

## COMPANY RESULTS

### StarHub (STH SP)

2Q22: In Line; Top-line Growth From All Service Segments

2Q22 revenue grew 12.2% yoy and 6.5% qoq, in line with expectations. Core PATAMI dropped 16.6% yoy but grew 4.9% qoq to S\$31.2m, driven by higher upfront capex investments. Starhub is on track to meet/exceed 2022 guidance. The mobile segment saw higher take-up of its 5G plans while the broadband and enterprise segments benefitted from consolidation of acquisitions. The entertainment segment saw higher subscription prices and subscribers. Maintain HOLD. Target price: S\$1.30.

#### 2022 RESULTS

Year to 31 Dec (S\$m)	2Q22	qoq % chg	yoy % chg	1HFY22	yoy % chg
<b>Operating Revenue:</b>					
Mobile	134.2	0.1	3.8	268.3	3.8%
Entertainment	49.2	4.3	5.4	96.4	4.6%
Residential Broadband	64.4	25.1	33.0	115.8	21.5%
Fixed Enterprise	206.7	12.8	15.3	390.0	16.9%
Sales of Equipment/ others	104.0	(5.4)	10.3	188.1	(3.2%)
<b>Total Revenue</b>	<b>545.9</b>	<b>6.5</b>	<b>12.2</b>	<b>1,058.6</b>	<b>8.7</b>
EBITDA	120.6	10.6	(2.0)	229.7	(6.6)
EBITDA Margin (%)	22.1	0.8ppts	(3.2ppts)	21.7	(3.6)
Service Revenue	454.5	9.3	12.6	870.5	11.7
Core service EBITDA	113.1	12.6	(2.9)	213.9	(7.8)
Core service EBITDA margin (%)	24.9	0.7ppts	(4.0ppts)	24.6	(5.2)
Core PATAMI	31.2	4.9	(16.6)	60.9	(10.3)
Subscribers ('000)	2,054	1.8	5.3		
Post-paid ARPU	29	-	3.6		
Pre-paid ARPU	8	-	(20.2)		
Entertainment ARPU (S\$/mth)	31	-	(26.2)		
Broadband ARPU (S\$/mth)	34	3.0	6.3		

Source: StarHub, UOB Kay Hian

#### RESULTS

• **2Q22 results within expectations.** StarHub reported 2Q22 revenue and core PATAMI of S\$545.9m (+12.2% yoy, +6.5% qoq) and S\$31.2m (-16.6% yoy, +4.9% qoq) respectively. For 1H22, revenue and core PATAMI formed 47.5% and 44.8% of our 2022 full-year estimates respectively, in line with expectations. 2Q22 service revenue grew (+12.6% yoy, +9.3% qoq) while service EBITDA dipped slightly (-2.9% yoy, +12.5% qoq) due to frontloaded transformative investments. 2Q22 service EBITDA margins fell 4.0ppt yoy but grew +0.7ppt qoq. The group declared an interim DPS of 2.5 cents/share, consistent with the group's earlier 2022 guidance of 5.0 cents/share, representing an annualised dividend yield of around 4%.

#### KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	2,029	2,043	2,226	2,359	2,458
EBITDA	512	476	462	511	511
Operating profit	231	232	214	254	257
Net profit (rep./act.)	157	149	136	165	166
Net profit (adj.)	157	149	136	165	166
EPS (S\$ cent)	9.1	8.6	7.9	9.6	9.6
PE (x)	13.8	14.6	16.0	13.2	13.1
P/B (x)	4.0	3.7	3.4	3.1	2.8
EV/EBITDA (x)	4.9	5.2	5.4	4.9	4.9
Dividend yield (%)	4.0	5.1	4.1	4.6	5.8
Net margin (%)	7.8	7.3	6.1	7.0	6.8
Net debt/(cash) to equity (%)	144.2	56.8	32.7	21.4	5.3
Interest cover (x)	13.2	10.6	11.2	11.4	11.2
ROE (%)	29.8	26.5	22.2	24.7	22.6
Consensus net profit	-	-	100	131	143
UOBKH/Consensus (x)	-	-	1.36	1.26	1.17

Source: StarHub Ltd, Bloomberg, UOB Kay Hian

## HOLD

(Maintained)

Share Price	S\$1.26
Target Price	S\$1.30
Upside	+3.2%

#### COMPANY DESCRIPTION

StarHub Ltd 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):	1,731.5
Market cap (S\$m):	2,181.7
Market cap (US\$m):	1,582.4
3-mth avg daily t'over (US\$m):	0.7

#### Price Performance (%)

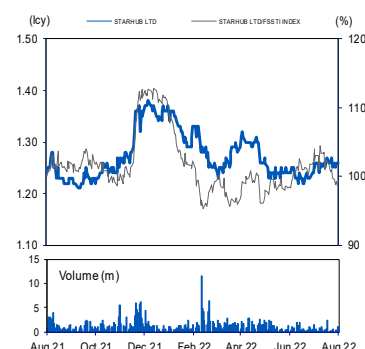
52-week high/low			S\$1.38/S\$1.21	
1mth	3mth	6mth	1yr	YTD
1.6	0.0	(5.3)	2.4	(7.4)

#### Major Shareholders

	%
Temasek Holdings Pte Ltd	56.3
NTT Communications	9.9

FY22 NAV/Share (S\$)	0.37
FY22 Net Debt/Share (S\$)	0.12

#### PRICE CHART



Source: Bloomberg

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### KEY PERFORMANCE GUIDANCE FOR 1H22

	1H22 Performance	2022 Guidance
Service Revenue	11.7%	At least 10%
Service EBITDA margin	24.6%	At least 20%
Capex commitment (of total revenue)	7.5%	(BAU: 7%-9%) 12%-15%*
Dividend/share	2.5 cents	Higher of 5 cents or 80% PATAMI payout

\* Including DARE+ Initiatives and IT transformation.

Source: Starhub, UOB Kay Hian

- 2022 guidance: On track to beat its own guidance.** 1H22's yoy service revenue growth of 11.7% was higher than previously guided, supported by strong performance from all service business segments. Given that revenue contributions from the newly-launched English Premier League (EPL) packages only starts in 2H22, along with an expected recovery in roaming data in 2H22, we expect 2H22 service revenue growth to exceed the group's 2022 guidance. Service EBITDA margin is expected to compress in 2H22 due to lumpy timing recognition of its upfront IT transformative investments. Furthermore, inflation-induced higher utilities cost, 5G wholesale fees and higher low-margin enterprise revenue mix may also drag margins. Lastly, management noted that 2022 full-year capex costs may be on the low end of its guidance.

### STOCK IMPACT

- Mobile: 2Q22 revenue grew 3.8% yoy and 0.1% qoq.** Postpaid ARPU was steady qoq at S\$29/month on higher roaming revenue and take-up of value added services (VAS). However, excluding one-off adjustments, postpaid ARPU would have been S\$30/month. Postpaid subscribers increased by 19,000 this quarter as the strong uptake of its GIGA! plans continues. Average monthly churn rate remained low at 0.7% in 2Q22 (1Q22:0.8%). Prepaid ARPU was flat at S\$8/month but added 17,000 prepaid subscribers this quarter as borders reopened. Excluding the one-off adjustments, blended ARPUs would have increased by 1.4% yoy and 1.2% qoq to about S\$22.4/month, implying strong take-up for the higher value-added 5G plans.
- Enterprise: 2Q22 revenue jumped 15.3% yoy and 12.8% qoq,** largely due higher regional ICT services revenue from the consolidation of Starhub's JOS SG & MY acquisition completed in Jan 22. 2Q22 revenue from Network Solutions increased (+4.1% yoy, +1.5% qoq) due to the consolidation of MyRepublic Broadband while revenue from Cybersecurity Services also jumped 34.4% qoq from the early delivery of product sales.
- Entertainment: Revenue increased from higher subscription prices.** With ARPU being stable at S\$31/month, 2Q22 entertainment revenue increased 5.4% yoy and 4.3% qoq from higher subscription prices and advertising revenue. Total subscribers went up by 19,000 this quarter due to higher traction for over-the-top services. Average monthly churn rate remained steady at 0.8% in 2Q22 (1Q22:0.8%). New revenue contributions from the EPL packages are expected to boost this segment in 2H22.
- Broadband: Sharp boost from MyRepublic.** Broadband revenue rose 33.0% yoy and 25.1% qoq, with ARPU higher at S\$34/month (1Q22: S\$33/month) due to strong demand for the higher-value 2Gbps plans. The sharp increase in revenue was also due to the consolidation of MyRepublic Broadband. Excluding the S\$12.6m revenue contribution from MyRepublic Broadband, broadband revenue would still grow 7.0% yoy and 0.6% qoq respectively.

### EARNINGS REVISION/RISK

- No changes to earnings forecasts.**

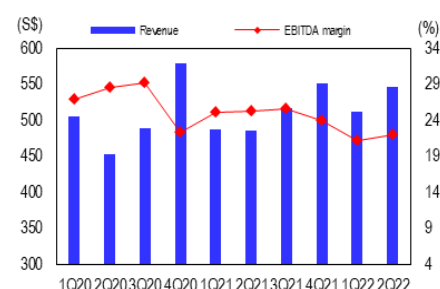
### VALUATION/RECOMMENDATION

- Maintain HOLD with an unchanged DCF-based target price of S\$1.30** (COE: 8.4%; terminal growth: 0%). The stock offers a sustainable dividend yield of 4% for 2022.

### SHARE PRICE CATALYST

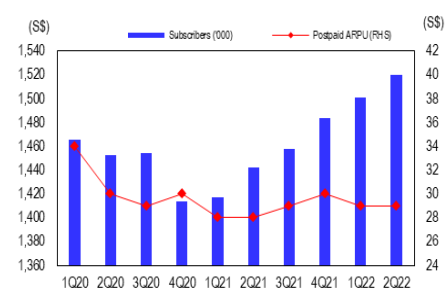
- The return of Chinese tourists to Singapore.
- Market consolidation – exit of Mobile Virtual Network Operators (MVNOS).
- Potential network carved out/shifted to an asset-light business model (sale and leaseback of network). Management is of the opinion that the cost of capital from the capital market is much more attractive vs the leasing model at this juncture.
- Faster-than-expected 5G adoption and new business cases in Singapore.

### REVENUE AND EBITDA MARGIN



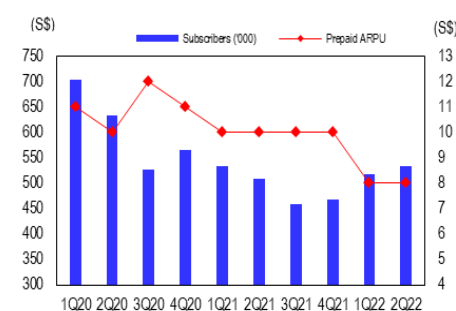
Source: StarHub, UOB Kay Hian

### QUARTERLY POSTPAID ARPU AND SUBSCRIBERS



Source: StarHub, UOB Kay Hian

### 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)	2021	2022F	2023F	2024F
Net turnover	2,042.6	2,226.4	2,358.8	2,458.5
EBITDA	476.0	461.7	511.2	510.8
Deprec. & amort.	244.2	248.1	256.9	254.1
EBIT	231.8	213.6	254.4	256.7
Associate contributions	3.4	0.0	0.0	0.0
Net interest income/(expense)	(45.0)	(41.4)	(44.8)	(45.8)
Pre-tax profit	190.2	172.2	209.6	210.9
Tax	(40.1)	(36.3)	(44.2)	(44.5)
Minorities	(0.8)	0.0	0.0	0.0
Net profit	149.3	135.9	165.4	166.4
Net profit (adj.)	149.3	135.9	165.4	166.4

## BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	695.0	736.4	762.5	754.3
Other LT assets	945.0	945.0	945.0	945.0
Cash/ST investment	832.8	1,017.4	1,131.8	1,265.9
Other current assets	770.1	798.1	812.9	825.7
Total assets	3,242.9	3,496.8	3,652.2	3,790.8
ST debt	29.2	29.2	29.2	29.2
Other current liabilities	1,064.7	1,213.1	1,245.8	1,293.3
LT debt	1,138.5	1,196.4	1,253.0	1,277.6
Other LT liabilities	314.3	314.3	314.3	314.3
Shareholders' equity	589.5	637.1	703.2	769.8
Minority interest	106.7	106.7	106.7	106.7
Total liabilities & equity	3,242.9	3,496.8	3,652.2	3,790.8

## CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	657.1	545.8	484.9	501.0
Pre-tax profit	190.2	172.2	209.6	210.9
Tax	(40.1)	(36.3)	(44.2)	(44.5)
Deprec. & amort.	244.2	248.1	256.9	254.1
Associates	(3.4)	0.0	0.0	0.0
Working capital changes	169.8	120.5	17.8	34.7
Other operating cashflows	96.4	41.4	44.8	45.8
Investing	(286.9)	(283.0)	(277.7)	(239.9)
Capex (maintenance)	(172.5)	(289.4)	(283.1)	(245.8)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(114.4)	6.5	5.4	6.0
Financing	47.8	(78.3)	(92.8)	(127.1)
Dividend payments	(86.6)	(88.3)	(99.2)	(99.9)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(23.7)	57.9	56.6	24.6
Others/interest paid	158.1	(47.9)	(50.2)	(51.8)
Net cash inflow (outflow)	418.0	184.6	114.4	134.1
Beginning cash & cash equivalent	415.4	832.8	1,017.4	1,131.8
Changes due to forex impact	(0.6)	0.0	0.0	0.0
Ending cash & cash equivalent	832.8	1,017.4	1,131.8	1,265.9

## KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	23.3	20.7	21.7	20.8
Pre-tax margin	9.3	7.7	8.9	8.6
Net margin	7.3	6.1	7.0	6.8
ROA	4.8	4.0	4.6	4.5
ROE	26.5	22.2	24.7	22.6
Growth				
Turnover	0.7	9.0	5.9	4.2
EBITDA	(7.1)	(3.0)	10.7	(0.1)
Pre-tax profit	(1.0)	(9.5)	21.7	0.6
Net profit	(5.2)	(9.0)	21.7	0.6
Net profit (adj.)	(5.2)	(9.0)	21.7	0.6
EPS	(5.2)	(9.0)	21.7	0.6
Leverage				
Debt to total capital	62.6	62.2	61.3	59.9
Debt to equity	198.1	192.4	182.3	169.8
Net debt/(cash) to equity	56.8	32.7	21.4	5.3
Interest cover (x)	10.6	11.2	11.4	11.2

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