



StarHub Limited

Removing potential disrupter at a price

SINGAPORE | TELECOMMUNICATIONS | UPDATE

- Acquiring a 50.1% stake in MyRepublic's (MR) Singapore Broadband business for S\$70.8mn. And extending a S\$74.2mn 3-year loan to MR Holding company.
- The acquisition will further consolidate the broadband market into a tighter oligopoly. Synergies include network cost savings and cross-selling into MR's higher ARPU customer base.
- We are neutral on the transaction. A large benefit is to consolidate or even remove a potential competitive threat in the marketplace. The acquisition is EPS accretive and valued at FYJun21 EV/EBITDA of 8.0x and 13.6x PE. Our NEUTRAL recommendation and estimates are unchanged pending completion of the transaction in December 2021.

Recent Events

- StarHub will invest S\$70.8mn for a 50.1% stake. A further deferred consideration of up to S\$92mn when certain financial matrices are met.
- StarHub will extend a 3-year loan (extendable another 2-years) of S\$74.2mn to MyRepublic Holding Company (MR HoldCo).
- The FY21 NAV of MyRepublic Singapore (or target company) is negative S\$1.2mn, net debt of S\$7.2mn, EBITDA of S\$18.58mn and PATMI of S\$10.4mn.

Our View

The Positives

+ Consolidating and avoiding any potential threat. StarHub's broadband market share will rise 6% points to 40%. A tad below leader SingTel's 43%. The transaction will further consolidate the market into effectively two major operators with at least 80% share. Another benefit is the possible avoidance of a better funded shareholder of MR that could price disrupt the market.

+ Cost and revenue synergies. The cost synergies will come from sharing of network infrastructure cost and capital expenditure. StarHub can drive more products such as cloud computing and OTT into MR's higher ARPU consumer customer base. MR also has SME customers where StarHub's enterprise solution may become an attractive value add.

+ Financially accretive acquisition. The acquisition will raise StarHub historical FY20 EPS by 3.8% to almost 9 cents. EBITDA will also improve by around 3.3%.

The Negatives

- Not entirely cheap, for now. The historical EV/EBITDA and PE ratio of the acquisition are 8.0x* and 13.8x** respectively. It is above our target valuations of StarHub but considered fair once the potential synergies materialise.

- Additional risk from the transaction. The transaction includes a S\$74.2mn loan to MR Holdco backed by security packages (undisclosed) and interest-bearing.

*Market cap. of S\$141.3mn plus net debt of S\$7.3mn and EBITDA S\$18.5mn

** Market cap. of S\$141.3mn and PATMI of S\$10.4mn.

Maintain NEUTRAL and TP of S\$1.24

Our valuation is based on regional peers' 6x FY21e EV/EBITDA. StarHub is paying 4% dividend yields with earnings upside from roaming revenue if international borders re-open.

27 September 2021

NEUTRAL (Maintained)

CLOSING PRICE	SGD 1.24
FORECAST DIV	SGD 0.05
TARGET PRICE	SGD 1.24
TOTAL RETURN	4.0%

COMPANY DATA

BLOOMBERG CODE:	STH SP
O/S SHARES (MN):	1,731
MARKET CAP (USD mn / SGD mn):	1586 / 2147
52 - WK HI/LO (SGD):	1.4 / 1.15
3M Average Daily T/O (mn):	1.19

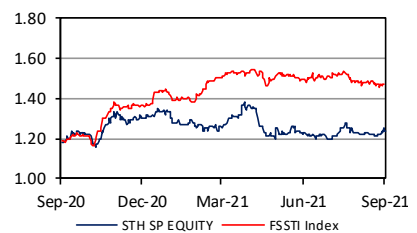
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	1YR
COMPANY	0.8	3.7	9.2
STI RETURN	(1.5)	(0.7)	29.1

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGDmn	FY19	FY20	FY21e	FY22e
Revenue	2,331	2,029	2,059	2,254
EBITDA	617	538	469	504
Net Profit	186	158	115	130
DPS (SS cents)	9.0	5.0	5.0	6.0
Dividend Yield	7.3%	4.0%	4.0%	4.8%
ROE	34.5%	29.7%	20.6%	22.5%
ROA	6.5%	5.5%	4.1%	4.6%

Source: Company, PSR

VALUATION METHOD

6x EV/EBITDA Multiple

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Financials

Income Statement

Y/E Dec, SGDmn	FY18	FY19	FY20	FY21e	FY22e
Revenue	2,362	2,331	2,029	2,059	2,254
Operating Profit	274	256	231	180	198
EBITDA	565	617	538	469	504
Depreciation & Amortisation	(291)	(361)	(307)	(289)	(305)
EBIT	274	256	231	180	198
Net Finance Inc/(Exp)	(30)	(38)	(41)	(42)	(42)
Profit before tax	245	219	193	140	158
Taxation	(45)	(40)	(33)	(25)	(28)
Net profit before NCI	201	179	160	115	130
Non-controlling interest	(1)	(8)	2	0	0
Net profit, reported	202	186	158	115	130

Per share data (SGD Cents)

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
EPS, reported	11.6	10.3	8.7	6.2	7.0
DPS	16.0	9.0	5.0	5.0	6.0
BVPS	29.4	29.9	31.1	32.3	33.3

Cash Flow

Y/E Dec, SGDmn	FY18	FY19	FY20	FY21e	FY22e
CFO					
Profit before tax	245	219	193	140	158
Adjustments	323	403	349	329	345
WC changes	(81)	(101)	96	(97)	18
Cash generated from ops	487	520	638	372	521
Tax paid	(69)	(72)	(59)	(25)	(28)
Cashflow from ops	418	448	579	347	493
CFI					
CAPEX	(273)	(230)	(191)	(185)	(203)
Others	(62)	7	(66)	2	2
Cashflow from investments	(335)	(223)	(257)	(183)	(201)
CFE					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	50	20	107	(60)	(60)
Dividends	(277)	(186)	(82)	(87)	(104)
Others	14	(88)	47	(110)	(110)
Cashflow from financing	(263)	(274)	(35)	(196)	(213)
Net change in cash	(180)	(48)	287	(33)	78
CCE, end	166	118	405	372	450

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGDmn	FY18	FY19	FY20	FY21e	FY22e
ASSETS					
Accounts receivables	283	249	193	206	225
Cash	166	118	415	383	461
Inventories	75	98	80	82	90
Amt due from related parties	18	22	19	19	19
Others	94	89	99	99	99
Total current assets	931	942	1,160	1,143	1,248
PPE & IA	1,581	1,493	1,475	1,371	1,268
Others	31	181	173	173	173
Total non-current assets	1,723	1,792	1,772	1,668	1,565
Total Assets	2,654	2,734	2,931	2,810	2,813

LIABILITIES

Accounts payables	595	540	555	474	518
Short term loans	50	408	9	9	9
Amt Due to related parties	58	41	34	34	34
Tax payable	120	92	83	83	83
Total current liabilities	892	1,176	773	691	736
Long term loans	978	641	1,164	1,104	1,044
Deferred tax liabilities	129	121	111	111	111
Others	32	37	93	93	93
Total non-current liabilities	1,173	978	1,532	1,472	1,412
Total Liabilities	2,066	2,154	2,305	2,163	2,148

EQUITY

Non-controlling interests	80	62	88	88	88
Shareholder Equity	508	518	538	559	577

Valuation Ratios

Y/E Dec	FY18	FY19	FY20	FY21e	FY22e
P/E (X)	10.7	12.0	14.3	20.1	17.6
P/B (X)	4.2	4.1	4.0	3.8	3.7
EV/EBITDA (X)	5.5	5.1	5.6	6.3	5.6

Growth & Margins

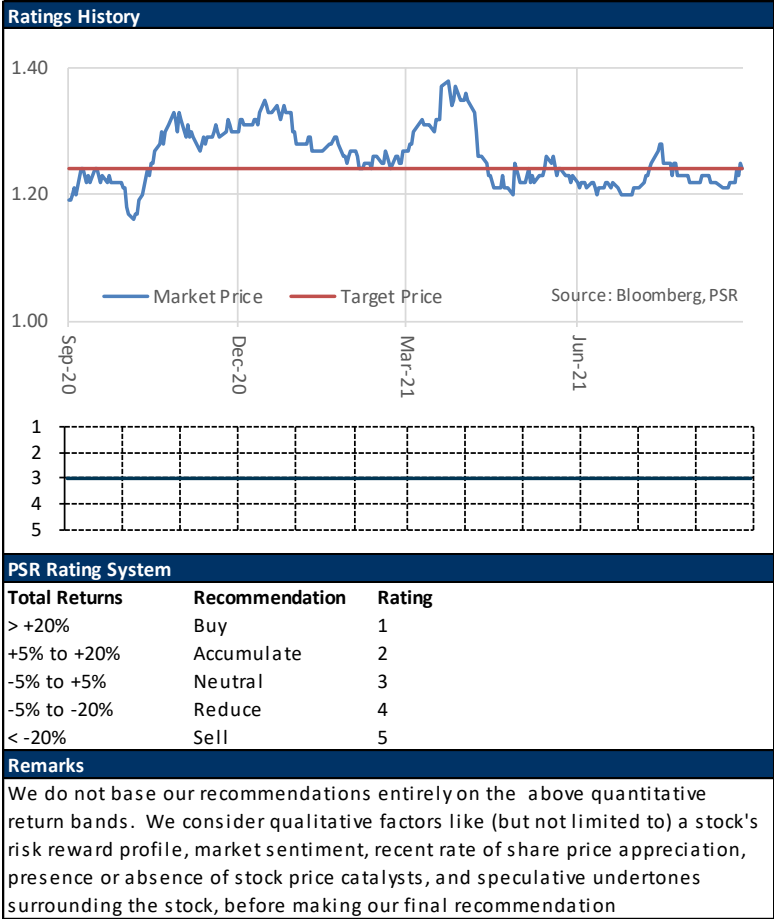
Growth					
Revenue	-2.0%	-1.3%	-12.9%	1.5%	9.5%
EBITDA	-12.1%	9.3%	-12.8%	-12.8%	7.3%
EBIT	-24.5%	-6.5%	-9.6%	-22.2%	10.1%
Net profit, adj.	-26.7%	-10.9%	-10.4%	-28.2%	13.0%

Margins

Gross margin	11.6%	11.0%	11.4%	8.7%	8.8%
EBITDA margin	23.9%	26.5%	26.5%	22.8%	22.3%
EBIT margin	11.6%	11.0%	11.4%	8.7%	8.8%
Net profit margin	8.5%	7.7%	7.9%	5.6%	5.8%

Key Ratios

ROE (%)	39.5	34.5	29.7	20.6	22.5
ROA (%)	7.6	6.5	5.5	4.1	4.6
Dividend Yield (%)	12.9	7.3	4.0	4.0	4.8
Dividend Payout (%)	137	87	58	81	85



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