

COMPANY RESULTS

StarHub (STH SP)

2Q23: Above expectations, Driven By Mobile And The English Premier League

For 1H23, StarHub experienced broad-based growth across all segments. 2Q23 overall revenue and PATMI grew 0.5% yoy and 25.6% yoy respectively, driven by higher mobile and entertainment contributions. The mobile segment saw higher data roaming revenue and take-up of its 5G plans while the EPL drove ARPU for the entertainment segment higher. 2Q23 revenue from the broadband and enterprise segments softened yoy but grew sequentially. Maintain BUY. Target price: S\$1.37.

2Q23 RESULTS

Year to 31 Dec (\$m)	2Q23	qoq % chg	yoy % chg	1HFY23	yoy % chg
Operating Revenue:					
Mobile	150.6	(1.0)	12.2	302.7	12.8
Entertainment	56.8	(0.5)	15.4	113.9	18.2
Residential Broadband	62.6	1.0	(2.8)	124.6	7.6
Fixed Enterprise	206.5	8.5	(0.1)	396.9	1.8
Sales of Equipment/ others	72.2	(24.6)	(21.0)	168.0	(10.7)
Total Revenue	548.7	(1.6)	0.5	1,106.1	4.5
EBITDA	117.0	3.7	(3.0)	229.8	0.0
EBITDA Margin (%)	21.3	1.1ppts	(0.8ppts)	20.8	(0.9ppts)
Service Revenue	476.5	3.2	4.8	938.1	7.8
Core service EBITDA	109.1	5.5	(3.7)	212.5	(0.7)
Core service EBITDA margin (%)	22.9	0.5ppts	(2.0ppts)	22.7	(1.9ppts)
Core PATMI	39.2	4.5	25.6	76.7	25.8
Subscribers ('000)	2,174	0.1	5.8		
Post-paid ARPU	32	-	10.3		
Pre-paid ARPU	7	-	(12.5)		
Entertainment ARPU (\$/mth)	45	4.7	45.2		
Broadband ARPU (\$/mth)	34	-	-		

Source: StarHub, UOB Kay Hian

RESULTS

• **2Q23 results above expectations.** StarHub reported 2Q23 headline revenue and core PATMI of S\$548.7m (+0.5% yoy, -1.6% qoq) and S\$39.2m (+25.6% yoy, +4.5% qoq) respectively, driven by strong growth from the mobile and entertainment segments along with delays in Dareplus+ investments. For 1H23, revenue and core PATMI formed 43.2% and 58.8% of our 2023 full-year estimates respectively. With an estimated S\$90m (1H23: S\$30m) of DARE+ transformative investments expected in 2H23, we reckon that 2H23 PATMI would likely moderate hoh nearer to our full-year estimates. Although 2Q23 service revenue grew (+4.8% yoy, +3.2% qoq), service EBITDA dipped slightly (-3.7% yoy, +5.5% qoq) on the back of investments with service EBITDA margins also softening (-2.0ppt yoy, +0.5ppt qoq) in 2Q23. The group declared an interim DPS of 2.5 S cents/share, consistent with the group's earlier 2023 guidance of 5.0 S cents/share, representing an annualised dividend yield of around 5%.

KEY FINANCIALS

Year to 31 Dec (\$m)	2021	2022	2023F	2024F	2025F
Net turnover	2,043	2,327	2,381	2,474	2,557
EBITDA	476	383	498	531	553
Operating profit	232	155	241	277	312
Net profit (rep./act.)	149	62	142	168	199
Net profit (adj.)	149	62	142	168	199
EPS (\$ cent)	8.6	3.6	8.2	9.7	11.5
PE (x)	12.1	29.2	12.8	10.8	9.1
P/B (x)	3.1	3.4	3.1	2.8	2.5
EV/EBITDA (x)	5.2	6.5	5.0	4.7	4.5
Dividend yield (%)	6.1	4.8	4.8	5.7	6.7
Net margin (%)	7.3	2.7	5.9	6.8	7.8
Net debt/(cash) to equity (%)	56.8	88.9	87.2	63.3	39.9
Interest cover (x)	10.6	10.4	9.6	9.9	11.7
ROE (%)	26.5	11.1	25.4	27.2	28.9
Consensus net profit	-	-	111	136	160
UOBKH/Consensus (x)	-	-	1.27	1.23	1.25

Source: StarHub, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	S\$1.05
Target Price	S\$1.37
Upside	+30.6%

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

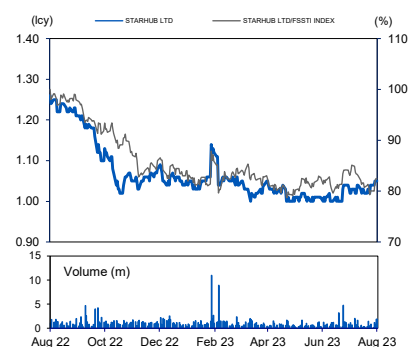
GICS sector	Communication Services
Bloomberg ticker:	STH SP
Shares issued (m):	1,726.4
Market cap (\$m):	1,812.7
Market cap (US\$m):	1,350.0
3-mth avg daily t'over (US\$m):	0.6
Price Performance (%)	

52-week high/low S\$1.26/S\$1.00

1mth	3mth	6mth	1yr	YTD
1.0	4.0	(6.3)	(16.7)	1.0

Major Shareholders	%
Temasek Holdings Pte Ltd	56.3
NTT Communications	9.9
-	-
FY23 NAV/Share (\$)	0.34
FY23 Net Debt/Share (\$)	0.30

PRICE CHART



Source: Bloomberg

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KEY PERFORMANCE GUIDANCE FOR 1H23

	1H23 Performance	Old 2023 Guidance	New 2023 Guidance
Service Revenue	7.8%	8-10%	3-5%
Service EBITDA margin	22.7%	At least 20%	At least 22%
Capex commitment (of total revenue)	5.5%	(BAU: 5%-7%) 13%-15%*	(Unchanged) 11%-13%*
Dividend/share	2.5 cents	Higher of 5 cents or 80% PATMI payout	Unchanged

* Including DARE+ Initiatives and IT transformation.

Source: Starhub, UOB Kay Hian

- 2023 guidance: Several changes.** Despite 1H23 service revenue meeting StarHub's 2023 guidance, management lowered its full-year guidance to 3-5% due to lower-than-expected revenue from the Enterprise segment, dragged by project delays and rationalisation of its orderbook pipeline. However, due to the absence of these lower-margin contributions along with realised operational efficiencies from its DARE+ initiatives, management increased its 2023 service EBITDA margin guidance from 20% to 22%. Lastly, management noted that some capex investments initially planned for 2023 have been pushed to 2024, thus decreasing its full-year capex commitment guidance to 11-13%.

STOCK IMPACT

- Mobile: 2Q23 revenue grew 12.2% yoy.** Postpaid ARPU remained stable qoq but grew yoy to S\$32/month (S\$29/month), on the back of higher roaming revenue and take-up of value added services. Postpaid subscribers remained stable this quarter but surged by 60,000 yoy as the strong uptake of its GIGA! plans continues. Management noted that its 5G premium remains intact. Average monthly churn rate remained low at 0.8% in 2Q23 (1Q23: 0.8%). Due to stiff competition and increased promotions, prepaid ARPU dipped slightly yoy from S\$8/month to S\$7/month but was flat qoq. However, prepaid subscribers (+2,000 qoq, +60,000 yoy) surged in 2Q23 as tourists and foreign workers returned due to the reopening of Singapore's international borders. It was noted that Starhub's overall mobile market share has dropped to 22.3% in 2Q23 (1Q23: 22.9%), which we attribute to intense competition from the prepaid market.
- Entertainment: EPL boost.** ARPU improved to S\$45/month (1Q23: S\$43/month, 2Q22: S\$39/month), largely driven by the English Premier League (EPL) that commenced in 3Q22. 2Q23 revenue surged 15.4% yoy due to higher subscription, commercial TV and advertising revenue. However, on a qoq basis, 2Q23 revenue dipped slightly by 0.5%, dragged by a 13,000 qoq drop in total subscribers. Average monthly churn rate increased slightly to 1.0% in 2Q23 (1Q23: 0.8%) but the new EPL season is expected to help boost subscriber growth in 3Q23.
- Enterprise: Strong quarter led by Cybersecurity Services.** 2Q23 revenue was relatively stable yoy (-0.1% yoy) but grew 8.5% qoq, driven by higher Cybersecurity Services revenue (+9.6% yoy, +42.0% qoq). Network Solutions revenue was also stable (+1.0% yoy, -2.8% qoq) after the consolidation of MyRepublic Broadband. 2Q23 revenue from regional ICT Services fell sharply (-15.7% yoy, -8.1% qoq), dragged by lower hardware sales.
- Broadband: Stable contributor.** Post-consolidation of MyRepublic Broadband in 2Q22, ARPU remained stable at S\$34/month (2Q22/2Q23: S\$34/month), with 2Q23 revenue softening slightly by 2.8% yoy but increasing 1.0% qoq.

EARNINGS REVISION/RISK

- We make changes to our 2023-25 PATMI forecasts**, with 2023-25 PATMI at S\$141.6m (S\$128.0m previously), S\$167.7m (S\$179.4m previously) and S\$198.7m (S\$246.3m previously) respectively.

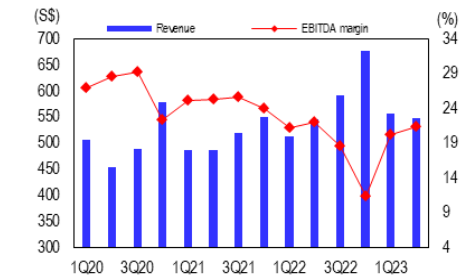
VALUATION/RECOMMENDATION

- Maintain BUY with the same DCF-based target price of S\$1.37** (COE: 8.4%; terminal growth: 1%). At our fair value, the stock will trade at 6x 2023F EV/EBITDA, -1SD below its five-year mean EV/EBITDA of 7.5x; it offers a decent dividend yield of 5% for 2023.

SHARE PRICE CATALYST

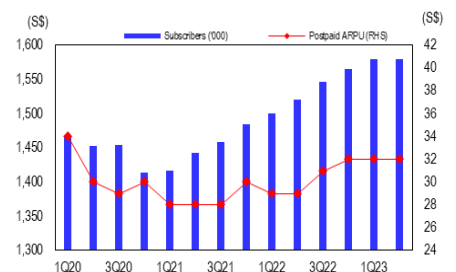
- Market consolidation – exit of Mobile Virtual Network Operators (MVNO).
- Potential network carved out/shifted to an asset-light business model (sale and leaseback of network). Management is of the opinion that the cost of capital from the capital market is much more attractive vs the leasing model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

REVENUE AND EBITDA MARGIN



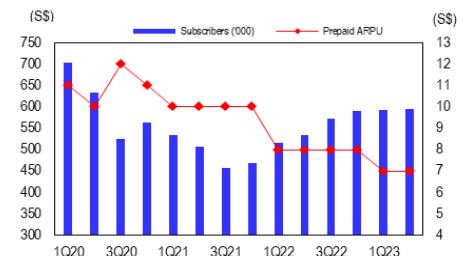
Source: StarHub, UOB Kay Hian

QUARTERLY POSTPAID ARPU AND SUBSCRIBERS



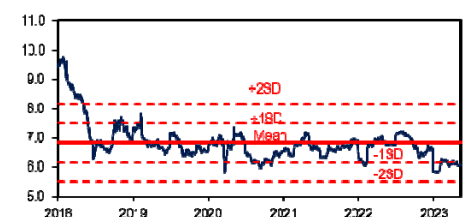
Source: StarHub, UOB Kay Hian

QUARTERLY PREPAID ARPU AND SUBSCRIBERS



Source: StarHub, UOB Kay Hian

STARHUB'S FORWARD EV/EBITDA (X)



Source: Bloomberg, UOB Kay Hian

DARE+ INVESTMENTS PROGRESS



Source: Starhub, UOB Kay Hian

PROFIT & LOSS

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Net turnover	2,327.3	2,380.6	2,473.9	2,557.1
EBITDA	383.0	497.6	531.2	552.7
Deprec. & amort.	228.3	256.8	254.2	240.3
EBIT	154.7	240.8	277.0	312.4
Associate contributions	(24.5)	0.0	0.0	0.0
Net interest income/(expense)	(37.0)	(52.1)	(53.5)	(47.4)
Pre-tax profit	93.2	188.8	223.5	265.0
Tax	(23.3)	(47.2)	(55.9)	(66.2)
Minorities	(7.6)	0.0	0.0	0.0
Net profit	62.3	141.6	167.7	198.7
Net profit (adj.)	62.3	141.6	167.7	198.7

BALANCE SHEET

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Fixed assets	631.4	660.3	653.5	617.8
Other LT assets	1,083.2	1,083.2	1,083.2	1,083.2
Cash/ST investment	573.6	592.0	716.4	857.5
Other current assets	845.7	846.1	859.2	869.3
Total assets	3,133.9	3,181.6	3,312.3	3,427.8
ST debt	31.8	31.8	31.8	31.8
Other current liabilities	1,128.4	1,063.8	1,106.0	1,123.4
LT debt	1,013.6	1,070.7	1,095.5	1,115.9
Other LT liabilities	276.3	276.3	276.3	276.3
Shareholders' equity	530.5	585.5	649.4	727.0
Minority interest	153.4	153.4	153.4	153.4
Total liabilities & equity	3,134.0	3,181.6	3,312.3	3,427.8

CASH FLOW

Year to 31 Dec (\$m)	2022	2023F	2024F	2025F
Operating	383.7	385.5	504.4	493.8
Pre-tax profit	93.2	188.8	223.5	265.0
Tax	(23.3)	(47.2)	(55.9)	(66.2)
Deprec. & amort.	228.3	256.8	254.2	240.3
Associates	24.5	0.0	0.0	0.0
Working capital changes	62.3	(65.0)	29.1	7.3
Other operating cashflows	(1.3)	52.1	53.5	47.4
Investing	(235.1)	(278.7)	(239.5)	(195.1)
Capex (maintenance)	(161.4)	(285.7)	(247.4)	(204.6)
Proceeds from sale of assets	0.0	0.0	0.0	0.0
Others	(73.7)	7.0	7.9	9.4
Financing	(403.6)	(88.5)	(140.4)	(157.6)
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)	57.1	24.7	20.5
Others/interest paid	(170.5)	(59.1)	(61.3)	(56.9)
Net cash inflow (outflow)	(255.0)	18.3	124.4	141.1
Beginning cash & cash equivalent	821.5	573.6	592.0	716.4
Changes due to forex impact	7.1	0.1	0.0	0.0
Ending cash & cash equivalent	573.6	592.0	716.4	857.5

KEY METRICS

Year to 31 Dec (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.5	20.9	21.5	21.6
Pre-tax margin	4.0	7.9	9.0	10.4
Net margin	2.7	5.9	6.8	7.8
ROA	2.0	4.5	5.2	5.9
ROE	11.1	25.4	27.2	28.9
Growth				
Turnover	13.9	2.3	3.9	3.4
EBITDA	(19.6)	29.9	6.7	4.1
Pre-tax profit	(51.0)	102.5	18.4	18.5
Net profit	(58.3)	127.2	18.4	18.5
Net profit (adj.)	(58.3)	127.2	18.4	18.5
EPS	(58.4)	127.3	18.4	18.5
Leverage				
Debt to total capital	60.5	59.9	58.4	56.6
Debt to equity	197.1	188.3	173.6	157.9
Net debt/(cash) to equity	88.9	87.2	63.3	39.9
Interest cover (x)	10.4	9.6	9.9	11.7

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