



StarHub Limited

More DARE, less PLUS until FY24

SINGAPORE | TELECOMMUNICATIONS | INVESTOR DAY UPDATE

8 December 2022

- Under StarHub's DARE+ transformation (2022-26) to reduce cost and create new revenue streams, S\$310mn of investments are required from FY22-24e. Around S\$75mn has been spent with the bulk (est. S\$150mn) to be spent in FY23e.
- EBITDA is expected to return to the FY21 baseline of S\$500mn by FY24 (FY22e: S\$415mn).
- The 3-5 month delay in project implementation and higher cost in cloud infrastructure will elevate the operating cost and Capex in FY23e. We have not modelled the higher cost pending FY23e guidance, but there is upside risk. Our FY22e and FY23e forecasts are unchanged, but the target price is maintained at S\$1.15, pegged at 7x FY22e EV/EBITDA, in line with other mobile peers. We maintain an ACCUMULATE recommendation.

Key Highlights

Higher cost expected in FY23e. The investments in StarHub's DARE+ transformation (2022-26) is raised by S\$40mn to S\$310mn due to increased investments in cloud infinity. Around 24% or S\$75mn (Figure 1) has been spent in FY22e including EPL costs, 5G and start-up costs of new businesses. Another S\$150mn is expected to be spent in FY23e. The doubling of investments over FY22e is due to the 3-5 month delay in implementation plus an increase in budgeted investments.

Figure 1: Huge opex coming in FY23e

S\$m	Capex	Opex	Total
FY22e	30	45	75
FY23e	100	50	150
FY24e	40	45	85
	170	140	310

Source: PSR

Bulk of the cost savings in IT. Based on the DARE+ transformation roadmap, cost saving and profit growth of S\$105mn will materialise in FY24. Around 90% are cost savings. We expect the bulk of the cost savings from FY24 to come from lower maintenance cost and software license fees of legacy systems. Another area of cost saving will be the reduced footprint of physical stores as the business model turns more digital.

Revenue opportunities are less visible. We were less clear on the revenue opportunities post the DARE+ transformation. In consumer mobile, new verticals are being introduced including Gamehub (allowing consumers to play games with expensive hardware with the use of cloud), Protecthub+ (device security and hardware replacement) and Lifehub (mobile health services partnering Alexandra Hospital). The priorities for Ensign are to expand regionally and proprietary solutions (e.g. AI cyber detection).

Outlook

FY23e is another transition year for StarHub with lumpy capital expenditure and operating costs to be incurred. The financial impact can be watered down from a recovery in the high margin roaming revenue as borders re-open. Key roaming destinations for StarHub are Malaysia and China.

Maintain ACCUMULATE with unchanged TP of S\$1.15

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

ACCUMULATE (Maintained)

CLOSING PRICE	SGD 1.05
FORECAST DIV	SGD 0.055
TARGET PRICE	SGD 1.15
TOTAL RETURN	14.8%

COMPANY DATA

BLOOMBERG CODE:	STH SP
O/S SHARES (MN):	1,727
MARKET CAP (USD mn / SGD mn):	1336 / 1814
52 - WK HI/LO (SGD):	1.39 / 1.02
3M Average Daily T/O (mn):	1.18

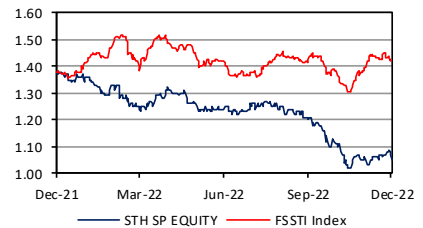
MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	55.9%
Nippon Telegraph & Telephone Corp	9.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	1.9	(10.8)	(17.3)
STI RETURN	3.1	0.9	7.5

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	4.8%	6.1%	5.2%	5.7%
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)
CFF					
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

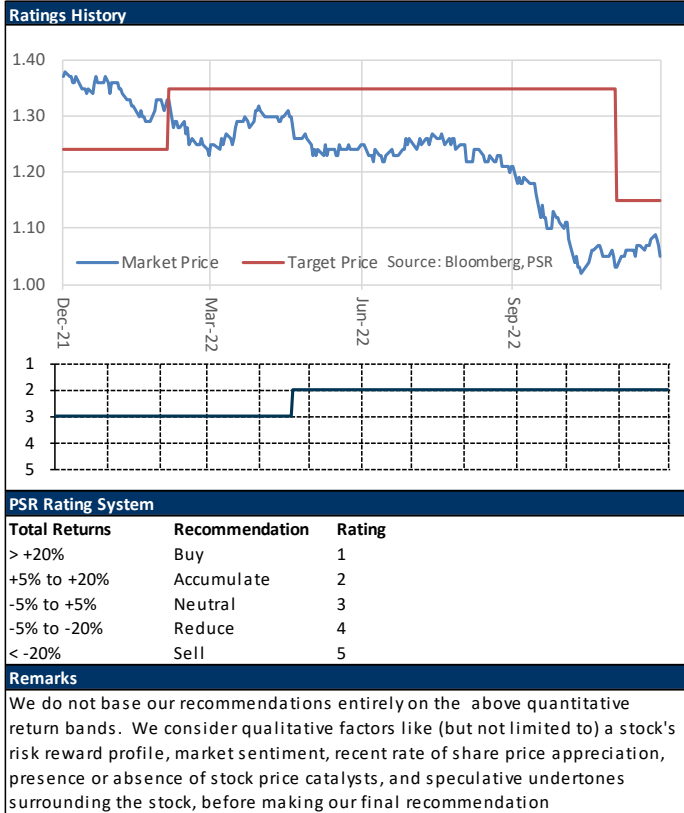
Non-controlling interests	62	88	107	107	107
Shareholder Equity	518	538	590	573	568

Valuation Ratios

Y/E Dec	FY19	FY20	FY21	FY22e	FY23e
P/E (X)	10.2	12.1	12.9	23.3	18.4
P/B (X)	3.5	3.4	3.1	3.2	3.2
EV/EBITDA (X)	4.6	5.0	4.8	6.7	6.0

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 (%)	8.6	4.8	6.1	5.2	5.7
Dividend Payout (%)	87	58	78	122	105



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