

COMPANY RESULTS

StarHub (STH SP)

2022: Setting The Stage For A Transformation

2022 revenue and service revenue grew 13.9% yoy and 17.2% yoy respectively, driven by the consolidation of StarHub's recent acquisitions and broad-based growth across all segments. However, 2022 PATMI fell 58.3% yoy as upfront investments continue to compress margins. StarHub is expected to incur most of its transformative investments in 2023 and will begin reaping the rewards from 2024 onwards. We maintain BUY with a higher target price of S\$1.35 (S\$1.30 previously).

2022 RESULTS

Year to 31 Dec (\$m)	4Q22	qoq % chg	yoy % chg	FY22	yoy % chg
Operating Revenue:					
Mobile	153.1	7.1	11.3	564.4	7.5
Entertainment	64.5	16.4	52.1	216.3	16.0
Residential Broadband	62.9	(1.1)	27.6	242.4	25.1
Fixed Enterprise	254.6	15.3	39.4	865.5	22.6
Sales of Equipment/ others	142.8	32.3	3.5	438.7	1.7
Total Revenue	677.9	14.7	23.3	2,327.3	13.9
EBITDA	77.8	(28.9)	(41.1)	417.0	(18.4)
EBITDA Margin (%)	11.5	(7.1ppts)	(12.5ppts)	21.3	(3.8ppts)
Service Revenue	535.1	10.8	29.9	1,888.5	17.2
Core service EBITDA	65.7	(33.5)	(46.6)	379.4	(21.1)
Core service EBITDA margin (%)	16.3	(2.2ppts)	(13.6ppts)	20.1	(9.7ppts)
Core PATMI	(26.1)	(195.3)	(163.3)	62.2	(58.3)
Subscribers ('000)	2,156	1.7	10.4		
Post-paid ARPU	32	3.2	7.6		
Pre-paid ARPU	8	-	(21.0)		
Entertainment ARPU (\$/mth)	36	2.9	(2.7)		
Broadband ARPU (\$/mth)	34	-	3.9		

Source: StarHub, UOB Kay Hian

RESULTS

• **Mixed 2022 results.** StarHub reported 2022 revenue and PATMI of S\$2,327.3m (+13.9% yoy) and S\$62.2m (-58.3% yoy) respectively. 2022 revenue growth was driven by the consolidations of JOS MY/SG and MyRepublic Broadband coupled with overall growth across all business segments, forming 95.3% of our full-year forecasts. Excluding the contributions from the acquisitions, service revenue would have increased 6.6% yoy. Dragged by non-recurring provisions from DARE+ initiatives and one-off impairment losses, 2022 PATMI fell 58.3% yoy and formed 61.9% of our full-year forecasts, below our expectations. Excluding these one-off costs, 2022 PATMI would have been S\$114.2m (-30.7% yoy). Similarly, 2022 service EBITDA dropped 21.1% yoy, dragged by higher OPEX from DARE+ initiatives. The group declared a final DPS of 2.5 S cents/share, totaling 5.0 S cents/share for 2022 and consistent with the group's earlier 2022 guidance of 5.0 S cents/share, representing an annualised dividend yield of around 4.5%.

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	2,043	2,327	2,542	2,677	2,815
EBITDA	476	383	464	541	611
Operating profit	232	155	214	286	364
Net profit (rep./act.)	149	62	122	175	238
Net profit (adj.)	149	62	122	175	238
EPS (\$ cent)	8.6	3.6	7.1	10.1	13.8
PE (x)	12.8	30.8	15.7	11.0	8.1
P/B (x)	3.3	3.6	3.4	3.0	2.5
EV/EBITDA (x)	5.2	6.5	5.4	4.6	4.1
Dividend yield (%)	5.8	4.5	4.5	5.4	6.3
Net margin (%)	7.3	2.7	4.8	6.5	8.5
Net debt/(cash) to equity (%)	56.8	88.9	73.4	50.1	25.6
Interest cover (x)	10.6	10.4	9.0	10.3	13.1
ROE (%)	26.5	11.1	22.3	29.1	34.2
Consensus net profit	-	-	122	143	-
UOBKH/Consensus (x)	-	-	1.00	1.22	-

Source: StarHub Ltd, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.11
Target Price	S\$1.35
Upside	+21.9%
(Previous TP)	S\$1.30)

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):	1,728.8
Market cap (\$m):	1,919.0
Market cap (US\$m):	1,447.3
3-mth avg daily t'over (US\$m):	1.0

Price Performance (%)

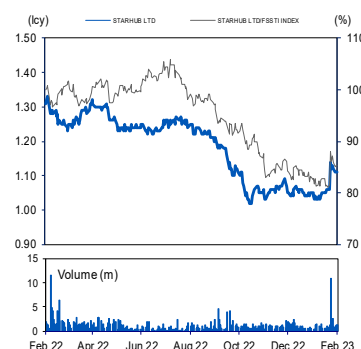
52-week high/low S\$1.33/S\$1.02

1mth	3mth	6mth	1yr	YTD
5.7	5.7	(10.5)	(16.5)	6.7

Major Shareholders

	%
Temasek Holdings Pte Ltd	56.3
NTT Communications	9.9
FY23 NAV/Share (\$)	0.33
FY23 Net Debt/Share (\$)	0.24

PRICE CHART



Source: Bloomberg

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KEY PERFORMANCE GUIDANCE FOR 2022 AND 2023

	2022 Performance	2022 Guidance	2023 Guidance
Service Revenue	17.2%	At least 12%-15%	At least 8%-10%
Service EBITDA margin	20.1%	At least 20%	20%
Capex commitment (of total revenue)	7.3%*	(BAU: 5%-7%) 9%-12%*	(BAU: 5%-7%) 13%-15%*
Dividend/share	5 cents	Higher of 5 cents or 80% PATMI payout	Higher of 5 cents or 80% PATMI payout

* Including DARE+ Initiatives and IT transformation.

Source: StarHub, UOB Kay Hian

- 2023 guidance: Margins to remain stable despite peaking investments.** Moving on to 2023, annual service revenue is expected to grow by at least 8% yoy, driven by full-year contributions from the Premier League, data roaming revenue recovery and new revenue contributions from DARE+ initiatives. Although StarHub is expected to incur an estimated S\$200m in investments in 2023, management has guided that 2023 service EBITDA margins are expected to remain stable yoy at 20% as cost savings from DARE+ investments would help to offset the upcoming investment costs. Capex commitment has increased slightly to 13-15% given that there was a delay in 2022. With the bulk of investments to be spent in 2023, we expect StarHub to reap revenue growth opportunities from 2024 onwards. There is no change to the dividend guidance of at least 5 S cents/share (~4.5% yield).

STOCK IMPACT

- Mobile: Recovery on track.** Excluding one-off revenue gains in 2021, 2022 revenue grew 8.4% yoy, largely due to higher postpaid revenue offset by lower prepaid revenue. Postpaid ARPU grew 3.2% qoq at S\$32/month on the back of higher data roaming revenue and take-up of value-added services while postpaid subscribers increased by 19,000 in 4Q22 as the strong uptake of its GIGA! plans continues. Management noted that there is still room for data roaming recovery and that the gradual return of Chinese tourists remains a strong catalyst. Due to stiff competition, prepaid ARPU was flat at S\$8/month from increased promotions but added 18,000 prepaid subscribers 4Q22 as tourists and foreign workers returned from the reopening of borders.
- Enterprise: Boosted by acquisitions.** Enterprise revenue surged in 2022 (+22.6% yoy) due to the consolidation of the JOS SG & MY and MyRepublic Broadband acquisitions. Excluding the contributions from these acquisitions (S\$132.4m), revenue would have still grown 3.8% yoy from higher project completions and increased business demand. Regional ICT services led the strong growth with revenue increasing 162.2% yoy while revenue from cybersecurity services and network solutions grew 12.1% yoy and 1.1% yoy respectively.
- Entertainment: Led by soccer fans.** 2022 entertainment revenue increased 16.0% yoy from higher subscription prices and commercial TV/advertising revenue driven by the Premier League and the World Cup. ARPU inched higher to S\$36/month in 4Q22 (S\$35/month in 3Q22) while total subscribers softened by 14,000 this quarter but grew by 34,000 yoy. Average monthly churn rate dropped to 0.9% in 4Q22 (3Q22: 1.1%).
- Broadband: Sharp boost from MyRepublic.** Broadband revenue rose 25.1% yoy due to MyRepublic Broadband. Excluding the S\$37.8m revenue contribution from MyRepublic Broadband, broadband revenue would have grown 5.6% yoy as ARPU remained stable at S\$34/month due to strong demand for the higher-value 2Gbps plans.

EARNINGS REVISION/RISK

- We make slight changes to our 2023-24 forecasts,** while adding our 2025 estimates. We have cut our 2023 PATMI by 8% to account for more investments while increasing our 2024 PATMI estimate by 5% to account for cost savings from the DARE+ initiatives.

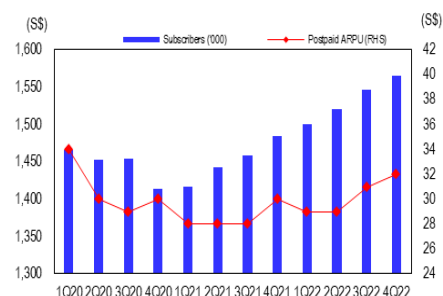
VALUATION/RECOMMENDATION

- Maintain BUY with a higher DCF-based target price of S\$1.35 (S\$1.30 previously)** (COE: 8.4%; terminal growth: 0%), as we roll over our DCF valuation to 2023. At our fair value, the stock will trade at 6x 2023F EV/EBITDA, 1SD below its five-year mean EV/EBITDA of 7.5x. The stock offers a sustainable dividend yield of 4.5% for 2023.

SHARE PRICE CATALYST

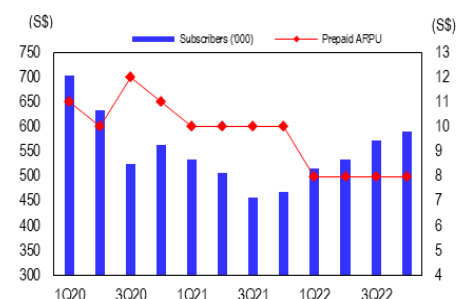
- a) Return of Chinese tourists to Singapore; b) market consolidation – exit of Mobile Virtual Network Operators (MVNOS); c) potential network carved out/shifted to an asset-light business model (sale and leaseback of network). Management is of the opinion that the cost of capital from the capital market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

QUARTERLY POSTPAID ARPU AND SUBSCRIBERS



Source: StarHub, UOB Kay Hian

QUARTERLY PREPAID ARPU AND SUBSCRIBERS



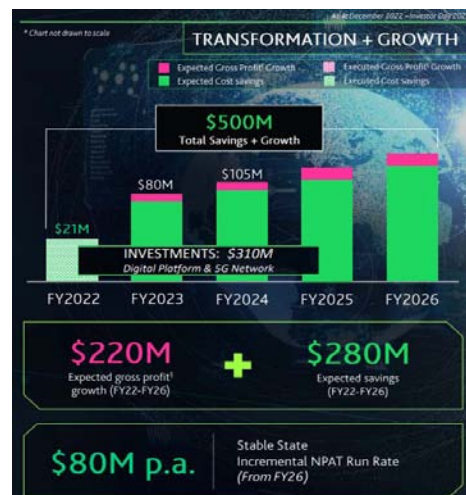
Source: StarHub, UOB Kay Hian

STARHUB'S FORWARD EV/EBITDA (X)



Source: Bloomberg, UOB Kay Hian

DARE+ EXPECTED SAVINGS AND GROWTH



Source: StarHub, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	2,327.3	2,542.1	2,677.3	2,815.0
EBITDA	383.0	463.9	540.7	610.7
Deprec. & amort.	228.3	249.6	254.5	246.7
EBIT	154.7	214.3	286.3	364.1
Associate contributions	(24.5)	0.0	0.0	0.0
Net interest income/(expense)	(37.0)	(51.6)	(52.6)	(46.6)
Pre-tax profit	93.2	162.7	233.7	317.5
Tax	(23.3)	(40.7)	(58.4)	(79.4)
Minorities	(7.6)	0.0	0.0	0.0
Net profit	62.3	122.0	175.3	238.1
Net profit (adj.)	62.3	122.0	175.3	238.1

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	631.4	686.8	700.1	678.6
Other LT assets	1,083.2	1,083.2	1,083.2	1,083.2
Cash/ST investment	573.6	691.2	813.6	962.4
Other current assets	845.7	876.8	895.4	910.0
Total assets	3,133.9	3,338.0	3,492.3	3,634.1
ST debt	31.8	31.8	31.8	31.8
Other current liabilities	1,128.4	1,235.9	1,292.0	1,294.3
LT debt	1,013.6	1,074.6	1,101.4	1,123.9
Other LT liabilities	276.3	276.3	276.3	276.3
Shareholders' equity	530.5	566.0	637.5	754.5
Minority interest	153.4	153.4	153.4	153.4
Total liabilities & equity	3,134.0	3,338.0	3,492.3	3,634.1

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	383.7	499.7	519.7	519.1
Pre-tax profit	93.2	162.7	233.7	317.5
Tax	(23.3)	(40.7)	(58.4)	(79.4)
Deprec. & amort.	228.3	249.6	254.5	246.7
Associates	24.5	0.0	0.0	0.0
Working capital changes	62.3	76.4	37.4	(12.2)
Other operating cashflows	(1.3)	51.6	52.6	46.6
Investing	(235.1)	(297.5)	(258.7)	(214.5)
Capex (maintenance)	(161.4)	(305.1)	(267.7)	(225.2)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(73.7)	7.6	9.0	10.7
Financing	(403.6)	(84.7)	(138.6)	(155.8)
Dividend payments	(110.8)	(86.5)	(103.8)	(121.1)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	(122.3)	61.0	26.8	22.5
Others/interest paid	(170.5)	(59.2)	(61.6)	(57.2)
Net cash inflow (outflow)	(255.0)	117.5	122.4	148.7
Beginning cash & cash equivalent	821.5	573.6	691.2	813.6
Changes due to forex impact	7.1	0.1	0.0	0.0
Ending cash & cash equivalent	573.6	691.2	813.6	962.4

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.5	18.3	20.2	21.7
Pre-tax margin	4.0	6.4	8.7	11.3
Net margin	2.7	4.8	6.5	8.5
ROA	2.0	3.8	5.1	6.7
ROE	11.1	22.3	29.1	34.2
Growth				
Turnover	13.9	9.2	5.3	5.1
EBITDA	(19.6)	21.1	16.6	12.9
Pre-tax profit	(51.0)	74.6	43.6	35.8
Net profit	(58.3)	95.9	43.6	35.8
Net profit (adj.)	(58.3)	95.9	43.6	35.8
EPS	(58.4)	95.9	43.6	35.8
Leverage				
Debt to total capital	60.5	60.6	58.9	56.0
Debt to equity	197.1	195.5	177.8	153.2
Net debt/(cash) to equity	88.9	73.4	50.1	25.6
Interest cover (x)	10.4	9.0	10.3	13.1

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