

# StarHub (STH SP)

## Now in a HOLDing pattern

# HOLD

[Prior:SELL]

Share Price SGD 2.30  
 12m Price Target SGD 2.27 (-1%)  
 Previous Price Target SGD 2.27

### Base case priced in - Upgrade to HOLD

With the StarHub de-rating close to levels we envisage in our base case scenario of gradual erosion in incumbents' revenues, we upgrade to a HOLD. However, it is still too early to be positive on the sector with new MVNOs and TPG set to launch in 2H18, and neither can we write off the worst case scenario risk we painted in our 13 March 2018 Sector Note. In the sector, we prefer Singtel (ST SP, SGD3.37, HOLD, TP SGD3.69).

### A taste of things to come

Following TPG's teaser announcement on 19 March 2018 offering free SIMs, unlimited voice and 3GB/month data for senior citizens for 24 months, the Singapore focused StarHub share price has de-rated by 5% and has underperformed the STI by 26% on a 12-month basis. Regardless of the fact that TPG's segment is niche and that the full mechanics have not yet been revealed, we believe the market took it as a sign that TPG intends to put up a fight for share. By playing the good corporate citizen card, not only did TPG create public goodwill but we believe it also helps it to negotiate building and housing access for its nationwide coverage rollout by end-2018.

### The de-rating is not excessive

Per our base case scenario for the industry that TPG (TPM AU, Not Rated) and the various MVNOs attain a less than 10% industry wireless revenue share by 2019E, we think StarHub is not yet at particularly compelling value levels yet. We do note that cash dividend yields even in the 2019E pressure point may pique interest at 7% levels but sustainability may be questioned depending on the competitive situation that emerges.

### Watching closely

Although TPG's stated purpose at the onset was for only 5-6% market share, we cannot discount our worst case scenario that tariff wars ensue and a more aggressive market share grab takes place. Incumbents attempting to stay out and let MVNOs compete with TPG for a lower income segment is ideal but contamination is always possible. Our sensitivity analysis shows that every 1% change in wireless revenue would impact StarHub's 2019E core profits and TPs by 2%.

FYE Dec (SGD m)	FY16A	FY17A	FY18E	FY19E	FY20E
Revenue	2,397	2,401	2,379	2,365	2,364
EBITDA	690	613	597	577	568
Core net profit	341	259	233	218	179
Core FDEPS (cts)	19.7	14.9	13.4	12.6	10.3
Core FDEPS growth(%)	(8.2)	(24.3)	(9.9)	(6.4)	(17.8)
Net DPS (cts)	20.0	16.0	16.0	16.0	16.0
Core FD P/E (x)	11.7	15.4	17.1	18.3	22.3
P/BV (x)	20.4	11.7	13.4	16.6	28.1
Net dividend yield (%)	8.7	7.0	7.0	7.0	7.0
ROAE (%)	178.5	95.8	72.6	81.4	94.3
ROAA (%)	16.6	11.4	10.1	9.5	7.8
EV/EBITDA (x)	8.1	9.1	7.7	8.5	8.7
Net gearing (%) (incl perps)	360.3	181.0	210.7	395.4	692.0
Consensus net profit	-	-	227	213	207
MKE vs. Consensus (%)	-	-	2.8	2.2	(13.2)

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### Company Description

StarHub is the second largest wireless service and largest pay TV operator in Singapore.

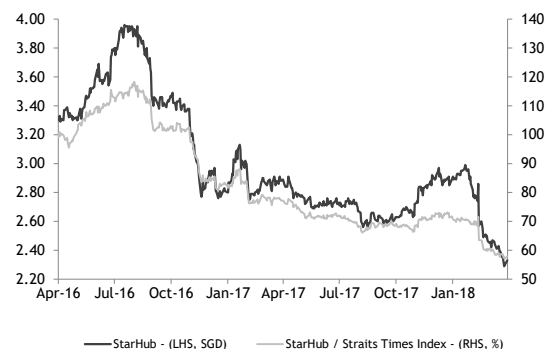
### Statistics

52w high/low (SGD)	2.99/2.29
3m avg turnover (USDm)	6.7
Free float (%)	32.4
Issued shares (m)	1,722
Market capitalisation	SGD4.0B
	USD3.0B

### Major shareholders:

Asia Mobile Holdings Pte Ltd	55.9%
Nippon Telegraph & Telephone Corp.	9.9%
BlackRock Fund Advisors	5.0%

### Price Performance



	-1M	-3M	-12M
Absolute (%)	(8)	(19)	(20)
Relative to index (%)	(6)	(20)	(26)

Source: FactSet

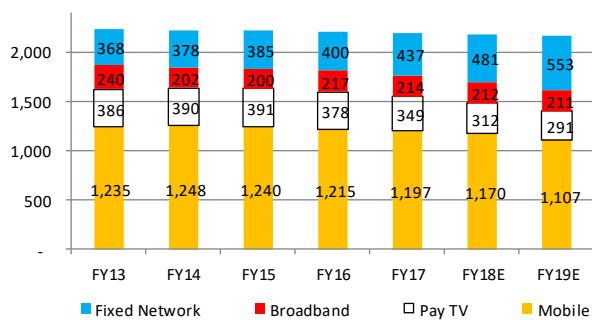
### Link to sector note:

[Everything On HOLD | NEUTRAL](#)

## Value Proposition

- Second-largest operator in a mature, high income ASEAN economy. Entrant of fourth operator threatens market share, returns and cost of capital.
- Cyclical EBITDA margin within the calendar year due to smartphone launches and a largely postpaid revenue driven market that values equipment subsidies.
- Network management experience and breadth drives increased initiatives to tap private and public enterprise contracts.
- Dividend yield has been a key investment thesis. Despite reducing payout commitment (from SGD0.20 to SGD0.16), potential for DPS to exceed EPS remains, as in prior years.

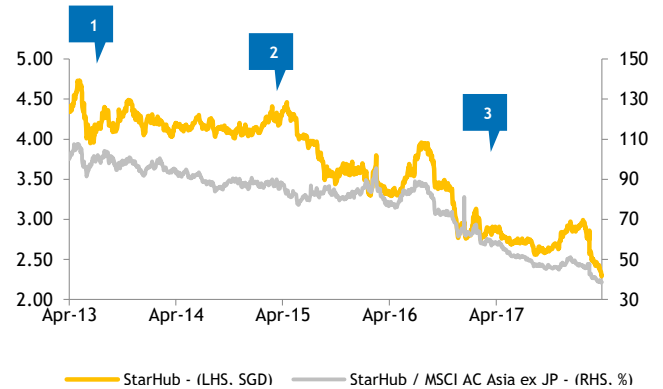
### StarHub's fixed network services its main bright spot (SGD m)



Source: Company data, Maybank Kim Eng

## Price Drivers

### Historical share price trend



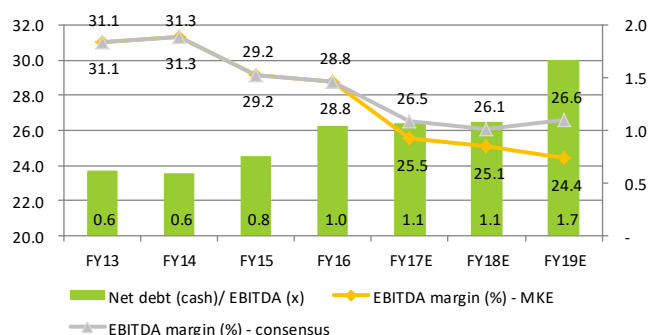
Source: Company, FactSet, Maybank Kim Eng

1. Industry re-rating on the launch of 4G services to help replace unlimited-data 3G plans to pay-as-you-use plans.
2. Consistent dividend payout kept share price generally stable.
3. Expectations of a new entrant initially with a Dec 2016 spectrum auction that led to TPG's entry. Also, dividend payout commitment cut by 20% to SGD0.16 per share.

## Financial Metrics

- Despite margin pressure the committed SGD0.16 DPS remains within debt covenants.
- Gearing could come under pressure with spectrum payments and competition related capex in the coming months and years.
- Key financial/operating metrics we would be watching for in subsequent quarters are subsidy levels, mobile subscriber recontracting rates, and pay TV churn.

### Leverage rising with margins weakening



Source: Company data, FactSet, Maybank Kim Eng

## Swing Factors

### Upside

- Enterprise segment targeting, including government contracts revolving around the Smart Nation initiatives provides source of new revenues, despite competition with SingTel.
- Network alliance with M1 to reduce network redundancies and operating expenses, and future joint capex planning is under negotiation.

### Downside

- Re-contracting/retention costs likely to rise on the back of new smartphone launches and defensive preparation against TPG's entry.
- Further wireless tariff package pressure on rates and/or data allocations possible with new competition.
- Further investments in enterprise or content space that may have a gestation period before realizing returns.

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Metrics</b>					
P/E (reported) (x)	17.3	18.5	17.1	18.2	22.2
Core P/E (x)	11.6	15.4	17.1	18.2	22.2
Core FD P/E (x)	11.7	15.4	17.1	18.3	22.3
P/BV (x)	20.4	11.7	13.4	16.6	28.1
P/NTA (x)	(14.8)	(18.3)	(15.3)	(6.6)	(5.7)
Net dividend yield (%)	8.7	7.0	7.0	7.0	7.0
FCF yield (%)	4.6	5.2	7.6	nm	6.5
EV/EBITDA (x)	8.1	9.1	7.7	8.5	8.7
EV/EBIT (x)	13.1	16.7	15.0	16.8	20.1
<b>INCOME STATEMENT (SGD m)</b>					
Revenue	2,396.7	2,400.7	2,378.6	2,365.5	2,363.6
EBITDA	690.1	613.2	596.8	577.4	567.9
Depreciation	(265.0)	(280.4)	(289.7)	(284.0)	(321.9)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	425.1	332.8	307.1	293.3	246.0
Net interest income / (exp)	(22.7)	(26.2)	(26.3)	(30.6)	(30.0)
Associates & JV	(1.6)	(2.2)	0.0	0.0	0.0
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	0.0	0.0	0.0	0.0	0.0
Pretax profit	410.3	304.4	280.8	262.8	216.0
Income tax	(68.9)	(54.8)	(47.7)	(44.7)	(36.7)
Minorities	0.0	0.0	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	341.4	258.6	233.1	218.1	179.3
Core net profit	341.4	258.6	233.1	218.1	179.3
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
<b>BALANCE SHEET (SGD m)</b>					
Cash & Short Term Investments	285.2	345.2	351.4	176.0	140.1
Accounts receivable	384.4	201.5	344.9	343.0	342.7
Inventory	49.6	71.9	47.6	47.3	47.3
Reinsurance assets	0.0	0.0	0.0	0.0	0.0
Property, Plant & Equip (net)	918.0	870.1	842.0	830.0	780.0
Intangible assets	463.8	557.6	557.6	839.6	839.6
Investment in Associates & JVs	25.9	23.7	23.7	23.7	23.7
Other assets	69.4	282.0	78.2	78.2	78.2
<b>Total assets</b>	<b>2,196.3</b>	<b>2,352.0</b>	<b>2,245.4</b>	<b>2,337.8</b>	<b>2,251.5</b>
ST interest bearing debt	10.0	120.0	120.0	120.0	120.0
Accounts payable	707.9	736.5	666.0	662.3	661.8
Insurance contract liabilities	0.0	0.0	0.0	0.0	0.0
LT interest bearing debt	977.5	857.5	857.5	1,000.0	1,000.0
Other liabilities	306.0	293.0	305.0	317.0	328.0
<b>Total Liabilities</b>	<b>2,001.4</b>	<b>2,007.1</b>	<b>1,948.3</b>	<b>2,099.0</b>	<b>2,109.9</b>
Shareholders Equity	194.9	344.9	297.1	238.8	141.6
Minority Interest	0.0	4.4	0.0	0.0	0.0
<b>Total shareholder equity</b>	<b>194.9</b>	<b>349.3</b>	<b>297.1</b>	<b>238.8</b>	<b>141.6</b>
Perpetual securities	0.0	0.0	0.0	0.0	0.0
<b>Total liabilities and equity</b>	<b>2,196.3</b>	<b>2,352.0</b>	<b>2,245.4</b>	<b>2,337.8</b>	<b>2,251.5</b>
<b>CASH FLOW (SGD m)</b>					
Pretax profit	410.3	304.4	280.8	262.8	216.0
Depreciation & amortisation	265.0	280.4	289.7	284.0	321.9
Adj net interest (income)/exp	22.7	26.2	26.3	30.6	30.0
Change in working capital	(63.7)	(32.3)	(189.6)	(1.5)	(0.2)
Cash taxes paid	(53.7)	(65.3)	(47.7)	(44.7)	(36.7)
Other operating cash flow	0.0	0.3	1.6	2.2	0.0
Cash flow from operations	550.7	517.2	359.6	531.2	531.0
Capex	(366.7)	(295.9)	(261.6)	(272.0)	(271.8)
Free cash flow	184.0	205.1	301.7	(22.9)	259.1
Dividends paid	(346.2)	(293.9)	(276.4)	(276.4)	(276.4)
Equity raised / (purchased)	(12.3)	199.6	0.0	0.0	0.0
Perpetual securities	0.0	0.0	0.0	0.0	0.0
Change in Debt	274.9	(10.0)	0.0	142.5	0.0
Perpetual securities distribution	0.0	0.0	0.0	0.0	0.0
Other invest/financing cash flow	11.4	(57.0)	184.7	(300.6)	(18.6)
Effect of exch rate changes	0.0	0.0	0.0	0.0	0.0
<b>Net cash flow</b>	<b>111.8</b>	<b>60.0</b>	<b>6.2</b>	<b>(175.4)</b>	<b>(35.9)</b>

FYE 31 Dec	FY16A	FY17A	FY18E	FY19E	FY20E
<b>Key Ratios</b>					
<b>Growth ratios (%)</b>					
Revenue growth	(1.9)	0.2	(0.9)	(0.6)	(0.1)
EBITDA growth	(3.2)	(11.1)	(2.7)	(3.3)	(1.6)
EBIT growth	(3.7)	(21.7)	(7.7)	(4.5)	(16.1)
Pretax growth	(6.8)	(25.8)	(7.8)	(6.4)	(17.8)
Reported net profit growth	(8.3)	(24.3)	(9.9)	(6.4)	(17.8)
Core net profit growth	(8.3)	(24.3)	(9.9)	(6.4)	(17.8)
<b>Profitability ratios (%)</b>					
EBITDA margin	28.8	25.5	25.1	24.4	24.0
EBIT margin	17.7	13.9	12.9	12.4	10.4
Pretax profit margin	17.1	12.7	11.8	11.1	9.1
Payout ratio	101.2	106.9	118.6	126.7	154.2
<b>DuPont analysis</b>					
Net profit margin (%)	14.2	10.8	9.8	9.2	7.6
Revenue/Assets (x)	1.1	1.0	1.1	1.0	1.0
Assets/Equity (x)	11.3	6.8	7.6	9.8	15.9
ROAE (%)	178.5	95.8	72.6	81.4	94.3
ROAA (%)	16.6	11.4	10.1	9.5	7.8
<b>Liquidity &amp; Efficiency</b>					
Cash conversion cycle	na	na	na	na	na
Days receivable outstanding	55.2	43.9	41.3	52.3	52.2
Days inventory outstanding	na	na	na	na	na
Days payables outstanding	na	na	na	na	na
Dividend cover (x)	1.0	0.9	0.8	0.8	0.6
Current ratio (x)	0.9	0.7	0.8	0.6	0.6
<b>Leverage &amp; Expense Analysis</b>					
Asset/Liability (x)	1.1	1.2	1.2	1.1	1.1
Net gearing (%) (incl perps)	360.3	181.0	210.7	395.4	692.0
Net gearing (%) (excl. perps)	360.3	181.0	210.7	395.4	692.0
Net interest cover (x)	18.7	12.7	11.7	9.6	8.2
Debt/EBITDA (x)	1.4	1.6	1.6	1.9	2.0
Capex/revenue (%)	15.3	12.3	11.0	11.5	11.5
Net debt/ (net cash)	702.3	632.3	626.1	944.0	979.9

Source: Company; Maybank

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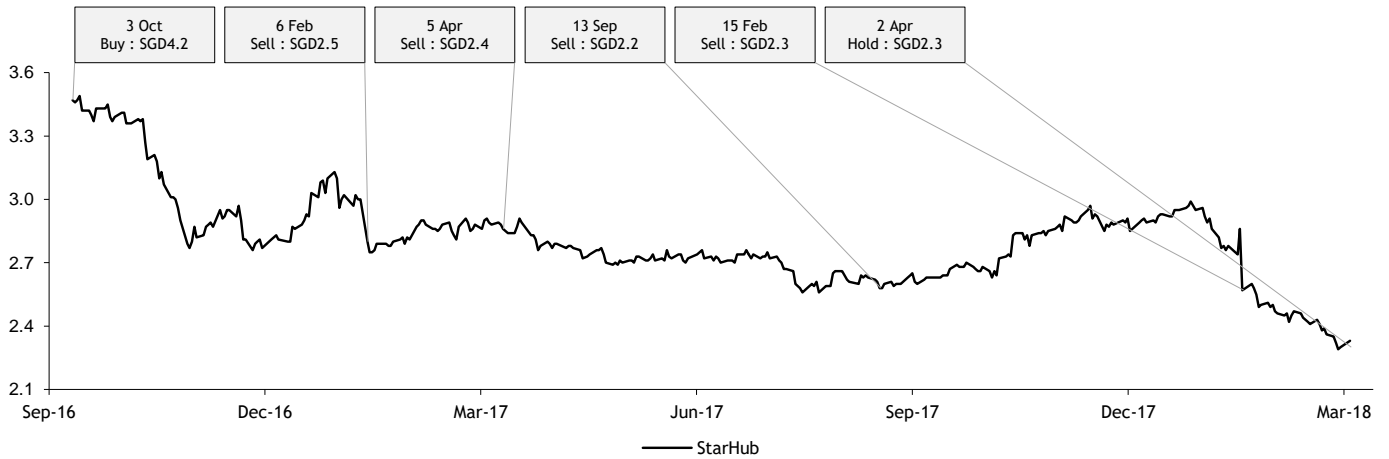
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