

COMPANY UPDATE

StarHub (STH SP)

Favourable Tailwinds As DARE+ Initiatives Near The End

Starhub is set to reach an inflection point in 2H24 as the group reaches the tail end of its DARE+ investment programme. We expect to see expanding margins along with earnings growth from the ongoing realisation of DARE+ benefits, which are likely to lead to higher dividends in our view. Data roaming recovery remains on track while the group reiterated its commitment to its share buyback programme. In view of the lush 2024 dividend yield of 6.7%, we maintain BUY with the same target price of S\$1.41.

WHAT'S NEW

- Upcoming inflection point...** As it reaches the tail end of its DARE+ investment programme, StarHub group (Starhub) is poised to see better margins and earnings starting 2H24, in our view, driven by ongoing realisation of some DARE+ benefits coupled with cost optimisation efforts. As a recap, Starhub had already incurred roughly S\$191m of the S\$270m total DARE+ investments by end-23 and is expected to incur the majority of the remaining S\$80m by 2024, tapering off towards end-24. With a shift to an asset-light opex model, the group is expected to greatly reduce existing business-as-usual (BAU) capex while also reducing operating costs as the group shifts its legacy systems to its new Cloud platforms. Driven by this ongoing capex-to-opex substitution, we expect a net profit CAGR of 14-15% for 2023-26F.
- ...leading to higher yield.** With Starhub's dividend guidance at the higher of at least 6.0 S cents/share or its dividend policy (at least 80% of underlying net profit), we estimate a 2024 dividend of around 7.9 S cents/share, implying a lush dividend yield of around 6.7%. This is largely backed by the group's improving margins and expected earnings growth in 2024.
- Data roaming recovery on track.** In line with the global recovery in international travel, data roaming revenue continues to recover post-pandemic, and we understand that it has yet to reach pre-pandemic levels. Despite roaming dilution from stiff domestic competition, we expect data roaming to continue its uptrend in 1H24 as outbound travel continues to pick up.
- Confidence booster.** Starhub noted that the group remains committed to its S\$50m share buyback programme to repurchase up to 3% of the group's total issued share capital or 51.9m shares. As of end-4Q23, Starhub had repurchased 16.7m shares at a total cost of S\$17.6m (S\$1.05/share), representing around 1% of the group's total issued share capital.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2022	2023	2024F	2025F	2026F
Net turnover	2,327	2,373	2,428	2,497	2,571
EBITDA	383	435	486	521	551
Operating profit	155	227	282	315	343
Net profit (rep./act.)	62	150	169	200	229
Net profit (adj.)	62	150	169	200	229
EPS (S\$ cent)	3.6	8.7	9.8	11.6	13.3
PE (x)	32.8	13.6	12.0	10.2	8.9
P/B (x)	3.8	3.6	3.4	3.2	3.0
EV/EBITDA (x)	7.2	6.4	5.7	5.3	5.0
Dividend yield (%)	4.2	5.7	6.7	7.9	0.0
Net margin (%)	2.7	6.3	7.0	8.0	8.9
Net debt/(cash) to equity (%)	88.9	115.8	100.8	85.2	69.2
Interest cover (x)	10.4	18.3	9.0	10.6	14.6
ROE (%)	11.1	27.2	28.9	32.1	34.4
Consensus net profit	-	-	162	179	194
UOBKH/Consensus (x)	-	-	1.05	1.11	1.18

Source: StarHub, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.18
Target Price	S\$1.41
Upside	+19.5%

COMPANY DESCRIPTION

StarHub is a telecommunications company offering a range of services such as mobile, pay-TV, broadband for consumer market, as well as ICT solutions for enterprise markets in Singapore.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	STH SP
Shares issued (m):	1,717.4
Market cap (S\$m):	2,026.6
Market cap (US\$m):	1,501.0
3-mth avg daily t'over (US\$m):	1.1

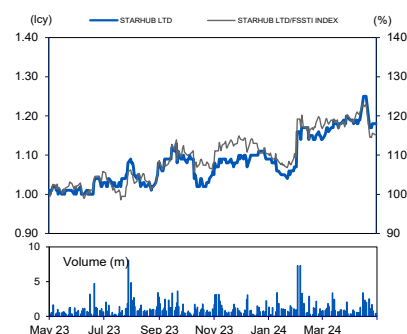
Price Performance (%)

52-week high/low	S\$1.25/S\$1.00			
1mth	3mth	6mth	1yr	YTD
(1.7)	10.3	12.4	16.8	6.3

Major Shareholders

Temasek Holdings Pte Ltd	56.4
NTT Communications	10.0
FY24 NAV/Share (S\$)	0.35
FY24 Net Debt/Share (S\$)	0.35

PRICE CHART



Source: Bloomberg

ANALYST(S)

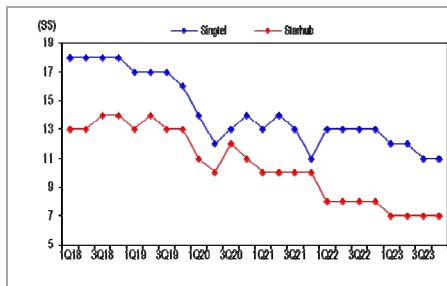
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STOCK IMPACT

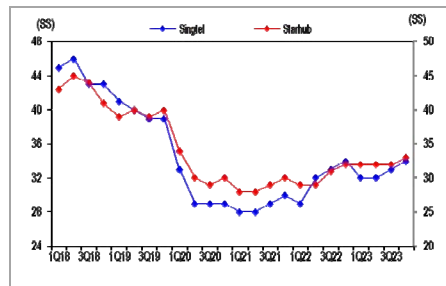
• **Market consolidation.** In our view, we opine that Singapore's telco industry is ripe for market consolidation in the short-medium term, given industry-wide falling mobile service revenue and sliding ARPUs. We reckon that the domestic mobile space of four mobile operators and at least 10 Mobile Virtual Network Operators (MVNO) remains too crowded which has led to the ongoing mobile price war. Although competition from MVNOs and Simba Telecom were aimed primarily at the lower-value prepaid market, existing customers from the three incumbent mobile operators have progressively traded down, resulting in the incumbents ceding market share.

STARHUB AND SINGTEL'S PREPAID ARPU



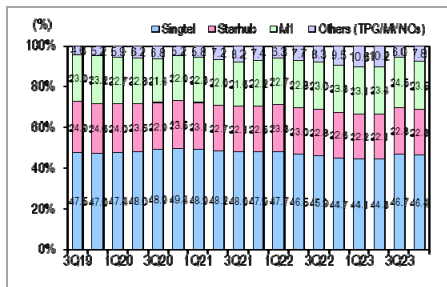
Source: Starhub, Singtel, UOB Kay Hian

STARHUB AND SINGTEL'S POSTPAID ARPU



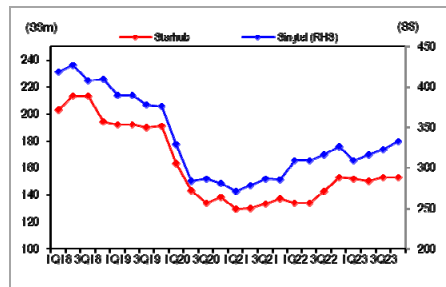
Source: Starhub, Singtel, UOB Kay Hian

BREAKDOWN OF SINGAPORE'S MOBILE MARKET SHARE



Source: IMDA, Starhub, M1, Singtel, UOB Kay Hian

STARHUB AND SINGTEL'S MOBILE SERVICE REVENUE



Source: Starhub, Singtel, UOB Kay Hian

• **Starhub to lead.** Backed by a strong balance sheet (1.36x net debt to EBITDA at end-23), we reckon that Starhub would be the prime candidate to lead market consolidation with M1 as the likeliest acquisition target, given existing capex and operating cost synergies. Furthermore, with a combined 46% (Starhub+M1) of domestic mobile market share in Singapore, we opine that a Starhub-M1 merger deal would not face regulatory risks, unlike any merger deal with the number one domestic mobile operator Singtel which already commands 46% of domestic mobile market share. Also, Starhub's management has noted that the group remains "ready and able" to consolidate with other local players.

EARNINGS REVISION/RISK

• **We make no changes to our earnings forecast.**

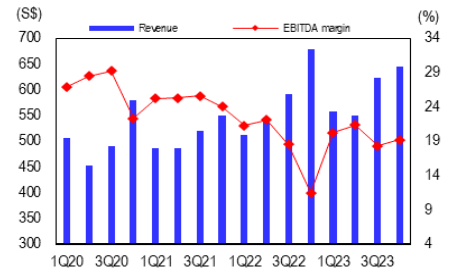
VALUATION/RECOMMENDATION

• **Maintain BUY with the same DCF-based target price of S\$1.41.** (COE: 8%; terminal growth: 1%). At our fair value, the stock will trade at 6x 2025F EV/EBITDA, -1SD below its mean EV/EBITDA of 7x; it also offers a lush dividend yield of 6.7% for 2024.

SHARE PRICE CATALYST

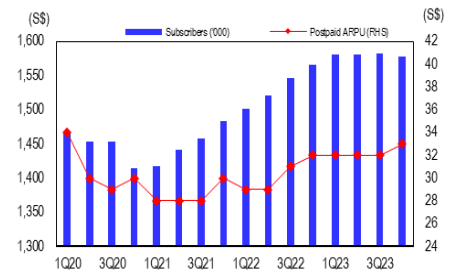
- Market consolidation – exit of MVNOs.
- Faster-than-expected 5G adoption and new business cases in Singapore.
- Faster-than-expected realisation of DARE+ initiatives benefits.

STARHUB'S REVENUE AND EBITDA MARGIN



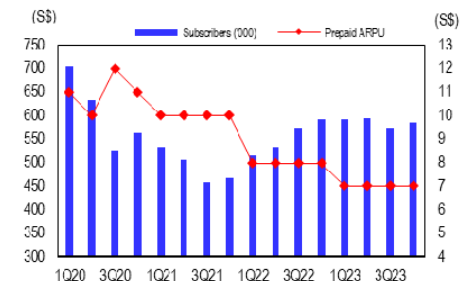
Source: StarHub, UOB Kay Hian

STARHUB'S QUARTERLY POSTPAID ARPU AND SUBSCRIBERS



Source: StarHub, UOB Kay Hian

STARHUB'S QUARTERLY PREPAID ARPU AND SUBSCRIBERS



Source: StarHub, UOB Kay Hian

STARHUB'S FORWARD EV/EBITDA (X)



Source: Bloomberg, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Net turnover	2,373.2	2,428.5	2,496.9	2,570.8
EBITDA	435.1	485.5	520.6	550.5
Deprec. & amort.	208.5	203.4	205.4	207.9
EBIT	226.6	282.1	315.2	342.6
Associate contributions	(5.8)	0.0	0.0	0.0
Net interest income/(expense)	(23.8)	(53.9)	(49.0)	(37.6)
Pre-tax profit	197.0	228.2	266.2	305.0
Tax	(50.8)	(58.8)	(66.6)	(76.2)
Minorities	3.4	0.0	0.0	0.0
Net profit	149.6	169.3	199.7	228.7
Net profit (adj.)	149.6	169.3	199.7	228.7

CASH FLOW

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Operating	358.6	419.1	451.2	478.6
Pre-tax profit	197.0	228.2	266.2	305.0
Tax	(50.8)	(58.8)	(66.6)	(76.2)
Deprec. & amort.	208.5	203.4	205.4	207.9
Associates	5.8	0.0	0.0	0.0
Working capital changes	(130.6)	(7.6)	(2.8)	4.3
Other operating cashflows	128.7	53.9	49.0	37.6
Investing	(195.3)	(170.8)	(175.3)	(179.7)
Capex (maintenance)	(172.7)	(176.7)	(181.7)	(187.1)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(22.6)	6.0	6.4	7.4
Financing	(209.6)	(259.5)	(197.6)	(209.1)
Dividend payments	(86.4)	(136.2)	(160.4)	(182.8)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	115.6	(63.4)	18.2	18.7
Others/interest paid	(238.8)	(59.9)	(55.3)	(45.0)
Net cash inflow (outflow)	(46.3)	(11.2)	78.3	89.8
Beginning cash & cash equivalent	567.2	502.3	491.1	569.4
Changes due to forex impact	(18.6)	0.0	0.0	0.0
Ending cash & cash equivalent	502.3	491.1	569.4	659.3

BALANCE SHEET

Year to 31 Dec (\$m)	2023	2024F	2025F	2026F
Fixed assets	607.8	581.1	557.4	536.5
Other LT assets	1,046.1	1,046.1	1,046.1	1,046.1
Cash/ST investment	502.2	491.1	569.4	659.3
Other current assets	879.0	885.4	893.8	903.4
Total assets	3,035.1	3,003.7	3,066.7	3,145.3
ST debt	32.8	31.8	31.8	31.8
Other current liabilities	927.9	926.7	932.3	946.2
LT debt	1,128.2	1,065.8	1,084.0	1,102.7
Other LT liabilities	240.8	240.8	240.8	240.8
Shareholders' equity	568.8	601.9	641.2	687.1
Minority interest	136.7	136.7	136.7	136.7
Total liabilities & equity	3,035.2	3,003.7	3,066.7	3,145.3

KEY METRICS

Year to 31 Dec (%)	2023	2024F	2025F	2026F
Profitability				
EBITDA margin	18.3	20.0	20.9	21.4
Pre-tax margin	8.3	9.4	10.7	11.9
Net margin	6.3	7.0	8.0	8.9
ROA	4.9	5.6	6.6	7.4
ROE	27.2	28.9	32.1	34.4
Growth				
Turnover	2.0	2.3	2.8	3.0
EBITDA	13.6	11.6	7.2	5.7
Pre-tax profit	111.4	15.8	16.7	14.5
Net profit	140.1	13.2	17.9	14.5
Net profit (adj.)	140.1	13.2	17.9	14.5
EPS	140.6	13.4	17.9	14.5
Leverage				
Debt to total capital	62.2	59.8	58.9	57.9
Debt to equity	204.1	182.4	174.0	165.1
Net debt/(cash) to equity	115.8	100.8	85.2	69.2
Interest cover (x)	18.3	9.0	10.6	14.6

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