



StarHub Limited

Profit guidance raised 3 to 7%



SINGAPORE | TELECOMMUNICATIONS | 2Q23 RESULTS

- 2Q23 revenue was below expectation but EBITDA exceeded. 1H23 revenue and EBITDA were 44%/58% of our FY23e estimates. Equipment sales was down 21% YoY in 2Q23, but margins were strong due to lower and delayed investments in the DARE+ transformation strategy.
- FY23e EBITDA guidance was raised by between 6 and 10%. We expect the planned S\$310mn in Dare+ expenditure over the next 3 years to be cut by around S\$25mn. Negotiations and rationalisation have helped lower expected spend.
- We lower FY23e revenue by 7% on account of weaker mobile equipment sales and project delays in cybersecurity. Conversely, EBITDA is raised by 6% from rationalisation and delay in Dare+ spending. We raise our recommendation from NEUTRAL to ACCUMULATE. Our target price is increased from S\$1.08 to S\$1.21, pegged at 6.5x FY23e EV/EBITDA, in line with other mobile peers.

Results at a glance

SGD mn	2Q23	2Q22	YoY	1Q23	QoQ	Comments (YoY)
Revenue	548.8	545.8	0.5%	557.4	-1.5%	21% decline in equipment revenue.
- Mobile	150.6	134.2	12.2%	152.1	-1.0%	Postpaid ARPU +10%, subs. +4%.
- Entertainment	56.8	49.2	15.4%	57.1	-0.5%	ARPU +15%, Subs. -4%.
- Broadband	62.6	64.3	-2.6%	62.0	1.0%	ARPU +0%, Subs. +1%.
- Cyber security	75.7	69.1	9.6%	53.3	42.0%	
Operating expenses	-530.0	-496.3	6.8%	-461.6	14.8%	
EBITDA	117.1	120.7	-3.0%	112.8	3.8%	
Service EBITDA	109.2	113.3	-3.6%	103.4	5.6%	
EBITDA margin	21.3%	22.1%	-0.8%	20.2%	1.1%	
Service EBITDA margin	22.9%	24.9%	-2.0%	22.4%	0.5%	Above initial guidance of 20%.
PATMI	39.1	31.2	25.3%	37.5	4.3%	
DPS - Interim (cents)	2.5	2.5	0.0%	0.0	n.m.	Within guidance of at least 5 cents.

Source: Company, PSR

The Positives

+ Strong growth in mobile revenue. 2Q23 mobile revenue rose 12% YoY to S\$150mn from an increase in both ARPU and subscribers. The strength in ARPU is from higher roaming revenue, recontracting to higher priced plans and an increase in value added services (such as cyber protect plus).

+ Strength in entertainment revenue. Entertainment (or payTV) grew revenues on the back of higher ARPU from English Premier League (EPL). EPL has also helped in driving up advertising and commercial revenue.

The Negative

- Weakness and restructuring in enterprise revenue. Enterprise revenue (network, cybersecurity, regional ICT) was flat YoY in 2Q23. The bulk of the decline was from regional ICT business, lower hardware sales and discontinuation of legacy business in JOS Singapore.

6 August 2023

ACCUMULATE (Upgraded)

CLOSING PRICE	SGD 1.08
FORECAST DIV	SGD 0.050
TARGET PRICE	SGD 1.21
TOTAL RETURN	16.7%

COMPANY DATA

BLOOMBERG CODE:	STH SP
O/S SHARES (MN):	1,726
MARKET CAP (USD mn / SGD mn):	1394 / 1864
52 - WK HI/LO (SGD):	1.26 / 1
3M Average Daily T/O (mn):	0.87

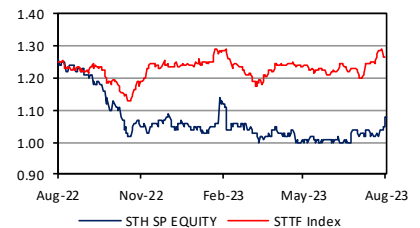
MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	56.0%
Nippon Telegraph & Telephone Corp	9.9%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	4.9	8.0	6.4
STI RETURN	3.3	2.4	4.0

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGDmn	FY21	FY22	FY23e	FY24e
Revenue	2,043	2,327	2,342	2,484
EBITDA	506	417	474	531
Net Profit	149	70	153	187
DPS (SS cents)	6.4	5.0	5.0	6.0
Dividend Yield	5.9%	4.6%	4.6%	5.6%
ROE	25.4%	13.2%	26.0%	28.2%
ROA	4.6%	2.2%	5.4%	6.4%

Source: Company, PSR

VALUATION METHOD

6.5x EV/EBITDA FY23e

Paul Chew (+65 6212 1851)
 Head Of Research
 paulchewkl@phillip.com.sg

Outlook

Revenue guidance for service revenue was cut by 3 to 7% points for FY23e (Figure 1). The two reasons were project delays in the cybersecurity arm D'Crypt and a reset of JOS Singapore* operations. JOS Singapore is trimming the number of (hardware) deals and focusing on more network solutions.

*In November 2021, StarHub announced the acquisition of JOS Singapore and Malaysia for S\$15mn.

Service EBITDA margins was raised 2% points to 22%. Under Dare+, \$310mn was to be spent over 3 years. FY23e was originally budgeted at S\$155mn but this has been cut to S\$120m. From the S\$35mn difference, around 70% (or S\$25mn) is due to the rationalisation of budgets and negotiations with vendors. The balance S\$10mn is from delays. In 1H23, S\$30mn was spent on Dare+, and another S\$90mn was to be spent Dare+ in 2H23e (Figure 2). Some of the Dare+ outcomes include moving the network to the cloud; and all in one consumer app. Benefits include a wider range of products and services which enterprise and consumer customers can self-serve and directly enable or purchase.

Figure 1: PSR margin estimates modestly higher

Guidance type		2022	2023e		
			Before	After	PSR
Service Revenue	YoY	17.2%	8%-10%	3%-5%	3.9%
	S\$m	1888.5	2040-2077	1945-1983	1962
Service EBITDA margin	points	20.1%	20.0%	22.0%	22.4%
	S\$m	379.4	408-415	428-436	440
Capex - % of revenue		7.3%	13%-15%	11%-13%	11.0%
Dividend per share	Cents	5.0	>=5	>=5	5.0

Source: Company, PSR

Figure 2: We estimate Dare+ cut from S\$310mn to S\$285mn

S\$m	Opex	Capex	Total
FY22	64	42	106
FY23e	72	48	120
FY24e	35	24	59
	171	114	285

Source: Company, PSR

Upgrade to ACCUMULATE from NEUTRAL with higher TP of S\$1.21 (prev. S\$1.08)

Our target price is based on regional peers' 6.5x FY23e EV/EBITDA.

Financials

Income Statement

Y/E Dec, SGDmn	FY20	FY21	FY22	FY23e	FY24e
Revenue	2,029	2,043	2,327	2,342	2,484
Operating Profit	231	232	155	213	255
EBITDA	538	506	417	474	531
Depreciation & Amortisation	(307)	(279)	(267)	(261)	(276)
EBIT	231	227	151	213	255
Net Finance Inc/(Exp)	(41)	(49)	(45)	(42)	(42)
Profit before tax	193	190	93	186	228
Taxation	(33)	(40)	(23)	(34)	(41)
Net profit before NCI	160	150	70	153	187
Non-controlling interest	2	1	0	0	0
Net profit, reported	158	149	70	153	187

Per share data (SGD Cents)

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
EPS, reported	8.7	8.2	3.6	8.4	10.4
DPS	5.0	6.4	5.0	5.0	6.0
BVPS	31.1	34.0	30.6	34.0	38.4

Cash Flow

Y/E Dec, SGDmn	FY20	FY21	FY22	FY23e	FY24e
CFO					
Profit before tax	193	190	93	186	228
Adjustments	349	326	332	290	305
WC changes	96	224	(60)	(304)	13
Cash generated from ops	638	740	365	172	546
Tax paid	(59)	(83)	19	(34)	(41)
Cashflow from ops	579	657	384	139	505
CFI					
CAPEX	(191)	(173)	(161)	(258)	(224)
Others	(66)	(114)	(74)	14	13
Cashflow from investments	(257)	(287)	(235)	(244)	(211)
CFE					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	107	198	(211)	(50)	(50)
Dividends	(82)	(87)	(111)	(87)	(104)
Others	47	134	(293)	(100)	(100)
Cashflow from financing	(35)	48	(404)	(187)	(204)
Net change in cash	287	418	(255)	(292)	91
CCE, end	404	821	567	276	366

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGDmn	FY20	FY21	FY22	FY23e	FY24e
ASSETS					
Accounts receivables	193	192	243	234	248
Cash	415	833	574	282	373
Inventories	80	50	66	94	99
Amt due from related parties	19	15	18	18	18
Others	99	196	158	158	158
Total current assets	1,160	1,603	1,419	1,146	1,257
PPE & IA	1,475	1,407	1,441	1,437	1,385
Others	173	148	137	137	137
Total non-current assets	1,772	1,640	1,715	1,711	1,658
Total Assets	2,931	3,243	3,134	2,857	2,915

LIABILITIES

Accounts payables	555	694	824	539	571
Short term loans	9	226	137	137	137
Amt Due to related parties	34	24	42	42	42
Tax payable	83	57	35	35	35
Total current liabilities	773	1,094	1,160	875	908
Long term loans	1,164	1,139	1,014	964	914
Deferred tax liabilities	111	92	87	87	87
Others	93	76	57	57	57
Total non-current liabilities	1,532	1,453	1,290	1,240	1,190
Total Liabilities	2,305	2,547	2,450	2,115	2,097

EQUITY

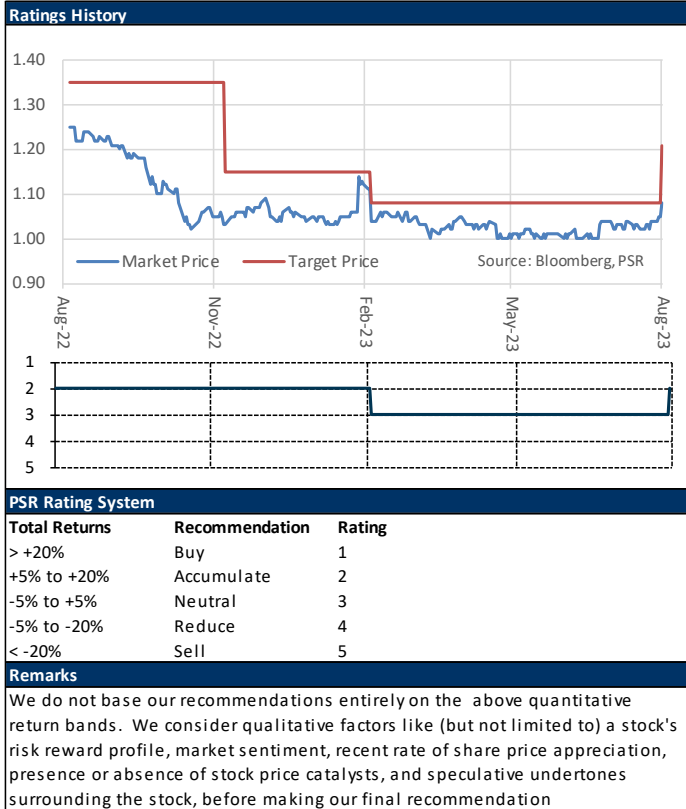
Non-controlling interests	88	107	153	153	153
Shareholder Equity	538	590	531	589	664

Valuation Ratios

Y/E Dec	FY20	FY21	FY22	FY23e	FY24e
P/E (X)	12.5	13.2	30.3	12.9	10.4
P/B (X)	3.5	3.2	3.5	3.2	2.8
EV/EBITDA (X)	5.0	5.0	6.2	6.0	5.1

Growth & Margins

Growth					
Revenue	-12.9%	0.7%	13.9%	0.6%	6.1%
EBITDA	-12.8%	-6.0%	-17.5%	13.6%	12.1%
EBIT	-9.6%	-2.0%	-33.6%	41.2%	20.1%
Net profit, adj.	-10.4%	-6.3%	-53.5%	119.0%	22.4%
Margins					
Gross margin	11.4%	11.3%	6.6%	9.1%	10.3%
EBITDA margin	26.5%	24.8%	17.9%	20.2%	21.4%
EBIT margin	11.4%	11.1%	6.5%	9.1%	10.3%
Net profit margin	7.9%	7.3%	3.0%	6.5%	7.5%
Key Ratios					
ROE (%)	29.7	25.4	13.2	26.0	28.2
ROA (%)	5.5	4.6	2.2	5.4	6.4
Dividend Yield (%)	4.6	5.9	4.6	4.6	5.6
Dividend Payout (%)	58	78	140	60	58



Contact Information (Singapore Research Team)
Head of Research

 Paul Chew – paulchewkl@phillip.com.sg
Research Admin

 Qystina Azli - qystina@phillip.com.sg
Technical Analyst

 Zane Aw – zaneawyx@phillip.com.sg
Property | REITs

 Darren Chan – darrenchanrx@phillip.com.sg
Banking & Finance

 Glenn Thum – glennthumjc@phillip.com.sg
Credit Analyst

 Shawn Sng – shawnsngkh@phillip.com.sg
Property | REITs

 Liu Miaomiao – liumm@phillip.com.sg
Conglomerate | Transport

 Peggy Mak – peggyamak@phillip.com.sg
US Technology Analyst (Hardware & Marketplaces)

 Maximilian Koeswoyo – maximilian@phillip.com.sg
US Technology Analyst (Digital Media & Entertainment)

 Jonathan Woo – jonathanwookj@phillip.com.sg
US Technology Analyst (Software/Services)

 Ambrish Shah – amshah@phillipcapital.in
Contact Information (Regional Member Companies)
SINGAPORE
Phillip Securities Pte Ltd

 Raffles City Tower
 250, North Bridge Road #06-00
 Singapore 179101
 Tel +65 6533 6001
 Fax +65 6535 6631
 Website: www.poems.com.sg
JAPAN
Phillip Securities Japan, Ltd.

 4-2 Nihonbashi Kabuto-cho Chuo-ku,
 Tokyo 103-0026
 Tel +81-3 3666 2101
 Fax +81-3 3666 6090
 Website: www.phillip.co.jp
THAILAND
Phillip Securities (Thailand) Public Co. Ltd

 15th Floor, Vorawat Building,
 849 Silom Road, Silom, Bangrak,
 Bangkok 10500 Thailand
 Tel +66-2 6351700 / 22680999
 Fax +66-2 22680921
 Website www.phillip.co.th
UNITED STATES
Phillip Capital Inc

 141 W Jackson Blvd Ste 3050
 The Chicago Board of Trade Building
 Chicago, IL 60604 USA
 Tel +1-312 356 9000
 Fax +1-312 356 9005
 Website: www.phillipusa.com
INDIA
PhillipCapital (India) Private Limited

 No.1, 18th Floor, Urmi Estate
 95, Ganpatrao Kadam Marg
 Lower Parel West, Mumbai 400-013
 Maharashtra, India
 Tel: +91-22-2300 2999 / Fax: +91-22-2300 2969
 Website: www.phillipcapital.in
MALAYSIA
Phillip Capital Management Sdn Bhd

 B-3-6 Block B Level 3 Megan Avenue II,
 No. 12, Jalan Yap Kwan Seng, 50450
 Kuala Lumpur
 Tel +603 2162 8841
 Fax +603 2166 5099
 Website: www.poems.com.my
INDONESIA
PT Phillip Securities Indonesia

 ANZ Tower Level 23B,
 Jl Jend Sudirman Kav 33A
 Jakarta 10220 – Indonesia
 Tel +62-21 5790 0800
 Fax +62-21 5790 0809
 Website: www.phillip.co.id
FRANCE
King & Shaxson Capital Limited

 3rd Floor, 35 Rue de la Bienfaisance 75008
 Paris France
 Tel +33-1 45633100
 Fax +33-1 45636017
 Website: www.kingandshaxson.com
AUSTRALIA
Phillip Capital Limited

 Level 10, 330 Collins Street
 Melbourne, Victoria 3000, Australia
 Tel +61-03 8633 9803
 Fax +61-03 8633 9899
 Website: www.phillipcapital.com.au
TURKEY
PhillipCapital Menkul Degerler

 Dr. Cemil Bengü Cad. Hak Is Merkezi
 No. 2 Kat. 6A Caglayan
 34403 Istanbul, Turkey
 Tel: 0212 296 84 84
 Fax: 0212 233 69 29
 Website: www.phillipcapital.com.tr
HONG KONG
Phillip Securities (HK) Ltd

 11/F United Centre 95 Queensway
 Hong Kong
 Tel +852 2277 6600
 Fax +852 2868 5307
 Websites: www.phillip.com.hk
CHINA
Phillip Financial Advisory (Shanghai) Co Ltd

 No 550 Yan An East Road,
 Ocean Tower Unit 2318,
 Postal code 200001
 Tel +86-21 5169 9200
 Fax +86-21 6351 2940
 Website: www.phillip.com.cn
UNITED KINGDOM
King & Shaxson Capital Limited

 6th Floor, Candlewick House,
 120 Cannon Street,
 London, EC4N 6AS
 Tel +44-20 7426 5950
 Fax +44-20 7626 1757
 Website: www.kingandshaxson.com
CAMBODIA
Phillip Bank Plc

 Ground Floor of B-Office Centre, #61-64,
 Norodom Blvd Corner Street 306, Sangkat
 Boeung Keng Kang 1, Khan Chamkamorn,
 Phnom Penh, Cambodia
 Tel: 855 (0) 7796 6151/855 (0) 1620 0769
 Website: www.phillipbank.com.kh
DUBAI
Phillip Futures DMCC

 Member of the Dubai Gold and
 Commodities Exchange (DGEX)
 Unit No 601, Plot No 58, White Crown Bldg,
 Sheikh Zayed Road, P.O.Box 212291
 Dubai-UAE
 Tel: +971-4-3325052 / Fax: + 971-4-
 3328895

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