



StarHub Limited

More cost in 2H22

SINGAPORE | TELECOMMUNICATIONS | 2Q22 RESULTS

8 August 2022

- 1H22 revenue was in line with expectations at 47% of our FY22e estimates. EBITDA beat expectation at 36%. Nevertheless, we expect margins to contract more severely in 2H22 from further investments in IT outsourcing, EPL content, software licensing and 5G wholesale cost.
- Roaming revenue is improving but below pre-pandemic levels due to a lack of business travel and border restrictions in China.
- We maintain our FY22e revenue and EBITDA forecast. We cut depreciation by S\$25mn due to accelerated depreciation of legacy system in prior quarters. FY22e will be a transition year for StarHub to undertake the necessary investments into new growth areas under the DARE+. Our target price is pegged at 8x FY22e EV/EBITDA, in line with other mobile peers. Our ACCUMULATE recommendation is maintained.

ACCUMULATE (Maintained)

CLOSING PRICE	SGD 1.24
FORECAST DIV	SGD 0.055
TARGET PRICE	SGD 1.35
TOTAL RETURN	13.3%

COMPANY DATA

BLOOMBERG CODE:	STH SP
O/S SHARES (MN):	1,731
MARKET CAP (USD mn / SGD mn):	1555 / 2147
52 - WK HI/LO (SGD):	1.4 / 1.21
3M Average Daily T/O (mn):	0.76

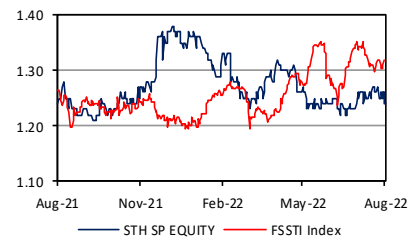
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.0	(2.4)	(6.0)
STI RETURN	5.1	(1.2)	7.2

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGDmn	FY20	FY21	FY22e	FY23e
Revenue	2,029	2,043	2,262	2,532
EBITDA	538	511	410	487
Net Profit	158	149	82	124
DPS (SS cents)	5.0	6.4	5.5	6.0
Dividend Yield	4.0%	5.2%	4.4%	4.8%
ROE	29.7%	25.5%	14.4%	21.3%
ROA	5.5%	4.6%	2.6%	3.6%

Source: Company, PSR

VALUATION METHOD

8x EV/EBITDA FY22e

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Results at a glance

SGD 'mn	2Q22	2Q21	YoY	1Q22	QoQ	Comments (YoY)
Revenue	545.8	486.7	12.1%	512.7	6.5%	
- Mobile	134.2	129.3	3.8%	134.1	0.1%	Postpaid ARPU +4%, subs. +5%.
- Entertainment	49.2	46.7	5.4%	47.2	4.2%	ARPU -11%, Subs. +21%.
- Broadband	64.3	48.4	32.9%	51.5	24.9%	ARPU +6%, Subs. +17%.
- Cyber security	69.1	73.4	-5.9%	51.5	34.2%	
Operating expenses	-496.4	-436.6	13.7%	-470.7	5.5%	33% rise in other expenses in 1H22.
EBITDA	120.6	123.1	-2.0%	109.1	10.5%	
Service EBITDA	113.2	116.5	-2.8%	100.7	12.4%	
EBITDA margin	22.1%	25.3%	-3.2%	21.3%	0.8%	
Service EBITDA margin	24.9%	28.9%	-3.9%	24.2%	0.7%	FY22e guidance is at least 20%.
PATMI	31.2	37.5	-16.8%	29.7	5.1%	
DPS - Interim (cents)	2.5	2.5	0.0%	0.0	n.m.	FY22e guidance is at least 5 cents.

Source: Company, PSR

The Positive

+ Exceeds guidance in multiple areas. 1H22 performance exceeded management FY22 guidance. Revenue growth (at least 10%), service EBITDA margin (at least 20%) and CAPEX (12-15% of revenue) were higher in 1H22. However, there was no change in guidance implying a much weaker 2H22. Dividend of 2.5 cents per share was within the FY22e guidance of at least 5 cents.

The Negative

- Costs start to build. Operating cost has started to climb faster. 2Q22 operating expenses increased 14% YoY to S\$496mn. The bulk of the cost increase was in other operating expenses (IT outsourcing, license fees, utilities), EPL marketing and broadband acquisition. The cost is part of the DARE+ transformation plan to invest in a new revenue stream and cost savings.

Outlook

There was no change in FY22e guidance by management. We expect EBITDA margins to drop significantly from 24.6% in 1H22 to 17.4% in 2H22. Our FY22e service EBITDA margin is 20.9% vs management guidance of at least 20%. Operating expenses are expected to rise further in 2H22 from IT outsourcing, EPL content, software licensing and 5G wholesale cost. Unless roaming revenue gains further momentum or new revenue (not fully disclosed) begins to contribute meaningfully following the DARE+ investments, earnings will be sluggish in 2H22.

Maintain ACCUMULATE with an unchanged TP of S\$1.35

Our target price is based on regional peers' 8x FY22e EV/EBITDA.

Financials

Income Statement

Y/E Dec, SGDmn	FY19	FY20	FY21	FY22e	FY23e
Revenue	2,331	2,029	2,043	2,262	2,532
Operating Profit	256	231	232	139	190
EBITDA	617	538	511	410	487
Depreciation & Amortisation	(361)	(307)	(279)	(270)	(297)
EBIT	256	231	232	139	190
Net Finance Inc/(Exp)	(38)	(41)	(49)	(42)	(42)
Profit before tax	219	193	190	100	151
Taxation	(40)	(33)	(40)	(18)	(27)
Net profit before NCI	179	160	150	82	124
Non-controlling interest	(8)	2	1	0	0
Net profit, reported	186	158	149	82	124

Per share data (SGD Cents)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	10.3	8.7	8.2	4.3	6.7
DPS	9.0	5.0	6.4	5.5	6.0
BVPS	29.9	31.1	34.0	32.8	33.5

Cash Flow

Y/E Dec, SGDmn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	219	193	190	100	151
Adjustments	403	349	326	310	336
WC changes	(101)	96	224	(249)	24
Cash generated from ops	520	638	740	161	512
Tax paid	(72)	(59)	(83)	(18)	(27)
Cashflow from ops	448	579	657	143	484
CFI					
CAPEX	(230)	(191)	(173)	(317)	(329)
Others	7	(66)	(114)	3	3
Cashflow from investments	(223)	(257)	(287)	(314)	(326)
CCF					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	20	107	198	140	140
Dividends	(186)	(82)	(87)	(95)	(104)
Others	(88)	47	134	90	90
Cashflow from financing	(274)	(35)	48	(5)	(13)
Net change in cash	(48)	287	418	(176)	145
CCE, end	118	404	822	645	790

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGDmn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Accounts receivables	249	193	192	226	253
Cash	118	415	833	657	801
Inventories	98	80	50	90	101
Amt due from related parties	22	19	15	15	15
Others	89	99	196	196	196
Total current assets	942	1,160	1,603	1,501	1,684
PPE & IA	1,493	1,475	1,407	1,453	1,485
Others	181	173	148	148	148
Total non-current assets	1,792	1,772	1,640	1,686	1,718
Total Assets	2,734	2,931	3,243	3,187	3,402
LIABILITIES					
Accounts payables	540	555	694	520	582
Short term loans	408	9	226	226	226
Amt Due to related parties	41	34	24	24	24
Tax payable	92	83	57	57	57
Total current liabilities	1,176	773	1,094	920	982
Long term loans	641	1,164	1,139	1,279	1,419
Deferred tax liabilities	121	111	92	92	92
Others	37	93	76	76	76
Total non-current liabilities	978	1,532	1,453	1,593	1,733
Total Liabilities	2,154	2,305	2,547	2,512	2,715
EQUITY					
Non-controlling interests	62	88	107	107	107
Shareholder Equity	518	538	590	568	580

Valuation Ratios

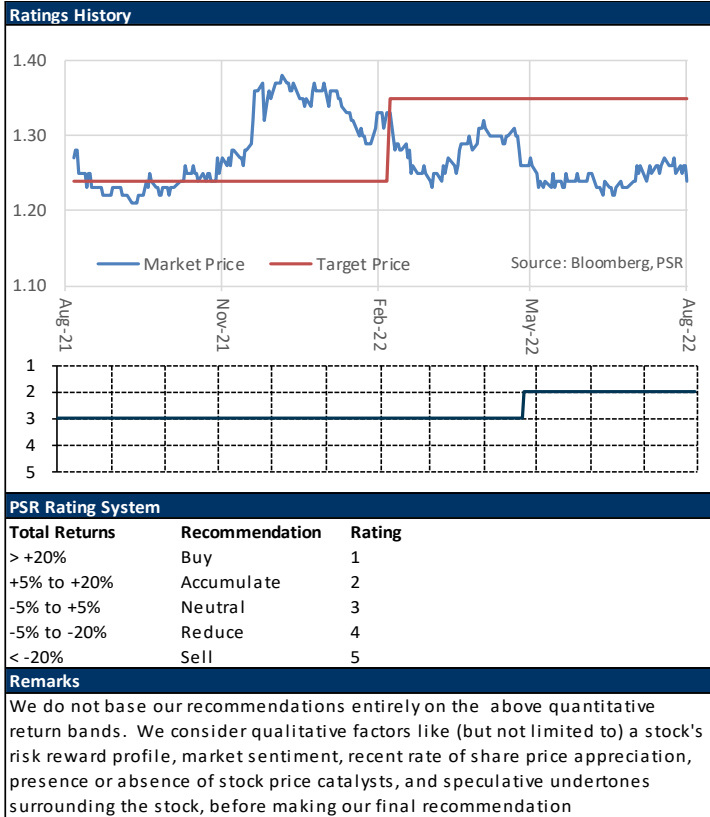
Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	12.0	14.3	15.2	29.1	18.5
P/B (X)	4.1	4.0	3.6	3.8	3.7
EV/EBITDA (X)	5.1	5.6	5.4	7.6	6.4

Growth & Margins

Growth					
Revenue	-1.3%	-12.9%	0.7%	10.7%	11.9%
EBITDA	9.3%	-12.8%	-5.0%	-19.8%	18.9%
EBIT	-6.5%	-9.6%	0.3%	-39.9%	36.3%
Net profit, adj.	-10.9%	-10.4%	-6.2%	-45.5%	51.3%
Margins					
Gross margin	11.0%	11.4%	11.4%	6.2%	7.5%
EBITDA margin	26.5%	26.5%	25.0%	18.1%	19.2%
EBIT margin	11.0%	11.4%	11.4%	6.2%	7.5%
Net profit margin	7.7%	7.9%	7.3%	3.6%	4.9%

Key Ratios

Key Ratios					
ROE (%)	34.5	29.7	25.5	14.4	21.3
ROA (%)	6.5	5.5	4.6	2.6	3.6
Dividend Yield (%)	7.3	4.0	5.2	4.4	4.8
Dividend Payout (%)	87	58	78	129	90



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