



# StarHub Limited

## Leaving behind the traditional model

### SINGAPORE | TELECOMMUNICATIONS | INVESTOR DAY

20 November 2020

- StarHub held its Investors' Day 2020 on 18 November 2020.
- Discussions centred on pay TV, digitisation, Ensign, 5G and cost-optimisation.
- Medium-term challenges are known and being addressed by the company: declines in use and pricing of traditional telco products (IDD, voice, SMS), new value-added services from 5G, new sources of revenue that complement telecommunications, finding a sustainable model for pay TV and leveraging digital solutions to cut costs and improve customer experiences.
- No change in our NEUTRAL recommendation and TP of S\$1.24, based on 6x EV/EBITDA, the average of regional peers.

#### Ensign: high-growth sector that complements telecommunications

**Pure-play, end-to-end cybersecurity service provider.** Ensign's three core cybersecurity services are consulting, system integration and managed security. Around 20% of revenue comes from its high-margin consulting business. This is where it advises clients on their cyber-readiness, develops cybersecurity strategies and responds to their cyber incidents. Lowest-margin system integration sells tools and software to bolster clients' cyber defences. Managed security provides threat-detection, monitoring and response services. Ensign's share of Singapore's security service market was 16% in an S\$814mn market in 2019. Contracts are secured on a multi-year basis, providing revenue stability.

**Still in investment stage.** The company is still in an investment mode. It continues to expand its regional footprint and R&D to enhance technology capabilities. EBITDA margins depend on the product mix. Temasek has a call option to acquire 20% of Ensign from October 2021. The price will be the higher of its fair market value as determined by an independent valuer or a 6% compounded annual return on the consideration paid. The 20% stake will be returned to Temasek if the option is not triggered by the fifth year, in October 2023.

#### 5G: beyond connectivity with more value-added services

**Not yet prime time in enterprise.** Many uses of 5G for enterprises have been touted and discussed. So far, none has been proven. StarHub still needs to build deep vertical solutions and work with the 5G ecosystem. It appears 5G adoption by enterprises will take longer than expected.

**Some customer excitement.** Adoption of non-standalone 5G has been "encouraging", says the company, especially after the launch of iPhone 12. The number of 5G subscribers was not furnished. The three propellers of consumer adoption are speed and performance, cloud gaming and media content. Bundling content with 5G can gain traction with consumers. Even professional gamers can harness 5G delivery speeds and low latency without investing heavily in hardware. Another opportunity highlighted was 5G fixed wireless broadband.

#### Pay TV: rethinking its economics

**OTT\* can circumvent boxes and help StarHub move to variable costs.** Pay TV is an almost 100% fixed-cost business. Revenue has contracted S\$161mn in the past two years. To overcome the negative operating leverage of a fixed-cost model, StarHub needs content costs to become more variable. To this end, it has renegotiated content contracts and is building new OTT experiences. With StarHub TV+, customers can access a variety of OTT channels such as HBO and Netflix on a single platform. This IPTV-OTT hybrid will provide more variability in priced content. Another

### NEUTRAL (Maintained)

CLOSING PRICE	SGD 1.280
FORECAST DIV	SGD 0.055
TARGET PRICE	SGD 1.240
TOTAL RETURN	1.2%

#### COMPANY DATA

BLOOMBERG CODE:	STH SP
O/S SHARES (MN):	1,732
MARKET CAP (USD mn / SGD mn):	1664 / 2234
52 - WK HI/LO (SGD):	1.55 / 1.09
3M Average Daily T/O (mn):	1.25

#### MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	55.8%
Nippon Telegraph & Telephone Corp	9.9%

#### PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	4.1	4.1	(9.1)
STI RETURN	10.5	9.9	(10.8)

#### PRICE VS. STI



Source: Bloomberg, PSR

#### KEY FINANCIALS

Y/E Dec, SGDmn	FY18	FY19	FY20e	FY21e
Revenue	2,362	2,331	2,009	2,293
EBITDA	565	617	552	582
Net Profit	202	186	168	160
DPS (S\$ cents)	16.0	9.0	5.5	7.0
Dividend Yield	12.5%	7.0%	4.3%	5.5%
ROE	39.5%	34.5%	28.4%	25.5%
ROA	7.6%	6.5%	6.4%	6.0%

Source: Company, PSR

#### VALUATION METHOD

6x EV/EBITDA Multiple

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benefit is lower delivery costs, from a plug-and-play solution. Box installation and servicing are not required.

*\*OTT (Over-the-Top) is the delivery of content through the Internet rather than traditional cable or satellite set-top boxes.*

#### Digitalisation: lower costs and better customer experiences

**Giga! is a pure digital mobile service plan.** Giga! is StarHub's first pure digital-only product. From KYC validation to shipment of the SIMs, it is a zero-touch customer experience. Giga! is StarHub's answer to competition from the MVNOs that target millennials with data-rich SIM-only mobile plans.

**Digitalisation can save costs and improve customer experiences.** StarHub is undergoing a major digital transformation. Fewer physical touchpoints have reduced the need for retail space and yielded rental savings. Commissions paid to partners can be lowered when StarHub distributes directly to customers. Customer experience on digital is enhanced as they have the convenience of picking the time to purchase their products.

#### Cost-optimisation: the journey continues

**75% of 3-year cost-savings plan executed.** StarHub is on course to save more than S\$210mn over three years. As at 2Q20, 75% had been achieved: 39% from workforce optimisation, 16% from operational efficiencies and 20% from TV operations. Yet to be executed are another 9% from operational efficiencies and 16% from TV operations. Costs saved have been lower commission costs with increased online touchpoints, fewer operating leases with a more effective retail footprint, lower staff costs from simplified and streamlined processes, right sourcing, digitalisation efficiencies, lower repair & maintenance expenses from a partnership model and lower licence fees.

## Financials

### Income Statement

Y/E Dec, SGDmn	FY17	FY18	FY19	FY20e	FY21e
<b>Revenue</b>	<b>2,411</b>	<b>2,362</b>	<b>2,331</b>	<b>2,009</b>	<b>2,293</b>
Operating Profit	362	274	256	239	227
<b>EBITDA</b>	<b>643</b>	<b>565</b>	<b>617</b>	<b>552</b>	<b>582</b>
Depreciation & Amortisation	280	291	361	313	355
<b>EBIT</b>	<b>362</b>	<b>274</b>	<b>256</b>	<b>239</b>	<b>227</b>
Net Finance Inc/(Exp)	(30)	(30)	(38)	(38)	(34)
Profit before tax	333	245	219	205	195
Taxation	(60)	(45)	(40)	(37)	(35)
<b>Net profit before NCI</b>	<b>274</b>	<b>201</b>	<b>179</b>	<b>168</b>	<b>160</b>
Non-controlling interest	1	(1)	(8)	0	0
<b>Net profit, reported</b>	<b>273</b>	<b>202</b>	<b>186</b>	<b>168</b>	<b>160</b>

### Per share data (SGD Cents)

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
EPS, reported	15.8	11.6	10.8	9.6	9.2
DPS	17.0	16.0	9.0	5.5	7.0
BVPS	34.8	29.4	29.9	33.9	36.1

### Cash Flow

Y/E Dec, SGDmn	FY17	FY18	FY19	FY20e	FY21e
<b>CFO</b>					
<b>Profit before tax</b>	<b>333</b>	<b>245</b>	<b>219</b>	<b>205</b>	<b>195</b>
Adjustments	310	323	402	349	387
WC changes	(61)	(81)	(101)	(32)	23
Cash generated from ops	583	487	520	522	605
Tax paid	(65)	(69)	(72)	(37)	(35)
<b>Cashflow from ops</b>	<b>517</b>	<b>418</b>	<b>448</b>	<b>485</b>	<b>570</b>
<b>CFI</b>					
CAPEX	(296)	(273)	(230)	(150)	(161)
Others	(31)	(62)	7	3	3
<b>Cashflow from investments</b>	<b>(327)</b>	<b>(335)</b>	<b>(223)</b>	<b>(147)</b>	<b>(158)</b>
<b>CFF</b>					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	(10)	50	20	(90)	(60)
Dividends	(294)	(277)	(186)	(96)	(122)
Others	164	14	(88)	(128)	(94)
<b>Cashflow from financing</b>	<b>(130)</b>	<b>(263)</b>	<b>(274)</b>	<b>(224)</b>	<b>(216)</b>
Net change in cash	60	(180)	(49)	114	195
<b>CCE, end</b>	<b>345</b>	<b>166</b>	<b>118</b>	<b>231</b>	<b>427</b>

Source: Company, Phillip Securities Research (Singapore) Estimates

### Balance Sheet

Y/E Dec, SGDmn	FY17	FY18	FY19	FY20e	FY21e
<b>ASSETS</b>					
Accounts receivables	202	283	249	221	252
Cash	345	166	118	231	427
Inventories	72	75	98	80	92
Amt due from related parties	25	18	22	22	22
Others	87	94	89	89	89
<b>Total current assets</b>	<b>1,034</b>	<b>931</b>	<b>942</b>	<b>1,010</b>	<b>1,248</b>
PPE & IA	1,428	1,581	1,493	1,329	1,135
Others	92	31	181	181	181
<b>Total non-current assets</b>	<b>1,602</b>	<b>1,723</b>	<b>1,792</b>	<b>1,629</b>	<b>1,434</b>
<b>Total Assets</b>	<b>2,636</b>	<b>2,654</b>	<b>2,734</b>	<b>2,638</b>	<b>2,682</b>

### LIABILITIES

Accounts payables	625	595	540	462	527
Short term loans	120	50	408	318	258
Amt Due to related parties	65	58	41	41	41
Tax payable	126	120	92	92	92
<b>Total current liabilities</b>	<b>1,014</b>	<b>892</b>	<b>1,176</b>	<b>1,009</b>	<b>1,014</b>
Long term loans	858	978	641	641	641
Deferred tax liabilities	135	129	121	121	121
Others	(1)	32	37	37	37
<b>Total non-current liabilities</b>	<b>1,016</b>	<b>1,173</b>	<b>978</b>	<b>978</b>	<b>978</b>
<b>Total Liabilities</b>	<b>2,030</b>	<b>2,066</b>	<b>2,154</b>	<b>1,986</b>	<b>1,992</b>

### EQUITY

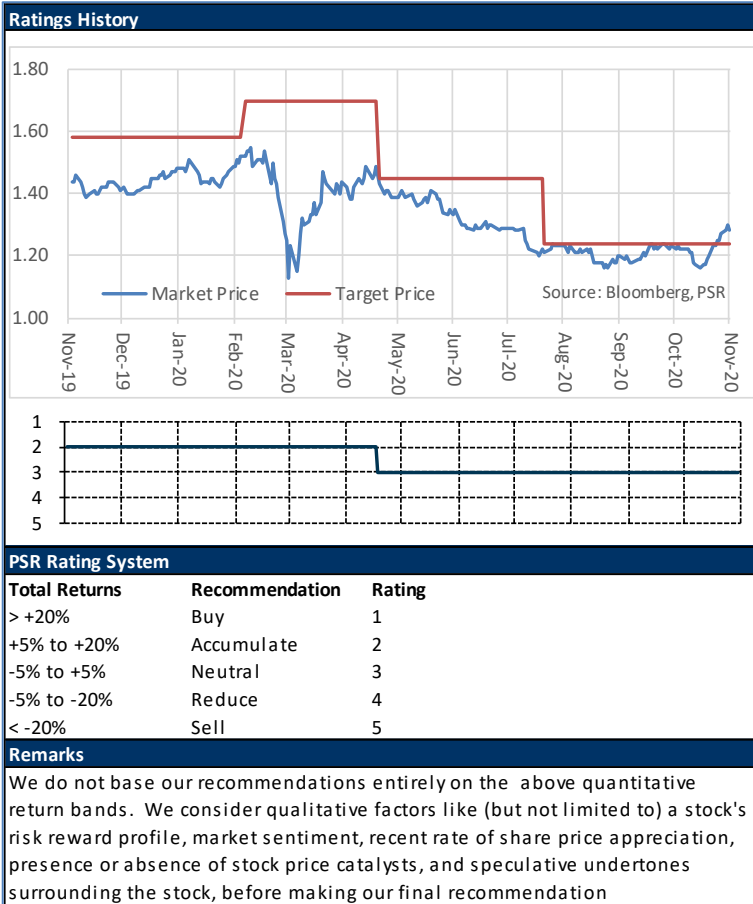
Non-controlling interests	4	80	62	62	62
<b>Shareholder Equity</b>	<b>602</b>	<b>508</b>	<b>518</b>	<b>590</b>	<b>629</b>

### Valuation Ratios

Y/E Dec	FY17	FY18	FY19	FY20e	FY21e
P/E (X)	8.1	11.0	11.9	13.3	13.9
P/B (X)	3.7	4.4	4.3	3.8	3.5
EV/EBITDA (X)	4.4	5.6	5.2	5.4	4.7

### Growth & Margins

<b>Growth</b>					
Revenue	0.6%	-2.0%	-1.3%	-13.8%	14.2%
EBITDA	-6.9%	-12.1%	9.3%	-10.5%	5.3%
EBIT	-14.7%	-24.5%	-6.5%	-6.6%	-5.0%
Net profit, adj.	-19.9%	-26.7%	-10.9%	-6.1%	-4.6%
<b>Margins</b>					
Gross margin	15.0%	11.6%	11.0%	11.9%	9.9%
EBITDA margin	26.7%	23.9%	26.5%	27.5%	25.4%
EBIT margin	15.0%	11.6%	11.0%	11.9%	9.9%
Net profit margin	11.3%	8.5%	7.7%	8.4%	7.0%
<b>Key Ratios</b>					
ROE (%)	45.5	39.5	34.5	28.4	25.5
ROA (%)	10.4	7.6	6.5	6.4	6.0
Dividend Yield (%)	13.3	12.5	7.0	4.3	5.5
Dividend Payout (%)	108	137	84	57	76



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