



StarHub Limited

Will see stars in 4Q22

SINGAPORE | TELECOMMUNICATIONS | 3Q22 UPDATE

- YTD22 revenue and EBITDA were in line with expectations at 73%/83% of our FY22e estimates. 3Q22 revenue was up 14% YoY with the acquisition of MyRepublic, but EBITDA was down 18% YoY to S\$109mn from higher costs in EPL content and IT infrastructure spending.
- Guidance for 4Q22 is bleak. EBITDA margins are to collapse to 14% (vs YTD 23%) and write-offs are expected from Strateq healthcare business and legacy IT systems.
- Mobile revenues have recovered strongly from growth in both post-paid prices and subscribers. Decline in EBITDA was due to a surge in operating expenses due to pre-announced investments into new growth areas under the DARE+ transformation. Such costs include EPL content and IT. Our FY22e forecast is unchanged but the target price lowered to S\$1.15 (prev. S\$1.35), pegged at 7x FY22e EV/EBITDA, in line with other mobile peers. We maintain ACCUMULATE recommendation.

Results at a glance

SGD 'mn	3Q22	3Q21	YoY	2Q22	QoQ	Comments (YoY)
Revenue	590.8	517.3	14.2%	545.8	8.2%	
- Mobile	143.0	131.5	8.7%	134.2	6.6%	Postpaid ARPU +11%, subs. +6%.
- Entertainment	55.4	47.1	17.6%	49.2	12.6%	ARPU -19%, Subs. +21%.
- Broadband	63.6	49.6	28.2%	64.3	-1.1%	ARPU 0%, Subs. +19%.
- Cyber security	79.3	79.3	0.0%	69.1	14.8%	
Operating expenses	-547.1	-456.2	19.9%	-496.4	10.2%	
EBITDA	109.5	132.9	-17.6%	120.6	-9.2%	
Service EBITDA	99.7	125.7	-20.7%	113.2	-11.9%	
EBITDA margin	18.5%	25.7%	-7.2%	22.1%	-3.6%	
Service EBITDA margin	20.6%	30.1%	-9.4%	24.9%	-4.3%	FY22e guidance is at least 20%.
PATMI	27.4	40.2	-31.8%	31.2	-12.2%	

Source: Company, PSR #Note – Only selected financials are provided in the 3Q22 update

The Positive

+ Volume and price rebound in mobile revenue. 3Q22 mobile revenue rose 8.7% YoY, the fastest rate of growth since FY07. The rebound in ARPU from roaming was expected as borders re-open but the rise in subscribers by 26,000 was above expectations. Subscriber growth was from no-contract SIM-only giga! plans.

The Negative

- Surge in operating expenses. 3Q22 operating expenses jumped almost 20% YoY to S\$547mn. Higher cost from EPL content and IT investments. These costs are expected to continue into 4Q22 as part of the DARE+ transformation roadmap.

Outlook

Management lifted FY22e revenue guidance by 2-5% points to 12-15% revenue growth (PSR +11.8%). Capex for FY22e was also lowered by 2% points to 5-7% of revenue, but the service EBITDA margin was unchanged at least 20% (PSR: 20.6%). This implies a 14% margin in 4Q22. Higher costs in 4Q22 will stem from marketing and promotion, especially for the World Cup and new services in 2023 plus the full impact of EPL content cost. There are possible write-offs from the Strateq healthcare business and legacy IT systems.

Maintain ACCUMULATE with lower TP of S\$1.15 (prev. S\$1.35)

Our target price is based on regional peers' 7x FY22e EV/EBITDA.

14 November 2022

ACCUMULATE (Maintained)

CLOSING PRICE	SGD 1.03
FORECAST DIV	SGD 0.055
TARGET PRICE	SGD 1.15
TOTAL RETURN	17.0%

COMPANY DATA

BLOOMBERG CODE:	STH SP
O/S SHARES (MN):	1,730
MARKET CAP (USD mn / SGD mn):	1298 / 1782
52 - WK HI/LO (SGD):	1.4 / 1.02
3M Average Daily T/O (mn):	1.11

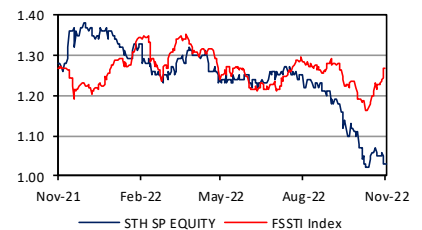
MAJOR SHAREHOLDERS

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

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	(7.2)	(15.9)	(20.4)
STI RETURN	4.3	(1.2)	7.4

PRICE VS. STI



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGDmn	FY20	FY21	FY22e	FY23e
Revenue	2,029	2,043	2,284	2,566
EBITDA	538	511	415	467
Net Profit	158	149	86	107
DPS (S cents)	5.0	6.4	5.5	6.0
Dividend Yield	4.9%	6.2%	5.3%	5.8%
ROE	29.7%	25.5%	15.0%	18.8%
ROA	5.5%	4.6%	2.7%	3.1%

Source: Company, PSR

VALUATION METHOD

7x EV/EBITDA FY22e

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Financials

Income Statement

Y/E Dec, SGDmn	FY19	FY20	FY21	FY22e	FY23e
Revenue	2,331	2,029	2,043	2,284	2,566
Operating Profit	256	231	232	145	169
EBITDA	617	538	511	415	467
Depreciation & Amortisation	(361)	(307)	(279)	(271)	(298)
EBIT	256	231	232	145	169
Net Finance Inc/(Exp)	(38)	(41)	(49)	(42)	(42)
Profit before tax	219	193	190	105	130
Taxation	(40)	(33)	(40)	(19)	(23)
Net profit before NCI	179	160	150	86	107
Non-controlling interest	(8)	2	1	0	0
Net profit, reported	186	158	149	86	107

Per share data (SGD Cents)

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
EPS, reported	10.3	8.7	8.2	4.5	5.7
DPS	9.0	5.0	6.4	5.5	6.0
BVPS	29.9	31.1	34.0	33.1	32.8

Cash Flow

Y/E Dec, SGDmn	FY19	FY20	FY21	FY22e	FY23e
CFO					
Profit before tax	219	193	190	105	130
Adjustments	403	349	326	310	337
WC changes	(101)	96	224	(247)	25
Cash generated from ops	520	638	740	168	492
Tax paid	(72)	(59)	(83)	(19)	(23)
Cashflow from ops	448	579	657	150	469
CFI					
CAPEX	(230)	(191)	(173)	(320)	(334)
Others	7	(66)	(114)	3	3
Cashflow from investments	(223)	(257)	(287)	(317)	(331)
CFE					
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	(173)	125
CCE, end	118	404	822	649	774

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGDmn	FY19	FY20	FY21	FY22e	FY23e
ASSETS					
Accounts receivables	249	193	192	228	257
Cash	118	415	833	660	785
Inventories	98	80	50	91	103
Amt due from related parties	22	19	15	15	15
Others	89	99	196	196	196
Total current assets	942	1,160	1,603	1,508	1,672
PPE & IA	1,493	1,475	1,407	1,456	1,492
Others	181	173	148	148	148
Total non-current assets	1,792	1,772	1,640	1,689	1,725
Total Assets	2,734	2,931	3,243	3,197	3,397

LIABILITIES

Accounts payables	540	555	694	525	590
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	925	990
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	2,518	2,722

EQUITY

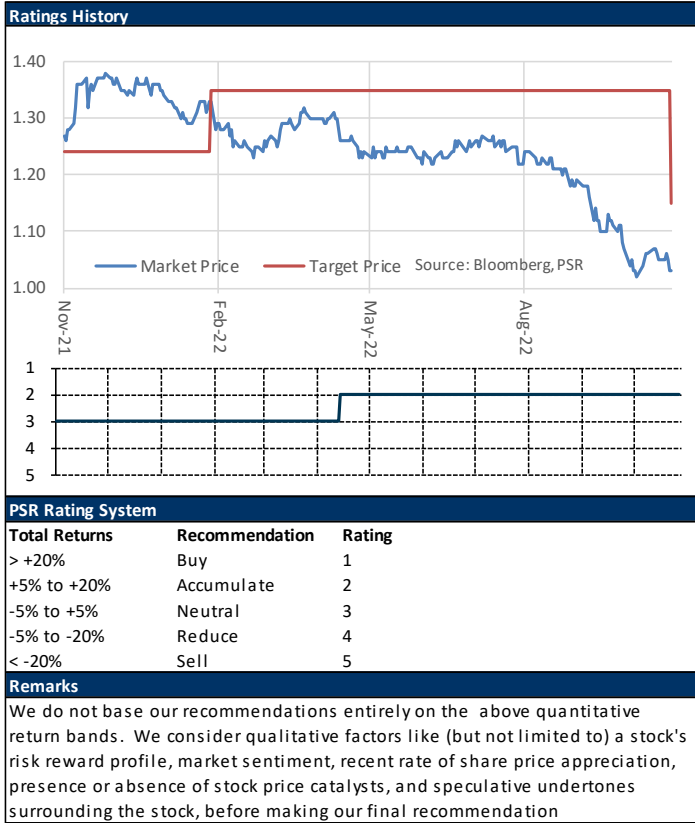
Non-controlling interests	62	88	107	107	107
Shareholder Equity	518	538	590	573	568

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	10.0	11.9	12.6	22.8	18.0
P/B (X)	3.4	3.3	3.0	3.1	3.1
EV/EBITDA (X)	4.5	4.9	4.7	6.6	5.9

Growth & Margins

Growth					
Revenue	-1.3%	-12.9%	0.7%	11.8%	12.3%
EBITDA	9.3%	-12.8%	-5.0%	-18.8%	12.5%
EBIT	-6.5%	-9.6%	0.3%	-37.7%	17.0%
Net profit, adj.	-10.9%	-10.4%	-6.2%	-42.6%	24.1%
Margins					
Gross margin	11.0%	11.4%	11.4%	6.3%	6.6%
EBITDA margin	26.5%	26.5%	25.0%	18.2%	18.2%
EBIT margin	11.0%	11.4%	11.4%	6.3%	6.6%
Net profit margin	7.7%	7.9%	7.3%	3.8%	4.2%
Key Ratios					
ROE (%)	34.5	29.7	25.5	15.0	18.8
ROA (%)	6.5	5.5	4.6	2.7	3.1
Dividend Yield (%)	8.7	4.9	6.2	5.3	5.8
Dividend Payout (%)	87	58	78	122	105



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