and are subject to change at any time without prior notice.

Past performance of any product referred to in this publication is not indicative of future results.

This report does not constitute, and should not be used as a substitute for, tax, legal or investment advice. This publication should not be relied upon exclusively or as authoritative, without further being subject to the recipient's own independent verification and exercise of judgment. The fact that this publication has been made available constitutes neither a recommendation to enter into a particular transaction, nor a representation that any product described in this material is suitable or appropriate for the recipient. Recipients should be aware that many of the products, which may be described in this publication involve significant risks and may not be suitable for all investors, and that any decision to enter into transactions involving such products should not be made, unless all such risks are understood and an independent determination has been made that such transactions would be appropriate. Any discussion of the risks contained herein with respect to any product should not be considered to be a disclosure of all risks or a complete discussion of such risks.

Nothing in this report shall be construed to be an offer or solicitation for the purchase or sale of any product. Any decision to purchase any product mentioned in this research should take into account existing public information, including any registered prospectus in respect of such product.

Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may provide an array of financial services to a large number of corporations in Singapore and worldwide, including but not limited to commercial / investment banking activities (including sponsorship, financial advisory or underwriting activities), brokerage or securities trading activities. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have participated in or invested in transactions with the issuer(s) of the securities mentioned in this publication, and may have performed services for or solicited business from such issuers. Additionally, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the

preparation or issuance of this report, may have provided advice or investment services to such companies and investments or related investments, as may be mentioned in this publication.

Phillip Securities Research or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report may, from time to time maintain a long or short position in securities referred to herein, or in related futures or options, purchase or sell, make a market in, or engage in any other transaction involving such securities, and earn brokerage or other compensation in respect of the foregoing. Investments will be denominated in various currencies including US dollars and Euro and thus will be subject to any fluctuation in exchange rates between US dollars and Euro or foreign currencies and the currency of your own jurisdiction. Such fluctuations may have an adverse effect on the value, price or income return of the investment.

To the extent permitted by law, Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may at any time engage in any of the above activities as set out above or otherwise hold an interest, whether material or not, in respect of companies and investments or related investments, which may be mentioned in this publication. Accordingly, information may be available to Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, which is not reflected in this material, and Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may, to the extent permitted by law, have acted upon or used the information prior to or immediately following its publication. Phillip Securities Research, or persons associated with or connected to Phillip Securities Research, including but not limited to its officers, directors, employees or persons involved in the preparation or issuance of this report, may have issued other material that is inconsistent with, or reach different conclusions from, the contents of this material.

The information, tools and material presented herein are not directed, intended for distribution to or use by, any person or entity in any jurisdiction or country where such distribution, publication, availability or use would be contrary to the applicable law or regulation or which would subject Phillip Securities Research to any registration or licensing or other requirement, or penalty for contravention of such requirements within such jurisdiction.

Section 27 of the Financial Advisers Act (Cap. 110) of Singapore and the MAS Notice on Recommendations on Investment Products (FAA-N01) do not apply in respect of this publication.

This material is intended for general circulation only and does not take into account the specific investment objectives, financial situation or particular needs of any particular person. The products mentioned in this material may not be suitable for all investors and a person receiving or reading this material should seek advice from a professional and financial adviser regarding the legal, business, financial, tax and other aspects including the suitability of such products, taking into account the specific investment objectives, financial situation or particular needs of that person, before making a commitment to invest in any of such products.

Please contact Phillip Securities Research at [65 65311240] in respect of any matters arising from, or in connection with, this document.

This report is only for the purpose of distribution in Singapore.

Contact Information (Singapore Research Team)

Chan Wai Chee
CEO, Research
Special Opportunities
+65 6531 1231
yebo@phillip.com.sg

Lee Kok Joo, CFA
Head of Research
S-Chips, Strategy
+65 6531 1685
leekj@phillip.com.sg

Joshua Tan
Strategist
+65 6531 1249
joshuatan@phillip.com.sg

Magdalene Choong
Investment Analyst
SG & US Financials, Gaming
+65 6531 1791
magdalenechoongss@phillip.com.sg

Go Choon Koay, Bryan
Investment Analyst
Property
+65 6531 1792
gock@phillip.com.sg

Derrick Heng
Investment Analyst
Transportation, Telecom.
+65 6531 1221
derrickhengch@phillip.com.sg

Nicholas Low, CFA
Investment Analyst
Commodities, Offshore & Marine
+65 6531 1535
nicholaslowkc@phillip.com.sg

Travis Seah
Investment Analyst
REITS
+65 6531 1229
travisseahhk@phillip.com.sg

Peter Lee
Research Assistant
General Enquiries
+65 6531 1240 (Phone)
+65 6336 7607 (Fax)
research@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

HONG KONG

Phillip Securities (HK) Ltd
Exchange Participant of the Stock Exchange of Hong Kong
11/F United Centre 95 Queensway
Hong Kong
Tel (852) 22776600
Fax (852) 28685307
Websites: www.phillip.com.hk

INDONESIA

PT Phillip Securities Indonesia
ANZ Tower Level 23B,
Jl Jend Sudirman Kav 33A
Jakarta 10220 – Indonesia
Tel (62-21) 57900800
Fax (62-21) 57900809
Website: www.phillip.co.id

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

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

AUSTRALIA

PhillipCapital Australia
Level 37, 530 Collins Street,
Melbourne, Victoria 3000, Australia
Tel (613) 96298380
Fax (613) 96148309
Website: www.phillipcapital.com.au

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) 21628841
Fax (603) 21665099
Website: www.poems.com.my

JAPAN

PhillipCapital Japan K.K.
Nagata-cho Bldg.,
8F, 2-4-3 Nagata-cho,
Chiyoda-ku, Tokyo 100-0014
Tel (81-3) 35953631
Fax (81-3) 35953630
Website: www.phillip.co.jp

CHINA

Phillip Financial Advisory (Shanghai) Co. Ltd
No 550 Yan An East Road,
Ocean Tower Unit 2318,
Postal code 200001
Tel (86-21) 51699200
Fax (86-21) 63512940
Website: www.phillip.com.cn

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 STATES

Phillip Futures Inc
141 W Jackson Blvd Ste 3050
The Chicago Board of Trade Building
Chicago, IL 60604 USA
Tel +1.312.356.9000
Fax +1.312.356.9005