



StarHub Limited

Service revenue stalling



SINGAPORE | TELECOMMUNICATIONS | 2Q24 RESULTS

- 2Q24 results were within expectations and management full-year guidance. 1H24 revenue and EBITDA were 47%/46% of our FY24 estimates, excluding D'Crypt (disposed in Feb24). Interim dividend rose 20% to 3 cents and within guidance of at least 6 cents full year.
- 2Q24 service EBITDA expanded 5% YoY to S\$113mn excluding D'Crypt. Margins benefited from a S\$5mn reversal of overseas lease circuits. Excluding this reversal, 2Q24 service EBITDA will be flat or up 0.4% YoY.
- Competition from lower priced mobile MVNOs price plans is dragging down ARPU. Broadband is faced with new competition from SIMBA. Our forecasts are largely unchanged. The target price of S\$1.29 is maintained (6.5x FY24e EV/EBITDA) in line with other mobile peers. We downgrade from ACCUMULATE to NEUTRAL due to the share price performance. We believe the competitive environment in mobile and broadband will place pressure on revenue in the near term. With DARE+ investments, cost savings will be more evident in FY25.

Results at a glance

SGD mn	2Q24	2Q23	YoY	1Q24	QoQ	Comments (YoY)
Revenue	586.6	548.8	6.9%	553.9	5.9%	47% growth in equipment
- Mobile	144.5	150.6	-4.1%	145.2	-0.5%	Postpaid ARPU -6%, subs. +1%.
- Entertainment	54.7	56.8	-3.7%	54.7	0.0%	ARPU +2%, Subs. -9%.
- Broadband	61.5	62.6	-1.8%	61.4	0.2%	ARPU +0%, Subs. +0.3%.
- Cyber security	75.3	75.7	-0.5%	73.1	3.0%	Jumps 13% excl. D'Crypt.
Operating expenses	-525.0	-530.0	-0.9%	-502.9	4.4%	Includes S\$5mn reversal in 1H24.
EBITDA	118.2	117.1	0.9%	105.6	11.9%	Up 2% excl. D'Crypt.
Service EBITDA	113.3	109.2	3.8%	98.5	15.0%	Up 5% excl. D'Crypt.
EBITDA margin	20.2%	21.3%	-1.2%	19.1%	1.1%	
Service EBITDA margin	23.6%	22.9%	0.7%	21.1%	2.5%	
PATMI	43.2	39.1	10.5%	38.9	11.1%	
DPS - Interim (cents)	3.0	2.5	20.0%	0.0	n.m.	Within FY24 guidance of at least 6 cents.

Source: Company, PSR

The Positives

+ Healthy cash flows. StarHub generated strong free cash flows of S\$101mn in 1H24 (1H23:S\$0mn). Operating cash flow almost doubled from S\$98.4mn to S\$194mn in 1H24. Cash-flows benefitted from improved working capital metrics as trade and other receivables declined.

The Negative

- Decline in mobile service revenue. Mobile service revenue declined 4.1% YoY in 2Q24 to S\$144.5mn. Revenue has already declined (YoY basis) over the past two quarters. The weakness is due to falling postpaid ARPU despite the expected improvement in roaming revenues. Price competition from MVNOs is pulling down ARPUs.

Outlook

There are no signs competition in mobile, or broadband is rolling back. Service revenue is still within the guidance of 1% to 3% YoY growth. 1H24 service revenues expanded by 2.4%, supported by an 11% jump in the enterprise segment. To further differentiate its offerings in SIM-only plans, StarHub will work with MVNOs and other partners for targeted offerings. For instance, price plans for frequent Malaysian and China travelers. On broadband, competition has only started with SIMBA launch early this year. A positive is that broadband customers tend to be less price- and churn-sensitive and focus more on reliability. On the 700MHz spectrum (allocated in 2018), there is no option to return it because it is secured via auction.

Downgrade to NEUTRAL from ACCUMULATE with an unchanged TP of S\$1.29

Our target price is based on regional peers' 6.5x FY24e EV/EBITDA.

19 August 2024

NEUTRAL (Downgraded)

CLOSING PRICE	SGD 1.28
FORECAST DIV	SGD 0.073
TARGET PRICE	SGD 1.29
TOTAL RETURN	6.5%

COMPANY DATA

BLOOMBERG CODE:	STH SP
O/S SHARES (MN) :	1,718
MARKET CAP (USD mn / SGD mn) :	1669 / 2199
52 - WK HI/LO (SGD) :	1.29 / 1.01
3M Average Daily T/O (mn) :	0.84

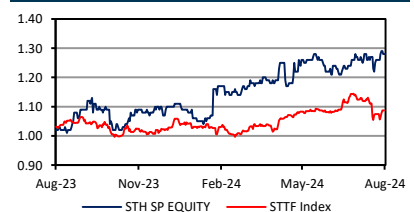
MAJOR SHAREHOLDERS

Temasek Holdings Pte Ltd	56.2%
Nippon Telegraph & Telephone Corp	10.0%

PRICE PERFORMANCE (%)

	1MTH	3MTH	YTD
COMPANY	0.0	3.2	19.4
STI RETURN	(2.0)	3.2	7.8

PRICE VS. STTF



Source: Bloomberg, PSR

KEY FINANCIALS

Y/E Dec, SGDmn	FY22	FY23	FY24e	FY25e
Revenue	2,327	2,373	2,330	2,391
EBITDA	417	467	479	529
Net Profit	62	150	166	188
DPS (\$ cents)	5.0	6.7	7.3	7.5
Dividend Yield	3.9%	5.2%	5.7%	5.9%
ROE	13.2%	25.6%	27.2%	28.4%
ROA	2.2%	4.8%	5.8%	6.5%

Source: Company, PSR

VALUATION METHOD

6.5x EV/EBITDA FY24e

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Financials

Income Statement

Y/E Dec, SGDmn	FY21	FY22	FY23	FY24e	FY25e
Revenue	2,043	2,327	2,373	2,330	2,391
Operating Profit	232	155	226	240	268
EBITDA	506	417	467	479	529
Depreciation & Amortisation	(279)	(267)	(241)	(240)	(262)
EBIT	227	151	226	240	268
Net Finance Inc/(Exp)	(49)	(45)	(41)	(42)	(42)
Profit before tax	190	93	197	212	241
Taxation	(40)	(23)	(51)	(49)	(55)
Net profit before NCI	150	70	146	164	185
Non-controlling interest	1	8	(4)	(2)	(3)
Net profit, reported	149	62	150	166	188

Per share data (SGD Cents)

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
EPS, reported	8.2	3.1	8.2	9.1	10.5
DPS	6.4	5.0	6.7	7.3	7.5
BVPS	34.0	30.7	33.0	34.8	37.8

Cash Flow

Y/E Dec, SGDmn	FY21	FY22	FY23	FY24e	FY25e
CFO					
Profit before tax	190	93	197	212	241
Adjustments	326	332	275	269	293
WC changes	224	19	(72)	(128)	7
Cash generated from ops	740	444	400	354	540
Tax paid	(83)	(60)	(41)	(49)	(55)
Cashflow from ops	657	384	359	305	484
CFI					
CAPEX	(173)	(161)	(173)	(233)	(191)
Others	(114)	(74)	(23)	13	11
Cashflow from investments	(287)	(235)	(195)	(220)	(180)
CCF					
Share issuance, net	0	0	0	0	0
Loans, net of repayments	198	(211)	(3)	(50)	(50)
Dividends	(87)	(111)	(86)	(124)	(126)
Others	134	(293)	(123)	(100)	(100)
Cashflow from financing	48	(404)	(210)	(224)	(226)
Net change in cash	418	(255)	(46)	(139)	79
CCE, end	821	567	498	358	437

Source: Company, Phillip Securities Research (Singapore) Estimates

Balance Sheet

Y/E Dec, SGDmn	FY21	FY22	FY23	FY24e	FY25e
ASSETS					
Accounts receivables	192	243	278	233	239
Cash	833	574	502	363	441
Inventories	50	66	47	47	48
Amt due from related parties	15	18	19	19	19
Others	196	158	140	140	140
Total current assets	1,603	1,419	1,381	1,196	1,282
PPE & IA	1,407	1,441	1,363	1,356	1,286
Others	148	137	124	124	124
Total non-current assets	1,640	1,715	1,654	1,647	1,577
Total Assets	3,243	3,134	3,035	2,843	2,859

LIABILITIES

Accounts payables	694	824	709	536	550
Short term loans	226	137	11	11	11
Amt Due to related parties	24	42	34	34	34
Tax payable	57	35	56	56	56
Total current liabilities	1,094	1,160	961	788	801
Long term loans	1,139	1,014	1,128	1,078	1,028
Deferred tax liabilities	92	87	72	72	72
Others	76	57	47	47	47
Total non-current liabilities	1,453	1,290	1,369	1,319	1,269
Total Liabilities	2,547	2,450	2,330	2,107	2,071

EQUITY

Non-controlling interests	107	153	137	137	137
Shareholder Equity	590	531	569	600	652

Valuation Ratios

Y/E Dec	FY21	FY22	FY23	FY24e	FY25e
P/E (X)	15.7	40.8	15.6	14.0	12.2
P/B (X)	3.8	4.2	3.9	3.7	3.4
EV/EBITDA (X)	5.6	7.1	6.4	6.4	5.6

Growth & Margins

Growth					
Revenue	0.7%	13.9%	2.0%	-1.8%	2.6%
EBITDA	-6.0%	-17.5%	12.1%	2.6%	10.4%
EBIT	-2.0%	-33.6%	50.3%	5.9%	11.6%
Net profit, adj.	-6.3%	-53.5%	108.9%	12.2%	13.3%

Margins

Gross margin	11.3%	6.6%	9.5%	10.3%	11.2%
EBITDA margin	24.8%	17.9%	19.7%	20.6%	22.1%
EBIT margin	11.1%	6.5%	9.5%	10.3%	11.2%
Net profit margin	7.3%	3.0%	6.1%	7.0%	7.8%

Key Ratios

ROE (%)	25.4	13.2	25.6	27.2	28.4
ROA (%)	4.6	2.2	4.8	5.8	6.5
Dividend Yield (%)	5.0	3.9	5.2	5.7	5.9
Dividend Payout (%)	78	159	82	80	72



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