

COMPANY UPDATE

StarHub (STH SP)

On Firm Footing; Frontloading Capex To Drive Future Earnings

Starhub is expected to deliver S\$500m in cost savings over 2022-26 under its DARE+ initiative. This entails spending S\$310m to drive incremental net profit stack of S\$80m from 2026 onwards – suggesting a robust three-year earnings CAGR of 15% over 2023-26. Given the hefty share price correction ytd, we upgrade the stock from HOLD to BUY with a target price of S\$1.30. The stock currently trades at -2SD below its mean EV/EBITDA of 7x. Market consolidation is a key re-rating catalyst.

WHAT'S NEW

- **Starhub on track to deliver S\$500m in cost savings over next three years...** In a recent investor briefing, the company gave an update on its DARE+ transformation programme. In essence, Starhub is on track to deliver S\$500m in cost savings and profit opportunities over 2022-26. Management guided that it has achieved S\$21m of cost savings for 2022 (a slow start), below its targeted S\$35m due to delays to IT and Network Transformation undertakings.
- **...with investments peaking in 2023.** Total investment over 2022-26 (for network and digitalisation) has increased from an original S\$270m to S\$310m but the company is confident it will have adequate cashflow and gearing headroom in the foreseeable future. With the bulk of investments to be spent in 2023, we expect Starhub to reap revenue growth opportunities from 2024 onwards.
- **S\$80m incremental profit stack by 2026.** By 2026 (three-year earnings horizon), Starhub expects S\$80m incremental profit from DARE+ transformation programme. This suggests a robust three-year earnings CAGR of 15% over 2023-26.

STOCK IMPACT

- **Market consolidation a key re-rating catalyst for the stock.** We upgrade the stock from HOLD to BUY with an unchanged DCF-based target price of S\$1.30/share. We believe the risk-reward for the stock is compelling. Firstly, valuation is attractive as the stock trades at -2SD from its mean EV/EBITDA of 7x. Secondly, as Starhub embarks on its DARE+ journey, we expect earnings to gradual recover from a low base in 2022. We project net profit growth of 18% yoy for 2023 to S\$133m – still below pre-COVID-19 profit of S\$178m in 2019. We also believe the market is ready for consolidation as the regulator is open to the suggestion. We note that market consolidation is good for incumbents, with significant cost synergies a key reason to consolidate among peers.

KEY FINANCIALS

Year to 31 Dec (S\$m)	2020	2021	2022F	2023F	2024F
Net turnover	2,029	2,043	2,226	2,469	2,714
EBITDA	512	476	451	492	552
Operating profit	231	232	202	232	276
Net profit (rep./act.)	157	149	113	133	166
Net profit (adj.)	157	149	113	133	166
EPS (S\$ cent)	9.1	8.6	6.5	7.7	9.6
PE (x)	11.5	12.1	16.1	13.6	10.9
P/B (x)	3.4	3.1	2.9	2.7	2.4
EV/EBITDA (x)	4.2	4.5	4.7	4.3	3.9
Dividend yield (%)	4.8	6.1	4.0	4.4	5.5
Net margin (%)	7.8	7.3	5.1	5.4	6.1
Net debt/(cash) to equity (%)	144.2	56.8	34.4	19.6	3.9
Interest cover (x)	13.2	10.6	7.6	7.7	8.4
ROE (%)	29.8	26.5	18.5	20.3	23.2
Consensus net profit	-	-	111	128	144
UOBKH/Consensus (x)	-	-	1.02	1.03	1.15

Source: StarHub Ltd, Bloomberg, UOB Kay Hian

BUY

(Upgraded)

Share Price	S\$1.05
Target Price	S\$1.30
Upside	+23.8%

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):	1,727.3
Market cap (S\$m):	1,813.7
Market cap (US\$m):	1,335.9
3-mth avg daily t'over (US\$m):	1.0

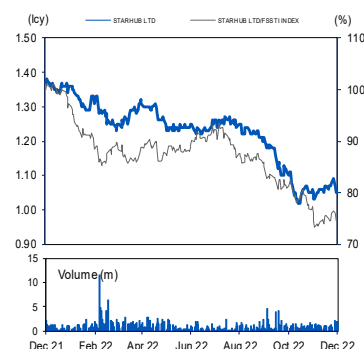
Price Performance (%)

52-week high/low	S\$1.38/S\$1.02			
1mth	3mth	6mth	1yr	YTD
(0.9)	(13.2)	(16.0)	(23.4)	(22.8)

Major Shareholders

	%
Temasek Holdings Pte Ltd	56.3
NTT Communications	9.9
FY22 NAV/Share (S\$)	0.36
FY22 Net Debt/Share (S\$)	0.13

PRICE CHART



Source: Bloomberg

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- DARE+ transformation (2022-26) includes top-line growth...** In essence, StarHub is targeting S\$280m in cost savings plus S\$220m in gross profit growth cumulatively from 2022-26. The gross profit growth is expected to be driven by revenue uplift from the mobile and enterprise segments (specifically from 5G enterprise, cloud gaming, and digital solutions). This would exclude any M&A opportunities in the pipeline.
- ...and continuous cost discipline.** After achieving S\$273m in cost savings in 2019-21, the group is targeting another S\$280m in cost savings from 2022-26. The key savings include: a) workforce efficiency via streamlining processes and right sourcing, b) reduced physical stores and office space, c) lower commission cost with increased migration to online touchpoints, and d) continuously shifting its content cost structure from a fixed basis to a variable basis.
- M&A strategy...** After the completion of MyRepublic Broadband and JOS (Singapore and Malaysia business), Starhub continues to look out for M&A opportunities to accelerate growth and create new revenue streams in the enterprise segment. Starhub continues to seek deals within the region, targeting companies that: a) have a strong growth track record, b) are financially accretive, and c) are at reasonable valuations. The mode of acquisition will be Starhub as the controlling stake or through an entire buyout.
- ...to strengthen enterprise business beyond 2023/24.** We expect earnings and cost synergies from the consolidation of MyRepublic Broadband and JOS to materialise in 2023 and beyond. Specifically, we expect cost savings from rental savings with the consolidation of office/warehouse spaces and joint procurement savings.

EARNINGS REVISION/RISK

- None.

VALUATION/RECOMMENDATION

- Upgrade to BUY with an unchanged DCF-based target price of S\$1.30** (COE: 8.9%; terminal growth: 0%). At our fair value, the stock will trade at 6x 2021F EV/EBITDA, 1SD below its five-year mean EV/EBITDA of 8.5x. The stock offers a sustainable dividend yield of 4% for 2022-23F.

SHARE PRICE CATALYST

- A key re-rating catalyst for the stock includes the return of tourists to Singapore – propping up prepaid SIM card sales.
- Market consolidation – exit of mobile network virtual operators.
- Faster-than-expected 5G adoption and new business cases in Singapore.

DARE+ TRANSFORMATION: S\$80M NET PROFIT UPLIFT FROM 2026 ONWARDS



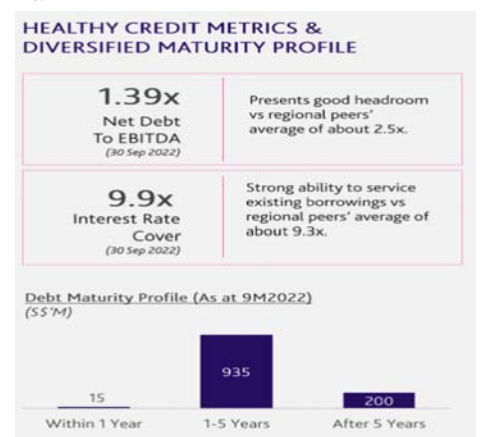
Source: StarHub

5G ROLL OUT ON TRACK (> 95% BY END-22)



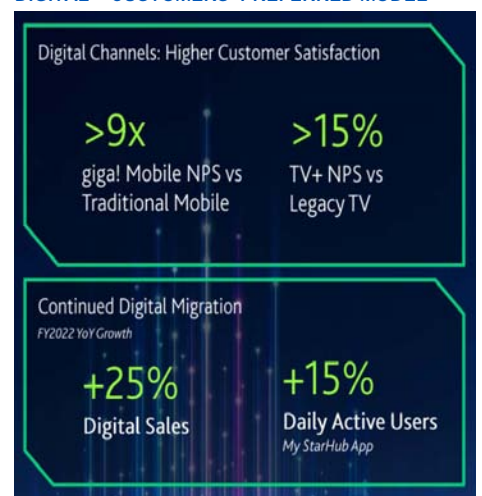
Source: StarHub

BALANCE SHEET: ADEQUATE HEADROOM FOR M&A



Source: StarHub

DIGITAL – CUSTOMERS' PREFERRED MODEL



Source: StarHub

PROFIT & LOSS

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Net turnover	2,043	2,226	2,469	2,714
EBITDA	476	451	492	552
Deprec. & amort.	244	248	260	277
EBIT	232	202	232	276
Associate contributions	3	0	0	0
Net interest income/(expense)	(45)	(59)	(64)	(65)
Pre-tax profit	190	143	168	210
Tax	(40)	(30)	(35)	(44)
Minorities	(1)	0	0	0
Net profit	149	113	133	166
Net profit (adj.)	149	113	133	166

BALANCE SHEET

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Fixed assets	695	736	772	821
Other LT assets	945	945	945	945
Cash/ST investment	833	1,009	1,151	1,288
Other current assets	770	798	828	859
Total assets	3,243	3,489	3,696	3,914
ST debt	29	29	29	29
Other current liabilities	1,065	1,213	1,308	1,427
LT debt	1,139	1,196	1,256	1,288
Other LT liabilities	314	314	314	314
Shareholders' equity	590	629	682	748
Minority interest	107	107	107	107
Total liabilities & equity	3,243	3,489	3,696	3,914

CASH FLOW

Year to 31 Dec (\$m)	2021	2022F	2023F	2024F
Operating	657	541	522	595
Pre-tax profit	190	143	168	210
Tax	(40)	(30)	(35)	(44)
Deprec. & amort.	244	248	260	277
Associates	(3)	0	0	0
Working capital changes	170	120	66	87
Other operating cashflows	96	59	64	65
Investing	(287)	(283)	(291)	(320)
Capex (maintenance)	(173)	(289)	(296)	(326)
Proceeds from sale of assets	0	0	0	0
Others	(114)	6	5	6
Financing	48	(81)	(90)	(138)
Dividend payments	(87)	(73)	(80)	(99)
Issue of shares	0	0	0	0
Proceeds from borrowings	(24)	58	59	33
Others/interest paid	158	(66)	(69)	(72)
Net cash inflow (outflow)	418	177	142	137
Beginning cash & cash equivalent	415	833	1,009	1,151
Changes due to forex impact	(1)	0	0	0
Ending cash & cash equivalent	833	1,009	1,151	1,288

KEY METRICS

Year to 31 Dec (%)	2021	2022F	2023F	2024F
Profitability				
EBITDA margin	23.3	20.2	19.9	20.3
Pre-tax margin	9.3	6.4	6.8	7.7
Net margin	7.3	5.1	5.4	6.1
ROA	4.8	3.4	3.7	4.4
ROE	26.5	18.5	20.3	23.2
Growth				
Turnover	0.7	9.0	10.9	9.9
EBITDA	(7.1)	(5.4)	9.3	12.2
Pre-tax profit	(1.0)	(24.8)	17.7	24.8
Net profit	(5.2)	(24.4)	17.7	24.8
Net profit (adj.)	(5.2)	(24.4)	17.7	24.8
EPS	(5.2)	(24.4)	17.7	24.8
Leverage				
Debt to total capital	62.6	62.5	62.0	60.6
Debt to equity	198.1	194.8	188.3	176.0
Net debt/(cash) to equity	56.8	34.4	19.6	3.9
Interest cover (x)	10.6	7.6	7.7	8.4

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