



StarHub Limited

Recovery underway

SINGAPORE | TELECOMMUNICATIONS | 3Q19 RESULTS

- Revenue and NPAT met expectations. Excluding S\$9mn one-off tunnel income from TPG, NPAT would have missed our estimates by 3%.
- Mobile segment relatively resilient considering competition and substantial churn from single enterprise customer.
- Enterprise revenue grew 16% YoY boosted by cyber-security which spiked 135% YoY.
- Expect pay-tv business to stabilise in FY20e due to steadier subscriber base.
- Maintained ACCUMULATE with an unchanged TP S\$1.58. No changes to our estimates.

Results at a glance

| SGD 'mn | 3Q19 | 3Q18 | YoY | 2Q19 | QoQ | Comments |
|------------------------|-------|-------|--------|-------|-------|---|
| Revenue | 572.6 | 582.2 | -1.6% | 552.8 | 3.6% | Lower YoY due to mobile, pay-tv, broadband mitigated by higher enterprise business and sale of equipment. |
| Cyber security revenue | 38.8 | 16.5 | 135.2% | 36.2 | 7.2% | Cyber-security revenue driven by strong demand, leading enterprise revenue |
| EBITDA | 170.5 | 147.0 | 16.0% | 146.4 | 16.5% | Higher mainly due to the impact from SFRS(I) 16 Leases |
| Net profit | 56.6 | 58.0 | -2.4% | 39.5 | 43.3% | Boosted by S\$9mn one-off tunnel fee from TPG Telecom |

Source: Company, PSR

Positives

+ Expect pay-tv business to stabilise in FY20e. Pay-tv revenue is down 25% YoY, ARPU has gone through an 18% decline to cope with the attrition of subscribers to Over-The-Top (OTT) players. We think StarHub has hit the bottom of subscriber attrition accelerated by the cable to fibre migration exercise. We expect stability as newly converted subscribers are locked into a 2-year contract. We also expect ARPU to improve with time as promotional initiatives expire. Management highlighted that majority of its content costs have been renegotiated to a variable cost model, and will not hesitate to substitute content which insists to be on a fixed cost model. As of 3Q19, pay-tv contributed to 10% of total revenue.

+ Mobile revenue resilient considering the competition. The mobile segment did relatively well considering the highly competitive environment and the huge churn it received this quarter. Post-paid subscriber declined by 35,000 QoQ due to single enterprise customer exiting the market. Mobile service revenue declined 11% YoY/ 1% QoQ vs our estimate (-14% YoY/ -4% QoQ). We view the earlier commercial launch of TPG Telecom (TPG) to provide more visibility for the market as it removes uncertainty.

Outlook

Management revised FY19e service revenue guidance downwards from 0% to -2% YoY, to -2% to -3% YoY; and reduced CAPEX commitment guidance from 11%-12% to 8%-9% of total revenue. StarHub expects single-digit CAPEX for 4G (maintenance) and double-digit CAPEX for the upcoming 5G roll-out. 3Q19 results were boosted by an exceptional S\$9mn on tunnel fee from TPG. These fees are recognised when TPG enters into an agreement with the other Mobile Network Operators (MNOs) to share the cost of existing 4G tunnel infrastructure. 60% of the cost programme initiatives have been executed, current net savings stands at S\$174mn, and the remaining S\$36mn has been reinvested into the business. We expect the cyber-security business and sale of equipment to offset weakness in the consumer segment for the next quarter.

Maintained ACCUMULATE with an unchanged TP of S\$1.58

Our valuation is based on a 6X EV/EBITDA. We are awaiting sustainable profits of the cyber-security business before making any meaningful upgrades.

6 November 2019

ACCUMULATE (Maintained)

| | |
|---------------|-----------|
| CLOSING PRICE | SGD 1.480 |
| FORECAST DIV | SGD 0.090 |
| TARGET PRICE | SGD 1.580 |
| TOTAL RETURN | 12.8% |

COMPANY DATA

| | |
|-------------------------------|-------------|
| BLOOMBERG CODE: | STH SP |
| O/S SHARES (MN): | 1.732 |
| MARKET CAP (USD mn / SGD mn): | 1858 / 2563 |
| 52 - WK HI/LO (SGD): | 2.03 / 1.46 |
| 3M Average Daily T/O (mn): | 2.08 |

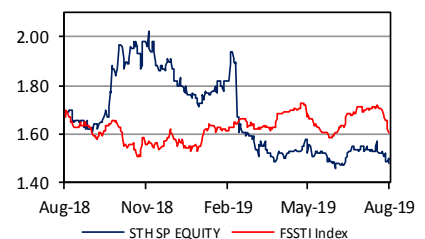
MAJOR SHAREHOLDERS (%)

| | |
|-----------------------------------|-------|
| Temasek Holdings Pte Ltd | 55.8% |
| Nippon Telegraph & Telephone Corp | 9.9% |
| BlackRock Inc | 5.0% |

PRICE PERFORMANCE (%)

| | 1M TH | 3M TH | 1Y R |
|-----------|-------|-------|-------|
| COMPANY | (3.2) | (1) | (2.7) |
| STIRETURN | (4.5) | (4.6) | 2.0 |

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

| Y/E Dec, SGDmn | FY 17 | FY 18 | FY 19e | FY 20e |
|----------------|-------|-------|--------|--------|
| Revenue | 2,411 | 2,362 | 2,276 | 2,241 |
| EBITDA | 643 | 565 | 553 | 591 |
| Net Profit | 274 | 201 | 183 | 184 |
| Dividend Yield | 11.5% | 10.8% | 6.1% | 6.1% |
| ROE (%) | 45.5% | 36.3% | 31.6% | 30.3% |
| ROA (%) | 10.4% | 7.6% | 6.8% | 6.3% |

Source: Company, PSR

VALUATION METHOD

EV/EBITDA Multiple

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Financials

Income Statement

| Y/E Dec, SGD 'Mn | FY16 | FY17 | FY18 | FY19e | FY20e |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
| Revenue | 2,397 | 2,411 | 2,362 | 2,269 | 2,234 |
| Operating Profit | 425 | 362 | 274 | 256 | 255 |
| EBITDA | 690 | 643 | 565 | 567 | 593 |
| Depreciation & Amortisation | 265 | 280 | 291 | 311 | 338 |
| EBIT | 425 | 362 | 274 | 256 | 255 |
| Net Finance Inc/(Exp) | (26) | (30) | (30) | (41) | (34) |
| Profit before tax | 410 | 333 | 245 | 226 | 225 |
| Taxation | (69) | (60) | (45) | (43) | (40) |
| Net profit before NCI | 341 | 274 | 201 | 183 | 184 |
| Non-controlling interest | 0 | 1 | (1) | 0 | 0 |
| Net profit, reported | 341 | 273 | 202 | 183 | 184 |

Per share data (SGD Cents)

| Y/E Dec | FY16 | FY17 | FY18 | FY19e | FY20e |
|---------------|------|------|------|-------|-------|
| EPS, reported | 19.8 | 15.8 | 11.6 | 10.6 | 10.7 |
| DPS | 20.0 | 17.0 | 16.0 | 9.0 | 9.0 |
| BVPS | 11.3 | 34.8 | 31.9 | 33.5 | 35.1 |

Cash Flow

| Y/E Dec, SGD 'Mn | FY16 | FY17 | FY18 | FY19e | FY20e |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|
| CFO | | | | | |
| Profit before tax | 410 | 333 | 245 | 226 | 225 |
| Adjustments | 258 | 310 | 323 | 348 | 369 |
| WC changes | (64) | (61) | (81) | 185 | (26) |
| Cash generated from ops | 604 | 583 | 487 | 759 | 568 |
| Tax paid | (54) | (65) | (69) | (43) | (40) |
| Cashflow from ops | 551 | 517 | 418 | 716 | 528 |
| CFI | | | | | |
| CAPEX | (367) | (296) | (273) | (284) | (279) |
| Others | (23) | (31) | (62) | 3 | 2 |
| Cashflow from investments | (389) | (327) | (335) | (280) | (277) |
| CFE | | | | | |
| Share issuance, net | 0 | 0 | 0 | 0 | 0 |
| Loans, net of repayments | 300 | 10 | 50 | 103 | 93 |
| Dividends | (346) | (294) | (277) | (156) | (156) |
| Others | 297 | 164 | 14 | (144) | (126) |
| Cashflow from financing | (50) | (130) | (263) | (299) | (282) |
| Net change in cash | 112 | 60 | (180) | 137 | (31) |
| CCE, end | 285 | 345 | 166 | 303 | 272 |

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

| Y/E Dec, SGD 'Mn | FY16 | FY17 | FY18 | FY19e | FY20e |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|
| ASSETS | | | | | |
| Accounts receivables | 172 | 202 | 283 | 173 | 173 |
| Cash | 285 | 345 | 166 | 303 | 272 |
| Inventories | 50 | 72 | 75 | 57 | 59 |
| Amt due from related parties | 22 | 25 | 18 | 18 | 18 |
| Others | 212 | 87 | 94 | 94 | 94 |
| Total current assets | 741 | 1,034 | 931 | 939 | 910 |
| PPE & IA | 1,382 | 1,428 | 1,563 | 1,536 | 1,477 |
| Others | 74 | 92 | 31 | 31 | 31 |
| Total non-current assets | 1,455 | 1,602 | 1,705 | 1,677 | 1,619 |
| Total Assets | 2,196 | 2,636 | 2,636 | 2,616 | 2,529 |
| LIABILITIES | | | | | |
| Accounts payables | 708 | 625 | 575 | 630 | 607 |
| Short term loans | 10 | 120 | 50 | 45 | 41 |
| Amt Due to related parties | 67 | 65 | 58 | 58 | 58 |
| Tax payable | 71 | 126 | 120 | 120 | 120 |
| Total current liabilities | 856 | 1,014 | 872 | 922 | 895 |
| Long term loans | 978 | 858 | 978 | 881 | 793 |
| Deferred tax liabilities | 145 | 135 | 132 | 132 | 132 |
| Others | 20 | (1) | 32 | 32 | 32 |
| Total non-current liabilities | 1,146 | 1,016 | 1,176 | 1,078 | 991 |
| Total Liabilities | 2,001 | 2,030 | 2,048 | 2,000 | 1,886 |
| EQUITY | | | | | |
| Non-controlling interests | 0 | 4 | 36 | 36 | 36 |
| Shareholder Equity | 195 | 602 | 552 | 579 | 608 |

Valuation Ratios

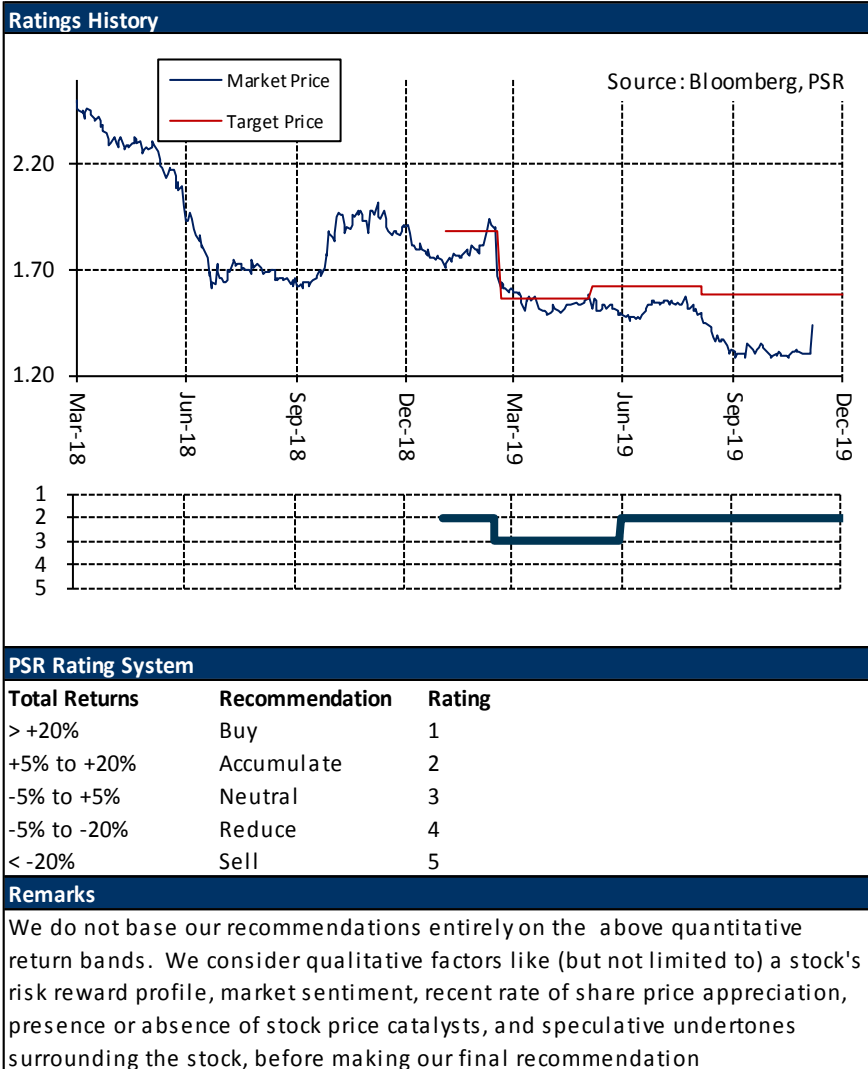
| Y/E Dec | FY16 | FY17 | FY18 | FY19e | FY20e |
|---------------|------|------|------|-------|-------|
| P/E (X) | 7.3 | 9.1 | 12.4 | 13.6 | 13.5 |
| P/B (X) | 12.8 | 4.1 | 4.5 | 4.3 | 4.1 |
| EV/EBITDA (X) | 4.6 | 4.9 | 6.0 | 5.6 | 5.2 |

Growth & Margins

| Growth | | | | | |
|-------------------|-------|--------|--------|-------|-------|
| Revenue | - | 0.6% | -2.0% | -3.9% | -1.6% |
| EBITDA | - | -6.9% | -12.1% | 0.5% | 4.5% |
| EBIT | - | -14.7% | -24.5% | -6.3% | -0.4% |
| Net profit, adj. | - | -19.9% | -26.7% | -8.5% | 0.6% |
| Margins | | | | | |
| Gross margin | 17.7% | 15.0% | 11.6% | 11.3% | 11.4% |
| EBITDA margin | 28.8% | 26.7% | 23.9% | 25.0% | 26.5% |
| EBIT margin | 17.7% | 15.0% | 11.6% | 11.3% | 11.4% |
| Net profit margin | 14.2% | 11.3% | 8.5% | 8.1% | 8.3% |

Key Ratios

| | | | | | |
|---------------------|-----|-----|-----|----|----|
| ROE (%) | 175 | 45 | 36 | 32 | 30 |
| ROA (%) | 16 | 10 | 8 | 7 | 7 |
| Dividend Yield (%) | 14 | 12 | 11 | 6 | 6 |
| Dividend Payout (%) | 101 | 108 | 137 | 85 | 84 |



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