

# StarHub Ltd

## High share price

Bloomberg | Reuters | POEMS  
STH SP | STAR.SI | STRH.SG  
Industry: Communications Services

Phillip Securities Research Pte Ltd

10 May 2013

### 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.

- 1Q13 Net income of S\$91.2 higher y-y by 3.2%
- FY13 Revenue growth guidance lowered from single digit to low single digit. Other guidance maintained.
- Maintain "Reduce" with revised TP of S\$4.40, based on current high share price, coupled with low revenue growth potential.

#### What is the news?

StarHub posted 1Q13 net income of S\$91.2 million, representing an increase of 3.2% y-y, 3.8% q-q. This was higher than our expectations, due to higher Other income from adoption grants for NGNBN services. StarHub lowered guidance of single digit revenue growth to low single digit, while the other guidance was maintained. Dividend of S\$0.05, in-line with expectations, was declared.

Income Statement				
(Extract)	1QFY12	1QFY13	y-y (%)	Comments
<b>(S\$'mn)</b>				
Revenue	590.9	580.1	-1.8%	Lower Handset sales
EBITDA	176.8	182.0	2.9%	
EBIT	109.4	113.9	4.1%	
Net Income	88.4	91.2	3.2%	Higher other income

Source: Company, PSR

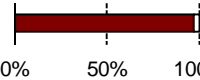
#### How do we view this?

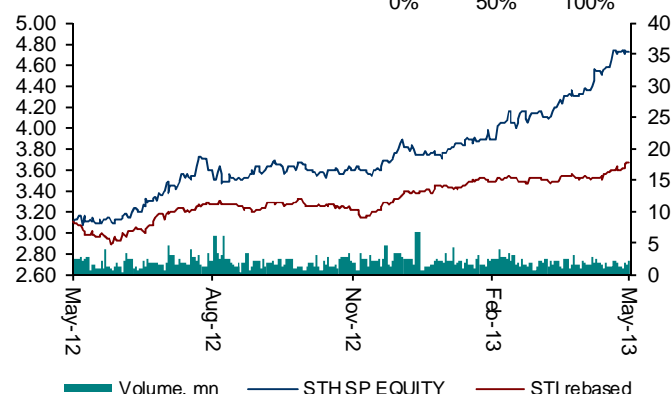
While net income was higher than expected, the flat y-y growth of Service revenue was a disappointment. Data monetizing has been slower for StarHub due to the extra 1GB data promotion reducing excess data charges. We expect to see higher mobile revenue in 2H13 when this promotion expires. On Pay TV, management guide for stabilizing of their main subscriber base, while new contents continue to be offered. While the other two Telcos focus on fibre broadband, StarHub adopted a different strategy, and continues to focus on both cable and fibre broadband.

#### Investment Actions?

We adjust our forecast to reflect 1Q13 results and revised guidance. StarHub has rallied since our downgrade during 4Q12 the results announcement. We are aware of the continued demand for dividend-yielding stocks, as the markets are flushed with liquidity from various policies globally, and interest rates remains low. However, y-y revenue growth potential is minimal, while current share price is high. Dividend yield of 4.2% continues to be attractive, but we see little upside potential for capital gains. Based on our DCF model, we derive a TP of S\$4.40.

#### StarHub Ltd

<b>Rating</b>	<b>4</b>	<b>Reduce</b>
- Previous Rating	4	Reduce
<b>Target Price (SGD)</b>	<b>4.40</b>	
- Previous Target Price (SGD)	3.61	
Closing Price (SGD)	4.72	
Expected Capital Gains (%)	-6.8%	
Expected Dividend Yield (%)	4.2%	
<b>Expected Total Return (%)</b>	<b>-2.5%</b>	
Raw Beta (Past 2yrs w weekly data)	0.26	
Market Cap. (USD mn / SGD mn)	6602 / 8114	
Enterprise Value (USD mn / SGD mn)	6836 / 8404	
3M Average Daily T/O (mn)	1.8	
52 week range (SGD)	3.18 - 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	2,421	2,428	2,518
Net Profit, adj. (SGD mn)	316	359	330	354
EPS, adj. (SGD)	0.18	0.21	0.19	0.21
P/E (X), adj.	25.8	22.7	24.7	23.0
BVPS (SGD)	0.01	0.03	0.02	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 (%)	4.2%	4.2%	4.2%	4.2%

Source: Bloomberg, PSR est.

\*All multiples & yields based on current market price

#### Valuation Method

DCF (WACC: 8.3%; terminal g: 2.8%)

#### Analyst

**Ken Ang**

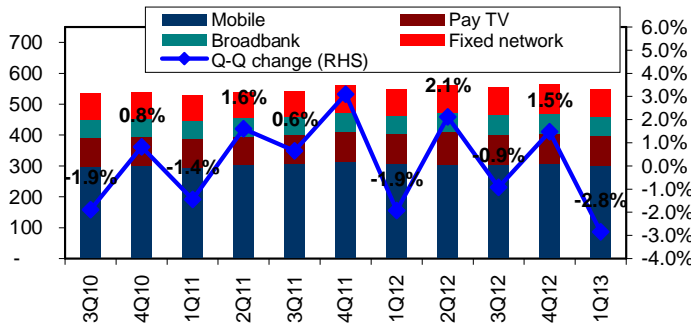
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**Summary**

Service revenue was decreased 0.2% y-y on lower Mobile and Pay TV revenue. Revenue from equipment sale was lower on reduced quantity and average handset price. EBITDA margin as % of service revenue was high at 33.3%, although management maintained FY2013 guidance for 31%. Due to the weaker revenue figures in 1Q13, management lowered guidance on operating revenue growth from single-digit to low single-digit growth.

**Fig 1. Service Revenue declined q-q**



Source: Company, PSR

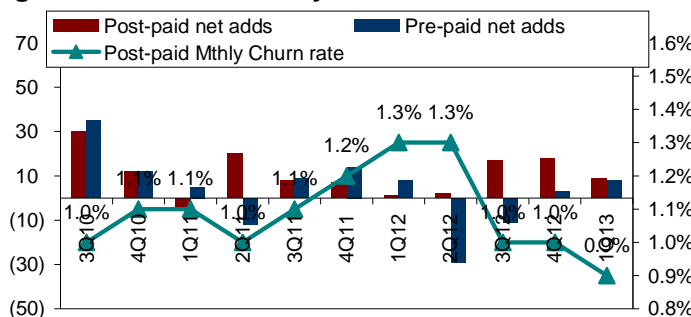
**Operation Statistics**

**Mobile lower on outbound roaming** – Mobile revenue decreased 1.5% y-y to S\$301.9 million. The decrease was attributed to lower post-paid outbound roaming revenue, due to changing consumer behavior in using Wi-Fi for outbound services. Mobile roaming revenue was lower q-q as higher number of customers travelling overseas during year end.

**Data monetizing not yet visible** – With StarHub rewarding existing customers with 1GB of additional data as part of their earlier promotions, data monetizing may be more pronounced in 2H13. Management guides for 270k (24%) of their postpaid customers to be on the new tiered plan.

**Management expect roaming revenue decline to bottom** – With StarHub actively encouraging roaming usage, including offering bundled services and capping roaming charges, StarHub expects roaming revenue to stabilize soon. Management also guides roaming revenue to be 15%-20% of mobile revenue. This is likely closer to 15% in 1Q13.

**Fig 2. Mobile Adds healthy – Churn rates low**



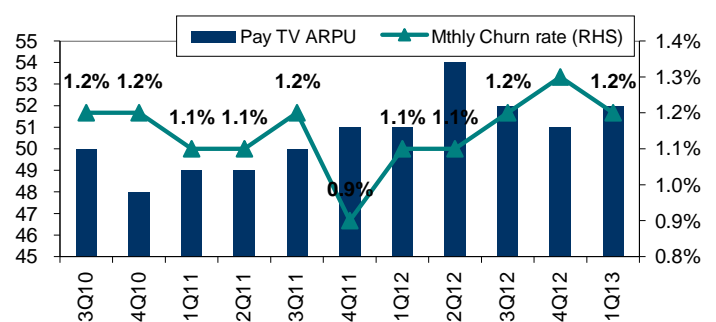
Source: Company, PSR

**Pay TV revenue down on lower advertising revenue** – Pay TV revenue decreased 1.1% y-y to S\$94.7 million. This was guided to be due to lower advertising revenue, which is generated from many areas including advertisements on StarHub's portal. The property cooling measures, and changes to the LTV for car loans, contributed to the lower advertising revenue in the quarter.

ARPU was marginally higher due to contributions from the increase in the Sports package pricing. The lower subscriber base and churn rate was attributed to the expiry of trial Pay TV subscribers.

**BPL broadcast depending on final ruling** – While StarHub has started making the necessary technical adjustments to be able to broadcast BPL, based on the cross-carry ruling, the final outcome on StarHub's ability to carry BPL content will depend on the ruling by the authorities. The previous announcement to allow for cross-carry is currently being contested by the supplier of BPL in Singapore, SingTel.

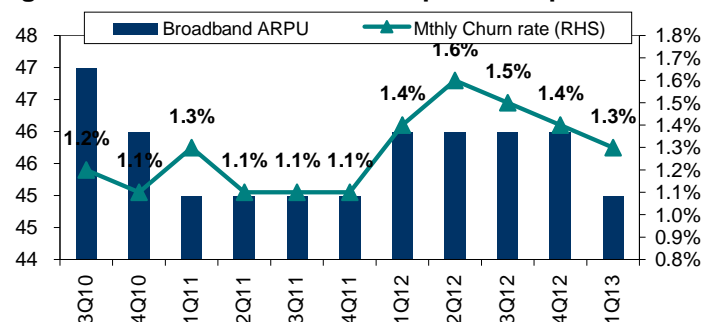
**Fig 3. Pay TV ARPU marginally higher y-y**



Source: Company, PSR

**Broadband ARPU lower on price competition** – Broadband revenue increased 1.7% y-y, due to higher number of customers. ARPU was however low, due to price competition leading to steeper discounts. Management highlighted the lower churn rates, and the increase in revenue despite competition. Unlike the other two Telcos, management continues to promote its cable broadband, and in providing the cable TV and Broadband experience. While it also promotes fibre broadband, management note the limitation in international bandwidth limiting surfing speeds.

**Fig 4. Broadband ARPU lower on price competition**



Source: Company, PSR

**Fixed Services grow on higher take-up of Internet and NGNBN services** – Fixed services continue to grow on higher take ups from the Enterprise business. Revenue from NGNBN is small but growing well. Growth has been slower due to lower service level in the providing of fibre by Open Net. Management has guided that they will continue to grow the NBNGN business, and may lay their own ducts and fibre, although we understand this to be more costly.

Revenue from voice also increased mainly from the charging of digital voice home services, which was previously offered free.

**Revenue from Equipment sales below expectations**

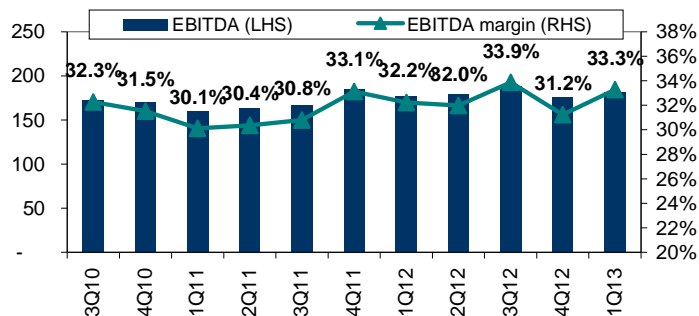
Revenue from sale of equipment was lower due to lower handsets sold, and changes in the handset mix to the cheaper handsets. Earnings from equipment remain hard to forecast. However, the decrease in both quantity and average price of handset is a negative, due to lower absolute earnings from the sale of handsets.

**CFO to retire by September 2013**

While the previous CEO, Neil Montefiore had just announced his retirement last quarter, StarHub's CFO, Buck Chye, announced his retirement in 1Q13. His successor, Nicholas Tan, is currently the Senior Vice President of Corporate Planning at ST Telemedia, with extensive industry experience.

**Management lowers FY2013 guidance for Revenue**  
**Low single digit revenue growth.** Management lowered guidance from single-digit growth for total operating revenue to low single digit growth. This was due to the lower than expected revenue reported in this quarter.

**Fig 5. EBITDA vs EBITDA as % of service rev**



Source: Company, PSR

**31% EBITDA margin on service revenue** – While revenue guidance was lowered, EBITDA margin guidance was maintained, as the lower revenue, such as from handsets would be mitigated by the lower cost, such as from the cost of handsets.

**Others** – Capital expenditure maintained to be 13% of operating revenue. Dividend payout maintained at S\$0.20 per share. Dividend of S\$0.05 was also declared for 1Q13.

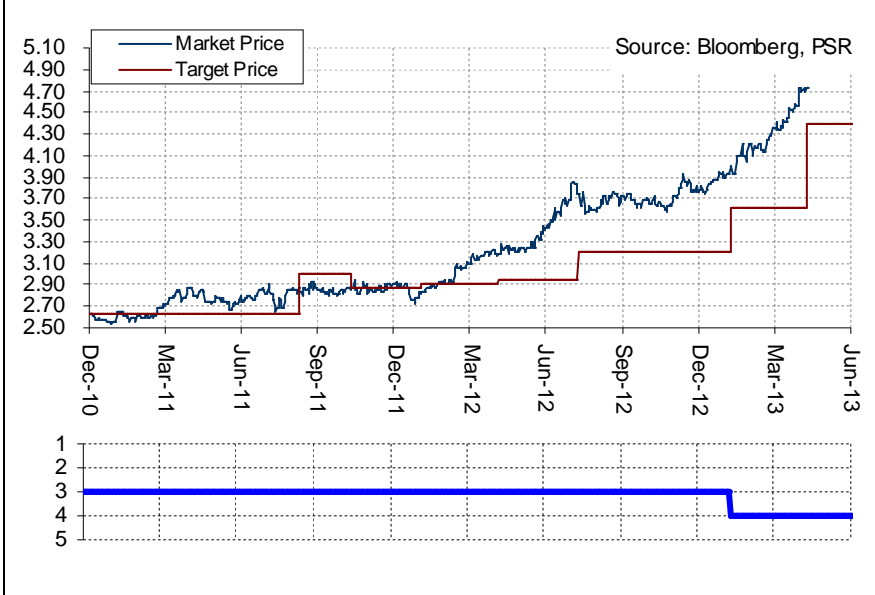
FYE Dec	FY10	FY11	FY12	FY13F	FY14F
<b>Valuation Ratios</b>					
P/E (X), adj.	30.9	25.8	22.7	24.7	23.0
P/B (X)	n.m.	n.m.	n.m.	n.m.	n.m.
EV/EBITDA (X), adj.	14.0	12.4	11.7	11.8	11.1
Dividend Yield (%)	4.2%	4.2%	4.2%	4.2%	4.2%
<b>Per share data (SGD)</b>					
EPS, reported	0.175	0.183	0.208	0.191	0.205
EPS, adj.	0.153	0.183	0.208	0.191	0.205
DPS	0.200	0.200	0.200	0.200	0.200
BVPS	0.031	0.013	0.025	0.024	0.032
<b>Growth &amp; Margins (%)</b>					
<b>Growth</b>					
Revenue	4.1%	3.3%	4.7%	0.3%	3.7%
EBITDA	-7.9%	12.3%	6.5%	-1.3%	6.2%
EBIT	-16.2%	16.4%	12.4%	-7.7%	6.4%
Net Income, adj.	-17.7%	19.9%	13.9%	-8.2%	7.2%
<b>Margins</b>					
EBITDA margin on Service Rev	28.1%	31.1%	32.3%	31.5%	32.1%
EBIT margin	15.3%	17.2%	18.5%	17.0%	17.5%
Net Profit Margin	11.8%	13.6%	14.8%	13.6%	14.0%
<b>Key Ratios</b>					
ROE (%)	n.m.	n.m.	n.m.	n.m.	n.m.
ROA (%)	14.9%	17.9%	20.3%	18.7%	21.1%
Net Debt/(Cash)	568	483	376	407	279
Net Gearing (X)	n.m.	n.m.	n.m.	n.m.	n.m.
<b>Income Statement (SGD mn)</b>					
Service revenue	2,144	2,172	2,227	2,258	2,353
Handset sales	93	140	194	170	165
<b>Revenue</b>	<b>2,238</b>	<b>2,312</b>	<b>2,421</b>	<b>2,428</b>	<b>2,518</b>
<b>EBITDA</b>	<b>602</b>	<b>676</b>	<b>720</b>	<b>710</b>	<b>754</b>
Depreciation & Amortisation	(260)	(278)	(273)	(297)	(315)
<b>EBIT</b>	<b>342</b>	<b>398</b>	<b>447</b>	<b>413</b>	<b>440</b>
Net Finance (Expense)/Income	(25)	(18)	(16)	(16)	(14)
Other items	0	0	0	0	0
Associates & JVs	0	0	0	0	0
<b>Profit Before Tax</b>	<b>317</b>	<b>380</b>	<b>431</b>	<b>397</b>	<b>426</b>
Taxation	(54)	(64)	(72)	(68)	(72)
<b>Profit After Tax</b>	<b>263</b>	<b>316</b>	<b>359</b>	<b>330</b>	<b>354</b>
Non-controlling Interest	0	0	0	0	0
<b>Net Income, reported</b>	<b>263</b>	<b>316</b>	<b>359</b>	<b>330</b>	<b>354</b>
<b>Net Income, adj.</b>	<b>263</b>	<b>316</b>	<b>359</b>	<b>330</b>	<b>354</b>

Source: PSR

FYE Dec	FY10	FY11	FY12	FY13F	FY14F
<b>Balance Sheet (SGD mn)</b>					
PPE	776	762	791	810	720
Intangibles	452	424	397	397	373
Associates & JVs	0	0	0	0	0
Investments	0	0	0	0	0
Others	5	3	3	3	0
<b>Total non-current assets</b>	<b>1,232</b>	<b>1,188</b>	<b>1,191</b>	<b>1,209</b>	<b>1,093</b>
Inventories	32	37	28	36	25
Accounts Receivables	276	301	266	284	285
Investments	0	0	0	0	0
Cash	238	179	312	181	209
Others	16	17	12	15	15
<b>Total current assets</b>	<b>561</b>	<b>535</b>	<b>618</b>	<b>516</b>	<b>533</b>
<b>Total Assets</b>	<b>1,794</b>	<b>1,723</b>	<b>1,809</b>	<b>1,725</b>	<b>1,627</b>
Short term loans	330	75	0	0	0
Accounts Payables	675	703	728	762	767
Others	68	125	151	162	162
<b>Total current liabilities</b>	<b>1,073</b>	<b>903</b>	<b>879</b>	<b>924</b>	<b>929</b>
Long term loans	475	588	688	588	488
Others	191	210	198	173	156
<b>Total non-current liabilities</b>	<b>666</b>	<b>797</b>	<b>886</b>	<b>761</b>	<b>643</b>
Non-controlling interest	0	0	0	0	0
<b>Shareholder Equity</b>	<b>54</b>	<b>23</b>	<b>44</b>	<b>41</b>	<b>54</b>
<b>Cashflow Statements (SGD mn)</b>					
CFO					
PBT	317	380	431	397	426
Adjustments	289	278	270	280	305
Cash from ops before WC changes	606	658	702	677	731
WC changes	64	38	(12)	(32)	(44)
Cash generated from ops	670	696	690	645	687
Taxes paid, net	0	0	(54)	(68)	(72)
<b>Cashflow from ops</b>	<b>670</b>	<b>696</b>	<b>690</b>	<b>645</b>	<b>687</b>
CFI					
CAPEX, net	(272)	(247)	(273)	(316)	(201)
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	3	2
<b>Cashflow from investments</b>	<b>(268)</b>	<b>(244)</b>	<b>(268)</b>	<b>(313)</b>	<b>(199)</b>
CFF					
Share issuance	2	2	1	0	0
Purchase of treasury shares	0	(9)	(2)	0	0
Loans, net of repayments	(90)	(143)	25	(100)	(100)
Dividends to minority interests	0	0	0	0	0
Dividends to shareholders & capital reduction	(343)	(343)	(343)	(344)	(344)
Interest paid	(27)	(22)	(20)	(19)	(16)
Others	60	5	50	0	0
<b>Cashflow from financing</b>	<b>(398)</b>	<b>(511)</b>	<b>(289)</b>	<b>(463)</b>	<b>(460)</b>
<b>Net change in cash</b>	<b>3</b>	<b>(59)</b>	<b>133</b>	<b>(131)</b>	<b>28</b>
Effects of exchange rates	0	0	0	0	0
<b>CCE, end</b>	<b>238</b>	<b>179</b>	<b>312</b>	<b>181</b>	<b>209</b>

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



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